HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

NOMINATION OF SHAUN DONOVAN, OF NEW YORK, TO BE SECRETARY
OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

JANUARY 13, 2009

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: http://www.access.gpo.gov/congress senate/senate05sh.html
## CONTENTS

**TUESDAY, JANUARY 13, 2009**

<table>
<thead>
<tr>
<th>Opening statement of Senator Dodd</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared statement</td>
<td>43</td>
</tr>
<tr>
<td>Opening statements, comments, or prepared statements of:</td>
<td></td>
</tr>
<tr>
<td>Senator Shelby</td>
<td>5</td>
</tr>
<tr>
<td>Senator Schumer</td>
<td>6</td>
</tr>
<tr>
<td>Senator Reed</td>
<td>8</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>44</td>
</tr>
<tr>
<td>Senator Bennett</td>
<td>9</td>
</tr>
<tr>
<td>Senator Menendez</td>
<td>9</td>
</tr>
<tr>
<td>Senator Martinez</td>
<td>11</td>
</tr>
<tr>
<td>Senator Akaka</td>
<td>12</td>
</tr>
<tr>
<td>Senator Casey</td>
<td>17</td>
</tr>
<tr>
<td>Senator Tester</td>
<td>18</td>
</tr>
</tbody>
</table>

**WITNESS**

Shaun Donovon, of New York, Secretary-Designate, Department of Housing and Urban Development .......................................................... 13

| Prepared statement | 45 |

| Response to written questions of: | |
| Senator Dodd                   | 48 |
| Senator Shelby                  | 50 |
| Senator Corker                  | 54 |

**ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD**

Statement of Marty Shuravloff, Chairman of the National American Indian Housing Council .......................................................... 55

| Letter submitted by the National Association of Real Estate Brokers—Investment Division, Inc. | 56 |
| Letter submitted by the Metropolitan Council on Jewish Poverty | 57 |
| Letter submitted by Catholic Charities | 58 |
| Letter submitted by the Council of Large Public Housing Authorities | 59 |
NOMINATION OF SHAUN DONOVAN, OF NEW YORK, TO BE SECRETARY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

TUESDAY, JANUARY 13, 2009

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Washington, DC.

The Committee convened at 10:11 a.m., in room 538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN DODD

Chairman Dodd. I apologize to all of you. This is a sort of a juggling match going on here today. I said downstairs, it is sort of like a New York day. Senator Hillary Clinton, we started her confirmation hearing this morning about 10 minutes ago in the Hart hearing room, and so as a Ranking Member of that Committee, I needed to be there for that opening.

Senator Schumer is a very busy person. He is a member of this Committee today, but also is the presenter of both Senator Clinton before the Senate Foreign Relations Committee and will be here shortly to introduce Mr. Donovan, the Secretary-Designate of the Department of Housing and Urban Development.

What I am going to do is, to get underway here, is make some opening statements, and as soon as Senator Schumer arrives, we will pause and allow him to make a formal introduction of you, Mr. Donovan, if that is all right with you. I would also note that for those, as well, we have the confirmation hearing of Arne Duncan, the Secretary-Designate of Education. So on the three committees on which I serve, Foreign Relations, chairing Banking, and Health, Education, and Pensions, we have confirmation hearings going on simultaneously this morning.

So with that said, let me turn, if I can, to an opening comment on Mr. Donovan. I commend him for his willingness to take this tremendous responsibility of serving as the Secretary of HUD. This is a very, very challenging job and I think all of us are very excited about your nomination, I say, Mr. Donovan.

I want to welcome my colleagues, first of all, back to the Committee on Banking, Housing, and Urban Affairs for the first hearing of the 111th Congress. As you know, the Committee was extremely busy, to put it mildly, and productive, I might add, in the previous Congress, and I expect this year to be every bit as busy with an agenda that is already extremely crowded.
As my colleagues know, this Thursday, January 15, the Committee will hold its second hearing to consider the nominations to the Securities and Exchange Commission, the Federal Reserve Board, and the Council on Economic Advisors, and we have tentatively scheduled a hearing for the 27th of this month on the Madoff securities fraud issue. I have distributed a draft agenda to Committee members on both sides and I am consulting with all members to develop a schedule for upcoming hearings as the Committee and the Congress continue to be confronted with the very fragile financial system.

Today, we are considering the nomination of Mr. Shaun Donovan, Commissioner of the New York City Department of Housing, Preservation, and Development, to become the Secretary of the Department of Housing and Urban Development. Let me point out that we are extending to Mr. Donovan this morning the same courtesy we showed to our colleague, Senator Mel Martinez, my good friend from Florida, for whom the Committee under Chairman Senator Sarbanes also held a nomination hearing for the job of Secretary of HUD prior to the President actually taking office, and I don’t think a bad precedent to be setting given certainly the issues we are facing today, but also to allow an administration to get up and moving as quickly as possible.

It is our view now, particularly given the urgency of our economic situation, that we ought to help get the President’s cabinet in place as quickly as possible.

Senator Schumer has arrived. I announced you would be here shortly.

Mr. Donovan, let me welcome you to the Committee. You have been nominated for a job fraught with significant challenges. Yet for that very reason, I think there are some tremendous opportunities, as well, not only for you, but for our country.

For the past 3 or 4 years, the country has been facing a growing housing problem that had its origins in the scourge of predatory lending that has resulted in record high foreclosure rates. This housing crisis has been a primary cause of the deepening recession to which none of us are immune. Across the country, between 9,000 and 10,000 home owners face foreclosures every single day in our nation. Foreclosures in my State are up 71 percent over last year and it is expected that we will have more than 13,000 subprime foreclosures in the next 2 years on top of the 17,000 that have already occurred in Connecticut. And my State is not anywhere near as adversely affected as the States of California and Arizona, Nevada, Florida, others that are facing far more serious problems with the foreclosure rates.

Nationwide, cities such as Bridgeport, Connecticut, which have inordinately high rates of subprime loans, are struggling to keep themselves afloat as those loans reset one by one and families find themselves with nowhere, or very few places to turn.

I recently met with the leaders in my own State where I heard about the toll this crisis is taking in the minority community, particularly. Some say this crisis will result in the net loss in home ownership rates for African-Americans, wiping out a generation of wealth gains and opportunities.
But let there be no doubt that this crisis today affects every American in one way or another. In all, by some counts, we can expect some eight million homes to go into foreclosure absent some form of additional action.

Unfortunately, the current administration was slow to acknowledge the housing problem, and when it finally did, it was timid, in my view, in its response. Even now, as foreclosures tear apart neighborhoods and wreak havoc on our economy, the administration unfortunately has refused to use the authority of funds that we gave it in the Emergency Economic Stabilization Act to tackle the foreclosure crisis head-on, despite the Congress’s crystal clear intent when that law was written.

Surprisingly and unfortunately, in my opinion, HUD has not played a central role in addressing the housing crisis. Frankly, it has been, to quote last Friday’s National Journal, and I quote them here, “at best a second-string player,” end of quote, following in the wake of other governmental departments with far less expertise in housing than the professionals at HUD.

Indeed, as the cover page of CQ Weekly says, “The housing crisis remains at the core of the economic woes,” end of quote. Put simply, we cannot address our economic crisis until we address the underlying housing crisis, and to do that we need an active, aggressive, and well-run HUD with leadership that is confident in its mission and unafraid to act. As President Obama himself has said, HUD’s role has never been more important, and I agree with him.

Unfortunately, HUD has been mismanaged and ridden with scandal in the last several years. Let me be clear that these problems did not arise, I might point out, under the very able leadership of our colleague on this Committee, Mel Martinez, who did a remarkable job, in my view, while he was at HUD, understood these issues, came from a background committed to it with his own previous experience in Florida.

I would also say that in recent weeks, Senator Preston, who has been the new Secretary of HUD, a nomination we moved very quickly through this Committee, as my colleagues will recall, I think has done a very, very good job. He has had a short tenure, but done a very good job over these last several months.

But fundamentally, HUD has been left adrift at a time when bold leadership and clear direction were never more important. Just last week, I learned about the Wright family in my home State of Connecticut, and every one of my colleagues can share similar stories. The Wrights are a middle-class, working-class family from Windsor, Connecticut, and they are right now in danger of losing their home. Like thousands of families across the country, the Wrights were lured into a mortgage they were sure they could afford, but they discovered they can’t, not because they acted irresponsibly, but Mrs. Wright became pregnant with her second child and she ran out of her paid sick time that she had been afforded as a teacher. For those reasons and circumstances, their income has declined, costs have risen, and all of a sudden that home, which was the source of the great wealth creation for that middle-class family, is now in danger of being lost. There are literally millions of Wright stories all across this country of ours.
Mr. Donovan, this is the kind of story being repeated in every community across our nation. With the right leadership, I believe HUD can be an effective partner in helping families such as the Wrights. This is an opportunity you have to restore HUD as a leading voice in addressing the crisis facing our country today.

I would say to my colleagues that Mr. Donovan is the most experienced nominee for HUD Secretary this Committee has seen in a long time. Certainly Mel Martinez, as I mentioned, did a remarkable job and brought a strong background experience to the issue, as did Andrew Cuomo when he served as Secretary of HUD. But it is important to understand the background of Mr. Donovan. I think you will all be heartened by the wealth of knowledge he brings to this nomination.

In addition to degrees in architecture and public administration, Mr. Donovan has run the Multi-Family Program at the Federal Housing Administration, was for a time the Acting Housing Commissioner. He has worked in the private nonprofit sector as a housing developer and has worked as a managing director of a large multi-family mortgage company. Since 2004, Mr. Donovan has been the Commissioner of New York City’s Department of Housing Preservation and Development, and in that role managed 2,800 employees and helped develop and manage Mayor Bloomberg’s New Housing Marketplace Plan, which I am sure Senator Schumer may reference in his introduction, one of the most remarkable plans not only in New York’s history, but anywhere in this country, a very exciting idea.

Beyond the statistics and the numbers that so dramatically underscore Mr. Donovan’s accomplishments, I want to welcome him for the kind of leadership and vision that I am confident he will bring to the Department at a time when such leadership is so desperately needed.

For example, as early as 2004, before most of the rest of the country was focused on the subprime crisis and foreclosures they would lead to, Mr. Donovan told a Newsweek reporter that he was worried about the coming flood of foreclosures. That is at least a year and a half before other people were even talking about the issue at all. He warned about the impact it would have on homeowners and neighborhoods across this country.

Mr. Donovan sees the role of HUD as being more than a caretaker for physical housing structures or as a mortgage insurance company. Mr. Donovan, I believe, understands the danger of stovepiping within this arena and sees HUD as the Federal Government’s primary tool to help build communities, an agency that helps provide housing opportunities for homeowners, for renters along a spectrum of incomes and ages. He also understands, in my view, the need to coordinate housing with transportation, including public transportation and transit, to improve access to jobs and other economic opportunities. We had the chance to discuss this in a meeting we had in our office and I was impressed that you understood the holistic approach to the housing job and function and the problems that we need to address.

And finally, Mr. Donovan is a man, I think, of integrity, who has shown a proven ability to work constructively with all interested parties. We have letters that I am going to ask consent to be in-
cluded in the record from a wide variety of housing groups, from realtors to home builders, Low-Income Housing Coalition, and many, many others, all expressing very enthusiastic support for your nomination.

Chairman DODD. So Mr. Donovan, we welcome you to the Committee. The leadership you offer to this critically important Department, and more importantly, the hope that you offer millions of our families at this uncertain moment. I look forward to your testimony, and after I give my colleague here, Senator Shelby, former Chairman of the Committee, a chance for an opening statement, we will turn to Senator Schumer for purposes of introduction and then we will get to you, Mr. Donovan.

Senator Shelby?

STATEMENT OF SENATOR SHELBY

Senator SHELBY. Thank you, Chairman Dodd. Thank you for calling today’s hearing on the nomination of Mr. Shaun Donovan to serve as Secretary of the Department of Housing and Urban Development. You are expediting it, and I think you should in this situation.

I look forward to the Committee officially receiving that nomination and having the opportunity to review your record in depth, but right now, I want to welcome you to the Committee and to your family, the same thing, and I know you will introduce them in a few minutes.

Mr. Donovan, his previous experience, as Senator Dodd has said, at HUD as Deputy Assistant Secretary for Multi-Family Housing and in New York City, where he presently serves as Commissioner of Housing. I hope that this experience will allow you to get a quick start on addressing, as Senator Dodd pointed out, HUD’s many longstanding deficiencies.

In particular, I am very concerned about the financial health of the Federal Housing Administration. We talked about that in my office. While most mortgage delinquencies have been concentrated in the subprime area, market, FHA has not been immune and has experienced a similar increase in its own delinquencies. I believe the FHA program poses significant risk to taxpayers and therefore requires diligent oversight by you, Mr. Secretary. This situation is one that requires your immediate attention, I believe, after you are confirmed as HUD Secretary.

Unfortunately, FHA is not HUD’s only troubled program. There are many other HUD programs, including the Section 8 voucher program and the Public Housing Program that are also in need of review and reform.

Mr. Donovan, the task of reforming and ensuring the efficient operation of the Department present significant challenges. I believe, however, that the greatest responsibility that you would have as the incoming Secretary will be to address, as Senator Dodd has mentioned, the unprecedented crisis in the housing market. The sooner housing markets stabilize based on sustainable fundamentals, the sooner I believe we will see a recovery in the market and in our economy. Short of that, I think we are in for some deep trouble.
I look forward to hearing your plans somewhat this morning on how to reform HUD programs, and more importantly, how HUD can help stabilize—I know you can’t do it by yourself—our nation’s housing markets. Once again, we appreciate your appearance. We look forward to your tenure and helping you along.

Chairman DODD. Thank you very much, Senator Shelby.

Let me notify my colleagues that when Senator Schumer completes his introduction, I will then be turning to my colleagues if any of you would like to make some opening comments before hearing from our nominee.

Chuck, you are a busy guy this morning. We’ve been running around here, and I appreciate your patience.

STATEMENT OF SENATOR SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman. I want to thank you and Ranking Member Shelby for the honor of introducing Shaun Donovan.

Before I begin, Mr. Chairman, I do want to say these—these have been just amazing times for the country and for the Committee and we couldn’t be under better leadership than yours and I really thank you for stepping up to the plate at a time when the country so much needs it. Thank you, and I want to thank Senator Shelby, as well, for his passion, keeping our feet to the fire through these times, as well, which proves a very important and salutary function.

Mr. Chairman, I am really honored to be here to introduce Shaun Donovan as nominee for HUD. After being relegated to the shadows for so long, housing is now front and center on our national agenda. And at this crucial time, there is no one who has more experience, stronger judgment, and a better sense of balance to take the helm at HUD than Shaun Donovan.

In history, there has been a great debate over whether the times make the man or the man makes the times. Shaun Donovan is the perfect person for these troubled times in housing and he will clearly improve our housing policy in a dramatic way, changing the times.

Shaun’s career has ensured that he has seen the housing universe from all sides. He has worked for housing nonprofits, as you mentioned, Mr. Chairman. He has worked at HUD as the Deputy Assistant Secretary for Multi-Family Housing and as Acting FHA Commissioner; in the private sector, with Credential Mortgage Capital, focused on FHA and affordable housing investments; and most recently as one of the best Commissioners of New York City’s Department of Housing and Preservation Development that we have ever had.

In his latest role, Commissioner Donovan spearheaded the city’s New Housing Marketplace Plan, a $7.5 billion effort that aims to build and preserve 165,000 units of affordable housing in New York City. The program, thanks in large part to Shaun’s leadership and commitment, developed innovative preservation and new production tools, chief among which is the New York City’s Acquisition Fund, to create a level playing field for those developers committed to building affordable housing in one of the most expensive real es-
tate and rental markets in the world. And it is so difficult to get things done in New York City and to build the number of units for people who need help—affordable housing—that Shaun has done is nothing short of a miracle.

I have worked closely with Shaun on a number of preservation projects during his time at the helm of HPD. Together, he and I worked to save the birthplace of hip-hop music, a 100-unit affordable apartment in the Bronx. While we were ultimately unsuccessful in that effort, Shaun demonstrated his characteristic willingness to think outside the box to improve affordable housing, taking the unprecedented step of rejecting the sale of the project because the purchase price was inconsistent with the State and city Affordable Housing Program, whose benefits the developer hoped to continue to enjoy, and this is going to have major effect on helping keep tens of thousands of New Yorkers in their homes.

Shaun has also been a critical partner in our 2-year effort to save Starrett City, the largest federally subsidized housing complex in the country. Starrett City was a haven for the working class, and again, because the Section 8 and other certificates expired, developers were going to come in and just change the total nature of it, eliminating 5,000 units of affordable housing so desperately needed in New York. This complex was almost sold for a dramatically inflated price, and it would have left 14,000 tenants out in the cold. I worked with Shaun day-in and day-out for 2 years. There were tense negotiations on all sides, tenants, developers, community people. And as a result, the owners recently announced they have chosen a bidder for a preservation sale of the complex, keeping those units going. Again, this was an amazing and complicated job that couldn't have been done without Shaun's leadership.

And finally, on the most pressing issue of the day, housing and foreclosure crisis, Shaun has led New York City's efforts to find a comprehensive counseling, legal services, and education center to help struggling homeowners to avoid foreclosure. And under Shaun's leadership, HPD has also demonstrated that homeownership for low- and moderate-income people is not an unachievable goal. Of the more than 17,000 new or preserved affordable homes that HPD has created under its plan, 17,000 affordable units, only five owners have lost their homes to foreclosure, a number that barely registers when compared to the 2.2 million homeowners who entered foreclosure. To take that model that we used in New York City and expand it nationally would be a blessing for the Wrights and many others throughout the country.

So I look forward to working with Commissioner Donovan on these and many other housing community development issues during his tenure. I know that he is the best possible steward for this crucial agent at this moment in history, and I thank the Committee for the opportunity to introduce him.

Chairman Dodd. Senator, thank you very, very much. Chuck, we appreciate immensely your leadership, as well. I have said to others through this last 2 years, this Committee has—and I sent around to all the members sort of a background of what we have been through. It was an awful lot, and I want to thank every member, and certainly you, Senator Schumer, have been tremendously valuable in this process. I know you are busy with Joint Economic
and the leadership role and on Finance, so you have an awful lot going on. We thank you immensely and thank you for introducing the Secretary-Designate.

I will now turn to Senator Reed, then Senator Bennett, and we will go down the line for any opening statements my colleagues would like to make about this nomination. Then, Mr. Donovan, we will hear from you.

Jack?

STATEMENT OF SENATOR REED

Senator REED. Thank you, Mr. Chairman. I would ask that a statement be included in the record and I would like to make just some brief comments.

First, I think this is a superb selection and I commend the President. I have had the privilege of working with Mr. Donovan in many capacities. His experience, as illustrated by Senator Schumer, and his temperament and his talent, as demonstrated by his success in so many other areas of endeavor, in the housing area particularly, commend him immensely to this Committee and the Congress and I wish you well in your very important task.

You have responsibility for some of the most vulnerable families in this country. In addition to that, you are, or will be, one of the most significant figures in the financial situation of our overall economy, with the huge role that the mortgage agencies play, the huge role that HUD’s policy plays in our economy. And in those two areas, you will be challenged, but I think you are more than capable of meeting and exceeding these challenges.

In the last several years, your budget has not been, I think, adequate to the task, particularly in terms of the managerial expertise and skill that you need. Many of us have reflected upon the issues facing the Federal Housing Administration. Some of them are basic, about having the computer systems, the personnel, the ability to operate as a sophisticated financial institution in a very complicated world. So you will have to face those challenges right off the bat as you start your preparing the budget for the forthcoming year.

As all of my colleagues have alluded to, this foreclosure problem is absolutely crippling. It cripples the hopes and dreams of families, their confidence to participate in the economy. Unless we can get a footing, some traction with respect to these foreclosures, I don’t think we will begin to see the economic expansion that we are all hoping for, and your role is going to be absolutely critical in that, along with your colleagues and the President’s team.

There is one issue, too, that is consistent in the good times and the bad times and it is an unfortunate reflection upon this country, the homelessness issue. We have had soaring homelessness problems in the boom of 2 or 3 years ago and now they are even more exacerbated in this deplorable situation we face financially. We have all worked together. We have bipartisan legislation that has been supported by the Bush administration that is ready to go and we hope that is something that at least I hope that you can help us tee up and help us get through in the next few months.

Again, I think the President has chosen wisely and I am looking forward to working with you and I wish you well.
Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator, very much.

Senator Bennett?

STATEMENT OF SENATOR BENNETT

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

Mr. Donovan, you and I had what I consider to be a very useful exchange in my office. You know how I feel about all of these issues and I won't take the time of the Committee to go through them again.

But I add my welcome to you and my tribute to you for your willingness to undertake public service at a time when sometimes that is not the most financially remunerative thing you can do, particularly with somebody with your background and your potential. And as you will discover from editorials, editorial cartoons, comments made, maybe not the most psychologically rewarding thing to do.

[Laughter.]

Senator BENNETT. But if you can rally the personnel at HUD behind you in your enthusiasm for the job that you have and lead those folks in the direction that I know you want to go, when it is all over, you can look back on it with a great deal of satisfaction.

So I salute you for your willingness to undertake it, and unless something amazingly unforeseen should pop up, pledge you my vote in confirmation and support. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Menendez?

STATEMENT OF SENATOR MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman. Mr. Chairman, with your expertise of Irish history, I would have pronounced the Commissioner's name "Donovan," but I keep hearing you say "Dunovan" and I am going to defer to the Chairman and say "Dunovan" for the purposes of this hearing. I am sure if it assures the passage, he won't quite mind, whichever one is the correct one.

[Laughter.]

Chairman DODD. I don't know, what do you say, Shaun? What is it?

Mr. DONOVAN. I say "Donovan," actually.

[Laughter.]

Senator MENENDEZ. Well, I always think the Chairman is right, so in any event——

[Laughter.]

Chairman DODD. You had better start calling yourself "Dunovan."

[Laughter.]

Senator MENENDEZ. It might lead you well, at least for the hearing. But in any event——

Senator BENNETT. Senator Menendez, the Chairman is always right.

Senator MENENDEZ. I thank my esteemed colleague for reaffirming what I thought was the case.

[Laughter.]

Senator MENENDEZ. Commissioner, I just came a little while ago along with the Chairman from Senator Clinton's nomination, my
other committee assignment, and while HUD never seems to gather the press attention as other agencies do, to American families, your future role at this agency may be far more important as it relates to their lives. And I agree with those who say that HUD has been sitting at the kid’s table and it is time for that to change.

I grew up in a tenement building in Union City, New Jersey. I understand first-hand the value and importance of our housing programs. These programs are more than dollar signs in our budget and more than paperwork they often entail. They are about providing a place to call home.

I believe that every family, every man, woman, and child, deserves a place to call home. Home is where you are brought to when you are first born. Home is a place in which you are nurtured and grow and a place where you live through the good and the bad. It is the place that you start your day and end your day. It is a place where you leave from to go get married and come back to with your family. It is a quintessential part of the American ideal.

Unfortunately, we have seen a real toll on the notion of home taking place over the last several years. The regulators fell asleep at the switch. Foreclosure rates have spiraled out of control, and now we have a snowball effect as families find a padlock on their homes and often find themselves without a place to call home. So as homelessness increases and families struggle to make ends meet, the need for housing and all of its related elements that your Department is going to be able to pursue are going to be even greater.

These programs can be better and Americans expect them to be better. So now is a time for great leadership within HUD to get our housing programs back on track.

I appreciated your visit with me. I appreciate the comments that I have read in your testimony and agree with you when you say that housing was at the root crisis that we are in and it must be part of the solution. I hope in the question and answer period, between jumping between committees, this new report by Financial Week that talks about the FHA being ill-equipped to stop the migration of predatory subprime lenders to the rapidly growing sector of U.S.-backed home loans, raising the specter of another cycle of lending abuse, is something that we can talk about and something that you will look at.

And finally, I do think, living right across the river from where you presently are the Commissioner, that your experience in New York prepares you well for this role and I look forward to hearing your thoughts today on such issues as foreclosure, the elements of how we meet the challenges of public housing that we face today, Section 8, Hope VI, fair housing, and some of these other issues. These are tough times for American families, but I believe HUD under your leadership can be a place for hope again to have a place to call home.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much. A good statement.

Senator Martinez?
STATEMENT OF SENATOR MARTINEZ

Senator MARTINEZ. Mr. Chairman, thank you very much, and Shaun, welcome. I am so pleased to welcome you to the Committee and to congratulate you on your appointment and look forward to your confirmation.

First of all, I can’t help but reminisce about 8 years ago, almost to the day, sitting at your table, and my youngest at the time was the same age as your youngest is today, 6 years old. By now, he was already out of the room. So I congratulate you on that.

[Laughter.]

Senator MARTINEZ. Anyway, the fact is, you are unusually qualified for this job and I would dare say, Mr. Chairman, in spite of your graciousness, I do think he is far more qualified than I was or even perhaps even the Attorney General of New York was at the time. I think Mr. Donovan brings some unusual qualifications to this job, and so I think it is an excellent choice by the President-Elect.

There are a number of troubling issues. You and I had a very lengthy discussion on them. I should also say, by the way, that at the time that I went to HUD, Shaun Donovan was there. My recollection is that I tried mightily to keep him there, but he chose to go back to New York, understandably, and to go home. But I am glad that you are back to HUD, even if 8 years down the road. But it is a better job than the one I was offering you, actually, so you have moved up.

But the housing crisis, I will only echo what others have said, is unquestionably at the very root and the very heart of the economic crisis our country faces today, and until we solve the foreclosure problem and the home ownership problem and the mortgage crisis, we are not going to really come out of this recession. Nowhere is it worse perhaps than the State of Florida, where we are facing tremendous problems economically, all related to the situation with housing. Unemployment is up. Housing unemployment is dramatically up. More and more families are threatened with losing their home, and we have just not done enough in all that we have done to attack that problem aggressively.

I am just hoping that you will have, as my colleague, Senator Menendez said, not a seat at the kid’s table, but a seat at the main table. Insist on it. Be there. That is where you belong and that is where you need to be to help solve these very vexing problems.

I am concerned, as I mentioned to you, and I will hit on just a couple of these issues—the role of FHA, whether FHA is up to the task at hand, whether it is properly staffed, whether we need to focus on more funding. I also concern myself about the viability of FHA. I have always believed that risk-based pricing may be part of what they must do. But they have been getting an increasing share of the marketplace as every other vehicle has vanished, and I think it is important that FHA be up to the task so they can be part of the solution as we seek to get out of this current crisis.

I am also very interested in what you might believe is the future of the GSEs. Unquestionably, HUD has a role in their regulation. One of the more frustrating aspects of my tenure at HUD was my inability, along with that of others, to get true and serious regulations of the GSEs in a way that only recently occurred, but almost
a little late. We now have to deal with what is the future of the GSEs. How should they be structured and what is the mechanism by which they perhaps should be completely private or just how they should be handled.

Something that I also discussed with you privately and I want to make sure that I mention to you is RESPA reform. There is no question that if we had had better disclosure and better information as it relates to home ownership today, we would not have the problems we have. More and more American families are finding today as the resets of their mortgages come about what the rest of the story really is. So I believe RESPA reform is something whose time has come. I commend the current HUD Secretary for having made some efforts in this regard. Much more needs to be done and I commend it to your agenda.

And last, I will mention something that I think has been one of the real remarkably good stories at HUD and that is the issue of homelessness. The effort to end chronic homelessness led by Philip Mangano. The fact that we brought all of the agencies and entities of the Federal Government to working together to try to end chronic homelessness has, in fact, yielded great results, and I am very proud of my embryonic role in that, but I also believe great credit goes to those who have continued the battle to bring this to a national focus. I know you have some experience in what New York has done in this regard and I would hope that you can continue the passion for an issue that has a very, very small constituency. There are no votes to be gotten among the homeless. It is just the right thing to do for a compassionate country like ours.

So anyway, I thank you for your willingness to serve and that of your family and look forward to working with you in your new capacity.

Chairman DODD. Thank you very much, Senator.

Senator Akaka?

STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. Thank you for holding this hearing today.

I want to add my welcome to Commissioner Donovan and congratulations for your nomination to the Department of HUD. I also want to welcome your handsome family, Liza and Milo and Lucas, as well, to this hearing.

My State of Hawaii suffers from a severe lack of affordable housing. The National Low-Income Housing Coalition’s Out-of-Reach Report ranked Hawaii as the most expensive State for housing. Having a job is not enough to ensure access to adequate housing. It will take long-term coordinated Federal, State, and county efforts to expand access to affordable housing.

Commissioner Donovan, I look forward to working closely with you to help improve access to affordable housing and I smilingly would greatly appreciate it if you would take the time to visit Hawaii when you are Secretary of HUD. It would be helpful to see the work being done there by our Department of Hawaiian Homelands. The Native American Housing Assistance and Determination Act programs administered by DHHL in Hawaii provide essential housing assistance and home ownership opportunities to Native Hawai-
ians. DHHL raises the standard of living of all residents by increasing the number of affordable housing units available Statewide.

In addition, I am greatly concerned about our nation’s homeless, in particular, our homeless veterans. Veterans comprise approximately one-third of the overall homeless population. As Chairman of the Committee on Veterans Affairs, I have worked to enhance and improve VA services for homeless veterans. Permanent, supportive housing is one of the most effective ways to end homelessness. I hope that, if confirmed, you would work in conjunction with VA to expand this program and make it available to more veterans.

In addition to continuing to work with my colleagues on both this Committee and the Veterans Affairs Committee, I will work with you, Commissioner Donovan, to help homeless veterans find and maintain adequate housing and support services.

Mr. Chairman, I would ask that my full statement be placed in the record. Thank you.

Chairman DODD. We will do that for all members. I was hoping that you might suggest the entire Committee go to Hawaii for a hearing on that, sometime next January, maybe.

[Laughter.]

Senator AKAKA. I would extend that to the Committee, too.

Chairman DODD. I imagine there would be no interest in that hearing.

Let me, if I can, what I will do, Mr. Donovan, is to swear you in, and so I would ask you to stand and raise your right hand.

Do you swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. DONOVAN. I do.

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

Mr. DONOVAN. I do.

Chairman DODD. I thank you for that.

Welcome to the Committee, and we are prepared to hear your opening comments.

STATEMENT OF SHAUN DONOVAN, OF NEW YORK, SECRETARY-DESIGNATE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. DONOVAN. Thank you. Mr. Chairman, Senator Shelby, and distinguished members of the Committee, thank you for the opportunity to appear before you today. I would also like to thank Senator Schumer for that very kind introduction.

Before I go any further, I would like to introduce my family again, my wife, Liza, and my two children, Milo and Lucas. Without them and their constant and steadfast support, I would not be here.

Chairman DODD. Welcome.

Mr. DONOVAN. I am honored and humbled by President-Elect Obama’s decision to nominate me as Secretary of Housing and Urban Development, an agency with a critical role to play as government partners with the American people to overcome the greatest economic crisis we have faced in many decades.
I want to thank the Committee for the speed with which you have scheduled today’s hearing and the time you have made in your busy schedules to visit with me and share your thoughts and views regarding housing in the United States.

Throughout my career, I have been committed to affordable housing policy and development. In my line of work, we often talk in terms of numbers of units and dollars spent. That is our common language. But it does little to convey the reason I am in this field. America’s homes are the foundation for family, safe neighborhoods, good schools, and solid businesses. A home represents and confers stability, a base from which to raise our children. These things have not changed, but the world has. I am here before you today because I hope, should you confirm my nomination as HUD Secretary, that I can contribute to restoring this vital sector to health and making quality housing a possibility for every American.

My first job after graduate school was at the Community Preservation Corporation, a nonprofit lender and developer of multi-family housing. While there, I saw firsthand the difference that effective public-private partnerships can make in developing decent, safe, and high-quality housing. In this, the Federal Government was often a valued and an essential partner. But I also experienced the headache of trying to navigate regulatory barriers or having deals fail because of inflexible programs.

Later in my work at the Department of Housing and Urban Development, I saw how government can work to catalyze effective community development. While I gained an appreciation for the benefits of well-crafted and responsive government programs, I also saw a need to untangle and streamline policy and programs that too often led to missed opportunities.

Because of these experiences, I believe that the best way to ensure access to safe, decent, and affordable housing is through strong partnerships among the government, private, and nonprofit sectors. Government can play a unique role in incentivizing the other sectors and removing barriers to the development of quality housing.

That is why when I became Commissioner of New York City’s Department of Housing Preservation and Development in early 2004, I engaged the agency in a top-to-bottom strategic planning process. This resulted in new and innovative policy and programmatic solutions, a more appropriate alignment of staff with the mission of the agency, and better measurement of results.

Let me give you two examples. With contributions from our nonprofit and for-profit partners, New York created an acquisition fund that leveraged significant philanthropic support. In one of the most competitive real estate markets in the world, this pool of funds enables housing developers to acquire land and create affordable housing for hard-working families.

We also changed land use policy to respond to the challenges posed by the New York City market. In order to incentivize the creation of more housing for low-income families, the city undertook a series of rezonings that will allow the development of up to 500,000 total units of housing and crafted an inclusionary zoning program that will generate 6,000 affordable units.
I believe that together, we can create programs that will spur the development of affordable housing in our cities and towns across America.

In the past, owning a home was emblematic of financial success. Sadly, we know that the landscape has changed. Clearly, the most important public policy decision facing Congress and the new administration is how to best ease the economic pain that millions of Americans and families are feeling right now because of our unsteady housing markets.

As President-Elect Obama has said, the housing crisis has shaken not only the foundation of our economy, but the foundation of the American dream. It is estimated that approximately 2.2 million homes went into foreclosure in 2008. One in ten American families who owns a home is in financial trouble. Housing is at the root of the market crisis we are now experiencing and HUD must be part of the solution.

President-Elect Obama is committed to working with you and your colleagues on an economic recovery plan that helps strengthen our housing and mortgage markets.

We must ease our foreclosure crisis by helping Americans stay in their homes. How we structure this assistance is important. We certainly do not want to pursue policies that encourage irresponsible behavior from lenders or homeowners. But as President-Elect Obama stated, if my neighbor’s house is on fire, even if they were smoking in the bedroom or leaving the stove on, right now, my main incentive is to put out the fire so that it doesn’t spread to my house.

That is why helping a family avoid foreclosure not only keeps a roof over their heads, but also protects the value of surrounding homes and prevents the deterioration of our neighborhoods. Keeping families in their homes means keeping our communities safe, healthy, and strong.

These are very complex undertakings that will require a cross-agency, broad-based approach. Keeping families in their homes. HUD needs to work with the Treasury, the Federal Housing Finance Agency, and the Federal Deposit Insurance Corporation to help stabilize our housing markets.

At the same time, we need to make sure our mortgage markets and other financial markets are transparent, open, and fair. We need to work together to reach a bipartisan consensus on how to reform the outdated and often overlapping regulatory system that failed our citizens in the run-up to the current crisis.

If I am confirmed, I look forward to working with the Committee as it examines how to proceed, not only in my capacity as HUD Secretary, but in my oversight roles with regard to the TARP and the Government-Sponsored Enterprises. If HUD is to help fix the cracks in our economic foundation, we also will need to implement reforms within the Department itself. As you well know, these are challenges—there are challenges and persistent management issues facing HUD, including modernizing IT systems, overhauling sluggish human resource systems, and strengthening contract oversight. If confirmed, I will be open and honest about such challenges and will work with you in effectively addressing them.
There are three particular issues I would like to highlight today. The Federal Housing Administration has capacity issues that require immediate attention. FHA’s share of the single-family mortgage market has grown from 4 percent in 2005 to 21 percent today. And, in fact, for new home purchases, FHA now has a 35 percent share, according to the most recent, albeit preliminary, data.

Second, there have been significant budgetary issues regarding the renewal of expiring Section 8 rental subsidies for both the tenant and project-based programs. Approximately 3 million American families are served by these programs. It is HUD’s responsibility to make sure that it is delivering rental subsidies in the most cost-effective and efficient manner possible. I look forward to working with Congress, this Committee, and the Committee on Appropriations toward that goal if I am confirmed.

Third, there are a series of steps that could strengthen the Department overall. We must foster a culture of excellence and innovation. I have had the opportunity to work with some very talented professionals at HUD and they deserve the tools to succeed. It is critical that we restore HUD as a respected research institution, as well. Both you and I need to know what works based on objective analysis and reliable data so that taxpayer dollars can be spent wisely and effectively. I pledge to make management reform a high priority. Only in this way can we meet the enormous housing challenges facing our country.

Through HUD, we can catalyze the creation of a market for energy-efficient homes, lower the utility bills of families, and decrease the subsidy cost to the government. Here, the Department can lead by example, by making efforts to green its own portfolio of public and assisted housing. HUD can help develop communities that are livable, walkable, and sustainable. By joining up transportation and housing, HUD can give families the choice to live closer to where they work and in the process cut transportation costs.

HUD can help low-income families gain greater access to security and opportunity by expanding fair housing efforts, extending resident choice, and using housing programs to help families become self-sufficient.

I also pledge to you to make HUD a model of evidence-driven government. As I have in New York City, I would set goals and metrics for each of our priorities so that we can clearly and openly show what we have done well and where we can do better. We can leverage the agency’s vast national network of State and local governments, along with nonprofit and for-profit real estate partners, to stimulate the production of workforce and mixed-income housing and to help preserve our existing affordable housing stock. HUD does not build homes, our partners do. They share our compassion and have the talent and capacity to do this work.

I would like to conclude by saying again how honored and humbled I am to be before this Committee. I have worked with HUD’s programs from both the inside and the outside and am intimately aware of the challenges facing the Department. I have also witnessed the positive impact that HUD’s programs have on neighborhoods and people’s lives, and if confirmed by the Senate, I look forward to working with you to build a HUD that exists to do the people’s business, that is responsive to current market challenges, and
that ensures decent, affordable housing for millions of American families across the nation.

Thank you, and I look forward to your questions.

Chairman DODD. Excellent. Excellent opening statement. We thank you.

Thank you for your willingness to do this, too. This is not an easy time to be in public life and public service. I think Senator Martinez made the point that deserves to be underscored, your willingness to take on these challenges.

And let me take advantage of the Chair's position here to underscore something else that Senator Martinez said, and I am confident the incoming administration will hear this. I want you at that table. So I am going to be insistent that you be at that table as these debates and discussions go forward. So when the so-called principals are meeting about our economic conditions, and if I hear you are not there, I am going to be terribly disappointed, because we really do have to have this integrated approach on these issues.

Too often, not to include a HUD, for whatever the reasons may have been in the past, and some may have been absolutely legitimate, there is no longer any legitimacy to that point at all, in my view. So I hope you will insist upon it, but I want you to know you have an ally here that will insist upon it, as well.

We have been joined by Senator Casey and Senator Tester. Let me ask either one of you if you would like to make a brief opening comment at all here. I know you have all got busy schedules, as well, but Senator Casey, any comments?

STATEMENT OF SENATOR CASEY

Senator CASEY. Mr. Chairman, I will be very brief and I will submit a longer statement for the record, but Mr. Donovan, we are honored you are here. We are grateful that you have put yourself forward again for public service.

I know we will have a lot of questions. Mine will focus not just today, but throughout what I hope is your long tenure, on foreclosures and the challenge we have there, as well as an equally urgent challenge of making sure the Troubled Asset Relief Program is operated in a way that gives the American people confidence that it is going to improve our economy. There are some doubts about that now and we have to take steps to improve it, I know. You are not the sole arbiter of how that works, but I know you play a role and I am glad that you recognized that in your opening.

And finally, just as we go forward, priorities that pertain to Pennsylvania, of course, that we will be paying attention to. I am not sure we will get to all of that today, but we are grateful for your work already leading up to this nomination and we certainly hope that your confirmation goes well. I am sure it will. We are honored you are here.

Thank you very much.

Chairman DODD. Senator Tester?
STATEMENT OF SENATOR TESTER

Senator Tester. Thank you, Mr. Chairman. I want to thank you, Mr. Donovan, for being here, and your family, and I appreciate you all being willing to do this job, put yourself up.

I, too, am going to be very, very short. I will just say this. I appreciate you coming to my office last week so we could visit about some issues with housing in rural America and in Indian Country and I appreciate your openness to those challenges that we face. My questions will revolve around that mainly, but most of all, thank you all for being here. I really appreciate you putting yourself up for public service in this venue. It is a very, very important job and I know you will do a great job once confirmed.

Chairman Dodd. Thank you very much, Senator.

I am going to have the clock on for 10-minute rounds. We don’t have a full complement here, so I am not going to be too rigid about that, but we will try and give everyone a chance to move along on this. My intention would be, I would say to my colleagues, assuming we are complete here today, my hope would be that by the end of the week, I would be asking us to convene for a business session, maybe even off the floor of the Senate, to vote on the nomination of Secretary-Designate Donovan. So keep that in mind, maybe Thursday or Friday, depending upon the schedule of the floor.

Let me begin, if I can, Mr. Donovan, in my opening statement, I mentioned that if you are confirmed as Secretary, you will be confronted with some enormous challenges, and all have said that here this morning. Some will be pushing you from the outside, issues. We have talked about those, obviously. And some will come internally, as well, getting the institution, the Department, back on its feet.

So let me open with sort of a broad opening question here for you. Give us a sense, as someone who has administered a significant department in New York City, how you will determine your priorities as Secretary with so many pressing issues, and second, give us a sense of your management agenda at HUD, as well. It is sort of an open-ended question, but I would like to get a feel for how you will approach those two issues.

Mr. Donovan. Senator, first of all, let me say I think there is no question—you have heard it in my opening statement today, you have heard it, I think, from every member of the Committee—that the foreclosure crisis that is facing the American people, American families, American neighborhoods is job one for HUD and that we must immediately, should I be confirmed, move toward addressing that crisis. And I think you have heard President-Elect Obama say very clearly that his administration will put forward a bold and comprehensive plan that will address this crisis.

Clearly, HUD has a very important role to play in that crisis. The Federal Housing Administration, through the Hope for Homeowners program and a range of other initiatives, the Neighborhood Stabilization Program, will have a key role to play in doing that. And so that will clearly be the first priority in terms of addressing the issues facing the country.

But I also want to make clear that rental housing must continue to be a critical part of an overall national housing policy, and I
think perhaps too often, we have tended to overlook that at the Federal level, and that we need to have a balanced housing policy that addresses both sides of the housing market. So I will pledge also, should I be confirmed, that I would focus on the improvement of and the importance of HUD's rental programs, as well.

Finally, on the management side, I think there is no question that there is much that needs to be done. Whether you look at the systems, the information technology systems that exist today at HUD, whether you look at the personnel systems training, the resources that are available to staff at HUD or a range of other issues, they clearly are critical pressing issues.

At the center of my management style, though, I think if you talk to my staff, I drive them crazy. I am a numbers guy. I am somebody who always wants to know—I meet monthly with every single team within my agency. I have a series of critical indicators that demonstrate progress to me, or where we are not making progress in the agency. And I feel both internally at the Department, but also, frankly, should I be confirmed, in my relationship with the Senate and with Congress more broadly, you have not had the information that you need to be able to make judgments about how the agency is running, whether we are making progress, whether the budget is the right budget for the agency. And I pledge to you, should I be confirmed, that I will do everything that I can to make sure that you have all the information that you need to be able to work with HUD to set direction for a national housing policy.

Chairman DODD. Well, I thank you for that. In fact, you anticipate a point I was going to make, and that is on a monthly basis, I would like to arrange for the members of this Committee or their staffs to meet with HUD, whoever you would designate, to go over and share with us as current numbers and statistics we can have on this foreclosure issue and the number of rental housing units and so forth, so we are not just relying on the occasional hearing when you show up here, but have an ongoing basis of information so we can, particularly during this crisis, be kept very well informed as to what sort of progress is being made or where there are areas where we need to pay more attention.

Let me, if I can, mention two issues. One, I would like to hear you comment a bit more specifically about the foreclosure issue. I point out, and my colleagues all on this Committee are more than aware of all of this, we began this Committee in the 110th Congress in the first week of February, literally 2 years ago, the very first hearings we had were on the foreclosure issue. I think we had over 30 of them over the last 2 years, plus some efforts we made in this area. It was not always easy. Obviously, there was a lot of resistance to some of these ideas. But nonetheless, this Committee paid a lot of attention to the subject matter.

But Sheila Bair and others have made some suggestions on how more aggressively to deal with these numbers, the eight million homes we are now talking about that could be facing foreclosure in the country, and I wonder if you might share just some thoughts on those ideas.

And second, on rental housing. Again, I want to thank Senator Shelby and the members of the Committee, because when we
passed the housing bill last summer, one of the things we included was a permanent Affordable Housing Program, as you may have watched. We are relying on funds coming out of Fannie Mae and Freddie Mac to support that effort on a permanent basis. Obviously, that has changed.

But I raised the other day the possibility that as part of the stimulus package, these two funds, the trust funds that Senator Jack Reed has been so involved and others have, that we might get some of this assistance to help out in that affordable housing area.

I point out in my State of Connecticut, the average two-bedroom apartment, you have got to make $21 an hour to afford it. I don't need to tell you, that pretty much excludes most people who need rental housing, and I am sure the numbers around the country are close to that or certainly reflect that kind of a pressure. With the lack of stock and with more people going to foreclosure, obviously the number of people seeking rental housing is increasing simultaneously.

So I wonder if you might just put a little more flesh on the foreclosure issue and then on whether or not you believe, and again, I realize that the stimulus package has a lot of hands on it. The administration, to their credit, is listening to a lot of us up here on this. But whether or not you think there is an argument to be made for including some of these things, given the fact that so-called—I don't really like this expression because I think it excludes too many of the things, shovel-ready—but candidly, there are shovel-ready projects in affordable housing that could put people to work, but also deal with a legitimate housing need.

Mr. DONOVAN. Absolutely. First, to address your question about some more specifics about the foreclosure issues, as you know, there have been already early discussions with the transition and yourself, leadership in the Senate and the House, on the disposition of the next round of the TARP funding. The administration, current administration as well as the transition, have had discussions about the potential for moving that funding forward.

What I would tell you is that we are looking very carefully at the proposals that yourself, that Chairman Frank and others are discussing around that. We are looking very closely at the FDIC program. I think we generally say that we believe a significant effort to try to keep homeowners in their homes, using some kind of modification program, is an important part of an overall, comprehensive plan.

We are also looking carefully at the data coming out of that plan in terms of whether—what numbers of folks are re-defaulting, trying to understand that data to make sure that any plan could be structured to make sure that we have incentives for long-term success for homeowners and that we don't end up with the government just protecting loans that otherwise might go bad. So we are trying to balance those incentives very carefully in thinking about that.

I would also say that, more specifically, I think two extremely important efforts, specifically under HUD's responsibilities, one would be the Hope for Homeowners Program that I mentioned earlier. I know that you and others have ideas, which I think are very important to look at in terms of ways to improve that program, to look at the fees, the loan-to-value ratios and other aspects of that
program. Should I be confirmed, I look forward to working in more detail to make sure that program is a very effective alternative for foreclosure mitigation. Initially, 400,000 was the number that had been expected. There were just over 100 applications in the first month for that program, so I think it is clear to everyone that there need to be some changes to make sure that program is effective.

And then finally, I would mention the Neighborhood Stabilization Program. There was $3.9 billion that was part of the Housing and Economic Recovery Act passed this summer, as you know. We worked very closely on that, and I think arrived at a very good compromise in terms of how to address the program. The situation specifically of the effect that foreclosures are having on neighboring homes is a very serious one.

From my own experience in New York, where my agency at one point owned more than 100,000 apartments taken through tax foreclosure, we saw very directly the importance of stabilizing that housing and making sure that renovation of that housing can have a positive impact, not just for that home, but for the surrounding community.

And so making sure that that $3.9 billion is effective, that it gets out quickly, and that it is used effectively is absolutely critical, and I think there, one very important aspect is going to be making sure that HUD provides the technical assistance necessary to localities that are dealing with this problem, because for many localities, it is a new problem and a very, very severe problem.

Chairman Dodd. Well, thank you for that, and as I mentioned, Jack Reed just walked back into the room and was our leader on the affordable housing issues and I am sure he will raise the issue, as well, about the two funds and whether or not something in the stimulus package could be included in those.

Let me turn to Senator Shelby.

Senator Shelby. Thank you, Chairman Dodd.

Mr. Donovan, the roots of our current mortgage crisis, I think we have to go back and learn something from what went wrong. The Federal Government, as you already know and you will be a big part of, has already tried a variety of interventions in our mortgage and our financial markets. Most of these have demonstrated up to now little success. In some ways, we may have actually made the situation worse, some people argue, by injecting further uncertainty into our markets.

I have argued myself that any efforts to fix our financial system should begin with an evaluation of what exactly went wrong. If we don’t know what went wrong, how are we going to fix it? What do you see as the causes of our current financial crisis, from your perspective?

Mr. Donovan. Senator, that is a tough question and it is, as you said——

Senator Shelby. But it is an important question.

Mr. Donovan.—a very, very—absolutely, I agree. It is a very important question, and I think it is one that deserves a significant amount of study, as well, in terms of understanding it.

Let me say, frankly, to you, I think there is blame to go around. Senator Shelby. Sure.
Mr. DONOVAN. And I think as you have seen, President-Elect Obama is someone who is not one to say, it is this or that. He is somebody who can say, let us look at a problem and understand all the different issues, and to say we can all take some responsibility, and we ought to look at all the various causes of——

Senator SHELBY. But shouldn’t we find out what went wrong?

Mr. DONOVAN. Absolutely.

Senator SHELBY. I mean, we are not up here today to say, I have got you and I have got you and this and that. I mean, gosh, we have got a housing crisis on our hands which is probably the root cause of a lot of our financial problems, or tied into it. So if we don’t deconstruct what went wrong and how to fix it, we will never fix it, will we?

Mr. DONOVAN. I agree with you that we need to understand the causes of the problem, and again, I think that there are issues that occurred in the market, really in every part of the market and that we need to look comprehensively at, and that means we need to understand the incentives for lenders, for brokers, for a whole range of different players, rating agencies. It is a very complex system, as you know. We also know, frankly, that there were homeowners who got loans and ended up in homes that shouldn’t have, and I don’t think that we should take an approach that it was one side or the other. We should look comprehensively at the issue, and you have my pledge that, should I be confirmed, I would absolutely work closely with you to make sure that we understand those issues.

I also would say that, looking forward, we do have a major challenge, and this is also to go back to Senator Dodd’s question, Chairman Dodd’s question, we have a major question of what the future of our mortgage finance system will look like, and that again is a complex question that will require much study and much discussion, which should I be confirmed, I look forward to having with you and all the members of the Committee. But this is something that we must make sure that we have a system that is transparent, that is open, that is fair, and that is flexible, that continues to harness the power of the private sector in this country in order to be able to drive innovation and change and entrepreneurism.

But at the same time, we have to make sure that consumers, as we have seen over the last few years, have all the information that they need, are protected, and have the ability to make choices of programs and lending products that work for them, and I think we have seen that in New York City in the work that we have done, that you can ultimately help low-income and moderate-income homeowners successfully become homeowners.

Senator SHELBY. FHA, we have touched on this earlier. We all know that they are playing a larger and larger housing role than they were. The crisis in our mortgage markets has not been confined just to the subprime market. Over the last 2 years, we have witnessed increasing delinquencies in FHA’s single-family business. In 2008 alone, the economic value of FHA’s insurance fund fell by over $14 billion, a decline of almost 70 percent of the fund’s value since 2007. At the same time, FHA’s presence in the market has increased dramatically.
Is it possible, in your judgment, that we could see a continued decline in FHA's financial health, potentially wiping out the fund's remaining value, if we are going down this road that we have been going?

Mr. DONOVAN. Senator, this is a critical issue and one of the very first things, should I be confirmed——

Senator SHELBY. But you will have to deal with it.

Mr. DONOVAN.—that I will have to understand in detail. What we know at this point is, as you said correctly, that the market share has gone up dramatically, from roughly 4 percent in 2005 to 21 percent today. Close to roughly a third of all new home purchases are financed by FHA today. There are recent studies. One of them showed recently that the reserves in the FHA have declined to roughly 3 percent, and as you know, 2 percent is the required reserve level for FHA. So clearly an issue of concern, a decline from roughly 6.5 percent to 3 percent just over the last year.

What I would also say, given the work that I have done thus far with the agency review team, I do not have the full information that I need to be able to tell you today——

Senator SHELBY. I understand that.

Mr. DONOVAN.—whether we are looking at something in the short-term or long-term that is a serious concern. We also know that the scores, the credit scores under the FHA program have actually increased somewhat. So there are different signs in terms of what we have seen within the portfolio.

And what I would pledge to you today is that one of my first priorities would be to look into what exactly is happening in FHA, ask for a full accounting of the health of the MMI fund, and to come back to you as quickly as I possibly can so that you can understand the full important, and so that, should I be confirmed, we could together begin to shape the future of the FHA to make sure that it continues to be a contributor to the recovery of the mortgage market in the United States.

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

I suspect that you have had to deal with the issue of fraud before, both at HUD and in your present job. Could you share with this Committee briefly some of your efforts to eliminate fraud in the programs you administered on behalf of New York City, and how will that help you here?

Mr. DONOVAN. Absolutely. I think this is a critical issue. As you think about the increase in volume that we just talked about at FHA without a corresponding increase in staff or changes in the systems, that is clearly an issue that needs to be addressed very quickly to make sure that there is increased scrutiny of the lending going on in the FHA programs.

In terms of my experience in New York, this is something that has to be a top priority not just within FHA, but for HUD overall, is to make sure that every dollar of assistance gets to the people that it is intended by Congress to serve.
So a few things that I would say about our efforts in New York City. First of all, we run the fourth-largest voucher program, Section 8 voucher program, in the country at HPD and we have gone to enormous lengths, working in partnership, I will say, with HUD, to try to get access to the very latest systems and data about exactly program incomes for participants, to make sure that there are regular checks on those income levels within the programs, and frankly, I will tell you that the level of terminations that we have seen under my tenure in the Section 8 program in New York City has gone up significantly as a result of increased scrutiny to make sure that those dollars are serving the recipients that they are intended to serve.

At the same time, we do a lot of work around new housing development or renovation of housing. I work very, very closely with the Department of Investigation in New York City and the commissioner there to make sure that we screen and check very closely all of our partners within the programs. And I have a record, I hope you would agree, that I can stand on and that I can be proud of in terms of the way that we have operated those programs in New York City.

Senator SHELBY. One last question. HUD’s role in disaster relief, that is a huge role that HUD has played. We witnessed in New York City after the 9/11, we witnessed in the South, including my State of Alabama, Hurricane Katrina. In both instances, HUD has been tasked with helping to rebuild. I know that rebuilding efforts in my State of Alabama have been mixed, and probably in Mississippi and Louisiana, too, at best. Often, funds have not reached those most in need, nor have they been distributed in a fair, timely, and equitable manner by HUD.

You have had experience in this relief. How would you rectify that as Secretary of HUD?

Mr. DONOVAN. Senator, again, you have raised a very, very important issue for HUD. The numbers that I have seen show that in terms of just the two terms, recent terms, last 8 years at HUD, HUD has been tasked with distributing close to $30 billion of disaster assistance during that period. That compares to less than $2 billion in the prior 8 years before that. So there has been an enormous increase in the level of disaster funding that is run through HUD.

Frankly, in terms of the systems, in terms of the personnel, in terms of a range of management reforms, there needs to be a very significant effort to transform the way that HUD responds to disasters. So this is clearly a top priority in terms of what I would be facing, should I be confirmed.

Senator SHELBY. Mr. Chairman, you have been generous with my time. I just want to say I look forward to supporting this nomination, working with the Secretary. I have a number of questions that I would like to submit to the Secretary for the record that I am sure he will get back with me. Thank you.

Chairman DODD. We will try and do that, and let me just urge, if that is the case, being mindful. We would like to, if we could, get the nomination moved by the end of the week——

Senator SHELBY. Sure. I wouldn’t hold the nomination up.

Chairman DODD. OK, fine. That would be——
Senator Shelby. But I would just submit them to——
Chairman Dodd. OK. That clarity is important, as well.
Senator Jack Reed?
Senator Reed. Well, thank you, Mr. Chairman.
Following up, obviously, on the Chairman’s point about the
Housing Trust Fund, again, we have communicated that this, I
think, is a very useful and effective way to stimulate the housing
markets, to build affordable housing. Despite the gains that may
or may not have been made over the last several years, there is
still a dearth of adequate affordable housing, so I would reinforce
the Chairman’s point about working harder with your colleagues to
incorporate something like this in the stimulus package.

The other point, in listening to Senator Shelby, whose excellent
questions raised the issue of FHA, their increased market share
from 4 percent to 21 percent is just, I think for the record, a func-
tion of, frankly, the collapse of a lot of alternative mortgage
issuers, is that fair to say from your——

Mr. Donovan. Absolutely. In fact, if you look at FHA’s market
share combined with the GSEs, you are looking at over 90 percent
of the current mortgage originations in the United States.

Senator Reed. So, I mean, essentially, and I think this was a
conscious decision of the Bush administration, of Secretary Preston,
without the mission to FHA and then Fannie and Freddie to go out
there, the mortgage market in the United States would be mori-
bund and we would be in a more precarious position at the mo-
ment?

Mr. Donovan. Absolutely, Senator. I want to make sure I am
clear. My point is that all of the efforts to make sure that FHA is
running its programs in the most effective possible manner would
be directed at ensuring that there continues to be a stable, open,
fair, reliable mortgage system in the United States and that there
is access to credit. In the long run, obviously, making sure that the
broader market returns and that private lenders do return to the
market in significant measure is a top priority. In the short-run,
we have to make sure that FHA and the GSEs are contributors and
are ensuring credit is available to American home buyers while at
the same time protecting taxpayers in terms of the quality of those
loans and the nature of the programs.

Senator Reed. And one of the ways, I think, that we have to pro-
tect taxpayers is to ensure that FHA has all of the tools they
need—the computer systems, the resources, the qualified per-
sonnel—and my distinct impression over the last several years is
that that has not been a priority in terms of resources at HUD. I
would hope that you would be able to alert this Committee very
quickly as to what you consider to be the needs, the technical
needs, so that, in fact, we can avoid fraud, we can ensure that the
benefits of FHA are directed to those who deserve it, and we can
ensure the companies that participate in the FHA programs are le-
gitimate, bona fide, and principled members of the mortgage mar-
et. I hope you will do that.

Mr. Donovan. Senator, you have my commitment. Should I be
confirmed, I will absolutely do that.

Senator Reed. One of the other areas, and you are very familiar
with this from your work at HUD previously, is it is not just afford-
able housing, it is safe and affordable housing, and your work on lead paint exposure, again, just your thoughts about how some of these programs—weatherization, lead abatement—could be incorporated into the stimulus package, not only to provide stimulus, obviously, but also to ensure that the housing stock that taxpayers are supporting is safe and healthy to children and families.

Mr. DONOVAN. One of the things that my agency is responsible for is removal of lead paint, both on an inspection front and a housing code enforcement front, as well as in terms of the renovations that we do on privately owned housing, and it is a critical issue. I am very proud of the record that in New York City, lead poisoning has declined by about 80 percent over the last 10 years, and I think HUD's programs have been an effective help in terms of declining lead poisoning around the country. And so I do think through a range of programs, there is an opportunity, whatever that funding vehicle may be, to make sure that lead poisoning is as close as we possibly can eliminated as a threat to our children around the country.

Senator REED. Thank you. There is another major responsibility that you have, and that is public housing. They have traditionally been running significant backlogs in capital funding necessary to improve them, to make improvements like energy efficiency. Last fall, I was in Providence, where we had one of our housing units which was kicking off an energy efficiency program that is going to save the Housing Authority hundreds of thousands of dollars over the next several years, environmentally. All of it is smart investment.

I am just wondering, specifically with respect to these types of programs, but more generally, how are we going to support our public housing programs with real resources?

Mr. DONOVAN. Well, Senator, this is something that if you look at the estimates, and I know this directly from New York City, but if you look at the estimates nationally, some of them are as high as $30 billion or even higher backlog in terms of public housing capital needs. I will say to you, we are looking closely at this as an issue, particularly in terms of the ability to get renovation going quickly, to generate jobs as part of the recovery package.

I will also say that I believe strongly that investments in the short-term in this kind of renovation can lead to longer-term operating savings and that that is a very important balance that we need to look at in terms of how we make smart investments today for longer-term savings. It is something that has been a priority in New York City, recognizing that close to 80 percent of the carbon emissions in New York City come from our buildings, and that number is about 40 percent nationally. Renovating our building stock, with leadership from HUD on that issue, is a critical priority and can really be smart investments that lead to savings in the long-term.

Senator REED. Well, thank you, Mr. Secretary. Again, I look forward with great enthusiasm to supporting your nomination and to working closely with you on behalf of the people of this country. Thank you.

Mr. DONOVAN. Thank you.

Chairman DODD. Thank you, Senator, very much.
Senator Martinez? Welcome, Senator Corker, as well, and Senator Johnson have joined us, as well.

Senator MARTINEZ. Thank you, Mr. Chairman.

Obviously, we discussed and have throughout the hearing the current housing crisis and the problems that I described to you during my opening comments about the situation in Florida, which are indeed rather dire. I was wondering what you can tell me about your thoughts on how HUD can engage in this problem, and specifically if you would address your thoughts on the proper implementation of the funding provided by Congress for the Neighborhood Stabilization Program and your thoughts on how HUD, beyond the Hope for Homeowners Program, or even with that program, what we can do to prevent foreclosures and keep people in their homes.

My experience and what I have heard on the Hope for Homeowners Program is that banks just don't participate. They don't want to take the pain. It just hasn't worked. So how can we make that program work? What else do you think you can bring to the table from a HUD perspective and the Neighborhood Stabilization Program?

Mr. DONOVAN. First of all, Senator, I would say, clearly, this program has to work nationwide, but very specifically it needs to work in Florida, because the latest estimates that I have seen are that roughly 50 percent of all the foreclosures are in California or Florida that we are experiencing today.

Senator MARTINEZ. That is right.

Mr. DONOVAN. And so absolutely critical. As we talked about when we met last week, there are great organizations on the ground in Florida that are beginning to address this.

Given the scale of the crisis, however, what I would say is that the capacity right now nationally is uneven and that I think it is very important that HUD begin to focus on technical assistance, making sure that there is the infrastructure in place to deal with the foreclosure problem and the effect that vacant, deteriorating homes are having on neighborhoods and on the values of all homes. In fact, I think we would all recognize that stabilizing housing prices is key in terms of an overall economic recovery.

And so I do think technical assistance would be a key piece of making sure that the Neighborhood Stabilization funding is effective as it is distributed as quickly as possible.

On Hope for Homeowners, again, I look forward very much to hearing your ideas and the ideas of the Committee about that. From what I have heard and seen in terms of the way the program is operating, clearly, the fees, the loan-to-value levels, I think Secretary Preston has proposed that the LTV be raised from 90 percent to 96.5, I believe it is, and that certainly seems like it could be an effective piece of an overall solution.

This is something that I would want to look at and get to resolution fairly quickly on a comprehensive set of changes to the program and would look forward to your input on that.

Senator MARTINEZ. Well, we can deal in this in more detail down the road and I am happy to do so. I hope you have met with Secretary Preston——

Mr. DONOVAN. I have.
Senator MARTINEZ.—because I think he should have some ideas on what has worked and hasn’t worked. But we have two models out there right now that I can see. One is the model that the FDIC has been employing in the IndyMac workouts, which seems to have not only worked, but continue to work, and the projections are that it is going to help hundreds of thousands of homeowners.

On the other hand, we have the Hope for Homeowners Program, which essentially has maybe helped a couple of hundred families. That seems to me a pretty dire contrast and something is happening that is different in one as opposed to the other, and I think it is a willingness of the financial institutions to really step to the table and do the right thing, which is really ultimately for the benefit of the communities and everything else, to find a way to keep people in their homes.

Obviously, in your work at HUD, subsidized rental housing was a big part of what you did, and particularly in this economy, we find increasingly numbers of people who need rental housing in order to fulfill their dreams of a safe place to live. My question really is what do you think HUD’s role is in the continuing area of assisted rental housing, on Section 8 modernization or revamping of the Section 8 program? I was always very frustrated about the unused vouchers that went unused to housing authorities year after year, got an allocation of Section 8 vouchers well beyond what they could use. And we knew when they were being sent that they weren’t going to use them all, and at the end of the year, there they were. So utilization of the vouchers in a more efficient way as well as the role of the GSEs in this current environment where, frankly, there are very few private sources for financing rental housing.

Mr. DONOVAN. A couple of points I would just make on that. First of all, clearly, HUD has not been a good partner with you and particularly the Appropriations Committees around providing clear, timely information about budget renewals, and this has to be a top priority, because right now on the ground, and I see it every day, owners are unsure about the length of the contracts that they are going to be able to have. It is leading some owners to decide to get out of HUD programs, even though they would like to stay in. The effects on residents and families are substantial.

So should I be confirmed, you have my commitment that one of the first priorities would be to make sure you have full information about the programs, the costs of those programs, and the renewals.

A second thing I would say is that there is a world of energy and innovation that has been happening over the last generation at the State and local level. As a local housing official, I see creative groups on the ground, but also in my work nationally, I have seen it in Florida. I have seen it in many other States around the country. And frankly, HUD’s programs are in many ways a generation behind. They have not kept pace with the changes that we are seeing on the ground, and I think the opportunity, whether it is through incorporating the Low-Income Housing Tax Credit into what is being done on a very simple level, or more broadly, creating the flexibility to allow local innovation to take place, looking at opportunities like the National Housing Trust Fund that was men-
tioned before, which President-Elect Obama has been a supporter of through the campaign and through the transition, all of those things need to be brought to HUD and there needs to be a new spirit and a new energy given to support local efforts on rental housing.

Third and finally, I would say we can't forget the renters in the foreclosure problem. If there is any innocent victim of what has happened out there, it is renters in two- or three- or four-family buildings that are being displaced, that are being evicted, and we have to make sure, whether it is on Neighborhood Stabilization or in other programs, that we are ensuring that these renters are kept in their homes as much as possible or that we have alternatives for rental of homes that are being foreclosed to make sure that we do as much as we can to stabilize housing markets.

Senator Martinez. I hope you won't be shy about looking critically at programs that perhaps whose time has passed, well-intended when they began, but frankly have not fulfilled their mission and perhaps shouldn't be done at HUD and perhaps they should be more aggressively done at the State and local level with assistance from the Federal Government perhaps, but not government-run out of HUD directing local people how better to do things, which, in fact, I find often is not what really takes place, because local sometimes knows best.

One last question with the limited time I have left. This is on RESPA, and you and I discussed RESPA a little bit. I just wanted to make sure that I had your answer on the record as to whether you plan to carry through with the implementation of the regulations that have been put in place recently by Secretary Preston and whether you support those and intend to carry through with them, and perhaps giving a broader look at RESPA reforms that might come during your tenure.

Mr. Donovan. I, first of all, would just say your work on this issue, I think, was really a model of leadership and I think very, very important efforts to make sure that, as you spoke about in your opening statement, transparency, clarity, the ability of families when they are making what can often be the most important financial decision of their lives, to know what they are getting into. To have full information is absolutely critical.

I do know that there is pending litigation around the implementation of the new rule and obviously that is something I would need to look into, should I be confirmed, in greater detail. So I can't give you a detailed answer on that.

What I can say is that I think there obviously needs to be a balance. HUD should be interested in lowering the cost to homeowners of that transaction and that is critical, but I think we have also seen over the last few years the results of a focus exclusively on lowering costs or providing everyone a loan that they can get into without really focusing on the affordability, the transparency, the full information that is available. And I think there can be simplification while at the same time greater protection for consumers to make sure that they are not just becoming homeowners, but that they can be successful as homeowners in the long term.

Senator Martinez. Thank you, Mr. Donovan. I look forward to voting for your confirmation, hopefully in the very near future, and
really wish you the best and hope you will stay in touch if I can be of any help to you.

Mr. DONOVAN. Thank you. I appreciate all your advice.

Chairman DODD. Senator, thank you very much.

Senator Akaka?

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

Commissioner, in Native American communities, affordable housing development on Trust Lands requires unique and innovative approaches. Programs authorized by the NAHASDA have been vital to increasing access to affordable housing. Hawaii's Department of Hawaiian Homelands, DHHL, effectively utilized and leveraged Federal resources. Hawaii's housing costs are the highest in the country and homelessness is too prevalent. But despite the effective use of resources and severe need for additional affordable housing, the Bush administration proposed reducing the budget for Native Hawaiian housing programs. How soon do you anticipate re-evaluating budgetary priorities, and will you work with me to try and improve access to affordable housing for Native Hawaiians?

Mr. DONOVAN. Senator, first of all, let me say you have my commitment that, should I be confirmed, I will be as open and communicate with you as regularly as I possibly can about these types of issues, because one of the things that I have seen, frankly, as a local housing official in, like Hawaii, one of the highest-cost markets in the country, if not the world, is that too often, HUD's programs, and frankly, government programs in general, are designed for the average place.

And the types of problems, housing problems that are faced and the challenges in Hawaii are not the same as they are in the rest of the country, and certainly New York's challenges are different, as well. And one of the things I have come to appreciate as a local housing official in New York City is that HUD's programs need to be more flexible. They need to be able to respond to the differences that we see across this country because the housing challenges are so different in different places.

And so one of the things that I feel would be a critical set of reforms to HUD's programs more broadly is to have the flexibility to deal with, whether it is rural housing issues, whether it is the issues in the homelands that you are talking about in Hawaii, or, frankly, the issues that New York City is facing that don't fit neatly into the box of typical HUD programs. And so, absolutely, that is something that you have my commitment on.

Senator AKAKA. Mr. Commissioner, I am concerned that too many working families were steered into mortgages that they could not afford or effectively understand the potential risks associated with products such as Adjustable Rate Mortgages. You have spoken about informing the people about this. What must be done to ensure that working families have the financial literacy skills to be better prepared to purchase a home, select an appropriate mortgage, and remain in their house when challenged with the potential financial hardships?

Mr. DONOVAN. Senator, I am very glad you mentioned this, because this is a critical part of the overall comprehensive solution to the mortgage foreclosure crisis that we are facing. One of the things that, we have seen it in New York, but I think we have also
seen it around the country, is that too often when a family is facing foreclosure, the shame that they feel, the confusion that they feel, or even the anger that they feel, honestly, at the situation that they are in, they haven’t been able to make the connections to their servicers, to organizations that can help them.

And so it is absolutely critical, first of all, that there be outreach and education efforts. It is something that we have done aggressively in New York City and set up a program, a new 501(c)(3) organization called the Center for New York City Neighborhoods, which has done exactly that kind of outreach and education.

We also have to make sure that, frankly, all of the programs that we have talked about, whether it be the FDIC or the Hope for Homeowners, there needs to be the kind of education about those alternatives on the ground because they are only as good as the amount that a homeowner knows and can be educated on those options being available. And so making sure that we have the funding, the resources available to do that outreach and to connect homeowners to the options that are available, whether it be a modification or a new mortgage or any of those other efforts. So those are critical pieces of making sure that low- and moderate-income homeowners can be successful.

And finally, I would say, in the long-run, that is something that we need to make sure is incorporated into the home-buying process to begin with, is full education, full transparency in the process. We have seen in New York City, with more than 17,000 homeowners through our New Housing Marketplace Plan, only five foreclosures, and I think a big part of the reason for that is the work up front that we do to make sure that a homeowner can be successful. And the kinds of programs that you talked about are absolutely central to making sure that happens.

Senator AKAKA. Mr. Commissioner, as I mentioned earlier, we have been working to improve VA services for homeless veterans. Since veterans are approximately one-third of the homeless population, how do you intend to reach out to veterans, who have unique needs, in order to help them access services?

Also, how do you intend to collaborate with VA in order to provide supportive services and case management to veterans in permanent housing provided by HUD?

Mr. DONOVAN. Senator, first of all, I would say, as you know, President-elect Obama, during his time in the Senate, was a champion of this issue, worked closely with you and others on drafting legislation around this issue. And so, you can rest assured this will be a very high priority for the Obama Administration.

Second of all, I would say, from my own personal experience in New York, this has been an issue where—as part of a team, and I do not lead the efforts around—the Department of Homeless Services in New York City is the leader on arranging these issues. But I work very closely, in terms of the construction of supportive housing and the provision of services in supportive housing, including with veterans. And as part of the team responding to this issue in New York, we have built a partnership with the Veterans Administration that has focused on the needs of veterans.

You are absolutely right to say, they are unique needs. And with supportive housing, I think what we have seen is that there can
be a range of responses for individuals, for families, for veterans, for populations that do have specific needs, and that we can tailor supportive housing and the range of responses around homelessness to meet those specific needs.

So I feel very confident that, with the progress that has been made in areas all over the country on this issue, that we can forge a deeper partnership with the Veterans Administration to ensure that we significantly reduce the number of homeless veterans that we are seeing in this country.

Senator Akaka. Thank you very much for your responses, Commissioner Donovan. Thank you, Mr. Chairman.

Chairman Dodd. Senator Akaka, thank you very, very much.

Senator Casey.

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

Mr. Donovan, I wanted to reiterate what I mentioned in my opening comments about the challenge that foreclosures present to the country. As you have said, it is—and I am paraphrasing—but this problem has been at the root of our economic challenges in the country, really the crisis we are living through.

I wanted to get a sense from you at a couple of levels. One is the kind of priority you will place upon this challenge. Second also, how you evaluate certain initiatives that are either on the table, so to speak, or in process, and how you think we can improve on some of the initiatives that have been set forth already.

One thing that I think has been missing from some of the efforts or lack of effort by the prior administration is—I was just looking at a news clip from January 8, a Wall Street Journal clip, where President-elect Obama was quoted as saying “I do think that the FDIC and Sheila Bair have had the sense of urgency about the problem that I want to see.” And that is consistent with what I believe there has been lacking, is a sense of urgency, especially with regard to the Treasury Department, under the current administration.

So I would ask you, as a threshold question, what are specific things, steps you can take, actions you can take in your first couple of months that you think will improve how we deal with foreclosures? And second, and related thereto, if you could evaluate the FDIC proposal, the way they have dealt with IndyMAC in terms of their own real-time and current experience.

So if you would just take those two questions, first.

Mr. Donovan. Clearly, this is something that has to be job one for HUD. There are both questions with HUD and FHA and then, more broadly across the administration. The FDIC program is a very good example. But I think that making sure the HOPE for Homeowners program is effective, the types of changes that we talked about that are being considered by Congress at this point, in discussions with the transition, that absolutely is an important piece of it.

I do think that the FDIC program, as you rightly point out, has been a promising model and it is one that we are looking at very closely as part of a more comprehensive solution. The latest information that we are seeing from it is that it has reached a significant number of people, as was pointed out earlier by one of your colleagues, a far larger number than the HOPE for Homeowners...
program. And I think making sure that the incentives are structured correctly so that we minimize the redefault rate in particular is something that I am looking at with the economic team to make sure that any program that encourages modifications is structured in the best possible way to maximize the success of the program but also to minimize the cost to the taxpayer.

So that is the kind of balance that we are looking at right now around the FDIC-type program which, as you rightly point out, I think is a promising model.

Senator CASEY. With regard to HOPE for Homeowners, where do you think the problem is there? This is—of course, you have seen this from the perspective of running a major operation in New York and you have seen it in preparations for your confirmation. But is it one of implementation, the problems with HOPE for Homeowners? Or is it one of the mechanics of it or the statutory underpinning of it? Or is it both? Or is it something else?

Mr. DONOVAN. Senator, let me be frank with you. One of the things that is very important to me is that I not give you more information than I can, based on the limited amount of detail that I have been able over the past few weeks, with the agency team and with the existing administration. I will compliment Secretary Preston on his openness and the work that he has done with the agency team to try to make sure we have as much information as possible.

And so cannot at this point, nor would I want to, give you a detailed final answer on that when, in fact, we are really looking into that information, getting more data from FHA, and trying to understand all of the details.

Senator CASEY. Let me just interrupt. It would help, after the fact, once you are there and you have a sense to evaluate it more fully, if you could supplement the record or provide Committee members—because when you have a program that is supposed to help 400,000 people and it is helping—what was the number?

Mr. DONOVAN. It was, I think, 111 loans in the first month of——

Senator CASEY. That is 111, not 111,000?

Mr. DONOVAN. That is right.

Senator CASEY. So I think it helps us to maintain the sense of urgency to be able to evaluate that kind of an effort.

Mr. DONOVAN. Absolutely. And we are looking at it closely now. Clearly the upfront fees, the loan-to-value ratios and a number of other parts of the program are things that we are looking at.

Senator CASEY. I want to move to—and I have just a few minutes left—to the Troubled Asset Relief Program. An awful lot of frustration in the country that as hard as people here worked to deal with an urgent situation that involved our credit markets and to help to stabilize our credit markets and therefore not only our economy but to help stabilize the world economy, we did the right thing and we passed legislation in October. The problem now is there is a real concern about—and frankly, beyond concern, frustration and anger about how it has been implemented.

I wanted to ask you a question about the Troubled Asset Relief Program as it relates to foreclosures. One thing that I have said and insisted on, as others have, is that any grant of further authority with regard to funding for that have, as a central feature of it,
foreclosure prevention dollars, and tens of billions frankly, be made available.

What is your sense of—if you have an opinion now, you may not, but if you have an opinion now—about how the TARP program has been implemented? And if you believe it has been implemented poorly or in a way that has been lacking, what would you recommend to Treasury? And you are obviously part of this discussion. What would you recommend to the administration as to how to fix it in terms of accountability and reform so that people do not get a sense that tens of billions of dollars go to banks, nothing happens, credit is not improved, lives are not improved in terms of foreclosures or other challenges the American people face?

Mr. DONOVAN. Senator, it is an absolutely critical question. In fact, as you know, discussions have already begun, have gotten underway, between the current administration, the transition, and the Congress. And in fact, yesterday a letter from Larry Summers went to the leadership of the Congress to talk about the principles under which that next installment of money under TARP could move forward.

And so clearly transparency and the accountability for the use of the money, clear reporting, ensuring that there are clear restrictions and conditions for the institutions that benefit from that funding, are all part of the commitment that was made yesterday in writing to Congress on the way that President-elect Obama would utilize that funding.

One of the specific points in there was also, and I quote, “to launch a sweeping effort to address the foreclosure crisis.” And so we believe strongly, as I think Congress does, that there must be, as part of the next funding under TARP, the bold comprehensive effort that President-elect Obama has talked about on the foreclosure crisis.

And the elements of those, some of which we have already talked about looking at the FDIC plan, making fixes to some of the FHA programs, those are all elements that we are looking at and that, should I be confirmed, I look forward to much more detailed conversations with you and your colleagues about in terms of what exactly the elements of that program would look like.

Senator CASEY. Finally, and I am out of time but I will put this on the table not by way of a question but as a preview of a question I will submit to you. On the Neighborhood Stabilization Fund, we have heard a lot of feedback from institutions in Pennsylvania, government agencies really like the Department of Community and Economic Development, our major State economic development agency, that with regard to the almost $4 billion in funding, the statutory language has been interpreted rather narrowly, thereby constraining the discretion and ability of local decisionmakers to have the full benefit of this program.

I hope we could—we will present that to you in a more detailed form and hope we could work together to try to remove some of the constraints on that discretion.

But I am out of time. Thank you very much.

Mr. DONOVAN. Thank you, Senator. And as a local user of the Neighborhood Stabilization Program in New York, we have had
some of the same concerns and I look forward to having those detailed discussions with you.

Senator CASEY. Thank you very much.

Chairman DODD. Thank you very much, Senator.

Before turning to Senator Menendez, let me thank Senator Casey, raising the question on HOPE for Homeowners. I want to thank my colleagues here, as well. This was a—we started late—well, last spring—trying to fashion some relief program. And I say this respectfully but to put it mildly we had a lot of resistance from the administration about intervening in this area, other than just sort of jawboning on the question which obviously was not producing much at all.

What you saw in HOPE for Homeowners was sort of a creation created by a Committee, which is not always the best way to operate, but trying to fashion something that would gather 60 votes in the U.S. Senate to get us through. And it is regrettable it has not performed. But I think all of us understood in the beginning that looking at it there was so many hoops to go through, the piggyback loans, a variety of things that were going to make this difficult.

So I want to underscore Senator Casey’s request because this is important. I happen to agree with you. I think the FDIC approach is an interesting approach. I do not know, in response to some of these questions, whether you want to comment on the bankruptcy idea, what Citigroup has just announced its support of in terms of making primary residences available to a bankruptcy judge to encourage workouts, as a way of maybe getting more aggressively at the issue that can come before us.

But we clearly need to go back and revisit either the FDIC idea or the HOPE for Homeowners as a way of getting something right here. And we would urge you and your team to give us some thoughts on that as quickly as possible so we could respond to it if, in fact, Congressional action is necessary.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Mr. Donovan, I appreciate the answers you have already given on public housing and Section 8, so I will not go over those. But I do appreciate those answers.

Let me ask you, you know, the impact of the housing crisis and the foreclosure crisis is being felt across the country, but there is a universe that has no ability to protect themselves from the results. Those are children. There are about 2 million children who will be impacted by the foreclosure crisis. Three-hundred-thirty school districts are already reporting enrolling more homeless students in the first 3 months of the school year than they enrolled all of last year.

And of course, this creates development delays for young children. It creates more difficult challenges for older children to stay in school. It makes it harder for enrolled students to succeed.

So we have worked very hard. I know that we worked with the Chair in getting provisions here to try to help school districts. And I think there is something that we are trying to work on in the stimulus and McKinney-Vento.

But as HUD Secretary, would you commit yourself to working with those of us on the Committee who are interested in this, par-
particularly the needs of homeless children? And would you address family homelessness through such mainstream HUD programs as Section 8, along with ensuring that HUD’s McKinney-Vento Homeless Assistance Programs maintain the current incentives that penalize local efforts to address homelessness for children, youth and families?

Mr. DONOVAN. Senator, thank you for asking a very important question because this is a troubling trend, frankly, that we are seeing in New York City and across the country as a result of the current crisis, is an increase in family homelessness. And so there is a range of things, I think, as you correctly point out, that we need to do to respond to this.

One of the early promising efforts that I think can be addressed, and you allude to it in your question, is how do we craft HUD’s programs and responses to make sure that we have an effective prevention effort as well as the longer term supports like Section 8 vouchers and others for affordable housing. It is cheaper and, frankly, a much better result for a family to be able to stay in their existing home. And it is one that we have begun to see some promising efforts in our HomeBase program in New York City. So I think it can be an effective part of an overall response to family homelessness.

The only other thing I would say is that I think the good news here, if there is any, is that there has been a dramatic really movement across the country over the last decade or so that has focused energy around the problem of homelessness among individuals and that we have made an enormous amount of progress on that.

And so I think if we can focus the same kind of energy and partnership that we have had at the local level organizations in your State, and others have been leaders on this, and partner it with HUD, we can make the same kind of progress on family homelessness that we have on individual homelessness.

And a part of that, frankly, is we had data and research that really showed the results. One of the reasons why we have been able to make progress, I was part of a negotiation between the city and the State where we committed $1 billion of new funding for ending homelessness. The reason that we could get such consensus is because we could demonstrate the fact that it actually saved money, that investing in supportive housing reduced the cost, whether it was of jail stays or shelters, a range of other more expensive and, frankly, much less humane approaches to homelessness.

So I think we can bring that same kind of effort and energy to the issue of family homelessness. And it is one that needs attention, as you rightly point out, right now.

Senator MENENDEZ. We look forward to working with you on that.

Second, I mentioned in my opening statement about this report that just came out, that the Federal Government may very well be ill-equipped to stop the migration of predatory subprime lenders to the rapidly growing U.S.-backed home loans and raising the specter of another cycle of lending abuses, something we definitely do not want to see.
HUD officials told our colleagues on the other side of the Capitol that the FHA lacks the sufficient staff, the adequate technology, and the legal authority to screen questionable lenders who seek to participate in the issuance of federally backed loans and they went on to say that their oversight shortcomings are not limited to lenders. Its reviews of appraisers are not adequate to reliably and consistently identify and remedy deficiencies. It talked about an audit found that the Government’s roster of appraisers included over 3,400 with expired licenses, and nearly 200 that had been disciplined by the States, and on and on and on.

So the last thing we want to see is a continuation of what happened in the private side of the marketplace move to the Government side of the marketplace. Is that something that you will be focusing your attention on when you——

Mr. DONOVAN. Absolutely, Senator. That has to be a top priority at FHA.

Senator MENENDEZ. And last, 40 years after the passage of the Fair Housing Act, a good part of our country remains highly segregated. Of more than 4 million estimated Fair Housing violations annually, only 27,000 complaints are processed. Of these, HUD’s Office of Fair Housing and Equal Opportunity only charged 31 cases and has failed, in my view, to address the continuing systemic discrimination nationwide.

As HUD Secretary, would you reform HUD’s Fair Lending programs to assure that discrimination in lending is addressed? And how do you view the role of HUD in addressing discrimination and segregation as we move forward?

Mr. DONOVAN. Senator, thank you for asking that question because I think this is a very important piece of HUD that, frankly, too often does not get the kind of attention that it deserves. Let me just say personally, one of the reasons I do the work that I do is because when a family chooses a home, be it a renter or an owner, they choose often a public school for their child, they choose a set of services. How good is the policing in that area? They choose access to jobs. They choose so many things that affect the very fabric of their lives. And so if we cannot ensure access, equal access to housing, I, frankly, think we cannot fulfill the promise of opportunity that this country holds out.

And so we must make sure that fair housing is a real priority at HUD. And you quoted the numbers. Those 31 cases are down from about three times that number in 2001 and about four times that number from the height of HUD’s efforts. So I am significantly concerned about needing stronger enforcement of fair housing.

You have my pledge that I will look at that. I also think that there is a very important report, the Kemp-Cisneros Report, that as you know I think has some very important conclusion that I think HUD needs to look very closely at in terms of understanding where its Fair Housing efforts need to go.

Senator MENENDEZ. I appreciate your answers and the answers you gave me personally when we met and I look forward to supporting your nomination.

Mr. DONOVAN. Thank you.
Chairman Dodd. Thank you very much. That was an eloquent answer, by the way, let me say, to the question posed by Senator Menendez.

Mr. Donovan. Thank you.

Chairman Dodd. Senator Tester.

Senator Tester. Thank you, Mr. Chairman. And I recall back the last two Banking Committee hearings we had. One was 4 and one was 5 hours, so we have got plenty of time here left.

[Laughter.]

Senator Tester. First of all, I want to thank Senator Akaka for his comments on veterans. I can tell you that in the State of Montana we have far too many homeless veterans. And anything your agency can do to help solve that problem—and it is a problem—would be much appreciated and we would look forward to working with you on that.

You had said, Mr. Donovan, that you are a numbers guy. A recent survey indicated that housing adequacy in rural America is at about—its inadequacy is about 1.7 million or 6.3 percent, which is slightly above what it is in metropolitan areas. What steps do you, through HUD, think that you can do for rural America to help reverse that trend?

Mr. Donovan. Senator, first of all, I must say I really enjoyed the time that you gave me this past week and really appreciated hearing very personally the kinds of issues that Native Americans are facing in your State and elsewhere around the country. And it really made an impression on me. So I appreciate your taking that time.

One of the things, while I do happen to be the Commissioner in New York City today, the very first housing that I worked on, HUD housing that I worked on in my career, was rural housing in Oklahoma, in Kansas, in Louisiana, in Alabama, and in Arkansas. I saw, literally at my very first experience, the kinds of unique issues that rural America faces.

Then in my first experience at HUD, working with the Department of Agriculture on the Farmers Home Program and a range of others that are really deeply entwined with the programs, the Section 8 and other programs, at HUD. HUD has a very important role to play, in my mind, in rural areas of the country. And so this has to be a significant issue.

One of the things, and we talked a little bit about this when we met, that strikes me as a housing official in New York is that there is not nearly the kind of flexibility in HUD’s programs that there need to be to be able to respond to issues in rural parts of the country, and frankly, not an understanding that whether it’s voucher programs or certain other programs that HUD has, that they do not work in the same ways in rural areas as they do in other parts of the country.

To give you a very specific example, one of the things I was faced with when I worked at HUD the first time was a series of opt-outs in properties in rural parts of the country where the standard response was well, we can issue vouchers and they can go find another place to live. Well, if that place is 50 miles away or 100 miles away, you are asking that person or that family to leave their community along with leaving their home, which is hard enough.
And so it is just one example of the types of things where, in very specific parts of the HUD programs, we need to be mindful of the differences that folks face in rural markets and to respond to them.

Senator Tester. Well, I look forward to working with you on increasing that flexibility and in helping anybody that wants to try to understand it better do that.

As long as you brought up Native American housing, I will ask a few questions on that. As you know, we have a unique trust responsibility. I think we have got seven major reservations in Montana. There have been court decisions, Executive Orders, treaties signed, all sorts of good stuff that talk about obligations to provide adequate housing.

We talked about the disparities in my office. I guess the question is how do you envision helping address the disparities in Native American housing? How can HUD step up to the plate and help solve the problem? Because in many areas of Montana in Indian country, it is nothing short of Third World.

Mr. Donovan. Senator, one of the things that I think you and others that I very much look forward, should I be confirmed, to working with you on is to hear your ideas about that. My sense, at this point, in terms of what I have looked at—which to be honest, I need to, should I be confirmed, understand more about this and understand more about the specific issues that you're facing.

But one of the things that I've seen is that there has not been adequate either flexibility or the ability to utilize the block grant funding that has been available in a way that has been effective in Native American communities. And that is certainly something that I look forward to talking to you more about, should I be confirmed, and to hearing your ideas about.

Senator Tester. A couple of things. As long as you brought that up, and I know you are very busy and Montana is two plane rides and a couple of thousand miles away from here.

But one of the things that I think would help is if you, in particular, saw the conditions firsthand. If you would be willing to do that, I would be willing to help make that happen, too.

The other thing that I think you could do that would help educate you, even more than I, would be to visit with tribal leaders. It does not have to be in person, although it would be better if it was. But it certainly can be over the phone. They have a lot of good ideas and suggestions that I think you might be able to incorporate into some of the programs you have. So I would also encourage you to do that.

You talked about several programs. I do not need to go through them. But you talked about education and outreach, which is pretty easy to talk about. From my perspective, and I hope you have a different one, sometimes it is hard to educate and teach people about programs. So how do you plan on doing that?

Mr. Donovan. Sorry, are you asking——

Senator Tester. I am talking about there were several programs you listed off, HOPE for Homeowners was one. We are going to work on that to make that program better. There were FDIC programs. There were other programs. Any program within your pur-
view, where you could educate people about what is going on, how do you plan on doing that?

Mr. DONOVAN. I guess to answer that, let me talk a little bit about my experience over the last 5 years. One of the things that I think has really been a hallmark of what Mayor Bloomberg has done is to make information accessible to the public and to make government systems more responsive to the public through a range of means. In particular, we set up a call center, a single number, 311, that responds to any question any citizen in the city has about government services. So you no longer have to know 800 different numbers. You do not have to know which program you are calling about just to call and say look, I have got this problem and how can you deal with that?

So to me, there is a critical element of this, which is making programs open and transparent, whether it is through web-based services, whether it is through telephone contact, and a range of things. So that is on the response side. That is the reactive side.

And then there is a proactive side that needs to happen which, again in New York, we have tried to make sure that we have language accessibility. I have 400 inspectors that speak roughly 30 languages. They carry a card that would allow them to immediately identify a language that they do not speak and connect to a translation service that offers 170 different languages. And at the same time, to make sure that we can get to people where they are.

And so through, for example, our Center for New York City Neighborhoods, we have begun to use advertising on bus shelters, going door-to-door, a whole range of different ways, depending on the community, to reach out and to make sure that folks are aware of the kinds of services that we are offering to help them get—whether it is a modification, to get a new loan, whatever might be the right thing for their situation. And frankly, to provide the resources to fund that kind of counseling and education as well, with local community partners that know the issues the best.

Senator TESTER. The other thing that I would like to ask is around the jobs recovery stimulus package that we are going to be taking up here shortly. Have you been part of those discussions? And do you anticipate, when that package comes out, that HUD will be a part of the solution to what is going on in housing through that package?

Mr. DONOVAN. Senator, I do, and I have already been part of significant discussions. And I do think HUD has an important, and housing has an important, role to play in that.

Senator TESTER. No doubt about it.

The last thing is, and this is pretty much common sense from your position, there has been a lot of questions whether it is HOPE for Homeowners or how we got into this mess. I value your judgment. Even though you are not from rural Montana, you have a good life experience. And I would—I value your judgment on what went wrong and how we can prevent it from happening again. I think that kind of information is going to be critically important for me as a policymaker to make good decisions down the line. So I appreciate any of those things you can come forward with to the Committee.
I want to thank you. I want to also thank your family gain. I mean, this is not a solo endeavor here. It takes a family to make this thing work. I hope you pass that along to your wife.

Thank you very much.

Mr. DONOVAN. Thank you.

Chairman DODD. Senator, thank you very, very much.

Good questions. The questions particularly, dealing with the communications stuff, is so critically important. And while there is nobody—obviously, the President is the primary spokesperson on many of those issues, every person, including yourself, can play a very important role.

One thing I think I have noticed, I think, in all of this is the failure to communicate effectively to the American people why this is happening, what the answer we think is, how it should work, and how they will be benefited by it. And the lack of any communication has created an awful lot of the hostility, the frustration that people are feeling about this stuff.

I was impressed with the number of languages that New York City is providing. English would help in a lot of this.

[Laughter.]

Chairman DODD. And so my hope is that you will take advantage. You are a very good communicator. I have met with you personally, but I have been very impressed this morning with how articulate you are and how clear you are in describing situations and what they mean. And I do not say that lightly to you.

But I think it is very important that you utilize those skills and find means by which you can be heard. Because just the absence of people understanding what is going on contributes to an awful lot of what we are facing today in this issue.

You mentioned earlier President-elect Obama’s talking about the house on fire. I have used this analogy maybe 100 times in the last few weeks, describing that when Franklin Roosevelt was describing the Lend-Lease Program, a highly complicated program in the late 1930s and providing assistance to Great Britain during their big attack, obviously, by the Nazis that he used that very analogy. Your neighbor’s house is on fire, you have a hose, you lend it to them. And millions of Americans understood Lend-Lease in those few sentences.

And we have lacked that kind of analogy and communication to describe why this is being done. What is TARP? Why is it designed? What is it intended to do? And how does it affect not just those who are getting the money out of Wall Street, but how does it affect the proverbial Main Street people in this country, whether it is rural Montana or a foreclosure tsunami that is occurring in Bridgeport, Connecticut?

And that has really been missing. I have said this over and over again, more than almost anything else we need to have people who communicate about these programs so the American people understand what is happening.

With that, I thank you very, very much. We will move as quickly as we possibly can. Obviously, I will stay in close contact with Senator Shelby, my ranking minority member of this Committee, so we can move you forward, as well.
There are probably some additional questions but you have done a good job here this morning and I think you have impressed all of us with your background, your knowledge, and your determination to roll up your sleeves and go work. I cannot begin to tell you how much we welcome that.

So congratulations to you.

Mr. DONOVAN. Thanks for your eloquent words and I will be officially changing my name to Dunovan.

[Laughter.]

Chairman DODD. You are going to have a great career.

[Laughter.]

Chairman DODD. The hearing will stand adjourned.

[Whereupon, at 12:28 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]
PREPARED STATEMENT OF SENATOR CHRISTOPHER J. DODD

Today, we are considering the nomination of Mr. Shaun Donovan, Commissioner of the New York City Department of Housing Preservation and Development to become the Secretary of the Department of Housing and Urban Development (HUD).

Let me point out that we are extending to Mr. Donovan this morning the same courtesy we showed to our colleague, Senator Martinez, for whom the Committee, under Chairman Sarbanes, also held a nominations hearing for the job of the Secretary of HUD prior to the President actually taking office. It was our view then, and it is our view now—particularly given the urgency of our economic situation—that we ought to help get the President’s cabinet in place as quickly as possible.

Mr. Donovan, let me welcome you to the Committee. You have been nominated for a job fraught with significant challenges yet, for that very reason, imbued with great opportunities.

For the past 3 or 4 years, the country has been facing a growing housing problem that had its origins in the scourge of predatory lending that has resulted in record high foreclosure rates.

This housing crisis has been a primary cause of the deepening recession to which none of us are immune. Across the country, between 9,000 and 10,000 homeowners face foreclosure every day. Foreclosures in my State were up over 71 percent since last year, and it’s expected that we will have more than 13,000 subprime foreclosures in the next two years. Nationwide, cities such as Bridgeport, which had inordinately high rates of subprime loans, are struggling to keep themselves afloat as those loans reset one-by-one and families find themselves with nowhere to turn.

I recently met with leaders in my State where I heard about the toll this crisis is taking on our minority communities. Some say this crisis will result in a net loss in homeownership rates for African-Americans, wiping out a generation of wealth, gains and opportunities.

But let there be no doubt that this crisis today affects every American in one way or another. In all, by some counts, we can expect some 8 million homes to go into foreclosure absent some form of additional action.

Unfortunately, the current Administration was slow to acknowledge the housing problem, and when it finally did, it was timid in its response. Even now as foreclosures tear apart neighborhoods and wreak havoc upon our economy, the Administration has refused to use the authority or funds we gave it in the Emergency Economic Stabilization Act to tackle the foreclosure crisis head on—despite the Congress’ crystal clear intent in writing that law.

Surprisingly—and unfortunately, in my opinion—HUD has not played a central role in addressing the housing crisis. Frankly, it has been, to quote last Friday’s National Journal, “at best, a second string player. . .” following in the wake of other government departments with far less expertise in housing than the professionals at HUD.

Indeed, as the cover page of CQ Weekly says, “The housing crisis remains at the core of the economy’s woes . . . “. Put simply, we cannot address our economic crisis until we address the underlying housing crisis. And to do that, we need an active, aggressive, and well-run HUD with leadership that is confident in its mission and unafraid to act. As President-elect Obama has himself said, “HUD’s role has never been more important.”

Unfortunately, HUD has been mismanaged and ridden with scandal in the last several years. Let me be clear that these problems did not arise under the able leadership of then-Secretary Martinez. I would also say that in recent weeks, Secretary Preston has made some improvements.

But fundamentally, HUD has been left adrift at a time when bold leadership and a clear direction were never more important.

Just this week, we learned about the Wrights—a middle-class family in Windsor, Connecticut, in danger of losing their home. Like thousands of families across the country, the Wrights were lured into a mortgage they were assured they could afford but couldn’t—not because they acted irresponsibly but because they became pregnant with their second child, and Mrs. Wright ran out of the paid sick time she was afforded as a teacher.

Mr. Donovan, this is the kind of story being repeated in every community across America today. With the right leadership, I believe HUD can be an effective partner in helping families like the Wrights. That is the opportunity you have—to restore HUD as a leading voice in addressing the crisis facing our country today.

I would say to my colleagues that Mr. Donovan is the most experienced nominee for HUD Secretary that this Committee has considered in my long experience. In addition to his degrees in architecture and public administration from Harvard, Mr. Donovan has run the multifamily program at the Federal Housing Administration.
and was, for a time, the Acting Housing Commissioner. He has worked in the private non-profit sector as a housing developer and he has worked as a managing director of a large, multi-family mortgage company.

Since 2004, Mr. Donovan has been the Commissioner of New York City's Department of Housing Preservation and Development. In that role, he managed 2,800 employees and helped develop and manage Mayor Bloomberg's "New Housing Marketplace Plan," one of the most ambitious local housing plans in the nation. The $7.5 billion plan calls for the creation or preservation of 165,000 units of affordable housing, about half of which has been accomplished to date.

Beyond the statistics and the numbers that so dramatically underscore Mr. Donovan's accomplishments, I want to welcome him for the kind of leadership and vision I am confident he will bring to the Department at a time when such leadership is needed so desperately.

For example, as early as 2004, long before most of the rest of the country was focused on the subprime crisis and the foreclosures they would lead to, Mr. Donovan told a Newsday reporter that he was worried about the coming "flood of foreclosures" and the impact it would have on homeowners and neighborhoods.

Mr. Donovan sees the role of HUD as being more than a caretaker for physical housing structures, or as a mortgage insurance company. He understands the danger of stove-piping within this arena, and sees HUD as the Federal Government's primary tool to help build communities—an agency that helps to provide housing opportunities for homeowners and for renters along a spectrum of incomes and ages. He understands the need to coordinate housing with transportation, including public transportation and transit, to improve access to jobs and other economic opportunities—and we need someone with that vision at the helm.

Finally, Mr. Donovan is a man of the utmost integrity who has shown a proven ability to work constructively with all interested parties. We have letters, that I ask unanimous consent to include in the record, from a wide variety of housing groups, from the Realtors, to the Homebuilders, to the Low-Income Housing Coalition, and many, many others, all expressing enthusiastic support for Mr. Donovan.

Mr. Donovan, again, I welcome you to the Committee, the leadership you offer to this critically important department and, more importantly, the hope you offer to millions of families at this uncertain moment. I look forward to your testimony after I give my colleagues a chance to share some opening remarks.

---

PREPARED STATEMENT OF SENATOR JACK REED

I would like to thank Chairman Dodd and Ranking Member Shelby for scheduling this nomination hearing so quickly, an important part of our constitutional process. I also appreciate the willingness of our nominee to serve in the important position of Secretary of Housing and Urban Development.

Mr. Donovan, as you know, you have been nominated for a position that requires you to manage an agency that has the interest of some of the most vulnerable families in this country in mind. Many of these individuals are elderly, disabled, or just plain out of luck. They usually don't have powerful lobbyists representing their interests. As a result, if confirmed, you will, at times, be their only voice in housing policy discussions that occur within the Obama Administration.

One of your chief responsibilities in this area will be internally advocating for appropriate resources for our nation's housing programs. Given the current budget environment, and the funding shortfalls for many of these programs, it is going to be extremely tough, but vitally important for you to aggressively advocate on behalf of families and elderly households across the country.

There are four topics that I would like to briefly mention to you that are of importance to Rhode Islanders, specifically, but of extreme interest to individuals and families throughout the country.

First, and foremost, I hope that as a member of the President's Economic Team, you will make stabilizing the housing market one of your chief objectives. Rhode Island has the dubious distinction of having the highest foreclosure rate in New England, and we can not afford to allow the real estate market to remain in freefall.

I also would like to focus your attention on some recent homelessness statistics. According to the latest US Conference of Mayors Report on Homelessness, homelessness has gotten worse nationwide. On average, homelessness in the cities surveyed rose 12 percent during the past year. According to a report released today by The National Alliance to End Homelessness, and estimated 1.5 million additional Americans become homeless over the next 2 years without effective intervention.

HUD has taken steps to effectively decrease the number of chronically homeless individuals during the past several years. However, homeless families with children,
veterans, and youth deserve the same attention and resources. I hope that as we move forward, we can count on your support for my bipartisan proposal to reauthorize the housing titles of the McKinney-Vento Homeless Assistance Act to make them more flexible and useful to local communities.

I also would encourage you to increase the Administration's focus not just on green housing, but on healthy housing as well. Environmental exposures within our nation’s housing stock contribute to almost one-quarter of the disease burden nationwide, resulting in millions of preventable deaths. I hope that we can count on you to expand the scope of HUD’s health-related housing initiatives, support them with robust funding, and ensure better coordination of these initiatives among other Federal agencies.

A good read map for this is detailed in a bill that I introduced last Congress, and plan to introduce again, the Research, Hazard Intervention, and National Outreach for Healthier Homes Act. HUD’s Office of Healthy Housing and Lead Hazard Control has been on the forefront of some of the thinking on these issues, and I hope you will utilize their expertise as you move forward on some of your sustainable housing initiatives.

Finally, if you are confirmed, you would also be responsible for enhancing HUD’s management and operations. While HUD has made progress during the past several years in this area, GAO reports continue to site serious management deficiencies, especially in human capital. I hope you will be diligent in ensuring that HUD has the capacity to run all of its programs efficiently and well.

I look forward to hearing your testimony this morning, your swift confirmation, and working with you in your new capacity as Secretary of HUD.

PREPARED STATEMENT OF SHAUN DONOVAN
SECRETARY-DESIGNATE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
JANUARY 13, 2009

Mr. Chairman, Senator Shelby, and distinguished Members of the Committee, thank you for the opportunity to appear before you today. I would also like to thank Senator Schumer for that kind introduction.

Before I go any further, I would like to introduce my family: my wife, Liza, and my two children, Milo and Lucas. Without them, and their constant and steadfast support, I would not be here.

I am honored and humbled by President-elect Obama's decision to nominate me as Secretary of Housing and Urban Development—an agency with a critical role to play as government partners with the American people to overcome the greatest economic crisis we have faced in many decades.

I want to thank the Committee for the speed with which you scheduled today's hearing, and the time you have made in your busy schedules to visit with me, and share your thoughts and views regarding housing in the United States.

Throughout my career, I have been committed to affordable housing policy and development. In my line of work we often talk in terms of numbers of units and dollars spent. That is our common language. But it does little to convey the reason I am in this field. America's homes are the foundation for family, safe neighborhoods, good schools and solid businesses. A home represents and confers stability: a base from which to raise our children. These things have not changed—but the world has. I am here before you today because I hope—should you confirm my nomination as HUD Secretary—that I can contribute to restoring this vital sector to health and making quality housing a possibility for every American.

My first job after graduate school was at the Community Preservation Corporation, a non-profit lender and developer of multifamily housing. While there, I saw firsthand the difference that effective public-private partnerships can make in developing decent, safe and high-quality housing. In this, the federal government was often a valued and an essential partner. But I also experienced the headache of trying to navigate regulatory barriers or having deals fail because of inflexible programs.

Later, in my work at the Department of Housing and Urban Development I saw how government can work to catalyze effective community development. While I gained an appreciation for the benefits of well-crafted and responsive government programs, I also saw a need to untangle and streamline policy and programs that too often led to missed opportunities.

Because of these experiences, I believe that the best way to ensure access to safe, decent, and affordable housing is through strong partnerships among the govern-
ment, private and non-profit sectors. Government can play a unique role in incentivizing the other sectors and removing barriers to the development of quality housing. That is why when I became Commissioner of New York City's Department of Housing Preservation and Development in early 2004, I engaged the agency in a top-to-bottom strategic planning process. This resulted in new and innovative policy and programmatic solutions, a more appropriate alignment of staff with mission, and better measurement of results.

Let me give you two examples: with contributions from our non-profit and for-profit partners, New York City created an Acquisition Fund that leveraged significant philanthropic support. In one of the most competitive real estate markets in the world, this pool of funds enables housing developers to acquire land and create affordable housing for hard-working families.

We also changed land use policy to respond to the challenges posed by the New York City market. In order to incentivize the creation of more housing for low-income families, the City undertook a series of rezonings that will allow the development of up to 500,000 units of housing and crafted an inclusionary zoning program that will generate 6,000 affordable units.

I believe that together we can create programs that will spur the development of affordable housing in our cities and towns across America.

In the past, owning a home was emblematic of financial success. Sadly, we know that the landscape has changed. Clearly the most important public policy decision facing Congress and the new Administration is how to best ease the economic pain that millions of American families are feeling right now because of our unsteady housing markets.

As President-elect Obama has said, “the housing crisis has shaken not only the foundation of our economy, but the foundation of the American Dream.” It is estimated that approximately 2.2 million homes went into foreclosure in 2008. One in ten American families who owns a home is in financial trouble. Housing is at the root of the market crisis we are now experiencing, and HUD must be part of the solution. President-elect Obama is committed to working with you and your colleagues on an economic recovery plan that helps strengthen our housing and mortgage markets. We must ease our foreclosure crisis by helping Americans stay in their homes. How we structure this assistance is important. We certainly do not want to pursue policies that encourage irresponsible behavior from lenders or homeowners. But as President-elect Obama stated: “if my neighbor’s house is on fire, even if they were smoking in the bedroom or leaving the stove on, right now my main incentive is to put out the fire so that it doesn’t spread to my house.” That is why helping a family avoid foreclosure not only keeps a roof over their heads, but also protects the value of surrounding homes and prevents the deterioration of our neighborhoods. Keeping families in their homes means keeping our communities safe, healthy and strong.

These are very complex undertakings that will require a cross-agency, broad-based approach. HUD needs to work with the Treasury, the Federal Housing Finance Agency, and the Federal Deposit Insurance Corporation to help stabilize our housing markets. At the same time, we need to make sure our mortgage markets, and other financial markets are transparent, open and fair. We need to work together to reach a bipartisan consensus on how to reform the outdated and often overlapping regulatory system that failed our citizens in the run-up to the current crisis. If I am confirmed, I look forward to working with the Committee as it examines how to proceed, not only in my capacity as HUD Secretary, but in my oversight roles with regard to the TARP and the Government-Sponsored Enterprises.

If HUD is to help fix the cracks in our economic foundation, we also will need to implement reforms within the department itself. As you well know, there are challenges and persistent management issues facing HUD, including modernizing IT systems, overhauling sluggish human resource systems and strengthening contract oversight. If confirmed, I will be open and honest about such challenges and will work with you in effectively addressing them.

There are three particular issues I would like to highlight today.

The Federal Housing Administration has capacity issues that require immediate attention. FHA's share of the single family mortgage market has grown from 4 percent in 2005 to 21 percent today. For new home purchases, FHA now has a 35 percent share according to the most recent, albeit, preliminary data.

Second, there have been significant budgetary issues regarding the renewal of expiring Section 8 rental subsidies, for both the tenant- and project-based programs. Approximately 3 million American families are served by these programs. It is
HUD’s responsibility to make sure that it is delivering rental subsidies in the most cost-effective and efficient manner possible. I look forward to working with Congress—this Committee and the Committee on Appropriations—toward that goal.

Third, there are a series of steps that could strengthen the department overall. We must foster a culture of excellence and innovation. I have had the opportunity to work with some very talented professionals at HUD and they deserve the tools to succeed. It is critical that we restore HUD as a respected research institution. Both you and I need to know “what works,” based on objective analysis and reliable data, so that taxpayer dollars can be spent wisely and effectively.

I pledge to make management reform a high priority. Only in this way can we meet the enormous housing challenges facing our country.

Through HUD we can catalyze the creation of a market for energy-efficient homes, lower the utility bills of families, and decrease the subsidy costs of the government. Here, the Department can lead by example by making efforts to green its own portfolio of public and assisted housing.

HUD can help develop communities that are livable, walkable and sustainable. By joining up transportation and housing, HUD can give families the choice to live closer to where they work and, in the process, cut transportation costs.

HUD can help low-income families gain greater access to security and opportunity by expanding fair housing efforts, extending resident choice, and using housing programs to help families become self-sufficient.

I also pledge to you to make HUD a model of evidence-driven government. As I have in New York City, I would set goals and metrics for each of our priorities, so that we can clearly and openly show what we have done well and where we can do better.

We can leverage the agency’s vast national network of State and local governments, along with non-profit and for-profit real estate partners, to stimulate the production of workforce and mixed-income housing, and to help preserve our existing affordable housing stock. HUD does not build homes; our partners do. They share our passion, and have the talent and capacity to do this work.

I would like to conclude by saying again how honored and humbled I am to be before this Committee.

I have worked with HUD’s programs from both the inside and the outside and am intimately aware of the challenges facing the Department. I have also witnessed the positive impact that HUD’s programs have on neighborhoods and people’s lives and, if confirmed by the Senate, I look forward to working with you to build a HUD that exists to do the people’s business; that is responsive to current market challenges; and that ensures decent affordable housing for millions of American families across the nation.

Thank you and I look forward to your questions.
RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM SHAUN DONOVAN

Q.1. The Low-Income Housing Tax Credit has been an effective public/private partnership with states and sponsors. How do you view the role of HUD in working with the tax credit?

A.1. Since the mid-1980s, the low-income housing tax credit has become the main engine behind virtually all affordable multifamily housing production. The tax credit has a proven track record over the past twenty years of delivering quality multifamily developments at the low end of the market, where supply is constrained and under constant pressure.

As you know, developers often use HUD resources in conjunction with the tax credit. I believe HUD should redouble its efforts to foster the flexible use of HUD-controlled resources in support of tax credit production. In addition to working with the Congress to revise the tax credit statute to permit use of the program with Sections 202 and 821 without reducing the value of the credit, HUD should also simplify the current rules for HOME and CDBG to ease the process of combining these program resources with the LIHTC. All of these reforms should be coupled with Federal efforts to encourage State and local governments to lower regulatory barriers to the production and preservation of quality, affordable housing.

Q.2. You were very eloquent in your hearing regarding the importance of fair housing. As you may know, the National Commission on Fair Housing and Equal Opportunity has recommended the creation of an independent fair housing enforcement agency to replace the existing fair housing enforcement structure at HUD.

A proposed short term interim step is the division of the current Office of Fair Housing and Equal Opportunity into two offices with increased staff and resources, with a new Office of Fair Housing reporting directly to the Secretary and an Office of Civil Rights and Program Compliance headed by an Assistant Secretary. This division would separate fair housing enforcement from civil rights and fair housing program compliance.

What is your view of these recommendations? What actions would you take to accomplish stronger and more effective fair housing and civil rights enforcement in the shorter term?

A.2. The Kemp-Cisneros report is a powerful reminder of how much farther we have to go to realize the American promise of equal opportunity for all. It is noteworthy that the report was issued to commemorate the 40th anniversary of the passage of the Fair Housing Act (which was enacted in the immediate aftermath of Dr. Martin Luther King Jr.’s assassination).

There can be no more important issue than ensuring real housing opportunity and choice for all Americans. In terms of the recommendation regarding organizational reforms, the report noted that it would make sense for there to be further study and analysis of the potential options to address the flaws in Fair Housing Act enforcement at HUD, and I believe that such an analysis is appropriate. To that end, I intend to examine the significant reduction in the number of fair housing charges at HUD, the increased delays in case processing over the past 8 years, and, given the importance of the issue, HUD’s insufficient presence in assessing and
addressing the disproportionate concentration of subprime lending in minority communities.

As the process of assessing any structural reforms takes place, I believe we can move forward to revitalize the fair housing function at HUD in the following ways: by reestablishing effective partnerships with other Federal agencies, especially those related to lending oversight and enforcement, and with our State, local, and private fair housing partners; revamping HUD’s fair housing enforcement activities to prioritize cases and actions that will have maximum impact; and ensuring that access to meaningful opportunity is imbibed throughout HUD programs.

Q.3. There has been a lot of interest in taking a more regional approach to the development of affordable housing, similar to what is done in transportation. Do you support such an approach? What suggestions do you have that might promote a more regional approach to affordable housing development?

A.3. I believe that housing is best developed “in the context” of communities and regions, as proximity to transit, jobs, and retail amenities influence the long term success of both the housing and its occupants. Walkable, transit-oriented, mixed-income and mixed-use communities substantially reduce transportation, create energy savings, and enhance access to employment and educational opportunities. Many HUD programs could readily be modified to reward such “location efficiency.” In addition, as Congress begins to consider reauthorization of the surface transportation bill, there is an opportunity to think about how metropolitan planning organizations might be more involved in linking transportation to housing.

Q.4. One of the really big problems we are having in the housing markets today is the lack of housing demand. As a result, housing inventories have built up to 21 months or more—extremely high levels that continue to depress the market.

There have been a number of proposals to help stimulate housing demand, including having the Federal Government buy-down interest rates to as low as 2.99 percent as well as making upfront tax credits for home purchasers more generous.

Would you comment on these proposals, please? Are there other ways the incoming Administration is considering stimulating housing demand?

A.4. The Administration is exploring a variety of strategies to address the housing crisis. Our first priority is to provide assistance to help at-risk borrowers stay in their homes. If we can reduce foreclosures, this will help to prevent a further weakening of the housing market.

We are also reviewing a series of proposals to lower mortgage interest rates and stimulate housing demand. The Federal Reserve has already been working to lower interest rates through buying up mortgage-backed securities guaranteed by the GSEs. Mortgage interest rates are now quite low, due partly to government policies. Rates on 30-year loans are now lower than they have been in decades. It is not clear yet how much these reductions are helping to spur market demand and whether further reductions would be warranted. We’re seeing a significant increase in refinance applica-
tions; but it does not appear that purchase applications are responding as rapidly.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM SHAUN DONOVAN

Q.1. President-elect Obama recently pledged “an unprecedented effort to eliminate unwise and unnecessary spending.” He has pledged to do so by going through the Federal budget “line by line.” Mr. Donovan, in HUD’s “line-by-line” review, what standards would you use in determining whether a program is ineffective or unnecessary?

A.1. These standards are going to be developed in conjunction with OMB and will be used across departments. The Administration plans to release proposals to reduce spending and eliminate programs as part of the President’s economic and budget overview, which is scheduled to be released in late February. When this guidance is promulgated, I would be happy to share it with the Committee.

Q.2. Mr. Donovan, I understand that New York City is the only city in the country that spends more of its own funds on housing and community development than it receives from the Federal Government.

Do you believe that this level of commitment can be copied by other cities, or is there something unique about New York City that allows only it to make such an effort on its own?

A.2. New York City does commit a significant amount of local resources to housing and community development, but the size of this commitment may not be easily replicable given that New York City’s municipal budget is much larger than that of any other American city. What is worth replicating, however, is the unique partnership between local resources—be they public, private, or non-profit—and the Federal Government. These are the kinds of strategic investments that HUD can and must make in order to be successful in every city and State in the country.

Q.3. Most of the focus on our mortgage market has been solely on the single-family side. However, over the last year we have seen increasing delinquencies on multifamily mortgages. Among securitized multifamily mortgages, delinquency rates have tripled over the last year.

Mr. Donovan, given your past experience administering FHA’s multifamily programs, what is your view of the health of the multifamily mortgage market, and in particular, the financial health of FHA’s multifamily programs?

A.3. The multifamily market remains stronger than the single-family market, but we are beginning to see some signs of trouble. While delinquency rates for multifamily mortgages have remained below historical averages, they continued to rise in the third quarter, and the economic downturn is likely to push these rates still higher. Plus, in some markets, investors bought multifamily properties at prices that used aggressive forecasts of rent increases that are not coming to fruition. In the last quarter of 2008, vacancies
were up and effective rents were down in most markets around the country.

FHA multifamily mortgages play a small but critical role in the multifamily market. As private sources of financing have dried up, the FHA has increased its multifamily activity. Its share of market activity is rising. I plan to ask my FHA Commissioner to closely monitor and track the performance of these loans and ensure that FHA is adequately meeting its expanded role.

Q.4. Mr. Donovan, you mentioned in your statement some of your efforts to expand the housing supply in New York City. While we all enjoy visiting New York, I suspect many of us would have trouble affording to rent or buy a property there. New York City remains one of the least affordable housing markets in the Nation. I believe we would all prefer to see our Nation’s housing markets become less like New York’s rather than more.

What do you believe are the factors that have led to New York City’s housing market becoming so unaffordable?

A.4. There are many factors that contribute to New York’s housing market, but one of the most important is the city’s relatively recent resurgence.

During the economic downturns of the 1970s and 1980s, New York City lost hundreds of thousands of its middle-class families. Certain parts of the city were all but abandoned. During this time, the City assumed ownership of vacant lots and abandoned buildings through tax foreclosure, and began redeveloping them. During the late 1980s and 1990s, neighborhoods across the city were transformed block by block, from Harlem to Central Brooklyn to the South Bronx. By the mid-1990s, the city was a very different place, thanks to innovative crime-fighting techniques, an economic recovery, and effective community development. Immigrants from around the world—and from across the United States—came to New York to make their fortunes. By 2000, the city had regained much of the population it had lost in the postwar period, and one of the most significant effects of this population “boom” was an increase in housing costs.

There are many ways to address the high cost of housing. One essential way is to subsidize the creation and preservation of affordable units, which we did with the creation and execution of the Mayor’s New Housing Marketplace Plan, a historic plan to create and preserve 165,000 units across the city. Another important way is to increase the supply of housing. In order to facilitate this goal, the Bloomberg Administration has rezoned a record number of neighborhoods in order to increase density and preserve community context. Nearly all of these rezonings have had an affordable housing component, and have led to the creation of market-rate and affordable units in neighborhoods across the city.

Q.5. Mr. Donovan, you mentioned in your testimony the significant budgetary issues facing the Section 8 Voucher program. We have seen, over the last decade, the Section 8 program grow from around a third of the HUD budget to over half the HUD budget today. I believe this cost escalation is due to the fact that the program provides inadequate incentives for housing authorities to control costs.
Do you have any suggestions for bringing the costs of the Section 8 program under control?

A.5. Since the mid-1970s, rental housing vouchers have emerged as the most substantial form of subsidized housing in the United States; they now serve some 1.9 million households. Vouchers have become one of the most effective and direct ways of meeting the principal housing challenge facing very low-income families: affordability. They enable millions of families to live closer to their jobs, near better schools, and in safer neighborhoods. They have also allowed families to change location when there is a change in their housing or job situation.

As Commissioner of the New York City Department of Housing Preservation and Development (HPD), I managed the fourth largest Section 8 Voucher program in the country, and am intimately aware of the challenges facing those in managing this program. One of the main challenges has been the unpredictability in the Section 8 renewal funding formula, which I believe has contributed to inefficient management of local programs. I would hope to first stabilize this program and make it more transparent.

I also share your concern about the rising share of HUD’s budget represented by Section 8 expenditures, and am open to any proposals that would make the Section 8 programs more cost-effective and efficient. This could include experimenting with alternative forms of administration as a means to avoid the duplication of costs and enhance the effectiveness of the program so that more families can be served. I look forward to working with this Committee towards improving this vitally important program.

Q.6. Mr. Donovan there exists a significant gap in the homeownership rate between white and minority households. Much of Federal housing policy is aimed at reducing that gap.

What do you believe are the primary causes for this homeownership gap?

A.6. I think there are two primary causes for the gap in homeownership rates between white and minority households.

First, racial disparities in education and income drive disparities in homeownership. We all know that educational attainment rates are alarmingly low among African-Americans and Hispanics. In 2006, for example, only 13 percent of Hispanics and 18 percent of African-Americans between the ages of 25 and 44 held a bachelors degree, compared with 34 percent of non-Hispanic whites and 59 percent of Asians in the same age group.

With economic restructuring, low educational rates result in lower wages and incomes. U.S. workers without a high school diploma saw their real wages stay virtually the same over 30 years. By contrast, individuals with a college degree experienced significant real wage growth over this period. With lower incomes, African-Americans and Hispanics have more difficulty purchasing homes and creating wealth through homeownership.

Second, housing discrimination persists despite progress since the enactment of the Fair Housing Act of 1968, with 17 percent of all adults in the United States reporting some form of housing discrimination, according to one recent survey. The prevalence of subprime loans among racial minorities and the concentration of
such loans in minority neighborhoods further underscores the importance of vigorous enforcement of the Federal Fair Housing Act and the obligations of HUD and other Federal agencies to “affirmatively further fair housing” and ensure greater scrutiny of unfairness in the marketplace.

Q.7. Last Congress, the Committee reported a bill reforming HUD’s homelessness assistance programs, but the bill was never voted upon by the full Senate. Included in this legislation was an expansion of HUD’s rural homelessness program.

Mr. Donovan, working in New York City, I am certain you are familiar with urban street homelessness. However, I would like to hear your views on whether you believe separate tools are necessary to address rural homelessness.

A.7. I believe that HUD’s tools for helping communities address homelessness need to be as flexible as possible, so that a community can figure for itself how to best prevent and end homelessness. I applaud the Committee’s efforts in this area to both consolidate HUD’s existing homelessness programs, so that they are more efficient and easier to use, while at the same time incentivizing communities to focus on preventing families and individuals from becoming homeless in the first place. Whether it is in a rural community or a big city, studies have shown that it is much more expensive to provide emergency care to families than to pay for prevention. We also know it is very hard for a family to look for employment or succeed in school once they have become homeless.

I also believe the Committee’s efforts to create incentives and provide more flexible tools for more rural communities to prevent and end homelessness is extremely important, and I look forward to working with you to quickly pass a reauthorization of the McKinney-Vento Homeless Assistance Act.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CORKER FROM SHAUN DONOVAN

Q.1. In your testimony, you comment on the fact that the market share FHA has on home loans has grown approximately six times its market share since 2005. How do you and your staff plan to address this issue, and what do you believe is an appropriate market share for the FHA to have?

A.1. I believe the increase in market share presents major challenges for FHA. To ensure the safety and soundness of the Fund, I believe FHA must have access to state-of-the-art automated valuation methods, income verification tools, and other fraud detection mechanisms, as well as the capacity to sanction those appraisers, mortgage brokers, and lenders that fail to adhere to FHA guidelines.

I also believe that we need to examine carefully FHA’s staffing, contracting and technology needs, a review I intend to undertake in the coming months.

Q.2. Last July, Congress passed the Housing and Economic Recovery Act (HERA) of 2008 which included a provision that ended the practice of allowing Seller-funded down payments. Certain data suggested these loans performed 2 to 3 times worse than the rest
of the FHA portfolio of loans. Do you believe this program should be resurrected?

**A.2.** HERA mandated a temporary one-year ban on *Seller Financed Down Payment Assistance* (DPA) programs effective October 1, 2008. This ban followed a proposed rule by FHA to limit DPA programs in the aftermath of GAO reports indicating that loans receiving seller-financed DPA had unacceptably high mortgage delinquency and foreclosure rates, and threatened to undermine the safety and soundness of the FHA insurance fund. Others countered by noting that nearly 40 percent of all FHA insured loans involve some form of seller-financed DPA and that any effort to limit the availability of DPA would severely undermine the ability of FHA insurance programs to serve lower-income and/or minority borrowers. I intend to examine this issue with care during my first few months in office.

**Q.3.** Some have suggested that because FHA is not a separate entity within HUD, unlike Ginnie Mae, it does not get the resources and authority it often needs to accomplish its mission. What are your preliminary thoughts on making FHA a separate entity or even a new corporation of the Federal Government?

**A.3.** HUD Secretary Henry Cisneros proposed making FHA a separate corporation in the mid 1990s as part of his ambitious plan for HUD restructuring. I think this proposal and others like it deserve careful review, particularly given the need for additional hiring and contracting flexibility at FHA.

In general, however, I believe that form should follow function. I believe that the form FHA should take should be determined in the context of a review of the entire housing finance system, including an assessment of the future role of the GSEs. Only then will we know what organizational structure will best strengthen FHA's capacity to serve underserved households while retaining its accountability to the taxpayer.
STATEMENT OF MARTY SHURAVLOFF  
CHAIRMAN, NATIONAL AMERICAN INDIAN HOUSING COUNCIL  
JANUARY 13, 2009

On behalf of the National American Indian Housing Council (“NAIHC”) I am pleased to submit this statement regarding the nomination of Shaun Donovan to be Secretary of the Department of Housing and Urban Development (“HUD”).

America is facing the most challenging economic difficulties since the 1930s, and this Committee will play a vital role in developing initiatives to lead the American people to a more promising future.

It is worth remembering that while the business pages of the country’s newspapers call attention to the current unemployment rate of 7.2 percent, American Indian, Alaska Native and Native Hawaiian communities have endured jobless rates many times that rate for decades. In fact, the average unemployment rate in these Native communities is 30 percent and in some communities that figure exceeds 70 percent.

As an architect, Mr. Donovan knows the importance of ensuring that buildings and other structures have strong foundations. Once confirmed, the NAIHC is hopeful that he will forge a strong foundation with Native America upon which will build a brighter future for our people.

As the Director of New York City’s Department of Housing and Preservation, Mr. Donovan has extensive experience with urban housing matters and with low-income housing in particular. He also served as a deputy assistant secretary for the multi-billion dollar multifamily housing program in the Clinton Administration.

The NAIHC is very encouraged that President-elect Obama has chosen a nominee as experienced and formidable as Mr. Donovan. We are hopeful that as secretary, Mr. Donovan will develop a keen understanding of the housing and economic problems that plague Native communities and will surround himself with professionals who are committed to improving the housing conditions of America’s first people.

I can assure this Committee and the candidate that the NAIHC stands ready to work with him and the department on these important matters.

Thank you, Chairman Dodd, for the opportunity to submit this statement for the record and I would be happy to answer any questions you might have.
January 12, 2009

Honorable Christopher J. Dodd
Chair
Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, D. C. 20510

Honorable Richard C. Shelby
Ranking Member
Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, D. C. 20510

Re: NID Support of Mr. Shaun Donovan as Secretary of HUD

Dear Chairman Dodd and Ranking Member Shelby:

The National Association of Real Estate Brokers-Investment Division (NID) is a not-for-profit urban social and economic community development corporation with 75 urban core local offices in 22 states. NID has served the affordable/workforce housing and community development needs of individuals, families, FBCDOs, private sector housing and commercial real estate developers and lenders and local and state government agencies for the past 22 years. NID serves over 40,000 ethnically diverse, low-to-moderate income urban area clients annually.

I had the pleasure of observing the innovative work of HUD Secretary-Designate Donovan when he served as HUD OAS Multifamily Housing and the fine work he did as Acting FHA Commissioner during the last presidential transition. On recent inquiry our northeastern offices and industry colleagues provide high compliments for his work at Providentia, but more importantly his efforts to include FBCDOs in the entire scope of the community development process as Commissioner of the NYC Department of Housing Preservation and Development. Secretary-Designate Donovan was particularly lauded for his efforts to establish effective measures to reduce and or avoid the displacement of area residents of lower-income and color from their generational communities that he was helping to transition under Mayor Bloomberg’s 160,000-unit New Housing Marketplace Plan for NYC.

Mr. Shaun Donovan will bring the unprecedented mixture of spot-on experience, an innovative forward-looking mind and youthful energy to the multifaceted challenges we face in the housing and community development arena. These unique set of qualities arm him with the needed abilities to play a leading role as a member of President Obama’s economic advisors team. NID and our urban and minority client base urge the speedy confirmation of Mr. Shaun Donovan as the next Secretary of the U. S. Department of Housing and Community Development.

Sincerely,

Ray Carlisle

Washington DC Office, 1229 19th St. N.W. Washington D.C. 20005 Phone: (202) 986-1361 Cell: (510) 944-0017
January 5, 2009

Dear Senator Dodd:

I am delighted to support President-elect Barack Obama's nomination of Shaun Donovan to be Secretary of Housing and Urban Development.

Since 1972, the Metropolitan Council on Jewish Poverty (Met Council), a highly regarded Citywide grass roots community group, has been a leader in advocating for and meeting the multiple needs of New York City's poor and one of the largest affordable housing providers in New York City. Met Council owns and operates over 2,000 units of affordable housing serving the elderly, homeless, and mentally ill populations. Much of our work could not be possible without Shaun Donovan's leadership. He has been a champion in improving the affordability and quality of housing in New York City.

I am confident that Shaun Donovan will lead us through the difficult challenges our country faces in helping Americans find affordable housing.

Every good wish.

Sincerely,

William E. Rapfogel
Executive Director/CEO

WE'rb

80 Maiden Lane • New York, New York 10038 • 212-453-9500 • fax 212-453-9600 • www.metcouncil.org
January 5, 2009

The Honorable Christopher Dodd
United States Senate
448 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Dodd:

I am writing on behalf of Catholic Charities Progress of Peoples (POP) Development, to express our support of the nomination of Shaun Donovan to serve as Secretary of the US Department of Housing and Urban Development. During his tenure as Commissioner of the New York City Department of Housing Preservation and Development (HPD), Shaun has proven himself to be not only innovative, but also a great partner in our efforts to serve the lowest income New Yorkers.

His innovation and leadership in the rezoning of the Greenpoint/Williamsburg communities in Brooklyn were central to achieving the commitment to new Inclusionary Housing policies that will result in the development of thousands of units of affordable housing. With his assistance, Catholic Charities was also able to preserve nearly 1,000 units of HUD 202 housing for low income seniors, using innovative financing tools.

Given the changing economic landscape of our country, there will be unique opportunities and challenges for the Department of Housing and Urban Development. With Shaun’s experience, qualifications and commitment, we are fully confident that he will rise to those challenges as Secretary of HUD.

We urge you to support the nomination of Shaun Donovan to serve as Secretary of the Department of Housing and Urban Development.

Sincerely,

Rev. Msgr. Alfred LoFinto
January 13, 2009

The Honorable Christopher J. Dodd
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the Council of Large Public Housing Authorities (CLPHA), I am writing to express our strong support for the nomination of Shaun Donovan as the next Secretary of the U.S. Department of Housing and Urban Development (HUD). This morning’s confirmation hearings served to affirm the wise selection of Mr. Donovan by President-elect Barack Obama for this most critical position during a time of housing crisis in our nation.

Mr. Donovan demonstrated at the hearings that he is uniquely qualified to lead HUD because of his wide range of experience, both in the public and private sectors. He understands that addressing the nation’s affordable housing needs is fundamental to realizing the nation’s economic goals. He not only understands HUD’s central role in mitigating the mortgage crisis that has shaken financial markets, but he also understands that public housing is as vital to a community’s infrastructure as the roads citizens travel to get to work and the schools where children are educated. And, Mr. Donovan believes in the goal of putting decent and affordable housing at the center of our national housing policy.

As Mr. Donovan mentioned during the hearing, he is concerned about the estimated $30 billion backlog of capital needs in public housing, and we welcome the opportunity to work with him to help address this problem. By addressing the modernization backlog, we can better focus on providing greater energy efficiencies, or “greening,” in public housing while promoting the “smart investments for longer term benefits” as Mr. Donovan advocated.

We look forward to working with Secretary-Designate Donovan to implement The Future of Public Housing Policy Framework, a blueprint for reinvesting and revitalizing the nation’s public housing, home to millions of seniors, persons with disabilities and low-income families. The Framework is an initiative bringing together housing leaders from across the country to create a new paradigm for preserving and improving this essential component of the nation’s affordable housing infrastructure.

Mr. Donovan is an outstanding choice for the position of HUD Secretary and we urge his speedy confirmation by the Senate.

Sincerely,

Sonia Zatezola
Executive Director