

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2013

THURSDAY, MARCH 1, 2012

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

The subcommittee met at 9:33 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.
Present: Senators Murray and Collins.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Mr. Secretary, welcome back to our subcommittee, as we are here today to talk about fiscal year 2013 budget requests for the Department of Housing and Urban Development (HUD).

As we begin our work on next year's budget, there are encouraging signs that our economy is moving now in the right direction. Although we aren't moving quickly enough for families that continue to struggle, and we certainly have a long way to go, the private sector has now been adding jobs for almost 2 years, businesses are growing, and confidence is up. We seem to have stepped back, finally, from the precipice, which, of course, is very good news for the housing market, which depends on a strong and stable economy to recover and thrive.

But despite the positive signs, we still face significant challenges. Over 22 percent of homeowners are underwater.

The recent settlement that was announced among the five largest banks, the States, and the Federal Government is an important step. It holds banks accountable and provides relief to homeowners. But the settlement also paves the way for banks to proceed with foreclosures that have been stalled in the pipeline.

While it is important to reduce the excess inventory of distressed housing, increased sales of these properties at reduced prices may further depress home values.

Climbing back from the housing crash will not be easy, and I am interested in hearing your views on how we can increase the stability of the market.

The depressed housing market has also taken its toll on the Federal Housing Administration (FHA). This is made clear in the President's budget. The budget indicates that, for the first time, FHA may require Federal funding to cover its losses. I have long been concerned about the solvency of FHA's Mutual Mortgage Insurance (MMI) Fund, and I applaud the efforts of the Administration to strengthen FHA's risk controls.

But many of the financial problems facing FHA are related to older books of business insured at the height of the housing boom. So while these changes to strengthen the program are important and long overdue, it will also be important to recover or prevent expected losses from older loans.

I am pleased that the recent mortgage settlement includes money for FHA. And other settlements, most notably Bank of America, will also provide money to cover losses related to improper mortgage originations.

These settlements should help avoid the need for taxpayer funding, and I hope you will continue to look for opportunities to recoup losses from fraudulent or poorly underwritten loans.

Additional changes to FHA premiums contained in the budget, as well as those announced on Monday, represent your continued efforts to improve the solvency of the MMI Fund and protect the taxpayer from having to cover its losses.

Beyond FHA, today we will also examine other aspects of the Administration's request, which is \$44.8 billion in gross resources to support HUD's programs. While this represents an increase of over 3 percent, it is largely a current services budget as a result of the numerous offsets included in the fiscal year 2012 bill.

As the Secretary's testimony notes, 83 percent of HUD's budget is dedicated to providing housing to the Nation's most vulnerable, and these programs require annual adjustments. As we continue to live under the caps of the Budget Control Act, this presents us with very difficult choices.

Last year, Senator Collins and I worked very hard to protect HUD's core rental assistance programs. But doing so meant difficult cuts to programs like the Community Development Block Grant (CDBG), HOME, and Housing for the Elderly. The cuts to CDBG that began in fiscal year 2011 are being widely felt today. Cities and towns are cutting services to vulnerable citizens, laying off workers, or delaying critical investments in their communities.

This year's budget faces many of the same challenges we struggled with last year. How do you craft a budget that protects low-income residents who rely on HUD assistance to keep a roof over their heads, makes the economic development in affordable investments that strengthen our communities, and gives HUD the tools it needs to effectively manage its programs?

While the Administration's fiscal year 2013 budget tries to address these goals by balancing priorities, I am concerned about some of the proposals. The proposed budget for Project-Based Rental Assistance will manage within the requested level by intentionally not funding contracts for a full 12 months. I have seen this policy before. And while this may be manageable in the short run, I'm concerned we won't have the resources when the bill eventually becomes due.

In the Tenant-Based Rental Assistance account, I'm also concerned that the funding level requested to renew vouchers is effectively flat, despite anticipated inflation and the need to renew vouchers for the first time. The budget also relies on savings from a number of policy changes which are not without controversy.

So as we make the difficult choices in this budget, I want to be sure we are making decisions with an understanding of their consequences and an eye toward the future.

Despite my concerns, there are some bright spots in this budget. The request, again, seeks \$75 million for new HUD-Veterans Affairs Supportive Housing (HUD-VASH) vouchers, which have really helped to reduce homelessness among our veterans by 12 percent between 2010 and 2011.

The Administration has worked hard to develop a plan to finally end homelessness, and I'm very glad the request for homeless programs reflects a continued commitment to that plan.

At a time when resources are scarce, oversight of HUD's programs becomes even more important. I look forward to continuing to work with the Department and my colleagues to find additional ways to improve HUD's programs.

I also want to acknowledge today HUD's new inspector general, Mr. Montoya, who is with us today. I welcome his vision for HUD's Office of Inspector General, and look forward to working with him to protect taxpayer dollars and improve the efficiency of HUD's programs.

The fiscal year 2013 budget, once again, requires difficult choices to be made. As I work with my colleagues, Senator Collins and those on this subcommittee, to put together this bill, I will be mindful of the millions of Americans who rely on HUD's programs for a place to sleep each night.

PREPARED STATEMENT

Mr. Secretary, I look forward to our discussion today and working with you as we develop this 2013 budget. And I appreciate everyone accommodating us in moving this hearing up.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

Mr. Secretary, I want to welcome you back to the subcommittee today as we discuss the fiscal year 2013 budget request for the Department of Housing and Urban Development (HUD).

As we begin our work on next year's budget, there are encouraging signs that our economy is moving in the right direction. Although we aren't moving quickly enough for families that continue to struggle—and we certainly have a long way to go.

The private sector has been adding jobs for almost 2 years. Businesses are growing, confidence is up, and we seem to have stepped back from the precipice. Which, of course, is very good news for the housing market—which depends on a strong and stable economy to recover and thrive.

HOUSING MARKET CHALLENGES

But despite the positive signs, we still face significant challenges. Over 22 percent of homeowners are underwater. The recent settlement announced among the five largest banks, the States, and the Federal Government is an important step. It holds banks accountable and provides relief to homeowners.

But the settlement also paves the way for banks to proceed with foreclosures that have been stalled in the pipeline. While it is important to reduce the excess inventory of distressed housing, increased sales of these properties at reduced prices may

further depress home values. Climbing back from the housing crash will not be easy, and I am interested in hearing your views on how we increase the stability of the market.

FHA SOLVENCY

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But many of the financial problems facing FHA are related to older books of business insured at the height of the housing boom.

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These settlements should help avoid the need for taxpayer funding. And I hope you will continue to look for opportunities to recoup losses from fraudulent or poorly underwritten loans.

Additional changes to FHA premiums contained in the budget, as well as those announced on Monday, represent your continued efforts to improve the solvency of the MMI Fund and protect the taxpayer from having to cover its losses.

HUD'S FISCAL YEAR 2013 BUDGET

Beyond FHA, today we will also examine other aspects of the administration's request, which is \$44.8 billion in gross resources to support HUD's programs.

While this represents an increase of over 3 percent, it is largely a current services budget as a result of the numerous offsets included in the fiscal year 2012 bill. As the Secretary's testimony notes, 83 percent of HUD's budget is dedicated to providing housing to the Nation's most vulnerable.

These programs require annual adjustments. As we continue to live under the caps of the Budget Control Act, this presents us with very difficult choices. Last year, Senator Collins and I worked very hard to protect HUD's core rental assistance programs. But doing so meant difficult cuts to programs like Community Development Block Grant (CDBG), HOME, and Housing for the Elderly.

The cuts to CDBG that began in fiscal year 2011 are being widely felt today. Cities and towns are cutting services to vulnerable citizens, laying off workers, or delaying critical investments in their communities.

This year's budget faces many of the same challenges that we struggled with last year. How do you craft a budget that:

- Protects low-income residents who rely on HUD assistance to keep a roof over their heads;
- Makes the economic development and affordable housing investments that strengthen our communities; and
- Gives HUD the tools it needs to effectively manage its programs?

BUDGET PROPOSAL CONCERNS

While the administration's fiscal year 2013 budget tries to address these goals by balancing priorities, I am concerned about some of its proposals.

The proposed budget for Project-Based Rental Assistance will manage within the requested level by intentionally not funding contracts for a full 12 months. I have seen this policy before. And while this may be manageable in the short-run, I am concerned that we won't have the resources when the bill eventually comes due.

In the Tenant-Based Rental Assistance account, I am also concerned that the funding level requested to renew vouchers is effectively flat—despite anticipated inflation and the need to renew vouchers for the first time.

The budget also relies on savings from a number of policy changes, which are not without controversy. So as we make the difficult choices in the budget, I want to be sure that we are making decisions with an understanding of their consequences and an eye toward the future.

BUDGET HIGHLIGHTS

Despite my concerns, there are some bright spots in the budget. The request again seeks \$75 million for new HUD-VASH vouchers, which have helped to reduce homelessness among veterans by 12 percent between 2010 and 2011.

The administration has worked hard to develop a plan to finally end homelessness. And I am very glad that the request for homeless programs reflects a continued commitment to that plan.

HUD OVERSIGHT

At a time when resources are scarce, oversight of HUD's programs becomes even more important. I look forward to continuing to work with the Department and my colleagues to find additional ways to improve HUD's programs.

I would like to acknowledge HUD's new inspector general, Mr. Montoya, who is with us today. I welcome his vision for HUD's Office of Inspector General and I look forward to working with him to protect taxpayer dollars and improve the efficacy of HUD's programs.

CLOSING

The fiscal year 2013 budget once again requires difficult choices to be made.

As I work together with Senator Collins and my colleagues on the subcommittee to put together this bill, I will be mindful of the millions of Americans who rely on HUD's programs for a place to sleep each night.

Mr. Secretary, I look forward to our discussion today and working with you as we develop the fiscal year 2013 budget.

With that I will turn it over to my partner in these efforts, Senator Collins.

Senator MURRAY. And Senator Collins, thank you for accommodating us as well.

As all of you know, we have a vote in about an hour and 20 minutes, and I know Senator Collins and I both need to be on the floor then.

So with that, let me turn it over to my colleague, Senator Collins. Thank you for being here today.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you very much, Chairman Murray.

First, let me say how much I enjoyed working with you last year as we crafted this important appropriations bill. We did so in a truly bipartisan fashion. We share a lot of the same priorities.

And it was also a great pleasure to work with Secretary Donovan, and I appreciate his being here today as we discuss how to meet the housing and economic development needs of families and communities across our Nation.

As we begin to construct the fiscal year 2013 budget, we are mindful that we are once again operating under very difficult fiscal constraints. That is even more challenging when one considers that more than 80 cents out of every \$1 of the budget request is required just to continue serving those who currently rely on HUD for just housing support.

Addressing the ongoing challenge of homelessness remains a top priority of mine. Chairman Murray and I continue to share this commitment, particularly for our Nation's veterans. And we worked very hard last year to preserve funding for the HUD-VASH program.

One out of every six men and women in homeless shelters are veterans, and unfortunately, veterans are 50 percent more likely to fall into homelessness compared to other Americans. So I am pleased that the budget request continues funding for the HUD-

VASH program at \$75 million. This level of funding should help us serve an additional 10,000 veterans who would otherwise likely be homeless.

Veterans' homelessness fell by nearly 12 percent in the year 2010, demonstrating that these programs work. I've also always supported funding for the homeless assistance grants programs to prevent and end homelessness. The budget proposes \$2.2 billion for this program. That's an increase of approximately \$330 million over the previous fiscal year.

It is, however, important that we focus on what works. And one of the models that I've seen work in the State of Maine is the Housing First model for aiding those who are homeless.

We need better data to ensure the effectiveness of all housing programs. This particular model is proving its effectiveness in my home State of Maine through the Florence House, a comprehensive center for homeless women in Portland.

In addition to programs that effectively serve the homeless, HUD, of course, provides support for affordable rental housing. The budget proposes more than \$19 billion for the Tenant-Based Rental Assistance program, of which \$1.6 billion is available for administrative costs. That's an increase in direct response to the fact that some public housing agencies (PHAs) are having a difficult time administering their voucher programs and have actually turned back vouchers as a result, and that is very troubling.

We don't want to overpay them for their administrative expenses, but they need to have sufficient expenses to efficiently and effectively run the program.

Another important issue that I'd like to address is HUD's oversight of the Maine State Housing Authority Section 8 Voucher Program. A series of recent newspaper stories revealed troubling cases of code violations and other poor conditions in Oxford County, Maine. In fact, the local fire chief was so upset that he wrote a letter to my office, asking for my help.

HUD has an obligation to oversee the use of Federal funds of public housing agencies nationwide and to ensure that these funds are not supporting substandard properties.

I just want to share, briefly, with my colleagues and the people from HUD here, and the inspector general, one of the particular units, one of the apartments that was cited in this newspaper series. HUD was actually paying \$600 a month in Federal subsidies for an apartment that had septic backups in the kitchen sink, a damaged fire escape, and bat and rodent infestation. Totally unacceptable.

It's bad enough that taxpayers were charged for substandard units, but it's appalling that residents were forced to live in such horrible conditions. The welfare and safety of tenants must be safeguarded, and federally subsidized properties must represent fair value to both the tenant and the taxpayer alike.

I have requested the inspector general to audit HUD's oversight of the unit inspections and the Maine State Housing Authority's administration of the program. It is clearly critical that federally subsidized properties comply with all health, safety, and quality standards.

And I want to commend the Secretary for taking my concerns very seriously and for asking the Maine State Housing Authority for a corrective action plan.

And I'm also very pleased that the inspector general has stepped in and is investigating this problem.

I, too, want to echo Senator Murray's concerns about the Federal Housing Administration, which plays such a critical role in affordable home ownership. The decline in the housing market over the past several years has had a tremendous impact on families and communities throughout the Nation as well as our economy as a whole.

While I understand that HUD has taken a number of steps to increase capital reserves, it remains troubling that the capital reserve ratio remains below the congressionally mandated level of 2 percent. I'm optimistic that we'll hear some good news as a result of the settlements, but that still is of concern.

I also want to discuss in the question period with the Secretary what can be done to ensure the greater use of wood pellet heating systems in Maine that have not qualified for assistance under the FHA program. And those are increasingly popular. They are an alternative to fossil fuels. Maine is very heavily dependent on home heating oil, the price of which has spiked.

Finally, the level funding for the Community Development Block Grant program, proposed at about \$3 billion, is disappointing. This popular program supports the economic growth strategies of communities nationwide, and enables key investments in their long-term economic growth. It is programs like CDBG that help to build a foundation for future prosperity.

These are just some of the issues before our subcommittee.

PREPARED STATEMENT

And again, Madam Chairman, I look forward to working very closely with you again this year.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

Thank you, Chairman Murray. I am delighted to join you once again as we start the fiscal year 2013 appropriations process and consider the Department of Housing and Urban Development's (HUD's) budget request.

Mr. Secretary, it is nice to see you again. I look forward to working with you to meet the housing and economic development needs of families and communities throughout the Nation.

As we begin to construct the fiscal year 2013 budget, we will continue to face difficult decisions given the fiscal constraints we remain under. This is even more challenging when more than 80 cents out of every \$1 of the fiscal year 2013 request is required just to continue serving those who currently rely on HUD for housing support.

Addressing the ongoing challenge of homelessness remains a top priority of mine. Chairman Murray and I continue to share this commitment, particularly for our Nation's veterans. One out of every six men and women in homeless shelters are veterans, and unfortunately, veterans are 50 percent more likely to fall into homelessness compared to other Americans.

I am pleased the budget continues funding for HUD's Veterans Affairs Supportive Housing (HUD-VASH) Program at \$75 million. This level of funding will serve an additional 10,000 veterans, who would otherwise be homeless were it not for HUD-VASH. Veterans' homelessness fell by nearly 12 percent in 2010, demonstrating that programs like HUD-VASH work.

I have always supported funding for the Homeless Assistance Grants program to prevent and end homelessness. The budget proposes \$2.2 billion for this program, \$330 million more than fiscal year 2012.

We need to focus, however, on what works such as the Housing First model for aiding those who are homeless. We need better data to ensure the effectiveness of all housing programs. This model is proving its effectiveness in my home State of Maine through Florence House, a comprehensive center for homeless women in Portland.

In addition to programs that effectively serve the homeless, HUD also provides support for affordable rental housing. The budget proposes more than \$19 billion for the Tenant-Based Rental Assistance program, of which \$1.6 billion is available for administrative costs. This represents a \$225 million increase in administrative funding from fiscal year 2012. It is my understanding that some public housing agencies are having a difficult time administering their voucher programs, including HUD-VASH, this fiscal year.

Another important issue I would like to address is HUD's oversight of the Maine State Housing Authority's Section 8 voucher program. A series of recent newspaper articles revealed troubling cases of code violations and other poor conditions in Oxford County, Maine. HUD has an obligation to oversee the use of Federal funds at public housing agencies nationwide and to ensure these funds do not support substandard properties.

One of the units cited, for which HUD was paying \$600 in Federal subsidies, had septic backups in the kitchen sink, a damaged fire escape, and bat and rodent infestation. It is bad enough that taxpayers were charged for substandard units, but it is appalling that residents were forced to live in such horrible conditions. The welfare and safety of tenants must be safeguarded, and federally subsidized properties must represent fair value to the tenant and the taxpayer alike.

I requested that the Inspector General audit HUD's oversight of unit inspections and the MSHA's administration of its program. It is critical that federally subsidized properties comply with all health, safety, and quality standards.

In addition to supporting affordable rental housing, HUD plays a critical role in affordable home ownership through the Federal Housing Administration. The decline in the housing market over the past several years has had a tremendous impact on families and communities throughout the Nation, from the huge number of foreclosures to the substantial decline in home values.

While I understand HUD has taken a number of steps to increase capital reserves, it is troubling that the capital reserve ratio remains below the congressionally mandated level of 2 percent. In questions I also want to discuss how HUD regulations can encourage the great use of wood pellet heat in FHA-assisted homes.

Finally, the level funding for the Community Development Block Grant (CDBG) program, proposed at \$2.95 billion, is disappointing. This popular program supports the economic growth strategies of communities nationwide and enables key investments in their long-term economic growth. It is programs like CDBG that help to build a foundation for future prosperity.

These are just some of the issues we are confronted with on our subcommittee this year. Chairman Murray, I look forward to working with you as we consider HUD's fiscal year 2013 budget request.

Senator MURRAY. Thank you very much, Senator Collins.

With that, we'll turn it over to you, Secretary Donovan, for your opening statement.

SUMMARY STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Thank you, Madam Chair, ranking member, for the opportunity to be here today. Today, I would like to discuss how HUD's fiscal year 2013 budget proposal is essential to creating housing and communities built to last and will directly support 700,000 jobs.

Madam Chair, in developing this proposed budget we followed four principles. The first is to continue our support for the housing market, while bringing private capital back. The critical support FHA provided over the last 3 years has helped 2.8 million families buy a home and more than 1.7 million homeowners refinance into

stable, affordable products with average monthly savings of more than \$125.

At the same time, we have taken the most significant steps in FHA history to reduce risks to the taxpayer and reform FHA's mortgage insurance premium structure. With the premium increases of 10 basis points recently enacted by Congress, coupled with additional premium increases on jumbo loans reflected in the budget, FHA projects to add an additional \$8.1 billion in receipts to the capital reserve account in 2013.

And just this week, we announced a series of additional premium changes that will increase receipts to FHA above those already in the budget by over \$1 billion in fiscal years 2012 and 2013.

We have also taken significant steps to increase accountability for FHA lenders, and continue to seek expanded authority via legislation that will further enable us to protect the fund, as will the recent settlement with America's five largest servicers, through which FHA will receive approximately \$900 million to compensate for losses associated with loans originated or serviced in violation of FHA requirements.

With FHA's current market share declining since 2009, these reforms will further help private capital return, while ensuring that FHA remains a vital source of financing for underserved borrowers and communities.

Just as importantly, while HUD's fiscal year 2013 request is \$44.8 billion in gross budget authority, because of FHA and Ginnie Mae receipts, the cost to the taxpayer for this budget is only \$35.35 billion, fully 7.3 percent below the fiscal year 2012 enacted level, more than meeting our deficit reduction targets while still allowing us to improve oversight of our core programs.

The second principle we used to develop our budget was to protect current residents and improve the programs that serve them. The 5.4 million families who live in HUD-assisted housing earn \$10,200 per year, as a median, and more than half are elderly or disabled. That's why 83 percent of our budget, as you both recognized, keeps these residents in their homes and provides basic upkeep to public housing, while also continuing to serve our most vulnerable populations through our homeless programs.

As you know, inflation and stagnant incomes put real pressure on the cost of these programs each year. This year, we redoubled our efforts to minimize and even reverse these increases, not just for this year, but in the years to come.

For instance, we are working with your colleagues to enact Section 8 reform legislation that would save \$1 billion over the next 5 years, while also supporting the ability of public housing authorities in small towns and rural areas to better serve the working poor.

The budget also achieves savings in the Project-Based Rental Assistance program by improving oversight of market rent studies, capping certain annual subsidy increases, and offsetting excess reserves.

Even still, protecting current families required us to make choices we would not have made in a different fiscal environment. Requesting \$8.7 billion for the Project-Based Rental Assistance program allows us to serve the same number of families, but it re-

quired us to provide less than 12 months of funding for the majority of contracts.

In addition, even though the budget maintains hardship exemptions, the budget raises minimum rents throughout our core rental assistance programs to a uniform \$75 per month.

These very difficult decisions are the kinds of steps we were required to take in this difficult budget environment. That's why our third principle, continuing investments that leverage private dollars and create jobs, is so important. Through our Choice Neighborhoods program, we are helping communities engage a broad range of public and private partners to transform our poorest neighborhoods and ensure our children are prepared for the 21st century economy.

As the President said, if we are going to compete with China and India, we can't leave anyone on the sidelines. Likewise, our Sustainable Communities grants challenge communities to creatively use existing resources that help them insource and bring jobs back to our shores.

In Memphis, which is using HUD's Community Challenge grant to more effectively use Federal and State resources in neighborhoods surrounding its international airport, FedEx has already created over 3,000 jobs, and companies like Electrolux and Nucor Steel are poised to create another 1,500.

At a time when the fiscal environment has required us to make tough choices about CDBG and HOME—dollar-for-dollar, the most effective job creators in our budget—these grants are essential because they leverage the limited resources of core programs even more smartly and efficiently.

Indeed, reducing regulatory burdens and increasing efficiency is the fourth and final principle we used to formulate this budget. For example, the budget provides flexibilities to public housing agencies to better manage in this fiscal environment. And to hold our partners accountable for the funding they receive, it also continues our Transformation Initiative (TI).

With your help, we are both continuing the next generation management system that will improve monitoring and oversight of our largest rental assistance programs, and launching a crosscutting technical assistance initiative targeted to PHAs so they have the capacity to manage their budgets.

TI research also allows us to propose increased investments in programs we know work, like permanent support of housing and rapid re-housing that end homelessness and save money. That's why, even in this difficult environment, as both of you have championed, we proposed additional funding for homeless assistance grants and the HUD-VASH program for homeless veterans, ensuring we can end chronic and veteran homelessness by 2015.

All told, despite tough choices, this proposed budget allows us to serve 27,000 more vulnerable families. It recognizes that the recovery of our housing market is essential to our broader economic recovery, and it expresses our belief that every American should get a fair shot, do their fair share, and play by the same rules.

PREPARED STATEMENT

Thank you for having me here today.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Chairman Murray, Ranking Member Collins, and members of the subcommittee, thank you for the opportunity to testify today regarding the fiscal year 2013 budget for the Department of Housing and Urban Development (HUD), Housing and Communities Built to Last.

I appear before you to discuss this budget in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again—and instead of rapid job loss, more than 3.2 million new private sector jobs have been created in the last 22 months, and national unemployment has fallen to a near 3-year low. But we know there's still more work to be done to ensure that America can create an economy built to last—with good jobs that pay well and security for the middle class.

HUD's fiscal year 2013 budget tackles these challenges head on: By helping responsible families at risk of losing their homes; by providing quality affordable rental housing to some of our Nation's most vulnerable families; by transforming neighborhoods of poverty to ensure we are not leaving a whole generation of our children behind in our poorest communities; by rebuilding the national resource that is our federally assisted housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires; and by leveraging private sector investments in communities to create jobs and generate the economic growth our country needs. Indeed, this budget will support hundreds of thousands of jobs both directly and indirectly, serving as a powerful engine for job creation in the places that need them most.

Our budget provides \$44.8 billion for HUD programs, an increase of \$1.4 billion, or 3.2 percent, above fiscal year 2012. This program funding level (i.e., gross budget authority) is offset by \$9.4 billion in projected Federal Housing Administration (FHA) and Ginnie Mae receipts, leaving net budget authority of \$35.4 billion, or 7.3 percent below the fiscal year 2012 enacted level of \$38.2 billion. The budget reflects the reality that we cannot create an economy built to last without taking responsibility for our deficit. The caps set by the Budget Control Act of 2011 promise over \$907 billion in total discretionary cuts over the next 10 years, and every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. To maintain our commitment to fiscal discipline, this budget invests in improving the infrastructure and technological systems critical to reforming the Government to be leaner, more transparent, and ready for the 21st century. Moreover, by providing a menu of key reforms—including to some of our largest rental assistance programs—this budget simplifies and aligns policies to be more efficient and effective, while saving the taxpayer hundreds of millions of dollars. To be clear, not all of the reforms we're proposing are easy. Indeed, this budget makes tough choices in order to contribute to deficit reduction in a substantial way.

RESPONDING TO THE CRISIS

Much has happened in the 3 years since HUD submitted its fiscal year 2010 budget. Only weeks before the Bush administration and Congress had taken dramatic steps to prevent the financial meltdown, the Nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months, house prices had declined for 30 straight months, and consumer confidence had fallen to a 40-year low.

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama administration had no choice but to take aggressive steps. The Federal Reserve and Treasury helped keep mortgage interest rates at record lows. Because low interest rates only matter if there are mortgages available at those rates, the administration also provided support for Fannie Mae and Freddie Mac, while HUD's Federal Housing Administration stepped in to play its critical countercyclical role in helping to stabilize the housing market. The administration proposed, and Congress enacted, a homebuyer tax credit to spur demand in the devastated housing sector. And we took steps to help families keep their homes—through mortgage modifications and FHA's loss mitigation efforts.

The results of these extraordinary but necessary actions are clear. Since April 2009, more than 5.6 million borrowers have received mortgage modifications with affordable monthly payments, nearly 14 million families have been able to refinance their homes, and foreclosures are down by nearly 50 percent.

CREATING AN ECONOMY BUILT TO LAST

Now, having prevented our economy from falling into a second Great Depression, the administration is focused on ensuring that we create an economy built to last, which makes strategic investments in our communities but also takes responsibility for our deficit. For HUD, that meant using four core principles to develop our budget:

- Continuing to provide critical support for the housing market while bringing private capital back into the market;
- Protecting current residents—and improving the programs that serve them;
- Continuing progress on signature initiatives to provide communities with the tools they need to speed economic growth; and
- Reducing regulatory burdens and increasing efficiency—including streamlining, simplifying, and reforming current programs.

As such, the Department's budget for fiscal year 2013 follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building—by targeting our investments to the families and geographies that need them the most, and putting American back to work. Specifically, this budget helps:

- Give Hard-Working, Responsible Americans a Fair Shot.*—Not only is there more work to do to ensure that the economic security of middle class Americans does not continue to erode, we have a responsibility to directly address the challenges facing the most vulnerable Americans. This budget does so by serving over 5.4 million families—the majority of whom are extremely low income—in our rental assistance programs; and by supporting the Choice Neighborhoods initiative (\$150 million), which provides communities with the innovative tools they need to revitalize neighborhoods of concentrated poverty—efforts that helped communities leverage over \$1.6 billion of private funding last year alone.
- Ensure Every American Plays by the Same Rules.*—Put simply, we cannot settle for a country where a shrinking number of people do really well, while more Americans barely get by. There are still millions of Americans who have worked hard, acted responsibly, and made their mortgage payments on time—who, because their homes are worth less than they owe on their mortgage, can't take advantage of today's historically low interest rates and are facing real economic insecurity. In addition to steps taken by the administration to combat predatory lending practices (discussed in depth below), this budget provides critical funding for the Housing Counseling program (\$55 million), which will directly help over 185,000 of low- to moderate-income families in improving access to quality affordable housing, expanding homeownership opportunities, and preserving homeownership through foreclosure mitigation; as well as providing training to over 4,800 counselors nationwide.

This budget also recognizes that we can no longer tolerate a federally supported rental housing system that is “separate and unequal”—one which expects public housing authorities (PHAs) to house over 3 million families, subjecting them to overly burdensome regulation while denying them access to private capital available to virtually every other form of rental housing. To bring our rental housing system into the 21st century and begin addressing the \$26 billion in public housing capital needs, this budget includes proposals that would increase PHA flexibility to fund critical supportive services for assisted families while also moving them toward mainstream real estate financing and management practices through the consolidation of outmoded funding streams. At the same time, by implementing the second year of our Rental Assistance Demonstration, the budget will use existing resources to ensure that up to 60,000 units funded through our public housing and the so-called “orphan programs” can leverage debt to access private capital and preserve affordable housing.

Create New Jobs in America To Discourage Outsourcing.—In addition to the hundreds of thousands of jobs that this budget creates both directly and indirectly, it makes an essential contribution to the administration's broader effort to discourage outsourcing and encourage insourcing. Specifically, attracting new businesses to our shores depends on urban, suburban, and rural areas that feature more housing and transportation choices, homes that are near jobs, and transportation networks that move goods and people efficiently—which is why this budget restores funding for Sustainable Housing and Communities (\$100 million), which embodies the President's commitment to being a new kind of Federal partner to regions, States, and localities as they tackle planning and economic development challenges for the 21st century.

Of course, smart planning requires sustained follow-through. That is why HUD is committed to ensuring that its core community and housing development work

contributes to more and better transportation choices; promotes equitable, affordable housing; and aligns Federal policies and funding to remove barriers to local collaboration. Accordingly, we will continue to make critical investments programs such as the Community Development Block Grant (CDBG) (\$2.95 billion in formula grants) and Native American Housing Block Grant (\$650 million). In particular, CDBG is an important catalyst for economic growth—helping leaders around the country bring retail businesses to their communities, forge innovative partnerships and rebuild their economies.

Reform Government So That It's Leaner, Smarter, More Transparent, and Ready for the 21st Century.—It is clear that an economy built to last requires a Federal Government that is efficient, streamlined, and transparent. As such, the budget proposes reforms to HUD rental assistance programs that would save over \$500 million in fiscal year 2013 without reducing the number of families served—by streamlining programs and reforming policies. Moreover, this budget once again calls for the flexible use of resources (estimated \$120 million)¹ through the Transformation Initiative, which the Department needs to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research, evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what doesn't; and upgrade the IT infrastructure that tracks and monitors our programs.

MOVING THE NEEDLE, MAKING SUBSTANTIAL PROGRESS

In short, this budget will achieve substantial results not only for vulnerable, low-income Americans but also for hard-hit local and State economies across the country. Its carefully targeted investments will enable HUD programs to serve millions of families in thousands of communities nationwide; to help create an economy built on American manufacturing, American energy, skills for American workers, and a renewal of American values.

Consistent with the previous 2 years, HUD's fiscal year 2013 budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010–2015. These goals reflect the Department's—and my—commitment to “moving the needle” on some of the most fundamental challenges facing America as we create an economy built to last. Indeed, every month, I hold HUDStat meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: (1) Ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other Federal agencies; and (2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

HOLDING OURSELVES ACCOUNTABLE: MOVING THE NEEDLE ON VETERANS HOMELESSNESS

In a year when we have troops returning from two wars, we cannot afford to waste any time in the fight to end veterans homelessness. That is why the partnership between HUD and the Department of Veterans Affairs (VA) is more important than ever. Over the last 2 years alone, HUD and the VA have collaborated through the HUD–VASH program to end homelessness for more than 40,000 veterans, far surpassing HUD's High Priority Performance Goal of 31,000. Overall, HUD and the VA have jointly committed to eliminating veterans homelessness by 2015, a goal which can only be achieved through effective collaboration, along with a joint focus on data-driven accountability as demonstrated in processes like HUDStat. VA Deputy Secretary Scott Gould and key VA program staff have become regular participants in HUDStat meetings, where together we analyze performance data to understand trends, identify best practices, and prioritize the actions needed to accelerate progress. Through this collaboration, which extends to staff throughout the country, I am proud of the work we have done to keep us on track to end veteran's homelessness by 2015. However, as President Obama has said, until we reach a day when not a single veteran sleeps in our Nation's streets, our work remains unfinished.

¹The total TI transfer authority in fiscal year 2013 is approximately \$215 million; however, HUD anticipates transferring approximately \$120 million.

HUD GOAL 1: STRENGTHEN THE NATION'S HOUSING MARKET TO BOLSTER THE ECONOMY
AND PROTECT CONSUMERS

This administration entered office confronting the worst economic crisis since the Great Depression—as mortgages were sold to people who couldn't afford or understand them, while banks packaged them into complex securities that they made huge bets on—and bonuses with—other people's money. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the administration for leadership and action in righting our Nation's housing market. HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges.

Responding to the Market Disruption

The Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) continue to have a significant impact on the Nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, while minimizing the risk to taxpayers. Over the past 2 years, HUD has worked with the Department of the Treasury and other administration partners to construct a housing finance system that relies on an actuarially sound pricing structure, effective lending oversight, and adequate organizational capacity to ensure consistent access to, and liquidity and stability in, the capital markets.

In fiscal year 2013, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 0.8 million single-family mortgages (a projected \$149 billion in loan volume) and \$25 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 156,000 units in multifamily housing properties and an estimated 80,600 beds in healthcare facilities. The need for this investment is clear as FHA has played a critical role in stabilizing the Nation's mortgage market. At a time when liquidity and access were needed most in the housing market to facilitate the recovery of the broader economy, FHA stepped in to ensure that mortgage capital continued to flow. However, FHA's expanded role is and should be temporary. FHA's loan volume has declined 34 percent from its peak in 2009, and its market share is decreasing for the first time since 2006, thereby laying the ground work for private capital to return to the market. FHA is particularly important to borrowers that the conventional market does not adequately serve, including qualified borrowers who would otherwise be shut out of the mortgage market. Fully 60 percent of all African American and Hispanic homebuyers using mortgages rely upon FHA financing and over 30 percent of all FHA-insured homebuyers are minorities. Over half of all African Americans who purchased a home last year and 45 percent of Hispanics did so with FHA financing.

Redoubling Efforts To Keep Homeowners in Their Homes

While there is work still to be done, HUD is proud of the progress this administration has made in tackling ongoing foreclosure challenges. Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started—including more than 1.7 million HAMP trial modification starts and nearly 1.2 million FHA loss mitigation and early delinquency interventions. In addition, to date, more than 930,000 HAMP trial modifications have resulted in permanent modifications—saving these households an estimated \$10.5 billion in monthly mortgage payments.

As part of the administration's commitment to help responsible homeowners stay in their homes, we have actively sought to use our current programs and authorities to make homeownership sustainable for millions of American families. Examples of our efforts include:

—*Streamline Refinance.*—An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today's low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits current FHA borrowers—particularly those whose loan value may exceed the current value of their home—and by lowering a borrower's payment, also reduces risk to FHA. And, because we see potential for more widespread use of this product, FHA will make changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to reduce lender concern about the potential impact associated with taking responsibility for loans they have not underwritten, making them more willing to offer these loans to borrowers who are current on mortgages already insured by FHA.

—*National First Look Program.*—A partnership between HUD, the National Community Stabilization Trust and large financial institutions that offers Neighborhood Stabilization Program grantees an exclusive 12- to 14-day window to evaluate and bid on foreclosed properties.

—*Short Refinance Option.*—In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage.

Finally, as another critical component to the recovery of the housing market, the President has also put forward a Homeowner Bill of Rights—a single, straightforward set of commonsense rules that families can count on when they're shopping for a mortgage, including the right to a new, simple, clear form for new buyers that gives people confidence when they're making the most important financial decision of their lives. And those rights shouldn't end when homeowners get the keys to their new home. When Americans lose their job or have a medical emergency, they should know that when they call their lender, that call will be answered and that their home won't be sold in foreclosure at the same time they are filling out paperwork to get help.

FUNDING WHAT WORKS: HOUSING COUNSELING ASSISTANCE

In fiscal year 2013, HUD is requesting \$55 million in Housing Counseling Assistance to improve access to quality affordable housing, expand homeownership opportunities, and preserve homeownership, all of which are especially critical in today's economic climate. With this funding, HUD expects to serve nearly 185,000 low- to moderate-income families, as well as provide training to 4,800 counselors nationwide. HUD-approved counselors help clients learn about purchasing or refinancing a home; rental housing options; reverse mortgages for seniors; foreclosure prevention; loss mitigation; preventing evictions and homelessness; and moving from homelessness to a more stable housing situation. In 2011, HUD-Approved Housing Counseling agencies, with grant funds from HUD and other funding sources, assisted over 1.9 million families, including more than 1 million potential and current homeowners with mortgage-related issues.

Strengthening FHA and Paving the Way for Private Capital To Return

The books of business in the few years before 2009 have largely driven the high number of claims to the Mutual Mortgage Insurance Fund (MMI Fund). This was driven by overall economic and unemployment trends as well as by the combined effects of poor underwriting, unscrupulous, and non-compliant practices on the part of lenders, and a seller-funded downpayment assistance program that allowed many borrowers to obtain mortgages without a meaningful down payment. As a result, the books of business FHA insured prior to the start of this administration have severely impacted the health of FHA's MMI Fund. But thanks to our efforts, I can say confidently that FHA is moving in another direction, and that the long-term outlook for FHA and the MMI Fund are now much better than they were in 2009.

The change in trajectory in the performance of FHA-insured loans is no accident. Immediately upon taking office, this administration acted quickly and aggressively to protect FHA's MMI Fund and to ensure its long-term viability. We have taken more steps since January 2009 to eliminate unnecessary credit risk and assure strong premium revenue flows in the future than any administration in FHA history. Indeed, the gains FHA has experienced since 2009 are the result of a three-part strategy: Systematic tightening of risk controls, increased premiums to stabilize near-term finances and expanded usage of loss mitigation workout assistance to avoid unnecessary claims.

And, we continue to take steps to further strengthen the Fund. In the 2013 budget we announced a 10 bps annual premium increase on all FHA insured loans to comply with the requirement passed by Congress late last year, as well as an additional 25 bps annual premium increase on "jumbo" loans making the total increase for these larger loans 35 bps. And just this week, we announced a series of premium changes that will further increase receipts to FHA by over \$1 billion in fiscal years 2012 and 2013, beyond the receipts already included in the President's budget submission. In addition, we have also taken significant additional steps to increase accountability for FHA lenders. Via a final rule published a few weeks ago, we clari-

fied the bases upon which FHA will require indemnification from lenders participating in our Lender Insurance program, making clear the rules of the road for lenders and giving FHA a solid basis upon which to require indemnification by lenders for violations of FHA guidelines. And we continue to seek expanded authority via legislation that will further enable us to protect the MMI Fund from unnecessary and inappropriate losses associated with lenders who violate our requirements.

The next in a series of steps we have pursued to hold lenders accountable for their actions are the recently announced settlements with some of America's largest lenders. Through these settlements, FHA will receive over \$900 million compensation for losses associated with loans originated outside of FHA requirements, or for which FHA's servicing requirements were violated.

Despite the unprecedented efforts of this administration to alter the trajectory of FHA, considerable risks remain. The FHA MMI Fund has two components: The Financing Account, which holds enough money to accommodate all expected losses on FHA's insured MMI portfolio as of the end of the current fiscal year; and the Capital Reserve Account, which is required to hold an additional amount equal to 2 percent of the insurance in force. Since 2009, the Fund's capital reserve ratio has been below that 2-percent level.

The President's budget always includes estimates regarding the status of the Capital Reserve at the end of the current fiscal year. This prediction is based on estimates and projections of future economic conditions, including house prices and other economic factors which may or may not come to pass. In addition, the 2013 budget estimate for the FHA Capital Reserve account does not include added revenue from the additional premium increases announced this week or the proceeds from FHA-approved lenders under the terms of the mortgage settlements. With these additional revenues accounted for, the Capital Reserve is estimated to have sufficient balances to cover all future projected losses without triggering a mandatory appropriation under the Federal Credit Reform Act. Moreover, the budget estimates that FHA will add an additional \$8 billion to the MMI Capital Reserve Account in 2013, and return to the congressionally mandated capital reserve ratio of 2 percent by 2015.

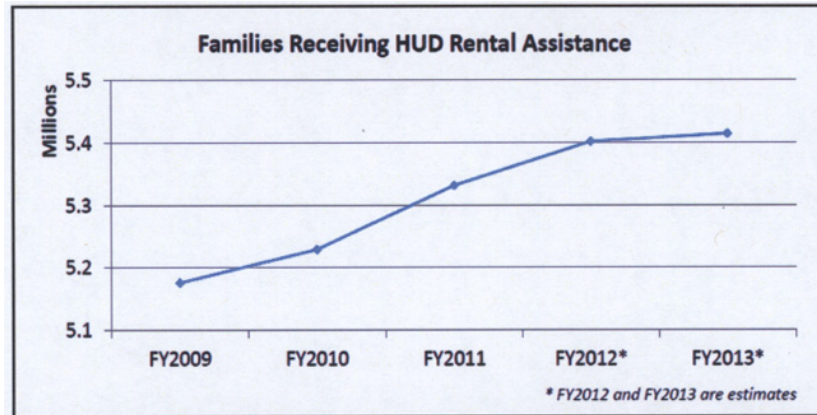
The 2013 budget also includes premium increases for FHA's General Insurance and Special Risk Insurance programs that serve market rate multifamily properties and healthcare facilities. These changes are intended to ensure that FHA products are priced appropriately to compensate for FHA's risk and encourage the return of private capital to our mortgage markets. The proposed increases include: 20 basis points for all new construction or substantial rehabilitation loans including but not limited to section 220, 221(d), section 231, section 242, and section 232; 15 basis points for permanent loans in section 223(f); and 5 basis points for section 223(a)(7). Premiums for affordable housing projects (such as those with HUD rental subsidies and low-income housing tax credits, as well as those insured under FHA risk-sharing programs) will not be increased.

With the proposed premium increases, FHA Multifamily and Healthcare loans will be priced more appropriately to crowd back in private capital, while at the same time continuing to ensure sufficient levels of available capital in these sectors. The increase in premiums also reflect new realities—the Multifamily book of business is five times greater than it was just 3 years ago, and the risk profile has changed dramatically. FHA's portfolio is now more than 50 percent market rate, which adds a new component of risk, and a need to take steps to ensure the future viability of the portfolio. With interest rates at a record low the existing portfolio loans could remain in FHA's portfolio longer than the average timeframes and will need to be managed prudently. FHA will publish the proposed increases in the Federal Register in the next 30–60 days and welcomes feedback during the comment period.

HUD GOAL 2: MEET THE NEED FOR QUALITY, AFFORDABLE RENTAL HOMES

In an era when more than one-third of all American families rent their homes and nearly 7 million unassisted families with very low incomes spend more than 50 percent of their income on rent, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families—particularly since, in many communities, affordable rental housing does not exist without public support. HUD's fiscal year 2013 budget maintains HUD's core commitments to providing rental assistance to some of our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to States and communities to address their unique needs. Overall, 83 percent of HUD's total fiscal year 2013 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs.

And, I am proud to say that, despite an era of challenging budgets, we have increased the number of families served through our rental assistance programs every year.



Detailed data shows how vulnerable these families are to the economic downturn. In HUD's core rental assistance programs, including Tenant-Based Rental Assistance (TBRA), Public Housing, and Project-Based Rental Assistance (PBRA): 72 percent of families are extremely low income (below 30 percent of area median income) and an additional 20 percent are very low income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored last year, when HUD released its Worst Case Housing Needs study results. HUD defines worst case needs as: Renters with very low incomes who do not receive Government housing assistance and who either pay more than half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 20 percent in worst case needs renters between 2007 and 2009. This is the largest increase in worst case housing needs over a 2-year period in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This budget provides \$19.07 billion for HUD's Section 8 TBRA program, which is the Nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2013 funding level is expected to assist approximately 2.2 million families by renewing existing vouchers and issuing new incremental vouchers to homeless veterans.

The budget also provides a total of \$6.6 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating (\$4.5 billion) and Capital (\$2.07 billion) funds, a critical investment that will help 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a \$8.7 billion request in funding for the PBRA program, the Department will provide rental assistance funding to privately owned multifamily rental housing projects to serve over 1.2 million families nationwide.

TOUGH CHOICES: PROJECT-BASED RENTAL ASSISTANCE

In fiscal year 2013, HUD's Project-Based Rental Assistance request of \$8.7 billion represents a \$640 million decrease from the fiscal year 2012 enacted level. This reduction, generated by providing less than 12 months of funding upfront on some PBRA contracts that straddle fiscal years, will not reduce or delay payments to landlords or impact the number of families served by the program. Nonetheless, it is a difficult choice, and not one that the administration would choose to implement in a less austere fiscal environment.

Reducing Administrative Burdens and Increasing Efficiency

This budget recognizes the need to simplify, align, and reform programs to reduce administration burdens and increase efficiency across programs by:

- Streamlining the Public Housing Operating and Capital Funds.*—To both simplify the program and reduce the administrative burden on State and local public housing authorities, the budget proposes to combine the separate Operating and Capital funds into a single Public Housing subsidy stream. As a first step toward consolidation, the budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.
- Providing Flexibility for PHAs To Improve Supportive Services for Assisted Households.*—The budget proposes streamlining and flexibility measures to help PHAs improve supportive services for assisted families. The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and Public Housing residents. This program, which the budget also expands to residents of PBRA housing, aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency. In addition, the budget authorizes PHAs to use a portion of their Public Housing and Housing Voucher funding to augment case management and supportive services provided through FSS or provide other supportive services to increase opportunities for residents.

TOUGH CHOICES: COST-SAVINGS IN RENTAL ASSISTANCE PROGRAMS

The budget includes a menu of reforms to HUD rental assistance programs that save over \$500 million in 2013 without reducing the number of families served.

- In the Project-Based Rental Assistance program, savings are achieved by improving oversight of market rent studies used to set subsidy payment levels, capping annual subsidy increases for certain properties, and using excess reserves to offset HUD payments to landlords.
- The budget also aligns policy across rental assistance programs and reduces costs by increasing the minimum rent to \$75 per month for all HUD-assisted households, which is comparable to the minimum rent enacted in 1998, adjusted for inflation. Recognizing the potential burden that this higher minimum rent may impose, the budget maintains the current exemption for families facing financial hardship.
- Finally, this budget request reduces costs by simplifying administration of the medical expense deduction, better targeting rental assistance to the working poor in rural areas, and setting Public Housing flat rents closer to market levels.

Rebuilding Our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Over the last decade, the public housing stock has shrunk at a rate of 10,000 units per year, largely due to a growing backlog of unmet capital needs, estimated at \$26 billion. To address these challenges, HUD's 2012 Appropriations Act authorized the Rental Assistance Demonstration (RAD) to test new preservation tools for its assisted housing stock allowing for Public Housing and Moderate Rehabilitation (Mod Rehab) properties to convert to long-term Section 8 rental assistance contracts (capped at 60,000 units of converted assistance); and Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Mod Rehab properties, upon contract expiration or termination, to convert tenant protection vouchers to project-based vouchers. Unlike their current forms of assistance, these contracts offer a rental subsidy platform that allows PHAs and owners to leverage current Federal appropriations with other private and public capital to finance much needed rehabilitation and preserve the assets as affordable housing.

RAD is a limited demonstration, which will be evaluated to assess the success of these approaches in preserving affordable housing. Since HUD will use funding appropriated for existing programs for implementation and anticipates strong interest in RAD, the 2013 budget includes a request to exempt Mod Rehab from the 60,000 unit cap on projects that could convert assistance, at no cost, to long-term Section

8 rental assistance contracts. If enacted, the 60,000 unit cap would apply to public housing conversions alone, while the number of Mod Rehab conversions would not be constrained.

FUNDING WHAT WORKS: TAKING JOBS-PLUS TO SCALE

The budget provides that up to \$50 million of Public Housing capital funds may be targeted to Jobs-Plus competitive grants to fund scaled-up implementation of the Jobs-Plus model—a successful, evidence-based strategy to increase the employment opportunities and earnings of public housing residents through a three-tiered program of employment services, rent-based work incentives, and community support for work. This investment will increase employment opportunities for over 30,000 Public Housing residents, by helping them secure and retain employment, keep more of the income they earn, and receive the full benefit of work incentives such as the Earned Income Tax Credit (EITC). A randomized experiment evaluation of the Jobs-Plus model in three demographically diverse sites found that, on average, participants had an additional \$1,300 in earnings every year from 2000 to 2006—and these earning increases were durable beyond the period of the intervention. Jobs-Plus competitive grants will scale up this proven model by targeting resources to high-capacity PHAs and housing developments with enough work-eligible residents to achieve economies of scale. The grants will prioritize broad and diverse local partnerships that cut across sectors, agencies, and funding streams.

Increasing the Production of Affordable Housing Capital Projects

In addition to developing tools to address the growing capital needs of America's Public Housing stock, HUD is committed to expanding the supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, and, most importantly, economic self-sufficiency. Accordingly, in fiscal year 2013 HUD is working together with its partners to identify ways to make the Low Income Housing Tax Credit (LIHTC) program a more flexible and nimble tool for the creation and preservation of affordable housing. As the primary tool of the Federal Government for developing and rehabilitating affordable rental housing, the LIHTC program is administered by State agencies with the assistance of guidance from the Treasury Department and the Internal Revenue Service, and attract capital to low-income rental housing by satisfying some of the Federal income tax obligations of investors in certain low-income rental properties.

Since its addition to the tax laws in 1986, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and generated \$2.7 billion in State, local, and Federal revenues. In fiscal year 2013, as part of a broader effort to align Federal rental programs, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue partnering to allow greater flexibility to State and local agencies that administer LIHTC programs, as well as to developers and investors, to continue to enable the creation of affordable housing in markets where it is needed the most. Specifically, the revenue provisions of the 2013 budget enhance two revenue proposals that were included in the 2012 budget and introduce two new proposals:

- An Income Averaging proposal would encourage a greater range of incomes in LIHTC-supported affordable housing by allowing developers to choose an income-limitation requirement that would be satisfied if households in the low-income units have an average income no greater than 60 percent of AMI, with no household above 80 percent AMI. An additional provision would allow certain existing tenants to remain in residence without impairing the developer's entitlement to LIHTCs.
- In the context of preserving, recapitalizing, and rehabilitating existing federally assisted affordable housing, a Basis Boost proposal would provide a second mechanism for earning "4 percent" LIHTCs and would give an extra, up-to-30-percent increase in qualified basis for certain projects that receive "4 percent" LIHTCs, either because they are at least half financed with tax exempt-bonds or because they employed the new mechanism.
- A proposal concerning LIHTCs earned by Real Estate Investment Trusts (REITs) is designed to diversify the pool of investors for LIHTCs and to increase the overall demand for LIHTCs. The proposal would allow a REIT that earns

LIHTCs to provide a tax benefit to its investors by paying them tax-exempt dividends in an amount almost triple the amount of the REIT's LIHTCs.

—A Victims of Domestic Violence proposal would bar LIHTC buildings from discriminating against victims of actual or threatened domestic violence and would clarify that occupancy restrictions or preferences for such victims are an allowable exception to the general-public-use requirement.

Finally, the recent Worst Case Housing Needs report underscores what has been the case since well before the recent recession, namely, that extremely low-income renters face the most severe housing shortage and cost burden of any Americans. In addition to the Worst Case Housing Needs report, the most recent data available from the American Housing Survey shows that, for renters below 50 percent of area mean income, the shortage of affordable and available units increased from 5.2 to 6 million from 2007 to 2009, with just 39 affordable and available units for every 100 renters in 2009, compared to 44 [units] 2 years prior. The 2013 budget once again provides \$1 billion in mandatory appropriations for the Housing Trust Fund (HTF) to address this critical shortage of housing where it is most desperately needed. Enacted in 2008, the HTF was designed to provide capital resources to build and rehabilitate housing to fill this precise—and growing—gap in the Nation's rental housing market. The time has come for Congress to provide this crucial funding.

HUD GOAL 3: UTILIZE HOUSING AS A PLATFORM FOR IMPROVING QUALITY OF LIFE

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2013 budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other Federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness, Serving Our Nation's Most Vulnerable

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness. These efforts have yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost-saving in public health, criminal justice, and other systems. This year's budget once again invests in this critical effort, by providing \$2.23 billion in Homeless Assistance Grants, including competitive programs that annually serve over 800,000 homeless families and individuals. This includes funding for the Emergency Solutions Grants program, which will continue the work of the Homelessness Prevention and Rapid Re-Housing Program—funded by the Recovery Act—that in the last 3 years alone has helped prevent or end homelessness for over 1.2 million people nationwide.

Moreover, HUD continues to focus on the unique needs of veterans through both its targeted homeless programs and its mainstream housing programs using successful methods and interventions. Currently, an estimated one out of every six men and women in our Nation's homeless shelters are veterans, and veterans are 50 percent more likely to fall into homelessness compared to other Americans. HUD is committed to providing affordable housing units to this unique homeless population, and has partnered with the Departments of Health and Human Services (HHS) and Veterans Affairs (VA) to develop targeted approaches to serve the homeless veteran populations. Accordingly, this budget includes \$75 million for the HUD-VASH program, which combines tenant-based voucher assistance with case management and clinical services tailored to veterans and their families. This funding will provide 10,000 new vouchers to help veterans move from our streets into permanent supportive housing, in addition to the nearly 38,000 already allocated HUD-VASH vouchers provided in previous appropriations, which have been critical to a 12-percent reduction in veterans homelessness, and the 10,000 vouchers that will be awarded through the fiscal year 2012 appropriation.

INCREASING EFFICIENCIES: MODERNIZING THE HOUSING OPPORTUNITIES FOR
PERSONS WITH AIDS (HOPWA) PROGRAM

The budget proposes to update the HOPWA program to better reflect the current understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. This modernization includes a new formula that will distribute HOPWA funds based on the current population of HIV-positive individuals, fair market rents, and poverty rates in order to target funds to areas with the most need. It also makes the program more flexible, giving local communities more options to provide timely, and cost-effective interventions. The budget's \$330 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay in therapy, and therefore improving health outcomes for this vulnerable population.

Investing in Leveraging and Serving Our Most Vulnerable

This budget provides a total of \$625 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, which includes \$154 million to support 5,300 additional supportive housing units. Doing more with less, the budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to nonprofit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012, HUD began providing operating assistance to State housing agencies that formed partnerships with State healthcare agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low Income Housing Tax Credits, HOME funds, or other sources. Investing Section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State healthcare agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2013, HUD is requesting similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding. Assuming requested statutory language is enacted, up to 3,450 units could be made available with support from this project rental assistance.

HUD GOAL 4: BUILD INCLUSIVE SUSTAINABLE COMMUNITIES FREE FROM
DISCRIMINATION

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and most importantly, economic self-sufficiency. As such, HUD's fiscal year 2013 budget puts communities in a position to plan for the future and draw fully upon their resources, most importantly, their people.

Each year HUD dedicates approximately 15–20 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, and offer choices that help families live closer to jobs and schools. Programs such as the Community Development Block Grant (CDBG), and Choice Neighborhoods are targeted to areas of need, to provide locally driven solutions to overarching economic development challenges. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—tend to assist areas of great need, including communities with high unemployment.

Preserving HUD's Major Block Grant Programs for Community Development and Housing

The budget demonstrates the administration's continued commitment in a constrained fiscal climate to support municipalities and States as they navigate through a challenging fiscal climate. By maintaining the fiscal year 2012 CDBG formula funding level of \$2.95 billion, CDBG will allow over 1,100 State and local governments to improve living conditions in low- and moderate-income neighborhoods across the country. As the Federal Government's primary community development program, CDBG serves as the backbone of State and local community and economic development efforts. In fiscal year 2011 alone, local governments used CDBG funding to directly create and retain 21,482 jobs, not including any indirect effect on additional jobs. Moreover, in fiscal year 2011 CDBG assisted 96,615 households to maintain or gain access to safe, decent, and affordable housing; provide public service activities to 10.1 million people; and benefit approximately 4.1 million persons through public improvement investments. CDBG funding is increasingly one of the few resources available at the local level to support housing rehabilitation, public improvements, and economic development assistance—despite growing needs, local governments have often had no choice but eliminate some of these activities from their own budgets.

TOUGH CHOICES: HOME INVESTMENT PARTNERSHIPS

The HOME Investment Partnerships program is the principal tool for the production of affordable housing for low- and extremely low-income families by State and local governments. It is also the critical gap financing for LIHTC projects—it has created over 1 million units and an additional 250,000 households have been assisted with temporary rental assistance since the program's inception. The program leverages \$4 in other public and private funds for every HOME dollar invested, totaling more than \$88 billion over the life of the program.

The fiscal year 2013 HOME request reflects the difficult choices HUD was faced with, in order to make real progress in reducing the national deficit and contribute to creating an economy built to last. American families are tightening their belts—and we need to do the same. In addition, the fiscal year 2013 budget includes two proposed HOME authorizing requests: To Permit recaptured Community Housing Development Organizations set-aside funds to be reallocated by formula as HOME funds; and to facilitate the removal of dangerous tenants from HOME properties. We look forward to working together on these proposals.

Transforming Neighborhoods of Poverty

The President has made it clear that we cannot create an economy built to last if: A fifth of America's children live in poverty, at a cost of \$500 billion per year—fully 4 percent of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health; a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That's why HUD's fiscal year 2013 budget provides \$150 million for the Choice Neighborhoods Initiative to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. This will reach four to six neighborhoods with implementation grants that primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately owned multifamily housing, and will also engage local governments, nonprofits, and for-profit developers in partnerships to improve the economic conditions in their surrounding communities. Moreover, the leveraging power that these grants have is real—to date, the five Choice Neighborhoods implementation grantees have leveraged a combined \$1.6 billion in private funds—over 13 times their total grant award amount.

The Choice Neighborhoods initiative is a central element of the administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past,

many Federal grant programs followed a rigid, top-down, “one-size fits all” approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs—and believe the results thus far demonstrate that we are making good on that commitment.

Supporting Sustainable Communities and Innovative Infrastructure Planning

Creating an economy built to last requires creating jobs here in America to discourage outsourcing and encourage insourcing. But attracting new businesses to our shores depends on urban, suburban, and rural areas that feature more housing and transportation choices, homes that are near jobs, transportation networks that move goods and people efficiently, all while lowering the cost and health burdens on families, businesses, and the taxpayer. Unfortunately, today, congestion on our roads is costing us five times as much wasted fuel and time as it did 25 years ago, and Americans spend 52 cents of every \$1 they earn on housing and transportation combined.

With these realities in mind, the fiscal year 2013 budget supports the multi-agency Partnership for Sustainable Communities, an administration initiative that integrates resources and expertise from HUD, the Department of Transportation, and the Environmental Protection Agency. In particular, the budget restores \$100 million for the Sustainable Communities Initiative, which creates incentives for communities to develop comprehensive housing and transportation plans to achieve sustainable development, reduce energy consumption and greenhouse gas emissions, and increase affordable housing near public transit. This includes \$46 million to fund about 20 additional regional planning grants to help enable communities to align public and private investments in housing, transportation, and infrastructure to strategically integrate goals for mobility, regional housing choices and economic development. In addition, \$46 million will be invested in neighborhoods and communities to update building codes, zoning, and local planning efforts as complementary strategies to the regional grants.

We know how important these planning tools are to regional economies—particularly those which rely on integrated supply chains that cross national borders and are essential to meeting the President’s charge to double U.S. exports over the next 5 years. These investments will also leverage and increase the ripple effects of other administration proposals to overhaul America’s deteriorating infrastructure, including the Infrastructure Bank, as well as Project Rebuild and other elements of the American Jobs Act, as we leverage increased residential and commercial construction around transit and other infrastructure investments.

FUNDING WHAT WORKS: THE LEVERAGING POWER OF SUSTAINABLE COMMUNITIES FUNDING

In fiscal year 2010, Austin, Texas, was provided a \$3.7 million Regional Planning grant through the Sustainable Communities program. With this funding, the city is helping link its long-term regional transportation plan to 37 mixed-income communities near transit and job centers. This grant will help 3,000 small, family-run businesses expand or open a second location, provided that each of these businesses hires at least one new worker who has been unemployed for a year or more. This work is expected to create more than 7,000 permanent jobs and save the taxpayer \$1.25 billion through better connected housing and businesses, more people employed and fewer people dependent on Government services.

Ensuring Inclusivity in Housing Nationwide

An inclusive community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, expanded training and language assistance, HUD will affirmatively further fair housing and the ideals of an open society.

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the Federal Government whose primary purpose supports private efforts to educate the public about fair housing rights and conducts private enforcement of the Fair Housing Act. In

fiscal year 2013, HUD is requesting approximately \$41 million in FHIP funds, representing the Department's commitment to fair housing, including \$28 million to support the efforts of private fair housing organizations that conduct private enforcement of the Fair Housing Act. The Private Enforcement Initiative (PEI) grantees investigate and test housing providers alleged to have engaged in discrimination. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition, it will fund fair housing education at the local, regional, and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. FHAP provides funding for 98 Government agencies, including 37 States, 60 localities, and the District of Columbia, to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law. In fiscal year 2013, HUD is requesting approximately \$25 million in FHAP funds.

Ensuring That an Economy Built To Last Includes Opportunities for Rural Americans

The administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy—particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. Each year, HUD invests billions of dollars in rural communities through its core rental assistance programs and block grants. The Community Development Block Grant (CDBG) program allocates funds to States, which provides approximately \$692 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. Because small towns and rural areas often lack the basic modern infrastructure that citizens in larger communities can take for granted, States annually spend over 55 percent of their CDBG funds on basic public improvements such as water and sewer lines, paved streets, and fire stations. HUD also funds over \$300 million in rural areas for affordable housing and homeownership programs through its HOME Investment Partnerships program, directly and indirectly supporting over 5,360 jobs.

In addition, HUD and the Department of Agriculture meet regularly through an interagency rental housing policy group to better align and coordinate the affordable rental housing programs each operates. Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher, Public Housing, and Multifamily programs, with another 450,000 assisted through USDA. For homeowners, HUD's Federal Housing Administration (FHA) helps first-time homebuyers and other qualified families all over the country purchase their own home. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately \$545 million in current FHA loans are to rural healthcare facilities designated as "critical access hospitals." In addition to these critical investments, targeted rural investments in HUD's 2013 budget include:

- \$5 million in Rural Housing Stability Assistance Program (RHSP), as authorized in the Homeless Emergency Assistance and Rapid Transition to Housing Act (HEARTH Act), designed to assist individuals and families who are homeless, in imminent danger of losing housing, or in the worst housing situations in rural communities. In addition to this focused RHSP initiative, rural communities will continue to have access to HUD's targeted homeless assistance, through the Continuum of Care competition grant, the Emergency Solutions Grant (ESG) program, and the Homelessness Prevention and Rapid Re-Housing Program (HPRP). Rural areas have increasingly gained access to HUD's competitive homeless assistance grants, primarily through the creation of Balance of State and Statewide Continuums of Care, with funds allocated directly to the State. In 2010, the Continuum of Care competition included a selection priority for new projects proposing to serve 100 percent rural areas. Organizations in 69 rural communities submitted applications for 108 new projects, requesting \$19 million. HUD will apply the rural selection priority to new projects in the 2011 Continuum of Care competition as well.
- \$731 million to fund programs that will support housing and development initiatives in American Indian, Alaska Native, and Native Hawaiian communities. As the single largest sources of funding for housing Indian tribal lands today, programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, decent, affordable housing is desperately needed by pro-

viding funds to over 550 tribes across the country. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program.

HUD GOAL 5: TRANSFORM THE WAY HUD DOES BUSINESS

An economy built requires a Government that's leaner, smarter, more transparent, and ready for the 21st century. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before—HUD remains at the forefront of the Federal response to the national mortgage crisis, the economic recovery, and the structural gap between household incomes and national housing prices—roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2013 budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time. The Transformation Initiative

Thanks to congressional support for the Transformation Initiative (TI), past fiscal year appropriations are today funding a wide range of groundbreaking projects, including:

- Innovative, “silo-breaking” OneCPD technical assistance in communities across the country that replaces a fragmented broken system with one that addresses the holistic and cross-cutting needs of our grantees, recognizing that these extend beyond the rules and regulations of any single funding stream;
- Major evaluations and demonstration programs to examine the outcomes of key administration initiatives like the Rental Assistance Demonstration and Choice Neighborhoods, the cost to local public housing authorities of administering the Housing Choice Voucher program, different approaches to rent reform in our largest programs, the housing needs of Native American and Hawaiian communities, and the impact of housing and services interventions on homeless families;
- Replacement of 30-year-old technology and information management practices to reduce risks, and implement higher performing, and cost-effective business solutions to more effectively administer the Department's rental housing assistance programs.

The 2013 budget request once again includes transfer authority (up to 0.5 percent at the Secretary's discretion, totaling up to \$215 million) to support ongoing improvements of program effectiveness and efficiency and to help the Department respond and adapt more effectively to its rapidly changing operating environment.² TI is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget resources. Since TI was first enacted in 2010, it has bolstered the long-neglected areas of IT modernization, research and evaluation, and program demonstrations crucial for increasing the efficiency and effectiveness of the Department's programs, and remains the primary source of funding for this transformation. Further, TI has provided a mechanism for innovative, crosscutting technical assistance that goes beyond program compliance to improve grantee capacity, performance, and outcomes. Finally, recent crises with natural disasters, the housing market, and deep fiscal distress among State and local partners have highlighted the need for HUD to be more nimble, creative, and collaborative. Setting aside a portion of HUD's program accounts through TI to better understand and enhance program results reflects recognition that planning for continuous improvement and innovation, investing in tools and capacity, and assessing results are equally integral for the operation of programs with accountability to the public interest.

Research and Evaluations

As an integral component of strengthening HUD's capabilities for evaluating and improving program effectiveness and efficiency, TI provides a predictable stream of funding for high-quality research and evaluation of HUD's programs on an on-going, rotating basis to inform sound policymaking. HUD anticipates allocating 10–20 percent of TI transfers to Research and Evaluations in 2013. Expected projects include:

²HUD estimates that it will transfer approximately \$120 million into TI in fiscal year 2013.

A process evaluation of the evidence-based Jobs-Plus pilot, seeking to understand the effects of larger scale implementation; energy efficiency and utility costs analysis for PHAs and residents of public housing; biennial research NOFAs for Sustainable Communities Research Grants to inform local governments in preparing and planning for disasters; and a long-overdue follow-up to a 1995 HOME Affordability Study to assess affordability over time based on differing levels of subsidy.

Program Demonstrations

Program Demonstrations test new options for HUD programs that can make them more efficient and effective and establish sound evidence of whether and how these options could better achieve HUD's mission. Since the 1990s, HUD has done relatively few research demonstrations, largely due to budget constraints. Those few demonstrations, however, have been HUD's most important and informative research on real program impacts. In 2013, HUD expects Project Demonstrations to include research on the Rental Assistance Demonstration (RAD), which allows a trial conversion of public housing and certain multifamily properties to long-term project-based contracts.

Technical Assistance

Technical assistance (TA) can be seen as a "force multiplier"—making program dollars go further and helping communities do more with limited Federal and local resources. TA under the Transformation Initiative (TI-TA) allows HUD to combine assistance for different programs as appropriate, and provide customized help on the issues any particular grantee confronts.

In 2013, HUD will utilize TI-TA for activities such as: Assessments and targeted interventions for PHAs; helping local government comprehensively assess market trends and implement housing and community and economic development programs through OneCPD; and targeting underlying, long-term problems like deficits and poor bond ratings through the National Resource Network. Flexible, cross-program technical assistance could also help grantees and clients adapt to new HUD policies, programs, and management approaches, and develop core skills and critical competencies required to effectively deliver HUD's programs.

Information Technology

The budget proposes to again use TI funds for Information Technology in 2013, to reduce risks, implement higher performing standards, and cost-effective business solutions.

IT transformation efforts to date have helped HUD evolve its understanding of opportunities to leverage the foundational toolsets being implemented under the FHA Transformation, the Next Generation Management project or NGMS (formerly known as NGVMS), and related infrastructure modernization projects. These opportunities include ways to further reduce the Government's risk in the marketplace, improve services to meet the needs of our citizens and employees and reduce annual operations costs. For example, recent efforts to define opportunities to reduce cost by consolidating back office business and administrative services are expected to lead to the need for capital investment to transition more of HUD's services from legacy platforms to shared enterprise services. HUD plans to use TI transfer authority in 2013 to make capital investments in IT to drive these service delivery improvements and further cost reduction efforts.

CONCLUSION

Madam Chairman, this budget reflects the administration's recognition of the critical role the housing sector must play to ensure every American gets a fair shot, everyone does their fair share, and everyone plays by the same rules. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

Given the economic moment we are in, HUD's 2013 budget proposal isn't about spending more in America's communities—it's about investing smarter and more effectively.

It's about making hard choices to reduce the deficit—and putting in place much-needed reforms to hold ourselves to a high standard of performance. But most of all, it's about the results we deliver for the vulnerable people and places who depend on us most.

I believe that this budget will contribute substantially to economic recovery, to creating pathways to opportunity, and to an America built to last. Thank you.

Senator MURRAY. Thank you very much, Mr. Secretary. Let me begin by asking you about the status of the FHA's Mutual Mort-

gage Insurance Fund. Given the seriousness of this housing crisis, it's not surprising that FHA has sustained significant losses, and the capital reserve account has served its purpose by covering those unexpected losses.

But I was concerned when the President's budget stated that \$688 million would be needed to cover FHA losses in fiscal year 2012. Both the recent settlements and announced premium increases are expected to improve the MMI Fund financial position, but I wanted you to update us this morning on the financial condition of the MMI Fund, of the FHA's MMI Fund.

MUTUAL MORTGAGE INSURANCE FUND

Secretary DONOVAN. As you correctly stated, the information that was in the budget was outdated on the day it was published. And in fact, we were waiting to make final decisions about premium increases until we knew the outcome of the settlement. I wish that had been resolved before the budget was finalized, but it wasn't. And that's the reason for what was shown in the budget.

Having said that, with the \$900 million that I described that is the result of our work to recover for bad loans in the FHA program that are in the settlements, and in addition, the premium increases that we have announced this week, we do expect that the fund will remain positive this year.

In addition, because of those steps that we have taken, the fund will be in a stronger position when the next actuarial study is done in the fall. That's the most comprehensive look, looking forward. And we do expect that these changes that we have made will put us in a significantly better position come fall.

But again, we have to be vigilant. And we will take additional steps, if necessary. The single-most important determinant of the health of the fund is where house prices go this year and beyond. And so we will continue to be vigilant and watch carefully to make sure, if we have additional steps that we need to take, that we can work with the subcommittee to take those.

Senator MURRAY. So what are the risks and opportunities that we need to look at? The housing prices this year. What other things?

Secretary DONOVAN. Specifically for the re-estimate this year, the only things that will affect that number are the premium increases, and so implementing those very quickly is critical, and the levels of loan volume that we have this year. Our estimates are that it would take loan volumes that are more than 20 percent below our expectations to threaten the fund through the re-estimate this year.

More importantly, for next year, as we go to do the new actuarial study, the single-most important factor is house prices. Our estimates last year showed that it would take greater than a 4-percent reduction in house prices this year. Our base case predicted a 1-percent increase. It would take more than a 4-percent reduction in house prices this year to push the fund negative.

That was before the premium increases that we have implemented. So in fact, our estimate now is that it would take a much larger decline in house prices, much larger than that 4 percent, to put the fund in a negative position for the re-estimate next year.

Senator MURRAY. Okay, and you decided to increase the upfront and the annual premium. Can you tell me how that will affect worthy borrowers who are trying to access credit?

Secretary DONOVAN. As you know, Congress made the decision to include a 10-basis-point increase in our single-family programs as part of the bill that extended the payroll tax deduction. In addition, we included a 75-basis-point increase in the upfront premium. The 10 basis points equates, for the average loan, to about \$9 a month for a borrower, and the upfront premium increase is about \$5 a month for the typical borrower.

The only places where those increases are significantly larger is for jumbo loans, those over \$625,000, where we thought it was prudent to include a larger increase. And so for those borrowers, because the average size of the loan is much larger and because the increase is more, the increases would be significantly larger.

SETTLEMENTS WITH LENDERS

Senator MURRAY. Okay, thank you. The joint Federal-State servicing settlement and the settlement with Bank of America represent not only a significant monetary award, but they also really send a message to FHA program participants that there are serious consequences to not following the rules.

Just last week, settlements with two additional lenders were announced. And since most of the losses to the MMI Fund stem from loans insured prior to the reforms you implemented in 2009, it's really important to pursue opportunities to prevent or recover losses from those books of business.

Are there additional measures that FHA can take to improve the outlook for riskier loans that it already has on its books?

FEDERAL HOUSING ADMINISTRATION INDEMNIFICATION

Secretary DONOVAN. There are.

First of all, let me just compliment David Montoya, our inspector general, and his team for their remarkable work to lead to both the servicing settlement and these additional settlements. They partnered very, very closely with us and the Department of Justice to allow us to make those recoveries, not just in the servicing settlement, but from Bank of America, Citibank, and Flagstar. So those are very important steps, and I just want to compliment him and his team.

The additional steps that we could take—there are a number of them that require legislative change. I'm happy to say we're working closely with your colleagues on the authorizing side as well as Members of the House on the authorizing committee.

There is a bill in the House that includes a number of the steps that would allow us to step up our enforcement. And those build on the recent regulation on indemnification that we put out, which will allow us to further hold lenders accountable for those prior loans that didn't meet FHA standards.

Senator MURRAY. Okay. We all think the FHA's current outsized role in the market is unsustainable. There's no one who doesn't think differently. But it still remains difficult for qualified Americans to get a mortgage today. And the market's recovery, as we all know, is still very fragile.

If FHA steps too quickly, it could have some serious consequences, not only for our overall economy, as we all know, but for the solvency of the MMI Fund. And I wanted to ask you how you balance the continued need for FHA to help provide access to credit with making room for private capital to return to the market.

Secretary DONOVAN. Senator, you've asked the \$64 trillion question. This is what keeps me up at night, and this is exactly the key question that we have to balance.

And frankly, it is not just helping the broader market recover, but if we were to take steps to increase our premiums too quickly, to take steps that would hurt the market recovery, we actually hurt the FHA fund and taxpayers, because our old investments, that trillion-dollar portfolio, will perform much worse.

And so in the steps that we have taken—and you asked exactly the right question, “What’s the effect for the average homeowner?”—we felt that \$14 a month, on average, was acceptable, particularly given that we have record low interest rates today.

We honestly feel that the biggest barrier holding back lending—and I agree with you, too many qualified borrowers aren’t able to get lending today—

Senator MURRAY. Yes.

Secretary DONOVAN. It isn’t the pricing that’s the biggest barrier. It would be if we went too quickly on raising our premiums. The biggest challenge is the uncertainty that’s out there in terms of how we will enforce our rules. So we have to make clearer what the rules will be.

That’s why our indemnification rule clarifying it is important. It is why we think the Federal Housing Finance Agency needs to put out a clear policy on buybacks that will allow Fannie and Freddie lenders to know what to expect. And it is why the servicing settlement was important as well. It created a single, clear, strong set of servicing standards and clarified foreclosure processes around the country so that that market can move forward with greater certainty.

And again, it is always hard to get that balance perfectly. I wouldn’t say we are ever done. I sleep on this every night. But it is a critically important balance, and I just thank you and the ranking member for your understanding of that balance.

Senator MURRAY. Okay, very good. I appreciate that. Thank you.

PROJECT-BASED RENTAL ASSISTANCE SHORT FUNDING

Senator Collins.

Senator COLLINS. Thank you, Madam Chairman.

I want to go back to an issue that Senator Murray touched on in her opening statement.

I am concerned by the Administration’s proposal to fund thousands of Project-Based Rental Assistance contracts for less than 12 months. The reason I’m concerned is that short-funding these contracts may create a perverse incentive for landlords not to invest in maintenance, to cut expenses, to the detriment of some of our most vulnerable households, because of the risk of whether or not the full appropriations for the remainder of the year is ever going to come through.

I'm also troubled that some owners may decide to leave the program altogether rather than take that risk. I know this had to be a difficult decision, and it clearly was budget-driven. But how is HUD going to mitigate these risks to the program and to the residents?

Secretary DONOVAN. Senator, first of all, let me say thank you for recognizing this issue. This was one of the most difficult decisions we made in our budget. Personally, for me, having run the multifamily programs my first time at HUD, it was particularly difficult, because I know the impacts.

What I would say is, there are two real risks here. One is an operational risk that we will not be able to mechanically get the contracts funded with the short-funding. That happened in the past when these contracts were short-funded. And I can assure you that I and my team have worked very hard to make sure that the operational processes are improved. And in fact, over the last 4 years, we haven't had those same kind of issues that might spring up with the short-funding.

We also, operationally, have taken a lot of steps to make sure we have processes in place to monitor the physical condition of the units. So I appreciate your concern about whether this will lead to decreased maintenance. We have new risk ranking and reporting that we do on these units. We have quality control around our Real Estate Assessment Center (REAC) process that we have stepped up. Those are all things that are critical to make sure that the kind of effects that you talk about don't happen.

The other risk is an uncertainty around funding, and you mentioned that as well. And that's one where, frankly, because there is private capital that supports these units, it is critical that we not create too much uncertainty around these programs. And I do think that is one of the risks here.

I think what is very important is that we work together to make very clear, as Congress has always done, that the funding is available for these units. We signed 20-year contracts knowing that they're dependent on appropriations each year. And the market has been confident that that funding will be there. And we want to make clear despite this short-funding that we will do everything on our side, and I know that you will as well to continue this funding and make sure that it is available in subsequent years.

SUBSTANDARD UNITS IN MAINE

Senator COLLINS. Let me now turn to the issue that I mentioned in my opening statement about the poor living conditions in some of the HUD-subsidized units in Maine. I'm troubled by this not only because taxpayers shouldn't be paying for poorly maintained units, but because the health and the safety of the people living there is clearly at risk. So something went dramatically wrong with the oversight and inspection process.

I was also troubled when we learned of the outright fraud in some of the public housing agencies last year. I believe the one in Philadelphia, in particular, was found to have fraud.

So what investments is HUD making in this budget to ensure that you have quality controls, internal controls, effective audits, a very close relationship with the IG to ensure that we are not wast-

ing taxpayer dollars on substandard units that are unsafe for the tenants, or on outright fraud where people are stealing money that belongs to the taxpayers and is not benefiting those who need it most?

Secretary DONOVAN. First, Senator, let me just thank you for your directness and your focus on these problems—both you and Senator Murray.

Where there are issues, where we have made mistakes, and this was clearly—there were mistakes made on these units. You’ve been direct and held us accountable to correct those.

And I hope you’ll agree that when we discovered these problems, we worked very closely with you, with David Montoya, and I want to really recognize him and his team. We are taking steps specifically in Maine that I think will lead to better management going forward.

The contracts with the inspectors, the companies that were doing the inspections, have been rescinded. Those are being brought back in-house to improve the inspections there. And we have a very specific plan that we are monitoring for correction of other quality control and things within the main housing authority to make sure those are better.

But I think there are lessons, and you rightly point to this. What lessons can we learn more broadly for the work that we are doing across the country? And there are really three things there.

One is, we have to make better use of our existing resources, staff, and our partnerships with the IG to improve oversight. We have, in our budget, proposed shifting public housing staff into field offices to increase direct oversight.

We have also made sure that we are utilizing our enforcement center, which previously didn’t work as closely with public housing authorities. Just in 2011, and so far in 2012, we have used the enforcement center to review 140 public housing agencies across the country. And so that is a better use of existing resources.

The second, we have to do better in coordinating our inspection systems. To date, we have one inspection system using REAC for our project-based units in public housing. We have a separate system for voucher units. What we have started now is a pilot to use our REAC inspections for quality control and oversight, where they will go behind local inspectors and make sure that the results that they’re getting are, in fact, accurate.

And that’s something that we plan to expand and potentially, in the future, to merge those two systems, so we have a single set of strong standards for inspections across all our programs.

The third thing is, with your help, the investments we are making in information technology. Our Next Generation Management System for our voucher program will allow us to do things—just to give you one example, right now, we don’t have the ability to look at the photographs that are taken on those inspections. There’s nothing that replaces actually seeing, with your own eyes, what happens. And this system will allow us to download and view anywhere in the country the digital photographs that are taken on the inspections that local inspectors are doing.

And that’s just one example, but there’s a whole series of things in that Next Generation Management System. That’s been one of

the two biggest priorities you've had, and you've held us accountable to invest in those through our information technology. We couldn't agree more that that's a critical step we have to take in investing.

Senator COLLINS. Thank you. I do want to salute you and the inspector general for your responsiveness to the problems in Maine and across the country. It is amazing that you don't download the photographs. I could lend you my BlackBerry.

If even I can do that, it's clearly a feasible step that should be taken.

Just one very quick point: Another thing I think the Department really needs to look at is, if you have bad actors out there, you do have available to you suspension and debarment tools, where you can prohibit an individual or even an agency from being involved in your programs for a period of time. I would encourage you to make more use of those tools in egregious cases. Thank you.

Secretary DONOVAN. Thank you.

Senator MURRAY. Thank you. What's the timeline on being able to download those pictures? Do you have a—

Secretary DONOVAN. So we have—and we'll follow up with detailed information on all the different steps. Those first pieces of the Next Generation Management System are going into place this year. I think it is within a few months that we'll have the photographic capability that I talked about.

SECTION 8 VOUCHER FUNDING

Senator MURRAY. Sometimes when people know they are going to be accountable in bigger ways, it makes a huge difference, so I appreciate that.

And I echo Senator Collins' concerns about short-funding on the project-based contracts, so we'll be following that very closely from our end.

You mentioned in your opening remarks that the programs that directly support the mission of providing housing to low-income Americans, most of them who are elderly or disabled, is about 83 percent of HUD's budget. When we have continued difficult, challenging, constrained resources I know that those programs place a lot of pressure on HUD's budget.

The largest of those is the Tenant-Based Rental Assistance program, which, of course, funds the Section 8 vouchers that are used by residents to find housing in the private market.

In this year's budget, the level of funding that is requested to renew those existing vouchers is essentially flat. While the budget does assume savings associated with programmatic changes, it doesn't appear to be sufficient to cover the costs of inflation and renewing incremental vouchers for the first time. I wanted to ask you how you expect PHAs to maintain their existing voucher portfolios without those adjustments.

Secretary DONOVAN. So two things I would say about this, Madam Chair. First of all, and I think you all have been very focused on this for a number of years, is how do we balance making sure we protect every family with sort of bending the cost curve, if you will, of the renewals on these programs. And we, through the budget this year, are proposing a whole series of steps that would

allow us to serve the same number of people and keep the costs relatively flat. Some of those are choices I think that we could all agree are ones that are common sense and easy. Some of those are tougher decisions, and we'll obviously need to discuss with the subcommittee and get your views and input on whether some of those make sense.

Specifically in the tenant-based program, there are over \$200 million of savings that we are proposing to achieve. The single-biggest is to change our income targeting in rural communities to make sure that more of the working poor can be eligible for vouchers. It is part of the old Section 8 Voucher Reform Act that we are hopeful will pass in the House in the coming weeks and that we would be able to implement. I think there's broad support for those.

But we also have made proposed changes in the medical expense deductions as well as the minimum rents that would allow us to serve the same number of people.

So to be very clear, we are maintaining our commitment to serving all families there. But it did require taking a number of steps to try to lower costs next year to keep those flat and to allow us to have lower renewal costs in the out-years.

The other thing I would just say, briefly, is that an important piece here, as you both recognize, is what it takes to manage these programs. And we have been very concerned that we had two housing authorities, Milwaukee and Akron, that actually turned back HUD-VASH vouchers. I have never seen that before. Can you imagine the idea of housing authorities saying we can't serve any more homeless veterans?

And just in January alone, we had 13 different housing authorities that made the decision to turn back their broader voucher programs.

ADMINISTRATIVE FEES

Senator MURRAY. Because of the costs associated with doing them?

Secretary DONOVAN. Because they were concerned about the inability to fund those.

Last year's budget made the very difficult decision to fund the administrative fees at just over 70 percent in terms of the overall need. We are proposing a significant increase there to get above 80 percent. But we still think, even with the difficult choices that we are making, that there's still some risk that housing authorities wouldn't have enough.

So particularly that line item of admin fees is a critical piece that I think we'll need to discuss and work on this year in the budget.

Senator MURRAY. Okay. Let me ask you about that because your request does prioritize funding for Section 8 administrative fees, which have been cut significantly in recent years. Administrative fees aren't exactly an exciting part of the budget, but they do fund the basic operations.

I know you struggled with a lot of difficult choices as you put this together, but can you explain why you prioritized funding for administrative fees over other needs?

Secretary DONOVAN. Clearly, the concerns we had that I just mentioned about the number of housing authorities that have

made the decision not to serve additional veterans, the number of housing authorities—that just in January alone have determined that they did not want to continue with their voucher programs—were critical in terms of that decision.

And let me give you the precise numbers of what has been happening to administrative fees and what we are proposing.

First of all, in 2012, it was a 74-percent proration that we estimated for the budget. For 2013, what we are proposing is an 81-percent proration. Just to give you an example of where those fees were previously, it was a 90-percent proration in 2010. So even our 81 percent represents a reduction if you go back a few years.

And that leads to some of the concerns I mentioned, that even at 81 percent, we were balancing difficult decisions. I do have some concerns that it won't be enough for some housing authorities.

But I would also point out that it represents a significant increase in absolute dollars from where we were last year. And I'm just looking here for the exact number of what that is to make sure. Let me get that to you in a moment.

But there's an exact number in terms of the increase that we are proposing this year in the budget.

Senator MURRAY. Okay. I have a couple more questions, but let me turn it over to Senator Collins.

WOOD PELLET BOILER SYSTEMS

Senator COLLINS. Thank you, Madam Chairman.

I am just going to ask one more question, because I have been called to the Senate floor, and submit the rest for the record.

But this one, too, is one that I referred to in my opening statement and is extremely important to the State of Maine. Maine is the most heavily dependent of any State in the Nation on home heating oil. And when you see the spikes in oil prices that we've seen this year, and the cutbacks in the Low Income Heating Assistance Program, it is causing tremendous hardship for so many of our families in Maine.

It is also very difficult because Maine has the oldest housing stock in the Nation, and thus, there are a lot of homes that are poorly insulated that would benefit from weatherization projects. That's something we ought to invest more in as well.

The large swings in oil have caused many of our residents to look to alternatives. The wood pellet boiler industry is growing rapidly in Maine. It has the potential to help out these families, to allow them to convert from oil, but also to create thousands of new jobs in our State.

Wood pellet manufacturing, boiler technology, and pellet delivery systems have progressed dramatically since the days when you had to scoop pellets from small bags into a small stove every couple of hours. Now the industry has developed boilers that don't even require any human intervention during the day. There are automatic feeds of pellets.

HUD has been slow to consider wood pellet boiler systems as an acceptable conventional primary heating source. The reason this is important is that for the purposes of qualifying for FHA programs, you have to have a conventional primary heating source.

I wondered if you could tell me if HUD is looking to include these new wood pellet boilers as a conventional heating source, which would help more families in Maine have the confidence that they could convert to wood without losing their eligibility for FHA and other Federal housing programs.

Secretary DONOVAN. Senator, first of all, let me thank you for raising this issue and putting it on our radar screen, so to speak, at HUD. Just as we talked about with your BlackBerry a moment ago, I think we could all recognize there are moments where the Federal Government and government, in general, can be a little bit behind the cutting edge in terms of new technologies.

And I'm happy to report not just that we are looking at this, but just yesterday we updated our frequently asked questions on our Web site to tell all of our lenders that wood pellet stoves are an acceptable heating system for homes under our insurance programs. As long as they meet the qualifications that any heating system has to meet, it's an acceptable technology. We are in the process of updating our handbooks to reflect exactly that.

So not only are we considering it, but we have actually considered it and made the decision that you were absolutely right and that we should include these in our program. So thank you for bringing it to our attention.

Senator COLLINS. That's absolutely great news. Again, I thank you so much for your willingness to look at that.

The technology has changed so dramatically, and that's going to be great news to a lot of homeowners in Maine. Thank you very much.

Secretary DONOVAN. Thank you. I'll be coming to borrow your BlackBerry later.

Senator COLLINS. Any time.

Senator MURRAY. Thank you very much, Senator Collins.

Mr. Secretary, your budget assumes savings associated with programmatic changes to the HUD rental assistance accounts, including tenant-based and project-based Section 8. You talked about this a minute ago, but many of those cost-saving measurements require legislative changes, which would involve rulemakings.

What will happen to your savings estimates if all of the proposed reforms are not enacted, or they are enacted late in this fiscal year and you still need to go through the rulemaking process?

Secretary DONOVAN. First of all, Senator, just to get back on the specific number I was looking for before, the increase that we are proposing on admin fees is \$225 million this year. So it is a substantial increase, and one we thought, even in a tough environment, was absolutely critical. And as I said, we think it is the minimum necessary to try to get more confidence that housing authorities will actually be able to administer the programs.

Specifically, on your question about legislative authority, I'm happy to say that, with your urging, we are working very closely with your colleagues in the House on the authorizing committee and in the Senate here, and I am optimistic about getting that legislation passed.

The large majority of those changes would not require extensive rulemaking. There are very few that would require rulemaking. They're really around the old Rent Sup and Relocation and Acquisi-

tion Policies programs, but the large majority of them we could implement through notice. So if we do get the legislation passed, we could implement them quickly, and be prepared for 2013 to be able to implement them and get the savings that we're projecting.

Obviously, if the legislation doesn't pass, that would stop us from being able to achieve some, but not all, of the savings. We do have a share that we could achieve without legislation. And I'd be happy to follow up with a specific analysis that shows you precisely which we could do on a regulatory basis. Of the \$920 million that we are proposing over the major programs, a significant share of it we could do without any legislative change.

Senator MURRAY. Okay. If we can see that, that would be extremely helpful.

Secretary DONOVAN. Yes.

MINIMUM RENT INCREASE

Senator MURRAY. But even if HUD was able to achieve these changes at the beginning of this fiscal year, we have heard concerns that some of these proposals may harm owners and tenants alike. Specifically, some are worried about your proposal for owners to spend down their property reserves that would jeopardize maintenance and rehabilitation projects.

And I am also really concerned that raising minimum rents and increasing medical deduction for tenants could put a real burden on some of these tenants in these still tough economic times. Can you please talk a little bit about the impact you might see there?

Secretary DONOVAN. I'd be happy to. And again, let me recognize at the outset, these are not decisions we would make in anything but very difficult fiscal times, making very difficult choices. And along with the Project-Based Rental Assistance decision—the short-funding we talked about earlier—this minimum rent increase was, I think, the single most difficult decision in the budget.

And I think what's critical is that we need to clarify and make sure there's a very strong exception policy for anyone where hardship of that increased rent would result. We are expecting to do that. We are already working on clarifying and strengthening that policy. But there's no question that the impact of this will have some real consequences for families that are struggling.

We have analyzed fully in which programs what percentage of families would be affected by this, the average rent increases that would come out of this. The impact of the minimum rent is about \$150 million itself, across all the programs. And we'd be happy to share with you the specific impact that it has for the various tenant-based, project-based, 202/811, all the various programs, impacts those would have.

RAPID RE-HOUSING PROGRAM

Senator MURRAY. Okay, I would really appreciate that.

Finally, let me just talk about homelessness funding. I want to acknowledge your leadership in really developing a homelessness plan and fostering coordination across departments. It's so important, and I think we are making progress there.

I did want to ask you about the Homelessness Prevention and Rapid Re-Housing Program (HPRP), which was funded in the Re-

covery Act and designed to really help homeless families. But funding for that program ends this year. The Emergency Solutions Grant program allows communities to continue these efforts, but on a much smaller scale.

Can you talk a little bit about what the outcomes have been for HPRP?

Secretary DONOVAN. Absolutely. I am so glad you asked about it.

And let me just say, first of all, while you asked about the HPRP program, without your leadership, we would never have made the progress that we made on reducing veterans homelessness. In just 1 year, to have 12 percent fewer homeless veterans——

Senator MURRAY. Amazing.

Secretary DONOVAN [continuing]. Eighteen percent fewer sleeping on the streets; that is a huge accomplishment. And your personal leadership around HUD–VASH has made a huge difference.

Senator MURRAY. I think the cross-agency coordination on that has been really——

Secretary DONOVAN. A huge difference.

So we are concerned about the ending of HPRP, and we're concerned because it has been so effective. We thought, originally, it would reach about 500,000 people. It's already reached more than 1.2 million and still counting.

And one of the best things about it, 75 percent of the folks it has reached are homeless families, who have often been the hardest to reach.

And why have we been able to reach more families? Because what we have realized through doing this, what the data has shown us, is that for far less money than we expected, we've been able to stabilize or rapidly re-house families. It might be 1 month's rent, it might be a security deposit, it might be just a couple months of utility bills, but that's allowed us to serve far more people.

And really, I think the most exciting thing about it is, it's started to reorient many local responses to homelessness, where for the first time they see that rapid re-housing in particular is a very beneficial step. It can be particularly effective with a small amount of money.

EMERGENCY SOLUTIONS GRANT

Our hope is that by continuing to invest in it through the Emergency Solutions Grant (ESG), and I think one of the reasons that we proposed a \$330 million increase this year for our homeless assistance grant account is that we have to continue to invest in ESG. We have to grow the investment there. But it is never going to be as much as we had in HPRP.

The hope is—and we are starting to see this in some areas, and Washington has been a leader in this, of shifting resources, taking them out of, for example, shelters. Shifting them from Medicaid funding that's going to emergency rooms and putting them into rapid re-housing is lowering costs overall.

So what we are hoping we see is, with our continued increased investment in ESG, along with local investments that complement it, that we will continue to see a focused investment. We are nerv-

ous about that. We are pushing on it. I know you've been supporting it.

But it is something that I saw locally in New York, our prevention efforts, our rapid re-housing efforts. It was something we were willing to shift our funding into, and that's something we want to encourage at the local level.

Senator MURRAY. Okay. And I'll be following that very closely. So anything you can show us on that, that helps paint that picture, I'd really, really appreciate it.

But again, I appreciate the tremendous work of you and your entire staff on an issue that has been at the forefront of our Nation. Although sometimes nobody really pays attention to the programs, they really are essential in getting us back on track. And you've done a great job, and I truly appreciate it.

Secretary DONOVAN. Thank you. Thank you for your leadership and partnership.

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. Thank you so much for your accommodation today. And we are going to leave the hearing record open for anyone who would like to ask additional questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

INFORMATION TECHNOLOGY MODERNIZATION—FHA MODERNIZATION PROJECT

Question. Reliable Data is critical to effective oversight. Time and again the lack of good data has hindered HUD and the committee's work. You recognize the challenges with HUD's systems and the limitations they place on effective program management. To your credit, you have requested significant funding to update HUD's IT systems. The two biggest IT projects underway are FHA Modernization and the Next Generation Voucher Management System, which have been priorities for this committee.

While new technology has the potential to transform departmental operations, modernization is a big undertaking for HUD. In response, HUD is also changing the way it manages its IT systems. This involves a change in culture, which is never easy. What is the current status of your IT modernization efforts and these specific projects? Given the significant changes needed in process, skills, and personnel, how will you ensure that these projects stay on track and on budget?

Answer. The goal of the FHA Modernization project is to provide business process improvements and technological tools that will address longstanding constraints that have been impediments to effective risk management in our underwriting policies and practices; more robust fraud monitoring and detection; counterparty management, and portfolio analysis. The scope of the project includes incorporating a decommission plan for each legacy system targeted for replacement. Benefits of the FHA Modernization capital investment are being realized today.

The cornerstone of the FHA Modernization effort is the acquisition of what is branded as "the Federal Financial Services Platform." This investment is a configuration of commercial-off-the-shelf products which aligns FHA with products and services used by our industry partners. Moreover, the investment aligns and establishes the baseline for HUD's new and future enterprise architecture. This platform can ultimately be extended and provides the capability and capacity to replace the Unisys and IBM mainframe systems at some logical point in the future. Eighty percent of the initial planned environments are built out on the Oracle Exalogic platform; 100 percent by August 31, 2012. A requisition for additional Oracle Exalogic hardware/software is in the procurement pipeline. This additional capacity positions us to accept requirements from other offices in the Department (e.g., Public and Indian Housing (PIH), Next Generation Management System (NGMS) projects); accordingly, this achieves true enterprise capability and demonstrates scalability.

Another element of FHA Modernization is the Lender Electronic Assessment Portal (LEAP) application which consists of four modules (i.e., Approval, Recertification, Monitoring and Enforcement) that are in various stages of development and production. Today LEAP automates what largely has been a manual and paper intensive process. The LEAP application wholly aimed at improved counterparty (i.e., lender) management, addresses vestiges of risk and fraud at the front end (or origination) of the loan rather than relying on antiquated process during the post-endorsement process. The Approval module went live in April 2012 and is successfully processing a steady volume of requests. The Recertification generation I module is slated for operational capability in the second quarter of fiscal year 2013 with design and development of the other modules in ensuing months; LEAP is projected to achieve full operational capability in the first quarter of fiscal year 2014. Consistent with addressing significant constraints on risk and fraud detection, the Loan Review System (LRS), Portfolio Evaluation Tool (PET), and Automated Underwriting System capabilities are slated to achieve operational capability in early fiscal year 2014. This complementary set of tools and capabilities effectively provide decision support (and analytics) at every step in the process of the loan lifecycle, from origination through post-endorsement technical review.

Over the past 2 years, FHA has improved its project management capacity. The FHA Modernization project is staffed with a cadre of experienced and certified IT project managers, who are working exclusively on FHA initiatives. HUD continues to invest in project management training and makes this training available annually as part of its HUD Virtual University Curriculum. Over the past 2 years, FHA has actively incorporated HUD's Project Planning and Management (PPM) framework to increase the occurrences of successful project implementation. Information on the number (and types) of certified project managers is readily available. The PPM approach provides a process-centric methodological framework that is central to eliminating waste, reducing variation and ensuring projects maintain time, scope, cost, and quality congruence. The FHA Modernization effort has tremendous reach to effect sustained productive outcomes and eliminate constraints in the areas previously mentioned (e.g., counterparty management, portfolio analysis, etc.), the current culture and business practices will be modified to take full advantage of improved workflow processes, customer relationship management and improved data outputs. As new systems are brought online, staff will be trained. Training modules and on-demand refresher courses will be developed for ongoing capacity building. Hiring managers will seek to hire technology savvy candidates to maximize the capacity of FHA staff at headquarters and in the field.

NGMS is being engineered to serve as HUD's enterprise solutions for the Rental Housing Assistance (RHA) line of business (LOB). Currently, HUD provides rental housing assistance to more than 4.4 million households through at least 13 different programs, each with different rules administered by the Offices of Public and Indian Housing, Housing, Multifamily Housing and Community Planning and Development.

Currently, RHA operations relies on manual manipulation of data using Microsoft Excel and Microsoft Access, which are time-consuming, costly, inefficient, and prone to human errors. Despite these limitations, HUD continues to rely on these tools to execute critical functions that support HUD's mission. With the investment in NGMS, as an enterprise solution for the RHA LOB, HUD strives to improve operating and administrative efficiencies in providing needed services to its constituents.

During the past years, with the help of contractors, HUD conducted searches for an automated enterprise solution to satisfy requirements of RHA LOB. This was very challenging because of inherent business and organizational complexities.

The NGMS program previously focused efforts on the development of the Next Generation Voucher Management System (NGVMS). Since then, the program has been re-focused to include needed functionality to support HUD's RHA LOB. NGMS now focuses on:

- The activities necessary to develop, test, and implement Oracle Enterprise solutions as the standard technology and platform for NGMS; and
- Planning a new path forward for NGMS.

HUD has taken several positive steps to ensure the success of the NGMS program, including:

- Establishing a cross-organization Executive Steering Committee that provides program oversight and ensuring appropriate representation from the IT and business communities;
- Establishing a technology training program for HUD personnel;
- Working with the Chief Procurement Officer to enforce contract administration;
- Hiring a new overall program manager who reports directly to the General Deputy Assistant Secretary;

- Establishing a Program Management Office (PMO);
- Supporting the PMO's efforts to improve program performance;
- Implementing active oversight of the program;
- Establishing a NGMS system change control process; and
- Establishing an Executive Steering Committee (ESC).

Going forward the overall program manager (PM) will be held accountable for the following:

- Earned value management;
- Performance reporting;
- Status reports;
- Risk tracking and mitigation;
- Issue tracking;
- Stakeholder reporting;
- Working with HUD's Chief Information Officer and IT vendors to make sure business and functional requirements are properly developed, tested, and implemented; and
- Working with HUD's Chief Information Officer and oversee Independent Verification and Validation (IV&V) of developed NGMS modules.

The NGMS program has clearly learned important lessons from the previous challenging efforts. With the formal establishment of the PMO, the NGMS program, with direct oversight from the Deputy Secretary, structured development and execution efforts will allow the program to produce expected results and to avoid repeating past missteps.

Leveraging the Chief Technology Officer's knowledge and past experiences and the Federal Housing Administration's experiences, HUD chose Oracle Corporation technologies as the technology platform of choice for NGMS.

In conjunction with the Chief Procurement Officer and the Chief Information Officer, the NGMS PMO is in the process of executing the following tasks:

- Issuing task order for Requirement Definition for RHA LOB—August 2012;
- Defining business priority for the RHA LOB—August 2012;
- Developing NGMS program project plan—August 2012;
- Exploring the use of other agency's Governmentwide Acquisition Contract for architect, design, engineering and implementation—Ongoing;
- Issuing task order for PMO support—August 2012;
- Issuing task order for Independent Verification and Validation—September 2012;
- Developing training strategies for HUD technical employees—August 2012; and
- Updating business plan and Alternative of Analysis—August 2012.

Once completely implemented, NGMS will have included modules that will satisfy business requirements from offices across HUD. While all required NGMS modules are being finalized, the following modules are being considered as NGMS priorities and will be included in Phase I development:

- Budget forecasting and formulation;
- Cash management;
- Customer relationship management;
- Portfolio management; and
- New robust RHA data architecture.

INFORMATION TECHNOLOGY MODERNIZATION

Question. When do you think that we will begin to see the results of these efforts?

Answer. Benefits of the FHA Modernization capital investment are being realized today. Acquisition of the Federal Financial Services Platform (using Oracle Exalogic hardware, featuring the integrated Fusion Middleware software stack) is the cornerstone IT investment. This platform ultimately has enterprise extensibility and provides the capability and capacity to replace the less agile Unisys and IBM mainframe systems at some logical point in the future. Eighty percent of the initial planned environments have been on the Oracle Exalogic platform; 100 percent will be built by August 31, 2012. A requisition for additional Oracle Exalogic hardware/software is in the procurement pipeline. This additional capacity positions us to accept requirements from other Offices in the Department (e.g., Public and Indian Housing (PIH), Next Generation Management System (NGMS) projects), and Policy Development and Research. Accordingly, this achieves true enterprise capability and demonstrates scalability. The Lender Electronic Assessment Portal (LEAP) application consists of four modules (i.e., Approval, Recertification, Monitoring, and Enforcement) that are in various stages of development and production. Today, LEAP automates what largely has been a manual and paper-intensive process. The LEAP application wholly aimed at improved counterparty (i.e., lender) management, ad-

dresses vestiges of risk and fraud at the front end (or origination) of the loan rather than relying on the current antiquated reviews at the post-endorsement process. The Approval module went live in April 2012 and is successfully processing a continuous volume of lender requests. The Recertification Generation I module is slated for operational capability in the second quarter of fiscal year 2013, with design and development of the other modules in ensuing months. LEAP is projected to achieve full operational capability in the first quarter of fiscal year 2014. In April 2012, FHA staff was given real-time online access to access to borrower and collateral risk analytical tools that have improved the capacity of FHA to capture data that is currently not collected in existing systems. These data profiles help to identify emerging fraudulent trends and practices. Consistent with addressing significant constraints risk and fraud detection, the Loan Review System (LRS), Portfolio Evaluation Tool (PET), and Automated Underwriting System capabilities are slated to achieve operational capability in the first quarter of fiscal year 2014. This complementary set of tools and capabilities effectively provide decision support (and analytics) and every step in the process from loan origination through post-endorsement technical review.

MEETING THE HOUSING NEEDS OF WOMEN VETERANS

Question. In recent years, homelessness among women veterans has increased significantly, posing challenges for the VA. For example, many of the programs that traditionally serve homeless veterans aren't open to families, posing a barrier to homeless women veterans who have children. HUD-VASH has been one tool that has been successful in housing veterans with families, but we need to do more to make sure the needs of women veterans are met.

GAO recently released a report that I requested on meeting the housing needs of women veterans. It recommends that both HUD and VA improve data collection. What steps is HUD taking to obtain better data on homeless women veterans and how are you coordinating these efforts with the VA?

Answer. Beginning in 2013, HUD will begin to identify women veterans as an individual element in its annual sheltered Point-in-Time (PIT) count and biennial unsheltered PIT count of persons experiencing homelessness. These PIT counts are administered by HUD's homeless providers and reported to HUD through our annual Continuum of Care grant competition.

HUD's coordination efforts with the VA include frequent meetings with senior leadership and staff of both agencies under our "Solving Homelessness as One" initiative and conducting "Housing First Boot Camps" with HUD-VASH communities to increase the coordination and performance of participating Public Housing Agencies and VA Medical Centers. The Department is also planning another HUD-VASH Webinar in September 2012, part of HUD's "Ready, Set, Go" training and education series. This joint Webinar will focus on increasing the participation of local Continuum of Care systems in the planning and implementation of the HUD-VASH program.

Female veterans and veterans with families are a particular focus of the Veterans Homeless Prevention Demonstration Program. HUD is currently administering this \$10 million demonstration program at five sites, in collaboration with the Department of Veterans Affairs and the Department of Labor. This program is designed to explore ways HUD can offer early intervention homelessness prevention for veterans. Through this program, HUD is gathering data on veterans, including female veterans, who are assisted. There will also be an evaluation of the demonstration which will examine the effectiveness of efforts to assist female veterans in preventing homelessness.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

CHANGES IN MEDICAL DEDUCTION FOR SECTION 8

Question. One of the proposed section 8 savings measures included in the 2013 budget is a provision which will increase the threshold for the unreimbursed medical deduction from 3 percent of a senior's income to 10 percent of a senior's income. As chairman of the Aging Committee, I am concerned that this policy will have a disproportionate impact on seniors with low incomes and high unreimbursed medical expenses, causing untenable rent increases. Not only do these seniors face paying for medical expenses that are currently reimbursed, but they will also be faced with a substantial monthly rent increase. I am concerned that vulnerable seniors will be forced to choose between paying their rent and buying food, or taking their

medications or obtaining needed medical procedures if the co-payment is too high. What do you estimate the savings to be from this new requirement?

Answer. The figure of \$165 million is the amount of the medical deduction savings.

Question. Will HUD provide a hardship exemption for poor seniors where this change in the medical deduction creates a rent increase that is too onerous?

Answer. The President's budget does not contemplate a hardship exemption. Such an exemption would result in substantial administrative burden for PHAs and owners, and the reduction of administrative burden was an important goal of the proposal. The current deduction does not assist the lowest income seniors, who are eligible for Medicaid and therefore receive no additional subsidy under this provision. The proposal would align HUD assistance policy with the Internal Revenue Code, which allows for deductions for healthcare costs above 10 percent of income but not below that level.

RENTAL ASSISTANCE

Question. While I appreciate HUD's intent to stretch section 202 dollars further and the request funding for new development under the section 202 program, I have a number of concerns and questions about the proposals as described in the budget.

While I support the idea of mixed-income developments, I am concerned that the administration's proposal for rental assistance may be a mix that is infeasible. Rents will simply have to be too high in the non-202 units to cover the cost of debt service. Has HUD done any analysis of the amount of operating costs and/or debt service the requested PRAC amounts will support?

Answer. Section 202 currently only provides on-going subsidy sufficient to cover a project's operating costs absent debt service. However, the Low Income Housing Tax Credit program produces approximately 100,000 affordable units each year. Of these, HUD estimates approximately 40 percent are set aside for elderly only affordable housing. The large majority of these elderly affordable tax credit projects are financed with permanent debt from the properties' net operating income (tax credit restricted rents less operating expenses). Non-section 202 tax credit rents are almost always in excess of operating expenses and therefore sufficient to leverage debt financing. HUD is currently assessing allowing section 202 rents to include debt service as an eligible expense (as it currently does under the section 8 program), such contracts would be capped at fair market rents which in almost all jurisdictions are greater than tax credit-restricted rents.

Question. Do you have any intention of requesting a change in authority so that the Project Rental Assistance or operating assistance that you are requesting (without capital advances) can cover debt service?

Answer. Under existing statutory authority, HUD determines eligible costs allowed under section 202 Project Rental Assistance contracts. However, debt service is not currently an allowable expense under existing administrative rule making, as codified under 24 CFR part 891. HUD is assessing the possibility of providing some limited regulatory relief along those lines.

SECTION 202 PRAC UNITS

Question. A necessary part of successful models of "aging in place" is the role of service coordinator. I am concerned that projects with a limited number of 202 PRAC units are unable to pay for the cost of the required service coordinator. To date, few tax credit or privately financed senior housing developments have been able to afford a service coordinator. The service coordinator should be available to help the entire senior resident population, not only for the PRAC-assisted units. Can you comment on how you intend service coordinators to be supported?

Answer. Tax credit or privately financed senior housing typically serves a more affluent, younger, and healthier elderly population than the section 202 program. These households typically have less service needs and/or have additional resources to directly access services on their own. However, having a service coordinator in place to serve this population is important, particularly as those households age in place. For the last 10 years, the section 202 program has accommodated mixed-finance projects that include some units financed with tax credits and other sources and some units that were financed with section 202 PRAC assistance. Going forward, similar to what HUD has historically allowed under the mixed-finance program, the section 202 units could cover the costs of a part-time service coordinator. Compensation for a full-time service coordinator could be provided either by including a service coordinator line-item as an operating expense on the non-202 units or by relying on funding from local area Agencies on Aging or other local/philanthropic sources.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

IMPACT OF CUTS TO THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AND HOME INVESTMENT PARTNERSHIPS PROGRAM ON RURAL AREAS

Question. Mr. Secretary, on that topic, two of the most effective programs Vermont and rural States around the country have come to rely upon have been the Community Development Block Grant (CDBG) Program and the HOME Investment Partnerships Program. The CDBG Program is one of the most effective Federal programs to revitalize communities with proven results. CDBG helps to fund homeownership assistance, housing rehabilitation, economic development projects and improvements to public services while creating jobs, efforts I know the Department supports. However, the communities that rely on this funding to serve their most vulnerable residents, principally low- and moderate-income persons, have been negatively impacted by recent cuts to the program totaling 28 percent in the last 2 years alone. The CDBG formula allocation has been cut by over \$1 billion since 2000 and the level funding request would keep this allocation at its lowest funding level since 1992. These cuts have left State CDBG programs oversubscribed. During Vermont's most recent grant round, nearly three out of four projects submitted were denied funding. This directly translated to Vermont creating one quarter the number of requested affordable housing units; this translated to the inability of Vermont to create three out of four proposed new jobs; and it left millions of dollars in State, local, and private dollars usually leveraged by the CDBG program on the table.

The HOME program serves as the largest Federal block grant program to State and local governments designed exclusively to produce affordable housing for low-income families. Since Congress created the program it has been the cornerstone in the United States' affordable housing finance system. HOME provides a flexible resource to meet the communities' highest priority affordable housing needs. At a time when States continue to face significant affordable housing shortages, the program has helped produce more than 1 million affordable homes nationally and helps approximately 143,000 families secure affordable housing each year. Funding for the HOME program has also successfully leveraged more than \$88 billion of public and private funds for affordable housing.

Despite recent criticisms of the program, the vast majority of HOME projects are completed successfully, on time and with surprising success given the impact of the current housing and economic crisis. The HOME program has continued to provide much needed funds to local communities for tenant-based rental assistance, rehabilitation of affordable rental and ownership housing, and construction of affordable housing. Additionally, the HOME program provides down-payment assistance to help creditworthy families become homeowners, and housing vouchers to low-income families and those on the brink of homelessness. HOME funds often assist seniors, persons with disabilities, and the homeless in ways which directly respond to local priorities and needs. As the need for affordable housing continues to grow, for many States and local governments HOME is the only reliable funding for affordable and special needs housing development available. Despite the growing need for HOME funds this program faced a 38-percent cut in last year's funding bill.

Mr. Secretary, in your testimony you pointed to the Department's support of the Community Development Block Grant Program and HOME Investments Partnership Program as the primary assistance the administration provides to rural communities. When I look at the overall budget request, one that sustains significant cuts, I see a shift of priorities that heavily favors urban communities over rural ones. I am concerned about what this level of funding would mean for these programs, and particularly concerned about what they mean to rural America. Do you feel the funding request for CDBG and HOME adequately addresses the housing needs of rural communities given the current oversubscription of the programs?

Answer. HUD recognizes that the economic downturn has dramatically impacted rural communities across the country, and the Department remains committed to continuing its investment in rural America. The administration was required to make very difficult decisions during the fiscal year 2013 budget development process, and HUD supports the requested level of funding for CDBG and HOME given the current fiscal situation. The requested levels should not disproportionately impact rural communities. Both the CDBG and HOME programs are formula programs. Consequently, the proportion in distribution of funding between urban and rural areas will remain the same.

The CDBG request will provide more than \$880 million for the State CDBG program in fiscal year 2013. While HUD acknowledges the requested funding level is the same as the request for fiscal year 2012 and results in a \$116 million decrease for States below the fiscal year 2011 appropriated level, it is important to remember

that grantees have a great deal of discretion regarding the development of programs that best meet the needs of their communities. Grantees may have to rethink how they prioritize CDBG funding to have the greatest positive impact, and HUD will continue providing the resources and technical assistance necessary to assist grantees in achieving the highest level of performance and positive outcomes from CDBG allocations.

The HOME request will provide more than \$400 million for State HOME participating jurisdictions in fiscal year 2013. While HUD acknowledges the requested funding level is the same as the fiscal year 2012 appropriation and results in level funding for States and is also 38 percent below the fiscal year 2011 appropriated level, it is important to remember that, like CDBG, State-participating jurisdictions have a great deal of discretion regarding the location of HOME projects that best meet the needs of their rural communities. Just as in CDBG, participating jurisdictions may have to rethink how they prioritize HOME project funding and HUD will continue to provide the resources and technical assistance necessary to assist them.

IMPACT OF CUTS ON RURAL AREAS

Question. What steps is the Department taking to ensure budget cuts do not disproportionately impact rural communities?

Answer. The administration was required to make difficult decisions during the fiscal year 2013 budget process. Despite the subsequent reductions in funding requests for some of HUD's programs, these reductions should not disproportionately impact rural communities. Both the Community Development Block Grant and the HOME Investment Partnerships programs are formula programs. Consequently, the proportion in distribution of funding between urban and rural areas will remain the same, though the actual dollars allocated will be reduced as a result of smaller appropriations.

The Department recognizes the importance of the CDBG program for rural areas and works with grantees to help them carry out successful programs while adhering to the requirements of the Housing and Community Development Act of 1974, as amended. From CDBG program inception to 1981, HUD administered a small cities CDBG program, awarding 20 percent of formula funds on a competitive basis. In 1981, Congress formally established the State CDBG program. This statutory change required 70 percent of CDBG funds allocated by formula go to entitlement jurisdictions, and the other 30 percent go to non-entitled communities (small cities, small towns, and rural areas). This provision, referred to as the 70/30 split, remains in place to date.

By statute, 40 percent of the annual appropriation for HOME is allocated directly to States. In 24 CFR 92.201, the HOME program regulation requires that "Each State participating jurisdiction is responsible for distributing HOME funds throughout the State according to the State's assessment of the geographical distribution of the housing needs within the State, as identified in the State's approved consolidated plan. The State must distribute HOME funds to rural areas in amounts that take into account the non-metropolitan share of the State's total population and objective measures of rural housing need, such as poverty and substandard housing, as set forth in the State's approved consolidated plan. To the extent the need is within the boundaries of a participating unit of general local government, the State and the unit of general local government shall coordinate activities to address that need."

Both of these block grant programs leave the distribution of the grant funds for small cities and rural areas to the individual States. Statutorily, each State has a broad discretion on how to prioritize the use of these funds. HUD continues to offer support to States, small cities, and rural areas that will help them discover areas with the highest level of need.

PROPOSED RULE FOR HOME

Question. Mr. Secretary, I commended the Department's efforts to improve the monitoring of the HOME program following last year's criticism highlighting some unfortunate delays and mismanagement in an otherwise successful and cost-effective program. I am, however, concerned about the Department's proposed regulation to address these criticisms. The proposed HOME Program rules appear to have a disproportionate impact on rural HOME programs despite the fact that rural communities have dependably ranked as some of the most efficient and effective recipients of HOME program funding. I know my home State of Vermont has been awarded two HOME Program Doorknocker Awards and has consistently been ranked first among State-participating jurisdictions over the past 6 years based on their administration of the HOME program. And yet, the proposed regulation would make it

difficult, and in some cases impossible, for rural communities to continue to use HOME funding.

Of particular concern is the change in how Community Housing Development Organizations (CHDOs) are required to demonstrate capacity. The proposed rule would require CHDOs to have paid staff with development experience and will not allow them to rely on consultants to demonstrate capacity. This requirement will undoubtedly negatively impact small rural CHDOs who rely on small staffs and often partnerships with groups in the community with housing development experience.

Additionally, the proposed changes to the set aside requirement changes the definition of "sponsor" in a way that would require the CHDO to be the sole general partner in a limited housing partnership. In Vermont this would be a significant problem as our CHDOs often are partners with Housing Vermont, a Statewide non-profit syndication and development company.

While I understand the intent of the proposed rule, I worry that the rule contains changes could have unintended consequences which could prove to be costly, duplicative or time-consuming especially for participating jurisdictions and States in rural areas with limited staff and resources.

In preparing the proposed regulation how did the Department take into consideration the often unique circumstances facing rural communities using HOME funds and what steps were taken to ensure that this regulation would not negatively impact small rural communities?

Answer. In preparation for the publication of the Proposed HOME Rule, the Office of Affordable Housing conducted "Listening Sessions" with both Statewide and local stakeholders. At the stakeholder meeting held with State agencies on January 14, 2010, HUD asked "Do rural Participating Jurisdictions (PJs) have any particular comments or concerns about the administration of the HOME program?" Several States provided input on the challenges experienced by CHDOs and expressed concern about the lack of capable CHDOs in rural areas. Many States expressed the opinion that most CHDOs could not be expected to undertake complex housing development due to their lack of capacity. Several suggestions addressed ways to provide CHDOs with more funding for operating costs (e.g., salaries for experienced staff), including monitoring fees, and different structures for developer fees. To mitigate some of those concerns, the Department has also made clear in the proposed rule that project-related soft costs can be paid for with HOME funds (e.g., underwriting, market analysis).

In summary, with respect to the performance of CHDOs, and in particular, the performance of CHDOs in rural areas, the Department received input prior to rule-making and public comments on the proposed rule regarding proposed changes to definitions and requirements related to CHDOs. HUD acknowledges the concerns raised by commenters, particularly regarding the effects of some of the provisions on rural areas. HUD has carefully considered these comments in drafting the final rule. The Department will provide technical assistance to PJs and CHDOs to help them meet the new requirements.

Question. Will you commit to working with me and my staff to ensure that when a final rule is published by HUD later this year that accommodations for small, rural States and CHDOs are made?

Answer. The Department has given careful consideration to the comments it received on the proposed rule, including comments regarding the effect of proposed changes on rural areas. The Department is confident that many CHDOs in rural areas will be able to increase their capacity in order to be in compliance with the Final Rule. The Department will offer several different types of technical assistance and examples of best practices that will assist States with rural areas and CHDOs in rural areas to modify their programs and build capacity in order to meet the new requirements of the HOME Final Rule. The new OneCPD Resource Exchange, <https://www.onecpd.info/>, will also provide a forum for CHDOs and States to engage in peer-to-peer assistance.

QUESTION SUBMITTED BY SENATOR SUSAN M. COLLINS

DUPLICATIVE ECONOMIC PROGRAMS

Question. The Government Accountability Office notes in its 2011 follow up report on duplicative economic development programs that HUD, Commerce, SBA, and USDA have made minimal progress collecting data and assessing the effectiveness of their overlapping economic development programs. Further, HUD is the only agency of the four identified to not yet have taken steps to define common outcomes with other Federal agencies. I know that building collaborative relationships is an

important goal of yours. What limits your ability to reach common goals and results with other agencies?

Answer. HUD strongly agrees with the concept of collaboration, and it continues to work with other agencies to ensure that its grants are effective and useful to the communities they are meant to serve.

HUD's core community and economic development program, the Community Development Block Grant program (CDBG), is distinct from programs administered by other agencies in both its objectives and design. It has a statutory requirement that grantees expend in excess of 70 percent of grant funds on activities that benefit low- and moderate-income persons. In addition, the CDBG authorizing language is clear that funding priorities and other decisions are to be made at the State and local levels; the program provides grantees with a high degree of flexibility to respond to local economic conditions with priorities tailored to meet those needs. As a result, many of the program's intended outcomes are unique from those of other Federal economic development programs. This has made it difficult to coordinate goals and results with other agencies. However, CDBG has been a major factor in allowing these other programs to be effective: Grantees regularly leverage CDBG funds with these other Federal grant programs and private resources to achieve common goals.

Despite these differences, HUD, through the Office of Economic Development, has initiated collaborative discussions with several agencies administering economic development programs. These conversations are intended to provide information to HUD grantees to assist them in making strategic investments of block grant and competitive resources. HUD plans to disseminate information gained through these collaborative efforts using the OneCPD Resource Exchange Web site, the Department's new online portal designed to share news, events, resources, and information on all HUD Community Planning and Development programs.

While, due to differences in program objectives and design, HUD may not be able to fully align CDBG with other Federal economic development programs, it does strongly believe that collaboration with other programs can help make sure that it is effective in building strong communities across America.

QUESTIONS SUBMITTED BY SENATOR ROY BLUNT

FHA'S SOLVENCY

Question. As one of the only games in town, the Federal Housing Administration (FHA) continues to have a ballooning portfolio, well above the intended size. As the Administration's white paper proposes various reform options for the Government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, how can the Department of Housing and Urban Development (HUD) ensure that FHA won't become the lender of last resort for home loans should the private market move slowly to fill the space where the GSE once operated?

Answer. FHA plays a counter-cyclical role in the housing market, experiencing higher volume during times of market constriction and lower volumes when there is sufficient access to mortgage capital in the conventional market. Regardless of the market environment, FHA loans are typically 30-year, fixed-rate products and lenders originating these loans must follow FHA guidance in originating and servicing these loans. Since 2009, FHA has made significant changes to credit policy to ensure that future books of business continue to yield positive economic value to the fund. In addition, FHA has adopted a number of measures that hold lenders accountable for their actions, including, among others, rules that require lenders to indemnify FHA on loans found to be materially deficient. FHA is still seeking legislative authority to pursue indemnification and other heightened enforcement authority with respect to all FHA approved lenders. FHA has also enhanced its underwriting guidance and modified its automated mortgage scoring system to require more underwriter oversight of riskier loan applications. Finally, FHA's loss mitigation strategies, already considered among the strongest in the mortgage industry, have been further improved to protect both homeowners as well as FHA. Taken together, these actions are designed to ensure that creditworthy borrowers have a safe and affordable means of obtaining homeownership while at the same time encouraging only responsible lending on the part of FHA's approved mortgage lenders. As the economy continues to recover and FHA's counter-cyclical role becomes less critical, FHA and HUD will work with the broader administration and Congress on efforts to ensure that FHA's role in the market does recede and a stable, sustainable housing market evolves.

Question. The administration's budget once again requests increases in MMI premiums to help strengthen the fund. While I'm encouraged by the increase in liquid-

ity to protect against risk to the solvency of the fund, I question whether the already bloated portfolio will grow in 2013 rather than shrink as your budget assumes. What steps are being taken to encourage private lenders to originate quality, non-FHA insured loans? How can HUD encourage the private market to provide home loans for minorities who disproportionately rely on FHA's Government guarantee?

Answer. In February 2012, HUD announced an increase in both FHA annual and upfront mortgage insurance premiums, effective in April 2012. The decision to adjust FHA premiums for the fourth time since 2009 was made by balancing several factors—FHA's mission of providing access to credit for low wealth, creditworthy borrowers, the health of the Mutual Mortgage Insurance Fund and FHA's long-term role in the Nation's housing finance system. As a result of these premium adjustments, FHA has been able to continue to serve its countercyclical role in the mortgage market—providing access to credit to creditworthy borrowers during this time of market constriction—but has seen overall volume decline. According to Amherst Securities' June 14, 2012, Amherst Mortgage Insight Report, the composition of FHA loans in Ginnie Mae securities has actually declined. This is in large part because these pricing changes have made conventional loans more competitive; high FICO borrowers who may have chosen to take out an FHA-insured loan rather than a loan with private mortgage insurance are now finding the costs of private versus federally backed mortgage insurance more comparable. However, adjusting premiums is only one lever. Currently, FHA is the only federally backed institution able to originate high-priced loans (loans above \$625,500). As a result, borrowers seeking these "jumbo" loans only have one outlet—FHA. In its housing finance reform white paper, the Administration urged Congress to allow the higher loan limits to expire. Unfortunately, in November 2011, Congress elected to extend these limits for FHA while allowing the GSE loan limits to go back to pre-crisis levels. This does create a disincentive to originate non-FHA loans in some markets and so we would once again urge Congress to allow FHA loan limits to step back to the HERA levels.

GOVERNMENT-SPONSORED ENTERPRISES

Question. The future of Fannie Mae and Freddie Mac remain uncertain at this point but I am interested in hearing your views. What are your views about the future of Fannie and Freddie? If Fannie and/or Freddie continue to exist in some form, what are your views on reconciling the conflicting goals of private profits and public good? How important are the mortgage GSEs to carry out Federal housing policy?

Answer. The administration is currently working diligently on a number of inter-agency projects set forth in the white paper that was published in February 2011, including a detailed exploration of the three options for the future of housing finance. Of those three options, the third one does provide considerations around maintaining some Government presence through a model that would serve as a back-stop in the form of reinsurance behind significant layers of private capital at a guarantor level. Below is greater detail on the strengths and weaknesses of this third option. However, to be clear, the administration is still working with a number of stakeholders, including Members of Congress, to fully explore all three.

At the same time, the administration is equally engaged on topics that directly involve the GSEs, such as the development of national servicing standards, a transition plan for the wind down of Fannie Mae and Freddie Mac from their current status and reducing the footprint of the Federal Housing Administration (FHA). It is important to remember that the FHA and GSEs continue to provide an important source of credit availability as Government and industry work collectively to reduce the barriers of uncertainty that block a robust return of private capital. Thus, while the administration supports decreasing the role of FHA, Fannie Mae, and Freddie Mac and re-invigorating the private market, we also believe that any approach must be measured and comprehensive to address the tensions your questions above elicit.

HOMELESSNESS

Question. In your testimony, you say that HUD and the VA have partnered for the past 2 years to make strides in ending veteran homelessness by 2015. While I appreciate the ambitious goal and the collaboration between these two agencies, how will your fiscal year 2013 budget address the significant increase in homelessness for veterans in Missouri?

Answer. HUD is aware that the number of homeless veterans in Missouri has increased from 529 veterans in 2009 to 853 veterans in 2011 and is working hard to end veteran homelessness. Despite the significant current economic challenges, in the fiscal year 2011 Continuum of Care competition, Missouri was awarded \$27,371,596, an increase upon the \$27,357,782 awarded in 2010. In 2012, HUD allotted 100 HUD-VASH vouchers to the State of Missouri, doubling the number of

HUD-VASH vouchers allotted to Missouri and bringing the total number of vouchers to 495 Statewide. HUD will continue to request funding in order to address the significant increase in veteran homelessness in Missouri and elsewhere.

HUD is currently administering the \$10 million Veterans Homeless Prevention Demonstration Program at five sites in collaboration with the Departments of Veterans Affairs and Labor. This is a 3-year demonstration designed to explore ways HUD can offer early intervention homelessness prevention for veterans—primarily veterans returning from the wars in Iraq and Afghanistan. While none of the sites for the demonstration is in Missouri, the lessons learned will be important in addressing the unique needs of these veterans and will support efforts to identify, reach, and assist them to regain and maintain housing stability. An evaluation of the program will also provide HUD with additional information to inform programs addressing means of preventing homelessness among veterans in the future. HUD expects to be able to provide preliminary results which will guide us in policy formation.

Question. How does your budget ensure that those who have received assistance for adequate housing won't become homeless again?

Answer. Performance metrics codified in the Homeless Emergency Assistance and Rapid Transition to Housing Act (HEARTH Act) of 2009 require communities to be able to track length of homelessness, recidivism rates, and the number of persons experiencing homelessness for the first time. Under the HEARTH Act, additional funding is provided to communities to conduct planning and evaluation, including this performance measurement. HUD's fiscal year 2013 budget includes a request for the funds needed to continue the transition to the McKinney-Vento Homeless Assistance Act, as amended by the HEARTH Act. As communities receive the funds necessary to conduct these critical evaluations they will be able to better ensure that persons who enter the homeless system will be served with the most appropriate interventions to stabilize their housing and foster independent living.

Question. Do you believe that there is enough emphasis placed on prevention and homebuyer education to prevent another crisis?

Answer. In response to the recent economic crisis, the American Recovery and Reinvestment Act (ARRA) was enacted, which included the funding of the Homelessness Prevention and Rapid Re-housing Program (HPRP). Over 75 percent of the assistance provided with the \$1.5 billion allocation was used for homelessness prevention. HUD has used the lessons learned from HPRP in its drafting of the interim regulations for the Emergency Solutions Grant (ESG) program, a McKinney-Vento Homeless Assistance Act program amended by the HEARTH Act of 2009. As of fiscal year 2013, HUD will no longer have HPRP funds available to continue that program—to offset this loss, HUD is emphasizing the funding for the ESG program.

RURAL HOUSING AND DEVELOPMENT

Question. Investing in rural communities is very important to me and my constituents. I realize there are common goals within HUD and USDA in this area and am interested in your views on how the two overlap in this space. The most recent GAO report acknowledges this overlap; however, it remains unclear whether the two agencies will continue to maintain similar but separate housing goals. How can HUD further protect rural America's needs as funding reaches the States and large urban areas?

Answer. In fiscal year 2013, HUD will continue to fund programs that will directly support housing and economic development in rural communities. Small towns and rural communities across America are facing an acute need for more affordable housing, while also searching for sustainable economic development strategies that link rural housing to job centers. Recognizing the unique challenges in these decentralized areas, HUD continues to tailor its programs to provide rural communities with the resources they need to craft innovative solutions. While specific appropriations for programs in rural communities ended in 2011, HUD has continued to partner with rural communities with programs like Community Development Block Grants, HOME Investment Partnerships, and the Housing Choice Voucher Program (HCVP). It also directly supports homeownership in rural areas through FHA insurance for homeowners. HUD's field offices in rural communities continue to provide technical assistance resources and to link to other HUD programs and other Federal agencies. Moreover, HUD is committed to the development of the poorest areas in America, specifically Indian Country. Through programs like the Indian Housing Block Grant, HUD partners with rural American Indian and Alaska Native tribal governments to support efforts to create locally driven solutions to economic development challenges. Below, HUD outlines some of the current pro-

grams rural communities are using to address their housing and community development needs.

COLLABORATIONS WITH OTHER AGENCIES

HUD meets regularly with other agencies involved in housing through an inter-agency rental housing policy group to better align and coordinate the affordable rental housing programs each operates. The Rental Policy Working Group, created by the Domestic Policy Council and consisting of the Departments of Housing and Urban Development, Agriculture, and Treasury, has released proposals that will more efficiently align rental programs across Government agencies, including inspections, financial reporting, appraisals, energy efficiency standards, and fair housing compliance enforcement, among others. This working group has increased collaboration between the rural housing policies of HUD and USDA.

One specific way HUD is working with other agencies is an effort to improve access to capital from private sources in isolated rural areas. The first step in this effort is the Border Community Capital Initiative (“Border Initiative”) is the first step in a collaborative effort among HUD, the Department of the Treasury’s Community Development Financial Institutions Fund (CDFI Fund) and the Department of Agriculture—Rural Development (USDA–RD). The Initiative’s goal is to increase access to capital for affordable housing, business lending and community facilities in the chronically underserved and undercapitalized United States/Mexico border region. Specifically, it will provide direct investment and technical assistance to community development lending and investing institutions that focus on affordable housing, small business and community facilities to benefit the residents of colonias. The United States Code defines a colonia as a community that (1) is in the State of Arizona, California, New Mexico, or Texas; (2) is within 150 miles of the United States-Mexico border, except for any metropolitan area exceeding 1 million people; (3) on the basis of objective criteria, lacks adequate sewage systems and lacks decent, safe, and sanitary housing;

HUD, USDA–RD and the CDFI Fund have all identified lack of capacity among organizations serving the colonias and similar persistent poverty communities as a limiting factor in the effectiveness of Federal programs. Organizations specializing in affordable housing, small business support, and community facilities cannot sustain themselves and grow. The Border Initiative focuses on using each agency’s resources to effectively improve these organizations, empowering them to improve colonias communities. Depending upon the programmatic lessons of the Border Initiative and availability of resources, the agencies hopes to adapt this collaborative approach to improving capital access in other rural regions.

ON-GOING RURAL ASSISTANCE

Beyond targeted efforts to alleviate housing and development issues in rural America, HUD serves families in small towns and rural communities through almost every major program it funds. While many think of HUD programs as mainly for urban communities, HUD supports communities across the country.

- In 2012, the State Community Development Block Grant (CDBG) program provided approximately \$882 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. The State of Missouri received over \$20 million of CDBG funding for rural areas.
- HUD also provided almost \$400 million in rural areas in 2012 for affordable housing and homeownership programs through its HOME Investment Partnership program, directly and indirectly supporting over 5,360 jobs. The State of Missouri received over \$9 million of HOME funding for areas outside of large metropolitan areas.
- Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher Program, Public Housing, and Multifamily programs.
- For homeowners, HUD’s Federal Housing Administration (FHA) helps first-time homebuyers and other qualified families all over the country purchase their own home. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately \$545 million in current FHA loans are to rural healthcare facilities designated as “critical access hospitals.” HUD recognizes the unique challenges in these rural areas, and continues to develop innovative, community-based programming to meet those needs.

HOMELESS ASSISTANCE GRANTS

According to HUD's most recent Annual Homeless Assessment Report, the number of people using homeless shelter in suburban and rural areas has increased 57 percent since 2007. Suburban and rural homelessness makes up 36.2 percent of the total homeless population in America. The reason for this increase is unclear. However, with the Federal Government's commitment to the Federal Strategic Plan to End Homelessness, it is crucial that the Department confront this growing problem.

On May 20, 2009, President Obama signed the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, which includes the establishment of the Rural Housing Stability Assistance Program (RHSP) within HUD's Homeless Assistance Grants program. RHSP is designed to assist individuals and families who are homeless, in imminent danger of losing housing, or in the worst housing situations in rural communities. In 2013, HUD is requesting \$5 million for the Rural Housing Stability Assistance program. These grant funds will be awarded outside of the existing Continuum of Care competition and will introduce activities that have not historically been available through HUD's homeless assistance programs. For example, if someone's house is uninhabitable, RHSP funds can be used to make repairs, preventing that individual from becoming homeless.

In addition to this focused RHSP initiative, rural communities will continue to have access to HUD's targeted homeless assistance, through the Continuum of Care competition grant and the Emergency Shelter Grant (ESG) program. Rural areas have increasingly gained access to HUD's competitive homeless assistance grants, primarily through the creation of Balance of State and Statewide Continuums of Care, with funds allocated directly to the State to assist areas not currently in Continuums of Care. In 2012, the State of Missouri received over \$2.5 million to fight homelessness in non-urban areas. In 2011, the Continuum of Care competition included a selection priority for new projects proposing to serve 100 percent rural areas and an additional 41 projects in rural areas received funding, resulting in nearly \$16 million for new projects in rural areas.

AMERICAN INDIAN, ALASKA NATIVE, AND NATIVE HAWAIIAN PROGRAMS

As the single largest sources of funding for housing on Indian tribal lands, HUD initiatives in Indian country continue to provide crucial resources to America's poorest communities. Programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, affordable housing is desperately needed. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program. HUD recognizes the right of Indian self-determination and tribal self governance by allowing the recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. All together, in fiscal year 2013, HUD is requesting \$731 million to fund programs that will support housing and development in American Indian, Alaska Native, and Native Hawaiian communities, which will directly and indirectly support over 14,000 jobs.

SUSTAINABLE HOUSING AND COMMUNITIES

Recognizing the strong demand among communities for help in connecting economic development with future infrastructure and housing investments, HUD established the Office of Sustainable Housing and Communities (OSHC) in 2010. Its mission is to both directly assist those communities looking for assistance in planning for sustainable growth and to infuse sustainability into HUD policies and programs. HUD has found that the demand for planning assistance is strong in rural areas as they attempt to plan for a sustainable future. Through partnerships with other Federal agencies to align resources and reduce barriers, HUD has developed the Sustainable Communities Initiative (SCI) to provide incentives to encourage communities of all shapes and sizes to use sustainable planning and development strategies. SCI funding includes special funding categories for smaller communities. In 2011, over 40 percent of the OSHC Community Challenge Grants went to communities with populations below 50,000. In fiscal year 2013, HUD is requesting \$100 million in SCI funding within the Community Development Fund, of which a portion will once again be designated for small- and mid-sized communities.

SUBCOMMITTEE RECESS

Senator MURRAY. This hearing is recessed until Thursday, March 8, at 10 a.m., at which time we will hear testimony from the acting FHA Commissioner, Carol Galante, on the Federal Housing Administration.

[Whereupon, at 10:33 a.m., Thursday, March 1, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, March 8.]