AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 113–470

# NOMINATIONS OF: JULIAN CASTRO AND LAURA S. WERTHEIMER

## HEARING

BEFORE THE

## COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

ON

NOMINATIONS OF:

JULIAN CASTRO, TO BE SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

LAURA S. WERTHEIMER, TO BE INSPECTOR GENERAL, FEDERAL HOUSING FINANCE AGENCY

JUNE 17, 2014

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

Available at: http://www.fdsys.gov/

U.S. GOVERNMENT PUBLISHING OFFICE

91–243 PDF WASHINGTON : 2015

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

TIM JOHNSON, South Dakota, *Chairman*

JACK REED, Rhode Island
CHARLES E. SCHUMER, New York
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
JON TESTER, Montana
MARK R. WARNER, Virginia
JEFF MERKLEY, Oregon
KAY HAGAN, North Carolina
JOE MANCHIN III, West Virginia
ELIZABETH WARREN, Massachusetts
HEIDI HEITKAMP, North Dakota

MIKE CRAPO, Idaho
RICHARD C. SHELBY, Alabama
BOB CORKER, Tennessee
DAVID VITTER, Louisiana
MIKE JOHANNS, Nebraska
PATRICK J. TOOMEY, Pennsylvania
MARK KIRK, Illinois
JERRY MORAN, Kansas
TOM COBURN, Oklahoma
DEAN HELLER, Nevada

CHARLES YI, *Staff Director*
GREGG RICHARD, *Republican Staff Director*

LAURA SWANSON, *Deputy Staff Director*
BRIAN FILIPOWICH, *Professional Staff Member*
ERIN BARRY FUHER, *Professional Staff Member*
BETH COOPER, *Professional Staff Member*

GREG DEAN, *Republican Chief Counsel*
CHAD DAVIS, *Republican Professional Staff Member*

DAWN RATLIFF, *Chief Clerk*
TAYLOR REED, *Hearing Clerk*
SHELVIN SIMMONS, *IT Director*
JIM CROWELL, *Editor*

# C O N T E N T S

**TUESDAY, JUNE 17, 2014**


| | Page |
|---|---|
| Opening statement of Chairman Johnson | 1 |
| Opening statements, comments, or prepared statements of: | |
| Senator Crapo | 2 |


**WITNESSES**


| | |
|---|---|
| John Cornyn, a United States Senator from the State of Texas | 3 |


**NOMINEES**


| | |
|---|---|
| Julian Castro, of Texas, to be Secretary, Department of Housing and Urban Development | 4 |
| Prepared statement | 22 |
| Biographical sketch of nominee | 24 |
| Responses to written questions of: | |
| Senator Crapo | 45 |
| Senator Hagan | 49 |
| Senator Warren | 50 |
| Senator Coburn | 51 |
| Laura S. Wertheimer, of the District of Columbia, to be Inspector General, Federal Housing Finance Agency | 6 |
| Prepared statement | 34 |
| Biographical sketch of nominee | 35 |
| Response to written questions of: | |
| Senator Crapo | 54 |

# NOMINATIONS OF:

## JULIAN CASTRO, OF TEXAS, TO BE SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT;

## LAURA S. WERTHEIMER, OF THE DISTRICT OF COLUMBIA, TO BE INSPECTOR GENERAL, FEDERAL HOUSING FINANCE AGENCY

---

**TUESDAY, JUNE 17, 2014**

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

The Committee met at 10:05 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

### OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. I call this hearing to order.

Today, we consider the nominations of Mayor Julian Castro, to be Secretary of the Department of Housing and Urban Development, and Ms. Laura Wertheimer, to be Inspector General of the Federal Housing Finance Agency.

As Mayor of San Antonio, Mayor Castro has been on the front lines of helping his community reach its housing and economic development goals. In his tenure as Mayor, he has focused on attracting well-paying jobs and 21st century industries, raising the educational attainment, and revitalizing the city's urban core. The Department of Housing and Urban Development is a critical partner in these efforts nationwide. Mayor Castro will bring both direct experience with and appreciation of the important role that HUD programs play for families, communities, and taxpayers to the role of HUD Secretary.

Ms. Wertheimer is a partner in the Securities Department of Wilmer, Cutler, Pickering, Hale and Dorr. To the position of Inspector General, she brings her experience serving on audit committees and evaluating procedures and compliance standards for financial institutions. It is essential that FHFA have an IG providing strong oversight of the FHFA's work relating to conservatorship of Fannie Mae and Freddie Mac. The IG also has an important role monitoring the FHFA's oversight of the Federal Home Loan Banks. Ms. Wertheimer will bring extensive experience to the

position of Inspector General to ensure that FHFA is fulfilling its mandates set forth by Congress.

I now turn to Ranking Member Crapo for his opening statement.

**STATEMENT OF SENATOR MIKE CRAPO**

Senator CRAPO. Thank you, Mr. Chairman.

Before us today are two nominees to two very important positions, Mayor Julian Castro to be Secretary of Housing and Urban Development and Ms. Laura Wertheimer to be the Inspector General of the Federal Housing Finance Agency. Both positions will have strong impact on housing and housing finance in this country and I look forward to learning what the nominees will bring to each of these issues.

Mayor Castro, two of the critical issues that this Committee has spent extensive time addressing in this Congress are among those I want to bring to your attention today, the future of housing finance reform and the fiscal solvency of the Federal Housing Administration. We need to know what your approach will be on both of these issues and whether you will be advocating on behalf of them.

Within the debate of housing finance reform, current HUD Secretary Shaun Donovan has worked very actively with this Committee to develop and advocate for S. 1217, which recently passed this Committee with a bipartisan majority. We must continue to move forward on housing finance reform, especially as we approach the sixth anniversary of Fannie Mae and Freddie Mac being put into conservatorship.

The Committee has also passed bipartisan legislation to address the current capital deficiencies in the FHA's Insurance Fund. In this matter, it would be important to hear from Mayor Castro that he is 100 percent committed to getting the capital levels to their required levels and as soon as possible.

Ms. Wertheimer faces a different, but equally challenging task if she is confirmed to be the Inspector General of the FHFA. Fannie Mae and Freddie Mac represent $5 trillion in taxpayer exposure. The FHFA not only oversees those companies, but is also responsible for regulating the Federal Home Loan Banks and the very different business models that they represent.

Further, due to the conservatorship of Fannie Mae and Freddie Mac, the Director of FHFA simultaneously acts as regulator, executive, and shareholder of those companies. All of this means that the FHFA Inspector General has a very unique oversight responsibility as compared to an IG who is not operating under those circumstances. Ms. Wertheimer has the opportunity today to inform us as to how she will handle these exceptional challenges.

I look forward to hearing from each of our nominees on these important issues and more.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Crapo.

There is an 11 o'clock floor vote scheduled, so to allow sufficient time for questions, Senator Crapo and I have agreed to limit opening statements to the Chair and the Ranking Member. All Senators are welcome to submit an opening statement for the record.

Senator Cornyn will now introduce Mayor Castro. Senator Cornyn.

**STATEMENT OF JOHN CORNYN, A UNITED STATES SENATOR FROM THE STATE OF TEXAS**

Senator CORNYN. Thank you, Mr. Chairman and Ranking Member Senator Crapo and Members of the Committee.

I do not often darken the door of the Banking Committee, but it is my pleasure to be here with you today to introduce a fellow San Antonian and Texan, Mayor Julian Castro. He has told me that he is glad to be here and looks forward to your questions, but he especially looks forward to being back in San Antonio to help celebrate the victory of the San Antonio Spurs, which that celebration is still going on and will for a long time.

[Laughter.]

Senator CORNYN. And, I know he will take the opportunity to introduce his wife, Erica, and I understand his brother, Joaquin Castro, a member of the U.S. Congress, is en route, and I hope he will have an opportunity to do that.

But, my comments are that Mayor Castro has taken quite a road to get to where he is today, one that is uniquely Texan and, I would say, uniquely American. I know you will hear more about his biography, which is compelling. But, I will point out that Julian and his brother were raised by a single mom in San Antonio's West Side. Both graduated from Thomas Jefferson High School. Then, he went to Stanford and to Harvard Law School, quite an impressive accomplishment.

When he returned to his hometown at age 26, he became the youngest member ever to be elected to serve on the San Antonio City Council, and then one of the youngest mayors in the country. I know many Texans are reassured by Mayor Castro's example that the American dream is still very much alive.

I know, if confirmed, he will have a lot of tough things to do. Senator Crapo mentioned some of those. As Members of the Committee know, HUD faces a number of challenges. Last year, for the first time, the Federal Housing Administration received a $1.7 billion infusion of taxpayer cash to cover a shortfall in its insurance fund brought about by many of the loans that it backed that went South. HUD also continues to struggle with its performance and oversight challenges, as identified by the Inspector General. And, as we have seen with the recent scandal at the Veterans Administration, the American people need leaders who will hold folks accountable and restore transparency to Government.

And, while the issue does not fall squarely within HUD's jurisdiction, I also look forward to learning more about the Mayor's views on the future role of Freddie and Fannie, which I believe Senator Crapo alluded to, because we know that Federal housing policy is not sustainable.

Mr. Chairman, after meeting with Mayor Castro, I am encouraged that he would employ the same energetic vision that has characterized his tenure leading Texas' second largest city, and I look forward to hearing how he would approach some of the specific challenges I have identified and those that will be identified by the Committee.

And, I want to thank you and the Members of the Committee for the opportunity to introduce the Mayor and to address you today. Thank you.

Chairman JOHNSON. Thank you, Senator Cornyn. Please feel free to excuse yourself at your convenience.

I will now introduce Ms. Wertheimer. In addition to being a partner in the Securities Department of Wilmer, Cutler, Pickering, Hale and Dorr, Ms. Wertheimer is a member of the firm's Securities Litigation and Enforcement Practice Group. She has advised clients in securities law enforcement investigations, regulatory and criminal nonpublic inquiries, and cross-border regulatory proceedings. From 1981 to 1983, she was a law clerk for Chief Judge Spottswood Robinson of the U.S. Court of Appeals for the D.C. Circuit. She received her B.A. from Yale College and a J.D. from Columbia University School of Law.

We will now swear in the nominees. Please rise and raise your right hand.

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

Mr. CASTRO. I do.

Ms. WERTHEIMER. I do.

Chairman JOHNSON. Do you agree to appear and testify before any duly constituted Committee of the Senate?

Mr. CASTRO. I do.

Ms. WERTHEIMER. I will.

Chairman JOHNSON. Please be seated.

Each of your written statements will be made part of the record. Before you begin your statement, I invite each of you to introduce your family and friends in attendance.

Mayor Castro, please proceed.

**STATEMENT OF JULIAN CASTRO, OF TEXAS, TO BE SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. CASTRO. Thank you very much, Chairman Johnson and Ranking Member Crapo and Members of the Committee for welcoming me today. I am very fortunate to be here today with my wife, Erica, and I know that my brother, Joaquin, is, I think, on his way. You will have to forgive him. He was the second-born twin, so sometimes he is late.

[Laughter.]

Mr. CASTRO. I am also very fortunate to be here with some of the HUD staff that has helped with briefings and so forth, very appreciative of their work. Thank you very much for having me, and I look forward to the hearing.

Chairman JOHNSON. Please proceed, Mayor Castro.

Mr. CASTRO. OK. Thank you, Chairman Johnson, Ranking Member Crapo, and Members of the Committee for welcoming me here today. I am deeply honored to appear before you as President Obama's nominee for Secretary of Housing and Urban Development. I want to thank President Obama for his confidence in me.

Allow me also to thank Senator Cornyn. He is a dedicated public servant, a distinguished Senator from Texas who also happens to

hail from the great city of San Antonio, and I am incredibly grateful for his support and his generous introduction.

And, as I mentioned, I want to express my gratitude to my family and friends, and especially to my wife, Erica, and to my brother, Joaquin, both of whom join me today. Without their support, I simply would not be here in front of you.

Finally, I want to commend this Committee, which has a well-earned reputation for working in a bipartisan fashion on behalf of the American people. It has been a pleasure to meet with you and your staff throughout this process. If confirmed, I look forward to our continued engagement to advance issues critical to our Nation's future.

Mr. Chairman, I appear before you today with more than just professional experience in dealing with housing and urban development. I also bring my own personal experience. I grew up on the West Side of San Antonio in a neighborhood of hard-working families of very modest means. My father at two different times in his life lived in public housing. My mother worked for the San Antonio Housing Authority. And, I have seen with my own eyes how talented and driven Americans who just want a fair shot are weighed down by the conditions in which they live, and this simply is not right. All Americans deserve the same opportunities that I had, and I have dedicated my career to giving back to the country that has given so much to me.

As Mayor, I made it my mission to help create a vibrant, economically prosperous urban core that expands housing opportunities for all San Antonians. In 2010, we launched the Decade of Downtown, an initiative to spark investment in our center city and older neighborhoods. This effort has attracted $350 million in private sector investment, which will produce more than 2,400 housing units by the end of 2014.

Looking ahead, during my recent visits with Committee Members, many of you asked about my priorities, if I am confirmed. Allow me to share two of them with you.

First, I am a strong believer in cross-agency collaboration. San Antonio's East Side is the only neighborhood in America to receive a Promise Neighborhoods Grant, a Choice Neighborhoods Grant, a Byrne Criminal Justice Program Grant, and a Promise Zone designation. We accomplished this by getting beyond the silos and working across agencies to improve housing, educational achievement, and overall quality of life. This is the kind of collaborative approach I would like to enhance at HUD.

Second, as a local elected official, I am also keenly aware of the value of measuring results. In San Antonio, we initiated a process of unprecedented public engagement and accountability called SA 2020. Through a series of community meetings, residents spoke clearly about what kind of city they want it to be in 2020. But, we did not just set a vision. We set precise numeric goals for achieving our vision. We promised the community that we would come back every year and report back on how we were doing, good or bad. With the help of the State Demographer, we developed a public report card, available for anyone to see on *SA2020.org,* to give San Antonians a real-time snapshot of how we are doing.

Similarly, I would like HUD to focus on outcomes, not only inputs. We should not just track projects and dollars spent. We must measure those investments by the impact they make. Secretary Donovan has built a strong foundation for this, and, if confirmed, I will work hard to make this the norm at HUD.

HUD's role is one of the most critical in Government because it directly impacts American families. From enforcing Fair Housing rights to revitalizing distressed areas, from assisting veterans in finding permanent housing to helping communities rebuild after a natural disaster hits, the Department is making an impact in small towns, big cities, rural communities, and Tribal communities across the country.

The 21st century is shaping up to be the Century of Cities, and I believe there is a reason for that. In America's local communities, partnerships and pragmatism are the key drivers to success. That perspective has guided my efforts. If confirmed, I look forward to working with you to strengthen opportunity for Americans through HUD's efforts.

Once again, thank you, Chairman Johnson, Ranking Member Crapo, and Members of the Committee for your consideration to my nomination. It is an honor to appear before you and I look forward to answering any questions.

Chairman JOHNSON. Thank you.

Ms. Wertheimer, please proceed.

**STATEMENT OF LAURA S. WERTHEIMER, OF THE DISTRICT OF COLUMBIA, TO BE INSPECTOR GENERAL, FEDERAL HOUSING FINANCE AGENCY**

Ms. WERTHEIMER. Chairman Johnson, Ranking Member Crapo, Members of the Committee, thank you very much for the opportunity to appear before you today.

I am honored to be President Obama's nominee for Inspector General of the Federal Housing Finance Agency, and before I begin, I would like to introduce my family who has accompanied here today, my husband, Andy Pincus, our daughter, Kate Pincus, my steadfast mother, Sidelle Wertheimer, my in-laws, Walter and Ann Pincus. And, with that, let me get to the meat of what I would like to say in my statement.

The FHFA plays a crucial role in our financial system as the safety and soundness regulator of Fannie Mae, Freddie Mac, and the 12 Regional Federal Home Loan Banks to ensure they operate in a safe and sound measure [sic] and serve as a reliable source of liquidity and funding for housing. And, as Senator Crapo mentioned, since September 2008, almost 6 years now, the agency has acted as conservator for Fannie Mae and Freddie Mac to protect and conserve the assets and property of those enterprises and protect the taxpayers' investment, which is currently $187.5 billion. Currently, Fannie Mae and Freddie Mac guarantee more than $5 trillion in mortgages in this country, three out of every four.

Congress mandated strong, independent oversight of agency programs and operations by the FHFA OIG to safeguard taxpayer dollars. To carry out this oversight, the OIG conducts and coordinates audits and evaluations of agency activities and investigations of the agency and its regulated entities.

Much of my professional career has focused on leading investigations into alleged wrongdoing and counseling clients on improvements to internal controls and processes to prevent and detect violations of law. I have deep experience running independent investigations for audit committees and committees of independent directors of public companies. These investigations have looked into a wide range of areas: financial statement reporting and disclosure errors; alleged accounting irregularities; misconduct by corporate officers and employees; possible improper payments to foreign government officials; whistleblower claims; and other significant issues identified by a host of stakeholders.

In each of these investigations, we followed the facts wherever they led, without fear or favor. We developed remedial measures tailored to the facts found. We monitored implementation of that remediation. A number of these investigations, led to dismissal or resignation of high-level company employees and adoption of significant new policies and internal controls.

If confirmed as FHFA Inspector General, I will exercise my duties aggressively, independently, and fearlessly. I have a deep appreciation of the critical importance of conducting rigorous, fair, and thorough audits, evaluations, and investigations, of communicating the results to stakeholders clearly, and holding individuals accountable for their actions. I pledge to be responsive to this Committee and to Congress as a whole, and to develop a good working relationship with the FHFA Director.

After more than 30 years in the private sector, I am honored to have this opportunity for public service. My father was a first-generation immigrant who came to this country with his parents in 1938. They escaped with the clothes on their backs and they spoke only German.

My grandparents had to reinvent themselves in this strange new environment. My grandmother found work as a domestic house cleaner, and my grandfather was employed to scrub out cocoa barrels on the New York docks. Together, they earned enough to rent an apartment in Kew Gardens, a community populated with German and Austrian refugees. My father enrolled in New York City Public Schools, learned to speak unaccented English, and graduated as valedictorian of his high school class. America has given so much to me and to my family. I am eager to give something back to America.

Thank you and the Committee for your consideration of my nomination. I look forward to answering your questions.

Chairman JOHNSON. Thank you for your testimony.

If any Members have written questions for the record for the nominees, I ask that you please submit them by noon this Friday, June 20. I also ask that the nominees respond to the written questions quickly so that we can move the nominations forward.

We will now begin asking questions of our witnesses. Will the Clerk please put 5 minutes on the clock for each Member.

Mayor Castro, in your opening statement, you mentioned some of your priorities, if confirmed. Would your priorities also include working to address the vast housing needs in Indian Country and engage in consultation with Tribes?

Mr. CASTRO. Thank you very much for the question, Chairman Johnson, and I appreciate your very strong advocacy for our Tribal communities. Absolutely, I am committed to ensuring that we work closely with our Tribal communities. I look forward to, at HUD, being focused on that.

I fully understand—and that in—my experience is as a big city mayor. However, that as part of HUD's mission, we do not just serve big cities or urban areas. We also serve rural communities, small towns, and our Tribal communities. I look forward, if I am confirmed, to working with you and with your staff and other Committee Members as the NAHASDA reauthorization, perhaps, moves forward, and on issues related to our Nation's Tribal communities.

Chairman JOHNSON. I have been handed a note that Representative Joaquin Castro is here.

Mayor Castro, a 2012 HUD IG report found that San Antonio had not administered a 2008 Neighborhood Stabilization Program Grant in accordance with program rules. Can you tell me what happened with that grant and how the city addressed this issue and what your involvement was as Mayor?

Mr. CASTRO. Yes. Thank you very much for the question, Chairman Johnson. The HUD IG did issue preliminary findings with respect to the Neighborhood Stabilization Program and the city of San Antonio. After consulting with city of San Antonio staff, the city of San Antonio staff provided back-up documentation to clarify those preliminary findings. At the end of the day, about $125,000 was paid back with non-Federal funds, city of San Antonio funds, as soon as the Council and I learned about that issue. We were supportive of corrective measures that were put in place. There was an NSP checklist, for instance, that was created. Compliance was strengthened. Personnel were removed who had had authority over that program. And, I look forward, if I am confirmed, to ensuring that we are vigilant with our grantees with the NSP program and other programs, as well.

Chairman JOHNSON. Ms. Wertheimer, we have discussed the steps you plan to take, if confirmed, to address potential conflicts of interest relating to your past work on behalf of clients as well as potential conflicts with respect to your husband's work. Can you please describe these steps to the Committee?

Ms. WERTHEIMER. Absolutely. Thank you, Senator. When the President—when I was advised the President sought to nominate me, I appreciated the need to get ahead of potential conflicts of interest, and so I spoke at length with the designated Ethics Officer of the Federal Housing Finance Agency and explained my strong interest in avoiding either actual or perceived conflicts of interest, or even the appearance of a conflict.

And so to that end, the designated Ethics Officer of the agency, in consultation with the Office of Government Ethics and I, agreed that I would recuse myself entirely from any matter in which my law firm, Wilmer, Cutler, Pickering, Hale and Dorr, appears before the agency or before the FHFA OIG, so, not just limited to OIG matters, and that I would also recuse myself from matters in which my husband's law firm, Mayer, Brown and Platt, appeared before the FHFA or the FHFA OIG, so that there was no appearance issue with respect to my husband's law firm.

In addition, I agreed to refrain, or to recuse myself entirely from any matter in which clients of mine with whom I had worked on matters, if they were represented by another law firm, for example, if they were to appear before the FHFA or FHFA OIG, even on matters unrelated to matters I had advised them on, that I would recuse myself for a period of, I believe it is 2 years.

And, last, there are several items in our portfolio that, because of potential appearance of impropriety issues, we agreed to divest within 60 days of my nomination—of my appointment, if that is to occur.

Chairman JOHNSON. Senator Crapo.

Senator CRAPO. Thank you, Mr. Chairman.

Mayor Castro, the FHA Insurance Fund has been undercapitalized since 2009. At the end of fiscal year 2013, FHA announced that it would need $1.7 billion from Treasury to cover an increase in anticipated costs of loan guarantees. This marked the first time that the FHA needed funds from Treasury to cover an increase in expected future losses in its single-family mortgage program.

Last year, this Committee moved legislation, the FHA Solvency Act, with strong bipartisan support, to get the FHA back on stable financial footing. If confirmed, will you commit to help us move this piece of legislation and to move the FHA toward solvency?

Mr. CASTRO. Thank you very much for the question, Ranking Member Crapo, and I want to commend you and the Committee for, as you said, very strong bipartisan work on the FHA Solvency Act. I am committed to helping to ensure that, if I am confirmed, that the FHA is on a good track and to support legislative efforts to that effect. It is my understanding that the independent actuary has said, at least for fiscal year 2015, that the FHA is on a stronger track, that it will not need another draw. But, I, if I am confirmed at HUD, I look forward to working with you and to the Committee to support legislative efforts, as well.

Senator CRAPO. Thank you very much, and that is good news to hear.

Will you assure us that the FHA will not do anything to reduce its incoming capital before it has met its statutory obligations?

Mr. CASTRO. Thank you for the question. Of course, I am hesitant to commit to things specifically, not having been at HUD and seen all of the details. However, I will say that I share with you a commitment to ensuring that the FHA has a positive capital reserve ratio, that it is on the right track, and that it does not need another mandatory appropriation.

Senator CRAPO. Well, I thank you for your attention to that.

Second, to change issues quickly, as we did when we met privately, I want to discuss with you the housing finance reform legislation that this Committee has put forward. Secretary Donovan has worked very closely with this Committee in helping to develop this legislation and negotiating and advocating for its passage. If confirmed, will you commit to helping the Committee to move this important piece of legislation so that we can get our financial housing market back on track for long-term stability?

Mr. CASTRO. Senator, you and Chairman Johnson, Committee Members, are to be commended for the work that you have done on this issue, and I share your goals of ensuring that we have a

housing finance system that both protects the taxpayers in a stronger way than we have had in place and also balances access to credit for folks of modest means who are creditworthy. And, so, I look forward, if I am confirmed, to being an active participant as the Committee and as the Senate continues to work on this issue, this legislation. Absolutely.

Senator CRAPO. Thank you. Do you believe there are any negative consequences to our inaction on reforming Fannie and Freddie and resolving the conservatorship, and if so, what are they?

Mr. CASTRO. Well, I do believe that the status quo is not in the best interest of Americans. I believe that if we can resolve these issues that I know the Committee is still very much discussing, even though this has made it out of Committee, that it would be preferable for the taxpayers not to be in the position of first loss and that the current conservatorship of Fannie and Freddie is not sustainable for the long term. I know that there is litigation already that has arisen, for instance, out of this, and so there have been some negative consequences.

I will say, finally, that I know it is a balancing act, that there are concerns in terms of access to credit. And, having represented San Antonio and seen these issues on the ground level, I can understand those concerns, and if I am confirmed, I would look forward to being an active participant in trying to come to a resolution on that.

Senator CRAPO. Thank you.

Ms. Wertheimer, I am about out of time, and so I am going to have to submit most of my questions to you, and some additional ones to Mayor Castro in writing after the hearing, but one quick question to you that I do want to ask is another unique situation for the FHFA IG is the fact that the Treasury Department is a party a preferred stock purchase agreement which set the conservatorship terms for funding and repayment for Fannie and Freddie. How do you envision the FHFA IG interacting with Treasury or the Treasury IG to ensure adequate oversight given this unique situation?

Ms. WERTHEIMER. Senator Crapo, my—the predecessor in this position, Mr. Linick, devoted a significant effort to developing collaborative working relationships with IGs in other agencies, including the Treasury Department, and the IGs, through cross-agency work, worked extremely effectively in oversight responsibilities where there was shared oversight. And, I would envision continuing that cross-agency collaboration with IGs in Treasury as well as with IGs in other agencies and with U.S. Attorneys across the country. That is the way we are going to get this job done, because there is cross-agency responsibility for enforcement of the laws.

Senator CRAPO. Thank you.

Chairman JOHNSON. Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman, and welcome, Mayor Castro and Ms. Wertheimer.

Mayor, can you share or elaborate on your vision of housing and urban development, particularly based on your experience as Mayor of San Antonio.

Mr. CASTRO. Thank you for that question, Senator Reed. Well, as a local elected official, of course, my viewpoint on this was from the other end——

Senator REED. Mm-hmm.

Mr. CASTRO.——working at the ground level, and what I have found absolutely essential to ensuring that folks have good opportunity by what HUD does is to work across agencies. That is what we did in San Antonio. Very early on in my tenure, we got together our Housing Authority with our Transit Agency, one of our urban core school districts, one of our universities, the United Way, to figure out how we could make better use of resources and understanding from being at that local level that housing is an important component of overall quality of life and providing opportunity, but it is not the only component. When we tackle these issues in a more holistic way, along with education, along with transit, I believe it has a bigger impact, and I will be looking for opportunities to do that.

Second, one of my significant take-aways from my experience in San Antonio as it relates to housing is that we need to measure the outcomes. We set a goal early on, for instance, in San Antonio, of trying to create 5,000 housing units in our downtown by the year 2020, and later, we increased that to 7,500. It has been my professional experience that when you set a goal and when you are measuring results, you are much more likely to stay on track to try and achieve that.

And then, finally, I see out there the urgency for more affordable housing opportunities in our urban community in San Antonio, but throughout the Nation, and I would work very hard, if I am confirmed, to do what we can to create those opportunities.

Senator REED. Well, thank you, Mayor.

Shifting to another issue that is going to be vitally important, and that is the Administration's commitment to end veterans' homelessness by 2015, and we are close in some parts of the country. In Rhode Island, we think we have approximately 97 homeless veterans at this time. We want it to be zero. But, can you tell us, what are your plans to help States, particularly Rhode Island, to reach this goal of no veterans' homelessness?

Mr. CASTRO. And, I commend you for the work that you and Members of the Committee have done. This, I believe, is a real bright spot for your work, for the Administration's work, and for the work of Secretary Donovan, and a very laudable goal, to effectively eliminate veterans' homelessness by the end of 2015. One of the primary ways that we have supported that—that HUD has supported that is through the VASH Program vouchers in close collaboration with the VA to help ensure that homeless veterans have the opportunity to get housing in local communities.

And, if I am confirmed, I look forward to bringing a ton of energy to be supportive of that and to meet that goal. I know how important this is that we make right by our veterans, and HUD, if I am confirmed, will be a key, key driver of that.

Senator REED. Well, thank you very much, Mayor.

Ms. Wertheimer, you have an incredible record and your career has been distinguished by great intelligence, great integrity. And, I was impressed with your response to Senator Johnson's, the

Chairman's question about maintaining the appearance as well as the reality of independence. And, all I want to say is that this is going to be a continuous effort on your part, because, as you pointed out so succinctly, you know, many times, you will have firms that you have worked with on the other side of the table, clients on the other side of the table. But, I just want to, again, emphasize the notion of not just the reality, because I have no doubt you are going to be scrupulous in your conduct, but the perception that there are conflicts. And, let me just reinforce that point again, if I may.

Ms. WERTHEIMER. Thank you, Senator. I agree with you. I think an independent IG is only as credible as the, not only the actual independence, but the perceived independence. So, it is critical to me that this office, if I am confirmed, maintain both actual and avoid any appearance of lack of independence.

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

Chairman JOHNSON. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Mayor Castro, for years, I believe the problems of the FHFA have been well known by this Committee and probably a lot of other people. During the housing boom, the FHA, unwisely, I believe, guaranteed a lot of risky mortgages with low downpayments to borrowers. They were not the only ones. These mortgages have resulted in billions of dollars of losses to the taxpayer.

In the interests of a stable and a fortified housing market, could you speak to your perspective, if you have one yet, of the reserve ratio of the Mutual Mortgage Insurance Fund, what it should be, and what about the minimum downpayment levels. Do you have a perspective on that?

Mr. CASTRO. Thank you very much for the question, Senator, and I want to commend you for your work over the years on this issue. Of course, the health of the FHA has been the subject, I know, of tremendous scrutiny and debate. I believe that there can be action taken to ensure that the FHA stays on a positive track.

Senator SHELBY. Mm-hmm.

Mr. CASTRO. My understanding, my preliminary understanding is that it is on a much more positive track now than it had been. Of course, the Reverse Mortgage Program and also some loans from the 2007 to 2009 time period were problematic. As you have mentioned and other Committee Members have mentioned, this was an unprecedented event, for it to need a mandatory appropriation. So, I believe that as we move forward, that there is reason to believe—to have more confidence in the FHA. I am also aware, on the other end, that the credit quality of borrowers for the FHA is stronger than it ever has been, with a FICO score of just under 700.

And, so, my perspective, whether it relates to the requirements for downpayments or other measures, is that we achieve this balance to stay within the mission of the FHA, the historic mission, to ensure that first-time home buyers, that folks of modest means who are creditworthy, that they have the opportunity to reach the American dream of home ownership, but at the same time, that we have policies in place that ensure that what happened a couple years ago does not happen again.

Senator SHELBY. I want to get into the Section 8 area. In fiscal year 2014, which we are in now, funding for the Section 8 programs total nearly $29.1 billion of the $45.47 billion in outlays for the Department of Housing and Urban Development. I believe that is about 64 percent. That is a heavy outlay. Could you talk about what, if any plans you have thought about as policy to try to rein in spending for this program. We know this is an important program for a lot of people, but I also serve on the Appropriations Committee. We have to deal with real numbers, too.

Mr. CASTRO. Well, thank you very much for that question. I am fully aware that, as you say, the Section 8 program does consume a tremendous amount of HUD's overall budget and that rents rise every year, and so we face that continuing challenge. I look forward to delving into more of the details to look at what ways we can achieve some efficiencies and, hopefully, streamline. I know that under Secretary Donovan's leadership, HUD has looked at ways that it can be more nimble and achieve cost savings. And, if I am confirmed, Senator, I would look forward to visiting with you about this issue.

Senator SHELBY. In the years leading up to the financial crisis, FHA's mortgage insurance market share went from less than 5 percent to more than 30 percent in 2008. Those were the boom years. It continues to hover, I believe, at levels around 20 percent. What do you think of—have you thought about the area of expanding the Private Mortgage Insurance sector and ultimately moving toward a fully private sector mortgage insurance market, or is that too far out for you?

Mr. CASTRO. Thank you for the question, Senator. Well, I believe that the FHA does have an important role to play. Of course, it played a countercyclical role during this downturn, and as you mentioned, what we have seen is that as the housing market has gotten stronger and we see more private capital in the market, we have seen that market share go down.

Senator SHELBY. OK.

Mr. CASTRO. And, so, I believe that there is a strong role for the FHA, and if I am confirmed, I look forward to visiting with you and the Committee as we set that.

Senator SHELBY. Ms. Wertheimer, my time is running short—it is out, I guess—but, I would like to ask you one or two questions.

Chairman JOHNSON. Uh——

Senator SHELBY. What is your view of the level of independence needed between the IG and the Director of the FHFA and his senior staff, and how important is it for the Inspector General, which you have been nominated for, to not only have adequate resources—you have got to have those—but also unfettered access to all of FHFA's records and data?

Chairman JOHNSON. We will take this question, and then we will move to Senator Menendez.

Senator SHELBY. Go ahead. You can answer the question.

Ms. WERTHEIMER. Thank you, Senator. I think independence is at the core of the IG mission. The—and, I have deep experience leading independent investigations. I value the importance of a working relationship with the FHFA Director, to report to him on what has been found in a collegial manner. But, it is not a collabo-

rative relationship because the IG reports not only to the Director, but to Congress, and, therefore, in terms of reporting, what the IG has found, either in its evaluations or its audits or its investigations, will be communicated respectfully, but there will not be a collaboration on the reporting—on how to formulate a report.

With respect to access, access is at the core of how the IG can fulfill its mission. If there is not unfettered access to the materials, the output will not be worth anything.

Chairman JOHNSON. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Mayor Castro, I must tell you, there are not too many Castros I like——

[Laughter.]

Senator MENENDEZ.——but, I do like you and the Congressman, so I look forward to working with you as the——

Mr. CASTRO. Thank you.

Senator MENENDEZ.——Subcommittee Chair on Housing.

You know, as you and I had an opportunity to discuss, New Jersey faced the worst natural disaster in its history and thousands of lives were affected, and many are still affected. If confirmed, you would have an important role of administering and overseeing approximately $15 billion in Community Development Block Grant Disaster Relief funding that was appropriated by the Sandy Emergency Relief Act, which I fought to pass. I am glad to see that we have deviated from an original attempt to spend $2 billion of that money on a National Resiliency Competition. It is now to about a billion, and New Jersey is going to be eligible for that competition, which, originally, we were told we were not. So, we are moving in the right direction.

But, there is a lot still to be done. Many people are hurting in our State and in the region. So, I would like to invite you to join me on a tour of New Jersey to see both the work that has been done, but more importantly, see the work that has not been done and that is left still to achieve a full recovery and rebuild stronger. So, could I get your commitment as you move upon confirmation to visit with us in New Jersey, especially as the National Resiliency Competition is going to take place, to inform you of what the challenges we have.

Mr. CASTRO. Thank you very much for that question, Senator Menendez. I enjoyed our visit yesterday and want to commend you, as well, for your very strong and effective advocacy for folks who have been impacted by Superstorm Sandy. Of course, I would appreciate the opportunity to understand these issues even better by visiting New Jersey.

Senator MENENDEZ. Now, the State has some very well publicized issues with administering CDBG grants in this context, particularly with contractors and the approval process. As HUD awaits New Jersey's amended plan for the third tranche of funding, will you commit to working with me and the State to ensure proper contracting procedures are put into place and that the housing application process is as efficient as possible. All of these funds do nothing if, at the end of the day, it does not make its way to affected people.

Mr. CASTRO. I agree with you, and as a local official, of course, this has been my concern, ensuring that wherever resources come from, whether local, State, or Federal, that the rubber hits the road and that the lives that are meant to be impacted positively are impacted. If confirmed, I certainly will work with you to ensure that we do our best job on our—that HUD does its best job on its end to ensure success.

Senator MENENDEZ. You know, the Subcommittee held a hearing on the Section 8 Rental Assistance Voucher reform, and it is an issue of priority for our affordable housing advocates, public housing authorities, affordable housing developers. According to the National Low Income Housing Coalition, for example, in my State of New Jersey alone, we have a shortfall of more than 200,000 units affordable and available for our most vulnerable, extremely low-income households. And, nationally, the shortfall is greater than seven million. So, voucher reform, while some elements of this have been done by the Congress, there is still much work left to be done. Do you consider Section 8 Voucher reform legislation to be a priority, and will you work with us to help move the remaining elements of reform?

Mr. CASTRO. I appreciate the question. I certainly do understand the importance of looking at reform, and as was mentioned earlier, the significance of this as a line item in HUD's budget. Of course, I look forward to getting more up to speed on all the details of what is being proposed. However, if I am confirmed, I certainly will work with you and Members of the Subcommittee and this Committee to do what we can.

Senator MENENDEZ. I appreciate that. For me, it may be a line item, but this is about millions of people's lives.

Mr. CASTRO. Certainly.

Senator MENENDEZ. And, so, I may see it a little different than some of my colleagues, at the end of the day. From whence I came from and who I represent, I do not look simply at line items. I look at the lives that are affected. And, I hope that when you become HUD Secretary, you are going to look at the lives that are affected, not simply the line items——

Mr. CASTRO. Of course, Senator, I certainly will. I have done that throughout my time in public service, and as a local official have been primarily concerned with how the residents of my community are impacted by the actions that we take in public service. So, I recognize that, overall, we want people to have good housing opportunities, and if I am confirmed, look forward to working with you on that.

Senator MENENDEZ. I am sure you will. I just sometimes need to be the countervailing force here on some other——

Chairman JOHNSON. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman, and I thank both of you for your willingness to serve in this capacity. Mr. Chairman, I am going to help get you back on schedule here and be very brief.

To the Mayor, I know that as a former mayor, there is no job that is more gratifying, personally, than being the mayor of a city. As we change jobs, sometimes we have impact in different ways that maybe are not quite as up close and personal, but this certainly is a very important role. And, part of what you will be doing,

and you have discussed this with Members as you have answered questions, you will be involved in what happens with Freddie and Fannie. I mean, it ultimately affects FHA. Obviously, people seek your guidance.

I know we had a conversation about this, and I am going to ask most of my questions in writing so we can move along with this hearing, but it is my understanding that you do believe that the duopolistic nature of the way things are today with two enterprises basically being it relative to the secondary market, that you believe that that has no place in the American society and you would work with us to end that type of arrangement. I know that you were a little vague on support of the bill, and you should be at this point, but relative to that one point, it is my understanding you agree with that 100 percent.

Mr. CASTRO. Senator, thank you for the question and for the visit that we had. I absolutely believe that there are better alternatives than what we have in place with this duopoly, with the conservatorship. I agree with you on that point. And, I know, of course, as with any legislation, that the devil is in the details and finding that common ground. If I am confirmed, I look forward to being an active participant in that.

Senator CORKER. Well, to both of you, we will have some QFRs, and, Mr. Mayor, subject to those coming in appropriately, I look forward to supporting you in this nomination. I thank you both for your willingness to serve, and Mr. Chairman, I will turn over the rest of my time——

Chairman JOHNSON. Thank you

Senator CORKER.——and hopefully get some points for this. Thank you.

[Laughter.]

Chairman JOHNSON. Senator Brown.

Senator BROWN. You get points from Senator Tester for that, since he can now ask questions.

[Laughter.]

Senator BROWN. Thank you, Mr. Chairman.

Ms. Wertheimer, thank you for joining us, and Mayor Castro, nice to see you.

Two local concerns I want to raise, just not as a question, but to thank you for the discussion we had and what HUD has been doing and what I assume from our conversation we will continue. One involves the City Gospel Mission in Cincinnati, which we discussed, a religiously affiliated men's homeless shelter operating on HUD land. HUD has—the work that City Gospel has done to provide emergency housing in a way that meets HUD's Fair Housing expectations, obviously, are important. I think we are close, but we are not there yet. But, they serve an absolute critical need for homeless men in Cincinnati without restricting access to service or employment and I appreciate the work that you have done there and thanks for your interest in moving that along.

Second was the issue of streamlining multi-family operations. I understand 50 offices will be consolidated into just 12. As of 2016, there will no longer be any multi-family operations in many States, including Ohio, the seventh-biggest State in the country. I support efforts to make HUD more efficient. I share the concerns of Ohio's

community leaders, though, that eliminating on-the-ground supervision could lower the quality of multi-family residences and reduce compliance.

Secretary Donovan was highly engaged. We had perhaps three, maybe four conversations about it. My staff and his staff worked assiduously on it. Since the plan was announced, your predecessor committed to ensure the transition does not negatively impact the millions of families it employs who are affected by these local multi-family offices. So, taking care of the service they provide and the workers that are employed there, and I appreciate your commitment on that.

Now, let me ask one question. A year ago, HUD proposed updates on a rule to ensure that recipients of HUD funds are living up to their commitment to affirmatively further Fair Housing goals. But, 9 months after comments were received, HUD still has not received the proposed data tools that would be included for public feedback, nor has it finalized the much-needed changes it proposed last July. Just tell me, if you would, tell the Committee what steps that you will take to make sure that State and local recipients of HUD funds engage in meaningful discussions about providing equal housing opportunities for people in our country.

Mr. CASTRO. Thank you very much for the question, Senator Brown, and for the visit that we had the other day. I, of course, have not been part of the rulemaking process before now. However, with regard to affirmatively furthering Fair Housing, I do believe it is important that there be that kind of guidance and comments from local authorities. I know that the San Antonio Housing Authority, for instance, provided comments. And, so, what I can commit to right now, whether it is this issue or another rule that is on the table, is that we will diligently proceed and take in the comments and consider them, and more generally, that I consider this something of importance for our local housing authorities.

Senator BROWN. OK. Thank you. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you. Seth tells me that we will wait until ten after eleven. I apologize for this, but if you could abbreviate your questions slightly. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman, and I will try to abbreviate my question.

Thank you, Ms. Wertheimer and Mayor Castro. Good to see you both, and I appreciate the discussion we had in my office, Mayor Castro, but I do need to follow up on one of the topics we discussed.

Many Members of this Committee have already alluded to the ongoing work to reform housing finance. And, while we have a range of opinions about how best to do that, I believe there is a unanimous agreement on this Committee that, however we do it, it has got to involve bringing private capital into financing residential mortgages.

At the same time that we are having this discussion, as you know, there is a movement underway to attempt, by certain communities, to attempt to use eminent domain as an argument to justify confiscating mortgages from private lenders at a discount, some who knows what discount to what they are actually worth.

First of all, I think it is a blatant violation of contract sanctity if they go ahead and do this. It is a taking of private property for

private gain, which I think our Constitution clearly forbids. And, it cannot but have a devastating impact on the ability to attract private capital, if private lenders know that they run this risk.

So, my question is, as HUD Secretary, will you take active steps to deter this kind of activity, and specifically, would you forbid the FHA from participating in the refinancing of mortgages that were confiscated using eminent domain?

Mr. CASTRO. Yes. Thank you very much, Senator, for the question and for our conversation the other day. As I mentioned the other day in our conversation, this particular device that I know a handful of cities have employed was an issue of first impression for me. This is not something that the city of San Antonio has tried. I understand, in fact, that it has not been put into effect actually in any city and that there is litigation surrounding it.

I can understand why communities with a whole bunch of folks who are underwater might think of this method. However, I do see your point on why it causes concern among mortgage lenders. And, at this time, I would say that, if I am confirmed, I would look forward to visiting with you and with Committee Members on what HUD's programmatic response ought to be.

Senator TOOMEY. Well, I mean, I appreciate the ongoing discussion and the visiting, but I really think Senators ought to know what your views are about using eminent domain to confiscate mortgages and would you intend to allow the FHA to participate in that.

Mr. CASTRO. Thank you, Senator. I can certainly see your concern, and as I said, it is not something that the city of San Antonio, or under my leadership, we ever proposed or drew up. I would like, however, if I am confirmed, the opportunity to get a little bit more detail on the issue, understand it a little bit better, and then take that up with you and Members of the Committee.

Senator TOOMEY. So, I see I am not going to get an answer to my question, Mr. Chairman, and I will yield the balance of my time.

Chairman JOHNSON. Senator Tester.

Senator TESTER. It is good to have you here, Mayor, along with your wife and your brother. I appreciate you being willing to serve.

You had talked in an earlier question about taxpayers should not be in first position of loss with Fannie Mae and Freddie Mac. Do not let me put words in your mouth, but that is what I heard. Do you believe that the taxpayers can be protected without reform of Fannie Mae and Freddie Mac?

Mr. CASTRO. Thank you, Senator, for the question. I believe that reform would be preferable to what we have in place now if the Nation were to experience another downturn, another housing crisis as we just experienced, and for that reason, I commend the Committee for working toward a housing finance model that takes the taxpayers out of their position of first loss and puts the private sector in that position.

I fully understand, though, as well, the concerns of folks with regard to the other part of the balance, which is access to credit, and that we have had a housing finance system in place that seeks to ensure opportunity for Americans of modest means who are creditworthy borrowers. So, I can understand the very real concerns.

If I am confirmed, I would look forward to, hopefully, bringing some fresh energy to this and to working with Members of the Committee who are willing to work to find a resolution. So, just to answer your question, I do not believe that the taxpayers are nearly as protected as they could be under this different model and that is a positive of the legislation.

Senator TESTER. OK. Do you think that access to credit versus taxpayer protection, do you believe we can have both?

Mr. CASTRO. I absolutely believe that we can have both, and I know and I commend the Members of this Committee for working toward those dual goals. And, if I am confirmed, I look forward to working with you to achieve both of those goals that I believe need to be a part of any legislation.

Senator TESTER. Housing conditions in Indian Country are in terrible shape. We visited about it when we were in my office. And, I appreciate the work that HUD has done in Indian Country. There is some word that the agency might be looking at different data sources and could potentially change the funding for Tribes that would have a negative effect on the Tribes in Montana. Could you give me assurances that any new formula that the agency would use in the future to allocate Tribal housing funds would not unduly disrupt the ongoing Tribal housing programs?

Mr. CASTRO. Thank you for that, and I want to commend you for the strong advocacy that you have shown in our conversations, and more generally, with respect to Tribal communities. I absolutely would agree with you that what we want to do is provide through our actions more—or, HUD wants to provide more housing opportunities and not less, and so what we—what HUD would seek to do, if I am confirmed, is to work with our Tribal communities, as we traditionally do, and also with you, Senator, and with the Committee to achieve a good balance.

Senator TESTER. I look forward to that.

Ms. Wertheimer, could you talk about what exactly would be required of the Federal Government if additional assistance were required and what obligations the enterprises would have to the taxpayers.

Ms. WERTHEIMER. You mean, were the enterprises to——

Senator TESTER. That is correct.

Ms. WERTHEIMER.——operate at a loss——

Senator TESTER. That is correct.

Ms. WERTHEIMER.——and then need to draw down?

Senator TESTER. Yes.

Ms. WERTHEIMER. The formula for when additional monies can be accessed has been set in the agreements that are in place. I think the taxpayers are already invested to the tune of a hundred-and——

Senator TESTER. Eighty-seven.

Ms. WERTHEIMER.——87.5 billion, and additional draws would further increase the risk to those taxpayers. It seems to me that the mission of the Inspector General's office——

Senator TESTER. Yes.

Ms. WERTHEIMER.——which is independent, rigorous, thorough oversight, does not change, because the fact that the taxpayers' burden is increased heightens, if you will, the mission of the OIG,

but does not change what it will do in terms of its audits, evaluations, and investigations.

Senator TESTER. Thank you. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Warner, we have a couple minutes.

Senator WARNER. I will be very—as brief as I can be, because I want to make sure Senator Warren gets her two cents in.

Thank you both for your willingness to serve.

Ms. Wertheimer, I am going to ask you a written question about the recent OIG, FHFA OIG report on the common securitization platform and how we move forward on that.

Mayor Castro, great to see you. I enjoyed our visit. I simply want to—I know you are going to get up to speed on GSE reform. I would commend you, under Secretary Miller's recent comments pointing out that the current profitability of the GSEs is unsustainable, that they, with their shrinkage requirement of 15 percent of their portfolio on a regular basis, the small amount of profits they are making is disappearing. It would take 20 years to recapitalize them. We would still have the same debate—are they going to be for-profit, not-for-profit?

We have discussed the current status quo, which has, particularly access to credit to African Americans, Latinos at an all-time low.

And, the question that Senator Tester asked about—and was directed toward Ms. Wertheimer—the recent stress test shows a potential vulnerability of up to $190 billion of additional. Now, we do need to make sure credit locks and others, and Senator Warren, in particular, and others have been working on how we improve this legislation.

So, I would simply ask, again, maybe for the fourth or fifth time, my hope is you will be confirmed, that you will get up to speed very, very quickly, and that GSE reform will be first out of the box on your list of priorities. Do you want to add a quick comment to that so we can move to Senator Warren?

Mr. CASTRO. Thank you, Senator, for the comments, and as I mentioned, if I am confirmed, I do look forward to working with you and with the Committee to hopefully bringing some fresh energy to this and to helping to move a housing finance model that I think works for Americans.

Senator WARNER. And, I will just simply add, there are improvements on the legislation that Senator Warren and others of ours have been working on. But, I would commend the urgency of Under Secretary Miller's comments about how vulnerable taxpayers are, as well as some of the just awful access to credit for low-income people at this moment in time.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Warren.

Senator WARREN. Thank you very much, Mr. Chairman, and thank you, Senator Warner, for your speed.

Thank you both for being here, for your willingness to serve. I am going to submit questions for the record, but I do want to make a point. You have been asked about GSE reform repeatedly because it is so important, important to our economy. We have talked about different problems we face right now. I would emphasize the problem of access, that many people are being cut out of the housing

market. You know, in 2001, before the housing bubble, when Fannie and Freddie were operating normally, the average credit score for a borrower receiving a Fannie- or Freddie-backed purchase money loan was 711. By 2013, the average credit score had jumped to 756. So, in the wake of the financial crisis of 2008, more American families are struggling with damaged credit, but Fannie and Freddie have raised standards by nearly 50 points. Keep in mind that nearly 50 million Americans lie between those two points on the credit score continuum. The story is much worse for African American families, for Hispanic families. We have got to change what is happening with Fannie and Freddie. We have got to make reforms, and a large part of that is because of access. Any kind of reforms we do have got to be reforms that make mortgages accessible to middle-class families, that make mortgages accessible to families that are trying to build the American dream for themselves.

So, I will stop there and submit the questions around that for the record.

Thank you, Mr. Chairman.

Chairman JOHNSON. I thank all the nominees for your testimony and for your willingness to serve our Nation.

I will remind Members to submit questions for the record by noon this Friday, June 20. Nominees, please submit your answers to the written questions as soon as possible so that we can move your nominations forward in a timely manner.

This hearing is adjourned.

[Whereupon, at 11:13 a.m., the hearing was adjourned.]

[Prepared statements, biographical sketches of nominees, and responses to written questions supplied for the record follow:]

## PREPARED STATEMENT OF JULIAN CASTRO

TO BE SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

JUNE 17, 2014

Thank you Chairman Johnson, Ranking Member Crapo and Members of the Committee for welcoming me today. I am deeply honored to appear before you as President Obama's nominee for Secretary of the Department of Housing and Urban Development. I want to thank President Obama for his confidence in me.

Allow me to also thank Senator Cornyn. He is a dedicated public servant, who also happens to hail from the great city of San Antonio, and I am incredibly grateful for his support and his generous introduction.

I want to express my deep gratitude to my family and friends, especially my wife, Erica, and my brother, Congressman Joaquin Castro, both of whom have joined me. Without their support, I simply would not be here today.

Finally, I want to commend this Committee, which has a well-earned reputation for working in a bipartisan fashion on behalf of the American people. It has been a pleasure to meet with you and your staff throughout this process. If confirmed, I look forward to our continued engagement to advance issues critical to our Nation's future.

Mr. Chairman, I appear before you today with more than just professional experience in dealing with housing and urban development. I also bring my own personal experience. I grew up on the West Side of San Antonio in a neighborhood of hard-working families of very modest means. My father—at two different times in his life—lived in public housing. My mother worked for the San Antonio Housing Authority.

I've seen with my own eyes how talented and driven Americans who just want a fair shot are weighed down by the conditions in which they live, and this simply isn't right. All Americans deserve the same opportunities that I had, and I've dedicated my career to giving back to the country that has given so much to me.

As Mayor, I made it my mission to help create a vibrant, economically prosperous urban core that expands housing opportunities for all San Antonians. In 2010, we launched the "Decade of Downtown", an initiative to spark investment in our center city and older neighborhoods. This effort has attracted $350 million in private sector investment, which will produce more than 2400 housing units by the end of 2014.

Looking ahead, during my recent visits with Committee Members, many of you asked about my priorities if I am confirmed. Allow me to share two of them with you. First, I am a strong believer in cross-agency collaboration. San Antonio's East Side is the only neighborhood in America to receive a Promise Neighborhoods grant, a Choice Neighborhoods grant, a Byrne Criminal Justice Program grant and a Promise Zone designation. We accomplished this by getting beyond silos and working across agencies to improve housing, educational achievement and overall quality of life. This is the kind of collaborative approach I would like to enhance at HUD.

Second, as a local elected official, I am also keenly aware of the value of measuring results. In San Antonio, we initiated a process of unprecedented public engagement and accountability called SA2020. Through a series of community meetings, residents spoke clearly about what kind of city they wanted to be in 2020. But we didn't just set a vision. We set precise, numeric goals for achieving our vision. We promised the community that we would come back every year and report back on how we were doing: good or bad. With the help of the State demographer, we developed a public report card, available for anyone to see on *SA2020.org,* to give San Antonians a real-time snapshot of how we're doing.

Similarly, I would like HUD to focus on outcomes, not only inputs. We shouldn't just track projects and dollars spent. We must measure those investments by the impact they make. Secretary Donovan has built a strong foundation for this and, if confirmed, I will work hard to make this the norm at HUD.

HUD's role is one of the most critical in Government because it directly impacts American families. From enforcing fair housing rights to revitalizing distressed areas—from assisting veterans in finding permanent housing to helping communities rebuild after a natural disaster hits—the Department is making an impact in small towns, big cities, rural communities and tribal communities across the country.

The 21st century is shaping up to be the century of cities. And I believe there's a reason for that: In America's local communities, partnerships and pragmatism are the key drivers to success. That perspective has guided my efforts. If confirmed, I look forward to working with you to strengthen opportunity for Americans through HUD's efforts.

Once again, thank you Chairman Johnson, Ranking Member Crapo and Members of the Committee for your consideration of my nomination. It is an honor to appear before you. I would be happy to answer your questions.

## STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

**Name:** Castro (Last) Julian (First) (Other)

**Position to which nominated:** Secretary of Housing and Urban Development

**Date of nomination:** Expected June 2, 2014

**Date of birth:** 09/16/1974 (Day) (Month) (Year) **Place of birth:** San Antonio, Texas

**Marital Status:** Married **Full name of spouse:** Erica Lira Castro

**Name and ages of children:** Carina Victoria Castro, age 5

**Education:**

| Institution | Dates attended | Degrees received | Dates of degrees |
|---|---|---|---|
| Stanford University | 9/1992-6/1996 | BA | 6/1996 |
| Harvard Law School | 9/1997-6/2000 | JD | 6/2000 |

**Honors and awards:** List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

2010 Aspen-Rhodel Fellow, Aspen Institute
Philosophical Society of Texas (Inducted 2012)

**Memberships:** List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

| Organization | Office held (if any) | Dates |
|---|---|---|

National League of Cities (NCL):
- 2010 Member, NLC Council on Youth, Education and Families
- 2011-2012 NLC Board of Directors
- 2011 Board Liaison: Youth, Education and Families Council
- 2011 Board Policy & Legislative Committee

University of Chicago, Institute of Politics, Board Member (1/2013-present)
Inter-American Dialogue, Member (1/2012-present)
Markle Initiative for America's Economic Future in a Networked World, Member (7/2013-present)
Lyndon B. Johnson Foundation, Board Member (10/2013-present)
Mayors for the Freedom to Marry National Campaign – Co-Chair, (9/2013-present)
Mayor's Educational Excellence Tour Task Force (1/2013-present)
SA2020 Board of Directors, Chairman (1/2013-present)
City Public Service, Board Member (6/2009-present)
San Antonio Water System, Board Member (6/2009-present)

BioMed SA: Ex Officio Executive Committee Member (6/2009-present)
Texas Bio Medical Research Institute, Board Member (6/2011-6/2013)
Centro Partnership, Board of Directors (1/2011-present)
Witte Museum, Honorary Trustee (6/2009-present)
Committee of Six, Board Member (6/2009-present)
San Antonio Economic Development Corp.(5/2010-present)
San Antonio National Bank, Advisory Board Member (2006-2007)

**Employment record:** List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

Mayor of San Antonio
City of San Antonio
San Antonio, Texas
6/2009-present

Self-employed attorney
The Law Offices of Julian Castro, PLLC
San Antonio, Texas
9/2005-present

Attorney
Gonzales, Hoblit & Ferguson
San Antonio, Texas
8/2003-9/2005

Self-employed attorney
Castro, Borrego & Castro, Inc.
San Antonio, Texas
8/2002-8/2003

Attorney
Akin, Gump, Strauss, Hauer & Feld
San Antonio, Texas
9/2000-1/2002

Summer Associate
Vinson & Elkins
Austin, Texas
7/1999-8/1999

Summer Associate
Baker & McKenzie
San Francisco, California
7/1999-7/1999

Summer Associate
Akin, Gump, Strauss, Hauer & Feld

San Antonio, Texas
6/1999-7/1999

Summer Associate
Baker & McKenzie
San Francisco, California
6/1998-8/1998

Administrative Assistant
City of San Antonio Office of Special Projects
San Antonio, Texas
1/997-7/1997

Substitute Teacher
San Antonio Independent School District
San Antonio, Texas
9/1996-12/1996

Legal Assistant (Intern)
White & Case
New York, New York
7/1996-8/1996

**Government experience:** List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Mayor of San Antonio, 6/2009-present
City Councilman, City of San Antonio, 6/2001-6/2005
Administrative Assistant, Office of Special Projects, City of San Antonio, 1/1997-7/1997
Substitute teacher, San Antonio Independent School District, 9/1996-12/1996
Intern, Office of Cabinet Affairs, The White House, 7/1994-8/1994

**Published Writings:** List the titles, publishers and dates of books, articles, reports or other published materials you have written.

I have done my best to identify books, articles, columns, publications or relevant speeches, including a thorough review of personal files and searches of publicly available electronic databases. Despite my searches, there may be other materials I have been unable to identify, find or remember. I have located the following:

"San Antonio education initiatives can spread." Author: Julián Castro, San Antonio Express-News, March 5, 2014.
"Seeking freedom for everyone." Authors: Julián Castro and Evan Wolfson, San Antonio Express-News, February 11, 2014.

"Improved broadband vital in classrooms." Authors: Julián Castro and Jessica Rosenworcel, San Antonio Express-News, June 26, 2013.
"How Strong Community Buy-In Helped to Change the Course of San Antonio and its Health." Author: Julián Castro, America's Health Rankings: United Health Foundation." 2013 edition.
"San Antonio as a Face of the Future: A Model City's Approach to Health and Wellness." Author: Julián Castro, American Journal of Preventive Medicine, March 2013.
"Continue San Antonio's progress in 2013." Author: Julián Castro, San Antonio Express-News, December 28, 2012.
"UTSA closer to Tier One goal, but needs state assist." Authors: Julián Castro and Nelson Wolff, San Antonio Express-News, May 25, 2012.
"San Antonio success story gaining traction." Author: Julián Castro, San Antonio Express-News, February 7, 2012.
"Give to community by helping VITA tax filing program." Author: Julián Castro, San Antonio Express-News, December 30, 2010.
"A way to give back to community." Author: Julián Castro, San Antonio Express-News, December 23, 2010.
"Alamo City: City should continue with its momentum." Author: Julián Castro, San Antonio Express-News, December 31, 2012.
"Education attainment still outside grasp." Author: Julián Castro, San Antonio Express-News, August 13, 2012.
"Defending the Voiceless Immigrants-and Future Generations." Author: Julián Castro , Americas Quarterly, Spring 2012, Pg. 58 Vol. 6 No. 2.
"Obamas' invitation a salute to S.A.'s approach to future." Author: Julián Castro, San Antonio Express-News, February 8, 2012.
"Invest in American Brainpower." Author: Julián Castro, the Atlanic, July 15, 2011.
"Louise Locker for Dallas Morning News Texan of the Year." Author: Julián Castro, Dallas Morning News, November 24, 2010.
Forward, Author: Julián Castro, Harvard Law & Policy Review, Vol.6-1, 2012.
http://web.archive.org/web/20120522215054/http://hlpronline.com/wp-content/uploads/2012/03/Castro61.pdf
"Memo to Texas Cities: Adapt or Fail." Author: Julián Castro, Texas Tribune, May 13, 2014.
http://www.tribtalk.org/2014/05/13/memo-to-texas-cities-adapt-or-fail/

Unscripted video blog with the San Antonio Express-News (taped roughly weekly between 2009 and 2012), archive available at: http://blog.mysanantonio.com/julian-castro/.

**Political Affiliations and activities:** List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Speech to Democratic National Convention (9/2012)
Speech to Wisconsin Democratic Party (6/2013)
Speech to Florida Democratic Party Jefferson Jackson Dinner (6/2013)
Speech to Arizona Democratic Party annual dinner (5/2013)
Speech to Ohio Democratic Party (3/2013)
Speech to Young Democrats of America Convention (8/2013)
Speech to California Democratic Party Convention (3/2014)
Speech to Democratic Party of Tulsa, OK (3/2014)

**Political Contributions:** Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

**Contributions from Julian Castro For Mayor Campaign 2004-2014**

| Campaign/Committee Name | Amount | Date |
|---|---|---|
| Annie's List | $500.00 | 10/14/2008 |
| Leticia Cantu for District 4 | $500.00 | 2/28/2011 |
| PAC of Windstead PC | $750.00 | 5/12/2011 |
| Bexar County Democratic Party | $1,000.00 | 6/7/2011 |
| Philip Cortez Campaign | $2,500.00 | 9/21/2011 |
| Mission Democrats of Bexar County | $500.00 | 9/29/2011 |
| Mission Democrats of Bexar County | $500.00 | 10/31/2011 |
| Philip Cortez Campaign | $1,000.00 | 12/30/2011 |
| Democratic Congressional Campaign Committee | $1,000.00 | 2/15/2012 |
| Choco Meza Campaign | $1,000.00 | 2/22/2012 |
| David Medina Campaign | $500.00 | 4/5/2012 |
| Philip Cortez Campaign | $1,000.00 | 5/29/2012 |
| Philip Cortez Campaign | $1,000.00 | 7/12/2012 |
| Rey Saldana for District 4 | $500.00 | 4/29/2013 |
| Bexar County Young Democrats | $1,000.00 | 8/19/2013 |
| Wendy R. Davis for Governor | $2,500.00 | 12/18/2013 |
| Philip Cortez Campaign | $1,000.00 | 1/10/2014 |
| Southwest Voter Registration Education Project | $1,000.00 | 5/7/2014 |

**Contributions from Texas Tomorrow PAC 2004-2014**

| Campaign/Committee Name | Amount | Date |
|---|---|---|
| Leticia Van de Putte for Lt. Governor | $2,500.00 | 3/26/2014 |
| Battleground Texas | $2,000.00 | 3/31/2014 |
| Leticia Van de Putte for Lt. Governor | $2,500.00 | 5/15/2014 |

**Contributions from Julian Castro (PERSONAL) 2004-2014**

| Campaign/Committee Name | Amount | Date |
|---|---|---|
| John Edwards for President | $1,000.00 | 3/15/2007 |
| Hillary Clinton for President | $2,300.00 | 9/26/2007 |
| Obama for America | $1,000.00 | 10/24/2008 |
| Obama Victory Fund | $1,000.00 | 10/27/2008 |
| Castro For Congress | $2,500.00 | 7/5/2011 |
| Castro For Congress | $2,500.00 | 7/5/2011 |
| Choco Meza Campaign | $1,000.00 | 1/1/2012 |
| Obama Victory Fund | $500.00 | 9/21/2012 |

**Qualifications:** State fully your qualifications to serve in the position to which you have been named.

I have served as Mayor of San Antonio since 2009. In that time I have come to understand the challenges of housing and urban redevelopment from a ground-level perspective. A major component of my administration has involved setting policy direction and collaborating with City of San Antonio staff, the San Antonio Housing Authority, the San Antonio Independent School District and others to improve housing stock, educational achievement and quality of life in San Antonio's urban core. This has included the successful pursuit of a Choice Grant, Promise Neighborhood Grant, and a Promise Zone Designation on San Antonio's historically underserved Eastside. Through SA2020, a community-wide visioning effort, the San Antonio community set a goal in 2011 of stimulating the development of at least 5,000 housing units downtown (later increased to 7,500) by 2020. In the three years since, more than 2400 units have been constructed, are under construction or are in the planning phase for construction due to incentive policies enacted by the City of San Antonio.

Prior to becoming Mayor, I founded The Law Offices of Julian Castro, PLLC, a civil litigation firm. From 2001 through 2005, I served as a city councilman on the San Antonio City Council. During this time, I chaired an effort to develop a new approach to reducing hunger and homelessness in San Antonio. This effort contributed, in part, to a vastly more collaborative relationship between the City of San Antonio and local non-profits focused on service delivery to low-income and homeless residents.

On a personal level, ensuring that Americans of all backgrounds, income levels and abilities have safe, good housing is important to me. My father spent time as a teenager living in public housing, and I attended school with many classmates who lived in public housing. I am convinced that the Department of Housing and Urban Development can play a vital role in boosting self-sufficiency and making the American Dream more possible.

I earned my undergraduate degree from Stanford University in 1996 and a juris doctorate from Harvard Law School in 1996.

**Future employment relationships:**

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

**Potential conflicts of interest:**

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of Housing and Urban Development's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the Department's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of Housing and Urban Development's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the Department's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of Housing and Urban Development's Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the Department's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of Housing and Urban Development's

Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the Department's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

**Civil, criminal and investigatory actions:**

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

A. In 2005, while serving as city councilman, two complaints were filed with the San Antonio Ethic's Review Board alleging violations of city ethics code. One of the complaints was dismissed. In the other, the Board found that a violation of campaign finance rules had occurred, and a letter of admonition was issued. No penalties were imposed.

B. On March 1, 2013, a Texas political action committee filed a complaint against me (and eight other City Council members) with the Texas Ethics Commission ("TEC") alleging improper reporting and other infractions in campaign finance documents. The TEC is still investigating these allegations and has yet to make a ruling.

C. I have not been sued in my personal capacity. As Mayor of San Antonio, I have been named in my official capacity in the following lawsuits, but was not directly involved and none resulted in any findings of wrongdoing against me.

a. International Firefighters Association v. City of San Antonio, 2003-CI-17779, Bexar County, Texas. November 2003. This litigation involved claims related to collective bargaining. The petition was non-suited.
b. Jennifer D. Ramirez v. Sheryl Sculley et al., 2009-CI-15309, Bexar County, Texas. September 2009.This suit involved a vendor's claims against the City of San Antonio.
c. Michael Idrogo v. Sarah Garrahan et al., 2010-CI-12389, July 2010. This suit involved a pro se plaintiff who sued numerous elected officials on numerous causes of action. The suit was dismissed.
d. Christopher Casals et al. v. City of San Antonio et al., 2010-CI-18854, Bexar County, Texas. November 2010. This suit appears to have involved a contractual dispute with the City of Antonio. The suit is pending.
e. Patrick Greene v. Julian Castro, 2011-CI-16993, Bexar County, Texas. October 2011. This suit appears to be an administrative appeal of a decision by the San Antonio City Council. An order granting dismissal for want of prosecution was filed.
f. Patrick Greene v. Julian Castro et al. 2012-CI-07192, Bexar County, Texas. April 2012.The subject matter of this suit is not known to me. This petition was non-suited by plaintiff.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

In 2003, an opposing pro se plaintiff filed a complaint against me with the State Bar of Texas. The Bar analyzed the complaint and determined that no violations had occurred.

The undersigned certifies that the information contained herein is true and correct.

Signed: _____ Date: 5/30/14

## PREPARED STATEMENT OF LAURA S. WERTHEIMER

TO BE INSPECTOR GENERAL, FEDERAL HOUSING FINANCE AGENCY

JUNE 17, 2014

Chairman Johnson, Ranking Member Crapo and Members of the Committee, thank you for this opportunity to appear before you today. I am honored to be President Obama's nominee for Inspector General of the Federal Housing Finance Agency ("FHFA"). The FHFA plays a critical role in our financial system as the safety and soundness regulator of the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the Federal Home Loan Bank System, comprised of 12 regional Federal Home Loan Banks ("FHLBanks"). Since September 2008, Fannie Mae and Freddie Mac have been in conservatorship under FHFA, because of concern that their deteriorating financial condition threatened the stability of the financial markets. Fannie Mae and Freddie Mac currently own or guarantee $5 trillion in mortgages, three out of every four mortgages in this country.

The FHFA Inspector General's mission is to promote the economy, efficiency, and effectiveness of FHFA's programs and operations. To carry out this mission, OIG conducts and coordinates audits and evaluations of FHFA's activities, which includes FHFA's regulation of Fannie Mae, Freddie Mac, and the FHLBanks and its conservatorships of Fannie Mae and Freddie Mac, and investigations involving FHFA, Fannie Mae, Freddie Mac, and the FHLBanks. Strong independent oversight of FHFA programs and operations is critical to safeguard taxpayer dollars and ensure that FHFA programs and the FHFA's conservatorships of Fannie Mae and Freddie Mac are conducted in accordance with the laws enacted by Congress.

Much of my professional career has focused on leading investigations into alleged wrongdoing and counseling clients on improvements to internal controls and processes to prevent and detect violations of governing laws and regulations. I have significant experience running independent investigations for audit committees and committees of independent directors of public companies looking into financial statement reporting and disclosure errors, alleged accounting irregularities, misconduct by corporate officers and employees, possible improper payments to foreign government officials, whistleblower claims, and other significant issues identified by internal or external auditors. These investigations followed the facts wherever they led, without fear or favor; developed remedial measures tailored to the facts found; and monitored implementation of that remediation.

If confirmed as the FHFA Inspector General, I will exercise my duties aggressively and independently. I have a deep appreciation of the critical importance of conducting rigorous, fair and thorough audits, evaluations and investigations, communicating the results to stakeholders clearly and holding individuals and entities accountable for their actions. I pledge to be responsive to this Committee and to Congress as a whole and will work to develop a good working relationship with the FHFA Director.

After more than 30 years in the private sector, I am honored to have an opportunity for public service. My father was a first generation immigrant who came to this country with his parents in 1938, escaping with the clothes on their backs and speaking only German. My grandparents had to reinvent themselves in a strange, new environment: my grandmother found work as a domestic house cleaner and my grandfather was employed to scrub out cocoa barrels on the New York docks. Together, they earned enough to rent an apartment in Kew Gardens, a community populated with German and Austrian refugees. My father enrolled in New York City public schools, learned to speak unaccented English, and graduated as valedictorian of his high school class.

America has given much to me and to my family. I am eager to give something back to America.

Thank you and the Committee for your consideration of my nomination. I look forward to answering your questions.

## STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

**Name:**

Wertheimer Laura (Other)

**Position to which nominated:** Inspector General, Federal Housing Finance Agency

**Date of nomination:** 5/22/14

**Date of birth:** 11/26/1955 (Day) (Month) (Year) **Place of birth:** New York, New York

**Marital Status:** Married **Full name of spouse:** Andrew John Pincus

**Name and ages of children:**

Joshua Lowell Wertheimer Pincus: 26

Katharine Elizabeth Wertheimer Pincus: 21

**Education:**

| Institution | Dates attended | Degrees received | Dates of degrees |
|---|---|---|---|
| Livingston High School Livingston, New Jersey | 9/1970-6/1973 | Diploma | |
| Yale College Yale University | 9/1973-5/1977 | B.A. | 5/1977 |
| Columbia University School of Law | 9/1978-5/1981 | J.D. | 5/1981 |

**Honors and awards:** List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

Yale College:
Graduated magna cum laude
Elected to Phi Beta Kappa

Columbia University School of Law:
Harlan Fiske Stone Scholar
Publishable Notes Editor, Columbia Law Review

Best Lawyers in America:
Selected by peers for inclusion in every edition since 2002

Washingtonian Magazine
Selected as one of the top lawyers in Washington DC in the area of securities law in 2007, 2009 and 2011

**Memberships:** List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

| Organization | Office held (if any) | Dates |
|---|---|---|
| Phi Beta Kappa | | 5/77-present |
| Georgetown Day School | Trustee | 9/00-6/06 |

**Employment record:** List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

| | | | |
|---|---|---|---|
| ManTech International | Research Analyst | Rockville, Maryland | 9/1977-8/1978 (estimated) |
| Fried, Frank, Harris Shriver & Jacobson | Summer law clerk | New York, New York | 5/1979-7/1979 (estimated) |
| Wilmer, Cutler & Pickering | Summer law clerk | Washington, D.C. | 5/1980-8/1980 (estimated) |
| U.S. Court of Appeals for the D. C. Circuit | Law Clerk | Washington, DC | 9/1981-9/1983 (estimated) |
| Shea & Gardner | Associate, Partner | Washington, DC | 10/1983-6/2003 (estimated) |
| Wilmer, Cutler Pickering Hale & Dorr | Partner | Washington, DC | 7/2003-present (estimated) |
| Washington College of Law American University | Adjunct Professor | Washington, DC | 9/2001-6/2012, intermittently |

**Government experience:** List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

I served as a law clerk on the U.S. Court of Appeals for the D. C. Circuit from 1981-1983.

**Published Writings:** List the titles, publishers and dates of books, articles, reports or other published materials you have written.

I have done my best to identify books, articles, reports or other published materials, including a thorough review of personal files and searches of publicly available electronic databases. Despite my searches, there may be other materials I have been unable to identify, find or remember. I have located the following:

Co-authored with other authors:

"Attorneys Caught in the Ethical Crosshairs: Secretkeepers as Bounty Hunters Under the SEC Whistleblower Rules," April 14, 2014 edition of Bloomberg BNA's Securities Regulation & Law Report, Vol. 46, No. 711.

"Don't Tread on Whistleblowers: Mitigating and Managing Retaliation Risks—Part II," January 27, 2014 edition of Bloomberg BNA's Securities Regulation & Law Report, Vol. 46, No. 167.

"Don't Tread on Whistleblowers: Mitigating and Managing Retaliation Risks—Part I", January 13, 2014 edition of Bloomberg BNA's Securities Regulation & Law Report, Vol. 46, No. 77.

"Dispatches From the Whistleblower Front: Five Common Pitfalls For Companies to Avoid," July 22, 2013 edition of Bloomberg BNA's Securities Regulation & Law Report, Vol. 45.

"Year Three of the SEC Whistleblower Program: Will It Turbocharge SEC Enforcement?," May 13, 2013 edition of Bloomberg BNA's Securities Regulation & Law Report, Vol. 45.

"Preparing for the Deluge: How to Respond When Employees Speak Up and Report Possible Compliance Violations," May 7, 2012 edition of Bloomberg BNA Securities Regulation & Law Report, Vol. 44, No. 922.

"Get Ahead of the Bus or Be Hit by the Bus: Practical Strategies for Meeting the Challenges and Mitigating the Risks of the Dodd-Frank Whistleblower Program," March 12, 2012 edition of Bloomberg BNA Securities Regulation & Law Report, Vol. 44, No. 526.

"Responding to a corporate crisis—A framework for dealing with bad news," Journal of Securities Law, Regulation & Compliance, Vol. 3, No. 1 (March 2010).

"Data Detours In Internal Investigations In EU Countries: Parts I & II," Metropolitan Corporate Counsel, October and November 2008.

WilmerHale "Client Alerts": Over the past three years, my name has appeared on a number of "client alerts" that have been distributed byWilmerHale relating to the Dodd-Frank whistleblower rules adopted by the SEC. These alerts largely summarized longer articles that I co-authored relating to these rules and their implementation (identified above). I reviewed these alerts before they were distributed and, at times, made edits and revisions.

1980 student note in Columbia Law Review analyzing LaSalle National Bank case.

**Political Affiliations and activities:** List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

**Political Contributions:** Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

| | | |
|---|---|---|
| John Edwards for President | $2300. | 3/06/07 |
| Hillary Clinton for President | $2300. | 10/22/07 |
| Barack Obama for President: | $4600. | 6/19/08 |
| Mary Jane Theis for Illinois Supreme Court | $3000. | 3/15/12 |

**Qualifications:** State fully your qualifications to serve in the position to which you have been named. (attach sheet)

Please see attached resume

**Future employment relationships:**

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

**Potential conflicts of interest:**

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

I am entitled to receive a payment from WilmerHale of approximately $400,000 in 12 installments for work performed during 2014. Upon my confirmation and resignation from the law firm, WilmerHale will accelerate this payment and pay me the balance of the $400,000. As a result, Wilmer Hale will pay the full amount of $400,000 to me before I assume the duties of the position of Inspector General. For a period of two years from the date of this payment, I will not participate personally and substantially in any particular matter involving specific parties in which WilmerHale is a party or represents a party, unless I first receive a written waiver pursuant to 5 C.F.R. § 2635.503(c).

Pursuant to WilmerHale's early retirement policy, I will receive annual payments of $175,000 until age 65 once I resign from the law firm, provided that any additional income earned does not exceed $225,000. Until I have received all of these annual payments, I will not participate personally and substantially in any particular matter that has a direct and predictable effect on the ability or willingness of WilmerHale to make this payment to me, unless I first obtain a written waiver, pursuant to 18 U.S.C. § 208(b)(1).

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with the nomination process, I consulted with the Office of Government Ethics and the Federal Housing Finance Agency (FHFA) Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any potential conflicts of interest in accordance with the terms of an ethics agreement that I entered into with FHFA's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with the nomination process, I consulted with the Office of Government Ethics and the Federal Housing Finance Agency (FHFA) Designated Agency Ethics

Official (DAEO) to identify potential conflicts of interest. I will resolve any potential conflicts of interest in accordance with the terms of an ethics agreement that I entered into with FHFA's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with the nomination process, I consulted with the Office of Government Ethics and the Federal Housing Finance Agency (FHFA) Designated Agency Ethics Official (DAEO) to identify potential conflicts of interest. I will resolve any potential conflicts of interest in accordance with the terms of an ethics agreement that I entered into with FHFA's DAEO and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

**Civil, criminal and Investigatory actions:**

1. Give the full derails of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

The undersigned certifies that the information contained herein is true and correct.

Signed: _____ Date: June 3, 2014

**LAURA S. WERTHEIMER**
3149 Newark Street, N.W.
Washington, D.C. 20008
(202) 663-6450 (office) (202) 213-0288 (cell)
Laura.Wertheimer@wilmerhale.com

Professional Experience

2003-present Partner, Wilmer Cutler Pickering Hale and Dorr, LLP

Represents audit committees and committees of independent directors of issuers and federally chartered savings associations in connection with independent internal investigations of possible misconduct by officers and senior employees.

Represents issuers and individuals in connection with civil and criminal federal securities enforcement investigations, cross-border regulatory proceedings, and in complex litigation.

Counsels clients on corporate governance matters, including development of remedial plans to correct managerial failures and weaknesses in internal controls.

Recent representative engagements include:

- Counsel to Audit Committee of federally chartered savings association in connection with its independent review of questionable loans approved by senior management; realignment of internal audit, compliance, loan review and approval and risk management functions; and recruitment of Chief Risk Officer and compliance personnel.
- Represented Corporate Governance Committee of federally chartered savings association in connection with its independent review of anonymous internal complaint involving the CEO's authoritarian leadership; subsequent cultural audit of the organization including assessment of "tone at the top"; and development of systems to address cultural weaknesses.
- Represents Audit Committee of public company in connection with its investigation of a whistleblower claim alleging breach of fiduciary duty by corporate officers and dominant influence of the company's founder and CEO; development of corrective actions to separate and discipline employees; efforts to strengthen board oversight of management; review of the changing nature of the risks faced by the company; and improvements to board monitoring of those risks.
- Represents seminar company that offers tutorials on options and stock trading in government fraud investigation and settlement and in designing and implementing "best practices" compliance program.
- Represents companies and individuals in formal government investigations of possible insider trading.
- Counsel to Special Board Committee of Sunrise Senior Living in connection with its independent investigation of potential accounting improprieties, options backdating, and alleged insider trading by certain officers and directors; development of broad-based remediation including termination of

senior executive officers, repayment of bonus compensation; discipline of other senior employees; improvements to corporate governance, internal processes, and controls subsequently ratified by the entire Board; and in federal civil and criminal investigations.

- Counsel to Audit Committee of major time share operator investigating whistleblower claims alleging tax evasion, FCPA violations, financial reporting irregularities and addressing misconduct found during investigation.
- Counsel to Audit Committee of Nortel Networks in connection with its independent review of causes of multi-billion dollar restatement; design and implementation of company-wide remediation plan including termination for cause of CEO and senior finance executives, demand for repayment of bonus monies, and subsequent litigation against senior executives; development and implementation of significant improvements to internal processes and controls to prevent recurrence of inappropriate conduct; and in federal and foreign civil and criminal investigations.

Committed to community service, both within the firm and outside the firm, to improving the lives of members of the Washington, DC community.

Selected by Washingtonian magazine as a top securities enforcement lawyer (2007, 2009, and 2011) and by her peers for inclusion in every edition of The Best Lawyers in America since 2002.

1983-2003 Partner (1987-2003) and Associate (1983-1987), Shea & Gardner

Represented Jeffrey Wigand, former research director for tobacco company Brown & Williamson who became a whistleblower for US DoJ and US FDA, in breach of contract action brought by Brown & Williamson; in connection with litigation brought by the state attorneys general against tobacco manufacturers; and in connection with the film, *The Insider,* a fictionalized narrative of his whistleblowing activities.

Defended lawyers in disciplinary and state bar proceedings and civil malpractice actions; conducted internal investigations on behalf of public companies and national unions into of allegations of wrongdoing.

1981-1983 Law Clerk, Chief Judge Spottswood Robinson, U.S. Court of Appeals for the District of Columbia Circuit

Education

Columbia University School of Law, J.D. 1981
Harlan Fiske Stone Scholar
Publishable Notes Editor, Columbia Law Review

Yale College, B.A. 1977, *magna cum laude*
Phi Beta Kappa

## RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM JULIAN CASTRO

**Q.1.** Secretary Donovan has been a strong vocal proponent of the housing finance reform bill S. 1217 that passed this Committee last month. He worked closely with the White House and the Committee in negotiating this legislation and advocating for its passage. He has previously stated that "The proposed Johnson-Crapo bill provides the best chance to overhaul the mortgage finance system this decade." Do you agree and if confirmed, will you commit to helping the Committee to move S. 1217 so that we can get our financial housing market on a track for long-term stability?

**A.1.** While I am not familiar with the details of Treasury's analysis, as I emphasized at my hearing, leaving the Government-Sponsored Enterprises (GSEs) in conservatorship indefinitely is not an acceptable option. In my view, ending taxpayer bailouts, preserving the 30-year mortgage and improving access to responsible, creditworthy borrowers is an essential part of comprehensive housing reform and, if confirmed, I will work with the Committee on S. 1217 to achieve these goals.

**Q.2.** Treasury Under Secretary Mary Miller recent stated, "(e)ven if truly rehabilitating the GSEs were possible, recapitalizing them adequately would take at least 20 years. During these 20 years, the taxpayer would remain at risk of having to bailout the GSEs during another downturn. We would also be signing up for another 20 years of underserving responsible credit-worthy Americans seeking to buy a home." Do you agree with this statement?

**A.2.** Yes, I reiterate the commitment I made before the Committee on June 17, 2014, regarding my unwavering support for moving forward with this legislation. I believe that comprehensive housing finance reform is one of the last remaining pieces of work to do to respond to the financial crisis and prevent it from happening again. President Obama believes that we cannot afford to turn back to a housing finance system where the private sector wins during good times, but leaves the taxpayers on the hook during bad times. Comprehensive housing reform will strengthen the economy and help create a safer and sounder housing finance sector. As I stated at the hearing, I strongly share the Committee's goals of ensuring that we have a housing finance system that both protects the taxpayers in a stronger way than we have had in the past, and also balances access to credit for folks of modest means who are creditworthy. If confirmed, I look forward to being an active participant as the Committee and the Senate continue to work on this bi-partisan legislation.

**Q.3.a.** The FHA Insurance fund has been undercapitalized since 2009. At the end of FY2013, FHA announced that it would need $1.7 billion from Treasury to cover an increase in anticipated costs

of loan guarantees. This marked the first time that FHA needed funds from Treasury to cover an increase in expected future losses in its single-family mortgage program. Last year, the Committee moved legislation—the FHA Solvency Act, with strong bipartisan support, to get FHA back on stable financial footing to ensure that FHA is there for future generations. During your confirmation hearing you stated that you were committed to ensuring that FHA maintain a positive capital reserve ratio. Do you commit to achieving and maintaining that ratio as required by law?

**A.3.a.** If confirmed, I commit to continuing and building upon the appropriate and balanced measures taken to date to improve the health of the FHA's Mutual Mortgage Insurance Fund. I understand that in its most recent report the independent actuary predicted that the Fund would reach the statutory 2 percent capital reserve ratio in 2016. While I understand that these projections are subject to economic assumptions and models which may vary from year to year, I do also believe FHA is on the right track to meet that statutory mandate in the near term particularly based on the $15 billion dollar improvement reported in the most recent independent actuary report.

**Q.3.b.** Are there any instances in which you believe it would be acceptable to lower incoming revenues while in violation of Federal law as it pertains to required level of capital for FHA?

**A.3.b.** The FHA, in playing both a countercyclical role in the housing market and also serving as a resource for underserved, low wealth and creditworthy borrowers, must always balance it mission with its fiduciary and legal responsibilities. I understand that while the Fund is on the right track there are still risks in the outstanding portfolio that must be actively managed. As evidenced by the $15 billion improvement in the health of the Fund as of its most recent annual report, the FHA has worked hard over the last few years to establish a premium structure that appropriately accounts for risk and encourages access to mortgage credit for responsible, creditworthy borrowers and encourages the return of private capital.

While the FHA has raised premiums 6 times since 2009, it has also taken other aggressive steps to strengthen the credit quality of new loans, now insuring the strongest loans in the organization's 80 year history. In addition, FHA has instituted policies to reduce losses and improve recoveries on claims paid from the Fund.

If confirmed, I look forward to continuing to explore other mechanisms to continue these positive measures, balancing risk to the Fund with preserving access to mortgage credit. FHA recently announced a number of measures intended to mitigate risk of incoming loans while providing opportunities for housing finance to creditworthy borrowers who are not otherwise being served in today's tight market environment. I would review those programs to assure that they adequately protect the Fund and keep it on track for maintaining its positive capital trajectory. Furthermore, if confirmed, I would ensure FHA continues to monitor economic conditions, access to credit, and the financial health of the Fund on an on-going basis, taking appropriate actions as needed.

**Q.4.** The Department and the FHA program have consistently projected overly optimistic forecasts for the solvency of the MMIF, while the actual condition of the fund has worsened. Just recently the FHA has proposed a new pilot program to reduce premiums for home buyers. How do you intend to balance credit access and affordability with accurate pricing and protecting the American taxpayer?

**A.4.** FHA is taking action on a number of policy changes aimed at improving access to credit but these are not being taken at the expense of the insurance fund. As I understand, policies such as those outlined in the Blueprint for Access will continue to protect the Fund, even as they enhance access.

Thus, factoring in the substantial changes FHA has made in terms of credit, pricing and loss mitigation policies, I believe FHA should continue to assess ways that it can diligently protect the Fund while facilitating access to affordable mortgage products for underserved borrowers and communities seeking a pathway to the middle class.

**Q.5.** Currently, we are in very tight budgetary times which may mean finding ways to save money throughout the Federal Government. As such, it is incumbent upon all leaders in Government to find ways to reduce spending, especially when such reductions are achievable without a reduction in service. If confirmed, will you commit to looking at items that will reduce fraud, waste and overlapping programs to help reduce the Federal deficit?

**A.5.** If confirmed, I will commit to exploring ways to reduce fraud, waste and inappropriately redundant programs, and am dedicated to using the HUDStat process, for example, to examine all programs at HUD for consolidation and streamlining opportunities while protecting the recipients of HUD funding. Every dollar used to support the most vulnerable populations in our country needs to be used to its maximum efficiency, and I commit to pushing for that efficiency in every program.

**Q.6.a.** If confirmed, your leadership of HUD would provide you with the opportunity to instill the importance of transparency and cooperation with HUD stakeholders as well as Congress. I recently asked a previous HUD nominee a series of questions related to actions brought by HUD. Specifically, I asked the question below and received little by way of an informative response.

> In recent years, several Federal regulatory agencies have increased significantly the use of "disparate impact" enforcement actions in their oversight of the housing and financial sectors. Disparate impact enforcement actions have been brought even in the absence of direct discriminatory evidence or discriminatory motive. In your opinion, when should disparate impact enforcement actions and cases be brought when there is no evidence of direct discriminatory evidence or discriminatory motive exist? Should a Federal agency be required to share any economic analysis conducted upon which such action has been based? If not, then how should these analyses be verified?

If you are confirmed will you commit to instilling throughout all of HUD a culture that fosters more open communication with both stakeholders and Congressional oversight?

**A.6.a.** Yes. I am committed to open communication with both stakeholders and Congress. If confirmed, and in the spirit of Executive Orders regarding transparency, I will work to ensure that such communication is provided with both Congress and stakeholders to the fullest extent consistent with statutes that govern HUD's interactions, including the HUD Reform Act and Appropriations requirements.

**Q.6.b.** What is your response to the questions above that I asked of the previous nominee and received little by way of an answer?

**A.6.b.** Many civil rights statutes allow for proof of discrimination without evidence of discriminatory intent. Among them are Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Equal Credit Opportunity Act (ECOA), and the Fair Housing Act. Under such statutes, evidence of the impact of the challenged action is required, and the defendant has the opportunity to prove that the challenged practice was nonetheless justified.

As you know, the Fair Housing Act's disparate impact standard is not new. HUD has been using this method of proving discrimination in housing for decades, and it also is widely accepted by the other Federal financial regulatory and enforcement agencies. In fact, in 1994, eleven such agencies, including the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Department of Treasury, plus HUD and DOJ, adopted a Policy Statement on Fair Lending recognizing that disparate impact is one of the methods they would use to identify lending discrimination under the Fair Housing Act and ECOA.

In the context of any enforcement actions by HUD under the Fair Housing Act, the Department explains the bases for its finding of reasonable cause to believe discrimination occurred (or did not occur) in a formal determination of reasonable cause (or no reasonable cause). This is so in all cases, including those relying on a discriminatory effects method of proof.

If confirmed, I would continue to rely on this longstanding and widely accepted law enforcement method to distinguish between unnecessary barriers to equal opportunity in the housing market and valid policies and practices that are crafted to advance the legitimate interests of housing providers, mortgage lenders, and others covered by the Fair Housing Act. It is my understanding that few of the discrimination claims charged by the Department involve disparate impact claims, but regardless of volume, I would ensure that the Department enforces this standard, like all laws it enforces, in a fair and judicious manner.

**Q.7.** HUD has a number of rental programs target acquisition and maintenance of the Nation's older, affordable rental stock. There have been significant changes to these programs within the past 18 months. Part of balancing your duties to protect the taxpayer with the programs' goal of providing access to individuals and families earning below area median income, is ensuring that the financial

protections in place appropriate match the risk of each program. If you are confirmed, will you commit to a review of these programs to ensure that risk mitigation is appropriate?

**A.7.** If confirmed, I look forward to working with Congress to make sure that oversight of these important programs is appropriate to the risk of each program. I believe that each Federal dollar should be used to its maximum efficiency, and this requires careful oversight by both HUD and Congress. I look forward to working with Congress, if confirmed, to ensure that HUD is striking the correct balance between protecting the taxpayer and providing affordable housing for individuals of modest means.

---

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR HAGAN FROM JULIAN CASTRO**

**Q.1.** Mr. Castro: over the next few years, North Carolina will be providing supportive housing to thousands of non-elderly adults with serious mental illness who will have access to new services from our State's public mental health system. As part of a settlement with the Federal Government, my State has agreed to provide thousands of new units of permanent supportive housing as an alternative to adult care home settings that were deemed to be institutional in nature. I am concerned that it may be more difficult for these individuals to receive Housing Choice Vouchers from Public Housing Agencies (PHAs) because of bureaucratic obstacles to obtaining approval from HUD headquarters.

If confirmed, will you commit to working with this Committee and stakeholders (including the disability community) to simplify these rules for PHAs and State housing agencies?

**A.1.** HUD has worked with other States that are implementing settlements with the Federal Government to transition individuals with disabilities out of institutional settings and into community-based housing. In a number of instances, HUD has authorized the use of preferences for this purpose, providing such individuals with easier access to Housing Choice Vouchers when they are ready to live in community-based housing. If confirmed, I would be happy to work with North Carolina in obtaining the necessary legal authorizations.

**Q.2.a.** It has been brought to my attention that HUD made a commitment to the MTW agencies across the country to extend their contract agreements for another 10 years. I understand that MTW agencies have grown increasingly concerned about the expiration of their existing contracts in 2018. While this may be several years away, the uncertainty regarding contract renewal has begun to impact their ability to enter into long-term strategic partnerships and joint funding agreements with partners such as mental health systems and school districts. It also has an impact on financing arrangements for long-term and large-scale redevelopment projects being undertaken by MTW agencies. I understand that the commitment to extend the MTW contracts was formalized this past March by the Assistant Secretary for Public and Indian Housing. Are you aware of the MTW contract extension commitment by HUD?

**A.2.a.** Yes. As Mayor of San Antonio, I am familiar with how the San Antonio Housing Authority (SAHA) has used its flexibilities as a Moving to Work (MTW) agency to design and test innovative strategies related to rent reform and family self-sufficiency. I have seen first-hand what this program can do to address local community needs. In preparation for my nomination hearing, I was informed by HUD staff of discussions related to MTW contract extensions. It is my understanding that, in the spring of this year, the Assistant Secretary stated at an industry meeting that she would consider granting early contract extensions for MTW public housing authorities who met certain performance standards. I understand the Department is presently reviewing its contract extension options on account of MTW contract litigation.

**Q.2.b.** If confirmed as HUD Secretary, will you follow up to ensure that HUD honors its commitment to these housing authorities?

**A.2.b.** If confirmed, I am committed to ensuring that HUD meets its obligations under the MTW contracts.

---

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR WARREN FROM JULIAN CASTRO**

**Q.1.** One of HUD's most important responsibilities is helping enforce the Fair Housing Act. But HUD's office of Fair Housing and Equal Opportunity is severely understaffed. There are currently 575 full-time employees in the Office—the fewest there have been at any point in the past 25 years. In 2008, the bipartisan National Commission on Fair Housing and Equal Opportunity, led by former HUD Secretaries Jack Kemp and Henry Cisneros, found that the Office needed at least 750 employees to operate effectively. That means we have a 30 percent shortfall. Other than trying to get additional money from Congress, how would you attempt to address this staffing shortfall?

**A.1.** My understanding is that the Office of Fair Housing and Equal Opportunity (FHEO) currently has 533 full-time employees, which, as you note is the lowest staffing level for the office in 25 years.

As the agency charged with enforcement of the Fair Housing Act for the country, HUD must use its resources to the greatest extent possible for this effort and work with Congress to support adequate funding to support that effort. To my knowledge, FHEO has already taken a number of steps to deal with the present staffing constraints, including reducing management positions, streamlining its offices, improving training and implementing work sharing. In addition, the office has modernized some systems to reduce duplication of work. However, should HUD receive no additional funds to support fair housing, HUD likely will have to make difficult choices about Departmental priorities. If confirmed, I am committed to continuing this approach in a manner that will allow FHEO to pursue its mission to the fullest extent possible.

**Q.2.** Tenants in HUD housing can be valuable partners with HUD in overseeing the Nation's multi-billion dollar investment in low income rental housing. Congress has authorized $10 million annually for tenant participation in Section 8 housing since 2002. Yet out of

the $120 million Congress has authorized HUD to spend on tenant participation in the last 12 years, HUD has spent only $3 million for that purpose. If you are confirmed, will you use the funds authorized for tenant participation for their specified purpose?

**A.2.** I agree that tenants can be valuable partners with HUD in managing the Department's investment in affordable rental housing. I also understand from HUD staff that while there is authorization for a tenant participation program out of the Project-Based Section 8 account, no dollars were appropriated for this purpose between 2002 and 2011. When the current Administration came into office, it evaluated the problems the OIG had found with a former program and re-instituted a new tenant participation program with accountability measures called the Tenant Resources Network and requested and received $10 million in 2011 from Congressional Appropriators for the program. I also understand that the Department, through the Tenant Resource Network and other means does provide funding to tenants to participate in their affordable, assisted housing communities, advancing the intent of the applicable authorizing statute.

If confirmed as Secretary, I would take steps to ensure that all HUD dollars are appropriately and effectively spent in order to advance the Department's mission and obligations. In the case of tenant involvement, within budget constraints, I would utilize existing statutory authority to assist these organizations in support of their communities.

---

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR COBURN FROM JULIAN CASTRO**

**Q.1.** In your testimony, you state that cross-agency collaboration will be one of your top priorities. In an August 2012 report, "Opportunities Exist to Increase Collaboration and Consider Consolidation," GAO identified 160 Federal housing assistance initiatives administered by 20 different Federal entities costing about $160 billion in FY2010. 89 of these programs are administered by HUD.

As Secretary, how will eliminating, consolidating, and streamlining duplicative or overlapping programs within and outside HUD fit into your stated goal to boost cross-agency collaboration? Moreover, will you work with Congress to seek any necessary legislative authority to eliminate, consolidate, or streamline HUD programs?

**A.1.** If confirmed, I commit to working with Congress very closely to achieve any legislative authority needed to eliminate, consolidate or streamline HUD programs that have been found to be duplicative, where appropriate. I understand that HUD has already worked with Congress extensively to achieve several streamlining goals in the rental assistance portfolio, such as allowing for consolidation of Public Housing Authorities and streamlining duplicative reporting requirements. In addition, HUD has worked with Congress over the past 2 years to consolidate legacy programs like the Rent Supplement (Rent Supp) program and the Rental Assistance Payment (RAP) program into the Rental Assistance Demonstration.

I am very committed to cross-agency collaboration, as shown in my work as Mayor of San Antonio. In making decisions about col-

laboration and consolidation, I focus on the value and impact of each dollar, data that indicate program outcomes, and areas for which duplication is occurring and can be eliminated. If confirmed, I will work with Congress to continue to streamline programs, while always remembering the people on the receiving end of the support.

**Q.2.** In January 2013, Congress passed a bill to provide $60.4 billion in emergency disaster aid for the areas devastated by Hurricane Sandy. The States of New York and New Jersey plan to spend $65 million of the Federal disaster aid on television ads promoting local tourism. The States sought and received waivers to use the CDBG Disaster Recovery funds to promote local tourism. Do you believe television advertisements to promote tourism is an appropriate use of Federal disaster relief funds?

**A.2.** As mayor of a city with strong economic growth, I know well the importance of economic development. Tourism is an integral part of San Antonio's economy. Advertising is crucial to drawing new and repeat visitors to the area. I agree with the position taken by HUD that Federal disaster recovery funds that are available for economic revitalization of disaster areas may be used to support some tourism activities in distressed areas whose local economies were dependent on tourism prior to the disaster. This is the position that HUD has taken in the past and most recently with respect to activities in New York and New Jersey where tourism suffered a significant blow as a result of Hurricane Sandy.

**Q.3.** FHA currently uses accounting methods prescribed by the Federal Credit Reform Act of 1990 (FCRA). Under FCRA, FHA calculates the expected future costs and gains of its insurance claims, but does not account for variations in market risk. According to CBO, "the single-family mortgage guarantees made by FHA between 1992 and 2012 have had a net Federal budgetary cost of about $15 billion, according to the most recent estimates by FHA. In contrast, FHA's initial estimates of the budgetary impact of those guarantees sum to savings of $45 billion." FHA's single-family mortgage guarantee program is projected to rise from $150 billion in FY2015 to $250 billion in FY2025. CBO estimates that using FCRA accounting the program will earn taxpayers $63 billion over the next 10 years. But under fair value accounting, the program will actually cost the taxpayer $30 billion over the same time period.

CBO states that "the fair-value approach offers a more comprehensive estimate of Federal costs." Do you agree with CBO's assessment that Congress should use fair value accounting to assess the real costs of FHA's Single Family Mortgage Guarantee Program to the taxpayer?

**A.3.** As I understand, the Office of Management and Budget implements the requirements of the Federal Credit Reform Act of 1990 to measure the cost of Federal programs. This form of accounting for Federal programs is, according to the Analytical Perspectives accompanying the President's budget, intended to reflect the estimated lifetime costs of loans and loan guarantees up front on a net present value basis.

Fair Value Accounting represents an alternate view for measuring Federal credit programs. It requires additional assumptions and adds factors that may not be relevant for assessing budget affects, thus yielding cost estimates that may be unnecessarily inflated relative to real costs.

If confirmed, I will manage the Department in a way that is consistent with the legal and administrative obligations applicable to the Department and the Federal Government as a whole.

**Q.4.** The HUD IG office recently reported that based on an audit of 75 local public housing agencies (PHAs), HUD has doled out about $225 million in questionable spending at those PHAs since 2012. David Montoya testified that "over the course of our work, we have seen that PHAs often run with little oversight and are, in some instances, prone to ethical lapses that may attract media attention." Montoya went on to state that the boards and commissions tapped to oversee the PHAs "exercises little or no oversight and the members themselves have few or no qualifications to effectively discharge their responsibilities."

Additionally, while PHAs continue to misuse millions in taxpayer dollars, many of them have failed to maintain adequate living conditions. Instead, some have provided at times dangerous housing facilities. Montoya testified that "time and again we see violations of housing quality standards at individual PHAs." An external audit of the New York City Housing Authority found that HUD will potentially pay more than $148 million in housing assistance for units that materially do not comply with HUD's standards in that single PHA.

During your hearing, you stated that you will work to find savings in the Section 8 housing programs. Finding costs savings must begin with knowing where the funds are going in the first place. As HUD Secretary, what specific steps will you take to implement a robust oversight component into our Nation's PHAs to prevent the massive waste and potential fraud the HUD OIG has identified? Further, what steps will you take to ensure that HUD funding is prioritized to bring up the living conditions to meet HUD standards?

**A.4.** Improving the living conditions for public housing and housing choice voucher families is personal for me.

I understand that there have been oversight issues in the Housing Choice Voucher program because SEMAP, the PHA performance evaluation system for the HCV program, is primarily based on self-certification. HUD has relied on self-certification because the Department has not, and in this fiscal environment, will not have the resources necessary to conduct reviews of each of the nearly 4,000 PHAs across the country. For this reason, the Department has moved to a risk-based approach. As it pertains to the HCV program, in FY14, PIH launched Quality Assurance inspections of 30,000–40,000 voucher units which will be completed by December 30, 2014, and provide a first time significant in-depth look at HQS standard compliance in our largest PHAs. Technical Assistance and follow up quality control will be provided to those PHAs who are not ensuring property owners maintain their units at an acceptable level.

As for HUD's overall oversight and monitoring initiatives, it is my understanding that over the past 4 years HUD has significantly improved oversight and accountability with respect to public housing authorities. As the appointing official for the Board of Commission of the San Antonio Housing Authority, I fully understand the critical role State and local governments and the boards we appoint play in providing the primary oversight for PHAs.

While preparing for my nomination hearing, one of the many things I learned was that the Department has already significantly increased management and ethics training for PHA Board of Commissioners. Relatedly, managers are providing technical assistance and training to PHAs on internal controls and best practices at regional and national conventions of industry associations throughout the year. I also understand that a new partnership between PIH and the OIG has just been formed to provide additional technical assistance to governing boards to strengthen oversight efforts. Last, I understand that the Department is developing several risk-based, early detection tools to more quickly mitigate performance issues.

These are all strong, initial steps in ongoing efforts to prevent waste, fraud and abuse. If I am confirmed, I will continue to push for staff specializing in risk mitigation. I will also push for additional funding for IT systems to address ongoing PHA performance challenges and to improve monitoring and oversight of statutory and regulatory requirements.

**Q.5.** Under current practice, HUD grants can be used to repay HUD loans. The Senate approved an amendment in 2011 that would prohibit the use of Federal grants to repay Federal loans. Do you believe that entities should be able to receive HUD grants to repay HUD loans?

**A.5.** I have not studied this issue in depth and would want to collect additional information before offering a view. A number of factors may be relevant for consideration, including whether repayment of the Federal loan with HUD grants helps achieve measured long-term savings, permits recapitalization of property, keeps costs low in response to changing market conditions, and preserves essential affordable housing. As I noted during the hearing, I am a firm believer in measuring outcomes and, if confirmed, would utilize this approach in addressing this very important question.

---

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM LAURA S. WERTHEIMER**

**Q.1.** The Inspector General of the FHFA is in a rather unique situation. The Director of FHFA acts as not only regulator, but also executive and shareholder of both Fannie Mae and Freddie Mac.

Because of this unique situation, how do you believe the FHFA JG needs to go about providing adequate oversight as compared to an JG without that unique circumstance?

**A.1.** The Housing and Economic Recovery Act of 2008 ("HERA") imposes a number of duties on the Federal Housing Finance Agency ("FHFA") as the conservator of Fannie Mae and Freddie Mac ("the Enterprises"), and as the regulator of the Enterprises and the

Federal Home Loan Bank System. As conservator, FHFA assumes the authority of the management and boards of Fannie Mae and Freddie Mac during the period of the conservatorship and directs the Enterprises' business activities and operations in order to conserve and preserve the assets of each company. As regulator, FHFA's mission is to ensure through its supervision and examination activities that each of the regulated entities is operating in a safe and sound manner so they can serve as a reliable source of liquidity and funding for housing finance and community investment.

HERA also amended the Inspector General Act of 1978 to establish the Office of Inspector General of the FHFA ("FHFA OIG"). That Act empowers Inspectors General, to "conduct, supervise, and coordinate audits and investigations relating to the programs and operations" of the respective agency. Under the Inspector General Act, the duties and responsibilities of FHFA OIG remain the same, whether FHFA acts as conservator or regulator: to promote the economy, efficiency, and effectiveness of FHFA's programs and operations through independent and rigorous oversight.

Of course, the existence of the conservatorships means that FHFA has a much broader range of responsibilities with respect to the Enterprises than just its duties as regulator. FHFA OIG's role is correspondingly broader, because it must perform appropriate oversight of FHFA's exercise of its conservatorship responsibilities. FHFA's conservatorship responsibilities encompass the authority of the management and boards of the Enterprises, and FHFA OIG therefore must structure its oversight program to examine FHFA's exercise of those critical responsibilities, which differ significantly from the typical Federal financial regulatory programs. My experience in conducting independent investigations of alleged wrongdoing and compliance with governing laws and regulations on behalf of private-sector companies' audit committees will be particularly useful in performing this aspect of FHFA OIG's responsibilities.

The critical importance of FHFA OIG's independent oversight is underscored by the $187 billion in taxpayer monies that the Enterprises have drawn, pursuant to their agreements with the Department of the Treasury, and the potential $5 trillion in taxpayer exposure from the mortgages owned or guaranteed by the Enterprises. If confirmed as Inspector General, I will focus on the core mission of the FHFA OIG: to protect the taxpayer with independent and thorough audits, evaluations, and investigations of FHFA's programs and operations.

**Q.2.** Does FHFA's operations as conservator of Fannie and Freddie require a different type of oversight than does its operations as regulator of the Federal Home Loan Banks, in order to assure adequate review of its activities?

**A.2.** The FHFA OIG mission remains the same, whether FHFA acts as conservator or as regulator: to protect the taxpayer through independent and rigorous oversight of FHFA's programs and operations—whether as regulator or as conservator. If confirmed as FHFA Inspector General, I intend to analyze FHFA's functions as conservator and regulator to identify high risk areas and target re-

sources for audits, evaluations, and investigations accordingly. As discussed in the answer to the previous question, the nature of the conservatorship responsibilities is different from FHFA's regulatory responsibilities and therefore is likely to carry risks that differ from FHFA's regulatory responsibilities, and accordingly produce a different—and probably more extensive—list of activities that should be subject to audits, evaluations, and investigations.