TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2015

WEDNESDAY, APRIL 2, 2014

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

The subcommittee met at 10:20 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Udall, Collins, and Boozman.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. The subcommittee will come to order. Today, we welcome Secretary Donovan before our subcommittee to discuss the President's fiscal year 2015 request for the Department of Housing and Urban Development (HUD).

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

As we consider the request, I am reminded that it was only a year ago that sequestration began imposing very harsh cuts across the Federal Government. HUD programs were no exception to these indiscriminate reductions and the impacts of the cut were far reaching.

Thousands of vouchers were pulled from circulation, leaving families unable to access desperately needed affordable housing. Public housing authorities deferred maintenance, adding to an already significant backlog of capital needs. And services for the homeless were cut, taking options away from those in need.

At the end of last year, I worked with Chairman Ryan to reach a 2-year bipartisan budget deal. Our budget rolled back some of the automatic across-the-board cuts to priorities like education and infrastructure and research.

It prevented another Government shutdown and restored some certainty and stability to families and communities, and did it in a balanced way, without relying on spending cuts alone.

As a result of that agreement, Congress passed legislation to fund the Government for the rest of fiscal year 2014. That achievement was made possible because members on both sides of the aisle recognized the need for solutions rather than continued disruption and crisis.

The omnibus reversed some of the most damaging cuts to HUD programs, restored funding for section 8 rental assistance, homeless assistance grants, and public housing operating capital funds.

Importantly, the budget agreement also set the funding level for fiscal year 2015. This provides Congress with the opportunity to return to regular order and pass appropriation bills, avoiding the kind of year-end crisis with which we have become all too familiar.

While our budget deal was a strong step in the right direction, the budget for fiscal year 2015 remains tight, requiring difficult choices once again about how to allocate funding across transportation and housing programs. This task is made more challenging by the fact that nearly 85 percent of HUD's budget is dedicated to preserving existing housing and homeless programs.

While I recognize that difficult choices must be made, I am concerned about some of the proposals in the President's budget.

In particular, I am concerned about the proposal to transition HUD's project-based contracts so that all renewals take place at the same time. This may promise some savings in the short term, but I do worry about what this change would mean for long-term stability of the program, specifically, what the implications are for this program and the affordable housing it supports in fiscal year 2016 and beyond, if we adopt that proposal.

So I look forward to hearing from you on that today.

The challenge facing project-based section 8 echoes a larger reality HUD faces since the cost of maintaining housing in the private market continues to rise faster than discretionary funding levels. Yet, if these costs are not paid, we will lose critical and likely irreplaceable housing.

In light of the budget challenges, we need to be thinking of new ways to preserve affordable housing within the current funding constraints. That includes programs like the rental assistance demonstration program. It also means building on the success of Choice Neighborhoods, which focuses on innovative ways to leverage other public and private sector funds. These partnerships provide badly needed additional revenue for housing but do much more. They also focus on the other factors that are needed to improve the lives of residents.

Secretary Donovan, you had the opportunity to tour Yesler Terrace in Seattle with me, and I am impressed with all of the different partners in that project—schools, community colleges, workforce training providers, just to name a few.

We need to think about more ways to create these meaningful partnerships so that we can bring additional resources to the table and improve outcomes for the families HUD serves.

While we look for innovation, it is also imperative that every dollar is spent appropriately, which requires adequate oversight by HUD.

To help HUD improve its ability to conduct meaningful oversight, the subcommittee has worked to provide HUD with new or enhanced tools to increase oversight, including additional resources for housing inspections, governance and financial management training, and oversight staff. We also gave HUD new tools to strengthen its ability to hold property owners accountable for the quality of their housing.

And I want to get an update from you today on how HUD is using those resources.

I also continually hear from Public Housing Agencies (PHAs) about HUD's burdensome regulations and reporting requirements. There is no question HUD must have the information it needs to monitor Federal funds, but it must ask for the right information and use it effectively.

That is why we have asked HUD to evaluate the existing regulations and requirements for PHAs to determine whether it is asking for the right data and make recommendations based on those findings.

Underpinning this oversight work and all of the Department's efforts to serve low income families are HUD staff and information technology (IT) systems. I remain concerned about some of the critical vacancies at the Department, including the chief information officer and the chief financial officer, as well as HUD's progress in modernizing its IT systems. So I want to hear from you today about where we are on those efforts and how they are impacting program delivery and oversight.

While HUD faces challenges, it is also important to recognize the agency's successes. There is no better example than the work being done to end veteran homelessness. In 2008, this committee restarted the HUD-Veterans Affairs Supportive Housing (HUD-VASH) program. Since then, the committee has provided funding for over 60,000 vouchers for permanent housing, which are combined with supportive services from the Department of Veterans Affairs (VA).

This has helped take veterans who sacrifice so much for our country off the street and put them into permanent housing. To me, this program represents the most effective type of Federal investment. It involves collaboration between HUD and VA, avoiding duplication. It is based on sound research. And, most importantly, it is delivering results.

The program helped reduce homelessness among veterans by 24 percent between 2009 and 2013, and is putting us on a path of achieving the goal of ending veteran homelessness. The success of HUD-VASH is also an important reminder of how the Federal Government can help address some of the Nation's pressing needs.

Housing is a basic need. It keeps people safe and off the streets and provides stability that can help the sick recover and children do better in school. Beyond that, housing can be a way for families to begin building wealth that they can pass on to their children.

But access to affordable housing, whether you are someone who lost your job, or are a working mom or a first-time homeowner, remains a significant challenge for millions of Americans today.

Rental housing is out of reach for many, and access to credit remains tight. So as we think about the investments we need to make in our country for the long-term health of our economy, we have to remember this important role that housing plays.

Mr. Secretary, I know you understand that, and I deeply appreciate your efforts to make a difference in the lives of so many Americans.

As we move beyond the fiscal year 2015, I will be fighting for these families and against efforts to move our country backwards with deeper cuts to investments in families and seniors, or unfair and irresponsible budget proposals that protect the wealthiest Americans and biggest corporations from paying their fair share.

We owe it to our constituents to keep working together to build on the success of last year to create jobs, opportunity and economic growth.

Finally, today I do want to take a moment to acknowledge the tremendous tragedy that occurred in my State, now less than 2 weeks ago. On March 22, as all of you know, there was a massive landslide near Oso, Washington. I was on the ground there several times, including last weekend.

The impact on the community and the lives of these people in that area is really impossible to describe. In addition to the lives that have been lost, the landslide has destroyed homes. It has devastated infrastructure there. And it took nearly everything in its wake.

So we are out there, very committed right now to remain focused on the immediate response, which is ongoing, including support of the volunteer recovery efforts. There is an amazing number of wonderful people there doing a very, very difficult task, and we all want to acknowledge that.

But I also want to say, in the very near future, we are going to have to turn to the long-term recovery of this area, so we can ensure that the towns and local economies of Oso and Arlington and Darrington are rebuilt.

So, Mr. Secretary, I will work with you and appreciate all of your comments and thoughts so far as we work to provide the people of these communities with the support they are going to need for a long time to come.

With that, I would like to recognize my partner, my ranking member, Senator Collins, for her remarks.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you very much, Chairman Murray.

Before I begin my formal remarks, let me send my condolences to the constituents in your State who have been affected by this horrendous landslide. Truly, all of us who have been following it, send our sympathies to those families affected.

Secretary Donovan, first, let me welcome you. It is always a pleasure to have you appear before our subcommittee, and I look forward to hearing your testimony.

Today, our subcommittee will hear the justification for the fiscal year 2015 budget request for the Department of Housing and Urban Development. As we begin the appropriations process this year, we do so, thanks to the efforts of our chairman, under a 2-year budget, and thus, we will have much more guidance on what the spending levels will be.

We must all be mindful of the budget constraints, particularly as our Nation's debt now exceeds $17.5 trillion, an unsustainable amount.

Balancing the need to deal with this debt, while providing housing for our most vulnerable citizens, is a challenge that seems to become more and more difficult each year that I serve on the subcommittee.

The administration is proposing $46 billion for HUD, which is nearly $200 million below current funding levels. That does not, however, take into account the President's request, his Opportunity, Growth and Security Initiative, which is $56 billion Governmentwide above the budget agreement. It includes $480 million for HUD programs.

It is, I will say, astonishing to me that the President has proposed to exceed a budget that was just passed and signed by such an enormous amount.

Another issue is that the administration's assumptions for Federal Housing Administration (FHA) receipts far exceed the Congressional Budget Office's (CBO's) estimates. While we are still waiting for CBO's scoring of the administration's request, early estimates suggest that that difference could amount to as much as $2.7 billion.

The difference between the Office of Management and Budget (OMB) and CBO creates a risk of unreasonable assumptions and unsustainable program levels.

While I know, Mr. Secretary, that the administration's economic forecasting models are not under your control, it is my hope that you will convey my concerns and encourage the administration to work earlier with the CBO to see if there can be consistent numbers. That kind of difference serves no one well.

The HUD budget is also structurally challenged by the significant percentage of spending that is required merely to maintain the status quo.

Of the 2015 requests, 84 percent support the renewal of existing rental assistance, public housing, operating and capital expenses, and the renewal of homeless assistance grants.

Given the reality of current and future budget constraints, coupled with declining FHA receipts, renewals to simply ensure that those currently assisted do not lose their housing are on pace to consume HUD's entire budget.

It is critical that we see the results of efforts to streamline our costs and explore more creative approaches to housing programs, particularly to those that are not achieving their goals.

Now, as the chairman indicated, there is a program that we are both strong supporters of, and very proud to have collaborated with the department and the Department of Veterans Affairs, that is seeing true results. Since 2010, we have reduced veterans' homelessness by 24 percent, and overall chronic homelessness by 16 percent.

The budget would fund 10,000 additional HUD-VASH vouchers for our veterans, and I support that request.

With rental assistance, however, I am not sure that the results are as clear or that simply maintaining the status quo is a satisfactory approach. It is critical that federally subsidized properties comply with all health and safety standards. After all, it is inexcusable that vulnerable Americans are ever put into substandard housing with serious violations, as happened at one point in the State of Maine. But it is doubly offensive when taxpayers are subsidizing those unfit units.

And I know the Secretary has been very helpful in straightening out the issues in Maine.

I am pleased to report that the Maine State Housing Authority has taken strong actions to cure the problem that it had, but it is troubling to hear reports of other housing authorities that have failed to address longstanding issues, including deplorable physical conditions and inexcusable management.

HUD must invest in effective oversight and management of housing authorities, including providing technical assistance when needed. And it must take action to impose sanctions where appropriate.

Neither residents nor taxpayers are well served when poor conditions are allowed to continue. And that is why Senator Murray and I have worked together to provide additional resources for just this purpose.

For oversight to be effective, however, it must be relevant, and it must not impose needless burdens on public housing authorities that are doing a good job. Regulations should serve a purpose and not exist just for the sake of existing.

To put it simply, they must reflect common sense and meet the test of effectiveness.

I recently met with Maine housing authority directors, and each of them raised questions and concerns that HUD had not fully considered ways to streamline current regulations on PHAs to allow them to stretch scarce resources and to spend more time serving their clients and less time on unnecessary paperwork.

They are often overburdened with data collection that HUD does not use, and face challenges with requirements that stifle innovation and discourage effective program delivery.

Included in the fiscal year 2014 bill that we passed in January is a requirement for HUD to report on its effort to address these administrative burdens.

I also want to end by saying that I share the administration's continued support for the Community Development Block Grant (CDBG) program, and I want to underscore its importance, since this is a battle every year that we have with some of our colleagues to keep the funding for this program.

This program, which marks its 40th anniversary in August, remains the most adaptable, the most welcomed community and economic development Federal program for meeting the unique needs of communities throughout the country. It is able to be tailored to the economic development and community support projects that fit a particular area and municipality, and that is its strength.

As always, I look forward to working with you, Mr. Secretary, and you, Madam Chairman, as we consider the department's requests. Thank you.

Senator MURRAY. Thank you very much.

With that, I will turn to our committee members to make quick opening statements before I turn to the Secretary.

Senator Udall.

Senator UDALL. I will just make a short statement at the beginning of questioning. So thank you very much.

And our hearts really go out to those. I was just in Washington, as you know, and Arlington and Darrington, and those communities are really in a disastrous situation. And I know you are working really hard to remedy it, to the best that you can.

Senator MURRAY. Thank you very much.

Senator Boozman.

Senator BOOZMAN. Thank you, Madam Chair. And again, I will defer until after we hear the testimony.

Senator MURRAY. OK, Mr. Secretary, with that, we will turn to your opening statement.

SUMMARY STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Thank you, Chairman Murray, Ranking Member Collins, members of the committee, thank you for this opportunity to be with you today.

Let me join with your colleagues, Senator Murray, in sending my heartfelt thoughts to all of the victims of the mudslide. Having spent too many hours, too many days, seeing the effects that these disasters have on communities, I know how terrible it must be for you, for those communities. But I also know what your leadership has meant to those families, to those communities. And we will do everything that we can to help you in that recovery.

The President's budget provides a roadmap for accelerating economic growth, expanding opportunity for all Americans, and ensuring fiscal responsibility. HUD's budget is an essential component of the President's vision of investing in the things we need to grow our economy and create jobs while continuing long-term deficit reduction.

HUD's budget focuses on four principles: first, driving economic growth by increasing access to credit and strengthening the FHA; second, providing opportunity by restoring and increasing assistance to vulnerable families; third, creating growth and opportunity through key initiatives; and fourth, ensuring fiscal responsibility and increasing efficiency.

DRIVING ECONOMIC GROWTH

FHA has been critical to driving economic growth and increasing access to credit, which is the first principle I mentioned.

Since President Obama took office, FHA has helped more than 3.9 million families buy homes, and in fiscal year 2013 alone, more than 500,000, or over 78 percent, of FHA purchase loan endorsements were first-time homebuyers. And through its streamlined refinance option, FHA helped 500,000 families reduce their monthly housing costs by an average of $200 per month for an annual savings of $2,400 per family.

HUD's fiscal year 2015 budget continues our efforts, first by showing FHA's increasing financial strength. It estimates that the FHA mutual mortgage insurance fund will have $7.8 billion in reserves at the end of the fiscal year and will not require mandatory appropriation from the Treasury.

It also creates a new housing counseling pilot program called Homeowners Armed With Knowledge, or HAWK, to increase access to credit for first-time homebuyers underserved by the current mortgage market, and to further strengthen FHA. And it increases funding for housing counseling to $60 million, an increase of 33 percent, or $15 million above the fiscal year 2014 level.

ASSISTANCE FOR VULNERABLE FAMILIES

Our second principle is providing opportunity by restoring and increasing assistance to vulnerable families. We are experiencing the worst rental affordability crisis in our Nation's history. Worst case housing needs grew a staggering 43.5 percent from 2007 to 2011. That is why one of our top priorities is reversing the impacts of sequestration, starting with Housing Choice Vouchers.

Sequestration had a tremendous impact on the Housing Choice Voucher program. Yet, through the impressive efforts of HUD and our partner PHAs, no family was evicted from their home as a result of sequestration. However, 74,000 families who either had vouchers in hand or were stuck on waiting lists were unable to secure housing.

Our proposal would reverse the effects of sequestration by providing $20 billion for Housing Choice Vouchers while also providing $6.5 billion to operate and improve the public housing stock through the public housing operating and capital funds.

Similarly, through a $9.7 billion request in funding for the Project-Based Rental Assistance program, HUD will provide rental assistance funding to privately owned multifamily rental housing projects serving over 1.2 million families nationwide.

Also, for the first time, this budget will change the Project-Based Rental Assistance (PBRA) contract funding cycle, allowing HUD to provide 12 months of funding corresponding to calendar year 2015. This would increase the predictability of funding under the program, allowing owners to obtain private debt and equity on more advantageous terms.

OPENING DOORS STRATEGY

This budget also provides $2.4 billion to make progress toward the ambitious goals of Opening Doors, the Federal strategic plan to prevent and end homelessness, which has already, as you both noted, led to a 24 percent reduction in veterans' homelessness and a 16 percent reduction in chronic homelessness since 2010.

Unfortunately, due to sequestration cuts, we have been forced to push back our goal of ending chronic homelessness by the end of 2015. The funding levels in the President's budget would put us back on track to end chronic homelessness a year later, the end of 2016, but would also keep us on track to meet our original goal of ending veterans' homelessness by 2015.

In order to achieve the goal of ending both chronic and veteran homelessness, we need bipartisan support from Congress on the targeted investments that we know work, and I want to thank the committee for their continuous support of these efforts.

HUD's 2015 budget continues to create growth and opportunity through several key community development initiatives, which relates to our third principle. In line with that principle, I want to mention President Obama's Opportunity, Growth and Security Initiative.

OPPORTUNITY, GROWTH AND SECURITY INITIATIVE

It includes concrete, specific proposals to grow our economy, and it would be fully paid for with a balanced package of spending and tax reforms. The Opportunity, Growth and Security Initiative would fund several HUD programs.

First, in addition to the $120 million included in the President's budget, the initiative provides another $280 million for the Choice Neighborhoods program to fund comprehensive neighborhood revitalization strategies in high poverty neighborhoods.

I would also add, as you noted, Chairman, that this program leverages for every $1 we invest $8 of other investment from the types of partners that you talked about.

Second, beyond the $25 million included in the budget, the initiative provides $125 million to further expand the Jobs-Plus program to assist public housing residents in securing employment and increasing their earnings.

And third, the initiative funds $75 million for the integrated planning and investment grants program to support 30 to 40 regional and community planning efforts that coordinate housing, land use, economic and workforce development, transportation, and infrastructure investments.

To further our efforts to create growth and opportunity, the budget eliminates the rental assistance demonstration cap of 60,000 units and appropriates $10 million that would address the more than 180,000 units of applications on hand today.

This would allow us to create approximately $6 billion in private financing for the recapitalization of public housing.

HUD is also requesting $2.87 billion for the CDBG program, reaching an estimated 7,000 local governments across the country. Even in a constrained Federal budget, HUD is committed to supporting municipalities and States, and invest in public infrastructure improvements, increase the supply of affordable housing for low-income families, and create and retain jobs.

Finally, this budget will help ensure fiscal responsibility and increase efficiency by supporting a Department that is leaner, smarter, more transparent, and ready for the future. It allocates $80 million to the Transformation Initiative Fund, which will help us invest in those programs that work and stop funding those that don't.

Chairman Murray, Ranking Member Collins, members of the subcommittee, together this budget and the President's Opportunity, Growth, and Security Initiative reflect the Administration's recognition of the critical role the housing sector must play to ensure that America becomes a magnet for jobs that are the strength of the Nation's middle class. Given the economic moment that we are in, HUD's 2015 budget proposal shows that we can invest smarter and more effectively in our Nation's communities to create growth and opportunity for all. Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Thank you, Chairman Murray and Ranking Member Collins, for this opportunity to discuss how the Department of Housing and Urban Development's (HUD's) fiscal year 2015 budget proposal follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building. This budget targets our investments to the families and geographies that need them the most, and puts Americans back to work. Further, the budget adheres to the 2015 spending levels agreed to in the Bipartisan Budget Act and shows the choices the President would make at those levels. But it also shows how to build on this progress to realize the Nation's full potential with a fully paid for $56 billion Opportunity, Growth, and Security Initiative, split evenly between defense and non-defense priorities.

HUD's budget is an essential component of the President's vision of investing in the things we need to grow our economy, create jobs, increase skills training and improve education, while continuing long term deficit reduction. While our request makes critical investments to speed economic growth—growing neighborhoods of opportunity through Choice Neighborhoods and providing access to credit through the Federal Housing Administration (FHA)—it also includes new savings proposals and some very difficult choices we may not have made in a better fiscal environment.

Overall, the President's budget provides $46.66 billion for HUD programs, an increase of $1.2 billion above the 2014 enacted level. This spending is offset by projected receipts of $14 billion. Increases are provided to protect vulnerable families, make significant progress toward the goal of ending homelessness, and support community-centered investments, including funding to revitalize neighborhoods with distressed HUD-assisted housing and concentrated poverty. To build evidence of what works, State and local public housing authorities are offered program flexibilities in exchange for designing and rigorously evaluating innovative programs and policies. The constrained fiscal environment also forced tough choices, including funding reductions to our two largest block grant programs, the Community Development Block Grant (CDBG) program and the HOME Investment Partnerships Program (HOME).

The fiscal year 2015 HUD budget:

—*Supports the Mortgage Market and Provides Access to Credit*.—The administration projects that the Federal Housing Administration (FHA) will insure $171.6 billion in mortgage loans in 2015, supporting new home purchases and refinanced mortgages that significantly reduce borrower payments. FHA's loss mitigation program minimizes the risk of financially struggling borrowers going into foreclosure, and since the start of the mortgage crisis, it has helped more than a million homeowners. The budget also includes $60 million for housing and homeowner counseling through HUD.

—*Provides Ladders of Opportunity for Anybody Willing To Work Hard and Play by the Rules*.—The budget provides $120 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level, which is augmented by an additional $280 million in the Opportunity, Growth and Security Initiative, will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. Preference for these funds will be given to designated Promise Zones—high-poverty communities where the Federal Government is working with local leadership to invest and engage more intensely to create jobs, leverage private investment, increase economic activity, reduce violence and expand educational opportunities. To further support Promise Zones, the budget includes companion investments of $100 million in the Department of Education's Promise Neighborhoods program and $29.5 million in the Department of Justice's Byrne Criminal Justice Innovation Grants program, as well as tax incentives to promote investment, jobs and economic growth.

—*Supports Strategic Infrastructure Planning and Investments To Help Make America a Magnet for Jobs*.—HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; helps communities address the lingering neighborhood impacts of the foreclosure crisis; and aligns Federal policies and funding to remove barriers to local collaboration. The budget provides $2.8 billion for the Community Development Block Grant (CDBG) formula program, and proposes reforms to better target CDBG investments to address local community development goals. The budget also maintains its support for the proposed $15 billion Project Rebuild program, which will leverage private capital to bring the benefits of neighborhood stabilization to national scale.

—*Protects the Vulnerable Recipients of HUD Rental Assistance and Makes Progress on the Federal Strategic Plan To End Homelessness*.—The budget includes $20 billion for the Housing Choice Voucher program to help more than 2.2 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and fully restores the sequestration funding cuts that the 2014 appropriations mostly reversed. In addition, the budget provides 40,000 special purpose vouchers, including 10,000 new vouchers targeted to homeless veterans. The budget also includes $9.7 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides $6.5 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families.

The budget provides $2.4 billion for Homeless Assistance Grants, $301 million above the 2014 enacted level. The increased funding will enable HUD to maintain existing projects, fund the increased competitive renewal demand for Continuums of Care in fiscal year 2015, and create 37,000 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2016. In addition, by investing in permanent supportive housing and supportive services programs at both the Department and the Department of Veterans Affairs, the budget keeps us on a path to end veterans' homelessness in 2015. Backed with new data and emerging best practices across the United States, these evidence-based investments will make further progress toward all goals laid out in the Federal Strategic Plan.

—*Puts HUD-Subsidized Public and Assisted Housing on a Financially Sustainable Path*.—This budget also recognizes that we can no longer tolerate a federally-supported rental housing system that is "separate and unequal"—one which expects public housing authorities (PHAs) to house over 3 million families, subjecting them to overly burdensome regulation while denying them access to private capital available to virtually every other form of rental housing. To bring our rental housing system into the 21st century and continue to address the $26 billion in public housing capital needs, this budget includes proposals that would facilitate the conversion and preservation of additional public housing and other HUD-assisted properties under the Rental Assistance Demonstration (RAD). At the same time, the budget provides $10 million for a targeted expansion of RAD to public housing properties in high-poverty neighborhoods, including designated Promise Zones, where the administration is also supporting comprehensive revitalization efforts.

—*Improves the Way Federal Dollars Are Spent and Builds Evidence of What Works*.—The administration continues to seek legislation to modernize the Housing for Persons With AIDS (HOPWA) program to better reflect the current case concentration and understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. The budget's $332 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay connected to treatment, and therefore improving health outcomes for this vulnerable population.

The budget also provides $25 million for the evidence-based Jobs-Plus program, a proven model for increasing public housing residents' employment and earnings. Through Jobs-Plus, public housing residents will receive on-site employment and training services, financial incentives that encourage work and "neighbor-to-neighbor" information-sharing about job openings, training, and other employment-related opportunities. The Opportunity, Growth, and Security Initiative includes an additional $125 million for Jobs-Plus, which together with the base funds could assist up to 50,000 participants.

—*Makes Tough Choices*.—The budget provides $950 million for the HOME Investment Partnerships Program, $50 million below the 2014 enacted level. At this funding level, HOME will provide grants to State and local governments to supply almost 40,000 additional units of affordable housing for low-income families. This funding reduction is mitigated by the investment of $1 billion in mandatory funding for the Housing Trust Fund to finance the development, rehabilitation, and preservation of affordable housing for extremely-low income families.

—*Reforms Government So That It's Leaner, Smarter, and More Transparent*.—The American economy of the future requires a Federal Government that is efficient, streamlined, and transparent. This budget once again calls for the flexible use of resources through the Transformation Initiative, which the Department will use to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars, conduct innovative research, and evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what doesn't. The budget also continues to invest in focused upgrades to the information technology (IT) infrastructure to improve service delivery and track and monitor our programs.

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

Consistent with the previous 2 years, HUD's fiscal year 2015 budget is structured around the five overarching goals the Department adopted in its new Strategic Plan 2014–2018. These goals reflect the Department's—and my—commitment to "moving the needle" on some of the most fundamental challenges facing America. Indeed, every month, I hold HUDStat meetings on one or more of these goals, to assess progress and troubleshoot problems in order to ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other Federal agencies and hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

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

This administration entered office confronting the worst economic crisis since the Great Depression. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the administration for leadership and action in righting our Nation's housing market. HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges. This budget drives economic growth by increasing access to credit and strengthening the FHA.

In fiscal year 2015, HUD is requesting $400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, and $30 billion in loan guarantee authority for the General and Special Risk Insurance Fund. The need for this investment is clear as FHA has stepped up in recent years to address the unprecedented challenges wrought by the housing crisis, playing an important countercyclical role that has offered stability and liquidity throughout the recession. While a recovery of the housing market is currently underway, FHA continues to act as a crucial stabilizing element in the market, and to assure ongoing access to credit for qualified first-time, low-wealth or otherwise underserved borrowers. However, FHA's expanded role is and should be temporary.

Responding to the Market Disruption

The Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) continue to have a significant impact on the Nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, and doing both in a way that minimizes risks to taxpayers.

The fiscal year 2015 budget request will enable FHA to continue its mission of providing access to mortgage credit for families with low and moderate wealth, and to play an important counter-cyclical role in the continued stabilization and recovery of the Nation's housing market. By facilitating the availability of vital liquidity through a variety of HUD-approved lenders, including community banks and national credit unions, FHA has made a number of achievements including:

—Helping over 3.9 million families buy a home since President Obama took office. In fiscal year 2013, more than 500,000, or over 78 percent, of FHA purchase loan endorsements were first-time buyers. These are families that likely would otherwise not be served by the conventional mortgage market.
—FHA accounted for 54 percent of purchase mortgage financing for Black or African-American and Hispanic borrowers.
—The total number of first time homebuyers that FHA has supported over the past 3 years now totals 3.3 million.
—Through its streamline refinance option, FHA helped 500,000 families reduce their monthly housing costs by an average of $200 per month, for an annual savings of $2,400 per family.
—FHA also helped more than 450,000 families avoid foreclosure this past year through its loss mitigation home retention servicing tools.

Managing in a Challenging Mortgage Market

FHA's share of the mortgage market dropped to a low of 3.1 percent of loan originations (by count) in 2005 and then rose to a peak of 21.1 percent in 2010. Since then, FHA's share of new mortgage originations has come down to under 16 percent. FHA's core home-purchase loan activity in 2013 had declined to a level comparable to 1997 (702,417 vs. 704,286 homebuyers, respectively), and was less than the level of FHA activity from 1998 through 2002. FHA's current market share remains above 1990s levels only because of a substantial decrease in the size of the total housing and mortgage market, rather than exceptionally high FHA activity today.

As a result of making major programmatic changes, improving risk management, and restructuring pricing, the value of the Mutual Mortgage Insurance (MMI) Fund has improved significantly since 2012. The improved economic value of the MMI Fund has led the FHA's independent actuary to expect the fund to accumulate capital at a much faster rate than was projected in 2012, which in turn would enable the MMI Fund to reach a 2 percent capital reserve ratio by fiscal year 2015 (2016 if reserve is measured by its ratio to the unamortized balance of insurance) rather than fiscal year 2017, as was projected in the 2012 actuarial review.

Redoubling Efforts To Keep Homeowners in Their Homes

While there is work still to be done, HUD is proud of the progress this administration has made in tackling ongoing foreclosure challenges. As part of the administration's commitment to help responsible homeowners stay in their homes, we have actively sought to use our current programs and authorities to make homeownership sustainable for millions of American families. This budget supports homeowners, present and future, in the following ways:

—*FHA Homeowners Armed With Knowledge*.—The budget includes an innovative demonstration called FHA-Homeowners Armed With Knowledge (HAWK) to explore new opportunities for fulfilling FHA's important role in making homeownership available and sustainable for American families. FHA-HAWK is an umbrella for several FHA initiatives to bring the documented benefits of HUD-approved housing counseling to FHA borrowers. These benefits include improved loan performance, as counseled borrowers perform better than similar borrowers that do not receive housing counseling, and increased access to home mortgages for first-time buyers underserved by the current mortgage market. There is strong and mounting evidence that properly structured and delivered housing counseling provides a significant benefit to borrowers, lenders, servicers and guarantors. In response, many States, local governments and large private lenders mandate or encourage housing counseling.

—*Housing Counseling*.—In fiscal year 2015, HUD is requesting $60 million in Housing Counseling Assistance, to improve access to quality affordable housing, expand homeownership opportunities, and preserve homeownership, all of which are especially critical in today's economic climate. With this funding, HUD estimates that 2,650 HUD-approved counseling agencies employing an estimated 8,000 certified housing counselors will assist a total of 2 million renters and owners. HUD-approved counselors help clients learn about purchasing or refinancing a home; rental housing options; reverse mortgages for seniors; foreclosure prevention; loss mitigation; preventing evictions and homelessness; and moving from homelessness to a more stable housing situation.

—*Strengthening FHA and Paving the Way for Private Capital To Return*.—The books of business insured from 2007–2009 have largely driven the high number of claims to the Mutual Mortgage Insurance Fund (MMI Fund). This was driven by overall economic and unemployment trends as well as by the combined effects of poor underwriting, unscrupulous and non-compliant practices on the part of lenders, and a seller-funded down payment assistance program that allowed many borrowers to obtain mortgages without a meaningful down payment. As a result, the books of business FHA insured prior to the start of this administration have severely impacted the health of FHA's MMI Fund. But thanks to our efforts, I can say confidently that FHA is moving in another direction, and that the long term outlook for FHA and the MMI Fund are now much better than they were when this administration took office in 2009.

The change in trajectory in the performance of FHA-insured loans is no accident. Immediately upon taking office, this administration acted quickly and aggressively to protect FHA's MMI Fund and to ensure its long term viability. The steps we have taken to eliminate unnecessary credit risk, assure strong premium revenue flows and improve recoveries on defaulted loans have been the most sweeping and impactful of any in FHA's history. In fact, the improved economic value of the MMI Fund has led the FHA's independent actuary to expect the fund to accumulate capital at a much faster rate than was projected in 2012, which in turn would enable the MMI Fund to reach a 2 percent capital reserve ratio by fiscal year 2015 rather than fiscal year 2017, as was projected in the 2012 actuarial review.

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

In an era when more than one-third of all American families rent their homes and over 8.5 million unassisted families with very low incomes spend more than 50 percent of their income on rent and/or live in substandard housing, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families—particularly since, in many communities affordable rental housing does not exist without public support. HUD's 2015 budget maintains HUD's core commitments to providing rental assistance to some our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to States and communities to address their unique needs. Overall, 84 percent of HUD's total 2015 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs.

Detailed data shows how vulnerable these families are to the economic downturn. In HUD's core rental assistance programs—including Tenant Based Rental Assistance (TBRA), Public Housing, and Project Based Rental Assistance (PBRA)—75 percent of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored when HUD released its Worst Case Housing Needs study results. HUD defines worst case needs as renters with very low incomes who do not receive government housing assistance and who either pay more than half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 43.5 percent in worst case needs renters between 2007 and 2011. This is the largest increase in worst case housing needs over a 4-year period in the quarter-century history of the survey. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This budget provides $20 billion for HUD's section 8 TBRA program, which is the Nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2015 funding level is expected to assist approximately 2.2 million families and support new incremental vouchers for homeless veterans. It is important to note the effect that sequestration had on this program and the lengths to which HUD and PHAs went to preserve units for families currently receiving assistance. By using both program reserves and contingency funding, HUD did not terminate any family's assistance due to sequestration. No family housed by the program was evicted from that housing. However, approximately 74,000 families who could have moved from Housing Choice Voucher waiting lists and into housing remain on those waiting lists.

The budget also provides a total of $6.5 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating ($4.6 billion) and Capital ($1.9 billion) funds, a critical investment that will help over 1.1 million low- to extremely low-income households obtain or retain housing. Similarly, through a $9.7 billion request in funding for the PBRA program, the Department will provide rental assistance funding to privately-owned multifamily rental housing projects to serve over 1.2 million families nationwide.

Creating Stability in the Project-Based Rental Assistance Program

The budget request of $9.7 billion for the PBRA program will allow HUD to shift to a calendar year funding approach for renewal contracts in fiscal year 2015, which is consistent with current practice in the Housing Choice Voucher and Public Housing programs, and should result in more predictable funding cycles in future years. In fiscal year 2015, for all multiyear contracts in the middle of their contract terms, HUD would place funding on contracts as they come up sufficient to carry them through the end of calendar year 2015. For contracts whose term expires during fiscal year 2015 and a new contract is executed, the approach would be slightly different, as HUD would continue past practice of placing 12 months of funding at the time of contract execution (however, the subsequent funding event would transition those contracts to the calendar year funding cycle). HUD does not expect the transition to a calendar year funding approach to have significant impact on stakeholders, investors, or lenders because there will be no change in underlying contract terms or duration. Rather, the Department will only shift the timing for funding of the contract, similar to past practice during periods covered by continuing resolution and during fiscal year 2013, post-sequestration, which was effectuated due to implementation of new business processes and information technology systems. HUD believes that 12-month calendar year funding will increase the predictability of funding under the program, allowing owners to continue leveraging private debt and equity on advantageous terms. In addition, this approach will assure funding is in place on all multi-year contract renewals during the critical first quarter of the following year—a period when funding uncertainty can be high.

Reducing Administrative Burdens and Increasing Efficiency

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

—*Enabling PHAs To Combine Operating and Capital Funds*.—To both simplify the program and reduce the administrative burden on State and local public housing authorities, the budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.
—*Providing Flexibility for PHAs To Improve Supportive Services for Assisted Households*.—The budget proposes streamlining and flexibility measures to help PHAs improve supportive services for assisted families. The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and Public Housing residents. This program, which the budget also expands to residents of PBRA housing, aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency.

Rebuilding Our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on Federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and State entities to keep up with needed life-cycle improvements. The most recent capital needs study of the public housing stock, completed in 2010, estimated the backlog of unmet need at approximately $26 billion, or $23,365 per unit. Funding for the Capital Fund has been insufficient to meaningfully reduce public housing's backlog of repair and replacement needs or even meet the estimated $3 billion in annual accrual needs. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory has lost an average of 10,000 units annually through demolitions and dispositions.

Rental Assistance Demonstration

In addition to the public housing stock, the RAD program targets certain "at-risk" HUD legacy programs. Prior to RAD, units assisted under section 8 Moderate Rehabilitation (MR) were limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties, and units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) had no ability to retain project-based assistance beyond the current contract term. As a result, as their contracts expired, these projects would no longer be available as affordable housing assets.

Conversion to long-term section 8 rental assistance, as permitted under RAD, is essential to preserving these scarce affordable housing assets and protecting the investment of taxpayer dollars these programs represent. Long-term section 8 rental assistance allows for State and local entities to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process Public Housing conversions of assistance without additional subsidy, HUD requests $10 million in 2015 for the incremental subsidy costs of converting assistance under RAD for very limited purposes. Such funding will be targeted only to public housing projects that are: not feasible to convert at current funding levels, and located in high-poverty neighborhoods, including designated Promise Zones, where the administration is supporting comprehensive revitalization efforts. The Department estimates that the $10 million in incremental subsidies will support the conversion and redevelopment of approximately 5,000 public housing units that would not otherwise be feasible to convert and sufficiently stabilize over the long term without incremental subsidies, while helping to increase private investment in the targeted projects.

In addition to the funding request, the proposed legislative changes to RAD are designed to allow for maximum participation by those PHAs and private owners whose current funding levels are sufficient for conversion. This includes, for example, elimination of the 60,000 unit cap, which will allow for a greater portion of the Public Housing stock that can convert at no cost to the Federal Government to participate in the demonstration.

Increasing the Production of Affordable Housing Capital Projects

Since its addition to the tax laws in 1986, the Low-Income Housing Tax Credit (LIHTC) program has been used to create affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and generates $2.7 billion in State, local, and Federal revenues. The LIHTC program is administered by State agencies with assistance and guidance from the Treasury Department and the Internal Revenue Service.

In fiscal year 2015, as part of the interagency Rental Policy Working Group, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue to collaborate to pursue greater flexibility to State and local agencies that administer LIHTC programs, as well as to developers and investors, to continue to enable the creation of affordable housing in markets where it is needed the most.

The administration's fiscal year 2015 revenue provisions reflect this collaboration. They include a new proposal to implement protections in LIHTC buildings for victims of domestic abuse; they enhance a proposal from the previous year that would empower States to convert some tax-exempt private activity bond volume cap into allocable LIHTCs; and they carry forward four critically important proposals from the fiscal year 2014 budget:

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

—The proposal to create Private Activity Bond Conversion Authority has been enhanced. As was the case last year, the proposal would create much needed flexibility in how States implement the LIHTC program. Specifically, the 2015 proposal would allow States to convert up to 8 percent of their tax-exempt Private Activity Bond authority (PAB cap) into allocable (so-called 9 percent) LIHTCs, increasing a State's allocable LIHTCs by almost 23 percent and addressing several other goals as well. First, for many projects, this proposal eliminates the need for going through unnecessary bond issuance procedures, which reduces transaction costs. Second, converting PAB cap into allocable LIHTCs brings more projects into the competitive LIHTC allocation process, effectively giving States more authority to better prioritize projects with limited resources. Third, it would let States avail themselves of the greater flexibility that they have to increase eligible basis (and thus to increase credits) for high-priority projects that are subject to the LIHTC allocation ceiling (as compared with projects subject to the PAB cap). In addition to enabling States to convert PAB cap into allocable LIHTCs, the 2015 provisions introduce a proposed alternative method for earning (so-called) "4 percent" LIHTCs. If a developer receives an allocation of PAB cap sufficient to issue bonds that would finance at least half of a project, the developer may be able to earn the desired LIHTCs without issuing bonds that are not needed for financing purposes.

The following proposals are being carried forward:

—To maintain a preservation focus, the administration is proposing a new Selection Criterion for Preservation of Affordable Housing. Adding this criterion to Qualified Action Plans under Internal Revenue Code (IRC) section 42(m)(1)(C) will encourage States to consider how to address the preservation needs of affordable housing.

—The administration also builds on the now-expired temporary 9 percent credit floor provisions in the Housing and Economic Recovery Act of 2008 and the American Taxpayer Relief Act of 2012. This proposal to Improve the Formulas for Allocated Credit Rates will revise the present value formula for allocated LIHTCs to increase the annual credit percentage rate and more accurately reflect market practice.

—As in the 2014 budget, the administration is proposing an elective Average Income Criterion. This criterion would encourage a greater range of incomes in LIHTC-supported affordable housing by allowing developers to choose an income-limitation requirement that would be satisfied if households in the low-income units have an average income no greater than 60 percent of area median income (AMI), with no household above 80 percent AMI. An additional provision would allow certain existing tenants to remain in residence without impairing the developer's entitlement to LIHTCs.

—The administration is also addressing LIHTCs Earned by Real Estate Investment Trusts (REITs). This proposal is designed to diversify the pool of investors for LIHTCs and to increase the overall demand for LIHTCs. The proposal would allow a REIT that earns LIHTCs to provide a tax benefit to its investors by paying tax-exempt dividends to them in an amount almost triple the amount of the REIT's LIHTCs.

This budget also continues to propose $1 billion in mandatory funding for the National Housing Trust Fund to leverage LIHTC and help meet the growing need for quality, affordable housing.

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

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2015 budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other Federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness, which have led to a 24 percent reductions in veterans' homelessness and a 16 percent reduction in chronic homelessness since 2010. Additionally, this work has yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems. This year's budget once again invests in this critical effort, by providing $2.4 billion in Homeless Assistance Grants. This funding level will support competitive programs that annually serve over 800,000 homeless families and individuals, and create 37,000 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2016. This includes funding for the Emergency Solutions Grants program, which will continue the work of the Homelessness Prevention and Rapid Re-Housing Program.

Moreover, HUD continues to focus on the unique needs of veterans through both its targeted homeless programs and its mainstream housing programs using successful methods and interventions. Currently, an estimated one out of every six men and women in our Nation's homeless shelters are veterans, and veterans are 50 percent more likely to fall into homelessness compared to other Americans. HUD is committed to providing affordable housing units to this unique homeless population, and has partnered with the Department of Veterans Affairs (VA) to develop targeted approaches to serve the homeless veteran populations. Accordingly, this budget includes $75 million for the HUD-Veterans Affairs Supportive Housing (HUD-VASH) program, which combines tenant-based voucher assistance with case management and clinical services tailored to veterans and their families. This funding will provide 10,000 new vouchers to help veterans move from our streets into permanent supportive housing, in addition to the more than 62,000 already allocated HUD-VASH vouchers provided in previous appropriations and 10,000 to be allocated in 2014, all of which have been critical to the reduction in veterans' homelessness.

Leveraging Capital Resources and Serving Our Most Vulnerable

This budget provides a total of $600 million for the Housing for the Elderly and Housing for Persons With Disabilities programs, which includes $20 million to support 3,400 additional supportive housing units. Doing more with less, the budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to non-profit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012 HUD began providing operating assistance to State housing agencies that formed partnerships with State healthcare agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low-Income Housing Tax Credits, HOME funds, or other sources. Investing section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State healthcare agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2014, HUD requested, and received, similar authority for the section 202 program. Drawing on lessons learned from implementation in the section

811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding.

GOAL 4: BUILD STRONG, RESILIENT AND INCLUSIVE COMMUNITIES

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and most importantly, economic self-sufficiency. As such, HUD's fiscal year 2015 budget puts communities in a position to plan for the future and draws fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 16 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, offer choices that help families live closer to jobs and schools, and support locally driven solutions to overarching economic development challenges. HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—are focused on assisting areas of great need, including communities with high unemployment.

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

Through both formula and competitive grants, HUD has partnered with local organizations and State and local governments to fund innovative solutions to community development challenges. Underpinning these partnerships is the fundamental philosophy that local decisionmakers are best poised to drive a cohesive development strategy. In 2015, HUD is requesting a total of $2.87 billion in funding for the Community Development Fund to support economic development initiatives and projects that demonstrate the ability to connect private sector growth to some of our country's most distressed citizens and communities, and $950 million for the HOME program.

The budget requests $2.8 billion for the Community Development Block Grant (CDBG), which remains the largest and most adaptable community and economic development program in the Federal portfolio for meeting the unique needs of States and local governments. Since its inception in 1974, CDBG has invested in economic development at the local level, investing in infrastructure, providing essential public services and housing rehabilitation, and creating jobs primarily for low- and moderate-income families. Altogether, CDBG funding annually reaches an estimated 7,000 local governments across the country, in communities of all shapes and sizes. However, with the goal of ensuring CDBG funds effectively provide targeted benefits to these communities, especially to low- and moderate-income populations, HUD proposes a suite of reforms to strengthen the program; help grantees target funding to areas of greatest need; enhance program accountability; synchronize critical program cycles with the consolidated plan; and reduce the number of small grantees while providing more options for regional coordination, administration and planning.

Often, CDBG dollars alone are not sufficient to complete crucial economic development projects that communities desperately need. In those instances, HUD offers another potent public investment tool in the form of the section 108 Loan Guarantee program. Section 108 allows States and local governments to leverage their CDBG grants and other local funds into federally guaranteed loans in order to pursue large-scale physical and economic investment projects that can revitalize entire neighborhoods or provide affordable housing to low- and moderate-income persons. In 2015, HUD is requesting section 108 loan guarantee authority of $500 million, and continuation of a fee-based structure will eliminate the need for budget authority to cover the program's credit subsidy.

In addition, the HOME program is proposed at $950 million and the budget proposes legislative changes to better target the assistance provided with this funding. HOME is the primary Federal tool of State and local governments for the production of affordable rental and for-sale housing for low-income families. In the past 21 years, HOME has completed 1.15 million affordable units. Although the administration is committed to addressing the Nation's worst case housing needs by increasing the supply of affordable housing to low-income families, the Department is requesting reduced funding levels in several programs, including a 5 percent decrease in

HOME, given the tight fiscal situation facing the Federal Government. In addition, the budget proposes statutory changes that would revise "grandfathering" provisions and eliminate the dual allocation threshold for HOME participating jurisdictions, permit statewide non-profits to be designated as Community Housing Development Organizations (CHDOs), and provide for a formula reallocation of recaptured CHDO set-aside funds.

Assisting Native Americans and Native Hawaiians

Through innovative programming, HUD has found new ways to partner with American Indian and Alaska Native tribal governments to help these communities craft and implement sustainable, locally-driven solutions to economic development challenges. HUD recognizes the right of Indian self-determination and tribal self-governance, and has fostered partnerships that allow tribal recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. In most of these communities, housing and infrastructure needs are severe and widespread, disconnected from transportation networks and isolated from key community assets including jobs, schools and healthcare facilities. In fiscal year 2015, HUD is requesting a total of $741 million to fund programs that will directly support housing and economic development in American Indian, Alaskan Native, and Native Hawaiian communities nationwide, including:

—$650 million for the Indian Housing Block Grant (IHBG) program, which is the single largest source of funding for housing on Indian tribal lands today. To accelerate implementation of prior-year IHBG funds, the budget also proposes to withhold 2015 funds from large tribal grantees that are holding excessive unspent balances, and to allocate any funds withheld to other grantees under the program.

—$70 million for Indian Community Development Block Grants, a flexible source of grant funds for federally-recognized tribes or eligible Indian entities, requested within the Community Development Fund.

—$13 million for Native Hawaiian Housing Block Grant program, to develop homeownership units as well as support the prevention of foreclosures and the promotion of responsible homeownership.

—$8 million for the Indian Housing Loan Guarantee Fund, which provides loan guarantees to increase the availability of mortgage lending on Indian reservations and other Indian areas.

Transforming Neighborhoods of Poverty

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

That's why HUD's fiscal year 2015 budget provides $120 million for Choice Neighborhoods to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. Choice Neighborhoods—along with RAD— is an essential element of the President's Promise Zones initiative to create ladders of opportunity for Americans living in our most distressed neighborhoods. This initiative is designed to support revitalization in some of America's highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, expanding educational opportunity, and reducing violent crime. Other key rungs on the Ladders of Opportunity include raising the minimum wage, increasing access to high-quality preschool, promoting fatherhood and marriage, and revitalizing America's high schools.

The President announced the first five Promise Zones in January 2014 and will designate up to an additional 15 Zones in the year ahead. Communities compete to earn a Promise Zone designation by identifying a set of positive outcomes, developing a strategy, encouraging private investment and realigning Federal, State, and local resources to support achievement of those outcomes. The Promise Zone designation process ensures rural and Native American representation. Promise Zones will receive tax incentives, if approved, to stimulate hiring and business investment along with intensive Federal support and technical assistance aimed at breaking down regulatory barriers and using Federal funds available to them at the local level more effectively. Applicants from Promise Zones will also receive points for competitive Federal grants that will increase the odds of qualifying for support and assistance to help them achieve their goals.

Promise Zones are aligning the work of multiple Federal programs in communities that have both substantial needs and a strong plan to address them. The Promise Zones initiative builds on the lessons learned from existing place-based programs like the Department of Education's Promise Neighborhoods and the Department of Justice's Byrne Criminal Justice Innovation program, both of which receive substantial increases in the budget. Other Federal agencies that will be aligning their work with that of local Promise Zone partners include the Departments of Commerce, Health and Human Services, and Agriculture.

The Choice Neighborhoods initiative is a central element of the administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many Federal grant programs followed a rigid, top-down, "one size fits all" approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs—and believe the results thus far demonstrate that we are making good on that commitment.

Helping Cities, Towns, and Regions To Plan Their Economic Future

The President is committed to making America a magnet for jobs. But attracting new businesses to our shores depends on urban, suburban and rural areas that feature more housing and transportation choices, homes that are near jobs, transportation networks that move goods and people efficiently, all while lowering the cost and health burdens on families, businesses and the taxpayer. When America's metropolitan areas and rural communities are struggling to rebound from the economic crisis and compete for jobs on a global scale, 20th century practices are just not sufficient to attract businesses that have the flexibility to locate wherever they see the potential to hire committed and skilled workers. Increasingly, mayors and business and community leaders are instituting and demanding new economic development approaches that simultaneously focus business recruitment on industry clusters, unique place-based resources, and community development strategies that ensure that employees have affordable housing choices, can get to work quickly and affordably, and are able to enjoy a high quality of life.

The Office of Economic Resilience (OER), located within HUD's Office of Community Planning and Development, will foster and incubate innovative program, practice and policy throughout the Department and with other agencies by focusing on partnering with communities to: strengthen and diversify their economies in ways that allow them to effectively compete on a global stage, retain and recruit workers that demand high quality places with robust local services and amenities, address distressed and isolated neighborhoods that minimize access to opportunity for residents, and effectively align and deploy Federal, State and local funding for development and infrastructure.

OER will work in partnership with other Federal agencies like the Departments of Commerce, Transportation, Agriculture and Energy, Health and Human Services, the Environmental Protection Agency, Small Business Administration and others—to build the capacity of local, regional and State governments, community organizations and business leaders to prepare and execute data-driven community economic development and infrastructure investment strategies. We know how important these planning tools are to regional economies—particularly those which rely on integrated supply chains that cross national borders and are essential to meeting the President's charge to double U.S. exports over the next 5 years. These investments will also leverage and increase the ripple effects of other administration proposals to overhaul America's deteriorating infrastructure, including the Infrastructure Bank, as well as Project Rebuild and other elements of the American Jobs Act, as we leverage increased residential and commercial construction around transit and other infrastructure investments.

Ensuring Inclusive Housing Nationwide

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

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the Federal Government whose primary purpose is to support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In fiscal year 2015, HUD is requesting approximately $45.6 million in FHIP funds, representing the Department's strong commitment to fair housing. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition it will fund fair housing education at the local, regional and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. In fiscal year 2015, the budget provides $23.3 million in FHAP grants to 95 government agencies, including 37 States, 60 localities, and the District of Columbia, to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law.

Ensuring That an Economy Built From the Middle Class Out Includes Opportunities for Rural Americans

The administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy—particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. HUD serves families in small towns and rural communities through almost every major program it funds.

As the single largest sources of funding for housing on Indian tribal lands today, HUD initiatives in Indian country continue to have some of the Department's most successful track records. Programs like Indian Housing Block Grants, Indian Housing Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, affordable housing is desperately needed. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program. HUD recognizes the right of Indian self-determination and tribal self-governance by allowing the recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. Taken together, in fiscal year 2015 HUD is requesting $741 million to fund programs that will support housing and development in American Indian, Alaska Native, and Native Hawaiian communities.

In addition, HUD and the Department of Agriculture meet regularly through an interagency rental housing policy group to better align and coordinate affordable rental housing programs. Altogether, over 800,000 families in rural communities are directly assisted through the HCV program, Public Housing, and Multifamily programs, with another 450,000 assisted through the Department of Agriculture (USDA). For homeowners, the FHA helps first-time homebuyers and other qualified families all over the country purchase their own homes.

HUD has also entered into a Memorandum of Understanding with the Department of Treasury's Community Development Financial Institutions Fund and the Department Agriculture—Rural Development, to expand the capacity of organizations providing loans and investment capital in underserved rural regions. The initiative, which is being piloted in colonias along the U.S.-Mexico border, will improve the delivery of funding from Federal agencies and private sources supporting small business, affordable housing and community facilities.

GOAL 5: ACHIEVING OPERATIONAL EXCELLENCE

A 21st century American economy that is a magnet for jobs and equips its residents with the skills they need for those jobs demands a Government that's leaner, smarter, and more transparent. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before—HUD remains at the forefront of the Federal response to the national mortgage crisis, economic recovery, Hurricane Sandy recovery, and the structural gap between household incomes and national housing prices—roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2015 budget reflects these critical roles, by investing in transformation, research, and development that will be implemented strategically.

Investing in Our Staff

HUD's greatest resource is its dedicated staff. When employees attain skills and are motivated to use those skills to help their organization reach goals, the capacity of the organization grows and employees in the organization grow as well; which is why HUD is creating training and leadership development opportunities for employees at all levels. Over time, the rules and regulations that develop within an organization become hurdles instead of the helpful pathways they were intended to be. HUD is in the process of simplifying and combining programs, streamlining regulations, and eliminating rules and constraints. In addition, the Department is in the middle of a major reform of its information technology, human resources, procurement, and other internal support functions to give more authority to managers and provide better service to HUD customers.

In 2015, HUD is requesting $1.52 billion in salaries and expenses, including $28 million for Ginnie Mae and $129 million for HUD's Office of Inspector General (OIG). The HUD request includes several initiatives to streamline the HUD organization and increase training for our staff. These efforts are supported by a modified resource account structure, and justified by increased detail of how HUD staff support the programs in the department. HUD is making specific investments of more staff to manage major rental assistance programs, increasing our ability to enforce new fair housing rules and provide more oversight to our community grant programs. The Department will continue to improve operations and create a dynamic organization capable of addressing some of our Nation's most difficult challenges. HUD remains at the forefront of the Federal response to the national mortgage crisis, the economic recovery, and the structural gap between household incomes and national housing prices.

Creating Efficiency and Effectiveness in HUD Operations

The budget includes a reorganization plan for the Office of Multifamily Housing (MFH) that will ultimately consolidate 52 existing Multifamily field offices to 12 field offices. Not only will this plan streamline Multifamily processes, but when the current plan is fully implemented by fiscal year 2016, it is estimated that Multifamily will save over $60 million annually. This transformation will help MFH better serve its customers and stakeholders, operate more efficiently and consistently, engage and fully utilize staff, and improve its risk management. These changes are necessary to ensure MFH's operating model keeps pace with current market demands, while providing for future flexibility. While this transformation will achieve significant savings in a tight budget environment, the primary goal is improving MFH's ability to deliver on its mission.

The transformation builds on the success of past initiatives, such as Breaking Ground and Sustaining Our Investments. These initiatives helped MFH respond to the financial crisis by reducing backlogs and improving application speed, while classifying assets according to risk. This provided liquidity and stability during and after the crisis. Despite these initiatives, however, MFH continues to operate within a harsh financial and fiscal environment, and with a legacy operating model unfit to meet the needs of its customers and stakeholders in the 21st century.

Carrying Out Critical Program Demonstrations and Research

HUD's ongoing transformation is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget resources. The Transformation Initiative (TI) remains the primary source of funding for this transformation. Since TI was first enacted in 2010, it has bolstered research, evaluation, and program demonstrations crucial for increasing the efficiency and effectiveness of the Department's programs. Further, TI has provided a mechanism for innovative, cross-cutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes.

While the Department's transformation is a crucial long-term commitment, HUD continues to prioritize these efforts in a responsible manner that ensures HUD's constituent services don't suffer at the hands of internal transformation. This year's budget proposes a Department-wide HUD Transformation Initiative Fund to be funded by transfers from program accounts of up to 0.5 percent at the Secretary's discretion. In fiscal year 2015, HUD's request includes transfer authority of up to $80 million into its Transformation Initiative Fund for priorities such as:

—*Research and Evaluation.*—To strategically increase efficiency and effectiveness of the Department's programs through examining policy questions and assessing program functioning and outcomes. TI-funded research complements the data infrastructure created through Research and Technology funding of national housing surveys. TI will support research priorities developed in a 5-year Research Roadmap by the Office of Policy Development and Research. The Roadmap reflects a year-long process of consulting with stakeholders about the research questions that are most relevant and crucial for housing and urban development policy and that HUD is best positioned to advance in a timely way.

—*Program Demonstrations*.—Demonstrations test new program approaches in a carefully structured and rigorously evaluated manner, and are essential mechanisms for evidence-based policy improvements. For example, the Rental Assistance Demonstration (RAD), approved in fiscal year 2012, supports trial conversion of public housing and certain multifamily properties to long-term project-based contracts. TI will enable evaluation of outcomes. HUD is also proposing to implement the successful evidence-based policies established by the Jobs-Plus Demonstration to increase the earnings and employment of public housing residents. A process evaluation conducted in tandem through TI will document successful local adaptations and how this larger scale implementation affects outcomes.

—*Surveys and Data Infrastructure*.—The Office of Policy Development and Research (PD&R) provides fundamental support for informed decisions by the Department and national policymakers through data collection, research, policy analysis and program evaluations. PD&R has a key role in the improvement of national housing data infrastructure, rigorous evaluations of major HUD programs, and meeting other key national information needs including disaster response and recovery research. In fiscal year 2015, HUD is requesting $50 million to fund the Nation's basic data infrastructure and share research knowledge on housing and community development. Complementing TI, Research and Technology funds continue the transformation of PD&R into the Nation's leading research organization addressing the wide array of America's housing and urban development challenges.

—*Delivering Strategic and Cross-Cutting Technical Assistance*.—To ensure HUD's funds make the most impact in the communities where they are invested, HUD has shifted from making small investments in narrow, compliance-focused assistance to comprehensive, results-oriented capacity building that assists both grantees with deeply-rooted management and financial challenges, as well as those driving innovation by being the first to implement new policies or programs. HUD delivers intensive, place-based technical assistance, working hand-in-hand with jurisdictions, housing authorities, and other stakeholders that are experiencing a range of capacity challenges. HUD also provides ongoing training and development on principles fundamental to operating housing and community development programs effectively, such as financial management and using data to drive decisionmaking. HUD's technical assistance (TA) resources and training are increasingly offered online to make access easier for many stakeholders and to reduce the costs of providing TA.

Upgrading the Department's Information Technology Infrastructure

In 2015, HUD is requesting $272 million in the Information Technology Fund, formerly the Working Capital Fund. HUD will continue development efforts and primarily focus on delivery of discrete capabilities in our rental assistance system, known as the Next Generation Management System (NGMS) and FHA systems, as well as the implementation of New Core. New Core will enhance capabilities in financial management, travel, procurement, and workforce planning to better support strategic decisionmaking. New Core will transition HUD's core financial management functions to the Treasury Department in the largest financial management shared service arrangement established to date, and implement a HUD enterprise-wide financial system that will allow the Department to resolve material weakness and audit findings while optimizing cost sharing though a consolidated shared services infrastructure platform. These changes will allow HUD to deliver services and manage these multi-billion dollar programs faster, more accurately and using better information for analysis. These funds are crucial to complement HUD's transformation efforts, providing resources for maintaining and improving Department-wide information technology systems.

CONCLUSION

Chairman Murray, this budget reflects the administration's recognition of the critical role the housing sector must play to ensure that America becomes a magnet for jobs that strengthen the Nation's middle class, including providing ladders of economic opportunity for all Americans, whatever their circumstances. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

Given the economic moment we are in, HUD's 2015 budget proposal isn't about spending more in America's communities—it's about investing smarter and more effectively.

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

Senator MURRAY. Thank you very much.

Before I go to questions on the budget, since you are in front of me today, I did want to go back to the landslide for just a second.

WASHINGTON STATE MUDSLIDE

It is hard to describe. Pictures just do not do justice for the massiveness of this. But when I was there this weekend talking to folks in Darrington, a very small town north of the slide, cut off now from the communities below, their real needs are so critical. The teachers can't get into the school because they have been cut off by the slide, so they don't know how they are going to make sure that their schools stay open. People don't know where they are going to live now. We have a lot of folks who don't even know how they are going to pay their mortgage for a home that no longer exists.

The town of Oso itself is only 180 people, so this a community where literally everyone knows someone who has been lost.

I wanted to ask you, while you are here today, I know HUD is currently engaged a bit with Snohomish County, but are there any steps that we can take that you can advise us about? The mayor of Darrington said to me, "I don't know what to ask you for." And I said, "Well, let's help you ask for the right things so you get it." And I want to ask you sort of the same thing. Are we asking you for everything we need? Is there anything else we should be asking for?

Secretary DONOVAN. Senator, we have already begun working extensively with your team to provide the flexibility that we can. That begins with the ability to change the investment of block grant funds, which you know are the most flexible funds that we have.

Snohomish County receives about $4 million a year between CDBG and the HOME Investment Partnerships Program (HOME). We can immediately provide flexibility for them to redirect the funds they already have. In addition, their fiscal year starts on July 1, and we can work with them ahead of that to put together an action plan that would direct funding that they will be getting in their new fiscal year to recovery and relief in that county as well for the disaster.

I would add that should the Federal Emergency Management Agency (FEMA) make a major disaster declaration, that gives us additional flexibility that would allow us to waive certain restrictions under CDBG, as well as allows us to take steps around, for example, you mentioned families paying their mortgages, to provide relief through FHA and new loans that can help with rebuilding.

Senator MURRAY. OK, very good. I really appreciate that.

You were very involved in the Sandy task force, I know. Maybe if you can share some lessons about the most effective way for Federal agencies to work in partnership when this happens, so we can know what to be watching for.

Secretary DONOVAN. Absolutely. We look forward to working with your team on that.

One of the key things that we saw that was provided in the Sandy supplemental was greater flexibility for agencies to be able to work together and expedite assistance. Clearly, in terms of the work between not only FEMA, the Small Business Administration (SBA), and HUD, who all provide funding toward rebuilding of homes and businesses, better coordination with insurance companies who are a key piece of this, but frankly too often have not been fast enough to provide relief.

So I would suggest that we sit down immediately with your team, with FEMA, with SBA, to look at the options there, but also bring in State officials who can help us bring the insurance companies to the table, so that we can coordinate that as quickly as possible.

Senator MURRAY. I really appreciate that. We will take you up on that offer. Thank you.

PROPOSED PBRA CALENDAR YEAR FUNDING

With that, let me turn to the budget at hand and ask you about the Project-Based Rental Assistance (PBRA). In the project-based section 8 program, private property owners are under contract with HUD to provide affordable rental housing to low-income families and seniors.

Today, these contracts expire and are renewed throughout the year. What your budget proposes now is to change that so that all the contracts expire at the same time. And I understand that what we are trying to do is allow HUD to realize some the short-term cost savings in fiscal year 2015.

But it also means that HUD will need to cover the full cost of all project-based contracts at the same time at the start of 2016. So if Congress were to approve this request to move forward, I wanted to understand what will be the cost of fully funding these contracts when we get to fiscal year 2016.

Secretary DONOVAN. This is a very important question, Chairman. I want to be very clear about this, because it is a complicated set of changes, to some degree.

But to be very specific, the cost that we believe would be needed in 2016 to fully renew is about $10.8 billion.

However, should we not make this change, should we stay on the current path where contracts are supposed to be funded at the time that they are renewed throughout the year, the cost would still be $10.8 billion for 2016.

So to be very clear, this does not increase the cost one penny for 2016. And we believe it is a better way to go.

Unless the subcommittee is able to find an additional $1.3 billion to close all the shortfalls that currently exist in the program, as we are funding it right now, we believe it is better to move to a calendar year funding cycle, just as we do section 8, and be able to give certainty to owners that they know how much they are going to be getting and when they are going to be getting it.

I want to be clear about one other point. We are actually not proposing to renew contracts all on January 1. We are proposing to separate out the renewal dates, which would happen throughout the year, and when funding is added. Because of technological advances at the agency, we can now do that in a way that sort of is invisible to owners.

What we would be able to do, just as we do in section 8, is to have the funding year be January 1 to January 1. That provides one-time savings, but also allows us to get off of what has really been a roller coaster cycle for owners these past few years where we have had real uncertainty. Will they get a full year's funding? Will they not?

And what that has meant is that it is more expensive to get the private financing—higher interest rates, greater reserves—than if we could move to a system as we are proposing where we can say, look, we are resetting the baseline. We are going to go from January 1 to January 1 each year just on the funding, not on the renewal themselves, and be able to have a more reliable, clear system available.

We think that that actually lowers cost to taxpayers in the end, because it means that private financing would be less expensive.

Senator MURRAY. OK. And this budget resolution, obviously, ends, and we have to have a new budget agreement for 2016. If that doesn't happen and we end up on a continuing resolution (CR), will this effect HUD's ability to manage the program's finances, if there is a prolonged continuing resolution, or some other challenge that we don't foresee?

Secretary DONOVAN. Typically, what we have seen, and this is why we asked for an advance appropriation of $400 million each year, because it gives us some flexibility to be able to manage through a continuing resolution. It gives us some buffer, if you will, for the contracts that expire at the beginning of the year.

If we have a continuing resolution, this does not hurt our ability to take whatever increment of funding you would provide through the continuing resolution, add it to that $400 million, and fund in increments.

So we don't see this as introducing greater risk to a CR, as long as the CR includes a prorated amount of funding.

Senator MURRAY. Thank you.

Senator Collins.

Senator COLLINS. Thank you, Madam Chairman.

Mr. Secretary, as I mentioned in my opening statement, I recently met with Maine's public housing authority directors. And to a person, they expressed concerns about the regulatory guidance from HUD.

Senator Angus King and I wrote to you about this issue, and you very promptly responded, which I very much appreciate, with a list of certain rules that you are considering.

Now, I do think that we need to be careful not to open the door to fraud, as we look at some of these issues of self-certification, for example, or changing how often you determine family incomes. So there is a balance.

OPERATING CAPITAL FUNDS FLEXIBILITY

There is one proposal in the letter that the public housing authority directors are very enthusiastic about, and that is allowing them to have full flexibility to use their operating and capital funds for any eligible expense under both programs.

I am unclear, however, from your letter, whether you need legislation in order for that to occur, or whether you can do that through regulation.

Secretary DONOVAN. Specifically on that point, what we call fungibility between the operating and capital funds, we do need legislative authority. We have actually proposed that in our budget for 2015.

And I want to recognize, Senator, and the chairman, that in addition to the heroic efforts to get a budget agreement this year, that you recognized in your opening statement, one of the great benefits of the 2014 budget is that it did give us greater flexibility legislatively in a number of areas that we think are quite important. And we are in the process of implementing those.

We have additional legislative authority that we have asked for in the 2015 budget, including the fungibility between operating and capital that you mentioned.

But there are also additional steps, which, with your urging, we will make sure to move forward on, where we don't need legislative authority.

And we did issue a notice recently that implements a range of flexibility. There are further steps that we are looking at, as we mentioned in our letter, and we do expect to issue a regulation that would make more permanent many of those changes that we introduced by notice.

So we will continue to work with you and be happy to respond and appreciate your interest in this.

Senator COLLINS. Thank you.

UPDATING HANDBOOKS AND SYSTEMS

Another related issue that several of the PHA directors have raised with me is the issue of outdated handbooks that HUD has.

For example, HUD's minimum property standards for housing, apparently, was last updated in 1994. Well, an awful lot has changed in terms of standards and technology since then.

And to give you an example, there is a section of the handbook which requires emergency pull cords in elderly units with an intercommunicating telephone system connected to a switchboard, which is monitored 24 hours a day. The chuckles I am hearing in the audience makes it obvious that I don't have to read to you further on why that technology is totally outdated.

Well, here is the irony. When HUD inspectors come in, they do not subtract points from sites that have had those outmoded systems removed. But they will reduce scores, if the system is still there but not working.

And there is also an issue where tenants that have cats end up tying up the pull cord to prevent the cats constantly playing with them.

The point is that is clearly very outmoded technology. And that is an example of why those handbooks need to be updated more than once every 20 years.

Could you respond to that concern, please?

Secretary DONOVAN. Absolutely. First of all, while we have made sort of what I would describe as incremental updates to the handbooks, we are in the process of doing a fuller comprehensive review and updating of them.

I would also say, specifically on these inspection standards, one of the problems that we have had, as you know well from the experience that we had with the Maine State Housing Authority, is that our voucher program operates on a housing quality standards, or HQS, system, which is not as effective as the system that we use for our multifamily housing and now for public housing. And we are in the process, in part thanks to your urging, that we look at it. Based on the Maine experience, we are moving to this Uniform Physical Condition Standards (UPCS) standard across the board. We are piloting that right now, and we would expect to move fully to that system going forward, so that we have a single improved standard.

I would also, last, say that I promise not to call you on the Senate switchboard to get you a fuller response to this question.

Senator COLLINS. Thank you.

PRIVACY ISSUE IN BACKGROUND CHECKS

Mr. Secretary, turning to a very troubling incident, I read a news report earlier this year about a housing authority, which was conducting a routine background check on a rental assistance applicant. And during that review, it was determined that the individual had an active warrant for sexual assault of a child.

The PHA believed that HUD regulations prevented its personnel from notifying the police and that it could only inform HUD. That is just appalling to me.

Two of the employees did call the police to notify them, only to, it is alleged, be fired by the executive director for doing so, which I just find it extraordinary.

It is very difficult for me to understand why HUD rules would prevent a PHA from notifying the police in the case where there is an outstanding warrant for someone who is applying to live there.

And HUD's response was also very troubling, because it basically acknowledged that this was an issue and that it was a case where HUD's regulations conflict with the moral thing to do.

Are you familiar with the case? And have any steps been taken to change the regulations in this regard?

Secretary DONOVAN. Senator, I have reviewed it with my team. And the fact is that the statement that was issued did not reflect adequate review of the facts here.

Based on a much fuller review, we don't believe there is anything in HUD's statutes or regulations that would stop those employees from reporting this.

There are requirements in terms of the process that need to be followed to do that, so that you protect the privacy. But there are clear exceptions that include risk to life and safety for being able to disclose this kind of information.

And as long as State law doesn't restrict it, which we believe in this case, we look at the Nebraska State statutes—we are not the official interpreters of those—but we don't believe there is any bar in State law. And, therefore, we believe that, had they followed the process correctly, they could have disclosed this.

Unfortunately, the housing authority director never spoke to HUD about this. Just made an assumption and that was what led to the process that happened here.

And again, the statement from our employees should——

Senator COLLINS. It was really appalling.

Secretary DONOVAN. I would not disagree with you, Senator.

Senator COLLINS. OK, because I am just going to read very quickly, for the record, what HUD's initial response was, and I do hope it has been clarified across the board to all PHAs.

HUD responded: "There are instances where there may be conflicts between HUD guidelines and what is morally right. This appears to be one of those rare occasions. In instances like this, we would have hoped that the executive director would have come in and posed the question. While there are limits to what the PHA could have done with this information, HUD may have been able to provide other options."

Here's the really disturbing part: "Having said this, we are not going to second-guess the decision of the executive director", who fired the individuals allegedly for doing this report.

But the first sentence is appalling, too, that there are instances where there are conflicts between HUD guidelines and what is morally right. This is a case for a warrant for sexual abuse of a child.

So I am glad to get your response that you agree that this is an appalling response. Thank you.

Secretary DONOVAN. Yes, I would add, Senator, you can ask my staff, as they read me that quote what my face looked like.

Senator MURRAY. Thank you.

Senator Udall.

Senator UDALL. Thank you, Chairman Murray.

I thank you, Secretary Donovan, for being here. I was really impressed with the exchange between both you and Senator Murray on this disaster, because it is just such a good example of how you have a situation where people really need help. I think close to 30 people have lost their lives.

In your exchange, you talked about how we take the programs that are on the books, and if we have a disaster declaration, we can move in and really act very quickly.

And so it is a tribute to both of you that you are willing to respond to that. And I really appreciate it.

LOW-INCOME HOUSING TAX CREDITS

Your agency administers programs that are critical to the well-being and prosperity of many New Mexicans. And while there are many programs that have a significant impact on housing conditions in New Mexico, things like supportive housing, especially for veterans and homelessness prevention, to loan guarantees, I would like to focus on a couple concerns I hear the most about.

The first one has to do with low-income housing tax credits in rural areas. As I travel across New Mexico, and especially in southeastern New Mexico, I hear from local elected officials and economic development groups that the lack of affordable housing is limiting economic expansion. They are having big economic expansion, but they don't have affordable housing.

Approximately one-third of the New Mexicans are renters, and half of them pay more than 30 percent of their income toward rent. The low-income housing tax credit is one of the best tools to increase the production of affordable housing capital projects, and I appreciate your efforts to continually improve the program.

Can you speak to how you see the proposed changes improving affordable housing production in rural areas?

Secretary DONOVAN. Absolutely.

First of all, as you know, Senator, the decisions about the allocation of low-income housing tax credits are made at the State and local level. And I think it is important that there be a focus on how those are allocated and to make sure the rural areas are getting their fair share.

But the fact is, given the rental affordability crisis that I spoke about in my opening remarks, we must do more to provide funding. That is why we believe the HOME program is critical within HUD's budget, in addition to the CDBG program, which I spoke about. It is why the President has spoken out that we should not just maintain but actually increase investment in low-income housing tax credits with any tax form.

And finally, it is why the administration is fighting so hard that as part of the housing finance reform bill that is being considered by the Senate Banking Committee that we ought to increase our investment in National Housing Trust Fund, as well as other investments that would increase the investment in affordable housing, both in urban and rural areas.

HOUSING IN INDIAN COUNTRY

Senator UDALL. Thank you very much. And one of the other areas I hear a lot about is Native American housing needs. Sadly, housing conditions in Indian country continue to be substandard.

According to 2012 data, over 25 percent, or almost 274,000 of American Indian housing units, have severe housing needs. Twenty-eight percent of reservation households lack adequate plumbing in housing. And despite these conditions, the lack of housing is so great that overcrowding continues to be a problem.

For example, the Zuni Pueblo in New Mexico have only 1,488 occupied housing units for a population of 11,770. And improving these conditions is complicated by challenges of coordinating between HUD and other agencies like HUD and the U.S. Department of Agriculture (USDA).

Given these needs, do you believe that the requested levels will significantly improve conditions? And can you give us an update on your efforts to improve coordination with the Bureau of Indian Affairs (BIA) to maximize the delivery of housing services in Indian country?

Secretary DONOVAN. First of all, Senator, the $650 million that we are proposing for Native American housing block grants are our most important tool in helping to increase the quality and availability of housing in Indian country.

I would not tell you that I think it is enough. I would like more investment there. And in fact, we are well underway on a comprehensive study of housing needs in Indian country, which showed the terrible, terrible conditions that you talked about.

But given the budget constraints that we have, we do believe that $650 million is a substantial investment and will go a long way toward at least beginning to address those needs.

I would also say that one of the most critical things that we do with BIA, the Bureau of Indian Affairs, is that they control often the land permitting and ability to construct new housing. And too often in the past, the process to get those approvals has taken months if not years, in some cases. So we have been working closely with them to accelerate that process to get approval for building in Indian country. And it is one that we will continue to focus on, to be able to increase the availability of affordable housing in Indian country.

Senator UDALL. Great.

TECHNICAL ASSISTANCE SAFEGUARDS

And the final area has to do with technical assistance. In recent years, HUD has made changes to its technical assistance programs. And what you have done there is kind of centralize the awards. And while I applaud your efforts to streamline programs and maximize efficiency, I have heard concerns from my constituents that services are not as accessible as they once were.

How is HUD tracking the effectiveness of this change? And does HUD have safeguards in place to ensure that the level of service is not diminished by the changes to the technical assistance program?

And I have short time, so you can give a short answer, and maybe expand on it in your written testimony.

Secretary DONOVAN. Senator, I would like to follow-up with you directly on this. Frankly, I am surprised, because our OneCPD effort, I hear from mayors and other partners all the time that this has dramatically increased the speed with which we are able to provide technical assistance. So it may be that there is a specific issue in New Mexico that we need to focus on and deal with. I will follow up with you.

Senator UDALL. We will work with you on that.

And I am sorry for running over, Madam Chair.

Senator MURRAY. Absolutely.

Senator Boozman.

Senator BOOZMAN. Thank you, Madam Chair.

Thank you, Mr. Secretary, for being here. We appreciate your agency's hard work.

HUD-VASH

I want to commend you for your efforts to reduce veteran homelessness. Certainly, that is a huge problem throughout the country. And in your testimony you talk about partnering with the Department of Health and Human Services (HHS) and VA to develop a targeted approach to serve veteran homeless populations.

Can you talk about some of the successes that you have encountered in the area? And then maybe some of the challenges as we go forward?

Secretary DONOVAN. Absolutely, Senator.

So first, I think, as the chairman mentioned, one of the great successes here has been in the HUD-VASH program, and that is a program that combines the vouchers through the section 8 program with case management and other services from the Veterans Administration. And while the program had great promise, initially, what we found is that the vouchers were not being used effectively when we came into office.

So we have made a very concerted effort to work closely with the Veterans Administration and to reform the process of how those vouchers are used, including what we call boot camps that are happening around the country where we bring together all of the players, completely reform the process. That has allowed us to cut the time it takes to put veterans in housing by 60 percent, 70 percent, in many cases.

And what that has led to is a dramatic increase. We have now over 40,000 veterans that are using these vouchers, and we think it is the single most important factor in driving down the levels of chronic homelessness among veterans.

As you know, veterans are 50 percent more likely than the average American to be homeless and particularly to be chronically homeless. And it is just a terrible tragedy.

And one of the things we have seen is that the share of veterans who are chronically homeless who are using VASH has gone up significantly because of those efforts.

In addition to the VASH vouchers, however, one of the things I really want to commend Secretary Shinseki and the VA for is they have adopted many best practices, particularly rehousing. That is an effort that they are significantly increasing funding this year where we can take a family or individual who may not have the same intense needs as a chronically homeless veteran and get them out of a shelter very quickly into housing.

Oftentimes, that means helping them with a security deposit or a very small amount of one-time money that can help them make that transition. We have seen great success. More than 90 percent of those individuals are successfully housed a year later, using rapid rehousing.

So that is another big innovation we have piloted and now are doing it full scale with the VA.

Senator BOOZMAN. That is great. Again, it sounds like lots of positive things happening. I think it is a good illustration that when the agencies work together on some of these problems that we can get a lot more done collaborating.

And, certainly, in the past and now we don't sometimes do as good of a job as we should. So we appreciate your example.

HOME/SELF-HELP HOMEOWNERSHIP OPPORTUNITY PROGRAMS

Can you talk a little bit about the Self-Help Ownership and Opportunity Program (SHOP) in regard to why it was eliminated as a standalone account and shifted into the HOME Investment Partnerships program?

Secretary DONOVAN. Absolutely.

Just to be clear, we are proposing that it be funded under the HOME program. So this is not an elimination of the funding.

What we are proposing is $10 million within the HOME account, if you will. And we did that because this is a program that works very closely within the sort of HOME rules and is something that can very effectively be used in partnership with the broader HOME grants that are made available to communities around the country.

Senator BOOZMAN. Very good.

SEQUESTRATION CREATED HARDSHIP ON PHAS

One of the things that has come up in Arkansas is, getting out and about and visiting with our public housing folks, the Arkansas public housing authorities have dealt with lingering financial concerns from 2012, regarding when the offset was imposed on operating subsidies, leaving many housing authorities with zero operating funds from HUD and relying solely on their reserve balances to pay expenses.

They worry about the continued offset of public housing authority reserve funds. Can you comment a little bit about their concerns?

Secretary DONOVAN. Absolutely.

Let me be clear, Senator, the budget pressures that we felt through broader cuts as well as sequestration last year have imposed hardships on housing authorities that are frankly unacceptable. And to have, for example, administrative fees that were about 60 percent of what the formula would suggest are their actual needs have imposed all kinds of hardships.

We do believe that if housing authorities are not using the money they get each year, particularly in these difficult budget times, and they are building up reserves that are far higher than what they would need for regular operations, that giving us the flexibility to be able to draw down those reserves and put that money to work more quickly is the right thing to do in these difficult budget times.

Having said that, though, I think the most important thing we can do is to provide a more adequate level of funding as we are proposing to do in our budget.

For example, a $200 million increase up to $4.6 billion in the operating funds that housing authorities would receive, we think that is the most important thing that we can do, along with increased administrative fees, to make sure that housing authorities don't continue to need to dip into reserves just to run their regular programs. Clearly, sequestration made that problem worse.

Senator BOOZMAN. And very quickly, as I close, in regard to the comment that was made about the HUD guidelines concerning that there might be—this was an example of a moral situation where the guidelines were in conflict with that, implying that there were other things.

I do think we have a problem. You are saying that is not the case, and yet, obviously, you have people in very high positions that feel like that is the case, in that that came out.

So one of the things, one of the problems that we have in the country, is that we have a loss of faith in our institutions, in Government. This is the kind of thing that drives people just absolutely crazy. So I would like for you to follow up specifically on that. Ask whoever was involved specifically what they are talking about, about these other things.

And again, if you could get back to the subcommittee and explain how that is getting resolved, and if legislatively, we need to do something.

But the number 1 thing, we need to protect privacy, but we also need to respect and protect the safety of the occupancy of those buildings. And that has been a huge problem in the past. Thank you.

Secretary DONOVAN. I would be happy to follow up with you. Thank you.

FINANCE AND GOVERNANCE TRAINING

Senator MURRAY. Secretary Donovan, in some of our previous hearings, we have talked about the importance of oversight and, in particular, oversight of public housing authorities. It has become very clear through your work and that of the inspector general that the source of most of the problems at our troubled housing authorities is poor financial management and governance.

So to help address that in the 2014 bill, we provided some additional funding for financing governance training and required that HUD work with the Inspector General (IG) to determine what skills the board members should have to effectively oversee some of these housing authorities and how HUD can help make sure that they have these skills.

Can you update us this morning on some of your conversations with the IG, what you are considering in terms of some of those requirements, and how you plan to utilize the finance and governance training funding?

Secretary DONOVAN. Absolutely.

So first of all, thank you for your continued focus on this and the specific investments that you made in the budget toward making sure not only that this training happens, but that we are adequately staffed and the Office of Public and Indian Housing (PIH) department as well.

Not only do we plan to fully comply with your direction that we invest $3 million in our transformation initiative technical assistance (TA) resources, but we are going to go beyond that to invest a total of $12.5 million of those resources in PHAs. So in addition to the financial management and governance training that you specifically focused on, there is additional funding that is going to go into making sure that we are doing technical assistance, particularly with our at-risk and troubled housing authorities.

We have seen some real success with that, where, historically, there have been about 175 troubled housing authorities on average each year. We had brought that down over the first few years of the administration to about 75. We have then introduced, something we call the Public Housing Assessment System Interim Rule (PHARS), which is a sort of SWAT team, if you will, focused on the most troubled and at-risk housing authorities.

We have now reduced by an additional 50 percent the number of troubled housing authorities. So we are down to less than 40 around the country that are troubled.

So that is not to say we solved all the problems. And I think the training in particular around financial management and governance we see consistently with housing authorities that we need to make improvements there. So we think you are on the right track.

We are going to implement it, along with these other steps that we are taking to catch housing authorities earlier in the process, particularly around financial issues.

Senator MURRAY. OK, very good.

REPORTING REQUIREMENTS

As I talked about in my opening statement, I continue to hear from a lot of these public housing authorities about the burdensome number of reporting requirements and the chorus is getting louder as PHAs have seen lower administrative fees in recent years.

There is no question HUD has to have the information. It needs to monitor the use of Federal funding. No one disagrees with that. But oversight really requires, as I said, more than just asking for more information. It requires asking for the right information.

Last year, we required HUD to review its regulations and submit a report recommending regulatory changes that will help streamline some of these reporting requirements and improve some of the oversight. Can you give us an update on that review, and what you are seeing?

Secretary DONOVAN. We are on track with that review. It has a due date of July, and I will make sure that you have that by that date. We are on track in doing it, and it includes many of the provisions that I talked about earlier that are included both on a statutory basis. And again, I want to thank you for the progress that we made in the 2014 budget on that front.

There are further steps in 2015 that we think statutorily could help us in terms of reducing burdensome requirements. But there are additional steps that will be included in the report that we can take with our own administrative authority and through regulatory reform.

Senator MURRAY. OK. We look forward to seeing that, when that comes out. Thank you for that.

AFFORDABLE HOUSING FOR PERSONS WITH DISABILITIES

Under the Americans with Disabilities Act and the Supreme Court's Olmstead decision, States are required to favor community-based care solutions for persons with disabilities over institutional care.

Unfortunately, the lack of affordable housing has been a barrier to State efforts to achieve that integration. So to address that problem back in 2012, this subcommittee funded a demonstration program to help States create affordable housing to meet those requirements. Under that program HUD provides grants to States where the housing finance agencies and health and human services agencies have joined together to really help transition people from costly institutional care to housing and services within their community.

That initiative really makes sure the rights of disabled persons across the country are respected, and we hope it will allow States to deliver the same quality of care for a lower cost.

Can you tell us today what kind of cost savings and other benefits are being realized as people move out of these institutions and into community settings?

Secretary DONOVAN. Well, just to give you a sense of it, Senator, and this really goes to Senator Boozman's question earlier about the homeless efforts as well, one of the real opportunities here is, as we invest in these innovative efforts, we have the potential for huge cost savings, particularly on the health care side.

So to give you a specific example, typically, we are looking at a housing cost of somewhere just north of $5,000 a year. When you think about a typical homeowner community-based waiver that would come through Medicaid, you may be looking at $15,000 a year, which sounds like a lot, so a total combined cost of about $20,000 a year. Compare that, though, to the typical nursing home, which is about $70,000 a year.

So if we can effectively target, and this is really what we are doing working closely with HHS and other partners, is to make sure that we are targeting both on our 811 program, but as well as with seniors in the 202 program, those that are most likely to end up in nursing homes or are already there, and to be able to make sure that, as we invest in these efforts, we are significantly reducing costs on that front.

And we are tracking this extremely closely with very detailed research efforts with HHS to make sure that we are achieving the savings that we think are possible.

Senator MURRAY. OK. I have one last question and let me do that and then I will turn it back to Senator Collins.

RENTAL ASSISTANCE DEMO

In 2012, Congress included language in the Transportation and Housing and Urban Development (THUD) bill to allow HUD to launch the rental assistance demonstration, and the goal really was to explore ways to address the capital needs of public housing by leveraging private sector resources. We asked HUD select housing authorities of different sizes and different geographic areas to see if the model could work more broadly.

When the program was created it wasn't clear if simply changing the subsidy type would be enough to allow housing authorities to actually address their capital needs. That program is now in high demand. There are now housing authorities in my State, including the Spokane Housing Authority, they want to participate in this program, but they can't because of the cap on the number of units that can participate in the demonstration.

I wanted to ask you what you have learned from this demonstration, and how much funding have participating housing authorities been able to leverage?

Secretary DONOVAN. Well, Senator, I am glad you asked.

We have seen overwhelming demand. As you said, there was a cap of over 60,000 units. As of December 31, we had about 180,000 units of applications. And we believe it is absolutely critical that we lift the cap beyond the 180,000 units.

Senator MURRAY. Well, we proposed increasing the cap last year. When we did that, one of the concerns that was raised was adding units to the section 8 program would increase the burden on them or their costs. Can you respond to that?

Secretary DONOVAN. To be very clear, this has no net increase on Federal costs. All we are doing is taking a dollar out of public housing funding streams and moving them to the project-based section 8. So the net cost is zero.

If anything, I would say, in the long run, on the principle of fix the roof today or pay more later, that by raising what would be about $6 billion without a single dime more from the Federal taxpayer—$6 billion of investments in those 180,000 units—we could avoid potential greater cost to the taxpayer down the line. So we think that this is quite innovative.

The other thing I would add——

Senator MURRAY. So you support raising that cap?

Secretary DONOVAN. Absolutely. And it is also allowing us to consolidate programs. We have older versions of section 8. The WRAP and rent sup program, a sort of alphabet soup, we have already had applications to consolidate about two-thirds of those programs into section 8.

So it simplifies and reduces costs for us. It brings in new private capital. And as you said about Choice Neighborhoods, it will create a greater mix and vitality in those communities by bringing in other kinds of investments—grocery stores, other kinds of economic development that will help in those cases as well.

The last thing I would say, Senator, is, while you called it a demonstration, we are converting these to a time-tested method of funding housing. We are using project-based section 8, project-based vouchers. Those have been tested across the country.

So it is not really like this is a brand new or untested direction. And that is why we are confident that it makes sense to go more quickly on this, but to raise the cap and really be able to meet the demand that housing authorities have.

It also is deregulatory, from their point of view. It puts them in a program that is actually simpler, doesn't have the same kind of extensive rules that both you and the ranking member have been talking about here.

So there are lots of benefits to this that we think make a lot of sense, particularly in a constrained budget environment.

Senator MURRAY. OK. I really appreciate that.

Senator Collins.

Senator COLLINS. Thank you.

GOVERNMENT ACCOUNTABILITY OFFICE RECOMMENDATIONS

Last year, Mr. Secretary, the Government Accountability Office (GAO) did a report that compared FHA's performance in disposing of foreclosed properties with the performance of both Fannie Mae and Freddie Mac. And for example, the GAO found that FHA took about 340 days after disclosure to dispose of real estate owned (REO) properties, compared to around 200 days for Freddie and Fannie.

So it took FHA more than 60 percent longer to disclose of these foreclosed properties.

GAO concluded that had FHA's performance been more similar to Freddie and Fannie, that FHA could have increased its proceeds by as much as $400 million and decreased its holding costs by about $600 million for the year. That is real money that could make a real difference.

The GAO report included 10 recommendations to increase FHA's returns on the disposition of these foreclosed properties. Could you tell us whether those recommendations have been implemented, and whether we are seeing improvement?

Secretary DONOVAN. Senator, we are on track in implementing those recommendations. We laid out a timeline from the report last June. We are not fully implemented, but we are on track with the GAO to have those fully implemented this year.

In addition, we have made a series of other changes to the way that we manage our troubled assets, and those include claims without conveyance of title. They include a greatly expanded loan sale program.

All in all, what this means is that this year, we are actually recovering between $100 million and $200 million more each month on our troubled assets.

So the combination of recommendations from the GAO, along with other changes that we made, have had a dramatic impact on improving our recoveries.

HOUSING FIRST

Senator COLLINS. I want to turn to the issue of homeless funding. You and I have had a discussion before on the success of the Housing First model, which I have since become a convert to, having seen the real success in Portland, Maine, of using that approach.

I will confess that I was a real skeptic at first. But, boy, the data are overwhelming about its success.

I wanted to let you know of a study that had been done in 2009 of 100 homeless individuals in Portland who found in their second year of stable housing, individuals cost taxpayers more than $600,000 less than they would have if they had been in shelters or living on the street.

This was fascinating to me. We also saw better outcomes, fewer emergency room visits, a far lower number of police calls, less violence. And giving people a stable housing environment and then working with them on their substance abuse and other problems has turned out, at least in my State, to be a successful model.

How is HUD ensuring that the projects being renewed by homeless assistance grants are effective the way this one is—and there is more than one in Maine taking this approach—and not crowding out these newer, proven, more effective approaches?

In other words, if you just automatically renew everybody no matter what their outcomes are, I am concerned that you are going to crowd out these more effective models.

Secretary DONOVAN. Absolutely.

And I am not sure if you saw Anderson Cooper's piece on 60 Minutes around Housing First a few weeks ago. Housing First, among those like you who know almost as well, is familiar, but this is reaching a much broader audience, I think, with how exciting this advance is and how much progress we have made.

Specifically, we, for the first time this last year in our continuum of care competition, gave much more explicit policy direction that included Housing First, rapid rehousing, a number of these advances that are proven. And what we have seen, and we don't have full results yet, but we have just gotten back the responses to that competition. We are looking through them.

The initial review shows that about over 50 percent of continuums around the country did exactly this kind of reallocation where they are taking money from existing programs, transitional housing, social services only, that don't make as much sense and are transferring them to permanent supportive housing on a Housing First model, rapid rehousing, other things that we think really are tested.

So we are encouraged by these early results. We will obviously share them with the committee as we are going through. We are looking behind those to make sure that they are actually doing it, and not just saying that they are doing it.

But this has really been a big push that for the first time we have been able to do in the last couple years. We have our new competition that is coming out, and we are going to do more of this based on the early results.

Senator COLLINS. I am really glad to hear that. As I said, I was a real skeptic at first. I thought it would make sense to make sure that people agreed to participate in programs to address their substance abuse and mental illness, and other issues. And it turns out the reverse, that it works more effectively, at least based on the results that I am seeing in Maine.

And I will take a look at that Anderson Cooper piece as well.

I have other questions that I am going to submit for the record, with the chairman's permission.

AGING IN PLACE

I just want to touch on one final issue with you today, and that is the State of Maine, you may be surprised to learn, has the highest or the oldest, I guess I should say, median age of any State in the country. Most people would say it is Florida, but in fact it is Maine. And it has the second oldest population based on the proportion of people age 65 or older.

So for Mainers and for so many others across the United States, the challenge of enabling our residents to age in place is becoming more and more critical. And as the ranking member of the Aging Committee, we are spending a lot of time on the changing demographics of our country.

Allowing people to stay in their own homes, or giving them alternatives that don't uproot them and cause them to have to go into institutional care and nursing homes, or leave their communities, is becoming more and more important, both from a quality-of-life perspective and also from a financial perspective, when you consider the cost to Medicare and Medicaid of people moving to institutional care.

Is HUD working with the Department of Health and Human Services and the private sector and other partners to make aging in place a more feasible option for more of our seniors?

Secretary DONOVAN. Absolutely.

I mentioned earlier, in the question about Olmsted, some of the work that we are doing. On seniors, in particular, we have done an extensive data match with HHS to be able to look at our residents to match up their health care costs. And with the investment that the committee made last year of $20 million in a new effort to match rental assistance with capital investments from States, we are going to have a very detailed study that we are doing to make sure that not just are we seeing better housing conditions, but that we are getting these reduced health care costs that we think we can get.

And the idea here, honestly, I will be frank, with 550,000 seniors around the country, extremely low income seniors, who are paying more than 50 percent of their income toward rent, that are increasingly frail, we are not investing enough to meet those needs, but we hope that just like on homelessness, we just talked about Housing First, if we can show that investing on the front end in housing like 202 that is better targeted in the way that we are doing under this demonstration, if we can show that it pays for itself, or even better, saves money, we hope that we can come back to you in future years to really make the case that this is a smarter investment and we ought to be expanding 202 and doing even more than we are proposing to do in the budget now.

Senator COLLINS. Right. Thank you, Mr. Secretary.

And thank you, Madam Chairman.

Senator MURRAY. Yes.

Secretary DONOVAN. Thank you.

Senator MURRAY. So that is a great revelation that is good for our Northern States, that it is better to be colder. You live longer. I like that.

With that, I want to remind our colleagues that the hearing record will be open for a week.

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

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

YOUTH HOMELESSNESS

Question. In recent years, we have made a lot of progress on the issue of homelessness, but I remain very concerned about the problem of youth homelessness. Youth are among the fastest growing portion of the homeless population. According to the 2013 Annual Homeless Assessment Report, there were nearly 47,000 unaccompanied homeless children and youth counted on a single night, and most of these were between the ages of 18 and 24. As alarming as this number is, we also know that it can be difficult to get an accurate count of this population.

What steps is HUD taking to ensure that homeless youth are accurately reflected in HUD's point-in-time count?

Answer. In 2012, HUD partnered with the U.S. Interagency Council on Homelessness, the U.S. Department of Health and Human Services, and the U.S. Department of Education, to implement the Youth Count! Initiative, a study of the promising practices that nine communities across the country use to enumerate homeless youth. To help HUD and its Federal partners gain the most from Youth Count!, the Urban Institute conducted a process study, complete with recommendations for improving the way communities can count homeless youth. HUD analyzed the recommendations specific to its Point-in-Time (PIT) count and is updating its methodology guidance to include the recommendations. HUD plans on releasing this guidance in the summer of 2014 so that communities can use the guidance for their 2015 PIT counts (a required year).

For the 2014 data collection process, HUD required communities to identify on their Housing Inventory Count how many beds are dedicated to serving homeless youth, as well as the age groups those beds are targeted to (i.e., under 18, 18–24, or all youth up to 24). For 2015, HUD is also working to require demographics information based on the youth defined age categories.

Question. Homeless youth often require different interventions than other homeless populations. What is HUD doing to develop and share successful youth-specific interventions?

Answer. HUD continues to work on youth homelessness in a variety of ways. Some of the more significant items are listed below.

LGBTQ Youth Pilot Project

HUD is leading an initiative in partnership with the Departments of Health and Human Services (HHS), Education (ED), Justice, and the United States Interagency Council on Homelessness (USICH). The initiative is designed to support two communities, Cincinnati/Hamilton County, Ohio and Houston/Harris County, Texas, in the development and implementation of a comprehensive communitywide plan to prevent homelessness among homeless lesbian, gay, bi-sexual, transgendered, and questioning ("LBGTQ") youth. These two communities have begun strategic planning with HUD's technical assistance team.

Coordinated Assessment with Youth and Families

HUD is leading a new subgroup under the USICH Families Workgroup designed to coordinate best practices and agency strategies around the implementation of coordinated assessment and its effect on families. The group will also focus on victims fleeing domestic violence and youth.

USICH Youth Workgroup

HUD continues to be a leading member of the USICH youth workgroup. This workgroup has been a critical catalyst for collaboration among the Federal partners striving to prevent and end youth homelessness.

Data standards and RHYMIS integration

HUD is collaborating with HHS to integrate HHS's Runaway and Homeless Youth Management Information System ("RHYMIS") with our Homeless Management Information Systems ("HMIS"). This is a top priority on the USICH Youth Framework agenda and both HUD and HHS expect integration to begin in the coming year.

Reducing barriers to partnership with ED

HUD and ED developed a roadmap to align reporting data elements and explore and propagate innovative practices in data sharing. The first goal is for ED to adopt HUD housing status definitions which will allow communities, agencies, and researchers to better compare HUD and ED homeless data.

Follow up to Youth Count

HUD is incorporating lessons learned from the 2013 Youth Count! Initiative into its general Point-in-Time Count guidance to help communities improve their methods for surveying youth during future PIT Counts.

YOUTH-SPECIFIC PROVISIONS OF THE HEARTH ACT

Question. What steps is HUD taking to ensure that members of the continuum of care understand and are implementing youth-specific provisions of the HEARTH Act?

Answer.

Application Requirements

—The fiscal year 2013—fiscal year 2014 Continuum of Care (CoC) Notice of Funding Availability (NOFA) reinforced the importance to HUD of all four Federal strategic plan goals, including the goal of ending homelessness for families and youth by 2020. It made sure to clarify that youth are a special population and that certain interventions may be specifically appropriate for them, including transitional housing. The NOFA also detailed the scoring criteria for CoC applications, including a focus on youth and family homelessness.

—For several years the (CoC) application and the individual project application for funding in the CoC Program Competition has included questions concerning the Act's educational assurances. In the CoC application, the continuum lead agency has been required to describe the policies in place and collaborations developed across the community that will ensure all children and youth served are guaranteed an equal and fair public education, including early childhood education, according to our regulations. In the project application, applicants must certify that they have policies in place to guarantee the education assurances and that they have a staff person designated to the task. CoCs are scored based on the strength of their narrative responses and project awards are conditioned if they have indicated a failure to comply with the Act.

—For the past two CoC Program competitions, the CoC application has included a question that requires communities to describe their current efforts in addressing homeless among unaccompanied youth. There are additional questions that require a description of the outreach provided to homeless families and youth. These sections are scored based on the strength of their narrative.

—The project application has been modified over the past two competitions to include data elements for the age group 18 to 24 and includes a field allowing projects to self-identify as youth projects. While this serves an important data collection purpose for HUD, we also hope that by recognizing youth projects and the youth they serve, up to 25, we are communicating to youth providers that they are important and that we recognize that the population they serve is distinct from the adult population.

Webinars and Briefing Documents

—In fiscal year 2013, HUD co-led a webinar and co-drafted a brief with our counterparts at the Department of Education highlighting the importance of collaboration between local education and homeless service stakeholders. The discussion was designed to help communities understand the language and requirements of each agency's programs and to avoid and/or reduce barriers to collaboration. HUD also co-hosted a webinar with several offices from the Department of Health and Human Services (HHS) to highlight the importance of early childhood education. The webinar was designed to remind HUD grant recipients of the inclusion of early childhood education in our education assurance requirements and to provide them with overview of the Federal programs that are available to them. As a follow-up, HUD coordinated with HHS on the release of their birth to 5 tool kit, in part designed to help Emergency Solutions Grants and CoC recipients implement recommended best practices and promising strategies into their housing programs. Both webinars included participation from local agencies leading the way in early childhood and youth homeless education collaborations.

—In fiscal year 2014 HUD has participated in a webinar with HHS concerning the importance of home visiting and connecting Maternal, Infant, and Early Childhood Visiting Program staff with CoC housing programs.

—HUD works with its Federal partners to circulate important youth related documents, including funding opportunities, training resources and best practice guidance, through our provider listservs.

Future Communications

—HUD is in the process of developing resources and guidance, together with its Federal partners, in support of youth providers. The communication will include, but will not be limited to, the incorporation of youth and families into community coordinated assessment systems and research based assessment tools and housing strategies designed for youth and families. HUD will also discuss performance measures.

PUBLIC HOUSING FUNGIBILITY

Question. The President's budget proposes to provide public housing authorities (PHAs) with unlimited fungibility between its public housing operating and capital funds. This is intended to provide the PHAs with flexibility to better manage their real estate assets.

It is common industry practice for property owners to maintain reserves to address capital projects that arise. In fact, financial institutions that finance such projects typically require such reserves, and HUD has clear guidance for replacement reserves for its FHA-insured projects. However, under current rules, PHAs are not allowed to have a capital reserve fund, and instead are allowed only to maintain an operating reserve. Why does HUD require replacement or capital fund reserves for its multifamily properties?

Answer. The use of a capital reserve in the programs you cite is focused on preserving and ensuring the availability and physical quality of the housing inventory. The Public Housing program works on a different model in that it has a separate appropriated and significant capital fund that none of these other programs have. HUD requires replacement or capital fund reserves (referred to as Reserve for Replacements) to pay for the repair or replacement of capital items—i.e., items that have a useful life of more than a year, and that extend the expected life or enhance the long-term capacity of the use of the property—for properties with FHA Insurance, and a Section 8 Housing Assistance Payments (HAP) Contract, HUD-Held properties, and properties with only a Section 8 HAP Contract or HUD Subsidy (Section 236, Section 202, etc.).

For properties with FHA insurance, a Project Capital Needs Assessment (PCNA) is done during underwriting to define a project's immediate and long term capital needs and a plan for financing the capital needs, including funding the Reserve for Replacements account. Deposits to the Reserve for Replacements account are determined during underwriting through the PCNA and adjusted based on rent increases over the life of the property. Releases from the Reserve for Replacements account generally follow the schedule for capital repairs defined in the PCNA for FHA insured properties, but the reserves are available for other capital repairs that may be needed outside of the defined schedule. A Reserve for Replacements account is also required in a Section 8 Housing Assistance Payments Contract and in the Regulatory Agreement or other business agreement of HUD-Held and HUD-subsidized properties. For this subset of properties, monthly deposits are determined based on expected capital repair requirements as indicated by a capital needs assessment or like review.

For all property types, the Reserve for Replacements account is necessary to extend the useful life of the property and prevent physical default, so that the physical life of the property lasts for the duration of the economic life of the property. Maintaining a Reserve for Replacements account ensures that the property has adequate funds to make needed capital repairs and maintain marketability.

Question. Why doesn't HUD allow or even require PHAs to have a capital fund reserve?

Answer. Currently, Section 9(j) of the United States Housing Act of 1937 has specific obligation and expenditure deadlines for Capital Fund grants which would prohibit holding Capital Funds in a capital reserve account. Large PHAs (250 units or more) in particular are also restricted by statute with regard to the eligible use of funds. These PHAs are generally not permitted to use Operating Funds for capital items. Therefore, the Department would need statutory changes to implement a Capital Fund reserve, or to allow large PHAs to use Operating Funds (including Operating Fund reserves) directly for capital expenses.

Public Housing Fungibility

Question. Did the Department consider allowing PHAs to establish a capital reserve account instead of its proposal for increased fungibility? If so, what was the specific issue (or issues) with establishing capital fund reserves?

Answer. The Department did consider the possibility of establishing a Capital Fund reserve. We believe that granting the Capital Fund/Operating Fund fungibility best provides PHAs increased flexibility to administer capital and ongoing maintenance expenses. Establishing a Capital Reserve instead of increased fungibility would not address issues such as being able to use Operating Reserves for capital improvements, and eliminating distinctions between what can be paid through the Capital Fund versus the Operating Fund.

Question. Since 2011, there has been confusion about what activities qualify as capital expenses to be funded out of the Public Housing Capital Fund, and what expenses are instead deemed regular maintenance to be funded through the Public Housing Operating Fund. What criteria does HUD use to determine if an expense is capital versus operating?

Answer. The United States Housing Act of 1937 (the 1937Act) in Section 9(d)(1) enumerates eligible activities for the Capital Fund, such as the development, financing and modernization of public housing projects; vacancy reduction; etc. Similarly, Section 9(e)(1) of the 1937 Act defines operation and management activities to be funded, such as procedures and systems to maintain and ensure the efficient management and operation of public housing units etc. These statutory requirements are codified in regulation 24 CFR 905 for the Capital Fund and 24 CFR 990 for the Operating Fund.

Question. Since some of these expenses may fall into a gray area, what guidance does HUD provide to PHAs on how to determine what type of expense it is?

Answer. The Department is deeply committed to providing PHAs maximum flexibility under the 1937 Act and committed to the preservation of public housing. In conformance with the statute, the Operating Fund regulations at 24 CFR 990 reiterate that the Operating Fund was established for the purposes of the operation and management of public housing. Additionally, all maintenance activities specifically listed in Section 9(e) of the 1937 Act are eligible Operating Fund activities. HUD issued PIH Notice 2012–2 on January 20, 2012 to provide guidance on eligible uses of Operating Funds. This notice described eligible uses for both Operating Funds and Operating Reserves.

The Department is currently preparing a new guidebook to implement the recently issued Capital Fund final rule. The chapter on Capital Fund eligible activities addresses the distinction between Operating and Capital Fund expenses.

FEDERAL HOUSING ADMINISTRATION

Question. In the lead up to the housing crisis, credit was flowing freely and many borrowers got into unaffordable mortgages. Since the crisis ended, the pendulum has swung in the other direction, and now many families are struggling to find credit to buy a home.

What are you seeing in the market in terms of access to credit for families today?

Answer. This crisis has certainly led to tighter credit, making it harder for creditworthy borrowers to obtain a home. According to the Federal Reserve, from 2007 to 2012, mortgage lending to borrowers with credit scores over 780 fell by a third. Loans to those with scores between 620 and 680 fell 90 percent. As the housing market recovery continues and FHA's countercyclical role shrinks further, FHA's focus can shift away from responding to the crisis and move toward improving affordable access for underserved borrowers and communities. As the President has noted, responsible access to credit helps build pathways to the middle class.

There has been some evidence that mortgage lenders are beginning to ease credit restrictions put in place after the housing crisis, as evidenced by recent media reports of large lenders loosening credit restrictions. This includes the announcement in February by Wells Fargo, FHA's largest lender, that they would reduce their minimum credit score requirement for FHA insured loans. As this is a recent change by many lenders, FHA has not yet seen a significant change in the credit characteristics on loans being endorsed.

FHA is taking action on a number of policy changes aimed at improving access to credit. These new policies will have the added benefit of further protecting the Fund, even as they enhance access.

—In the fiscal year 2015 Budget, FHA announced a proposal to enable FHA to charge a fee to FHA approved lenders, upon their annual recertification, which will allow FHA to invest in processes, creating clarity and making it easier for lenders to do business with FHA. In turn, we believe lenders will allow more creditworthy borrowers an opportunity at homeownership.

—This increase in FHA Administrative contract expenses will allow FHA to raise up to $30 million by collecting a fee from FHA-approved lenders.

—FHA is introducing a new quality assurance framework designed to increase lender confidence in originating loans across a broader spectrum of FHA-eligible creditworthy borrowers. This framework includes taking steps to ensure that lenders clearly understand our policies and procedures.

—FHA is also making it easier and clearer to navigate guidelines by completely overhauling the policy-making process, including consolidating all policy guidance to create a new FHA handbook, a definitive guide for working with FHA.

—Further, implementation of the quality assurance framework as well as a number of other portfolio monitoring initiatives will require dedicated resources.

—FHA Manual Underwriting and other Back to Work efforts will both support access to credit for FHA's traditional borrowers and continue to improve the performance of the fund by reducing risk.

—HUD's HAWK (Homeownership Armed With Knowledge) for New Homebuyers program will provide incentives to first-time homebuyers who commit to housing counseling from HUD-approved nonprofit and governmental agencies. HAWK Homebuyers will receive reductions or incentives on the upfront and/or annual mortgage insurance premium if they commit to housing counseling at key points in time during the home purchase process. This will both expand access to credit and strengthen the MMI Fund. Research shows that counseled homebuyers have lower risk of default and foreclosure than homebuyers with a similar credit profile who did not complete housing counseling.

HOMEOWNERS ARMED WITH KNOWLEDGE (HAWK)

Question. In the 2015 budget, you are proposing a pilot program, "Homeowners Armed with Knowledge", or HAWK. The program would provide counseling and premium incentives to help people access mortgages. What did the Department see in terms of the overall housing market and within its own programs that led you to propose this new initiative?

Answer. The HAWK program fulfills three goals: (1) it provides consumers with access to the services of HUD-approved independent nonprofit housing counseling agencies, who provide consumers with information and skills to meet their housing goals; (2) it protects the Mutual Mortgage Insurance Fund (MMIF) by encouraging lending to a motivated and educated class of borrowers who according to recent research are significantly less likely to default on their mortgage than uncounseled borrowers with similar credit profiles; and (3) finally, although HAWK does not change underwriting standards or credit requirements for FHA-insured purchase mortgages, it will make those mortgages more affordable. Moreover, consumers who work with a housing counseling agency may improve their own savings and credit profile in order to better meet today's higher underwriting standards.

In addition to recent research on the effectiveness of housing counseling on loan performance, and the key role housing counseling plays in home retention and foreclosure prevention, HUD has also noted numerous reports documenting consumer confusion about the homeownership process, and the difficulty for first-time homebuyers in purchasing homes in the current environment. For example, a Fannie Mae study found that lower income borrowers want loan terms and costs that are easier to understand. Http://www.fanniemae.com/portal/research-and-analysis/010214-topicanalysis.html-20. This group relies on advice from others, such as a real estate agent, mortgage professional, friends and/or family, to choose a lender and/or determine how much to borrow. By contrast, higher income borrowers are more likely to choose a lender based on the offer. They also make their own calculations to figure out how much to borrow.

A 2013 Zillow Mortgage Marketplace survey found that homebuyers do not understand how to secure the best possible interest rate and loan terms, with 26 percent incorrectly believing they are obligated to close their loan with the lender that pre-approved them, and 24 percent incorrectly believing that the best interest rates and fees can always be found through the bank they currently do business with. Additionally, one-third of buyers believe all lenders are required by law to charge the same fees for credit reports and appraisals. In fact, homebuyers should always shop multiple lenders to compare rates and fees in order to find the best loan for their situation. http://zillow.mediaroom.com/index.php?s=159&item=350

Question. How does this initiative differ from HUD's traditional counseling programs?

Answer. HUD's traditional housing counseling program is not linked to any FHA mortgage incentive today, although many State and local governments and private lenders require housing counseling by a HUD-approved housing counseling agency as a condition of affordable mortgage products or down payment assistance. In addition, the elements of housing counseling for the HAWK program are customized to the needs of that program and go beyond standard HUD requirements. FHA expects that counseled HAWK first-time homebuyers will have less likelihood of default, resulting in a reduction in claims to the Mutual Mortgage Insurance Fund (MMIF). FHA has structured the HAWK program so that consumers share in the benefit of reduced claims in the form of upfront and annual mortgage insurance premiums incentives. Other HAWK initiatives will incorporate housing counseling in the loss mitigation process.

FHA-NEW FEES

Question. The President's budget proposes to charge a new fee on FHA lenders that would be used to bolster oversight, primarily by increasing the number of loan reviews.

Can you tell us exactly how you would spend the $30 million this new fee is expected to generate?

Answer.

—The fiscal year 2015 request for Federal Housing Administration (FHA) Administrative Contract Appropriations is $170 million, a $43 million increase from fiscal year 2014. The proposed increase is necessary to improve FHA's risk management (see Table 1). These are all new activities that are currently not funded. Moreover, a thorough scrub of the current allocation of $127 million (See Table 2) makes clear that unless FHA is able to increase its funding allocations, there is no room within the current funding ceiling to fund these new activities. Of the $43 million increase, the objective is to raise $30 million through a new fee charged to lenders.

—The first and most important priority for fee funding is the Single Family effort to build a stronger quality assurance framework. The quality assurance framework is part of a broad suite of risk management initiatives on which FHA has been focused since the crisis. This new framework will establish clear rules of the road for the loan manufacturing process, giving lenders the confidence to make loans to the full spectrum of FHA-eligible borrowers. Making loans without fear of arbitrary penalty improves access and helps more qualified Americans become homeowners.

—This administrative fee will provide deeper support for an array of additional FHA risk management practices. FHA is committed to strengthening its ability to assess the fiscal health of the Mutual Mortgage Insurance (MMI) Fund by developing the capacity to conduct in-house modeling of the MMI Fund. Having the ability to internally assess the health of the fund would allow FHA to respond more quickly to market changes.

—Building modeling capacity in other areas is also a high priority for fee funding. Collecting and analyzing data to refine Real Estate Owned (REO) pricing strategies, to identify potentially risky origination trends, and to respond to emerging economic changes are examples of areas where greater resources are needed.

—Many stakeholders in the housing market depend on FHA, and with this fee, FHA can better meet their expectations of being dependable, efficient, and easy to work with. Leveraging the fee to continue building strong, transparent, effective risk management and quality assurance policies and procedures ensures our long-term health and viability. Ultimately the efforts supported by the fee will make it possible for FHA to continue to enhance access, helping to place homeownership within reach of more Americans.

TABLE 1: BUDGET FOR ADDITIONAL $43 MILLION FHA ADMINISTRATIVE CONTRACTS

Area	Spend request	Rationale
Quality Assurance	$35 million	—FHA currently has capacity to complete quality control (QC) reviews on 35,000 adverse loans (loans that enter delinquency, go to claims, etc.) —Experience from the past several years suggests that this is not sufficient and that the adverse sample size should be nearly doubled to 65,000 (e.g., to include 100 percent of seriously delinquent loans within their first 3 years). —In addition to increasing the adverse sample, FHA currently does not employ an industry best practice known as random sampling. Employing this important practice, covering 10 percent of endorsements, would require FHA to QC an additional 65,000 loans. —Based on FHA experience and several industry benchmarks the cost per loan reviewed is $350. Thus increasing loans reviewed to 100,000 would require FHA to spend an additional $35 million more per year, which HUD proposes raising by levying a new lender fee. —This investment is expected to generate an additional $115 million in recoveries.
Risk Modeling and Analytics	$8 million	—When the Office of Risk Management was created, it received very little FHA Administrative contracts funding except for that which supports the actuarial and a few other small contracts. —Recent experience with the IT Transformation efforts (known as the Portfolio Evaluation Tool) and experience with two actuarial has led HUD to the conclusion that robust analytical services support is necessary for the Risk Management Office to do its job effectively. —These analytical services include financial modeling capabilities, best disposition execution analysis, optimal pricing and negotiation in REO, significantly better reporting and trend analysis.
Total	$43 million	

TABLE 2: CURRENT ADMIN CONTRACTS EXPENDITURE

Description	Amount
Financial Servicing Support	$79,467,612

TABLE 2: CURRENT ADMIN CONTRACTS EXPENDITURE—Continued

Description	Amount
Construction Inspections Data & Quality Monitoring Review Appraisal Financial Advisor Services M&M Mortgage Compliance Manager Operations Assessment of REO Properties Miscellaneous Services	
Monitoring and Oversight Call Center Services Document Managing Accounting & Financial Operations Services Insurance Endorsement Processing Services Portfolio Management Support Underwriting Services	31,838,081
Financial Analysis and Reporting Multifamily Premium Audits Risk Management & Analysis Actuarial Review Tax Review & Appeal	12,066,584
Industry Education	1,048,002
Subscriptions	1,797,434
Credit Report Services	782,287
Total	$127,000,000

HUD'S PROPOSAL TO EXPAND LOAN REVIEWS

Question. I have heard concerns about HUD's proposal to expand loan reviews. Some worry that there isn't clear guidance on what types of errors will lead to indemnification, and in some instances HUD guidance is inconsistent with current policy. Do you agree that HUD needs to be clearer about what will trigger indemnification and if so, do you have a plan, including a timeframe, for providing greater clarification?

Answer. FHA plans to provide additional guidance around defects and related severities for new lending activities. It will do so through its Defect Taxonomy effort which will pair eight defect codes with specific sources and causes, providing lenders with actionable data regarding their defects. FHA is also exploring the potential to provide specificity around those defects/source/cause combinations that will generally result in indemnification and those that will not. FHA expects to complete its draft of the new Defect Taxonomy, including severity transparency rates, during the summer of 2014 and then will share the draft with key stakeholders, including the Department of Justice, HUD's Department of Inspector General, lenders and others for feedback before finalizing and posting the taxonomy.

MULTIFAMILY HOUSING REORGANIZATION

Question. Last Spring, HUD announced a major reorganization of the Office of Multifamily Housing. Under the proposal, HUD would consolidate 54 offices into 12, with the goal of improving the consistency and distribution of work across offices. The proposal is also expected to save hundreds of millions of dollars.

This would represent a major change in the way HUD has operated for decades. It would affect hundreds of HUD employees, as well as the communities in which offices are located.

We have worked on an interim step of consolidating some functions of Multifamily, while keeping all existing offices open for the time being.

How will you be monitoring the first phase of the reorganization and how will you quantify the effectiveness of these changes?

Answer. HUD will monitor the transformation to ensure the effectiveness of the updates to Multifamily's business model. In particular, HUD will ensure that responses to customers are timely, that service quality to stakeholders is of high quality, and that there is an increase in the ability of Multifamily to flexibly adapt to market fluctuations. We will collect input from lenders and property owners regarding their satisfaction with our performance, and plan to track various productivity metrics, such as processing time, to gauge improvement. We have also retained a management consulting firm to help analyze the effectiveness and facilitate changes for subsequent waves should they be necessary.

Internally, HUD will monitor the rate at which employees voluntarily relocate to core offices and will occasionally poll employees on their engagement during the transformation period. HUD will also keep track of and tabulate the actual savings incurred as a result of the transformation.

Question. Will you be willing to make changes to the proposal if problems emerge?

Answer. HUD will review its performance measures and engage employees during and after each wave to determine how the transformation can continually improve. The rationale behind rolling out in waves is to allow us to appraise our progress over time. HUD will evaluate the progress of the transformation and, if appropriate, will consider making adjustments to achieve the objective of the transformation, which is to improve the long-term ability of the Office of Multifamily Housing to deliver on its mission to partners and stakeholders.

HUD–VASH

Question. Last year, we included language in the Senate bill that set-aside funding within VASH for Native Americans veterans living on reservations who are homeless or at risk of homelessness, but cannot access VASH because tribal housing authorities aren't eligible to participate in the Section 8 program. The President's fiscal year 2015 budget includes a similar proposal.

The challenges facing homeless veterans on reservations are often not well understood, and over the years, we have had discussions on how to better serve these veterans with HUD, the VA, the U.S. Interagency Council on Homelessness, as well as Senator Johnson and his Subcommittee on Veterans Affairs.

What have you learned during your time at the Department about the needs of veterans living on reservations, and how will your proposal to open HUD–VASH up to tribes allow HUD to better serve this population?

Answer. HUD has learned that there is both interest and demand for making HUD–VASH more accessible to veterans living on reservations and other tribal areas. Although homeless Veterans on reservations may be eligible for HUD–VASH, the program is not currently reaching homeless Native American Veterans living on tribal lands for several reasons, including the way homelessness presents itself in Indian Country. Additionally, public housing authorities generally do not serve tribal areas.

In response to increased tribal interest in HUD–VASH, HUD and the Department of Veterans Affairs (VA) formed a working group, which included staff from VA, the Office of Native American Programs (ONAP), the Office of Housing Choice Vouchers (HCV), Special Needs Assistance Programs (SNAPS), and the Office of General Council (OGC). This working group was established to explore the possibility of a pilot project that works within the current regulatory and statutory framework. The group was able to quantify a level of need, identifying veterans living in tribal areas that currently receive VA services and determined to be homeless by a VA caseworker, based on VA data. Based on this information, HUD's Office of Public and Indian Housing (PIH) set aside 100 vouchers for a pilot project.

Through the implementation of this pilot project, the group identified several challenges to overcome. For example, Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) precludes Tribes and Tribally Designated Housing Entities (TDHEs) from receiving housing choice vouchers/assistance. This required that neighboring or State PHAs had to manage the vouchers for tribes. As a result, HUD concluded that it would be best to pursue a legislative route that would enable the TDHEs to directly administer the vouchers because they would be in a better position to more effectively address issues specific to Indian Country, and allow for statutory waivers to make the two programs compatible. This provision was proposed in the fiscal year 2015 Budget.

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INFORMATION TECHNOLOGY-NEXT GENERATION MANAGEMENT SYSTEM

Question. I.T. is a critical component of effective oversight. When we look at recommendations from both the Inspector General and GAO, there is a common emphasis on better collection and use of data. While new technology has the potential to transform HUD operations, developing and fielding new systems is not easy.

This Subcommittee has been focused on the Next Generation Management System, since it is expected to improve oversight of housing assistance programs—the largest programs in HUD's budget. But the project has encountered delays.

What steps have you taken to address the problems encountered during the development of this system, what tools are currently in use, and when will HUD be fully transitioned to the new system?

Answer. HUD has taken several key actions to improve IT development project performance and to reduce the risk of delays. In the specific case of NGMS, we have taken the following actions:

—Implemented an improved development and testing platform that enables structured testing and improved collaboration between the development team and the Affordable Housing user-community. This enhanced development environment supports an agile, iterative development process and ensures user requirements are met and development delays are minimized.

—Acquired licenses for automated testing tools that will improve the testing process and reduce the time to product delivery. These tools are intuitive for both developers and system users requiring minimal training or test experience. The tools support standardized and repeatable test processes reducing both the risk of unidentified system errors and the time to test completion.

—Acquired software development support tools to better manage system requirements from design through development and testing, to deployment. These tools will ensure that the final system delivers quality software applications and services to the user community, while increasing the speed of NGMS delivery. The tool suite includes functions to support team communication and content management that foster collaboration and support management of the entire development lifecycle.

Beyond the steps taken at the project-level, HUD has also implemented Project Planning and Management (PPM) v2.0 that provides management controls and project oversight by the Office of the Chief Information Officer to improve IT project performance. We are also implementing a new Enterprise Portfolio & Project Management (EPPM) solution designed to help monitor projects, address development obstacles as they arise, and to prevent significant delays. EPPM will support periodic assessments of the IT portfolio and projects, which will provide the information needed for HUD leadership to objectively measure the return on HUD's IT investment dollars and promptly take corrective actions that address unexpected performance issues.

As with the development of any IT initiative, the particular contours of NGMS have evolved over time, and we expect that it will continue to evolve as we continue to deliver NGMS modules. At present, the planning for the following modules is in an advanced state, with the project initiation phase completed for the first three:

—Budget Formulation and Forecasting ("BFF") Capital Fund—a module that gives HUD an IT system to administer the annual Capital Fund formula for over 3,100 Public Housing Agencies (PHAs). This will result in an IT system that is more robust, comprehensive, secure, and reliable than the current tool used to administer the formula.

—BFF Operating Fund—a module that creates an IT system to administer the annual Operating Subsidy formula for over 7,000 applications. This eliminates HUD's reliance on contractors to process the applications.

—Cash Management ("CASH")—a module which enables HUD to calculate Housing Assistance Payment funds based on near real-time data, and perform continuous budget reconciliations for the Housing Choice Vouchers ("HCV") program.

—Affordable Housing Lifecycle Information Center ("AHLIC")—a module which replaces the PIH Information Center with a transactional system that will support the entire life cycle of HUD program participants and partners. The life cycle will include case initiation through case-closeout, and all transactional processes in between. This module will provide internal and external partners with secure access to all case information relating to participants, including financial, demographic, building/unit, etc., which will in-turn provide the underlying basis for operations management of affordable housing programs.

—HCV Payment Processing—a module that will leverage the requirements developed in earlier capabilities to build final systems necessary to make payments to PHAs based on tenant-level data and to develop the system necessary to address HCV program needs related to the transition to the New Core Financial Services initiative.

Given our current assumptions regarding the availability of IT DME funding, we expect these modules to be fully implemented by Q4 2018.

Per HUD's vision for NGMS additional functionality may be sought in future years. Dependent upon funding, such functionality includes:

—a system for identifying and managing PHA risks;
—collection of Moving to Work PHA plan and budget details in order to improve performance monitoring;
—integration of Physical Needs Assessment and Energy and Performance Information Center data with AHLIC lifecycle information in order to assess PHA capital planning effectiveness; and
—adding the capability to monitor a track Choice Neighborhood and HOPE VI grant performance.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

DEPARTMENTWIDE DISADVANTAGE FOR GRANT APPLICATIONS FROM RURAL STATES

Question. In the Department's General Section to the Department's fiscal year 2014 Notice of Funding Availability for Discretionary Programs [Docket No. FR–5800–N–01], the Department added a new preference point under the heading of "Promoting Economic Development and Economic Resilience" for applicants that demonstrate that activities will be conducted and projects sited at locations that will help households reduce their transportation costs. Under this requirement metropolitan areas (defined per 42 U.S.C. § 5302(a)(3)) must be within one-half mile of amenities that are appropriate to the served population in order to receive the preference point. Nonmetropolitan sites, which would include all other applicants that are not metropolitan areas, must be within one mile of amenities that are appropriate to the served population.

In rural communities, it is fairly common for the nearest neighbor may be more than one mile away and therefore no rural State or rural area application would ever qualify for this preference point. Very often in grant competitions the difference between an application receiving funding and those that do not, is a single point. For programs like Lead-Based Paint Hazard Control (LHC) and the Lead Hazard Reduction (LHRD) grant programs, which does important work in many rural communities, applicants would be unable to qualify for the preference point and therefore unlikely to receive funding if they aimed to abate lead in one of the 23 million housing units with lead-based hazards, including the 1.1 million low-income households with children simply because their home is not located within a mile of a school and hospital.

This priority point creates a Departmentwide disadvantage for any rural applicant applying for grant funding from HUD. What steps will the Department take to ensure that rural communities are not put at a disadvantage when applying for grants?

Answer. It is important to highlight that this priority point in question is just one of several from which program NOFA drafters may choose. HUD endeavors to select preference points that are appropriate for each specific NOFA. This bonus point, with its emphasis on the decision where to locate a development or services center, would not be appropriate for lead abatement, which by definition occurs where the lead is. In fact, neither Lead Hazard Reduction Demonstration nor Lead Based Paint Hazard Control chose this priority for their fiscal year 2014 NOFA as it would not be applicable to the NOFA activities.

HUD addresses the needs of rural and tribal areas through a number of programs, and targets these needs specifically through programs including Rural Capacity Building for Community Development and Affordable Housing Grants, Indian Community Development, and the Main Street program.

Question. Will you commit to adding a priority point for applicants serving largely under-served rural and tribal areas to even the playing field? Or alternatively create a reasonable distance requirement for rural communities to qualify for the Reducing Transportation Costs/Proximity to Amenities preference points?

Answer. We re-evaluate priority points each year, and continue our efforts to ensure the points offer an even playing field for each the intended NOFA audience, including underserved rural and tribal areas.

CHANGES TO HOME REGULATIONS-CHDOS

Question. Under the Housing and Urban Development's HOME Program, new regulations at 92.300(a)(4) require Community Housing Development Organizations (CHDOs) to act as the sole general partner in order for tax credit projects to qualify for the required 15 percent CHDO set-aside. The required minimum 15 percent set-aside of HOME annual allocations for projects "owned, developed, or sponsored" by

CHDOs rightfully prioritizes strong ownership and local presence in the community. Unfortunately, in rural States that rely on partnerships among housing providers to expend Federal tax credits, the affordable housing delivery system demands a co-general partnership model in order to provide management, as well as financial stability. In the past, this model has been recognized by HUD for building CHDO capacity in rural communities that ensure attractive investment opportunities. While HUD does acknowledge this example, these new regulations stress the sole general partner language in order to comply with the intent of the HOME statute.

As described, the co-general partnership model does comply with the intent of the HOME statute; the CHDO remains the managing general partner, as required by 92.300(a)(i), with the co-general partner acting exclusively as the financial general partner. What steps will the Department take to accommodate alternative partnership models that meet the sufficient requirements of the intent of the HOME statute, as written by 92.300(a)(i)?

Answer. Contrary to the statement above, the HOME regulations at 24 CFR 92.300(a)(1) have always required that, if a CHDO owns a project in partnership or through its wholly owned subsidiary, it must be the managing general partner. Further, the HOME regulations have always explicitly required that the CHDO have effective management control of the HOME-assisted project. These provisions implement the statutory intent that CHDOs maintain control of the project both during development and operation of a project funded with CHDO set-aside funds.

In the HOME final rule published in July 2013, HUD clarified the language in the regulation to make clear that the CHDO must be the "sole" managing member or "sole" general partner of the partnership that owns the HOME project. This clarification was made because HUD learned in the proposed rulemaking process that many CHDOs were acting as a "co-general partner" with respect to HOME projects, in violation of the HOME regulations. Many participating jurisdictions apparently permitted this practice because their CHDOs did not have the requisite capacity to develop, own or manage a HOME project, e.g., to exercise effective control over the development process or over the subsequent operations of the property. These organizations did not meet the definition of CHDO in effect before the publication of the July 2013 HOME final rule and should not have been awarded CHDO set-aside funds.

CHANGES TO HOME–CHDOS

Question. Does the Department foresee an opportunity for States that meet the sufficient requirements of the intent of the HOME statute, as written by 92.300(a)(i), to receive a waiver to the sole general partner requirement as long as they remain in high performance standing?

Answer. HUD may consider a waiver of the requirement that the CHDO be the sole managing partner in instances in which the CHDO retains sole control of the development process and the ongoing management of the project independent of the co-general partner.

FORMAL GUIDANCE REGARDING MODIFICATIONS TO FINAL HOME RULE

Question. Since the modifications to the HOME rule were published in Federal Register in July 2013, limited formal guidance has been provided to Participating Jurisdictions on new requirements (at 92.251 and 92.504). As a result, concerns regarding how these changes may be duplicative and may modify administration costs without commensurate increase in profit benefit exist. What is the expected timeline of the release of formal guidance on these changes?

Answer. HUD plans to issue formal guidance on the new requirements for property standards (24 CFR 92.251) and ongoing property inspections (24 CFR 92.504(d)) this summer. While many provisions of the new HOME final rule published in July 2013 are effective, HUD established a delayed effective date for certain requirements in order to provide time for HUD to issue guidance and offer training and technical assistance to participating jurisdictions. The requirements for new property standards and inspection requirements were made applicable to projects to which a participating jurisdiction commits HOME funds on or after January 24, 2015. All other projects are subject to the previous rules for property standard and inspections. Also, you may be interested to know that the Department's OneCPD Resource Exchange contains additional information on the HOME final rule, including links to webcasts and other resources.

Question. What steps is the Department taking to ensure States are provided consistent, sufficient technical assistance to transition to these new regulations without resulting penalties?

Answer. Later this year, HUD will begin providing nationwide training and technical assistance to assist HOME participating jurisdictions in implementing the property standard and ongoing property inspection requirements. The new HOME program requirements draw on existing widely used international building codes and property inspection protocols frequently used in Federal Housing Administration (FHA) and Low Income Housing Tax Credit (LIHTC) properties. Many States and localities are already familiar with these requirements.

Currently, through an initiative of the White House Rental Policy Working Group, HUD is conducting a pilot with several States (including Vermont) on alignment of property inspections in properties that receive multiple sources of Federal funding (e.g., from LIHTC, FHA, USDA, HOME). This alignment is expected to reduce duplicative inspections and administrative burden for States.

NATIONAL ENVIRONMENTAL POLICY ACT (NEPA) REVIEW OF CDBG

Question. Section 24 CFR Part 58.22 of HUD's environmental review procedure prohibits taking "choice-limiting" actions on projects prior to the completion of the environmental review and approval of a Request for Release of Funds. In the past, Purchase & Sales agreements that are conditioned on the satisfactory completion of an environmental review had been used and under the new or updated interpretation of NEPA are now being considered choice limiting actions.

One effect of this requirement is to preclude municipalities and their development partners from entering into a purchase and sale agreement for the acquisition of a project property until after the review is completed and approved. This can include conducting environmental assessments, a sometimes lengthy and costly process. It is difficult for communities and development partners to understand why a conditional P&S cannot allow for the appropriate review and environmental protection and improvement we all seek. New England's Regional Environmental Officer, Beth Held, has been very responsive to questions on this and has offered extensive technical assistance, however the HUD guidance remains problematic to implement.

What steps will the Department take to ensure that rural development projects are not in jeopardy as a result of this new definition of "choice-limiting" actions?

Answer. HUD has not changed its definition or interpretation of choice-limiting actions. Once an application for HUD assistance has been submitted, HUD's regulations at 24 CFR 58.22 prohibit applicants and other development partners from taking a choice-limiting action until the environmental review has been complete. Choice-limiting actions include property acquisition and any physical action such as construction, rehabilitation or grading. Although HUD does not allow conditional purchase and sales agreements, HUD regulations explicitly permit applicants to enter into option agreements before the environmental review is complete.

The National Environmental Policy Act requires an analysis of an unprejudiced analysis of alternatives. An executed purchase and sales contract, even with a condition of a satisfactory environmental review, inherently limits the consideration of alternative sites.

Question. When can States expect formal guidance from HUD regarding this change and what technical assistance can be expected from Headquarters to assist PJs in this implementation?

Answer. There has been no change in guidance for what constitutes a choice-limiting action; therefore HUD will not be issuing formal guidance. However, since there may be some confusion about this policy among field staff and grantees, HUD will issue a clarification to field staff to ensure clarity and consistency.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

MULTIFAMILY TRANSFORMATION-DES MOINES OFFICE

Question. I am concerned by a proposal in your budget that would result in the closure of the Multifamily Housing Program Office in Des Moines Iowa. I have previously written you with my concerns about the impact that this proposed reorganization will have on my constituents, including the HUD employees in Iowa, as well as HUDs long-term presence in the State.

Unlike other States of similar size, the HUD office in Des Moines is not home to any other program offices. All other HUD employees in Des Moines, besides the Field Policy and Management staff, are out-stationed employees from other program offices. As part of the Multifamily Program transformation, HUD has proposed allowing existing Multifamily staff to move to other program offices. However, that is not a viable option for the Multifamily Housing staff in Des Moines given that there are no other program offices in the State. Therefore, what is HUD doing to ensure that HUD Multifamily Program Office employees in Des Moines that want to remain in Des Moines are afford the same chance to do so as other Multifamily Housing staff outside of Iowa?

Answer. Under the modified transformation plan which we are currently implementing, all Multifamily Asset Management staff will be permitted to remain in place and perform asset management duties. Multifamily Production employees in Des Moines who do not wish to relocate may be able to take advantage of the opportunity to exchange jobs with a comparably qualified employee in a different HUD program area or in Multifamily Asset Management. Currently, there are 24 HUD employees located in the Des Moines office, twelve of whom work in other HUD program areas. Ten of these twelve non-Multifamily individuals are currently eligible for retirement and may wish to take advantage of a buyout incentive by participating in the job exchange program. We believe these opportunities will mitigate the impact for Production staff that are otherwise required to relocate.

Question. Should HUD move forward with the Multifamily office closure in Des Moines, Iowa will be left without any offices that deliver one of HUD's core programs. When HUD announced the closure of 16 field offices in April, 2013, it justified the closure by stating that "the affected offices have in common the fact that they are not home to Hubs or Centers delivering any of HUD's core programs, i.e., Housing, CPD, FHEO, PIH." Given that the closure of the Multifamily Housing Program office would leave Iowa without an office that delivers one of HUD's core programs, I am deeply concerned about what this would mean for HUDs long-term presence in Iowa should HUD engage in a future round of office closures.

While I understand that HUD has no current plans to close any additional offices, I am not reassured by the responses I have received so far about HUD's long-term commitment to maintaining a presence in Iowa. Many States with fewer residents than Iowa have multiple core program offices including Mississippi, Arkansas, and Kansas. Given this fact, not only would it be deeply unfair if Iowa were to lose the only remaining core program office in the State, but also it would be a troubling statement of HUDs long-term commitment to remaining in Iowa.

So, can you reassure me that HUD will maintain its office in Des Moines Iowa for the long-term? What will you do to ensure that HUD does not do anything to reduce its future presence in Iowa, particularly given that it would leave Iowans deeply underserved compared to residents of similarly sized States?

Answer. HUD currently maintains an office in Des Moines that is staffed by both Multifamily and Field Policy Management staff. There are no plans to close the Des Moines office; HUD's Field Policy Management presence in Iowa would remain in all scenarios. The Department is committed to maintaining a presence in every State, and providing effective program delivery and quality customer service to every community.

As it relates to Multifamily, Congress's modified plan for HUD's Multifamily transformation would retain Asset Management in all existing locations, including Des Moines, and consolidating leadership and much of our business operations into 12 core offices.

However, through the fiscal year 2015 budget process, HUD has requested authority to consolidate Asset Management into 12 core offices and continues to believe that doing so will best position Multifamily to provide superior service to Iowa stakeholders for years to come. With this request, HUD will continue to serve Iowa stakeholders and would be able to do so more effectively and efficiently.

As we move forward, HUD is committed to providing its employees in Des Moines as many options as feasible. For example, it has offered Multifamily Production employees several options for remaining in the Des Moines office, even in the full Multifamily Transformation plan. Multifamily Production employees in Des Moines who do not wish to relocate may be able to take advantage of the opportunity to exchange jobs with a comparably qualified employee in a different HUD program area. Currently, there are 24 HUD employees located in the Des Moines office, twelve of whom work in other HUD program areas. Ten of these twelve non-Multifamily individuals are currently eligible for retirement and may wish to take advantage of a buyout incentive by participating in the job exchange program. We believe these opportunities will mitigate the impact for Production staff that are otherwise required to relocate.

As we move forward, we will continue our discussions with all Members on the ways that HUD can position itself to effectively serve the Nation's communities and its people.

QUESTIONS SUBMITTED BY SENATOR RICHARD C. SHELBY

FINANCIAL HEALTH OF THE FEDERAL HOUSING ADMINISTRATION (FHA)

Question. Last year, due to projected losses on its Mutual Mortgage Insurance (MMI) portfolio, the FHA was forced to withdraw $1.7 billion from the U.S. Treasury. While the budget request for fiscal year 2015 does not include another expected transfer from the Treasury, last year's budget underestimated the amount of an FHA bailout by about $700 million. What economic assumptions and other factors have you used to determine that the FHA will not require another mandatory transfer this year?

Answer. Each year the President's Budget is prepared using a consistent set of economic assumptions across all Federal agencies. For the MMI Fund, this process determines the dollar amount of funds to be transferred either to or from the Capital Reserve account to assure FHA has the required amount of loss reserves in its MMI operating account. In recent years, FHA has made significant transfers from the Capital Reserve to the operating account to address growing losses from a long and deep economic recession.

As a result of making major programmatic changes, improving risk management, and restructuring pricing, the value of the MMI Fund has improved significantly since 2012. The improved economic value of the MMI Fund has led the FHA's independent actuary to expect the fund to accumulate capital at a much faster rate than was projected in 2012, which in turn would enable the MMI Fund to reach a 2 percent capital reserve ratio by fiscal year 2015 (2016 if reserve is measured by its ratio to the unamortized balance of insurance).

The required transfer of funds for fiscal year 2014 was made at the end of March, leaving a Capital Reserve balance of $2.2 billion as of March 31, 2014. This means we are now building our Capital Reserve balance with every loan we insure. The expected balance at the end of this fiscal year is around $8 billion, based on current volume projections.

Question. What is the current cash position of the FHA's MMI portfolio?

Answer. As of March 31, 2014, the MMI Fund held $44.4 billion in cash on hand.

Question. How does it compare to the capital reserve account balance, which is based on the net present value of expected future cash flows?

Answer. The MMI Capital Reserve balance was $2.2 billion at the end of March, following the booking of our required budget re-estimate. That balance is held in securities at Treasury that can be redeemed at any time to provide cash. The Capital Reserve Account is not directly tied to the net present value of future cash flows.

Question. In general, what steps is the FHA taking to make sure that Congress has better real-time information on the financial health of the MMI book of business?

Answer. FHA is committed to transparency. The President's Budget provides projections of endorsements and expected Capital balances as of September 30 for each year. We provide a number of public reports each month on the volume and quality of newly insured loans, and on delinquency and foreclosure patterns of all of our business lines.

Our Quarterly Report to Congress on the Financial Status of the MMI Fund has a wealth of information on loan quality and financial health. There we provide detailed business operation cash flows and the balances of our Financing and Capital Reserve Accounts. We also provide information on credit score and LTV migration and serious delinquency patterns by book-of-business.

HOMEOWNERS ARMED WITH KNOWLEDGE (HAWK)

Question. The Administration's budget proposes a new FHA initiative called HAWK (Homeowners Armed With Knowledge), a program that connects HUD-approved housing counselors with FHA borrowers. In order to promote these services, the FHA will provide "incentives" to borrowers, which are estimated to reduce FHA's receipts by $10 million in the short term. How are such incentives determined?

Answer. The HAWK for New Homebuyers pilot, one of several HAWK initiatives, will offer incentives to first-time homebuyers who complete several elements of housing counseling and education with a HUD-approved housing counseling agency. HAWK first-time homebuyers are expected to have fewer delinquencies, defaults and claims compared to homebuyers with a similar credit profile who are not counseled. HUD plans to share the benefits of this reduced claim risk by lowering FHA mortgage insurance premiums for HAWK first-time homebuyers. The incentives will be structured as a reduction in the amount of the upfront mortgage insurance premium (MIP) and a permanent reduction in the annual MIP in order to provide an incentive to those first-time homebuyers that agree to complete the housing counseling requirements. The incentives are designed to motivate consumer behavior to obtain just-in-time education and tools to shop for a home, understand a mortgage, and all of the other responsibilities of homeownership. The amount and structure of the MIP incentives will be set based on the estimated impact on consumer behavior, and the impact of the program and the incentives on reducing the cost of claims to the MMIF.

Question. What data has HUD used to determine that this program will provide longer-term benefits to taxpayers?

Answer. Several large research studies have demonstrated the relationship between homebuyers working with HUD-approved housing counseling agencies and successful homeownership outcomes, including a significant reduction in mortgage delinquency and default. Some of the studies are listed below.

—Counseling reduces the delinquency rate by 29 percent for first time homebuyers and by 15 percent overall. (Working Paper April 2013) http://www.freddiemac.com/news/blog/pdf/benefits__of__pre__purchase.pdf.

—Borrowers receiving pre-purchase counseling and education . . . are one-third less likely to become 90+ days delinquent over the 2 years after receiving their loan. (2013) http://www.nw.org/network/newsroom/documents/ExperianMayer__FullReport.pdf.

—The monthly payments of households [at risk of foreclosure] that received counseling [before loan modification] were, on average, $176 less than those who did not participate in counseling. Counseling also made it 67 percent more likely that the homeowner would sustain those payments after modification. http://www.urban.org/uploadedpdf/412475-National-Foreclosure-Mitigation-Counseling-Program-Evaluation.pdf.

HOUSING COUNSELING- CERTIFICATION TESTING

Question. Dodd-Frank requires that in order to become a "certified housing counselor," individuals must demonstrate competence through a written examination, which tests understanding of concepts such as financial management, housing laws, and mortgage defaults. In fiscal year 2013, HUD awarded a contract to assist with the design and administration of this exam. Yet HUD has recently proposed that under "certain conditions," taking a training program could be a substitute for passing the written examination. If HUD does not require a written examination for housing counselors, how can it assure Congress that the counselors it certifies will have sufficient skillsets to perform their jobs?

Answer. HUD's proposal will ensure that housing counselors have the skills to meet statutory requirements, whether they are tested directly by HUD or whether—as proposed—they complete training and pass an examination through an alternative provider qualified to meet HUD standards.

HUD has established specific learning objectives for each Dodd-Frank topic that housing counselors will be tested for competency. If this legislative proposal is passed, these learning objectives will be used as the basis for evaluating other training and certification programs. Eligible coursework would be approved by HUD based on two criteria: (1) meeting Dodd-Frank learning objectives and (2) requiring students to pass a proctored examination for course completion. To demonstrate competency, housing counselors would be allowed to submit any combination of HUD-approved coursework necessary to satisfy all HUD Dodd-Frank learning objectives.

HUD has already identified numerous entities and certification programs covering Dodd-Frank topics, including: foreclosure mitigation, pre-purchase, financial management, lending, and fair housing. Established certification programs often provide more in-depth training than required under HUD's housing counselor certification program. The process outlined above for substituting existing coursework and examinations for a new examination ensures housing counselors have demonstrated competency for the same Dodd-Frank learning objectives that HUD will require for the Housing Counselor Certification Examination. This proposal will allow housing counselors that have already invested valuable agency resources and time on training and certification to demonstrate competency without the additional financial burden of examination preparation time and testing fees.

WORST PLACE TO WORK—HUD

Question. The Partnership for Public Service's 2013 report, "The Best Places to Work in the Federal Government," rated HUD as the lowest-ranked mid-sized agency, with a score of 43.2 out of 100. This follows a continued drop in recent years from the 2010 level of 57.1. In addition, OPM's government-wide Employee Viewpoint Survey (EVS) reflects a similar trend, as HUD's Global Satisfaction Index score has gone from 62 in 2010 to 49 in 2013. These scores and trends continue to be troubling. What steps is HUD taking to address these issues?

Answer. We are not pleased with our scores either. We believe that a more engaged workforce is premised on creating organizational values that align our employees more closely with what HUD is trying to accomplish and how each employee can be a part of that mission each and every day.

Governmentwide scores on the Best Places to Work in the Federal Government Index have been declining since 2010. This index is built off of data collected from the Employee Viewpoint Survey, and generally moves in sync with EVS data. Until last year, HUD's declines in Best Places to Work Scores were similar to or better than the general Government trend (HUD declined 1.4 in 2011 and a 1.7 in 2012 compared to a Governmentwide decline of 1.0 in 2011 and 3.2 in 2012), and HUD's relative ranking was increasing. Last year, HUD announced 7 days of furloughs and began reorganization shortly before the EVS was administered. This contributed to a drop in EVS scores and associated Best Places scores that was larger than the governmentwide decline for 2013 (10.8 for HUD, 3 for governmentwide scores).

Since receiving our scores last October we have been developing strategies to make sure that our employees feel listened to and valued, and that they are given a part to play in making HUD better. Already we have:

—Invested heavily in leadership education and development at all levels.
—Piloted an Innovation Time program that showed improvements in the EVS scores of participating employees, and is now being used by OPM as a model for their GovConnect Initiative.
—Piloted a developmental rotations program which will become fully operational beginning 3rd quarter of this year.
—Increased the number of Labor Management Forums held and have made concerted efforts to include our unions in pre-decisional program and policy development.
—Through the process of negotiating a new AFGE collective bargaining agreement, HUD has identified and addressed a number of issues and Union concerns regarding employee working conditions that have given rise to grievances and complaints.

In addition, we are developing a number of new initiatives that will further reinforce the changes we are making. Specifically:

—Department leadership has continued efforts to embed our core values in our performance standards, awards, and leadership communications to employees.
—We are developing an engagement framework to ensure each employee is empowered to own and improve their own engagement and knows that HUD supports them in that journey.
—We are piloting a Quarterly Manager Feedback Survey tool, which will enable employees to provide anonymous quantitative constructive feedback to their direct supervisor on a quarterly basis.
—We are developing new internal communications vehicles to help employees see the connection between their work and the people we serve.
—We are preparing for a larger second pilot of the successful Innovation Time program.
—In partnership with our Unions, we are developing a Center for Conflict Resolution which will incorporate a collaborative conflict resolution process in response to the issues discussed between management and the Union.
—After an initial pilot, we are improving and relaunching our Clearinghouse program which facilitates lateral movement around the Department.
—We are working to rebuild and stabilize the Office of the Chief Human Capital Officer after many years of turnover and loss of talent.

HUD WORKFORCE GRIEVANCES

Question. Federal agencies annually submit time and attendance data to OPM on the use of official time by Federal unions. The latest data published by OPM indicates HUD's union spends substantially more time dealing with employee dispute resolutions than any other Federal agency. In fact, HUD spends 45–50 percent of its time on this activity, roughly three times more than other agencies. This data suggests serious systemic problems within the Department. What is the Department doing to identify and address these issues, which are both costly and undermine the effectiveness of the agency?

Answer. HUD recognizes that it has a high level of employee complaints which cause increased levels of union involvement in employee conflict resolution through the grievance process and our existing alternative dispute resolution process (ODEEO process). To address this problem, HUD is pursuing a multi-layered strategy to reduce the volume of disputes and ensure prompt resolution.

—HUD is attempting to reduce the time spent on employee dispute resolution by providing for informal resolution of grievances in its National Federation of Federal Employees (NFFE) and American Federation of Government Employees (AFGE) collective bargaining agreements (CBAs). Specifically, the CBAs encourage resolution through the informal resolution of grievances—recognizing that "grievances arise from misunderstandings and disputes which may be settled promptly and satisfactorily at the immediate supervisor level.

—Upon ratification and execution, the new AFGE CBA, Management anticipates improved workplace dispute resolution. The proposed CBA addresses union concerns in the performance management article which includes language to facilitate union presence at performance planning meetings; incorporates alternative discipline actions in the disciplinary action article; and includes a provision in the leave article which allows a manager the discretion to provide additional leave under the Family and Medical Leave Act (FMLA). As a result of these provisions in the proposed CBA, the parties should experience a decrease in employee grievances and complaints. Further, the Union and Management will work on the development of a collaborative conflict resolution process and the development of specific conflict resolution training.

—As a result of the proposed articles in the new CBA, the Office of the Chief Human Capital Officer is working collaboratively with the Office of Departmental Equal Employment Opportunity (ODEEO), and the Office of the General Counsel (OGC) to develop a preliminary structure for the HUD Center for Conflict Resolution (CCR) and has, most recently, reached out to two of our Unions to include them in the planning process and final development stage. The CCR will incorporate a collaborative conflict resolution process in response to the issues discussed between management and the Union. The CCR will reduce the amount of time devoted to formal adversarial activities and, by extension, the amount of time that the unions are devoting to employee conflict resolution. The CCR will be accessible to all HUD employees for the purpose of resolving conflicts at the earliest possible opportunity.

—As an adjunct to the CCR, HUD is resurrecting its Ombudsman program—providing an additional resource for employees to redress their grievances before raising their issues to a formal stage. The Ombudsman program will be housed with the Center for Conflict Resolution and add an extra layer to this dispute resolution program.

—Further, HUD is providing training on the appropriate use of EEO ADR resources. This training, in conjunction with the new CCR process, will assist employees in resolving disputes promptly by identifying the best avenue for a quick resolution.

Question. What percentage of HUD's workforce is unionized?

Answer. Excluding the HUD OIG, HUD's approximate workforce as of April 2014 was 7,810. Of that amount, HUD's bargaining unit employees are approximately 5,877. This includes—NFFE, NFFE professionals, AFGE, and AFGE professionals. This figure (5,877) represents approximately 75 percent of HUD's workforce.

SUBCOMMITTEE RECESS

Senator MURRAY. I really appreciate your testimony today. And the next hearing for this committee is Wednesday, April 9, at 9:45 a.m., at which time we will hold a hearing on keeping our railways safe for our passengers and communities. So thank you very much.

Secretary DONOVAN. Thank you.

[Whereupon, at 11:44 a.m.,Wednesday, April 2, the subcommittee was recessed, to reconvene subject to the call of the Chair.]