

**Written Statement of Secretary Shaun Donovan
U.S. Department of Housing and Urban Development
Hearing before the Subcommittee on Transportation, Housing and Urban Development, and Related
Agencies Committee on Appropriations United States Senate
"HUD's FY 2010 Budget Proposal"**

Thursday, June 11, 2009

Chairwoman Murray, Ranking Member Bond, and members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the U.S. Department of Housing and Urban Development's (HUD) 2010 budget proposal.

I want to thank the Committee for its work as a champion for HUD's budget this past decade, including its recent extraordinary work securing over \$13 billion for housing and urban development programs as part of the Recovery Act. Those funds are helping families remain in affordable housing, putting people to work in green jobs, and stabilizing neighborhoods.

HUD's 2010 budget proposal responds to the current crisis in our housing markets, addresses the continuing affordable housing needs for millions of families, and reestablishes HUD's partnerships with struggling cities, counties, and states. But it goes beyond that, it is a forward thinking budget with new ideas for driving energy efficient housing, sustainable, inclusive growth, and revitalization of neighborhoods of extreme poverty. This budget also asks the Congress to invest systematically and predictably in the full-scale transformation of the Department through targeted investment in activities and reforms funded by the proposed Transformation Initiative.

The 2010 budget we have provided for your consideration will move us forward. With your support, what we have proposed would:

- Insure mortgages for 2.24 million families with the Federal Housing Administration;
- Provide housing counseling to 571,000 households;
- Fund rental assistance for over 4.5 million households;
- Expand the supply of housing affordable to low-income families by 306,000 units; and
- Increase the capacity to serve homeless individuals by almost 15 percent

How can we achieve these goals?

As you know we have already begun to ***address the housing and economic crises***. The Making Home Affordable Program and Congress's recent passage of the Helping Families Save Their Homes Act are critical tools for preventing foreclosure; and as I noted in my testimony to this committee on April 2nd, FHA is playing an important role at ensuring that credit remains available to million's of households. Its market share has risen from 2 percent in 2006 to 24 percent at the end of 2008. This 2010 budget requests the authority needed so that FHA and GNMA can match their expanded roles. This budget asks for loan guarantee levels of \$400 Billion for FHA and \$500 Billion for GNMA. In 2010, HUD is projecting that FHA will generate nearly a billion dollars more income than will be paid out in losses over the life of the loans. That is, we project our 2010 business to be in the black.

We also want housing consumers to benefit from their housing choices. One lesson from the events in the housing market of the last few years is that homebuyers and homeowners need education and counseling both before and after they get a loan. Most important, when borrowers start having a problem paying, they need advocates for their interests early on in the process. This budget requests \$100 million for HUD's housing counseling program, a \$35 million increase over 2009.

Senator Murray, building off of your leadership, HUD is requesting funding so that it can use its programs to better protect consumers and taxpayers against those who would seek to commit mortgage fraud. This budget has over \$37 million in initiatives to combat mortgage fraud and predatory practices, including:

- Improving FHAs data systems;
- Quickly and effectively implementing the new Secure And Fair Enforcement Mortgage Licensing Act (SAFE) and enhanced Real Estate Settlement Procedures Act (RESPA) requirements; and
- Increased funding for the Fair Housing Initiatives Program (FHIP) and Fair Housing Assistance Program (FHAP).

The second objective of the 2010 budget is to restore a balanced housing policy. This budget proposal ***returns the federal government to its leadership role as a catalyst for expanding the availability of decent and affordable rental housing.*** In the first quarter of 2009, 33 percent of all Americans were renters. Most people in this room have at some times in their life been a renter, and 66 percent of households in poverty are renters. To again take a leadership role in ensuring extremely low and very low-income households have quality affordable housing in safe and opportunity rich neighborhoods, the President is proposing several key initiatives, including:

- \$1 billion to capitalize the Housing Trust Fund;
- Full funding of the public housing operating fund;
- Twelve months of funding for Project Based Rental Assistance;
- A \$117 million increase in funding for homeless programs; and
- A \$1.8 billion increase in calendar year funding for the voucher program that will preserve affordable housing for more than 2 million households and give HUD and housing authorities new tools to more efficiently allocate budget authority in order to serve the maximum number of households within the funding provided.

The third objective of the 2010 budget is to ***Invest in Urban and Rural Communities.*** This involves:

- Full funding for CDBG at \$4.45 billion, a \$550 million increase over 2009, and a legislative proposal to update this enduring and valuable program so that it more efficiently and effectively addresses the community development needs of the 21st century, including a provision to hold harmless funding losses that might result due to a formula change;
- Creation of two new competitive programs, the University Community Fund and the Rural Innovation Fund, that would build around key institutional assets and test new ideas for addressing the problems in distressed neighborhoods and rural communities; and
- Creating a \$250 million Choice Neighborhoods program. Choice Neighborhoods builds on the vision of Senators Mikulski and Bond when HOPE VI was created 15 years ago and our experience with what has been most successful in the program. As Senator Mikulski noted with the introduction of a bill to reauthorize HOPE VI, "Where HOPE VI has been most successful, it has transformed communities and transformed the lives of people living in public housing." Choice Neighborhoods expands on the best practices of HOPE VI to encompass not just public housing, but also privately owned assisted housing and the surrounding neighborhoods of extreme poverty. Choice Neighborhoods will create viable neighborhoods with decent and affordable housing, improved access to jobs, better schools, and increased public transportation opportunities.

The fourth objective is to ***Drive Energy Efficient Housing and Sustainable, Inclusive Growth***. Housing and transportation costs now average a combined 60 percent of income for working families in metropolitan areas. Residential buildings account for 20 percent of carbon emissions and transportation counts for one-third of carbon emissions. Designing communities so people have the option to drive less, have shorter commutes to work, shopping, and recreation, as well as building and retrofitting homes to make them more energy efficient is not just good for the environment, it also improves quality of life.

The proposed \$150 million Sustainable Communities Initiative is intended to catalyze a linkage between housing and transportation planning and support development of new land use and zoning plans that think forward to long-term sustainable communities. We are already moving forward working with the Department of Transportation and the Environmental Protection Agency to develop common principals for livable communities. These partnerships are intended to maximize all of our resources so the sum of our efforts is truly greater than the whole.

Energy efficient housing is more affordable housing, yet our financing tools have thus far largely failed to capture this obvious trade-off between housing cost and energy efficiency. The proposed \$100 million Energy Innovation Fund would support several pilot efforts within FHA and in a few innovative communities in order to identify strategies that can catalyze new approaches for financing energy improvements in new and existing housing.

Led by Deputy Secretary Ron Sims, we are proposing the new Office of Sustainable Housing and Communities that will expand our relationships with our federal, state, and local partners and coordinate HUD's programs to catalyze both sustainable planning and greater energy efficiency.

The fifth objective of this budget is to ***Transform the Way HUD Does Business***. We are asking for flexibility to transform the agency. This housing and economic crisis has demonstrated huge weaknesses in our nation's ability to deal with changes in how our housing markets operate and how we address the housing needs of our most vulnerable citizens.

We need better data and research about our existing programs and the housing market in general; we need to be forward thinking and use demonstrations to test ideas on how to transform our existing programs so that they serve more people with the same or less money; we need the flexibility to target technical assistance; and we must transform HUD's data systems, procurement, and hiring practices to match our housing and community development challenges going forward. In sum, HUD's transformation request is intended to result in better programs that serve more people with fewer resources.

A recent study conducted at the request of Congress by the National Academy of Sciences on HUD's research suggested that a dedicated set-aside of funding was needed to support research and demonstrations at HUD. We are requesting that the Congress accept this idea and go one step further, and permit HUD to set-aside up to one percent of its total funding, approximately \$434 million, toward transformation. These funds would be used for four activities: Next Generation Technology; Demonstrations; Research; and Technical Assistance. As proposed, no more than 50 percent and no less than 10 percent would be spent on each activity.

The projects to which these funds would be committed will be defined through a strategic planning process we are undertaking right now, a process we want to engage you in as well. This process asks the questions: What should our housing and urban development programs look like 6 years from now? How can HUD manage its existing programs today more efficiently and effectively?

While we are beginning this strategic planning process right now with a target of October 2009 for a draft strategy, there are some projects that clearly need to be done now. Activities we would undertake include:

- Modernizing the FHA data systems to speed up processing and reduce risk;

- Transforming and integrating the data systems for the Housing Choice Voucher and multifamily assisted housing programs;
- Designing and developing the IT systems needed for implementation of the HEARTH Act;
- Providing technical assistance that recognizes that in the real world HUD's programs work together and often have common goals, such as improving energy efficiency, and thus need TA that is cross-program;
- Providing program specific technical assistance for such programs as CDBG, HOME, homeless programs, Native American Housing programs, HOPE VI as well as new programs such as Choice Neighborhoods and the Rural Innovation Fund;
- Conducting research that addresses short-term need for information; and
- Designing and implementing forward-thinking demonstrations that will improve the effectiveness of and reduce costs in existing programs, as well as test next-generation ideas. In 2010, Transformation funds would be used to support the pre-purchase counseling demonstration mandated in HERA. This demonstration would test how effective different types of counseling are at reducing default risk for buyers with low down payments. We would also conduct impact studies of rent-reform that build off ideas initiated but not yet studied as part of the Moving-To-Work demonstration. Both of these demonstrations would test ideas that could provide significant cost savings to the federal government as well as potential benefits for families.

We will engage the committee in the development of the plan that specifies the research, demonstration, TA, and technology investments. HUD is committed to work with the Congress to make grantees more accountable for their efficient and effective use of these funds.

HUD is establishing a new Office of Strategic Planning and Management to implement the strategic planning process, wisely allocate Transformation Initiative resources, and oversee the overhaul of HUD's hiring and procurement systems. The budget also proposes a new Chief Operating Officer to guide the internal transformation of HUD's operations.

I truly appreciate the time of the Committee and look forward to your questions.