



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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Thank you, Chairman Latham and Ranking Member Pastor, for this opportunity to discuss how HUD’s fiscal year 2014 budget proposal will grow our economy from the middle class out—not from the top down --while supporting the recovery in our housing market and economy. The investments in the Department’s programs that this budget makes are essential to delivering on the President’s promise to make America a magnet for jobs and manufacturing, equip every American with the skills they need to do those jobs, and ensure that hard work leads to a decent living.

Overall, this budget furthers the Department’s mission of supporting home ownership, access to affordable housing free from discrimination, and community development. The 2014 President’s Budget provides \$47.6 billion for HUD programs to support these efforts, in addition to a receipts projection of \$14.5 billion – representing a net decrease of \$3.2 billion from the 2012 enacted level. Increases are provided to protect vulnerable families and employ proven tools to revitalize neighborhoods with distressed HUD-assisted housing and concentrated poverty. To build more 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 programs that increase the supply of affordable housing.

The Department’s Budget for fiscal year 2014 follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building – by targeting our investments to the families and geographies that need them the most, and putting American back to work. Specifically, this Budget:

Supports the Mortgage Market and Helps Borrowers Who are at Risk of Foreclosure. The Administration projects that the Federal Housing Administration (FHA) will insure \$178 billion in mortgage loans in 2014, supporting new home purchases and refinanced mortgages that significantly reduce borrower payments. FHA financing was used for 27 percent of home purchase loans in 2011, including an estimated 41 percent of first-time homeowners. 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. Recent increases in FHA premium levels will boost FHA’s capital reserves and increase Federal revenues. The Budget also includes \$132 million for housing and homeowner counseling through HUD and the Neighborhood Reinvestment Corporation (NeighborWorks). Over half of these funds are dedicated to foreclosure assistance. NeighborWorks’ National Foreclosure Mitigation Counseling program has assisted over 1.4 households since its inception in 2008.

Provides Ladders of Opportunity for Anybody Willing to Work Hard and Play by the Rules. The Budget provides \$400 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level, which is \$280 million above 2012 enacted, will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships

between local governments, housing authorities, nonprofits, and for-profit developers. A portion of these funds will be targeted to designated Promise Zones—high-poverty communities where the Federal Government will partner with local leadership to create jobs, leverage private investment, increase economic activity, reduce violence and improve educational opportunities. To further support Promise Zones, the Budget includes companion investments of \$300 million in the Department of Education’s Promise Neighborhoods program, \$35 million in the Department of Justice’s Byrne Criminal Justice Innovation Grants program, and continues to support the Strong Cities, Strong Communities initiative as well as tax incentives to promote investment and economic growth.

Supports Strategic Infrastructure Planning and Investments To Help Make America a Magnet for Jobs. In addition to the hundreds of thousands of jobs that this budget creates both directly and indirectly, it makes an essential contribution to the Administration’s broader effort to discourage outsourcing and encourage ‘insourcing.’ Specifically, attracting new businesses to our shores depends on urban, suburban and rural areas that feature more housing and transportation choices, homes that are near jobs, and transportation networks that move goods and people efficiently – which is why this budget includes funding for the Office of Economic Resiliency which, as part of the Administration’s multiagency partnership between HUD, the Department of Transportation, and the Environmental Protection Agency, will administer \$75 million in Integrated Planning and Investment Grants. These grants will create incentives for communities to develop and implement comprehensive housing and transportation plans, such as updates to building codes, land use and zoning ordinances that result in more resilient economic development, improve housing supply response to demand, and increase affordable housing near public transit. This funding, which builds upon the progress made through Sustainable Communities program, would support about 30 additional regional and neighborhood planning and implementation grants to enable communities to plan for their economic future. This funding embodies the President’s commitment to being a new kind of federal partner to regions, states, and localities as they tackle planning and economic development challenges in the 21st century.

Of course, smart planning requires sustained follow-through. That is why HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; 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 \$3 billion for the Community Development Block Grant (CDBG) program and neighborhood stabilization activities, and proposes reforms to better target CDBG investments to address local community development goals. This funding level includes \$200 million in new competitive funds to continue mitigating the impacts of the foreclosure crisis. This funding will provide essential new resources to help communities hardest hit by the foreclosure crisis while creating jobs through rehabilitating, repurposing, and demolishing vacant and blighted properties. 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 provides 10,000 new vouchers targeted to homeless veterans. The Budget also includes \$10.3 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides \$6.6 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, \$480 million above the 2012 enacted level. This funding maintains the approximately 325,000 HUD-funded beds that assist the homeless nationwide and expands rapid re-housing and permanent supportive housing. Backed with new data and emerging best practices across the United States, this evidence-based investment will make further progress towards the goals laid out in the Federal Strategic Plan to End Homelessness.

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 1 million families in public housing while

subjecting them to overly burdensome regulation and denying them access to private capital available to virtually every other form of rental housing. To bring the Public Housing program toward mainstream real estate financing and management practices and begin to address the \$26 billion in capital needs, the Department will continue to implement the Rental Assistance Demonstration (RAD) enacted in 2012. 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 Budget proposes to scale up the Moving To Work (MTW) program, which gives high-performing state and local Public Housing Authorities (PHAs) various flexibilities in their use of Housing Choice Voucher and Public Housing funds. In exchange for this flexibility, PHAs will help design and test innovative policies to support self-sufficiency and other positive outcomes for families, streamline and consolidate program delivery, and reduce long-term costs. In addition, PHAs will report on outcomes associated with their MTW activities, and those that choose to implement work requirements, time limits on assistance, or major rent reform initiatives will participate in rigorous evaluations.

The Budget also modernizes the Housing Opportunities 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. This update includes a new formula that will distribute HOPWA funds based on the current population of people living with HIV/AIDS, fair market rents, and poverty rates in order to target funds to areas with the most need. It also makes the program more flexible, giving local communities more options to provide targeted, timely, and cost-effective interventions. 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.

Makes Tough Choices. The Budget provides \$950 million for the HOME Investment Partnerships Program, five percent below the 2012 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.

The Budget provides a total of \$526 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, \$13.6 million below the 2012 enacted level. This funding level will support all 150,000 existing units in these programs, but limits new construction to \$40 million for additional supportive housing units. These investments directly support research that will build our understanding of the intersection between supportive housing and health care costs, and help identify what works best in allowing seniors to age-in-place.

Reforms Government So that it's Leaner, Smarter, More Transparent, and Ready to Succeed. The American economy of the future requires a Federal government that is efficient, streamlined, and transparent. As such, the Budget proposes reforms to HUD rental assistance programs that would save nearly \$400 million in fiscal year 2014 without reducing the number of families served – by streamlining programs and reforming policies. Moreover, this Budget once again calls for the flexible use of resources 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, evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what doesn't; and upgrade the IT infrastructure that tracks and monitors our programs.

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, helping to make America a magnet for jobs, and ensuring that our workers have the skills they need for those jobs. Consistent with its budget proposals in the first term, HUD's fiscal year 2014 Budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010-2015. These goals reflect the Department's—and my—commitment

to ‘moving the needle’ on some of the most fundamental challenges facing America. Indeed, every month, I hold *HUDStat* meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: 1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other federal agencies; and 2) hold our grantees accountable for their expenditure of taxpayers’ hard-earned dollars.

Goal 1: Strengthen the Nation’s Housing Market to Bolster the Economy and Protect Consumers

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

Responding to the Market Disruption

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

In 2014, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 1.2 million single-family mortgages (at a projected \$199.3 billion in loan volume) and \$30 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 273,000 units in multifamily housing properties and an estimated 75,700 beds in healthcare facilities. 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.

FHA’s share of the mortgage market has gone from a low of 3.1 percent of loan originations in 2005, up to a peak of 21.1 percent in 2010, and more recently down to 16.5 percent in the 4th quarter of 2012 (U.S. Housing Market Conditions Report, 4rd Quarter 2012). In fact, the number of FHA single family loan endorsements has declined to levels comparable to those seen in fiscal years 2002 and 2003, when FHA’s market share was lower than it is today, indicating that FHA’s current slightly elevated market share is primarily due to a substantial decrease in the size of the total mortgage market rather than exceptionally high FHA loan volumes. As the market continues to recover and private capital returns at more normal levels, FHA’s role will naturally recede.

As has been true throughout its history, FHA is particularly important to borrowers that the conventional market does not adequately serve, including qualified borrowers who would otherwise be shut out of the mortgage market. Fully 60 percent of all African American and Hispanic homebuyers using mortgages rely upon FHA financing and over 30 percent of all FHA-insured homebuyers are minorities. According to the latest Home Mortgage Disclosure Act data, half of all African Americans who purchased a home in 2011, and forty-nine percent of Hispanics, did so with FHA financing.

Redoubling Efforts to Keep Homeowners in their Homes

While there is work still to be done, HUD is proud of the progress this Administration has made in tackling ongoing foreclosure challenges. Between April 2009 and February 2013, more than 6.4 million foreclosure prevention actions were taken – including nearly 1.7 million FHA loss mitigation and early delinquency interventions and 1.5 million homeowner assistance actions through the Making Home Affordable program, including more than 1.1 million permanent modifications through the Home Affordable Modification Program (HAMP)– saving these households an estimated \$18.5 billion in monthly mortgage payments.

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

- *Streamline Refinance* – An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today's low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits current FHA borrowers – particularly those whose loan value may exceed the current value of their home – and by lowering a borrower's payment, also reduces risk to FHA. And, because we see potential for more widespread use of this product, FHA made changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to encourage lenders to offer this product more widely to homeowners with FHA-insured mortgages.
- *Changes to FHA's Loss Mitigation Waterfall* – A Mortgagee Letter published on November 16, 2012, outlined changes to FHA's loss mitigation home retention options. One of the key elements of this update was moving FHA's Home Affordable Modification Program (HAMP) product up in FHA's loss mitigation waterfall so servicers could more quickly offer deeper payment relief to struggling FHA borrowers, resulting in an increase in the number of borrowers being able to retain their homes.
- *Housing Counseling* – In 2014, HUD is requesting \$55 million in Housing Counseling Assistance, to improve access to quality affordable housing, expand homeownership opportunities, and preserve homeownership, all of which are especially critical in today's economic climate. With this funding, HUD estimates that 2,650 HUD-approved counseling agencies employing an estimated 8,000 newly certified housing counselors, will assist a total of 2.5 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. In 2012, 2,410 HUD-Approved Housing Counseling agencies, with grant funds from HUD and other funding sources, assisted over 1.9 million renters and owners.

HUD's new Office of Housing Counseling has several initiatives to ensure borrowers have access to all rights and remedies afforded to them to stay in their homes. HUD has worked closely with interested states to determine effective ways in which funds from the National Mortgage Servicing Settlement can be used to expand housing counseling resources, resulting in more than \$300 million in settlement funds committed to housing counseling or legal services for affected borrowers. HUD-approved housing counseling agencies continue to provide foreclosure prevention services, reaching 774,000 families in fiscal year 2012. In addition, FHA is exploring ways to further integrate housing counseling into its loss mitigation program, offering distressed FHA borrowers additional resources with which to assess their options and make decisions appropriate to their situation.

- *Short Refinance Option* – In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage. FHA made enhancements to the program in March of last year and announced an extension to the expiration date of the program in order to increase the number of borrowers who will benefit from this initiative.
- *Strengthening FHA and Paving the Way for Private Capital to Return*
The President's Budget shows that FHA, while still under stress from legacy loans, has made significant progress and is on a sound fiscal path moving forward. Like nearly all mortgage market institutions, FHA sustained significant losses due to the precipitous fall in the housing market and home prices, and is putting additional funds aside this year to cover those legacy losses. But, again, like most mortgage lenders, recent and future books of mortgage business are expected to bring healthy gains.

Throughout the economic crisis, as the FHA's fiscal health faced challenges, this Administration took swift and effective action to protect the FHA and the American taxpayer alike, as FHA continued to fulfill its dual mission of supporting the housing market during tough times and providing access to homeownership for underserved populations. FHA is currently insuring the strongest loans in its history. In contrast to legacy loans, and thanks in large part due to changes the Administration has put in place regarding pricing, lender enforcement, and risk reduction, the books of business FHA has insured since 2010 are vastly superior to any others from recent years, as measured by early delinquencies and other metrics. In addition, the Administration has raised annual insurance premiums for most FHA mortgages by 0.8 percentage points, greatly increasing revenue for the FHA fund. And healthier house prices have reduced FHA losses on defaulted mortgages.

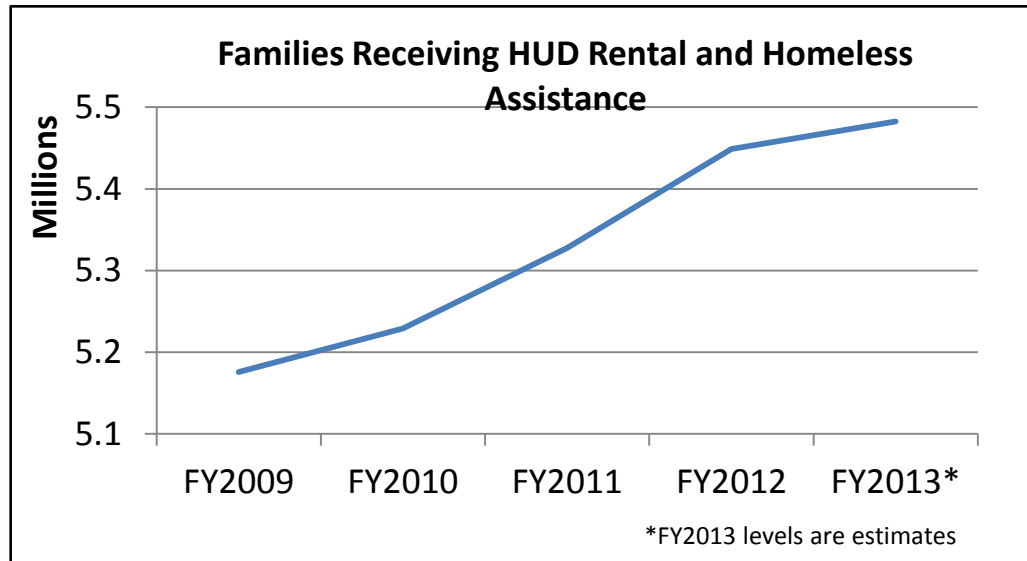
Due to the higher quality and large volume of current loans, we project FHA will generate \$18 billion in receipts during fiscal year 2013, including \$3 billion generated from the new premium increase that went into effect April 1, 2013 and reversal of a policy that caused FHA to forfeit collection of MIP after a loan reached 78 percent of its original principal balance. Further, as a result of these same changes, the fiscal year 2014 budget projects FHA receipts of almost \$13B, even as FHA market share and loan volume continues to be reduced (down to 13.9% according to US Housing Market Conditions Report, 3d quarter 2012).

For FHA's legacy loans, the President's budget forecasts the FHA MMI Fund, which provides the fiscal capital to support FHA's single family and reverse mortgage guarantees, will use \$943 million of its mandatory appropriation authority to supplement its reserves at the end of fiscal year 2013. The MMI Fund currently has approximately \$32 billion in cash available to pay claims, so this is not a cash problem; it is one of setting the right size of loan loss reserves aside. The \$943 million figure is based on an annual OMB re-estimate of the reserves FHA will need to hold as of September 30, 2013, for the payment of expected losses over the next 30 years on its portfolio of guaranteed loans as of last September, based upon Federal Credit Reform Act (FCRA) scoring. This potential appropriation is largely due to the existing reverse mortgage (HECM) portfolio. This product, particularly as it has been structured to date, is sensitive to home prices and economic conditions. This results in a negative value of \$5.248 billion and a disproportionately negative impact to the Fund from the HECM program. The actual need for a mandatory appropriation from the Treasury General Fund to the MMI fund will not be determined until September 2013, and will be based on FHA's realized revenues through the end of the fiscal year. Notably, any mandatory appropriation to FHA would not involve approval from Congress, as all federal loan programs have this standing authority. As we consider this potential appropriation, let us not forget that FHA played a crucial, countercyclical role in bringing the housing market from the brink of collapse to a place where it is positive and growing again.

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 severely inadequate conditions, it is more important than ever to provide a sufficient supply of affordable rental homes for low-income families – particularly since, in many communities, affordable rental housing does not exist without public support. HUD’s fiscal year 2014 Budget maintains HUD’s core commitments to providing rental assistance to some of our country’s most vulnerable households as well as distributing housing, infrastructure, and economic development funding to states and communities to address their unique needs. Overall, 84 percent of HUD’s total fiscal year 2014 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-

subsidized housing, including public housing and HUD grants to homeless assistance programs. And, I am proud to say that, despite an era of challenging budgets, we have increased the number of families served through our rental assistance programs every year.



Detailed data shows how vulnerable these families are to the

economic downturn. In HUD’s core rental assistance programs, including Tenant Based Rental Assistance (TBRA), Public Housing and Project Based Rental Assistance (PBRA): 72 percent of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored this year, when HUD released its latest *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 four 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 2014 funding level is expected to assist approximately 2.2 million families by renewing existing vouchers and issuing new incremental vouchers to homeless veterans.

The Budget also provides a total of \$6.6 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating (\$4.6 billion) and Capital (\$2 billion) funds, a critical investment that will help approximately 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a \$10.3 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.

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 aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency. In addition, the Budget authorizes PHAs to use a portion of their Public Housing and TBRA funding to augment case management and supportive services coordination provided through FSS or provide other supportive services to increase opportunities for residents.
- *Expanding the Moving to Work (MTW) Program.* The Budget proposes to scale up the Moving To Work (MTW) program, which gives high-performing state and local Public Housing Authorities (PHAs) various flexibilities in their use of Housing Choice Voucher and Public Housing funds. In exchange for this flexibility, PHAs will help design and test innovative policies to support self-sufficiency and other positive outcomes for families, streamline and consolidate program delivery, and reduce long-term costs. In addition, PHAs will report on outcomes associated with their MTW activities, and those that choose to implement work requirements, time limits on assistance, or major rent reform initiatives will participate in rigorous evaluations.

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. Available funding is vastly insufficient to meet accruing needs of approximately \$3 billion per year. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory loses an average of 10,000 units annually through demolitions or dispositions.

- *Rental Assistance Demonstration*
In addition to the public housing stock, the RAD program targets certain "at-risk" HUD legacy programs. The 24,000 units assisted under Section 8 Moderate Rehabilitation (MR) are limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties. The approximately 21,000 units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) have no ability to retain long-term project-based assistance beyond the current contract term. As a result, as their contracts expire, we can no longer depend on these projects to 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 fiscal year 2014 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: 1) not feasible to convert at current funding levels, and 2) 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 3,300 public housing units that would not otherwise be feasible to convert and sufficiently stabilize over the long-term, while helping to increase private investment in the targeted projects and surrounding neighborhoods.

In addition to the funding request, each of the legislative requests in the 2014 Budget for RAD are designed to allow for maximum participation by those PHAs and owners whose current funding levels are sufficient for conversion. In the first component of RAD, an increase in the 60,000 unit cap to 150,000 units, and the *exclusion* of Section 8 MR properties from the cap will both allow for a greater portion of both the Public Housing and MR stock that can convert at no cost to the Federal government to participate in the demonstration.

- *Small Building and Housing Finance Agency Securitization*

Nearly a third of the nation's renters, more than 20 million households, live in small, unsubsidized housing. These 5- to 49-unit properties tend to be owned by small businesses – the engines of our communities – and are typically more affordable to low-and moderate income families. But these properties are at risk of continued disinvestment because they can be expensive to finance. Small building owners are less likely than other multifamily property owners to be able to secure financing to make repairs and improvements. Small properties are less likely to have mortgage financing (86% of large multifamily properties are mortgaged, compared to 61% of small multifamily properties). Just 14% of all FY10 FHA-insured properties were for projects with fewer than 50 units.

To address this problem, the fiscal year 2014 Budget includes a legislative provision to support small building finance, and to strengthen the Risk Share program as a rental finance tool, seeks Congressional authority for Ginnie Mae to guarantee securities containing FHA multifamily Risk Share loans, thereby increasing liquidity and decreasing cost of capital. This proposal would apply to both state and local Housing Finance Agency Risk Share lenders under Section 542(c) and new Risk Share lending under Section 542(b). The proposal would also amend Section 542(b) of the statute to allow for flexibility in how affordability is determined in order to make it a more effective tool to recapitalize existing naturally affordable 5-49 unit rental properties.

Increasing the Production of Affordable Housing Capital Projects

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

Since its addition to the tax laws in 1986, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and generated \$2.7 billion in State, local, and Federal revenues. In fiscal year 2014, as part of an ongoing effort to better align Federal rental programs, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue partnering to allow greater flexibility to state and local agencies that administer LIHTC programs, as well as to developers and investors, to continue to enable the creation of affordable housing in markets where it is needed the most.

Specifically, the revenue provisions of the 2014 Budget update several revenue proposals that were included in the 2013 Budget, and the Budget also introduces two new proposals:

- A new proposal for *Private Activity Bond Conversion authority* that will create much needed flexibility in how states implement the LIHTC program. Specifically, this request will allow states to convert a portion of their tax-exempt Private Activity Bond authority (volume cap) into allocated (so-called 9%) LIHTCs to accomplish several goals. First, for many complex preservation projects this proposal eliminates the need for going through unnecessary bond issuance procedures, which reduces transaction costs. Second, not only does the proposal allow states to increase their pool of 9% credits, but it brings more projects into the competitive LIHTC allocation process. This effectively gives 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 cap (as compared with projects subject to the tax-exempt bond cap).
- A new proposal for a *Selection Criterion for Preservation of Affordable Housing*. Adding this criterion to Qualified Action Plans under IRC Sec. 42(m)(1)(C) will encourage states to consider how to address the preservation needs of affordable housing.
- A modification and permanent fix to the Congress' temporary 9% credit floor provisions in HERA and the American Taxpayer Relief Act of 2012. This proposal to improve the computation of *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.
- An *Income Averaging* proposal from the President's fiscal year 2013 Budget that would encourage a greater range of incomes in LIHTC-supported affordable housing by allowing developers to choose an income-limitation requirement that would be satisfied if households in the low-income units have an *average income* no greater than 60 percent of AMI, with no household above 80 percent AMI. An additional provision would allow certain existing tenants to remain in residence without impairing the developer's entitlement to LIHTCs.
- A *LIHTCs earned by Real Estate Investment Trusts (REITs)* proposal from the President's fiscal year 2013 Budget that is designed to diversify the pool of investors for LIHTCs and to increase the overall demand for LIHTCs. The proposal would allow a REIT that earns LIHTCs to provide a tax benefit to its investors by paying them tax-exempt dividends in an amount almost triple the amount of the REIT's LIHTCs.

Finally, the recent Worst Case Housing Needs report underscores what has been the case since well before the recent recession, namely, that extremely low-income renters face the most severe housing shortage and cost burden of any Americans. The 2014 Budget once again proposes \$1 billion in mandatory appropriations for the Housing Trust Fund (HTF) to address this critical shortage of housing where it is most desperately needed. Enacted in 2008, the HTF was designed to provide capital resources to build and rehabilitate housing to fill this precise – and growing – gap in the nation's rental housing market. The time has come for Congress to provide this crucial funding.

Goal 3: Utilize Housing as a Platform for Improving Quality of Life

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2014 Budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other Federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

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

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness, which have led to nearly 20 percent reductions in veterans homelessness and a 10 percent reduction in chronic homelessness over the past two years.

Additionally, this work has yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems. This year's Budget once again invests in this critical effort, by providing \$2.381 billion in Homeless Assistance Grants, including competitive programs that annually serve over 1.5 million homeless families and individuals. This includes funding for the Emergency Solutions Grants program, which will continue the work of the Homelessness Prevention and Rapid Re-Housing Program (in the form of a \$60 million set aside) – funded by the Recovery Act – that in the last three years alone has helped prevent or end homelessness for over 1.4 million people nationwide.

Moreover, HUD continues to focus on the unique needs of homeless veterans through both its targeted homeless programs and its mainstream housing programs using successful methods and interventions. Currently, an estimated one out of every six men and women in our nation's homeless shelters are veterans, and veterans are 50 percent more likely to fall into homelessness compared to other Americans. HUD is committed to providing affordable housing units to this unique homeless population, and has partnered with the Departments of Health and Human Services (HHS) and Veterans Affairs (VA) to develop targeted approaches to serve the homeless veteran populations. Accordingly, this Budget includes \$75 million for the HUD-VASH program, which combines tenant-based voucher assistance with case management and clinical services tailored to veterans and their families. This funding will provide 10,000 new vouchers to help veterans move from our streets into permanent supportive housing, in addition to the nearly 48,000 already allocated HUD-VASH vouchers, as well as the 10,000 vouchers that will be awarded through the fiscal year appropriation.

Investing in Leveraging and Serving our Most Vulnerable

This Budget provides a total of \$526 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, which includes \$40 million to support 4,100 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 health care 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 health care agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2014, HUD is requesting similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding.

Goal 4: Build Inclusive Sustainable Communities Free from Discrimination

The American economy suffers when significant numbers of its labor force experience individualized or systemic discrimination, or when families 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 2014 Budget puts communities in a position to plan for the future and draw fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 15 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, and offer choices that help families live closer to jobs and schools. Programs such as the Community Development Block Grant (CDBG) and Choice Neighborhoods provide funding for locally driven solutions to overarching economic development challenges in areas of need. As with HUD's rental assistance programs, 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 decision-makers are best poised to drive a cohesive development strategy, based on a keen perception of local needs and priorities. In fiscal year 2014, HUD is requesting a total of \$3.14 billion in funding for the Community Development Fund. These programs aim 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.

As part of CPD programming, the Community Development Block Grant (CDBG) 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 over \$135 billion 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. In fiscal year 2014, HUD is requesting that \$2.8 billion in CPD funds be dedicated to the CDBG formula program. Altogether, CDBG funding annually reaches an estimated 7,000 local governments across the country, in communities of all shapes and sizes.

To begin to respond to concerns that CDBG formula funds need to be better targeted to need and be used more effectively, the Budget proposes several reforms to the program. The Budget includes changes to establish a minimum CDBG grant threshold and eliminate the community "grandfathering" provision. This will ensure that communities receive grants large enough to be effective in advancing the goals of the program. Local governments affected by these changes would not lose access to CDBG funding; funding would be available through an urban county or state-administered CDBG program. In addition to better targeting CDBG formula funds, the Budget provides \$200 million in community development funding for a new competitive grant program targeted to areas hardest hit by the foreclosure crisis and specific activities that support neighborhood stabilization. Where appropriate, these grants will be linked to the above-mentioned Promise Zones initiative. HUD will seek input from stakeholders over the coming months regarding further programmatic changes that would improve the targeting of CDBG formula funds and strengthen their accountability and performance.

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 is the loan guarantee provision of the CDBG program and allows states and local governments to leverage their CDBG 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 fiscal Year 2014, HUD is requesting Section 108 loan guarantee authority of \$500 million and is proposing to implement a fee-based program that will eliminate the need for budget authority to cover the program's credit subsidy.

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 2014, HUD is requesting a total of \$739 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 program, which is the single largest source of funding for housing on Indian tribal lands today
- \$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.
- \$6 million for the Indian Housing Loan Guarantee Fund.

Transforming Neighborhoods of Poverty

The President has made it clear that we must build our economy from the middle class out. But that necessity is imperiled when a fifth of America's children live in poverty, at a cost of \$500 billion per year—fully 4% of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health, and 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 2014 Budget provides \$400 million for the proven tools in the Choice Neighborhoods Initiative, 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. This initiative will revitalize many of America's highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, improving affordable housing, improving educational opportunities, and reducing violent crime. Promise Zones are key rungs on the Administration's Ladders of Opportunity initiative, which also includes raising the minimum wage, increasing access to high-quality preschool, redesigning America's high schools, and promoting fatherhood and marriage.

High-need communities will engage in an open, transparent, competitive process to apply for a Promise Zone designation. The Promise Zone designation process will ensure rural and Native American representation. If approved by Congress, Promise Zones will receive tax incentives to stimulate hiring and business investment, alongside with federal partnership and technical assistance aimed at breaking down regulatory barriers and using Federal funds available to them at the local level more effectively. Promise Zones will be able to access investments that further the goals of job creation, additional private investment, increased economic activity, expanded educational opportunity, and reduction in violent crime. These could include Choice Neighborhoods at HUD, Promise Neighborhoods at the Department of Education, and Byrne Criminal Justice Innovation at DOJ. The Promise Zones initiative builds on the lessons learned from these existing place-based programs, for which the Budget reflects increases in investment across agencies. 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 recruit businesses based on industry clusters, unique resources available in the community, and implement 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 partnering with communities to: 1) strengthen and diversify their economies in ways that allow them to effectively compete on a global stage, 2) retain and recruit workers that demand high quality places with robust local services and amenities, 3) address distressed and isolated neighborhoods that minimize access to opportunity for residents, and 4) effectively align and deploy federal, state and local funding for development and infrastructure.

OER will work in partnership with other federal agencies like 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. OER will fund \$75 million in Integrated Planning and Investment Grants that will seed or enhance locally-created, comprehensive blueprints that strategically direct public and private investments in development and infrastructure to projects that result in: attracting jobs and building diverse and resilient economies, significant municipal cost savings, and stronger, more unified local leadership. These grants will create incentives for communities to develop and implement comprehensive housing and transportation plans, such as updates to building codes, land use and zoning ordinances that result in more resilient economic development, improve housing supply response to demand, and increase affordable housing near public transit. Integrated Planning and Investment Grants will incorporate some of the same features of the previously-funded Regional Plans for Sustainable Communities and the Community Challenge Grants offered by the Office of Sustainable Housing and Communities, but, using lessons learned from those programs and feedback from local leaders and Congress, will prioritize supporting actionable economic development strategies, reducing redundancy in federally-funded planning activities, setting and monitoring performance, and identifying how federal formula funds can be used smartly and efficiently in support of economic resilience. As with the previous efforts, priority will be placed on directing grants to rural areas, cities, counties, metropolitan areas and states that demonstrate economic need and are committed to building the cross-sector, cross-disciplinary partnerships necessary to tackle the tough decisions that help make places economically competitive.

We know how important these planning tools are to regional economies – particularly those that rely on integrated supply chains that cross national borders and how essential they are to meeting the President's charge to double U.S. exports over the next five years. These investments will leverage other Administration proposals (e.g., Infrastructure Bank, Project Rebuild) to help overhaul America's deteriorating infrastructure and increase residential and commercial construction around transit.

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 2014, HUD is requesting approximately \$44 million in FHIP funds, representing the Department's strong commitment to fair housing, including \$28 million to support the efforts of private fair housing organizations that conduct private enforcement of the Fair Housing Act. The Private Enforcement Initiative (PEI) grantees investigate and test housing providers alleged to have engaged in discrimination. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition it will fund fair housing education at the local, regional and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. In fiscal year 2014, the Budget provides \$24.6 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. The state-administered Community Development Block Grant (CDBG) grants provide approximately \$692 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. HUD also funds over \$300 million in rural areas for affordable housing and homeownership programs through its HOME Investment Partnership program, directly and indirectly supporting over 5,360 jobs.

As the single largest sources of funding for housing on Indian tribal lands today, 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 and Native Hawaiian Loan Guarantee Program. HUD recognizes the right of Indian self-determination and tribal self-governance by allowing the recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. Taken together, in fiscal year 2014 HUD is requesting \$739 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 USDA. For homeowners, the FHA helps first-time homebuyers and other qualified families all over the country purchase their own homes. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately \$545 million in current FHA loans are to rural healthcare facilities designated as "critical access hospitals." HUD recognizes the unique challenges in these rural areas, and continues to develop innovative, community-based programming to meet those needs.

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: Transform the Way HUD Does Business

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 2014 Budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time.

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. This is why HUD is providing its employees training and leadership development opportunities. In addition, many internal rules and regulations have become hurdles instead of being helpful. In response, HUD is in the process of simplifying and combining programs, streamlining regulations, and eliminating rules and constraints. The Department is also in the middle of a major reform of its information technology, human resources, procurement, and other internal support functions to give more authority and flexibility to managers and provide better service to HUD customers.

In fiscal year 2014, HUD is requesting \$1.467 billion in salaries and expenses, including \$127.7 million for HUD's Office of Inspector General (OIG). This funding request represents just a 0.6 percent increase from the fiscal year 2012 enacted level, and reflects HUD's commitment to lean and smart management. The HUD request includes several initiatives to streamline the HUD organization, including restructuring the accounts, increasing training for our staff, and providing significantly more detail on how HUD staff supports programs and strategic goals. HUD is making specific investments of more staff to manage major rental assistance programs, increasing our ability to enforce new fair housing rules, and providing 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. These roles require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners, including local officials, non-profits, and faith-based organizations, among others.

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 the long-neglected areas of IT modernization, research and evaluation, and program demonstrations crucial for increasing the efficiency and effectiveness of the Department's programs. 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. The 2014 Budget requests transfers of \$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 five-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. For example, one Fiscal Year 2014 priority project would refine HUD's utility models to enable the Department to more accurately account for energy usage in housing assistance programs in which utility costs are paid by tenants, and thereby help HUD to more effectively disburse funds for utilities that are actually consumed.

- *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 the 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, within the Public Housing Capital Fund, a \$15 million pilot of the evidence-based 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) also provides fundamental support for informed decisions by the Department and national policy makers through data collection and research dissemination. PD&R has a key role in the improvement of national housing data infrastructure and meeting other key national information needs. In Fiscal year 2014, HUD is requesting \$50 million to fund the nation's basic data infrastructure and share research knowledge on housing and community development. Complementing TI, this funding to support foundational housing market surveys 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 decision-making. HUD's 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 fiscal year 2014, HUD is requesting \$285 million to support and modernize its information technology infrastructure. This request includes \$45 million for the Development, Modernization, and Enhancement of key outdated systems; \$116 million for the Operations and Maintenance of our current systems; and \$124 million to complete the transition to our new IT Infrastructure system, HUDNET. In fiscal year 2014, HUD will focus our development efforts on transitioning the department IT infrastructure from the current antiquated environment to a modern, sustainable infrastructure, continued development of a modern financial management system that will improve HUD's ability to measure, track, and report on program costs and efficacy, and transitioning the current FHA systems to a modern platform. These changes will allow HUD to deliver services and manage its 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

Mister Chairman, 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. 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 2014 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.