

**WRITTEN STATEMENT OF
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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**



**HEARING ON
HUD'S FISCAL YEAR 2008 BUDGET
BEFORE THE
HOUSE COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES**

MARCH 14, 2007

Chairman Frank, Ranking Member Bachus, Distinguished Members of the Committee:

The President's proposed Fiscal Year (FY) 2008 Budget will address our nation's housing, economic, and community development needs. HUD's \$35.2 billion FY 2008 budget request – an increase of \$1.6 billion more than last year's request — ensures that our Department can build on our success in helping low-income and minority families achieve the dream of homeownership, ensure equal opportunity in housing, and lend a compassionate hand to Americans in need, while using taxpayer money more wisely and reforming programs in need of improvements. The President's FY 2008 budget request will allow the Department to build upon those successes by advancing the core mission given to HUD by Congress.

In formulating HUD's FY 2008 Budget, HUD examined its funding priorities to ensure that the resources were used for those most in need. The FY 2008 HUD budget also requests needed reforms in multiple program areas, notably FHA, CDBG, and Public Housing.

Promoting Economic and Community Development Through Homeownership:

The President's vision of an ownership society has been a central theme of his Administration, and correctly focuses on the reality that ownership -- and homeownership in particular -- is the key to financial independence, wealth building, and stronger, healthier communities.

Under President Bush's leadership, this administration has achieved new records in the rate of homeownership. Today, more than 75 million families, or nearly 70 percent of all Americans, are homeowners – the largest number of Americans to ever own their own homes. Despite having achieved record-level homeownership rates, minorities in America remain less likely than non-Hispanic whites to own their homes. To close this gap, President Bush challenged the nation to create 5.5 million new minority homeowners by the end of the decade, and to date 3.5 million minority families have joined those ranks. President Bush and I are pleased that we are making progress ahead of schedule. But we will not rest until the goal has been fully met, and we are asking Congress to help us do more to close the minority gap.

The President's proposed budget will help HUD to further that mission by transforming the Federal Housing Administration (FHA) so that it can expand homeownership opportunities for low- and moderate-income families; spur Fannie Mae and Freddie Mac to lead the market to create more affordable homeownership opportunities; help more of the lowest-income Americans make downpayment and closing costs through the HOME Investment Partnerships program (HOME) and American Dream Downpayment Initiative (ADDI) and increase the level of housing counseling that has been so useful in helping families prepare for homeownership, avoid predatory lending practices, and avoid default on their homes. Let me explain each of these areas further.

FHA Modernization:

Since its inception in 1934, FHA has helped more than 34 million Americans become homeowners. In recent years, however, FHA's outdated statutory authority has made it difficult to keep pace with the changing financial needs of those families who traditionally participated in the programs. Through the Expanding American Homeownership Act of 2006, HUD sought to provide workable solutions for borrowers, including homebuyers who do not qualify for prime

financing. This will give borrowers more affordable and safer ways to achieve the American Dream and reward them for having good household financial management. The key components of the legislative proposal, which will be reintroduced in this Congress, will: eliminate the current statutory 3 percent minimum downpayment, reducing a significant barrier to homeownership; create a new, risk-based insurance premium structure for FHA that would match the premium amount with the credit profile of the borrower; and increase and simplify FHA's loan limits.

I should also acknowledge our appreciation for this Subcommittee's collaborative leadership on FHA Modernization last year. Working closely with House authorizers and anticipating the success of the House Financial Services Committee legislation, H.R. 5121, that passed the House 415-7, this committee included the President's FHA Modernization legislation in last year's funding bill, H.R. 5576 that ultimately passed the House 406-22 in June.

Modernizing FHA will give it the tools it needs to again meet its legislative mandate: offering hard-working, credit-worthy borrowers, including those who cannot qualify for prime financing, the opportunity to obtain financing on reasonable terms at a cost they can afford.

Using HOME to Help More Low-income Families Own Their Own Homes:

The HOME Investment Partnerships program is the largest Federal block grant program specifically focused on creating affordable housing. Since 1992, more than 600 communities have completed building almost 762,000 affordable housing units, including more than 319,000 for new homebuyers. In addition, more than 160,000 tenants have received direct rental assistance. The Administration proposes to increase the HOME program to \$1.97 billion in 2008, \$50 million over the FY 07 request and \$210 million above 2007 enacted.

For many low-income Americans, the single greatest obstacle to homeownership is the cash requirement for downpayment and closing costs. Within the HOME allocation, American Dream Downpayment Initiative or ADDI funds have assisted 21,000 families to purchase their first home -- of which approximately 50 percent were minorities. The FY 2008 Budget requests \$50 million to continue funding the ADDI -- double the FY 2007 enacted -- to help provide grants to low-income families to help purchase their first homes. Further, the Administration plans to submit re-authorization for ADDI in the coming months to continue this effort.

Self-Help Homeownership Opportunity Program:

SHOP grants are another important program to boost homeownership among low-to-moderate income Americans. These grants are provided to national and regional non-profit organizations, like Habitat for Humanity, that are experienced in providing self-help housing. The FY 2008 Budget seeks \$40 million for the SHOP Program. An additional \$30 million under this account is also proposed for the National Community Development Initiative (NCDI). This funding will be used by intermediaries -- Enterprise Community Partners, Inc., and Local Initiatives Support Corporation (LISC) -- to develop the capacity and ability of nonprofit community development corporations to undertake community development and affordable housing projects.

Counseling Our Way to Greater Homeownership:

Housing counseling is an extremely important tool to help Americans purchase and keep their homes. The FY 2008 Budget proposes \$50 million for housing counseling, \$5 million over the FY 07 request, in order to prepare families for homeownership, help them avoid predatory lending practices, and help current homeowners avoid default. In partnership with faith-based and community organizations, HUD will assist approximately 600,000 families to become homeowners or avoid foreclosure in FY 2008. More than ever, potential homebuyers need assistance to make smart homeownership choices. Housing counseling is the most cost-effective way to educate individuals and arm them with the knowledge to make informed financial choices and avoid high risk, high cost loans, and possible default and foreclosure.

Combating Homelessness:

While helping homeowners and renters to a better way of life, HUD remains committed to the goal of ending chronic homelessness, and has aggressively pursued policies to move more homeless families and individuals into permanent housing. While persons experiencing periods of long-term homeless frequently get temporary help, they often return to a life on the streets. New data from the Annual Homeless Assessment Report indicates that 20 percent of the homeless experience chronic homelessness. Persons with disabilities who are homeless for extended periods of time, often referred to as the chronically homeless, consume a disproportionate share of available resources (psychiatric facilities, jails, detox centers, hospitals, emergency shelters, etc.) without having their basic needs appropriately addressed. Housing this population will free up Federal, State, and local emergency resources for families and individuals who need shorter-term assistance.

In July 2002, the President reactivated the Interagency Council on Homelessness (ICH) for the first time in six years, bringing together 20 Federal entities involved in combating homelessness. Since its inception, the ICH has helped State and local leaders across America draft plans to move chronically homeless individuals into permanent supportive housing, and to prevent individuals from becoming chronically homeless. As HUD Secretary, I currently chair the ICH.

In 2003, the Federal Collaborative Initiative to End Chronic Homelessness, through HUD, Health and Human Services, and Veterans Affairs, funded 11 grantees across the country.

The FY 2008 Budget provides a record level of resources to address the housing needs of homeless persons living on the streets of this nation. The FY 2008 Budget provides \$1.586 billion for Homeless Assistance Grants. In addition to requesting a record level of funding, the Administration also proposes to consolidate the various competitive homeless programs into a single Continuum of Care grant program that would greatly simplify the local administration of HUD's homeless resources which benefit over 3,800 cities and counties.

Increasing Access to Affordable Housing:

While homeownership is one of President Bush's top priorities, the President and I realize that it is not a viable option for everyone. The largest component of HUD's budget promotes decent, safe, and affordable housing for families and individuals who may not want to become homeowners or who may not yet be ready to purchase a home.

Assisting the Most Families—Section 8:

HUD's Housing Choice Voucher Program provides approximately two million low-income families with subsidies that help them obtain decent, safe, sanitary, and affordable homes. In the FY 2008 Budget request, the President is asking for \$16 billion, nearly \$100 million over the FY 2007 request. The Administration is also proposing several changes to the Housing Choice Voucher Program that would allow the 2,400 Public Housing Authorities (PHAs) that administer the program to assist even more families. The Administration is proposing that Congress eliminate current appropriations language that imposes a cap on the number of families each PHA is allowed to assist. Many PHAs that have reached their caps have additional funds that they are unable to use to assist additional households. In addition, administrative fees would again be tied to the number of households assisted, encouraging PHAs to assist more families. By better utilizing all appropriated funds, the Housing Choice Voucher Program would assist thousands of additional families.

Making Improvements to Public Housing:

For FY 2008, the Department will continue its efforts to transition Public Housing Agencies to asset management, which will result in improvements in public housing management and financial accountability.

Public Housing Funding:

The FY 2008 Budget for the Public Housing Operating Fund provides \$4 billion, which is the highest funding level ever in the history of the program, up from \$3.6 billion in the FY 2007 request. This funding will assist PHAs in the second year of transition to the new operating formula and will help pay for utility/energy and other cost increases. Additionally, HUD will continue its successful implementation of the Public Housing Capital Fund Financing Program. This program allows PHAs to borrow from banks or issue bonds using future Capital Fund grants as collateral or debt service, subject to annual appropriations. In this way, PHAs can leverage their Capital Funds to make improvements. The President's FY 2008 Budget request maintains the overall Capital Fund Account funding at the \$2 billion level.

Management Accountability of Public Housing:

The Department continues to place great emphasis on the physical condition of public housing properties, and the financial status and management capabilities of PHAs. The Department will continue providing technical assistance to PHAs and rating the effectiveness of PHAs through the Public Housing Assessment System (PHAS). PHAs with consistently failing scores may be subject to an administrative or judicial receivership. The Department will continue to utilize other tools such as Cooperative Endeavor Agreements with local officials, Memoranda of Agreements, and increased oversight, in order to correct long-standing deficiencies with PHAs.

Indian Housing Loan Guarantee Fund:

HUD is also working to improve housing for Native Americans. The U.S. Government holds much of the land in Indian country in trust. Land held in trust for a tribe cannot be mortgaged, and land held in trust for an individual must receive Federal approval before a lien is placed on the property. As a result, Native Americans historically have had limited access to private mortgage capital. The Section 184 program addresses this lack of mortgage capital in Indian country by authorizing HUD to guarantee loans made by private lenders to Native Americans.

The President's Budget proposes \$367 million in Section 184 loan guarantees under the Indian Housing Loan Guarantee Program for homeownership in tribal areas, which represents a more than \$251 million increase over the enacted FY 2006 Budget and \$116 million over the FY 2007 request.

Elderly and Persons with Disabilities:

The FY 2008 Budget will provide \$575 million in funding for the Supportive Housing for the Elderly (Section 202) Program – a net increase of \$30 million over the FY 2007 request. This funding level covers all operating costs for existing Section 202 housing and supports construction of about 3,000 new units. In the Section 202 program, funding for housing for the elderly is awarded competitively to non-profit organizations that develop these facilities. The facilities are also provided with rental assistance subsidies, enabling them to accept very low-income residents. Many residents live in the facilities for years, and over time, they often become frail and less able to live without some additional services. Therefore, the budget allocates up to \$25 million of the grants to fund the conversion of all or part of existing properties to assisted-living facilities, enabling these elderly residents to remain in their units. In addition, up to \$71 million -- an increase of \$11 million over the FY 2007 request -- of the grant funds will be targeted to funding the service coordinators who help elderly residents obtain supportive services from the community.

The FY 2008 Budget proposes \$125 million for *Supportive Housing for Persons with Disabilities* (Section 811), a \$6 million increase over the 2007 Budget request. The Section 811 program will also continue to set aside funds to enable persons with disabilities to enjoy independent lifestyles. In FY 2008, up to \$75 million of the grant funds will be used to renew Mainstream Section 8-type vouchers so that individuals can continue to use their vouchers to obtain rental housing.

The Department is proposing financing demonstration projects in both Section 202 and Section 811: \$25 million is requested for Section 202 and \$15 million is requested for Section 811. A key priority is to increase the production of units serving these special needs populations by removing the barriers that discourage tax credit applicants from utilizing Sections 202 and 811. In developing the program, the Department will consider mixed-finance arrangements including low-income housing tax credits and other creative financing options for development of additional housing units and/or rental operating assistance.

Housing Opportunities for Persons With Aids (HOPWA):

The HOPWA program provides formula grants to states and localities for housing assistance for low-income persons living with HIV/AIDS. The program helps maintain stable housing arrangements that improve access to health care and other needed support. The program also provides competitive grants to government agencies and nonprofit organizations that serve as Special Projects of National Significance due to their model or innovative qualities. HOPWA also provides grants to governmental agencies in areas that do not qualify for formula funds.

In FY 2008, HOPWA will fund an estimated 26 competitive grants to renew expiring permanent housing projects and use the remaining funds to select new model projects. HUD will also provide HOPWA formula funding to an estimated 122 jurisdictions. Grant recipients will

collaborate with over 700 non-profit and local agencies to subsidize housing for an estimated 67,000 households. In FY 2008, HUD will propose to provide \$300 million in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families.

The Administration is proposing legislation to update the HOPWA allocation formula. The revised formula will more accurately reflect the current housing needs of persons living with AIDS in this country.

Reforming the Community Development Block Grant Program:

It has been more than 30 years since President Gerald Ford and Congress created the Community Development Block Grant (CDBG) Program to address the community needs. Since 1974, CDBG has been an important tool for cities, counties and States, allocating more than \$116 billion to help them to target their own community development priorities. The FY 2008 Budget proposes funding CDBG's formula program at \$2.775 billion.

CDBG's underlying formulas have remained essentially the same since 1978 while the nation's demographics have changed significantly. It has become increasingly clear that an outdated formula that once measured the needs of urban America no longer reflects the modern needs of today's cities, larger urban counties and States. Some high-need areas receive smaller grants than they should, some low-need areas receive larger grants than they should; and some communities with similar needs receive different per capita grant amounts.

The Department will continue to pursue "formula fairness" by appealing to Congress to authorize a new formula that will more effectively target CDBG funding to areas of greatest need in 21st Century America. A second key part of the President's proposal is the \$200 million Competitive Challenge Grant. The Challenge Fund will award "bonus grants" to distressed communities that target and leverage funds to the most distressed areas within the community. In addition, HUD will work to boost performance measurements within CDBG to ensure these critically needed dollars produce the results the program was designed to achieve.

Healthy Homes and Lead Hazard Control:

HUD's Lead Hazard Control program is the central element of the President's effort to eradicate childhood lead-based paint poisoning. In FY 2008, proposed funding for the Lead Hazard Control Program will be \$116 million, continuing the substantial progress to date in eliminating lead hazards to all children. Grant funds are targeted to low-income, privately owned homes that are most likely to have children exposed to lead-based paint hazards.

The program conducts public education, compliance assistance, and regulatory enforcement to prevent childhood lead poisoning. New estimates from the Centers for Disease Control and Prevention (CDC) show that the program has helped to reduce the number of children at risk by 65 percent, but more than 250,000 children still have dangerous levels of lead in their bodies.

Continuing the Fight Against Housing Discrimination:

The Bush Administration is committed to the vigorous enforcement of fair housing laws in order to ensure that equal access to housing is available to every American. Fair housing enforcement

and education activities are pivotal in achieving the Administration's goal to increase minority homeownership by 5.5 million by 2010.

The intent of HUD's fair housing programs is to bring about equal opportunities in housing by protecting the right of families and individuals to live where they choose, free from discrimination. HUD accomplishes this goal by aggressively enforcing the nation's fair housing laws and by educating the public and the housing industry about their fair housing rights and responsibilities. HUD also furthers fair housing by funding housing activities through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The FY 2008 Budget will provide \$25 million through FHAP for State and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, training, and the enhancement of data and information systems.

The FY 2008 Budget will also provide \$20 million to help private, non-profit FHIP agencies across the nation combat discrimination through an array of targeted education and outreach and enforcement activities.

Additionally, the requested amount would support the Department's ongoing efforts to address fair housing concerns in areas affected by Hurricanes Katrina and Rita. The efforts would include support for fair housing enforcement efforts in the Gulf Coast, bilingual public service announcements, printed advertisements, and training events. Protecting the fair housing rights of persons with disabilities is a Departmental priority. As such, the Department would continue to provide technical assistance to builders, architects, and housing providers on disability-accessibility requirements through its Accessibility FIRST program to ensure that newly constructed housing units are accessible to persons with disabilities.

Increasing Operational Efficiency:

Over the past several years, HUD has taken many notable steps to improve its management and performance, and the President's new budget request strengthens these efforts.

In FY 2006, HUD received a clean financial audit for the seventh consecutive fiscal year, and for the first time ever had no auditor-reported material internal control weakness issues.

In January 2007, the Government Accountability Office (GAO) removed HUD from its watch list of high-risk government programs. It marked the first time since 1994 that no HUD programs were on the list, demonstrating HUD's effective implementation of the President's Management Agenda to improve our fiscal house and program results.

Improved information technology systems are enabling HUD and its program partners to more efficiently and effectively deliver HUD's program resources, and more can be accomplished with the funding increases proposed for the Working Capital Fund that supports the Department's information technology infrastructure and systems applications.

In Conclusion, Mr. Chairman:

The President's proposed FY 2008 Budget makes good progress toward successfully realigning Federal government priorities according to our nation's current needs. The HUD portion of that budget will help promote economic and community development through increased opportunities for homeownership and affordable rental housing, free from discrimination; it will also lay the groundwork for reform by focusing community development funding more carefully toward those most in need; and it will enable HUD to continue along the path to greater Departmental efficiency and effectiveness.

This is a good budget, Mr. Chairman, and I respectfully urge the Congress to adopt it. I am now available to answer any questions that you, or other Members of the Committee, may have.