

Chairman Oxley, Ranking Member LaFalce and other distinguished members of the Financial Services Committee, thank you for this opportunity to appear before you to discuss the President's Energy Policy and specifically ways in which The Department of Housing and Urban Development can support energy efficiency and conservation.

Housing policy and energy policy are inextricably linked. No one knows this more than I do. I have served as Executive Director and CEO of three public housing authorities and I have also served as the President of American Electric Power-TEXAS.

As the single largest housing expense after mortgage payments, energy costs have a direct impact on housing affordability for both renters and homeowners. When energy costs go up, it becomes more difficult for families to afford their housing costs. Rising energy costs also have secondary effects that could make it harder for families to become homeowners. Energy costs represent roughly 16 percent of the producer price index for finished goods and 8 percent of the consumer price index. Sharply rising energy costs can lead to higher interest rates, which translate directly into higher costs for home purchases.

The dramatic increase in energy costs has particularly burdened low- and moderate-income families. As the President's Energy Policy states:

The energy burden on low-income households, as a proportion of income, is four times greater than for other American households. . . . Many working households can accommodate...[large] increases in energy by cutting back on other needs. However, low-income households often have more difficult choices to make...As many as 3.6 million families in eighteen states and the District of Columbia risk being unable to pay their bills and having their energy cut off because of the effects of rapidly increasing energy costs."

HUD has already taken steps to respond to rising energy costs in HUD-assisted housing. These include making \$105 million in operating funds available to lessen the impact of higher utility rates on public housing authorities, raising payment standards for Section 8 vouchers, and reimbursing owners for increased utility costs in project-based Section 8 projects.

But these are only short-term solutions. In the long run, as the President's Energy Policy recognizes, we need to become more efficient with our use of energy in housing. Under the President's leadership, HUD is committed to achieving this important objective.

HUD's Implementation of the President's Energy Policy

As Vice President Cheney has stated, "conservation and energy efficiency are crucial components of a national energy plan."

One area singled out for improvement in the Policy is housing. As the Policy notes, “There are significant opportunities to improve the energy efficiency of buildings and homes through technologies and better practices.”

The President’s Energy Policy directs the Environmental Protection Agency and the Department of Energy to promote the increased use of energy efficient technologies in housing, especially through increased promotion of the Energy Star initiative, the energy efficiency program run by EPA and the Department of Energy.

HUD will work closely with the Environmental Protection Agency and the Department of Energy to implement the President’s objectives of improving the energy efficiency of housing. This will not involve the establishment of any new programs, but rather the better use of existing programs in service of this goal.

While there have been various efforts over the years to improve the energy efficiency of assisted housing, as well as older unsubsidized housing, those efforts have lacked a coherent framework and focus.

With the announcement of the President’s Energy Policy, we now have the necessary framework for promoting increased energy efficiency in housing. HUD is committed to giving this issue the priority attention it deserves to ensure that we make significant progress in conserving energy in housing.

HUD’s efforts to increase the energy efficiency of housing will focus on four key objectives:

1. Increasing energy efficiency in HUD-assisted rental housing. Through information dissemination and technical assistance for Energy Star products, HUD will promote energy conservation in HUD-assisted housing. HUD will also review its regulations and the subsidy system for public housing to determine what steps we can take to promote the greater use of energy-efficient technologies in assisted housing.

Examples of such activities include promoting the procurement of energy-efficient refrigerators and other appliances by public housing authorities, and publicizing examples of innovative “shared savings” contracts in which private firms cover the costs of installing energy-efficient technologies in public or assisted housing, in exchange for a portion of the savings in utility costs.

2. Expanding the use of Energy Efficient Mortgages. FHA has an existing mortgage product that allows homebuyers to borrow up to an additional \$8,000 to make energy-efficient improvements to single-family housing.

3. Providing technical assistance to non-profit, community- and faith-based organizations. HUD will extend technical assistance to non-profit and faith-based housing organizations to expand the use of energy-saving technologies in affordable new home construction, housing rehabilitation, and existing housing.

4. Supporting the use and development of new technologies. While the primary focus of HUD's activities will be on promoting the increased use of existing energy-efficient technologies, HUD will also undertake research on new products and product applications to improve the energy-efficiency of existing housing. An example from HUD's current research program is a joint project with the Department of Energy to develop and test electrochromatic windows that reduce the amount of sunlight that comes into homes, thereby reducing cooling costs.

Comments on Proposed Legislation

I would now like to take this opportunity to comment on some of the specific proposals put forth by this Committee concerning energy conservation.

Capacity Building for Energy-Efficient Housing

HUD currently provides \$28 million for capacity building by organizations such as the Enterprise Foundation, LISC and Habitat for Humanity. This proposal, to include activities related to the provision of energy efficient affordable housing, seems an appropriate measure for this committee to take.

Increase of CDBG Public Services Cap for Energy Conservation and Efficiency Activities

Secretary Martinez and I both support local flexibility, especially with regard to the use of CDBG funds. Funding under the public services cap can include childcare, crime prevention and drug abuse funding. Funding energy-efficiency programs at the expense of these other worthwhile programs would be a difficult decision for local communities. Increasing the cap at the discretion of local communities to pay for energy efficiency programs, however, is a good option and allows local communities to make the determination of funding priorities.

FHA Mortgage Incentives for Energy Efficient Housing

This proposal would implement a new type of "Energy-Efficient Mortgage" by authorizing the Department to reduce premiums for homes that are particularly energy efficient. However, the Department already has an Energy-Efficient Mortgage program. Before authorizing a new Energy-Efficient Mortgage program, it is vital that we examine what lessons can be learned from the current one and carefully examine whether the administrative burden of a new program variant is justified.

As noted above, HUD's existing Energy-Efficient Mortgage program allows homebuyers to borrow up to an additional \$8,000 to make energy-efficient improvements to single-family housing. The program is quite new, having expanded from its pilot phase only six years ago. In addition, FHA relaxes qualifying ratios for borrowers in houses that meet

certain energy-efficiency standards, allowing them to obtain a larger mortgage than would otherwise be permitted.

The existing Energy-Efficient Mortgage program is an important part of HUD's energy conservation efforts and the Department intends to expand its use. Nevertheless, for the following reasons, HUD cannot support the authorization of a new Energy-Efficient Mortgage program that involves reductions in premiums:

1. While energy-efficiency is an important and commendable objective, we do not know whether loans secured by homes that are particularly energy-efficient are less risky to the lender. Our experience with our existing energy-efficient mortgage program is that these loans have *not* had lower default rates than other FHA mortgages.

We have just reduced our premiums in the FHA single-family program. To reduce them still further, without any evidence of reduced risk, would be unwise and could potentially jeopardize the health of the MMI fund.

2. The administrative burden of this proposal would also be a challenge for the Department. We are presently striving to focus on our core mission and reduce the number of HUD programs. This proposal would authorize a new program variant with significant administrative costs, including assessments of the energy efficiency of each home and the tailoring of loan products accordingly. In addition to presenting a significant administrative challenge, this could increase the cost to FHA or borrowers.

If the Committee remains interested in this proposal, we strongly recommend that, before authorizing a new type of Energy-Efficient Mortgage, Congress and the Administration review our experience with the current program to examine whether loans secured by homes that exceed a particular threshold of energy efficiency are in fact less risky.

Higher Mortgage Ceilings for Solar-Enhanced Properties

The proposed legislation would allow FHA to insure 30% higher mortgages for both single- and multifamily mortgages for properties with solar power. Currently FHA has the authority to insure mortgages for solar-enhanced properties that are up to 20% higher than other mortgages. This increase, while not necessarily one that would be widely used, could have a positive impact on properties whose cost is significantly higher because of the inclusion of solar technology.

Research and Development Programs

HUD's Office of Policy Development and Research (PD&R) is already active in research on building technology and energy efficiency. As HUD implements the President's Energy Policy, we will reform these efforts or energy efficiency in existing housing.

As PD&R already has authority to undertake demonstrations of energy-efficient technologies, it does not appear necessary to include new authorization for the “large-scale experimentation in the use of new technologies... on Federal land” included in the proposed legislation. In addition, the precise intent of the proposal is not clear.

We would be happy to work with the Committee to determine what demonstrations of energy-efficient technologies would be appropriate. At that time, we can opine more specifically as to whether new legislation is needed to authorize such demonstrations.

Solar Energy Systems in Assisted Housing

In 1978, the Housing and Community Development Act was amended to permit the installation of solar energy in Section 312, Section 202 and Section 8 housing. Including other newly authorized programs within this existing provision seems premature absent an assessment of how it is working in other programs.

Energy Conserving Improvements for Assisted Housing

While including consideration of energy conservation in projects restructured under the Multifamily Assisted Housing Reform and Affordability Act of 1997, is appropriate, the Department is concerned that the inclusion of this provision may require an appropriation in order to make the energy improvements that might be necessary.

NECPA was enacted under President Carter in 1978. Section 251 authorized \$25 million in grants to “those [HUD-insured multifamily] projects which are in financial difficulty as a result of high energy costs,” and required the Secretary to establish “minimum standards for energy conserving improvements” in these projects. However, no funds were ever appropriated for this program.

Five-Year Plan

HUD’s five-year energy plan was first presented to the Congress in 1992 and has been updated several times. We would be happy to provide the report or other information to the Committee at any time.

The additional information requested by the Congress under this proposed legislation would include, among other things, clarification of energy issues under programs created since 1990. The further requirement that HUD publish an immediate update is consistent with the requirements already made by the recent Executive Order.

Again, thank you for this opportunity to address you on this important issue and I would be happy to answer any questions you or the members of the Committee may have.