



TESTIMONY OF

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SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN
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INTRODUCTION

Chairman Diaz-Balart, Ranking Member Price, and members of this subcommittee, thank you for inviting me here today to discuss the President's Fiscal Year 2019 Budget request for the U.S. Department of Housing and Urban Development (HUD). As you know, HUD's FY 2019 Budget request is inclusive of the budget addendum that the Administration submitted to Congress.

I also want to thank the members of this subcommittee for your support as HUD and other Federal agencies continue to work to ensure full recovery of the states and territories impacted by last year's natural disasters.

ACCEPTING OUR CHALLENGE

The President's Budget lays out a vision for a Federal government that is efficient, effective, accountable, and provides for a strong national defense and economy.

It also reflects the fact that we must better serve the American people by tackling our staggering \$20.6 trillion national debt. This requires tough budgetary choices. Our children's and grandchildren's futures depend on it.

At HUD, we believe the requested level of funding – \$41.244 billion – is sufficient to effectively administer our core programs, particularly as we are committed to running our programs more efficiently, spending every tax dollar with which we are entrusted wisely. I have directed HUD's new Chief Financial Officer, Irv Dennis, a Certified Public Accountant with more than 36 years of experience, to put the controls, systems, and processes in place to ensure we do just that.

Even within this context of fiscal restraint, it is important to note this year's Budget request represents a 1.4 percent increase over last year's request.

BUDGET HIGHLIGHTS

The Budget proposal ensures that HUD continues to serve the most vulnerable in our society – half of HUD-assisted households are elderly or living with disabilities. Our budget anticipates the adoption of forthcoming proposed legislative reforms and will not increase rent payments for currently served elderly or disabled households. In addition, the funding level for the Housing Voucher program would support the same number of households as currently assisted and should not result in the termination of any housing vouchers.

HUD's Budget also makes a significant investment in the fight against homelessness. The Department's Point-in-Time count, conducted in January 2017, indicated homelessness was on the rise for the first time in a decade, primarily driven by high-cost housing markets along the east and west coasts. Our Budget proposes spending \$2.383 billion, a \$133 million increase over last year's request, and includes \$40 million for rapid re-housing targeted to communities with high rates of unsheltered homelessness.

Additionally, as a neurosurgeon, I am all too familiar with the effects of lead exposure on the

developing brain. As a result, we are requesting \$145 million to ensure that homes are free of lead-based paint hazards and other dangerous contaminants, especially for families with small children. This is an 11.5 percent increase over last year's request.

REFOCUSING OUR EFFORTS

The centerpiece of this year's Budget proposal is our promotion of economic opportunity and self-sufficiency.

For too many years, we have measured the effectiveness of housing and other anti-poverty programs by the number of Americans participating in them. With this Budget, we propose measuring success by the number of people we help to exit the programs with positive outcomes. To help transition the people HUD serves towards economic independence, we are requesting \$75 million for the Family Self-Sufficiency program and \$10 million for Jobs Plus.

We are also requesting funding to evaluate the EnVision Center Initiative, a demonstration that will leverage public-private partnerships to connect individuals and families living in HUD-assisted housing with job-training, education, health and wellness, and other streamlined services that lead to self-sufficiency.

HUD is also beginning to pivot from the current, financially unsustainable model of public housing and will be working with Public Housing Authorities (PHAs) to find the best way to support assisted families through other housing platforms. It was a difficult decision to not request funding for capital improvements in Public Housing. Instead, we've asked for PHAs to have the flexibility to use operating funds for capital needs. This will allow PHAs to function more like every other multifamily building owner in America. We also believe that encouraging states and localities to bring more resources to the table helps ensure that PHAs are empowered to make decisions at the local level that best address the needs of their communities.

As part of the transformation of public housing, HUD is committed to providing new strategies and enhancing existing tools so that PHAs are provided with additional options to operate their portfolios. For example, HUD is developing a streamlined process to allow PHAs to convert public housing assistance to vouchers where this would save taxpayer money and give families more choice in deciding where to live.

HUD is proposing to convert an expanded number of units in our nation's housing stock to project-based Section 8 ownership via the Rental Assistance Demonstration (RAD). RAD is a program that multiplies the impact of private and other investment in order to rehabilitate aging affordable housing across the country. In order to stretch those dollars further, HUD is requesting \$100 million specifically for RAD and supports lifting the cap on RAD units so more communities can participate. To date, PHAs and their partners have raised \$5 billion to improve and recapitalize 88,000 public housing units at revenue neutral rent levels. This would have taken decades to accomplish through traditional public housing funding streams.

RENT REFORM

HUD spent the past year examining its main rental programs – Housing Choice Vouchers, Project-Based Rental Assistance, Public Housing, Section 202 Supportive Housing for the Elderly, and Section 811 Supportive Housing for Persons with Disabilities – with the goals of improving resident outcomes, decreasing administrative burdens, and maximizing public investment.

As a result of this work, HUD’s Budget proposal is based on a legislative package to modernize and streamline existing rental assistance programs. Our plan will simplify program administration, encourage work and stable family formation, increase local control and choice, promote fiscal sustainability, and protect currently assisted elderly and disabled households from adverse impacts.

Features of the plan include establishing mandatory minimum rents; simplifying rent calculations; increasing tenant rent contributions while protecting the most vulnerable current tenants, primarily the elderly and disabled; incentivizing work by limiting income recertification for all households to once every three years; providing a hardship exemption for tenants who are unable to pay their rents; and giving PHAs and property owners the option to choose alternative rent structures that work best for their communities.

FEDERAL HOUSING ADMINISTRATION

HUD is also laying a better path to homeownership through programs at the Federal Housing Administration (FHA). Building equity in a home remains a critical component of helping Americans climb the economic ladder of success. But we don’t do the families we serve any favors if we facilitate lending that is unsustainable – not to mention the taxpayers who stand behind our \$1.2 trillion book of business.

That is why we have taken several steps to ensure FHA can play a viable role in mortgage lending for years to come. One of the first actions the Trump Administration took was to pull back the prior administration’s proposed mortgage insurance premium decrease for FHA. Our analysis shows this was the absolute right decision: had the premium reduction gone forward, FHA would have found itself below its statutory 2 percent minimum capital ratio requirement.

We also acted swiftly to improve the health of the Mutual Mortgage Insurance (MMI) Fund by placing FHA’s reverse mortgage program, the Home Equity Conversion Mortgage (HECM) program, on a more financially sound footing for new books of business. HECM has been a drain on the MMI Fund, depleting it of \$11.7 billion since 2009. We are monitoring this program closely to determine what additional changes are warranted, while simultaneously expecting to face continued losses due to older, existing loans in the portfolio.

Another change we made recently involves protecting the taxpayers who make FHA insurance possible. A few months ago, we made ineligible for FHA insurance properties encumbered with Property Assessed Clean Energy (PACE) obligations. Prior to this decision, PACE obligations had effectively been given priority lien status over FHA-insured mortgages, which presented unacceptable risks for taxpayers.

Managing our risk also involves operating a stable technology platform for FHA. HUD can no longer defer this important investment. FHA is built on a mainframe that is over four decades old. Staff at our homeownership centers still work on paper case files, which not only presents inefficiencies, but also poses numerous issues for quality control.

That is why HUD has proposed up to \$20 million to fund targeted improvements in single-family Information Technology (IT) and allow FHA to better interact with a modern financial system. To offset the cost of this critical investment, the Budget proposes a modest fee of no more than \$25 per loan that would apply on a prospective basis and expire after four years. It will take the cooperation of government and private sector lenders to make this needed investment, but I am certain it is one that will lead to mutually-beneficial outcomes.

Another important source of affordability for millions of Americans is manufactured housing. Today, it accounts for about 10 percent of the market, and an even greater share for those in rural areas. As the agency that implements the Federal laws governing the quality, safety, and affordability of manufactured housing, HUD has a key role to play here. We have instituted a regulatory review of all manufactured housing rules with an aim towards reducing undue burdens on production. We must strike the right balance between ensuring the availability of such homes and protecting the families who will reside in them.

DISASTER RECOVERY

It is important to note the ongoing disaster recovery efforts underway at HUD. Since last September, Congress has appropriated \$35.4 billion in long-term disaster recovery funding under the Community Development Block Grant – Disaster Recovery (CDBG-DR) program. The initial amount of \$7.4 billion has been fully allocated and related guidance has been issued. The Department is now working to allocate the \$28 billion contained in the Bipartisan Budget Act and will allocate at least one-third of that amount by April 10.

HUD has also provided ongoing relief to homeowners in the Presidentially Declared Major Disaster Areas. This includes the recently announced “Disaster Standalone Partial Claim,” a new option that covers up to 12 months of missed mortgage payments through an interest-free second loan on the mortgage, payable only when the borrower sells the home or refinances the mortgage. In addition, the moratorium on foreclosure actions against insured borrowers in Puerto Rico and the Virgin Islands has been extended until May 18, 2018. Other resources, including forbearance and loan modification options, continue to be available as well. HUD continues to provide technical assistance to mainland PHAs and displaced residents.

Nearly every program office at HUD has staff working on disaster recovery, many of whom have volunteered to travel to disaster-stricken areas and serve on the front lines. My prayers are always with those who are still struggling to recover.

HUD has a government-wide mission to coordinate housing recovery, not just for HUD-assisted households, but for all Americans who are impacted by disasters. We continue to take this obligation seriously and are committed to supporting the communities as they rebuild.

CONCLUSION

HUD is committed to safe, fair, and affordable housing for the American people. It also acts as a stepping stone to opportunity and self-sufficiency so that families can graduate from assisted housing to economic independence. President Trump's proposed FY 2019 Budget will enable HUD to fill this role, now and in the future, through reforming and refocusing our programs and necessitating careful stewardship of taxpayer dollars.

I am eager to work with Congress and all the members of this Committee in achieving these worthy goals to better serve our fellow Americans.