OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

MAY 20, 2004

Printed for the use of the Committee on Financial Services

Serial No. 108–89

U.S. GOVERNMENT PRINTING OFFICE

96–527 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Thursday, May 20, 2004

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to call, at 10:08 a.m., in Room 2128, Rayburn House Office Building, Hon. Michael Oxley [chairman of the committee] presiding.

Present: Representatives Oxley, Baker, Royce, Ney, Kelly, Green, Shays, Miller of California, Tiberi, Feeney, Hensarling, Garrett, Barrett, Harris, Renzi, Frank, Waters, Sanders, Maloney, Gutierrez, Velazquez, Watt, Carson, Meeks, Lee, Inslee, Moore, Capuano, Hinojosa, Lucas of Kentucky, Clay, Israel, Baca, Miller of North Carolina, Emanuel, Scott, Davis and Bell.

The CHAIRMAN. [Presiding.] The committee will come to order. The committee is meeting today to hear from the Secretary of Housing and Urban Development on the operations of the department and its budget request for fiscal year 2005.

Pursuant to rule 3(f)(2) of the rules of the Committee on Financial Services for the 108th Congress, the Chair announces that he will limit recognition for opening statements to the Chair and Ranking Minority Member of the full committee and the Chair and Ranking Minority Member of the Subcommittee on Housing and Community Opportunity, or their respective designees to a period not to exceed 16 minutes, evenly divided between the majority and minority. Prepared statements of all members will be included in the record.

The Chair recognizes himself for an opening statement.

Today, the Financial Services Committee welcomes the newly confirmed Secretary of Housing and Urban Development, Alphonso Jackson, on the occasion of his first time testifying as the HUD Secretary. Secretary Jackson, congratulations on your confirmation. We look forward to working with you to address America's housing needs and to improve our nation's communities.

The committee has jurisdiction over the budget for the Department of Housing and Urban Development. The department administers programs such as the Community Development Block Grants, HOME, HOPE VI, public housing, section 8 voucher programs, the Federal Housing Administration and the housing goals for both Fannie and Freddie. Over the past few years, this committee and the Administration have continued to seek bipartisan ways to make existing housing programs work better. In 2003, we enacted the American Dream Downpayment Act that would benefit

45,000 new homeowners annually. The committee enacted legislation to increase FHA multifamily loan limits, which addresses the acute issue of affordable rental housing in high-cost areas.

At a time when our homeownership rate is the highest ever at 68 percent, President Bush has inspired us to make homeownership happen for even more Americans. We must address the lagging minority homeownership rates since less than 50 percent of African Americans and Hispanics are homeowners. The zero downpayment legislation would allow zero downpayment loans and financing of the settlement costs for an estimated 150,000 first-time homebuyers each year. I want to thank Congressman Tiberi and Congressman Scott for introducing that legislation.

While ownership policy is the best avenue for strengthening families and improving communities, part of American society is not yet ready to pursue homeownership. There are several ways to create new rental housing opportunities, however any new approach is hampered by the potential hemorrhaging of the section 8 rental housing subsidy program. Unless we take dramatic steps to reform the section 8 voucher program, it would eventually consume the entire HUD budget. Without meaningful reform, the good work achieved by other housing programs could be compromised.

Recently, articles have appeared in local newspapers stating that the section 8 housing voucher program in some communities is running out of money. I am concerned that vouchers are being revoked and that tenants may have to leave their homes. Equally troubling is the impact on conventional lenders and rating agencies's decisions to finance assisted housing. Members on both sides of the aisle are anxious to hear from you about what steps are being taken to address this situation.

This committee has been following GSE regulatory reform efforts closely. Thanks to Subcommittee Chairman Baker's hard work, over 100 witnesses have testified on these issues and several policy goals have been achieved. The Senate Banking Committee approved a bill that was not supported by the Administration or the GSEs. We will be interested to know if the Administration's perspective on GSE reform evolved since the Senate activity. It seems the Administration does not want a viable legislative product that could move through the House and Senate, but would rather attempt to enforce discipline on the GSEs through regulation. I am very interested in HUD's efforts to improve its role in the oversight of the GSEs.

HUD has proposed several new affordable housing targets for the GSEs and has eliminated the ability of the GSEs to receive additional credits for certain projects. These new proposals significantly raise the levels of affordable housing transactions the GSEs must meet. The stated purpose of these changes is to encourage Fannie and Freddie to be lenders in the affordable housing field. I look forward to your analysis of why these changes are needed and how these goals will be achieved.

HUD is in the process of reviewing unusual transactions by the GSEs to meet the previous affordable housing goals. This committee is also looking at these transactions and examining whether they were appropriate. I hope that we can work together to ensure that the affordable housing goals are properly met.

I also want to bring to your attention an issue raised at the Housing Subcommittee field hearing in Columbus, Ohio that was chaired by Subcommittee Chairman Bob Ney. While the hearing was primarily focused on affordable housing issues and the section 8 program, there was a call from the majority of the witnesses about the Community Development Block Grant Program. Many believe the allocation formula is outdated and does not account for the growth of cities. I understand that the department has conducted a study of the CDBG formula. I am hopeful that you will discuss whether the formula is in need of a change either today or in writing at a later date.

I would be remiss not to mention reform of the real estate settlement procedures act. I sent a letter in December to your predecessor regarding the department's proposed rule, which was later withdrawn. We all support the goal of simplifying the homebuying process and making it less expensive for consumers. I am hopeful that you will address the department's future intent regarding the development of a new proposed rule.

Just before I conclude, I applaud the Administration for continuing to work on its goal to end homelessness. Representatives Renzi and Matheson have introduced the Samaritan Initiative Act. This initiative combines HUD's permanent housing funding with assistance from the Departments of Health and Human Services and Veterans Affairs for services like substance abuse treatment and primary care.

Mr. Secretary, thank you again for being here today. Again, congratulations on your confirmation and we look forward to your testimony.

I now recognize the Ranking Member, the gentleman from Massachusetts, Mr. Frank.

[The prepared statement of Hon. Michael G. Oxley can be found on page 62 in the appendix.]

Mr. FRANK. Thank you, Mr. Chairman and Mr. Secretary.

We are in the midst of a serious crisis involving the section 8 voucher program. I know that Assistant Secretary Liu has said that a handful of the nation's housing agencies would not have enough money, but either they cannot count or he can't. I guess maybe I would suggest as a fundraising device we display Assistant Secretary Liu's hands because they are apparently an interesting phenomenon. They must have dozens and dozens and dozens and dozens and dozens of digits, because I have been besieged, as have other members, with concerns from both parties. We have, and I would ask to put this into the record, a resolution from the standing Committee on Economic Development, Trade and Cultural Affairs, from the National Conference of State Legislatures, in which they are strongly critical of the department's section 8 program. "Be it resolved that the National Conference of State Legislatures calls on HUD to withdraw the April 22 notice about section 8 and begin a consultation process."

[The following information can be found on page 98 in the appendix.]

I know that others have said, well, this is what the appropriators have said, but of the two Chairs and two Ranking Members on the Appropriations Committee, to my knowledge only one has really said that he is in agreement with what HUD is doing. Senator Mikulski, the Ranking Democrat, has been very critical. Senator Bond, the Chairman in the Senate, has said he thought that it was not being carried out in the right way. Senator Sarbanes has been very critical, and I ask unanimous consent to put all their statements in the record.

The CHAIRMAN. Without objection.

Mr. FRANK. What we have is this: From Richard Nixon until a few months ago, the section 8 program, the voucher program, was one in which municipalities and States, whoever administered it, housing authorities, were given money and guidelines to run the program. If they kept within the guidelines, they were reimbursed for their costs. And I believe since the program was begun at the initiative of the Nixon Administration, the number of people served by the voucher program has never dropped from one year to the next. We have never gone back in terms of the number. The level of increase has varied.

The municipalities have been told to do the right thing in terms of how they administer it, but then having done that, they got their costs. Last November, HUD worked with some of the appropriators, bypassing entirely this authorizing committee, and secured a fundamental change in this program, section 8. For the first time, the program was capped and housing authorities and others who administered it were not given, we are now told, the authority to continue the number of people who they had been serving, but had a limited amount of money capped by last August's amount of money plus an inflation factor, a very rigid one.

The way in which this was promulgated is very troubling. HUD, which helped draft this legislation, probably drafted it, did this on November 30. It was not in either bill, as I recall. It was put in in conference. So HUD knew this from November 30 on. The appropriations were not actually passed until February. It was part of the overall bill. It was April 22 when this really quite new interpretation went to the communities. There was a great deal of disruption and upset and I ask unanimous consent to put in the record lists of dozens and dozens of communities in 25 States which have felt seriously disarranged by this.

[The following information can be found on page 104 in the appendix.]

It is not simply the way in which it was done. It is the consequence. Essentially communities were told on April 22 of this year that retroactively they were going to have less money for section 8 vouchers than they thought they were going to have. The response of many of them was they would have to evict people. We had a very serious problem with some of the most vulnerable people in this society now being told that they faced eviction. A great deal of chaos ensued.

Now, as I understand it, HUD recently, and I am going to have to ask you to explain this to us because there is still a great deal of uncertainty, ambiguity and confusion about this, HUD is now telling people, well, they are going to redo the formula in ways that while there will still be limits, it may not in the best case require any evictions.

But communities continue to tell us, recent articles about Houston, about other places, that they are going to be faced with too little money to continue to serve the number of people they are serving, so that even if evictions are avoided, and I guess there have been a couple of evictions already and people threatened with eviction, but even if evictions can be avoided, which I hope, because that would be particularly cruel, housing authorities are going to face the following choices.

Either they are going to have to, when people give up their vouchers in the normal attrition, retire those vouchers from circulation, so they will be serving fewer people, or they will have to reduce the rents to landlords, greatly damaging this program by making the responsible landlords less willing to participate; or they will have to raise minimum rates on the poorest people around; or, and I just got this from the city of Fall River, they will have to go against one of the fundamental purposes of this program. That is, they will have to find cheaper apartments.

Fall River is suffering, they tell me, Fall River, Massachusetts, because some of their section 8 certificate holders, their voucher holders, have gone from the city of Fall River to wealthier areas where the rents are higher, but because they were not in those areas a year ago, they do not get compensated for that. So Fall River is now telling people, well, you cannot move out of the city elsewhere. The purpose of de-concentration, of avoiding packing poor people is now being undercut. The result of this is the most substantial damage to the section 8 program, people not wanting to participate.

I will say in closing, Mr. Secretary, I am troubled because reading some of your quotes on this, one, you referred to the fact that we have a wartime budget, which confirms what some of us fear, that the demands of Iraq and elsewhere are cutting into important domestic needs. But secondly, you said in the Dallas Morning News on April 14, quote, Mr. Jackson said he sympathizes, but we have to restructure section 8. The poorest recipients stay in the program five to eight years, tying up vouchers that higher income people could shed more quickly. The suggestion that one way to resolve this problem of housing the poor is to house people who are less poor seems to me to go directly contrary to what we ought to be doing.

I will be asking you for some specifics, but I am very troubled that as a result of HUD's actions, pre-dating your secretaryship, but continuing under it, we have this section 8 program which has been a major source of housing assistance now major source of chaos and trouble and difficulty for tenants, for landlords, for lenders and for municipal officials.

The CHAIRMAN. The gentleman's time has expired.

The Chair is pleased to recognize the Chairman of the Housing Subcommittee, the gentleman from Ohio, Mr. Ney.

Mr. NEY. Thank you, Mr. Chairman.

I want to also welcome Secretary Alphonso Jackson to his first authorizing hearing, and also Chairman Oxley for holding this important hearing to examine both the programs and the budgets specific to the Department of Housing and Urban Development.

Last year through bipartisan cooperation, the committee and the Administration were able to enact 11 bills into law that today are making housing programs work better than they have, again, on a bipartisan basis and through your leadership, Mr. Chairman and Ranking Member, we have been able to do that.

Of those enacted, of course, last year the American Dream Downpayment Act and the proposal to raise the FHA model family loan limits are helping thousands of individuals and families to realize the dream of homeownership. In an effort to continue the goal to increase minority homeownership, on May 5 of this year the Housing Subcommittee approved H.R. 3755, the FHA Zero Downpayment Act. I want to commend our Ranking Member, Congresswoman Maxine Waters of California for her leadership, and members from both sides of the aisle working on this bill. It was introduced by Congressman Tiberi and Congressman Scott and would eliminate the downpayment requirements for certain families and individuals who buy homes with FHA-insured mortgages. It is a fiscally prudent bill and represents I think another important step forward in helping all Americans achieve the dream, and working with this committee and with the Administration we have been able to move this bill along the path.

While homeownership is a desired goal, for many Americans and many in today's society they are not yet ready for one reason or another to own their own home. It is therefore prudent that we continue to pursue all alternatives to make sure that affordable rental housing is also available. As you know, the section 8 housing assistance program is the major vehicle for providing rental assistance to low-income families and individuals. Today, the section 8 program encompasses I believe half of HUD's budget. The rising costs of providing rental assistance is due in varying degree to expansion in the program, the costs of renewing expiring long-term contracts, and the rising costs in housing markets across the country.

The day of reckoning is coming fast. If we do not address the increasing costs of this program, it will continue to consume the HUD budget. I trust we can engage in a meaningful dialogue with all of our colleagues, both sides of the aisle and the Administration to find a solution to the escalating costs of the section 8 program. Of course, that is going to also have to involve the housing authorities and the advocacy groups that deal with housing. Not a day goes by that I do not talk to a constituent or a person who has a concern about the problems inherent to the program.

I am anxious to hear from the Administration about their latest proposal for a flexible voucher program which I know the Secretary will be speaking about. I believe aspects of this proposal have some merit, but it remains to be seen whether this is the solution or not to the section 8 program. Nevertheless, we have to find a solution and it has to be done soon.

Before I close, I also want to turn my attention to a proposed rule to raise Freddie's and Fannie's housing goals. It is clear this is an issue that will have a profound impact on America's housing policy and profound ramifications. In 1992, Congress passed legislation establishing the existing housing goal structure. In my estimation, these goals have been a tremendous success story for the department, and more importantly for the homebuying consumer and those renting apartments in the United States. Recently, HUD proposed raising the low-mod goal from 50 percent up to 57 percent by 2008.

I look forward to hearing from the Secretary this morning on the rationale for the increase. I represent rural Ohio, as a lot of people know, where the average loan purchased by Fannie Mae and Freddie Mac is still around $100,000. My focus is to make sure these companies fulfill their congressional mandate, and that is important that they do fulfill their mandate to serve as a liquidity source in markets at all times.

I intend to pay careful attention to this proposed HUD rule, as I know everybody else will be, to make sure there is no adverse impact on the well-functioning housing market in the United States. I want these companies to serve more families and they should. I also worry about a rule where companies are on the point of forcing a potential credit allocation to the low end of the market, and negatively affects middle-income and also middle-class America.

So I do have some concerns. I have other items in here, Mr. Chairman, so I will come to a conclusion, but if I could put them in for the record without objection.

The CHAIRMAN. Without objection.

Mr. NEY. My concern is that this proposed rule could force the GSEs to set higher interest rates for mortgage refinancing, which is what we do not want.

In closing, let me say that the federal government, consumers and the housing industry are linked by our mutual goal of creating housing opportunity for Americans. We have much to achieve together for the American people, and our best hope of being successful is to work in close concert with each other, guided by the same high standards and principles. I do appreciate the Secretary being here today, and thank you for my time, Mr. Chairman, and your work on this issue.

[The prepared statement of Hon. Robert W. Ney can be found on page 70 in the appendix.]

The CHAIRMAN. The gentleman's time has expired.

The gentlelady, the Ranking Member of the Housing Subcommittee, Ms. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

Good morning, Secretary Jackson. While I congratulate you on your confirmation as HUD Secretary, I do not know whether you should be happy or sad. You have been given control of an agency with a disastrous proposed budget that takes us backwards in so many important ways. A budget that, for example, seeks $1.633 billion below the amount that HUD itself projects is needed to renew all section 8 housing vouchers. If enacted, your section 8 budget proposal will dislocate households and force many public housing authorities to raise rents and lower subsidies to needy seniors, persons with disabilities, and families with children.

This funding level would result in 250,000 fewer vouchers being funded if housing authorities choose to maintain the current level of subsidy for those vouchers that they do maintain. If housing authorities choose instead to maintain the same number of vouchers currently authorized nationally, the average section 8 tenant's rent would have to increase by an average of about $850 per year. In Los Angeles, the city housing authority would have to issue 5,336 fewer vouchers and the county housing authority would have to issue 2,457 fewer vouchers if they choose to make up the funding shortfall by reducing the number of vouchers that they fund.

If they issued the same number of vouchers, the city of Los Angeles would have to raise the average tenant's rent by $933 per year, and the county housing authority would have to raise the average tenant's rent by $977 per year in order to absorb the impact of the Bush Administration's proposed funding level.

Mr. Secretary, I would need at least an hour to talk to you about all of the ways that this proposed budget fails to meet America's pressing needs for housing, but let me try and summarize some of my principal concerns. Hopefully, we can cover more of the issues during the question period.

HUD's budget for CDBG block grants fails to keep pace with inflation, and zeroes out funding for brownfields, empowerment zones and CDBG section 108 loans, a program that is especially important to me. I put a lot of time in on section 108, and the city of Los Angeles has been able to use section 108 as have cities in this country for economic development. I am really concerned about that.

Your budget cuts public housing funding by $182 million, rescinds $675 million in funds that could be used to preserve affordable housing; zeroes out funding for HOPE VI and proposes to let 50 housing authorities operate without statutory tenant protections. It proposes a $35 million cut for lead paint grants, and to zero out funding for rural housing and economic development grants which received $25 million in funding year 2004.

I do not know how much you were involved in this budget, but I know some of your reputation. I have met and talked with you before, and I expect that you will provide the leadership to correct what are many problems with this budget. This is a very serious business. As I sit talking to you today, there are 1,500 households in Los Angeles who are not receiving assistance, whose vouchers were cancelled by the city housing authority because the vouchers that they waited so many years to receive were not funded. This is just not acceptable. HUD should be using its central reserve fund and taking whatever other steps are required to ensure that these families receive housing assistance.

Your proposal is to block grant section 8 funds to the local PHAs, eliminate the guarantee that at least the same number of units will continue to be served, and end the targeting requirements that helped to ensure that section 8 vouchers are directed to those low-income residents with the greatest needs. Again, it was mentioned on April 22 of this year. HUD announced that it will no longer reimburse housing agencies for their actual costs, but instead will renew quarterly voucher funding based on an agency's per cost in August, 2003, adjusted only by a regional housing inflation factor.

It is completely improper and unacceptable for HUD not to renew vouchers at payments high enough to keep pace with rent increases. It is simply unconscionable for HUD to adopt policies that will result in evictions, the non-renewal of vouchers, or require greater contributions from low-income section 8 tenants who really cannot afford it. HUD's contract renewal policies must cover the true increases in housing costs in Los Angeles and other communities. HUD must replenish PHA reserves as the department has done in the past, as the department has not only done in the past, but to cover unanticipated cost increases. HUD should rescind the April 22 notice and return to policies that will protect those that Congress intended to help through the section 8 program.

Finally, let me say a word about homeownership and GSEs. Now, I know some people are going to take great exception to this.

The CHAIRMAN. Could the gentlelady conclude please?

Ms. WATERS. One additional minute.

The CHAIRMAN. Without objection.

Ms. WATERS. In addition to this very difficult budget that you have to deal with, there is a fight that is going on that has been going on here with the GSEs. You all know and you understand very well what the confrontation is with FM Watch and the GSEs. It is about market share. There are any number of ways that have been concocted by the Administration to try and weaken the GSEs.

This business of increasing the goals for low-income housing looked like it was a good thing when I first looked at it. But now that I have examined it, and I was involved in 1994 in increasing those goals, and I believe in increasing the goals and getting as much as we can, but when you take away the points that the GSEs receive for reaching those goals, it makes me wonder whether or not this is just another FM fight, or whether or not you are really serious about this, Mr. Secretary.

The purchase of these mortgages from Washington Mutual and other places expands housing ownership opportunities. If you are going to take away the points and redefine how they can reach the goals, I am not sure that you are really serious about expanding the goals and having them reach them. I want you to think about that, and I certainly do not want you to be used as a point person in this fight against the GSEs. Let the markets work. Either these other financial institutions can step up to the plate and do what they need to do, but coming to government in so many ways to do this is totally unacceptable.

Thank you, and I yield back the balance of my time.

The CHAIRMAN. The gentlelady yields back.

The Chair recognizes the gentleman from Texas for the purpose of introducing our witness.

Mr. HENSARLING. Thank you, Mr. Chairman.

It is a great privilege and honor that I welcome my friend, my fellow Texan and fellow Dallasite, Secretary Jackson, before this committee. I want to congratulate him on his recent confirmation. I want to share with the committee my belief and the belief of many others that no one has brought more housing experience to this position as has Secretary Jackson. Specifically, he brings over 25 years of housing experience in both the private and public sectors to this office. From 1989 to 1996, Secretary Jackson was the president and CEO of the housing authority of the city of Dallas, which constantly ranked as one of the best-managed large-city housing agencies in the country during his tenure. He has served with distinction on a number of national and State commissions, including the National Commission on America's Urban Families and the National Commission on Severely Distressed Public Housing.

On a more personal background note, Secretary Jackson I know grew up in a family of very modest means. He was the youngest of 12 children, but through hard work, through principle, through opportunity he has risen. He has managed not only the Dallas housing agency, but also was the president of the American Electric Power Company, a $13 billion utility company in Texas. All of Dallas, all of Texas is proud of you, sir. We welcome you to this committee and we look forward to hearing your testimony and look forward to your principled leadership at HUD.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

So we will turn now to Secretary Jackson. Mr. Secretary, welcome to the committee and you may proceed.

STATEMENT OF HON. ALPHONSO JACKSON, SECRETARY OF HOUSING AND URBAN DEVELOPMENT

Secretary JACKSON. First, thank you, Congressman Hensarling.

Chairman Oxley, Ranking Member Frank, distinguished members of this committee, thank you very much for inviting me here this morning. I am honored to discuss with you the fiscal year 2005 budget proposed by President Bush for the Department of Housing and Urban Development.

Mr. Chairman, in order to reserve time for the possible questions that I will be asked, I would like to focus my opening statement on some key priorities that I think are very important to discuss. I would like to ask you to allow me to submit the full statement for the record.

The CHAIRMAN. Without objection.

Secretary JACKSON. Thank you.

Before I start the testimony, I would like to say this morning that I am concerned with some of the issues that were raised. So in that effort, I think it is important for me to first state that in an effort to be more effectively implementing the provisions of the 2004 omnibus bill act, I have directed Mr. Michael Liu, the Assistant Secretary for Public and Indian Housing, to apply the full 2004 inflationary factor, what HUD refers to as the annual adjustment factor, to each housing authority agency's funding level of 2004. This adjustment to the funding formula will be retroactive to January 1, 2004 and will provide housing agencies more of their funding up front, rather than late in 2004. Again, this is good news for those agencies that have fiscal years ending in June and even in September. All agencies were notified of this funding calculation change on May 18 of this year.

The second piece of good news I want to announce is that HUD is going to replenish the program reserve for approximately 500 housing agencies, depleting their reserves in 2003 and qualifying for restoring of funding. HUD is using approximately $150 million in carryover central fund money from 2000 for this purpose. I want to be clear, HUD is not restoring 2004 reserves, but only 2003 reserves for legitimate costs incurred in 2003. HUD will notify the agencies eligible for the 2003 reserves fund to date.

These two new actions by HUD, as well as additional clarification of information already sent to the agencies this week regarding their funding, will significantly improve the financial situations for most, if not all, of the agencies. It will enable them to manage their programs within the funding amount provided by Congress for 2004 and provide the needed assistance to their families that they serve.

The program funding within the $31 million HUD budget will create new opportunities for those seeking affordable housing and the American dream of homeownership, while generating stability and prosperity in many communities in this country. The key priorities it addresses are central to the President's plan to help make America a more secure, more prosperous and more hopeful country. Housing, of course, is vital to our national prosperity and remains the linchpin of the economy today.

The housing market generated robust activities through 2001's recession and today housing continues to fuel the ongoing economic recovery of this country. Homeownership last year reached an all-time high of 68.6 percent, and fourth quarter 2003 statistics reveal that for the first time a majority of minorities own their homes in this country, 50.3 percent. HUD's fiscal year 2005 budget will empower our department to build on these successes as we seek to increase homeownership, promote decent affordable housing free of discrimination, encourage participation of faith-based and community organization, and HUD's grant program and embrace the highest standard of ethics, management and accountability.

Let me first discuss homeownership. In June 2002, President Bush announced an aggressive plan to increase the number of minority homeowners by 5.5 million by the end of this decade. Today, more than 1.5 new minority homeowners have been created in the United States since we initiated this proposal in 2002. HUD is proposing several new and expanded initiatives to continue increasing overall homeownership, while targeting assistance to help minority families experience the economic and social benefit of owning a home.

As a first step, HUD proposed to fund the American Dream Downpayment initiative at $200 million in the coming fiscal year. The Congress showed great leadership in enacting President Bush's American Dream Downpayment proposal last year. By fully funding the fiscal year 2005 initiative, we will help 40,000 families cross what has been represented as the single biggest hurdle in homeownership, that is high downpayment and closing costs.

The Administration is proposing legislation that would create a new mortgage product targeted at first-time homebuyers. That is the zero downpayment mortgage, which would allow consumers to qualify for an FHA loan without having to come up with cash for downpayment and settling costs. The zero down proposal has generated a great deal of interest among the industry and the consumers. We estimate that it will help 150,000 families a year purchase their first home.

It would be structured to assist the creditworthy, cash-poor working individuals who have been excluded from purchasing their first homes. Most of these families can afford monthly payments, but because of the circumstances have simply not had enough to save for the downpayment. HUD has designed this program to minimize default and to protect the mutual mortgage insurance fund. FHA has made a conservative financial assumption regarding this program.

In order to cover the cost of the program, families who qualify for the zero downpayment plan would be charged a modestly higher insurance premium on their home loan. For example, for a $100,000 mortgage, a zero downpayment borrower would pay approximately $50 a month more than a regular FHA borrower. There would be no net cost to the FHA mutual mortgage insurance fund.

The President's budget projects that an additional $19 billion in mortgage commitment will generate revenues of about $180 million the first year of this program. Borrowers would be held to the same underwriting guidelines as those for FHA standard 3 percent downpayment mortgages. They must meet the same payment-to-income, debt-to-income ratio and the same credit standards.

To further minimize the risk, the proposal for the zero downpayment program includes a housing counseling requirement. Specifically, participants would be required to satisfactorily receive one-on-one housing counseling from HUD-approved housing counseling agencies before they enter into a sales contract. I want to thank Representative Tiberi for introducing the zero downpayment legislation in the House, and I want to congratulate Chairman Oxley for holding a successful bipartisan full committee markup yesterday.

To promote the production of affordable single-family homes in the area where such housing is scarce, the Administration is proposing a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home. Our request of $65 million for the Self-Help Homeownership Opportunity Program, as we call SHOP, would more than double the funds SHOP received in 2004, to help produce 5,200 new homes for very low-income families.

Along with boosting homeownership, HUD proposed a budget that will continue to promote the production and accessibility of affordable housing for families and individuals to rent in this country. Three major rental programs collectively help approximately 4.5 million households nationwide. Our major program is the section 8 program, which provides both tenant-based funding through the housing choice voucher program, and project-based rental assistance through HUD's public housing program. The Administration is proposing to reform the housing choice voucher program to make it more effective, efficient and able to meet the needs of low-income families that depend on this program.

Today, the section 8 program lacks any incentive for families to transition out of the program and begin to live independent lives. In addition, the program is unsustainable at the current growth level. Pre-voucher costs have increased at an alarming rate of 23 percent in just the last two years. The Administration's new flexible voucher program will serve at least as many Americans at the 1.9 million families currently serving through the housing choice voucher program.

More importantly, our proposed reform will help families move out of assisted housing and into self-sufficiency. The HOME program is a key initiative for addressing this shortage of affordable housing in America. In fiscal year 2005, we are proposing a total of $2.1 billion, which includes $200 million for the American Dream Downpayment initiative to help expand the nation's supply of affordable housing. Participating jurisdictions have substantial discretion to determine how to spend and use the funds.

HUD is committed to providing American cities as a viable hub of commerce in making the communities better places to work and to raise our families in. The fiscal year 2005 budget provides States and localities with tools they can use to improve their economic health and promote community development. Perhaps the greatest strength of these economic development tools, which include the highly successful Community Development Block Grant Program, is the way in which they encourage local decision making to address developmental priorities.

Through our budget, HUD will strengthen its efforts to protect the nation's most vulnerable, those individuals and families who truly need government assistance. The HUD budget for 2005 will benefit adults, children from low-income families, the elderly, those with physical and mentally handicapped disability, victims of predatory lending, families living in housing contaminated by lead-based paint hazards, and persons living with HIV-AIDS.

In the coming fiscal year, the Administration will continue to work to meet the challenge of homelessness that confronts many Americans. The President has made an unprecedented Administration-wide commitment to eliminate chronic homelessness. This commitment is reflected in the fiscal year 2005 budget request through proposals such as the Samaritan initiative, which will provide additional options and services to homeless people living in the streets.

Finally, Mr. Chairman, our budget creates new opportunities to improve HUD's performance in its critical-need housing and community development programs. I know that this subject is particularly important to the committee. I can assure you that we share your concerns. We continue to make progress. This will remain the top priority in the years to come. I want to thank each of you for supporting our efforts and we welcome your guidance as we continue to move forward.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Alphonso Jackson can be found on page 75 in the appendix.]

The CHAIRMAN. Thank you, Mr. Secretary.

Let me begin by asking about RESPA reform. We all share the goal of simplifying the home buying process. I constantly hearken back to when I was practicing law and involved in real estate closings and the madness that occurred in that process, and my clients not understanding what was going on. I know that the RESPA reform effort was withdrawn. What plans, if any, do you have of revisiting that issue? And could you give us a timeline if that is the case?

Secretary JACKSON. Surely. Thank you very much for the question.

I made a decision after critically reviewing the proposal and the process that had taken place. I asked at that point in time that

OMB return the RESPA proposal back to us. It was my feeling, even though I cannot discuss the specifics with you, it was my feeling and my belief that the proposal had not had the necessary input, and a consensus that would be appropriate to move it forward.

We have the staff at this point still reviewing it internally. We have a meeting weekly discussing the RESPA proposal. We expect that after having conversation with the industry, with Congress, as I assured you, Mr. Chairman and Chairman Allard, we will then look at the possibility of coming back out with a new proposed rule after having input from you and the industry. I have not set a timetable because still we have not answered a number of questions that have been asked of us by OMB.

We hope to have those questions answered probably in the next 30 to 45 days, and at that point in time we will get in to discuss with you and others your concerns that you have and take those concerns into consideration. Then I will be in a position to give you a timetable of when we expect to reissue the rule.

The CHAIRMAN. I thank you, Mr. Secretary. I think you will find some willing participants on this side in regard to a solid RESPA reform effort, with input from the Congress. I appreciate your openness and ability to work with us. We look forward to that effort.

Let me ask you about the GSE programs. We have recently received documents relating to HUD's examination of GSE programs. The documents comment on proposed guidelines for some programs and seek additional information on others. Is this an effort by HUD to exercise its program approval authority over the GSEs?

Secretary JACKSON. Yes, it is. I think it is very unique because we have been criticized over the years for not exercising that program authority. I think the GSEs serve a real functional purpose, but Mr. Chairman, the GSEs have an implicit government guarantee. Their goals are to serve low-and moderate-income people in this country. What I am about to say to you today are not figures that we have invented. They are figures that they have conveyed to us. They are not leading the market. They are following the market. Our position is that they should be the leaders of the market in addressing the needs of low-and moderate-income people.

Today, I want to make it very clear because people have said that this is a new effort. No, since Secretary Martinez and I have been there, and I have been the Deputy Secretary and the Chief Operating Officer, we have spoken on numerous occasions with the heads of the GSEs and told them our concerns about not leading the market, and what we expected out of them. We still expect that. The difference is that as the Secretary, I am going to make every effort to enforce it. We do not care, nor do we have any desire to regulate this top-end of their market. But what we are saying in essence is that we want you to serve low-and moderate-income people in this country, which your charter mandates that you do. That is the only thing we asked them.

The CHAIRMAN. Some would say that the program approval process may indeed stifle innovative products going to market. How would you answer that?

Secretary JACKSON. If their investments in derivatives have not stifled them, I do not see how we are going to stifle them asking them to serve low-and moderate-income people.

The CHAIRMAN. Do you think that HUD needs new tools to review GSE programs? If so, what would they be?

Secretary JACKSON. I think that the Administration has put forward a proposal for regulating the GSEs. We are in full support of that proposal. I think our responsibility is to set the housing affordable goals to make sure that the GSE meets those.

The CHAIRMAN. Are you referring to a legislative proposal or an administrative proposal?

Secretary JACKSON. Administrative, which was put forth this year. We are very supportive of a strong regulator still today. But our goal today is to make sure that the GSEs simply meet their housing goals and their mandate to serve low-and moderate-income persons. That is what I am most concerned about today, and that is why we have been making every effort since I have been here to work with the GSEs. It is very different today because I guess I come with a very tremendous knowledge and background with the GSEs, having been in housing for so long. I do believe that they have the capability to meet those goals without any reservations at all.

The CHAIRMAN. Thank you, Mr. Secretary.

The gentleman from Massachusetts.

Mr. FRANK. Mr. Secretary, in my 24th year, I do not startle easily, but you have accomplished that. I think I heard you say that there was an implicit government guarantee of the GSEs. One, I must tell you as a high government official, when you say it, it is not implicit anymore. You just made it explicit. But secondly, I do not think there is, and I understood it was the policy of the Administration that there was not. Are you now promulgating a new Administration policy, having said that there is an implicit government guarantee?

Secretary JACKSON. No, I am not. I am just repeating what the GSE said to me when I was speaking to them, and I have met them on a number of occasions.

Mr. FRANK. They think there is an implicit government guarantee? And you agree with that? You just stated it.

Secretary JACKSON. No.

Mr. FRANK. Mr. Secretary, you did not say you were quoting them.

Secretary JACKSON. Congressman, yes, I repeated exactly what they said. I am not going to debate with you, Congressman.

Mr. FRANK. Well, do you think there is an implicit government guarantee?

Secretary JACKSON. That is not for me to decide. I just recounted what they said.

Mr. FRANK. Excuse me, Mr. Secretary, it is for you to decide. You are a high government official here. I think it is very important for us to make clear that there is not. I think you are adding to confusion here. You will not tell me that you do not think there is an implicit government guarantee?

Secretary JACKSON. I think my responsibility, Congressman, is what I said to the Chairman. I am here to make sure that the

GSEs effectuate the affordable housing goals and that is what I am here to speak about.

Mr. FRANK. Let me say, Mr. Secretary, I am glad about that. In fact, I was very critical. HUD delayed a year in promulgating new goals. HUD had the right to promulgate new goals that could have taken effect this year, and delayed. So I am glad they are doing it. We are pushing for even more.

I want to get back to section 8. On the reserves, very important, you said that you are going to provide $150 million, is that accurate, to replenish reserves, and the authorities will know as of today whether they are getting new reserves?

Secretary JACKSON. Yes.

Mr. FRANK. And where does the $150 million come from?

Secretary JACKSON. The $150 million, if I remember right, it came from carryover from 2003.

Mr. FRANK. Did you just find it? When did you find out that we had this carryover from 2003? Is it a carryover in section 8 funding?

Secretary JACKSON. Yes, it is.

Mr. FRANK. And how long have you known that you had the section 8 funds?

Secretary JACKSON. We have known it from the beginning, but that is always——

Mr. FRANK. Why did you wait until now?

Secretary JACKSON. Every housing authority has a right at the beginning of the year to make a request for replenishing, when they spend 50 percent or more, and we answer that. A number of authorities did not do it this year, but still we felt it was imperative——

Mr. FRANK. I am troubled that you waited so long. I am glad that we are finally getting it.

Let me ask you now on the inflation-adjusted. You say what you basically decided to do, you are sticking with the 2004 fiscal year formula, but basically the housing authorities are going to get, am I correct, the same amount of money, but they are going to get more of it early than they would otherwise get?

Secretary JACKSON. Yes.

Mr. FRANK. What does that mean later? Are they going to run out of money? Does that mean that they are going to have trouble sustaining this, if you give them more money up front? Let me put it to you this way. Do you believe that all of the housing authorities that you deal with will be able with this funding formula and the new reserves to maintain the current level of section 8 certificate holders? That none of them will have to cut back on the number of vouchers they offer?

Secretary JACKSON. Surely. I do believe that. You asked a very important question. One of the reasons that we are doing it up front at this point, there are a number of housing authorities, as with my housing authority when I was in Dallas, that operate on a June-to-June schedule. This will help to empower those——

Mr. FRANK. I am glad you mentioned that.

Secretary JACKSON. May I finish please?

Mr. FRANK. Yes.

Secretary JACKSON.—who operate on a September-to-September schedule.

Mr. FRANK. Okay. But I just want to make clear, you do not believe now that any housing authority will have to either freeze vouchers, regain them by attrition or cut rents, or do any of that?

Secretary JACKSON. No, because I just received a letter from your housing authority in Boston who thanked us for making sure that would not occur.

Mr. FRANK. The city of Boston?

Secretary JACKSON. Yes.

Mr. FRANK. It is not mine. Mr. Capuano represents Boston. You can talk to him.

[Laughter.]

The city of Fall River, on the other hand, is very concerned, and I just heard from them. They have this problem where by your formula, they are being penalized because people who used to take vouchers in Fall River have now moved to more expensive areas and the formula does not pay for it. So I have to ask you this question. The language that is in the bill that made some changes, HUD supports that language? Does HUD think that is good language?

Secretary JACKSON. I am not sure what you are asking me.

Mr. FRANK. The language that was put in the bill, the language that has been somewhat controversial. Does HUD think that is good language? Do you want to keep that in the bill next year?

Secretary JACKSON. My position is this, I understand clearly article I, section seven. It simply says that Congress is the appropriator and the authorizer.

Mr. FRANK. And HUD has no position on this, Mr. Secretary?

Secretary JACKSON. May I finish?

Mr. FRANK. No, not with that silliness.

Secretary JACKSON. You asked me a question. Do you want we to answer?

Mr. FRANK. Yes, the question is, do you have a position on the language?

Secretary JACKSON. I carry out the mandate of Congress. That is what HUD's responsibility is.

Mr. FRANK. No, Mr. Secretary, you are not answering the question. And that is just disingenuous. I am sorry. The fact is that we all know what the Constitution is. You are trying to run out the clock by quoting the Constitution and we all know it. I asked you, does HUD have an opinion on this? The notion that the Constitution somehow prevents you from expressing your opinion is a dodge. What is HUD's opinion on the language? Do you want to continue it next year? The Constitution, I promise you, it is not unconstitutional for you to give your opinion. I guarantee it. I will get Scalia in here to reassure you.

[Laughter.]

What is your opinion as the chief housing officer on the desirability of including that language and continuing it?

Secretary JACKSON. My opinion as the Secretary of Housing and Urban Development is I am going to carry out the wishes of Congress.

Mr. FRANK. And you will not tell us what your wishes are?

Secretary JACKSON. I am going to carry out the wishes of Congress.

Mr. FRANK. And you will not express an opinion on what the policy ought to be?

Secretary JACKSON. Well, my position is——

Mr. FRANK. I am asking you what your position is.

Secretary JACKSON. I guess, Congressman, I do not think my position is really relevant at this point.

Mr. FRANK. All right. I am sorry, Mr. Secretary. I have another minute. You do not believe that the position of the Secretary of HUD on matters of housing policy is relevant? What do you do down there?

Secretary JACKSON. No, I do not think it is relevant to contradict the Congress. The Congress has said what it wanted done.

Mr. FRANK. Okay. Then let me ask you this, so you are telling me now that HUD will express no position on this issue when we take it up?

Secretary JACKSON. I am going to carry out the mandate of Congress.

Mr. FRANK. Do you really think just repeating that mantra when it is not relevant to the question is helpful, Mr. Secretary? My question is, do you have an opinion? I know you will carry out the mandate. The question is, do you think it is an appropriate mandate? Do you think we should change it or keep it going?

The CHAIRMAN. The gentleman's time has expired.

Mr. FRANK. So has his patience.

The CHAIRMAN. The gentleman from Ohio, Mr. Ney?

Mr. NEY. Thank you.

Let me move on to vouchers for a second. On page six of your testimony, you state that the current system fails to support families making the transition from public assistance to self-reliance and work, and doing so produces a number of families that could have been helped for a given amount of money. I am just wondering if you could elaborate a little bit of your view of the mission of section 8, but also, what do we envision people transitioning to? That is the real thrust of my question.

Secretary JACKSON. Congressman, if we go back to the history of the section 8 program, we know the history of the section 8 program has come in two phases. First, it was basically section 23, which was supposed to help construct, build, and we would support those private developers through a section 8 project-based program. In the 1980s, we decided that that program was absolutely too expensive so we said why don't we go to a voucher program. We did go to a voucher program, which in essence said, no longer are we going to be relegated to charging 30 percent of the adjusted gross income. If a family can afford to pay 40 percent or 50 percent, let's do it.

One of the mandates during that process, when we started the voucher program, was that it was to be a transition program between public housing and self-sufficiency. It was never envisioned as the QHWRA proposal in 1998 did, that said it has to be 30 percent or less of median in order for you to be qualified.

So initially, the program was set up as a transitional program. From my perspective, I think that it should be. I do not think that the section 8 program should be a secondary or substitute for the traditional public housing program, which in my mind has perpetuated a system where people have lived in it two or three generations. Does that mean that people are going to be able to immediately move out of public housing? No, I am not foolish enough to believe that. Does that mean that we should not make every effort to help families who can afford to move out of public housing or off of section 8 to do it, yes, I believe we should.

See, I come with a very different perspective. I do not come in dealing with public housing residents or low-income people from a position of paternalistic and patronizing. I believe that low-and moderate-income people are human beings with the same sense of worth that I have and I should work with them. I do not think, having run three major housing authorities, I have never seen anybody who consistently and constantly wants to stay in public housing or stay on the certificate.

So my goal when running those authorities was to help them move. Did we move all of them? No, but in the end I think we have made enough progress. I think we should make that our objective, the same as we have done with the American Dream Downpayment Program to try to make homeownership a major initiative. I think we should do the same thing when we are talking about moving people from public housing through section 8. If we can avoid section 8, let's try to avoid it, but to self-sufficiency.

Mr. NEY. Thank you. The other interesting thing for our Subcommittee, we had hearings and we were in different spots, Los Angeles and Columbus, Ohio and different areas, hearings here, on the proposal that Secretary Martinez had, which was the block granting. We did not get a lot of reactions from Governors, obviously, on that issue. Now, we have this proposal. I do not know what happens in quick session here or with the authorizing and appropriations.

Who knows what is going to happen with this whole proposal. But I do know either we add money, or if we do not add enough money, then that section 8 pie still grows, and then it starts to come down to taking money away, if there is limited amount of money, from some of the homelessness programs and AIDS. Then you have entities fighting each other.

So I know it is a balancing act in the amount of time that is left this year, and the appropriations process, and I do not know what all happens here again, or what makes it through the system or not in the Congress this upcoming year. But I do think at some point in time, we are going to have to get people together for more than just a hearing, but people together on all sides of this issue for, I do not want to say a debate, but a reasonable civil dialogue back and forth until we can try to see what is going to be happening to this, versus always trying to do it at the appropriations process or the authorizing process, every year for a 3-or 4-month period. Because it is either add money, and if we are not going to add "sufficient" money for what people say the demand is out there in the housing authorities, then that pie will continue to shrink the programs, and get programs pitted against programs.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

The gentlelady from California, Ms. Waters?

Ms. WATERS. Thank you very much.

Mr. Secretary, my staff took down your comments on the changes that you are proposing for section 8 and how you propose to deal with the crisis that we have now. We are going to check with our housing authority to see what this is going to do for those outstanding vouchers that we have. I am pleased that you are moving forward to try and deal with this problem.

Let me ask you something about your overall budget. When did the budget that you submitted to OMB change to this budget that has now been proposed?

Secretary JACKSON. I am not sure what you are asking.

Ms. WATERS. HUD submitted a budget.

Secretary JACKSON. This is our budget.

Ms. WATERS. No, I am talking about the original budget to OMB. When did it change?

Secretary JACKSON. No, this is our budget.

Ms. WATERS. This is the one you submitted to OMB?

Secretary JACKSON. This is the budget that we worked with OMB to formulate. In answering your question, I do not think anyone is more concerned at serving the needs of low-and moderate-income people in this country than I am. You might be, but I guess I have run three housing authorities, so I am real concerned.

Ms. WATERS. No, you came from a family of 12. I came from a family of 13.

[Laughter.]

One of those housing projects, my family lived in in St. Louis.

Secretary JACKSON. I never lived in one. Okay.

Ms. WATERS. So you do not care more about this than I do. Okay?

Secretary JACKSON. All right. Well, we care almost equally, then.

[Laughter.]

So I am very concerned, and I will defer to you that you care more.

Ms. WATERS. Okay. Well, let me just say this. I was trying to find out, because I know that if you put together a budget, you did better than this, and somebody messed with it. Somebody changed it, but I am not going to keep on that.

You said you know a lot about GSEs. I am really concerned about this, because again in 1994, I worked to increase the goals and they have been increased over about three times since 1994. I am looking at what is happening now, and I am concerned that you are taking away points and credits that should be given to the GSEs, and that you are doing away with bonuses for some of the most challenging housing projects. You are raising the goals. I am trying to find out why you are doing this. Are you familiar, for example, with the WOW program that the Congressional Black Caucus is involved in?

Secretary JACKSON. Yes.

Ms. WATERS. Do they get points for that? Do the GSEs get points for that?

Secretary JACKSON. I cannot answer that. I have been with a number of your colleagues in their cities promoting the WOW program.

Ms. WATERS. You know, it is heavily supported by the GSEs. Also, do they get points for the $1.7 billion in low-income housing tax credits?

Secretary JACKSON. Yes, I think they do.

Ms. WATERS. That is a question that we really do have to resolve, because as I understand it, they will not.

What about the mortgage revenue bonds? I understand there are about $6.2 billion in 2003 in mortgage revenue bonds. Do they get credit for that?

Secretary JACKSON. I will have to get back to you on that.

Ms. WATERS. Okay. What do you know about the anti-predatory lending guidelines that come out of Fannie Mae, for example?

Secretary JACKSON. We work well with them on that.

Ms. WATERS. Do you know that they do much better than some of the institutions in FM Watch. We are concerned about some of those institutions in FM Watch, who have some very, very discouraging predatory lending practices.

What about manufactured houses? We have beat up on them about manufactured housing. They are transforming manufactured housing. Do they get credit for that?

Secretary JACKSON. They have not really transformed manufactured housing. That is not true.

Ms. WATERS. Oh, yes, they are working with us.

Secretary JACKSON. They might be working with you.

Ms. WATERS. This effort was led by Mr. Benny Thompson of the Congressional Black Caucus, working with Mr. Ney and others.

Secretary JACKSON. I think they are working with you, but you said they had transformed. They have not. We have not transformed manufactured housing.

Ms. WATERS. Well, if they had, would they get credit for it?

Secretary JACKSON. Yes. And the same, as I said before, if it qualifies as low-and moderate-income, we are not going to hesitate to give them credit, Congresswoman.

Let me say this, because I think it is very, very important. No one, especially at HUD, is trying to penalize the GSEs. I can assure you of that. You asked about, is this new. No. I only use their figures. Now, they report the figures to us. We are not at liberty to discuss those figures publicly. If the chairmen of each one of those GSEs would like for us to submit those figures to you, then you would see what I am saying today, they are not leading the market.

They are lagging behind the market. If you pay close attention, just the other day the Chairman of one of the GSEs specifically said that his organization was not doing or coming close to doing what they should be doing for low-and moderate-income people in this country and that he was restructuring it to make sure that he addresses the needs that were raised by HUD on the affordable housing efforts. Those are their words.

Ms. WATERS. I do not know who said that, and I cannot debate with you about figures and information that I am not privy to or you say that I cannot have. Simply let me just say this, I join with anybody who is interested in expanding low-income housing opportunities. Let me must say that the no downpayment, low downpayment, all of that, that is good stuff, but it is a drop in the bucket.

Most of the folks who are poor are going to be renting and they need some assistance and this is not enough. We do not want people to believe that all of a sudden because we have these very minimal programs that we are going to transfer everybody into homeownership. We have to do everything that we can. We cannot make it harder.

I do not know why when you look at these points or these bonuses, or however you calculate this, that if one of these GSEs buys a lot of paper, lots of paper from Washington Mutual or anybody else, why they will not count. I mean, to the degree that they can get rid of that paper, that expands homeownership opportunities.

The CHAIRMAN. The gentlelady's time has expired.

Secretary JACKSON. Congresswoman, that does not expand homeownership, buying mortgages from Washington Mutual.

The CHAIRMAN. The gentleman from Wisconsin, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

Let me join with others in welcoming you, Mr. Secretary, to the committee. We appreciate your time.

Secretary JACKSON. Thank you.

Mr. GREEN. I do not get this opportunity very often, Mr. Secretary, so if you will indulge me, I want to ask you a couple of very specific questions that hopefully you can answer or perhaps have someone get back to me with.

Mr. Secretary, your office I think is aware that in Janesville, Wisconsin, which is in Congressman Ryan's congressional district, the city council recently passed a resolution to provide the Salvation Army with federal funds in order to purchase an apartment building to use for transitional housing for the homeless. It has since been reported, unfortunately, that an amendment was added by the city council which forbids any and all religious activity conducted by the Salvation Army personnel related to this project. As far as I know, there is nothing in federal regulations that would preclude a faith-based organization from using federal dollars for this type of project as long as any voluntary religious activities are not paid for with the federal funds.

I do know that my colleague, Congressman Ryan, has been in touch with folks in your office, and we are aware, both of us, that you are crafting a response for the city. My question is, I am wondering what the response might be. Do you know if your office has been able to provide that yet?

Secretary JACKSON. We have not sent the response back, Congressman, but I can answer it this way. Your interpretation of the regulation is absolutely clear. We will make that clear to the city that as long as the prohibition is not to be able to push any specific or one religion, but as long as it is providing a service to persons within that respective community, yes, it qualifies under our proposals and grants.

Mr. GREEN. Great. I appreciate that. Obviously, the sooner we can get a formal written opinion, the better off. I agree with your view, and obviously neither Congressman Ryan or myself want to see this great project sidelined.

Secondly, as your office also knows and you have stated on a number of occasions, the FHA Title I insurance program is in need of reform. The program is very important to the manufactured housing industry. I am concerned with some developments that have recently been brought to my attention. I am aware that HUD has contracted with Frontline Systems to prepare a report on ways to reform the FHA title I program. I also understand that Frontline submitted its report to HUD almost a year ago. As you may know, the manufactured housing industry has made a number of requests to try to see this report. Apparently, so far all those requests have been denied.

I am anxious that this important information is not being shared with the very folks who want to find ways to reform the system and to stop the loss of lenders, which obviously is a concern for all of us. This report has apparently now been sitting in an in-box for almost a year, and there are lending shortages that are going on in the manufactured home market that I think are hurting the low-income borrowers that obviously all of us want to serve. Can you give us some idea when this report might be made public?

Secretary JACKSON. Congressman and Mr. Chairman, if it is okay, may I have Dr. Weicher, who is the Assistant Secretary of Housing, answer this for me?

Mr. WEICHER. Thank you, Mr. Secretary. I am John Weicher, Assistant Secretary for Housing and FHA Commissioner and responsible for the Title I program. We have been reviewing the report. It made a number of recommendations on both the manufactured housing program and the home improvement program. They are both part of Title I. We have made a commitment to provide that, to make that report public within the next 2 to 3 weeks. We have had conversations with folks on the Senate side about this, and it will be out shortly.

Mr. GREEN. Great. I appreciate that. That is very helpful indeed.

Next, I would like to talk briefly about the section 811 tenant-based funds. Mr. Secretary, as you know, several months ago a group of us on this committee wrote to you regarding HUD's implementation of the section 811 mainstream tenant-based rental assistance program. In the letter, we raised a number of issues related to the absence of any programmatic guidelines to housing agencies and nonprofit grantees that receive these funds.

In response to the letter, HUD has indicated that it has no plans to issue any guidance to these agencies. I wanted to hear from you your reasoning as to that, and I was hoping that you would reconsider. I think these guidelines are extremely important to grantees and others who are involved in the section 811 mainstream tenant-based program.

Secretary JACKSON. I wanted to make sure that I was correct. I am sorry, Congressman. Since we provide those funds to public housing agencies, and they utilize them under their guidelines that they have set up. That is basically the way that we have done basically with the section 8 program.

Mr. GREEN. Okay. Mr. Chairman, if I may have a chance to submit further questions for the record.

The CHAIRMAN. Without objection.

Mr. GREEN. Thank you, Mr. Secretary.

Secretary JACKSON. Thank you so much, Congressman.

The CHAIRMAN. The gentleman from Vermont, Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman.

Secretary Jackson, thank you very much for being with us this morning.

Secretary JACKSON. Thank you.

Mr. SANDERS. I must start off by saying that I regard it as slightly disingenuous for anybody here to be suggesting in any way that this Administration is serious in trying to deal with what amounts to a major crisis in this country in terms of affordable housing, a crisis that every American and certainly the Bush Administration should be ashamed of. More than 14 million Americans are paying over 50 percent of their limited incomes in housing; 3.5 million people in this country will experience homelessness this year, including 1.3 million children and 500,000 veterans. And people are suggesting that we are serious about addressing the housing crisis?

We have a "war" budget, but we have hundreds of billions of dollars for tax breaks for millionaires and billionaires while children sleep out on the street and people with a straight face tell us that we are addressing the housing crisis.

The National Millennium Commission, which was chaired by a former Republican Member of Congress, Susan Molinari, suggested that we needed to build 150,000 affordable housing units every year. Last year, I asked Secretary Martinez, who was sitting where you are, how many affordable housing units HUD was going to build. He said 5,000. We need 150,000, and we are building 5,000. Briefly, Mr. Secretary, how many affordable housing units are you going to build this year?

Secretary JACKSON. Let me say this to you, and I will answer your question.

Mr. SANDERS. I am asking you the question.

Secretary JACKSON. Okay. I said I would answer your question.

Mr. SANDERS. Okay.

Secretary JACKSON. If you will help us pass the single-family housing tax affordable credit, we can build a lot of houses. With that, I want you to understand that the greatest barrier to affordable housing in this country is not the federal government. It is state regulatory barriers.

Mr. SANDERS. I have heard that speech 100 times.

Secretary JACKSON. Whether you want to hear it or not, I am just telling you.

Mr. SANDERS. I have heard it. We have all heard it.

Thank you. My time, sir.

Now, if you want to build affordable housing, you could support the legislation that I have introduced which has 212 bipartisan cosponsors; which would build 150,000 units of housing every year, that is the National Affordable Housing Trust Fund.

Let me go to another area, which has, by the way, support of 5,000 organizations throughout this country. Yesterday, Mr. Secretary, public housing authorities throughout my State of Vermont contacted my office to express their outrage by a HUD notice announcing the following cuts in section 8 administrative expenses retroactive to January 1 of this year. We are a small state, not California; this is Vermont; a $262,000 cut representing 14.4 percent of the section 8 administrative budget for the Vermont State Housing Authority; $180,000 cut for the Burlington Housing Authority, 19 percent of their budget; 17 percent for Winooski, 13 percent for Montpelier; et cetera.

How are agencies supposed to administer programs when they are experiencing draconic administrative cuts?

Secretary JACKSON. I would say this, Congressman. We are administering the pro-rata share of the money based on what Congress has told us to do. I think that clearly your housing authority will benefit in Vermont like all of the others. I think I said that in the beginning of this hearing.

Mr. SANDERS. You said about the voucher program.

Secretary JACKSON. Right.

Mr. SANDERS. I understand that. You did not say about the administrative. What I am telling you is that the housing authorities in Vermont have told us there are going to be cuts by between 15 and 20 percent.

Secretary JACKSON. Okay.

Mr. SANDERS. This is not what Congress mandated.

Secretary JACKSON. We are distributing the money on a pro-rata basis that Congress mandated.

Mr. SANDERS. That is not my understanding.

Secretary JACKSON. Well, that is a fact.

Mr. SANDERS. Can you justify to this committee how people are supposed to do their jobs when they are getting up to a 19 percent cut in administrative allowances?

Secretary JACKSON. I can tell you that is the money that we have been allocated to pro-rata and that is what we are doing, Congressman.

Mr. FRANK. Would the gentleman yield?

Mr. SANDERS. Yes, I would.

Mr. FRANK. The gentleman is correct. What the Secretary talked about was the voucher funding and the reserves, but not administrative funding. So what the Secretary said earlier does not respond to the gentleman's question.

Mr. SANDERS. You did not answer my question, sir. Are you telling us you are concerned about affordable housing and you are cutting housing authority administrative capabilities by up to 19 percent? I assume this is national. I am sure it is not just Vermont.

Secretary JACKSON. What I am saying to you is that we are pro-rata-ing the money on the basis for the administrative fees that have been allocated by Congress, and your housing authority will receive their monies, too.

Mr. SANDERS. Can you give the members of this committee any assurances that you are going to look at that issue and you are going to try to rectify what is potentially a disastrous situation?

Secretary JACKSON. Congressman, you have my word. I will be happy to look at it. We are going to make every effort.

The CHAIRMAN. The gentleman's time has expired.

Mr. SANDERS. Can I give you a call and you and I will chat about this?

Secretary JACKSON. You may, sir.

Mr. SANDERS. Okay. Thank you very much.

The CHAIRMAN. The gentleman from Connecticut, Mr. Shays.

Mr. SHAYS. Thank you, Mr. Chairman. I am happy to swap my time with my Chairman of the Capital Markets Subcommittee.

Mr. BAKER. I thank the gentleman for his courtesy.

Mr. Secretary, I think you are doing an outstanding job. I regret the treatment you have received to date in this committee this morning because of your aggressive leadership in making changes that really count.

Let me speak first to the GSE issue very quickly. GSEs are underperforming the market and the way to get to this number is to go look at what loans are held in portfolio. Those people who are low-income with lack of resources would be those people who would have low amounts of downpayment. They would be 95 percent to 100 percent of LTV ratios. When you look at the GSEs's annual reports, which I have done, you find that less than 5 percent in Fannie and less than 4 percent in Freddie are typified by those types of loans. When you go to a commercial bank, it averages 11 to 13 percent nationally.

Now, I am going to write the letter you asked for somebody to write, to make full disclosure of how HUD views now the conformity with those low-income housing goals which you stipulated you do not have the authority to release without a congressional request, because I think it is important for this committee to have the facts, whether they want to understand them or read them or not.

Now, some will say the GSEs do not have the authority to initiate or originate loans. That is in fact the case, but they have the black box by which they determine who is approved or required to move into the secondary market, and you have to hit a certain score. The reason why those banks have 13 percent of those low-income loans in portfolios is because the GSEs will not buy them.

So if they were innovative in leading the market instead of worried about double-digit rates of return for their shareholders and paying their executives, the top 20 which I happen to know make in excess of $1 million in salaries and benefits, we could help low-income people in this country by making a meaningful departure and taking the subsidy, which is valued by many at multi-billions of dollars for multi-years, including Alan Greenspan, the President, the OCC, the FDIC, anybody who has a "C" after their name who is a financial regulator. They will tell you that this deal is running sideways.

We are taking taxpayer guarantee, implicit-explicit, it does not matter. You talk about removing the line of credit, markets go crazy. Gary Gensler in the Clinton Administration sat where you sat and said we ought to repeal line of credit. In that day, the stock price went down. Did it affect the interest rates on homeownership? Absolutely not. Did it hit the executives in their pocket? Absolutely. Why are they squealing? Because they are worried about losing their profit, not about helping poor people get housing.

I have simply just had it. This argument is about not protecting market share. It is about protecting the way a corporate entity operates that makes profit at taxpayer guarantee. There is nobody that can convince a rational person that the explicit guarantee, the implicit guarantee, the sideways guarantee, does not in fact result in that enterprise making huge profit. If they were ever to lose money, is there a doubt by anyone on this committee that the taxpayer would be called on to pay off that?

Let me jump one quick second. You are doing some innovative things. You have taken a look at a project down at Carville, Louisiana which provides resources between Job Corps, the National Guard and helping kids 16 to 18 years of age on the streets who otherwise would not get educational opportunity, by giving them a GED course in 5 months, giving them job training; 90 percent graduate or are fully employed.

It is a remarkable program, and I am asking, with the time I have left, on page 12 of your testimony which I have read thoroughly and I really appreciate. I think it is outstanding testimony. The department will provide $55 million in funds to support the resident opportunity and self-sufficiency program for residents of public and Indian housing. The main purpose of these funds is to provide a link between residents and services that can help them achieve self-sufficiency.

We care about people. We do not want to house them in public housing and leave them there without the tools necessary to succeed in life. That $55 million is going to give people job skills. What I hope you will be able to take a look at that program, the youth challenge program down in Carville, Louisiana, and replicate that wherever you think advisable.

I want to yield back my time to Mr. Shays for whatever use he might care to make of it.

[Laughter.]

Secretary JACKSON. Congressman Shays, may I say I have had a chance to view the program and it is a phenomenal program. He is taking persons who had no perspective of what was going to happen to their lives and made them productive citizens. I would hope that that would be replicated around this country in every congressional district in this country. I think it is a very excellent program, especially where you have a high concentration of African Americans and Hispanics, the low-and moderate-income person.

If you will notice, I never use the term "poor" because "poor" is a State of mind, not a condition. That is what it is. I have a lot of wealthy friends who are poor. So I always say low-and moderate-income people because I think we should think about making them as middle-class as we can. I think that the program that the Congressman is talking about is one of those programs that is productive.

Mr. SHAYS. Thank you. With the 15 seconds I have left, I just want to say that I wish that the other side of the aisle had let you respond to the questions they asked, because they are important questions. They ask you the questions, and then they do not allow you the chance to respond. I just wish you had that opportunity.

I will look forward to questioning you in my round.

Secretary JACKSON. Thank you.

The CHAIRMAN. The gentleman's time has expired.

Mr. FRANK. Mr. Chairman, can I just ask unanimous consent that the pace at which Mr. Baker spoke be established as the norm for the committee. I would feel a lot more comfortable.

[Laughter.]

The CHAIRMAN. Without objection.

Mr. BAKER. Mr. Chairman, I have a further request. The pace of speaking is one thing. The pace of understanding is entirely something else.

[Laughter.]

Mr. FRANK. There are limits to what you can accomplish by unanimous consent.

[Laughter.]

The CHAIRMAN. I think we have proven that time and again.

The gentlelady from New York, Ms. Maloney.

Mrs. MALONEY. Thank you. Welcome, Mr. Secretary.

I would like to be associated with the comments of Ranking Member Frank on the overall section 8 program, the GSEs and other factors. But I would like to question you primarily on what this new formula, the devastating effect that it is having in New York City. I would say that every housing authority across the country, like New York City, is up in arms and their challenges are probably very similar to New York City's.

Under this new formula, New York City alone will lose $55 million out of their current budget for section 8. There are over 141,000 people on the waiting list for section 8, and 83 percent of them have incomes less than $16,000 a year. They are no longer able to distribute vouchers available through attrition, and it has truly caused chaos in the tenants lives. I would say it has caused chaos in the private sector, those people that are willing to finance and work with the city and State and federal governments for affordable housing. They are now wanting to run away from their commitments.

It has undermined the confidence in section 8 and one of its goals to de-concentrate the poor, but not only section 8. I am getting phone calls on section 202 saying, I no longer want to go forward with my 202 program that may be treated like the section 8 program, not funded and totally changed. This is a very, very serious problem. I agree with my colleagues who say you need a city, State and federal effort to build affordable housing.

You came forward with two proposals today to try to be helpful, but in all due respect it appears to be more of spinning a problem than fixing a problem. In New York City, the annual adjustment factor which you mentioned, they were already counting on that. It seems that that was what they were supposed to get anyway. The only concession to the PHAs was basically nothing more than giving them their full year's inflation factor, their annual adjustment factor, throughout the year instead of making it at a graduated rate leading up to the total AAF. So they tell me that that does not help them at all with the $55 million gap.

Then the second item that you mentioned, Secretary Jackson, that you would free up more of the 2003 central reserve funds to be used to reimburse the public housing authorities that had their own program reserves depleted in 2003. Well, that is New York City and probably many more public housing authorities across the country. But this money was always supposed to be replenished from the city's own depleted reserves. So New York City's public housing authority, your two new programs do not help them at all with the $55 million gap that they are facing. I understand from press report that there are eviction notices going out across the country because of this new formula change.

So my question to you is, what are you going to do for the poor families in public housing in New York City and in other places across the country to make up this tremendous cut in the budget this year that is harmful? Then the next question is, what in the world are you going to do next year? Are you going to cut even more?

In all due respect, your answer that the problem with building affordable housing is problematic regulation, we need affordable housing, we need the federal government. We need the continuation of one of the most successful programs for the poor this country ever developed, from President Nixon to the present. Every specialist will tell you it has been the most successful program for the poor.

So this is a devastating change. But my question, your two points will not help New York City's crisis at this point. I predict it will not help other cities in the same position.

Secretary JACKSON. First of all, I appreciate your Statement, but I can tell you that there will not be an alarming number of cities who are facing the crisis that you just said. Secondly, it is important that we will address the issue in New York City and we have begun to address the issues in New York City. I think that we will reach conclusion on those. But I think it is important to understand how you say we are devastating the program. Until 1999, the program was budget-based. You got a budget. You did not get units. When I ran housing authorities, there was no unit-based authority. That was after 1998.

So I got a pile of money and the money simply said that you have to allocate your units based on whatever we give you. We changed that and we have had an exponential growth in the program since then. The question is, the program cannot keep going at the rate that it is going. It is about 53 percent of our budget today. If we continue to go to program, then I would be facing you tomorrow with you saying to me, what are we going to do about the homeless programs; what are we going to do about HOME; what are we going to do about the CDB grants.

The CHAIRMAN. The gentlelady's time has expired.

The gentleman from New Jersey, Mr. Garrett.

Mr. GARRETT. Greetings.

Secretary JACKSON. Thank you.,

Mr. GARRETT. Just a couple of questions on some of the testimony that you have already given, some along the line from both sides of the aisle. It is my understanding that with regard to the rules that you have promulgated with regard to GSEs, that because of the existing housing goals, there is already in certain areas, not in every area of course, an over-capacity of multi-family rental units that are currently left vacant. It is suggested that these high vacancy rates are basically an example of whenever the government becomes involved in trying to allocate scarce resources from one location to another, that you are going to have inefficiencies in the system that is better left to the marketplace to derive.

So wouldn't it be better than to exacerbate this problem by placing additional burden on the system by stepping back?

Secretary JACKSON. No, because Congressman, if we do not ask the GSEs to adhere to their missions, it is clear from the past that they will not adhere to those missions. We believe clearly what we are asking them to do is to, under the congressional mandate, be the leader in providing low-and moderate-income affordable units under the mandate. We are not asking them to do anything differently. It was said a few minutes ago that, well, they buy portfolios. Well, those portfolios that they bought are already in use. They have not expanded the base. We are asking them to address the issues the congresswoman just said, the congresswoman from New York, to provide more affordable housing. The only way we can do that is say that we are not going to continually give you points for something that is artificial and not realistic, but we want you to lead the market.

They come back and say, well, this is going to put us in jeopardy. I do not see how it is going to put them in jeopardy. We are not talking about the high end of their market that they do the secondary writing. We do not really care. We are just saying, address the charter mandate, and if you do that we will work with you. I do not think we are stifling. I am with you. I do not think we should stifle the enterprise market, but I think we should make them carry out their mandate.

Mr. GARRETT. Let me go to the other end of the line then. One of your opening comments, which drew some response, was the implicit government guarantee. Earlier on in hearings that we had last year, I guess it was, was discussion with regard to the line of credit, which I guess I am always told as a freshmen here, is just a small line of credit and one of the expressions they use, it is only a day's impact of revenue as far as the GSEs are concerned. So one of the questions in earlier hearings at the time was, if it is such a de minimus amount, why does that line of credit still exist? If you remove that, would that obviate the whole question that seems to go back on the other side of the aisle as far as whether there is or is not an implicit line of credit there?

Secretary JACKSON. I would think you would have the two chairmen of the GSEs. I do not think I am at liberty to really discuss that.

Mr. GARRETT. I will do what the other side said, do you have an opinion on it?

Secretary JACKSON. I think they should answer that question, Congressman, not me.

Mr. GARRETT. Does he have an opinion on it?

[Laughter.]

Secretary JACKSON. No.

Mr. GARRETT. Okay.

Secretary JACKSON. I did not want to say it, but I think it is a good point to say it, as Dr. Weicher just said, as I told the congressmen here in my talking initially when I came in here with the GSEs, initially what was said to me about the implicit, but the market also believes that there is an implicit guarantee. I think you have heard it a number of times in the last 5 or 6 months in different papers. Whether there is or not, I think the people to answer that would be the GSEs.

Mr. GARRETT. Okay. Let me go down a totally different road on this. In the discussion of the burden that is placed by the States, not by the Congress, not by the federal governments, as far as the housing restrictions. Some make light of this, but I certainly see it from the realtor community, from the building community back in my home State in New Jersey, and I certainly see it from not only the regulatory side of the equation, but the entire taking side of the equation as well.

That is, we see it in our State right now, the whole taking of private property, taking it off the lists entirely so you just cannot build any housing, whether it is high priced housing or even affordable housing even less, considering where they are trying to do this. Is there anything that either you are able to do or is there any suggestion that you may be able to make to Congress that we are able to do on the federal level vis-a-vis the States as far as this taking issue and also the regulatory side, that we could step up to the plate to make sure that there is land there and less restriction on the costs?

Secretary JACKSON. Before Secretary Martinez left, and I followed, we both agreed that in order for us to be effective in going to States in different locales to insist that they begin to relieve developers of these regulatory barriers, whether they are environmental, permit-wise or otherwise, is that we have to first do it at HUD. We are cleaning up our own process at this point.

If you take, for example, California, the Congresswoman is leaving, before you leave, before you can even bring a house out of the ground, you are looking at somewhere between $105,000 and $115,000 with the regulatory barriers that you face. It is about $96,000 in New Jersey. So if we can break down those barriers with States, then I think we can make inroads.

That is what we are doing with the single family affordable housing tax credit. We are giving those incentives to developers to go into the urban areas to develop and write-down almost 50 percent of what it takes to get that house out of the ground. But even if we do that, we are still going to have to have flexibility from the States, from the cities, and say that we are going to work with you to make sure that we can create affordable housing, as the Congresswoman from New York said.

The CHAIRMAN. The gentleman's time has expired.

Mr. GARRETT. Thank you.

The CHAIRMAN. The gentlelady from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Jackson, in your testimony you stated that "HUD's lead-based paint program is the central element of the President's efforts to eradicate lead-based paint poisoning." You also stated that "Funding for the lead-based paint will increase to $139 million from $136 million requested by the President for fiscal year 2004." When it comes to numbers that are provided by the Administration, they always make me uneasy, because I remember quite fresh the Medicare prescription bill numbers that were provided to us. Isn't it true that the program was funded at $174 million last year, so the President's request is in fact a cut of more than 20 percent, not an increase?

Secretary JACKSON. I am sorry. Yes it was, but Congress added the money to it. You all did.

Ms. VELAZQUEZ. I am sorry?

Secretary JACKSON. You all added the money to it. It was at, I think, $136 million or $136 million.,

Ms. VELAZQUEZ. $136 million.

Secretary JACKSON. Yes, and you all added the extra money, Congress did.

Ms. VELAZQUEZ. But if the President is so concerned about protecting children in our nation, why didn't you request to at least maintain current funding levels for these programs?

Secretary JACKSON. That is because you all added the money because you wanted us to do some demonstration programs and we did.

Ms. VELAZQUEZ. Because of us, so do not come here and tell us that the President's priority is to protect our children, when the President's request is totally inadequate.

Secretary JACKSON. That is from your perspective. I am saying that we think it is quite adequate, and I think it addresses what we are trying to do. I think that the programs around the country, a number of cities and States, have given us great accolades for addressing the lead problem.

I guess that, again, I appreciate your asking that question because probably nobody has had to deal with lead more than I have in two specific areas, both St. Louis and in Washington, D.C. This Administration has funded the lead hazardous program better than any Administration in the years that I ran public housing. That is a fact.

Ms. VELAZQUEZ. Well, you come here and you say that you had a request to increase funding, when in fact it was not. It seems to me that there is a contradiction, sir, in the Administration's demand to hold our schools accountable while retreating on efforts to protect children from lead poisoning, so that they can start school ready to learn.

Secretary JACKSON. I agree with you wholeheartedly, Congresswoman, and I am saying to you that——

Ms. VELAZQUEZ. Okay. Let me ask you another question about the 203(k) scandal in New York, Harlem and Bushwick, one is part of my district, where so many people lost their homes, and now again you are going into the second round of selling those properties. Can you tell me whether the agency is implementing safeguards with these auctions to prevent a repeat of the 203(k) scandals?

Secretary JACKSON. If it is okay, I would like Dr. Weicher to answer it. I know the answer, but I think he can give you more details.

Ms. VELAZQUEZ. Sir, what is your plan to ensure that these families are not victimized one more time? We love to talk about accountability, but you created that mess in New York, so what are the safeguards that you are putting in place to protect those families?

Mr. WEICHER. Ms. Velazquez, let me start by saying that the mess was created in 1998 and 1999 and 2000. We in this Administration have been addressing that and cleaning it up. We have been working with the City of New York, with HPD, in their established programs and with developers that they have worked with who know how to do the job of rehabilitating these properties and who are ethical developers with solid reputations, to make sure that the work is done and done properly.

Ms. VELAZQUEZ. Sir, let me say this to you.

Mr. WEICHER. Yes.

Ms. VELAZQUEZ. I have been writing to you. I have been visiting with these tenants. I have been seeing these properties, and you are not taking care of that situation back in my district. It is a shame that either you or the City of New York, because you cannot just say I am going to give it back to the City of New York, and you just go ahead and do whatever. No one is accountable. I write to you. You do not deal with the issue. I write to HPD in New York. So you are giving these properties to New York with no type of federal regulations or anything. This is going to happen again.

The CHAIRMAN. The gentlelady's time has expired.

The gentlelady from Florida, Ms. Harris.

Ms. HARRIS. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I am pleased to see you here. Thank you for taking the time to be with us today.

Secretary JACKSON. Thank you.

Ms. HARRIS. As you know, I was honored to sponsor the American Dream Downpayment Act last year that the President has signed. As I travel the country, people are so anxious to begin the opportunity of homeownership, including where I pick up my drycleaning every single week on Capitol Hill. They say, when can we start?

I understand you are in the process of crafting the regulations, but can you give us an update as to when you expect that people can begin this opportunity?

Secretary JACKSON. We have allocated the money to a number of cities. We hope that they will begin to disburse the money immediately.

Ms. HARRIS. In the American Dream Downpayment Act, we also reauthorized HOPE VI with more accountable standards and allowing authorized Main Street programs throughout the country to be able to access some of those funds for affordable housing so our first responders can live in these small communities near where they work. I was disappointed to see that those funds were not allocated in the President's budget. Hopefully, we will address that.

A second quick question, we are working in obviously a tight fiscal environment, much accountability, many efficiencies. I am a member in the freshman class, a co-founder of the Washington Wastewatchers Club. There was at one point $7 billion that was identified by the HUD inspector general that was not used for its intended purposes. What types of programs do you have in place or are you planning to have in place to fight the waste, fraud and abuse which is at taxpayers's expense?

Secretary JACKSON. I think that is a very honest question. I must say that the Inspector General at HUD has been absolutely phenomenal. We have not always agreed, but he has kept HUD ethically true to the mission. Where there have been problems, he has brought them to us and we have worked with him. In the end, we might not have agreed from the HUD perspective, but he had to make a report. I can tell you that Ken Donohue, who is the Inspector General, has been absolutely excellent. We have not had any serious problems at HUD the last 3 years.

We have tried to clear up those problems that we have had each time we found them. It does not mean that some of the problems we have had in the field or region have not been, I do not want to say not serious, that is not the question. We have had problems, but we have addressed them very quickly and worked with the inspector general to clear them up. So please excuse me for saying "not serious." I think that anytime we have fraud, waste and abuse, it is serious, but we have worked with him.

Ms. HARRIS. Now to my real question, I want to turn you attention to HUD's new proposed affordable housing goals for the GSEs, the 57 percent of the loan purchases that are going to be made to borrowers that are below the area median income. I have a strong record of desperately caring about affordable housing, but I am concerned that these goals may put the GSEs's portfolio at risk. On the one hand we are constantly talking about the concerns that we have for the safety and soundness of these GSEs, and on the other hand I am concerned that we may be setting these goals unrealistically high.

Secondly, if the targets and assumptions for these targets that are established are not correct, would the GSEs be forced to voluntarily lower their conforming loan purchase limits in order to assure that they hit those targets? Because if that were the case, I think it would be devastating in arenas such as Florida, New York and California where the costs are much higher.

Secretary JACKSON. I think that is a very legitimate question. But let me say this to you, Congresswoman, I think asking them to address their mandate to serve low-and moderate-income people is less risky than investing in derivatives. I really do.

Secondly, it is amazing to me that when you ask them to meet their mandate, they would say that it is going to affect their ability to carry out their mission or lower their abilities to make loans. That is their chartered mission, to address the needs of low-and moderate-income people in America. I would love to meet that mandate if I were doing as well as some of their top executives are doing. I would love to address the needs of low-and moderate-income people.

Ms. HARRIS. You are not concerned that it is going to put their portfolios at risk at 57 percent?

Secretary JACKSON. No, I do not. I can tell you honestly, if I thought that, I would not do it. I do not want to jeopardize any one of the two GSEs, because I think they serve a very vital purpose for this country. I also think that it is their responsibility to address the needs. As I said before you came in, they keep talking about what they cannot do. They report to us quarterly.

If we are wrong when we are saying they are not leading the market that they should be leading, all I would ask the two GSEs is give us permission to provide you with the data that they provide us. If they give us permission, then you will see they are not coming close to addressing the needs of low-and moderate-income people in this country. All we are saying is to do it.

The CHAIRMAN. The gentlelady's time has expired.

Ms. HARRIS. Thank you.

The CHAIRMAN. The old right-hander from North Carolina.

Mr. WATT. I assume that is me, Mr. Chairman.

[Laughter.]

The whole right-hander. I think that is the wrong characterization. Do not take that from my time.

[Laughter.]

Welcome, Mr. Secretary and thank you for being here today.

Secretary JACKSON. Thank you.

Mr. WATT. Mr. Chairman, may I start by asking unanimous consent to submit for the record a report prepared by the Urban Institute and the Brookings Institution entitled A Decade of HOPE VI Research Findings and Policy Challenges.

[The following information can be found on page 106 in the appendix.]

The CHAIRMAN. Without objection.

Mr. WATT. I get a lot of questions about the whole budget, but I have spent a lot of time focusing on this HOPE VI issue. I would like to focus my questions solely on that issue.

Back in 1989 or 1990, something called the National Commission on Severely Distressed Public Housing did an assessment of public housing to identify severely distressed public housing units. It indicated that there were 86,000 severely distressed public housing units.

This report that I have just submitted for the record indicates that approximately 19,000 public and market-rate housing units have been generated under the HOPE VI program in the last 10 years. Giving the benefit of the doubt, let's round that to 20,000 units. What happened to the other 66,000 severely distressed housing units that were identified?

Secretary JACKSON. Let me say this, because——

Mr. WATT. I don't want you to say. I just want you to answer my question, Mr. Jackson.

Secretary JACKSON. I think I should clarify.

Mr. WATT. I have a series of questions. I would like for you to answer the questions. I have heard you give speeches. I love to hear you speak. Today, I want you to answer my questions.

Secretary JACKSON. First of all, there are not 66,000. There are about 126,000 that are unbuilt today.

Mr. WATT. Okay.

Secretary JACKSON. What has happened to this is that we have allocated the money to the housing authorities and the housing authorities have spent most of the administrative fees, but not spent on building the units. Secondly, what is important here is this, that there have only been 26 successful HOPE VI developments out of——

Mr. WATT. Is your answer that instead of 86,000 today, after 10 years there are one-hundred-and-some thousand severely distressed housing units?

Secretary JACKSON. That is what we funded.

Mr. WATT. Okay. All right. The question is, how many severely distressed housing units do we have today?

Secretary JACKSON. That is very difficult to answer.

Mr. WATT. But the Administration apparently has concluded that the mission of HOPE VI has been met, I mean, I am quoting the President, and the gentleman behind you there, the last time he testified, told me that the mission of HOPE VI has been accomplished. I thought that mission was to replace those 86,000 starting off, and any that were added subsequently.

Secretary JACKSON. The mission has been accomplished.

Mr. WATT. Okay. So you are saying there are no severely distressed public housing units in the country?

Secretary JACKSON. Not according to the initial 86,000. We are well above that. Congressman, I think you have to understand you are talking to the person who wrote the legislation.

Mr. WATT. I do not care who I am talking to, Mr. Jackson. I just want you to answer my question. I did not come here to hear you give me a speech. I am trying to find out how many severely distressed public housing units you have.

Secretary JACKSON. There were 86,000 in 1989.

Mr. WATT. How many do we have today? That is the question I am asking, Mr. Jackson.

Secretary JACKSON. We funded more than 86,000.

Mr. WATT. I did not ask you how many you funded. I asked you how many severely distressed public housing units do we have in the country today.

Secretary JACKSON. I will tell you, Congressman, we have, according to what the HOPE VI program was set out to be, we have none, if we said back in the study it was only 86,000.

Mr. WATT. So your testimony is that there are no severely distressed housing units left in the country today. Is that what your testimony, Mr. Jackson?

Secretary JACKSON. I am not going to say that to you. I am not going to say that.

Mr. WATT. Then please answer the question. How many severely distressed public housing units do we have in the country?

Secretary JACKSON. You answered the question yourself. You said there were 86,000 and I am telling you, we funded above 86,000.

Mr. NEY. [Presiding.] The time has expired.

The gentleman from Connecticut?

Mr. SHAYS. I am happy to pass a bit to hear my other colleagues ask questions. So I reserve my time.

Mr. WATT. Would the gentleman yield me enough time to get my question answered?

Mr. NEY. Does the gentleman yield?

Mr. SHAYS. No. I am not using my time now. I am reserving my time, so ask another Republican.

Mr. NEY. That is fine, the gentleman does not yield.

Mr. Renzi?

Mr. RENZI. I thank the Chairman.

I want to let you know that Chairman Ney and Ranking Member Waters were kind enough to come out to the Navajo Nation. I appreciate your sending a representative out. I want to talk to you about Native American housing which is severely depressed.

Secretary JACKSON. That is true.

Mr. WATT. Oh, no. None of that exists anymore in this country, apparently.

[Laughter.]

Mr. NEY. Is the gentleman requesting time or saying something?

Mr. WATT. I have been requesting an answer for the last 5 minutes. I just have not gotten it.

Mr. NEY. The gentleman's time has expired.

Mr. FRANK. The gentleman from North Carolina is just severely distressed.

[Laughter.]

Mr. WATT. I am severely distressed, right.

[Laughter.]

You are absolutely right. I am severely distressed because we cannot get an answer. I thought this was a hearing to get the facts about what was going on.

Mr. NEY. All Members of Congress are distressed at this point in time.

The gentleman, Mr. Renzi.

Mr. RENZI. Within section 184 of Title VI we have a situation where we are looking at a rescission of funds as it relates to programs that were supposed to be used extensively by Native Americans. I am sure you are aware of it.

Secretary JACKSON. Yes.

Mr. RENZI. We are coming up on that time where that money is supposed to be going back. What are we doing to make sure we do not lose that money? What are we doing to make sure that we, next time the money is available, that we are fully able to utilize it?

Secretary JACKSON. I will ask Assistant Secretary Liu to help me, but it is clear we put the money back in place, because we realized that we had some serious problems, and I would like to let him speak to it.

Mr. RENZI. Okay. I am not going to cut you off, but I had your answer at my hearing. Go ahead.

Mr. NEY. Please state your name for the record.

Mr. LIU. Assistant Secretary Michael Liu of the Office of Public and Indian Housing.

Mr. RENZI. Go ahead.

Mr. LIU. Congressman, I appreciate the time that we had a few weeks ago in Arizona. We are aggressively working with the Indian tribes to promote the section 184 program. We are having regional workshops and summits to build capacity among the tribes. We are expressing our concern with banks that are not currently——

Mr. RENZI. I got it. I got it. I would appreciate it if you would look at putting as many counselors, opening up offices. I do not care what you have to do, but the idea that we are going to rescind $54 million, okay, that we did not use, there are a lot of conservative fiscal hawks around here who enjoy that on my side, but the reason we are not using it is because we do not have Native Americans who can even use the Internet to get a mortgage.

Let me go into a situation we have over at BIA. I realize it is not under your jurisdiction, but I want you to be made aware of, there is a 113-year backlog at BIA on closing escrows on trust land, not fee simple land, but trust land. So we give sovereignty to the

Native Americans. We then have to do the research to close the title. We have 113 man-year backlog, which means escrows are taking over 2 years. So even if we are Native American and we can qualify for the loan, sir, even if we can get through and get the 184 money, we still have 2 years to close on our home. Okay? I just want to make you aware of it that you have to help and you have to help put pressure on BIA to get this, because it is unacceptable out there.

Ms. Waters said that the conditions are so deplorable in the Navajo Nation that they are as bad as they are in South Africa. Those are her words. We do not have to go and see third world conditions. We can see it right here in America, up on the Navajo.

One of the things I also wanted to ask you real quick before I run out of time is, I think you have been kind enough to reach out and look at the possibility that under title VI, we are now looking at increasingly the guarantee, reducing it to 80 percent coming off that 95 percent guarantee, are you with me on this?

Mr. LIU. Yes.

Mr. RENZI. Okay. What is your position? What is your opinion on the idea of us going back to 95 percent guarantee so that we can have more private investments, better economic development, more jobs and more people owning homes in Indian Country? Are you willing? That is not a big stretch, is it?

Mr. LIU. Yes. Congressman, we think that is certainly an issue that we will review and take back and work on.

Mr. RENZI. If Congress came out and legislatively moved it back to 95 percent, would you oppose it?

Secretary JACKSON. We are going to carry out what Congress says.

Mr. RENZI. Thank you, Mr. Chairman.

Mr. NEY. The gentleman, Mr. Meeks?

Mr. MEEKS. Thank you, Mr. Chairman.

We are working on a HOPE VI project, and I know that they are talking about eliminating some of the money, time is running out, the project is not finished. By the way, how many distressed housing is still currently in the United States of America? Severely distressed?

Secretary JACKSON. I will say this, that the 1989 study from the National Commission on Severely Distressed Housing says that there were 86,000 units.

Mr. MEEKS. In 2004, how many are there?

Secretary JACKSON. I would say that we have funded under the HOPE VI program to date 129,000 units.

Mr. FRANK. Will the gentleman from New York yield?

Mr. MEEKS. I yield.

Mr. FRANK. Let me just point out, Mr. Secretary, that assumes that even if you take that formulation, that no units became severely distressed in the 15 intervening years. Using the 1989 figure as the figure assumes that nothing became severely distressed in the last 15 years. So even on its own terms, it does not make sense.

Secretary JACKSON. Well, we have done 136,000, so obviously there have some that have been distressed. He asked me how many there were. I said clearly, Congressman, there were 86,000 when we began writing the legislation. To date, we have done 136,000.

Of those 136,000, we have only had 25 of those HOPE VI completed.

Mr. MEEKS. Do you know if there are any severely distressed housing in America today? Do you know? Yes or no?

Secretary JACKSON. I am sure there is distressed housing in America today.

Mr. MEEKS. Do you have any idea approximately how many there are?

Secretary JACKSON. I can tell you that there are 136,000. We funded that many.

Mr. MEEKS. There were 136,000.

Secretary JACKSON. There are 136,000, and of that probably——

Mr. MEEKS. So if there are 136,000 today, then the mission has not been completed with reference to HOPE VI, because there continues to be 136,000 severely distressed developments today.

Secretary JACKSON. No. I do think the mission has been completed, and I will tell you why I think it has been completed. I suggested that the program be discontinued and I will stick with that. That is because the program was started to address the need to integrate people both socially and economically into the fiber of this country.

We have had 25 of those completed in the last 12 years. We have over $3.2 billion outstanding after allocating $5 billion. My position is this, some of these cities have had the money 7 years, 8 years in the program. The HOPE VI have not been completed, nor has it been started. I do not think we should continue to fund the program that does not work.

Mr. WATT. Will the gentleman yield?

Does this reflect at all on HUD's oversight of HOPE VI? Or you are just saying HUD does not have anything to do with this, I guess.

Secretary JACKSON. No, I do not think it does because I have run housing authorities. You represent a city where you had probably the most illustrious HOPE VI other than Dallas. You had a person who made it work, and they did not have any impediment. Other cities have not.

Mr. WATT. So the program does not work, then, because other cities did not make it work. That is what you are saying. And HUD did not oversee it to make the other cities make it work. That is what you are saying. So therefore it ought to be discontinued.

Secretary JACKSON. Let me say this to you, I think your analysis is correct.

Mr. MEEKS. Taking back my time. Let me ask another question. Let me go to New York City real quick with the time that I have left. You know, and I guess you told my colleague Carolyn Maloney that you will look into the $55 million shortfall that New York City has. But do you know that, going back to section 8, that right now that the HPD is not issuing any section 8 vouchers anymore?

I have heard the conversation here today, the dialogue about reducing the amount of money that goes into section 8. That means that individuals who are now new people, we have some young people who were in foster homes, who are now turning 18 years old, they are not eligible. They cannot obtain any section 8 housing, any section 8 vouchers because there are none, because of the shortfall in New York. Does HUD have any suggestion what we do with those kinds of individuals, or do we just allow them to be homeless?

Secretary JACKSON. Until 1998 under the QHWRA Act, persons like that took priority. That is not the case today. The law was changed. Everyone has to rise on the list.

Mr. MEEKS. So they should just be homeless.

Secretary JACKSON. You asked the question. I am saying, since 1998, you are asking us if we can do something about it, that is something that Congress has to do something about. If you want to change it.

Mr. MEEKS. So that is not part of HUD's mission at all.

Secretary JACKSON. Our mission is to implement any program as you say so.

Mr. MEEKS. Let me ask another quick question. You talk about homeownership, and I believe in home ownership——

Mr. NEY. The time has expired.

The gentleman, Mr. Miller of California.

Mr. MILLER. Thank you, Mr. Chairman.

Welcome, Mr. Jackson. It is good to have you here today.

Secretary JACKSON. Thank you very much.

Mr. MILLER. I have enjoyed working with HUD over the years. RESPA is a huge issue for me. I have been in the development industry for over 30 years, and I will agree with you that the largest impediment to housing in this nation is state and local regulatory barriers. If you add ESA to that, I will agree 100 percent with you.

You started your talk today off with your goal is to make sure HUD meets their housing mandate. A lot of what we have said today would be applicable, because HUD is responsible for trying to build housing out there. But GSEs, Fannie Mae particularly, their goal is not to build houses. They do not build houses.

Secretary JACKSON. That is correct.

Mr. MILLER. They provide funding in the marketplace. In that area, they are restricted on how much they can loan. We call them conforming loan limits. As a matter of fact, I think conforming loan limits need to be raised in high-cost areas. I would really ask you to revisit this 57 percent mandate because what we are effectively doing is saying in a marketplace such as California, if you take a 57 percent mandate, of those loans that are made 57 percent have to be below the median, that means last year, for example, 49 percent of the loans made in California could not have been made. I want to speak positively about this, because this is very serious in California. The current median home price in California is $428,000.

Secretary JACKSON. That is correct.

Mr. MILLER. Based on that 57 percent mandate, last year the loan limits would have been nothing above $195,000. So what we are doing, instead of trying to provide housing in this nation, we are dealing with rationing the amount of funds available to the marketplace. That really, really bothers me because I think it creates a shortage of competition, because Fannie is going to apply this based on the mandate placed upon them, and that is 57 percent, when in areas like Barney Frank represents, Maxine Waters, Barbara Lee's and mine in California, we are going to wipe people out of the marketplace.

If we want to provide affordable housing, that is HUD's oversight, but to take and limit the amount of money and basically calling it credit allocation does not make sense. If we had a limited pool of funds here that Fannie was dealing with in a year, and they were having to take and reject borrowers because they did not have the money. So we are trying to make sure that more low-income people, medium-income people receive the funds available through a GSE, if there were a limited pool of money, it would make a tremendous amount of sense to do what you are trying to do.

But there is no shortage of funds out there. Fannie is able to make every loan requested upon them each year. So if that is the fact and it has been proven to be, why in the world would we go to Fannie and say, we want you to basically restrict the amount of loans you make because we are going to require an allocation of 57 percent to be below the median?

If you were talking today about HUD meeting their housing goals, and there is an affordability crisis in this nation beyond belief. You have section 8 and then between section 8 and what is available is a huge, huge difference in price. We are unable to fill this price range of homes because of what you said about state and local regulatory barriers and restrictions placed upon property owners. But for us to go into this 57 percent requirement on GSEs, it just seems like it is going to have a drastic impact on the market out there. If I am incorrect, please explain to me how it is incorrect.

Secretary JACKSON. Sure. Congressman, what I would like to do, because I think to give you a greater analysis of this would entail taking some time.

Mr. MILLER. I will take the time privately with you.

Secretary JACKSON. Okay. I will be happy to do that, because let me say this. The interpretation which you have given is not our interpretation. We are saying that we are not concerned with Fannie Mae or Freddie Mac, the high-end of the market. We are saying that that end of the market that you serve, we expect you to serve according to the three sub-categories that we have given. I would like to just sit down with you and go through it. I think that we can make it very clear to you.

Mr. MILLER. I think I understand what you are saying, but the problem is you are dealing with an allocation and a restriction of funding within the marketplace when there is no shortage of funds. If there were a shortage of dollars and we are trying to force money into a given sector of the marketplace, then I would say okay, let's look at a formula. But when there is no shortage of money, to falsely create a percentage out there that has to be complied with by the lenders to force money into an area that there is no shortage of money in, means you are going to take money and restrict it in another area. You cannot meet 57 percent, and yet provide for those in the other area.

Mr. NEY. The time of the gentleman has expired.

Mr. MILLER. I would love to talk to you privately.

Secretary JACKSON. I think we can. Thanks.

Mr. NEY. The time has expired.

The gentlelady from California, Ms. Lee.

Ms. LEE. Thank you, Mr. Chairman.

First, Mr. Secretary, let me just say quite frankly I am very amazed at some of the callous nature of your responses. When I was out of the room, and I just want to clarify that you said or did not say that being poor was not a condition, but a State of mind. Is that an accurate statement that you made, first of all, as the Secretary of HUD who is responsible for providing a safety net for the poor?

Secretary JACKSON. I do. I think "poor" is really a State of mind, not a condition, because if that was the case, I would not be sitting here.

Ms. LEE. Yes, oh boy. Mr. Secretary, do you know there are over 3.5 million people who will experience homelessness. I guess that is the reason that you guys are cutting the homeless budget, the McKinney-Vento budget. I know there is $50 million in this new Good Samaritan initiative and it is something you are going to respond to, but that still does not get us to the $128 million that we need every year to end chronic homelessness. I assume that is why you seem to be just dismantling programs for the homeless.

Secretary JACKSON. We are not dismantling programs.

Ms. LEE. Well, cutting programs for the homeless.

Secretary JACKSON. We have not cut. We have level-funded all of the programs.

Ms. LEE. But don't you know that that is a cut?

Secretary JACKSON. No.

Ms. LEE. Mr. Secretary, okay, you know, the second point. In California, 12 percent of the black population is unemployed; 7.9 percent of Latino population unemployed. The average income, for instance, in some areas, $38,000 or $39,000 a year; average cost of a house, $400,000 to $450,000. Now, how do your initiatives which you are focusing on in terms of homeownership address these people who are barely surviving and need you?

Secretary JACKSON. I do not think necessarily that, if you are talking about homeless people, it addresses that.

Ms. LEE. I am not talking about homeless. You answered on the homeless issue. I understand it is a State of mind. You clarified that in your budget.

Secretary JACKSON. No, I did not say that about homeless people.

Ms. LEE. I am talking about now the working poor, and African Americans and Latinos in high-income areas where they need HUD, they need a safety net, they need section 8, they need low-income housing assistance, they need Shelter Plus, they need HOPE VI, they need all of the programs that your agency is supposed to be responsible for, and here you see these numbers just in California alone.

Secretary JACKSON. I am glad you asked that question, Congresswoman, because I too agree with you when you are talking about the working class, those who are 60 percent, but above 30 percent of median. I think they should have accessibility to the section 8 certificates and vouchers too, but under the present configuration of the QHWRA rule of 1998, they do not have it. So I am saying that if you agree with me, I think we should move toward the flexible voucher program which will address that issue.

Ms. LEE. I am talking about expanding this. I am talking about not cutting. I am talking about your focus on homeownership. How do you intend for these people to become homeowners when in fact that is what your priorities are? That is what I asked.

Secretary JACKSON. I am saying to you that I do believe that with the flexible voucher program, which we have used in this country, we can move people toward homeownership because they will not be on those vouchers and certificates for a long time.

Ms. LEE. When the average cost of a house is $400,000 to $450,000, how are you going to allow section 8 homeowners to qualify for that kind of a house and handle the note with no subsidies?

Secretary JACKSON. I think your question, again, is valid. I think there are two ways. First of all, I talked about the single-family affordable housing tax credit, which will basically help developers develop in areas like California, New Hampshire, Vermont.

Ms. LEE. You will make the developers do affordable housing?

Secretary JACKSON. Do affordable housing. Second of all, if we can get rid of many of the regulatory barriers that we have, just in your State alone, as I said to the Congresswoman, before a home comes out of the State of California, somewhere between $104,000 and $115,000. If we can cut that in half, yes we can create affordable housing for people to live in. But we have to decide that this is what we want to do, and we have made the decision through the single-family affordable housing tax credit, and pushing States to get rid of the——

Ms. LEE. Then why don't you take $3 billion or $4 billion out of the FHA reserves and do a production program and create some real affordable housing that can be done overnight?

Secretary JACKSON. Because those people who are paying their mortgage every day to FHA, that reserve is to cover them in case we have a catastrophe. I think that is what it should be.

Ms. LEE. Yes, but the reserves are way over $3 billion right now.

Mr. Secretary, final question is, just on the section 8 vouchers, you have been responding to questions about that. I just want to ask you, in my area, the city of Alameda, there are going to be $800,000 or so under just in June based on the formula that you had come up with. I would like some clarification from your department with regard to certain areas, including the city of Alameda. Okay? I have just got to say to you I am very disappointed in your responses today, Mr. Secretary, and I hope that you begin to understand that "poor" really is not a State of mind, but there are some economic conditions that create poverty.

Mr. NEY. The time has expired.

The gentleman from Ohio.

Mr. TIBERI. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here today. Thank you for your call yesterday. Congresswoman Pryce and I want to thank you for your dealing with the Columbus situation.

Secretary JACKSON. Thank you.

Mr. TIBERI. I actually would like you, and I know you are pretty busy, to come out to Columbus because we have a housing authority that has been pretty innovative in dealing with section 8 vouchers. We have a Rebuilding our Lives program with an organization called the Community Shelter Board that has really been a leader in attacking homelessness.

Homelessness is not just about shelter. It is about many other things dealing with services to these folks who are homeless. This program has just been an outstanding national model. We would love to have you to look at not only that, but also some of the innovative things our housing authority is doing with section 8.

A concern I have with the section 8 program, I think you mentioned it; I think Chairman Ney mentioned it; is how the budget of section 8 is expanding so rapidly it is impacting other programs. One of those programs that I have expressed a concern about is the community block grant program. I have the 2000 study in front of me. We had a hearing in Columbus and the mayor and the council and other community leaders in Columbus, Ohio rightfully made an argument that the current formula for community block grant really negatively impacts newer cities. For instance, in your own numbers, the 2000 numbers, Columbus is the largest city in Ohio. The metropolitan area of Columbus is the second largest in Ohio, to Cleveland, but yet Akron, Cincinnati, Cleveland and Dayton all receive more CDBG money than Columbus.

So I would hope that the study that you have undertaken most recently that we have not seen yet, that has not been released yet, takes a look at this hopefully, and hopefully will address the needs of cities like Columbus, growing new cities that are mostly in the south and west, but happen to be in other parts of the country as well, and how your budget is going to impact the growth of CDBG.

Secretary JACKSON. Thank you, Congressman. We are extremely sensitive and well aware of that. We are trying to make sure that we address it in a very equitable and fair manner.

Mr. TIBERI. The only other point, and I will yield back the balance of my time, is I want to thank you. I was a realtor before I came to Congress. I understand homeownership is a dream for many who unfortunately have not gotten there yet. Congressman Scott and I have introduced a bill. I heard the President this morning talk about the keys to homeownership, and certainly support your efforts at HUD to promote the zero downpayment bill. I want to thank you personally.

Secretary JACKSON. Thank you very much.

Mr. TIBERI. I yield back.

Mr. NEY. The gentleman yields back the balance of his time.

I would note there are three votes, 15, 5 and 5 minutes. What we will do is we will take another question. We are going to hold strict to the time. But also, when we come back, only the members that are currently here, they will have the obvious priority to ask their questions. With that, I recognize the gentleman, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Mr. Secretary, thank you for coming today. I want to focus on the section 8 issue that we just passed up. As I understand it, in April HUD notified various state and local agencies across the country that an interpretation of some language would require them to retroactively cut certain parts of the section 8 program. The result of that was widespread, nationwide panic among at least 60,000 to maybe 200,000 people. The result of that was then that everybody was in a hue and cry across the country, all across party lines.

In May, HUD basically said, no, we found the money, which to me indicates the money was never the issue, which is what I thought at the first part, and I do not think HUD ever said the money was the issue, but there was a language issue. I am just curious, what changed between April and May to have HUD change its opinion?

Secretary JACKSON. No, and I think that is a very fair question, Congressman. I do not think anything changed. I think that when we made the announcement according to our reading of the congressional mandate by Congress, we felt that clearly we had the reserves that were there to replenish for those who had asked for a replenishment, but there had not been very many who asked.

Secondly, we felt that everyone who did not over-lease could operate within the guidelines that were set. It was clear that there were a number of agencies that over-leased. One of the first agencies that we heard from was from Los Angeles. We went out and worked with them and got them back basically into compliance.

So the question was not that we did not feel that we could address the needs. It was that we felt that with the mandate that Congress had put forth, that the housing authorities could operate under it. Now, I want to clear it up because I have heard a lot of people say "nationwide." We have almost 2,600 housing authorities around this country. We have a number of housing authorities in major urban areas who are in the process of over-leasing or had vouchers on the street at the time. Clearly, most of those agencies had reserves that could address that need. Where we could, we worked with those agencies.

So we have not in any way stopped working with agencies. We have been working with them from the inception.

Mr. CAPUANO. So in the final analysis, and I appreciate that, there was never any real need to get well over 200,000 families upset at the prospect of being evicted within a couple of months. I will tell you that in Massachusetts, well over 2,000 families, actually more than that because no one knew how it was going to be implemented, went through two months of hell. I will tell you, I appreciate the fact that it has been worked out.

I do not appreciate the fact that it was not worked out before an announcement was made. You drove these people through hell that they were going to lose their house, and it was unnecessary. I think it just simply shows some of the attitude in HUD.

I will tell you that I had a whole series of other questions, but your comment that "poor" is a State of mind, I will tell you, stopped me in my tracks. I find it so offensive, I am almost speechless. I am actually speaking slower than Representative Baker for the first time in history.

Apparently, you do not know anyone, right now, as we speak, within America, who is without a job, without the prospects of a job, facing eviction, not being able to pay their rent, not being able to pay their heat bill, not being able to pay their auto insurance bill, with no prospects of a job because they may or may not be non-white, living in an area with 15 to 20 percent unemployment.

If they are not poor, what is? I understand the definition of "poverty of spirit," and that is a wonderful concept that has some place in our society for a wonderful after dinner discussion. But to not recognize the fact, the indisputable fact that there are real serious honest-to-God poor people in America disgusts me. The fact that you do not recognize maybe that any of them, that somehow simply by changing their concept of mind, they could get out of poverty. That is all it takes. Close your eyes and wish; change your attitude.

To say that is a disregard of the history of mankind. To say that to me in my presence is insulting to the constituents that I represent that are poor. That does not mean they have a poverty of spirit. I do not know where or how you were raised, and I have no doubt that maybe you have had some struggles in your life and your family has, too. And you have risen above that and I appreciate it, but there are many who have not and you have insulted them.

Thank you, Mr. Secretary.

Mr. NEY. The time has expired. Let me just note, we are going to take a recess. The committee will go over and vote, and please come right back. Let me just make it clear who is up on the docket. We have on the majority side, Shays and Royce; on the minority side Israel, Scott, Davis, Carson, Hinojosa and Clay.

The committee is in recess.

[RECESS]

Mr. NEY. The committee will come to order. We will begin again. The order that we have is Mr. Shays, Mr. Israel.

Secretary JACKSON. Mr. Chairman, may I ask a favor of you please?

Mr. NEY. Yes, sir.

Secretary JACKSON. At the end of the hearing, one of the congresspeople was speaking to me. I would like to ask your permission or indulgence if I might be able to really elaborate on exactly what I said, because I do not want what I said to be misinterpreted.

Mr. NEY. Without objection. Yes, Mr. Secretary?

Secretary JACKSON. I think I made a statement earlier when asked by one of the congresspeople my perception. I said that "poor is a State of mind, not a condition." That in no way eliminates my perception that there are people in poverty. I am well aware of that. But I think it goes back to a sense of how I was raised in the sense that as was stated when I was introduced that I am the last of 12 kids. My father had a fifth-grade education.

I wonder if you will understand this. I think it was my ninth-grade year when I had just gone to Catholic school and many of the kids had a lot more than I had, and I came home and asked him why were we poor. Well, today with what he did to me, he would probably be accused of being a child abuser. He informed me that we were not poor. I will never forget what he said. He said that "poor is a State of mind, not a condition." He said as long as there is hope, you can clearly make it in this country.

Lastly, if you notice what I said when I said that, I said that I have a lot of friends who are very wealthy, but poor. I am talking about a mindset, not a person's economic set in this country, because I am well aware that there is poverty in this country and I want to do everything as Secretary of Housing to eradicate that poverty.

Mr. NEY. Thank you for the clarification, Mr. Secretary.

Mr. Israel?

Mr. ISRAEL. Thank you, Mr. Chairman.

Mr. Secretary, welcome. I appreciate your clarification. I am sure you do not really believe that being poor is a State of mind.

I want to share with you the plight of 50 families in my district who may be poor, not because of their State of mind, but because of the State of the bureaucracy at HUD. This is a unique situation in my district. This is not about funding or the lack of funding, and it is not about formulas. It is about 50 people who are about to be thrown out on the street because a bureaucrat at HUD, perhaps not even while you were Secretary, told one of my community development agencies something which turned out not to be true. This is a crisis that needs to be solved.

Let me briefly take you through this. This is my only opportunity to do that. Several years ago, the Community Development Corporation of Long Island was awarded 75 vouchers under the HUD section 811 mainstream tenant-based rental assistance program. Before that agency submitted its budget to HUD for the first year of the program, it became clear that the award figure provided by HUD was insufficient to support a lease-up of the full 75 units. The agency spoke with HUD and HUD indicated to the agency that at the time they could only lease-up 32 units, far below the 75, and the agency resubmitted their budget to HUD, again projecting 32 leased-up units.

When HUD received this agency's budget, a HUD official contacted the Community Development Corporation and indicated both verbally and in writing that a higher authorized amount would be made available to this agency on Long Island, and that the agency should request a budget modification later in the year. HUD later approved that budget, and based upon that assurance the Community Development Corporation of Long Island proceeded to lease-up the full 75-unit allocation. Got me so far?

Now, after that allocation has been leased-up to the 75 units, HUD has said, well, we were wrong and the likelihood of obtaining an allocation for additional funding is bleak. Without sufficient funding to cover these rental costs, 50 households face the specter of homelessness. From my perspective, this situation was caused simply because somebody at HUD gave somebody at the Community Development Corporation of Long Island wrong information, wrong advice, and the victims should no be these 50 families.

So my question to you, Mr. Secretary, is rather simple. How can we work together in a constructive fashion to address this problem and ensure that these 50 families are not thrown out on the street, not because it is their State of mind, not because of funding formulas, not because of a broad national debate on the amount of available funds for section 8, but because of a simple bureaucratic mistake. How can we work together and what specific actions can I expect your office to take to work with me to solve this problem?

Secretary JACKSON. I cannot tell you right now the specific actions, but let me say this to you. I have encountered on a number of occasions where we have committed to something and reneged.

Each time, we have tried to rectify it. I would like to know the specifics and I would ask you to get with Dr. Weicher and to let us know that. We will work through it with you. If it is our fault, then we will do everything in our power to rectify it. And that is a very different situation than we were talking about earlier today.

Mr. ISRAEL. It is different, and Mr. Secretary, I do have a letter that I will give to you to give to your staff, and my staff will be following up within several days. Thank you.

Thank you, Mr. Chairman. I yield back the balance of my time.

Mr. NEY. I thank the gentleman.

Secretary JACKSON. Thank you.

Mr. NEY. Thank you.

The gentleman from California, Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman.

Firstly, I would like to commend our witness today on his good service to this country.

Secretary JACKSON. Thank you, sir.

Mr. ROYCE. I think you have an outstanding background in housing. I think we are very fortunate to have you. I want to commend you also on your testimony and on your presence this morning in the face of Capitol Hill.

Secretary JACKSON. Thank you.

Mr. ROYCE. I hope you do not take my following question as critical of your overall efforts, because you have done an outstanding job.

I do, however, have a few concerns about an initiative HUD is currently proposing. I am concerned that the zero downpayment program may not be an appropriate policy to be enacted by the government per se. I am somewhat sympathetic to the goals of this program, but I am afraid that if we enact this zero down, we may be suffering from what Friedrich Hayek called the fatal conceit, where there is a belief that, in his words, "man is able to shape the world around him according to his wishes."

Hayek and pretty much every other economist would tell us that a command-and-control role for government in the marketplace does not usually bring desired results over the long term. Many have argued for some time that to retain its market share, the FHA resorts to some questionable underwriting practices, and that those practices might put both the homebuyer and the taxpayer at greater risk.

So to look at this new program, here you have a buyer that would be financing in essence more than 100 percent of the value of the home. I am afraid that this program might actually result in many more families being placed into default because some may not be able to afford over 100 percent of the value of their homes.

Alternatively, I understand the FHA believes and predicts that it is going to make $180 million in profits on this program. My question is, Mr. Secretary, is FHA saying it is smarter than the market, which gives me great hesitation, or does the lack of participation from the marketplace in the zero down product suggest that there are more risks to the program than FHA's financial modeling predicts?

Secretary JACKSON. Thank you very much for the question. I do not think we are smarter than the marketplace. I will be the first to say that. But Congressman Royce, I really believe from my experience, and it might be limited, but my experience in Texas when I was running the Dallas Housing Authority, and then had the chance to sit for the Governor on a number of committees, that when a person or family is paying 50 percent or 55 percent or 60 percent of their income for rent, that if we can give them an opportunity to own their homes, even at 40 percent of their budget, it is much better.

So we are not going to change the underwriting guidelines. What we are saying is this, these persons will qualify. I have encountered so many families, especially Hispanic families, that want to own a home, but they do not have the downpayment or the closing costs. Now, I will tell you, the American Dream Downpayment Program which you all passed is excellent. But in my effort to be innovative and creative, we are trying to find other ways to get people into homes.

To me, we are going to strictly scrutinize the persons that are coming in. I do not think our default rate will be any higher than it is in our regular program. If we see it, believe me, I had your same reservations when I was sitting down talking about the program. If it is, and I am the Secretary, I will come back and cut the program immediately. I think it is our responsibility to be very judicious with the taxpayer's money.

Mr. ROYCE. Secretary Jackson, I thank you. I thank you for appearing again here today.

Secretary JACKSON. Thank you.

Mr. NEY. I thank the gentleman.

The gentleman, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman.

Secretary Jackson, I have two phases to my period of questioning.

Secretary JACKSON. Yes, sir.

Mr. SCOTT. The first one concerns legislation that I am working on and this committee is taking very seriously, and we have put forward. The major lead sponsor is Chairman Ney. Of course, Chairman Oxley is working on this and also our Ranking Member, Barney Frank, and also myself. It has to do with financial literacy. In its form in our housing counseling program, we have put forward a very significant measure.

As you know, we are having a serious problem with predatory lending. We have a serious problem with financial abuses. It is all targeted as a part of this program, the cornerstone of which is a 1-800 toll-free number with a live person on the other end. In addition to that, we set up local councils; we set up grants that could be made available to some of the groups, NAACP, AARP, other groups with credibility there.

We would like to get your commitment today to this committee, to myself, that wants this bill passed and signed by the President, that you will implement this; the two-way 800 number in its entirety.

Secretary JACKSON. When it is passed, you can be assured that I will do that, Congressman. We faced this before in another incident at HUD where we had numerous numbers and no one answered the phone. I am totally averse to that. I think that there should be a live person on the other end of the phone when people call.

Let me say this to take it a little further. I cannot reiterate enough my feelings about if we are going to help low-and moderate-income people own homes, that counseling is absolutely imperative that they have, because they have to understand, first of all, what occurs at closing and what to look for, and second of all, how they have to have reserves to make sure that they stay in their homes.

Mr. SCOTT. I am so glad to hear you give that response. I appreciate your commitment. This committee does as well, because that two-way 800 number, to have that person, to get a human being on the other end of that phone is going to go a long way. That is the major infrastructure piece that we have in place.

It also serves to help us have a good measuring device. We will be able to receive input, and therefore be able to design the literacy programs to fit the target group. If we have a way of them initiating the communications to us, we will know that. So I really appreciate that and look forward to working with you.

The other part of my question goes to HOPE VI.

Secretary JACKSON. Yes.

Mr. SCOTT. I represent Georgia, the Atlanta metro area. I think you may know Renee Glover, the director of our Atlanta Housing Authority, a wonderful program, one of the great, great success stories, as you know, in Carver Homes and the Centennial Olympic Village that we have, Eastlake. All of those are great programs.

What we have, though, is we are in the middle of this. I want to lean on you, and I have been very, I do not want to say entertained, but I have been very well informed with this morning's presentation and your interaction with this committee. I want to establish as best we can a partnership. It is very interesting that you made the point that you helped to write this law. As you know, it was founded as a Republican vehicle. It was founded by Jack Kemp out of New York.

Secretary JACKSON. That is correct.

Mr. SCOTT. It is one of the great stories, one of the great successes of the Republican Party in its efforts. Therefore, I am somewhat disappointed that there is any means of canceling this program. I can see adjustments. I can see where there have been some abuses. But why throw out the baby with the bath? In my own state, in Georgia, we would be very dramatically affected because we have programs in process. We have had great success there. I want to impress upon you to review your decision to be against this and do it in the name of your father's advice that you just said he gave to you, just 20 minutes ago, when you gave your Statement to correct an impression that you gave.

You said, "my father told me that as long as there is hope, you can make it in this country." Let us keep HOPE VI alive, in the name of your father.

Secretary JACKSON. Thank you.

Mr. NEY. The time of the gentleman has expired.

Mr. Shays.

Secretary JACKSON. Thank you, Congressman. Thank you very much. I will look at it.

Mr. SCOTT. Thank you.

Mr. SHAYS. Mr. Secretary, welcome.

I have been wrestling with a number of questions that I want to ask you, but HOPE VI was kind of on the top of my list. I have been trying to understand the Administration's opposition to HOPE VI for a number of years, because I find it bizarre. I speak from just the experience. We have a HOPE VI project in Stamford where upper-income, upper-middle-income, middle-income, lower-middle income, lower-income and destitute people live in the same units. When an upper-income person leaves that unit, you do not know who may go in, but it could be someone with no income.

You see young African Americans and Hispanic kids seeing someone get into a nice car, but guess what, they are going to a nice job. They are seeing firemen and policemen. They are seeing what I think is just an extraordinary experience. They are seeing the real world that they were cut out from seeing when they lived in public housing.

Secretary JACKSON. That is true.

Mr. SHAYS. What I am hearing as an argument is that the money has not been spent quickly enough. But when it is spent, it is spent well, is it not?

Secretary JACKSON. Yes. I will tell you, Congressman, that of the 136 projects that we funded, the 25 that have been completed have done very well. I would like to say something in answering your question to Congressman Scott and to Congressman Watt, nine of the successful 25 programs have been done within two cities, Atlanta and Charlotte.

But at the same time, I think it is only fair for me to be candid with you. When we sat down, the five of us, at the request of the Congress and Secretary Jack Kemp, we envisioned this program to work extremely well very quickly. We have not had that.

Mr. SHAYS. I accept that, but what I want to know is, you know, the money is not spent until the projects are under way, so the worst that happens is it is not spent, but when it is spent, it is spent so well. Of all the projects I have ever seen the government do, I am not exaggerating, this is the best. It is the best program. I feel real pride in it. And what was there before? What was there before was public housing that was smelly, dirty, just lots of poor kids. There was drug dealing. And now there is a swimming pool; there is a weight room; there are a lot of neat things.

I just would again, in the name of your father or your mother or your grandmother or your great-grandmother, I would like you to review this. I think this is an awesome program. It is something that I think Jack Kemp and you and others did well. I think for some reason your assumption that it is not being spent has made you think that maybe we do not need it. I just would try to say, well, why isn't it being spent as quickly and what can we do to make it be spent more quickly.

The other thing I just want to touch base with you on is, I have always questioned the logic of eliminating all public housing, which seems to be the direction, because when you have public housing, you know you have locked yourself in to a certain cost. We replaced it with section 8 vouchers in many cases. But it is just logical that the section 8 vouchers are going to cost more each year as the market goes up. It is kind of like why I bought my own home. I bought my own home so I did not have to pay more exorbitant rent. That same logic, it seems to me, applies with public housing.

Don't you have a bit of concern that we have become so reliant on section 8s that ultimately we will not be able to afford them?

Secretary JACKSON. Yes.

Mr. SHAYS. Okay. Thank you, Mr. Chairman.

Mr. NEY. I thank the gentleman.

Mr. Miller?

Mr. MILLER. Thank you, Mr. Chairman.

Good morning, Mr. Secretary. Mr. Secretary, on page 17 or your testimony at the top of the page you devote two paragraphs to predatory lending. I would like to direct your attention to that. First of all, the rules that you talk about there, they apply only to FHA programs. Is that not correct?

Secretary JACKSON. I do not have the testimony.

Mr. MILLER. Can we stop the clock, Mr. Chairman?

Mr. NEY. We have a copy that is coming to you.

Secretary JACKSON. Which page now?

Mr. MILLER. Page 17, the top two paragraphs, predatory lending.

Secretary JACKSON. Yes, thank you.

Mr. MILLER. First of all, the regs that you are talking about just apply to FHA programs. Isn't that right?

Secretary JACKSON. Yes.

Mr. MILLER. They do not apply more broadly to what is going on in the economy or happening to consumers generally.

Second, a definition. There does not appear to be an agreed-upon definition of predatory lending. We have had hearings at which lenders have testified the operating definition of predatory lending appeared to be something bad that I do not do. I would like to get at what your definition of predatory lending is.

These two paragraphs seem to mix up two things. One is selling houses at fraudulently inflated rates based upon fraudulent appraisals, et cetera. And then also borrowing by someone who is, as I think Mr. Weicher testified to in February, a consumer who owns their home, who is house-rich and cash-poor, who is in a home with a lot of equity, but is strapped for cash, and practices that target those consumers. That is what I am talking about. Could you tell us what of the regs that FHA or your department has enacted get at that second situation, the consumer who is in their home and is refinancing?

Secretary JACKSON. I can tell you, if you would like to go into detail, I think you would want a detailed answer for a short period. I will ask Dr. Weicher to do it for you.

Mr. MILLER. Okay.

Mr. WEICHER. Mr. Miller, we have a number of regulations. You are quite right. There is a distinction between the flipping regulations and the regulations addressing lending proper. We have a flipping regulation which we think is very effective.

With respect to the lending regulations, what we have been doing is identifying individual practices of lenders which are damaging to people who are buying homes with FHA-insured mortgages. We have been either prohibiting those practices or we have been establishing rules as to what is exactly permitted.

With respect to situations where people are borrowing more than they should be, what we have is essentially ratio guidelines as to how much of your income can be devoted to your mortgage payment. If your payment-to-income ratio is above our guidelines, then either there has to be a very good reason or we will not insure that mortgage.

Mr. MILLER. How about equity-stripping practices, up-front fees, the financing of up-front fees, single-premium insurance policies, credit insurance, otherwise, are those prohibited by your rules?

Mr. WEICHER. Single-payment premium credit life insurance certainly is prohibited. Excessive up-front fees are either prohibited or they come under the provisions of the HOPE, the homeowners equity protection act. In that situation, at that point, it is in the province of the Federal Reserve as to what is permissible. Those are not FHA loans.

Mr. MILLER. If you know some Federal Reserve regs on this, you know more than I do.

Mr. WEICHER. I am sorry?

Mr. MILLER. I am not aware of any Federal Reserve regs on that point.

Mr. WEICHER. I cannot give you the reference right here, but I can give it to you, Mr. Miller.

Mr. MILLER. Okay. Also, at various places in your testimony in February and the Secretary's testimony, there are various phrases used, predatory lending, abusive lending practices, deceptive and fraudulent practices. Do you use those terms interchangeably or do you mean something different by them?

Secretary JACKSON. They are interchangeable, but also different, because you can have fraudulent transactions that might not necessarily be predatory. But usually when you have predatory transactions, they are fraudulent in many ways.

Mr. MILLER. Okay. Well, particularly the phrase "deceptive and fraudulent practices," I cannot help but notice how close that is to the phrase "unfair and deceptive trade practices" in section five of the Federal Trade Commission Act. Do you regard these practices that you prohibited as in violation of section five of the Federal Trade Commission Act?

Mr. WEICHER. Mr. Miller, it is coincidental that our definition is very close to the FTC's definition, but we have talked to them about that when we discovered that.

Mr. NEY. The time has expired.

We will now go on to the gentleman from Missouri, St. Louis to be specific, Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman. It is always good to see the Secretary, to spend the better part of my morning with you. I am glad to see you again, Mr. Secretary.

Secretary JACKSON. Thank you.

Mr. CLAY. In St. Louis County, we are going to lose between 200 to 300 of slightly more than 6,000 vouchers in the section 8 program. It is worse than that in St. Louis City. The county is going to be forced to use up their reserves to cover the shortfall of section 8 funding. You announced on May 18 that HUD will calculate payments for the first quarter of 2004 by applying a full year inflation adjustment over an agency's average per-unit cost in May through

July in 2003, and pay that same level for each and every quarter of 2004.

The frontloading of payments supposedly will ease the crisis. This is not seen as a solution in the First Congressional District of Missouri as our figures show that this will still result in a shortfall at the end of the year. This is only postponing the manifestation of the problem. Since you are already seeing evidence of States, Oregon for example, terminating voucher contracts, how is this announced efficiency supposed to work? Is it efficient to eliminate families from housing and place them in the streets? Is this a plan of the Administration to reduce section 8 rolls and place them on the homeless rolls?

Mr. CLAY. Congressman, let me answer the last part. No, we are not in any way trying to reduce the section 8 rolls or to throw any person who presently has a certificate or voucher in use out of the certificate or voucher.

I do believe that those persons who have vouchers that are on the street that have not been utilized, if they are over the cap that has been set, yes, that does present a problem. I am not going to sit here today and tell you it does not. But any person who is in the process right now, on a voucher, housing choice voucher, they are not losing their voucher. We believe that the corrections that we talked about earlier this morning, that I talked about earlier this morning, will address the need in St. Louis County as it has addressed the needs in Boston and the other places.

I think it does clear up the problem, because the shortfall as the housing authorities foresaw it, was this year. We have corrected that problem. I think that if the flexible voucher program is approved by Congress, then clearly we will serve as many people, almost the two million people we serve today, on the present program.

Again, I go back to what I said earlier. I did not have a unit-based section 8 program. I had a budget-based, where until 1998 they went to the unit-based. They gave us a budget. That is what we are doing to the housing authorities now. We are saying, you have a budget; utilize your budget and stay within that budget. That is the way I operated the section 8 program for almost 16, 17 years.

Mr. CLAY. Okay. Thank you for that answer.

Let's go to GSEs. Are you familiar with an April 28 Wall Street Journal article entitled Regulators Hit Fannie, Freddie With New Assault.

Secretary JACKSON. Yes, I remember.

Mr. CLAY. Okay. In 2003, at Fannie Mae alone, investment in the low-income housing tax credit supported the production and preservation of over 37,000 homes, making them affordable to very low-income families. Additionally, mortgage revenue bonds financed affordable homes for nearly 98,000 families. Why don't these numbers count toward reaching the GSEs's housing goals? Don't we want to encourage these activities?

Secretary JACKSON. If they qualify, they will be used to count against them. But again, Congressman, I will simply say this, because the question has come up so many times today. What I would ask you or the other members of the committee to do is to ask the persons at the GSEs to give us permission to release the figures to you and let you judge yourself if they are meeting the goals of low-and moderate-income persons. We are restricted. We cannot. They give us quarterly those figures. I am willing to release them if the Chairman of each one of those GSEs says we can. They are not meeting their goals. They are not leading the market.

Mr. CLAY. I have heard what you said today that you follow the direction of this Congress. I find the timing somewhat peculiar, that at a time when section 8 and HOPE VI are being curtailed, and that the major force holding up the economy is housing, that OFEO and Treasury and now HUD have the GSEs in their scope. Why 6 months prior to the presidential election is there this drive for goals?

Secretary JACKSON. Well, Congressman, I will tell you, as I said to the Congresslady from New York and Congresswoman Waters and Congressman Frank, this is not new. I have been reiterating the housing goals and the sub-goals almost from day one coming in, because I thought then and I think now that they are very, very important to meet the low-and moderate-income guidelines that were set by Congress. It is not new.

There is not a person probably in this room that is more supportive of the GSEs than I am. I think that they can do and have done a good job, but I think that clearly they can do a lot more to address the charter mandate group of people that they should serve. I am not in any way trying to restrict, halt them or hurt them. That is not the case, I can assure you of that.

Mr. NEY. The time has expired.

Would Mr. Davis like to yield to Mr. Clay?

Mr. DAVIS. Not after two-and-a-half hours, Mr. Chairman.

[Laughter.]

Mr. NEY. Good answer, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Let me try to go back and try to identify a little bit of new ground, Mr. Jackson, or at least a new question on some old ground. One thing that no one has really asked you today is this, you have heard from a lot of people on my side of the aisle about HOPE VI and the passion that certain Democrats feel around it. What is striking to me is that frankly there are a lot of Republicans, and not just Chris Shays, who has a fairly strong attachment to this program. Ms. Harris from Florida is a strong supporter of this program.

Maybe most tellingly, you and I have a mutual friend in common in Secretary Kemp, your former boss. Based on my last conversations with him, he remains a supporter of HOPE VI. Can you for just a moment, I do not want a filibuster on this from you, but can you just give me some quick insight on why so many Republicans are as unenlightened as you are on this issue? On why so many Republicans are, from your perspective, as unenlightened as you are on this issue? Why do so many Republicans disagree with you on HOPE VI? What are they missing that you know?

Secretary JACKSON. I honestly do not know. I am just speaking, Congressman, from my perspective.

Mr. DAVIS. Does that make an impression on you? Just to give you some history, as you know, last year we had the same discussion with Mr. Martinez, and ultimately the bipartisan forces that favored HOPE VI prevailed. Again, I give our colleagues on this side of the aisle their share of the credit for that. Does that move you at all, that so many people in your own party and of your own philosophy just do not agree with you on this, including Mr. Kemp?

Secretary JACKSON. Does it give me reason to think? Yes, I have thought about it.

Mr. DAVIS. Does it give you reason to move?

Secretary JACKSON. No. I think that from my perspective, when you have authorities, 75 percent of them that have outstanding balances with their HOPE VI, that have gone on for more than 6 or 7 years, no.

Mr. DAVIS. What is the primary structural reason for that, Mr. Jackson? If you had to give me very quickly one primary structural reason why so many of these HOPE VI's have not been completed, what is it?

Secretary JACKSON. I will tell you, in my mind it is that from the inception of the program when we wrote it, we told the housing authorities they should go out and get developers who would leverage the program and create the atmosphere that Congressman Scott just talked about, and Congressman Shays, both socially and economically integrate the communities. They did not do it. In the process of them not doing it, the money has sat there.

Mr. DAVIS. Then Mr. Jackson, why don't you and the President simply come to Congress and give us a legislative approach that addresses exactly that problem, rather than throwing the whole program out?

Secretary JACKSON. Well, my position is, and this is my recommendation and I do not want you to keep saying "the President." I think that after reviewing the program with you——

Mr. DAVIS. I am saying "the President" because he signs his budget.

Secretary JACKSON. Yes, he does. And after a year being here looking at it, and having another chance to evaluate it, it was my perspective and the Secretary at that time, Secretary Martinez, that clearly with almost $3.6 billion outstanding then, it would be better to let the program continue in its present form. And if they show us that in fact that the program is moving in the direction, whether we reestablish HOPE VI or some program corollary to that, then we would be willing to do that.

Mr. DAVIS. Let me shift gears in the time I have, to the GSEs for a moment. Something that I do not understand about your position, the Administration's position, Mr. Jackson. I hear your concern that the GSEs are not doing enough to meet their goal of providing affordable housing and to serve the mission. I understand that. What does that have to do with receivership?

I will tell you why I make that point. I looked at Secretary Snow's letter where he lays out the primary reasons he favors GSE regulatory reform. He spends the whole second paragraph talking about receivership. There is nothing in the second paragraph talking about affordable housing goals. Later on, there is a reference to affordable housing goals. Can you enlighten me on what receivership and changing over to the receivership option has been a failure as it has to do with housing goals?

Secretary JACKSON. No, actually I cannot enlighten you about receivership. My only objective is to make sure that they meet the housing goals that they are chartered under.

Mr. DAVIS. Have you seen the bill that was marked up in the Senate?

Secretary JACKSON. Yes.

Mr. DAVIS. Do you agree with me that there are very few provisions in that bill? There is a lot that deals with receivership. There is a lot that deals with the identity of the regulator. Do you agree with me that there is very little in that bill that deals with affordable housing goals and expanding that mission?

Secretary JACKSON. The affordable housing goals were coming separate, and we have submitted——

Mr. DAVIS. I did not ask you about that. I asked you about the Senate bill, just to get your opinion on that.

Secretary JACKSON. I support a strong regulator.

Mr. DAVIS. But to answer my question, have you reviewed the Senate bill?

Secretary JACKSON. I have reviewed it. You mean the initial one?

Mr. DAVIS. The one that was marked up a few weeks ago.

Secretary JACKSON. Yes.

Mr. DAVIS. Do you agree with me that in a 39-page bill that, being charitable, maybe only two or three pages of it actually deal with the affordable housing mission, and that the bulk of it deals with receivership and the identity of the regulator?

Secretary JACKSON. No, I thought the bulk of the bill, and this will be a difference in our interpretation, dealt with an efficient and effective way to regulate the GSEs.

Mr. DAVIS. I agree with that, but how much of the bill deals with the phrase "improving affordable housing" mission or the concept of improving the affordable housing mission?

Secretary JACKSON. I cannot get in depth of what it deals with, but I think the ultimate goal is to regulate them——

Mr. DAVIS. I will tell you, if the chair will indulge me 30 seconds since we are wrapping up, this is why I raise this, Mr. Jackson. I think Mr. Clay does raise an interesting point. We hear that the Administration is deeply concerned about improving the affordable housing mission, but yet the Administration appears to be supportive of a Senate bill that does not really address that issue. We hear that the Administration is concerned about safety and soundness, but yet the Administration has not identified a safety and soundness crisis. Those things do raise an obvious question of why the Administration is pushing this particular agenda, absent a crisis context.

Just one final note, do you know of any scenario that leads you to think that the GSEs are more likely to collapse than, say, any major bank in this country?

Secretary JACKSON. No. Let me say this. I agree with you. That is not the issue. The issue is steel.

Mr. DAVIS. What is not the issue? When you say that is not the issue, what do you mean when you say "that is not the issue"?

Secretary JACKSON. You asked me if I believe that they were any more able in preventing themselves from collapsing.

Mr. DAVIS. Right. Okay.

Secretary JACKSON. No.

Mr. DAVIS. So you agree with me on that.

Secretary JACKSON. Yes.

Mr. DAVIS. Okay.

Secretary JACKSON. But the issue is I do think that as we regulate banks or others, that a strong regulator is very important for the carrying out of the missions and making sure that they carry out their responsibility. That is all that I think.

Mr. DAVIS. But just to close out and summarize, you do agree with me that there is no empirical evidence that the GSEs are any more at risk than any other financial institution.

Secretary JACKSON. I cannot tell you there is no empirical evidence. I can tell you that is——

Mr. DAVIS. That is not your major concern.

Secretary JACKSON. My major concern is affordable housing goals.

Mr. DAVIS. Okay. All right.

Thank you, Mr. Chairman.

Mr. FRANK. Mr. Chairman?

Mr. NEY. The gentleman?

Mr. FRANK. I just have to respond for 30 seconds on this Administration's concern about the affordable housing goals. The fact is that you had the legal authority to promulgate increased goals last year that would now be in effect. Your Administration failed to do that. Indeed, when we called attention to that failure, the original response from the department was, oh well, we are planning to do it. Only afterwards did they realize that the time has passed in which you could have done it for this year.

So the fact is that there was no, a whole presidential term will have gone by in which the goals were left untouched, although you had the authority last year to increase them, and you deliberately did not exercise that authority and you promulgated them this year, but you had the legal authority to do it last year, let it go by. In fact, when we noted that, someone said, well, we are going to it, but it was too late for you to do it last year.

So it is pretty clear to me that historically your interest in increasing the goals came after your desire to make other changes in the GSEs. Otherwise, I do not know why you would not have done it before. Let me ask you then, why did HUD not last year use its authority to promulgate those higher goals so they would already be in effect?

Secretary JACKSON. Congressman, I think that is absolutely a fair question. I will simply answer this way. It was an oversight on our part. I believe that the rules should be promulgated.

Mr. FRANK. It was an oversight. You forgot to raise the goals for the GSEs.

Secretary JACKSON. It was an oversight. I think your analysis is correct. It was brought to the attention, and immediately when it was brought to our attention——

Mr. FRANK. We brought it to your attention.

Secretary JACKSON. I agree with you. You brought it to our attention. But it was not that we had not been working on it.

Mr. FRANK. It is hard for me to believe, Mr. Secretary, that if this was really an important thing to you, that something that basic you would have just lost it.

Secretary JACKSON. It is very important to me. That is why we are working on it. I am the Secretary and that is why we are working on it.

Mr. FRANK. But you overlooked it last year.

Secretary JACKSON. I was not the Secretary last year.

Mr. FRANK. Okay, the Secretary overlooked it. You are clean.

Secretary JACKSON. No, I was part of the Secretary. I said "we" and you are correct.

Mr. NEY. And wrapping up briefly, 30 seconds, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman, for your kindness on this question.

Let me go back to HOPE VI just for a moment. I am not giving up on you. I am still there with you.

Secretary JACKSON. Yes, sir.

Mr. SCOTT. Let us see if we cannot get an area with which we can work going forward. You have agreed that Atlanta is a success story. You have agreed that Charlotte is a success story; that Dallas, Mr. Shays and several of us on this committee. You also recognize the strong bipartisan Republican and Democratic effort here. It is a great success story.

What I would like to implore of you is to look and see going forward if we cannot do what is fair. Why should we punish those projects in Atlanta and other places across this country that have been successful; that have done everything they were supposed to do, and have gone on and have made additional investments of which they are partially through with other HOPE VI projects, which would be jeopardized if the funding is cut.

Cannot we come up with a process in which we can evaluate each on its own basis? Those programs that are totally failures, I agree with you. If they have failed, if they have not done, then we should use a set of circumstances to deal with them, but not throw the whole baby out with the bath. Let's find a way to keep those programs going that are successful, and then separate those others that have not and have failed, and work with those communities on maybe an alternative program, but to keep this program going where it has been successful.

Could we get your commitment to work with this committee on that?

Secretary JACKSON. You can get my commitment to work with the committee. I cannot give you a commitment that it is going to be in the form of the HOPE VI. Maybe there will be a HOPE VII program, but we have tried and we will continue to try to look at ways to make sure that we invest in the cities, and that the cities have the opportunity to propagate programs.

Again, I go back. Yes, I will look for ways to work with cities who have been very, very productive. We are doing that now with bond issuance that we are permitting cities like Atlanta, Chicago, Charlotte and others to do, because we realize that they have been very progressive. I think that it is our responsibility when we have progressive cities who are doing what they should be doing for low-and moderate-income persons, that we work with them in every way to make sure that they are carrying out their mission. I will continue to do that.

Mr. SCOTT. Fine. Thank you. I look forward to working with you on that and the financial literacy.

Secretary JACKSON. Thank you.

Mr. SCOTT. Thank you very much, Mr. Chairman.

Mr. NEY. Thank you.

And I want to thank everyone for participating. I would just make a closing comment, if I could. I do not want to get into the GSE debate, but I do think frankly that Treasury, and I have written a letter. I am speaking for myself here, but I think that as the whole debate started to go forth where we were going to discuss very serious issues about the future of housing and of course the controversy that has swelled up over this. I do think that, again a personal opinion, that Treasury just took the bill and completely scrapped it. The House will was completely unacceptable and then the Senate became unacceptable. Somebody made a comment about the Senate. Treasury finds the Senate unacceptable.

So I do not know what they find acceptable, but I think they have put the kibosh, frankly Treasury did, on the whole ball of wax. I do not know if they intend to do it some other way. So this is not HUD. You see, I am giving you a break here. It is Treasury. I just think at some point in time we have to get together to talk the issue out. I think it was not fair, again, to a lot of the members on either side of the aisle, to do that, but it is just my opinion.

I want to thank the members. I want to especially thank the Secretary for your time and your patience in coming before the Congress.

Secretary JACKSON. Thank you so much.

Mr. NEY. With that, the committee will be adjourned. The record will be open, without objection, for 30 legislative days in which members can have additional questions or revise and extend remarks.

[Whereupon, at 1:55 p.m., the subcommittee was adjourned.]

APPENDIX

May 20, 2004

Opening Statement

Chairman Michael G. Oxley
Committee on Financial Services

Oversight hearing on the Department of Housing and Urban Development

Thursday, May 20, 2004

Today, the Financial Services Committee welcomes the newly confirmed Secretary of the Housing and Urban Development, Alphonso Jackson on the occasion of his first time testifying as the HUD Secretary. Secretary Jackson, congratulations on your confirmation. We look forward to working with you to address America's housing needs and to improve our nation's communities.

The Financial Services Committee has jurisdiction over the budget for the Department of the Housing and Urban Development. The Department administers programs such as the Community Development Block Grants, HOME, HOPE VI, public housing, section 8 voucher programs, the Federal Housing Administration, and the housing goals for both Fannie and Freddie.

Over the past few years, this Committee and the Administration have continued to seek bipartisan ways to make existing housing programs work better. In 2003, we enacted the American Dream Downpayment Act that would benefit 45,000 new homeowners annually. The Committee enacted legislation to increase FHA multifamily loan limits, which addresses the acute issue of affordable rental housing in high-cost areas.

At a time when our homeownership rate is the highest ever at 68 percent, President Bush has inspired us to make homeownership happen for even more Americans. We must address the lagging minority homeownership rates, since less than 50 percent of African Americans and Hispanic are homeowners.

The Zero Downpayment legislation would allow zero downpayment loans and financing of the settlement costs for an estimated 150,000 first time homebuyers each year. I want to thank Representatives Pat Tiberi and David Scott for introducing the legislation.

While homeownership policy is the best avenue for strengthening families and improving communities, part of American society is not yet ready to pursue homeownership. There are several ways to create new rental housing opportunities However, any new approach is hampered by the potential hemorrhaging of the section 8 rental housing subsidy program. Unless we take dramatic steps to reform the section 8 voucher program, it could eventually consume the entire HUD budget. Without meaningful reform, the good work achieved by other housing programs could be compromised.

Oxley, page two
May 20, 2004

Recently, articles have appeared in local newspapers stating that the Section 8 housing voucher program in some communities is running out of money. I am concerned that vouchers are being revoked and that tenants may have to leave their homes. Equally troubling is the impact on conventional lenders' and ratings agencies' decisions to finance assisted housing. Members on both sides of the aisle are anxious to hear from you about what steps are being taken to address this situation.

This Committee has been following GSE regulatory reform efforts closely. Thanks to Subcommittee Chairman Baker's hard work, over 100 witnesses have testified on these issues, and several policy goals have been achieved. The Senate Banking Committee approved a bill that was not supported by the Administration or the GSEs. We will be interested to know if the Administration's perspective on GSE reform evolved since the Senate activity. It seems the Administration does not want a viable legislative product that can move through the House and Senate, but would rather attempt to enforce discipline on the GSEs through regulation. I am very interested in HUD's efforts to improve its role in the oversight of the GSEs.

HUD has proposed several new affordable housing targets for the GSEs and has eliminated the ability for the GSEs to receive additional credits for certain projects. These new proposals significantly raise the levels of affordable housing transactions the GSEs must meet. The stated purpose of these changes is to encourage Fannie Mae and Freddie Mac to be leaders in the affordable housing field. I look forward to your analysis of why these changes are needed and how these goals will be achieved.

HUD is in the process of reviewing unusual transactions by the GSEs to meet the previous affordable housing goals. This Committee is also looking at those transactions and examining whether they were appropriate. I hope that we can work together to ensure that the affordable housing goals are properly met.

I also wanted to bring to your attention an issue raised at the Housing Subcommittee field hearing in Columbus, Ohio that was chaired by Subcommittee Chairman Bob Ney. While the hearing was primarily focused on affordable housing issues and the section 8 program, there was a call from a majority of the witnesses about the Community Development Block Grant Program. Many believe the allocation formula is outdated and doesn't account for the growth of cities. I understand that the Department has conducted a study of the CDBG formula. I am hopeful that you will discuss whether the formula is in need of a change either today or in writing at a later date.

I would be remiss not to mention reform of the Real Estate Settlement Procedures Act. I sent a letter in December to your predecessor regarding the Department's proposed rule, which was later withdrawn. We all support the goal of simplifying the home-buying process and making it less expensive for consumers. I am hopeful that you will address the Department's future intent regarding the development of a new proposed rule.

Oxley, page three
May 20, 2004

Just before I conclude, I applaud the Administration for continuing to work on its goal to end homelessness. Representatives Renzi and Matheson have introduced the Samaritan Initiative Act. This initiative combines HUD's permanent housing funding with assistance from the Departments of Health and Human Services and Veterans Affairs for services like substance abuse treatment and primary care.

Mr. Secretary, thank you for being here today. Congratulations on your confirmation and we look forward to your testimony.

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May 20, 2004

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Full Committee Hearing on oversight of the Department of Housing and Urban Development, including the Department's budget request for fiscal year 2005

I would like to thank you, Mr. Chairman, for calling this important hearing and allowing us the opportunity to discuss the budget proposal for the Department of Housing and Urban Development (HUD) for fiscal year 2005.

HUD is currently facing many difficult management and budget challenges in addressing housing needs in our local communities and certain program reforms are clearly necessary. However, I have heard many concerns from constituents in Ohio's Fifth Congressional District regarding the proposed reforms to the Section 8 Rental Housing Assistance Program and look forward to learning more on this issue from our distinguished witness this morning.

As the Section 8 program currently accounts for nearly 50% of the HUD budget, I understand that something must be done to address rising costs but if Ohio will lose 10,383 vouchers in 2005, I am concerned that our local public housing authorities will not continue to meet the fifth district's affordable housing needs.

I also look forward to a discussion this morning of HUD's recently proposed increases in affordable housing goals for our Government Sponsored Enterprises or GSEs. I applaud the Department's efforts to address the increasing affordable housing needs across the country but I am concerned that this proposal may adversely affect rural communities in my home district if it ends up providing an incentive for the GSEs to invest a disproportionate amount of capital in large, multi-family housing projects in urban centers. I will watch the rulemaking process and will work to ensure rural areas are not disadvantaged by regulatory efforts.

Thank you again, Mr. Chairman, for calling this important hearing and I look forward to an informative discussion.

May 20, 2004

Hearing: Oversight of Department of Housing and Urban Development, including budget for Fiscal Year 2005

Statement of Rep. Katherine Harris:

Thank you, Mr. Chairman for holding today's hearing to examine one of our nation's most critical priorities: our funding of the Department of Housing and Urban Development and its mission to extend quality, affordable housing to every American.

I wish to welcome Secretary Jackson and to congratulate him regarding his recent confirmation. President Bush exercised sound judgment in appointing Secretary Jackson to carry its robust low-income housing agenda forward.

The Fiscal Year 2005 budget reflects the Administration's laudable efforts to close the homeownership gap, which disproportionately impacts African-Americans and Hispanic Americans. In particular, the fiscal year 2005 budget fully funds the American Dream Downpayment Act, which will extend the American dream of home ownership to tens of thousands of low-income families and individuals across our nation.

Despite its myriad of positive provisions, I am disappointed by its failure to include funding for HOPE VI, a public housing revitalization grant program that retains significant vitality. As saving this program remains one of my top priorities, I fought for its reauthorization last year.

Admittedly, the HOPE VI program requires continued reform. Nevertheless, its ability to transform lives and communities is beyond debate. Even though this revitalization project has not reached 100% completion, the positive impact upon the surrounding neighborhood has already become apparent, including an increase in surrounding property values. The HOPE VI project has also attracted private capital, which will soon become manifest in a renovated shopping area with a major retail supermarket. In fact, this chain supermarket made its location in the neighborhood contingent upon the success of the HOPE VI project.

The detractors of HOPE VI reference the number of incomplete projects. While their observations are accurate, their indictment of the program as a whole is misplaced. HOPE VI suffers from the absence of realistic expectations. A good HOPE VI project must garner broad community support, through the diligent work of a cross-section of business leaders, government officials, and charitable organizations. This partnership must work closely with public housing residents to create a plan that can attract several layers of funding from public and private sources.

While the bulk of my remarks today center around the HOPE VI program, I am also concerned with other aspects of this budget, such as cuts in empowerment zone funding and changes in the Section 8 program. I look forward to Secretary Jackson's testimony today regarding these matters.

Opening Statement of Congressman Jim Matheson
House Financial Services Committee
Full Committee Hearing on
Department of Housing and Urban Development
Oversight and Fiscal Year 2005 Budget Request

May 20, 2004

Mr. Chairman, Representative Frank, and members of the committee, I want to thank you for holding this hearing and providing an opportunity to hear from the new Secretary of the Department of Housing and Urban Development (HUD), the Honorable Alphonso Jackson. I appreciate Secretary Jackson's commitment to housing and his willingness to appear before this committee today.

In considering the federal budget, the programs under the HUD are some of the most critical to individuals throughout the country. Of all human needs, the need for adequate shelter is one of the most basic. Housing empowers individuals. It provides the needed safety and security for success in employment, family stability, and physical health. It is such a basic necessity -- making HUD's budget critical. It is not just about numbers; it is about homes. It is about my constituents having a place to live. There are several areas of the Fiscal Year 2005 (FY05) HUD Budget where I have some significant concerns. But, I would likely to quickly highlight three that are of significant concern to my constituents.

The first is related to the Section 8 program. HUD's budget request would provide $16.909 billion in FY05 for the Section 8 Housing Voucher program. This is a modest net increase from the Fiscal Year 2004 appropriation of $16.413 billion. However, this is not sufficient funding to maintain all of the current housing vouchers in use, in fact it is $1.633 billion below the level HUD projects is needed to renew all Section 8 assistance.

In addition, the HUD budget request would change the distribution of funds for the Section 8 program from renewing existing vouchers to block granting the funds to local housing authorities. I am concerned that inadequate funding combined with a move away from the existing voucher system will leave too many individuals without housing options. Currently, throughout Utah, individuals spend years on waiting lists before Section 8 vouchers are available. By not providing enough funding to continue existing vouchers and not focusing on the total number of vouchers (and thus individuals) provided for, I am concerned that local housing authorities will not be able to continue providing even their current level of service, let alone address the significant population currently waiting for assistance.

If these proposals are implemented, housing authorities would either have to reduce the number of families being assisted or reduce the subsidy provided to each family - or more likely both of these. The majority of individuals served by the Section 8 program are elderly and / or disabled and have no other housing alternatives. I am concerned about the impact of these budget proposals on the lives of these people.

I also have some related concerns regarding the recent interpretation made by HUD in implementing the Fiscal Year 2004 appropriations bill. In April, HUD determined to no longer reimburse housing agencies for their actual costs and instead to calculate a housing agency's per unit costs from the few months just prior to August 1, 2003 with an inflation factor. This movement away from continuing to reimburse for actual costs is concerning on two levels. First, it is a significant policy change that is being done against congressional intent and without congressional direction. Secondly, and perhaps more importantly, this change has already resulted in funding changes for several housing authorities and to a loss of vouchers for many individuals. I am most concerned about these trends.

Second, recent funding has been far short of what is necessary to maintain the nation's affordable housing stock. There are significant needs for maintenance and capital improvements throughout the country, and these demands are being exacerbated by rising energy costs that are straining the operating budgets of our local housing authorities. I am concerned about providing adequate resources to keep public housing in good repair. Affordable housing is limited throughout the country, making these units critical to many individuals.

Finally, I recently joined several of my colleagues from this committee in a housing hearing on the Navajo Reservation. I think that there are many Members of Congress and many Americans who would be horrified at the conditions that exist in the Navajo Nation. There are limited housing opportunities. There is little infrastructure, meaning that many homes lack plumbing or electricity, and dirt roads are common. There are few opportunities for economic development in this remote location. Given all of the challenges that face the Navajo people, I am particularly concerned about adequate housing opportunities for Native Americans.

Among the issues raised at this hearing were HUD programs for Native Americans. The FY 05 HUD budget request proposes to rescind funds from both the Section 184 single-family 100% loan guarantee program and the Native American Housing Assistance and Self-Determination Act Title VI loan guarantee program. While there were unobligated funds under Section 184 in Fiscal Year 2003, there is increased utilization of this program with more loans having been guaranteed already this year than in all of Fiscal Year 2003. I am concerned that a rescission of funds may leave this important program short of the necessary capital to respond to the immense housing needs. In addition, I am very wary of the proposal to eliminate the Rural Housing and Economic Development program that provides grants to tribes for capacity-building. Congress has consistently funded this important program because we recognize the unique needs of Native Americans. As a representative of several tribes, I can assure you that broader rural programs are not adequate to meet the unique needs of tribes. Additional, specifically targeted resources are desperately needed.

Again, I want to thank Secretary Jackson for his appearance here today, and I look forward to additional information regarding these and other issues raised by the FY 05 HUD Budget.

Opening Statement of the Honorable Bob Ney
Chairman, Subcommittee on Housing and Community Opportunity

Oversight hearing on the Department of Housing and Urban Development

Thursday, May 20, 2004

I want to welcome the Secretary of Housing and Urban Development to his first authorizing hearing, and thank you, Chairman Oxley, for holding this important hearing to examine both the programs and the budgets specific to the Department of Housing and Urban Development. Those of us on the Committee are acutely aware of the many difficult management and budget challenges inherent to the Department. I would like to take this opportunity to pledge to work with you to address these many challenges and to continue to create new opportunities for families and individuals seeking to find affordable housing and to realize the dream of homeownership.

Last year this committee assisted in the successful enactment of 11 housing related bills. Through bipartisan cooperation and coordination, this Committee and the Administration were able to enact legislation that today is making existing housing programs work better.

Of those enacted last year, the American Dream Downpayment and the proposal to raise the FHA multifamily loan limits are helping thousands of individuals and families realize the dream of homeownership. In an effort to continue the goal to increase minority homeownership, on May 5th of this year the Subcommittee approved HR 3755, the FHA Zero Down Payment Act. This bill, introduced by Congressmen Tiberi and Scott, would provide a program to eliminate the downpayment requirement for certain families and individuals who buy homes with FHA-insured mortgages.

During the enactment of the American Dream Downpayment Act last year, we learned that the biggest obstacle to homeownership for most families is the inability to come up with enough cash to meet down payment and closing costs. HR 3755 is a fiscally prudent bill and represents another important step forward in helping all Americans achieve the dream of homeownership.

While homeownership is a desired goal for many Americans, there are many in today's society that are not yet ready to own their own home. It is, therefore, prudent that we continue to pursue alternatives to make sure that affordable rental housing is available. We must also make sure that assistance is there for those that truly need it.

As you know, the section 8 housing assistance program is the major vehicle for providing rental assistance to low-income families and individuals. Today the section 8 program has become the largest component of the Department of Housing and Urban Development's budget, with appropriations of $19 billion in FY 2004.

The rising cost of providing rental assistance is due, in varying degrees, to expansion in the program, the cost of renewing expiring long-term contracts, and rising costs in housing markets across the country. The day of reasoning is coming fast; if we do not address the increasing costs of this program it will consume the HUD budget. It is already affecting the funding of other programs within HUD.

I trust that we can engage in a meaningful dialogue with my colleagues on the other side of the aisle and the Administration to find a solution to the escalating costs of the section 8 program. Not a day goes by that I don't talk to a constituent or organization concerning the problems inherent to this program such as long waiting lists, lack of affordable section 8 voucher housing, and various PHA funding concerns. The longer we wait to address the increasing costs of the section 8 program, the greater risk there is to the section 8 program as well as the other programs at HUD that will most surely suffer additional cuts at the behest of section 8.

I am anxious to hear from the Administration about their latest proposal, the Flexible Voucher Program. I believe aspects of the proposal have considerable merit, but it remains to be seen whether this is the solution to our section 8 problem. Nevertheless, we must find a solution and soon.

Before I close, I want to turn my attention to the proposed rule to raise Freddie and Fannie's housing goals. Clearly this is an issue that will have a profound impact on America's housing policy.

In 1992, Congress passed legislation establishing the existing housing goal structure. This construct serves as a meaningful way to integrate the congressionally-chartered mission into the business of these two companies. These percentage of business goals are unmatched in the financial services arena. Presently, the loans for fifty percent of all housing units these two companies buy must be made to families or persons at or below 100% of area median income. In my estimation, these goals have been a tremendous success story for the Department, and, more importantly, for the home buying consumer and those renting apartments.

The Secretary has proposed raising the "low-mod" goal from 50% up to 57% by 2008. I look forward to hearing from the Secretary this morning on the rationale for this increase. I am a strong advocate for pushing these companies to do more. Over the past year, I have been a strong voice in forcing Fannie Mae and Freddie Mac to stay actively engaged as secondary market participants in the manufactured housing industry.

I represent rural Ohio where the average loan purchased by Fannie Mae and Freddie Mac is around $100,000. My focus is to make sure these companies fulfill their congressional mandate to serve as a liquidity source in all markets, at all times. This means they serve not only the lower income families in the inner cities and other rural or underdeveloped areas, but also for suburban, middle income America.

I intend to pay careful attention to this proposed HUD rule to make sure there is no adverse impact on the well-functioning United States housing market. I want these companies to serve more families, but I also worry about a rule that pushes the companies to the point of forcing a potential credit allocation to the low end of the market and negatively affects middle income and middle class America. My concern is this proposed rule could force the GSEs to set higher interest rates for mortgage refinancing. This could trap borrowers in higher interest loans and increase the cost of using home equity for other purposes such as sending kids to college, consolidating debt, or starting a business. Bottomline – it could harm the economy.

In closing, let me say that the federal government, consumers, and the housing industry are linked by our mutual goal of creating housing opportunities for more Americans.

We have much to achieve together for the American people, and our best hope of being successful is to work in close concert with each other – guided by the same high standards and principles and motivated by the same goals.

In that way, we will continue to open up our communities to new opportunities for growth and prosperity. Thank you.

Statement for the Record
Congresswoman Nydia M. Velázquez
FSC Hearing on the FY 05 HUD Budget
May 20, 2004

Affordable housing is a stabilizing force in the lives of Americans, enabling families to build a foundation and provide for their children in a safe, decent home. Unfortunately, critically important housing programs are, once again, under assault by the Bush administration. The proposed Fiscal Year 05 HUD budget ignores the most basic need of Americans – and will leave many of our nation's most needy families out in the cold.

President Bush's FY 2005 HUD budget cuts funding by $350 million below the current level. The request for Section 8 funding is $1.633 billion short of what HUD projects is needed to renew all Section 8 assistance, jeopardizing the assistance of approximately 250,000 families.

The budget eliminates crucial community development programs, such as HOPE IV modernization funds, Housing Opportunities for Persons With AIDS, and the Drug Elimination Program. It rescinds $675 million in funds that could be used for essential affordable housing preservation activities -- and cuts funding for our most at-risk communities to protect low-income children from the hazards of lead paint and other toxins. Rather than targeting resources to the most needy communities, the President's proposal strips funding for critical programs that are the lifeblood of low-income families.

The plan for Section 8, which is more dangerous than last year's HANF proposal, block grants funding to housing authorities and eliminates most of the statutory rules protecting low-income families. Because the program is underfunded, housing authorities will have to reduce the number of families they assist or the amount of subsidy they provide to each family – or, more likely, both.
The proposal also eliminates the "targeting" of scarce voucher resources to those most in need, which currently ensures that 75 percent of new vouchers go to extremely low income families with incomes below 30 percent of area median income -- approximately $15,000 a year for a family living in New York City. President Bush is seeking to shift the entire focus of the Section 8 program from serving the country's neediest families to serving people with higher incomes who can afford to pay more toward the cost of their housing.

The President's budget is particularly distressing given that the Section 8 program is facing a serious crisis right now. HUD recently announced that it will base reimbursements to housing authorities on inflation adjusted cost data from August 1, 2003, rather than on the current actual cost of housing. PHAs across the country are already feeling the repercussion of this change. New York State has already implemented a temporary moratorium on issuing new vouchers.
Families are only beginning to see the ramifications of the President's policies and budget cuts. From a lack of commitment to housing preservation to inadequate resources for affordable rentals, the President's request for funding for HUD is woefully inadequate and recklessly jeopardizes housing for families in need. What the President fails to understand, or fails to be concerned with, is that his slashing of programs will have serious long-term consequences for America's low-income families that will be nearly impossible for them to overcome.

There is clearly a disconnect between the President's rhetoric on housing and the reality of his Administration. He continues to tout new homeownership programs, yet will not adequately fund housing counseling services. The Administration has not come close to providing enough resources to even begin to meet the President's goal of ending chronic homelessness in 10 years. Millions of low-income families across the country struggling to make ends meet need more than rhetoric and empty promises – but, unfortunately, that is all they have gotten from this Administration.

STATEMENT OF

SECRETARY ALPHONSO JACKSON

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE

UNITED STATES HOUSE

COMMITTEE ON FINANCIAL SERVICES

MAY 20, 2004

OVERVIEW

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

Thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year (FY) 2005 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

The programs funded within the $31.3 billion HUD budget will create new opportunities for those who seek affordable housing and the American Dream of homeownership, while generating stability and prosperity for our communities. The key priorities it addresses are central to the President's plan to help make America a more secure, more prosperous, and more hopeful country.

Housing, of course, is central to our national prosperity and remains the lynchpin of our economy. The housing market generated robust activity throughout the 2001 recession, and today, housing continues to fuel the ongoing economic recovery. Bolstered by historically low interest rates, home sales and new housing construction have repeatedly outperformed expectations. Homeownership last year reached an all-time high of 68.3 percent, and fourth quarter 2003 statistics revealed that, for the first time, a majority of minority households own a home of their own.

The Administration's FY 2005 budget request for HUD will empower the Department to build on these successes, as we seek to increase homeownership through the American Dream Downpayment Initiative and two new mortgage products, promote decent affordable housing through the newly proposed Flexible Voucher Program, end chronic homelessness, encourage the participation of faith-based and community organizations in HUD grant programs, and embrace the highest standards of ethics, management, and accountability.

INCREASING HOMEOWNERSHIP OPPORTUNITIES

Americans place a high value on homeownership because of its benefits to families, communities, and the nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities, churches, and neighborhood activities. Homeownership inspires civic responsibility, and owners are more likely to vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways – at home and in school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make – a tangible asset that builds equity, credit health, borrowing power, and overall wealth.

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, the homeownership rate was higher in 2003 than at any time in this nation's history and, as I said earlier, a majority of minority households are homeowners for the first time. That fact, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities; while the homeownership rate for non-Hispanic whites is nearly 76 percent; it is slightly above 50 percent for African-Americans and Hispanics, and 55 percent for Native Americans..

The Administration is focused on giving more Americans the opportunity to own their own homes, including minority families. In June 2002, President Bush announced an aggressive homeownership agenda to remove the barriers that block American families from achieving homeownership, in the hope of creating at least 5.5 million new minority homeowners by the end of this decade. The Administration's homeownership agenda is dismantling the financial barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the homebuying process. More than 1.5 million new minority homeowners have been created in the United States since the initiative was announced.

Through "America's Homeownership Challenge," the President called on the real estate and mortgage finance industries to take concrete steps to tear down the barriers to homeownership. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the federal government with those of the housing industry to accomplish the President's goal.

Additionally, we propose several new or expanded initiatives in FY 2005 to continue the increase in overall homeownership, which will help improve minority homeownership rates.

As a first step, the Administration proposes to fund the American Dream Downpayment Initiative at $200 million in FY 2005. President Bush signed the American Dream Downpayment Act into law on December 16, 2003, creating homeownership opportunities for thousands of Americans who had been unable to cross the most significant obstacle to homeownership: high downpayments and closing costs. The Initiative will help approximately 40,000 low-income families with the downpayment on their first home.

The Administration is proposing a new mortgage insurance product to help first-time homebuyers purchase a home by allowing zero downpayment loans. Currently, the Federal Housing Administration (FHA) requires a minimum downpayment of three percent. To cover the higher risk involved, premiums will be increased in the short term for these borrowers. This program will be implemented at no cost to the government or the American taxpayer. This new Zero Downpayment program is expected to serve 150,000 families per year, generating about $19 billion in endorsements.

The Administration is also proposing a new sub-prime loan product called Payment Incentives to offer FHA insurance to families that, due to poor credit, would be served either by the private market at a higher cost or not at all. Borrowers would be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new Mutual Mortgage Insurance (MMI) mortgage loan program is expected to serve 60,000 families per year, and generate an additional $7.9 billion in endorsements.

Helping families learn about the loan products and services available to them and how to identify and avoid predatory lending practices is critical to increasing homeownership. Counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The FY 2005 Budget will provide a record $45 million to support 550,000 families with home purchase and homeownership counseling and about

250,000 families with rental counseling. Counseling would be required for all families buying homes through the Zero Downpayment insurance program.

A new proposal for FY 2005 – the Flexible Voucher Program – will provide new flexibility to Public Housing Authorities (PHAs) by allowing them to offer downpayment assistance in addition to monthly mortgage subsidies to families. The Flexible Voucher Program proposal calls for funding the Housing Choice program as a flexible voucher grant, giving a set sum of money to public housing authorities (PHA's), rather than promising to fund a certain number of units. Using a dollar-based approach rather than a unit-based approach, will give incentives to PHA's to streamline administrative costs and provide more housing opportunities for the money they receive. Additionally, PHA's will be encouraged to emphasize vouchers as a bridge to self-sufficiency, not an entitlement or an ongoing handout for housing needs.

The Self-Help Homeownership Opportunity Program (SHOP) provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The FY 2005 budget request of $65 million more than doubles the funding received in 2004, reflecting President Bush's continuing commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families.

To promote the production of affordable single-family homes in areas where such housing is scarce – and to help revitalize distressed communities – a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home would be provided. Eligibility for this new tax credit would be limited to homes that are affordable to lower-income households (purchasers whose incomes are below 80 percent of local median income).

The HOME Investment Partnerships program plays a key role in addressing the shortage of affordable housing in America. In FY 2005, a total of $2.1 billion – which includes $200 million for the American Dream Downpayment Initiative – is being proposed for participating jurisdictions (states and local governments) to expand the nation's supply of affordable housing. Participating jurisdictions have substantial local discretion to determine how to spend these funds. In addition to homeownership assistance, HOME funds can be used to help renters, new homebuyers, or existing homeowners through rehabilitation of substandard housing, acquisition of standard housing, new construction, or tenant-based rental assistance. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 294,000 low-income households. Based on historical trends, 36 percent of HOME funds will be used for new construction, 47 percent for rehabilitation, 14 percent for acquisition, and 3 percent for rental assistance.

Through its mortgage-backed securities program, the Government National Mortgage Association – or Ginnie Mae – helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as those under the Department of Veterans Affairs and the Rural Housing Service of the Department of Agriculture. The FY 2005 budget requests $200 billion in new loan guarantee limitations.

During FY 2003, Ginnie Mae marked its 35th anniversary and guaranteed a record $215.8 billion in mortgage-backed securities. Since its inception in 1968, Ginnie Mae has guaranteed more than $2 trillion in mortgage-backed securities and helped more than 27 million families gain access to affordable housing or lower mortgage costs. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The Administration has proposed broad reform of the supervisory system for Government-sponsored enterprises (GSEs) in the housing market. As part of this reform, the Administration has proposed that HUD have the ability to set an enforceable goal encouraging the purchase of first-time homebuyer mortgages. While part of their charter, the GSEs significantly lag the market for all first-time homebuyers regardless of race or ethnicity. This portion of the reform is designed to ensure that Fannie Mae and Freddie Mac lead, not lag behind, the market.

In addition, the FY 2005 Budget would assess GSEs an additional $6.25 million for the expected cost of the HUD Secretary's responsibilities under this Act and amendments as outlined in recent Administration proposals. These responsibilities include establishing and enforcing affordable housing goals for GSEs, ensuring GSE compliance with Fair Housing laws, and providing consultation to the safety and soundness regulator on the GSEs' new activities.

The FY 2005 Budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

Native American Housing Block Grants (NAHBG) provide $647 million in funding to federally-recognized tribes and to tribally-designated housing entities for a wide variety of affordable housing activities. Grants are awarded on a formula basis. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable housing activities. The Department's budget proposes to continue funding this program at last year's level, which will provide $17.9 million in loan guarantee authority.

The Indian Housing Loan Guarantee (Section 184) program helps tribal members and their families to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In FY 2005, $1 million is requested in credit subsidy for 100 percent federal guarantees of approximately $29 million in private loans.

Under the Native Hawaiian Home Loan Guarantee Fund (Section 184A) program, loan guarantees will be used primarily to secure private financing to purchase, construct, or rehabilitate single-family homes on Hawaiian Home Lands. This makes possible the financing of construction loans and home mortgages by private financial institutions that would otherwise not be possible due to the unique status of Hawaiian Home Lands. The FY 2005 Budget will provide $1 million in credit subsidy to secure approximately $37.4 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant program recognizes the documented housing needs of native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands. Native Hawaiians experience the worst housing conditions in the state and constitute nearly 30 percent of the homeless population. The FY 2005 Budget will provide $9.5 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support the acquisition, new construction, reconstruction, and rehabilitation of affordable housing. Activities include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning, housing management services, crime prevention, and safety activities.

Promote Decent Affordable Housing

The FY 2005 Budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing states and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Currently, HUD subsidizes operation, maintenance, and capital improvement of 1.2 million public housing units. In total, these programs will provide approximately $23.2 billion in new funds each year to support rental costs for low-income individuals and families; total rental assistance accounts for approximately 74 percent of the total budget for the Department in FY 2005.

The FY 2005 Budget continues to fund Section 8 tenant-based and project-based rental assistance through the Housing Certificate Fund. In addition, public housing is subsidized through the Public Housing Operating Fund and the Public Housing Capital Fund.

HUD also helps to provide affordable rental housing through the HOME program, the Native American Housing Block Grant, FHA mortgage insurance, and the Community Development Block Grant (CDBG) program. In addition, HUD meets the specialized housing needs of the elderly and individuals with disabilities through grants for the development and operation of supportive housing projects for these target populations.

The Budget includes a new Flexible Voucher Program (FVP) that would replace the Housing Choice Voucher Program and improve the delivery of rental and homeownership subsidies for low-income families. The current system fails to support families making the transition from public assistance to self-reliance and work, and in doing so reduces the number of families that could be helped for a given amount of money. Under the reform, the Voucher program would be a means for families to transition to a better life, and more of them will be helped. The ease of administration for HUD and PHAs is the means to that policy end, and a bonus for doing the right thing for families.

Some of the key features of the new FVP include greater PHA discretion in meeting local housing needs and serving more families, steady and predictable funding levels.

The FVP will simplify program requirements and avoid the "one size fits all" program design. The FVP provides local and state PHAs with greater administrative flexibility to meet the overall program objective of providing temporary and transitional housing assistance for low-income families. As is current practice, the FVP will be administered by PHAs.

It is anticipated that approximately 896,000 project-based units under rental assistance will require renewal in FY 2005, an increase of about 25,000 units from the current fiscal year. This continues the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle.

Public Housing is the other major form of assistance that HUD provides to the nation's low-income population. In FY 2005, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,100 PHAs. Tenants pay 30 percent of their income for rent and utilities, and HUD subsidies cover much of the remaining cost.

HUD is committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHAs for both operating expenses and capital needs. Through its regulatory authority, HUD will ensure that housing that is no longer viable will be removed from the inventory. It will encourage voluntary removal of decaying units when it makes economic sense to do so. Many of these decisions will be made at the local level, and HUD will work with PHAs to allow greater local decision-making.

The formula distribution of Public Housing Operating Funds takes into account the size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. In FY 2005, the Department's budget provides approximately $3.6 billion in funding for the Public Housing Operating Fund.

This Public Housing Capital Fund program provides formula grants to PHAs for major repairs and modernization of units. The FY 2005 budget will provide $2.7 billion in this account. This amount is sufficient to meet new capital improvement needs in FY 2005.

Of the funds made available, up to $50 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to $30 million can be used for demolition grants – to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in FY 2005, up to $55 million will be available for the Resident Opportunity and Self-Sufficiency (ROSS) program, which provides supportive services and assists residents in becoming economically self-sufficient.

HUD will introduce a demonstration program in 2005 designed to improve public housing. The Freedom to House Initiative will maximize the ability of local PHAs to make decisions affecting their tenants, while simultaneously serving essentially the same numbers of low-income families. It will grant to participating demonstration PHAs the ability to combine the use of capital and operating funds, to set locally determined rent structures, and to free themselves from many of the administratively burdensome requirements of federal reporting. This demonstration will also allow HUD and PHAs to focus on an asset-based management practice.

HUD's Moving to Work Program has shown that residents and PHAs have benefited from increased local flexibility. These PHAs are convinced that their reforms have encouraged residents to seek work, work more hours, and pursue opportunities to increase their incomes. Freedom to House will continue this experiment in an environment that will allow for better measurement and comparative evaluation.

Up to 50 PHAs will be identified to participate in the demonstration, while up to 50 others will serve as a control group following current public housing laws and regulations. Annual assessment of the PHAs will be based on parameters of financial health and physical safety and soundness. Performance assessment results and other pertinent data will be provided on an annual basis and will provide policymakers with the ability to review current practices against increased PHA flexibility in order to guide future policy decisions.

HUD will also continue to promote affordable rental housing through FHA's multifamily mortgage insurance programs. In FY 2005, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the third year in a row - from 50 basis points in FY 2004 to 45 basis points in FY 2005. This is the lowest premium that FHA has ever charged for multifamily insurance, and we are able to do so because the program is being run on a financially sound and prudent basis. With this reduction, the Department estimates that it will insure $3.1 billion in apartment development loans through this program in FY 2005, producing more than 41,000 additional new rental units. Most of these units will be affordable to moderate-income families, and most of them will be located in underserved areas.

When combined with other multifamily mortgage programs, including those serving non-profit developers, health care facilities, and refinancing mortgagors, FHA anticipates providing support for over 250,000 new units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. Since its inception, the HOME program has supported the building, rehabilitation, and purchase of more than 334,000 rental units. Program funds have also provided direct rental assistance to more than 100,000 households.

Native American Housing Block Grants provide a flexible source of funding to federally recognized tribes or tribally-designated housing entities and is used for a wide variety of affordable housing activities. Authorized uses include both rental housing and homeownership. The block grant is funded at $647 million in FY 2005.

The Native Hawaiian Housing Block Grant is modeled on the NAHBG, and provides funding to the Department of Hawaiian Home Lands for a wide variety of eligible affordable housing activities, including the construction, rehabilitation, and acquisition of rental units for native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands.

Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant can be used to support rental-housing activities. The CDBG program is celebrating its 30th year in 2004, having provided over $108 billion in much-needed resources to states, rural communities, inner cities, suburban communities, as well as counties to benefit low- and moderate-income persons.

The Department believes that regulatory barrier removal must be an essential component of any national housing strategy to address the needs of low- and moderate-income families. Therefore, HUD is committed to working with states and local communities to reduce regulatory barriers to the development of affordable housing.

In FY 2003, the Department established "America's Affordable Communities Initiative: Bringing Homes Within Reach through Regulatory Reform." This major new initiative is a Department-wide effort charged not only with developing new approaches and incentives that can encourage efforts at the local level, but also reviewing and reforming HUD's own regulations that may be barriers to expanded housing affordability.

To support this effort, HUD will conduct research and dissemination efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Current research underway includes developing a methodology for "housing impact" analyses. This new tool will assist HUD and other federal agencies, as well as state and local governments, to measure the impact of any proposed new regulation on housing affordability. Through such an expanded research and dissemination effort, HUD will develop the tools and approaches needed by state and local governments to address the many barriers that restrict the development of affordable housing.

Strengthening Communities

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The FY 2005 budget provides states and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address development priorities through local decision making.

The flagship of HUD's community and economic development programs is the Community Development Block Grant (CDBG) program. In FY 2005, total funding for the CDBG account will be $4.6 billion. CDBG funds go to 1,160 grantees in 944 cities, 165 counties, and 50 states, plus Puerto Rico.

CDBG's popularity is based on the fact that funds may be used for a broad range of housing revitalization and community and economic development activities, thereby increasing state and local capacity for economic revitalization, job creation and retention, neighborhood revitalization, public services, community development, renewal of distressed communities, and leveraging of non-federal resources.

Of the $4.6 billion in FY 2005, $4.3 billion will be distributed to entitlement communities, states, and insular areas, and $71.6 million will be distributed by a competition to recognized tribes for the same uses. The remaining $215 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis. Principal among these initiatives in FY 2005 are the Development Challenge Pilot Program, the National Community Development Initiative, the University Partnership Grant program, and Youthbuild.

The FY 2005 Budget proposes an interagency effort to test ways to better coordinate, target, and leverage existing federal community and economic development programs. Under the $10 million Development Challenge Pilot Program, competitive grants will be awarded to a limited number of communities to develop and implement clear and measurable community development goals. The results of this initiative are intended to provide valuable information on how performance measurement can be made an integral part of CDBG and other community and economic development programs.

HUD participates in the privately organized and initiated NCDI. The FY 2005 budget will provide $25 million for the NCDI, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community based development organizations, including community development corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation. In addition, the budget includes funding for capacity building activities for Habitat for Humanity ($4.5 million) and Youthbuild USA ($2 million).

The FY 2005 Budget provides $33.8 million through the University Partnership Grant program to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

The FY 2005 Budget requests $64.6 million for the Youthbuild program. Youthbuild is targeted to high school dropouts aged 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The FY 2005 request will serve more than 3,728 young adults.

The Administration continues to work to meet the challenge of homelessness that confronts many American cities. The President has made an unprecedented, Administration-wide commitment to eliminating chronic homelessness. The Administration is also fundamentally changing the way the nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is an active member of the U.S. Interagency Council on Homelessness in its work to coordinate the efforts of 18 federal agencies that address the needs of homeless persons. HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and simplifying the funding process.

The FY 2005 Budget continues to address the housing needs of homeless individuals and families by funding targeted homeless programs at $1.5 billion. Three initiatives are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that serve the homeless population.

The FY 2005 Budget includes the Samaritan Initiative to address the President's goal of ending chronic homelessness by 2012 and includes $50 million for HUD and $10 million for HHS and VA. Persons who experience chronic homelessness are a sub-population of approximately 150,000 who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. These individuals, for the most part, get help for a short time but soon fall back to the streets and shelters. Thus, they continually remain in the homeless system.

The Samaritan Initiative will fund promising local collaborative strategies to move chronically homeless individuals from the streets to safe permanent housing with supportive services. It will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. HUD will continue other, current interagency efforts to end chronic homelessness including the joint initiative with the Department of Labor to link housing and employment services in local communities through One-Stop Career Centers.

HUD proposes to consolidate its three competitive homeless assistance programs into a single program. The consolidation will provide more consistent funding from year to year, expand eligible activities – including prevention – across programs, eliminate multiple match requirements, and simplify the competition and award process.

The Administration again proposes legislation that would transfer the Emergency Food and Shelter Program (EFSP) from the Federal Emergency Management Agency to HUD. The transfer of this $153 million program in its current form would allow for the consolidation of emergency shelter assistance – EFSP and the Emergency Shelter Grants program – under one agency. EFSP funds are distributed through a National Board (a public-private partnership) which in turn allocates funds to similar local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the nonprofit agencies that currently constitute the National Board.

In addition to funding homeless supportive services, the FY 2005 Budget funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

The FY 2005 Budget will provide $773 million in funding for the Supportive Housing for the Elderly (Section 202) program. In the Section 202 program, funding for housing for the elderly is awarded competitively to non-profit organizations that construct new 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; over time, these people often become frail and less able to live without some additional services. Therefore, the program is providing up to $30 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$53 million of the grant funds will be targeted to funding the service coordinators who help elderly residents obtain supportive services from the community.

The FY 2005 Budget proposes to fund capital advances of $249 million for Supportive Housing for Persons with Disabilities (Section 811). The Section 811 program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In FY 2005, up to $63 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 vouchers in the mainstream rental market.

In 2005, HUD will provide $295 million in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families through the Housing Opportunities for Persons with AIDS (HOPWA) program. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion is provided through competition for projects of national significance. The program will renew all existing grants in FY 2005 and provide new formula grants for an expected two additional jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 119 in FY 2005.

A compassionate nation must ensure that those Americans served by HUD – many of whom are struggling families, or individuals facing a trying time in their lives – live in a healthy and secure environment and have access to tools and opportunities that will help them move toward self-sufficiency. HUD's basic programs contribute to this goal by providing individuals and families with the housing and services that allow them to focus on recovery, job-related skill development, and obtaining work or increasing income.

The Voluntary Graduation Incentive Bonus recognizes PHAs that experience higher rates of families that transition out of the public housing program. This will be the first initiative in over twenty years to affirm that public housing's primary mission is to help low-income families gain access to housing for a temporary period while on the road toward economic freedom. Public housing should not be managed as a permanent housing solution for the poor. HUD will allocate $15 million in operating fund monies to those PHAs that exceed a baseline transition rate.

The Department will provide $55 million in funds to support the Resident Opportunity and Self-Sufficiency (ROSS) program for residents of Public and Indian Housing. The main purpose of the funds is to provide a link between residents and services that can help them achieve self-sufficiency.

HUD's Lead-Based Paint program is the central element of the President's effort to eradicate childhood lead-based paint poisoning. In FY 2005, funding for the lead-based paint program will increase to $139 million from the $136 million requested by the President for FY 2004. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards.

The program conducts public education and compliance assistance 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 50 percent, but that nearly half a million children still have too much lead in their bodies.

Included in the request for this program is $10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. The President's Taskforce Report notes that asthma alone costs the nation over $6 billion each year. Working with other agencies such as the CDC and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

Ensuring Equal Opportunity in Housing

As the primary federal agency responsible for the administration of fair housing laws, HUD is committed to protecting the housing rights of all Americans, regardless of race, color, national origin, religion, sex, age, familial status, or disability. This commitment is reflected in HUD's budget request for FY 2005.

The goal of HUD's fair housing programs is to ensure that all families and individuals have access to a suitable living environment free from unlawful discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the federal fair housing laws and by funding state and local fair housing efforts through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The FY 2005 Budget will provide $27 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. FHAP grants are awarded annually on a noncompetitive basis. Activities funded by this program play a pivotal role in increasing the overall national homeownership rate, which we believe will add 5.5 million new minority homeowners by the end of the decade.

Targeted Education and Enforcement Follow Up on Housing Discrimination Studies is one of the activities supported through FHAP. This education campaign combats discriminatory activities, including those against African-Americans, Hispanics, Asians, Pacific Islanders, American Indians, Alaskan Natives, native Hawaiians, and persons with disabilities.

FHAP also supports the Fair Housing Training Academy, which will serve all FHAP agencies and provide continuing professional fair housing training and certification for current and future FHAP staff. The curriculum will cover training needed to ensure quality and timely investigations of fair housing complaints and includes case processing, conciliation skills, compliance monitoring, and testing.

The Department expects increases in discrimination cases processed by state and local fair housing agencies as a result of increased education and outreach activities. The FY 2005 FHAP budget request supports this increase.

The FY 2005 Budget will provide $20.7 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHIP program for FY 2005 is structured to respond to the finding of the three-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHIP. Fair Housing Act accessibility design and construction training and technical guidance are an integral part of the Fair Housing Accessibility First Project. Bringing about industry-wide acceptance of accessibility as the way to design housing will depend, to a significant degree, on easy access to consistently accurate and helpful information and guidance on compliance. An extension of the current program for at least an additional one to three years is necessary to achieve this goal.

This project provides training to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. Therefore, the Department is requesting $1 million for the first year of a new three-year contract to continue the Fair Housing Accessibility First education and outreach training. Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

<u>Promoting the Participation of Faith-Based and Community Organizations</u>

HUD's Center for Faith-Based and Community Initiatives ("the Center") was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting, and other obstacles to the participation of faith-based and other community organizations in social service programs.

To help returning prisoners rebuild their lives, find work, and avoid crime, the FY 2005 President's Budget proposes a four-year, $300 million Prisoner Re-Entry Initiative to be carried out through the collaborative efforts of HUD and the Departments of Labor and Justice. Harnessing the resources and experience of faith-based and community organizations, the Prisoner Re-Entry Initiative will help ex-offenders find and keep jobs, secure transitional housing, and receive mentoring. HUD's FY 2005 Budget includes $25 million for this initiative.

The 2005 Budget also requests $5 million for a faith-based pilot for a multi-city program aimed at increasing the participation of faith-based and community based organizations in the cities' community development strategies.

The Center will continue to play a key role in FY 2005 in facilitating intra-departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives - particularly as they relate to partnerships with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." The intent of the Executive Order is to ensure that faith-based and community organizations are not unjustly discriminated against by regulations and bureaucratic practices and policies.

In FY 2005, in compliance with Executive Orders 13198 and 13279, the Center will focus its work on the following key responsibilities: ensuring that the new regulations on faith-based organizations are implemented and reflected in all HUD policies; outreach to faith-based and community groups through technical assistance, the Center's website, interagency summits, and other efforts; establishing innovative pilot and demonstration programs to increase the participation of faith-based and other community organizations in Departmental initiatives; and educating government personnel on the faith-based and community initiative.

Progress on these efforts will be tracked as part of the President's Management Agenda (PMA).

<u>Embracing High Standards of Ethics, Management, and Accountability</u>

HUD is committed to improving performance in its critically needed housing and community development programs, and producing these improvements in a manner that reflects the highest standards of ethics, management, and accountability.

The PMA is designed to improve the overall efficiency and effectiveness of the federal government and to address significant management deficiencies at individual agencies. HUD fully embraces this sound management agenda and is on-target with the necessary plans and actions to meet the challenging goals set by the President. To sustain the focus needed to achieve these goals, they have been engrained in HUD's strategic and annual performance and operating plans.

The PMA includes five government-wide and two HUD-specific initiatives that are tracked and scored in terms of both baseline goal accomplishment and the adequacy of plans and progress towards achieving established goals. At HUD, these initiatives are addressing longstanding management problems that will require action over a period of years in order to achieve the President's goals.

In addition, the Department expects to build upon its continuing efforts to improve field management and Headquarters support to the operation and management of HUD's extensive field structure. In particular, the Office of Field Policy and Management will continue to work toward the effective integration of HUD's programs at the community level.

Human Capital

After many years of downsizing, HUD faces a large number of potential retirements and the loss of experienced staff. HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission.

HUD has taken significant steps to enhance and better use its existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD's future program delivery. During FY 2003, HUD completed the Department's Five-Year Strategic Human Capital Plan with implementation plans, and in FY 2005 will complete comprehensive workforce analyses and plans focusing on its core business functions. During FY 2005, HUD will implement its comprehensive Departmental workforce plan to ensure its workforce is aligned efficiently, skill gaps are assessed and corrected, and HUD staff retiring over the next five years are succeeded by qualified staff to continue quality service and program delivery.

Competitive Sourcing

HUD is working to determine if competition of staff functions identified as commercial would result in better performance and value for the government. However, given HUD's significant downsizing and extensive outsourcing of administrative and program functions over the past decade, opportunities for further competitive sourcing are limited and need to be carefully considered in the context of program risk exposure. HUD's Competitive Sourcing Plan has initially focused on establishing an adequate capacity to support the competitive sourcing process, with identifications of some initial opportunities for consideration of possible outsourcing, or in sourcing competitions to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Improved Financial Performance

HUD has strived over the past two years to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. HUD has received an unqualified audit opinion on its consolidated financial statements for the past four consecutive years, and has reduced the number of auditor-reported internal control weakness issues. In FY 2005, the Department will continue making progress to reduce the number of material weaknesses or reportable conditions in its financial systems.

Electronic Government/Information Technology

HUD is not only pursuing increased electronic commerce and actively participating in all categories of the President's "E-Government" initiatives, but is also focused on information technology management improvements and maximizing the use of Internet technologies to make HUD more efficient, effective, and responsive.

In FY 2005, HUD will place increased emphasis on the Department's E-Government, Privacy Act, Section 508 Disabilities Act, and Paperwork Reduction Act Programs. HUD's FY 2005 information technology portfolio will benefit from continuing efforts to improve the IT capital planning process, implement project management guidance, strengthen IT project management to achieve performance goals, complete major business segments of HUD's IT business architecture, and continue to improve systems security on all platforms and applications.

Budget and Performance Integration

HUD developed its portion of the FY 2005 Budget with a focus on collecting and using quality performance information, utilizing full cost accounting principles, and emphasizing program evaluations and research to inform decision-makers and managers. Staffing and other resources are aligned with strategic goals, objectives, and accomplishments. The Department will continue to work hard to improve and measure program performance.

HUD Management and Performance

HUD is aggressively pursuing several major efforts to improve its management and performance by strengthening internal controls to eliminate material weaknesses and remove HUD programs from the General Accounting Office's (GAO) high-risk list.

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing developments are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through FY 2005 and are raising the bar with new goals.

HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the PMA, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004. The latest study for FY 2003 indicates that HUD exceeded its error reduction goal for that year with a 30 percent reduction – estimated to be approximately $600 million in reduced subsidy errors. Updated error measurement studies will be performed on program activity in 2004 and 2005 to assess the effectiveness of efforts to reduce program and payment errors. The Department has a number of training and monitoring programs in place that should produce additional error reductions. In FY 2005, HUD will work with its program intermediaries to fully implement new statutory authority that enables more effective upfront income verifications to eliminate over half of the estimated erroneous assistance payments.

FHA will continue to vigorously attack predatory lending practices that encourage families to buy homes they cannot afford and cause homeowners to lose their homes by refinancing into loans with high interest rates. Elderly and minority homeowners are particularly vulnerable to predatory lending practices, which include property "flipping" (schemes where unscrupulous lenders buy homes and quickly resell them at inflated prices to uninformed buyers), home improvement scams, unaffordable mortgage loans, repeated refinancings with no borrower benefit, and "packing" life insurance and other products into the loan amount.

Since 2001, FHA has mounted a vigorous assault on predatory lending. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch Initiative, improvements to the Credit Watch Initiative that will identify problem loans and lenders earlier on, new standards for home inspectors, a rule to prohibit property "flipping" in FHA programs, and rules to prevent future swindles like the Section 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

The PMA tasked HUD with streamlining the Consolidated Plan process to make it more useful to communities in assessing their own progress toward addressing the problems of low-income areas. HUD works closely with state and local program stakeholders on this initiative. It is anticipated that statutory and/or regulatory proposals to meet the intent of the PMA will be announced shortly. Pilot testing of a variety of streamlining efforts will be completed during 2004, which may lead to additional proposals for change. As an outgrowth of the initiative, HUD issued a Notice entitled "Development of State and Local Performance Measurement Systems for CPD Formula Grant Programs," which provides guidance to communities on developing and implementing performance measurement systems.

HUD acquires over $1 billion in contracted services and goods each year. As part of an overall strategy to improve HUD's acquisition management, actions are being taken to ensure that HUD's centralized contract management information system contains reliable data on the number of active contracts, the expected cost of the contracts, and the types of goods and services acquired, and that its financial management information systems provide complete and reliable obligation and expenditure information on HUD's contracting activities. Other aspects of HUD's acquisitions management improvement strategy are being addressed through the human capital management strategy, which incorporates actions to enhance HUD's procurement staff capacity and improve guidance and training for acquisition officials throughout HUD.

CONCLUSION

Our success will be judged by the lives and communities we have forever changed through our work: the young families who have taken out their first mortgage and become homeowners; the once-homeless men and women who now have a home; the faith-based and community organizations that are successfully using HUD grants to deliver social services; and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by the Administration's proposed Budget for FY 2005, new success stories will be written and our communities and the entire nation will grow stronger. And more citizens will come to know the American Dream for themselves.

I would like to thank each of you for your support of our efforts. We welcome your guidance as we continue our work together.

Thank you.

N A A H L

NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS

April 26, 2004

Assistant Secretary Michael Liu
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Michael,

I know how hard you have worked to facilitate the flow of private capital to affordable housing. You have made clear to NAAHL members your commitment to HUD's public housing reinvestment initiative, both to bring public housing into the mainstream of how other real estate is financed, and to leverage private capital in ways that have worked well with other housing subsidies.

I am concerned that HUD's announced voucher renewal policy will have very negative repercussions for private sector efforts to provide affordable housing, and on several different levels.

First, not only will some families who lose vouchers also lose their homes, but even those who are lucky enough to keep their vouchers may find it more difficult to rent in the future. Just as it took time for private landlords to become comfortable accepting vouchers, cancellations will discourage landlords from renting to voucher holders going forward.

Second, conventional lenders and rating agencies have only during the past few years become somewhat comfortable with the so-called "appropriations' risk" of relying on some level of government subsidy when making long-term investment decisions. HUD's actions will now exacerbate that concern and introduce a new disaster scenario to the underwriting process. These risks undoubtedly will deter many conventional lenders from financing assisted housing. Others may devise ways to mitigate these underwriting concerns, but the mitigation itself will reduce the amount of private capital leveraged by subsidy, which will significantly decrease the number of affordable units that can be developed for the same amount of public resources.

Third, there are undoubtedly many projects in development or construction in which the financing relies on Section 8 vouchers going to eligible tenants. If the number of vouchers available to these projects is reduced, those projects will now have to go back to the drawing board.

As private lenders think about this process, they will not differentiate among public decision-makers, whether it be HUD, Congress, or the local housing agencies causing the displacement; rather, it will only confirm their worst fears about public-private partnerships. I hope to work with you to ensure that HUD does not inadvertently make it harder to leverage private capital for affordable housing.

Sincerely,

Judy

Judy Kennedy

NAAHL Office
1300 Connecticut Ave., NW, / Washington, D.C. 20036 / Tel. (202) 293-9850 • Fax (202) 293-9852 / naahl@naahl.org

05/17/2004 16:37 FAX 002/005

NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

May 17, 2004

The Honorable Paul S. Sarbanes
Senate Banking, Housing & Urban Affairs Committee
309 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Sarbanes:

On April 22, 2004, the U.S. Department of Housing and Urban Development (HUD) issued Notice PIH 2004-7 (HA) implementing the Office of Public and Indian Housing's interpretation of the Housing Choice Voucher Program appropriations provisions in the Fiscal Year 2004 (FY2004) Consolidated Appropriations Act. NCSL's Economic Development, Trade & Cultural Affairs Committee heard briefings regarding this notice from several sources during our recently completed 2004 Spring Forum. Committee members were sufficiently concerned with the interpretation and the timing of implementation that they adopted an Action Calendar Resolution calling for a withdrawal of this notice and the establishment of a consultation process with state officials to design an appropriately timed implementation strategy. Please find a copy of that resolution, "HUD Implementation of Section 8 Housing Voucher Program Funding," enclosed for your review.

NCSL is concerned that HUD's interpretation of those provisions will reduce the number of vouchers available to public housing authorities (PHAs), 23 of which are state-operated. Furthermore, the timing of this notice does not allow state legislatures or housing agencies, whose fiscal years typically begin on July 1, to adapt programs or funding streams to accommodate these changes. We are also concerned that a reduced number of vouchers will deprive low-income households who are either new to the program or on waiting lists of this much needed housing assistance. If they become homeless, they are likely to turn to state homeless assistance programs at a time when, as you know, state budgets are suffering and unable to provide new services.

NCSL agrees that HUD must implement the changes to the Section 8 program that Congress has requested, but we question the interpretation chosen and the timing of the action. We ask that you withdraw the notice, allow PHAs to use the full number of authorized vouchers with the appropriation provided by Congress, and to begin a consultation process with state officials in order to best achieve Congress' goal in a timely fashion that does not jeopardize either the Section 8 program or state programs.

NCSL appreciates your support on this issue and looks forward to working with you and the Department of Housing and Urban Development to achieve our mutual goals of aiding America's working families to establish safe and healthy households while maintaining fiscal responsibility during these difficult budgetary times. Please do not hesitate to contact me or Jeremy Meadows of NCSL's Washington staff (202-624-8664 or jeremy.meadows@ncsl.org) to further discuss our concerns and possible solutions.

Sincerely,

Peter Lewiss
Representative, Rhode Island House of Representatives
Chair, NCSL Standing Committee on Economic Development,
Trade & Cultural Affairs

CC: President George W. Bush
Secretary Alphonso Jackson, U.S. Department of Housing & Urban Development
Senator Ted Stevens, Chair, Senate Appropriations Committee
Senator Robert C. Byrd, Ranking Member, Senate Appropriations Committee
Senator Richard C. Shelby, Chair, Senate Banking, Housing & Urban Affairs Committee
Congressman C.W. Bill Young, Chair, House Appropriations Committee
Congressman David R. Obey, Ranking Member, House Appropriations Committee
Congressman Michael G. Oxley, Chair, House Financial Services Committee
Congressman Barney Frank, Ranking Member, House Financial Services Committee

PJ/jdm

05/17/2004 16:37 FAX 004/005

NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

STANDING COMMITTEE ON
ECONOMIC DEVELOPMENT, TRADE & CULTURAL AFFAIRS

HUD IMPLEMENTATION OF SECTION 8 HOUSING VOUCHER PROGRAM FUNDING

WHEREAS, the Department of Housing and Urban Development (HUD) Section 8 housing voucher program is a federal program that subsidizes housing for many low-income Americans across the country;

WHEREAS, the HUD appropriation in the federal Fiscal Year 2004 Omnibus Appropriations bill allocates $310 million for the Section 8 program;

WHEREAS, public housing authorities, at least 23 of which are state-run agencies, have responded to criticism from the Congress and HUD for not fully utilizing all allocated vouchers by increasing utilization;

WHEREAS, HUD has changed policy and issued a notice stating that it will only issue payments based on the number of vouchers under lease on August 1, 2003, adjusted for inflation;

WHEREAS, households currently on Section 8 waiting lists or at risk of being terminated from Section 8 leases under HUD's new policy will become homeless and likely turn to state programs for assistance;

WHEREAS, state budget conditions continue to be constrained;

WHEREAS, ample time is needed to afford states the opportunity to adequately respond programmatically and budgetarily to this change in HUD policy;

WHEREAS, analysis of the Omnibus Appropriations bill shows that HUD's plans will leave $175 million of the $310 million of funds Congress appropriated for voucher renewals unspent;

NOW, THEREFORE BE IT RESOLVED, that the National Conference of State Legislatures (NCSL) calls on HUD to withdraw the April 22, 2004 notice, PIH 2004-7;

THAT HUD immediately institute a consultation process with state and local government officials to design an implementation strategy that meets congressional requests without precipitously overburdening state and local programs;

THAT HUD immediately begin a consultation process with state and local government officials to craft a proposal to improve and reform the Section 8 program in a reasonable timeframe; and

BE IT FURTHER RESOLVED, that a copy of this resolution be delivered to the President, the Secretary of Housing and Urban Development, and the Chairs and Ranking Members of the House and Senate Appropriations Committees and other members of Congress as deemed appropriate.

NCSL Spring Forum, May 1, 2004.

Section 8 Activity because of HUD's April 22 notice

Date	Location	Action taken/announced	Comments
5/10/04 AP	Portland, Me.	Freeze voucher program	As people leave program, no new vouchers will be issued Section 8 Management Assessment Program (**SEMAP**) score of 100
5/10/04 Portland Press Herald	Maine State HA	"authority will have to be extremely careful in how many vouchers it issues"	
5/11/04	Vermont State HA Springfield	Called press conference	Vt. State HA has 3000 people looking for vouchers
4/28/04 St. Paul Pioneer Press	St. Paul, MN	Hold public hearing on cost cutting proposals: deny rent increases to landlords, increase tenant rent share, not allow tenants to move from one apt. to another unless rent is **less**, delay new supportive housing leases(for homeless)	April HUD payment reduced from $3.1 million to $2.8 SEMAP score of 96.
3/30/04	Northwest Oregon Housing Authority	Terminated HAP contract(s) # uncertain	
5/4/04 Dallas Morning News	Northwest Oregon Housing Authority	HA cut vouchers for 110 families week of 5/4/04—10% of its recipients	
5/10/04 St. Louis Post Dispatch	St. Louis County HA	Closed waiting list because 12,000 people on list, considering, at HUD's urging, doubling minimum rent, issuing no new vouchers or reducing landlord payments	
5/13/04 Memphis, TN Commercial Appeal	Memphis Housing Authority	Held board meeting to authorize Director to make cuts including denying rent increases, recalling vouchers, reducing landlord subsidies, freezing lease approvals, increasing minimum rent, etc.	
5/10/04	Lawrence-Douglas Cty. HA (KS)	Granted one year extension of Moving to Work Demo which requires tenants to work for aid, thus serves higher-income people	This effectively block grants the program
5/10/04	Springfield, OH	Closed Sect. 8 waiting list	1,000 people waiting for housing

News Sun			
5/13/04	Spokane, WA	Scheduled public hearing May 25 to discuss impact	4,400 families in 5 Northwest counties receive vouchers
4/16/04	Massachusetts Dept. of Housing and Community Dev.	Held hearing to determine which families to terminate from program	Extensive media coverage precipitated widespread panic in state
4/23/04?	Hingham, MA	Sent notices to landlords telling them rent will be delayed	
5/11/04	Quincy, MA	Landlord notices re inability to pay June rent, public hearing on next steps	
	Woburn, MA	Froze admissions to Sec. 8 homeownership program	
?	Boston Housing Authority	Announced 7% across the board rent reduction to landlords	
5/5/04	Fall River, MA Housing Authority	Cancelled(47) new voucher holders	
?	Tacoma, WA	Scheduled public hearing. Expects to abandon local preference, lower payment standard and direct vouchers to higher income families	SEMAP score of 96.
4/30/04 Bergen Record	Woodbridge, New Jersey	Termination notices to 72 voucher holders	
5/4/04 Bergen Record	Patterson Housing Authority	"we're still being cautious in how many vouchers we give out"	
5/4/04 Bergen Record	Woodbridge Housing Authority	Cut 72 families as a result of HUD funding change	
5/15/04 Dallas Morning News	Dallas Housing Authority	Announced plans to shrink its Section 8 program by about 500 households	
4/21/04 Columbus Dispatch	Columbus Metropolitan Housing Authority	Columbus MHA planned to hold a public hearing to gain input before making changes.	
4/23/04 Columbus MHA Press Release	Columbus Metropolitan Housing Authority	Issued letters to landlords suspending future rent increases and reducing subsidy standards.	
5/11/04 Cleveland Plain Dealer	Cuyahoga Metropolitan Housing Authority	HA Board voted to reduce its payments from 110% FMR to 100% FMR	
5/11/04 Cleveland	Akron Metropolitan Housing Authority	Stated that would not issue new vouchers beginning July 1.	

Plain Dealer			
5/11/04 Cleveland Plain Dealer	Lake Metropolitan Housing Authority	Lake MHA notified landlords to let them know that we will not be accepting any more rent increases from landlords.	
5/10/04 Raleigh News & Observer	Durham, NC Housing Authority	In Chatham area, local housing authorities have close waiting lists.	
5/13/04 Contra Costa Times	Alameda County Housing Authority	Mailed letters to landlords and tenants on May 14 advising of the fiscal crisis and potential impact. Alameda City Council was to convene a special meeting on May 15 to consider alterative ways of handling the shortfall.	One owner stated that "we could end up having to evict people, which is crazy." Local PHA's are blaming the shortfall on language they say was "surreptitiously" inserted into a 2004 federal appropriations bill.
5/16/04 The Oakland Tribune	Alameda Housing Authority	Began searching for ways to make up $3 million shortfall without terminating Section 8 contracts for the month of June.	
5/15/04 San Jose Mercury News	Santa Clara County	Santa Clara County HA sent letter to HUD officials on May 11 requesting full payment that it expected on June 1 and asking for more explanation of the unexpected funding reduction. No answer as of May 14.	HUD told Santa Clara County it will receive $2 million less than normal in June to pay for vouchers, putting at risk almost 2,000 families.
5/18/04 Contra Costa Times	Alameda County	HUD denied funding for Alameda's Section 8 vouchers. Thus, 600 landlords may not be paid and about 5,000 Island residents could be at risk of losing their housing. Alameda has scheduled 2 meetings with landlords and tenants. City Council will consider stop-gap measures, including immediately canceling all Section 8 contracts and asking landlords to negotiate with tenants to use security deposits to cover June's rent; pay landlords between 50% to 60% now with a promise to pay remainder in90 to 120 days.	HUD's change in renewal formula has caused a $3.2 million shortfall. Alameda has a lack of reserves. HUD is required to replenish reserves but Alameda's refill is a year overdue.
5/16/04 Los Angeles Daily News	Los Angeles Housing Authority	In February, the Housing Authority of Los Angeles began rejecting assistance to 1,500 Section participants because of funding cuts.	More than 1,200 applicants are on Ventura County's waiting list. Because of high demand, families given

			60 days to find housing or risk losing voucher instead of 90 days plus an extension.
5/4/04 Dallas Morning News	NYC Housing Authority	$55 million shortfall caused by HUD renewal formula.	NYC trying to avoid evictions.

Section 8 Activity following HUD's 5/18 Announcement of a "Fix"

Date	Location	Action taken/announced	Comments
5/19/04	Los Angeles County Housing Authority (CA)	$6.1 million shortfall for FY 04, which ends June 30. Estimated $5 million shortfall for FY 05 County estimates a $1.13 million shortfall in FY 04 in administrative funding and a $1.8 million shortfall in FY 05 for administrative funding	If County uses reserves to cover deficit for FY 04 and FY 05, will have a reserve shortfall of about $3 million by end of FY 05 (6/30.05)
5/19/04 Source is Fall River Housing Authority	Fall River, MA	Will have a $372 million shortage in FY 04. Consequently, have notified certificate holders who are looking for apartment but have not yet found one that certificates will not be honored.	
5/19/04 Source is PG County Housing Authority	Prince George's County, MD Housing Authority	Department of Housing & Comm. Dev. estimates that new formula would result in $1.7 million cut annually, representing rental assistance for 200 families. HUD calculation for administrative fee will result in $500,000 reduction, representing 10 staff.	HUD rated County as a "High Performer" in large part due to 98% voucher utilization rate. Said it's being penalized for outstanding rate under HUD's funding formula.
5/19/04 Source is NYC Mayor's Washington, DC Office	NYC Housing Authority	NYC will lose $55 million because of HUD renewal formula and will have to stop issuing 6,000 vouchers annually, which would have gone to city's homeless	Had HUD chosen to use a graduate inflation factor, NYC would have been even worse off than the $55 million shortfall

		population.	
5/19/04 Source is Hocking Metro Housing Authority (Ohio)	Hocking Metro Housing Authority (Ohio)	$30,000 shortfall. They will cut 26 families by year end. Administrative fee also being cut by $20,000.	
5/19/04 Source is Athens County Housing Authority (Ohio)	Athens County Housing Authority (Ohio)	$100,000 shortfall.	
5/19/04	Columbus Metropolitan Housing Authority (Ohio)	Rep. Tiberi informed that Sec. Jackson has promised $2.5 million to fix their CMHA shortfall	
5/19/04 Source is St. Albans City Housing Authority	St. Albans City Housing Authority (VT)	$22,000 shortfall affecting some of the 75 vouchers it administers.	

May 13, 2004

United States House of Representatives
Washington, DC 20515

Dear Member of Congress,

The undersigned organizations urge you to support and cosponsor H.R. 4263, introduced by Representative Barney Frank (D-MA), to protect critical tenant-based rental housing assistance for low-income individuals and families across the nation and in your community. As a result of an extremely narrow interpretation by the U.S. Department of Housing and Urban Development (HUD) of its Fiscal Year (FY) 2004 appropriations bill, thousands of families potentially face rent increases they cannot afford or outright eviction from their homes.

On April 22, 2004, HUD issued a notice retroactively implementing to January 1, 2004, the Section 8 voucher funding renewal provisions in the FY 2004 VA/ HUD Appropriations conference report. According to the notice, HUD will no longer reimburse housing agencies for their actual costs, but will instead renew quarterly vouchers based upon costs as of August, 2003. These costs would be adjusted by a regional housing inflation factor. This policy creates several injurious outcomes.

First, the annual housing inflation adjustment factor HUD intends to apply to the August 2003 voucher costs does not keep pace with actual costs for many communities. This creates a significant gap between what the Section 8 voucher will cover and the tenant's actual rental costs. The result is an untenable choice for property owners of either evicting residents who cannot pay the rent or accepting significantly reduced rents. Second, some housing agencies may have to cancel hundreds or even thousands of their current vouchers to meet HUD's new cost limitations. Finally, lenders who over many years have become comfortable with relying on annually appropriated government subsidies when making underwriting decisions, could be forced to either impose significant mitigation requirements on affordable housing transactions or reevaluate their participation altogether. Both scenarios have the same result – less of the vital private capital needed to develop and preserve affordable housing.

In short, HUD's policy penalizes the voucher holders who, through no fault of their own, now risk losing their housing assistance. Further, property owners who agreed to accept the Section 8 vouchers are penalized as well, while financing for affordable housing in the long-term is endangered.

H.R. 4263 would amend the FY 2004 VA/ HUD Appropriations Act to satisfy Congress' stated intention that Section 8 vouchers be fully funded based upon a housing agency's actual per unit cost in the prior quarter, adjusted by inflation for the intervening months. This support for the program was reinforced by Congress in conference when it added $1 billion to the FY 2004 Section 8 program to ensure that all vouchers are fully funded. Under HUD's new voucher renewal policy, however, it appears that as much as $175 million of the funds Congress appropriated for vouchers could remain unspent this year at the same time as some families potentially face homelessness.

We urge you to support H.R. 4263 to help protect thousands of elderly, disabled and hard working families and individuals from losing their housing. To co-sponsor the legislation, you may email or call (5-7054) Scott Olson, Dominique McCoy or Kay Gibbs.

Sincerely,

American Association of Homes and Services for the Aging
Institute of Real Estate Management
Local Initiatives Support Corporation
National Affordable Housing Management Association
National Apartment Association
National Association of Affordable Housing Lenders
National Association of Home Builders
National Association of Housing and Redevelopment Officials
National Association of Realtors
National Council of State Housing Agencies
National Leased Housing Association
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WAYNE COUNTY HOUSING AUTHORITY

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May 7, 2004

Representative Barney Frank
2252 Rayburn House
Office Building
Washington, D.C. 20515-2104

Dear Repesentative Frank:

I would like to thank you for introducing H.R. 4263 to clarify the Section 8 renewal contracts process.

Since April 1, 2004, I have hit nothing but dead-ends, both with my representatives and Department of Housing & Urban Development. As the comptroller for the Wayne County Housing Authority we pride ourselves on operating a fiscally responsible agency, and with the new regulation PIH 2004-7 our authority is not going to able to achieve our own high standards. In fact, we'll be out of business.

If you should need my services I would like to volunteer my time, the people we help need to be heard. Please don't hesitate to call me (570) 488-6069 or e-mail me at joeb@echoes.net

In closing, I appreciate all that you doing for us.

Sincerely,

Joseph Blaskiewicz
Comptroller

JB/dlf

A Decade of HOPE VI:

Research Findings and Policy Challenges

By Susan J. Popkin, Bruce Katz, Mary K. Cunningham, Karen D. Brown, Jeremy Gustafson, and Margery A. Turner

May 2004

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In memory of our friend and colleague, Art Naparstek.

Acknowledgments

The authors of this report wish to thank the many people who have made significant contributions to it. In particular, we would like to thank several colleagues from the Urban Institute: Michael Eiseman helped facilitate symposium arrangements and made major contributions to the preparation of this report, especially the literature review; Shawnise Thompson coordinated the symposium arrangements; Jennifer Comey helped greatly with the early phases of planning for the conference and report and helped draft the material on residents; and Tom Kingsley and Arthur Naparstek made major contributions to our thinking and analysis, particularly on the impact of HOPE VI on neighborhoods. We wish to thank Darren Walker of the Rockefeller Foundation for his enthusiastic support for this project and for graciously hosting the symposium. We also thank the other funders of the Urban Institute's and Brookings Institution's broader work on HOPE VI and public housing transformation, which has greatly informed this report, including the U.S. Department of Housing and Urban Development, the John D. and Catherine T. MacArthur Foundation, the Annie E. Casey Foundation, the Fannie Mae Foundation, the Ford Foundation, the Chicago Community Trust, and the Robert Wood Johnson Foundation. Finally, we thank the symposium participants for the stimulating and thoughtful discussion that helped to shape this report. However, the views presented in this report are those of the authors, and do not necessarily reflect those of our participants, the Urban Institute, the Brookings Institution, or our funders.

Chapter 1: Introduction

Launched in 1992, the $5 billion HOPE VI program[1] represents a dramatic turnaround in public housing policy and one of the most ambitious urban redevelopment efforts in the nation's history. It replaces severely distressed public housing projects, occupied exclusively by poor families, with redesigned mixed-income housing and provides housing vouchers to enable some of the original residents to rent apartments in the private market. And it has helped transform the Department of Housing and Urban Development's (HUD) approach to housing assistance for the poor. This report provides a comprehensive summary of existing research on the HOPE VI program. Its central purpose is to help inform the ongoing debate about the program's achievements and impacts, and to highlight the lessons it offers for continuing reforms in public housing policy.

HOPE VI grew out of the work of the National Commission on Severely Distressed Public Housing, which was established by Congress in 1989. Congress charged the Commission with identifying "severely distressed" public housing developments, assessing strategies to improve conditions at these developments, and preparing a national action plan for dealing with the problem. Based on its investigation, the Commission concluded that roughly 86,000 of the 1.3 million public housing units nationwide qualified as severely distressed and that a new and comprehensive approach would be required to address the range of problems existing at these developments.

In response to these findings, Congress enacted the HOPE VI program, which combined grants for physical revitalization with funding for management improvements and supportive services to promote resident self-sufficiency. Initially, housing authorities were allowed to propose plans covering up to 500 units with grant awards of up to $50 million. The program's stated objectives were as follows:

- to improve the living environment for residents of severely distressed public housing through the demolition, rehabilitation, reconfiguration, or replacement of obsolete projects (or portions thereof);
- to revitalize sites on which such public housing projects are located and contribute to the improvement of the surrounding neighborhood;
- to provide housing that will avoid or decrease the concentration of very low-income families; and
- to build sustainable communities.[2]

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[1] HOPE VI stands for Housing Opportunities for People Everywhere.

[2] Section 24 of the United States Housing Act of 1937 as amended by Section 535 of the Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276)

Since 1992, HUD has awarded 446 HOPE VI grants in 166 cities. To date, 63,100 severely distressed units have been demolished and another 20,300 units are slated for redevelopment (Holin et al. 2003). As of the end of 2002, 15 of 165 funded HOPE VI programs were fully complete (U.S. GAO 2003b). The billions of federal dollars allocated for HOPE VI have leveraged billions more in other public, private, and philanthropic investments.

Evaluating HOPE VI

After a decade of HOPE VI, a wide range of constituencies—Congress, the administration, housing groups, local elected officials, resident advocates, and the media—are asking challenging questions about what all of the investment has accomplished:

- To what extent has HOPE VI achieved its intended benefits?
- What impact has HOPE VI had on the original residents, public housing sites, the neighborhoods in which developments are located, and the surrounding cities and metropolitan areas?
- What impact has HOPE VI had on approaches to public housing development, management, and design?
- On a more forward-looking note, what lessons does HOPE VI offer for public housing or for affordable housing policy more generally?

The nature of the HOPE VI program makes responding to these fundamental questions especially challenging. HOPE VI has not been "one program" with a clear set of consistent and unwavering goals. Rather, the program has evolved considerably during the past decade—in legislation, regulation, implementation, and practice. To an unusual extent, the program has been shaped more through implementation than by enactment. What was initially conceived as a redevelopment and community-building program evolved over time into a more ambitious effort to build economically integrated communities and give existing residents more choice in the private housing market. Because of the flexible nature of the program, local housing authorities have had tremendous latitude in how they chose to design and implement their local HOPE VI initiatives. It is impossible, therefore, to provide simple answers to general questions about programmatic effectiveness and "lessons learned." The response to such questions is usually another question: "Which HOPE VI program are you asking about?"

Owing to the unusual nature of the HOPE VI program, HUD has not—and probably could not have—carried out a single, comprehensive evaluation that would have examined all aspects of the program. In 1994, HUD initiated a "Baseline Assessment" of HOPE VI (Fosburg, Popkin, and Locke 1996) that was intended as the first step in an incremental evaluation process. This baseline analysis was followed by an "Interim Assessment" report (Holin et al. 2003). But these reports consist of case studies focusing primarily on HOPE VI sites and redevelopment plans; there was only a very minimal attempt to gather information about the original residents and no plan for tracking resident outcomes. As the program expanded, HUD added a requirement to the HOPE VI selection process that sites had to hire local evaluators, but the criteria for these evaluations were vague and there were no requirements that housing authorities collect specific types of performance measures. As a result, a lack of consistent data across sites has hindered national research on the program.

Further complicating the challenge of evaluating HOPE VI is the fact that the program was initiated at a time of enormous change in the broader public housing system. In many respects, HOPE VI has served as a laboratory to test new and often contentious ideas about public housing finance, management, and design. People's thinking about the performance and impact of HOPE VI is intertwined with their views on the evolution of federal housing policy more broadly, and their concerns about the future role of public housing in helping to address the needs of the poor.

In part because of the absence of definitive data and evaluation results, perceptions about the impacts of HOPE VI vary widely. Some people characterize it as a dramatic success, while others view it as a profound failure. There is no question that the program has had some notable accomplishments. Hundreds of profoundly distressed developments have been targeted for demolition, and many of them are now replaced with well-designed, high-quality housing serving a mix of income levels. HOPE VI has been an incubator for innovations in project financing, management, and service delivery. Some projects have helped turn around conditions in the surrounding neighborhoods and have contributed to the revitalization of whole inner-city communities. However, HOPE VI implementation has also encountered significant challenges. Some HOPE VI projects have been stalled by ineffective implementation on the part of the housing authority or conflict with city government. In others, developments were simply rehabilitated or rebuilt in the same distressed communities, with little thought to innovative design, effective services, or neighborhood revitalization.

Most seriously, there is substantial evidence that the original residents of HOPE VI projects have not always benefited from redevelopment, even in some sites that were otherwise successful. This can be partly attributed to a lack of meaningful resident participation in planning and insufficient attention to relocation strategies and services. As a consequence, some of the original residents of these developments may live in equally or even more precarious circumstances today.

Purpose of This Report

This report reviews the existing research literature on both the achievements and the challenges of the HOPE VI program. In addition, it draws upon a day-long symposium on the program's strengths and weaknesses, held in the fall of 2003, involving a diverse group of practitioners, policymakers, advocates, and researchers. This assessment comes at a critical time in the evolution of HOPE VI—and of public housing policy in general. In its FY 2004 and FY 2005 budget submissions, the Bush administration proposed eliminating funding for the program altogether, citing long delays between grant awards and the completion of the revitalization projects at many sites. Congress ultimately restored the program for FY 2004, but at a substantially lower level of funding.[3]

There is no doubt that housing authorities, cities, and industry advocates would prefer to continue the program. HOPE VI is currently the only major source of redevelopment funding, and many localities are pleased with their successes in replacing older projects that were blighting their communities with new, mixed-income developments. In contrast, advocates for low-income housing have been outspokenly critical of the program, pointing to sites where much money has been spent and little accomplished, and emphasizing the small numbers of original residents who have thus far been able to return to the revitalized HOPE VI sites. Yet, these advocates are now pushing to continue HOPE VI funding, though they are also pressing for extensive reforms such as greatly expanding the rights of original residents and formalizing their role in the redevelopment process (cf. Center for Community Change 2003, National Housing Law Project 2002).

This debate is not likely to be easily resolved, as it involves a number of highly contentious issues:

- the appropriate targeting of limited resources for affordable housing;
- the impact of HOPE VI on the larger affordable housing supply and the appropriate roles of the public and private sector in providing this housing;
- the needs of residents who are being displaced, and the extent to which HUD and local housing authorities are responsible for addressing these needs;
- how race and ethnicity limit choices and opportunities for public housing residents; and
- what to do about "hard-to-house" public housing residents, including families with special needs (multigenerational households, large families, disabled residents), "lease violators" (with back rent payments, criminal histories, illegal residents on the lease), and residents with substance abuse or mental illness who are at risk of becoming homeless.

Research alone cannot resolve these issues, but this report seeks to help inform the ongoing debate by pulling together a wide array of research to address the critical questions about the program's achievements, impacts, and the lessons it offers for public housing policy. This is, by necessity, an early and limited assessment. Most projects are still undergoing redevelopment, and many new developments are not "seasoned enough" to allow for a definitive examination. For now, in the absence of a comprehensive evaluation, we draw on the considerable evidence available from targeted efforts to examine different aspects of the HOPE VI program. This evidence includes large-scale studies carried out by the Urban Institute on resident outcomes, Abt Associates' baseline and interim assessments, the recent

[3] The FY 2004 appropriation for HOPE VI was $149 million. As of this writing, the FY 2005 budget has yet to be passed by Congress.

attempts to assess neighborhood impacts by the Brookings Institution and the Housing Research Foundation, as well as the many smaller studies by local evaluators and related research on mobility and scattered-site housing.

In our view, this evidence strongly supports continuation of the HOPE VI approach as a way to improve outcomes for distressed developments, residents, and neighborhoods. The program has achieved substantial success; it has demolished some of the most distressed and destructive housing environments, replaced them with much higher-quality housing and, in many cases, with mixed-income communities. Many residents who relocated with vouchers are living in higher-quality housing in safer neighborhoods. Therefore, HUD should continue to operate a targeted redevelopment program that provides funds for both physical revitalization and supportive services. However, the evidence also points to the urgent need for reforms in the HOPE VI program if it is to realize its full potential to improve the circumstances of very low-income families and communities. In particular, assistance with relocation and supportive services should be strengthened, and new attention should be given to innovations such as "enhanced vouchers" that would provide long-term counseling and support to vulnerable families in conjunction with housing assistance.

Chapter 2 provides essential background for understanding the performance of HOPE VI, by describing the dreadful conditions in many central city public housing developments that led to the call for a radical new approach to public housing. Next, we offer a brief overview of fundamental changes in public housing policy that began in the 1990s and that influenced the evolution of the HOPE VI program. Chapters 4 through 7 discuss the outcomes of HOPE VI, focusing in turn on the public housing sites themselves, the original residents, services and supports for today's residents, and improvements in the surrounding neighborhoods. The report concludes with a review of key lessons learned, priorities for ongoing research, and implications for the future of HOPE VI and public and assisted housing policy more broadly.

Chapter 2: Severely Distressed Public Housing

Public housing was originally intended to provide decent and affordable accommodations for low-wage workers and other families for whom market rents were out of reach. But by the end of the 1980s, public housing was widely viewed as a failure. Although many local housing agencies maintained and operated high-quality programs, living conditions in the nation's most dilapidated public housing developments were deplorable, and a complex layering of problems left these developments mired in the most destructive kind of poverty (Blank 1997). These problems included extreme racial and economic segregation and inadequate public services, particularly police, schools, and sanitation. Most residents were unemployed, depending on public assistance or the underground economy (Popkin, Gwiasda et al. 2000). Ineffective housing authority management and inadequate federal funding had left these developments with huge backlogs of repairs, creating hazardous conditions that placed residents at risk for injury or disease. Exacerbating these problems, violent criminals and drug dealers dominated many distressed developments, and residents lived in constant fear. These developments had become dangerous and destructive communities in which to live, undermining the welfare of families and children. Moreover, their profound poverty, distress, and disorder blighted surrounding neighborhoods, which though typically less poor than the public housing, still had very high rates of poverty, unemployment, high school dropouts, crime, and other social ills, few services or stores, and even fewer jobs.

In this section, we review the evidence on conditions in severely distressed public housing that led to the call for a radical new policy approach. Understanding the depth and complexity of these problems—and the factors that contributed to them—is essential for understanding both the achievements and the shortcomings of the HOPE VI program to date. We also draw on more recent evidence on conditions in developments targeted for HOPE VI awards since 1999, which point to continuing problems in aging central city developments, and the ongoing need for innovative redevelopment efforts.

Impoverished Residents

In its final report to Congress, the National Commission on Severely Distressed Public Housing (1992) focused much of its attention on residents, stating that severely distressed public housing was "not simply a matter of deteriorating physical conditions, it is more importantly one of a deteriorating severely distressed population in need of services and immediate attention." Consistent with this emphasis, the commission's definition of "severely distressed" public housing focused first on residents:

- residents living in despair and generally needing high levels of social and supportive services;
- physically deteriorated buildings; and
- economically and socially distressed surrounding communities.[4]

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[4] This definition was later codified in the Quality Housing and Work Responsibility Act of 1998 (Section 513.d.2), which officially defined severe distress as housing that 1) requires major redesign, reconstruction, redevelopment, or partial or

Although not discussed in the commission's report, these "residents living in despair" were primarily minority women and children—predominantly African-American and extremely poor. In other words, African-American and Hispanic residents suffered the effects of living in the worst public housing, and the same residents later experienced the consequences—good and bad—of the changes that HOPE VI brought about. A national analysis of HUD data documented that the majority of HOPE VI residents were African-American or Hispanic. Further, a staggering 88 percent of the people who lived in the neighborhoods surrounding the severely distressed developments were minorities.[5]

The causes of the extreme levels of racial and economic segregation in distressed public housing are well known (Massey and Kanaiaupuni 1993). In many cities, historical discriminatory practices led to the deliberate siting of public housing in poor minority neighborhoods that lacked access to transportation and jobs (Bickford and Massey 1991). For several reasons, including lack of political clout, deliberate neglect, and prejudice, these developments were often allowed to deteriorate, and their residents suffered high levels of physical and social distress.[6] The net effect was that HOPE VI revitalization efforts almost exclusively affected minority residents and communities. This fact is rarely cited in the policy debates over HOPE VI, but the reality is that the issue of race must be a central element in any discussion of the program's impact on residents and communities.

The economic segregation in distressed public housing was also staggering. The National Commission on Severely Distressed Public Housing cited evidence that more than 80 percent of public housing residents lived below the poverty threshold, and most earned less than 20 percent of what unsubsidized residents in the same communities earned.[7] More alarming still, the commission found an eight-fold increase in the share of the very poorest families living in public housing between 1981 and 1991.[8] Not surprisingly, rates of unemployment and public assistance receipt were also very high. The

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total demolition...; 2) is a significant contributing factor to the physical decline and disinvestment...in the surrounding neighborhood; 3) is occupied predominantly by ... families with children that are very low income, whose members are unemployed and dependent on various forms of public assistance, or has high rates of vandalism and criminal activity; and 4) cannot be revitalized through assistance under other programs.

[5] Other research has found similar results—research commissioned by HUD on a sample of 15 developments documented that their populations were almost exclusively African-American and Hispanic (Fosburg et al. 1996); likewise, 89 percent of residents in the *HOPE VI Panel Study*, a five-site study of the impact of HOPE VI on residents, were African-American, and the rest were Hispanic (Popkin et al. 2002).

[6] Between 1976 and 1993, there was only a modest decline in levels of segregation in public housing, with most black families continuing to live in extremely poor neighborhoods, while white public housing residents lived in projects with comparatively lower poverty rates. On average, African-American family households lived in developments that were 85 percent black and in neighborhoods that were 69 percent black. By comparison, the average white public housing family lived in predominantly white developments (60 percent) in white neighborhoods (78 percent) (Goering and Kamely 1997).

[7] This figure excludes elderly households.

[8] Families earning less than 10 percent of median income increased from 2.5 percent in 1981 to 20 percent in 1991.

commission's findings on the extreme poverty of HOPE VI residents were echoed in a HUD study completed in 1996 (Fosburg, Popkin, and Locke 1996), in national analysis of HUD administrative data (Kingsley, Johnson, and Pettit 2003), and more recently in the HOPE VI Panel Study Baseline, a study of residents in five developments first slated for redevelopment in 2000 (Popkin et al. 2002).

The concentration of profoundly poor households in these developments resulted in part from HUD policies targeting public housing assistance to households at the lowest income levels and giving priority to those in the most extreme distress. In addition, however, the deplorable physical conditions in these developments contributed to the concentration of poverty. Only the poorest and most vulnerable families were willing to live in the most dilapidated public housing because they had the fewest alternatives. In fact, it was common for families that had been on waiting lists for long periods to turn down offers to move into many of the sites targeted under HOPE VI. For example, before the Connie Chambers public housing project in Tucson, Arizona, was redeveloped, two out of every three potential tenants declined to live there.

Aging and Dilapidated Developments

"Severely distressed" public housing was everything the label implies—dilapidated, often largely vacant buildings that showed the effects of poor construction, managerial neglect, inadequate maintenance, the wear and tear of generations of families with young children, and rampant vandalism. The HUD-sponsored Baseline Assessment of HOPE VI, a set of 15 case studies completed in 1996, documented the appalling conditions in these sites (Fosburg et al. 1996).[9] The developments in this study were all early HOPE VI sites, selected from the first two rounds of funding awards. But research on more recent HOPE VI awardees has also found evidence of extremely poor physical conditions. The HOPE VI Panel Study (Popkin et al. 2002) asked residents about the pre-revitalization conditions of their housing.[10] Most reported multiple serious problems with their housing, including cockroach infestations, excessive mold, and heating and plumbing problems.

> *"Like there's a person upstairs, the toilet leaks. . . and this infects the walls. Water was coming all up the side of the wall, see how the wall is broke off? It's dangerous to your health because there [is] an odor to it. You wake up in the morning and it smells so bad you have to open doors. You have to open the doors and windows in the morning time."*
> *Resident of Ida Wells, Chicago*

[9] This study was conducted by Abt Associates for HUD. The follow-up study was completed in 2003. See Holin et al. (2003) for a complete description of the project.

[10] The HOPE VI Panel Study is a major, multisite study tracking outcomes for a sample of 887 residents from five HOPE VI sites where redevelopment activities began in 2001. See Popkin et al. (2002) for a complete description of the study and methods.

Many factors contributed to the physical problems in severely distressed public housing, including poor design, shoddy construction, inadequate federal funding for ongoing maintenance and modernization, and managerial neglect. Many of the housing authorities responsible for large numbers of troubled developments were themselves troubled—inefficient, lacking accountability, and generally under qualified as real estate managers. Federal funding constraints also contributed to the problems, limiting the resources available for repairs and revitalization. Further, HUD often penalized housing authorities for poor management performance by not granting their full allocation of modernization funds, resources that could have been used to repair their worst properties.[11]

The large number of vacant units—a sign of both poor management and an undesirable property—in many developments made things worse for the residents and further accelerated the downward spiral of living conditions. Vacant units reduced rental incomes and exacerbated cash flow problems for the housing authorities. Vacant units were easy targets for vandals, who often stripped them of pipes and cabinets; drug dealers and other individuals engaged in illicit activities often squatted in these units. The tragic case of Eric Morse, a 5-year-old boy who was dropped out the window of a vacant unit in a Chicago public housing high-rise by two teenaged neighbors, vividly illustrates the hazards created by unsecured vacant units.[12]

Crime and Disorder

Extremely high levels of drug trafficking and violent crime also plagued most severely distressed public housing developments. The Commission Report and the HOPE VI Baseline Assessment documented the miserable conditions that prevailed in these developments, with residents living in constant fear. The high levels of crime and disorder resulted not only from the overconcentration of profoundly poor and troubled families, but also from ineffective management by local housing authorities. In many developments, leases were not enforced, disruptive and destructive residents were not evicted, vacant units were not secured, and policing was inadequate. It is telling that in the mid-1990s, public housing residents who signed up to participate in HUD's Moving to Opportunity (MTO) demonstration, which provided randomly selected participants with vouchers they could use only in low-poverty communities, cited the desire to get away from drugs and gangs as their main motivation for participating.[13]

Extreme problems with crime persisted in many public housing developments even as crime dropped elsewhere during the 1990s. In the baseline for the HOPE VI Panel Study, completed in 2001,

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[11] See Popkin, Gwiasda et al. (2000) for a description of how HUD's decision to withhold funds from the troubled Chicago Housing Authority (CHA) during a management dispute in 1982 contributed the CHA's decline.

[12] See Jones and Newman (1997) for a history of the Eric Morse case.

[13] The MTO demonstration involved randomly assigning residents from high-poverty public housing developments to receive a voucher that could only be used in a census tract with less than 10 percent poverty; receive a regular Section 8 voucher; or remain in public housing. See Goering and Feins (2003) and Orr et al. (2003) for complete descriptions of the demonstration and its findings to date.

nearly three-quarters of the residents surveyed reported major problems with drug trafficking and drug sales in their developments. Two-thirds of survey respondents reported that shootings and violence were also big problems, and half of the respondents reported that they did not feel safe just outside their own buildings.

The combination of intense poverty, physical deterioration, and social disorder in the nation's most severely distressed public housing developments called for a bold new approach to revitalization and a radical departure from traditional HUD and housing authority practices. In the following chapters, we review the policy changes implemented under the HOPE VI program and what we know thus far about the program's impacts on developments, residents, and communities.

Chapter 3: HOPE VI and the Evolution of Public Housing Policy in the 1990s

After 18 months of review, site visits, and analysis, the National Commission on Severely Distressed Public Housing recommended a 10-year, coordinated effort to address the full range of resident, development, management, and neighborhood issues. Estimating that 86,000 units (approximately 6 percent of the public housing stock) were severely distressed, the commission projected the total cost of the effort at $7.5 billion (in 1992 dollars) and recommended that Congress fund a 10-year effort at $750 million a year. The Urban Revitalization Demonstration (later renamed HOPE VI) was sponsored by Senators Barbara Mikulski and Christopher Bond, and incorporated into the FY 1993 appropriations law. The HOPE VI program was intended to fundamentally transform public housing by combining the physical revitalization of distressed public housing properties with community building and supportive services. HOPE VI funds covered capital costs to reconstruct replacement units, fund Section 8 vouchers, and improve management practices. Reflecting the commission's focus on community building and resident empowerment, the law also set aside 20 percent of the initial $300 million appropriation for community service programs and for supportive services, including literacy training, job training, day care, and youth activities.[14]

Part of the impetus for a bold new approach to revitalizing public housing was the failure of earlier HUD efforts to improve distressed public housing developments substantially. For example, the Major Reconstruction of Obsolete Housing Program (MROP) was intended to deal with developments that had "severe modernization needs," but it had very little impact overall. The funding pool was so limited that only small shares of redevelopment efforts could be paid for, with no guarantee of future funding to complete the work.

Moreover, several regulatory obstacles conspired to limit the effectiveness of pre-HOPE VI redevelopment efforts. First, the "one-for-one" replacement law required that a new housing unit be built for every unit that was demolished. For cash-strapped housing authorities, this requirement essentially prohibited any demolition. Even housing authorities that could afford to build new units faced serious barriers. HUD had ruled that replacement units could not be constructed in neighborhoods that were racially segregated, but nonminority communities often opposed the introduction of any new public housing units, and small-scale, scattered site properties were difficult to acquire and maintain. HOPE VI was designed to address these barriers comprehensively so that severely distressed public housing properties could be renovated or replaced with high-quality housing developments.

The enactment of HOPE VI in 1992 coincided with the election of President Bill Clinton and the appointment of Henry Cisneros, the former mayor of San Antonio, as Secretary of Housing and Urban

[14] The appropriations law was heavily influenced by a 1992 report by the Cleveland Foundation Commission on Poverty.

Development. Cisneros's tenure was marked by an intense focus on broader public housing transformation. Over the course of the 1990s, the HOPE VI program evolved from an initiative focused on reconstruction and resident empowerment to one animated by broader goals of economic integration and poverty deconcentration, "new urbanism," and inner-city revitalization. At the program's inception, HUD encouraged housing authorities to replace distressed properties with new, lower-density developments and to achieve a broader range of incomes by attracting working families that were nonetheless still eligible for public housing. But beginning with the 1996 Notice of Funding Availability (NOFA), HUD began to encourage grant applicants to explore mixed-financing strategies, combining public housing with units financed with shallower subsidies (such as the Low Income Housing Tax Credit) and even market-rate units. In addition, HUD promoted new design concepts, neighborhood-wide revitalization strategies, and homeownership opportunities. Later NOFAs increased the attention given to resident services and supports, including relocation services, and mandated that supportive services be provided to the original residents, even if they did not return to the HOPE VI site (Holin et al. 2003).

All of these changes occurred in the context of evolving policies toward public and assisted housing more generally, and represented the "leading edge" of policy reform. To assess the impacts and implications of HOPE VI, it is essential to understand the larger policy context in which the program was implemented and the changes in thinking about the role of public housing in urban communities.

Poverty Deconcentration and Income Mixing

A central premise of HOPE VI—and of the broader public housing transformation effort that began in the 1990s—was that the overconcentration of profoundly poor, nonworking households was a major contributor to the high levels of social problems in distressed public housing.[15] Thus, to improve the lives of public housing residents, policymakers placed increasing priority on the need to deconcentrate poverty, through two complimentary strategies: (1) helping them relocate to better neighborhoods and (2) creating healthier, mixed-income communities in place of the distressed public housing developments.

Beyond the HOPE VI program, efforts to deconcentrate poverty and offer greater choice to low-income households included overhauling the Section 8 program to make vouchers more acceptable to the private market;[16] vigorous enforcement of fair housing laws; and settlement of a number of public housing desegregation cases, generally involving the provision of vouchers to remedy past discrimination.[17] The Moving to Opportunity demonstration, initiated in 1994, offered special-purpose vouchers along with mobility counseling to help public housing residents move to low-poverty areas. This demonstration was designed to rigorously measure the impacts of this assistance on neighborhood outcomes and the long-

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[15] See Popkin, Gwiasda et al. (2000) for a full discussion of the history and theories underlying the transformation of public housing.

[16] Provisions requiring landlords to give tenants additional notices were repealed. Also repealed were provisions that (a) required landlords accepting one voucher family to accept all qualified voucher families (the "take one, take all" rule) and (b) prohibited term leases.

[17] For a full discussion of these cases, see Popkin et al. (2003).

term well-being of families and children (Goering and Feins 2003; Orr et al. 2003). In 1996, the Regional Opportunity Counseling Initiative allocated funds to housing authorities in a small number of urban regions to experiment with mobility counseling programs that would expand location choices for Section 8 holders. Also during this period, tens of thousands of privately owned but federally subsidized housing units were either converted to market-rate housing or were demolished under the mark-to-market program; residents of these developments were generally given "enhanced vouchers" and relocation counseling (cf. Locke and Nolden 1999; Varady and Walker 2003).[18]

In 1998, reflecting the new emphasis on mobility and location choice, the Section 8 program was renamed the Housing Choice Voucher program. By the end of the decade, the voucher program had surpassed the public housing program to become the largest housing assistance program in the United States, and was increasingly recognized as an essential tool for helping low-income households obtain affordable housing without reinforcing the concentration of poverty.

The transformation of assisted housing policy during the 1990s also led to changes in federal laws to reduce the concentration of extremely poor households in public housing developments, the repeal of the one-for-one replacement rule, and an emphasis on promoting self-sufficiency and employment among public housing residents. As part of this effort, HUD altered the statutory and regulatory environment to both promote economic integration in developments and reward work. Specifically, Congress repealed an array of federal admission rules that had required local housing agencies to give preference to very poor families (including homeless families) in resident selection. Housing authorities were given greater flexibility in setting resident selection preferences, based on local housing needs and priorities—thus making possible a more diverse mix of incomes among public housing residents. The Quality Housing and Work Responsibility Act of 1998 (QHWRA) allowed housing authorities to take a number of measures to attract higher-income residents, particularly reinstituting "ceiling rents," which cap rent levels so that tenant rent contributions do not increase indefinitely as incomes rise.[19]

Quality Design Principles

In addition to emphasizing choice and opportunity for residents, the transformation of public housing led HUD to reexamine the design principles that had shaped public and assisted housing for decades. Most public housing was built to conform with "modest design" standards, so that costs would be minimized. But in some cases, these design standards contributed to high maintenance costs, poor living conditions,

[18] By 2003, 62,000 units were slated for demolition under Section 2020 mandatory conversions and other demolition efforts.

[19] The Quality Housing and Work Responsibility Act of 1998 requires that at least 40 percent of a housing authority's units made available in a year must be occupied by families with incomes at or below 30 percent of the area median income. If more than 75 percent of the new or turnover Section 8 vouchers are used by families with incomes below 30 percent of the area median income, then this 40 percent requirement can be reduced to as low as a 30 percent share.

vandalism, and even crime (Popkin, Gwiasda et al. 2000). HOPE VI coincided with the emergence of new urbanism as a guiding set of principles in the field of community design.[20]

New urbanism calls for "traditional neighborhood patterns essential to restoring functional and sustainable communities. These patterns include: houses facing the streets, with . . . a mix of housing types, prices, and sizes to attract a mix of people; shopping and parks accessible via footpaths and sidewalks; a grid of streets" (Newman 1996). HUD also promoted the concept of "defensible space" in which "urban communities . . . [are] structured to allow residents greater control over the areas just outside their residence" (Newman 1996). This type of design translates into fewer common areas and more private and semiprivate space for residents, a drastic change from high-rises with common entrances and walkways.

Public Housing Management Reforms

HOPE VI also contributed to a transformation of public housing management. Traditionally, public housing was highly regulated by the federal government, with federal rules and statutes affecting every aspect of administration, including admissions, rents, evictions, resident rights and relations, modernization, development, and procurement. With the advent of HOPE VI, HUD deregulated public housing and promoted a more entrepreneurial, market-driven culture in public housing management. HUD streamlined and simplified the rules governing nearly every aspect of public housing management, eliminating dozens of handbooks and guidelines in the process. Further, in rewarding HOPE VI grants, HUD placed substantial emphasis on developing public/private partnerships among housing authorities, private-sector developers, and management firms. Housing authorities were encouraged to experiment with new forms of asset management approaches in which the bulk of on-site management was subcontracted to private firms.

Crime Reduction Strategies

The 1990s also saw a concerted effort to reduce crime in public housing. Many housing authorities were struggling to gain control of developments overrun by violent crime and drug trafficking (cf. Popkin, Gwiasda et al. 2000). From 1988 to 2002—the era of the war on drugs—the Public Housing Drug Elimination Program (PHDEP) helped housing authorities pay for drug prevention efforts, including their own police and security forces.[21] Further, HUD revised lease rules for public and assisted housing to place greater emphasis on tenant screening and lease compliance and allowed housing authorities to set individual screening criteria for their new mixed-income developments. Enacted in 1996, the "one-strike" provision gave housing authorities power to evict households if any member showed evidence of drug-

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[20] In fact, HUD was a signatory to the Charter for New Urbanism executed in 1994.

[21] PHDEP was funded under the Anti-Drug Abuse Act of 1988 (P.L. 100-690), which authorized HUD to fund drug-control programs in local housing authorities.

related criminal activity.[22] One-strike gave housing authorities broad latitude; managers could evict entire households even if the leaseholders did not know about the criminal acts.

Public Housing Finance

Finally, in addition to these regulatory changes, the transformation of public housing involved profound changes in financing public housing. Prior to HOPE VI, the federal government bore the full costs of designing and constructing new public housing. Strict cost restrictions often limited the ability of public housing authorities (PHAs) to build decent-quality housing with amenities that could appeal to a broader market. HUD rules also actively discouraged investments from local governments and private-sector lenders and investors.

As HOPE VI evolved, the financing picture shifted substantially, with the private sector taking on an unprecedented role. To ensure a greater mix of tenants, HUD encouraged developers to leverage HOPE VI funds with private-sector debt, private-sector equity (raised through the federal housing low-income housing tax credit), other federal grants, local capital dollars, and infusions of philanthropic resources. To "pioneer" the market, HUD used Federal Housing Administration (FHA) insurance to stimulate private lending in neighborhoods that had not witnessed new investment for decades. The goal was to make HOPE VI a flexible source of capital, thereby providing a catalyst for other investment in neighborhoods that had been redlined by conventional financial institutions. The long-term implications of these changes are not yet clear, but they seem to have the potential to profoundly change the character of public housing in the United States.

[22] The one-strike law was enacted in 1996 as part of the Housing Opportunity Program Extension Act (P.L. 104-120, 110 Stat. 834-846) and amended by the Quality Housing and Work Responsibility Act of 1998. The law was challenged by civil rights groups, and the issue went to the Supreme Court in 2002. The Court upheld the law, permitting the eviction of tenants for any drug-related activity, even when the leaseholder did not know, could not foresee, or could not control the behavior of other occupants. *Rucker v. Davis,* No. 00-17000, 00-1781 (U.S. Mar. 26, 2002).

Chapter 4: Impact of HOPE VI on Public Housing Developments

The most basic goal of the HOPE VI program was to transform physically deteriorated, poorly managed, and financially distressed properties into high-quality living environments where families would choose to live. In many sites, this meant demolishing old buildings and replacing them with new, lower-density developments that reflect today's design standards. Some sites went further than simply building new and higher-quality public housing, developing housing for a mix of income levels, assembling financing from a wider range of public and private sources, and instituting management reforms. These more ambitious changes in HOPE VI developments provide models of how the public housing program as a whole could evolve over time. This chapter reviews the evidence to date on the impact of HOPE VI on the physical conditions in revitalized developments and on the mix of resident incomes, public housing financing, and site management.[23]

New, Well-Designed and Well-Constructed Developments

Many severely distressed public housing properties were poorly designed and constructed from the outset. They were often huge developments, featuring either looming high-rises or sprawling, barracks-style townhouses. Units were typically small and lacked amenities, and materials and construction were often shoddy. Over time, their physical condition had deteriorated badly owing to the combined effects of wear and tear, poor design and construction, inadequate funding, and poor management. HOPE VI sought to transform these sites into smaller, lower-density developments, composed of attractive buildings and appealing open spaces. Moreover, as discussed earlier, HUD encouraged developers to follow new urbanism design principles and promoted the concept of "defensible space."

Although the physical revitalization of public housing developments has been slow—in some cases, taking more than a decade—completed HOPE VI sites have dramatically improved the aesthetics of public housing. Not only were buildings torn down and replaced, but street layouts were improved, open spaces were redesigned, and landscaping was enhanced. The program was awarded a Ford Foundation Innovations grant in 2000, and individual HOPE VI sites have received numerous design awards and accolades.[24]

Research evidence about the characteristics of completed HOPE VI sites comes primarily from the HUD-sponsored Interim Assessment conducted by Abt Associates, Inc. (Holin et al. 2003). This study examined 13 completed HOPE VI sites. In four of these sites, existing buildings were rehabilitated, while

[23] Tom Kingsley of the Urban Institute made major contributions to this chapter. We particularly appreciate his insights on mixed-income housing.

[24] See http://www.housingresearch.org for best practices.

in nine, at least some of the original units were demolished and new housing was constructed. In general, redevelopment at all of the sites attempted to reduce density, improve security through the reconfiguration of both buildings and open spaces, and enhance the integration of the development with the surrounding neighborhood.

Not surprisingly, the sites in which all or most of the original buildings were demolished achieved the most dramatic physical transformation. In Washington, D.C., for example, the drab, two-story apartment buildings of Ellen Wilson Homes were replaced with an attractive mix of townhouses and detached units designed by a prominent local architect to blend into the historic Capitol Hill neighborhood. The buildings are varied in terms of architecture, building materials, and color so that they look like individual homes within the larger neighborhood, rather than a separate housing development. But some sites that rehabilitated existing buildings also achieved dramatic improvements. For example, Milwaukee's Hillside Terrace reconfigured streets and landscaping to create 12 "micro-neighborhoods" of about 40 units, each grouped around a central courtyard with a distinctive "monument" at the entryway. The new network of streets and sidewalks opens up the development to the surrounding neighborhood and encourages residents to walk around the development, creating more activity and natural surveillance of common areas (Holin et al. 2003).

Four types of positive physical changes were common to all the sites in the Interim Assessment study: an overall reduction in density; connecting properties to the surrounding area through the introduction of sidewalks and street grids; physical changes that increased safety, such as private entrances that face the street; and improved exteriors—for example, bay windows, front porches, or gabled roofs. As HUD intended, most of the completed HOPE VI sites in the study incorporated new urbanism and defensible space principles. In all of the sites, a majority of residents in the new developments reported being satisfied with their units (Holin et al. 2003).

Case studies of selected HOPE VI developments (e.g., Turbov and Berry 1999) also highlight the program's successes in replacing high-density, high-rise, and barracks-style housing with lower-density townhouses and low-rise dwellings. In addition to lower density, quality construction, and defensible space, better amenities—such as central air conditioning and washers and dryers—were provided to attract higher-income households. Some developments also employed "income-blind" design approaches, where all units were identical inside and out, and lower-income residents could occupy any unit. This strategy is intended to avoid a concentration of poorer residents in one part of a development and to encourage greater interaction among residents with different income levels.

To cover better quality design and construction, HOPE VI allows higher per-unit development costs than have been permitted for public housing in the past. In principle, these higher development costs should pay off over time, not only in terms of better-quality living environments, but also in lower maintenance costs. More specifically, well-designed and constructed housing is expected to discourage vandalism and hold up better in the face of normal wear and tear. Although it is too soon to gather systematic evidence on ongoing management and maintenance costs, recent return visits to reoccupied sites in HUD's Interim Evaluation indicate that, in general, the new developments remain in good physical condition (Holin et al. 2003).

While HOPE VI does appear to have produced better-designed and higher-quality housing developments, the reductions in density, combined with the mixed-income strategy discussed below, has resulted in a net loss of housing units that are permanently affordable for very low-income households. Specifically, developments awarded HOPE VI grants through 2003 accounted for 94,600 public housing units. Current plans call for a total of 95,100 replacement units, but only 48,800 of these will receive the deep, permanent public housing operating subsidies necessary to reach households with very low incomes. The remainder will receive shallower subsidies—and serve families who are not necessarily eligible for public housing, or no subsidies—and serve market-rate renters or even homebuyers. Thus, only slightly more than half of the original stock of deeply subsidized units is expected to be replaced.[25]

It is important to note that only about two-thirds of the original HOPE VI units were occupied at the time of the grant award, and some had been vacant—and virtually uninhabitable—for a long time. The share of *occupied* public housing units scheduled for replacement is higher—78 percent. Moreover, in most years HOPE VI sites were eligible for supplemental allocations of vouchers for households displaced from their original units. An estimated 63,000 to 70,000 of these supplemental vouchers were allocated to replace demolished public housing units between 1995 and 2003. But it is not known how many were for HOPE VI projects and how many were for other public housing demolition. Therefore, questions persist about whether the total number of deeply subsidized replacement units—including *both* "hard" units and vouchers—compensates fully for the loss of public housing units under HOPE VI.

In addition to concerns about the total volume of replacement housing assistance, the redevelopment process has lagged in some HOPE VI sites. Although old buildings have generally been demolished quickly, it has sometimes taken years to construct any new housing on the site. Particularly in the early years of the program, some housing authorities that were awarded grants were troubled agencies with long histories of mismanagement and little capacity to implement a program as complex as HOPE VI. In other sites, such as Chicago and Newark, litigation has delayed new construction—in the case of Chicago's Cabrini-Green, for years. Even better-managed housing authorities face a steep learning curve in dealing with the complex financial and political challenges of redevelopment. The often-lengthy delays between grant award and redevelopment have been among the major criticisms of HOPE VI (cf. National Housing Law Project 2002) and one of the main justifications given by the Bush administration for proposing to eliminate the program in 2003 (Liu 2003).

Mixed-Income Developments

Income mixing has become a hallmark at HOPE VI sites across the country. As discussed in chapter 3, researchers and policymakers hoped that by targeting occupancy to residents with a wider range of

[25] So far, 49,828 units have been demolished, and 21,000 hard units have been created (Kingsley et al. 2004).

incomes, HOPE VI could reverse decades of public housing policy that concentrated the poor and gave rise to the "full range of physical, economic, and social problems associated with poverty" (Suchman 1996). The expectation is that properties that have to attract and retain higher-income residents will be better managed and maintained over time, and that a mix of income levels creates a healthier social environment and brings better services—especially schools—to the surrounding neighborhood from both local government and the private, retail sector.

Thus far, research indicates that mixed-income public housing developments can be successful in creating well-managed communities that attract higher-income tenants. The Interim Assessment of HOPE VI (Holin et al. 2003) identified several mixed-income developments that were operating successfully, attracting a mix of market-rate, affordable, and low-income tenants. Evidence also shows that mixed-income housing is safer and better managed than the distressed public housing it replaced (Brophy and Smith 1997; Epp 1996; Rosenbaum and Stroh 1998). In some sites, the development of mixed-income housing has gone hand-in-hand with targeted improvements in neighborhood public schools, a strategy for both attracting higher-income residents and improving the well-being of low-income families (Turbov and Piper forthcoming). Finally, as will be discussed in chapter 7, there is some evidence from the Interim Assessment and other research that these mixed-income developments may have economic benefits for the surrounding community as well.

It is important to note that mixed-income strategies vary considerably in terms of the range of income levels they attempt to incorporate into a single community. Some HOPE VI developments now serve households that are all public housing eligible, but that range from extremely low-income households (and often households dependent on public assistance) to the working poor. For example, the redeveloped properties of Bernal Dwellings and Plaza East in San Francisco serve 100 percent public housing families. More ambitious efforts—such as the HOPE VI developments in Atlanta, Charlotte, and Washington, D.C.—incorporate market-rate rental and homeowner housing alongside public housing (as well as units with other, shallower subsidies) to create a much wider range of incomes in a single residential community. In general, the Interim Evaluation found that mixed-income sites offered more amenities, greater "market appeal," larger rooms, and more innovative design features. Nonetheless, the 100 percent public housing sites were able to incorporate many appealing design features, and typically provided more units suitable for large families (Holin et al. 2003).

One important advantage of mixed-income housing is that it can diversify a project's cash flow, reducing its reliance on federal subsidies as a source of revenue for operations and debt service. However, experience indicates that mixed-income development rarely reduces the *per-unit* subsidies needed to serve households at a particular income level. In other words, cross-subsidization is feasible only in very tight housing markets or if the developer requires little or no profit. Nevertheless, the mix of income diversifies a project's revenue stream and may help buffer it against shifts in costs and subsidy levels (A. Smith 2002).

A second argument for a mixed-income strategy is that it should create a strong market incentive for high-quality management and maintenance, potentially improving the quality and sustainability of the housing that is reserved for the poorest households. To attract higher-income tenants, mixed-income developments must be well maintained and have a reputation for being safe and secure; failing to meet these criteria may cause the development to fail financially (Howell and Leonard 1999; A. Smith 2002). Mixed-income developments—and higher-income tenants—may also spur larger benefits for the surrounding neighborhood, bringing better public services, more shopping opportunities, and, in a few instances, new schools (Holin et al. 2003; A. Smith 2002; Turbov and Piper forthcoming).

Beyond improved housing and services, policymakers and developers hope that mixed-income housing will also yield long-term socioeconomic benefits for low-income residents. There are several theories about how these benefits could occur. For example, living in a neighborhood where most residents work may provide low-income children and adults with role models and social networks that encourage them to stay in school or find employment. Moreover, these social networks might provide residents with access to a wider range of job opportunities (cf. Khadduri and Martin 1997). Recent research suggests that moving to neighborhoods with lower levels of crime, gang activity, and risky behavior may reduce stress, promote mental and physical health, improve adolescent outcomes, and ultimately lead to better educational and employment outcomes (cf. Goering and Feins 2003; Orr et al. 2003; Rubinowitz and Rosenbaum 2000). But while a substantial body of research confirms the undesirable consequences of concentrated poverty (see, for example, Ellen and Turner 1997), evidence is still emerging about exactly how mixed-income communities function and how they benefit low-income residents (Popkin, Buron et al. 2000). For example, research conducted to date suggests that there is relatively little interaction between higher- and lower-income residents of mixed-income developments and that the interactions that do occur are relatively superficial (Brophy and Smith 1997; A. Smith 2002). Further, the one study of short-term employment outcomes found no evidence that lower-income residents were more likely to find jobs as a result of living in a mixed-income housing development (Rosenbaum and Stroh 1998). Thus, while it is clearly feasible to create a healthy mixed-income development that will attract higher-income residents and provide a pleasant and safe community for all residents, it remains less clear what conditions are required to ensure that living in these communities will have substantial payoffs for the social and economic status of low-income families over the long term.

Leveraging New Resources for Public Housing

In conjunction with income mixing, HOPE VI pioneered a major shift in the way public housing is financed. The construction and management of HOPE VI developments is no longer funded exclusively by HUD dollars. The National Commission on Severely Distressed Public Housing originally recommended that the HOPE VI program be funded at a total of $7.5 billion over 10 years, or $750 million per year. In actuality, appropriations have ranged from $300 million to $625 million a year. But as the HOPE VI program evolved, HUD increasingly expected grantees to leverage additional monies with their HOPE VI funds.

Housing authorities have been able to leverage outside funds for HOPE VI developments because of several critical regulatory changes enacted during the 1990s. The most important of these changes was the Mixed-Finance Rule. Introduced in 1996, the rule allowed housing authorities to use public housing funds designated for capital improvements, including HOPE VI funds, to leverage public and private money to revitalize public housing. The rule also allowed housing authorities to provide public housing capital funds to a third party, such as a private developer. The developer would then own the public housing units and be able to receive capital funds and operating subsidies from HUD. Projects financed under the mixed-finance model can include both public housing and other housing units, including Low Income Housing Tax Credit (LIHTC) units, locally subsidized units, and market-rate units. This funding structure made it possible for housing authorities to develop mixed-income housing with HOPE VI funds.

The 1998 Quality Housing and Work Responsibility Act (QHWRA) also contributed to progress in leveraging new funds for public housing. The act allows housing authorities to use public housing development funds and operating subsidies for projects owned by private entities that serve residents at a range of incomes, reinforcing the preference for mixed-income, mixed-finance housing types. A housing authority can provide capital assistance to a mixed-finance project in the form of a grant, loan, guarantee, or other form of investment in the project.

In all, the HOPE VI program is expected to leverage $9 billion in non-HUD funding. However, questions remain about the extent to which public housing authorities have been able to leverage *nonfederal* resources. A major 2002 U.S. General Accounting Office (GAO) study on the leveraging of funds through the HOPE VI program found that housing authorities expected to leverage $1.85 for every $1 of HOPE VI funds awarded through fiscal year 2001. The GAO found that leveraged funding comes primarily from other federal sources (including LIHTC) as opposed to private sources.[26] The GAO cautions, however, that the full extent of the use of private funds may not be captured by the data. On the other hand, the GAO sees the amount of funds leveraged increasing as more potential investors become familiar with the program.[27]

Although the GAO study cited limitations, several case studies show that some projects have been able to make use of funds from private and local government sources. The revitalization of distressed public housing, not to mention the new infrastructure, land assembly for off-site development and demolition, as well as other development costs, can run into the tens of millions of dollars, and these

[26] Salama (1999) found that while the sites studied (Chicago, San Antonio, and Atlanta) were successful in utilizing state and local funds, they demonstrated little, if any, leveraging of private resources in the redevelopment of public housing.

[27] The report also found that although HUD has been required to report leveraging and cost information to Congress annually since 1998, the agency has not done so. Following the report, HUD officials pledged to be more compliant in the future.

costs are not always covered by one source alone. In addition to HOPE VI funds, PHAs and developers have utilized funds from sources such as Community Development Block Grants, HOME funds, city capital funds, LIHTCs, and private activity bonds. In some cases, housing authorities have used FHA-insured first mortgages and housing authority soft second mortgages, both from private lenders. Corporate and philanthropic organizations have also donated funding.

Successful projects use all of these sources in innovative ways that require new types of partnerships and financial arrangements for public housing. In Chicago, for example, the fact that the Cabrini-Green development was in a Tax Increment Financing (TIF) district opened up an additional source of funding (Salama 1999). In other communities, HOPE VI sites were located in the path of neighborhood revitalization and benefited from the interest of developers already considering investments in these areas. According to the Communities Group (2002), HOPE VI redevelopment plans that extended beyond housing construction to address broader physical revitalization and community service needs have the greatest chance of leveraging outside funds.

The experience of public housing authorities in leveraging funds for HOPE VI redevelopment has highlighted several important issues. In some cases, the nonpublic housing funds were primarily used to reduce costs and maintain the amenities required to attract higher income households rather than to cross-subsidize public housing units (Wexler 2001). Nonetheless, low-income residents generally benefit from the presence of these amenities and from the higher quality of management that accompanies them. Other research has raised questions about whether the private/public approach to leveraging funds is really necessary in neighborhoods with hot housing markets, where private developers may be eager to invest alongside public housing redevelopment (Cunningham 2001). It is important to note, however, that prior to HOPE VI, public housing agencies had no capacity to partner with other private or public funders, and that the program has dramatically altered perceptions about public housing development among state and local government officials as well as private-sector lenders and corporate leaders.

The long-term viability of mixed-finance HOPE VI projects remains an important unanswered question. Local housing authorities are now expected to service private mortgages for the full 40-year (or longer) term of the public housing obligation. Each element of a mixed-income, mixed-finance project—public housing, market rate, and tax credit units—must be financially feasible, marketable, and sustainable over the long term. Although a number of HOPE VI developments have achieved these goals in the short term, the extent to which they can weather neighborhood and market changes over the years is yet to be determined. If some housing authorities—or their private partners—are unable to continue to attract a mix of residents, maintain rental income, and service their financial obligations, the viability of the new public housing units could be at risk.

Innovations in Public Housing Management

Many of the public housing authorities with severely distressed developments in their portfolio had long track records of poor management, which often contributed to the decline of their developments. Just as HOPE VI changed the way public housing redevelopment was financed, it also altered how the new developments were managed. HUD actively encouraged innovative management arrangements, particularly site-based asset management approaches and contracting with private management companies. The shift toward mixed-income, mixed-finance developments created additional pressures for improved management, in order to attract and retain higher-income residents and meet private-sector financial obligations.

The Interim Assessment of HOPE VI found that a number of the sites in the study were using private management firms, and that generally, the successful developments showed considerable management improvements. For example, the St. Louis housing authority brought in private companies not only to build and manage Murphy Park, but to also have an ownership stake in the property (Turbov and Piper forthcoming). This strategy resulted in a new development that was well constructed and well maintained. A study of Centennial Place and East Lake Meadows, Atlanta, found that strong management was key to the developments' success (Ambrose and Grigsby 1999). At Chicago's Lake Park Place, management improvements such as better rule enforcement, screening procedures, and improved amenities all contributed to the development's early success (Rosenbaum and Stroh 1998). Better management and the mix of incomes can also decrease crime rates within developments and adjacent communities by stabilizing developments (Brophy and Smith 1997; Ceraso 1995; Turbov and Piper forthcoming).

Asset management, a standard practice among private-sector housing owners and managers, focuses on the financial viability and economic potential of each property in a housing authority's inventory as a basis for management and investment decisions. This approach would require that housing authorities keep separate accounts of operating costs and performance and prepare separate operating plans for each individual property. Although HUD has advocated this approach for a number of years (cf. HUD 1996), and it has been endorsed by the Millennial Housing Commission (2002) and a Harvard University team (Harvard University Graduate School of Design 2003), few housing authorities have attempted to implement it for their regular stock. However, asset management and project-based accounting are essential to HOPE VI because these properties so often have specialized financing arrangements, site-based management, and separate waiting lists for their HOPE VI properties. Thus, HOPE VI has provided a vehicle for many housing authorities to gain important experience that may translate into better management of their entire portfolio.

Chapter 5: Impact of HOPE VI on Public Housing Residents

The question of what has happened to the original residents of the revitalized HOPE VI developments has become a major—and contentious—focus of concern as uncertainty over the future of the program continues. To date, approximately 49,000 residents have been relocated from HOPE VI properties across the United States (U.S. GAO 2003a). Unfortunately, there is only limited information about how these residents have fared, although early analysis suggests that relatively few will return to the revitalized HOPE VI developments. The lack of consistent and reliable administrative data on housing and neighborhood outcomes for the original residents has muddied the debate about the performance of HOPE VI, and makes it difficult for policymakers to reach informed decisions about whether and how the implementation of the program should be improved.

Even if better data were available, however, the debate about resident outcomes would be difficult, because there is no consensus about how to define success. Advocates for tenants frequently point to the low numbers of original residents returning to revitalized sites as evidence of program failings, arguing that these low numbers show that residents have been displaced to make room for better housing and often for higher-income tenants. From this perspective, these tenants were the ones who suffered the terrible conditions of distressed public housing—and, per the commission's report, were intended to benefit from the revitalization. For this reason, the housing authority—and society—has an obligation to ensure that at minimum, original residents do not end up worse off than they were before.

But others argue that high resident turnover rates are typical of public housing, and that a low number of returnees does not signal a real problem. Not all tenants wanted to return, and for many, moving with vouchers into private housing or to other, presumably less distressed, public housing can also represent a positive outcome. Further, since all low-income residents coming into new developments are also public housing eligible, proponents of this view believe the true measure of success is how well HOPE VI developments serve their low-income residents. Finally, those who hold this view stress that housing assistance is a limited resource and that some original tenants—or members of their households—were making conditions miserable for other residents. Having violated the rules, these tenants were not entitled to replacement housing, and HOPE VI should not be judged on the basis of what has happened to them.

The debate about the federal government's obligation to the original residents of distressed public housing and about how to define success in this regard will certainly persist. Better data and analysis cannot resolve the fundamental disagreements, but they can inform the discussion by providing reliable indicators of the program's performance in serving both the original residents and new public housing residents. In this chapter, we review the evidence on the human side of HOPE VI: where original residents have moved and how they are faring in their new housing and communities.

How Have Original Residents Fared?

Critics of HOPE VI have pointed to the small numbers of returning tenants as evidence that the program is another form of "urban renewal" that is displacing poor households from gentrifying neighborhoods (Keating 2000; Wexler 2001; Zielenbach 2002). Defenders of the program counter that many HOPE VI sites are only partially reconstructed and even fewer are reoccupied, so the number of original residents who will ultimately return to the revitalized sites is unknown. The Interim Assessment of HOPE VI (Holin et al. 2003) found wide variation in the numbers of returning tenants, depending on the characteristics of new development. Developments that remained 100 percent public housing, not surprisingly, had larger numbers of returning tenants, while the numbers returning to developments that had become mixed-income were substantially smaller. A recent GAO study using data from 165 applications suggests that rates of return will continue to vary considerably, and generally will remain below 50 percent. The study found that, on average, grantees expected 46 percent of residents to return. At the extremes, 40 sites expected fewer than 25 percent of original residents to return, while 31 sites expected 75 percent or more (U.S. GAO 2003b).

The most comprehensive evidence on outcomes for original residents comes from the HOPE VI Tracking Study (Buron et al. 2002), a retrospective survey of former residents from eight early HOPE VI sites. The Tracking Study found that 19 percent of the households surveyed were living in a revitalized HOPE VI development, 29 percent were living in other public housing properties, 33 percent were renting units using housing vouchers, and 18 percent had left assisted housing altogether. Similarly, an analysis of HUD administrative data for 73 HOPE VI sites found that about one-third of former residents had received vouchers, half had relocated to other public housing developments, and the remainder had left subsidized housing (Kingsley et al. 2003).[28]

The HOPE VI Panel Study, which is tracking residents from five HOPE VI sites where redevelopment activities began in 2001, asked residents their preferences for replacement housing. Most said that they would like to return to the site when it is complete (Popkin et al. 2002). The contrast between this finding and the actual numbers of returning tenants to date suggests that some residents who would like to return are not being allowed to, due either to the reduction in public housing units or their inability to meet the new screening criteria. However, it is also possible that once residents have moved, some may decide they prefer living in the private market with a voucher or simply that they are happy with their new community and do not want to move again. The long delays between relocation and reoccupancy at many sites contribute to the likelihood that former residents may choose to stay where they are rather than risk moving again.[29] A study of relocation preferences in Seattle's High Point development suggests that at least at this site, most residents were able to end up in the type of housing

[28] This analysis of HUD administrative data included former residents at 73 HOPE VI sites in 48 cities.

[29] The follow-up waves of the HOPE VI Panel Study will look at the relationship between original preferences and final location.

they preferred, with mostly younger, single mothers choosing vouchers while older residents and immigrant families remained in public housing (Garshick Kleit and Manzo 2003).

But return rates provide only one indicator of how original residents have fared. Not returning to the site does not automatically mean that residents are worse off—indeed, they may well have chosen a voucher so they could move to a better neighborhood. To understand what has happened to original residents, we must look at a number of factors, including the types of neighborhoods they live in, and a range of indicators related to their overall well-being: economic outcomes such as employment and education, material hardship, and physical and mental health.

Evidence from the HOPE VI Resident Tracking Study (Buron et al. 2002) suggests that former residents have ended up in somewhat better neighborhoods—the average census tract poverty rate for those who received vouchers dropped from 61 to 27 percent. Strikingly, about 40 percent of those who *did not return* to the original HOPE VI site now live in census tracts with poverty rates of less than 20 percent. However, a similar number still live in neighborhoods that are high poverty, though less poor than their original development, with poverty rates of over 30 percent. Findings from the national analysis of HUD administrative data were similar, showing residents still in assisted housing living in neighborhoods with considerably lower poverty rates than their original HOPE VI developments. While these findings are encouraging, they should be tempered by the fact that residents of HOPE VI developments were living in extremely high-poverty neighborhoods; therefore, most moves would bring improvements in poverty rates. Further, in sites with tight rental markets or where demolition outpaced the production of new units, many former residents ended up in other distressed communities.

In contrast, HOPE VI has had a much smaller impact on racial segregation. The vast majority of residents in distressed public housing are African-American or Hispanic, as were the majority of residents in the communities surrounding these developments. While former residents are living in neighborhoods that are at least somewhat less poor, findings from both the HOPE VI Tracking Study and the national analysis of administrative data show that most are still living in census tracts that are predominantly minority. Similarly, studies of relocation in Chicago (Fischer 2003; Popkin and Cunningham 2002) found that nearly all original residents who moved with vouchers ended up in neighborhoods that were at least 90 percent African American.

Still, the HOPE VI Tracking Study finds that relocatees perceive substantial improvements in their neighborhood conditions. Most notably, original residents reported much less crime in their communities than those still living in public housing developments awaiting revitalization. One study of relocation in Chicago (Popkin and Cunningham 2002) documented almost immediate improvements in respondents' mental health, likely a result of living in a safer neighborhood. An evaluation of relocation in Seattle (Garshick Kleit and Carlson 2003) also found that residents were generally satisfied with their new situations, particularly the safer neighborhoods, services, and amenities. Likewise, a study of HOPE VI-like relocation in Ft. Worth found that most former residents felt their new neighborhoods had lower crime, although they were concerned about the lack of access to transportation and about busy traffic on nearby streets (Barrett, Geisel, and Johnston 2003). A study of Philadelphia residents (Clampet-Lundquist forthcoming) found that while former residents reported less crime, they felt uncertain about being able to protect themselves and their children in an unfamiliar community. Finally, Goetz's (2003) study of residents relocated under the Hollman decree in Minneapolis found mixed results: former residents reported much less crime and were more satisfied with grocery stores and parks, but were less satisfied with schools, transportation, and health care.[30]

Former residents also report better housing conditions. Nearly two-thirds of residents in the HOPE VI Tracking Study described their current housing as being in good or excellent condition, and most said that their current unit is in the same or better condition as their public housing unit prior to revitalization. Respondents who had moved to revitalized developments reported the best housing conditions, while those who had moved to the private market with vouchers were more likely to report problems. Single-site studies of relocation have found similar results. The Seattle study (Garshick Kleit and Carlson 2003) found that residents were generally satisfied with site and unit design; the Ft. Worth study found that most former residents were satisfied with their new home; and the Minneapolis study (Goetz 2003) found that former residents were generally happier with their new housing units.

However, the positive evidence about housing and neighborhood outcomes is tempered by evidence that residents who moved to the private market, with or without housing assistance, face new challenges, particularly with unstable housing and difficulty paying rent and utilities that were covered in public housing. In the Tracking Study, 40 percent of the respondents who have been relocated to new neighborhoods reported problems paying rent and utilities, and about half said they were having difficulty affording enough food. Former residents who now live in private market housing face the most serious challenges because they now face larger out-of-pocket costs. Almost 6 out of 10 (59 percent) voucher users said they have had difficulty paying rent or utilities in the past year, as did 52 percent of households that receive no housing assistance. Further, unsubsidized households were more likely than public housing residents or voucher users to report doubling up with other families (13 percent versus 4 percent) and moving multiple times since relocating.[31] Residents in Seattle and Ft. Worth also reported hardship, particularly with utility payments (Barrett et al. 2003; Garshick Kleit and Carson 2003).

Another issue cited by several researchers is the loss of social ties and support systems, which may lessen residents' ability to cope with material hardship. Many residents had developed elaborate coping strategies that helped them to deal with the stresses of life in distressed public housing (cf.

[30] Findings from studies of public and assisted housing residents relocated with vouchers find similar results. For example, the MTO Interim Evaluation (Orr et al. 2003) found residents who moved to lower-poverty communities reported less crime, better housing, and better amenities. Likewise, Varady and Walker (2003) find that Alemeda County residents who used vouchers to move to suburban areas reported better conditions than those who remained in traditional neighborhoods.

[31] The Moving to Opportunity Interim Assessment, which is tracking public housing residents relocated as part of a five-site HUD demonstration, also found voucher holders struggling with rent and utilities and experiencing conflict with private landlords (Orr et al. 2003).

Clampet-Lundquist forthcoming; Popkin, Gwiasda et al. 2000; Venkatesh 2000), and had a network of friends and family members whom they could rely on for help in times of need. They also knew how to access formal support systems in their community—food banks, social service agencies, clinics, and so on. HOPE VI relocation disrupted these social ties, leaving many feeling less secure, uncertain where to turn when they encountered problems, and often simply lonely and isolated (Barrett et al. 2003; Clampet-Lundquist forthcoming; Goetz 2003; Popkin, Gwiasda et al. 2000; Venkatesh and Cemili 2004). Some critics cite this loss of community and social ties as one of the most negative consequences of the HOPE VI program (cf. Greenbaum 2002). However, other researchers counter that despite the challenges, many former residents, particularly those who chose vouchers, are happy to be able to leave—and happy to leave behind what they saw as dysfunctional relationships (cf. Popkin, Gwiasda et al. 2000; Popkin and Cunningham 2002; Rosenbaum et al. 1991).

Chapter 6: Relocation and Supportive Services

One of the unique features of the HOPE VI program is that it explicitly requires that a substantial proportion of funds be earmarked for resident supportive services, the so-called "soft side" of HOPE VI. The original legislation set aside 20 percent of the initial $300 million appropriation for community service programs and for supportive services, including literacy training, job training, day care, and youth activities. Later rounds of funding reduced the proportion of funds set aside but increased the attention given to resident services and supports, including relocation services, and mandated that supportive services be provided to the original residents, even if they did not return to the HOPE VI site (Holin et al. 2003). Generally, the supportive services were supposed to emphasize self-sufficiency, but housing authorities had wide latitude over designing their service packages. Because of its concerns about delays in implementation and housing authority capacity to administer supportive services, HUD eventually began to provide technical assistance and regular monitoring of community and supportive service packages (Kingsley et al. 2004).

Although later HUD NOFAs required local evaluations of individual HOPE VI initiatives, there is still relatively little evidence about the efficacy of combining supportive services with extensive revitalization. Advocates and researchers have cited issues regarding inadequate relocation services, particularly lack of information and support during the relocation process that have resulted in residents ending up in less than ideal circumstances or experiencing hardship after they move. In addition, these critics have noted that community supportive services intended to benefit original as well as new residents generally have not been implemented on a timely basis. Finally, they have questioned the capacity of housing authorities, which are essentially property managers, to effectively provide social services to tenants. Other researchers cite examples of places like Seattle and Oakland where HOPE VI led to the creation of extensive service and community-building programs (cf. Naparstek and Freis 2000).

The reality is that community and supportive service models have varied considerably across sites. Some sites have used resident-run Community Development Corporations (CDCs) or other resident-involvement models; some have partnered with local social service providers; and some have opted to run the services in-house. This variation makes drawing conclusions about the soft side of HOPE VI particularly challenging. In this chapter, we pull together evidence about relocation and community supportive services, highlighting the challenges facing this aspect of the HOPE VI program.

Barriers to Successful Relocation

Data from the HOPE VI Panel Study (Popkin et al. 2002) indicate that many residents may face challenges that could complicate their transition from distressed public housing. Even those who are fully compliant with their leases may have problems that make it difficult for them to qualify for revitalized housing or to successfully use a voucher.

A major concern is the prevalence of health problems among the residents of distressed public housing. More than one-third of adult respondents in the Panel Study reported having a chronic illness or health condition, such as high blood pressure, diabetes, or arthritis. Further, more than one-fifth of adults had asthma. The situation for older adults was particularly severe, with just 10 percent reporting good or excellent health, compared with 39 percent for all adults over age 65 nationally. Mental health problems were also widespread. Nearly one in three residents surveyed for the Panel Study (29 percent) reported poor mental health, almost 50 percent higher than the national average. Further, nearly one in six adults had experienced a major depressive episode within the past 12 months. The Panel Study found that HOPE VI children were also in worse health than other children their age. One in five children age 6 to 14 had asthma; the figure for younger children was one in four, more than three times the national average. Parental reports about children's behavior suggest that mental health was also an issue. About two-thirds of older children (age 6 to 14) had one or more reported behavior problems; about half had two or more.

Families coping with these serious health problems face special challenges in relocation—they may need accessible units, they may not be able to move far from health care providers, and, especially if there are multiple family members with illnesses, they may need intensive support. Highlighting the impact of these barriers, fewer than half the respondents in the Panel Study were employed prior to relocation. These residents cited health problems and a lack of adequate child care as major barriers to employment, along with caring for sick family members, suffering from extreme fear and anxiety, and looking unsuccessfully for work.

A companion study focusing on residents at risk for homelessness in the Chicago site (Popkin et al. 2003) found that many residents face the kind of barriers that not only make it difficult to for them to find an apartment in the private market, but that also weaken housing stability and increase the probability that they will lose their housing over the long term. The study identified three categories of residents at risk: families with special needs (e.g., large families, multigeneration households, and households with disabled members); lease violators (e.g., residents with back rent or utility payments, off-the-lease tenants, or household members with criminal records); and squatters—(illegal residents who have been using the site as a de facto homeless shelter). While HOPE VI sites in other cities may not face problems of the same magnitude, there are almost certainly residents with these risk factors in virtually all HOPE VI developments.

The prevalence of hard-to-house residents suggests a need for alternative forms of replacement housing. Older adults and those with severe disabilities may require supportive housing, where services are provided on site. The presence of multigeneration families may require the construction of accessible units with multiple bedrooms, something they are unlikely to be able to find in the private market. Finally, as noted earlier, the question of whether or how to serve the most troubled residents is a matter of debate, with some arguing that scarce resources should be targeted to those willing and able to comply with rules and regulations, and others arguing that federal assistance must include those most in need. However, if these families are to be served effectively, they will clearly require an alternative such as transitional housing or family supportive housing, models that have been effective for homeless families (Popkin, Burt, and Cunningham forthcoming).

Relocation Services

As distressed public housing is demolished and replaced with mixed-income communities, one of the most difficult challenges has been to design and implement relocation programs that effectively address the residents' myriad needs. To assist with the move, housing agencies are required by the federal Uniform Relocation Act to provide displaced residents with a "comparable unit" and to cover moving expenses. Typical relocation services include assistance in finding a new public housing or Section 8 unit and moving expenses. Sometimes, housing authorities go further and assist with the actual move.

Providing effective relocation services is perhaps the most difficult challenge in implementing a HOPE VI initiative. A number of factors affect the success of relocation efforts: the quality of relocation services, local housing options, relocatee preferences and barriers, private-market constraints for relocatees searching for housing with vouchers, and the level of trust between relocatees and the housing authority.

When a building is slated for demolition, residents are typically offered the choice of moving with a voucher or to another public housing unit. Some residents are also offered the option to return to the revitalized HOPE VI site, although screening criteria (e.g., employment, drug testing, criminal background) at some sites may preclude them from eligibility. Also, there are often long delays between the demolition of the original units and the construction of new housing on the HOPE VI site. To overcome this challenge, some housing authorities have planned staged relocation so that residents who wish to return to the revitalized development never have to move off-site.

In tight rental markets, finding landlords in good neighborhoods who will accept vouchers has been one of the most persistent barriers (Cunningham, Sylvester, and Turner 2000; Fosburg et al. 1996; Lenz and Coles 1999). In some markets, and especially at HOPE VI sites that are significantly reducing the number of hard units, observers have questioned whether the private market can accommodate the number of public housing relocatees. This issue has been particularly salient in Chicago, where the rental market has been tight and the number of public housing relocatees is enormous (Great Cities Institute 1999). Discrimination against minorities and families with children and the negative stigma attached to being a former public housing resident also affects relocatees' ability to secure a unit with a voucher (Popkin and Cunningham 1999). Further, community residents may oppose the relocation of public housing residents because of the fear that they will bring with them crime and social problems that plague public housing neighborhoods (Lenz and Coles 1999).

There is considerable evidence to suggest that housing authorities need to focus on improving the delivery of relocation services (Center for Community Change 2003; Lang and Morton 2002; National Housing Law Project 2002; Popkin and Cunningham 2002; Salama 1999). For example, a four-site study of the housing choices of HOPE VI relocatees found that they often made choices about relocation without having adequate information about vouchers, HOPE VI move-back criteria, or the availability of relocation services. Many simply did not understand the options available to them under HOPE VI (R. Smith 2001). However, improving services is not an easy task. Data from the pre-relocation HOPE VI Panel Study suggests that the difficulty of adequately informing residents is widespread; residents from all five sites—all of whom were about to be relocated—reported considerable confusion about housing authority plans (Popkin et al. 2002).

Housing Authority Experiences

The Tucson Housing Authority provided some of the best and most extensive relocation services of any HOPE VI site. Relocation counselors provided personalized services to those who wanted to move off-site, escorting them to view units and holding one-on-one sessions to discuss the merits of various neighborhoods. In addition, the housing authority offered residents a range of job training and educational activities during the redevelopment period (Buron et al. 2002). Seattle has also been notably successful in implementing relocation programs; local evaluators documented that most residents moved into the type of housing they preferred and were satisfied with their new housing (Garshick Kleit and Manzo 2003).

The Chicago Housing Authority (CHA), faced with the challenge of relocating tens of thousands of families, has probably spent more effort on relocation services than any other housing authority. Although CHA's efforts have been troubled because of organizational challenges (Popkin and Cunningham 2002; Venkatesh 2002; Venkatesh and Çelimli 2004) and relocation outcomes have been mixed, the agency continues to invest considerable resources in its services. Currently, its programs include relocation clinics to educate residents about their housing choices, budget and housekeeping training, relocation counseling to prepare residents for moving and help them locate units, and mobility counseling to encourage residents to move to lower-poverty neighborhoods. Relocation counseling has been the most problematic and contentious program, with critics raising concerns about pacing and agencies placing residents in unacceptably bad neighborhoods. The CHA's struggle highlights the challenges involved in ensuring that residents are adequately informed, that contractors deliver the required services, and that residents are tracked through the relocation process (cf. Popkin and Cunningham 2002; Venkatesh 2002).

More typically, housing authorities have provided only the bare minimum relocation services, investing little or no effort to assist residents in making good choices about replacement housing. Instead, they focused on emptying the development quickly to make way for the redevelopment activities. In a number of sites, such as Louisville and Paterson, New Jersey, this approach resulted in a substantial proportion of residents moving to other distressed public housing in bad neighborhoods (Buron et al. 2002). Another common mistake has been issuing too many vouchers at the same time, thus flooding the local Section 8 market. As a result, residents have to accept housing in other poor, racially segregated communities (Popkin et al. 2003). In one extreme example, residents of the Edwin Corning development in Albany, which was located in a mixed-race, moderate-poverty community, ended up using their vouchers to relocate to high-poverty, racially segregated neighborhoods (Buron et al. 2002). Particularly in early HOPE VI sites, residents have fallen through the cracks and not gotten any assistance. In Chicago, critics have charged that property managers have deliberately scared tenants into leaving before they can receive assistance (Venkatesh 2002); similar charges have been made about the Techwood/Clark-Howell site in Atlanta (Keating 2000).

Increasingly, evidence suggests that providing more extensive, state-of-the-art counseling and support can lead to better outcomes for families. This type of intensive assistance includes case management and assessment; assistance in locating a new unit; outreach to landlords in low-poverty areas; and long-term follow-up support. Most of the evidence comes from the Moving to Opportunity (MTO) demonstration, which provided participants vouchers that could only be used in low-poverty neighborhoods as well as counseling to assist them in locating housing (Goering and Feins 2003). There is evidence that MTO families that received intensive counseling ended up living in better housing in safer, lower-poverty neighborhoods (Orr et al. 2003). Building on the MTO model, Chicago's Housing Choice Voucher program has developed a "second-mover" mobility program that targets current participants whose vouchers are up for renewal. The program offers support and assistance to participants who are interested in moving to a lower-poverty "opportunity neighborhood" (Cunningham et al. 2002). This type of intensive assistance is more costly than basic relocation services, but has important implications for families; MTO participants who moved to better neighborhoods report improvements in physical and mental health, as well as in general quality of life.

Community and Supportive Services

The Community and Supportive Service component of the HOPE VI program represents the first large-scale effort to marry housing assistance and social services. The Congress of New Urbanism, an organization whose main focus is promoting design standards that help to create traditional neighborhoods, cautioned that good design alone would not be enough to address the social and economic problems of public housing tenants. They cite past efforts that failed to provide sufficient services for tenants and ultimately failed (Kamin 1999; Salvesen 2000). Supportive services and assistance throughout the process—and not just on move-in day—are needed to help overcome poverty, joblessness, crime, and lack of education.

Community and supportive services associated with HOPE VI are typically implemented as part of the revitalization plan. In most cases, these services are intended to help residents become self-sufficient, focusing primarily on moving off public assistance and toward employment. Services vary from site to site, including on-site computer learning centers, day care facilities, after-school programs, and employment training programs and job referrals. In some cases, service packages also include programs targeted to seniors. However, HOPE VI community and supportive service plans often are not implemented until after the original residents are relocated, and so tend to benefit those who move into the new development. For this reason, critics have raised concerns about the responsibility of housing authorities to provide supportive services to residents who move off-site as well as to those who return or move into the revitalized development.

Ideally, the development of community and supportive services (CSS) should be driven by the needs of the resident population at each HOPE VI site. For example, if there is a large population of elderly or disabled residents, the site should consider an on-site health care facility, or if there are a large number of children under age 5, an on-site day care facility would be appropriate. HUD has given HOPE VI grantees tremendous flexibility in designing a service package that meets the needs of the residents. Therefore, it is not surprising that the extent and types of community and supportive services at HOPE VI sites across the country vary significantly. U.S. GAO's (1998) survey of 10 HOPE VI sites found a variety of community and supportive services, ranging from job placement services and entrepreneurial training programs, technology learning centers, day care and health care centers to Boys and Girls Clubs that provided after school activities. Neighborhood watch programs were also instituted at some sites.

In a recent U.S. GAO study (2003a), HUD data showed that HOPE VI sites have budgeted about $714 million for community and supportive services. These funds are used to hire CSS staff, provide direct services, or to build community centers within the revitalized site. An estimated 45,000 of the original residents were enrolled in some kind of community and supportive service (U.S. GAO 2003a).

A number of sites have been cited as offering "best practices" in terms of providing resident services (Naparstek and Freis 2000). New Holly in Seattle houses a public library branch, community classrooms, a family center, parks, garden space, and senior housing. In addition, the housing authority offers various community-building activities intended to promote economic self-sufficiency, provide learning opportunities for children, and serve the larger community. The services at New Holly are intended to serve the entire community, which includes a diverse immigrant population that speaks a total of 17 different languages and dialects (Myerson 2001). The Workforce Enterprise Center at Centennial place in Atlanta provides GED training, computer training, and various job skills and job readiness programs. At Park DuValle in Louisville, major investments were made in parks and community centers, public safety facilities, and a health center. At the Manchester site in Pittsburgh, services included job training, and in Murphy Park in St. Louis, a new park as well as a clubhouse and day care facilities were provided (Turbov and Piper forthcoming).

Although case studies allow practitioners to share information about innovative ways to implement a community- and supportive-service package, they fail to evaluate how successful the programs are in helping residents move toward self-sufficiency. A number of local evaluations have assessed how residents are doing post-implementation of HOPE VI Community and Supportive Services. New Holly residents were more likely to be working and to be prepared to succeed in employment after Campus of Learners was implemented (Clegg and Associates 2000). At Milwaukee's Hillside Terrace, local evaluators found that on-site services such as job training, day care, health care, and adult education led to residents becoming more attached to the labor market and increasing their wage-related earnings (Milwaukee Housing Authority 2000). At Santa Rosa (Connie Chambers) in Tucson, evaluators found that although the City and Housing Authority had implemented a range of services, the goals for these programs—which the authors acknowledge were quite ambitious—had generally not been met. However, some residents had enrolled in GED programs, others were participating in self-sufficiency programs, a small number were participating in homeownership readiness programs, and the housing authority had hired 74 residents (Cimetta and Renger 2002). And, at Chatham Estates in Chester, Pennsylvania, residents who used the supportive services more than three times had greater improvements in crime, reported assets, and greater decreases in Temporary Assistance for Needy Families (TANF) utilization than residents who did not use services at this level (Widener University 2003). All of these sites show promising results; however, without a systematic national evaluation or collection of uniform performance measures, there is no way of knowing how effective the strategy of marrying supportive services and housing assistance has been.

Resident Participation

HOPE VI requires that housing authorities and developers involve public housing residents in designing a new development and planning the services to be provided there. Resident participation is particularly important during efforts to transform public housing properties into mixed-income communities, because it gives residents a stake in their new communities (Suchman 1996). Residents often fear change, particularly when it comes to creating mixed-income communities, because of concerns about displacement.

The level of resident participation varies with each HOPE VI site. Some sites, like St. Louis's Murphy Park, have had high levels of resident involvement. In Murphy Park, residents have been involved in setting screening criteria and working with the local community to help plan a new school and other community facilities (Turbov and Piper forthcoming). In other sites, residents have been involved in planning and implementing community supportive service plans, in some cases through resident-run CDCs (Popkin et al. 2002). In San Francisco's Hayes Valley, residents had responsibility for providing relocation counseling and assistance (Buron et al. 2002).

Still, critics have charged that tenants have not always been sufficiently involved in the planning process (cf. Center for Community Change 2003; National Housing Law Project 2002). This problem may be due to the ambiguity of the HOPE VI requirement about resident involvement. Because HOPE VI guidelines never clearly stated what constitutes "participation," individual sites have had considerable latitude in defining it. When tenants feel slighted in the design process, they have sometimes reacted by bringing lawsuits against the offending housing authorities, thus stalling the development process (Pitcoff 1999). There has also been conflict among different groups of tenants—sometimes, resident leadership may sign off on a plan that other residents may not support. In Chicago, although the housing authority and the official tenant organization have signed a Relocation Rights Contract, groups of residents in individual developments have protested the housing authority's plans—in two cases, going so far as to file suit.

For resident involvement to be effective, housing authorities will have to ensure that they include a broad range of residents. Further, if residents are given primary responsibility for implementing a particular program, such as case management, they must be given adequate support and resources to carry out their task.

Chapter 7: Impact of HOPE VI on Neighborhood Conditions

In many cities, severely distressed public housing projects have been regarded as major causes of social and economic deterioration in the neighborhoods that surround them.[32] An important goal of HOPE VI was to alleviate those impacts where possible. As HOPE VI evolved over the 1990s, this goal gained importance. The expectation was that by replacing distressed public housing developments with new, and often mixed-income, projects, revitalization would benefit the surrounding neighborhood and even the larger city and region.

Supporters argue that HOPE VI's ability to transform entire neighborhoods is one of the program's most revolutionary opportunities and significant outcomes. When evaluating costs and economic impacts, they argue, we need to look beyond the development to include the spillover effects in the surrounding neighborhoods. Further, because it may take some time for neighborhood improvements to manifest themselves, these effects may not be immediately evident. Others maintain that the HOPE VI program spends too much public money per unit of housing produced, and that the most impressive neighborhood changes have been the result of broader, real estate market dynamics. In other words, skeptics argue, these neighborhoods would have probably "turned around" even without HOPE VI.

Assessing the degree to which the neighborhood revitalization goal has been accomplished is challenging, largely because the factors influencing neighborhood change are so numerous and complex. To date, researchers and evaluators have found it difficult to empirically measure or attribute broad community impacts to HOPE VI developments. In this chapter, we review what is known about the impact of HOPE VI initiatives on neighborhoods. We also consider the question of whether the revitalization brought about under the program has had any wider impacts on the extent of poverty concentration or on city economies.

Improvements in Community Infrastructure

Many of the neighborhoods surrounding distressed public housing lack basic community services such as parks, libraries, and police stations, as well as commercial facilities such as supermarkets, banks, and restaurants. Some HOPE VI sites have made significant improvements in community institutions and physical infrastructure in the neighborhood. These improvements are intended to provide much-needed services to families at the site and throughout the neighborhood.

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[32] However, recent research by Freeman (2003) suggests that the relationship between affordable housing developments and poverty concentration is weak and inconsistent, and the problems in public housing may simply reflect the fact that assisted housing developments tend to be built in neighborhoods where concentrations of poverty are already high.

In Seattle, for example, HOPE VI funds were used to expand the neighborhood community center and ballfields, build a satellite public library, and develop a new neighborhood resource center (Epp 1996). In a series of "best practice" case studies, Naparstek and Freis (2000) cited revitalization efforts that led to the creation of new community institutions such as community centers, police substations, medical centers, and job training centers.

In a few sites, HOPE VI has sponsored innovative efforts to link public housing redevelopment with substantial investments in neighborhood schools. At the Murphy Park site in St. Louis, the Jefferson Elementary School now serves not only local students but also those in the surrounding community. Partnerships formed among the developer, McCormack Baron and Associates, the St. Louis public school system, and a newly created community development corporation helped to establish a school and ensure resident participation in the planning process (Myerson 2001). Funds were used to install state-of-the-art technology infrastructure in the school, and computers and educational software in each classroom. Funds also went toward establishing the Adult Computer Training Lab, a computer-training classroom for parents and community residents.

At the Villages of East Lake in Atlanta, in addition to new residences, facilities included a new charter school, the first of its kind in Atlanta (Myerson 2001). Children from the Villages of East Lake and the surrounding community receive priority when enrolling, but the school is open to any student residing within the Atlanta Public School District. School improvements also figured prominently in the revitalization of Atlanta's Centennial Place, which includes a magnet school that serves both community residents and those from other parts of the city (Holin et al. 2003; Khadduri et al. 2003; Turbov and Piper forthcoming).

Impacts of HOPE VI on Neighborhood Health

Four major studies of the neighborhood effects of HOPE VI have been completed to date (Kingsley et al. 2004). This research suggests that there have been dramatic improvements in the neighborhoods surrounding some HOPE VI developments. However, it must be noted that the data from the studies are not sufficient to reliably estimate the degree to which HOPE VI, as opposed to other factors, *caused* these changes.[33] Further, because relatively few HOPE VI projects are complete, there is considerable overlap

[33] There is a method that can estimate the effect that HOPE VI has on trends in home sales prices in areas surrounding the sites (Galster and Quercia 2000), but it is not workable in all cities and has yet to yield statistically significant results where it has been applied, possibly because not enough time has elapsed since project completion. Unfortunately, adequate base data on prices are not available in all cities, and in others where the HOPE VI development is located in areas with few owner-occupied homes nearby, the method will not work well. The method was applied in Holin et al. (2003, 123–31) for the New Haven and San Francisco sites, and in unpublished work by Jennifer Johnson at the Urban Institute for HOPE VI neighborhoods in Columbus, Oakland, and Seattle.

in the sites included in these studies,[34] so it is difficult to know how much we can generalize from this research to the program as a whole. Still, these early studies offer important insight into how HOPE VI may help revitalize communities.

The first study, by the Housing Research Foundation (HRF) (Zielenbach 2002), covered the experience in eight communities: Techwood (Atlanta); Orchard Park (Boston); Earle Village (Charlotte); Quigg Newton (Denver); Kennedy Brothers (El Paso); Hillside Terrace (Milwaukee); Richard Allen Homes (Philadelphia); and Holly Park (Seattle). The analysis quantifies improvements in neighborhood quality-of-life indicators for clusters of census tracts in which HOPE VI revitalization took place. HRF concludes that the eight deteriorating public housing projects contributed significantly to the decline of surrounding neighborhoods and that HOPE VI, by its very nature, helped reduce their blighting impacts. The study compared trends from 1990 and 2000 in the HOPE VI neighborhoods with city averages using census data. It found that in the HOPE VI neighborhoods (a) average per capita incomes of neighborhood residents rose 57 percent faster than in neighborhoods citywide; (b) unemployment fell by an average of 10 percentage points, compared with no significant net change at city levels; and (c) concentrated poverty fell from 81 percent of households being low income[35] in 1989 to 69 percent in 1999.

HRF also analyzed Home Mortgage Disclosure Act (HMDA) data and found that rates of mortgage originations in HOPE VI neighborhoods were higher than the averages for their respective counties. Rates of lending also rose faster in the eight HOPE VI neighborhoods than in the counties, implying that the neighborhoods were experiencing increasing rates of residential investment. Finally, consistent with other research on mixed-income developments,[36] there were big impacts on crime rates: average violent crime rates in the HOPE VI neighborhoods dropped 30 percent faster than they did in the cities overall.

The second study of neighborhood impacts was the HUD-sponsored Interim Assessment of 15 HOPE VI sites (Holin et al. 2003).[37] Like HRF, Abt Associates conducted an analysis of comparative trends for neighborhoods and cities using census data and found similar results. In most HOPE VI neighborhoods, key indicators of well-being, particularly reductions in rates of poverty and unemployment, improved faster than in their cities as a whole. Perhaps the most striking findings related to declines in on-site crime. Crime rates declined at all six projects that had been completed, and in three

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[34] For example, Techwood (Atlanta) is a site in three of the four studies; Earle Village (Charlotte) and Cotter and Lang (Louisville) are sites in two.

[35] Households that earned less than 80 percent of the metropolitan area's median income.

[36] For a summary of this research, see Popkin, Buron et al. (2000).

[37] McGuire Gardens (Camden); King Kennedy/Outhwaite (Cleveland); Hillside Terrace (Milwaukee); Lockwood Gardens (Oakland); Bernal Dwellings/Plaza East (San Francisco); Lafayette Homes (Baltimore); Mission Main (Boston); Elm Haven (New Haven); Earle Village (Charlotte); Ellen Wilson (Washington, D.C.); Techwood/Clark Howell (Atlanta); Springview (San Antonio); Cabrini Homes (Chicago); Jeffries Homes (Detroit); Desire (New Orleans).

cases (Charlotte, Milwaukee, and Boston), on-site crime rates declined substantially faster by comparison with other parts of the city.

The Interim Assessment also included a survey of people who live in or near the HOPE VI developments to assess their perceptions about the quality of their neighborhoods after revitalization took place. A clear majority (70 percent) of the neighbors living outside the development rated their neighborhoods as better places to live after HOPE VI.[38] However, while the study concluded that change in the surrounding neighborhoods was generally positive for all completed sites, the magnitude of the changes was highly variable. The researchers rated the surrounding neighborhoods in Atlanta, Boston, Charlotte, and San Francisco as "appreciably improving," while those in Camden, Milwaukee, Oakland, and Washington, D.C., were rated as only "slightly improving."

The Interim Assessment was the only one of the three studies of neighborhood outcomes to examine the effects of HOPE VI revitalization on racial segregation. The study found that two sites, Atlanta and Charlotte, experienced large increases in the proportion of white residents in the community, although both neighborhoods remained largely minority (69 percent in Atlanta and 62 percent in Charlotte). Other sites that the Interim Assessment classified as appreciably or moderately improving also saw some reduction in the proportion of the population that was African American, although the changes were less dramatic.

The third study, conducted by the Brookings Institution (Turbov and Piper forthcoming), examined neighborhood impacts in four sites that are probably the most seasoned mixed-income developments and are widely regarded as having positive neighborhood impacts: Centennial Place (Atlanta); Park DuValle (Louisville); Manchester (Pittsburgh); and Murphy Park (St. Louis). The authors conducted extensive interviews with a variety of neighborhood stakeholders as well as analyzing quantitative data. Conclusions were generally positive, with reductions in crime rates particularly impressive in all sites. This study also found evidence that HOPE VI redevelopment may have helped revive or strengthen housing markets in the surrounding communities, especially in Manchester.

The fourth study, by the U.S. Government Accounting Office (2003), is based on information from HUD's HOPE VI reporting system on all 165 grants awarded through 2001, interviews with officials from 18 housing authorities that received grants in 1996 as well as HUD officials responsible for administering HOPE VI, and mortgage and crime data from various administrative sources. GAO found that most neighborhoods surrounding HOPE VI sites have shown improvement in education, income, and housing, but that these effects are not necessarily the result of HOPE VI grants. A comparison of four HOPE VI neighborhoods (in Chester, Pennsylvania; Jacksonville, Florida; Kansas City, Missouri; and Spartanburg, South Carolina) to similar neighborhoods without a HOPE VI site showed mixed results. Mortgage lending in the non–HOPE VI neighborhoods actually appeared greater, while new housing construction increased more in HOPE VI neighborhoods.

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[38] These figures exclude survey results from Boston and Atlanta.

HOPE VI and Gentrification

Some critics of HOPE VI have argued that as the program has evolved, the selection process has favored sites that are located in high-quality or gentrifying markets that will support mixed-income development, rather than those that have the greatest need for renovation or replacement. Some go so far as to liken the program to past urban renewal efforts that displaced low-income residents who stood in the path of neighborhood revitalization. Both Swope (2001) and Keating (2000) cite Atlanta's Centennial Place as an example of a site where real estate values increased quite suddenly, making redevelopment particularly attractive. They point to the low rate of return by original residents as evidence that they were traded in for a "better class of poor people" (Swope 2001) when business leaders and the city wanted to revitalize valuable land. However, Centennial Place is also widely recognized as a successful mixed-income development that has had positive impacts on the surrounding community.

Another city where site selection for HOPE VI has been criticized is Washington, D.C. Parts of Washington's housing market have been very strong in recent years, and many of the city's public housing sites are in or near gentrifying neighborhoods. Two studies of HOPE VI in Washington, D.C. (Cunningham 2001; Lang and Morton 2002) found that while the neighborhoods where HOPE VI revitalization was taking place benefited, these were not the most distressed public housing communities. Similar criticisms have been leveled against Chicago (cf. Cunningham et al. 2002; Popkin and Cunningham 2002) and other cities with large-scale public housing redevelopment activity (National Housing Law Project 2002).

While in some cities HOPE VI developments may have contributed to market trends that were already under way, in other cases it seems likely that neighborhood revitalization was catalyzed by the redevelopment of distressed public housing (Turbov and Berry 1999). The research on neighborhood impacts indicates that several of the HOPE VI projects have had remarkably positive impacts on the surrounding areas, suggesting that in locations where a public housing project has been a significant blighting influence, holding back an otherwise promising market environment in the surrounding area, the economic and other payoffs from HOPE VI can be substantial.

The First Ward Place (formerly Earle Village) development in Charlotte is a good example. Interviews suggest that the high crime, other social problems, and physical deterioration at Earle Village (located at one corner of booming downtown Charlotte) had clearly held back investment nearby. Given the attractive mixed-income residential community that replaced it (and the elimination of the former blighting influences), real estate values for surrounding parcels have skyrocketed since revitalization.

Effects on Cities and Metropolitan Areas

Another important, but difficult to address, question is whether HOPE VI redevelopment has had any impacts outside the communities most directly affected; that is, has it had any economic benefits for the city as a whole or for the surrounding metropolitan area? Recent analyses of census data that examine the dynamic changes underway in cities and metropolitan areas have chronicled the substantial decline in the concentration of poverty that occurred in most U.S. cities during the 1990s (Jargowsky 2003; Kingsley, Johnson, and Pettit 2002). While this research does not directly address the broader impacts of HOPE VI, it is possible that HOPE VI revitalization has contributed to these effects. Indeed, in cities such as Chicago, where public housing developments like the Robert Taylor Homes constituted some of the poorest census tracts in the United States, it is almost certain that public housing demolition is responsible for at least some of the decline in concentrated poverty (Kingsley et al. 2002).

Chapter 8: Implications for Public Housing

In our assessment, the existing research evidence strongly supports continuation of the HOPE VI program. At the same time, research findings highlight critical areas where HOPE VI can and should be substantially strengthened. In particular, HUD and local housing authorities need to improve the quality and effectiveness of relocation and resident services and ensure that local HOPE VI plans are realistic and effectively implemented. Moreover, further research is needed to monitor evolving HOPE VI outcomes and to help guide reforms. However, the debate over the future of HOPE VI cannot be fully resolved by empirical research because it raises fundamental issues about the appropriate targeting of limited resources for affordable housing and the obligations of HUD and housing authorities to address the complex needs of displaced residents. Research provides no easy answers to these issues, and we do not attempt to resolve them here. This final chapter summarizes what we know about the successes and failings of HOPE VI, as well as the remaining areas of policy debate. Next, we lay out a research agenda for HOPE VI, highlighting the big questions that remain to be addressed. Finally, drawing on the research evidence to date, we discuss implications for policy, and the challenges facing housing policy in the next decade.

HOPE VI Has Achieved Important Successes

The HOPE VI program has succeeded in bringing about positive changes for public housing developments, residents, and neighborhoods. ***First, the program has accomplished its most basic goal, demolishing tens of thousands of severely distressed housing units, many of which were uninhabitable by any standard.*** Living in these developments had terrible implications for the families that endured them, especially for the children. Unhealthy and unsafe living conditions—the result of poor construction and worse management—exposed these families to the risk of illness and injury. Poor design and decades of neglect permitted drug trafficking and gang activity to flourish, creating environments dominated by high levels of violence. Extreme racial and economic segregation isolated residents from the larger community, relegating them to failing schools, ineffective police protection, and poor city services. Families that were employed or had other options were largely driven out by the dreadful conditions, intensifying the economic segregation and isolation. Although some residents made heroic efforts to cope with their situation, forming strong networks of mutual support, there can be no doubt that these developments failed to meet even the most basic requirements for decent housing and that rehabilitation efforts alone were inadequate to address the myriad problems that had accumulated by the late 1990s.

In many cities, HOPE VI has replaced these distressed developments with new, high-quality housing and has spurred important innovations in design, management, and financing. For the first time, the federal government has implemented a mixed-income model at a meaningful scale—combining deeply subsidized rental housing with other affordable units and even market-rate housing. There have been some notable successes, such as Atlanta's Centennial Place, Charlotte's First Ward, Tucson's Greater Santa Rosa, and Louisville's Park DuValle developments. The new developments represent a radical departure from traditional public housing design, with most adopting "new urbanist" and "defensible space" design principles and building to the higher standards of the private market. Although these new developments cost more per unit to build than traditional public housing, there is good reason to expect this investment to pay off in terms of more viable communities and lower maintenance costs. HOPE VI has encouraged housing authorities to experiment with new management approaches, particularly private management and asset management. Perhaps most significant, it has encouraged housing authorities to develop innovative financing packages, and, for the first time, has allowed them to use new sources of public and private funding to support the development of subsidized housing. Finally, because of leveraging and the emphasis on mixed-income communities, HOPE VI has led to the creation of large numbers of affordable housing units both for rental and for home ownership. Although these units do not reach the lowest-income households, they do significantly expand quality options for low- and moderate-income households.

Through HOPE VI, many former public housing residents received vouchers and were able to relocate to better housing in safer neighborhoods. Further, contrary to many predictions, HOPE VI has not led to the clustering of very poor households with vouchers in most sites. Therefore, the HOPE VI experience demonstrates the value of vouchers and highlights their effectiveness as a tool for providing decent, affordable housing to very low-income families. As discussed below, this encouraging finding is tempered by evidence that most former residents of HOPE VI developments still live in neighborhoods that have poverty rates over 30 percent, are extremely racially segregated, and often face significant problems with crime. That former residents perceive themselves as substantially better off reflects the fact that they came from some of the most distressed developments in the country. Even so, the improvements are real and have important implications for the quality of residents' lives.

Finally, HOPE VI has generated benefits for the neighborhoods that surrounded these distressed public housing developments. It is clear that distressed public housing developments had a blighting influence on the surrounding communities, discouraging businesses and developers from investing. In some HOPE VI sites—for example, Charlotte's First Ward—the demolition of notoriously bad developments and their replacement with new, mixed-income housing has led to wider revitalization. In many cases, crime rates are dramatically lower. And in some sites, HOPE VI redevelopment has brought important new resources to the surrounding community. For example, the Atlanta housing authority made creating new, stronger schools part of their redevelopment plans. And in St. Louis, the developer and residents of Murphy Park pushed to renovate a school as part of the redevelopment. More commonly, HOPE VI revitalization has generated new community centers and revitalized parks and other community facilities.

These important achievements have already had profound effects on housing policy. In many communities, they have changed public perceptions about public housing and its desirability, and have engaged private-sector investors as well as state and local governments in the challenge of building and maintaining mixed-income communities. These successes have provided a much-needed boost for the housing community, which was in dire need of new energy and innovative ideas after years of highly visible public housing failures. And it is not unreasonable to anticipate that, over the long term, more positive attitudes about public and assisted housing could expand support for more resources.

But HOPE VI Needs Significant Improvement

While acknowledging the HOPE VI program's important successes, it is also necessary to recognize where the program needs to be improved. Our review of the evidence indicates that the most serious problems have involved the relocation of original residents. In addition, some sites have struggled with the basics of timely redevelopment planning and implementation.

Relocation planning and services have failed to meet the challenge at most HOPE VI sites, and some original residents have suffered as a result. The evidence from several studies indicates that housing authorities generally failed to plan adequately for relocation or to provide sufficient support to residents during the process. As a result, many original residents now live in other troubled public housing developments—in some cases, as bad as or worse than those they left. Some housing authorities have simply "lost" original residents through poor tracking or poor management of the relocation process. Even if residents chose to leave independently—because they had the means to do so, did not trust the housing authority to fulfill its promises of a better community, or feared they would not meet screening criteria for replacement housing—they were legally entitled to at least basic relocation assistance, and housing authorities were obligated to make the offer.

The experiences of residents who received vouchers have been mixed and could have been substantially improved with better planning and support. While most voucher holders have moved to better neighborhoods than their original developments, as noted above, they are generally still living in areas that are very poor and extremely racially segregated. Further, some former residents now living in the private market are struggling to pay the higher costs of rent and utilities. Others have had problems with unreliable landlords. Because of these problems, some former residents who received vouchers have experienced considerable instability since relocation. Finally, in tight rental markets, some former residents have been unable to find housing with their vouchers. In the worst cases, these residents have ended up either remaining in bad public housing, doubled up with friends or family, or in homeless shelters.

The primary relocation options for the original residents of HOPE VI developments do not fully address the needs of "hard to house" families, who ended up in distressed public housing as the housing of last resort. These include several types of vulnerable families, including custodial grandparents, families with disabled members who need accessible units, large families, and "multiproblem" households with members who have mental and physical illnesses, substance abuse problems, or criminal records. These families often cannot meet the criteria for new, mixed-income developments—or in some cases, may be required to exclude certain family members if they want to return. Moreover, many of these households also have difficulty with the voucher program, including problems meeting the screening criteria of private landlords and adhering to private-market lease requirements. In some cases, therefore, a significant share of the families that had been relegated to severely distressed public housing need some form of service-enriched or supportive housing.

Finally, some housing authorities have failed to implement their HOPE VI redevelopment plans effectively. Most visibly, these implementation failures have led to long lag times between demolition and redevelopment, slow and inefficient expenditure of HOPE VI funds, and, in some cases, local political controversies and even litigation. While the situation has improved over time, it is easy for critics to point to early HOPE VI sites such as Chicago's Cabrini-Green or Detroit's Jeffries Homes that are still not complete after 10 years. Less visible, but equally important, have been the failures in relocation and community-supportive service planning, which have led to inadequate support for residents and less than optimal outcomes for many families.

Some HOPE VI Issues Cannot Be Resolved by Research

The evidence reviewed in this report points to important successes—and areas for improvement—for the HOPE VI program. However, it does not help to resolve all of the remaining debates about the impact of the HOPE VI program. Two of the biggest remaining areas of controversy concern the demolition of so much deeply subsidized housing and the appropriate targeting of limited affordable housing resources, particularly whether and how to serve the most troubled households. These debates involve fundamental values and reflect differing perspectives on the appropriate role for the federal government in providing assistance to needy households.

Has the HOPE VI program reduced the availability of deeply subsidized housing for the lowest-income households? As discussed in chapter 3, HOPE VI will demolish 94,600 units of public housing—units with deep, long-term federal subsidy commitments that made them affordable for the lowest-income renters. The research evidence clearly shows that, while HOPE VI has led to the creation of more *affordable* housing, the number of *deeply subsidized* hard units has decreased—by 22 percent of occupied units and 49 percent of all units on the sites at the time of HOPE VI awards. Housing authorities are authorized under HOPE VI to apply for vouchers for units they did not replace. However, questions remain about whether the total number of deeply subsidized replacement units—including *both* "hard" units and vouchers—compensates fully for the loss of public housing units. Moreover, if the administration's current proposals for changes in the voucher program are enacted, vouchers might not continue to provide the same kind of deep, permanent subsidy that they do now.

There are two very different perspectives on this issue. One argues that the distressed public housing targeted for demolition under HOPE VI was essentially uninhabitable. Even though federal money was flowing to housing authorities to subsidize these units, the housing was either uninhabitable or profoundly destructive to the families and children who lived in it. From this perspective, every unit of newly constructed or rehabilitated deeply subsidized housing and every replacement voucher represents a gain for very low-income families.

The opposing view argues that the original stock of public housing represented a critical resource for meeting very low-income needs, and that the federal government was obligated to restore all of these units to a decent standard of occupancy. From this perspective, the HOPE VI program may have permanently reduced the availability of deeply subsidized rental assistance, sacrificing the interests of poor families in favor of other priorities. In fact, some advocates argue that so-called "soft replacement" with vouchers is unsatisfactory, because vouchers are not as secure as hard units and require recipients to find and sustain housing in the private market.

Does HOPE VI have an obligation to address the housing needs of all original residents? As discussed earlier, neither mixed-income housing nor vouchers can effectively serve some of the most troubled households living in distressed public housing developments. The strict screening and management policies in new mixed-income developments—particularly the one-strike provision and work requirements—mean that many original residents will not qualify for the new housing. These troubled residents are also less likely to be able to use vouchers successfully—they will find it challenging to navigate the private market and may not be able to meet landlord screening criteria.

Some argue that it is not the responsibility of the public housing program to address the complex needs of these troubled residents. From this perspective, public and assisted housing is a limited resource and can legitimately be targeted to families that will respect and adhere to basic rules and regulations. Proponents of this view argue that many of the tenants who fail the new screening criteria were contributing to the crime, disorder, and distress in the original developments. Families are evicted or denied housing under one-strike only when someone in the household has shown evidence of involvement in drug trafficking or criminal activity. Therefore, those who hold this view argue that these families—or individuals—are not entitled to continued federal support.

However, there are equally strong arguments in favor of policies that aim to help *all* original residents make a successful transition and gain access to safe, decent housing. The majority of households in distressed public housing are families with children. New policies that exclude the most troubled families may place these children at risk. Further, given the role that federal policies and managerial neglect played in creating the distress in public housing, some argue that HUD and local housing authorities must accept at least some responsibility for trying to help address residents' problems. Proponents of this perspective argue that, by investing in these families, we may be able to help improve outcomes for the next generation.

A Research Agenda for HOPE VI

Although we know a good deal about the impact of HOPE VI, our review of the available evidence, as well as discussion at the symposium, point to several critical areas where ongoing research is needed if we are to gain the full benefit from the HOPE VI experience and fully understand the implications for future housing policy. As discussed throughout this report, the HOPE VI experience is tremendously diverse, with some sites achieving dramatic successes while others struggle, and with some sites succeeding on some aspects of revitalization while failing in others. Ongoing research should take advantage of this diversity to learn more about specific strategies for success, the implications of differing market conditions for program design and implementation, challenges and barriers that stand in the way of achieving various program goals, and the long-term sustainability and payoffs from HOPE VI innovations.

The first group of research questions focuses on HOPE VI developments, particularly those that have implemented a mixed-income, mixed-finance model. We know that these models can work in the short term, but questions remain:

- What conditions are necessary for mixed-income models to succeed (including market and neighborhood factors, as well as development and management capacity issues)?
- Are mixed-income communities sustainable over the long term (are they able to continue to attract residents at a mix of income levels)?
- What are the long-term benefits and risks of private financing and management?
- Does high-quality design and construction pay off over the long term in reduced management and maintenance costs?

In addition to these questions about HOPE VI developments, research should continue to monitor and assess outcomes for low-income residents (including both current residents and original residents). More specifically:

- How do the original residents of HOPE VI developments fare over time (particularly with respect to mental and physical health, employment, and income)?
- Are the children of HOPE VI families (both original and current residents) enjoying quality educational outcomes?
- What types of relocation services and supports work for different types of families?
- What combinations of housing and supportive services address the needs of the most vulnerable families?

Finally, while the evidence to date suggests that HOPE VI redevelopment can contribute to the revitalization of the surrounding neighborhood, these processes clearly warrant further monitoring and analysis:

- Under what circumstances can public housing transformation trigger a broader neighborhood revitalization process?
- How do the surrounding neighborhoods fare over time and in differing market environments?

- What are the city and regional implications of targeting neighborhood revitalization resources around HOPE VI developments?

New Directions for Housing Policy

The evidence to date strongly supports the continuation of the HOPE VI approach as a means of improving outcomes for distressed developments, residents, and neighborhoods. That is, HUD should continue to provide a targeted redevelopment program that provides funds for both physical revitalization and supportive services. However, significant reforms are essential if the program is to fully realize its potential to improve the life circumstances of very low-income families. In particular, relocation and supportive services should be strengthened, and attention should be given to innovations such as "enhanced vouchers" that would provide long-term counseling and support in conjunction with housing assistance.

Over the coming decades, HUD must continue the process launched under HOPE VI of replacing distressed public housing developments. According to Kingsley and his colleagues (2004), the public housing inventory has continued to deteriorate over the past decade and tens of thousands of units still qualify as severely distressed. Moreover, federal housing policy should build on the successes of HOPE VI, extending the innovations in design, management, and financing to the public housing inventory more broadly, and possibly to the inventory of privately owned federally subsidized housing developments as well. Finally, the evidence to date also strongly supports the policy of continuing to provide vouchers to give families opportunities to obtain decent, affordable housing in neighborhoods of their choice.

At the same time, renewed attention should focus on addressing the housing needs of low-income households. Decent, stable housing in a healthy neighborhood is a key factor in protecting families' health and well-being and in enabling them to take on the challenges of achieving self-sufficiency. When distressed public housing units are demolished, policymakers and advocates should carefully assess local market conditions and needs, and plan for a sufficient combination of new units and vouchers to effectively serve low-income households. Although vouchers can be very effective (at least under the existing program rules), there continues to be a need for the production of deeply subsidized hard units, particularly in cities with tight rental markets.

Relocation services and supports must be improved. In particular, housing authorities should be required to provide adequate counseling and support so that residents are truly able to make informed choices about housing options and locations. HUD should also consider innovations such as an "enhanced" voucher, which would provide counseling to encourage moves to opportunity-rich areas, as well as long-term support to ensure a successful transition and progress toward self-sufficiency. Moreover, we need to expand the funding resources for options that target "hard to house" residents. These options include supportive housing for "grandfamilies" and households with disabled members, as well as transitional housing for troubled families, and Single Room Occupancy (SRO) housing for single adults.

Finally, policymakers and practitioners need to explicitly recognize and address the challenges minorities face in the housing market. Racial segregation, prejudice, and discrimination limit options even for higher-income minorities; public housing residents face all of those challenges as well as discrimination against families that come from housing developments with bad reputations, and against public assistance recipients more broadly. For ongoing revitalization efforts to maximize the benefits for original residents, housing authorities must conduct effective outreach to landlords in white communities, address bias against the voucher program, aggressively enforce fair housing laws, and ensure that families are aware of their rights.

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Appendix

Roster of Symposium Participants

Ms. Karen Destorel Brown
Brookings Institution

Dr. Larry Buron
Abt Associates

Dr. Susan Clampet-Lundquist
University of Pennsylvania

Dr. Fay Cook
Institute for Policy Research

Ms. Mary K. Cunningham
The Urban Institute

Mr. Michael Eiseman
The Urban Institute

Mr. Todd Espinosa
National Housing Law Project

Mr. Miguel Garcia
The Ford Foundation

Ms. Sharon Wilson Geno
Reno & Cavanaugh

Ms. Renée Glover
Housing Authority of the City of Atlanta

Dr. Edward Goetz
Hubert H. Humphrey Institute of Public Affairs

Dr. Susan Greenbaum
Department of Anthropology
University of South Florida

Ms. Debbie Gross
Council of Large Public Housing Authorities

Mr. Jeremy Gustafson
The Urban Institute

Dr. Cindy Guy
The Annie E. Casey Foundation

Dr. Laura Harris
The Urban Institute

Ms. Mary Joel Holin
Abt Associates

Dr. Bruce Katz
Brookings Institution

Ms. Deborah Kaye
The Urban Institute

Ms. Jill Khadduri
Abt Associates

Dr. Rachel Garshick Kleit
Evans School of Public Affairs

Ms. Diane Levy
The Urban Institute

Dr. Susan Lloyd
John D. and Catherine T. MacArthur Foundation

Mr. Jeffrey Lubell
Independent Researcher

Ms. Katherine McFate
The Rockefeller Foundation

Dr. Deborah McKoy
University of California - Berkeley

Ms. Marilyn Melkonian
Telesis Corporation

Dr. Arthur J. Naparstek
Case Western Reserve University

Dr. Susan J. Popkin
The Urban Institute

Dr. Lynnette Rawlings
The Urban Institute

Mr. Kris Rengert
The Fannie Mae Foundation

Dr. Pamela Russo
Robert Wood Johnson Foundation

Ms. Barbara Sard
Center on Budget and Policy Priorities

Mr. Noah Sawyer
The Urban Institute

Mr. Chris Shea
Housing Authority of Baltimore City

Dr. Janet Smith
University of Illinois at Chicago

Mr. Rod Solomon
Hawkins, Delafield, & Wood

Mr. Harry Thomas
Seattle Housing Authority

Ms. Karen Thoreson
City of Tucson

Dr. Rebecca Tunstall
Brookings Institution

Ms. Mindy Turbov
Turbov Associates

Ms. Margery Austin Turner
The Urban Institute

Dr. Sudhir Venkatesh
Columbia University

Ms. Sherece West
The Annie E. Casey Foundation

Ms. Sunia Zaterman

Council of Large Public Housing Authorities

Mr. Sean Zielenbach
Housing Research Foundation

Written Questions from the HUD oversight hearing held by the Committee on Financial Services

QUESTIONS FROM REP. SPENCER BACHUS

Question 1:

As you know, Secretary Jackson, the President signed the Tornado Shelters Act last year, which will authorize up to $5 million for the Community Development Block Grant (CDBG) for communities to build tornado shelters in mobile home park communities. What are your views on this new law and how much has HUD set aside for this program?

Response:

The Tornado Shelters Act, enacted into law had two primary provisions: one that added a new eligibility category to the Community Development Block Grant program that authorized the construction of tornado shelters in privately held mobile home parks, an addition to the DCBG program that addressed a particular anomaly for privately owned mobile home parks, and the other was to authorize a set-aside of appropriations for that activity.

With respect to the new eligibility category, CDBG grantees may now use CDBG funds to address the need for tornado shelters to serve residents of mobile home subdivisions, areas often devastated when hit by tornadoes. With respect to the authorization for the set-aside, the Congress did not appropriate CDBG fund for that specific set-aside. The Department, however, generally does not support specific set-asides of this nature where grantees are free to undertake such activities with their regular CDBG funds.

Question 2:

Alabama has almost completed about $60 million in new construction with guarantees that the Section 8 program will continue. Will HUD's Flexible Voucher Program proposal ensure that these constructions will not be affected?

Response:

Under the Flexible Voucher Program, funding will be dollar based, rather than unit based. Public Housing Agencies (PHAs) will have the flexibility to determine rental and homeownership assistance policies. However, public housing agencies must honor all contractual commitments with owners and the Flexible Voucher legislation protects all existing contracts for project-based vouchers. Under the project-based voucher program, these commitments include agreements to enter into housing assistance payments contracts for new construction and substantially rehabilitated projects and housing assistance payments contracts for existing projects.

Question 3:

Secretary Jackson, I understand that HUD recently proposed a regulation to significantly increase housing goals for the GSE's. However, I also understand that when drastic capital reallocation efforts take place, it can disrupt otherwise well-working markets. I have concerns that by increasing the goals by too much will have the effect of drying up liquidity in the housing markets at the upper end of the conforming loan limits and harm consumers during the next round of refi's. Don't you have concerns that we are running the risk of harming the most liquid housing market in the world in an effort to redistribute capital away from middle-class homeowners?

Response:

There is no need for GSEs to curtail their purchases of mortgages for higher income families or families living outside of underserved areas in order to meet HUD's proposed GSE housing goals. HUD's analyses in support of the goals demonstrate that there are ample opportunities for both GSEs to increase their purchases of targeted loans to improve their overall goal performance. These analyses also show that, because of the consistently high return on equity each has earned on purchases of both targeted and non-targeted mortgages, the GSEs can be expected to maintain their regular lines of business under the new goals. In fact, the GSEs' ability to serve many areas of the residential mortgage markets simultaneously has been well demonstrated in the past. HUD believes that the GSEs can and should lead the market in providing secondary market financing for the borrowers and areas targeted by the goals as Congress intended in enacting the Federal Housing Enterprises Financial Safety and Soundness Act. The Administration established the goals accordingly, but has done so in a manner that allows for gradual increases in the goals over a 4-year period. These incremental goals will provide the GSEs with the necessary time to develop and implement strategies so that the GSEs can exert leadership in providing financing for both targeted and non-targeted borrowers as Congress intended.

QUESTIONS FROM REP. FRANK

Question 1:

One of the goals of the Fair Housing Initiatives Program (FHIP) as stated by the FY2005 Budget Justification is to increase the number of non-profit organizations receiving FHIP funding. However, there is no proposed increase in FHIP funding. What will be the impact on the organizations that currently receive this funding? What will be the future impact on the program? Does the Department believe further stretching limited funds, result in gin smaller grant rewards, will allow for the continued success of the program?

Response:

The FHIP Program would increase $400,000 above the fiscal year 2004 appropriation. Specifically, the increase would fund more organizations to conduct enforcement projects and expand education and outreach efforts. Also, this increase will continue to enhance the Department's strategic goals of: (1) ensuring equal opportunity in housing, (2) increasing national minority homeownership, and (3) developing responsibilities for solving problems through grass roots community and faith-based fair housing partnerships.

In response to funding levels, we believe that the fiscal year 2005 budget will permit us to award grants at the same funding level, or higher, of the past year. In regards to future trends of FHIP funding, the Department's Office of Fair Housing and Equal Opportunity is now preparing its management goals and budget formulation for fiscal year 2006.

Question 2:

In order to fund more groups with FY2003 FHIP funding, education and outreach initiative (EOI) grants were funded at 75% and private enforcement initiative (PEI) grants at 80% of their typical size. Because of these reductions, the duration of many of the grants was reduced from 18 months to 12 months for EOI grants and from 24 months to 18 months for PEI grants. How will smaller grants and shorter grant durations affect the capacity of the non-profit organizations that conduct fair housing activities?

Response:

The Department believes that the fiscal year 2003 funding level reduction was very modest, but was necessary to fund more private organizations to carry out enforcement and education and outreach activities in areas where there is no fair housing presence. The Department reduced the grant amounts under the Education and Outreach Initiative (EOI – 75 percent) General Component and the Private Enforcement Initiative (PEI – 80 percent). There was no reduction in the length or duration of these grants. The Department fully expects that the groups whose grants were reduced will use outside resources to fund the remaining fair housing activities proposed in their application. Under the FHIP fiscal year 2003 Notice of Funding Availability, these organizations were awarded additional points based on their capacity to leverage other funding resources to finance fair housing activities.

The Department anticipates that the fiscal year 2005 increase and changes in program allocation will provide additional funds under the General Education and Outreach Initiative and the Private Enforcement Initiative to award 100 percent of funds requested by each applicant.

Question 3:

A full-service fair housing organization is one that conducts education and outreach in conjunction with enforcement. With education and outreach, community members become increasingly aware of their rights under the federal Fair Housing Act, helping to prevent the need for enforcement action. Without the capacity to conduct investigations and enforcement, community members have no outlet for their complaints and are therefore not able to exercise their rights. Why are fair housing agencies currently unable to receive both education and enforcement funds during the same grant cycle?

Response:

The Department believes that in the past many local and community-based organizations, which have historically played a key role in the struggle for fair housing equality in this country, were denied FHIP funding because many full service organizations were receiving both Education and Outreach Initiative and Private Enforcement Initiative funds during the same fiscal year when FHIP funds were scarce. One of the Department's goals in fiscal year 2003, was to continue the funding of these local organizations who are providing services in areas where populations have not historically been the focus of education and outreach efforts, e.g. immigrants, rural population, racial and ethnic minorities, persons with disabilities and the homeless.

At the same time, the Department recognizes the need for full service organizations to conduct education and outreach services to compliment their enforcement activities and have allowed these organizations to use up to 5 percent of their grants for education and outreach activities. In addition, the Department continues to provide funds to national organizations to conduct local media campaigns, distribute outreach materials, and further other educational efforts.

QUESTIONS FROM CONGRESSMAN MARK GREEN

Question 1:

Mr. Secretary, there are a lot of activities that the GSEs engage in that are very helpful to the housing market but which do not count toward the housing goals-for instance, their investment in low income housing tax credits, community development financial institutions, and other housing-related development activities, such as a disabled housing initiative in my district.

If the goals are set too high and too many resources need to be diverted to hit HUD's numbers, this could affect the GSEs' ability to continue these types of needed activities in our communities. Why doesn't the proposed rule give credit for these types of activities?

Response:

HUD's regulations are consistent with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA), which requires that the Secretary establish goals for the purchase of "mortgages on housing." To the extent that the GSEs' special initiatives result in mortgages on housing, such as housing for disabled persons or persons with other needs, that otherwise meet HUD's income or location requirement for goals credit and the GSE purchases or securitizes these mortgages, HUD's regulation does award goals credit. However, with respect to equity investments, such as low-income housing tax credits (LIHTCs) and investments in community development financial institutions (CDFIs), HUD's regulations do not award goals credit. The legislative history of FHEFFSA makes clear that while Congress appreciated the GSEs continued investments in LIHTCs, it did not intend that these investments count under the housing goals. The legislative history noted that: LIHTCs provide considerable economic benefit to the GSEs; the goals are intended to foster secondary market financing by the GSEs and, therefore, counted "mortgage purchases;" and LIHTCs are not the equivalent of such purchases. Similarly, equity investments in CDFIs, such as certificates of deposit, are also not the equivalent of mortgage purchases and as such, do not qualify for goals credit.

Question 2a:

Mr. Secretary, as you know several months ago a group of us on this Committee wrote to you regarding HUD's implementation of the Section 811 Mainstream tenant-based rental assistance program. In the letter we raised a number of issues related to the absence of any programmatic guidance to housing agencies and non-profit grantees that have received these funds and are administering rental assistance in their communities. This absence of guidance from HUD has resulted in continued confusion and uncertainty as to how agencies are supposed to target these resources (e.g., do Section 811 eligibility rules apply?) and how agencies are supposed to segregate 811 tenant-based funds within their larger Section 8 program. In addition, HUD appears to have no long-term plan in place to cope with the escalating cost of renewing 811 tenant-based assistance and the impact these rising costs are having on the overall 811 program.

HUD's response to this letter stated that the agency has no plans to issue any guidance to housing agencies and non-profits administering 811 tenant-based funds. The letter further stated that housing authorities are being allowed to use a very broad eligibility criteria that appears to be far beyond that used for the capital advance/project-based side of the 811 program.

Would you please reconsider HUD's position on issuing guidance on the 811 Mainstream tenant-based program? While this is a relatively small program, it is a crucially important resource for low-income people with disabilities. HUD should not allow this program to be diluted and undermined through neglect.

Response:

You will be pleased to know that HUD is currently working on issuing guidance on the 811 Mainstream Program

Question 2b:

Finally, my staff recently discussed the Section 811 tenant-based program with folks from HUD's Office of Congressional Affairs. This conversation concerned reports that HUD was allowing-and possible even encouraging-a housing agency to divert a supplemental allocation made available under the 811 program (additional funds for a previous underpayment_ to make up for a shortfall the agency was experiencing in FY2004 renewal funds for their larger Section 8 program. Can you provide assurances to the committee that no such diversion of Section 811 funds is being allowed to occur?

Response:

Section 811 funding is allocated separately from funding for the Housing Choice Voucher program, and separate reporting is required by public housing agencies. There is no diversion of Section 811 funds allowed between accounts. There may be instances where amendment funding may be needed for Section 811 tenant-based programs related to long-term contracts. The Department is exploring options to provide amendment funding authority in the Section 811 program.

<u>QUESTIONS FROM REP. MALONEY</u>

Question 1:

Both NYCHA and HPD have submitted letters setting out several criteria, which would allow HUD to provide additional funding under the FY2004 Appropriations Act. The crisis in New York City caused by HUD's administration of the Section 8 program will shortly result in both local agencies having no choice but to take possible distressing actions.

Because the passage of time will narrow the options left to these housing agencies, can HUD assist the City and *immediately* determine the pending NYCHA and HPD appeals?

Response:

HUD Notice PIH 2004-7 provides Public Housing Agencies (PHAs) the ability to appeal the Annual Adjustment Factor (AAF) used in the contract renewal calculations. PHAs have until July 15 to submit those appeals. Approvals will not be determined until all

PHAs have had the opportunity to submit the appeals. The Department expects that the approvals will be decided several weeks after the July 15 time frame.

Question 2:

70% of Section 8 apartments in New York City are rent stabilized. Their rent increases are determined by the state-run Rent Guidelines Board, which increased existing rents 4.5% and 7.5% for one- and two-year leases respectively; and increased new leases 18% and 20% for one- and two-year leases respectively.

When will you fully reimburse the city's Section 8 administrators for these increased costs that lie outside of their control?

Response:

The appeal process of the Annual Adjustment Factor (AAF) identified in the previous response is the mechanism for New York agencies to request additional funding for their programs. Local government rent requirements imposed in a locality would be considered an acceptable justification for an appeal. The Department expects that the approvals will be decided several weeks after the July 15 time frame.

Question 3:

The remaining 30% of Section 8 apartments in New York City are leased in a market that had only a 2.79% vacancy rate in 2002, the latest figures available. This is the reality of a market-based system. The rental market costs in this area surpass the allotted 4.1% Annual Adjustment Factor (AAF). In 2004 renewal funding for Section 8 ($17.63 B) went up by more than 15% compared with 2003 ($15.27B). In addition, another $137M was set aside in the Central Reserve Fund to cover increases in the number of vouchers utilized. As I understand it, the utilization percentage was already in the upper 90's, and presumably could only increase by 2-3%. Consequently, there should be fund available in the "renewal pot" to fund an average increase in per unit cost in excess of 10%. Yet PHAs are being held to modest inflation factors that are generally below 5% Market areas like NYC and Boston were limited to 4% and 5% respectively.

- **When will the City's Section administrators be fully reimbursed for these costs?**
- **Where are the additional funds appropriated by Congress going?**
- **If they are being used towards the rescission, which other HUD programs and for what specific amounts are being tapped for the rescission?**
- **What were Congress and HUD's assumptions when they agreed that a $2.8 billion rescission was possible?**

Response:

New York city agencies are provided funding based on the requirements identified in the fiscal year 2004 Appropriations Act. The Act did not allow for full reimbursement of agency rental costs, but established a per unit cost, based on May, June, and July dates submitted in August 2003 by the agency, and provided an inflation factor to that per unit cost. The inflation factors are established each year and published by HUD. The inflation factor standard is the Annual Adjustment Factor (AAF). Other funds that can be made available to an agency are for increased leasing that is paid from the Central Reserve Fund. As identified in the previous responses, the agency may also submit an appeal of the AAF.

All funds provided by the Congress in fiscal year 2004 will be allocated to Public Housing Agencies as determined by the requirement of the fiscal year 2004 Appropriations Act.

Question 4:

Congress and HUD created the enhanced voucher program to address the needs of families residing in developments where owners elect to prepay their mortgage and leave the subsidized program. The enhanced voucher was created to prevent current families, many of whom are elderly or disabled, who lack the income to pay market rents, from being forced onto the streets. Yet HUD's own actions will now have the same results. Local PHAs administer vouchers on HUD's behalf that pay the difference between the tenant's previous rent and the new market rent of the unit for the remainder of the tenants' time in the unit.

HPD and NYCHA agreed to administer the enhanced voucher program at HUD's request. By administering the program, these local housing agencies have been able to play a significant role in preventing more homeless families in the City of New York. With HUD's current interpretation of the law and its proposals under the Flexible Voucher (FY2005) initiative to limit the life of an enhanced voucher to just a single year, however, NYCHA and HPD may not be able to continue their administration of the enhanced voucher program.

Is HUD prepared to assume the administration of the Section 8 enhanced voucher program?

Response:

First, it is important to emphasize that the additional cost of any enhanced voucher under lease prior to August of 2003 is reflected in the Per Unit Cost (PUC) of the PHA. In the case where the initial PUC for the enhanced voucher is higher than the PUC for the PHA's voucher program as a whole, HUD will, upon request of the PHA, provide budget authority for the initial year of assistance based on the actual cost of the enhanced voucher, subject to the availability of appropriations.

Rent increases for enhanced vouchers are the same as those for regular vouchers. In both cases, the increase may not result in a rent that is not reasonable when compared to similar, unassisted units. Therefore, the inflationary adjustment of the grant under the Flexible Voucher Program should, in most cases, adequately cover the rent increases for the enhanced voucher families as well, provided those rent increases reflect rents for comparable units in the rental market. It is unclear why NYCHA and HPD would not be able to continue their administration of the enhanced voucher program.

Question 5:

In New York City these vouchers are typically 300% more expensive than regular Section 8 vouchers. However, their cost is not reflected in the amount HUD reimburses to the City, and the enhanced vouchers, which came onto the rolls after August 1, 2003, are having to be absorbed by the City (FY2004). In fact, a situation has been set up in which a PHA with increasing numbers of Enhanced Vouchers (as happens when buildings go to market rent) will always be short in their reimbursements if the current budget-based situation were to continue.

How and when will the city be fully reimbursed for these costs?

Response:

Due to recent funding provisions in the fiscal year 2004 Appropriations Act, the average per unit cost methodology currently used to determine budget authority to assist these families may be insufficient, in some instances, to cover the initial year of assistance. In such a case, additional funding may be requested for enhanced vouchers within the first year of the Annual Contributions Contract (ACC), subject to funding availability. Once initial funds are provided and there is specific information on the rents and the families that will remain in the property, the average HAP can be determined using this information and better reflect the actual cost required for the enhanced vouchers in the first year of the ACC. The PHA needs to contact the HUD field office to request an adjustment of the initial year budget authority to reflect the actual costs.

How will these vouchers be calculated in the future to prevent a repeat of this situation?

Response:

Calculation of enhanced vouchers will depend on HUD's fiscal year 2005 Appropriations.

What assurances can you offer that this situation will not arise for the remaining 2,000 enhanced vouchers set to come on line before the end of 2004?

Response:

In the case where the initial Per Unit Cost (PUC) for the enhanced voucher is higher that the PUC for the PHA's voucher program as a whole, HUD will, upon request of the PHA, provide budget authority for the initial year of assistance based on the actual cost of the enhanced voucher, subject to the availability of appropriations.

QUESTIONS FROM REP. HARRIS

Question 1:

Mr. Secretary, thank you again for taking the time to more fully elucidate the Administration's approach to setting the FY 05 budget. As you know, December of last year the President signed the American Dream Downpayment Act into law. Since passage and signature of this landmark initiative, I have received inquiries from across the country regarding the implementation of this initiative, including this week from the lady working in the dry cleaner. It is my understanding that HUD is in the process of crafting the regulations for this program. Do you have an update as to when the American Dream Downpayment Act will be officially unveiled to allow ten of thousands of Americans the opportunity to join in the American Dream?

Response:

The American Dream Downpayment Initiative (ADDI) regulations were published in the Federal Register on March 30, 2004 and became effective 30 days later. Secretary Jackson officially announced the initiative on June 2, 1004. ADDI funds are now available to eligible HOME Program participating jurisdictions (PJs) and, depending upon the PJ's program year start-date (e.g., January 1, July 1, etc.), prospective homebuyers may already be able to apply.

Question 2:

Mr. Secretary, I would like to turn your attention to HUD's new proposed affordable housing goals for the GSE's. HUD proposed rule requires that 57 percent of the loan purchases of the GSEs be loans made to borrowers that are below the area median income. While my record towards promoting affordable housing is solid, I am concerned that these goals may put the GSE's portfolio at risk. On one hand we have expressed concerns about the safety and soundness of the GSE's, on the other hand are we setting unrealistically high goals? And if the targets and the assumptions on which the targets have been established are incorrect, would the GSE's be forced to voluntarily lower the conforming loan purchase limit in order to assure that they hit the targets? I believe that would have a devastating impact on high cost areas such as California, New York, and Florida.

Response:

HUD is proposing that the level of each housing goal increase in stages over a 4-year period with the goal for low- and moderate-income borrowers reaching the 57 percent level in the fourth year. This approach allows the GSEs time to gain experience and develop appropriate strategies for operating under higher goals levels. Based on HUD's economic analysis and review by the GSE's safety and soundness regulator, the Office of Federal Housing Enterprises Oversight, the Department has concluded that the proposed levels of the Housing Goals will not adversely affect the sound financial condition of the GSEs. HUD describes this determination and analysis in detail in the Regulatory Analysis that accompanied the proposed rule.

With respect to HUD's estimates of the size of the affordable housing market and the GSE's ability to achieve the proposed goals levels, HUD's analyses show that the affordable portion (lower-end) of the housing and mortgage markets has shown an underlying strength over the past few years, and there is no indication that is going to change. Most observers project that growth in the immigrant and minority populations will provide a continued demand for mortgage products targeted to lower-income families covered by the housing goals. It is also noteworthy that the GSE's purchases in any particular year under the goals are not restricted to current-year mortgage originations from the primary market. The GSEs can purchase goals-qualifying loans from the outstanding stock of mortgages, such as seasoned CRA-type loans held in the portfolios of banks and thrifts. The GSEs have, in fact, followed this strategy to meet housing goals in the past.

The conforming loan limit – the maximum obligation amount for mortgages that the GSEs may purchase – is established by law and not by the GSEs themselves. While the GSEs may, from a business perspective, limit their purchases to lonas that are based on less than the conforming loan limit, given the growing size of the market for goals-eligible loans as well as the significant returns on equity which both GSEs have consistently earned on their conventional conforming business, there is no evidence that either GSE will stop serving middle-income borrowers in favor of lower-income borrowers by choosing to limit their loan purchases to only one segment of the market. In addition to establishing and enforcing the housing goals, under Financial Safety and Soundness Act of 1992, HUD has general regulatory power to ensure that the GSEs carry out their Congressionally established charter purposes that include providing ongoing assistance to the secondary market for home mortgages and promoting access to mortgage credit throughout the Nation. HUD will continue to carefully monitor the GSE's activities to ensure that the GSEs carry out their charter purposes.

HUD's Inspector General reviews and Reducing Fraud, Waste and Abuse

Question 3:

Mr. Secretary, I understand that we are working in a tight fiscal environment to utilize taxpayer dollars in the most efficient and productive manner possible. I also

understand that the HUD Inspector General identified $1.7 billion that was not used for the intended purposes. What types of program do you have in place or are you planning to have in place to fight waste, fraud and abuse of taxpayer's funds at HUD.

Response:

The Inspector General (IG) concerns regarding the potential use of $1.7 billion in recaptured funds was not an issue of fraud, waste or abuse bur rather a budgetary issue involving the timing of types of funds that should be recaptured and made available for other purposes. The IG has identified program funds that were appropriated many years ago and which were obligated on housing assistance contracts with landlords. These contracts are still in existence and funds are being drawn down annually. However, the IG has identified the remaining funds as available to be de-obligated and used for other programs in or outside of HUD, but the Department does not agree that it is wise to de-obligate funds from live contracts. Instead HUD only recaptures excess funds from contracts once they expire. This policy is for two reasons. First, the identification of funds on live contracts as "excess" funds is tenuous. It assumes that the current inflation and current tenant incomes remain the same for as much as the next 20 years. In fact, the funds are extremely sensitive to future inflation and incomes. What is excess today may quickly evaporate tomorrow and to have taken those funds and used them for other purposes will force Congress to appropriate funds again. Second, because these funds are associated with contracts that are still live, recapture will require Congress to appropriate funds again for the same program. Given the widely recognized overall tightness of future funding, this could only be done by reducing other critical HUD programs in the future.

Therefore, HUD believes that recapturing and making funds from live contracts available is not advisable and excess funds should only be recaptured once the contract with project owners has come to a close, the contract has gone through an audit and closed out.

I would also like to add that the Department has a very strong record of action on issues involving fraud, waste and abuse and we are a leader in the Federal establishment in the development of our Strategic Plan and Annual Performance Plan by having included a specific strategic goal targeted at program excellence and accountability entitled, "Embrace High Standards of Ethics, Management and Accountability." Include under this Strategic Goal are HUD's efforts to eliminate our remaining two material weaknesses as follows: (1) tracking the efforts by the Federal Housing Authority to address financial management and system deficiencies through the phased implementation of an integrated financial system to better support FHA's business needs, with full completion by December 2006 and, (2) reducing program errors and improper payments in HUD's rental housing assistance programs. We are pleased to report that the first phase of the FHA system integration has been successful completed on target and that our fiscal year 2003 target of reducing erroneous rental payments by 15 percent was surpassed with a reduction of 30.8 percent.

We of course would be happy to provide you in the future an in-depth review of the Department's efforts in reducing fraud, waste and abuse, if you so desire.

Question 4a:

Mr. Secretary, it has become evident that the Section 8 voucher program has grown to unsustainable levels. In the FY 05 Budget the Section 8 certificate program represents more than half of the HUD's entire budget, this constitutes a 29% increase, or $3 billion over the last three years. Given the current budget realities, I do not believe that we can continue to fund this level of Section 8 vouchers without significant cuts in other areas at HUD.

Additionally, on page 6 of your testimony, you stat that "the current system fails to support families making the transition from public assistance to self-reliance and work, and in doing so, reduces the number of families that could helped for a given amount of money. Under the reform, the Voucher program would be a means for families to transition to a better life, and more of them will be helped." Could you elaborate on your views on the mission of section 8 and how this program should be able to assist families to transition?

Response:

The core objective of the voucher program is to help the family to afford decent, safe, and sanitary housing. While that remains the central mission of the program, we believe housing assistance should also be used as a linchpin to help families eventually move to economic self-sufficiency. HUD believes this objective can be better maximized in the voucher program by expanding homeownership opportunities, increasing income potential of families, and eliminating disincentives for work. The key component of these reforms is to increase flexibility at the local program level.

For example, current rent policies in the Housing Choice Voucher Program do not provide incentives for increased employment and income, but rather increases the family share of rent with increases in income, and PHAs are not allowed to experiment with policy alternatives that may counteract the negative effects of income-based rent under the current laws.

The Flexible Voucher proposal would allow public housing agencies to adopt rent structures and other policies that will enhance self-sufficiency and reduce long-term dependency.

HUD believes greater use of the homeownership option in the voucher program can greatly assist families in moving to self-sufficiency. For the same cost as the monthly rental subsidy, the homeownership option directly helps the family to build wealth (as a family pays down the mortgage each month, the family's equity, which is the value of the home minus remaining mortgage debt, increases) as well as reside in decent, safe, and sanitary housing.

Question 4b:

You also mention that a new proposal would allow Public Housing Authorities to offer down payment assistance in addition to monthly mortgage subsidies to families. If I'm not mistaken, Congress had already authorized HUD to use funds from the voucher program to encourage homeownership. What is the current status of housing voucher/section 8 type of homeownership initiatives already enacted into law?

Response:

Currently, families assisted under the homeownership option in the Housing Choice Voucher program receive monthly assistance payments to help them meet their monthly homeownership expenses. Federal law currently provides that an eligible family may receive a single, one-time grant in lieu of these monthly assistance payments option, Congress has never funded the down payment grant. Consequently, it is not currently operational.

Under the Flexible Voucher proposal, the public housing agency could choose to make the down payment grant option available to families using available programs funds or they could offer monthly mortgage assistance.

Question 4c:

How many homeowners have been created as a transition from public housing and section 8 rolls?

Response:

To date, 400 PHAs have implemented the homeownership voucher option, and over 2,000 voucher families have purchased homes using the homeownership option. The actual number of Public Housing units approved to be sold as a part of a homeownership plan is 9,637. Of that number, 1,106 Public Housing units have actually been sold as of September 30, 2003. The final sales numbers will be updated at the end of fiscal year 2004. Additionally, through the HOPE VI program, 22,827 homeownership units are scheduled to be developed and sold. As of March 31, 2004, construction has been completed on 3,683 of those units.

Question 4d:

How can Congress assist in increasing the levels of homeownership with the populations typically housing in public housing or section 8?

Response:

HUD believes enactment of the Flexible Voucher Proposal will help us to expand the use of homeownership assistance in the voucher program. The Flexible Voucher proposal gives PHAs the administrative flexibility necessary to tailor the homeownership voucher program to address the specific conditions of local markets and the requirements of the agencies' neighborhood lending partners in order to make this initiative more widely available to the families assisted by the voucher program.

Question 5:

The committee shares the Department's goal of simplifying the home buying process and making it less expensive to consumers. Given that the Department has withdrawn its RESPA rule, what action do you intend to take in an effort to simplify the homebuying process. Do you intend to issue a new RESPA reform rule? If so, when?

Response:

HUD plans to issue a revised proposed rule after we have had an opportunity to meet with affected consumer and industry groups and to brief Members of Congress. No timetable has yet been set.

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