



TESTIMONY

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## **INTRODUCTION**

Chairman Hensarling, Ranking Member Waters, and members of this Committee, thank you for inviting me here today to testify before the House Financial Services Committee.

HUD has made tremendous progress since I last testified in October, so I am pleased to have this opportunity to update you on those developments and to discuss other innovative solutions to our nation's housing and community development challenges.

I want to thank the members of this Committee for your support of many of HUD's important efforts, including our mutual determination to end homelessness, our continued commitment to helping our citizens recover from unprecedented natural disasters, and our endeavor to make safe, fair, affordable, and healthy homes the foundation for human achievement, freedom, and growth.

## **HEALTHY HOMES MONTH**

June is "National Healthy Homes Month." This is an important recognition of the significance of the home to our overall health.

I am proud that HUD has taken a leadership role in recognizing, evaluating, and championing a campaign to help Americans understand the important interaction between health and housing, and the impact our homes have on our health and the health of our children.

I'd like to thank Congressman Ted Budd, a Member of this distinguished Committee, who joined me in Greensboro earlier this month to kick off Healthy Homes Month. Together, we visited the Cottage Grove neighborhood to draw attention to the close connection between health and housing.

As you know, prior to becoming HUD Secretary, my life's work focused on the development of the human brain. In the course of treating countless young children, I became acutely aware of the horrible effects of lead poisoning on a child's mental and physical development. I knew I could treat the patient's symptoms or I could treat the patient. The patient's home must be a part of a holistic approach to treating that patient because you can't be healthy if your home is sick.

Every day, HUD's Office of Lead Hazard Control and Healthy Homes works to reduce lead poisoning and is a significant contributor to the ongoing development of a federal strategy to eliminate childhood lead poisoning. These programs enforce our lead safety regulations, publish scientific research on housing-related health issues, and conduct education and outreach with other federal agencies, state and local governments, non-profits, trade groups, and the private sector.

Currently, HUD supports about 120 local lead hazard control programs across the nation. Since these grant programs began in 1993, HUD has awarded more than a thousand grants in 45 states, making more than 200,000 homes lead safe for low-income families.

HUD is taking several actions to ensure compliance with our rules regarding lead-based paint hazards in older homes and to correct dangerous lead-based paint and other health and safety hazards.

The largest of these enforcement actions occurred recently in New York City. On June 11, HUD announced a historic agreement with the New York City Housing Authority (NYCHA), the nation's largest public housing authority, to resolve widespread issues of lead paint, mold, pest infestations, and other inadequate housing conditions. We worked closely with the Justice Department, the Environmental Protection Agency, and HUD's Office of Inspector General, to reach a consent decree that marks a new era for New York City's public housing, one that puts families and their children first.

Under the terms of the agreement, which is subject to review and approval by the Court, New York City will invest at least \$1.2 billion over the next five years to abate lead-based paint hazards in tens of thousands of public housing units and will correct longstanding housing physical conditions issues including inadequate heating, failing elevators, and a significant backlog of work orders. The agreement also imposes a strong federal monitor to ensure that NYCHA provides decent, safe and sanitary housing in accordance with federal laws.

## **NATIONAL HOMEOWNERSHIP MONTH**

June is also "National Homeownership Month." In his proclamation, President Trump said, "This month, we celebrate those Americans whose success and determination have helped make them homeowners. Their dedication to their families and communities, and to achieving a brighter and more secure future, is an inspiration to each person who is pursuing their own American Dream."

There are many benefits to owning a home. Homeownership serves as an enduring symbol of security and prosperity, and it provides many Americans with a legacy they can pass down to their children and grandchildren. Homeowners move far less frequently than renters, making it easier to build community networks and support systems. Homeownership is an investment in family, in community, and in the long-term prosperity of our great country.

Central to HUD's efforts to support responsible homeownership are the programs at the Federal Housing Administration (FHA). FHA's mission is to support sustainable homeownership in good times and in bad. During the housing crisis of a decade ago, FHA fulfilled its counter cyclical role by supporting borrowers when private capital receded from the market. FHA-insured mortgages accounted for approximately a third of all purchase lending activity during those troubled years, keeping access to credit available to families when few others would.

Today, we must make certain we prudently manage our risks and that is exactly what we are doing. One of the first actions the Trump Administration took was to suspend the prior administration's proposed decrease in FHA's mortgage insurance premiums. Had we not taken this action, FHA's capital reserves would have fallen beneath the levels Congress requires of us.

We also acted swiftly to place the Home Equity Conversion Mortgage (HECM) program's finances on a sounder footing for the future. FHA's HECM or reverse mortgage program has drained the Mutual Mortgage Insurance (MMI) Fund of \$14.5 billion of economic value since 2009, as measured in the 2017 Annual Report to Congress. We are continuing to monitor this program closely to determine what additional changes may be needed to ensure this program

remains an option for future generations of seniors, many of whom wish to “age in place” and can utilize an FHA-insured reverse mortgage to improve their quality of life.

Last year, FHA also ceased insuring new mortgages on properties encumbered with Property Assessed Clean Energy (PACE) obligations. As I said at the time, FHA can no longer tolerate putting taxpayers at risk by allowing obligations like these to be placed ahead of the mortgage itself in the event of a default. PACE obligations increase risks to FHA’s MMI Fund and may have serious consequences on consumers’ ability to repay, or when they attempt to refinance their mortgage or sell their home.

Maintaining the health of FHA’s MMI Fund is critical if we are to continue to be an affordable source of credit for first-time, low- and moderate-income, and minority homebuyers. To mitigate risks, we are carefully scrutinizing policies that go beyond FHA’s core mission because we’re mindful of concerning trends.

For example, the share of cash-out refinances among all our refinance transactions is growing – from about 45 percent in April 2017 to nearly over 60 percent in April 2018. Also, in April 2018, over 24 percent of FHA home buyers left the closing table with debt-to-income ratios at or above 50 percent, up from 20 percent from the same time the year before. We are closely monitoring these indicators as they represent added risk to FHA’s economic health.

In addition, FHA’s Single-Family business recently experienced an uptick in Serious Delinquencies (SDQs) as well as Early Payment Delinquencies (EPDs). While these trends – which were in part due to the 2017 hurricanes and seasonality – have begun to moderate, we are concerned these increases are at least partly attributable to a decrease in mortgage credit quality.

Managing our risk also requires a stable technology platform for FHA. FHA can no longer put off substantial investments to our systems. FHA operates on a legacy mainframe that is over four decades old. Staff at our homeownership centers still work from paper case files, which not only presents inefficiencies, but also poses numerous risks to quality control. We can no longer pretend to be a modern mortgage insurance program with technology this old.

That is why HUD has proposed up to \$20 million in the 2019 Budget to fund targeted improvements in single-family Information Technology (IT) and allow FHA to better interact with a modern financial system. To offset this funding increase, the Budget also proposes a modest single-family IT fee of no more than \$25 per loan. We will continue to make as much progress on this important priority as possible within the resources available but are eager to work with Congress to ensure that FHA receives the funding it desperately needs.

In addition to the important work of FHA, HUD also is home to the Government National Mortgage Association (Ginnie Mae). Ginnie Mae is instrumental to attracting capital and providing liquidity to our nation’s home mortgage market, especially for low- and moderate-income borrowers and our nation’s veterans.

Ginnie monitors the safety and soundness of every lender authorized to issue a Ginnie mortgage-backed security (MBS), overseeing over \$2 trillion in MBS obligations. Working with the U.S.

Department of Veterans Affairs, Ginnie Mae has taken decisive action to address abusive “churning,” the practice of encouraging veterans to refinance their mortgages repeatedly, depleting their equity, and increasing their risk of foreclosure. These actions have not only helped protect veterans, but have also lowered mortgage costs for borrowers in the Ginnie Mae program.

## **FAIR HOUSING**

This year marks the 50<sup>th</sup> Anniversary of the passage of the Fair Housing Act. On April 11, 1968, one week after Dr. Martin Luther King, Jr. was assassinated in Memphis, President Johnson signed this landmark legislation into law and declared, “Fair housing for all, all human beings who live in this country, is now a part of the American way of life.”

It was a seminal moment in our country’s history when the ideals of equality and fairness were embodied in a law that continues to shape our communities and neighborhoods 50 years later. But the promises of the Fair Housing Act require our constant vigilance to confront housing discrimination in all its forms and to advance fairness on behalf of those seeking their American dream. A half century later, the Fair Housing Act remains a centerpiece of HUD’s work.

As we continue our celebration of the 50<sup>th</sup> Anniversary of the Fair Housing Act, HUD will rigorously protect people from discrimination, regardless of their color, race, national origin, religion, sex, disability, or family status. Each year, we receive approximately 8,000 fair housing complaints and, each year, HUD and our fair housing partners continue to enforce the letter *and* spirit of this landmark law.

## **ENVISION CENTERS**

Earlier this month, I formally launched the first EnVision Center in Detroit and announced 16 additional demonstration sites across the nation. EnVision Centers offer HUD-assisted families access to a range of support services to move their lives onto a stronger financial footing and help them along the road to self-sufficiency. EnVision Centers fulfill one of the basic principles that guide this Administration: leveraging limited public-sector resources with those in private, philanthropic, non-profit, and faith-based organizations.

Located on or near Public Housing developments, EnVision Centers will be centralized hubs that serve as incubators to support four key pillars of self-sufficiency: (1) Economic Empowerment, (2) Educational Advancement, (3) Health and Wellness, and (4) Character and Leadership.

Through results-driven partnerships with organizations such as federal agencies, state and local governments, non-profits, faith-based organizations, corporations, public housing authorities, and housing finance agencies, EnVision Centers will leverage public-private partnerships to connect HUD-assisted households with services that offer pathways to self-sufficiency.

## **RENT REFORM**

One of the most consequential policy reforms for which we are seeking the Committee’s support is a proposal to reform the rental assistance programs administered by HUD.

HUD currently serves 4.7 million low-income families, more than half of whom are seniors and persons living with disabilities. The Department's combined rental assistance programs account for 80 percent of HUD's annual budget and the cost of serving the same number of households increases each year. Demand for these programs far exceeds available resources and this condition has existed for many years. In fact, it is estimated only one in four households that qualify for HUD assistance receive it.

HUD's rent policies have remained largely unchanged since the early 1980s. The system we currently use to calculate a family's rental assistance is overly complicated and provides a disincentive to employment. Public Housing Authorities (PHAs), private landlords, and tenants participating in HUD's rental assistance programs must navigate a complex set of rules to properly calculate a household's rent. Under existing rules, tenants are required to provide extensive amounts of personal information each year, which results in a rent increase if tenants experience even a modest increase in income. This operates as a disincentive to both sustained employment and income growth, the very things that would enable more tenants to become self-sufficient.

Likewise, owners and PHAs, many with limited staff, must spend many hours calculating the correct payments from families, who themselves are often confused by byzantine rent rules for income and rent calculations. The complex annual income recertification process creates a perverse set of conditions that increase the risk of inaccurate income and rent calculations and discourage progress toward self-sufficiency.

In April, the Administration proposed a simplified structure of core rents that offers a more transparent and predictable rent calculation, streamlines program administration for PHAs and owners, and is easier to understand for landlords and tenants alike. Under this core rent proposal, PHAs and owners would only be required to verify income every three years rather than annually. This would substantially ease the administrative burden on PHAs, owners, and residents and would effectively encourage increased earned income without adversely impacting a household's rent for up to three years. HUD would also create a menu of choice rent structures that PHAs and owners could implement, including the option to propose their own rent structures, to promote greater flexibility, local control, and self-sufficiency for non-elderly/non-disabled households.

## **DISASTER RECOVERY**

On June 1, we marked the beginning of the 2018 hurricane season. As we continue the long process of recovering from last year's devastating hurricanes, HUD is squarely focused on supporting communities' recovery efforts. HUD is not a first responder agency following major disasters, but we do play a critical role to support long-term disaster recovery. HUD also has a government-wide mission to coordinate housing recovery, not just for HUD-assisted households, but for all Americans who are impacted by disasters.

Since Hurricanes Harvey, Irma, and Maria made landfall, and wildfires impacted California, HUD has awarded more than \$35 billion through the Department's Community Development Block Grant – Disaster Recovery (CDBG-DR) Program. The CDBG-DR grants we have allocated include support for recovery in hard-hit areas in nine states, Puerto Rico, and the U.S. Virgin

Islands, addressing unmet housing, business, and infrastructure needs in the impacted areas.

These grants include more than \$19 billion for major disasters that occurred in 2017 and nearly \$16 billion to support mitigation activities in areas that experienced major Presidentially declared disasters since 2015.

Since announcing these allocations, HUD has worked intensively with Florida, Texas, Puerto Rico, and the U.S. Virgin Islands to review their action plans for the first tranche of funding. After finalizing policies to address remaining unmet needs, this fall, we will publish the rules of the road for the new mitigation program under CDBG-DR to help communities better protect themselves, reduce their risk, and lower the potential cost of future disasters.

In addition to the amounts discussed above, HUD manages an extensive portfolio of CDBG-DR funding that reaches back to prior disasters, such as Louisiana flooding in 2016 and Hurricane Sandy in 2012. We continue to take our obligation to effectively manage these disaster funds seriously and are committed to supporting the communities as they rebuild.

## **HOMELESSNESS PROGRAMS**

HUD is also committed to making significant investments in the fight to end homelessness, in partnership with the United States Interagency Council on Homelessness, which HUD currently chairs. The Department's Point-in-Time count, conducted in January 2017, indicated homelessness was on the rise for the first time in a decade, primarily driven by high-cost housing markets along the east and west coasts. For FY19, HUD is requesting \$2.383 billion, a \$133 million increase over last year's request, which includes \$40 million for rapid re-housing targeted to communities with high rates of unsheltered homelessness.

In addition to being a critical tool in HUD's broader fight against homelessness, the Continuum of Care (CoC) program is HUD's main tool to confront substance abuse and addiction issues. Last year, our grantees reported that 76,000, or approximately 25 percent of those served through CoC funding reported issues with substance abuse, including opioids. This is a worthy effort that we will continue to prioritize.

Last October, the Administration declared the opioid crisis a nationwide public health emergency, recognizing the overwhelming impact of this epidemic that is destroying families and tearing communities apart. The President also created the White House Interagency Task Force on Opioids, which brings together federal agencies and coordinates the joint federal response to the crisis.

In our fight to combat a scourge that is killing tens of thousands of Americans each year, HUD plays a critical role. HUD's senior leadership from all program offices is working collaboratively to recommend near-term actions to impact awareness and treatment, as well as thinking through strategic changes with rules and guidance that will support the efforts of interdiction, law enforcement, prevention, and recovery.

## **HOUSING FINANCE REFORM**

From HUD's perspective, one of the key elements of housing finance reform is to ensure policymakers take a holistic view of our housing finance system. We believe any reforms should result in a well-functioning mortgage finance market where responsible borrowers have access to affordable credit, with more competition and choice and a larger role for private capital. Another key element of any reform is a reduction to the risk borne by taxpayers.

The Administration's government reform plan includes a proposal that sets forth a high-level blueprint for a reformed housing finance system that ensures more transparency and accountability to taxpayers and minimizes the risk of taxpayer-funded bailouts, while maintaining responsible and sustainable support for homeowners. We look forward to working with Congress and other stakeholders to obtain feedback and determine the best way to proceed.

## **OPPORTUNITY ZONES/TAX REFORM**

The Tax Cuts and Jobs Act of 2017 is currently allowing countless Americans to keep more of their hard-earned money. We are seeing economic revitalization play out in communities across our nation as workers receive higher wages and bonuses after years of stagnant pay.

But the tax law has a larger impact for the most historically neglected and distressed areas in our country. Designated low-income communities called Opportunity Zones can help attract new businesses and improve economic development and entrepreneurship – the lifeblood of our economy.

Private investors are creating "Opportunity Funds" or "O Funds" to invest in Opportunity Zones. These O Funds provide for the deferral of capital gains and, for certain long-term investments, an exemption from capital gains entirely. This is a powerful incentive for private investors to make meaningful, long-term investments in our nation's neediest communities.

HUD will be working closely with Treasury to ensure that HUD's programs are complementary to these broader efforts. Working in concert with HUD's Rental Assistance Demonstration (RAD), the Low-Income Housing Tax Credit (LIHTC) Program, and other affordable housing production programs, these combined efforts provide us with a powerful opportunity to revitalize our nation's underserved areas – America's forgotten communities.

## **FINANCE TRANSFORMATION/TASK FORCE**

Taxpayers support HUD's mission and they expect us to use their money wisely, maximizing the impact of every dollar and minimizing waste. Since becoming Secretary, I have been mindful of our responsibility to fulfill our mission and to be responsible stewards of these taxpayer dollars.

In March, I took a number of important steps to strengthen the financial integrity of the agency and correct lax internal processes and controls. Central to these efforts is HUD's Chief Financial Officer, Irving Dennis, who joined the Department in January after a distinguished career in the private sector. I have directed Irv to design and implement a transformation plan and lead an

internal taskforce to combat waste, fraud and abuse.

This transformation plan will consist of:

- Implementing an improved agency-wide governance structure that allows for more oversight, transparency, monitoring and accountability;
- Developing a plan to restore discipline and accountability in the financial and reporting systems across the agency;
- Developing a holistic grant modernization plan to improve grant processes and reporting, including improved IT systems; and
- Promoting a HUD culture focused on documented and repeatable processes with a focus on transparency and cost reasonableness.

We simply need to do better. An updated system of internal controls will provide HUD with greater certainty that the dollars we spend are spent in a manner that satisfies all laws and regulations as well as the expectations of the American people.

## **CONCLUSION**

HUD is committed to safe, fair, and affordable housing for the American people. It also acts as a stepping stone to opportunity and self-sufficiency so that families can graduate from assisted housing to economic independence. I am eager to work with Congress and all the members of this Committee in achieving these worthy goals to better serve our fellow Americans.