



I am pleased to submit the fiscal year 2012 Budget for the Department of Housing and Urban Development, Creating Strong, Sustainable, Inclusive Communities and Quality Affordable Homes. This budget proposal builds on HUD's two prior budgets during this Administration—Roadmap to Transformation (2010) and Investing in People and Places (2011)—helping lead America out of an unprecedented economic crisis and ensure our economy is competitive – growing and working for all Americans.

We submit this budget in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again – and instead of rapid job loss, more than a million private sector jobs were created in the last year. But we know there's still more work to be done to ensure that America and its workers can compete and win in the 21st century. And we have to take responsibility for our deficit, by investing in what makes America stronger and cutting what doesn't.

HUD's FY 2012 budget tackles these challenges head on: by helping responsible families at risk of losing their homes and meeting the need for quality affordable rental housing; by transforming neighborhoods of poverty and ensuring that children there have access to the quality education we need to compete in the 21st century; by rebuilding the national resource that is our federally-assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires, and by leveraging private sector investments in communities to create jobs and generate the economic growth we need to out-innovate, out-educate and out-build the rest of the world.

This budget also reflects the need to ensure that America's future isn't built on a mountain of debt. As a down payment toward reducing the deficit, the President has proposed a freeze on domestic spending for the next five years, cutting the deficit by \$400 billion over 10 years and bringing non-security discretionary spending to the lowest share of the economy since President Eisenhower. Every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. HUD's fiscal year 2012 budget more than meets the President's goal – the Department's \$47.8 billion in gross budget authority is offset by \$6 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, leaving net budget authority of \$41.7 billion, or 2.8% below the fiscal year 2010 actual level of \$42.9 billion. To maintain this commitment to fiscal discipline, we have protected existing residents and made the difficult choice to reduce funding for new units and

projects, including cuts to the Community Development Block Grant, HOME Investment Partnerships, and new construction components of the Supportive Housing Programs for the Elderly (202) and Disabled (811).

And because winning the future also means reforming government so it's leaner, more transparent, and ready for the 21st century, we are also reforming the administrative infrastructure that oversees those programs. Through the Section 8 Voucher Reform Act legislative proposal that is part of this budget, the Department will simplify and rationalize the rent setting provisions of our largest program, yielding—if enacted—over \$150 million in savings in the first year and over \$1 billion in savings over the next half decade. Finally, the Transformation Initiative—important funding and programmatic flexibility Congress provided in 2010—is enabling the Department to conduct the kinds of research and demonstrations that will ensure that we are funding what works and identifying what doesn't and what we need to do better.

Responding to the Crisis

Much has happened in the two years since HUD submitted its fiscal year 2010 budget. Only weeks before the Bush Administration and Congress had taken dramatic steps to prevent the financial meltdown, the nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months and house prices had declined for 30 straight months.

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama Administration had no choice but to step in aggressively. The Federal Reserve and Treasury helped keep mortgage interest rates at record lows. Because low interest rates only matter if there are mortgages available at those rates, the Administration also provided critical support for Fannie Mae and Freddie Mac, while HUD's Federal Housing Administration (FHA) stepped into play its critical countercyclical role in stabilizing the housing market enabling a robust refinancing market to emerge. The Administration proposed, and Congress enacted, a homebuyer tax credit to spur demand in the devastated housing sector. And we took steps to help families keep their homes – through mortgage modifications and FHA's loss mitigation efforts.

The results of these extraordinary but necessary actions are clear. More than 4.1 million borrowers have received restructured mortgages since April of 2009, including more than 1.4 million HAMP trial modification starts, more than 650,000 FHA loss mitigation and early delinquency interventions, and nearly 2 million proprietary modifications under HOPE Now – more than twice the number of foreclosures completed in that time. The 30-month slide in home prices was stopped. And as of this writing, the private sector has created jobs for 13 straight months.

Given that much of the economic pain was triggered by a crisis in the housing market, HUD has been central to many of this Administration's efforts to spur the economy. This began with

the Department's careful and effective stewardship of \$13.61 billion in American Recovery and Reinvestment Act (ARRA) funding. As of this writing, HUD has obligated nearly 100% of its ARRA grant and loan funds and expended over 63.5% of this funding – more than 5 months ahead of the aggressive timelines the Administration set down and to which the Vice President has held every Department accountable. These funds have led to the development and renovation of more than 360,000 homes (Public Housing Capital Fund, Native American Housing Block Grant, Tax Credit Assistance Program, Community Development Block Grant, Lead Hazard Reduction and Healthy Homes grants). Through homelessness prevention assistance (Homelessness Prevention and Rapid Re-Housing Program/HPRP), local partners have prevented or ended homelessness for more than 850,000 people. Lastly, through Lead Hazard Reduction and the Healthy Homes Program, over 3,800 children have been protected from lead paint-based hazards and other home health and safety risks. As a result of these activities, in the third quarter of calendar year 2010 alone, HUD ARRA recipients reported over 31,000 jobs saved or created.

Winning the Future

Now, having prevented our economy from falling into a second Great Depression, the Administration is focused on ensuring that America wins the future. The Department's budget for fiscal year 2012 follows the roadmap the President has laid out for keeping America at the forefront of the rapidly changing global economy. As discussed further below and in the pages that follow, this budget helps America:

- **Win the Race to Educate our Kids.** America cannot out-educate the rest of the world if a lack of quality, affordable housing prevents Americans from accessing good schools in safe neighborhoods, or if homelessness threatens the schooling of a young child. That is why the budget continues the Choice Neighborhoods initiative (closely linked with the Department of Education's Promise Neighborhoods initiative), and proposes to target housing vouchers—coupled with educational and other supportive services—to homeless and at risk families with school age children. Simply put, America needs all of our players in the game if we hope to compete successfully in the 21st century global economy.
- **Win the Future Through Innovation.** A clean energy economy is vital for America to compete in the new century. Building on the Recovery Act's dramatic investments to green America's housing stock, under which HUD is improving efficiency in 245,000 publicly-owned affordable homes and providing comprehensive energy retrofits that will reduce energy costs by as much as 40 percent for an additional 35,000 public housing units, the funding in this budget will continue to improve energy efficiency and save money for the taxpayer. It will also allow us to work more closely with the private sector to scale up energy retrofits that pay for themselves through loan products like the FHA PowerSaver and Green Refinance Plus.

- **Outbuild the Rest of the World.** The President's focus on repairing our existing infrastructure and building new ways to move people, goods and information will not only put people to work now, but also spur investments that build a stronger economy. Building on the successful Partnership for Sustainable Communities with the Department of Transportation and the Environmental Protection Agency, the Budget includes \$150 million to create incentives for communities to develop comprehensive housing and transportation plans that spur jobs, reduce the combined cost of housing and transportation and attract more private investment.
- **Reform Government So that It's Leaner, Smarter, More Transparent, and Ready for the 21st Century.** President Obama said in his State of the Union that removing overlapping and contradictory rules and regulations is essential to generating economic growth. That's why we continue to make it our focus to improve and simplify the way HUD works with other agencies. The level of interagency cooperation with both our federal and non-federal partners is unprecedented – from the Sustainable Communities Partnership (discussed above) to initiatives targeting housing and services to the homeless (with the Department of Health and Human Services and the Department of Education) to a new multi-agency economic development initiative led by HUD and the Economic Development Administration in the Department of Commerce, this Department is committed to removing barriers to local innovation at the federal level. Through our Transformation Initiative, HUD can continue to deliver the kind of cutting edge technical assistance and research that our local stakeholders need to innovate and grow their economies. But this improved partnership with local stakeholders also means holding them accountable for their use of federal resources. As noted, the Transformation Initiative is already supporting research and demonstrations that will allow the Department to closely monitor local strategies for expending the taxpayers' money. And through the newly instituted HUDStat internal reporting system (discussed further below), the Department is holding itself accountable for the funds it invests.

Meeting Our Responsibilities

The need for HUD's investments is clear. The devastating effect that the economic downturn has had on the housing circumstances of poor Americans was underscored in early February, when HUD released its Worst Case Housing Needs study results. HUD defines worst case needs as: renters with very low incomes who do not receive government housing assistance and who either paid more than half their income for rent, lived in severely inadequate conditions, or both. The report showed an increase of fully 20 percent in worst case needs renters between 2007 and 2009. This is the largest increase in worst case housing needs in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. These numbers show the scale of the challenge inherited by the Obama Administration, with a historic increase in need during the two years before we took office. Indeed, the critical housing assistance

offered by HUD through the Recovery Act is a key part of HUD's response to this challenge. The report shows a clear link between unemployment and housing needs—one of the reasons President has been so focused on creating jobs.

In short, this budget will achieve substantial results not only for vulnerable, low income Americans but also for hard-hit local and state economies across the country. Its carefully targeted investments will enable HUD programs to: house almost 2.5 million families in public and assisted housing (over 60% elderly and/or disabled); provide tenant-based vouchers to more than 2.2 million households (over 45% elderly and/or disabled), an increase of over 86,000 from 2010; more than double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless; and create and retain over 100,000 more jobs than in 2010 through the Department's housing and economic development investments in communities across the country. Critically, in this time of focus on job growth—particularly in the hard-hit construction and broader housing sectors—this funding, collectively, will not only generate 300,000 jobs directly but can also be expected to create or retain over 350,000 jobs elsewhere in the economy.

As in fiscal year 2011, HUD's fiscal year 2012 budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010-2015. These goals reflect the Department's—and my—commitment to 'moving the needle' on some of the most fundamental challenges facing America as we try to win the future. Indeed, every month, I hold "HUD Stat" meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: 1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other federal agencies; and 2) hold our grantees accountable for their expenditure of your hard-earned dollars.

Further detail on the Department's proposed investments and savings are provided in the following pages. Overall, this budget reflects the Obama Administration's recognition of the critical role the housing sector must play for the nation to experience a robust, long-term economic recovery. Equally important, it expresses the confidence of the President in the capacity of HUD's programs and the Department to meet a high standard of performance. In short, while it requires hard choices to reduce the deficit, this blueprint for fiscal year 2012 is one that will deliver results for the vulnerable people and often-distressed places that HUD helps.

A handwritten signature in black ink, appearing to read "Shaun Donovan".

Secretary Shaun Donovan