

Written Testimony of Shaun Donovan
Secretary of the U.S. Department of Housing and Urban Development
Transforming Rental Assistance
Hearing before the House Financial Services Committee

Tuesday, May 25, 2010

Mr. Chairman, Ranking Member Bachus, members of the Committee – I want to thank you for holding this important hearing and giving me the opportunity to testify on the Administration’s proposed legislation to implement the Transforming Rental Assistance initiative submitted as part of the President’s Fiscal Year 2011 Budget Request.

I also want to thank you for the key role this Committee has played in helping to preserve the stock of affordable housing, and to make the policies governing this housing work more effectively. The legislation builds on the substantial work this Committee already has done.

I want to focus on what I believe is the single most important thing we do at HUD – and that is to provide rental assistance to America’s most vulnerable families.

Indeed, the current housing crisis has underscored the broad impact HUD has on people’s lives, with our public housing program alone serving 2.3 million residents in 3,500 communities. In all, HUD provides deep rental assistance to more than four-and-a-half million households – helping families, and also giving communities the tools they need to tackle their development needs and challenges.

An Unsustainable System

Unfortunately, for all of our progress, HUD’s continued ability to serve families in need is at risk.

As you know, this administration came into office during the worst financial crisis since the Great Depression. At one point, housing prices dropped every month for over two years. During that time, homes lost over \$6 trillion of their market value. The lending market was stopped dead in its tracks. In helping our economy recover, it was essential that we strengthened the housing market and helped families maintain their homes. We have clearly made substantial progress --restoring a trillion dollars in home equity in the last year, stabilizing the housing market as a result of keeping interest rates low, making sure capital is available through FHA and other means at those low interest rates, ensuring that there is demand through the homebuyer tax credit, as well as attacking foreclosures directly.

But the harm inflicted by the economic crisis we inherited was by no means limited to homeowners and homeownership. In fact, this crisis reaffirmed the need to achieve a better

balance between ownership and rental housing and to provide more options—and better options—for families.

It does not take a housing expert to see that HUD's rental assistance programs desperately need simplification. HUD currently administers thirteen different rental assistance programs, each with its own rules, managed by three operating divisions with separate field staff. Too often, additional programs designed to meet the needs of vulnerable populations have been added without enough thought to the disjointed system that would result. This unwieldy structure fails to serve the Department, our government and private sector partners, and—most importantly—the people who live in HUD-supported housing.

In my last job, as Commissioner of the New York City Department of Housing Preservation and Development, I personally experienced the challenges of working with HUD rental assistance to preserve and develop affordable housing on a large scale. While implementing the City's 165,000 unit New Housing Marketplace plan, it was a constant struggle to integrate HUD's rental assistance streams, and capital funding resources for that matter, into the local, state, and private sector housing financing that we had to leverage in order to get the job done.

But I was willing to deal with the transaction costs of engaging with HUD's misaligned subsidy programs for a simple reason: the engine that drives capital investment at the scale needed, in a mixed-finance environment, is typically a reliable, long-term, market-based, stream of **federal** rental assistance. Historically, no other mechanism—and no other source of government funding—has ever proven as powerful at unlocking a broad range of public and private resources to meet the capital needs of affordable housing. Our programs may be imperfect, but they are absolutely irreplaceable.

This said, tolerating the inefficiencies of the status quo is no longer an option. The challenges this Department faces are too great to continue to ignore the costly inefficiencies created by the current array of programs. And quite frankly, the capital needs of our Nation's affordable, federally-assisted housing stock are too substantial and too urgent. The Public Housing program in particular has long wrestled with an old physical stock, and currently has a backlog of unmet capital needs that may exceed \$20 billion. To be sure, nearly two decades of concentrated efforts to demolish and redevelop the most distressed public housing projects, through HOPE VI and other initiatives, has paid off. The stock is in better shape overall than it has been in some time, and the \$4 billion in ARRA funds targeted to public housing capital improvements are further stabilizing the portfolio. This very progress has created a unique—but time limited — opportunity to permanently reverse the long-term decline in the Nation's public housing portfolio and address the physical needs of an aging assisted housing stock.

My many years of experience in dealing with affordable housing on a large scale—both in New York and overseeing HUD's multifamily assisted housing programs during the 1990's—have drilled home two key lessons. First, it is far more costly to build new units than to preserve

existing affordable housing. And, second, an affordable housing project can limp along for some time with piecemeal, ad hoc strategies to address its accumulating capital backlog, but eventually the building will reach a "tipping point" where its deterioration becomes rapid, increasingly expensive to remedy, and often irreversible. This moment in time calls for a timely, crucial federal investment to leverage other financial resources to the task of maintaining the number of safe, decent public and assisted housing units available to our nation's poor families—an objective that, if we don't begin to act now, will end up costing the taxpayer substantially more to achieve by other means.

Not only are many properties deteriorating, but enterprising public housing agencies have been driven to look for ways to raise the capital that properties need but that is not available in the current public housing program. The absence of a viable preservation strategy has led to the loss of 150,000 units through demolition or sale over the last 15 years. Given the size of the federal deficit and the challenges we've inherited, it's clear the Federal government alone will not be able to provide the funds needed to bring properties up to date and preserve them for the next generation. We will do our part, but we will need partners to supply the capital needed.

And, of course, rehabilitating these aging properties is not enough. As great as capital needs are, the depth of human needs is even greater.

Decades after William Julius Wilson awakened America to the shattered lives of those living in public and assisted housing in our poorest neighborhoods with *The Truly Disadvantaged*, countless residents still remain trapped in neighborhoods of concentrated poverty – because moving means giving up their subsidy.

Particularly in this challenging economy, tenants of HUD-subsidized projects also need the option to pursue opportunities for their families in other neighborhoods and communities as they arise, without losing the subsidy that is so crucial to maintaining their housing stability. Today, we lack the seamless connection that should exist between HUD's largest project-based assistance programs— Multifamily Project-based Section 8 (PBRA) and public housing—and the Housing Choice Voucher program. This leaves tenants of PBRA and public housing with limited ability to move to greater opportunity. As a result, these families not only lack mobility – in many cases, they lack opportunity and choice.

And so Mr. Chairman, at this moment, we face a choice of our own: we can approach the challenges facing this population ad hoc, piecemeal, from program to program, as we have for decades.

Or we can deal with them now, in a comprehensive way, and put our rental assistance programs on a more sustainable footing for years to come.

With this perfect storm of challenges and opportunities before us, I believe now is the moment to finally move HUD's rental housing programs—and the people who rely upon them—into the housing market mainstream.

Transforming Rental Assistance

To address these issues, HUD proposes to launch an ambitious, multi-year effort called the Transforming Rental Assistance (TRA) initiative that forms the basis of the legislation we discuss today. This initiative is guided by five fundamental principles:

1. **Streamline and simplify--** The complexity of HUD's programs is part of the problem. We must streamline and simplify our programs so that they are easier for families to access, less costly to operate and easier to administer at the local level. TRA is intended to move properties assisted under these various programs toward a more unified funding approach, governed by an integrated, coherent set of rules and regulations that better aligns with the requirements of other of federal, state, local and private sector financing streams. In a world where the old city/suburb stereotypes are breaking down, and our metropolitan areas are emerging as engines of innovation and economic growth, we have to ensure our rental assistance programs keep up.
2. **Change the funding structure to leverage capital --** The key to meeting the current and ongoing capital needs of HUD's public housing portfolio lies in shifting from the federal capital and operating subsidy funding structure we have today—which exists in a parallel universe to the rest of the housing finance world—to a federal project-based subsidy that lenders understand and that can be used to leverage additional capital from public and private sources. This can be done *without* risking the loss of assisted units.
3. **Bring in the market --** Bringing market investment to all of our rental programs will also bring market discipline that drives fundamental reforms. Only when our programs are truly open to private capital will we be able to attract the mix of incomes and uses and stakeholders necessary to create sustainable, vibrant communities.
4. **Encourage resident choice --** We must combine the best features of our tenant-based and project-based programs to support resident choice and mobility. It's wrong that residents of public and assisted housing cannot choose where they want to live unless they give up the rental assistance that they need. TRA reflects HUD's commitment to complementing resident choice with the benefits that a reliable, property-based, long term rental assistance subsidy can have for neighborhood revitalization efforts and as a platform for delivering social services.

5. **Target the Neediest Families** – Lastly, HUD must continue to target its rental assistance resources on the neediest families. TRA maintains the targeting and affordability requirements embedded in programs under the U.S. Housing Act.

The Preservation, Enhancement, and Transformation of Rental Assistance Act

Mr. Chairman, in crafting this proposal, we didn't approach this subject lightly. Over the past year, we conducted an extensive strategic planning process that engaged over 1,500 internal and external stakeholders plus tens of thousands more through the Internet. We hosted three convenings with a cross-section of state and local agency administrators, residents, developers, property owners, lenders, advocates and other stakeholders to explore in depth issues in each of our three major rental assistance programs. We also held two additional convenings with residents of our programs, one with public housing residents and in the other, for the first time in the history of the Department, we brought together tenants of public and assisted housing and participants in the Housing Choice Voucher program to discuss how these programs could be improved.

Collectively, this process has not only affirmed the need for our rental programs to change, but also provided valuable insight into *how* they must change – what works, what doesn't and what we need to do better. It is based on this feedback from those who know our programs best—their strengths and their weaknesses—that we have developed the legislation before you today.

The Preservation, Enhancement, and Transformation of Rental Assistance Act of 2010 (PETRA) will authorize the conversion of public and assisted housing properties to long-term property based rental assistance under Section 8 of the U.S. Housing Act. I want to underscore that participation in the programs authorized by this legislation is entirely *voluntary* and up to each public housing agency (PHA) and assisted owner.

We recognize that it will be important to demonstrate that conversion will help owners leverage the funds needed to rehabilitate their properties and that tenants will benefit from the changes TRA will make possible. This is not to say that this legislation, even after it has been modified and approved by the Congress, will be the last word on transforming rental assistance. Experience also will certainly teach us how the policies in this legislation can be improved, and we want to work with this Committee to ensure that will be done, if and when it is necessary.

Allow me now to explain the specifics of the legislation.

Basic Policies

PBC or PBV contracts

Through a new section 8(n), the bill will allow HUD to enter into rental assistance contracts with PHAs similar to current project-based section 8 contracts, but with some important

improvements. Most public housing properties would convert to these project-based contracts (PBCs). Properties that qualify as small or partially assisted will have the option to convert to a PBC or to a project-based voucher (PBV) subsidy.¹ PETRA proposes some modifications to the current project-based voucher program to make it easier to use for new development and to make core policies consistent with the new project-based contracts under 8(n). Most of our proposals are similar to policy changes this Committee already approved in the Section 8 Voucher Reform Act (SEVRA), H.R. 3045, and they are discussed further below.

The policies governing these long-term contracts are designed to preserve this largely irreplaceable public resource and at the same time achieve the first three principles that guide the TRA initiative: streamlining, changing the public housing operating and capital funding structure to leverage capital, and bringing market principles into the operation of the properties. In addition, PETRA will enable residents of converted properties to move with rental assistance, similar to the residents of properties with project-based voucher assistance and other voucher program participants, and will require that converted properties continue to provide affordable homes to the neediest families.²

Use agreement and contract term

Converted public housing properties will be subject to a use agreement for a minimum of 30 years.³ The use agreement locks in the critical requirements to provide a specified number of units to income-eligible tenants paying rents at the levels required by the U.S. Housing Act. Initial contracts for converted public housing properties will be for a 20-year term, subject to annual appropriations. Repeated contract extensions of up to 20 years would be permitted and could be agreed to in advance (to provide more security to lenders or for other reasons). To preserve the public asset, owners of former public housing properties must agree to any

¹ A "small" property is one with 25 or fewer units. A "partially assisted" property eligible for conversion to PBVs is one that has project-based assistance for no more than the greater of 25 units or 25 percent of the units; or for no more than 40 percent of the units if (a) the property is located in an area of low-poverty (20 percent or less) or (b) where vouchers are difficult to use, or (c) the units serve elderly families or (d) households eligible for available comprehensive social services. PETRA section 5, pp. 45-46, amending sec. 8(o)(13)(D) of the U.S. Housing Act.

² The same rent rules that apply generally to Section 8 and public housing residents, contained in Section 3 of the U.S. Housing Act, will apply to converted units. At least 40 percent of new admissions each year to converted properties must be extremely low-income households (with incomes at or below 30 percent of the area median income). See PETRA section 6(d), p. 54. This is the same standard that now applies to public housing (on an agency-wide basis) and to Multifamily project-based section 8 properties.

³ See new section 8(m)(2)(E)(i), PETRA p. 24. Some states impose much longer use agreement periods for properties receiving Low Income Housing Tax Credits. The bill allows HUD the flexibility to set parallel requirements.

extension offered by the Secretary.⁴ A PHA cannot sell or otherwise transfer a converted public housing property without the permission of HUD, which has the first option to purchase.⁵

Consultation requirements

Prior to applying to HUD to convert to a section 8 funding stream, a PHA would be required to consult with residents of the property, the PHA's Resident Advisory Board, and the public. (The bill specifies that the decision to convert the form of HUD subsidy is a "significant amendment" to the PHA plan, triggering these requirements.⁶)

Conversion process

HUD will establish priorities and criteria to select properties for conversion through notices in the Federal Register. This procedure allows HUD to adapt priorities for conversion based on the amount of funding made available in appropriations acts and any requirements imposed by the appropriations bill. PETRA lists four outcomes for the "conditions and procedures" governing the conversion process:

1. Promoting the rehabilitation, energy-efficiency, and long-term financial and physical sustainability of properties;
2. Deconcentrating poverty;
3. Increasing administrative efficiency; and
4. Promoting physical accessibility for persons with disabilities.⁷

A rent comparability study and "green" physical condition assessment will be required as part of the conversion process. Properties will be underwritten to ensure their long-term physical and financial sustainability, including through the establishment of a capital replacement reserve that will enable owners to address repair and rehabilitation needs as they arise. The capital needs backlog that is such a prominent feature of the public housing program today will become largely a thing of the past. HUD will be authorized to charge fees to owners for the costs of such studies and for the underwriting.⁸ HUD will establish physical condition standards for converted properties, and in fact will be authorized to make such standards uniform for all of its rental assistance programs.⁹

⁴ Section 8(n)(2)(B) lines 20-22, p. 36. A parallel requirement for converted public housing properties with project-based vouchers would permit a PHA to decline to offer to extend a contract only with the advance approval of the Secretary. PETRA, p. 47, lines 10-15, amending section 8(o)(13)(G).

⁵ Section 8(m)(2)(Q), p. 32. If HUD has no funds available that may be used to purchase such properties, HUD would act as an intermediary to identify an appropriate purchaser. In addition, and as is currently the case with virtually all of HUD's contracts with owners under the project-based section 8 programs, the assistance contract will require an owner to obtain HUD's permission prior to sale of an assisted property during the term of the contract, and the contract would be assigned to an approved purchaser.

⁶ See section 8(m)(2)(B)(iv), p. 20.

⁷ Section 8(m)(2)(A), p. 19.

⁸ Section 8(m)(1)(E)(i)(I), p. 18.

⁹ Section 8(m)(1)(A)(vi), p. 11.

Unit rents

Rents will be market-based. Asking rents will be capped at the comparable market rent for similar unassisted properties in the area, up to 110% of the applicable area rental,¹⁰ unless HUD approves a market rent above this cap.¹¹ A below-market rent would be permitted for a property that is physically and financially sustainable at such lower rent; HUD could use this authority if the competitive process for properties to be selected for conversion does not prevent “windfall” rents. Rents for units that are exempt from local rent control would have to be reasonable in comparison with other exempt units. For properties that are not sustainable at the comparable market rent, *and* meet HUD-established criteria for preservation-worthiness, HUD could approve an exception rent. Exception rents would be strictly capped at the higher of 110 percent of the applicable area rental or 120 percent of the comparable market rent.¹² Before approving an exception rent, HUD would have to consider whether a PHA (or other owner) could use unexpended HUD funding in lieu of an above-market rent to meet the property’s needs.

Leverage

For the public housing portfolio as a whole, we estimate that the shift to rental assistance contracts authorized by PETRA would leverage more than \$25 billion in private capital.¹³ This substantial leverage capacity will result not only in improved living conditions for residents but also in increased employment opportunities.

Together with the investments that Congress has made through HOPE VI and ARRA, as well as grants that will be available through the Choice Neighborhoods program, we believe that the capital that can be raised through a market-based rent policy will be sufficient to rehabilitate most properties. We recognize that some properties will have greater needs than can be met with this one tool, particularly if PHAs determine that the best strategy for a property is to replace it rather than rehabilitate it. Like other affordable housing properties, these properties will need to access additional capital through the Low Income Housing Tax Credit, HOME grants, housing trust funds (state, local and hopefully soon federal), or other sources. Based on the experience of the initial phases of TRA as well as the Capital Needs Study,¹⁴ HUD will have the more

¹⁰ HUD is in the process of designing a new Small Area Fair Market Rent policy to make FMRs more accurate and respond to the directive of this Committee in SEVRA. See http://www.huduser.org/portal/datasets/fmr/fmr2010f/Small_Area_FMR_Demonstration.pdf, 75 Federal Register 27808, May 18, 2010. To allow for this change in FMR calculations, the bill uses the term “applicable area rental” instead of “fair market rental.”

¹¹ HUD may approve a market rent above 110 percent of the applicable area rental for properties converted under section 8(n) if the properties meet preservation criteria established by the Secretary. Section 8(n)(3)(A)(i), p. 37.

¹² Section 8(n)(3)(ii), pp. 37-38. Exception rents will be available only for properties that convert to project-based contracts with HUD under section 8(n). Project-based voucher rents will continue to be capped at comparable market, but PETRA would give HUD new authority to grant exceptions to the 110% of FMR rent cap.

¹³ These estimates are based on a pro forma modeled on the terms of FHA mortgages and the rent policies in PETRA. Comparable market rents are based on gross rents for units rented with housing vouchers in the area and applicable area rentals (FMRs) are calculated under the Small Area FMR methodology (see note 10).

¹⁴ HUD hopes to have the results from the Capital Needs study by November 2010.

complete data needed to assess whether additional tools are needed to complete the process of preserving public housing.

Cost

Conversion of public housing to long-term property-based Section 8 contracts that will leverage the capital needed to rehabilitate properties will cost somewhat more than the current operating and capital subsidies. Some stakeholders have been surprised at the relatively low incremental cost of the change we are proposing compared to the substantial leveraging potential. Let me take a moment to explain why this is the case. There are two basic reasons. First, the change to a single rental assistance funding stream that can leverage debt means that PHAs can borrow the funds needed to rehabilitate their properties, and can use most of the funding they otherwise would have received through the Capital Fund to make payments on the mortgage (minus the amount saved in a replacement reserve). Second, an additional \$1,000 per year in funding available for debt payment leverages \$13,500 in loan funds.¹⁵ Thus, with the \$290 million requested for the supplemental cost of conversion in the 2011 budget, we expect properties converted in phase one to leverage approximately \$7 billion.

Ownership

The changes we're proposing aren't about who owns public and assisted housing – but how it's funded. For years, we've seen public sector owners lose units for lack of funding: the programs under which they operate are unsustainable. By allowing public owners to access capital and other resources like private owners do today, we're leveling the playing field and making the preservation of publicly-owned housing much more possible.

TRA strongly promotes the retention of public ownership of properties that have been developed and funded under the public housing program. By enabling public housing properties to tap their accumulated equity value to meet their capital needs, as owners of any other form of real estate do, the long-term Section 8 rental assistance contracts authorized by PETRA will make it more likely that properties will remain publicly owned and affordable to the lowest income households – bringing these properties into the mainstream, with the mixed incomes and uses that are so vital to creating sustainable communities. Indeed, we anticipate that many properties will be able to meet their capital needs without Low Income Housing Tax Credits, through borrowing and possibly capital grants from other sources, and thus will easily be able to remain publicly owned.

If PHAs do need LIHTCs to fund the rehabilitation or replacement of properties—requiring some form of partnership with an entity that has tax liability—PETRA encourages PHAs to establish for this purpose an instrumentality or affiliate over which the PHA retains effective public control. If PHAs structure the transaction in this way, the conversion process will be streamlined and agencies will not be required to go through a separate process to "dispose" of the

¹⁵ This assumes a 35-year mortgage at 6.7% interest (including mortgage insurance).

property.¹⁶ Further, it is important to recognize that while relatively few public housing agencies have met capital needs through tax credits and private debt, this is how housing production and preservation have been financed for decades. Having run HUD's multifamily programs and built and preserved tens of thousands of housing units in New York City, I've seen that for myself.

Preservation

I have already described the policies concerning rents, contract terms and extensions, and the minimum 30-year use agreement with HUD's first option to purchase that are the core elements of the preservation strategy embodied in PETRA. In addition, PETRA places a set of obligations on HUD and owners to avoid a loss of assisted units.

No reduction in families assisted

PETRA states that HUD's policies and procedures must assure that there is no reduction in the number of families receiving rental assistance as a result of conversion.¹⁷

One-for-one replacement

Owners and HUD will have particular obligations with regard to maintaining the number of units with project-based rental assistance (one-for-one).¹⁸ If a PHA proposes, as part of the conversion process, to reduce the number of assisted units on the site of the converted property, the PHA must provide a plan for timely replacement of units to be demolished or that otherwise would not receive rental assistance (as a result of a mixed income plan or other reason).

Replacement housing must reflect the number of bedrooms that are needed to adequately serve returning tenants, waitlist applicants, and future projected need, and may be located on the original site, in the neighborhood or in another location within the metropolitan area not more than 25 miles from the original site. Any off-site replacement housing must be located in areas that qualify as revitalizing neighborhoods or in other areas that are not extremely poor or where the share of the population composed of members of racial or ethnic minorities is not greater than the share of such families in the overall metropolitan area or rural county in which the project is located.

Only if data demonstrate that the area housing market has persistently high vacancy rates and that vouchers are easy to use, including in neighborhoods of opportunity, would a PHA or private owner be permitted to replace up to half of converted units with tenant-based vouchers. Less than 10 percent of current public housing and multifamily assisted units are potentially subject to this exception, largely because few areas have persistently high vacancy rates. HUD

¹⁶ Section 8(m)(2)(M)(ii), p. 30.

¹⁷ Section 8(m)(2)(B)(ii), p. 20.

¹⁸ Section 8(m)(2)(D), pp. 20-24.

would be required to issue new vouchers to replace any such units, regardless of whether the units were occupied at the date of the conversion request.¹⁹

Once a property is converted, the use agreement and the rental assistance contract will require the PHA or private owner to maintain the number of assisted units under contract. The assistance contract may be transferred to another property (for some or all of the units) only with HUD's agreement and if tenants' relocation rights are fully protected. In the unlikely event that a PHA or owner would sell or transfer a property to another owner, the same requirements and tenant protections would apply.

Protections against foreclosure, bankruptcy and the termination of assistance

We have listened to the concerns of residents and others that despite these policies, mortgaging properties creates a risk that PHAs will default on their loans or otherwise mismanage funds, leading to foreclosure, bankruptcy, and potential termination of the rental assistance contract. I am as committed as these stakeholders to preserving these precious resources, and I want to assure you that the legislation before you today contains an unprecedented combination of policies intended to minimize the risk to tenants or of the loss of deeply affordable rental units in the unlikely event of a foreclosure, bankruptcy or owner malfeasance.

In addition to the private sector asset management that will come with leveraging debt or equity, most converted properties will be required to submit annual financial statements to HUD and will be subject to regular monitoring of their physical and financial condition through HUD's performance-based contract administrators (PBCAs).²⁰ Complementing HUD's monitoring efforts, tenant organizations—required by PETRA to be independent of PHAs—will be able to "blow the whistle" if properties are not being well-managed or maintained. Further, PETRA will give HUD new powers to bring legal actions directly to enforce compliance with the terms of the contract and the governing law.²¹ Before a property enters foreclosure, HUD will have authority under PETRA to transfer the rental assistance to another property (or properties) that can house the tenants,²² and the threat of such a transfer is likely to be a strong incentive for owners to bring properties into compliance or to sell them to a mission-oriented entity. HUD also has the authority to condition receipt of cash flow upon owner compliance with physical, financial, and other program requirements — another strong incentive.

¹⁹ Section 8(m)(2)(D)(v), pp. 22-23. PETRA also allows a PHA or other owner, regardless of market conditions, to demolish or eliminate up to 5 units (or 5 percent of the units, if fewer) to modify the number of bedrooms or provide services to residents. Section 8(m)(2)(D)(vi).

²⁰ Only the small share of properties that convert to project-based voucher contracts will not be subject to such HUD oversight because HUD is not a party to such contracts.

²¹ Section 8(m)(1)(A)(viii)(I), p. 12, gives the HUD Secretary the power to enforce rental assistance contracts and use agreements, or bring other enforcement actions (except regarding the Fair Housing Act), rather than having to rely on the Justice Department, which often has other priorities. Section 6(e) of PETRA, pp. 54-56, would give HUD similar powers regarding public housing agencies administering rental assistance. These are very important new tools to help ensure that properties are well-maintained, eligible families are served, and public funds are used for their intended purposes.

²² Section 8(m)(1)(A)(viii)(II), pp. 12-13.

If despite this new set of tools a lender does foreclose on a mortgaged property or a PHA/owner declares bankruptcy, PETRA provides that the Section 8 contract, tenants' leases and the use agreement either remain in place, as they do in the case of most multifamily assisted properties today, or are transferred to another property.²³

Resident involvement and tenant rights

PETRA creates a platform to establish uniform standards and requirements for resident involvement and tenant rights across rental assistance programs. For public housing tenants, PETRA maintains and enhances the rights that such tenants have long enjoyed, including the right to be involved in decisions about their housing and to procedural protections in the case of adverse actions. The bill will also provide tenants the right to move to a location of their choice without sacrificing the rental assistance they need. (The Resident Choice option is discussed further below.)

Participation

PHAs will continue to be required to include at least one assisted tenant on their governing board on the board of directors or commissioners. PHA Plan requirements, including requirements concerning Resident Advisory Boards, are not amended.²⁴ The right of tenants to be consulted about a PHA's proposal to convert to Section 8 project-based assistance is noted above. In addition, tenants potentially subject to relocation due to rehabilitation or replacement of a property or transfer of a rental assistance contract to another property must be consulted in advance and be provided with relocation assistance.²⁵

Tenant organizations

PETRA will substantially strengthen the rights of recipients of HUD-funded rental assistance, including residents of converted public housing, to organize. PHAs will be required to "give reasonable consideration" to concerns raised by "legitimate" tenant organizations concerning tenants' living environment and the terms and conditions of their tenancy. All tenants with HUD-funded rental assistance would be guaranteed the right to organize independent of owners or public housing agencies. This provision would establish uniform requirements regarding recognition of "legitimate" tenant organizations, including organizations of voucher program participants and jurisdiction-wide or area-wide organizations; and would authorize the use of a portion of rental assistance renewal funding to support tenant organizing – ensuring we have eyes and ears on the ground.²⁶

²³ Section 8(m)(1)(A)(vii), pp. 11-12. HUD may modify this requirement "if necessary to generate sufficient lender participation."

²⁴ PHAs with 550 or more vouchers and remaining public housing units would continue to be subject to annual planning requirements, and residents of all HUD-assisted properties owned by the PHA would be eligible to participate in the planning process.

²⁵ Sec. 8(m)(2)(E)(iii), (G), pp. 24-26..

²⁶ Section 8(m)(1)(A)(ii), pp. 5-6, and sec. 8(m)(1)(F), pp. 18-19.

No loss of housing as a result of conversion

The change in funding source for rental subsidies should be seamless for tenants.²⁷ Residents of converting units will not be subject to re-screening or termination because of conversion.²⁸ If tenants are displaced temporarily while properties are rehabilitated (or replacement housing is constructed), they will have a right to return so long as they have not committed "serious or repeated violations of material terms of the lease."²⁹

Procedural rights

Procedural rights for applicants to and tenants of public housing converted to Section 8 assistance are maintained. New section 8(m)(1)(A)(iii) establishes the core elements of due process review that apply to all adverse actions. These rights are essentially the same as those enumerated in section 6(k) of the U.S. Housing Act regarding "administrative grievance procedures" for public housing tenants. Moreover, PETRA incorporates in statute more specific procedural rights for applicants than the U.S. Housing Act currently provides.³⁰

Finally, PETRA would authorize HUD to create uniform procedural rights for all rental assistance programs, simplifying the maze of rules that now apply to PHAs operating different HUD programs. In recognition of the fact that the requirement to provide procedural rights to applicants and tenants entail costs for assisted owners, PETRA specifies that HUD must consider such costs as operating costs of the property.

Resident Choice Option

Providing residents with choice is a centerpiece of the Transforming Rental Assistance initiative.

As I noted at the outset of my testimony, it is wrong that residents of public housing and our old assisted housing cannot choose to live where they want without giving up the rental assistance they need. In the last decade, new federal policies have overcome this division between place-based and people-based assistance. The project-based voucher program incorporates a hybrid policy that allows an owner the security and capital leveraging of a long-term property-based contract while assuring that residents can choose to move with available tenant-based vouchers.

²⁷ Higher income public housing tenants who are paying less than 30 percent of adjusted income for rent, due to ceiling or flat rent policies, will be required to pay 30 percent of income for rent and utilities, like all other assisted tenants. If 30 percent of adjusted income exceeds the rent and utility allowance for the unit, the family could remain in place as an unassisted tenant. The subsidy would remain available for the unit in the future if the family's income drops or the family is replaced by a new tenant that qualifies for assistance. Sec. 8(m)(2)(F), p. 25.

²⁸ Sec. 8(m)(2)(F), p. 25.

²⁹ Sec. 8(m)(2)(G)(ii), p. 26.

³⁰ Under section 8(m)(1)(A)(iii), pp. 6-9, applicants and tenants must be notified of ineligibility or other adverse actions, including eviction or termination of assistance, and have a right to request a review of the decision, which must be conducted by an independent person. The applicant or tenant has the right to inspect relevant documents at a reasonable time in advance, to bring a representative to the review, and to receive a written decision. Section 6(c)(3) of the U.S. Housing Act, 42 U.S.C. 1437d(c)(3), states only that denied applicants shall be notified of the reasons and an opportunity for an "informal hearing" with no specific procedures required.

This policy represents the future – and will apply to *new* development with HUD rental assistance.

PETRA would create a similar hybrid policy for properties initially developed under one of the older programs that converts to assistance under the new section 8(n). To balance concerns we heard about implementation and fairness, after an assisted household has resided for two years in a property converted to a project-based contract, the family would be eligible to receive an available Housing Choice Voucher to move to a location of their choice. The property-based rental assistance would remain with the unit.

The primary source of such voucher assistance would be turnover in the Housing Choice Voucher Program as families leave the program. About 11 percent of voucher households leave the program each year, making about 240,000 vouchers available for reissuance if Congress fully funds voucher renewals. HUD may also be able to provide a modest amount of funding for additional moving vouchers by reallocating voucher funding that agencies leave unspent above the level of allowable reserves, as proposed in the 2011 budget and in the Section 8 Voucher Reform Act. Reliance on turnover vouchers to provide moving vouchers means that many families can be provided this important new right *at no additional cost*.

A public housing agency that administers vouchers in addition to public housing would be required, if one or more properties is selected for conversion, to make available not more than one-third of its turnover vouchers to support families exercising the Choice Option. This limitation would enable most turnover vouchers to serve applicants on voucher waiting lists. When tenants exercise their Choice Option, new families would be able to receive rental assistance by moving into the vacated units, so the total number of new households receiving HUD-funded rental assistance each year would not decrease as a result of extending a Choice Option to converted properties.

The Choice Option for residents of properties assisted under section 8(n) would be more limited than for residents of properties that have project-based voucher contracts. Under the PBV program, residents who want to move receive the next available voucher after one year. This policy encourages agencies to choose to project-base assistance only in properties in which tenants would want to continue to live, and helps give assisted tenants the same right to move at the end of their lease term as unassisted families.

After substantial analysis of expected demand for moving vouchers and the limited supply at a time of constrained resources, we have concluded that it is not feasible to extend the existing PBV policy to all converted properties without unduly distorting voucher waiting lists and undermining the important role vouchers play in meeting diverse community needs.³¹ In

³¹ HUD's modeling suggests that these policies will provide a sufficient supply of vouchers to meet anticipated demand for moving vouchers for a majority of, but not all, public housing properties. It will be important to analyze how this new feature works in practice, whether demand is similar to our estimates and how the policy affects

addition, the two-year wait before residents of most converted properties can receive a moving voucher will deter applicants from accepting an available unit with an intention to leave as soon as possible.

Application of PETRA to Other Properties with Project-based Rental Assistance

In addition to public housing, PETRA would allow owners of other properties with HUD-funded project-based rental assistance to convert to long-term Section 8 property-based rental assistance contracts. This option is an important means of preserving the approximately 47,000 units now assisted under legacy programs that have no such long-term renewal feature.

Currently, HUD provides rental subsidies to 9,585 households through the Rent Supplement program and to 11,380 households through the Rental Assistance Program (RAP). The funding for these contracts was provided decades ago, and is rapidly diminishing. The majority of the 380 remaining contracts for these properties will expire within the next seven years, and many will run out of money before their expiration date. HUD has no authority to renew these contracts or to offer owners new project-based assistance. Indeed, just in the last month, contracts on five properties with more than 100 assisted families expired and could not be renewed. PETRA would create the authority to preserve these properties, giving owners the same options to convert to contracts with HUD under section 8(n) or to project-based voucher contracts as discussed above for public housing.

There are also about 25,000 units assisted under the 1980s-era Section 8 Moderate Rehabilitation program, administered by PHAs, that are now eligible only for annual contract renewals. Without long-term rental assistance, these properties have difficulty obtaining the capital needed for rehabilitation. PETRA would allow owners of these properties to apply for long-term section 8 contracts at market-based rents.

The preservation of these properties is also a focus of Chairman Frank's preservation bill, H.R. 4868. Under PETRA, rental assistance contracts could be for a term of up to 20 years, with available extensions. The minimum term and use agreement period would be the remaining term of the existing contract. Unlike H.R. 4868, PETRA would give owners of properties that qualify as "small" or partially assisted the option to convert to the less regulated environment of project-based vouchers. Initial analysis indicates that a significant share of these properties could qualify for PBV conversion.

The 2011 budget makes these three types of HUD-assisted properties eligible for conversion. This consolidation will preserve these properties with long-term affordability for residents, assure renewal on terms that are physically and financially sustainable, and streamline HUD oversight to save the taxpayer money.

applicants on voucher waiting lists. PETRA gives HUD the authority to increase the two-year waiting period or otherwise modify the right to a moving voucher based on available resources. Section 8(m)1(A)(i), pp. 3-4.

PETRA also permits the conversion of properties with other forms of Section 8 project-based assistance to contracts under section 8(n) or, if they are small or partially-assisted, to project-based voucher contracts under section 8(o)(13). While these properties have available long-term renewal options under the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRAA), owners may prefer the policies that would apply after such a conversion. For example, PHAs that own properties with project-based section 8 assistance – there are about 40,000 such units owned by PHAs – may prefer to operate their properties under uniform rules. Owners of properties eligible to convert to PBV assistance may prefer the reduced reporting requirements that such a conversion would bring. Other owners may want to use the flexibility that PETRA would create to transfer rental assistance for a portion of the units in a property to another location, facilitating a transition to mixed income housing.

Policies governing such contracts under PETRA would be similar to what owners are familiar with under MAHRAA: contracts up to 20 years, market-based rents with annual adjustments and 5-year rebenchmarking to market, same tenant eligibility, ability to have site-based waiting lists, etc. But the “live” authority under PETRA creates greater flexibility for owners to adapt properties to current conditions than is now often possible due to Congressional repeal of the authority for new project-based section 8 contracts in 1983.

For tenants of these properties, conversion to assistance authorized by PETRA would create a number of benefits. Most importantly, tenants would for the first time have the option to move without giving up rental assistance, as discussed above. In addition, the procedural rights of tenants and applicants would be strengthened and tenant organizations in all properties, not just those at greatest risk of losing project-based assistance, would be eligible for funding. PETRA would enhance the tools available to HUD to ensure that properties are well-maintained and well-managed, and also would provide a federal first option to purchase when owners wish to sell their properties. This option would enable HUD to facilitate a sale to an owner that will preserve the affordable housing opportunities the property provides.

For HUD, unifying the policies applicable to the major project-based rental assistance programs will create opportunities for economies of scale in rule-making, monitoring and enforcement. In the long-term, creating a common platform for HUD rental assistance will make it easier for communities and regions to plan comprehensively and use HUD programs.

Modifications to the Project-based Voucher Program

Section 5 of PETRA would modify the project-based voucher (PBV) statute at subsection 8(o)(13) of the U.S. Housing Act, including by adopting some provisions in H.R. 3045, the version of SEVRA approved by this Committee last year. New developments as well as converting properties that meet the revised requirements may receive project-based voucher

contracts. Properties initially converted to assistance under section 8(n) may later shift to project-based voucher assistance if they meet the applicable conditions.³²

Share of vouchers that may be project-based

PETRA would modify the share of vouchers that may be project-based. To eliminate a disincentive for agencies to project-base assistance in higher rent areas (which are likely to offer greater opportunities), the limitation would be determined based on the number of units assisted, rather than the share of funding, as is the case under current law. Up to 25 percent (rather than 20 percent) of units may be assisted in housing that serves homeless individuals and families or that provides supportive housing to the elderly or persons with disabilities, or that is located in areas where vouchers are difficult to use. (HUD will determine the criteria for such areas by regulation.)

An additional exception for agencies administering vouchers for projects converting under section 8(m)(2) would provide that up to 40 percent of the dwelling units assisted by an agency may be project-based.³³ This limitation is designed to minimize the tension between the demand for moving vouchers under the Resident Choice option in the PBV program and an agency's voucher waiting list. Under this policy, a PHA with a relatively large voucher program that opts to convert one or more properties to PBVs could administer the contract for the additional units itself, with third party performance of key functions such as inspections and rent determinations.³⁴ In other cases, HUD would award the additional vouchers to another PHA that would enter into the PBV contract with the converting PHA.³⁵

Income-mixing

Similar to H.R. 3045, PETRA would allow for assistance at the greater of 25 dwelling units or 25 percent of the dwelling units in any project; and for areas in which vouchers are difficult to use and for census tracts with a poverty rate of 20 percent or less, up to 40 percent of units in a property would be permitted to be assisted. Properties serving elderly families or households (of any type) eligible for comprehensive social services that are available at the property could be fully assisted, but in the case of converted properties no more than 40 percent of units serving

³² Section 8(m)(2)(P), p. 32. HUD approval is required.

³³ See page 44 of PETRA, amending sec. 8(o)(13)(B). H.R. 3054 would increase by 10 percent, to a maximum of 30 percent, the share of voucher funding that can be project-based. The Administration believes the increase should generally be limited to 5 percent, for a total of 25 percent, but up to 40 percent for converted properties, and only be available for the specified purposes.

³⁴ In this respect, PETRA differs from the proposed appropriations language submitted as part of the President's budget, which would prohibit a PHA from administering the PBV contract for a property it owns. The proposed prohibition was premised on the assumption that wholly assisted properties would convert to PBV subsidies. Based on stakeholder comments, we decided to propose instead the authority in PETRA to enter into new project-based contracts under section 8(n). With conversion to PBV assistance limited to small or partially assisted properties, HUD's policy concerns are alleviated.

³⁵ HUD could set a different fee for administration of PBVs in converted properties than for other vouchers. PETRA Section 6(b), p. 52, amending section 8(q) of the U.S. Housing Act.

such populations could be assisted. (PETRA would eliminate the exception in current law for fully-assisted properties that serve people with disabilities but do not provide comprehensive services. Allowing such single population housing is perceived by some to be a form of segregation, and is contrary to the shift to more integrated housing policies for people with disabilities embodied in the Frank Melville Supportive Housing Investment Act of 2009, approved by the House last year.) PETRA would authorize HUD to establish additional monitoring and oversight requirements for properties that have assistance on more than 40 percent of units at a property.

Contract term and funding

To create uniformity for contracts under the new section 8(n) and the PBV program, PETRA would alter the PBV contract term, extending the initial term and extensions from a maximum of 15 to 20 years, subject to the availability of funds and the owner's compliance with HUD's physical inspection standard. One of the concerns expressed by stakeholders about HUD's initial proposal to use PBVs as the form of assistance for converted properties was the perceived vulnerability of PBV funding to shortfalls in the Tenant-based Rental Assistance account. This Administration understands the importance of reliable rental assistance funding, particularly to induce lenders to rely on HUD funding. PETRA would amend section 8(o)(13)(F) to give priority to renewal of funding under PBV contracts in case of a shortfall in annual voucher renewal funding.³⁶

Rents

Rents for PBV units must always be "reasonable" in light of comparable unassisted units in the local market, but the Secretary would have new authority to approve a market rent above 110 percent of the FMR.³⁷ Unlike section 8(n), there is no authority for above-market exception rents. The Secretary could require that PBV rents be adjusted annually using an index based on the same index used for properties assisted under 8(n) (based on changes in the rents for multifamily properties). The same rules as apply under section 8(n) would apply if the Secretary requires the use of an index to adjust rents.³⁸

Tenant selection

Like the policy in H.R. 3045, an owner of a PBV-assisted property would be permitted to establish a site-based waiting list, subject to compliance with civil rights, fair housing, and other

³⁶ PETRA, p. 46, lines 13-16.

³⁷ PETRA, p. 47, line 22.

³⁸ PETRA would not change the provision added by Congress in the Housing and Economic Recovery Act of 2008 (HERA) that allows a PHA to agree to provide a rent floor at the initial rent level regardless of market changes, to induce lenders to rely on the PBV subsidy stream.

requirements. If a voucher is project-based in an occupied unit, the tenant must receive an absolute preference for assistance, if eligible.³⁹

Security of tenure

Just as for properties assisted under section 8(n), or currently assisted through the public housing or multifamily programs, the termination of leases and tenancy would be permitted only for good cause.⁴⁰

Other policies to streamline and create uniformity in HUD programs

In addition to creating greater uniformity in the policies governing physical conditions standards, tenant organization, and procedural rights for participants in different HUD programs discussed above, PETRA makes two other significant changes to streamline HUD programs.

Section 3 hiring preferences

Under Section 3 of the Housing Act of 1968, recipients of HUD funding for rental assistance (and community development) are subject to certain requirements concerning hiring and contracting preferences in the expenditure of funds. Better implementation of Section 3 is a priority of this Administration, as part of multifaceted strategies to improve the economic well-being of low-income individuals and communities. One barrier to more effective implementation is the different priorities that now apply to each HUD funding stream, making it difficult for HUD grantees in a locality or region to create economies of scale by combining their Section 3-related programs.

PETRA would remove this barrier by streamlining hiring preferences into two categories that apply uniformly: (1) recipients of federal rental assistance in the area (including public housing, other subsidized properties, and Section 8 vouchers), and (2) other low- and very-low income residents. The Secretary may add additional preferences by regulation.⁴¹

At this point we do not, however, propose uniform hiring and contracting obligations for all types of HUD rental assistance funding. Creating workable policies for the different operating environments of the range of owners that receive HUD rental assistance will take more time; we look forward to working with members of this Committee on this effort. For now, PETRA extends to converted properties the hiring and contracting requirements that apply under their pre-conversion funding source. That is, public housing converted to section 8 assistance would remain subject to the Section 3 requirements that apply to public housing, and multifamily properties remain subject to the requirements that now apply to those programs.

³⁹ PETRA, pp. 49-50.

⁴⁰ PETRA, p. 51, inserting a new section 8(o)(13)(N).

⁴¹ Section 6(f), pp. 56-57.

Mainstream vouchers

HUD currently provides tenant-based vouchers earmarked by Congress for people with disabilities through two programs: the regular Housing Choice Voucher program and Mainstream Vouchers under section 811 of the Cranston-Gonzalez National Affordable Housing Act. Renewal funding is provided through two separate parts of HUD's budget, and some different policies are required by the different authorizing statutes, hindering HUD's ability to streamline administration of the two otherwise similar programs.

The President's 2011 budget shifts renewal funding for the approximately 15,000 Mainstream Vouchers to the tenant-based rental assistance account. Consistent with this funding shift, PETRA would amend the section 811 statute to specify that these vouchers shall be provided under the legal authority of the section 8 voucher program. PETRA also requires that turnover vouchers must continue to serve "qualified persons with disabilities and...qualified non-elderly disabled families," and would also make unexpended amounts under section 811 available until expended for renewal vouchers. The Secretary is authorized to provide technical assistance to PHAs to assist them in using these and other vouchers to provide permanent supportive housing for persons with disabilities, particularly as part of strategies to end chronic homelessness and to help states meet community care requirements.⁴²

Administration of rental assistance

As I said at the outset, the complexity of HUD's rental programs is part of the problem. This is true of program administration as well as policy. To increase efficiency, enhance housing choice and expand access for families to a broad range of neighborhoods – core purposes of the TRA initiative – it is important to reduce the number of entities administering HUD rental assistance.

Fewer entities, serving larger areas, will streamline access to rental assistance for low-income families, eliminating the pressure applicants face to get on as many waiting lists as possible to increase their chance to receive the assistance they need. Expanding the geographical reach of program administrators also will broaden housing choice, increase access to neighborhoods of opportunity, enable grantees to meet their obligation to affirmatively further fair housing,⁴³ and facilitate coordination of rental assistance with other infrastructure (housing, transportation, etc.) and human service investments. Finally, if HUD contracts directly with fewer administrative entities, HUD staff can work more effectively with our partners to improve program performance.

Consistent with the voluntary nature of the TRA initiative – and recognizing the local political sensitivity of program administrative geography – PETRA and our 2011 budget proposal focus on providing incentives to solve these problems. For example, PETRA authorizes HUD to facilitate the implementation of regional portability agreements among PHAs administering housing vouchers, as well as consortia of agencies and other methods of "streamlining

⁴² PETRA section 6(c), pp. 50-54.

⁴³ Section 8(m)(1)(A)(iv)(II), pp. 9-10.

administration of vouchers and other rental assistance on an area-wide basis as the Secretary determines appropriate to promote greater efficiency in the use of resources and to increase informed resident choice and mobility”.⁴⁴ The 2011 budget request for TRA specifies that a portion of the funds may be used to help offset the cost to PHAs of such administrative changes.⁴⁵ PETRA would also require HUD to award funds for the administration of rental assistance for converted properties in a manner that promotes administrative efficiency and informed choice of where to live by recipients of HUD rental assistance.⁴⁶

In addition to providing financial incentives, HUD plans to facilitate such agreements among PHAs by revising regulations governing consortia and portability, making it easier for PHAs to take these steps. But I want to emphasize that it would be voluntary for PHAs to take such actions.

To help achieve the streamlining goal of TRA, PETRA would make a conforming change to the definition of a “public housing agency” to allow HUD to contract directly with non-profits to administer Section 8 rental assistance.⁴⁷ HUD already contracts directly with non-profits to administer rental assistance under a number of other tenant-based programs, such as the section 811 Mainstream program and the McKinney-Vento Shelter-Plus-Care program, as well as a number of project-based programs. Folding the 811 Mainstream Voucher program into the Housing Choice Voucher program, discussed above, requires broadening the existing definition of a PHA. Under current law HUD may contract directly with a non-profit to administer the Housing Choice Voucher Program, but only if the entity had a contract with HUD or a PHA for this purpose when Congress enacted the Quality Housing and Work Responsibility Act in 1998.⁴⁸ Such piecemeal grandfathering undermines our broader streamlining efforts. To enable administering agencies to achieve economies of scale and take on increased responsibilities – for which they will earn additional fees – we must modernize the administrative structure of our rental assistance programs.

In case this explanation of our proposals has not been clear enough, let me state it more plainly: HUD has no plans to *require* agencies to consolidate. But we will hold ourselves and our

⁴⁴ Section 8(m)(1)(A)(v)(I), p. 10. In addition, PETRA clarifies that HUD may contract with a single entity authorized to act on behalf of PHAs that are members of a consortium. Section 6(a)(4), p. 51.

⁴⁵ The budget request specifies that “up to \$50 million [of the \$350 million requested for TRA] shall be available for services to promote resident mobility and up-front expenses of public housing agencies related to the transformation of rental assistance under this heading.” Section 8(m)(1)(F), p. 18, authorizes the Secretary to allocate funds available for TRA for various purposes, including for “expenses of combining administrative components of local programs under section 8(o).”

⁴⁶ Section 8(m)(1)(A)(i) and (v)(II), pp. 3-4, 10-11.

⁴⁷ PETRA Section 6(a), p. 51.

⁴⁸ Section 3(b)(6)(B)(ii) of the U.S. Housing Act.

partners accountable to achieve the goal of our new 5-year strategic plan to “expand families’ choices of affordable rental homes located in a broad range of communities.”⁴⁹

Meeting the Housing Needs of Every Family

So, Mr. Chairman, Ranking Member Bachus, and other members of the Committee: really, this is just beginning – and we look forward to working with you to ensure we get the transformation of our rental programs right.

Doing so requires us to recognize what drives affordable housing today. In the 1970’s, it was the public sector. In the last decade, it was the tax code.

Today, it must be a partnership – one that draws upon the best practices of the past and present to leverage not only resources but also the experiences and successes of local not-for-profits, city and state governments, private actors, and all the other innovators and partners that have emerged in recent years. As I saw for myself in New York City, when we achieve this balance of both public and private resources, all parties can see they are getting a real set of benefits – from the managers, to the owners, to the most important stakeholder of all: the people.

At the outset of my testimony, I mentioned *The Truly Disadvantaged*. Of all the tragedies that book revealed, perhaps the most tragic was that the segregation of the very poorest families into the very poorest neighborhoods across the country didn’t happen in spite of government policy – but more often than not, because of it.

But in America, we don’t accept one public education system for one group of children – and a better one for everyone else.

We don’t accept one set of rules about what pollutants can be in the water some people drink – and another set for the rest of us.

We don’t accept a worse set of health outcomes for one population – and another for everyone else.

So, why should we do that with housing – with all that we know about how central housing is to creating a geography of opportunity? Why shouldn’t we make this right?

I hope the progress we’ve begun these last 16 months has demonstrated the commitment that we in this Administration and at HUD have to meeting the housing needs of every family in this nation.

To putting HUD-assisted rental housing on a strong foundation for decades to come.

⁴⁹ HUD’s FY 2010-2015 Strategic Plan is available at http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan. The quoted subgoal is part of Goal 2, available at http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan/HUD_Strategic_Plan_D_goal2.pdf.

To building a truly integrated federal housing system that serves families better – every family in every neighborhood in America.

That is our goal – and in the weeks and months ahead, may we work together to build it with this legislation.

And with that, I thank you and I look forward to your questions.