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**BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY
OPPORTUNITY**

FEBRUARY 13, 2002

Chairwoman Roukema, Ranking Member Frank, Distinguished Members of the Committee:

Thank you for the opportunity to join you this morning to outline the proposed Fiscal Year 2003 Budget for the Department of Housing and Urban Development (HUD).

The \$31.5 billion HUD budget represents a funding level increase of 7 percent over FY 2002. By helping Americans reach the dream of homeownership, ensuring affordable housing opportunities for those who rent, strengthening and renewing communities, and preserving a safety net for the most vulnerable, this budget will enable HUD to make a tremendous difference in the lives of millions of Americans.

The housing market in 2001 was extremely vigorous, and we entered the new year with homeownership at a record high. Because we know that homeownership gives families a stake in their communities and creates wealth, the HUD budget makes owning a home a viable option for even more Americans. In his State of the Union Address, President Bush acknowledged our commitment to expanding homeownership – especially among minorities.

As a first step, we have quadrupled the American Dream Downpayment Fund, to \$200 million. This Presidential initiative will help an estimated 40,000 first-time homebuyers overcome the high down payment and closing costs that are significant obstacles to homeownership.

A Tax Credit for Developers of Single-Family Affordable Housing will promote homeownership opportunities among low-income households by supporting the rehabilitation or new construction of homes in low-income urban and rural neighborhoods.

We are tripling funding for the Self-Help Homeownership Opportunity Program (SHOP) to \$65 million, as committed to by the President last spring. That, and a lot of sweat equity, will make possible the construction of an additional 3,800 homes for disadvantaged Americans. SHOP is an excellent example of government maximizing its resources by working with private-sector partners like Habitat for Humanity.

Another exciting homeownership initiative targeted at low-income families will allow them to put up to a year's worth of their Section 8 rental voucher assistance toward a home down payment. And because we consider it an invaluable tool for prospective homebuyers and renters, we have proposed making housing counseling a separate program. The increase in sub-prime lending has made financial literacy more important than ever; armed with the facts, a consumer is far less likely to be victimized by predatory lending. We are funding the counseling program at \$35 million, which represents a \$15 million increase over the previous fiscal year.

While we consider homeownership to be an important goal, we recognize that it is not an option for everyone; therefore, our budget preserves HUD's commitment to

expanding the availability of affordable housing for the millions of Americans who rent their homes.

The Section 8 tenant-based program today assists nearly two million families; our budget provides an additional 34,000 housing vouchers. The budget also dedicates \$16.9 billion to protect current residents by renewing all expiring Section 8 contracts.

To encourage the production of moderate-income rental housing in underserved areas, we plan to reduce the mortgage insurance premium for Federal Housing Administration (FHA) multifamily insurance.

Three times over the last eight years, HUD has been forced to shut down our multifamily mortgage insurance programs because of lack of credit subsidy. Last year, the shutdown stopped the construction of some 30,000 rental units throughout the country and clouded developers in uncertainty.

We made a commitment at HUD to a comprehensive review of the credit subsidy program. We examined the statistical techniques that were used to analyze loan performance. We thoroughly updated and refined FHA's data and incorporated the major tax law changes in the 1980s that affected the profitability of multifamily housing. Through our review, we were able to lower premiums, create a self-sustaining program, provide the industry with stable financing at a much lower cost, and provide thousands of new opportunities for rental housing across the country.

In fact, the program made firm commitments to insure \$1.25 billion worth of new rental housing in just the first four months of the fiscal year. Reducing the premiums in FY 2003 will lower the cost of building over 50,000 affordable rental apartments each year.

The 2003 budget gives HUD new resources to further our mission of supporting the nation's most vulnerable. This includes low-income families, homeless men and women, the elderly, individuals with HIV/AIDS, victims of predatory lending practices, and families living in housing contaminated by lead-based paint.

Let me highlight just a few of our proposals.

To better coordinate the work of the many Federal agencies that reach out and provide a continuum of care to homeless men, women, and families, the budget calls for doubling HUD funding for the newly reactivated Interagency Council on the Homeless. Additionally, converting three competitive homeless assistance programs into a consolidated grant will eliminate the workload and expense of administering three separate programs. More importantly, it will give local jurisdictions new discretion in how those dollars are spent.

HUD's Lead Hazard Control program is the central element of the President's effort to eradicate childhood lead poisoning in ten years or less. The HUD budget will fund the program at \$126 million, a substantial increase over the previous year.

The budget also proposes spending \$251 million under HUD's Section 811 program to improve access to affordable housing for persons with disabilities. And many of the additional 34,000 Section 8 housing vouchers will aid non-elderly, disabled individuals.

In addition to addressing the nation's critical housing needs, programs such as the HOME Investment Partnerships Program and the Community Development Block Grant (CDBG) program stimulate economic development and job growth. Combined, these two programs will distribute an additional \$200 million in formula funding to State and local governments. We have proposed changing the distribution of CDBG formula funds by reducing the size of grants going to the wealthiest communities. This will help bring dollars into those areas where they can do the most good.

We are excited about a brand-new concept to address the large backlog of repair and modernization projects in public housing. The Public Housing Reinvestment Initiative represents a new way to leverage the value of public housing by allowing public housing authorities (PHAs) to borrow funds to make needed capital improvements. This project unlocks the value of public housing assets by allowing PHAs to convert public housing units to project-based vouchers. The PHAs can obtain loans by borrowing against individual properties – similar to private-sector real estate financing.

Innovative thinking like this represents a departure from the way things were done so often in the past – but being effective does not have to mean spending more money. Government works best when government serves as steward and facilitator... and measures success through results. By facilitating the involvement of new local partners, the Public Housing Reinvestment Initiative will breathe new life into public housing communities.

I am proud of our budget and the way it reflects HUD's renewed commitment to efficiency, accountability, and the principles of excellence expressed through the President's management scorecard. When government spends efficiently, the funds go much further. We reach more citizens. We help to change more lives.

The people of HUD know that the American Dream is not some unattainable goal, because we see it achieved every day, so often by families who never imagined owning their own home or reaching economic self-sufficiency. I am confident that through our budget – and the continued commitment of President Bush – HUD will be better able to offer citizens the tools that they can put to work improving their lives, and strengthening their communities and their country... as they travel the road to achieving their own American Dream.

I would like to thank each of you for your support of my efforts, and I welcome your guidance as we continue our work together on behalf of the American people.

Thank you.