

MEMORANDUM

To: Members of the Committee on Financial Services

From: Committee Staff

Date: January 8, 2024

Re: January 11, 2024, Full Committee hearing entitled, “Oversight of the Department of Housing and Urban Development and the Federal Housing Administration”

On Thursday, January 11, 2024, at 10:00 am, the Committee will hold a hearing entitled, “Oversight of the Department of Housing and Urban Development and the Federal Housing Administration.” Testifying at the hearing will be:

- **The Honorable Marcia Fudge**, Secretary, U.S. Department of Housing and Urban Development

General Background

Secretary Fudge was sworn in as the eighteenth Secretary of the Department of Housing and Urban Development (HUD) on March 10, 2021. In her nearly three years as Secretary, she has testified once before the Committee on Financial Services on July 20, 2021. This despite multiple requests to appear in 2023.

HUD was established in 1965 by President Lyndon B. Johnson. While HUD identifies its mission as “to create strong, sustainable, inclusive communities and quality affordable homes for all,”¹ the statute charges HUD with providing decent, safe, and sanitary housing through its programs typically for low-income families, the elderly, and persons with disabilities. HUD currently employs over 8,600 full-time employees across the United States, and in FY 2023 received more than \$77 billion in enacted gross discretionary budget authority. Additionally, for FY 2024, HUD has requested more than \$107 billion in gross discretionary and mandatory budget authority.²

According to HUD, it currently administers approximately 100 active permanent and temporary major mortgage, grant, assistance, and regulatory programs. HUD’s four largest, non-disaster programs as measured by budget authority include: Tenant Based Rental Assistance, Project-based Rental Assistance, the Public Housing Fund, and Homeless Assistance Grants. These four programs consume roughly 75 percent of HUD’s entire annual budget. The vast majority of HUD programs continue to receive funding despite having lapsed legal authorizations, including some authorizations that expired nearly 30 years ago, which limits congressional oversight and public accountability of

¹ <https://www.hud.gov/about/mission>

² HUD FY 2024 Congressional Justifications, available at: https://www.hud.gov/program_offices/cfo/reports/fy24_CJ.

their effectiveness. HUD also operates the Federal Housing Administration (FHA), a government-backed mortgage insurance provider. FHA’s mission is to make mortgage credit available to qualified first-time, low- and moderate-income homebuyers. Since its creation in 1934, FHA has insured more than 53 million mortgages.³

Housing Unaffordability

Housing unaffordability has impacted renters and potential homeowners acutely. Despite HUD’s numerous programs and more than \$1 trillion in taxpayer funding since 2000,⁴ housing continues to be unaffordable for millions of Americans. Housing affordability for single family homes has hit historic lows, with record numbers of Americans paying more than 25 percent of their monthly income on a mortgage payment. Meanwhile, rents in many places continue to increase due, in part, to a shortage of up to 7 million affordable rental units.⁵

The lack of access to affordable rental housing remains a significant and growing challenge. HUD’s own report on the worst-case housing needs across the country states that in 2021, 8.53 million households earning below 50 percent of Area Median Income (AMI) either lived in substandard housing; paid more than half of their incomes on rent; or experienced both.⁶ According to the report: “*This is a worsening from the record high of 8.48 million in 2011, and substantially higher than the 5.01 million households with worst case housing needs in 2001.*”⁷ Further, according to the Joint Center for Housing Studies at Harvard University: “*Between 2019 and 2021, the share of cost-burdened renters grew by 2.6 percentage points to 49 percent of renter households,*” and the total number of cost-burdened renters has reached an all-time high.⁸

Homelessness

Despite billions of dollars in annual federal spending by HUD, homelessness is unequivocally on the rise across the country. HUD’s own *January 2023 Point-in-Time Count Report* highlights the lack of success in addressing this problem: “*The report found more than 650,000 people were experiencing homelessness on a single night in January 2023, a 12% increase from 2022.*”⁹ This is the highest number of people reported as being homeless since 2007. In addition, the number of people who became homeless for the first time increased by a staggering 25 percent between FY 2021-2022.¹⁰

³ *Ibid.*

⁴ White House Office of Management and Budget, Historical Tables, “Table 5.2—Budget Authority by Agency: 1976–2028,” available at: <https://www.whitehouse.gov/omb/budget/historical-tables/>.

⁵ Andrew Aurand, Dan Emmanuel, Emma Foley, Matt Clarke, Ikra Rafi, and Diane Yentel, “The Gap: A Shortage of Affordable Rental Homes,” April 12, 2023, available at: <https://housingmatters.urban.org/research-summary/addressing-americas-affordable-housing-crisis>.

⁶ Thyria A. Alvarez and Barry L. Steffen, “Worst Case Housing Needs: 2023 Report to Congress,” September 21, 2023, available at: <https://www.huduser.gov/portal/publications/Worst-Case-Housing-Needs-2023.html>.

⁷ *Ibid.*

⁸ Joint Center for Housing Studies of Harvard University, “The State of the Nation’s Housing 2023,” available at: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf.

⁹ HUD Press Release, “HUD Releases January 2023 Point-in-Time Count Report,” December 15, 2023, available at: https://www.hud.gov/press/press_releases_media_advisories/hud_no_23_278.

¹⁰ *Ibid.*

This increase is despite the 6 percent increase in the number of beds made available to homeless populations during the last year alone.¹¹ Further, the number of people experiencing homelessness is concentrated geographically, with California representing 28 percent and New York representing 16 percent of the total population.

In addition to HUD rental assistance programs that broadly aim to prevent homelessness for the lowest-income and most vulnerable populations, the agency manages over \$3.6 billion in annual grants that specifically house the homeless.¹² Most of this funding goes to “Continuum of Care” (CoC) organizations. CoCs are opaque local planning bodies, often made up of non-profits and other non-government members, authorized under statute to receive and redistribute federal homelessness funds. CoCs are intended to compete for the funding based on a track record of accomplishments. However, HUD has adopted a controversial “Housing First” approach that rewards CoCs that prioritize unconditional permanent supportive housing programs and punishes wraparound service providers that combine housing with treatment for substance abuse or mental health problems. By deprioritizing such Housing Plus service providers, HUD’s strategy fails to address the root causes of homelessness and continues to place vulnerable people in harm’s way.

Public Housing Agencies (PHA) Oversight

HUD administers its programs nationwide through a network of more than 3,000 Public Housing Agencies (PHAs). PHAs are local quasi-government bodies authorized, funded, and overseen by HUD. These authorities, which manage and administer public housing programs at the local level, receive federal funding and support the housing needs of low-income individuals and families. HUD exercises oversight by monitoring PHAs’ compliance with regulations, conducting audits, and providing technical assistance to enhance their performance.

Due to weak HUD oversight, some PHAs have allowed millions of units of HUD-assisted housing stock to physically deteriorate. The HUD Office of Inspector General (OIG) has cited multiple failures in HUD’s management of living conditions. In one such instance, the OIG audited HUD’s oversight of the physical condition of public housing and found that nearly 5,200 inspection reports had generated almost 33,000 identified life-threatening deficiencies that were required to be corrected within 3 business days. Equally as troubling, the OIG found more than 5,000 of those deficiencies were never certified by a PHA as corrected at all, and of the nearly 28,000 deficiencies marked by PHAs as corrected, HUD had only verified 3,600.¹³ The OIG also found numerous instances of improper monitoring of lead in the water, as well as broader compliance issues with lead-based paint rules.¹⁴

¹¹ HUD, “The 2023 Annual Homelessness Assessment Report (AHAR) to Congress,” December 2023, available at: <https://www.huduser.gov/portal/sites/default/files/pdf/2023-AHAR-Part-1.pdf>.

¹² HUD FY 2024 Congressional Justifications, available at: https://www.hud.gov/program_offices/cfo/reports/fy24_CJ.

¹³ HUD Inspector General, “HUD Can Improve Its Oversight of the Physical Condition of Public Housing Developments,” May 30, 2023, available at: https://www.hudoig.gov/sites/default/files/2023-06/2023-CH-0004_0.pdf.

¹⁴ HUD Office of Inspector General, “Priority Open Recommendations,” August 23, 2023, available at: https://www.hudoig.gov/sites/default/files/2023-09/Priority_Recommendations_August_2023_FLAT_508.pdf.

HUD's failure to hold mismanaged PHAs accountable presents a threat to resident health and safety. Two prime examples can be found in New York City and Washington, D.C. In New York, the New York City Housing Authority (NYCHA) has a long history of mismanagement and failures to provide safe and decent housing to its residents. In response to reports of inadequate living conditions, in 2018 NYCHA admitted in court to falsifying federal safety records and endangering the lives of its residents. HUD's inability to effectively monitor NYCHA led to the appointment of a federal monitor to oversee its operations.¹⁵ While this agreement was a positive step forward, to date, NYCHA has yet to implement the reforms in an adequate manner.

Equally disturbing has been the operations of the District of Columbia Housing Authority (DCHA). A 2022 report from HUD found more than 80 deficiencies, highlights chronic payment fraud, health and safety violations, and a culture of mismanagement.¹⁶ The report opined on "*DCHA's inability or refusal to take serious and immediate remedial action for the items or subjects identified in this assessment, and make material progress in resolving these issues, may eventually lead to HUD making a determination of DCHA's default*" and revocation of its PHA status.

Federal Housing Administration (FHA) Oversight

Each year, HUD is required to submit an Annual Report to Congress regarding the status of FHA and its economic health. While traditionally the FHA Commissioner has appeared before the Committee to discuss the contents of that report, this hearing will be the first time any HUD official has appeared before the Committee to discuss the report since December 2019.

The Annual Report for FY 2023 released on November 15, 2023, found that FHA's Mutual Mortgage Insurance Fund remained "well-capitalized" with over \$145 billion and an overall capital ratio of 10.51 percent.¹⁷ However, the FHA capital ratio is actually an estimate based on future cash flows to the fund. The capital ratio incorporates optimistic assumptions for interest rate scenarios and house price appreciation. As such, it is sensitive to future stresses in the housing markets, particularly increases in interest rates and adverse economic cycles that reduce a borrower's ability to pay. Further, FHA has recently implemented several programmatic changes designed to reduce mortgage payments and extend certain forbearance efforts. These policy changes require mortgage servicers to allow for more borrower flexibilities. It remains to be seen whether, over time, these policy changes will create a more stable FHA insurance fund, or whether they will actually increase risk to the fund by making non-payment more permissive.

¹⁵ United States Attorney's Office Southern District of New York Press Release, "Manhattan U.S. Attorney Announces New Agreement For Fundamental Reform At NYCHA," January 31, 2019, available at: <https://www.justice.gov/usao-sdny/pr/manhattan-us-attorney-announces-new-agreement-fundamental-reform-nycha>.

¹⁶ HUD, "District of Columbia Housing Authority (DC001) Assessment," 2022, available at: https://oag.dc.gov/sites/default/files/2022-10/DCReview_Final%209302022%20%281%29.pdf.

¹⁷ HUD Press Release, "Federal Housing Administration Helps Over 765,000 Families Buy Homes and Maintains a Strong Insurance Fund," November 15, 2023, available at: https://www.hud.gov/press/press_releases_media_advisories/HUD_No_23_260.

Legislative Proposals

- **H.R. 2771, *the Portal for Appraisal Licensing Act of 2023*** (Rep. Loudermilk)

This bill would establish a user-funded portal for real estate appraisers to manage state licenses and pay associated fees online. The bill also would allow state officials to access an applicant's federal criminal history information to complete any state-required background checks.

- **H.R. 3405, *the Housing PLUS Act of 2023*** (Rep. Barr)

This bill would prevent HUD from prohibiting, limiting or otherwise restricting award of Continuum of Care (CoC) funds to Housing Plus providers that require wraparound services such as addiction treatment or job counseling, or because they are faith-based organizations. The bill also directs HUD to dedicate at least 30 percent of CoC funding to Housing Plus providers.

- **H.R. 6550, *to require the Inspector General to produce an updated report on the status of the New York City Housing Authority*** (Rep. Lawler)

This bill would require the HUD Inspector General to review and report to Congress on the compliance status of NYCHA pursuant to the terms of its 2018 court-ordered settlement.

- **H.R. 6552, *the Housing for America's Middle Class Act of 2023*** (Rep. Lawler)

This bill would require GAO to issue a report on the efficacy of federal housing affordability programs, including identifying any gaps that exclude middle-income households. It also calls for GAO to set forth recommendations for a definition of "workforce housing" based on income parameters to better target federal affordability efforts for middle-income households.

- **H.R. 6864, *the HUD Accountability Act of 2023*** (Rep. Lawler)

This bill would require the HUD Secretary to testify on an annual basis before the House's Financial Services Committee and the Senate's Banking, Housing, and Urban Affairs Committee.

- **H.R. _____, *the Securing Facilities for Mental Health Services Act*** (Rep. Emmer)

This bill would revise the FHA mortgage insurance definition for hospitals to include facilities that specialize in mental health care.

- **H.R. _____, *the HUD Evaluation and Optimization Commission Act of 2023*** (Rep. Davidson)

This draft bill would establish an independent, bipartisan commission to review the structure and programs of HUD and issue a report with recommendations regarding how to optimize each. Among other things, the commission would be charged with considering the benefits of reorganizing the agency, reducing fragmentation and overlap between programs, increasing economic outcomes and preventing benefits cliffs, and improving HUD oversight.

- **H.R. _____, *the Continuum of Care Transparency Act*** (DISCUSSION DRAFT)

This draft bill would enhance public transparency by requiring CoC boards to have at least one head of a local unit of government member as well as one senior local law enforcement official member.