

**WRITTEN STATEMENT OF  
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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**



**HEARING ON THE  
“FEDERAL HOUSING RESPONSE TO HURRICANE KATRINA”  
BEFORE THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES**

**FEBRUARY 6, 2007**

Chairman Frank, Ranking Member Bachus, distinguished Members of the House Committee on Financial Services; it is a privilege to appear before you today on behalf of the Department of Housing and Urban Development (HUD).

Today, I share with you HUD's recovery efforts in the Gulf Coast following the devastation caused by the trio of hurricanes that battered the region almost a year and a half ago. We have taken great strides in the recovery effort; yet, there are still many challenges that lie ahead, especially in Louisiana. This testimony focuses on three things:

1. The \$16.7 billion in Community Development Block Grant (CDBG) supplemental funds for long-term recovery;
2. The recovery of New Orleans Public Housing; and
3. Continuing affordable rental housing challenges.

In response to the disasters, the Federal Government has committed more than \$110 billion to help the Gulf Coast, including \$16.7 billion for the CDBG program. The legislation passed by Congress for the CDBG program was clear in its intent: the Federal Government would not dictate to local communities how they were going to use the money in their recovery efforts. The Gulf States and their governors were designated with the principal responsibility for the design, implementation, and performance of their rebuilding efforts. HUD has and will continue to move quickly with reviewing and approving state recovery plans. HUD has received and approved \$10.5 billion worth of recovery plans from the affected States. HUD has and will continue its role in offering guidance and assure compliance with the law, including the prevention of waste, fraud, and abuse.

Recovery is taking time --- only \$1.2 billion of the CDBG funds have been expended. Leading the way has been the Mississippi Homeowner Assistance Program where more than 10,000 families have received checks to help compensate them for their losses and assist them as they rebuild their lives. Mississippi has also used critical CDBG recovery funding to complete a master plan for infrastructure that develops long-term regional solutions to water, sewer, and storm drainage needs of Gulf Communities. This master plan is a necessary first-step in the redevelopment of existing neighborhoods and the creation of new, safer communities.

While the task before Mississippi is tremendous, the task before Louisiana is substantially greater. Its homeowner program alone has over 100,000 applicants. While only a handful of loans have closed to date, we are looking forward to a rapid escalation in program implementation over the next six months.

I will now address recovery issues for New Orleans Public Housing. As Secretary Jackson said in August 2006 when he visited New Orleans, "every family who wants to come home should have the opportunity to come back... HUD's goal is to bring families back to quality housing." HUD is working with the local community to redevelop New Orleans public housing so families will have the opportunity to return to better, safer neighborhoods. The C.J. Peete, B.W. Cooper, Lafitte and St. Bernard public housing

developments are being redeveloped to make way for a mixture of public housing, affordable rental housing and single-family homes. HUD has also announced plans for mixed-income affordable housing, homeownership opportunities and services for the former families of Lafitte. Of the approximately 5,100 units of public housing that were occupied and affected by the disaster, nearly 2,000 units have been repaired and are habitable. Over 1,200 families have already come back to New Orleans or will be coming back within the next 90 days to occupy these units. As Louisiana and the other affected States develop their solutions to the challenges they face in public housing, HUD will continue to offer its support and guidance.

Our efforts to provide rental housing assistance to displaced families and individuals are well documented. The Office of Public and Indian Housing (PIH) issued guidance to the nation's more than 3,000 Public Housing Authorities (PHAs) on how to assist public housing residents displaced by Hurricane Katrina.

HUD has worked aggressively to provide previously-HUD assisted displaced families and homeless individuals with housing stability during this displacement period by paying Katrina Disaster Housing Assistance Program (KDHAP) and Disaster Voucher Program (DVP) rental subsidies. Through the DVP, HUD issued over 30,000 DVP vouchers and assisted close to 25,000 families to find and occupy affordable rental units. The program has been operated successfully and is fiscally sound. Both HUD's Office of Inspector General and the Government Accountability Office have audited HUD's performance and commended the Department on its ability to deliver timely services.

As pre-disaster HUD-assisted housing units damaged by Hurricanes Katrina and Rita become available, the Department remains fully committed to providing displaced families the opportunity to reoccupy their pre-disaster HUD-assisted housing. In November 2006, HUD convened several meetings in New Orleans, Gulfport, and Houston with representatives of the major stakeholders, including public housing residents, pre-disaster and DVP PHAs, tenant advocacy groups, and owners of Section 8 voucher units. The purpose of these meetings was to solicit feedback on the best strategy for returning families to their homes prior to issuing the "final" HUD re-occupancy policies for families displaced by Hurricanes Katrina and Rita. Final guidance was issued in January 2007. HUD has a team of over 17 program staff at the Housing Authority of New Orleans (HANO) working alongside HANO staff in attempting to contact these families and making arrangements for their return. HUD is also in the process of issuing public service announcements and working with nonprofit agencies in Houston and other areas to locate these families and help them return home.

While New Orleans public housing is an important and visible piece of providing affordable rental housing in the region, it represents only a small number of the 112,000 rental units seriously damaged by the storms in the five State Gulf Coast region. In total, 13 percent of the damaged rental stock in the Gulf Region was subsidized housing. Although mostly unsubsidized, 75 percent of the damaged stock was occupied by low-income households.

A pre-storm weak housing market in the Gulf Coast resulted in a relatively affordable housing stock. The affordable homes, half of them in New Orleans, were not high-end properties. Many were built in the 1950s or earlier and had numerous quality problems. While families would in certain cases “double-up” or have extended family reside with them, nonetheless, there was moderately affordable shelter.

That situation has changed dramatically since the storm. Not only are there 112,000 fewer rental units in the five State Gulf Coast region, there is increased demand for the non-damaged rental units. This demand comes in the form of construction workers moving to the area to accelerate recovery, from displaced high- and low-income renters, and also from higher-income homeowners who are temporarily renting units in the area while their houses are repaired. Some of this demand is likely to be short-term, but in the meantime it quickly increased rents. In response to the rent inflation, HUD has increased its Fair Market Rents for New Orleans by 45 percent since the storm. Increasing Fair Market Rents, however, does not address the near disappearance of affordable rental units.

Immediately, in the aftermath of Hurricane Katrina, the Department's goal was to repair, rehabilitate or rebuild the affordable housing projects to the greatest extent possible to ensure that the residents could return as quickly as possible to the Gulf Coast region. The Department has been diligently working with the project owners to develop recovery plans and identify the resources needed to make the repairs and complete the rehabilitation or rebuilding of these projects. Through these efforts, 98 percent of the projects in the Department's portfolio have recovery plans. At this time, out of the 82,404 [HUD-associated] units in the areas impacted by Katrina, there has been a permanent loss of only 263 affordable rental housing units. We have not foreclosed on any of the HUD- assisted projects and have asked mortgagees to extend forbearance to the HUD-insured projects. To date, the Department has not seen an increase in multifamily insurance claims.

The lack of affordable rental units means construction workers need to be paid more, increasing the cost of reconstruction. It also pushes low-wage workers out of the area, having a dangerous trickle down effect on the industries that depend on low-wage workers. This is particularly dangerous for the economic viability of New Orleans, where the economy is based on low-wage workers. For low-wage workers, housing should be within reasonable commutes and at reasonable prices.

Rebuilding the affordable rental housing stock is not going to be easy. The majority of the rental units, over 60 percent, were in 1-to-4 unit dwellings. It is much harder to compel small landlords to repair a low-value property that provides a low return on investment than to get a large landlord to repair a property. Even with subsidy from the CDBG program, it is difficult to convince these landlords to repair their properties.

Again, the Department made the commitment early on to work with the owners to repair, rehabilitate or rebuild the impacted affordable housing units. We have been holding, and will continue to hold, meetings with the owners, we assisted in developing recovery plans

and identified and continue to identify funding resources. The Department has provided flexibility on the use of reserve funds, has suspended Section 8 contracts until such time as the units are rebuilt, and is using our authority under Section 318 to move projects to other locations if necessary to ensure safe, decent, and affordable housing. There were a total of 1,054 HUD-assisted or -insured projects with 82,404 units in the areas that were impacted by the Katrina. Today, 981 projects with 73,423 units have been repaired or rehabilitated and are fully operational. (The overwhelming majority of these units are HUD insured. We do not control occupancy data on those units. We are seeing in New Orleans that as soon as units go online they are snapped up – after the owner offers the right of first refusal to the original tenant.) This number increases every day as units are completed. All projects impacted in Alabama are fully operational and all repairs have been completed. In Mississippi, repairs of approximately 85 percent of the projects are completed. In Louisiana, of the 407 impacted projects, there are approximately 100 projects that are still being repaired, being rebuilt, or are in the process of obtaining funds to complete the necessary restorations.

Multifamily property repair and replacement also faces obstacles of a different sort, most notably land acquisition and project design. The delays caused by these factors threaten the ability to fully utilize the Low Income Housing Tax Credits allocated for recovery in the timeframes mandated by law.

Even after housing is rebuilt in New Orleans, there will be far less affordable housing stock than before the storm. While these families are currently served by FEMA, many in Houston and Atlanta, there needs to be a long-term housing solution for them.

The path ahead for rebuilding affordable rental housing is daunting. The Federal Government has done a lot to help the States, and I am confident that the States are on the right path to addressing their many challenges. It is a path, however, that is going to take longer than we want.

Mr. Chairman, Members of the Committee, people need help now. We are committed to using our full authority to assist these families to recover, stimulate economic development, and restore hope to communities throughout the Gulf. Thank you.