UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

FY 2008 BUDGET PRESS CALL

Washington, D.C.
Monday, February 5, 2007
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REPORTERS:

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The Bond Buyer Newspaper

REBECCA ADAMS
Congressional Quarterly

BRUCE ALPERT
New Orleans Times

RICHARD COWDEN
BNA Banking Report

TOM HARMON
Community Development Digest

DAVID HESS
National Journal

STEPHEN OHLEMACHER
Associated Press

JOE PODUSKA
Housing and Development Reporter

ANDREW VANACORE
The Buffalo News

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OPERATOR: Good morning. We will now begin the conference call. I will now turn the call over to the Department of Housing and Urban Development.

MS. NORDQUIST: Hi, everybody. I'm D.J. Nordquist with HUD's Office of Public Affairs. Welcome to our annual budget briefing. Secretary Jackson will begin today's conference call in just a moment. And just for your information, we have posted all of our budget materials on our web site at hud.gov.

I'd like to outline today's format. Since our senior management team is scheduled to brief members of Congress and their staff as well as our industry and trade partners this afternoon, our time is somewhat limited. Following Secretary Jackson's opening remarks, we'll hear from HUD's chief financial officer, John Cox, and then we will
open it up to your questions.

We have a number of our senior
staff standing by as well. They include Roy
Bernardi, our Deputy Secretary; Brian
Montgomery, Federal Housing Commissioner and
Assistant Secretary for the Office of
Housing; Orlando Cabrera, Assistant Secretary
for HUD's Office of Public and Indian
Housing; Pamela Patenaude, who leads our
Office of Community Planning and Development;
Kim Kendrick, who directs our Office of Fair
Housing and Equal Opportunity; Darlene
Williams, Assistant Secretary for HUD's
Office of Policy Development and Research;
and Keith Nelson, who is our Assistant
Secretary for the Office of Administration.

With that, let me turn things over
to Secretary Jackson.

MR. JACKSON: Good afternoon.

Today, I am pleased to present President
Bush's Proposed Fiscal Year 2008 Budget for
the United States Department of Housing and
Urban Development. The President's overall budget goal is to support what works and reduce the federal budget deficit. As a result, HUD's FY 2008 budget exercises physical discipline and gives priority to those programs with measurable and proven results.

For the FY 2008, the President is proposing a $35.2 billion budget for HUD. This is an increase of $1.6 billion over last year's request. This budget will allow HUD to continue to build upon the success we have achieved over the past six years, especially our efforts to increase a record number of Americans, especially minority individuals, who own their home; provide more affordable housing; and help the most vulnerable among us move beyond life on the streets.

Today, more Americans are homeowners than at any time in our nation's history, and the minority homeownership rate has reached a historical high. To continue
to increase the minority homeownership and
expand the affordable housing supply for very
low- and low-income families, the FY 2008
budget will increase funds for critical
programs, including $1.97 billion for the
Home Investment Partnership Program for
gamilies to purchase or rehabilitate their
homes or apartments, and $50 million for
housing counseling services to help families
prepare financially for homeownership, avoid
predatory lending and defaults.
Fostering an ownership society has
been one of the President's top priorities,
but homeownership may not be a viable option
for everyone. That's why the largest
component of HUD's budget promotes safe and
affordable rental housing.
The 2008 budget supports housing
for nearly 4.8 million people in public
housing and throughout the Section 8 voucher
and assisted program.
The President has also proposed an
innovative reform to the Section 8 voucher program.

The reforms will allow the public housing authorities who have been good stewards of the taxpayers' money to assist more families. We estimate that 180,000 more families can get real assistance through this change.

Ending chronic homelessness remains a priority for the President. Since 2001, the Bush Administration has awarded a record $6.1 billion to help homeless individuals move beyond a life on the streets. To provide further support of the housing option for the individuals who are chronically homeless, the 2008 budget will provide $1.59 billion, an increase of $50 million more than last year.

A vital part of our mission is to reform the programs that serve those in need. The Federal Housing Administration needs to improve its ability to reach the
traditionally underserved homebuyer, which will also help increase minority and first-time homeownership. Too many individuals and families have been steered into high-cost, high-risk loans, particularly minorities, first-time homebuyers, and families with less-than-perfect credit. American homebuyers need the FHA. Legislation to modernize it is critical.

Finally, government best serves the taxpayers when it performs well and produces sound results. Over the past several years, HUD has taken many steps to improve its management and performance, and the budget presented today strengthens these efforts. Last week, I am very proud to say HUD was removed from the Government Accountability Office High-Risk List for the first time ever since the list was started in 1994.

With that brief introduction, I now turn to HUD's chief financial officer, John Cox, to provide greater detail on the
Good afternoon, everyone. We're pleased to present the President's Proposed Fiscal Year 2008 Budget for HUD. Before I provide you with a line-by-line preview of the proposed budget, I want to provide you a brief overview of the strategic thinking that guided our budget formulation process, and note some of the resulting decisions we made.

I think it's important to first state the obvious, that the overall budget climate in Washington requires that we take a measured approach to discretionary spending. Tough budget decisions were made while ensuring that providing affordable housing, increasing homeownership, reducing homelessness, and doing so while providing equal opportunity in housing remain our top priorities.

As the Secretary mentioned, for Fiscal Year 2008, the President is proposing the proposed budget.
a $35.2 billion budget for HUD. Overall, this represents a $1.6 billion, or 5.4 percent, increase to the President's 2007 budget request.

In formulating HUD's Fiscal 2008 budget within current budgetary constraints, HUD examined its funding priorities to ensure that limited resources were used for those most in need. The Fiscal 2008 HUD budget includes references to needed reforms in multiple program areas, notably FHA, community development block grants, and public housing. Consequently, our proposed resources are distributed as follows:

First, we sustain support for the millions of households already receiving rental housing assistance through HUD's tenant-based voucher and project-based assistance programs. This was accomplished by increasing funding to meet the Section 8 tenant-based and project-based contract renewal needs in Fiscal Year 2008. The
budget also includes funding for the public housing capital and operating funds. The total proposed funding for these programs alone represents 79 percent of the total HUD budget for Fiscal Year 2008.

Secondly, we want to increase or sustain support for some of the most vulnerable populations we serve. This level of support was accomplished by increasing funding for the homeless assistance grants. The President is again proposing a record level of funding to house and serve homeless persons and families. As the Secretary mentioned, the Fiscal Year 2008 budget seeks $1.586 billion through HUD's continuum of care and emergency shelter grant programs. This request represents $259 million more than the Fiscal 2006 appropriation. Since 2001, HUD has awarded nearly $9 billion in homeless assistance nationwide.

Third, the budget continues support
for the existing HUD-assisted housing for the
elderly and disabled under our Section 202
and 811 programs.

The Department proposes
demonstration projects in both programs to
leverage alternative financing for new
development such as low income tax credits.
Increases are also proposed in housing
programs for Native Americans.

Fourth, we are increasing the
funding dedicated to the Home Investment
Partnerships Program by $252 million over the
Fiscal 2006 levels.

More than 143,000 households were
assisted by the home program in Fiscal Year
2006, the last enacted budget. Each home
dollar allocated to a local jurisdiction
traditionally leverages more than $3 from
public and private sources.

Fifth, the Fiscal 2008 budget
proposes to fund the Community Development
Block Grant, or CDBG, program formula at
$3 billion. The Department will continue to pursue formula fairness by appealing to Congress to approve a new allocation formula that will more effectively target CDBG funding to areas of greatest need, which is often not the case currently. In addition, HUD will work to boost performance measurements within CDBG to ensure these critically needed dollars produce the results the program was designed to achieve.

The Fiscal Year 2008 proposal is in line with the President's commitment to target limited resources where they are most needed on programs that work.

The President has pledged to create 5.5 million new minority homeowners by the year 2010. We are over halfway towards meeting that goal. To help meet that goal, FHA single-family insurance programs are being revised to accommodate today's economic realities and the needs of low- and moderate-income families.
With that introduction, I'll now
turn the call back over to D.J.

MS. NORDQUIST: Next, we are
prepared to take your questions now. To do
that, to ask a question, you must press
star 1 on your telephone, and you'll be
placed in a queue. The conference
coordinator will then introduce you. So if
you could please remember to give us your
full name and media affiliation, that would
be a great help.

OPERATOR: Your first question
comes from Andrew Ackerman from Bond Buyer
Newspapers. Your line is open.

MR. ACKERMAN: Secretary Jackson,
you got a bipartisan rhetorical beating in
Congress last year when the administration
attempted to cut CDBG funding and eliminate
Hope VI. It looks like the Fiscal '08 budget
that you guys unveiled this morning attempts
to do both again. Why do you think you'll be
more successful arguing for a new funding
allocation formula for CDBG when Congress has
made it clear that you need more money for
that program, not less, and when Hope VI is
still fairly popular?

MR. BERNARDI: This is Deputy
Secretary Roy Bernardi. Secretary Jackson
had to leave. When it comes to the '08
appropriation of approximately $3 billion for
the CDBG program, you're correct. But trying
to cut the budget deficit as we need to do
and with the necessary restrictions that we
have as a department, each and every year,
the Secretary has indicated on a number of
occasions as we increase the budget in
certain areas, especially when it comes to
providing housing assistance for the most
needy in this country, that consumes a
significant part of our budget, whether it's
the tenant-based, project-based, or public
housing component. It's almost 64 percent of
our budget.

Difficult decisions had to be made,
and that was one that we made.

Also, the fact is this year we're going to be funded as we were in '06 with a CDBG budget, and this will give communities and states an opportunity to have a significant lead time to make that adjustment.

MR. ACKERMAN: Okay.

OPERATOR: Your next question comes from Joe Poduska from HUD Reporter. Your line is open. Joe Poduska?

MR. PODUSKA: Hello. Yeah, this is Joe Poduska with Housing and Development Reporter. I just wanted to ask about the -- there are a couple of legislative proposals that you're going to have to put forward as part of the budget, and that is with the Section 8 vouchers.

You talked about raising the cap on the number of tenants that would be helped by the program. Is this basically -- are you basically sending up the same proposal that
you did last year, or are there some changes
to this? And would housing authorities be
able to change the subsidy levels that they
use for the program?

MR. CABRERA: Joe, we would -- I'll
take that in the two pieces that you just
asked. The first part of it is what we
intend to do --

MR. PODUSKA: Okay.

MR. CABRERA: I'm sorry, this is
Assistant Secretary for Public and Indian
Housing Orlando Cabrera. What we intend to
do is seek substantive reform, or as I prefer
to call it, evolution of the Section 8
program, in order to continue our commitment
to allowing local housing authorities, local
public housing authorities, to make a lot of
these decisions on management and the
management of their own portfolios in their
own way.

That commitment will continue from
the Office of Public and Indian Housing.
With respect to the lifting of the caps and our proposal to lift the caps, it's pretty straightforward. We think that we want to reward good actors who have been working within their budgets, and allow them to take fully advantage of the economies they manage when they issue Section 8 vouchers, and we're committed to helping them.

MR. PODUSKA: Okay. And as far as the subsidy levels go, would you be able to, under your proposal, change the amount of subsidy for each family?

MR. CABRERA: That would largely have to do with the legislative proposal you first asked about. So the short answer is nothing much has changed from the way that we've done it in previous years, except that we would be lifting the overall cap -- that limits their ability to issue more in new vouchers.

MR. PODUSKA: Okay. All righty, thank you.
MR. CABRERA: You're welcome.

OPERATOR: Your next question comes from Stephen Ohlemacher from the Associated Press. Your line is open.

MR. OHLEMACHER: Hi, thank you.

When I look at your funding for Section 8 and I see it's at $16 billion, now, you said that that's enough money to renew all of the contracts. Is that enough money to fund all of the authorized vouchers? Because the Center for Budget Policy and Priorities says that you would actually need another half a billion dollars to fund all of the authorized vouchers.

MR. CABRERA: I don't know where they are deriving their statistics from, but I think you'll also see that in the past, they've had statistics, or represented that they had statistics that showed a particular result that didn't come to transpire.

I think at the end of the day, what the conversation is or should be now is that
the Section 8 program is a budget-based system, not a voucher-based system. So at the end of the day, these numbers are basically generated using a formula that takes into account issues -- like CPI takes into account how it is that various public housing authorities administer these programs. So it's a pretty well-known formulaic process. And so I think we are pretty comfortable with the $16 billion number.

MR. OHLEMACHER: Okay, thank you.

MR. CABRERA: And for clarity's sake, I'm sorry, that was again Orlando Cabrera responding. Sorry.

OPERATOR: Your next question comes from Rebecca Adams from the Congressional Quarterly.

MS. ADAMS: Yes, hi. I wanted to know if any of the changes that you have outlined in the budget document can be done administratively, and what your regulatory
priorities are for the year?

MR. CORNICK: Are you talking about Section 8?

MS. ADAMS: Well, that and other things as well, but yes, in particular I'm interested in Section 8.

MR. CABRERA: Okay, just so I can do it right for the first time. This is Assistant Secretary for Public and Indian Housing Orlando Cabrera.

Most of the changes that we seek legislatively, we try to get those changes because we can't do things administratively. We've pretty much run the gamut on things that we can do administratively. The best we can do from here on out is do some administrative changes on the fringes, but our big concern would be that we're looking to deregulate Section 8, not re-regulate it.

So the short answer to your question is it's mostly statutory.

MS. ADAMS: Okay. Would you say
virtually all of it is statutory, or what would not have to go through Congress?

MR. MONTGOMERY: This is Brian Montgomery from FHA. We have a legislative proposal that you're aware of that we carried last year, what was passed in the House. We have to reintroduce that here soon. There are some process improvements that we've made over the past year that were administrative in nature that allowed us to help modernize FHA. We can go into more detail later on some of those process and procedural improvements, but we've done -- taking Orlando's line, we've gone about as far as we can administratively, but we need to really improve FHA in today's mortgage marketplace. It does require legislative approval.

MS. ADAMS: Okay, thank you.

MS. PATENAudeau: Hi, Rebecca. This is Pam Patenaude from the Office of Community Planning and Development. And we have three legislative proposals with our '08 budget
submission for CPD and all three, the CDBG
formula, the Hoffmore (?) formula revision,
and the continuum of care consolidated
homeless legislation, all require a
legislative fix.

MS. ADAMS: Okay, thank you.

OPERATOR: Your next question comes
from Bruce Alpert from New Orleans Times.

Your line is open.

MR. ALPERT: Hi. How does your
budget enable you to revamp public housing in
New Orleans post-Katrina?

MR. CABRERA: This is Orlando
Cabrera, Assistant Secretary for Public and
Indian Housing. Most of the issues of public
housing in New Orleans have to do with a
section of the appropriations bill that was
passed on December 30, 2005, where HANO was
given -- HANO is Housing Authority of New
Orleans -- was given a greater latitude with
the resources it receives from Congress. So
from that perspective, HANO at this point is
being funded pretty fully in order to take
advantage of everything it can in order to
recover.

MR. ALPERT: So you don't need any
additional, you don't think, at this point?

MR. CABRERA: Most of that's being
undertaken through CDBG funding that's being
allocated by the state of Louisiana, so that
I think you'll see, both in the Road Home
Program and the efforts of the Louisiana
Housing Finance Agency, evidence that people
are trying to use every resource available in
order to help public housing in New Orleans.

OPERATOR: Your next question comes
from Tom Harmon from Community Development.

MR. HARMON: Hi. I was wondering
if anybody there could speak with me for just
a second about the CDBG reform language that
went up on the Hill. Will there be any
changes made, any alterations made to try to
push that thing along this year at all, or
will it stand as currently offered?
MR. CORNICK: This is Carter Cornick. I work in the Office of Congressional and Intergovernmental Relations. It is the case that the legislation we proposed last year in May, submitted to the Congress for their review, is going to be the legislation that we move forward soon this year. Obviously because it's a new Congress, we have to resubmit the legislation. And Assistant Secretary Patenaude and the Department are -- we anticipate that we will have before the Hill for their consideration that reform legislation again soon, certainly by the end of February, if not early March.

And the basic principles remain the same: Formula reform as well as a priority on performance measurement and results, as well as trying to introduce into the program an incentive for people and creativity. This would be the challenge grant proposal that was part of last year's effort.
So I think that gets at what you were trying to hear from us.

MR. HARMON: Will it be identical or --

MR. CORNICK: I'm not sure that we're clear that it'll be identical. The honest fact is we've been engaged with a whole range of groups, not to mention Congress. We had no fewer than three and maybe four hearings last year where we got a lot of feedback. We've worked closely with groups like NACO as well as Conference of Mayors and others who have very big interests in this program.

We want to improve the proposal to the degree that we think we can, so we're open. And I can't say to you right now today that it will be exact. My guess is we'll have some modifications that are reflective of some of the input that we've received.

MR. HARMON: Thank you.

OPERATOR: Your next question comes
from David Hess from the National Journal.

MR. HESS: Hi. Can someone speak to what's going to happen at the Rural Housing Service program?

MS. PATENAUTE: Hi, David. This is Pam Patenaude, Assistant Secretary for the Office of Community Planning and Development. The President's budget does not include a request for any new funding for the Rural Housing and Economic Development Program for Fiscal Year 2008.

MR. HESS: Does that mean that it's being eventually phased out?

MS. PATENAUTE: This is part of the reform, that this program will be consolidated with the CDBG program.

MR. HESS: And will it be block granted then?

MS. PATENAUTE: It will be included with the $3 billion that is proposed funding of '08 for CDBG.

MR. HESS: And will CDBG be block
granted?

MS. PATENAUE: Yes, the block grant program will continue.

MR. HESS: Okay.

OPERATOR: Your next question comes from Richard Cowden from DNA Banking Report.

MR. COWDEN: Yes. When the President proposed his 5.5 million minority housing goal in 2002, the Administration proposed $200 million annually for the American Dream Downpayment Program. I see that's proposed for $50 million.

And also, there was a single-family housing tax credit, a rather key component of that.

I haven't seen anything about that recently. Can you explain why these proposals have been downgraded?

MR. CORNICK: Let me offer this.

I'd like our Deputy Secretary to first respond to you. This is Carter Cornick again. I'm going to let the Deputy start
MR. BERNARDI: Yes, this is Roy Bernardi. The program in 2003, when President Bush visited HUD and signed that piece of legislation, as you may recall the history of that, we continually asked I think for $200 million a year, and that was reduced by the Congress in successive years.

The program is run very well. The participating jurisdictions in our home program take those dollars, and that goes an awful long way to providing first-time homeowners an opportunity to own their own home, and it goes for downpayment and closing costs. And it also goes an awful long way to the goal the President has set, which, by the way, we're proceeding along very well, of 5.5 million more minority homeowners by the end of the decade.

The request this year is $50 million, and we're just hopeful that the Congress will leave it at $50 million. We
wanted to be realistic with it.

We do have some money in the pipeline. But the fact of the matter is, we've had thousands of families take advantage of this opportunity. Twenty-two thousand to be exact.

MR. CORNICK: Twenty-two thousand. And so I think it would be -- nobody's downgrading anything. This has been a very successful program, and it is the case as well that we have learned there are capacity issues in each of the jurisdictions. This is one of these programs where we want the jurisdictions to help guide exactly how this is going to be used. It's being used broadly all across the country, and we're going to continue to seek funds for it. And I think you're going to continue to see the kinds of results where people are getting into homes for the first time.

MR. MONTGOMERY: This is Brian Montgomery, FHA commissioner. You may recall
from our Expanding American Homeownership Act of 2006 there's a provision there to do away with the 3 percent downpayment requirement. Part of that would be to structure a product that would meet a family's needs based on their particular financial situation. What that means is if this legislation goes through, that we would be able to offer families, in looking at their risk profile, perhaps a 1/2 percent down or 1 percent down, but not to exceed 3 percent. Right now we're statutorily required to set that at 3 percent. So if the FHA bill does go through during this Congress, we would have some flexibility on what families may choose as far as their downpayment, because that is one of the single largest barriers to homeownership.

MR. CORNICK: This is Carter Cornick again. And part of the importance of what Commissioner Montgomery is talking about is it works hand in glove with the
downpayment program. That program would
benefit as well from the legislative relief,
the reform that we're seeking with FHA.

MR. COWDEN: Someone mentioned
earlier a low-income tax credit. Does that
have anything to do with the single-family
housing tax credit?

MR. MONTGOMERY: This is Brian
Montgomery again. There are two
demonstration projects proposed in this
budget for the Section 202 and Section 811
programs. The 202 has a $25 million
demonstration project, 811 is a $15 million.
Part of those demonstration projects would be
to identify and hopefully do away with
barriers to the use of low-income housing tax
credits within those programs, and also to
look at those programs and see ways that we
can better leverage the federal resources
with those of what local governments and
states can offer, whether it be through home
program or the use of private activity
mortgage or multiple-family bonds, and of course, low-income housing tax credits. Well, we've been working with some in the industry, and hopefully they'll be pleased to see that this made it into the '08 budget.

MR. COWDEN: Nobody said low-income housing tax credit. They just said low-income tax credit, so I was confused.

MR. MONTGOMERY: This is Brian Montgomery again. All I can speak for is the low-income housing tax credit.

OPERATOR: Your next question comes from Andrew Vanacore from Buffalo News.

MR. VANACORE: Part of your block grant reform program includes terminating the Brownfields Economic Development Initiative, the Community Development Loan Guarantee Program, and the Rural Housing and Economic Development. And it says these are activities that are eligible to be funded by the CDBG. Does that mean these block grants are actually going to have the responsibility
of funding more of than it did in the past?

MS. PATENAUDE: Andrew, this is Pam Patenaude from the Office of Community Planning and Development. As you know, the CDBG program has tremendous flexibility, and the activities under Rural Housing and the Brownfields Economic Development are currently eligible activities under CDBG.

MS. NORDQUIST: Okay, this will be the last question.

OPERATOR: The last question comes from Stephen Ohlemacher from the Associated Press.

MR. OHLEMACHER: Hello, thank you. First of all, just one quick question. When someone spoke about the proposed legislation that you're going to be coming out this year for CDBG reform language, who was that?

MS. PATENAUDE: That was either Carter -- Carter Cornick.

MR. OHLEMACHER: Okay, yes, yes, that's right. Thank you. And I see you
have -- okay, $3 billion for CDBG funds next year. What is the estimated spending for 2007, and will there be any other programs such as the Rural Housing and Economic Development that will be consolidated into CDBG?

MS. PATENAUGE: This is Pam Patenaude again from the Office of Community Planning and Development. The President's 2007 request was for $3.032 billion in '07 versus '08 at $3.037.

MR. OHLEMACHER: Isn't the estimated spending for '07 a lot higher than that?

MR. CORNICK: Well, put it this way: The House passed in the Joint Spending Resolution 3.77, call it 2, billion dollars. That's what they passed. And the Senate has yet to act on that. It would be presumptuous of us to presume what they will do, but I think it is the case that they've funded '06 in the $4.1 billion category, so there's a
very strong probability that the '07 final number would be in the 3.7 category, or 3.8.

MR. OHLEMACHER: Okay. And are there other programs that are being proposed to fold into CDBG?

MS. PATENAUDA: The Section 108, the Rural Housing and Economic Development, and the Brownfields program.

MR. OHLEMACHER: Got you. Thank you.

MS. NORDQUIST: Okay, great. Thanks very much. If you have any other questions that we didn't get to, please feel free to call the Office of Public Affairs at (202) 708-0980.

Thanks, and have a great day.

(Whereupon, at approximately 1:05 p.m., the PROCEEDINGS were adjourned.)

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