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The Role of HUD Housing Programs in Response to Hurricane Katrina

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Summary

The catastrophic devastation wrought by Hurricane Katrina in late August 2005, and to a lesser degree, Hurricanes Wilma and Rita, led to the displacement of hundreds of thousands of families. Following the storm, the Federal Emergency Management Agency (FEMA) took primary responsibility for meeting the emergency housing needs of displaced families. The Department of Housing and Urban Development (HUD), the nation's housing agency, also played a role. HUD modified its existing grant programs—primarily through waivers—to make them more flexible for communities wishing to serve displaced families. The Department also took steps to aid displaced families that had been homeless or receiving HUD assistance prior to the storm by developing a new voucher program, and by issuing guidance to lenders offering protections for homeowners with FHA-insured mortgages. Finally, Congress has used the Community Development Block Grant (CDBG) program as a conduit for providing flexible relief and recovery funds to devastated communities. This report details HUD's efforts to provide assistance to affected families and communities immediately after the storm and in the initial rebuilding stages. It will not track HUD's role in the longer-term rebuilding of the devastated areas.

Grant Programs

As in past disasters, the Secretary of HUD issued a number of waivers to permit local communities to redirect their existing HUD housing and community development grant funds to meet their emergency needs shortly after the storm.[1] Waivers were issued for the Community Development Block Grant (CDBG) program[2], the HOME Investments Partnerships Program (HOME), the Emergency Shelter Grants Program (ESG), and the Housing for Persons with AIDS Program (HOPWA). Waivers issued ranged from extensions in the amount of time grantees had to spend their funds to easing of benefit eligibility requirements. HUD also issued $2 million in "Imminent Threat" funding to Indian Community Development Block Grant recipient communities affected by the storm.[3]

Assisted Housing

The Administration took a number of first steps to make existing housing programs and assistance available to victims of Katrina. Immediately after the storm, HUD established a toll-free number for HUD-assisted families who had been displaced—such as public housing residents and Section 8 rental housing voucher holders—to call in order to reestablish their benefits. In conjunction with that number, the Department identified a number of vacant units across the country in which to house displaced tenants, both formerly assisted and unassisted. HUD also issued a notice summarizing waivers available to public housing authorities (PHAs), including suspensions of reporting deadlines, loosening of quality standards and income determination rules, and increases in subsidy limits for public housing authorities affected by the storm.[4] The Department also made emergency capital reserve funds available to local PHAs to repair damaged public housing units.[5]

FEMA-HUD Joint Initiative .[6] On September 24, 2005, the Secretaries of HUD and Homeland Security announced a joint transitional housing assistance initiative for Hurricane Katrina evacuees.[7] The initiative was to provide two types of assistance, both funded by emergency funds provided to FEMA in a supplemental appropriation shortly after the storm. The first was a type of individual and household grant administered by FEMA. Displaced homeowners and renters (except for HUD-assisted renters) were to receive a cash grant of $2,358 to be used for housing-related expenses. The amount was meant to represent three months of housing costs and was

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[1] For a list of waivers issued, see http://www.hud.gov/katrina/proguidance.cfm.

[2] For a discussion of the use of CDBG funds after a disaster, see CRS Report RL33330, *Community Development Block Grant Funds in Disaster Relief and Recovery*, by Eugene Boyd.

[3] HUD Press Release, *HUD Katrina Accomplishments—One Year Later*, available from HUD's website at http://www.hud.gov/news/katrina05response.cfm.

[4] A description of temporary waivers is available at http://www.hud.gov/offices/pih/publications/katrinapihadminwaiv.pdf.

[5] HUD issued a grant of $21.8 million to the Housing Authority of New Orleans and a grant of $7 million to the Biloxi Mississippi Housing Authority. HUD Press Release, *HUD Katrina Accomplishments—One Year Later* http://www.hud.gov/news/katrina05response.cfm.

[6] For an expanded discussion, see CRS Report RL33173, *Hurricane Katrina: Questions Regarding the Section 8 Housing Voucher Program*, by Maggie McCarty.

[7] FEMA Press Release DHS-05-09-24, *US Government Announces A Comprehensive Transitional Housing Assistance Program For Katrina Evacuees*, September 24, 2005.

calculated using the national average fair-market rent (FMR) for a two-bedroom apartment. The assistance could be extended for up to 18 months.

Second, for families who were homeless or receiving HUD assistance before the storm, FEMA initially provided funding to HUD, through a mission assignment, to administer the HUD Katrina Disaster Housing Assistance Program (KDHAP). It provided ongoing rental assistance, for up to 18 months, to displaced HUD-assisted renters (including Section 8 voucher holders, families who had lived in public housing, and families who had lived in other forms of HUD-assisted rental housing) and displaced homeless[8] families. It was administered by local PHAs and was calculated at 100% of the local area FMR. Families were required to pay any difference between the rental assistance amount and the actual rent for the unit they selected. This program had no income eligibility or targeting requirements, and families' eligibility was determined after they registered for FEMA assistance and contacted HUD. Language included in the FY2006 Defense Appropriations Act (P.L. 109-148) transferred $390 million in FEMA funds to HUD to administer a modified form of KDHAP called the Disaster Voucher Program. The act also included administrative provisions permitting housing authorities to combine their public housing and Section 8 voucher funds, and directing the Secretary, to the extent feasible, to preserve all assisted housing damaged by the storm.

Mortgage Insurance Programs

On August 31, 2005, HUD issued mortgage letter 2005-33,[9] reminding HUD-approved lenders that when the President declares a disaster, as in the case of Hurricane Katrina, it automatically triggers certain procedures with regard to FHA-insured mortgages in the affected areas. The following procedures become effective for one year from the date of declaration: (1) a moratorium on foreclosures for 90 days from the date of declaration[10]; (2) lenders are encouraged to offer special forbearance, mortgage modification, refinancing, and waiver of late charges to affected borrowers; (3) families whose residences were destroyed or severely damaged are eligible for 100% financing under the Section 203(h) program for the cost of reconstruction or replacement; (4) damaged properties become eligible for Section 203(k) financing, under which costs to purchase and rehabilitate the property are included in one loan and HUD waives the requirement that the property has been completed for more than one year prior to application for the mortgage; (5) underwriting guidelines are relaxed to permit disaster victims to qualify for loans even if their total monthly debt, including the proposed mortgage, would equal 45% of gross income; and (6) lenders must ensure that hazard claims are expeditiously filed and settled, and lenders may not retain hazard insurance proceeds to make up an existing arrearage without written consent of the borrower.

The Section 203(h) program is available for borrowers who already own homes in the affected area. The loans are limited to the FHA loan limit for the area, subject to the provision that the

[8] Homeless families are eligible if they were living in an affected area in the week immediately prior to the hurricanes, and either sleeping in a place not meant for human habitation or residing in an emergency shelter, transitional housing or housing provided through the HUD homeless programs; their homeless status must be confirmed by housing or homeless services providers.

[9] Available at http://www.hudclips.org/sub_nonhud/cgi/pdfforms/05-33ml.doc.

[10] HUD Mortgagee letter 2005-45, issued November 22, 2005, extended this deadline for many areas affected by Katrina through the end of February 2006.

loan may not exceed 100% of the appraised value of the property. In some cases it may not be possible to obtain 100% financing. It may often be the case that the cost to repair or replace the property exceeds the appraised value of the property. This is the reason that most lenders require borrowers to obtain hazard insurance that covers the replacement cost of the property instead of its appraised value. The Section 203(k) program permits borrowers who do not already own homes to purchase and rehabilitate properties in the area that are either abandoned by owners, or are being sold by owners who do not want to repair them and remain in the area. The current FHA underwriting guidelines provide that a prospective borrower's total debt, including the proposed mortgage payment, may not exceed 41% of the borrower's gross monthly income. In recognition of the fact that borrowers in these programs [Section 203 (h) and (k)] may have to incur debt to replace personal property, the underwriting guidelines are relaxed to permit loans to borrowers whose total debt is up to 45% of gross monthly income. The limit may even be exceeded if justified by compensating factors.

On December 5, 2005, HUD announced the Mortgage Assistance Initiative (MAI), under which HUD will make mortgage payments for up to 12 months on behalf of borrowers who have FHA-insured mortgages on their homes and who have been displaced or are unemployed because of the recent disasters. Eligible borrowers must: (1) have homes that are repairable and are located within parts of Alabama, Florida, Louisiana, Mississippi, or Texas declared eligible for individual assistance as a result of Hurricanes Katrina, Rita, or Wilma; (2) have missed between four and 12 payments on an FHA-insured home loan; (3) be temporarily unable to make mortgage payments but have the expectation to resume full mortgage payments; and (4) the homes must be the primary residences of the borrowers and the borrowers must be committed to continued occupancy of the properties as primary residences. No interest is charged on the MAI loans, and repayment is not required until the original FHA-insured loans are repaid. The program is scheduled to expire18 months after it began, and is expected to assist about 20,000 families.[11] FHA notes that more than 52,000 FHA-insured loans were delinquent due to the storms.[12]

In April 2005, before Hurricane Katrina struck, HUD augmented its existing 203(k) program by announcing the "Streamline(k) Limited Repair Program" to facilitate the purchase of properties needing minor rehabilitation (HUD Mortgagee Letter 2005-19). Eligible properties were those needing repairs costing at least $5,000 but not more than $15,000. The program was amended in December to, among other changes, eliminate the minimum repair cost, increase the maximum repair cost to $35,000, and make lead-based paint stabilization an eligible work item (HUD Mortgagee Letter 2005-50). The Streamline(k) program is not directed specifically at properties damaged by Katrina, but could facilitate the purchase and repair of such properties that meet program requirements.

CDBG Supplemental Appropriations

Congress enacted several emergency supplemental funding bills following the hurricanes, two of which provided CDBG funds to affected communities.[13] The Defense Appropriations Act for

[11] "HUD Announces Mortgage Assistance for Disaster Victims: $200 Million Initiative Designed to Rebuild Lives and Communities," HUD No. 05-164, available at http://www.hud.gov/news/release.cfm?content=pr05-164.cfm.

[12] Leslie Eaton, "Mortgage Aid Set for 20,000 Storm-Hit Homes," *New York Times*, December 6, 2005.

[13] For more information on supplemental disaster funding, see, CRS Report RS22239, *Emergency Supplemental Appropriations for Hurricane Katrina Relief*, by Keith Bea.

FY2006 (P.L. 109-148) provided $11.5 billion for CDBG for "necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure in the most impacted and distressed areas" in the five states impacted by Hurricanes Katrina, Rita, and Wilma. The act allowed

- the affected states to use up to 5% for administrative costs;
- HUD to grant waivers of program requirements (except those relating to fair housing, nondiscrimination, labor standards, and the environment);
- Mississippi and Louisiana, the most affected states, to use up to $20 million for local community development corporations; and
- the Governor of each state to designate multiple entities to administer a portion, or all of a state's share of the $11.5 billion.

The act also lowered the income targeting requirement for activities benefitting low- and moderate-income persons from 70% to 50% of the state's allocation; limited the maximum amount of assistance any of the five states may receive to no more than 54% of the total amount appropriated; and required each state to develop, for HUD's approval, a plan detailing the proposed use of funds, including eligibility criteria and how the funds will be used to address long-term recovery and infrastructure restoration activities. On January 25, 2006, HUD announced its allocation of the funds. Using data from FEMA and several other agencies, HUD calculated the extent of each state's unmet housing needs and areas of concentrated distress for each of the five states.[14] HUD allocated 55% of the funds based on each state's unmet housing needs and the remaining 45% on the degree of concentrated distress as measured by each state's share of damaged and destroyed housing stock, and business and infrastructure damage.

On February 13, 2006, HUD published a notice of allocations, waivers, and alternative requirements governing the CDBG disaster recovery assistance. In addition to providing waivers allowing the states to allocate funds to CDBG entitlement communities and directly administer the program, the notice also included language stating that "Funds allocated are intended by HUD to be used toward meeting unmet housing needs in areas of concentrated distress."[15] The language included in the act did not restrict the use of these funds to unmet housing needs. Rather, the act provided some level of flexibility allowing funds to be used for long term recovery and infrastructure restoration in the areas most affected by the Gulf Coast Hurricanes of 2005.

On June 15, 2006, the President signed P.L. 109-234, a second emergency supplemental appropriations act, providing funds for Gulf Coast recovery efforts. The law included $5.2 billion in additional CDBG assistance for the states of Alabama, Florida, Louisiana, Mississippi, and Texas. It limited the amount that any one state could receive to $4.2 billion, and encouraged states to target assistance to infrastructure reconstruction and activities that would spur the redevelopment of affordable rental housing, including federally assisted housing and public housing. The law contained provisions regarding the use and administration of funds, including

[14] HUD, *Jackson Announces Distribution of $11.5 billion in Disaster Assistance to Five Gulf Coast States Impacted by Hurricanes*, available at http://www.hud.gov/news/release.cfm?content=pr06-011.cfm.

[15] Federal Register, *Allocation and Common Application and Reporting Waivers Granted to and Alternative Requirements for CDBG Disaster Recovery Grantees Under the Department of Defense Appropriations Act, 2006*, Vol. 71, No. 29, February 13, 2006, p. 7666.

most of the provisions that applied to the funds authorized by P.L. 109-148, as well as provisions that

- required that at least $1 billion of the CDBG amount be used for repair and reconstruction of affordable rental housing in the impacted areas;
- ensured that each state's plan gives priority to activities that support infrastructure development and affordable rental housing activities;
- required each state to file quarterly reports with House and Senate Appropriations Committees detailing the use of funds;
- required HUD to file quarterly reports with the House and Senate Appropriations Committees identifying actions by the Department to prevent fraud and abuse, including the duplication of benefits; and
- prohibited the use of CDBG funds to meet matching fund requirements of other federal programs.

On July 11, 2006, HUD announced that $4.2 billion of the $5.2 billion supplemental appropriation for CDBG would be allocated to Louisiana, and on August 18, it announced how funds would be distributed to the remaining states (see **Table 1**). HUD determined the distribution of funds for Alabama, Florida, Mississippi, and Texas based on unmet need, analyzing data from FEMA and the Small Business Administration. It then invited each state to provide their own data on remaining recovery needs in order to make its decision.

Table 1. Allocation of CDBG Disaster Relief Assistance

State	P.L. 109-148	P.L. 109-234	Total
Alabama	$74,388,000	$21,225,574	$95,613,574
Florida	82,904,000	100,066,518	182,970,518
Louisiana	6,210,000,000	4,200,000,000	10,410,000,000
Mississippi	5,058,185,000	423,036,059	5,481,221,059
Texas	74,523,000	428,671,849	503,194,849
Total	**11,500,000,000**	**5,173,000,000**	**16,673,000,000**

Source: HUD news releases, July 11, 2006: http://www.hud.gov/news/release.cfm?content=pr06-079.cfm, and August 18, 2006: http://www.hud.gov/news/release.cfm?content=pr06-099.cfm and Federal Register, *Allocation and Common Application and Reporting Waivers Granted to and Alternative Requirements for CDBG Disaster Recovery Grantees Under the Department of Defense Appropriations Act, 2006*, Feb. 13, 2006, vol. 71, no. 29, p. 7666.

Developments

Two important developments related to HUD's role in response to the 2005 hurricanes occurred after the initial response period that is the focus of this report. First, in July 2007, FEMA announced it would transfer responsibility for ongoing housing assistance for families displaced by the 2005 hurricanes to HUD, noting HUD's expertise in assisting families with long-term housing needs through its existing infrastructure of PHAs. Second, in November 2007, Congress provided another $3 billion in emergency supplemental CDBG funding to Louisiana for its recovery needs (P.L. 110-116).

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