September 2013 Talking Points and AFGE Council 222 "ask" for members of Congress Re: Multifamily Reorganization

The "Ask"

We are seeking "Dear Colleague" letters from members of Congress to their colleagues on the Appropriations Subcommittees. The "Dear Colleague" letter should encourage the Appropriations Committee members to withhold approval for the FHA Multifamily Reorganization until the agency provides evidence that:

> 1) it has overcome GAO's criticism, and that it has adequately determined the number of staff necessary to provide customer service while protecting the FHA Multifamily insurance fund;
>
> 2) the proposed consolidation will not increase risk to the FHA Multifamily insurance fund caused by staff being more distant from the insured properties, or because there are fewer staff; and
>
> 3) there are not more cost effective strategies to achieve HUD's stated goals of efficiency and effectiveness.

Talking Points

Two issues: Impact on FHA Multifamily and Impact on HUD.

I. Impact on FHA Multifamily

The proposed FHA Multifamily Housing Reorganization completely and irrevocably dismantles a business model that works, exchanging the known for the unknown. We know what the current system costs; we know its ability to deliver service; we know its rate of claims; we know its return to the Treasury.

Although the agency is alleging that the proposed FHA Multifamily Reorganization will save $47 million annually, they have woefully underestimated the costs. In some instances, they refuse to even acknowledge costs. For example:

The FHA Multifamily Housing Reorganization proposed consolidation into 10 Hubs/Satellites puts the FHA Insurance fund—backed by the full faith and credit of the United States—at risk:

- FHA will be unable to recruit and retain necessary talent:
  - Location of proposed Hubs/Satellites are financial centers, with increased competition for employees with necessary skills;
  - Future positions will be GS-9/11, as opposed to current GS-9/11/12;
  - HUD IG has testified that because of salary restrictions, FHA is currently at a disadvantage vis-à-vis other employers—which the consolidation will make worse.
- FHA will become a "farm team" training young talented employees, who, after gaining experience and training, will be recruited by other co-located financial institutions.

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AAA ball clubs get beat by major leaguers. For all their raw talent and enthusiasm, AAA batters can’t match the power and speed of a major league pitcher. Developers and lenders will be throwing fast balls, and FHA is being re-designed to miss more and more, increasing risk to the FHA Insurance fund. Taxpayers don’t want another bailout!

The FHA Multifamily Housing Reorganization proposed reduction in staff puts the FHA Insurance fund—backed by the full faith and credit of the United States—at risk:

- HUD has no credibility with regard to workforce analysis:
    - GAO Report recently found HUD incapable of determining its staffing needs[1];
- FHA proposes a 30% reduction in FHA field staff, moving 100% of the work to 10 Hubs/Satellites, but only 50% of the workers;
- FHA Commissioner Carol Galante has stated that the average Asset Management portfolio should have 60 developments, and a goal of the reorganization is to reduce workload disparity:
    - If disparity were eliminated without reduction of field staff (i.e. through Workload Sharing), the average would be 61 developments per Asset Manager;
    - Reducing field staff by projected 30% will increase average to 87 developments per Asset Manager.
- Fewer offices also means more staff time lost traveling to distant areas currently served by local HUD offices—i.e. Alaska, Hawaii, West Virginia.

FHA has failed to demonstrate any ability to adequately determine its staffing needs. It should not be permitted to substantially decrease staff devoted to direct FHA management and servicing without first demonstrating that the decrease will not adversely affect the FHA insurance funds. Taxpayers don’t want another bailout!

The FHA Multifamily Housing Reorganization proposed consolidation into 10 Hubs/Satellites puts the FHA Insurance fund—backed by the full faith and credit of the United States—at risk:

- The agency sees consolidation of the financial market as a model for consolidation of FHA. But FHA is not about financing—it’s about insuring against risk:
    - Insuring against risk for 35 or more years and over many economic cycles;
    - Insuring against risk in diverse real estate markets, from New York City, New York, to Rapid City, Iowa;

[1] GAO, “HUD—Strategic Human Capital and Workforce Planning Should be an Ongoing Priority,” March 2013, at pp 19-20 http://www.gao.gov/assets/660/653069.pdf

- One size does not fit all. Even if today we could adequately assess and avoid risk in every market from ten isolated locations, those may not be the best locations from which to assess and avoid risk in ten years, or twenty years, or forty years.
- The current distribution of FHA Multifamily employees provides a method and means of assessing and avoiding risk, and can be quickly augmented to meet changing market conditions.

Although it may have fewer employees, the proposed FHA will be a lumbering dinosaur, unable to ferret out the possibilities and probabilities. However, this dinosaur won’t just disappear; it will leave behind a mess to be picked up by the taxpayer. Taxpayers don’t want another bailout!

The promised savings—almost completely unsubstantiated—represent less than a tenth of a percent (.08%) of the outstanding principal balance of insured multifamily mortgages, and less than four tenths of a percent (.36%) of new multifamily endorsements in FY’12.[2] Three mid-sized defaults per year would wipe out all projected savings. Three projects represent less than .03% of the Multifamily FHA portfolio.

FHA Multifamily Housing can be made more effective and efficient. But alternative proposals are faster, cheaper, and smarter. Moreover, they are less likely to pose risk to the FHA Insurance fund:

- Finish implementing Breaking Ground, Sustaining Our Investments (SOI), and the Worksharing pilot, rather than delay as set forth in the current reorganization proposal;
- Use HUD’s established Regional structure to consolidate Hubs and tame unwieldy spans of control, assuring access to HUD’s core programs (Multifamily Housing, Public Housing, CPD and FHEO) in offices across the country;
- Where workload or geography support it, designate field offices as satellites;
- Where workload or geography do not support the designation of a satellite, outstation existing FHA Multifamily employees and, if workload permits, assign location neutral work.

II. Impact on HUD

Implementation of the proposed FHA Multifamily Housing Reorganization and Small Office Closures should only be authorized if funding is made available specifically for the anticipated costs. HUD should not be allowed to “accommodate” the cost of implementing these proposals through means that adversely impact HUD employees and/or the delivery of other program areas.

Under the Budget Control Act, HUD employees were furloughed five days in FY’13. That represents a 2% pay cut and a loss of staff time available to deliver program services:

- The minimum estimated cost of the proposed Small Office Closures is $3.5M, paid out of the Salaries and Expense (S&E) budget;

[2] Estimated cost savings in HUD Notice at 78 F.R. 25294; FHA Annual Management Report Fiscal Year 2012: outstanding principal balance at page 30; new multifamily endorsements at page i.

- The minimum estimated cost of the FHA Multifamily Reorganization is $56M, paid out of the S&E budget over three years;
- Each furlough day saves the agency $4M from the S&E budget;
- If not separately funded, the agency could accommodate the cost of implementation by imposing five furlough days in FY’14 ($3.5M + (1/3 of $56M)=$21.98M/$4M=5.5 days furlough).

The Budget Control Act imposes substantial burdens on HUD employees and HUD programs. If the proposed FHA Multifamily Housing Reorganization and Small Office Closures are not immediately necessary, then they should be postponed. If they are immediately necessary, then Congress should separately fund them.