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Congress wants to know HUD won't be 'just a steppingstone' for rising star Julian Castro

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San Antonio Mayor Julian Castro addressed for the first time Tuesday some of the major housing policy issues likely to consume his time if he's approved as head of the Department of Housing and Urban Affairs, fielding questions from a Senate panel that's expected to give him the thumbs-up possibly later this month.

Castro is perhaps best known for delivering the keynote address at the 2012 Democratic National Convention and for his status as one of the Democratic Party's rising Latino stars -- along with his identical twin brother, Joaquin, a congressman representing a San Antonio area district. Julian Castro's name has come up more than once for high-profile Washington positions, including a possible vice presidential run in 2016.

President Obama cast the three-term mayor as someone who would "work his tail off" to make sure families can live the American dream, just as Castro's family did after his grandmother left Mexico to work in this country as a cook, a maid and a babysitter. It's that work ethic that the committee wanted to hear more about on Tuesday.

"The committee members will want to see that this Cabinet position is not just a steppingstone for him, and that he'll take the job seriously," said Mark Calabria, a former Republican staffer on the Senate banking committee who is now at the Cato Institute. "It's the difference between being a workhorse and a show horse."

Here are some of the issues that the committee tackled, and Castro's take:

Fannie and Freddie

Castro was repeatedly pressed by lawmakers to give his views on the future of Fannie Mae and Freddie Mac, which back about 60 percent of U.S. mortgages. Senate Banking Committee Chairman Tim Johnson (D-S.D.) and Sen. Mike Crapo (R-Idaho), the panel's most senior Republican, have a huge stake in this issue. They've offered [legislation](#) that would unwind the mortgage giants and shift the risks of mortgage lending from taxpayers to the private sector.

The government took control of the companies at the height of the 2008 financial crisis to keep them solvent, and it has since injected \$188 billion into the firms. Fannie and Freddie now regularly churn out profits, though executives at both companies say the recent level of earnings is not sustainable. There's general consensus on Capitol Hill that the nation's housing finance system needs to be overhauled, though lawmakers have yet to agree on the best way to do it.

The Johnson-Crapo legislation passed the committee last month with bipartisan support. But it is unlikely to reach the full Senate chamber for a vote this year because it failed to attract a large enough majority of the committee's lawmakers – particularly a key bloc of liberal Democratic senators, many of whom were worried that the legislation would limit access to affordable housing in underserved areas.

The administration supports the Johnson-Crapo bill, and HUD Secretary [Shaun Donovan](#) (now in line to head the Office of Management and Budget) played a key role in rallying support for it on Capitol Hill.

What Castro said: Castro did not stray from the administration's position, though he did not specifically endorse the Johnson-Crapo measure, either, citing the need to study the details. "I absolutely believe that there are better alternatives than what we do have in place with this duopoly," Castro said, adding that it is not sustainable to keep Fannie and Freddie in conservatorship.

The Federal Housing Administration

Castro was asked about the future of FHA, an agency within HUD that's been a popular source of mortgages for first-time home buyers and a favorite target for fiscal conservatives bent on scaling back the government's role in housing. When lending sources dried up during the financial crisis, the FHA propped up the housing sector by insuring lenders against losses and enticing them back into the market. But the agency's default rate shot up as its loan volume expanded, depleting its cash reserves to levels below what is required by law.

In September, [FHA tapped taxpayer money](#) to cover its losses for the first time in the agency's 80-year history. The president's most recent budget request projected that FHA will not need taxpayer dollars to cover losses in fiscal 2015, and the agency's supporters insist its draw from the Treasury was a onetime event. But some Republicans are pushing to dramatically shrink the FHA's footprint.

If confirmed, Castro would be charged with helping the agency meet its legal obligation to maintain a certain cash cushion without abandoning its mission to serve potential first-time buyers, minorities and low- to moderate-income people. As the financial crisis demonstrated, that can be a tricky balancing act.

To beef up its coffers, the FHA has [raised the "annual premiums"](#) that it tacks onto borrowers' monthly mortgage payments five times since 2010. These fees are used to cover lender losses when borrowers default. But Industry groups and some housing advocates say the premiums

have climbed too high, shut out hundreds of thousands of qualified borrowers and slowed the housing market's recovery.

What Castro said: "I believe that that there can be action taken to ensure that the FHA stays on a positive track," while also fulfilling the agency's mission to provide access to credit. "My preliminary understanding is that it is on a much more positive track now than it has been." Castro noted that the problematic FHA loans that originated from 2007 through 2009 are working their way through the system and that newer loans are being held by borrowers with better credit quality.

HUD inspector general audit of San Antonio

Johnson questioned Castro about a [2012 audit](#) by HUD's inspector general, who found that San Antonio did not follow federal rules when it tapped into \$8.6 million in government grants to redevelop residential areas teeming with foreclosures and abandoned properties. The audit, which covered October 2009 through September 2011, found that the city could not show that some of the renovation contracts it doled out were competitively priced. The lapse occurred because the city did not understand the program rules, the inspector general concluded.

The brief audit also found that the city did not properly notify people who bought some of the renovated properties that they had to meet certain affordability requirements; nor did it execute agreements with the necessary affordability provisions because it was unaware of the rules, the audit said.

The inspector general concluded that the city was addressing the compliance issues and that no further action was warranted.

What Castro said: "As soon as the council and I learned of that issue, we were supportive of corrective measures that were put in place," Castro said. About \$125,000 was paid back to HUD using city funds, he said, and "personnel [with authority over the program] were removed."