

# CRS Report for Congress

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## HUD's Response to Hurricane Katrina

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### Summary

Hurricane Katrina resulted in the displacement of tens of thousands of families from their homes. While the storm's magnitude is unprecedented in the United States, the resulting need to shelter and house displaced families is not. The Department of Housing and Urban Development (HUD), the nation's agency with a mission to provide safe and decent housing for all Americans, has played a role in meeting those needs in the past and is playing a role in the wake of Katrina. This report tracks the Department's initial actions as well as proposals to expand the Department's role; it will be updated.

The catastrophic devastation wrought by Hurricane Katrina in late August, and to a lesser degree, Hurricane Rita in late September, has led to the displacement of hundreds of thousands of families. CRS estimates that as many as 700,000 families lived in areas that were acutely affected by the storm; these families may have been required to evacuate, at least temporarily.<sup>1</sup> In the aftermath of the storm, the Federal Emergency Management Agency (FEMA) has taken the lead role in finding temporary shelter for displaced families, providing emergency shelters, cash grants, and trailers. HUD programs have been used as a conduit for funneling short-, interim-, and long-term funding to disaster-stricken communities many times in the past, most recently in response to the four hurricanes that struck Florida in 2004 and after the September 11 attacks. This report tracks HUD's actions in response to the storm and proposals in Congress to expand the Department's role.

### Administrative Initiatives

**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 (1-888-297-8685) 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

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<sup>1</sup> See CRS Report RL33141, *Hurricane Katrina: Social-Demographic Characteristics of Impacted Areas*, by Thomas Gabe, Gene Falk, Maggie McCarty, Virginia W. Mason.

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 issued a notice on September 27, 2005, summarizing waivers available to public housing authorities. Temporary waivers available included 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.<sup>2</sup> The Department is also to make available emergency capital reserve funds to repair damaged public housing units.

**FEMA-HUD Joint Initiative.** On September 23, 2005, the Secretaries of HUD and the Department of Homeland Security announced a joint transitional housing assistance initiative for Hurricane Katrina evacuees.<sup>3</sup> The initiative provides two types of assistance, both funded by FEMA's emergency supplemental funds. The first is a type of individual and household grant administered by FEMA. Displaced homeowners and renters (except for HUD-assisted renters) are to receive from FEMA a cash grant of \$2,358 to be used for housing-related expenses. The amount is meant to represent three months of housing costs and is calculated using the national average fair-market rent (FMR) for a two-bedroom apartment. The assistance may be extended for up to 18 months.

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).<sup>4</sup> It provides 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 families. The rental assistance is administered by local public housing authorities and is calculated at 100% of the local area FMR. Families are required to pay any difference between the rental assistance amount and the actual rent for the unit they have selected. This program does not have any income eligibility or targeting requirements, and families' eligibility is determined after they register for FEMA assistance and contact the KDHAP intake number (1-866-373-9509). Language included in the FY2006 Defense Appropriations (P.L. 109-148) transferred \$390 million in FEMA funds to HUD to administer a modified Section 8 voucher program to the same population currently eligible for KDHAP. It is unclear whether these new funds will be used to continue the current KDHAP assistance or a modified version of it.

**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. Waivers were issued

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<sup>2</sup> A description of temporary waivers is available at [<http://www.hud.gov/offices/pih/publications/katrinapihadminwaiv.pdf>].

<sup>3</sup> "Jackson and Chertoff Announce Comprehensive Transitional Housing Assistance Program for Katrina Evacuees," HUD No. 05-130, available at [<http://www.hud.gov/news/release.cfm?content=pr05-130.cfm>].

<sup>4</sup> For an expanded discussion of the KDHAP program for formerly-assisted HUD renters, see CRS Report RL33173, *Hurricane Katrina: Questions Regarding the Section 8 Housing Voucher Program*, by Maggie McCarty. For an expanded discussion about the specific treatment of the homeless under KDHAP, see CRS Report RL30442, *Homelessness: Recent Statistics, Targeted Federal Programs, and Recent Legislation*, by Libby Perl (coordinator).

for the Community Development Block Grant (CDBG) program<sup>5</sup>, the HOME Investments Partnerships Program (HOME), the Emergency Shelter Grants Program (ESG), and the Housing for Persons with AIDS Program (HOPWA). Some of the waivers were automatically applied to affected communities; in other cases, communities were instructed to apply for waivers. **Table 1** summarizes the waivers issued.

**Table 1. Grant Program Waivers Issued After 2005 Hurricanes**

Provisions Altered	Program
Reduction of requirements regarding citizen participation in amending spending plans	HOME, ESG, HOPWA
Reduction of requirements and cost limits when using funds to provide rental assistance	HOME, HOPWA
Reductions in the amount of documentation required to document families' incomes for eligibility and benefit determination	HOME, HOPWA
Expanded ability to use funds for administrative costs	HOME
Reduction of matching contribution requirement	HOME
Increases in the maximum per-unit rental subsidy homeownership home value	HOME
Reductions in minimum property standards	HOME
Waiver of tenant selection plan requirements	HOME
Reduction in the mandatory set-aside for community housing development organizations	HOME
Waiver of certain American Dream Downpayment Initiative (ADDI) requirements	HOME
Waiver of optional relocation assistance, replacement housing assistance, and one-for-one replacement requirements	HOME
Loosened standards for decent, safe, and sanitary conditions	HOME
Increase in the amount of funds that can be used for public services (15%)	CDBG
Broadened definition of emergency shelter	ESG
Extended deadlines for using grant amounts	ESG

**Source:** HUD's website, [<http://www.hud.gov/offices/cpd/library/katrina/>].

**Mortgage Insurance Programs.** On August 31, 2005, HUD issued mortgage letter 2005-33.<sup>6</sup> It reminded HUD-approved lenders that when the President declares a disaster, as in the case of Hurricane Katrina, the declaration automatically triggers certain procedures with regard to FHA-insured mortgages in the affected areas. The following

<sup>5</sup> For a discussion of the use of CDBG funds after a disaster, see CRS Report RS22303, *Community Development Block Grant Funds in Disaster Relief and Recovery*, by Eugene Boyd.

<sup>6</sup> Available at [[http://www.hudclips.org/sub\\_nonhud/cgi/pdfforms/05-33ml.doc](http://www.hudclips.org/sub_nonhud/cgi/pdfforms/05-33ml.doc)].

procedures become effective for one year from the date of the declaration: (1) a moratorium on foreclosures is in effect for 90 days from the date of declaration<sup>7</sup>; (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 Section 203(h) of the National Housing Act for the cost of reconstruction or replacement of the residences; (4) damaged properties become eligible for Section 203(k) financing under which the costs to purchase and to 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 a Section 203(k) mortgage; (5) the 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 are directed to ensure that hazard claims are expeditiously filed and settled, and lenders may not retain hazard insurance proceeds to make up an existing arrearage without the 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 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.<sup>8</sup> Eligible borrowers must meet the following requirements: (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

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<sup>7</sup> HUD Mortgagee letter 2005-45, issued November 22, 2005, extended this deadline for many areas affected by Katrina through the end of February 2006.

<sup>8</sup> "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>].

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 expires in 18 months. It is expected to assist about 20,000 families.<sup>9</sup> FHA notes that more than 52,000 FHA-insured loans are delinquent due to the storms.<sup>10</sup>

In April 2005, HUD augmented its existing 203(k) program by announcing the “Streamline(k) Limited Repair Program” to facilitate the purchase of properties needing minor rehabilitation.<sup>11</sup> 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.<sup>12</sup> The Streamline (k) program is not directed specifically at properties damaged by Hurricane Katrina, but the program will facilitate the purchase and repair of such properties that meet the program requirements.

## Congressional Action

**Supplemental Appropriations.** In response to Hurricane Katrina, Congress initially enacted two emergency supplemental appropriations bills totaling more than \$60 billion, primarily for FEMA.<sup>13</sup> HUD did not receive direct funding in either bill. On October 28, 2005, President Bush submitted to Congress a rescission and reallocation package to help fund reconstruction in the Gulf Coast after the recent hurricanes. The proposal would have rescinded \$140 million from HUD programs and reallocated \$2.2 billion in FEMA emergency disaster relief funds to HUD programs to aid in disaster recovery. On December 30, the President signed the FY2006 Defense appropriations bill (P.L. 109-148) that included a Katrina supplemental funding bill similar to the Administration’s October proposal. It provided \$11.89 billion to HUD for Katrina disaster assistance. Of that amount, \$11.5 billion was provided to CDBG to be distributed to states and areas most acutely affected by Katrina, and \$390 million was provided to Section 8 for serving the same families currently assisted under KDHAP. These increases in funding were offset by rescissions from FEMA’s disaster relief fund, as well as specific rescissions from selected other programs across the government (none from HUD), and an across-the-board rescission of 1% (which will affect HUD programs). The bill also includes 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.

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<sup>9</sup> Ibid.

<sup>10</sup> Leslie Eaton, “Mortgage Aid Set for 20,000 Storm-Hit Homes,” *New York Times*, Dec. 6, 2005.

<sup>11</sup> HUD Mortgagee Letter 2005-19, “Streamline(k)” Limited Repair Program, Apr. 29, 2005.

<sup>12</sup> HUD Mortgagee Letter 2005-50, Enhancements to “Streamline(k)” Limited Repair Program, Dec. 29, 2005.

<sup>13</sup> For more information, see CRS Report RS22239, *Emergency Supplemental Appropriations for Hurricane Katrina Relief*, by Jennifer E. Lake and Ralph M. Chite.

**Legislation Introduced.** On September 8, 2005, Senator Reid introduced the Katrina Emergency Relief Act of 2005 (S. 1637). Title III includes the “Helping to House Victims of Hurricane Katrina Act of 2005.” The bill would provide \$3.5 billion in emergency supplemental appropriations to HUD to fund temporary vouchers for families displaced by Hurricane Katrina. The vouchers would not be subject to many of the Section 8 rules regarding eligibility and tenant payments. In addition, the upper limit on the amount of assistance that can be provided would be increased. Also on September 8, Senator Sarbanes offered the same “Helping to House Victims of Hurricane Katrina Act of 2005” as a floor amendment to the Commerce-Justice-Science FY2006 appropriations bill (H.R. 2862). The amendment was adopted, but dropped in conference.

On September 22, 2005, the Senators from Louisiana each introduced identical bipartisan relief and recovery bills. The Hurricane Katrina Disaster Relief and Economic Recovery Act (S. 1765 and S. 1766) calls for new programs and additional funding in areas ranging from defense, to energy, to health care, to the environment. The housing section would provide \$3.5 billion for emergency Section 8 vouchers; \$50 billion for CDBG, up to \$5 billion of which could be transferred to the HOME program and \$5 billion to the HOPE VI program; and \$3 billion for mortgage relief. The bills were referred to the Senate Finance Committee.

On September 26, 2005, the members of the Louisiana House delegation introduced the Hurricane Katrina Emergency Housing Act of 2005 (H.R. 3894). The bill would waive a number of the rules in the Section 8 voucher and project-based programs, including those regarding eligibility and subsidy determination, for families displaced by Hurricane Katrina. On the same date, all but one member of the same delegation introduced two additional housing bills: the Hurricane Katrina Emergency Relief CDBG Flexibility Act of 2005 (H.R. 3896) and the Rural Housing Hurricane Relief Act of 2005 (H.R. 3895). The CDBG bill would waive the cap on the amount of CDBG funds that can be used for community services and would waive the public hearing requirements for communities impacted by Hurricane Katrina. The rural housing bill would allow the reprogramming of certain rural housing funds and expand the uses of certain loans. All three bills were passed by the full House and are pending in the Senate.

On October 17, Representative Danny Davis introduced the Hurricane Katrina Victims Emergency Shelter Act of 2005 (H.R. 3794). It would direct the Secretary of HUD to make foreclosed FHA-insured properties available to families displaced by Katrina. On November 18, 2005, Representative Wicker introduced H.R. 4431 to provide additional CDBG funding to communities affected by the storm. On November 22, 2005, Representative Watt introduced H.R. 4197, the Hurricane Katrina Recovery, Reclamation, Restoration, Reconstruction and Reunion Act of 2005, a broad-ranging bill that would authorize expansions in funding for a number of HUD programs and include a temporary voucher program similar to that proposed by Senators Reid and Sarbanes. On December 13, Representative Jindall and Senator Allard introduced identical bills (H.R. 4514/S. 2088) to authorize an urban homesteading program proposed by the President. All five of these bills have been referred to committee.