

United States House of Representatives
Committee on Financial Services
Washington, DC 20515

March 4, 2008

The Honorable John M. Spratt, Jr.
Chairman
Committee on the Budget
U.S. House of Representatives
309 Cannon House Office Building
Washington, D.C.

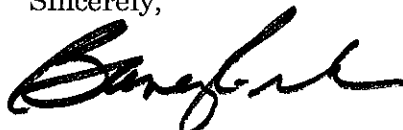
Dear Chairman Spratt:

By direction of the Committee on Financial Services, and pursuant to clause 4(f) of rule X of the Rules of the House of Representatives and section 301(d) of the Congressional Budget Act of 1974, I am transmitting herewith a committee print entitled "Views and Estimates of the Committee on Financial Services on Matters to be Set Forth in the Concurrent Resolution on the Budget for Fiscal Year 2009." I am also transmitting additional and dissenting views submitted by Members of the Committee.

The Committee approved the print, as amended, on February 28, 2008 by a voice vote.

Should you or your staff have further questions regarding this document, please contact the Committee's General Counsel, Mr. Thomas Duncan, at extension 5-4247.

Sincerely,



BARNEY FRANK
Chairman

BF/tgd

Enclosure

cc: The Honorable Spencer Bachus

Views and Estimates of the Committee on Financial Services on Matters to be Set Forth in the Concurrent Resolution on the Budget for Fiscal Year 2009

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives, section 301(d) of the Congressional Budget Act of 1974, and section 207(e) of Senate Concurrent Resolution 21, 110th Congress, the Committee on Financial Services is transmitting herewith (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2009; (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during the coming session; and (3) recommendations for improved governmental performance.

COMMITTEE PRIORITIES

The Committee on Financial Services urges the congressional budget resolution to prioritize the following critical issues:

(1) **Housing Initiative.** Over the last six months, the nation has experienced a significant increase in the number of homeowners facing the risk of foreclosure, with estimates of as many as 2.8 million subprime and "Alt A" borrowers facing loss of their homes over the next five years. We have already experienced declining home prices in many areas of the country, and the physical deterioration of certain communities, as a result of waves of vacant homes that were foreclosed or abandoned.

The Financial Services Committee is developing a number of proposals to address these growing problems. Given the urgency to take action, a significant portion of the cost of such proposals will likely be incurred in the current fiscal year. However, there would be some loan activities, FHA administrative costs, and additional housing counseling funding that would be needed over the period of the Budget Resolution.

First, the Committee is working on a proposal to provide refinancing opportunities to save as many as 1 million distressed homeowners from having their homes go into foreclosure. Such a proposal will likely involve using FHA and may involve the federal government purchasing loans. It would be implemented through separate authorizing legislation. Any proposal will require the existing holder to write down the loan to a level that is consistent with the homeowner's ability to pay, and would exclude investor-owned and second homes. The estimated credit subsidy cost could be as much as \$15 billion over the next five years. The Committee is also exploring options to limit federal government exposure and thus reduce costs. We could, for instance, require a limited soft second mortgage to the government that would enhance recoveries resulting from future property sales.

Second, the Committee is working on a proposal to provide as much as \$20 billion in the form of grants, loans, or a combination of the two, for purchase of foreclosed or abandoned homes at or below market value. The purpose would be to help stabilize home prices and to begin to reverse the serious physical deterioration of neighborhoods with high numbers of subprime borrowers, defaults, and foreclosures. The structuring of such an initiative as a loan program would help to

minimize the cost of the federal government, through net recoveries from the subsequent sale of properties.

Third, a substantial expansion of FHA to help keep homeowners in their home will require the contracting out by FHA for independent expertise for the development of underwriting criteria for refinanced loans and for quality control of the loans as they are being made, as well as increased FHA personnel costs for such activities as loan processing. This would require additional FHA administrative funding of approximately \$150 million a year for at least the next few years.

Finally, it is important for Congress to increase funding over FY 2008 levels by at least an additional \$200 million a year for federal housing counseling grants. Such grants would increase capacity, in order to ensure that sufficient numbers of borrowers are assisted in implementing these and other initiatives to keep people in their homes.

(2) **SEC Enforcement.** An increase in the budget for the Securities and Exchange Commission (SEC) of approximately \$30 million is necessary to increase enforcement staffing. This is important because of current market turmoil and the recent Supreme Court decision in the *Stoneridge* case, in which the Court reversed SEC policy and effectively precluded private suits against third parties who participate in schemes to defraud investors. Restoring personnel lost from peak 2005 enforcement staffing levels will enable the SEC to enforce the federal securities laws against culpable third parties and recover damages for defrauded investors. An additional increase in the budget for the SEC of approximately \$1 million is necessary to conduct a cost-benefit analysis of the auditor attestation requirement for non-accelerated filers under section 404(b) of the Sarbanes-Oxley Act of 2002 and consider how the costs of the requirement under section 404(b) possibly prevent non-accelerated filers from expanding into larger companies, or force them to go private.

(3) **Combating Unfair and Deceptive Practices.** Last year the House passed H.R. 3526 to provide financial regulatory agencies (Federal Deposit Insurance Corporation (FDIC), Federal Reserve, Office of the Comptroller of the Currency (OCC), National Credit Union Administration (NCUA) and Office of Thrift Supervision (OTS)) with authority to prescribe regulations combating unfair and deceptive acts or practices by financial institutions. This bill is currently pending in the Senate. The Committee anticipates that the agencies will move promptly to issue tough new rules when this authority is implemented, and expects each agency to dedicate at least an additional \$20 million to rulemaking and enforcement in this area.

(4) **Debt Relief.** For many years, this Committee has been leading efforts to provide relief for poor countries heavily burdened with debt in order to help alleviate the human suffering that exists in many parts of the world. Africa is the single greatest locus of this problem, and while forgiving the debt is not sufficient to solve all the problems of poverty in Africa, it is certainly necessary.

The Committee's continued support for debt relief efforts has been vindicated by the good results we have seen. The Committee strongly supports the President's FY 2009 request for \$141 million for debt restructuring, which includes U.S. contributions to the Heavily Indebted Poor Country Initiative

U.S. contributions to the latest landmark debt relief effort, the 2005 Multilateral Debt Relief Initiative, are channeled through our annual funding commitments to the World Bank's International Development Association (IDA). The Committee strongly supports the President's request for \$1.24 billion for the first of three payments to the fifteenth replenishment of IDA. Also, in order to meet stated U.S. commitments to debt forgiveness and other important anti-poverty activities -- as well as leverage other multilateral donor participation -- the Committee strongly supports full funding to clear U.S. arrears to IDA. The President's FY 09 budget requests \$42 million to clear a portion of outstanding U.S. arrears to IDA, and the Committee supports providing \$377.9 million to cover all past unpaid U.S. commitments to IDA.

We know the Administration has indicated support for a proposal to sell a small portion of the IMF's gold holdings in order to help fund IMF operations, and the Committee believes some additional gold sales would be appropriate to help finance debt relief for additional poor countries that are not already eligible for the debt cancellation approved under the current initiatives.

Details of the Committee's views and estimates on the fiscal year 2009 concurrent resolution on the budget follow.

HOUSING AND COMMUNITY OPPORTUNITY

SUMMARY

Department of Housing and Urban Development (HUD) and Rural Housing Service (RHS) programs provide a housing safety net for our nation's poorest families, seniors, and disabled persons. These programs also help to expand homeownership opportunities for low and moderate income households, foster economic opportunities for low- and moderate-income families, and strengthen urban and rural communities.

The Fiscal Year 2009 HUD budget continues a longstanding effort by the Bush Administration to dismantle or make deep funding cuts to critical federal housing and community development programs, which would severely impair their effectiveness. If adopted, it would also reverse the progress made in the last two fiscal year appropriations bills to reinvest in the Section 8 voucher and public housing programs, two critical affordable rental programs which provide a lifeline for the nation's poorest Americans.

Specifically, the FY 2009 budget proposes to cut a number of critical HUD programs by a combined total of more than \$1.5 billion compared to last year's FY 2008 appropriations bill. If enacted, funding levels for most of the major HUD programs will have suffered substantial reductions in real terms since the Bush Administration took office -- including a 39 percent cut to the Section 811 disabled housing program, a 43 percent cut to the Section 202 elderly housing program, a 45 percent cut to Community Development Block Grants (CDBG), a 27 percent cut to public housing, a 21 percent cut in Native American housing block grants, and an 11 percent cut to HOME block grants. If adopted, the President's budget would also eliminate a number of important HUD programs, including Brownfields redevelopment grants, Rural Housing and Economic Development grants, and

Section 108 CDBG loans used to leverage larger economic development and housing projects.

The FY 2009 Bush Administration Rural Housing Service (RHS) budget would eliminate funding for essential programs that build, repair, and preserve affordable rural housing units, including the critically important Section 515 multifamily affordable housing loan program. It would also shift rural homebuyers into more expensive federal mortgage loan products, which would reduce homeownership opportunities and diminish their effectiveness in addressing the growing subprime mortgage and related housing crisis.

At a time in which the nation is experiencing a deepening housing crisis, combined with a sluggish economy, HUD and RHS affordable housing and homeownership programs are more important than ever. It is unacceptable to implement the cuts proposed in the Administration's budget, and Congress should restore funding for these programs.

AFFORDABLE HOUSING CONSTRUCTION - ELDERLY AND DISABLED PERSONS

The HUD Section 202 elderly housing program and the Section 811 disabled housing program are virtually the only HUD programs that build new affordable housing units. The budget proposes a 33 percent cut (\$77 million) to the HUD Section 811 disabled housing program. The President's budget also proposes a 27 percent cut (\$195 million) to the HUD Section 202 elderly housing program. This cut to the 202 program comes at a time when over 8.4 million seniors make less than \$10,500 a year, and 1.4 million very low income seniors pay more than 50 percent of their income for rent or live in substandard housing, and when there are an estimated nine seniors waiting for each Section 202 unit that becomes available.

AFFORDABLE RENTAL HOUSING

Voucher Program. The FY 2009 budget proposal for the Section 8 voucher program is significantly below the levels needed to meet projected renewal funding needs. The budget proposes a decrease of \$500 million in the voucher renewal account, and also fails to provide any funding for inflation adjustments, which can be expected to be more than 4 percent under HUD's Annual Adjustment Factor. As a result, the budget proposes funding that is, according to some estimates, as much as \$1.3 billion below the amount needed to cover full renewal needs. The budget also relies on the recapture of \$600 million in PHA voucher reserves – an amount that may be an unrealistically high estimate and that may also be unacceptable from a policy point of view as it depletes the reserves of many PHAs. Overall, if adopted, the Administration budget would likely result in over 100,000 low income families being denied voucher assistance.

Last year, Congress reversed a six-year period in which no new incremental vouchers were approved, through funding for 14,300 vouchers for veterans, disabled persons, and for the Family Unification Program. The President's budget does propose \$75 million for 9,800 additional incremental vouchers for veterans. We believe this request is inadequate. We would recommend that Congress fund 100,000 incremental vouchers. In addition to making such new vouchers available to veterans, disabled persons and for the family unification as was approved last year, we would recommend that at least 50,000 of these new vouchers be used for

project-based assistance for new construction and substantial rehabilitation of affordable housing units targeted exclusively to extremely low income families. Such a program of new project-based assistance would help arrest the decline of affordable housing units nationwide, especially for our nation's poorest families, seniors, and disabled persons.

Project-based Section 8. The project-based Section 8 program has been chronically plagued by a pattern of late payments to owners. On October 17, 2007, the Financial Services Committee held a hearing on late housing assistance payments, which focused among other things on administrative problems which HUD has been aware of for some time. In particular, the hearing focused on poor management of paperwork during the contract renewal process, which was the point at which most late payments were made. GAO has also issued reports on these issues, including a 2005 report entitled "Project Based Rental Assistance: HUD Should Streamline Its Process to Ensure Timely Housing Assistance Payments" and a 2007 report entitled "Project-Based Rental Assistance: HUD Should Update its Policies and Procedures to Keep Pace with the Changing Housing Market."

Last year, a new problem emerged which resulted not just in late payments, but also in a significant adverse change to the funding of contract renewals. Last summer, with little or no warning, HUD changed its legal opinion regarding the extension of expiring project-based Section 8 assistance contracts. Combined with an inadequate budget request for the program, the result was that large numbers of owners went several months without being paid. Even when funding was restored, contracts were provided with only enough funding to carry them just past the end of the federal fiscal year, instead of for a full year. This practice has caused damage to owner confidence in the program, undermined private sector financing of property rehabilitation and preservation, and needlessly wasted HUD and owner time with additional funding steps. Ultimately, it threatens to drive owners out of the program, which would result in a loss of critically needed affordable housing units.

It is essential that Congress address this growing crisis, by providing funding sufficient to enable HUD to return to the practice of funding full year contract renewals.

Unfortunately, even though HUD conceded last fall that the FY 2008 project-based Section 8 budget was inadequate to fund contracts for a full 12 month period (the typical term of a contract renewal), the FY 2009 Administration budget simply does not address this crisis. It is a positive development that the budget provides for a funding increase, and also requests a \$400 million advance appropriation for FY 2010. However, the Administration budget acknowledges that this will result in continuing the widespread practice of not funding all contracts for a full year.

The funding needed to restore the practice of funding all contracts for a full year is approximately \$2.8 billion. This could be provided through a one-time regular or emergency appropriation in this amount. However, the problem could alternatively be resolved through an advance appropriation. This would require that the FY 2009 Budget Resolution boost the maximum permitted advance appropriations in FY 2010 by \$2.8 billion, to accommodate an advance appropriation in this amount for project-based Section 8. The problem could be resolved even sooner if Congress were to enact a \$2.8 billion advance appropriation for FY 2009 as part of the next FY 2008 emergency supplemental spending bill. This would permit full funding for contract renewals that expire this summer.

The use of advance appropriations to resolve this crisis is entirely appropriate, since these funds will not be needed to pay owners until the subsequent fiscal year. Such use has precedence, as Congress has for many years approved a \$4.2 billion advance appropriation for the Section 8 voucher program. Finally, since even the Administration is proposing an advance appropriation for this purpose in their budget, the issue is not so much whether to use this approach, but how much to approve.

Public Housing. The Bush Administration budget again proposes to underfund the amounts public housing agencies need to operate and properly maintain public housing units. The President's budget would cut \$415 million from the Public Housing Capital Fund, which is used to repair and maintain units. For the sixth year in a row, the Administration proposes to eliminate the highly successful HOPE VI program, which is designed to revitalize distressed and obsolete public housing projects – in spite of the fact that Congress has repeatedly reaffirmed the importance of reauthorizing this program on a bipartisan basis. The combined cuts to capital funding and HOPE VI would exacerbate the chronic underfunding we have experienced for aging public housing units, which has contributed to a loss of units in the affordable public housing stock.

McKinney-Vento Homeless Assistance Grants. While the FY 2009 budget proposal includes \$1.636 billion for McKinney-Vento homeless assistance grants (\$50 million more than FY 2008), this increase is illusory. In fact, the cost of renewing existing grants to transitional and permanent housing under the Shelter Plus Care and Supportive Housing Program components of the homeless assistance grants will rise by \$75 million in FY 2009 compared to FY 2008. Accordingly, the President's request actually represents an erosion in the ability of local communities to create and sustain programs serving the homeless, whose ranks are already being swelled by victims of the foreclosure crisis and will certainly grow further if the rest of the Administration's proposed cuts to the HUD budget are allowed to stand.

Lead Paint Prevention. The budget would also cut \$29 million (20 percent) from the Lead Paint prevention program, which is used to ameliorate health risks to children in older apartments with health threatening lead paint hazards.

COMMUNITY AND ECONOMIC DEVELOPMENT

Cities, counties, and states use flexible Community Development Block Grants (CDBG) to meet critical local community development, infrastructure, and affordable housing needs. The FY 2009 budget proposes to cut \$657 million (18 percent) from CDBG block grants, repeating a pattern in recent years of proposing deep cuts to this important and flexible program.

The President's budget also eliminates funding for a number of other community development programs, including HUD Brownfields Redevelopment grants, Urban Empowerment Zones, funding for LISC and Enterprise under the NCDI program, and funding for Section 108 CDBG loans that cities use to leverage larger scale economic development projects.

RURAL HOUSING SERVICE

The President's budget once again proposes to zero out funding for the Section 515 multi-family rental housing direct loan program. This would abrogate

the Federal role in preserving the existing affordable housing stock of over 500,000 RHS Section 515 rural rental housing units. A November 2004 RHS-commissioned study concluded that 92 percent of this 515 housing stock was worthy of being preserved, at a cost of \$210 million in the first year, and \$2.6 billion over the long run. Yet, instead of addressing this need, the President's budget fails to ask for a single dollar for building, repairing, or preserving Section 515 rural units. The budget also proposes to rescind \$20 million in previously appropriated funds from the RHS Multifamily Housing Revitalization Program.

The budget also zeros out the Section 502 single family direct loan program and zeroes out the Self-Help program, both of which promote homeownership for rural Americans. The elimination of Section 502 direct loans and Self-Help funding are inconsistent with a stated Administration priority for homeownership.

In the place of the Sections 502 and 515 direct loan programs, the Administration proposes shifting homeowners and renters to rural loan guarantee programs for both single and multifamily RHS loans. Guaranteed loans have a much higher interest rate than direct loans and result in significantly increased monthly expenses for homeowners and renters. On top of that, even the current higher cost of a guaranteed loan will become even higher for a homebuyer using an RHS mortgage loan, because the Administration budget proposes to raise the 502 guaranteed loan fee from 2 percent to 3 percent.

The budget also eliminates funding for Farm Labor Housing Program direct loans and grants.

HOUSING INITIATIVES

The Committee is providing leadership in meeting America's critical affordable housing needs. Over the last year, the House passed a number of major pieces of housing legislation, including, among others, an affordable housing trust fund bill, a comprehensive GSE reform bill, a comprehensive FHA reform bill, reform of the Section 8 voucher program (SEVRA), a Section 202 elderly housing reform bill, and reauthorization of the HOPE VI program. None of these programs created any increase in mandatory spending, and some of these bills created discretionary savings, subject to appropriation.

This year, the Financial Services Committee will be focused on addressing the emerging housing crisis, on adopting legislation to preserve HUD and RHS affordable housing, and on reauthorizing the McKinney-Vento homeless prevention program. Enactment of the HUD and RHS preservation bills may result in the need for increased discretionary funding for activities which either provide funds to rehabilitate aging properties or for preservation incentives.

Affordable Housing Trust Fund

In September 2007, the House passed H.R. 2895, the "National Affordable Housing Trust Fund Act." That bill identifies two specific funding sources for that fund. The first would be through GSE contributions, based on a percentage of new mortgage purchases over the next five years. Also last year, the House passed on a bipartisan basis H.R. 1427, a comprehensive GSE reform bill which, among other things, identifies the GSE contributions and provides for how the funds will be distributed and used. Funding and fund uses under the bill are deficit neutral.

However, the budget resolution should include both the revenues and expenditures under the fund, as there appears to be a strong bipartisan commitment, including on the part of the Administration, to complete a GSE reform bill this year. The FY 2009 Budget Resolution should include a reserve fund to accommodate deficit neutral receipt and expenditure increases arising from enactment of a GSE affordable housing fund.

In addition, H.R. 2895 cited the pending FHA reform bill as a second funding source for the Trust Fund. Under the House-passed version of H.R. 1852, the "Expanding American Homeownership Act," increased net credit subsidies (after deductions for increased funding for housing counseling and FHA information technology) arising from enactment of the bill would also be used to fund affordable housing fund purposes.

The Federal Housing Administration (FHA)

The House and Senate are beginning discussions to resolve the differences between House- and Senate-passed FHA reform bills. The bill that the House approved last year (H.R. 1852) would reform the Federal Housing Administration (FHA) by, among other things, raising loan limits, allowing flexibility in the amount of down payment required by borrowers, and expanding the Home Equity Conversion Mortgages (HECM) program. That bill also contains important consumer protections, such as incentives for timely payments, expanded counseling provisions, and penalties against attempts to unduly influence appraisals.

Just recently, Congress enacted, as part of the emergency stimulus bill, temporary loan limit increases for FHA (and also for loans purchased by Fannie Mae and Freddie Mac). These increases are scheduled to expire at the end of calendar year 2008, absent any freestanding effort to extend or modify the increases or unless Congress adopts permanent loan limit changes as part of the comprehensive FHA reform bill.

FHA Multifamily Housing

The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) was enacted with two goals in mind: (1) eliminate above-market rents at properties with FHA-insured mortgages and project-based Section 8 assistance and (2) to preserve affordable rental housing in markets where it is needed. To achieve these goals, the legislation created a Mark-to-Market (M2M) program comprised of a set of preservation tools. These tools, which have been used to preserve more than 220,000 affordable apartments at an estimated net cost savings to the taxpayer of \$1.9 billion, were set to expire on September 30, 2006. A five-year extension of the M2M preservation tools was included in the long-term Continuing Resolution for Fiscal Year 2007 (H.J. Res. 20; P. L. 110-5).

The Committee notes, however that the Continuing Resolution did not include some of the M2M recommended by the Department of Housing and Urban Development and included in legislation approved by the Committee in the last Congress, H.R. 6115. That bill included provisions which would have increased the portfolio-wide cap on exception rents, extended the three-year limit on the HUD Secretary's ability to modify, assign, or forgive subordinate debt, and expanded the

range of properties eligible for Mark-to-Market restructuring. According to the Congressional Budget Office, these reforms would have resulted in additional cost-savings for the Federal government. Accordingly, the Committee believes that enactment of these preservation provisions will further strengthen the M2M program.

SECURITIES AND EXCHANGE COMMISSION

The one percent increase in total budget for the Securities and Exchange Commission (SEC) proposed in the President's FY 2009 budget effectively cuts SEC staffing back to FY 2007 levels. The FY 2009 SEC budget, however, reduces overall 2009 staffing levels by 94 full-time equivalent (FTE) positions from the level authorized for FY 2008. This staff reduction comes during a sustained period of unprecedented turmoil in the credit markets and the launch of significant cross-divisional initiatives at the SEC. While the SEC plans to augment staffing in several areas to deal with these developments, it will have to offset these additions through attrition in order to stay within the authorized limit for FY 2009.

The reduction in staffing in some areas is particularly troubling in light of current events. For example, as the result of a recent U.S. Supreme Court decision, the SEC is now the only party with standing to hold third parties accountable under the federal securities laws for their knowing and willing participation in schemes to defraud investors. The SEC will have to devote significant enforcement resources to investigate and prosecute such cases, and to recover damages for defrauded investors. An increase in the SEC's budget of approximately \$26 million would replenish the 139 FTEs lost since peak 2005 enforcement staffing levels, a time during which private litigants were not precluded from bringing suits against culpable third parties.

As the current stress in the credit markets is tied to the underwriting and securitization of subprime mortgages, the SEC's agency-wide Subprime Task Force is a laudable undertaking. The initiative will involve efforts of dedicated staff resources from several Divisions and Offices; however, each of the affected agency units will see overall staffing level decline under the FY 2009 budget. Given the possibility of increased stress in the credit markets this year, the FY 2009 budget request calls into question whether the SEC will have adequate personnel to implement this initiative, while carrying out its normal oversight functions and addressing new issues that may arise.

The Division of Trading and Markets is responsible for two other critical policy areas: the Consolidated Supervised Entity (CSE) program and implementation of the Credit Rating Agency Reform Act. Holding company oversight of the CSEs—five internationally active U.S. investment banks—has never been more important than at present. Stress in credit markets translates to added pressure on these institutions' balance sheets—at least two have obtained new capital in the past two months. The SEC also is examining the nationally recognized statistical rating organizations (NRSRO) designated under the Credit Rating Agency Reform Act to ensure they did not violate that law when rating subprime loan-backed structured finance transactions. Obtaining and maintaining highly qualified and experienced staff to perform these functions is critical for the success of these programs.

The Committee plans to examine these and other areas of the SEC's operations carefully in conducting oversight of the agency in the coming year to determine the adequacy of the FY 2009 budget request.

OFFICE OF THRIFT SUPERVISION

The Committee notes that consumer complaints at the OTS are handled by 21 FTEs and \$3,664,332 is allocated for this function. As part of its oversight responsibility, the Committee intends to continue its review of the agency's outreach to consumers and tracking of consumer complaints and the degree to which systemic problems are communicated to the examination staff.

Last year the House passed H.R. 3526 to provide financial regulatory agencies (FDIC, Federal Reserve, OCC, NCUA and OTS) with authority to prescribe regulations combating unfair and deceptive acts or practices by financial institutions. This bill is currently pending in the Senate. The Committee anticipates that the OTS will move promptly to issue tough new rules when this authority is implemented, and expects the agency to dedicate at least an additional \$20 million to rulemaking and enforcement.

OTS currently has a regulatory proceeding pending under its existing unfair and deceptive practices authority. The Committee anticipates that OTS will finalize these regulations promptly and devote significant resources to enforcement efforts.

The Committee is concerned with the sustainability of the examination workforce at OTS, given that 47 percent of current staff will be eligible for retirement by 2012. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention of a diverse workforce. The Committee also supports OTS efforts to enhance its training and professional development programs to ensure that the agency has comprehensive, robust and ongoing training for staff on compliance with and enforcement of fair lending laws.

The Committee notes that OTS has operated with a budget surplus for the past five fiscal years, and their current projected revenue of \$252 million will again exceed projected expenses of \$245.5 million. This projected net income of \$6.5 million for FY 2009 will contribute to retained earnings. OTS has a goal of retaining a year's worth of expenses. Total retained earnings at the end of November 2007 totaled \$185.8 million, which is approximately nine months of expenses. The Committee will review the appropriateness and use of such reserves.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

The Committee notes that consumer complaints are handled through the Customer Assistance Group in Houston. The projected FTE target for 2008 is 65.5 FTEs and 22 contractors with a budget of \$9.1 million. The Committee supports additional resources and FTEs for this effort. In the exercise of its oversight function, the Committee intends to continue its review of the agency's outreach to consumers and tracking of consumer complaints and the degree to which systemic problems are communicated to the examination staff.

Last year the House passed H.R. 3526 to provide financial regulatory agencies (FDIC, Federal Reserve, OCC, OTS and NCUA) with authority to prescribe

regulations combating unfair and deceptive acts or practices by financial institutions. This bill is currently pending in the Senate. The Committee anticipates that the OCC will move promptly to issue tough new rules when this authority is implemented, and expects the agency to dedicate at least an additional \$20 million to rulemaking and enforcement.

The Committee is concerned with the sustainability of the examination workforce at OCC, given that 27.3 percent of current staff will be eligible for retirement by 2012. The OCC estimates that hiring between 200 and 225 new hires, including 150 supervisors, will maintain current staffing levels. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention of a diverse workforce. The Committee also supports OCC efforts to enhance its training and professional development programs to ensure that the agency has comprehensive, robust and ongoing training for staff on compliance with and enforcement of fair lending laws.

The Committee notes that OCC revenues exceed expenses. As of September 30, 2007, the total reserves are at \$466.5 million or 69.5 percent of the FY 2007 budget of \$671.2 million. The Committee will review the appropriateness and use of such reserves.

FEDERAL DEPOSIT INSURANCE CORPORATION

The Committee notes that consumer complaints are handled by 33 FTEs in 2 call centers and \$4 million is budgeted for these functions. In the exercise of its oversight function, the Committee intends to continue its review of the agency's outreach to consumers and tracking of consumer complaints and the degree to which systemic problems are communicated to the examination staff.

Last year the House passed H.R. 3526 to provide financial regulatory agencies (FDIC, Federal Reserve, OCC, OTS and NCUA) with authority to prescribe regulations combating unfair and deceptive acts or practices by financial institutions. This bill is currently pending in the Senate. The Committee anticipates that the FDIC will move promptly to issue tough new rules when this authority is implemented, and expects the agency to dedicate at least an additional \$20 million to rulemaking and enforcement.

The Committee is concerned with the sustainability of the examination workforce at the FDIC, given that 8 percent of the current staff will be eligible to retire within 5 years, and other losses through attrition have accounted for 6-7.5 percent annually over the past several years. The FDIC Board has increased authorized field examiner staffing levels over the last two years and is filling 72 of these new positions in 2008-2009 with retired examiners who are being employed under a waiver of dual compensation authority delegated to the FDIC by OPM. The Committee supports this waiver as a means to ensure an experienced workforce to address the emerging problems in the banking industry and to increase supervisory resources available for training new examiners. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention of a diverse workforce. The Committee also supports FDIC efforts to enhance its training and professional development programs to ensure that the agency has comprehensive, robust and ongoing training for staff on compliance with and enforcement of fair lending laws. The Committee supports

FDIC efforts to identify small-dollar loan programs that provide an affordable alternative to payday and other high cost loans.

NATIONAL CREDIT UNION ADMINISTRATION

The Committee notes that NCUA established a toll free Central Office Consumer Hotline in July 2007, and that call volume has doubled in the six months since its establishment. The Committee intends to continue its review of the agency's outreach to consumers and tracking of consumer complaints and the degree to which systemic problems are communicated to the examination staff.

Last year the House passed H.R. 3526 to provide financial regulatory agencies (FDIC, Federal Reserve, OCC, OTS and NCUA) with authority to prescribe regulations combating unfair and deceptive acts or practices by financial institutions. This bill is currently pending in the Senate. The Committee anticipates that the NCUA will move promptly to issue tough new rules when this authority is implemented, and expects the agency to dedicate at least an additional \$20 million to rulemaking and enforcement.

The Committee is concerned with the sustainability of the examination staff at the NCUA, as 15 percent of staff will be eligible to retire in 2012. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention of a diverse workforce. The Committee also supports NCUA efforts to enhance its training and professional development programs to ensure that the agency has comprehensive, robust and ongoing training for staff on compliance with and enforcement of fair lending laws.

DEBT RELIEF

For many years, this Committee has worked in a bipartisan way on the issue of debt relief for the world's poorest countries as an essential component in the overall effort to help alleviate the desperate poverty and misery that exists in many parts of the world.

The Committee strongly supports the President's FY 2009 request for an increase of \$110.9 million for debt restructuring for a total of \$141 million, which includes resources for the Heavily Indebted Poor Country initiative (HIPC), the U.S. pledge to the HIPC Trust Fund, and the Tropical Forest Conservation Act (TFCA). Funds are needed to cover the cost of canceling the remainder of the Democratic Republic of the Congo's (DRC) debt to the U.S. at such point that the DRC has met the conditions for the HIPC initiative.

The Committee commends the Administration's contribution to the successful process of resolving Liberia's debt crisis. The moral argument for canceling all Liberia's debt was clear, since much of the debt burden was accumulated during the oppressive and undemocratic regimes of Samuel Doe and Charles Taylor, who did not use the money to benefit the people of Liberia.

The Committee's commitment to debt relief is evidenced by the strong committee support for the Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2007, which calls for expanded debt cancellation to eligible low-income countries; greater creditor transparency; the establishment of a framework for responsible lending; the prohibition of harmful economic and policy conditions; and efforts to end the predatory practices of "vulture funds," private investment

funds that buy up the debts of poor countries at reduced prices and then seek to recover the original value of the debts plus interest.

The Committee intends to examine the extent to which economic and policy conditionality has negative consequences, such as deepening poverty, degrading the environment, and reducing the policy flexibility required for governments to respond to national interests as conveyed through democratic processes. The Committee will also continue to examine the practices of vulture funds and the extent to which they reduce the benefits of debt cancellation and interfere with the ability of impoverished countries to reduce poverty and achieve sustainable development.

The Committee continues to be particularly concerned about the very dire situation facing the people of Haiti. It urges the Administration to focus its efforts and its advocacy within the international community to swiftly provide complete debt cancellation for Haiti. Such action will help alleviate one of the worse cases of human misery in the hemisphere and to show the people of Haiti the kind of compassion and understanding that the Committee believes good policy calls for.

GOVERNMENT SPONSORED ENTERPRISES

The housing Government Sponsored Enterprises (GSEs) -- Fannie Mae, Freddie Mac, and the twelve Federal Home Loan Banks -- rank among the largest financial institutions in the United States, with more than two trillion dollars of outstanding debt obligations. The GSEs play a significant role in providing liquidity to financial institutions for mortgage financing, in providing stability and liquidity to the secondary mortgage market, and in supporting the availability of affordable housing. Current events demonstrate the utility of the GSEs. Despite severe disruptions throughout the mortgage and credit markets, the conforming loan markets have continued to function smoothly, while the Federal Home Loan Banks have continued to supply much-needed liquidity to their member financial institutions.

The Committee continues to support enhanced regulatory oversight of the GSEs, including providing tools, flexibility, resources and expertise adequate to evaluate and monitor the financial and mission activities of these large and complex institutions.

The House passed the Federal Housing Finance Reform Act of 2007 (the Act), to create a strong and independent regulator with broad supervisory powers, and to strengthen the mission and affordable housing responsibilities of the GSEs. The Act establishes an Affordable Housing Fund, to be managed by the new regulator and financed through contributions by Fannie Mae and Freddie Mac. Funds may be used for grants for the production, preservation, and rehabilitation of rental housing and for homeownership for first-time homebuyers, in both urban and rural areas.

Under the Act, funding for the new regulator will continue to come from assessments on the GSEs, but will be removed from the appropriations process, as recommended by the Administration. The existing regulator for Fannie Mae and Freddie Mac, the Office of Federal Housing Enterprises (OFHEO), is subject to the appropriations process. Until reform is adopted, OFHEO must receive funding sufficient to assure robust oversight of the GSEs during existing market instability, monitor GSE compliance with outstanding consent orders, and maintain ongoing enforcement actions against prior officials and related litigation.

In February 2008, the President signed H.R. 5140, the Economic Stimulus Act of 2008, into law. A part of that stimulus package provides a temporary increase in the GSE's conforming loan limits above the current level of \$417,000. Permitting the GSEs to buy these loans provides vital liquidity to mortgage markets where funds are currently unavailable or limited, but further reinforces the need for regulatory reform.

TREASURY OFFICE OF INSPECTOR GENERAL

The Committee notes the nominal increase in the proposed funding of the Office of the Inspector General (OIG). In FY 2007, the OIG received \$16.9 million, in FY 2008 the OIG received \$18.4 million, and this year's request is \$19.3 million. This increase is meant to provide for a staffing level of 115, but the Committee believes the OIG should receive additional resources.

Particularly, as noted below, should a wave of bank failures necessitate a corresponding number of audits of failed institutions, it is conceivable that the requested budget amount might be nearly all allocated to this work, owing to its statutory priority. For this reason alone, the Committee believes that the OIG line item ought to be substantially increased.

Given Treasury's role as the nation's bursar as well as its roles in enforcing economic sanctions and embargoes and in compiling and analyzing data on financial crimes, the Committee believes that a healthy, independent Inspector General operation is vital not only to efficient operation but to continued cost-control efforts. Additionally, the Committee believes that increasing the number of audit positions at the Office would be useful to provide ongoing analysis of a variety of regulatory and compliance operations performed by the Department, including coordination between enforcement and regulatory functions. In particular, the Inspector General has raised questions regarding several major Treasury programs handling large sums of money that need audit attention but have not been audited recently or at all due to the unavailability of resources. For example, Treasury's Debt Issuance Process (\$5.1 trillion in debt held by the public) was last audited more than 10 years ago, and the following programs have never been audited:

FMS' Controls over Disbursements (\$1.5 trillion annually),
CDFI Fund's New Markets Tax Credit Program (\$16 billion),
TTB Tax Audit Division Targeting Program (\$14.7 billion),
OCC/OTS Examination Coverage of Financial Institutions Off-Shore Outsourcing,
and
Background Checks Over Individuals Handling Sensitive BSA Reports.

In addition to these programs, increased and early OIG oversight of Treasury's BSA and intelligence systems development efforts, as well as other high-risk capital investments is critical. Given the history of failed and problem-plagued capital investments at Treasury, and the potential for damage to the country's financial systems and increasingly more sophisticated terrorist efforts to circumvent anti-money laundering programs, increased OIG oversight is warranted and necessary. With additional resources, the OIG will be able to monitor more

effectively major capital investment projects, particularly in the critical early stages. These audits would help the Department avoid costly overruns, late or failed delivery of systems or projects, weak security controls, and other problems. For FY 2008, the Department's portfolio of major IT investments included 84 high-risk IT projects, including 51 high-risk IT projects for non-IRS bureaus and offices. Among those identified are: Treasury-Wide Enterprise Content Management Services, Cross Border Funds Transmittal, Treasury Foreign Intelligence Network (TFIN), and Treasury Secure Data Network (TSDN).

Based on available resources, OIG has focused much of its efforts to date on mandated work such as (1) the annual financial statement audits under the Chief Financial Officers Act, Government Management Reform Act, and other statutes, and (2) the annual independent evaluation of the Department's information security policies and practices under the Federal Information Security Management Act. For the past several years, the OIG has used its remaining resources principally on the high-risk area of the Department's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) programs. It is important that coverage of this area continue and increase.

In addition, we note that during 2008, the OIG had to undertake material loss review, mandated by the Financial Institutions Reform, Recovery, and Enforcement Act, of the NetBank failure. The Committee is especially concerned that with the current subprime mortgage crisis there is an increased risk of more bank failures. Mandated OIG reviews of these failures are time sensitive and highly labor intensive, putting further pressure on the OIG's already stressed resources. While these reviews are useful, we are concerned that even more of the OIG's critical priorities will go without adequate coverage.

The Committee believes that the work product of the Inspector General, both audits and investigations, is useful not only to the Secretary of the Treasury but also to the Committee as it exercises its oversight of the Department. At current levels, however, the OIG is hampered in providing adequate coverage of the many high-risk programs and operations of the Treasury Department. Accordingly, the Committee believes that the OIG requires additional resources sufficient to carry out its responsibilities.

Among OIG recommendations for Improved Government Performance in the Treasury Department are:

(1) *Bureau of Engraving and Printing (BEP)*. A December 2005 audit¹ discovered that the full cost of BEP's currency operations were not reflected in its billing rates. Specifically, the billing rates did not include costs of certain benefits for BEP employees that are paid for by appropriated funds of the OPM. If BEP implements the recommended change and bills the full cost of its operations, including the imputed costs of employee benefits paid by OPM, the Treasury Inspector General estimated it would result in a monetary benefit of \$29.4 million in increased revenue to the Treasury general fund over a 3 year period. Since the recommendation involves a policy issue with government-wide implications,² the

¹BILL AND COIN MANUFACTURING: The Bureau of Engraving and Printing Should Ensure That Its Currency Billing Rates Include All Costs and That Excess Working Capital Is Deposited in the General Fund (OIG-06-010, issued December 2005)

²Consequently, the amount of revenue to the Treasury general fund could be much larger.

matter was referred to OMB in February 2006, and a resolution is expected in September 2008.

(2) *Major Acquisitions.* Despite efforts by GSA to consolidate federal agencies' telecommunications needs under Networx, Treasury decided to pursue its own telecommunications contract (TCE) which was estimated to cost \$1 billion. The Office of Inspector General reported³ that poor planning and execution of the procurement resulted from Treasury's incomplete consideration of the GSA contract vehicles, both initially, and following a successful bid protest decision, where the protestors received \$1 million in compensation.

In May 2004, Treasury issued the 1st RFP for TCE, which they awarded to AT&T in December. This award was protested by unsuccessful bidders, and their protest was sustained in May 2005 by GAO, at which point, Treasury indicated it would embrace the Networx solution. However, in August 2005, Treasury changed its mind and decided to continue to pursue TCE. In February 2006, Treasury OIG issued the TCE Audit Report and December 2006, Treasury decided to drop TCE and go with Networx.

Costs related the events of the timeline above are impossible to estimate because TCE was a project that encompassed direct and indirect labor from a number of Treasury offices and bureaus (IRS contracting shop, the Office of the Chief Information Officer, and General Counsel) in addition to the costs associated with a number of consultants.

(3) *Bureau of the Mint.* In October 2003, the Mint announced that it was undertaking an OMB Circular A-76 standard coin blank production competition, but the Office of Inspector General reported⁴ that after three years, the Mint was still not close to completing the competition, primarily due to poor planning by the Mint. The Mint reported spending \$1.3 million combined in FY 04 and 05 on this effort. They eventually cancelled the competition.

(4) *Office of Foreign Assets Control (OFAC).* Due to a five-year statute of limitations (SOL) on imposing penalties, OFAC's Civil Penalties Division failed to complete enforcement actions during fiscal years 2002 through 2005 for 295 cases. These cases had a potential penalty assessment of nearly \$3.9 million. In three other cases, the expiration or impending expiration of the SOL adversely affected the amount of penalties assessed and collected. The Inspector General's recommendations⁵ for improvements to the database, monitoring, tracking mechanisms, and resource deployment should ensure that these mistakes are not repeated, and that full penalties are collected.

(5) *FinCEN/BSA Direct.* In July 2006, FinCEN terminated a contract with EDS to develop BSA Direct Retrieval and Sharing System after spending \$14.4

³MAJOR ACQUISITIONS: Treasury Communications Enterprise Procurement was Poorly Planned, Executed and Documented (OIG-06-028 , issued February 2006)

⁴The Mint Needs to Determine Whether Its Long-Delayed A-76 Competition for Coin Blank Production Should be Continued (OIG-06-036 , August 2006)

⁵Hundreds of OFAC Civil Penalty Cases Expired Before Enforcement Action Could Be Completed (OIG-07-032 ; issued March 2007)

million on a project originally estimated to cost \$8.9 million. The project had repeatedly failed meet targeted objectives. This audit is currently ongoing.

TREASURY BUREAU OF FINANCIAL CRIME ENFORCEMENT NETWORK

The Committee notes the increase in the President's budget request for the Financial Crimes Enforcement Network (FinCEN) from \$ 85.8 million enacted for FY 2008 to \$91.3 million requested for FY 2009, and notes that both of those figures are enhanced by some reimbursements. The Committee questions the continued use of funds to study the Cross-Border Wire Transfer System, noting that the Treasury Secretary has still not determined, as required by section 6302 of the Intelligence Reform and Terrorism Prevention Act of 2004 (P. L. 108-458), that the reporting of such transmittals is reasonably necessary to conduct the anti-money laundering and anti-terrorism financing efforts of the Secretary, nor certified the technical feasibility of such a program. The Committee notes the requested \$2.9 million reinvestment to BSA Data Management and Analysis to improve Bank Secrecy Act (BSA) data quality, coordinate with the Internal Revenue Service (IRS), encourage e-filing and phase out the use of magnetic tape filing; the Committee will hold hearings on how FinCEN can improve the quality of BSA data and achieve greater efficiency in these areas. The Committee notes with approval the requested \$1.14 million, including twelve new full-time employees, for BSA Effectiveness/Consistency to increase outreach and assistance to regulated industries on their compliance with BSA requirements and to reduce regulatory burden on the financial industry. The Committee will continue to investigate means by which FinCEN can further decrease the compliance burden of financial institutions, while maintaining and increasing the quality of the information that is of utility to law enforcement. The Committee notes the request for \$865,000, including four new full-time employees, for Global Anti-Money Laundering efforts to strengthen coordination with Financial Intelligence Units (FIUs) around the world. The Committee will continue its oversight of how FinCEN coordinates with FIUs of nations that share our common interest in fighting financial crimes and combating terrorism financing.

TREASURY OFFICE OF FOREIGN ASSETS CONTROL

The Committee notes the increase in funding requested for the Office of Foreign Assets Control (OFAC), from the \$28.8 million enacted for FY 2008 to the \$ 31.2 million requested for FY 2009. The Committee notes the proposed program increase of \$1.38 million that includes eight more full-time staffers to administer and implement sanctions against state sponsors of terrorism, such as Iran and Sudan. The Committee will exercise oversight over OFAC's efforts to combat terrorist networks and state sponsors of terrorism and weapons of mass destruction proliferation through sanctions as their work increases through Executive Orders and Treasury designations. The Committee will continue to encourage OFAC's efforts to increase communication between the agency, institutions, and the law enforcement and intelligence communities, to increase efficiencies and decrease compliance burdens. The Committee notes its continued concern with internal

process issues at OFAC and expects to increase oversight of the Office's transaction timelines and coordination.

TREASURY OFFICE OF TERRORISM AND FINANCIAL INTELLIGENCE

The Committee notes the increase in requested funding for the Treasury Office of Financial Intelligence (OTFI), from \$56.8 million enacted for FY 2008, to a request of \$61.7 million for FY 2009, and encourages the development of specific new initiatives to disrupt the financing of terror throughout the world.

TREASURY OFFICE OF TECHNICAL ASSISTANCE

The Committee notes the \$29 million requested for Treasury's Office of Technical Assistance (OTA), an increase from the \$20.2 million enacted for FY 2008. The Committee will closely observe OTA's use of resources and coordination with relevant government agencies in providing technical assistance abroad. The Committee is concerned that the problems outlined in the GAO report (GAO-06-19) "Terrorist Financing: Better Strategic Planning Needed to Coordinate U.S. Efforts to Deliver Counter-Terrorism Financing and Technical Assistance Abroad" continue to exist in the delivery of technical assistance abroad and that Treasury and State have failed to adopt the recommendations of GAO.

UNITED STATES MINT AND THE BUREAU OF ENGRAVING AND PRINTING

The Committee will work to provide appropriate authority to the Mint to decrease the cost of producing circulating coins through the use of alternate compositions to alleviate the upward cost pressures of commodity metal prices. The Committee will monitor BEP: (1) as it produces and delivers notes to the Federal Reserve System; (2) as circulation begins on the newly redesigned \$100 bill; and (3) BEP's anti-counterfeiting efforts.

MULTILATERAL DEVELOPMENT BANKS

The President's FY 2009 budget calls for an increase of almost \$800 million for international financial institutions over last year's appropriation. For the World Bank's International Development Association (IDA), the budget requests a \$334.7 million increase over the amount enacted in FY2008, for a total of \$1.28 billion, which represents the first of three payments to the fifteenth replenishment of IDA (IDA-15). This request includes \$42 million to clear a portion of outstanding U.S. arrears to IDA. Current U.S. arrears to IDA are \$377.9 million. These arrears have had a bandwagon effect – unpaid U.S. contributions have triggered a pro-rated withholding of contributions during IDA-12 and IDA-13 by three other donors, totaling about \$72 million. The committee very strongly supports funding to the clear the full outstanding arrears to IDA.

The President's budget also requests increases in US contributions to the Asian and African Development Funds. This includes an increase of \$40.7 million

over the FY 2008 level for the Asian Development Fund for a total of \$115.3 million, which constitutes the final of four payments to the institution's eighth replenishment (AsDF-8).

The Committee is concerned that the Asian Development Bank's proposed revision of its safeguard policies could result in violation of the Pelosi Amendment which requires a 120 day period for public comment on social and environmental impact assessments and could undermine the purpose and functions of the Accountability Mechanism, which was established to ensure that Bank-financed operations comply with the institutions' own policies.

For the African Development Fund, the budget includes an increase of \$21.5 million over the FY 2008 level for a total of \$156 million, which represents the first of three payments to the eleventh replenishment of the AfDF (AfDF-11).

Finally, the Administration supports an increase of \$8.76 million for Treasury Technical Assistance for a total of \$29 million for the purpose of aiding countries undertaking reforms in the transition to market-based economies.

The Committee strongly supports these funding requests. The Committee notes that in the IDA-15 negotiations, concluded in December 2007, the U.S. negotiated reforms that will advance the institution's efforts to measure the effectiveness of IDA programs; improve the World Bank's performance in fragile/post-conflict states; enhance the debt management capacity of recipient countries; continue grant financing for debt-distressed countries; and improve transparency.

The Committee intends to continue to closely examine the World Bank's policies and operations in areas relating to labor markets, extractive industries and the expanded collaboration between IDA and the World Bank's private sector affiliate, the International Finance Corporation (IFC). With regard to labor market and employment policies, the Committee opposes the labor-related indices of the World Bank's annual "Doing Business Report," which impede the ability of countries to comply with the labor standards and conventions of the International Labor Organization. The Report's indices on "Employing Workers" and "Paying Taxes" provide incentives for countries to weaken labor standards in order to boost their rankings, which can hurt countries' efforts to generate the kinds of growth and employment that reduce poverty. With regard to extractive industries, the Committee will continue to examine standards and policies of revenue transparency that can help ensure that citizens in resource-rich countries benefit from the sale of these resources.

With regard to enhanced collaboration between the IDA and IFC, the Committee will examine how recipient countries can establish or maintain an appropriate role for the state as these institutions expand the role of the private sector in development.

The Committee urges the Administration to continue to press for increased accountability, openness and transparency both within the recipient countries and within the institutions themselves, so that the multilateral development banks can more effectively carry out their mission to alleviate poverty, promote sustained economic growth, and deal with the years of abuse and neglect and misery in which so many people have been condemned to live. The Committee will continue monitoring efforts of the multilateral development banks in the area of remittances, with a particular focus on the use of remitted funds to foster sustainable development in recipient countries.

Another increase over FY 2008 appropriations includes \$400 million for a new International Clean Technology Fund, a multi-donor trust fund administered by the World Bank and governed by donor countries, which will address the growing problem of accelerating greenhouse gas emissions growth in developing countries. The Committee understands that the United States will work with the United Kingdom to create the Fund, which will be administered by the World Bank. As a lead donor of the Fund, the U.S. plans to contribute \$2 billion over three years. The Committee will closely review the creation of the Fund and will be particularly focused on ensuring the Fund's resources will represent additional funding for clean technology, that the resources will be appropriately distributed among countries and projects, and that there will be a high degree of accountability and transparency in the Fund's operations and in the operations of the projects that it funds.

EXPORT-IMPORT BANK OF THE UNITED STATES

The Export-Import Bank (the Bank) was re-authorized in the 109th Congress for five years (P. L. 109-438). The Bank is an important source of financing for U.S. exporters and plays a particularly important role in supporting small and medium sized exporters, as well as exports to emerging markets.

This year marks the first year that the Bank will operate as a self-financing agency, relying on receipts collected from the Bank's borrowers to fund the program subsidy and administrative expenses. The Committee notes that the move to self-financing will demonstrate alignment with recently emerging WTO principles and criteria regarding official export finance. This alignment is critical as the U.S. seeks greater discipline on export subsidies from other countries, and particularly from countries that have emerged in recent years as major sources of export subsidies. Most notable among these is China.

The Committee supports the Bank's request for an increase in its administrative budget, which should allow the Bank to better meet mandates in the most recent reauthorization related to support for small businesses and for underserved export markets.

COMMITTEE ON FOREIGN INVESTMENT IN THE UNITED STATES

The Committee supports additional funding for the work of the Committee on Foreign Investment in the United States (CFIUS) in light of the increased workload of CFIUS and the critical function it serves.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The Administration's fiscal year 2009 budget request for the Community Development Financial Institutions (CDFI) Fund represents a significant decrease – 69.6 percent – in funding from FY 2008.

The CDFI Fund has played an important role in the economic revitalization of distressed communities across the nation. Since its inception, the Fund has made over \$864 million in capital grants, equity investment, loans, and awards to fund technical assistance and organizational capacity building to CDFIs and other financial institutions to support activities in underserved communities. According to

Treasury officials, for every federal dollar the Fund invests in a local CDFI through its grant program, the CDFI leverages more than \$20 in private sector investment.

The CDFI Fund is targeted for the largest program cut in the Treasury Department's FY 2009 budget despite the documented success of CDFIs and continuing need for increased funding. For FY 2007, the CDFI Fund received \$138 million in funding requests. Of that amount, qualifying applicants requested \$54.7 million but the Fund was only able to make \$27.4 million in awards. The demand for CDFI awards increased dramatically for FY 2008 (CDFI Fund received requests totaling more than \$205.5 million).

Half of the proposed CDFI Fund cuts result from the complete elimination of the successful Bank Enterprise Award (BEA) program and Native Americans Initiatives Program. BEA provides banks and thrifts with financial incentives to expand investments in CDFIs and to increase lending, investment, and service activities within economically distressed communities. The Financial Services Committee held hearings during the first session of the 110th Congress at which several minority-owned banks and regulators pointed to the success of the BEA program which provides critical funding for minority, community and rural banks. Likewise, the Native Initiatives provide much needed monetary awards and training that help overcome barriers preventing access to credit, capital and financial services in Native American, Alaska Native and Native Hawaiian communities.

The Committee is concerned that the President's budget seeks to drastically cut funding for the CDFI Fund and eliminate the BEA program and Native Initiatives entirely, especially in a light of documented ongoing needs and the slowing economy. The Committee remains committed to preserving the CDFI Fund and its component programs and ensuring it remains an effective tool for promoting economic development and increased financial services in underserved communities.

TERRORISM RISK INSURANCE

The Congress responded to the September 11, 2001 terrorist attacks by enacting the Terrorism Risk Insurance Act (TRIA) and the Terrorism Risk Insurance Extension Act of 2005 (P.L. 109-144) that extended TRIA through December 31, 2007. In response to the continued unavailability of terrorism risk reinsurance in the private market, Congress enacted the Terrorism Risk Insurance Program Reauthorization Act of 2007 (P.L. 110-160) to extend TRIA through calendar year 2014.

The President's budgets for FY 2004 through FY 2008 did "not include estimates of the timing and magnitude of potential insurance claims under the [TRIA] program. . . . [g]iven the uncertainty surrounding the risk of future terrorist attacks." However, the FY 2009 budget includes an estimated Federal cost of providing terrorism risk insurance in the amount of \$416 million, supposedly based on how private insurers price such risk. This estimate is significantly greater than the projected outlays estimated by the Congressional Budget Office (CBO), raising concerns about the apparent discrepancy in risk calculations. The Committee questions why the President's budget increases the amount budgeted for the Terrorist Risk Insurance Program (TRIP) by 183 percent. The Committee agrees with the CBO and with the President's five prior budgets that there is no reliable way to estimate how much TRIA will cost, and that any attempt to budget for losses from terrorist attacks would be pure speculation.

The President's FY 2009 budget allocates 10 FTEs for the administration of the TRIP within the Department of the Treasury. While this allocation is consistent with prior years' allocations for the TRIP, the Committee questions how the President's FY 2009 budget can contemplate the TRIP processing and making more than \$400 million in claims payments without acknowledging a concomitant need to increase the number of FTEs necessary to administer the TRIP following a terrorism event.

FEDERAL EMERGENCY MANAGEMENT AGENCY

The National Flood Insurance Program (NFIP) experienced unprecedented claims resulting from the 2005 hurricane season. The 109th Congress increased the NFIP's borrowing authority successively from \$1.5 billion to \$20.775 billion. The Committee understands the contractual relationship and legal obligation to meet existing policyholder claim obligations and make interest payments on outstanding debt. Interest payments are estimated to be almost \$800 million annually, representing more than one quarter of the annual revenue of the NFIP. The NFIP estimates that, absent a catastrophic flooding event, it will not need an increase in its borrowing authority during FY 2009.

In November 2007, the House passed a bill to reform the NFIP and to reauthorize the program for five years past its current, September 30, 2008 expiration. The bill would expand the NFIP into providing coverage for wind exposure. It would also attempt to strengthen the NFIP by increasing participation in the program, removing subsidies for certain pre-FIRM properties, strengthening mitigation programs to better protect homes from flooding, authorizing flood map modernization programs to improve risk assessment, and increasing accountability for the NFIP and FEMA in executing the program.

The Committee is concerned about several reports by the Government Accountability Office (GAO) regarding the NFIP claims process, as well as, the administrative costs and potential conflicts of interest inherent in the NFIP's Write Your Own (WYO) program. The Committee is encouraged to learn that the Administration's 2009 budget requests 18 additional FTEs to be devoted to addressing the recommendations raised in the September 2007 GAO report entitled "FEMA's Management and Oversight of Payments for Insurance Company Services Should be Improved" and the December 2007 GAO report entitled "Greater Transparency and Oversight of Wind and Flood Damage Determinations are Needed." Given the extent of the recommendations for improvement identified by these two GAO reports; however, the Committee intends to ask that FEMA provide additional information on the improvements FEMA intends to make to address the NFIP performance concerns identified by the GAO and whether additional budgetary resources are necessary to fund such improvements. The Committee will continue to work with FEMA to review the fiscal and operational conditions of the NFIP and to garner better understanding of any additional legislative authority needed to achieve the reforms necessary to ensure the NFIP's continued viability.

Additional Views on Housing and Community Opportunity

As the steady drumbeat of negative economic data in recent months demonstrates, the problems in the housing sector are serious, and are spilling over into the rest of our economy. Falling home prices and a growing inventory of unsold properties have undermined consumer confidence, and a rising number of foreclosures have shaken investor confidence in the secondary market. These adverse market conditions require the Committee to be open to creative solutions and to give careful consideration to steps that might assist those who are struggling to make their mortgage payments and avoid foreclosure.

However, in considering legislative proposals to address current dislocations in the market, we must take care to avoid the kind of legislative overreaction that creates the wrong incentives and lays the groundwork for future housing bubbles. In that regard, the most controversial aspect of the Democratic budget views is the inclusion of a series of far-reaching -- and potentially very costly -- initiatives to address the problems associated with rising mortgage foreclosures. Among other things, the Committee's budget views and estimates contemplate the expenditure of \$15 billion over five years to finance the government's purchase of distressed mortgages for refinancing through the FHA, and an additional \$20 billion to purchase foreclosed or abandoned properties at or below market value.

In evaluating any possible government intervention in the mortgage market -- particularly one that could involve upwards of \$35 billion in new Federal spending -- the Committee must assess who pays and who benefits. We must ensure that any government program of this magnitude:

- is fair;
- does not distort the market by perpetuating the same incentives that led to the current crisis;
- does not shift the costs from lenders, investors, speculators, and borrowers who made unwise decisions and choices to the vast majority of American taxpayers who acted responsibly; and
- does not saddle Federal taxpayers with significant new liabilities.

Department of Housing and Urban Development

For the FY 2009 budget year, the Administration proposes \$38.5 billion for programs administered by the Department of Housing and Urban Development (HUD), which represents an increase of \$3.2 billion over last year's request and approximately \$1 billion more than the enacted FY 2008 Budget.

The President's budget reaffirms his commitment to sustaining homeownership, particularly among minority, Native American, and low-income families. HUD's FY 2009 Budget request includes increased funding to support housing choice vouchers, project-based Section 8 housing, homeless assistance

programs, vouchers for homeless veterans, housing counseling, Public Housing Agencies, and affordable housing programs such as the HOME Investment Partnerships Program. In addition, HUD's FY 2009 Budget request prioritizes funding toward programs with measurable, documented results.

Community Development Block Grant. The Community Development Block Grant (CDBG) program was created in 1974 to consolidate a variety of grant programs that were focused on urban and community development. At the time, CDBG was envisioned as a simpler process providing great flexibility for state and local decision makers to determine local needs that primarily benefit low- and moderate income neighborhoods and citizens. The funding is used for a wide range of community and economic development activities, such as housing rehabilitation and construction, job creation and retention, public services, and public infrastructure improvements. Seventy percent of the CDBG formula grants are distributed to mainly urban areas (entitlement communities), and thirty percent to the State (non-entitlement communities).

The President's FY 2009 budget proposes a new formula that the Administration feels would better target funds to communities with the greatest economic need and hold communities accountable for results. The current formula has not been updated in over 30 years and as a result, the Administration believes that many lower-income communities receive less assistance than wealthier communities. In addition to the formula change, the Administration's proposal would be designed with a Challenge Grant Fund component, which would provide incentives to communities to invest in projects more strategically. Legislation to authorize these reforms will be transmitted in early 2008.

In terms of FY 2009 funding, the Administration's budget requests \$3 billion for the CDBG program. As part of the Administration's reform package, HUD programs such as Brownfields Economic Development Initiative, Community Development Loan Guarantee Program (Section 108), and Rural Housing and Economic Development are proposed for termination. The Administration states in its budget proposal that these program are duplicative – their activities are currently eligible to be funded by CDBG and other Federal programs.

The Administration should be commended for attempting to update the CDBG program to reflect new community needs and to direct scarce Federal resources to the neediest neighborhoods and residents. However, it should be noted that the Administration's approach is not based on any solid empirical data or reliable reporting system that quantifies and assesses the program's accomplishments or failures. During the Committee's hearings on the FY 2006 budget, the Office of Management and Budget evaluated CDBG as a non-performing program through its PART analysis. Yet, upon closer review, it was unclear to members of the Committee that CDBG ever had a decent reporting system that could quantify and measure results. According to a National Academy of Public Administration study in 2005, attempts by the Administration and its predecessors to quantify and assess the achievements of the CDBG program were met with technological failures.

Furthermore, as the House Government Reform Committee noted in its Fifth Report [See Report 109-365]:

The administration's PART analysis, while successful in identifying key opportunities for reform of some programs, may not be an appropriate evaluative tool for the Community Development Block Grant program because of its flexibility. The administration should consider whether alternative analytical tools exist that can better measure the CDBG program.

Therefore, while there is anecdotal evidence to suggest that a dramatic overhaul of the CDBG program is warranted, the Administration's proposal needs further work to assess the fairness of the current formula-driven program, as well as better information to assess the future goals and benchmarks of the program. In time, with a better reporting and data system, the necessary overhaul can be accomplished in a more fair and prudent manner.

HOME—The HOME Investment Partnerships. The Administration proposes \$1.96 billion for the HOME program, which provides grants to states and local governments to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income Americans. Eligible uses include downpayment assistance; tenant-based assistance; housing rehabilitation; assistance to homebuyers; and new construction of housing. The HOME program leverages approximately \$4 for every \$1 of appropriated funds, indicating significant private-sector involvement in the development of affordable housing.

Federal Housing Administration. The Administration's FY 2009 budget proposes comprehensive reform for the Federal Housing Administration's (FHA) single-family mortgage insurance activities. The budget proposal calls for an array of products to more fairly price FHA's guarantee to individual borrowers. FHA will base each borrower's mortgage insurance premiums upon the risk that the borrower poses to the FHA Mortgage Insurance Fund. Under this proposal, the mortgage insurance premiums will consider the borrower's credit history, loan-to-value ratio, and debt-to-income ratio, and will be based on FHA's historical experience with similar borrowers. The Administration believes that this change will decrease premiums for many of FHA's traditional borrowers, thereby increasing their access to homeownership.

Since its inception in 1934, FHA has played an innovative role in financing homeownership and affordable housing opportunities for all Americans. Over the past eight years alone, FHA has financed nearly eight million homes and over 754,000 units of affordable rental housing. While FHA has played a valuable role over the years in providing home financing options that augment those available in

the conventional market, conventional credit standards have tightened in recent months. Coupled with a downturn in local real estate markets, private mortgage insurers have raised underwriting standards, reducing the availability of financing options. In addition, there are a large number of borrowers who hold adjustable rate mortgages and face the risk of foreclosure due to large increases in mortgage payments after an interest-rate reset. According to the Administration's budget submission, an estimated 1.8 million subprime mortgages for owner-occupied homes are scheduled to reset in 2008 and 2009.

Republicans share the Administration's view that legislation to modernize the Federal Housing Administration (FHA) program is urgently needed to help address current problems in the housing market. We remain committed to work with all relevant parties toward prompt enactment of this important legislation, versions of which have passed both Houses of Congress.

There is bipartisan recognition that a reenergized FHA will be better positioned to assist both first-time homebuyers and existing homeowners seeking to refinance out of high-cost adjustable rate mortgages into more sustainable mortgage products, which is the primary objective of the FHA Secure initiative that the administration announced last summer. Modernizing and streamlining the FHA program will make it a more viable alternative for many homebuyers who have in the past turned to higher cost financing and nontraditional loan products available in the subprime mortgage market. These reforms should help to speed our nation's recovery from the significant downturn in the housing sector that has contributed to slowing economic growth in recent months.

Absent significant reforms, the Administration has stated that the baseline credit subsidy rate for FHA's single family program is positive, meaning that total costs exceed receipts on a present value basis. Barring the authority to establish risk-based premiums, HUD will propose to use its existing authority to raise the upfront premiums on most borrowers up to maximums of 1.95 percent (purchase) and 1.75 percent (re-finance) and the annual premium to a maximum of 0.52 percent (purchase) in order to avoid a positive subsidy rate. At a time when we are facing record foreclosures and defaults, passing an FHA Modernization bill must remain a topic priority for Congress. We must maintain and protect the integrity of the FHA fund and strengthen its ability to assist those creditworthy borrowers who need assistance buying a new home or staying in the home they now have.

Financial Literacy and Housing Counseling. Republicans continue to believe that counseling is an important component of the homeownership process. Homebuyer education is the most cost-effective way to educate renters and homeowners to help them make informed financial choices and avoid high-risk, high-cost loans that place them at greater risk of foreclosure. The Administration's budget requests a separate account of \$65 million for housing counseling to "prepare families for homeownership, to locate affordable rental housing, to avoid predatory lending practices, and to prevent foreclosure." The FY 2009 budget request is \$15 million more than current appropriations. Republicans applaud the

Administration's continued commitment to counseling programs and support the Administration's FY 2009 budget request.

Section 8 Housing Choice Voucher Program. The Administration's budget request for the Housing Choice Voucher program is \$16 billion which represents a \$336 million increase above FY 2008 budget for public housing authorities (PHAs). In 2009, PHAs will have \$600 million in previously unavailable restricted assets available to them, which makes more than \$16.6 billion available for this program. While the Administration has proposed an increase in funding for 2009 (over the enacted funding for 2008), Republicans share the Administration's concern about the rising cost of the Housing Choice Voucher Program and the effect that this spiraling cost is having on funding for other important HUD programs.

The Section 8 program provides rental subsidies to more than 2 million families nationwide. Last year, the House passed H.R. 1851, which includes several reforms of the Section 8 Voucher Program. Republicans have a number of concerns about the bill. H.R. 1851 outlines a funding formula based on a unit-based methodology put forth by the 2007 Continuing Resolution (P.L. 110-5). However, over the years there have been a number of funding formulas and Republicans are concerned about whether another change will increase efficiency and cost effectiveness. Republicans would also like to see more flexibility for local PHAs to manage their programs, and a stronger commitment to moving tenants to self-sufficiency. Republicans are pleased with the bill's expansion of the Moving To Work program which will now be known as the Housing Innovation Program (HIP). Republicans appreciate the continued support of the Family Self Sufficiency Programs in the bill. The White House issued a Statement of Administration Policy opposing passage of H.R. 1851 based on the funding formula; limitations on PHA flexibility; eligibility standards and increases in project-based vouchers.

Self-Help Homeownership. The President's budget proposes \$39 million for HUD's SHOP Program which is an increase of \$12.5 million over current levels. Under the SHOP program competitive grants are made to national and regional nonprofit organizations and consortia that have experience in providing or facilitating self-help housing opportunities. Under this program, homebuyers and volunteers are required to contribute a significant amount of sweat equity toward home construction. Republicans fully support the Self-Help Homeownership Opportunity Program and believe it is an important component in achieving the goal of producing new homes for very low-income families.

HOPE VI. The Administration again proposes eliminating funding for the HOPE VI program. Republicans understand that while the HOPE VI program has enjoyed many successes, it has also been plagued with accountability and management problems. The HOPE VI program was originally established as a 10-year program with the goal of demolishing an estimated 86,000 units of the country's worst public housing. While the Administration maintains that this goal has been accomplished, Congress has resisted eliminating the funding or taking

back money already appropriated. Last year, the House passed H.R. 3524, the HOPE VI Improvement and Reauthorization Act of 2007, which, among other things, calls for one-for-one replacement of demolished units (with the possibility to waive replacing 10% or less units). Republicans believe the one-for-one requirement undermines one of the primary goals of HOPE VI—to de-concentrate poverty – and fails to take into account cost limitations. Other controversial provisions in H.R. 3524 include the green building requirement which arbitrarily establishes a private building standard—Green Communities—as a mandatory core component for all HOPE VI developments. The bill also weakens tenant eligibility restrictions, undermining PHAs’ authority to screen tenants and define the standards of their community consistent with local concerns.

Housing for the Elderly (Section 202). The President’s budget includes \$540 million for the Supportive Housing for the Elderly Housing (Section 202) program. Section 202 provides assistance to expand the supply of housing with supportive services for the elderly. To this end the Administration calls for up to \$80 million of grant funds to be targeted to the service coordinators who help elderly residents obtain supportive services from the community. To encourage the use of Low-Income Housing Tax Credits and mixed-finance arrangements, HUD proposes leveraged financing demonstration projects and requests \$15 million for this initiative. Last year, the House passed H.R. 2930, the Section 202 Supportive Housing for the Elderly Act of 2007, which, among other things, removed an obstacle to non-metro areas accessing Section 202 funds. The bill also allows project sponsors to recover funds due to unexpected project costs and emergencies; delegates capital grant application processing of mixed finance projects to state or local agencies; facilitates the conversion of projects to assisted living facilities; requires senior preservation rental assistance contracts to prevent tenant displacement; and extends project sponsorship to national non-profits. Republicans understand how important it is to reevaluate programs and seek ways to improve their administration and operation. However, Republicans recognize the significant role the Section 202 program plays in meeting the housing needs of this most vulnerable segment of our population, and wants to ensure that the mission of the Housing for the Elderly program is not compromised.

Supportive Housing for Persons with Disabilities (Section 811) The Section 811 program provides assistance to expand the supply of housing equipped with supportive services for persons with disabilities. The Administration proposes \$160 million for the Section 811 program in its FY 2009 budget, a \$35 million increase over the 2008 Budget request. The budget requests \$10 million for leveraged financing demonstration projects. This initiative would develop and implement demonstration projects that would encourage the leveraging of HUD grants with other funds, with a primary focus on tax credit equity, to increase the number of households served in the Section 811 program. In the 2nd Session of the 110th Congress, Republicans look forward to considering new legislation on this program in a bipartisan manner.

Homelessness Assistance. The Administration has again proposed legislation this year to consolidate its three competitive homeless assistance programs into a single program. The Administration, along with homeless advocacy groups, believes that consolidation will provide more consistent funding, expand eligible activities – including prevention – across programs, eliminate multiple match requirements, and simplify the competitive award process. While there is a general consensus that consolidation of homelessness programs would be beneficial, one of the key issues for debate centers on the definition of homelessness. Advocates for expanding the definition cite the fact that the current HUD definition possibly excludes women and children, as these individuals are more likely to pursue living in a motel or with friends over living on the streets or in shelters. However, the U.S. Interagency Council on Homelessness and HUD have raised concerns that individuals living in motels and with friends and relatives may do so as a result of cultural preferences, voluntary arrangements or traditional networks of support. The Administration's 2009 budget proposal includes a continued commitment to addressing the needs of homeless persons and families. The President's 2009 Budget provides a record-breaking \$1.636 billion for Homeless Assistance Grants. Republicans applaud the Administration's continued commitment to addressing the needs of homeless persons and families and looks forward to working with the Administration to accomplish that goal. In addition, we are pleased to see that the Administration remains committed to the goal of ending chronic homelessness and stand ready to assist the Administration in reaching that goal.

Housing Opportunities for Persons with AIDS (HOPWA). The President's budget seeks \$300 million to support stable housing, improved access to health care and more supportive services for low-income persons living with HIV/AIDS, the same amount requested for FY 2008. This funding will be used to provide HOPWA formula funding to an estimated 130 eligible jurisdictions. Through formula grants to states and local communities, as well as competitively awarded grants, these resources will provide critically needed housing assistance to more than 70,500 families. HOPWA is an important program that deserves continued funding and support efforts to increase funding. Republicans will continue to work with the Administration to enhance the efficiency and effectiveness of the program.

Public Housing. The President's FY 2009 budget includes \$4.3 billion for the Public Housing Operating Fund to fund local housing authorities in their daily operation and \$2.024 billion for the Public Housing Capital Fund to help local housing authorities fund major repairs and modernization in their housing units. The Administration continues to be committed to the further implementation of the Public Housing Capital Fund Financing Program, which has allowed PHAs to borrow from banks or issue bonds using future Capital Fund grants as collateral or debt service, subject to annual appropriations. In this way, PHAs have been able to leverage their future Capital Funds to make immediate capital improvements.

The Administration is right to focus on the rising cost of maintaining the current public housing stock. Confusing and restrictive federal regulations that prevent state and local governments from developing creative and efficient ways to

address their particular concerns should be eliminated wherever possible. Furthermore, providing PHAs with greater flexibility will help to address the rising costs associated with maintaining the current public housing stock.

National Flood Insurance Program (NFIP), Federal Emergency Management Agency

The National Flood Insurance Program (NFIP) was created as part of the National Flood Insurance Act of 1968 to enable the federal government to help cover the cost of flood damages. Prior to that time, insurance companies generally did not offer coverage for flood disasters because of the high risks involved.

Flood insurance claims liabilities arising from Hurricanes Katrina, Rita and Wilma are estimated at about \$25 billion, far surpassing the total claims paid in the entire history of the NFIP. Congress increased the NFIP's borrowing authority in the 109th Congress from \$1.5 billion to \$3.5 billion, to \$18.5 billion, and finally to \$20.775 billion. The Federal Emergency Management Agency (FEMA) is legally obligated to pay claims arising from flood events where policies are in place, and homeowners who are not paid could initiate legal action against FEMA and the U.S. Government. Interest payments are estimated to be more than \$800 million annually, which is just under half the annual revenue of the NFIP.

In the First Session of the 110th Congress, two flood insurance bills passed the House: H.R. 3121, the Flood Insurance and Modernization Act of 2007, and H.R. 3959, to amend the National Flood Insurance Act of 1968 to provide for the phase-in of actuarial rates for certain pre-FIRM properties.

H.R. 3121 would reform the NFIP and reauthorize the program for five years past its current September 30, 2008 expiration. During consideration of H.R. 3121, most Republicans objected to the expansion of the NFIP to include coverage for wind damage. While Republicans are sensitive to the rising costs of property insurance, as noted above, the NFIP currently owes the Treasury approximately \$18 billion, an amount it has acknowledged it is unlikely to ever repay. Significantly increasing taxpayer exposure on a program that is already draining the Federal treasury is the wrong public policy choice.

H.R. 3959, sponsored by Rep. Scott Garrett, amends the NFIP to require that pre-FIRM primary residences that currently enjoy subsidized rates be charged actuarial prices over time. This phase-in would only apply to homes sold for at least \$600,000. The bill would give FEMA the ability to increase rates on these properties by up to 15 percent each year until the phase-in is complete. This reform would allow the NFIP to begin phasing out costly subsidies while protecting current homeowners from unanticipated or unplanned increases in their flood insurance policies.

As Congress continues to examine options for reforming the NFIP to ensure its long-term effectiveness, Republicans wish to emphasize that continued

investment in mitigation funding and aggressive modernization of flood maps are two of the most important priorities to ensure the program's future success.

Rural Housing Service, Department of Agriculture.

The U.S. Department of Agriculture's Rural Development (RD) mission area administers programs that are designed to meet the diverse needs of rural communities with a variety of loan, loan guarantee, and grant programs, which include technical assistance and cooperative development. Within the RD mission area is the Rural Housing Service (RHS). It administers two programs under this Committee's jurisdiction – Single Family Housing and Multi-Family Housing.

RHS is responsible for providing decent, safe, sanitary, and affordable housing and community facilities in rural communities. It issues loans and grants for rural single family houses and Rural Rental Housing (RRH) apartment complexes. RHS applicants may include individuals, private organizations, and public entities.

In its FY 2009 budget proposal, RHS continues to address a multitude of management and budget challenges in both its single and multifamily housing programs. RHS's budget contains a reduction in its Section 515 direct loan program, by eliminating funding for new loans, and shifting resources toward the more flexible Section 538 guaranteed loan program. Although the Administration proposed eliminating this funding in both FY 2007 and 2008, Congress funded new section 515 loans at \$90 million and \$70 million respectively.

RHS continues to have a portfolio of about 16,500 existing multi-family projects that provide housing for about 450,000 low-income tenants, many of whom are elderly. These projects were primarily built in the 1980s and in many instances are in need of repairs and rehabilitation. The projects have an outstanding indebtedness of about \$12 billion. Recently, the Supreme Court ruled in favor of Section 515 project owners who wished to prepay their loans and remove their property from the subsidized market. A recent capital needs assessment indicated that about ten percent of these projects are potentially viable for non-subsidized use and could leave the program. There are also concerns about the physical condition of existing projects and the ramifications of allowing projects to leave the program. Republicans support a restructuring and revitalization program that will maintain affordable housing in rural America, protect tenants, and, as a prudent policy, provide potential long-term savings to the Federal taxpayer.

RHS's FY 2009 budget proposal does not include funding for the multifamily revitalization program, previously funded in FY 2008 at \$39 Million. This program provides funding for rural housing vouchers, preservation loans, and the Section 515 preservation and revitalization demonstration. Upon enactment of Section 515 revitalization legislation, these funds would be available for debt restructuring and other revitalization incentives. However, the Administration maintains that absent enactment of this proposal, a version of which it transmitted with its FY 2006

Budget Recommendations, this program should not continue. The affordable rural multi-family housing inventory in this country is faced with numerous challenges, such as the elimination of housing units due to prepayment and the lack of funding to address the deteriorating condition of the existing inventory. Accordingly, we encourage RHS to further study the impact of eliminating this program, specifically in the event that the Section 515 preservation legislation is not enacted this Congress.

While the FY 2009 budget does not include loans made directly by the government for Section 515 multi-family housing, it includes \$300 million, more than double the amount proposed in FY 2008, for Section 538 loan guarantees. The Section 538 program serves a broad range of rural families with incomes up to 115 percent of the area median income who can afford to pay unsubsidized rents. This is in contrast to the Section 515 program which almost exclusively serves very low-income rural families, with average incomes at 50 percent, or below, of area median income. The Administration believes that the more efficient Section 538 guarantee program, which can be leveraged with private dollars, better serves the needs of the affordable rural housing portfolio, particularly in light of increased credit availability in rural areas. Regulations for administering the program were recently revised to make the program a more attractive component of a complete funding package, including access to secondary market funds and use of tax credits and other subsidies. In addition, the Committee will likely take up legislation in this Congress designed to facilitate the use of outside financing in conjunction with federal financing and/or subsidy.

The Section 502 single-family housing program provides direct and guaranteed loans for the purchase of modest housing in rural areas. The Section 502 direct mortgage program would be unfunded in FY 2009 under the President's budget, with a shift to the Section 502 guaranteed mortgage program. Like the Section 538 program, the Section 502 guaranteed mortgage program allows RHS to leverage the funding with private dollars. Moreover, there is no comparable single family direct loan program for urban markets, making this transition consistent with other government-funded single family housing programs. In addition, the Administration's proposal recognizes the decreased utilization trends of this program over time. RHS reports that since 1990, Section 502 guaranteed mortgage obligations have grown from \$100 million to over \$3 billion, while the 502 direct loan program has remained stagnant. As a result of the proposal to eliminate Section 502 direct loans, the Administration is also proposing the elimination of self-help housing grants, since demand for these grants is dependent upon the availability of Section 502 direct loans. Republicans will continue to work with the Administration to ensure that these changes not operate to hinder the ability of low-income rural families to transition to homeownership.

The Section 502 and 521 rural rental assistance program provides funding for multi-year contracts with project owners for reducing rent payments to make up the difference between the 30 percent of income the low-income tenant pays and the rent required for the project owner to meet debt servicing requirements. Most of the funding for this program is used to renew expiring contracts on projects that are financed for up to 50 years and, dependent on rental assistance, is funded in four-

year term increments. The President's FY 2009 budget reflects substantial increases for rental assistance payments for low-income families. Recent appropriations acts have reduced the renewal period from five years to one year. The change initially produced budget savings due to the reduced cost for renewing units over a shorter time frame. However, it also accelerates the rate at which units need to be renewed. For 2009, about 230,000 units will need to be renewed, at a cost of \$997 million. The budget recommendation contains a request for this amount, with RHS intending to use \$897 million for renewal of rental assistance vouchers and \$100 million for a new rental assistance voucher pilot program that would provide a transition from rental assistance.

We will continue to review the programs under the Rural Housing Service to determine what changes are necessary to address future budgetary and management challenges.



Spencer Bachus
Ranking Member
Committee on Financial Services



Shelley Moore Capito
Ranking Member
Subcommittee on Housing and Community
Opportunity

Additional Views on Capital Markets

Congress has tasked the U.S. Securities and Exchange SEC (SEC) with a three-part mandate: to protect investors, promote capital formation and competition, and ensure fair and efficient markets. SEC Chairman Cox has outlined an ambitious agenda for 2008 to fulfill its statutory mandates that will continue to enhance the preeminence of the SEC and the U.S. capital markets.

The staffing levels proposed in the President's FY 2009 budget request are consistent with actual SEC staffing levels. The Committee Majority proposes in its budget views and estimates for FY 2009 to increase the SEC's budget by either \$26 million or \$30 million to add full-time employees in the SEC's Division of Enforcement. It is unfortunate that the Majority's only proposed SEC change is to add staff solely for the purpose of encouraging additional SEC litigation and enforcement. There are many other priority areas where additional SEC staff might be allocated for maximum effect. For example, in the international arena the SEC needs to address the mutual recognition of regulatory regimes and convergence of international financial reporting standards.

The Majority's budget priorities for the SEC are based on a mischaracterization of the U.S. Supreme Court's findings in the recently decided *Stoneridge* case. The SEC has an obligation to protect investors, but it does not have unlimited authority to bring civil actions and expand legal liability to third parties. In the *Stoneridge* decision, the Supreme Court wisely rejected scheme liability. This was a welcome clarification and should provide further comfort to businesses that have been fearful of being drawn into expensive class-action litigation as a result of their professional dealings with public companies that are later accused of securities fraud. The decision also protects the status of the U.S. as a financial center for foreign businesses seeking to raise capital, many of whom have previously cited frivolous litigation in the U.S. as a principal reason for choosing to list their securities outside the United States.

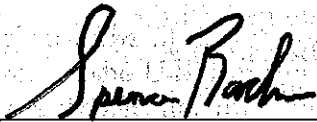
Unfortunately, the Majority's budget priorities also continue to avoid the need to allocate resources to improving the global competitiveness of the U.S. capital markets. Four reports have been issued by separate blue-ribbon panels recommending a series of legislative and regulatory changes needed to maintain the competitive standing of U.S. capital markets. The government should allocate budgetary resources to implement improvements pursuant to these reports. For example, priority should be given to the elimination of duplicative oversight in our current financial regulatory regime, such as the split jurisdiction over the securities and futures markets that no longer makes sense in the 21st century marketplace.

The Majority expresses concerns about the SEC staffing resources devoted to respond to the subprime and credit crisis. However, the SEC's Subprime Task Force is a coordination mechanism that allows the SEC to manage its resources more efficiently by sharing analysis across the agency, identifying problems at a comprehensive macro-market level. The Subprime Task Force is a flexible entity

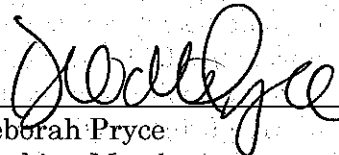
that can be rapidly expanded with broad expertise without requiring specific additional long-term staff assignments.

The President's FY 2009 budget provides a fiscally responsible 1% increase for the SEC, an amount sufficient for it to maintain current (actual) staffing levels. Continued arguments for increased federal spending on agency staff should be judged against the significant results the current SEC leadership has been able to achieve in 2007 under the current budget levels. For example, the current staffing level has enabled the SEC to file a record number of enforcement cases (656); resolve successfully 92% of its enforcement cases; and meet or exceed performance goals for the timely review of SRO rule filings, corporate and investment company disclosure reviews, and requests for no-action, exemptive, and interpretive letters.

Last year in testimony to Congress, SEC Chairman Cox stated that the biggest difference Congress could make with respect to funding the SEC would be to provide a consistent and predictable funding stream. The President's budget provides for that consistency and allows the agency to fulfill its statutory mandates and to meet its priorities.



Spencer Bachus
Ranking Member
Committee on Financial Services



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February 29, 2008

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The Honorable John Spratt
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The Honorable Paul Ryan
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Dear Chairman Spratt and Ranking Member Ryan:

To accompany the Views and Estimates for the Committee on Financial Services submitted by Chairman Frank, I offer these additional views and appreciate your consideration.

I am concerned with the request from the Financial Services Committee for \$35 billion in new spending to fund government purchases of foreclosed homes and distressed mortgages. This degree of government intervention in the mortgage market has the potential to reward borrowers, lenders, investors and others who made risky decisions at the cost of all taxpayers and future mortgage borrowers. While I agree many homeowners are facing difficulties and that problems in the mortgage market spill over into the broader economy and credit markets, voluntary efforts by lenders and assistance from the Federal Housing Administration are available to help those who want to stay in their homes make their mortgage payments and prevent foreclosure. Should the government's role increase as proposed by Chairman Frank, however, those who made risky decisions will no longer be held accountable for the choices they made.

I am also concerned with the significant increase in discretionary spending advocated by Chairman Frank. Since 2004, the federal budget deficit has declined by more than \$250 billion, largely due to higher tax revenues spurred by pro-growth tax relief, reaching a low of \$163 billion for the 2007 fiscal year. For the 2008 and 2009 fiscal years, however, the deficit is projected to increase to \$400 billion or more. The decisions Congress makes this year will determine whether the slowing revenue growth resulting from lower economic growth will translate into lower spending or a growing deficit.

Our government does not have an income problem, with revenues still high after three years of increases in tax receipts, but we do have a spending problem in which expenditures continue to rise faster than revenues. When American families' revenue increases slow, they reduce their spending. I ask that the Budget Committee do the same and require Congress to reduce its spending and maintain the tax policies that have spurred growth and higher revenues through the Budget Resolution.

Sincerely



Randy Neugebauer
Member of Congress

Ron Paul

Congressman Ron Paul
Dissenting Views to the Financial Services Committee's:
"Views and Estimates of the Committee on Financial Services on Matters to be Set
Forth in the Concurrent Resolution on the Budget for Fiscal Year 2009"
February 29, 2008

The committee's assertion that continued IMF gold sales are appropriate to fund debt relief is one with which I must take issue. In the first place, the IMF should not hold any gold at all. Sales of gold by central banks and the IMF either within or without the Central Bank Gold Agreements (CBGA) have in the past depressed gold prices. Future sales will a similarly negative effect and introduce even more uncertainty into an already volatile market. Gold currently held by the IMF should be returned to member states for their utilization and benefit, not to support shortfalls caused by profligate spending of unelected international bureaucrats.

We must remember too that much of the gold in the hands of the United States government, and therefore the American gold being held by the IMF, was acquired through forced confiscation from the American citizenry in the 1930s. For the proceeds of this confiscation to be sold in such a manner in order to fund measures which neither the people nor their lawfully elected representatives have approved is unconscionable. Debt relief is something that should be worked out between creditor and debtor, and if the United States is a creditor it should fall to Congress to vote on debt relief. The sale of IMF gold to fund debt relief is funding through the back door, and should not be tolerated.