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 2006

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives for the 109th Congress and section 301(d) of the Congressional Budget Act of 1974, 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 2006 and (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during the coming session.

SECURITIES AND EXCHANGE COMMISSION

The Committee commends the President for his commitment to fund the needs of the Securities and Exchange Commission (SEC), and supports the President's FY 2006 Budget to provide the SEC with $888.1 million. Although this does not represent an increase from the FY2005 budget, the President has provided the SEC with the greatest increase in its budget over the last several years compared to any previous administration. Since 2000, the SEC's budget has increased nearly 250 percent.

This increased funding of the SEC has helped to restore and promote investor confidence, a necessary component of a strong economy. Through its oversight and enforcement activities, the SEC has succeeded in uncovering and preventing fraud in the financial services industry. In 2004 alone, the SEC brought over 610 enforcement actions against individuals and companies for violations of the securities laws. These actions included numerous indictments against and settlements with investment advisers, brokers, and fund company boards of directors involved in the mutual fund trading scandals and specialists and floor brokers involved in the securities trading scandals. In response to these scandals, the SEC has proposed and/or adopted various regulations to increase transparency, eliminate conflicts of interests, and prevent future fraud in the mutual fund and securities trading industries.

In addition, the Sarbanes-Oxley Act, passed in the wake of the corporate accounting scandals in July 2002, has empowered the SEC through enhanced administrative and budgetary authority. The budget authority that the President has proposed for the SEC will enable it to continue effective implementation of the provisions contained in the Sarbanes-Oxley Act, as well as its oversight of the Public Company Accounting Oversight Board (PCAOB). The Sarbanes-Oxley Act has already achieved much success in comprehensively changing attitudes both inside and outside the boardroom to ensure greater protection of investors and more efficient, competitive markets. The completion in the coming months of the PCAOB's first required inspections of public company accounting firms will also contribute to greater investor confidence in public company financial reporting.

GOVERNMENT SPONSORED ENTERPRISES

The Committee continues to support the President's call for improved supervision of the housing Government Sponsored Enterprises (GSEs): Fannie Mae, Freddie Mac, and the twelve Federal Home Loan Banks. The Committee remains concerned that the Office of Federal Housing Enterprise Oversight (OFHEO) and the Federal Housing Finance Board (FHFB) do not have sufficient resources, authority, or expertise to adequately monitor the activities of these large and complex institutions. Regulation of GSEs is generally funded by assessments on the entities themselves and not through taxpayer dollars.

The GSEs issue an enormous amount of debt to finance their operations. In 2003, Fannie Mae had approximately $976 billion in outstanding debt, Freddie Mac approximately $757 billion, and the twelve Federal Home Loan Banks approximately $774 billion in debt. Additionally, a February 2003 study found that in 2001, 1691 commercial banks held at least 51 percent of their capital in the form of debt issued by Fannie Mae, and 862 commercial banks held at least 51 percent of their capital in the form of debt issued by Freddie Mac. This debt is also held by investors and central banks around the world. While a substantial portion of this debt is backed by mortgage obligations, serious financial crisis at any of the GSEs potentially could have far reaching implications for the global economy and the American taxpayers.

Over the past 21 months both Fannie Mae and Freddie Mac have disclosed significant accounting irregularities and undergone management reorganizations. During this period two of the Federal Home Loan Banks also faced accounting problems and management reorganizations. In the case of Freddie Mac, the company disclosed that it would replace its senior management in June of 2003 following a February 2003 announcement that the company would have to restate its earnings. These actions came as a surprise to OFHEO, whose subsequent investigation determined that the Freddie Mac had manipulated earnings in order to project smooth earnings growth. Freddie Mac has yet to issue current financial statements or register with the Securities and Exchange Commission (SEC) as agreed to in 2002.

Following the Freddie Mac reorganization and subsequent enforcement actions, OFHEO requested and received an additional appropriation to hire an outside accounting firm and begin a comprehensive examination of Fannie Mae. In September of 2004, OFHEO determined that Fannie Mae had violated FAS 91 and FAS 133, and had insufficient corporate governance procedures in place to prevent conflicts of interest. In December of 2004, the SEC, at the request of Fannie Mae, confirmed that Fannie Mae was in violation of Generally Accepted Accounting Principles (GAAP) and ordered a restatement of Fannie Mae's earnings for the years 2001 to 2004. OFHEO, the SEC, the Department of Justice and the Department of Labor all have ongoing investigations into the operations of Fannie Mae.

The Committee is concerned that the problems at Fannie Mae were uncovered only after an additional appropriation, a special examination report, a Subcommittee hearing, and the confirmation of OFHEO's findings by the SEC. Following the SEC determination, the top executives at the company left with severance packages potentially amounting to several million dollars in guaranteed payments per year. The Committee believes that the problems at Freddie Mac and Fannie Mae could have been avoided if their regulator had the necessary powers and resources to fully supervise them.

Combining the supervision of Fannie Mae, Freddie Mac and the twelve Federal Home Loan Banks within one regulatory body could likely result in improved supervision of these entities. The GSEs have different legal structures, but are involved in very similar businesses. A single supervisor will be able to draw upon a wide range expertise in credit and interest rate risk analysis, as well as derivatives hedging practices in overseeing the GSEs. While the missions of the various GSEs should remain separate, efficiencies can be realized through consolidated safety and soundness oversight.

The Committee agrees that any new supervisor must be strong, independent, world class, and separate from the appropriations process. The Committee therefore plans to work closely with the Administration and other interested parties to craft a GSE oversight structure with comprehensive supervisory powers, as well as the ability to closely monitor the mission operations of the GSEs. It is imperative that the GSEs fulfill the purpose for which they were created while also operating in a safe and sound manner.

TERRORISM RISK INSURANCE

During the 107th Congress, the Committee responded to the September 11th terrorist attacks by passing the Terrorism Risk Insurance Act (TRIA). This Act is scheduled to expire on December 31, 2005. The President's budget reflects only the costs incurred by the Department of the Treasury for the administration of the Terrorism Risk Insurance Program, as estimated losses from future terrorist attacks are speculative. The Congressional Budget Office (CBO) has speculated that the expected value of federal outlays from TRIA, minus governmental receipts from surcharges, would be $310 million over the 2005-2015 period.

The President's budget decreases the program's general administrative cost from $11 million to $3 million, reflecting the scheduled expiration of TRIA. TRIA extension legislation was introduced last year and was passed in the Financial Services Committee, but was not voted on in the full House. The Committee will continue to evaluate the Terrorism Risk Insurance Program this year, taking into account a Treasury study on the Program required to be issued by June 30, 2005. Further terrorism insurance legislation would likely necessitate additional expenditures in FY 2006.

MILITARY PERSONNEL FINANCIAL SERVICES PROTECTION

Last session, the House passed H.R. 5011, the Military Personnel Financial Services Protection Act, by a vote of 396-2. The legislation banned the future sale of contract plans (also known as "periodic payment plans") to military personnel. The bill also strengthened state insurance regulation over military bases located within their jurisdictions, required the Department of Defense to maintain a list of agents and advisors banned or barred from doing business on military installations, required certain disclosures prior to sales of financial products, and required notification and coordination between state regulators and the Department of Defense of agents and advisors banned or barred from doing business on military installations. This session, the Committee expects identical legislation to be enacted. CBO estimated last year that the implementation of the Military Personnel Financial Services Protection Act would not result in a significant cost to the federal government and would not affect direct spending or revenues.

TREASURY COMMUNICATIONS ENTERPRISE

The Committee notes with concern the lack of budget information or justifications for the planned $1 billion-plus Treasury Communications Enterprise (TCE) voice and data network. Given the vast amounts of data that would be carried over the network and the centrality of such a system to Treasury's continued mission performance, the Committee believes such data should be clearly displayed and the budget implications on all aspects of Treasury operations easily assessed. Further, the Committee believes that without adequate scrutiny, such a system may establish new data protocols that could affect — possibly adversely — the operation of IT systems central to Treasury's proper function, from the receivables-and-payments of the Financial Management Service to the high-security and data-intensive computers at the Financial Crimes Enforcement Network and the Office of Foreign Assets Control. The Committee intends to monitor the TCE project going forward, and work with other committees to ensure that the project, if it goes forward, does so in a rational and successful fashion.

FINANCIAL MANAGEMENT SERVICE

The Committee notes that Treasury's Financial Management Service (FMS) has proposed two debt collection initiatives that would increase the collection of delinquent debt. One initiative would allow the offset of Federal tax refunds to collect delinquent state unemployment insurance overpayments. The second initiative would eliminate the 10-year statute of limitations period applicable to the offset of Federal non-tax payments to collect debt owed to federal agencies. While the Committee has no direct jurisdiction over either tax-related proposal, the budgetary effect on FMS is of interest to the Committee and it will monitor the proposals closely.

TREASURY OFFICE OF INSPECTOR GENERAL

The Committee notes the near-level funding of the Office of Inspector General (OIG), with a proposed increase of just over $350,000 to $16.7 million. While last year's appropriated amount ultimately exceeded the budget request by more than $2 million, in the Committee's view, even that addition was insufficient to meet a chronic need at OIG. The Committee believes that the work product of the Inspector General is extraordinarily useful not only to the Secretary of the Treasury, but also to the Committee as it exercises its oversight of the Department. 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 to Treasury's efficiency and continued cost-control efforts. The Committee believes that increasing the number of audit positions at the office would be useful to provide improved analysis of the regulatory and compliance operations performed by the Department, including the coordination of enforcement and regulatory functions and the reliability and usefulness of the Bank Secrecy Act and similar programs. In particular, the Committee believes that OIG needs adequate resources to perform audits of major departmental programs that in some cases have not been studied closely for more than several years.

OFFICE OF TERRORISM AND FINANCIAL INTELLIGENCE

The Committee notes with approval the proposed funding increase for the new Office of Terrorism and Financial Intelligence (OTFI) by $10 million, to $113.6 million. The Committee believes that the formation of the office and dedication of adequate funding and staffing levels is very positive, and approves of efforts to add 39 new staff and realign others to ensure the effectiveness of OTFI's operations. The Committee remains concerned over the continued vacancy in the position of the Assistant Secretary for Intelligence and Analysis. The Committee emphasizes the need for a high-level coordinator of Treasury intelligence information who can act as a true peer with other government intelligence operations. The Committee also intends to monitor the development and operation of OTFI's secure computer system with the same eye toward functionality and efficiency.

The Committee supports the level-funding of the Office of Foreign Assets Control (OFAC), at $22 million, noting that the proposed transfer to OIA of 23 analysts essentially represents a funding increase commensurate with OFAC's increased importance and workload. OFAC administers and enforces economic sanctions and embargoes against targeted foreign governments and foreign or domestic groups that pose a threat to national security. The Committee will continue to monitor OFAC to determine any change in its budgetary needs, and will evaluate the development of new information-technology systems at OFAC to ensure that OFAC adopts necessary state-of-the-art information technology systems.

The Committee is continuing its study of the organization of the remaining Treasury Department enforcement components in light of the transfer of a significant portion of Treasury's enforcement functions to the Department of Homeland Security. The Committee continues to believe that the Department must make a more disciplined and comprehensive effort to reorganize and revitalize its enforcement activities.

UNITED STATES MINT AND THE BUREAU OF ENGRAVING AND PRINTING

The Committee notes with approval that the President's budget message this year does not contain any mention of the FY 2005 proposal to study the advisability of combining the Department of Treasury's two money-manufacturing bureaus, the Bureau of Engraving and Printing (BEP) and the United States Mint (Mint). The Committee also notes that both operations have continuing redesign efforts underway, including BEP's redesign of the ten-dollar note to be released in the fall. The efforts include the redesign of the hundred-dollar note that could be released in calendar 2006 and the Mint's ongoing "circulating commemoratives" in the nickel and the quarter-dollar. The Committee notes ongoing cost-control efforts at both bureaus. However, the Committee is awaiting a long-overdue study by the Mint regarding the further privatization of some of the Mint's manufacturing options, which should have been completed before the end of 2005. The results of this study may fundamentally change the underlying assumptions regarding the cost of the Mint's operations. The Committee further notes the apparent recurrence early in

2005 of concerns regarding internal control issues at the Mint of the sort raised by both the Office of Inspector General and the Government Accountability Office (GAO) in previous years. While the current Director continues to make strides towards addressing these issues, these failures are of concern.

The Committee will continue to evaluate proposals by the Mint to build a "museum" or sales and display area on the first floor of its headquarters building, but remains skeptical that the Mint has an adequate business plan or a realistic spending goal in mind as it proposes the project. While the Committee is sympathetic to the Mint's goal of establishing a sales area, the idea that a bureau would create its own museum remains an unproven concept and raises potentially expensive security issues.

Finally, the Committee plans to examine at least one potential area of cost savings for the Mint and BEP. Both the Mint and BEP maintain their own separate security forces. Given the ongoing mission of the Secret Service to prevent the counterfeiting of U.S. coins and currency and to provide perimeter security at the White House and Department of the Treasury, consolidating these forces into the existing structure of the Secret Service may yield savings to taxpayers.

UNITED STATES SECRET SERVICE

The Committee notes with dismay that the budget message contains inadequate funding for the United States Secret Service's Electronic Crimes Task Force. While the Committee is not the authorizer for the Department of Homeland Security, it has a direct interest in the success of the electronic crimes task forces and believes an expansion of the program would be a direct benefit to all financial-services sectors under the Committee's jurisdiction. The regional task forces are a model of public-private cooperation, melding Federal, State and local law enforcement, academia, the private sector, and various non-governmental organizations that have interlocking interests in preventing a variety of crimes ranging from identity theft to money laundering and terrorist financing. Given the success of the task forces at trust-building between these often-estranged groups, and in the speeding-up—or in some cases the initiation—of the information flow leading to crime prevention or solving, the extraordinary leveraging of small amounts of funding for equipment and training cannot be overstated. The Committee views the task forces as important tools to protect the safety and soundness of the financial services sector and urges an expansion of their funding.

The Committee also notes that the budget message for the Secret Service contains no specific budget item for expansion of our overseas liaisons with foreign governments with the specific mission of preventing the counterfeiting of currency and other security documents, such as passports, identification cards, tax excise stamps, shipping manifests and bills of lading, etc.

The Committee strongly believes that the Service does an exemplary job of suppressing counterfeiting at home and of working with other countries' governments and law enforcement to prevent the counterfeiting of U.S. currency and security documents abroad. However, the Committee believes that, especially in a time of increased terrorism and rapid globalization of financial markets, a small and specific investment in manpower and supplies of our overseas Service liaisons is of the utmost importance. Developing countries often lack the technical expertise to write, pass, implement, and enforce adequate laws against counterfeiting and money laundering activities, and in the cases where the Service has been able to invest even a single agent in a country, the results often have been dramatic. Given the increased need to know with certainty the true identities of the originators and recipients of financial transactions, and given the ongoing threat of terrorist acts being funded with the proceeds of counterfeiting U.S. or other currencies, the Committee feels that identifiable, ongoing funding to address this specific purpose is vital. Concurrently, the Committee notes the success of the Service's foreign field office program, particularly in South America and in South-Central Europe, and urges increased funding for expansion of new field offices, particularly in southern and western South America and in the Balkans. The Committee feels that these investments would help leverage other budget priorities at a minimal cost.

DEBT RELIEF

The Committee supports the President's request to provide an additional $99.75 million for the Trust Fund for the Highly Indebted Poor Countries (HIPC) and Tropical Forest Conservation Act (TFCA) debt reduction programs. This request fulfills the remaining portion of the U.S. pledge of $150 million to help meet the needs of the HIPC Trust Fund. The Committee continues to view multilateral debt relief as necessary to promoting the long-term debt sustainability of developing countries. In the 108th Congress, the Committee requested that the GAO examine different ways to measure debt relief and is currently reviewing the study and various proposals for providing relief to HIPC countries.

The Committee looks forward to continued oversight activities on debt relief issues, particularly in light of the 14th round of authorization for the International Development Association (the concessional lending window of the World Bank Group) and proposals for reform of the International Monetary Fund's treatment of its gold reserves.

The Committee will work with the Administration to help ensure that the money allocated to debt reduction for the poorest countries provides an incentive for these countries to implement policies to foster macro-economic growth and reduce poverty.

WORLD BANK TRUSTEE ROLE IN THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS, AND MALARIA

The Global AIDS and Tuberculosis Relief Act of 2000 originated in the former Committee on Banking and Financial Services and was signed into law (Public Law 106-264) in August 2000. It provided the impetus for establishing the Global Fund to Fight AIDS, Tuberculosis, and Malaria. The Financial Services Committee has jurisdiction and oversight over the World Bank, which serves as Trustee for the Fund.

The United States provided the founding contribution for the Global Fund and is the world's largest donor to the Global Fund. The current $300 million budget request is a significant increase over last year's request (in addition to the stated commitment of $15 billion for bilateral AIDS relief between 2003 and 2008). However, it is lower than the 2004 appropriation by Congress for the Global Fund last year.

The Committee believes the Global Fund has been an effective instrument against the global AIDS epidemic, as well as tuberculosis and malaria, which are the leading killers of individuals infected with HIV/AIDS. We encourage continued cooperation and coordination with other multilateral donors, bilateral partners, and other donor nations. The Committee looks forward to continuing its oversight over the World Bank's role as the Trustee for the Fund, in order to promote effectiveness and accountability in the Fund's management and operations.

EXPORT-IMPORT BANK OF THE UNITED STATES

In the 107th Congress, the Committee reauthorized the Export-Import Bank (the Bank) for four years (Public Law 107-189). The Bank serves an important function in facilitating the export of U.S. goods to foreign markets in counterbalance to the support provided by foreigner export credit agencies to companies competing with American businesses internationally. The reauthorization mandated, among other things, that the Bank increase its level of small business transactions and invest in technology improvements to improve the access to the Bank's products. The Committee continues to support the continued investment by the Bank in technology and renewable energy.

The Committee supports the Bank's efforts to implement its mandated requirement to devote 20% of its portfolio to small businesses, but we note that the Bank continues to fall short of this goal. In 2004, only 16% of the Bank's portfolio was attributable to small business.

The Committee remains concerned over the inconsistent appropriations for the loan credit subsidy for the Bank. The credit subsidy is the predicted cost of the Bank's portfolio of lending and insurance products; it serves as a loan loss reserve for the Bank. In FY 2004, no credit subsidy was requested. For FY 2005, the Administration requested $125.7 million in credit subsidy and Congress appropriated $59.3 million. For FY 2006, the Administration is requesting $186.5 million in credit subsidy. This increase is largely attributed to an upturn in economic activity and an anticipated increased demand for the Bank's products.

The Administration is also requesting $73.2 million for the Bank's administrative budget, the same level as the FY 2005 appropriation before the 0.80 percent across the board rescission.

The Committee supports the budget request of $1 million for an Inspector General for the Bank.

MILLENNIUM CHALLENGE ACCOUNT

On January 23, 2004, the President signed into law the Consolidated Appropriations Act (Public Law 108-199) which, among other things, authorized the Millennium Challenge Account (MCA). The MCA fosters innovation in development assistance to poor countries by seeking to assure accountability and measurable results. The funds in the MCA will be distributed to developing countries that demonstrate a strong commitment toward good governance, the health and education of their people, and sound economic policies that foster enterprise and entrepreneurship.

The MCA is headed by a Cabinet-level board of directors, including the Secretary of the Treasury. The Millennium Challenge Corporation (MCC) was established on January 23, 2004 to administer the MCA and on November 8, 2004, the MCC's board of Directors selected 16 countries eligible to apply for MCA assistance in FY 2005. The Committee continues to have an oversight role over the

MCA, since the Committee has jurisdiction over the international activities of the Department of the Treasury. The Committee also has an interest in encouraging consistent development assistance policies.

The Committee strongly supports the Administration's request for a $1.5 billion increase in funding for the MCA, although the Committee notes that this level falls far short of the stated commitment of $5 billion for FY 2006 that President Bush made when he announced the new initiative. When combined with other multilateral assistance programs, the MCA sends a message of solidarity with the rest of the world in the fight to alleviate poverty and create better living conditions among countries that need that support the most. Finally, the Committee notes with favor that the funding request for the MCA initiative comes in addition to a requested increase in most existing core development accounts.

FINANCIAL SERVICES REGULATORY RELIEF

The Committee expects to consider legislation giving banks, thrifts, and credit unions relief from outdated and unnecessary regulatory burdens, as a way of improving the productivity of the financial services sector and counter-balancing the regulatory burdens imposed upon depository institutions as part of the global effort to combat terrorist financing. The legislation will likely be similar to H.R. 1375, the Financial Services Regulatory Relief Act of 2004, which passed the House during the last Congress by a vote of 392-25. In its analysis of H.R. 1375, the CBO estimated that provisions expanding the eligibility of certain depository institutions for favorable tax treatment would reduce Federal revenues by a total of $117 million over the 2004-2013 period. The CBO also estimated that as reported by the Committee, H.R. 1375 would increase direct Federal spending by $22 million over the 2004-2013 period, with $15 million of that total attributable to a provision limiting the availability of legal defenses by the Federal government to certain claims for monetary damages. An amendment to H.R. 1375 adopted on the House floor removed this provision from the bill, thereby significantly reducing the estimated cost of enacting the legislation.

INTEREST ON STERILE RESERVES

The Committee expects to consider legislation authorizing the Federal Reserve to pay interest on reserves that depository institutions are required to hold at Federal Reserve Banks against their customers' transaction accounts. Such legislation passed the House twice in the 108th Congress, first as part of H.R. 758, the Business Checking Freedom Act of 2003, and later as part of the Financial Services Regulatory Relief Act of 2004, but was never considered in the Senate. For the reasons outlined below, the Committee expects that enactment of such legislation in the 109th Congress would have little effect on the FY 2006 budget.

Under the Federal Reserve Act, banks, thrifts, and credit unions are required to maintain reserves at Federal Reserve banks based on the volume of transaction accounts that they hold. Because the Federal Reserve pays no interest on such reserves, they have come to be known as "sterile reserves." Depository institutions have developed techniques for minimizing their reserve requirements, chiefly through "sweep" programs that permit funds to be transferred out of reservable transaction accounts into non-reservable instruments, such as money market deposit accounts, at the end of each business day. As a result, reserve balances at the Federal Reserve banks have declined dramatically in recent years, falling from approximately $28 billion in 1993 to approximately $7 to 8 billion a decade later. According to the Federal Reserve, the precipitous decline in reserves has potentially adverse consequences for its ability to conduct effective monetary policy, and the Fed has therefore strongly supported legislation to permit it to pay interest on reserves. CBO's analysis of H.R. 758 last Congress concluded that the payment of interest on reserves would cost approximately $608 million over 5 years (FY 2004-2008). However, because the legislation offset this cost through 2007 by mandating the transfer of an equal amount of Federal Reserve surplus funds to the U.S. Treasury, CBO deemed the legislation to be effectively budget-neutral for the period 2004-2007. If budget offsets are not found for subsequent years, CBO estimated that the legislation would result in a loss of revenues for the period 2008-2013 of approximately $1.5 billion.

DEPOSIT INSURANCE REFORM

In each of the last two Congresses, the House has passed by large margins legislation to reform the Federal deposit insurance system, thereby preserving the vitality of a program that has promoted public confidence and stability in the nation's banking system for over 70 years. The Committee expects to consider substantially similar Federal deposit reform legislation in the 109th Congress.

CBO's analysis of the deposit insurance reform bill that passed the House in the 108th Congress (H.R. 522) concluded that the legislation would increase net Federal spending by some $1.9 billion. CBO acknowledged the speculative nature of its estimate, stating that "it is possible that the FDIC could use its broad discretion [under H.R. 522] differently than we have assumed and that could result in either fewer or greater [deposit insurance] premium collections than CBO has estimated."

The Federal Deposit Insurance Corporation (FDIC), which has statutory responsibility for administering the deposit insurance funds and whose authority would be significantly expanded by H.R. 522, strongly challenged the CBO's assumption that the FDIC would not achieve revenue-neutrality in its management of the funds under the legislation. In a March 31, 2003, letter to Chairman Oxley, FDIC Chairman Donald E. Powell stated: "Because any analysis that determines H.R. 522 will result in an increase in net government spending must necessarily rely on assumptions regarding how the FDIC Board will exercise the discretion provided in the legislation, I can assure Congress that the leadership of the FDIC has no intention of managing the deposit insurance system in a way that increases cost to the government or increases the burden on insured institutions. The costs of the deposit insurance system will continue to be borne by the banking industry * * *." Consequently, the Committee disagrees with the CBO analysis and believes that the enactment of the legislation will have little budgetary impact. Nevertheless, the Committee will work with CBO in this Congress to ensure that any deposit insurance reform legislation that the Committee brings to the House floor does not result in an increase in Federal spending.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The Community Development Financial Institutions Fund (CDFI Fund) was established by the Riegle-Neal Community Development and Regulatory Improvement Act of 1994 to encourage financial institutions to provide funding and technical assistance for economic development initiatives in distressed communities. The Treasury Department administers the program, which awards grants to banks, credit unions, and other entities that have been certified as eligible CDFIs. While the program's authorization expired in 1998, it has continued to receive appropriated funds in the years since, including $55.5 million in FY 2005.

The Administration's budget proposes to consolidate the CDFI Fund with 17 other grant programs into a new "Strengthening America's Communities" program under the Department of Commerce, and to appropriate $7.9 million for the CDFI Fund in FY 2006, $4.3 million of which would be dedicated to the New Markets Tax Credits initiative administered by the Fund, and $3.6 million of which would go toward overseeing grants awarded in previous fiscal years. The New Markets Tax Credit initiative would continue to be administered by the Treasury Department. However, the Committee would need to approve authorization legislation for the transfer of the CDFI's core grant-making and community investment functions to the Commerce Department. Recognizing the importance of the goals of the CDFI Fund and funding for its economic revitalization and community development activities, the Committee will review the merits of the President's proposed transfer of the program to the Commerce Department, particularly in light of the significant reduction in the program's FY 2006 budget.

HOUSING AND URBAN DEVELOPMENT BUDGET

The Administration proposes $28.5 billion for programs administered by the Department of Housing and Urban Development (HUD). In releasing the details of the budget, Alphonso Jackson, Secretary of HUD, stated that the President's budget "will launch needed reforms, consolidate duplicative programs and improve accountability in an effort to boost the effectiveness of HUD's commitment to our nation's cities, counties and smaller communities."

Over the last several years, the Administration has sought to change the direction of many of our nation's housing programs. Rather than addressing symptoms, the Administration has proposed changes designed to promote economic opportunity and ownership.

The Committee is pleased that the budget continues the President's commitment to increasing homeownership and to fostering an "ownership society." Homeownership is the key to financial independence. It helps build stronger communities and offers children a stable and positive environment in which to grow and develop. In 2004, the number of American families who owned their own home approached the 70 percent rate; and for the first time, minority homeownership surpassed the 50 percent rate. These are impressive statistics, but more can be done to close the homeownership gap between non-Hispanic whites and minorities. The President's budget includes a number of initiatives to continue closing the homeownership gap, such as funding for both the American Dream Downpayment Program and for housing counseling initiatives. The Administration has again proposed the FHA Zero Downpayment initiative and the low-income housing tax credit to help close the minority homeownership gap. The budget also includes a program called Payment Incentives, which would allow borrowers with limited or weak credit histories to purchase homes.

While homeownership policy continues to be the best way to strengthen families and improve communities, the Committee also recognizes that there are those families that are not yet ready or able to pursue the American dream of homeownership. For those families and individuals, there is a growing need for affordable rental housing. In many regions across the country, there is a shortage of affordable housing units for working class and low-income families.

The Committee recognizes that it is important to look for ways to address critical rental housing needs across the country. However, the Committee's ability to address this need is hampered by the rising costs associated with the section 8 rental assistance program. The Housing Choice Voucher program is the largest direct rental housing assistance program for low-income families providing rental subsidies to more than 3 million families nationwide. The Housing Choice Voucher program reflects a major commitment on the part of the Federal government. While this program has been very successful in providing secure, safe and affordable housing, the cost of this program comes at a high price. According to the Congressional Research Service, the Housing Choice Voucher program has increased by 35 percent over the last two years, yet the number of people served has remained roughly the same. Today, the Housing Choice Voucher program consumes over 50 percent of the HUD budget, and for the first time all other HUD programs were reduced below the FY2004 appropriation level. According to the Congressional Research Service, in FY2005 the Community Development Block Grant program was reduced $225 million, the HOME program reduced $91 million, elderly housing reduced $27 million, and housing opportunities for People with Aids (HOPWA) was reduced $11 million to cover the cost of the Housing Choice Voucher program.

The rising cost of the Housing Choice Voucher program can be attributed to many factors, including expansions in the program, rising costs of renewing expiring long-term contracts, and rising costs in housing markets across the country. In each of the last two years, the Administration has proposed enacting some form of block grant proposal in an effort to provide flexibility to the local authorities, increase administrative efficiency and reduce the cost of the program. While no legislative action was taken on either of the Administration's proposals, the Appropriations Committee enacted several budget reforms including changing the program from a unit-based program to a dollar-based one, as well as reducing reserve accounts.

The spiraling cost of the Housing Choice Voucher program dictates that Congress and the Committee reevaluate the program to determine how we can create a more efficient, effective way of providing rental assistance to the neediest low income families in this country.

In the 108th Congress, this Committee held 24 different housing-related hearings in an effort to understand and to educate the public about current housing issues. The Committee expects to undertake similar hearings during the 109th Congress.

American Dream Downpayment. On December 16, 2003, the President signed P.L. 108-186, the American Dream Downpayment Act. Under this program, HUD may award grants to State and local governments to assist low-income families who are first-time homebuyers with incomes at or below 80 percent of the local area median income. While the legislation authorizes $200 million for each fiscal year from 2004 through 2007, the approved FY2005 budget included only $50 million for the program. This year, the FY2006 Budget provides $200 million to fully fund this initiative. The Committee supports this important homeownership program, which allows first-time homebuyers to purchase their first home.

Zero Downpayment Option. The Administration has again proposed creating a Zero Downpayment option in the Federal Housing Administration (FHA) to allow first-time buyers with a strong credit record to finance 100 percent of their home purchase including closing costs. The House Financial Services Subcommittee on Housing and Community Opportunity held a hearing on March 24, 2004, on legislation introduced by Congressmen Patrick Tiberi and David Scott of Georgia, H.R. 3755, The Zero Down Payment Act. On May 5, 2004, the Subcommittee approved an amended version of H.R. 3755 which included several consumer safeguards, as well as safeguards for the Federal Housing Administration (FHA) mortgage insurance program. Some concerns regarding the cost of this program have been raised; consequently, final action in the 108th Congress was not taken. The Committee recognizes the need to address the cost discrepancies associated with the proposal and will carefully consider the merits of the Administration's Zero Down Payment initiative, particularly in light of concerns raised by CBO about the cost of the program.

Financial Literacy and Housing Counseling. The Committee continues to believe that counseling is an important component of the successful homeownership process and agrees with the President that it is important to help families learn more about the home buying process in order to help families stay in their homes and to avoid predatory lending practices. In FY2004, the Administration proposed and Congress provided $40 million for counseling programs. The Administration requested $45 million for a separate housing counseling program in FY2005, but the conferees provided $42 million and kept it within the HOME program. The Committee applauds the Administration's continued commitment to counseling programs and supports the Administration's FY2006 budget request of $40 million for housing counseling to assist over 760,000 families in becoming homeowners or to avoid foreclosure on their homes.

Section 8 Housing Choice Voucher Program. The Administration's budget request for the Housing Choice Voucher program is $15,845 billion, an increase of $1.079 billion compared to 2005. While the Administration has proposed increased funding for 2006, they continue to be concerned about the rising cost of the Housing Choice Voucher. The voucher program provides rental subsidies to more than 2 million families nationwide. In 2001, the Housing Choice Voucher program consumed 43 percent of HUD's annual budget. This year, FY2005, that figure has risen to 57 percent and will surpass 65 percent in the Department's 2006 budget. The Administration concludes that this rate of increase, combined with an extremely complicated set of laws and rules that govern the voucher program, limits the program's effectiveness for families, many of whom must wait years to receive any help from their local housing authorities. The Administration will re-propose allowing public housing authorities (PHAs) greater flexibility in administering the program, such as allowing the PHAs to set and adjust subsidies based on local market rents, rather than depending on HUD-determined rents. The Committee shares the Administration's concern about the rising cost of the Housing Choice Voucher program and about the impact that this cost is having on funding for other important HUD programs. The Committee supports the goal of making the existing programs flexible, efficient and cost effective, and will carefully consider the Administration's proposal when it is made available.

Public Housing. There are about 1.25 million units of public housing worth an estimated $90 billion in the United States. The Millennial Housing Commission in its report to Congress in 2002 estimated that the nation's public housing stock is in need of $20-$22 billion in capital repairs. The President's FY2006 budget includes $3.4 billion for the Public Housing Operating Fund to fund local housing authorities in their daily operation and $2.4 million for the Public Housing Capital Fund to help local housing authorities fund major repairs and modernization in their housing units.

Preserving our public housing stock is fundamental to maintaining adequate levels of affordable housing in this country. The increasing cost of preserving current public housing units dictates that we examine the current program and identify alternative ways to address this problem. As in the past, the Administration's FY2006 budget advocates moving PHAs to a more market-based model that encourages authorities to control costs. The Committee shares the Administration's concern about the rising cost of maintaining the current public housing stock. The Committee supports removing confusing and restrictive Federal regulations that prevent State and local governments from developing creative and efficient ways to address their particular concerns. Furthermore, the Committee believes that providing PHAs with greater flexibility will help to address the rising costs associated with maintaining the current public housing stock. The Committee will review the Administration's proposals carefully and looks forward to working with the Administration to create a more efficient, cost-effective system that both preserves current stock and the creation of additional affordable housing for low-income families.

Housing for the Elderly (Section 202). Section 202 provides assistance to expand the supply of housing with supportive services for the elderly. The Administration intends to investigate ways that Housing for the Elderly can be reformed to make the program more efficient and cost effective. In 2004, the Administration conducted an evaluation of the program and maintains that they found lengthy and delayed construction, unexpected cost increases, and an inability to demonstrate performance results. The Committee understands how important it is to reevaluate programs and seek ways to improve their administration and operation. However, the Committee also recognizes the significant role this program plays in meeting the housing needs of this most vulnerable segment of our population and wants to be sure not to compromise the mission of the Housing for the Elderly program.

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 has proposed a significant reduction in funding for the Section 811 program in its FY2006 budget. The 2006 budget requests $120 million compared to the $238 million enacted for 2005. This represents an almost 50 percent reduction. In addition, under the Administration's budget proposal, none of the remaining funds could be used to construct new housing or rehabilitate existing housing to be suitable for persons with disabilities. New funding would be restricted to use for tenant-based rental assistance and to renew existing subsidy contracts. The Section 811 program is one of the only programs producing housing for people with disabilities. The Committee recognizes that the disabled population has special housing needs. For this reason, the Committee will review the Administration's section 811 budget proposal very carefully to determine its impact on this most vulnerable population.

Hope VI. The Administration again proposes eliminating funding for the HOPE VI program. In addition, the Administration proposes the rescission of the $143 million included for HOPE VI in the FY 2005 budget. The Committee understands that while the HOPE VI program has enjoyed many successes, it also has been plagued with accountability and management problems. It is interesting to note that the HOPE VI program was originally established as a 10-year program with the goal of demolishing an estimated 86,000 units of the Nation's worst public housing. The Administration maintains that this goal has been accomplished. Despite the fact that the original goal has been met, the Committee on Appropriations continues to include funding for the HOPE VI program. During the 108th Congress, this Committee responded to the concerns regarding the HOPE VI program by considering and approving legislation to reauthorize the program through FY2006, and to allow a new form of HOPE VI grant to be used to fund the redevelopment of distressed Main Street areas in small communities. In addition, the legislation included several management changes to make the program more accountable and sensitive to the people it is intended to assist and to address the slow expenditure rate of HOPE VI funds. The Committee will continue to conduct oversight hearings on the program to determine if other changes to the program are warranted and to monitor the implementation of the Small Community Main Street Rejuvenation program.

Self-Help Homeownership. The President's budget proposes $30 million for HUD's SHOP Program. 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. The Committee fully supports the Self-Help Homeownership Opportunity Program and believes it is an important component in achieving the goal of producing new homes for very low-income families.

Brownfields. The Committee notes with concern the elimination of the Brownfields Economic Development Initiative (BEDI) and its movement to the Department of Commerce. The brownfields redevelopment program is used to reclaim abandoned and contaminated commercial and industrial sites, and HUD should not vacate its own role in cleaning up these blighted sites, and providing the first layer of community development. HUD proposed in the FY2003 budget to decouple the BEDI program from the Section 108 CDBG loan guarantee program. The Committee supports this decoupling and urges HUD to follow through on this proposal. The BEDI program can be a powerful tool for communities interested in brownfields redevelopment, and the Committee supports retention of the program at HUD.

Homeless Assistance. The Committee applauds the Administration's continued commitment to ending the most chronic forms of homelessness. The President's FY2006 budget proposes record levels of funding to house and serve homeless persons and families. The 2006 budget provides $1.44 billion through HUD's Continuum of Care homeless assistance grants, $200 million more than in 2005. The funding, along with greater coordination at the Federal level, will help meet the Administration's goal of ending the most chronic forms of homelessness for those living with mental illness, addiction or disability. The Administration proposes consolidating HUD's homeless assistance programs, each with their own rules and eligibility requirements, into a single program in an effort to simplify the grant application process, streamline local planning, and speed delivery of resources to those who need it most. The Committee supports the idea of increased flexibility and providing greater local control, which will allow local officials to better meet the needs of homeless in their individual communities.

Community Development Block Grant Program. The President's budget proposes a new $3.7 billion program within the Department of Commerce called the Strengthening America's Communities Program. This new program would consolidate and reduce the funding for HUD's Community Development Block Grant and several other Federal economic and community development programs. The Committee applauds the Administration stated goal of creating a more targeted, unified program with stronger accountability standards and more flexibility. In addition, the Committee supports targeted funding to high poverty areas in an effort to make a concrete difference in distressed areas. However, the Committee has significant concerns about how this new program will continue to meet the development needs of communities. In addition, the Committee is unclear as to whether the Department of Commerce has the infrastructure and tools necessary to adequately assess community development and housing affordability needs in communities across the country. At this time, the Committee acknowledges the issues and concerns raised by the Administration, and we look forward to working with the Administration to meet the development needs of our communities. At the same time, the Committee acknowledges the issues and concerns raised by the Administration and believes that future hearings and greater detail regarding the Administration's proposal will provide a clearer picture of whether this proposal will continue the goals of community development for distressed communities.

RURAL HOUSING SERVICE

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 Services. It has three primary programs – Single Family Housing; Multi-Family Housing; and Community Facility programs.

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.

In its FY2006 budget proposal, RHS continues to address a multitude of management and budget challenges in both its single and multifamily housing programs. RHS's budget proposes a reduction in its Section 515 program from about $100 million in FY2005 to $30 million in FY2006. Rural Housing continues to have a portfolio of about 17,000 existing multi-family projects that provide housing for about 470,000 low-income tenants, many of whom are elderly. These projects were primarily built in the 1980s and many are in need of repairs and rehabilitation. The projects have an outstanding indebtedness of about $12 billion. Concerns remain about the physical condition of existing projects and the ramifications of allowing projects to leave the program. Recently, the Supreme Court ruled in favor of project owners who wished to prepay their loans and remove their property from the subsidized market. A recent capital needs assessment indicated that about 10 percent of the 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 under the Administration's proposal. Section 515 loans would be used only for repairs and rehabilitation of existing projects. The Administration does not support the use of direct loans for new projects until the needs of the existing portfolio are properly addressed. While areas of concern still exist regarding the program and its funding levels, the Committee is pleased that USDA is conducting a thorough review of the matter and working to develop better strategies for managing the existing projects and preserving existing housing stock before adding to future costs by funding new projects.

RHS's FY2006 budget proposal addresses the immediate need to provide assistance for tenants of projects that prepay and leave the program. It includes $214 million for a multi-family housing revitalization project that establishes a tenant protection program that would provide vouchers to such tenants to pay for the higher rents they would experience if their projects are converted to commercial ventures, or to find alternative affordable housing. Rural housing vouchers are authorized by current law, although regulations will need to be developed for implementing the program. The Committee applauds the Administration's efforts to address the challenges of maintaining and preserving affordable housing in rural America. In the years to come, the growth in rural population and the predominance of low wage jobs will translate into an increased need to find new and innovative solutions with which to address affordable rural housing.

The Section 538 multi-housing loan guarantee program is designed to leverage other sources of financing. The FY2006 budget proposal includes $200 million for Section 538, which almost doubles the amount available in FY2005. The Committee is pleased that the Administration has doubled the amount available for the program, which will help leverage other sources of financing for multi-family housing projects. Only in operation for a few years, the program continues to evolve. RHS recently published a comprehensive revision of its multi-family housing regulations, which the Administration believes would streamline the program and protect it against potential abuses. The Committee supports the Administration's efforts to make the Section 538 program a more attractive component of the complete funding package, which includes access to secondary market funds and use of tax credits and other subsidies.

The Section 502 direct mortgage program would be cut from $1.1 billion in FY 2005 to $1 billion in FY2006. Of particular note is the inclusion of an increase in the fee on guaranteed 502 loans. In October of 2002, the one-time fee on guaranteed loans was reduced from 2.0 percent to 1.5 percent for loans to purchase housing, and to 0.5 percent for loans to refinance existing RHS loans. The Administration believed that taking this action would increase homeownership, especially among minorities. This reduction resulted in a significant increase in demand. Accordingly, the FY2005 budget reflected a partial offset, with the fee on new loans being increased from 1.5 to 1.75 percent. The Administration expects this change to reduce subsidy costs and provide for a more manageable growth in the program. In addition, the FY2005 budget proposed legislation to allow guaranteed loans to exceed 100 percent of appraised value by the amount of the fee on such loans. This proposal was intended to ensure families are not denied home ownership for lack of funds to pay the cost of the fee. Congress provided for a one-time fee of 2.0 percent in 2005, which is maintained in RHS's FY2006 budget proposal.

The 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 r 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, although dependent on rental assistance that is funded in four-year term increments. The FY2006 budget proposal includes $650 million for fully funding the rental assistance contracts that are expected to come up for renewal and for funding a limited number of contacts for new farm labor housing projects.

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

NEIGHBORHOOD REINVESTMENT CORPORATION

The Administration has proposed a total of $118 million for the Neighborhood Reinvestment Corporation's FY2006 budget proposal. This a $3 million increase from its FY2005 proposal. The Administration believes this funding level will provide affordable housing and counseling to more than 170,000 individuals or families living in 2,700 communities served by more than 230 organizations that comprise the NeighborWorks network. The Committee applauds the efforts of the Neighborhood Reinvestment Corporation. At the same time, the Committee notes that it will review the Corporation's activity and, in particular, evaluate how it complements HUD and RHS efforts to increase homeownership and curtail abusive lending practices.

FEDERAL EMERGENCY MANAGEMENT AGENCY

On June 30, 2004, the President signed into law the "Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (PL 108-264). The new law extended the authorization of the National Flood Insurance Program (NFIP) through September 30, 2008. It uses the existing Flood Mitigation Assistance (FMA) program and creates a new temporary pilot program to address repetitive loss properties.

In the legislation, Congress recognized that repetitively flooded properties constitute a significant drain on the resources of the NFIP, costing about $200 million annually. These repetitive-loss properties comprise approximately one percent of currently insured properties but are expected to account for 25 to 30 percent of claims losses. The "Congressional Findings" section of the bill emphasized that mitigation of repetitive-loss properties through flood-proofing, elevations, and relocations will produce savings for policyholders under the program and for Federal taxpayers through reduced flood insurance losses and reduced Federal disaster assistance.

The Bunning-Bereuter-Blumenauer Flood Insurance Reform Act authorized the transfer of funding from the National Flood Insurance Fund to the Flood Mitigation Assistance Program and to a new Pilot Program to address repetitively flooded properties. The bill authorized transfer of funding from National Flood Insurance Fund but did not specify whether this funding should come from fees or premiums, only that amounts made available should not be subject to offsetting collections through premium rates for flood insurance coverage. The Committee urges FEMA to determine the most efficacious way to transfer the funding. Although this is not an appropriation of new money, this transfer must be addressed in the budget and appropriations processes. The President's FY2006 budget does not include funding for PL 108-264.

The first year of this important five-year program to address repetitively flooded properties was not funded. The Committee wishes to emphasize that early investment in mitigation funding will help ensure the solvency of the National Flood Insurance Program and that it is important that this program be funded in FY2006.

ADDITIONAL HOUSING VIEWS

Department of Housing and Urban Development (HUD) programs provide a housing safety net for the most vulnerable in our society, foster economic opportunities for low- and moderate-income families, and strengthen urban and rural communities.

The FY 2006 HUD budget accelerates a four year effort by the Bush Administration to dismantle critical HUD programs, to make deep funding cuts in these programs, and regretfully, to target these cuts to our most vulnerable low-income families, seniors, and disabled persons.

The FY 2006 Administration budget proposes to cut the HUD budget by \$3.85 billion, a 12% cut. The budget would eviscerate CDBG flexible block grants to states and localities, cut the disabled housing budget by 50%, continue an assault on the rental housing assistance safety net programs (Section 8 and public housing), and cut funding for housing programs for Native Americans by 16%.

The newest and most troubling aspect of the FY06 housing budget is the Administration's proposal to eliminate seven HUD community development programs (including CDBG), and consolidate them with eleven other programs from four other agencies into a new program at the Commerce Department. The FY06 budget request of \$3.71 billion for this new program reflects a 35% cut, compared to \$5.665 billion in combined FY 2005 funding for these 18 programs. The pro rata share of cuts to the HUD programs alone would be \$1.56 billion, with CDBG accounting for \$1.42 billion of that pro rata reduction. These cuts would have a devastating impact on housing, neighborhood improvements, and social services for the elderly, the disabled, families with children, and the homeless.

A number of important HUD programs would effectively be eliminated, since they would lose their dedicated source of funding. Brownfields grants for cleanup and economic redevelopment of brownfields sites would be eliminated. Funding for economically distressed Empowerment Zones and Enterprise Communities would be eliminated. Capacity building grants for LISC and the Enterprise Foundation, to help them foster Community Development Corporations in poor communities, would disappear. And the Rural Housing and Economic Development Program would be zeroed out.

The budget also proposes to eliminate Section 108 CDBG loans, which have been used effectively by localities to leverage private sector capital for critical community development projects. Moreover, since Section 108 loans are secured by a pledge of future CDBG receipts, the proposal would jeopardize the ability of cities and counties to repay existing 108 loans.

However, the biggest impact of the Administration proposal would be the end of CDBG as we know it, along with significant funding reductions for cities and counties that rely on CDBG block grant funds.

HUD acknowledges, in its "*Highlights of FY 2004 CDBG Accomplishments,*" that "*The CDBG program is based on the concept that local communities and states can best determine priority community development needs and then develop strategies and programs to address those needs. This local flexibility is a hallmark of the program. The process includes significant citizen participation*." Communities use the program for a wide range of activities, including affordable housing, community development, infrastructure, building senior citizen centers, and providing critical public services.

Affordable housing would be particularly hard hit. Last year, $1.16 billion in CDBG funds were used for housing, resulting in 112,000 homeowners receiving funds for housing rehabilitation, 11,000 families receiving assistance to become 1st-time homeowners, and 19,000 rental housing units being rehabilitated. It can be presumed that the Administration's proposal to transfer the program to the Commerce Department would eliminate housing as an eligible use of funds. As a result, $1.16 billion in affordable housing investments would be lost.

The proposal also would reorient CDBG away from its traditional HUD focus of affordable housing and <u>community</u> development, to a Commerce Department whose focus is on <u>economic</u> development, and which caters to business interests. In fact, according to the Office of Management and Budget (OMB), the Commerce Department's flagship economic development program, the Economic Development Administration, has as its primary purpose *"to promote a favorable business environment to attract private sector capital investment and jobs."*

Local decision making would be compromised. Under the proposal, the federal government could take funding away from communities the Administration determines have failed to *"demonstrate progress"* in meeting the goals of *"increasing job creation and business formation - the true engines of economic development."* The Administration would also control some of the funding for its new program through a bonus fund to be given only to "*communities that have taken steps to improve conditions in ways that have been proven to attract businesses*" – such as "*removing barriers to business development"* and *"increased commercial development."*

Finally, the proposal would eliminate funding to many communities, taking away a critical source of funding to provide opportunities for low-income families in those communities. CDBG funding currently goes directly to all cities with a population over 50,000 and all counties with a population over 200,000, creating housing and economic opportunities for low- and moderate-income families nationwide. Although the proposal does not include a detailed funding formula, the budget explicitly states that it **"***targets resources only to communities that need assistance, based on poverty and job loss,"* and justifies this change by criticizing CDBG on the grounds that only *"38% of CDBG funds currently go to States and communities with poverty rates that are lower than the national average."*

A proposal to limit funding to only the most distressed communities would effectively abandon efforts to help the millions of low-income persons living in middle income and economically diverse communities. Instead of carrying out the existing federal policy objective of de-concentrating low-income families, the proposal would further concentrate them in the poorest communities, and potentially further stratify society along economic and racial lines. CDBG funds should continue to be available to serve poor people wherever they happen to reside.

The other new, and disturbing proposal in the HUD budget is the fifty percent funding cut for the Section 811 program for disabled housing. It is inexcusable for this program to be cut, let alone singled out for a cut of this magnitude. The Administration budget also proposes to turn Section 811 into a rental assistance program only, ending the longstanding federal role in funding the cost of construction of new affordable housing for the disabled.

This is bad policy, since site-based housing is essential to serve the needs of disabled persons. It also undercuts the Administration's professed interest in promoting faith-based solutions to housing needs, since faith-based institutions have played a major role in building Section 811 disabled housing. And, it is ironic that the Administration now purports to be promoting tenant-based assistance to the disabled – since it was this Administration that killed funding for new vouchers for the disabled, proposing elimination of new disabled vouchers in its very first budget submitted to Congress.

The HUD budget proposal also undermines critical HUD safety net programs. The budget not only continues the Administration's prior efforts to zero out the HOPE VI program to revitalize public housing, it also proposes to rescind the $143 million in FY 2005 HOPE VI funds Congress appropriated just two months ago. Funding for critically needed capital repair of public housing units is cut another $252 million, and operating assistance is cut by $17 million. The overall FY 2006 public housing request is 9% below last year's level, and 30% below the level when the Administration took office, after adjusting for inflation.

Unlike last year, the Administration does not propose large cuts in the Section 8 voucher program. But, it does propose a continuation of the partly dollar-based system put in place by administrative action last year. This historic shift, under which housing authorities for the first time were not reimbursed for all validly incurred housing costs, caused a large number of housing authorities to cut the number of families receiving vouchers or to cut the rent subsidy. And, just last month, HUD acknowledged that this new dollar-based system results in a nationwide under funding of the voucher program of more than 4% in 2005. Unfortunately, the Administration's Section 8 budget would perpetuate reductions in the number of families receiving vouchers and in the level of subsidies being provided.

It is also troubling that the Administration announced in its budget that it plans to reintroduce its proposal to block grant the Section 8 voucher program. Arguably, the proposal to slash funding for CDBG this year demonstrates the true intent of block granting the voucher program – that is, paving the way for deep cuts in the future once the current voucher-based system is eliminated. The block grant proposal introduced last year also would eliminate the targeting of vouchers to the poorest families, and eliminate rent affordability protections. Authorizers and appropriators in both the House and Senate explicitly rejected this proposal in the last Congress, and they should do so again this year.

The budget makes harmful cuts to a number of other housing programs. Flexible HOME housing block grants to states and localities would be cut by $66 million, a 4% cut. Housing for Persons with AIDS (HOPWA) would be cut by $14 million, a 5% cut. Native American housing programs would be cut by $110 million, a 16% cut. Funding for lead paint abatement would be cut by $48 million, a 29% cut. Funding for Fair Housing programs would be cut by 16%. Funding for the National Council of La Raza, for affordable housing activities and technical assistance, would be zeroed out of the budget.

Finally, while the McKinney-Vento homeless program would receive a $175 million increase, such increase is illusory, as it would be overwhelmed by the proposed steep cuts in housing safety net programs that keep families from becoming homeless in the first place.

Similarly, the proposed $150 million increase in homeownership down payment block grants would be more than negated by the steep cuts in CDBG and

HOME block grants (both of which are used for down payment assistance), as well as by the elimination of HOPE VI, the one program with a proven track record in creating homeownership for low-income families in low-income communities.

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ADDITIONAL VIEWS ON DEBT RELIEF

We support the Administration's funding request for debt relief, which will allow the United States to meet its current bilateral debt relief obligations, its commitment to the Tropical Forest Conservation Act, and its pledge to help meet the projected financing gap in the HIPC Trust Fund.

However, we are concerned that the limited debt relief available under the HIPC Initiative has failed to provide a lasting solution to the debt crisis. HIPC countries still send more than $2 billion in debt service payments to the IMF and the World Bank each year. Debt service payments for HIPC countries have been reduced by less than one-third. Furthermore, several impoverished countries that were excluded from the HIPC Initiative are in urgent need of debt relief.

We believe that we should be doing a great deal more to help the world's poorest countries that are still oppressed by excessive debt burdens. In fact, we support complete cancellation of all debt owed to the multilateral financial institutions by the HIPC countries, as well as needy non-HIPC countries, and we were encouraged by the recent Statement on Development by the G7 Finance Ministers that recognized the need to move toward this goal.

We hope that the Committee on Financial Services will consider methods to provide and finance complete debt cancellation for the world's poorest countries. There could be a number of ways to finance complete cancellation of the multilateral debts owed by poor countries. These could include the use of the IMF's gold holdings and other internal resources to finance the cancellation of debts owed to the IMF. With regard to the sale or reevaluation of some of the IMF's gold, we believe we should work to minimize any adverse market effect such an approach might have. We also look forward to considering any alternatives that members of the Committee and the Administration might propose.

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