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 2014

Pursuant to clause 4(f) of the Rules of the House of Representatives and section 301 (d) of the Congressional Budget Act of 1974, the Committee on Financial Services is transmitting herewith 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 2014.

OUR NATION'S FISCAL CHALLENGE

In four of the last five years, the President of the United States has failed to follow the law and submit his budget on time. This is disappointing but perhaps not surprising since the U.S. Senate, controlled by the President's own party, has failed to pass a budget in almost four years. Hardworking taxpayers deserve better. They deserve a healthy economy, but we cannot have a healthy economy until we have a budget that puts the nation on a sustainable fiscal path.

Today, America is not on a sustainable fiscal path but rather a dangerous path. In the last four years, our national debt has grown by $6 trillion, unemployment has never fallen below 7.5 percent, and federal spending has surged by 22 percent. According to the White House's Office of Management and Budget (OMB), spending as a percentage of the U.S. economy has grown from 20.8 percent in 2008 to 24.3 percent in 2012. In a similar fashion, publicly held debt as a percentage of our economy has doubled in just five years from 36 percent to 73 percent. It will exceed 76 percent in 2013, its largest share since 1951, and chronic deficits will push our debt to 87 percent of the economy in ten years, according to projections by the Congressional Budget Office (CBO). Recent research by noted economists Kenneth Rogoff and Carmen Reinhart demonstrates that over the past century, countries with debt levels as high as ours have experienced markedly lower growth as a result.[1]

Washington's spending-driven debt crisis and burdensome regulatory policies—including those mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203)—have produced an economy that seems stuck perpetually in neutral. The Joint Economic Committee reports real GDP has grown at an average rate of just 2.1 percent since the recession ended, as opposed to a 4.7 percent average annual rate in the other nine post-war recoveries over a comparable period. When Congress debated the Obama "stimulus" plan, the President's Council of Economic Advisers estimated that a one percent increase in GDP corresponds to an increase of one million jobs. It stands to reason, therefore, that there are approximately 2½ million fewer jobs today due to slower economic

[1] Carmen M. Reinhart and Kenneth S. Rogoff, *Growth in a Time of Debt,* National Bureau of Economic Research Working Paper 15639 (January 2010).

growth. Fewer jobs and slower growth result in lower revenue, which leads to higher deficits and larger debt.

As deficits and debt continue to mount, CBO has warned of an increased probability of a sudden crisis during which investors would lose confidence in the government's ability to manage the budget. The results would be catastrophic. Government would be able to borrow money only at astronomical interest rates. The only way out would be untenable tax hikes and harsh spending cuts that inflict unyielding pain on all Americans, but most especially the poor, the elderly and the middle class. Taking action to reduce the deficit now protects the long-term viability of vital government programs for their intended beneficiaries.

The consequences of continued inaction are too high. America is on the verge of becoming a country in decline— economically stagnant and permanently in debt; less prosperous and less free. We cannot let that happen. We must act wisely to get government spending under control and shrink our debt. By its actions, and in the case of the FY 2014 budget, inaction, the Obama Administration has demonstrated that it is incapable of imposing the spending discipline necessary to put this nation's finances in order. Just as ordinary Americans must live within their means, so must their government. Those who serve the American people must learn to do more with less. Because the resources of the American people are not infinite, government officials must allocate those scarce resources wisely to fewer programs. The decision to cut spending is not an easy one. But it is necessary. And it will result in a more resilient economy and stronger nation for future generations.

SECURITIES AND EXCHANGE COMMISSION

The SEC's three-part mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. But in the run-up to the financial crisis and its aftermath, the SEC repeatedly failed to fulfill any part of its mission: the SEC failed to adequately supervise the nation's largest investment banks, which resulted in the bailout of Bear Stearns and the collapse of Lehman Brothers and the ensuing financial panic; the SEC failed to supervise the credit rating agencies that bestowed AAA ratings on securities that later proved to be no better than junk; the SEC failed to ensure that issuers made adequate disclosures to investors about securities cobbled together from poorly underwritten mortgages that were bound to fail; and the SEC was missing in action as Bernard Madoff and Allen Stanford perpetrated the two largest Ponzi schemes in U.S. history. These failures have taken place despite significant increases in funding at the SEC, which has seen its budget nearly triple over the past decade.

In an attempt to address management dysfunction at the SEC, Section 967 of the Dodd-Frank Act mandated that the SEC hire "an independent consultant . . . to examine the internal operations, structure, funding, and the need for comprehensive reform of the SEC." The SEC retained the Boston Consulting Group (BCG), which recommended that the SEC immediately overhaul its structure and management to optimize the use of its resources in light of the mandates placed upon it by the Dodd-Frank Act.

The BCG found that the SEC had a needlessly complex organizational structure, characterized by multiple reporting lines, fragmented authority, and duplicative and overlapping responsibilities. While some reforms have been made, there remain 22 division and office heads reporting directly to the SEC Chairman. Additionally, several key reforms proposed by BCG have not been adopted, including combining the Office of Compliance, Inspections, and Examinations into the Division of Trading and Markets and the Division of Investment Management, and combining the Office of Public Affairs, Office of Investor Education and Advocacy, and Office of Legislative and Intergovernmental Affairs into a new Office of External Relations.

The Committee supports the SEC's effort to "expand the agency's information technology (IT) systems to better fulfill [its] mission," but believes that the SEC must establish stronger controls to prevent waste, fraud and abuse. For example, in November 2012, the SEC's Office of Inspector General (OIG) reported that the Division on Trading and Markets' automation review policy program (ARP) lab, "staff spent over $1 million dollars on computer equipment and software with little oversight or planning and that a significant portion of the equipment and software purchased was unneeded or never used in the program."

The Committee also supports the SEC's pledge to "devote significant attention to development and consideration of possible rule changes designed to facilitate access to capital for smaller companies while at the same time protecting investors." However, the Committee believes the SEC could be doing more to support capital formation by fully and expeditiously implementing the "Jumpstart Our Business Startups" or "JOBS" Act (P.L. 112-106) in a timely manner.

Given current budgetary constraints, the Committee believes stronger economic analyses by the SEC will help ensure agency resources are used more effectively. For instance, the SEC spent 21,000 staff hours on the proxy access rulemaking (at an estimated cost of $2.2 million), which the U.S. Court of Appeals for the D.C. Circuit subsequently unanimously struck down because of a failure to "adequately assess the economic effects of a new rule." The Committee supports the SEC's consideration of the recommendations put forward by both the Government Accountability Office (GAO) and the SEC's OIG to improve economic analyses in SEC rulemakings.

At a time when it faces multiple statutory deadlines to write rules mandated by the Dodd-Frank and JOBS Acts, the SEC continues to expend significant resources on activities and issues which are discretionary. For instance, the SEC has been debating since 2011 whether to mandate the imposition of a fiduciary-like standard of care for broker-dealers, even though former SEC Commissioner Kathleen Casey and Commissioner Troy Paredes expressed the view in January 2011 that the SEC staff had failed "to adequately justify its recommendation that the Commission embark on fundamentally changing the regulatory regime for broker-dealers and investment advisers." In October 2012, SEC Commissioner Daniel Gallagher stated that any rulemaking to change the broker-dealer regulatory regime, "[m]ust . . . be supported by Commission findings that such rules are necessary, as well as a detailed understanding and analysis of the economic consequences of such rules." While the SEC staff informed the Committee in 2012 that the Commission would be issuing a request for data to help the SEC staff more fully understand the potential costs associated with altering the broker-dealer standard of care, to date no such request has been made. In the absence of such economic and empirical data, the SEC should not proceed with this discretionary rulemaking.

Another example of misplaced SEC priorities is its apparent interest in proposing a rule to mandate disclosures of corporate spending on political and other advocacy activities beyond those required under existing Federal and state laws. Putting aside the merits of such an initiative, which are questionable at best, the SEC's dedication of scarce resources to a rule that bears only a tenuous relationship to its mission is troubling in light of the many missed statutory deadlines that have marked its implementation of the Dodd-Frank and JOBS Acts.

The Committee supports the SEC's goal to "hire more economists, trading specialists, and other experts with knowledge of the marketplace and both investment and trading practices," which would better equip the agency to fulfill its statutory mission. The SEC's most recent Performance and Accountability Report (PAR) issued for FY 2011, however, notes that only 9 percent of SEC staff has industry designations. While the SEC has not issued a FY 2012 PAR report, SEC staff informed the Committee that now 10 percent of agency staff has these industry designations.

SECURITIES INVESTOR PROTECTION CORPORATION

The Securities Investor Protection Corporation (SIPC) protects the custody function that a broker-dealer performs. The Dodd-Frank Act increased SIPC's line of credit with Treasury from $1 billion to $2.5 billion. In its FY 2013 budget, the Administration asserted that SIPC is not projected to draw on its $2.5 billion line of credit over the next ten years.

In 2008, SIPC was confronted with two unprecedented events: the liquidations of Lehman Brothers and Bernard L. Madoff Investment Securities. Although SIPC has so far handled these "hundred year" events without having to access taxpayer funds, the Madoff proceeding continues to present SIPC with challenges that could overwhelm the SIPC fund.

Moreover, on June 15, 2011, the SEC instructed SIPC to liquidate the broker-dealer at the center of Allen Stanford's multi-billion dollar Ponzi scheme. SIPC refused, and on December 12, 2011, the SEC sued SIPC in federal district court to force it to liquidate the broker-dealer. On July 3, 2012, the United States District Court for the District of Columbia denied the SEC's application. On August 31, 2012, the SEC filed a notice of appeal challenging the District Court's ruling.

The Committee believes that budget projections for SIPC should be realistic and account for the possibility that broker-dealers could fail, and that courts could expand SIPC's obligations. If SIPC's protection limit is raised from $500,000 to $1 million as part of possible SIPC reforms, the SIPC fund will face further stresses. The Committee will not support legislative reforms that would require SIPC to borrow against its line of credit with the Treasury, which places taxpayers at risk if the SIPC fund is insufficient to meet higher claims.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

The Committee questioned the inclusion of the Public Company Accounting Oversight Board (PCAOB) in the Administration's FY 2013 budget. The PCAOB is a non-governmental, private-sector corporation whose expenditures and revenues have no effect on the budget. The entries for the PCAOB in the Administration's budget are therefore potentially misleading. Because the PCAOB is funded through registration fees and accounting support fees, including the PCAOB in the budget creates the misleading impression that taxpayers are responsible for the PCAOB's funding. The Committee will closely examine the PCAOB's authority arising from Title IX of the Dodd-Frank Act and the SEC's oversight of the PCAOB and its budget.

GOVERNMENT SPONSORED ENTERPRISES

The Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac were placed into the conservatorship of the Federal Housing Finance Agency (FHFA) in September 2008. To date, Fannie Mae has drawn more than $116 billion and Freddie Mac has drawn $71 billion in taxpayer funds, for a total of approximately $187 billion ($137 billion, net of dividends paid), although the GSEs have also paid the Treasury approximately $50 billion in dividends, making the conservatorship of the GSEs the costliest of all the taxpayer bail-outs carried out over the past three years.

After Fannie Mae and Freddie Mac were placed in conservatorship, CBO concluded that they should be included in the federal budget to reflect their cost to the taxpayer. But the President's FY 2013 budget continued to treat Fannie Mae and Freddie Mac as off-budget private entities rather than government agencies whose activities are paid for by taxpayers. As a result, the mounting losses of the GSEs that are borne by the taxpayer do not appear on the government's financial statements. The Committee strongly recommends that the Office of Management and Budget be directed by statute to move Fannie Mae and Freddie Mac "on budget," and to account for losses sustained since they were placed in conservatorship in the same way that the CBO calculates their losses. The Committee also recommends subjecting the GSEs to the statutory debt limit. To allow time to implement these changes, the Committee recommends an effective date of 90 days after the enactment of any such changes.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

In its last budget submission, the Administration requested $44.8 billion in gross budget authority for the Department of Housing and Urban Development (HUD) for FY 2013, which was $522 million more than FY 2012 enacted levels. Most of HUD's FY 2013 Budget—80 percent—will go towards renewing rental assistance for approximately 5.4 million residents in subsidized housing; at least half of those residents are either elderly or disabled. Currently, HUD's three largest annual expenditures are its core rental assistance programs—tenant-based Section 8, project-based Section 8, and public housing. Given the sizeable annual federal commitment made to support these and other HUD programs at a time when taxpayer funds are limited, the Committee believes it is vital that HUD prioritize the delivery of services to the neediest individuals to the greatest extent possible before making new or expanded commitments to others. The Committee will work with the Administration to target HUD resources towards those programs that have shown an ability to produce positive outcomes for individuals most at risk.

According to the Congressional Budget Office,[2] there are over 35 programs under the jurisdiction of the Committee with expired authorizations. Most of these programs are administered by HUD. The Committee is concerned that the lack of authorization for so many programs, some of which have not been formally reauthorized in well over a decade, hinders effective Congressional oversight, inviting waste and mismanagement. Thus, the Committee will work with the Appropriations Committee to ensure that all unauthorized programs within its jurisdiction that receive taxpayer funding are meeting their mission objectives and are subject to enhanced annual oversight until such time as the Committee has considered their long-term reauthorization.

The Committee also remains concerned that even as HUD's budget continues to grow, HUD has failed to address the problems of unexpended balances and slow spend-out rates in many of its programs. In particular, the Committee continues to have specific concerns about HUD's administration of the Section 8 program, the HOME Investment Partnerships Program, the Section 202 and Section 811 programs for elderly and persons with disabilities, and the Community Development Block Grant (CDBG) program, which

[2] Congressional Budget Office, *Unauthorized Appropriations and Expiring Authorizations*. January, 2013. http://www.cbo.gov/publication/43845

are detailed below. Given that there are currently 20 different Federal entities administering 160 programs, tax expenditures, and other tools that supported homeownership and rental housing[3], the Committee remains concerned about the fragmentation and inefficiencies in federal housing delivery. The Committee will continue to monitor HUD, NeighborWorks and Department of Agriculture (USDA) housing programs with an eye toward consolidating or reducing duplicative programs and ensuring that funds appropriated are in fact being spent promptly for the purposes for which they were allocated, and that these funds are being efficiently used by their recipients.

FORECLOSURE MITIGATION PROGRAMS

As the Committee has previously noted, the Administration continues to devise and deploy foreclosure mitigation programs that have failed to stem the tide of foreclosures and that have cost taxpayers billions of dollars. Originally envisioned as a $75 billion effort that would help up to 9 million at-risk borrowers, the Administration's signature "Making Home Affordable" initiative includes failed federally-funded foreclosure prevention programs such as the Home Affordable Modification Program (HAMP), the Federal Housing Administration (FHA) Refinance Program, and the Hardest Hit Fund. These programs, as well as the separate Emergency Homeowners Loan Program (EHLP), have been marked by a lack of transparency, and have demonstrably failed to meet their objectives despite abundant taxpayer resources.

Funding for programs in the Making Home Affordable initiative is derived from the Troubled Asset Relief Program (TARP). The Administration has obligated $45.6 billion of TARP money for its Making Home Affordable initiative. Both the Administration and CBO have indicated that since these programs consist largely of direct grants that require no repayment by recipients, the programs have a 100 percent taxpayer subsidy rate. In other words, the government does not intend to recover any of the $45.6 billion it spends on these programs.

Additionally, questions have been raised as to whether the Administration's foreclosure mitigation programs have actually exacerbated rather than alleviated troubles in the housing sector by failing to address the root cause of the problem. As Dr. Douglas Holtz-Eakin, a former Director of the Congressional Budget Office, testified before the Committee on February 16, 2011: "Until housing valuations stabilize, households will continue to be under stress and restrict their spending. The most important objective at the moment is to clear excess housing inventory. To date, no federal housing policy has been successful in speeding this process; indeed most observers would argue that they have

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[3] Government Accountability Office, *Opportunities Exist to Increase Collaboration and Consider Consolidation,* GAO 12-554 (August, 2012). http://www.gao.gov/assets/600/593752.pdf

slowed this process. In sum, getting federal policy out of the way would be the best way to speed progress from this front."

Although $30 billion of TARP funds has been obligated to HAMP, the results of this program have been dismal. HAMP was originally projected by the Administration to assist 3 to 4 million homeowners. It has fallen far short of that lofty goal. According to program performance data through December 2012, only 1.975 million trial modifications were started under the program; of those trial modifications, only 851,135 (less than 44 percent) have transitioned to active permanent modifications. HAMP has been roundly criticized by a wide range of independent government watchdogs, including the Special Inspector General for the TARP, who testified before the Subcommittee on Insurance, Housing and Community Opportunity in the last Congress that "*supporters of HAMP have little reason to hope that it will be anything more than it is today—a program that benefits only a small portion of distressed homeowners, offers others little more than false hope, and in certain cases causes more harm than good.*"

Despite the program's poor track record, on January 27, 2012, the Administration announced that it intended to expand HAMP by broadening the pool of eligible homeowners, covering tenants at risk of displacement due to foreclosure, and providing more assistance to underwater homeowners. Even before this announcement, the Committee was concerned about the HAMP's cost and effectiveness. In 2011, the House passed legislation (H.R. 839) to terminate the Treasury Department's authority to provide any new assistance to homeowners under HAMP, and to require that all unobligated balances be returned to the taxpayer, while preserving any assistance already provided to HAMP participants on a permanent or trial basis.

The Administration has also obligated more than $8 billion from TARP for the FHA Refinance Program, which was intended to help homeowners who owe more on their homes than the home is currently worth. Like HAMP, this program has proven to be unsuccessful. From its inception in 2010, FHA has made only 2,018 total loan endorsements. The program is currently scheduled to continue until December 31, 2014. In 2011, the House passed legislation (H.R. 830) to terminate the FHA Refinance Program and return all unobligated balances from the program to the taxpayer.

The Committee is also concerned about the cost, effectiveness, and transparency of the EHLP. The 111th Congress appropriated $1 billion to the EHLP, which was designed to provide loans or credit advances to borrowers who cannot pay their mortgages because of unemployment or reduction in income. Eligibility for new EHLP participants expired on September 30, 2011. However, the Committee remains concerned about program's almost 100 percent subsidy rate that will result in substantial losses to taxpayers. The Committee is also concerned about the unacceptable lack of public accountability regarding this program. Despite repeated requests by the Committee for updates about the current status of the EHLP, the Administration has refused to supply the Committee with any data regarding the implementation of EHLP, eligibility and participation rates for the program, or the use of taxpayer money. In 2011, the House passed legislation (H.R. 836) to terminate the EHLP and return all unobligated balances to the taxpayer.

FEDERAL HOUSING ADMINISTRATION

The Committee is gravely concerned about the deteriorating finances of the Federal Housing Administration (FHA), and is committed to protecting the taxpayers from losses sustained by the FHA. FHA's overall share of the new mortgage insurance market now stands at more than 56 percent, while the private sector's share has languished at only 19.7 percent, according to data supplied by HUD in its most recent quarterly "U.S. Housing Market Conditions" report. Today, the FHA is the largest government insurer of mortgages in the world, with a mortgage portfolio of 7.7 million loans and an outstanding portfolio of insurance-in-force exceeding $1 trillion. As FHA's mission has expanded and its share of the market has grown, increased delinquencies and foreclosures have taken a significant toll on its financial position. Late last year, an independent actuarial review showed that the FHA Mutual Mortgage Insurance Fund's (MMIF) capital reserve ratio had dropped to *negative* 1.4444 percent, far below the Congressionally-mandated threshold of 2 percent, and that its economic value was negative $16.3 billion, which is the projected amount the FHA would lose if it stopped insuring new mortgages and covered its outstanding losses. Given these figures, the FHA is technically insolvent and poses a threat to taxpayers. The announcement by GAO on February 14, 2013, that it has added FHA to its list of government programs at "high risk" of waste, fraud and abuse only compounds congressional concerns about the agency's mismanagement and troubled finances.

FHA is statutorily authorized to draw funds directly from the Treasury if necessary to pay unexpected increases in insurance claims. In the President's FY 2013 budget proposal, OMB stated that the FHA needed to draw down $688 million from the Treasury to replenish the MMIF. The FHA ultimately avoided drawing funds from the Treasury, but only because it received $1 billion from last year's National Mortgage Settlement. In light of the findings of the 2012 independent actuarial review, there is a distinct possibility that taxpayers will be asked for the first time in FHA's 70-year history to bail it out. However, the President's failure to submit his FY 2014 budget proposal as required by statute prevents the Committee from reaching an informed judgment on the likelihood that FHA will require taxpayer support in the coming year.

The GAO's recent designation of FHA as a high-risk agency, coupled with the Administration's 2012 acknowledgment that the MMIF may need to be recapitalized by diverting taxpayer funds from the Treasury, underscores the significant risk that FHA poses to American taxpayers and the urgent need to enact meaningful FHA reforms. To protect the FHA's scarce capital, the Committee urges the Administration to be vigilant in its efforts to identify and penalize mortgage originators that seek to dump loans that were fraudulently underwritten on the FHA, and to bar such originators from further participation in the program.

While the Committee acknowledges that FHA has recently increased the premiums it charges for mortgage insurance, it remains concerned that the FHA has failed to make full use of its existing authorities to protect the health of the MMIF. The Committee also believes that FHA must explore additional measures to strengthen its credit policies. Moreover, the Committee is concerned that the FHA lacks the capacity to properly oversee its single-family loan insurance portfolio and recommends that FHA consider charging additional user fees dedicated to building and investing in FHA's technological infrastructure and covering its administrative costs. With the increase in high cost loan limits through the end of 2013, FHA must diligently monitor lenders to ensure that its programs are not being misused. The Committee looks forward to reviewing FHA's proposal to change its underwriting criteria to ensure that qualified borrowers are able to access and sustain mortgages insured by the FHA.

The Committee is also concerned about the health of FHA's Home Equity Conversion Mortgage (HECM) (or reverse mortgage) program. Established as a pilot program in 1989, the program gained permanent status in 1998 and has grown steadily. In the FY 2012 Actuarial Review for HECMs, the economic value of the HECM portion of the MMIF was *negative* $2.8 billion. Given the uncertainty regarding home price appreciation and the HECM program's elevated default rate, the Committee will continue its oversight of the program and consider reforms that protect taxpayers and encourage greater private sector participation.

HOUSING PROGRAMS FOR THE ELDERLY AND DISABLED

Section 202 (Supportive Housing for the Elderly) and Section 811 (Supportive Housing for Persons with Disabilities) are programs that help make housing available for the elderly and disabled. Last year, the Administration requested $475 million for Section 202 programs, $150 million for Section 811 programs, and $111 million for the renewal of vouchers targeted at disabled populations. The Frank Melville Supportive Housing Investment Act (P.L. 111-374), which was enacted more than a year ago, was designed to consolidate these programs and eliminate regulatory inefficiencies. For example, on February 12, 2013, HUD awarded approximately $97.8 million pursuant to the Act, which leveraged 3,530 units, in contrast to the 900 units created from the combined FY 2010 and FY 2011 appropriations for Section 202 and 811. The Committee expects HUD to continue to work to meet the efficiency objectives of the Act, which include providing more flexibility to align Section 811 programs with other federal, state, and local funding sources, and allowing federal funds to be leveraged with other funds to make more housing available for the disabled. The Committee is also aware that the 202 and 811 programs have unexpended balances; it will review these programs so that these funds can be used to better meet the needs of the elderly and disabled.

SECTION 8 VOUCHER PROGRAM

For FY 2013, the Administration requested an increase in funding for the Section 8 housing choice voucher program to $19.074 billion, from $18.914 billion enacted in FY 2012. As noted earlier, the growth of this program is on an unsustainable trajectory, and absent substantial reform, will consume an ever-increasing percentage of HUD's entire budget. While changes to the voucher funding formula over the last decade have increased voucher usage and efficiency, comprehensive reform is still needed. In 2007, the OMB reported that HUD "*does not track long-term performance outcome measures because the agency lacks a reporting mechanism to capture how program funds are used.*" The OMB also found that the program's effectiveness remained unknown. The Committee believes that the public is better served not by expanding Section 8 but by reforming the program so that public housing authorities can serve more people within existing funding levels. The Committee believes that Section 8 recipients who are neither elderly nor disabled should be encouraged to move toward self-sufficiency so that assistance can be provided to those applicants who have patiently waited for assistance, in some cases for almost ten years.

PROJECT-BASED SECTION 8

In its last budget submission, the Administration requested $8.7 billion for Project-Based Rental Assistance, a decline from the FY 2012 enacted level of $9.340 billion. The Committee is concerned that changes to the contract renewal process for project-based vouchers will push renewal costs into later years. As part of its examination of the project-based Section 8 program, the Committee will work with the Administration to encourage the development of new ways to encourage the conversion of public housing units to long-term, project-based Section 8 contracts, with a goal of providing opportunities for private sector investment in capital improvements.

PUBLIC HOUSING

In its last budget submission, the Administration requested $6.594 billion for the Public Housing Operating Fund and the Public Housing Capital Fund, which will be combined and used to repair and maintain public housing units. Because the funds needed to maintain existing public housing stock outpace appropriations, the Committee will encourage the Administration to work with the Committee on alternative means of financing the development of affordable housing. In the 112th Congress, the Committee began work on a series of reforms to help increase the efficiency of public housing administration. These reforms included an adjustment for inflation to the minimum rent contribution, updates to income calculation deductions, and new flexibility for housing authorities to best deploy their capital and operating funds for public housing. The Committee will continue to explore these and other reforms in the 113th Congress.

In its FY 2012 budget request, the Administration eliminated funding for the HOPE VI program, and folded the functions of HOPE VI into its Choice Neighborhoods program in 2013. The Administration requested $150 million for the Choice Neighborhoods program. The Committee has long been critical of the mission and effectiveness of the HOPE VI program, funding for which has been zeroed out repeatedly in each of the last two Administration's budgets. The Committee remains skeptical of the Administration's dedication of scarce resources to expand the scope and cost of the program under a new Choice Neighborhoods banner, which is currently unauthorized.

McKINNEY-VENTO HOMELESS ASSISTANCE GRANTS

The 111th Congress enacted the Homeless Emergency Assistance and Rapid Transition to Housing Act as part of P.L. 111-22, which changed the administration of McKinney-Vento Homeless Assistance Grants. These changes consolidated separate grant programs into one Continuum of Care Program, expanded the definition of a qualifying "homeless individual" and "chronically homeless person," and added measures aimed at preventing and ending homelessness. In connection with these changes, which became effective in late 2010, in FY 2012 the Administration proposed an increase in funding for Homeless Assistance Grants by more than $330 million to $2.2 billion. The Committee will monitor these changes to ensure that they make the program more effective.

COMMUNITY AND ECONOMIC DEVELOPMENT

The Community Development Block Grant program is the fourth largest line item in HUD's annual budget, with an FY 2013 request of $3.14 billion. However, concerns have been raised that some CDBG money is used to fund projects that reflect exclusively local priorities and therefore are not a wise use of scarce taxpayer resources. In 2003, OMB designated the CDBG program as ineffective, indicating that the program had failed to use tax dollars effectively; OMB attributed this failure of the CDBG program to a lack of clarity regarding the program's purpose, poor management, and other significant weaknesses. The Committee remains concerned about questionable uses of CDBG funds, and it will examine how CDBG funds are used by recipients, as well as the program's history of slow spend-out rates, to ensure that CDBG funds are spent appropriately. The Committee will also consider whether CDBG funds can be better targeted to benefit economically distressed communities.

NATIVE AMERICAN HOUSING

HUD provides the bulk of its funding for housing on Indian tribal lands through its Indian Housing Block Grant (IHBG) program. In its FY 2013 budget submission, the Administration requested $650 million for IHBG, which is the single largest source of federal funding for housing on Indian tribal lands. That request is equal to the amount appropriated for IHBG in FY 2011 as well as the amount appropriated in FY 2012. HUD also funds its Indian housing efforts through two other programs, the Section 184 Indian Housing Loan Guarantee Fund—for which HUD had requested $7 million for FY 2013—and the Indian Community Development Block Grant program—for which HUD had requested $60 million be allocated from its overall FY 2013 CDBG request.

IHBG was authorized through Title I of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA), which consolidated several federal housing assistance programs for Native Americans into a needs-based formula block grant. IHBG recipients have the flexibility to use funding in a variety of ways to develop, operate, maintain, or support affordable housing for rental or homeownership based on the distinct housing needs of the Native American people they serve, including rehabilitating existing housing, constructing new units, operating home loan programs, or providing rental assistance.

Given the level of federal funding for IHBG, the Committee is concerned that the program has an obligated unexpended balance of $979.7 million, the bulk of which is attributable to a small number of tribes. While the Committee acknowledges that housing development, like other forms of capital development, can be a multi-year process and that recipients should be allowed a reasonable time in which to plan for and expend their funding, the program's slow spend-out rate means that unexpended balances now significantly exceed the program's annual appropriation. Thus, the Committee plans to review the sources and causes of these unexpended balances to ensure that the program is operating efficiently, with a goal of better understanding whether expenditures of IHBG funding are being made within a reasonable timeframe and, if delays exist, whether such delays are systemic within the program.

RURAL HOUSING

The Administration's $28.31 million Rural Housing Service (RHS) budget request for FY 2013 represented a $322,000, or 1.18 percent increase, over its RHS budget request for FY 2012. The Administration noted that it will "*not fund certain programs in order to focus resources on more efficient and less costly programs*." The most significant program that was eliminated in the RHS budget was the Section 515 multifamily direct loan program for new construction. The Committee notes that HUD and RHS have collaborated in the last year on streamlining their respective policies to encourage efficiency and save costs. The Committee will continue to monitor the progress and implementation of this collaboration and determine whether further consolidation is warranted.

NATIONAL FLOOD INSURANCE PROGRAM

According to GAO, the National Flood Insurance Program (NFIP) must be fundamentally reformed to stabilize its long-term finances. The recently enacted Biggert-Waters Flood Insurance Reform Act (P.L. 112-141) contained a series of programmatic improvements designed to shore up the NFIP and promote greater private sector participation in the flood insurance market. However, despite those reforms, the onset of Superstorm Sandy in 2012 led to the NFIP's borrowing authority being increased to $30 billion. As of January 31, 2013, the NFIP owed $22 billion, with the authority to borrow an additional $8.425 billion, for a total taxpayer exposure of $30.425 billion, a debt which CBO, GAO and other independent authorities believe the NFIP will never be able to repay. To protect taxpayers from excessive and unwarranted liabilities, the Committee believes Congress must move forward with comprehensive reforms to fundamentally restructure this failing program and dramatically increase the role of the private insurance sector in flood risk management.

HOME INVESTMENT PARTNERSHIPS PROGRAM

The HOME Investment Partnerships (HOME) Program is a formula-based block grant program that disburses funds to states and localities to build, buy, or renovate affordable housing. HUD delegates authority to participating jurisdictions to manage and monitor the ultimate recipients of HOME Program funds. Since its inception in 1990, the HOME Program has received over $30 billion in appropriations. However, given concerns over program duplication and mismanagement, annual funding for the program has decreased from $1.82 billion to $1 billion over the past five years.

In the 112th Congress, the Committee held a series of hearings regarding HUD's administration of the HOME Program, focusing on the program's mismanagement of funds, including the failure of grant recipients to begin projects, the failure of grant recipients to complete projects, and the program's inability to produce habitable residences. Following these hearings, Congress reduced the funding for the program by 37 percent to $1 billion for FY 2012 – a $607 million cut. Despite this reduction in funding, the Committee continues to be concerned about HUD's oversight of the HOME Program; the Committee is particularly concerned that HUD appears unable to track the progress of the projects funded under the program. Indeed, a report issued by HUD's Office of Inspector General on February 12, 2013, while acknowledging that HUD had strengthened certain internal controls over the HOME Program, also found that the agency could not demonstrate the effectiveness of field office monitoring efforts and "may have lost opportunities to obtain early warnings of potentially serious problems."[4]

CONSUMER FINANCIAL PROTECTION BUREAU

The Consumer Financial Protection Bureau (CFPB) is a federal agency created by the Dodd-Frank Act to regulate providers of credit and other consumer financial products and services. The Dodd-Frank Act confers upon the CFPB Director a broad mandate that includes consumer protection functions transferred from seven different Federal agencies, and the authority to write rules, supervise compliance, and enforce all consumer protection laws and regulations other than those governing investment products regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission.

A recent GAO report noted ways in which the CFPB is empowered to regulate access to credit and impact the broader economy.[5] The GAO cited findings that "numerous new regulations from CFPB will impose additional regulatory burden and compliance costs on small institutions, potentially causing them to exit certain lines of business." The GAO found evidence that as a result of CFPB rulemakings, some institutions would decrease their lending activities, or exit businesses altogether. As many small businesses fund their activities through personal lines of credit, the CFPB actions will impact access to credit for both consumers and employers.

The Dodd-Frank Act housed the CFPB within the Federal Reserve Board as an "independent bureau," but the Act makes clear that the CFPB is to be autonomous of the Federal Reserve in carrying out its mission. The CFPB Director determines the agency's budget, which is drawn from the Federal Reserve Board's annual combined earnings, and capped at 12 percent of those earnings (which translates into approximately $500 million for the last year for which data are available). This funding arrangement shields the CFPB from the appropriations process and undermines congressional oversight. In its FY 2013 budget, the Administration has requested $448 million to fund the CFPB. The Committee views the Administration's request as excessive, and intends to examine whether CFPB funding should be subject to the Congressional appropriations process to promote greater accountability and transparency.

ORDERLY LIQUIDATION AUTHORITY

The 2008 economic crisis exposed the U.S financial system's vulnerability to financial firms that government officials and financial market participants believed had

[4] Report of the HUD Office of Inspector General, *HUD's Proposed HOME Regulations Generally Addressed Systemic Deficiencies, but Field Office Monitoring and Data Validation Need Improvement*, Audit Report No. 2013-BO-0001.
[5] Government Accountability Office, *Community Banks and Credit Unions: Impact of the Dodd-Frank Act Depends Largely on Future Rule Makings*, GAO-12-881 (September 2012).

become "too big to fail," in large part because the creditors of these large, complex financial institutions believed themselves to be the beneficiaries of an implicit government guarantee that would protect them against losses if these firms failed. In turn, these large financial institutions exploited their creditors' "too big to fail" government guarantee to take advantage of lower borrowing costs, which permitted them to grown even larger at the expense of smaller institutions. In the midst of the crisis, some government officials believed that the failure of these "too big to fail" firms could bankrupt their creditors and counterparties, leading to cascading failures across the financial system.

In hopes of mitigating the perceived consequences of allowing large, complex financial institutions to fail, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203), which established an Orderly Liquidation Authority that granted the Federal Deposit Insurance Corporation (FDIC) the authority to resolve non-bank financial institutions whose failure government officials believe might pose a threat to the financial stability of the United States. Title II of the Dodd-Frank Act authorizes the FDIC to serve as the failing institution's receiver, with a mandate to liquidate the institution. This authority is intended as an alternative to bankruptcy for large non-bank financial institutions, vesting federal receivership powers in the FDIC similar to the FDIC's existing powers to take over insured depository institutions.

Even though the authors of the Dodd-Frank Act purported to end bailouts of "too big to fail" firms, Title II nonetheless grants the FDIC the authority to borrow from the Treasury to capitalize an "orderly liquidation fund," which the FDIC can use to pay off the creditors of the failed firm in order to keep these creditors from running on the failing institution, if government officials believe that such payments are necessary to contain systemic contagion. The Orderly Liquidation Authority thus perpetuates the government guarantee enjoyed by these creditors, which helped create the "too big to fail" problem in the first place. Although the proponents of the Orderly Liquidation Authority point to provisions in Title II which permit the FDIC to recoup costs from large financial institutions through post hoc assessments, the Congressional Budget Office has estimated that the Orderly Liquidation Authority will cost taxpayers $22 billion between 2012 and 2022. Repealing Title II would thus relieve taxpayers of the burden of bailing out large financial institutions or their creditors. The Congressional Budget Office estimates that repealing Title II would achieve savings of $3.383 billion in FY 2012-13, $13.585 billion in FY 2012-17, and $22 billion in FY 2012-22.

THE FEDERAL RESERVE SYSTEM

In its FY 2013 Budget, the Administration projected that "Deposits of Earnings by the Federal Reserve System" would generate $259 billion during the 2013-2017 period and $468 billion from 2013-2022. The Committee believes this estimate is overly optimistic given a recent paper published by the staff of the Division of Research & Statistics and the

Division of Monetary Affairs at the Federal Reserve Board of Governors, which projects that an increase in interest rates and the unwinding of the Fed's $3 trillion portfolio of assets could lead to capital losses ranging from $20 billion to $40 billion by 2020. Should losses on its portfolio and interest paid on excess reserves maintained by depository institutions at the Federal Reserve exceed the revenue generated from open market operations, the Fed will also cease remitting profits back to the U.S. Treasury, which totaled approximately $90 billion in 2012. According to the Fed staff's projections, remittances to the Treasury will drop off after 2015 and not pick up again until 2019-2022, depending on the cumulative size of the Fed's portfolio of assets and the rate at which interest rates rise in the future.

At present, the Committee believes the Administration's FY2013 remittance projection is overstated by at least $72 billion from 2013-2017 and at least $158 billion from 2013-2022. If the Fed's exit from several rounds of quantitative easing is more disorderly than projected, the costs to the Fed will be far higher and remittances to the Treasury far lower. Further, the fiscal impact of lower remittances by the Fed would be compounded by increased borrowing costs, which could have a negative budget impact of nearly two trillion dollars over the ten-year federal budget window.

EXPORT-IMPORT BANK

The Export-Import Bank is an independent agency that provides export financing through its loan, guarantee, and insurance programs. The Export-Import Bank is designed to provide export financing when the private sector is unable or unwilling to do so, and to help ensure that U.S. exporters can compete on an equal footing against foreign exporters financed by their governments. By collecting fees from its users, the Export-Import Bank is intended to be a self-sustaining agency.

While the Export-Import Bank has historically offset the costs of its operations with the fees it collects, the Committee will seek to ensure that the Bank remains a lender of last resort that does not put taxpayer dollars at risk for future bail-outs. The Committee notes the observation by the Export-Import Bank's Inspector General "that Export-Import Bank's current risk management framework and governance structure are not commensurate with the size, scope, and strategic ambitions of the institution." The Committee will consider whether the dramatic growth of the Export-Import Bank in recent years jeopardizes the Bank's fiscal soundness, and whether the Bank's current capital standards adequately protect against potential losses.

In its FY2013 budget, the Administration proposed consolidating the trade-related functions of the Export-Import Bank with several other federal agencies. The Administration has not informed the Committee of any plans to move forward with the consolidation in Fiscal Year 2014, but the Committee expects the Administration to provide the appropriate consultation and communication if it intends to proceed. While the Committee supports efforts to streamline government and eliminate wasteful spending, the Committee has an obligation to ensure that organizational changes are cost-effective and do not impose costs that outweigh the benefits of the changes.

MULTILATERAL DEVELOPMENT BANKS

Multilateral development banks (MDBs) provide concessional lending and grants to the world's poorest countries and provide non-concessional lending to middle-income and poorer credit-worthy countries. The MDBs have provided resources to member countries in the aftermath of natural disasters and have been counter-cyclical lenders during economic downturns, including the most recent recession and the attendant global contraction of credit. Also, the MDBs have diminished the impact of global disruptions in emerging countries, which can help protect, maintain and expand U.S. business activity abroad. The U.S. provides funding to MDBs through pledges made by Treasury on behalf of the U.S. to international organizations, and Congress considers these pledges and funds them through the appropriations process. The Committee urges Treasury to advocate that governments receiving assistance from the multilateral development institutions do not engage in human rights abuses and corrupt activities.

INTERNATIONAL DEVELOPMENT ASSOCIATION

The International Development Association (IDA) is a World Bank facility that lends to 81 of the world's poorest countries. The IDA's mission is to help these countries meet basic health, infrastructure, and development needs. The IDA provides the world's poorest and least credit-worthy countries with access to capital, which permits these countries to build the credit record necessary to raise capital from private sources. Many of the largest recipients of IDA funding are expected to graduate from the program in the next few years. The Committee will therefore assess the ongoing need for IDA replenishments and whether IDA's purposes, systems, and financing are appropriate for the future.

INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF) provides loans to countries that cannot meet their international payments and are unable to find sufficient financing on affordable terms. The IMF also provides global oversight of the international monetary system and provides technical assistance to low- and middle-income countries. The Committee will consider the policies of the International Monetary Fund to ensure effective use of resources and appropriate alignment with U.S. interests in promoting economic growth and stability. Also, the Committee will consider any Administration request that the U.S. transfer funds at the IMF from the New Arrangements to Borrow to the general quota fund. During consideration of any such request, the Committee will assess the purpose of the transfer and potential risks the transfer might pose, as well as possible consequences to the stability of the international financial system and U.S. economic interests if the pending quota package is not approved. In examining such authorization requests, the Committee will review any reforms the IMF has agreed to make concurrent with the transfer.

UNITED STATES MINT

The Committee is concerned about the Mint's apparent disregard for the runaway costs of producing circulating coins, and its seeming inability to assess (and meet) demand for its investor bullion coins. High prices for commodity metals used to produce circulating coins have pushed production costs to the point where one-cent and five-cent coins are produced for an amount considerably above face value. The Committee notes that circulating coin production costs have been high for nearly a decade, and that the Mint has not proposed either new metallic content for coins, or legislation to implement such a change, as required by a Federal statute enacted in December 2012 (Public Law 111-302). Meanwhile a privately commissioned study in 2012 estimated that if the Mint were to make five-cent, ten-cent and quarter-dollar coins of multi-play plated steel — a technique used by the Royal Canadian Mint for a decade — the savings would be between $180 million and $220 million a year.

In view of that history and in recognition of the fact that since 1792 Congress has made all decisions on coin weight, size and content, the Committee continues to reject Administration legislative proposals contained in prior budget submissions that Congress should transfer to the Mint the authority to decide independently the composition, size and weight of circulating coins. Further, the Committee notes that consistently over the past several years and as recently as January, the Mint has maintained that it had insufficient quantities of investor-grade bullion coins to meet demand, and was rationing supplies to dealers. While production of bullion coins is not intended to be a profit center, the production does help amortize capital costs at the Mint. At a time when there is no serious effort to rein in the cost of producing circulating coins—and with a large staff dedicated to sales and marketing that appears unable to gauge the market—the Mint's inability in this area and its refusal to begin producing another Congressionally authorized investor coin of palladium are unacceptable.