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 2015

Pursuant to clause 4(f) of the Rules of the House of Representatives, section 301 (d) of the Congressional Budget Act of 1974, and section 708(b) of the concurrent resolution on the budget for fiscal year 2014 (H. Con. Res. 25, 113th Cong.), as deemed in effect by section 113 of the Bipartisan Budget Act of 2013 (Pub. L. No. 113-67), the Committee on Financial Services transmits the following views and estimates on matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2015.

1 **OUR NATION'S FISCAL CHALLENGE**
2
3 Forty-seven million Americans today live in poverty. That is one in six Americans
4 and one in four children. In fact, our nation's poverty rate is the highest in a generation,
5 and under President Obama nearly 7 million more Americans have fallen into poverty.
6 Since President Obama took office, median household income has declined by nearly
7 $4,000, the percentage of Americans working has dropped to a 36-year low, average family
8 health care premiums have increased by more than $3,600, and $6.6 trillion has been added
9 to our national debt – more debt than was created in America's first 200 years.
10
11 Clearly, President Obama's policies have failed to produce the economy he promised.
12 In fact, the Congressional Budget Office (CBO) sees the economy slowing down over the
13 next 10 years, despite enactment of the President's $1 trillion "stimulus," four successive
14 years of trillion dollar deficits, and nearly $7 trillion in new debt. Americans deserve
15 better. They deserve a healthy economy, but we cannot have a truly healthy economy until
16 Washington passes a budget that puts America on a sustainable fiscal path.
17
18 However, as the CBO has warned Congress and the President in report after report,
19 America is not on a sustainable fiscal path but rather on the road to national bankruptcy.
20 At $17.3 trillion, America's national debt equals 74 percent of Gross Domestic Product – the
21 highest level since the end of World War II. Without changes to existing laws, CBO
22 projects our national debt will grow larger every year and within just 10 years rise to 79
23 percent of GDP. The inevitable consequences of "[s]uch large and growing federal debt," the
24 CBO warns in its latest budget outlook, include restrained economic growth, lower wages
25 for working Americans and the risk of a grave fiscal crisis.
26
27 The results of such a crisis would be catastrophic. Investors would lose confidence in
28 the United States. Government would be unable to borrow money or only at astronomical
29 interest rates. The only way out would be untenable tax hikes that cripple our economy
30 and harsh spending cuts that inflict unyielding pain on all Americans, but most especially
31 on those with low and moderate incomes. Taking action today to reduce our deficit and

debt will strengthen our economy and protect the long-term viability of government programs for those who need them most.

Failure to address our spending-driven debt crisis will result in a profound decline in Americans' standard of living. One need look no further than the bankrupt nation of Greece to see what the future might hold for America: massive unemployment, particularly among the young; a fraying social safety net; and prolonged period of negative economic growth.

Yet, President Obama has failed to heed these repeated warnings. His Fiscal Year 2015 budget never balances. It lays waste to the spending caps that Congress and the President agreed to just a few months ago. It imposes $1.8 trillion in tax increases and leaves Americans $8.3 trillion deeper in debt by the end of its budget window.

America needs a different direction – one that takes us off the road toward a debt crisis and instead puts our nation on the road toward fiscal sanity. A budget that increases taxes, spending and debt will only make life harder for Americans who are already struggling in this weak economy.

Instead, we must act wisely – and urgently – to get Washington spending under control. Partisans in Washington can argue over policies and the merits of specific federal programs, but arithmetic cannot be ignored: over the next 10 years revenues are expected to grow at roughly the same pace as the economy, but "spending is expected to grow more rapidly," reports the CBO. In short, government must stop spending money it doesn't have.

Not long before he began his run for the White House, then-Senator Barack Obama said: "Leadership means that 'the buck stops here.' Instead, Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt and a failure of leadership. Americans deserve better." Indeed they do. But by his actions and, in the case of his Fiscal Year 2015 budget, inaction, President Obama has demonstrated yet again either an inability or an unwillingness to offer responsible leadership. He has failed yet again to grasp the seriousness of our debt and make government live within its means, just as the American people must do.

The President's FY 2015 budget is a clear sign he has given up on seriously addressing the fiscal challenges that threaten our economy, our national security and our children's future. Spending discipline in Washington is essential if we are to put this nation's finances in order, grow our economy today and leave a stronger, more prosperous America for future generations.

SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission's (SEC) three-part mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. In its budget for FY 2015, the Administration has requested $1.7 billion for the SEC, which would be a 26 percent increase or $350 million over the SEC's FY 2014 spending authority. The $1.7 billion budget request would support 5,183 positions and 4,688 full-time employees and would permit the SEC to fill an additional 639 positions. The FY 2015 budget also seeks more than $9.2 million for the SEC's Office of Inspector General (OIG).

Section 991 of the Dodd-Frank Act authorizes the SEC to receive $2.25 billion for FY 2015 and on October 18, 2013, SEC Chair White in a letter to the Office of Management and Budget requested $1.950 billion for FY 2015, to support 5,560 positions and 5,320 full-time employees.

Since 2004, the SEC's budget has increased by more than $539 million; however, the increased budget has not necessarily been reflected in an increase in the level of the SEC's performance. While the Administration claims that the SEC's funding is deficit-neutral, the SEC's funding ultimately is borne by investors and for every dollar spent to fund the SEC one less dollar is spent on capital formation.

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 bail-out of Bear Stearns and the collapse of Lehman Brothers and fed 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 examine the Reserve Primary Fund, a large money market fund that broke-the-buck in September 2008; 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 increase almost 66 percent since 2004.

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

1 reforms have been made, there remain 22 division and office heads reporting directly to the
2 SEC Chairman.
3
4 Additionally, the SEC has failed to adopt several key reforms proposed by BCG,
5 including combining the Office of Compliance, Inspections, and Examinations into the
6 Division of Trading and Markets and the Division of Investment Management, and
7 combining the Office of Public Affairs, Office of Investor Education and Advocacy, and
8 Office of Legislative and Intergovernmental Affairs into a new Office of External Relations.
9
10 The Committee supports the SEC's effort to expand the agency's information
11 technology (IT) systems to better fulfill its mission, particularly the Market Information
12 Data Analytics System or MIDAS, which allows Commission staff to better understand and
13 analyze equity market events and individual order books for a particular security.
14
15 While the SEC is making full use of the Reserve Fund created by Section 991 of the
16 Dodd-Frank Act to enhance its IT systems, the Committee remains troubled that more than
17 five years after the Madoff Ponzi Scheme, the SEC has still not integrated the systems that
18 would allow SEC staff to see all broker-dealer FOCUS reports and investment adviser
19 FORM ADV in one consolidated system.
20
21 The SEC must also establish stronger controls to prevent waste, fraud and abuse.
22 For example, in November 2012, the SEC's Office of Inspector General (OIG) reported that
23 at the Division on Trading and Markets' automation review policy program (ARP) lab, "staff
24 spent over $1 million on computer equipment and software with little oversight or planning
25 and that a significant portion of the equipment and software purchased was unneeded or
26 never used in the program." The SEC cannot claim that previous funding levels "fall short
27 of what we need to fulfill our responsibilities to investors and our markets" and
28 simultaneously waste these valuable resources because of poor internal controls to track
29 the purchase of IT products.
30
31 The Committee also supports the SEC's previous pledge to "devote significant
32 attention to development and consideration of possible rule changes designed to facilitate
33 access to capital for smaller companies while at the same time protecting investors." While
34 the SEC must expeditiously complete the rules to implement Titles III and IV of the
35 "Jumpstart Our Business Startups" or "JOBS" Act (P.L. 112-106), the Committee believes
36 the SEC could be doing more to support capital formation apart from the JOBS Act by
37 implementing a majority of the recommendations made by the SEC's Government-Business
38 Forum on Small Business and its Advisory Committee on Small and Emerging Companies.
39
40 The Committee supports the SEC's consideration of the recommendations put
41 forward by both the Government Accountability Office (GAO) and the SEC's OIG to
42 improve economic analysis in SEC rulemakings. 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 and become a more effective regulator.

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 $187.485 billion as of year-end 2013, making the conservatorship of the GSEs the costliest of all the taxpayer bail-outs carried out since the financial crisis. Unlike a loan to be repaid, Fannie and Freddie's bailout came in the form of each GSE selling one million shares of Senior Preferred Stock to the Department of Treasury with an initial value of $1 billion, shares which Treasury still owns. Under the terms of the bailout, the value of those shares automatically increased by an amount equal to the bailout. Thus, Treasury – and, therefore, taxpayers – currently own $189.485 billion worth of shares of GSE Senior Preferred Stock. Although the GSEs are required to pay dividends on those shares to Treasury when they show quarterly profits, those dividend payments cannot be used to reduce or redeem the one million shares of Senior Preferred Stock still owned by taxpayers.

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 2015 budget continues to treat Fannie Mae and Freddie Mac as off-budget private entities rather than government agencies whose activities are backed and paid for by taxpayers. As a result, the sizeable losses experienced by the GSEs and the GSEs' ongoing risk to taxpayers, are not properly accounted for 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.

After five years without the Administration demonstrating any leadership in proffering a reform plan, the Committee is gravely concerned with the lack of progress in resolving the GSEs' conservatorship, addressing their unworkable hybrid status, and eliminating their government charters. Thus, the Committee recommends in the strongest manner enactment of H.R. 2767, the Protecting American Taxpayers and Homeowners Act of 2013 (PATH), to resolve these lingering questions, protect taxpayers from future bailouts, and achieve long-term budget savings. PATH would require the FHFA to repeal the charters of Fannie Mae and Freddie Mac and end the operations of those firms five to seven

years after enactment and cease their ability to guarantee new mortgages. PATH would also place certain restrictions on the operations of the GSEs, as well as those of the Federal Housing Administration (FHA), and enact other changes to the existing statutory framework for regulating mortgage lending and securitization. CBO has estimated that by winding down Fannie Mae and Freddie Mac, and thereby reducing federal subsidies for mortgages guaranteed by the GSEs under current law, PATH would decrease direct spending by $6.6 billion over the 2014-2023 period. CBO has further estimated that those changes, coupled with the other provisions of PATH, would reduce federal deficits by $5.7 billion over the next decade.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Two years ago, GAO reported to Congress that 20 different federal government entities administer 160 programs, tax expenditures, and other tools that support homeownership and rental housing.[1] The President's FY 2015 budget proposes to fund HUD at $46.664 billion, representing a 2.7 percent increase over 2014 enacted levels. Unfortunately, the President's budget does nothing to address the proliferation of federal housing programs and initiatives that, over time, have failed to achieve meaningful results in changing lives or transforming troubled communities. The sheer number of programs or the amount of taxpayer money expended on housing is no substitute for a coherent and holistic strategy to address long-term systemic poverty, promote self-sufficiency, or encourage economic growth and opportunity.

The Committee is concerned that despite tens of billions of dollars in annual appropriations, HUD remains overly bureaucratic, lacks prioritization to define the agency's mission, and fails to deliver measurable results. The sprawling agency retains 8,073 full-time employees across several departments. Yet nearly 80 percent of HUD's budget remains dedicated to administering its three core rental assistance programs—Tenant-Based Section 8, Project-Based Section 8 and Public Housing—the funding of which is distributed according to pre-determined formulae. The remaining 20 percent of its budget is dedicated to every other HUD-administered program – the bulk of which is consumed by the Community Development Block Grant (CDBG), HOME Investment Partnership Program, and the McKinney-Vento Homeless Assistance Act, all of which are also largely administered by formulae. The Committee questions whether HUD's massive workforce is properly scaled to the types of programs it is charged with administering.

HUD's lack of prioritization also remains a concern for the Committee. Missing from the Administration's FY 2015 budget proposal is a clearly articulated vision of how to transform HUD from its bureaucratic morass into a modern agency, such as by reforming the existing 160 housing programs identified by GAO to consolidate resources and

[1] U.S. Government Accountability Office, GAO-12-342SP, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and enhance Revenue* pp. 186-194 (February 2012).

maximize results. The Committee sees a clear link between this lack of prioritization and HUD's failure to deliver measurable results. For example, instead of consolidating programs and efforts to address root housing and poverty issues, the Administration has devoted time and scare resources to a seemingly endless string of new and untested proposals. For example, since 2009, some of the initiatives HUD has proposed include: Making Home Affordable, Home Affordable Modification Program, Federal Housing Administration Refinance Program, Emergency Homeowners Loan Program, Choice Neighborhoods, Promise Zones, Project Rebuild, Integrated Planning and Investment Grants, Sustainable Housing and Communities initiative and office rebranded as the Office of Economic Resilience, to name a few. For those concepts that were actually authorized or received appropriated funding, not one has met the goals originally established for it by the Administration.

FEDERAL HOUSING ADMINISTRATION

The Committee remains gravely concerned about the expanded mission and insufficient finances of the Federal Housing Administration (FHA) and is committed to protecting taxpayers from losses sustained by the FHA. Currently, the FHA is the largest government insurer of mortgages in the world, with a mortgage portfolio of 7.8 million loans and an outstanding portfolio of insurance-in-force exceeding $1 trillion.

The FHA's financial position has steadily deteriorated in recent years as a result of an unsustainable expansion of its mission and market share. Currently, FHA's overall share of the mortgage insurance market, measured in a variety of ways, ranges in estimates from 50.5 percent to 23 percent, depending on the data examined. The result of this mission creep has been financially ruinous for the FHA, leaving it fiscally weaker than at any point since its creation. On September 27, 2013, for the first time in its 80-year history, FHA required a $1.68 billion mandatory appropriation in taxpayer funds from the U.S. Treasury in order to balance its books and meet its statutory requirements. This shortfall was almost twice the FHA's initial projections in its FY 2014 budget proposal.

Additionally, in December 2013, an independent actuarial review showed that the FHA Mutual Mortgage Insurance Fund's (MMIF) capital reserve ratio had improved from a negative 1.44 percent from the previous year to negative 0.11 percent for FY 2013. This marks the fifth consecutive year that the FHA's reserve ratio remains far below its legally-mandated threshold of 2 percent. The independent review also stated that FHA's economic value improved from a negative $16.3 billion to negative $1.3 billion, which is the projected amount the FHA would lose if it stopped insuring new mortgages and covered its outstanding losses.

While the President's FY 2015 budget proposal does not foresee a drawdown from Treasury at the end of this fiscal year, the Committee remains concerned that the FHA has

failed to make full use of its existing authorities to protect the health of the MMIF. To its credit, the FHA increased annual premiums six times since October 2010. However, the Committee is concerned that the FHA will choose to increase its market share, at the expense of the private market, in order to improve its fiscal position rather than developing and implementing a comprehensive strategy for managing its risk and protecting taxpayers.

Notwithstanding the improvement in its finances from 2012 to 2013, the FHA continues to be technically insolvent and poses a threat to taxpayers. GAO continues to list the FHA as a program at "high risk" for waste, fraud and abuse, highlighting congressional concerns about the agency's management challenges and troubled finances. The GAO's designation of the FHA as a high-risk agency, coupled with the historic $1.68 billion U.S. Treasury drawdown, underscores the significant risk that the FHA poses to American taxpayers and the urgent need to enact meaningful FHA reforms.

The Committee also believes that the 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 therefore supports the Administration's proposal to charge additional administrative fees. The Committee encourages HUD to follow the example of the Rural Housing Service's FY 2015 proposal to implement an administrative fee or "guarantee underwriting fee" to pay for building and investing in technological infrastructure and covering administrative costs. 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 also strongly recommends a return to the FHA's traditional role in the mortgage insurance market, a view that the Administration purports to share. Three years ago, the Administration released a report entitled "Reforming America's Housing Finance Market: A Report to Congress," where the Administration stated that "FHA should return to its pre-crisis role as a targeted provider of mortgage credit access for low- and moderate-income Americans and first-time homebuyers." Unfortunately, since then the Administration has failed to provide any comprehensive reform proposals to return FHA to its traditional role.

Title II of H.R. 2767, the Protecting American Taxpayers and Homeowners Act of 2013 (PATH), includes reforms designed to place the FHA on a more sustainable fiscal course and return it to its historical mission of serving first-time, low- and moderate-incomehomebuyers. PATH would allow FHA to operate quasi-independently from the political considerations of its parent agency—HUD—and preserve the agency's counter-cyclical role when the private markets retreat from funding housing. The Committee

believes these enhancements would preserve FHA's unique market role, while also encouraging and facilitating more robust private sector participation.

The Committee is also concerned about the health of FHA's Home Equity Conversion Mortgage (HECM) program, also known as reverse mortgages. Established as a pilot program in 1989, the program gained permanent status in 1998 and has grown steadily. In FY 2014, FHA transferred almost $6 billion, which included the $1.68 billion mandatory appropriation, to bail out the HECM program. 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 push for reforms outlined in the PATH Act that protect taxpayers and encourage greater private sector participation.

SECTION 8 VOUCHER PROGRAM

For FY 2015, the Administration requested an increase in funding for the Section 8 housing choice voucher program to $20.045 billion, up from $19.177 billion enacted in FY 2014. 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 despite serving the same number of families. 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 to target need so that public housing authorities can serve more people within existing funding levels. Currently, the average tenancy turnover of Section 8 vouchers by non-elderly and disabled families is 10 years. Reforms to Section 8 and other assisted housing programs must address the small percentage of individuals and families who remain on assistance over a much longer period of time in order to discourage inter-generational dependence on assisted housing. 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 FY 2015 budget submission, the Administration proposes to shift funding for Project-Based Section 8 contract renewals from a fiscal year to a calendar year cycle. While this may be consistent with HUD's other affordable rental programs, 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 FY 2015 budget submission, the Administration requested $6.525 billion for the Public Housing Operating Fund and the Public Housing Capital Fund, which the Administration proposes to combine for any eligible expense under both programs. Because the funds needed to maintain existing public housing stock outpace appropriations, the Committee will encourage the Administration to propose alternative means of financing the development of affordable housing as part of a comprehensive housing strategy. 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 2015 budget request, the Administration is requesting $400 million for the Choice Neighborhoods program. This program is similar to the efforts of the HOPE VI program that was designed to demolish and rehabilitate public housing units. 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 prior Administration 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. This initiative is not new; however, it is an example of the Administration's failure to conduct a comprehensive review of existing housing programs and develop an integrated plan to streamline programs and articulate a clearer vision for HUD.

RENTAL ASSISTANCE DEMONSTRATION

Over the past two decades, the federal government has invested tens of billions of dollars in the development and maintenance of public and multifamily housing units even though HUD reports that public housing stock has shrunk at a rate of 10,000 units per year over the last 12 years. The Committee recognizes that this trend is not sustainable and that new, innovative approaches are necessary to change the public housing paradigm. To make more capital available to maintain and rehabilitate public housing, the Committee supports the concept of the Rental Assistance Demonstration (RAD) program.

Funded as a 60,000-unit demonstration in the 112th Congress, RAD seeks to make financing options that are currently available to voucher-assisted property owners and managers similarly available to Public Housing Authorities (PHAs) to maintain public housing stock. The Committee supports the Administration's proposal to lift the 60,000-unit cap and allow more eligible PHAs to convert public housing units to long-term Project-Based Section 8 contracts, thereby permitting PHAs access to private capital to pay for maintenance and rehabilitation of public housing stock. The Committee believes that RAD would permit PHAs to partner with local developers, property owners, and nonprofit organizations to preserve affordable housing units that would otherwise fall into disrepair, become uninhabitable, and eventually leave the affordable housing stock forever. When implemented properly, RAD could streamline HUD's rental assistance programs, increase resident choice, and improve resident mobility.

NATIONAL HOUSING TRUST FUND

Created by the Housing and Economic Recovery Act of 2008 (HERA), the National Housing Trust Fund was originally to be funded through revenue taken from Fannie Mae and Freddie Mac. Given the GSEs' current status in conservatorship, the Administration has suspended the use of Fannie Mae and Freddie Mac as the funding source for the National Housing Trust Fund. The Administration has instead requested $1 billion in mandatory funding in its FY 2015 budget proposal. The Committee agrees with the Administration's assessment that the Trust Fund is similar in its core requirements to other government housing programs, such as the HOME program. The Committee rejects the need to create a duplicative new federal bureaucracy to administer essentially the same program that could be achieved with several of the existing 160 housing programs identified by the GAO.

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 2015 budget submission, the Administration is requesting $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 2014.

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 continues to be concerned about bureaucratic and administrative problems that have impeded funds from reaching their intended beneficiaries. The program has an obligated unexpended balance of $772.5 million, which represents a 21 percent decrease from the previous year's unobligated balance of $979.7 million. 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 exceed the program's annual appropriation.

The Committee intends on using the reauthorization of NAHASDA to explore the sources and causes of these unexpended balances to ensure that the program operates efficiently. During the last year, the Committee worked with HUD and stakeholders to understand the challenges in developing affordable housing in tribal communities, including statutory impediments, HUD internal administration, and the myriad of intra-tribal organizations. The Committee supports the Administration's FY 2015 budget proposal to withhold funding from any grantee that, on January 1, 2015, has a total undisbursed balance greater than three times the funding allocation it would otherwise receive in 2015, where there is no legitimate reason to strategically hold its allocation. Additionally, the Committee supports the designation of an ombudsman at HUD for grantees affected by this proposal to ensure that any impediments to their successful deployment of funds awarded under NAHASDA are addressed.

RURAL HOUSING

Since the 1930s, the Rural Housing Service (RHS), and its predecessor agencies under the Department of Agriculture (USDA), has sought to address the homeownership and rental challenges in remote areas where private capital plays a diminished role in the housing finance market. RHS also offers a subsidized direct loan for the purchase of single family housing to low- and very-low income borrowers unable to qualify for credit elsewhere. However, in recent years multiple GAO reports have highlighted the overlap of RHS, FHA, and Veterans Affairs homeownership and rental programs.

The Administration's FY 2015 budget requests $1.6 billion to fund the RHS. The Administration proposes to create 166,000 direct and guarantee income-targeted loans for low- and very-low income families, as well as to significantly reduce RHS' role in its direct lending program by 40 percent. This proposed change raises serious questions as to whether today's RHS is functionally distinguishable from FHA single- and multifamily programs that serve the same market.

Furthermore, other questions have been raised about RHS' effectiveness and current mission. It has failed to make any adjustments to reform its management structure or ability to collaborate with other federal agencies to reduce costs and maximize taxpayer investments. GAO found that RHS *"relies on more in-house staff to oversee its single-family and multifamily loan portfolio of about $93 billion than HUD relies on to manage its single-family and multifamily loan portfolio of more than $1 trillion*." Moreover, an August 2012 GAO report noted that RHS' "*largely decentralized field structure…ha[d] not kept pace with its shift towards guaranteed lending*."

The Committee understands that the USDA has a myriad of objectives and programs ranging from food safety to livestock management best practices. When the Farmers Home Administration (FmHA) was reorganized in 1995 as the Rural Housing Service, there was a belief that the umbrella sub-agency—Rural Development—would transform the housing entity into a nimble and responsive agency. However, the Committee is concerned about the Administration's lack of commitment to that objective. For example, a December 5, 2013 memorandum by USDA entitled the "Rural Development's Mission, Areas of Focus, and 2014 Area Goals," failed to mention either "housing" or the "Rural Housing Service."

Additionally, two years ago, the Administration created the Rental Policy Working Group to coordinate housing programs and maximize efficiencies that ultimately save taxpayer funds and focus on improved delivery service to low- and very-low income families. Neither RHS nor HUD has reported to Congress on its progress nor does the budget reflect any cost savings from this effort. More disturbing, however, is the GAO finding that in FY 2009, the FHA "*insured over eight times as many single-family loans in economically distressed rural communities as RHS guaranteed. And, many RHS loan guarantees financed properties near urban areas—56 percent of single-family guarantees made in 2009 were in metropolitan counties*." GAO concluded that "*consolidation or greater coordination of RHS and FHA's single-family loan programs that serve similar markets and provide similar products may offer opportunities for savings in the long term*."

NATIONAL FLOOD INSURANCE PROGRAM

According to the GAO, the National Flood Insurance Program (NFIP) must be fundamentally reformed to stabilize its long-term finances. As of February 28, 2014, the NFIP owed taxpayers $24 billion, with the authority to borrow an additional $6.425 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.

The Committee worked effectively in a bipartisan manner to enact comprehensive reforms to the NFIP in 2012 as part of the Biggert-Waters Flood Insurance Reform Act. The Act included a number of important reforms designed to make the program more

1 actuarially sound, for example by phasing out subsidized rates, increasing premiums, and
2 streamlining and strengthening flood mitigation efforts to reduce the number of repetitive
3 losses which act as a drain on the NFIP. Like the Administration, the Committee supports
4 a phased transition to actuarially sound flood insurance rates in order to enable
5 policyholders and communities to adjust to risk-based premiums.
6
7 The Committee notes that the Biggert-Waters Act contains many provisions that
8 would allow the flood insurance program to reform its premium structure so that it can
9 collect the premiums it needs to pay out claims. The Committee also acknowledges that for
10 some individuals, businesses and communities that have grown accustomed to NFIP
11 subsidies, the onset of actuarial rates might create unforeseen hardship. However, by
12 asking that owners of subsidized properties pay actuarial rates that reflect their full risk,
13 the Biggert-Waters Act would make these properties pay their fair share, thereby
14 increasing the amount of funding to the flood insurance fund. Given the NFIP's
15 unsustainable finances and the unacceptable demands the program places on taxpayers,
16 Congress must consider additional reforms to promote greater private sector participation
17 in the short-term and privatization of the program in the long-term.
18
19 **TERRORISM RISK INSURANCE**
20
21 Congress passed the Terrorism Risk Insurance Act of 2002 (P.L. 107-297), popularly
22 known as TRIA. TRIA established the Terrorism Risk Insurance Program, which is
23 administered by the Treasury Department and was designed as a temporary, transitional
24 program to make terrorism insurance coverage more widely available. Under the program,
25 the federal government and the insurance industry share the risk of loss from terrorist
26 attacks that meet certain statutory criteria. Last reauthorized in 2007, the Terrorism Risk
27 Insurance Program is set to expire on December 31, 2014. The Committee agrees with the
28 Administration's assessment in the FY 2015 budget submission that any reauthorization of
29 TRIA must include programmatic reforms to limit taxpayer exposure and achieve cost
30 neutrality for the program. The Committee takes the Administration at its word when it
31 states: "The Administration will work with Congress to identify appropriate adjustments to
32 program terms to achieve budget neutrality and, over the longer term, full transition of the
33 program to the private sector."
34
35 **CONSUMER FINANCIAL PROTECTION BUREAU**
36
37 The Consumer Financial Protection Bureau (CFPB) is a federal agency created by
38 the Dodd-Frank Act to regulate providers of credit and other consumer financial products
39 and services. The Dodd-Frank Act confers upon the CFPB Director a broad mandate that
40 includes consumer protection functions transferred from seven different Federal agencies,
41 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.

The Dodd-Frank Act housed the CFPB within the Federal Reserve System (Fed) as an "independent bureau," but the Act makes clear that the CFPB is to be autonomous of the Fed in carrying out its mission. The CFPB Director determines the agency's budget, which is drawn from the Fed's combined earnings. Every dollar not drawn from the Fed by the CFPB would otherwise be available for remittance by the Fed to the Treasury for purposes of federal deficit reduction. The CFPB's annual budget authority is set by statutory formula. For Fiscal Year 2013, it was $597.6 million. The CFPB's budget authority for Fiscal Year 2014, as adjusted by an annual inflation indicator, is $608.3 million. If, in any given fiscal year, the CFPB obligates fewer funds than it draws from the Fed, these funds do not expire and remit back to the Fed; rather, the CFPB brings forward its unobligated funds to expand its budgetary resources in future fiscal years. In Fiscal Year 2013, for instance, the CFPB brought forward an unobligated balance of $100 million. In practice, this arrangement enables the CFPB to accumulate large sums to spend on projects of dubious value, including, for instance, upwards of $140 million to renovate a headquarters building it does not own and average annual compensation of $167,891 per employee.[2]

The CFPB's budgetary process, as designed by the Dodd-Frank Act, shields the CFPB from the appropriations process and undermines congressional oversight. To promote greater transparency and accountability in CFPB budgeting, on February 27, 2014, the House passed H.R. 3193, which among other reforms subjects the CFPB's funding to the Congressional appropriations process and places CFPB employees on the General Services (GS) pay scale.

In its Fiscal Year 2015 budget document, the Administration anticipates the CFPB will incur $570 million in total new obligations for Fiscal Year 2014, including an unspecified $215 million for "Other services from non-Federal sources," and $583 million in total new obligations for Fiscal Year 2015. The Committee views these funding levels as excessive. H.R. 3193 reduces direct spending by $6.1 billion and authorizes annual appropriations for the CFPB of $300 million for Fiscal Years 2014 and 2015.

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 become "too big to fail," in large part because the creditors of these large, complex financial

[2] *See, e.g.*, "CFO update for the fourth quarter of fiscal year 2013," available at http://files.consumerfinance.gov/f/201312_cfpb_cfo-q4-update.pdf; "Strategic Plan, Budget, and Performance Report," pp. 15-16 (Mar. 2014), available at http://www.consumerfinance.gov/strategic-plan-budget-and-performance-plan-and-report/.

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 previously estimated 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.

FEDERAL RESERVE SYSTEM

In its FY 2015 Budget, the Administration projected that "Deposits of Earnings by the Federal Reserve System" would generate $225 billion during the 2015-2019 period and $462 billion from 2015-2024. The Committee believes this estimate is overly optimistic given recent papers published by the staff of the Division of Research & Statistics and the Division of Monetary Affairs at the Federal Reserve Board of Governors in January 2013 and September 2013, which project that an increase in interest rates and the unwinding of the Fed's $4 trillion portfolio of assets could lead to capital losses ranging from $20 billion to $40 billion by 2020. Should annual losses on its portfolio and interest paid on excess

reserves maintained by depository institutions at the Federal Reserve exceed the annual revenue generated from open market operations, the Fed will also cease remitting profits back to the U.S. Treasury, which totaled approximately $ 77.7 billion in 2013. According to the Fed staff's projections, remittances to the Treasury will drop off after 2017 and not pick up again until 2021, 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 FY 2015 remittance projection is overstated by at least $38 billion from 2015-2019 and at least $152 billion from 2015-2024. 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. Indeed, the Congressional Budget Office estimated on March 27, 2013 that an interest rate environment like the one the U.S. experienced during the Great Inflation of the 1980s would result in an additional $6.3 trillion in interest payments on federal debt.

OFFICE OF FINANCIAL RESEARCH

The Office of Financial Research (OFR) is an office created by the Dodd-Frank Act and housed within the Treasury Department to support the Financial Stability Oversight Council (FSOC) in fulfilling its duties of identifying and responding to risks and emerging threats to the financial stability of the United States. The Dodd-Frank Act charges the OFR with supporting the FSOC and its member agencies in the following ways: collecting information for the FSOC and its member agencies; standardizing the types and formats of data reported and collected; performing applied and long-term research; developing tools for risk measurement and monitoring; making the results of its activities available to financial regulatory agencies; and assisting the FSOC's member agencies in determining the types and formats of data that the Dodd-Frank Act authorizes them to collect. The OFR can compel financial companies to provide a broad range of data. For example, the OFR must collect "financial transaction data and position data" from financial companies — that is, real-time data about financial transactions, positions, and financial contracts.

The Government Accountability Office (GAO) raised concerns about OFR's lack of transparency and its inability to appropriately gauge its effectiveness in an audit of the OFR and the FSOC released in September 2012 titled, "New Council and Research Office Should Strengthen the Accountability and Transparency of Their Decisions." Additionally, a report released by the OFR on September 30, 2013 titled "Asset Management and Financial Stability" has drawn substantial criticism from Members of Congress of both parties as well as Commissioners from the Securities and Exchange Commission and industry representatives due to concerns about the accuracy, methodology and conclusions of the report. Of particular concern was that the OFR's flawed analysis of the asset

management industry would be used by the FSOC in designating non-bank financial institutions for enhanced prudential regulation by the Federal Reserve Board pursuant to Section 113 of the Dodd-Frank Act.

The OFR is funded outside of the appropriations process through assessments levied on large financial companies. According to the OFR's 2013 Annual Report, the OFR's FY 2014 estimated budget is $86 million. The President's Budget for FY 2015 lists the estimated budget for the OFR at $92 million. The President's Budget for FY 2015 also notes that the OFR estimates significant unobligated balances of $78 million for FY 2014 and $81 million for FY 2015. The Committee remains concerned about (1) the OFR's broad powers; (2) the OFR's unlimited authority to collect financial data and whether it has adequate procedures in place for safeguarding that data; (3) the Treasury Department's influence on the OFR; and (4) Congress's limited oversight of the OFR. The Committee will continue to closely monitor the activities of the OFR and intends to examine whether the OFR's funding should be subject to the Congressional appropriations process to promote greater accountability and transparency. The Committee commends the addition of language in the Consolidated Appropriations Act, 2014 (P.L. 113-76) mandating new quarterly reporting requirements for the OFR on its spending and fulfillment of its mission and providing Congress with the authority to request testimony on these reports.

EXPORT-IMPORT BANK

The Export-Import Bank is an independent agency that provides export financing through its loan, guarantee, and insurance programs. While the Export-Import Bank has historically offset the costs of its operations with the fees it collects, the Committee notes with concern the results of recent stress tests of the Bank's portfolio conducted by the Bank and reviewed by the Government Accountability Office. The tests show the Bank could exhaust its capital reserves in a stressed environment, potentially placing taxpayer dollars at risk for future bail-outs. Also of concern is whether the dramatic growth of the Export-Import Bank in recent years could undermine the Bank's fiscal soundness, and whether the Bank's current capital standards adequately protect against potential losses, particularly in light of the Export-Import Bank Inspector General's observation in a 2012 report "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."

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. In the past, the U.S. has provided funding to MDBs through pledges made by Treasury on behalf of the U.S. to international organizations, and Congress has considered these pledges and partially funded them through the

1 appropriations process. The Committee notes that the Administration has significantly
2 over-committed the United States in pledges to the multilateral development banks,
3 resulting in more than $1.5 billion in payments past due to these institutions since 2005.[3]
4 The Committee recommends the Administration set a good example for recipient countries
5 of multilateral development assistance by exercising discipline and not making
6 commitments that it cannot honor. The Committee urges Treasury to advocate that
7 governments receiving assistance from the multilateral development institutions do not
8 engage in human rights abuses and corrupt activities.
9
10 **INTERNATIONAL MONETARY FUND**
11
12 The International Monetary Fund (IMF) provides loans to countries that cannot
13 meet their international payments and are unable to find sufficient financing to meet their
14 obligations. The IMF also provides global oversight of the international monetary system
15 and provides technical assistance to low- and middle-income countries. The United States
16 played a significant role in creating the IMF and, as its largest shareholder, has veto power
17 over major IMF decisions. The Committee will review the policies of the IMF with an eye
18 toward ensuring effective use of resources and appropriate alignment with U.S. interests in
19 promoting economic growth and stability.
20
21 The Committee will consider whether a lack of transparency in the IMF's
22 governance structure prevents the public from having an appropriate degree of input into
23 fundamental changes in IMF policies, such as the IMF's "exceptional access framework," a
24 rule that prevents the IMF from making loans to countries with unsustainable debts. The
25 Committee notes that it was only from leaked board documents that the public learned how
26 IMF staff "'silently' changed"[4] the exceptional access policy in order to approve a
27 controversial loan for Greece, which the Brazilian representative to the IMF noted with
28 concern "amounted to a bailout of Greece's private sector bondholders, mainly European
29 financial institutions," prompting the Argentine IMF representative to conclude that "it is
30 very likely that Greece might end up worse off after implementing this program."[5]
31
32 The Committee will therefore consider whether the Administration's request to
33 transfer resources from the New Arrangements to Borrow (NAB) to quota subscription is
34 still needed, in light of reforms that do not go far enough to reduce the influence of
35 European nations on the Executive Board. During consideration of any such request, the
36 Committee will assess the purpose of the transfer and potential risks the transfer might
37 pose, as well as possible consequences for the stability of the international financial system
38 and U.S. economic interests if the pending quota package is not approved.

[3] Department of the Treasury, FY 2015 Budget Request, Justification for Appropriations, p. 6.
[4] Remarks attributed to the Swiss Executive Director to the IMF, "IMF Document Excerpts: Disagreements Revealed," *Wall Street Journal*, October 7, 2013, *available at* http://on.wsj.com/15SqhGt.
[5] "IMF Document Excerpts: Disagreements Revealed," *Wall Street Journal*, October 7, 2013, *available at* http://on.wsj.com/15SqhGt.