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 2016

Pursuant to applicable rules and laws, the Committee on Financial Services transmits to the Committee on the Budget 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 2016 (FY 2016).

OUR NATION'S FISCAL CHALLENGE

America is on a collision course with a fiscal crisis that will result in national insolvency, unless Congress and the President work together to get government spending under control. Yet since President Obama took office, a record $7.5 trillion has been added to our nation's debt. Now he proposes in his budget request for Fiscal Year 2016 to add $8.5 trillion more. That is unacceptable, unsustainable, and it will condemn Americans to a future of fewer opportunities, less economic freedom, and a lower standard of living.

Contrary to the self-congratulatory tone of the President's budget, the truth is the American people are stuck in the slowest economic recovery of the last 70 years. Too many are still out of work; those middle-income families who are employed are struggling with smaller paychecks. In fact, no modern presidency has been worse for average Americans' incomes. After six years of failed economic policies, middle-income families are actually earning less than they did in 2009, 13 million more Americans have become dependent on food stamps, and more than five million Americans have fallen into poverty. It is not surprising, then, that recent public opinion polling has found Americans are pessimistic and anxious not only about the state of the national economy but also their own personal economy.

America's national debt now exceeds $18 trillion, and the Congressional Budget Office estimates that by the end of this fiscal year, debt held by the public will be 74 percent of Gross Domestic Product, the highest level since 1950. Without changes to existing laws and a change in Washington's fiscally reckless path, CBO projects the national debt will rise to 79 percent of GDP by 2025. Yet instead of trying to work with Congress, the President has advanced an irresponsible plan that grows Washington's economy at the expense of America's economy. It calls for more spending, more taxes ($1.44 trillion over the next decade) and more debt. This is the same top-down, tax-borrow-and-spend approach from Washington that has failed to deliver for hardworking American families. The President's budget proposal never balances, nor does it contain solutions to address the drivers of our debt and foster a healthier economy with rising incomes and more jobs.

SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission's three-part mission is to protect investors; to maintain fair, orderly, and efficient markets; and to facilitate capital formation. In its budget for FY 2016, the Administration has requested $1.722 billion for the SEC. The FY 2016 budget also seeks more than $11.3 million for the SEC's Office of Inspector General (OIG). The SEC has the authority to carry over unspent funds from the previous fiscal year. The SEC carried over approximately $74 million in unspent funds from FY 2014 into FY 2015. Coupled with the SEC's ability to spend up to $75 million from its Reserve Fund created by Section 991 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203) the Dodd-Frank Act), the SEC's total spending authority for FY 2015 is $1.649 billion, only $51 million less than the FY 2015 request of $1.7 billion. The FY 2016 budget request represents an increase of $147.6 million (approximately 9%) over the agency's FY 2015 available funding amount of $1.574 billion. While the Administration claims that the SEC's funding is deficit-neutral, the SEC's funding ultimately is borne by investors and companies—for every dollar spent to fund the SEC, one less dollar is spent on capital formation.

The $1.722 billion FY 2016 budget request would support 5,205 permanent positions and 4,815 full-time employees. The FY 2016 budget would fund 4,859 full-time equivalents (FTE), an increase of about 399 FTE (9%) over FY 2015, and increases the number of positions by 431 to a total of 5,249. Most of the new positions would be lawyers added to the Division of Enforcement and the Office of Compliance, Inspections and Examinations (OCIE). The SEC's justification for these additional lawyers is to enforce compliance with the Dodd-Frank Act and enhance the number of investment adviser examinations. Yet the SEC has not even completed a majority of its rulemaking responsibilities under the Dodd-Frank Act, which was enacted four and a half years ago. The SEC has also added a number of new OCIE examiners in recent years. However, these examiners are more focused on private fund adviser examinations rather than examinations of advisers that serve retail investors. Furthermore, the SEC has not put forth a viable plan to increase the number of advisers subject to examinations, which might include the use of third-party examinations or the reallocation of existing resources.

The SEC is making full use of the Reserve Fund created by Section 991 of the Dodd-Frank Act to enhance its information technology (IT) systems. The SEC's FY 2016 budget justification states, "In FY 2016, the SEC intends to continue using its Reserve Fund to fund large, multi-year, mission-critical technology projects." The Committee supports the SEC's use of the Reserve Fund to fund only technology projects. The Committee supports the SEC's effort to expand the agency's data and analytical tools to better fulfill its mission. Even though the SEC spent almost $107 million from the Reserve Fund in FY 2013 and 2014, the Committee remains troubled that more than seven years after the exposure of the Madoff Ponzi Scheme, the SEC's siloed structure continues to prevent SEC staff from reviewing all broker-dealer FOCUS reports and investment adviser Forms ADV in one consolidated system.

The SEC must also establish stronger controls to prevent waste, fraud and abuse. For example, in September 2014, the SEC's Office of Inspector General reported that the SEC is "ensuring that inventory records are accurate and that all laptops are accounted for," but "the SEC is not consistently safeguarding sensitive assets and may be unaware of lost or stolen laptops. In the event that lost, stolen, or otherwise unaccounted-for laptops are not protected by encryption software, which we reported as a finding in our May 2014 Review of the SEC's Practices for Sanitizing Digital Information System Media (Report No. 521), the SEC is at risk for the unauthorized release of sensitive, nonpublic information."

The SEC cannot claim that previous funding levels "fall short of what we need to fulfill our responsibilities to investors and our markets" and simultaneously waste these valuable resources because of poor internal controls to track the purchase of IT products. Furthermore, in its audit of the SEC's 2014 financial statements, the Government Accountability Office (GAO) identified "continuing and new deficiencies in SEC's internal control over disgorgement and penalty transactions that constituted a significant deficiency in SEC's internal control over financial reporting." The SEC is at risk of losing the public's trust by reprimanding and sanctioning public companies and their auditors for financial reporting failures when the agency's financial statements contain deficiencies of their own.

The Committee also supports the SEC's previous 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. The SEC's unacceptable delay in completing two rules needed to implement Titles III and IV of the Jumpstart Our Business Startups or "JOBS" Act (Pub. L. 112-106) is impeding new and innovative methods for small businesses and small public companies to access investors and raise equity capital. The Committee believes the SEC must do more to support capital formation above and beyond the JOBS Act by developing its own capital formation agenda and implementing recommendations made by the SEC's Government-Business Forum on Small Business Capital Formation and the Advisory Committee on Small and Emerging Companies.

The Committee supports the SEC's consideration of the recommendations put forward by both the GAO and the SEC's OIG to 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.

THE GOVERNMENT SPONSORED ENTERPRISES

After they failed in September 2008, the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac were placed into conservatorship under the Federal Housing Finance Agency (FHFA). The GSEs failed because of years of mismanagement, unsustainable market practices, and an inherently flawed hybrid business model, and their failure resulted in the costliest of all the taxpayer bailouts. The GSEs remain in business only because the federal government grants them preferential treatment it affords to no other financial institution. For example, the federal government allows the GSEs to conduct new business, even though they are critically undercapitalized. According to their latest 10-K Annual Reports, Fannie Mae was leveraged at 341-to-1 and Freddie Mac was leveraged at 156-to-1. The GSEs' chronic and critical undercapitalization poses an unacceptable risk to taxpayers.

To date, Fannie Mae has drawn approximately $117 billion in taxpayer funds, and Freddie Mac has drawn approximately $72 billion. So far, taxpayers have bailed out the GSEs to the tune of $189.485 billion. In exchange for the more than $189 billion that the GSEs drew from the Treasury to prevent them from going bankrupt, the Treasury Department—and thus, the taxpayers—received shares of GSE Senior Preferred Stock. Under the terms of the taxpayer-funded bailouts, the GSEs pay dividends on those shares when they show a profit, but those dividend payments cannot be used to reduce or redeem the shares of preferred stock that the taxpayers still own.

Given the continued risk that the GSEs pose to taxpayers, the time for fundamental GSE reform is now. And rather than mitigate these risks, the GSEs' regulator—the FHFA—has increased the risk that they pose to taxpayers by expanding their activities and further entrenching their market share. Six years have passed since the housing bubble fueled by the GSEs' recklessness burst, and the Administration has failed to put forth a plan for reforming the GSEs. By contrast, in the 113th Congress this Committee marked up and favorably reported housing finance reform legislation, H.R. 2767, to resolve the GSEs' conservatorship and their unworkable hybrid status. The Committee continues to support legislative initiatives in the 114th Congress to require the FHFA to repeal the charters of Fannie Mae and Freddie Mac and to wind them down. In their place, the Committee supports legislative initiatives that create a private housing finance market with a new statutory structure for regulating mortgage lending and securitization.

After Fannie Mae and Freddie Mac were placed in conservatorship, the CBO concluded that they should be included in the federal budget to reflect their cost to the taxpayer. But in the President's FY 2016 budget, the GSEs are treated as "non-budgetary entities" rather than government agencies whose activities are backed and paid for by taxpayers. As a result, the billions upon billions of losses experienced by the GSEs and the ongoing risk of further losses that the GSEs pose 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.

THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Since its creation fifty years ago, the Department of Housing and Urban Development (HUD) has overseen the proliferation of publicly-funded programs to eliminate poverty and provide affordable housing. As recently as three years ago, the 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] These programs are in addition to initiatives created and funded by state and local governments. But the sheer number of these programs and the amount of taxpayer money expended on them have fallen short of meeting their goals of eliminating poverty and providing affordable housing. In fact, the number of programs and the amount of money spent on them demonstrate that the Administration lacks a coherent and holistic strategy to address long-term systemic poverty, promote self-sufficiency, or encourage economic growth and opportunity.

The President's FY 2016 budget proposes to fund HUD at $49.3 billion, representing an almost 9 percent increase over FY 2015 enacted levels. Unfortunately, the President's budget does nothing to address the failure of the federal government's multifarious housing programs and initiatives to achieve meaningful results in changing lives or transforming troubled communities. Instead, the President's budget creates even more programs and throws even greater sums at these problems.

For example, the Administration proposes several new initiatives, such as the Moving CDBG Forward, the Upward Mobility Project, the National Disaster Resilience Competition (NDRC), the Generation Indigenous, and the Local Housing Policy Grants program. These new initiatives are layered on top of initiatives proposed between 2009-2014, such as the Making Home Affordable Program, the Home Affordable Modification Program, the Federal Housing Administration Refinance Program, the Emergency Homeowners Loan Program, Choice Neighborhoods, the Promise Zones, Project Rebuild, Integrated Planning and Investment Grants, the Sustainable Housing and Communities initiative, and an office rebranded as the Office of Economic Resilience. While well-intentioned, these initiatives, in addition to the 160 programs identified by the GAO, show

[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).

that the Administration has given up on streamlining and simplifying HUD's program structure in order to better serve more people with greater efficiency.

The Committee is concerned that despite tens of billions of dollars in annual appropriations, HUD remains overly bureaucratic, fails to set priorities that define its mission, and does not deliver measurable results. The sprawling agency retains 7,812 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 for renewals or according to pre-determined formulas. 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.

THE FEDERAL HOUSING ADMINISTRATION

The Committee remains gravely concerned about the expanded mission and insufficient finances of the Federal Housing Administration (FHA). For that reason, is the Committee is committed to protecting taxpayers from losses sustained by the FHA. Currently, the FHA is the largest government insurer of mortgages in the world, insuring more than 7.7 million loans with 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. The FHA pays claims from its Mutual Mortgage Insurance Fund (MMIF). By statute, the MMIF is required to maintain a capital reserve ratio of 2%. Since FY 2010, however, the FHA has failed to meet the statutorily-required 2 percent capital reserve level. The FHA's finances deteriorated so much that in October 2013, it had to be bailed out by the U.S. Treasury, drawing $1.68 billion as a "mandatory appropriation." In other words, the FHA had to be bailed out.

Notwithstanding the 2013 bailout, on November 14, 2014, the FHA reported to Congress that the MMIF's capital reserve ratio had reached 0.41%, which is still well below the minimum statutory requirement of 2%. The FHA suggested that the MMIF will reach the statutorily required capital reserve level of 2% in 2016. But every one of the FHA's projections on the capital reserve ratio over the past several years has significantly missed the mark. And perhaps more important, the capital reserve ratio that the FHA calculated of 0.41 percent misrepresented the true state of the MMIF because it included two one-time events unrelated to FHA's collection of premiums and payment of claims. The FHA counted (1) settlement money diverted from the Justice Department's enforcement actions against mortgage lenders; and (2) the FHA's $1.68 billion draw from the U.S. Treasury. According to HUD Inspector General Reports, the FHA has received more than $2.3 billion in settlement money since June 2012. In 2014 alone, FHA received $1.2 billion from settlements between the Justice Department and mortgage lenders. These payments, coupled with the $1.68 billion bailout from the Treasury, mask the actual financial health of the MMIF.

Notwithstanding the 2013 bailout of the FHA and the continued precariousness of the FHA's finances, on January 7, 2015, HUD announced that it would lower the FHA's mortgage insurance premiums by 50 basis points. The premise for this premium reduction would be to provide homeownership opportunities for approximately 250,000 more families. In other words, the FHA would increase its market share by cutting its prices.In the Committee's Budget Views and Estimates last year, the Committee stated that it was:

> 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.

One year later, those concerns have been realized. The Committee is aware of the many pressures that the FHA faces in trying to attain fiscal soundness while promoting and encouraging homeownership, particularly among first-time homebuyers and low-income families. However, these objectives need not be mutually exclusive. A fiscally sound FHA, with a clearly defined mission, ensures homeownership opportunities for creditworthy first-time homebuyers and low-income families.

The FHA's FY 2014 independent actuarial review states that $85 billion in claims-paying capacity would be needed for the FHA to survive an economic crisis similar to the Great Recession. The study estimates that it would take the FHA at least four years to reach this figure, provided there is a steady stream of premium income. It is critically important that FHA be able to pay its claims without having to rely on the U.S. Treasury and taxpayers. Lowering premiums only places the FHA further behind in developing the appropriate capacity to respond to future crises, while at the same time exposing taxpayers to greater risk of loss.

The Committee also strongly recommends a return to the FHA's traditional role in the mortgage insurance market, a view that the Administration claims to share. However, the Committee is concerned that FHA's most recent policy initiatives will discourage private capital and investment in the housing finance market. Four years ago, the Administration released a report entitled "Reforming America's Housing Finance Market: A

Report to Congress," in which the Administration stated that the "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." In its report, the Administration also stated that its goal is to "coordinate program changes at FHA to ensure that the private market—not FHA—picks up that new market share." Unfortunately, since then, the Administration has failed to take any action that would return the FHA to its traditional role or return market share to the private markets. In fact, the Administration has done the opposite, expanding the FHA's mission and increasing its market share at the expense of private market participants.

THE SECTION 8 VOUCHER PROGRAM

For FY 2016, the Administration requested an increase in funding for the Section 8 housing choice voucher program to $21.124 billion, up from $19.304 billion enacted in FY 2015. The growth of this program is on an unsustainable trajectory. Unless the Section 8 program is significantly reformed, it will consume an ever-increasing percentage of HUD's entire 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.

The Section 8 program is plagued by two problems. First, HUD does not keep track on how Section 8 funds are used. 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.*" Second, because HUD does not track how Section 8 funds are used, it cannot assess whether the program is effective. Not surprisingly, 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 7.5 years. Reforms to Section 8 and other assisted housing programs must address the percentage of individuals and families who remain on assistance over a much longer period of time in order to help families become financially independent rather than encouraging 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 2016 budget submission, the Administration proposes $10.76 billion for Project-based Section 8 contract renewals, which is an increase from FY 2015 levels of almost 11 percent. As part of its examination of the Project-Based Section 8 program, the Committee will work with the Administration to develop new ways to convert public housing units to long-term Project-Based Section 8 contracts, in order to facilitate private sector investment in capital improvements.

PUBLIC HOUSING

In its FY 2016 budget submission, the Administration requested $6.57 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 encourages the Administration to propose alternative means of financing the development of affordable housing as part of a comprehensive housing strategy.

In its FY 2016 budget request, the Administration requested $250 million for the Choice Neighborhoods Program, which is a significant increase over the $80 million enacted for FY 2015. This Choice Neighborhoods Program is similar to the HOPE VI program, which was designed to demolish and rehabilitate public housing units. The Committee has long been skeptical of the HOPE VI program, and the Committee remains skeptical of the Administration's dedication of scarce resources to expand the scope and cost of the program under a new name. Despite the new name, the program is the same. And 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.

The Committee notes that the Administration has proposed expanding the Moving To Work Demonstration to high-capacity public housing authorities to test and evaluate new models for improving self-sufficiency, mobility, academic performance, and other outcomes for HUD-assisted tenants. This expansion is limited to 15 public housing authorities and 150,000 aggregate vouchers and public housing units. The Committee looks forward to working with the Administration to develop innovative approaches to serving low-income families in need of affordable housing, including a robust expansion of the Moving To Work program.

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. Yet despite the scope of this investment, 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 approaches to public housing are necessary. 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 to maintain public housing stock. The Committee supported language in the FY 2015 funding bill that raised the cap to 185,000 units. Raising the cap will allow more eligible public housing authorities to convert public housing units to long-term Project-Based Section 8 contracts, thereby permitting public housing authorities access to private capital to pay for maintenance and rehabilitation of public housing stock. The Committee believes that RAD would permit public housing authorities 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.

THE 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 assessments levied against Fannie Mae and Freddie Mac. In November 2008, the Administration suspended the collection of these assessments given the GSEs' failure, bailout, and conservatorship. In December 2014, despite the GSE's continued status in conservatorship, the FHFA announced that the assessments would be reinstated beginning in January 2016. The FY 2016 Budget estimates that $120 million will be allocated to the Housing Trust Fund to provide grants to states through HUD. The Committee disagrees with the FHFA's decision to collect assessments from the GSEs in order to fund the Housing Trust Fund. Fannie Mae and Freddie Mac continue to be undercapitalized and over-leveraged: Fannie Mae is leveraged at 341-to-1, and Freddie Mac is leveraged at 156-to-1. Given their precarious fiscal condition and their conservatorship, the assessments represent not only a threat to their financial stability but a threat to the taxpayer as well.

Moreover, the Trust Fund is similar to HUD's core programs, such as HOME and the Community Development Block Grant 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 Native American tribal lands through its Indian Housing Block Grant (IHBG) program. In its FY 2016 budget submission, the Administration requests $660 million for the IHBG, which is the single largest source of federal funding for housing on Indian tribal lands. The Administration's request is $10 million more than the amount appropriated for the IHBG in FY 2015. The Committee supports a new initiative and set-aside, under the Native American Housing Assistance and Self Determination Act (NAHASDA) , to authorize funds to construct new housing for primary and secondary school teachers living on or near a reservation or other Native American areas, regardless of income or tribal membership. This new initiative will assist tribal governments in attracting talented teachers that can be the foundation for creating pathways to self-sufficiency and economic independence.

During the last year, the Committee worked with HUD and stakeholders to assess the challenges in developing affordable housing in tribal communities, including statutory impediments, HUD internal administration, and the myriad of intra-tribal organizations. This bipartisan initiative culminated in the House approving H.R. 4329, the Native American Housing Assistance and Self-Determination Reauthorization Act of 2014. The Committee will work in a bipartisan approach, similar to last year, to reauthorize NAHASDA and include those bipartisan reforms provided for in H.R. 4329.

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. The RHS offers subsidized direct loans for the purchase of single family housing to low- and very-low income borrowers unable to qualify for credit elsewhere. In recent years, however, the GAO has repeatedly highlighted the overlap of homeownership and rental programs administered by the RHS, the FHA, and the Department of Veterans Affairs.

The Administration's FY 2016 budget requests $1.6 billion to fund the RHS. The Administration proposes to create 170,544 direct and guarantee income-targeted loans for low- and very-low income families. The Committee is encouraged by reports from the RHS that it plans to upgrade its information systems, develop new initiatives to streamline some of its programs, and provide for a comprehensive review of its processes at the management and employee level to modernize its programs. The Committee supports an inter-agency initiative between the FHA and the RHS to develop patterns and practices to protect the U.S. taxpayer from unnecessary risks and guarantee sound underwriting. The Committee expects the Administration to report to Congress the status of its initiative and the benefits in the single- and multifamily markets served by both government agencies. The Committee looks forward to working with the Administration to develop a bipartisan legislative approach to improving these programs and limiting financial exposure to the U.S. taxpayer.

HOMELESS ASSISTANCE

The Homeless Assistance Grants provide for the Emergency Solutions Grant (ESG) and Continuum of Care (CoC) programs. The Administration's FY 2016 proposal would fund these programs at $2.480 billion. The Administration has proposed new initiatives to address homeless needs of families with children, families with children in foster care, and youth aging out of foster care. The Committee will work with the Administration to develop a legislative initiative to address gaps in homeless assistance where homeless children and youth have been unable to be provided case managers and other resources to assist in developing housing solutions.

NATIONAL FLOOD INSURANCE PROGRAM

Created by an act of Congress in 1968, the National Flood Insurance Program (NFIP) is the largest single-line property insurer in the nation. As of November 30, 2014, the NFIP provides flood insurance coverage for more than 5 million policies-in-force, with the associated premium-in-force of $3.7 billion, and total coverage-in-force of $1.27 trillion. Residents and business owners in over 20,000 participating communities across the United States and its territories are able to purchase flood insurance coverage through insurance agents and companies that participate as third-party administrators.

According to the GAO, the NFIP must be fundamentally reformed to stabilize its long-term finances. As of January 26, 2014, the NFIP had outstanding borrowings of $23 billion, with approximately $1 billion of cash on hand. In addition, the NFIP's Reserve Fund has over $150 million, with the authority to borrow an additional $6 billion. The total taxpayer exposure to the NFIP is approximately $30 billion, a debt which the CBO, the GAO and other independent authorities believe the NFIP will never be able to repay.

The Committee is concerned that there is little to no private sector alternative to the NFIP. In 1968, Congress recognized that the inherent challenges of managing flood risk were too great for the private sector and that no viable private sector insurance alternative existed. But forty-seven years later, given the dynamics of the market and the information now available, the biggest impediment to the creation of a private flood insurance market is the NFIP. The Committee will explore legislative initiatives to facilitate the establishment of a private flood insurance market that serves the needs of all Americans.

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. The Bureau has a dedicated Office to protect military men and women. The Committee commends the Bureau and its Office of Service Member Affairs to the extent it has quickly and effectively identified concerns and complaints of military members and their families and engaged in legal action and education to protect those Americans who protect this country.

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 2015, it is $618.7 million. The CFPB's budget authority for Fiscal Year 2016, as adjusted by an annual inflation indicator, is estimated to be$631.7 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 2014, for instance, the CFPB brought forward an unobligated balance of $88 million. In practice, this arrangement enables the CFPB to accumulate large sums to spend on projects of dubious value, including, for instance, at least $215.8 million to renovate a headquarters building it does not own and average annual compensation of $184,753 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, the House passed legislation in the 113th Congress (H.R. 3193) that would have subjected the CFPB's funding

[2] *See*, Office of the Inspector General for the Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau, "Response to the January 29, 2014, Congressional Request Regarding the CFPB's Headquarters Renovation Project," (June 2014), available at http://oig.federalreserve.gov/reports/cfpb-congressional-request-headquarters-renovation-project-jun2014.pdf; "The CFPB Strategic Plan, Budget, and Performance Report," pp. 15-16 (Feb. 2015), available at http://files.consumerfinance.gov/f/201502_cfpb_report_strategic-plan-budget-and-performance-plan_FY2014-2016.pdf /.

to the Congressional appropriations process and placed CFPB employees on the General Services (GS) pay scale.

In its Fiscal Year 2016 budget document, the Administration anticipates the CFPB will incur $582 million in total new obligations for Fiscal Year 2015, including an unspecified $213 million for "Other services from non-Federal sources," and $606 million in total new obligations for Fiscal Year 2016. The Committee views these funding levels as excessive.

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 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 Act, 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 $22 billion between fiscal years 2012 and 2022.

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 OFR is funded outside of the appropriations process through assessments levied on large financial companies. According to the OFR's 2014 Annual Report, the OFR's FY 2015 estimated budget is $99.5 million. The President's Budget for FY 2016 anticipates that OFR will incur obligations of $127 million for FY 2016. The President's Budget for FY 2016 also notes that the OFR estimates significant unobligated balances of $83 million for FY 2015 and $92 million for FY 2016. 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 inclusion of language in the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) requiring the OFR to submit quarterly reports to the Committee regarding its activities and budget and providing the Committee 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 Administration argues that, since FY2008, the Export-Import Bank has offset the costs of its operations with the fees it collects, the Committee believes the budget should provide a more comprehensive measure of the Export-Import Bank's cost to taxpayers. The Committee also 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." Since then, numerous Inspector General investigations have brought to light other governance failures at the Export-Import Bank.

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 appropriations process. The Committee notes that the Administration has significantly over-committed the United States in pledges to the multilateral development banks, resulting in more than $1.6 billion in payments past due to these institutions since 2006.[3] The Committee recommends the Administration set a good example for recipient countries of multilateral development assistance by exercising discipline and not making commitments that it cannot honor. 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 MONETARY FUND

The International Monetary Fund (IMF) provides loans to countries that cannot meet their international payments and are unable to find sufficient financing to meet their obligations. The IMF also provides global oversight of the international monetary system and provides technical assistance to low- and middle-income countries. The United States played a significant role in creating the IMF and, as its largest shareholder, has veto power over major IMF decisions. The Committee will review the policies of the IMF with an eye toward ensuring effective use of resources and appropriate alignment with U.S. interests in promoting economic growth and stability.

The Committee will consider whether a lack of transparency in the IMF's

[3] Department of the Treasury, FY 2016 Budget Request, Justification for Appropriations, p. 6.

governance structure prevents the public from having an appropriate degree of input into fundamental changes in IMF policies, such as the IMF's "exceptional access framework," a rule that prevents the IMF from making loans to countries with unsustainable debts. The Committee notes that it was only from leaked board documents that the public learned how IMF staff "'silently' changed"[4] the exceptional access policy in order to approve a controversial loan for Greece, which the Brazilian representative to the IMF noted with concern "amounted to a bailout of Greece's private sector bondholders, mainly European financial institutions," prompting the Argentine IMF representative to conclude that "it is very likely that Greece might end up worse off after implementing this program."[5]

The Committee will therefore consider whether the Administration's request to transfer resources from the New Arrangements to Borrow (NAB) to quota subscription is still needed, in light of reforms that do not go far enough to reduce the influence of European nations on the Executive Board. 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 for the stability of the international financial system and U.S. economic interests if the pending quota package is not approved.

FEDERAL RESERVE SYSTEM

In its FY 2016 Budget, the Administration projects that "Deposits of Earnings by the Federal Reserve System" will generate $251 billion during the 2016-2020 period and $553 billion from 2016-2025. The Committee believes this estimate is overly optimistic given 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 $4.5 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 $ 98.7 billion in 2014. 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 $64 billion from 2016-2020 and at least $243 billion from 2016-2025. If the Fed's exit from several rounds of quantitative easing is more disorderly

[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.

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.

THE PROPOSED "BANK TAX"

The Administration has proposed a seven basis point fee on the liabilities of financial institutions with more than $50 billion in assets, which it estimates will raise $112 billion over ten years. While this fee may be collected initially from financial institutions – including insurance companies, asset managers, and broker-dealers – it will ultimately be paid by their customers, including millions of lower and middle-income Americans. The Tax Policy Center, a joint venture of the Brookings Institution and the Urban Institute, offers the following analysis of how the President's proposal harms the middle class:

> The burden of taxes is ultimately borne by people, not firms….the financial tax is ultimately borne by investors in the form of lower after-tax rates of return and workers in the form of lower wages….part of the burden of the tax ultimately falls on relatively modest-income retirees who have pensions or 401(k) plans.[6]

Congressional Budget Office Director Douglas Elmendorf, in response to an inquiry regarding a substantially similar prior bank tax proposal from the Administration in 2010, observed:

> [T]he ultimate cost of a tax or fee is not necessarily borne by the entity that writes the check to the government. The cost of the proposed fee would ultimately be borne to varying degrees by an institution's customers, employees, and investors, but the precise incidence among those groups is uncertain. Customers would probably absorb some of the cost in the form of higher borrowing rates and other charges, although competition from financial institutions not subject to the fee would limit the extent to which the cost could be passed through to borrowers. Employees might bear some of the cost by accepting some reduction in their compensation, including income from bonuses, if they did not have better employment opportunities available to them. Investors could bear some of the cost in the

[6] Leonard E. Burman and Ngan Phung, Distributional Effects Of The President's New Tax Proposals, Tax Policy Center, January 30, 2015, available at http://www.taxpolicycenter.org/publications/url.cfm?ID=2000089.

form of lower prices of their stock if the fee reduced the institution's future profits.[7]

PROTECTING THE INTEGRITY OF THE U.S. TREASURY MARKET

The Administration's budget request and other financial statements of the United States present a deeply misleading view of our fiscal situation. This is in part because the federal government enjoys a privilege that private companies and state and local governments that issue debt instruments do not enjoy, namely, it is exempt from the Securities Exchange Act of 1934 and the Securities Act of 1933. While state and local government bond issuances have faced increased scrutiny from the SEC in recent years, the federal government remains exempt from such scrutiny. Subjecting the federal government to the annual reporting requirements and anti-fraud provisions of the federal securities laws would yield greater transparency and a more honest picture of the federal government's finances.

[7] See Letter from Douglas Elmendorf to the Honorable Charles Grassley, Congressional Budget Office, March 4, 2010, available at http://www.cbo.gov/sites/default/files/03-04-ltr_to_grassley_on_fcrf.pdf.