[COMMITTEE PRINT]

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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 2003

February 28, 2002.—Approved by the Committee on Financial Services

Mr. OXLEY, from the Committee on Financial Services, submitted to the Committee on the Budget the following

REPORT

together with

MINORITY, ADDITIONAL, AND DISSENTING VIEWS

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives and section 301(d) of the Congressional Budget Act of 1974, the Committee on Financial Services is transmitting herewith (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2003 and (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during fiscal year 2003.

OVERVIEW

The President's budget arrives in Congress this year in a climate very different from that of last year. The watershed events of September 11 have shaped the fiscal year 2003 budget package in ways far beyond those directly linked to national defense. The President's call to disrupt the financial infrastructure of Al Qaida and the blow to the economy from the massive destruction associated with the terrorist attacks led to Committee action on two landmark pieces of legislation. The first was legislation initiated by the Committee to address terrorist financing (H.R. 3004) which was incorporated into title III of the USA PATRIOT Act and signed into law on October 26, 2001 (Public law 107-56). The second, the Terrorism Risk Protection Act (H.R. 3210), was approved by the House on November 29, 2001, and is awaiting Senate action.

The imperatives of the war on terrorism are similarly reflected in the Administration's fiscal year 2003 budget allocations for agencies and programs under the jurisdiction of the Committee. The Office of Enforcement at the Department of the Treasury, a lead player in the financial war against terrorism, and two of its components, the Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Assets Control (OFAC), are all slated for increases in the FY 2003 budget. The budget will add more than 15 investigators to the Foreign Terrorist Asset Tracking Center (FTAT), which works closely withO-FAC to cut off sources of funding for terrorists. Additional funding will also be made available to Treasury's Office of Technical Assistance to provide training to foreign finance ministries to combat terrorist financing. The Committee has taken particular note of the increase in resources for FinCEN in light of the Committee's efforts in the USA PATRIOT Act to elevate the role of FinCEN as a central player in the war against terrorist financing.

In less direct ways, the new realities of the terrorist threat to U.S. national interests abroad is helping shape the U.S. role in international financial institutions under the Committee's jurisdiction. The Committee takes special note of the Administration's proposed budget increase for the U.S. contribution to the concessionary lending arm of the World Bank, the International Development Association (IDA), and the proposal to offer, for the first time, a bonus of 10 percent in FY 2004 and a 20 percent increase in FY 2005 if certain performance criteria are met. The Administration has also asked Congress to subscribe to a 3-year program to pay up roughly half a billion dollars in U.S. arrearages to the multilateral development banks and like institutions, and is negotiating with its World Bank partners to convert up to 50 percent of loans to grants. These and related initiatives in the international affairs function of the Treasury Department appear to reflect an increased appreciation of the kind of leadership role the U.S. should play in global economic development if the war against terrorism is to succeed.

TERRORISM INSURANCE

The Committee supports funding for the implementation of the Terrorism Risk Protection Act, H.R. 3210. The legislation passed by the House would require the Federal government to provide up to $100 billion in temporary financial assistance for losses from terrorist attacks committed after enactment of the bill. The bill would also provide for the program administrator to recoup the costs of the financial assistance through insurance industry assessments and policyholder surcharges over time. Based on the provisions in the House-passed bill, Federal spending for financial assistance, if a qualifying terrorist attack occurred, would be nearly offset on a cash basis by a corresponding increase in governmental receipts. However, the timing of the outlays would precede the receipts, creating a potential effect on direct spending and triggering pay-as-you-go procedures.

Based on the premiums collected for terrorism insurance in the United Kingdom, CBO estimated that H.R. 3210 could increase direct spending by $1.4 billion over the 2002-2006 period and by $5.3 billion over the next 10 years. However, the Committee does not believe that anyone can predict with any accuracy the likelihood or severity of further terrorist attacks on insured American property. Nor does the Committee believe that the terrorism threat in the United Kingdom (primarily stemming from domestic issues) can be considered in any way parallel to the international terrorist threat posed to the United States. It is in fact the total lack of predictability of the likelihood and severity of another terrorist attack that has generated the need for Congress to enact H.R. 3210, underscoring the difficulty of developing any meaningful budgetary predictions.

H.R. 3210 currently provides that any new budget authority and outlays are designated as an emergency requirement for purposes of budgetary treatment. Those funds are directed to be made available only to the extent that a request, including an emergency designation, is transmitted by the President to Congress. The Committee believes that this emergency budgetary authority is necessary and proper.

SECURITIES AND EXCHANGE COMMISSION AND RELATED ISSUES

The Committee intends to consider legislation creating a new, privately-funded oversight body to review the competency, ethics, and independence of accountants that certify financial statements for public companies. In authorizing the Securities and Exchange Commission (SEC) to recognize a Public Regulatory Organization the Committee expects to restore public faith in the accounting profession and the accuracy of financial documents filed pursuant to the securities laws. The legislation will ensure that accountants are subject to sanctions, including disqualification from certifying financial statements, if they fail to meet the ethical and competency standards, or to perform their duties under the securities laws. The legislation would also require that financial information is disclosed to investors in a prompt and transparent manner, and prevent corporate officers, directors and other insiders from profiting on trades of securities during times when their employees cannot do so because of a "lock-down" in a company sponsored retirement plan. The Committee believes that this legislation will have minimal impact, if any, on the FY 2003 Federal budget.

The Committee also intends to support an increase in the Securities and Exchange Commission's budget. The Committee will consider legislation that authorizes an increase of approximately $235,000,000, or nearly 50 percent, in the Commission's budget for FY 2003. The Committee seeks to increase funding for the Commission's Enforcement and Corporate Finance Divisions in order to ensure that those divisions have the necessary resources to vigorously prevent and pursue violations of the securities laws.

Last session, the Committee passed H.R. 1088, the Investors and Capital Markets Fee Relief Act of 2001. This legislation was signed into law by President Bush on January 16, 2002 (Public law 107-123). It reduced transaction fees on America's nearly 100 million investors, lowered the costs of raising capital, and finally established parity between the SEC staff and other financial regulators with regard to allowable salary levels. The Committee supports full funding of pay parity for SEC staff, which will cost $76 million in FY 2003, and believes that pay parity is an important component in attracting and retaining qualified staff.

Interest On Business Checking And Sterile Reserves

On April 3, 2001, the House passed H.R. 974, the "Small Business Interest Checking Act of 2001," to repeal the prohibition against depository institutions paying interest on business checking accounts. The bill is currently awaiting Senate action.

Much like the restrictions imposed by the Glass-Steagall Act, recently amended in the Gramm-Leach-Bliley Act, the prohibition on paying interest on business demand deposits is a Depression-era law founded on the concern that the nation's larger banks might use interest payments to lure deposits away from small, rural banks in order to finance stock market speculation. That concern is no longer applicable in today's competitive financial market place, and the ban on interest has become a burden particularly for small banks and small businesses. Although large, sophisticated business depositors have found alternative ways to minimize their holdings in non-interest bearing accounts — e.g. through the use of "sweep" programs whereby deposits in such accounts are regularly transferred into money market funds or other interest bearing vehicles — smaller business depositors have been unable to avail themselves of such opportunities.

H.R. 974 also authorizes the payment of interest on the statutorily required reserves that financial institutions hold at Federal Reserve Banks. Under the Federal Reserve Act, banks, thrifts, and credit unions are required to maintain reserves at Federal Reserve Banks based on the volume of transaction accounts (e.g., checking accounts, etc.) that they hold. Because institutions receive no interest on such reserves, those reserves have come to be known as "sterile reserves" and financial institutions have found ways to minimize their reserve requirements, chiefly through "sweep" programs that permit funds to be transferred out of reserveable transaction accounts into nonreservable instruments (e.g., money market deposit accounts) at the end of each day. The result has been that reserve balances at the Federal Reserve banks have declined dramatically in recent years, falling from approximately $28 billion in 1993 to approximately $6 billion in 2000. According to the Federal Reserve, the decline in reserves is of concern since reserves play an important role as a tool of monetary policy.

The CBO estimate prepared for the bill indicates that the payment of interest by the Federal Reserve on statutorily required and excess reserves would cost approximately $600 million over 5 years (FY2002-2006). However, because H.R. 974 offsets the 5-year cost by mandating the transfer of an equal amount of Federal Reserve surplus funds to the U.S. Treasury, CBO deemed the legislation to be effectively budget neutral. CBO expects the Federal Reserve to recapture the surpluses at the first opportunity. Consequently, if budget offsets are not found for subsequent years (2007-2011), the legislation could result in significant revenue losses to the Treasury, on the order of $1.2 billion.

ANTI-FRAUD COORDINATION

The Committee supports funding for the implementation of the Financial Services Antifraud Network Act of 2001, H.R. 1408, although the Committee expects that any budgetary requirements would be minimal. The legislation passed by the House does not anticipate any additional funding or budget requirements. While CBO estimates that coordinating computer systems among the affected regulatory organizations would cost about $2 million over the 2002-2003 period and insignificant amounts in subsequent years, CBO also determined that these costs would be largely offset by fees, and that the net effect on the budget would be negligible. CBO also estimated that the increased ability under H.R. 1408 for the government to im-pose criminal fines would improve governmental receipts, but would have a similarly negligible budgetary impact. The Committee hopes to work with the Senate towards enactment of H.R. 1408 this year, but does not expect the final legislation to have significant budgetary consequences beyond the $2 million estimated by CBO.

Deposit Insurance Reform

The Committee intends to consider legislation to reform the Federal deposit insurance system. The bill will merge the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), increase the insurance coverage amount for deposit accounts, allow the FDIC to operate the fund within a range, and authorize rebates to the industry when the fund exceeds the high end of the range. For an initial transition period, the bill will also create a credit system to offset deposit insurance premiums owed by the highest rated institutions. The credits may reduce future premium payments to the FDIC depending on a number of factors, such as the size of the merged fund, actual and expected losses to the fund, the status of the economy, and the health of the industry.

The Committee intends that any deposit insurance reform legislation shall insure that the FDIC fund remains actuarially sound.

Financial Crimes Enforcement Network

The Committee commends the President for increasing the budget of the Financial Crimes Enforcement Network (FinCEN) by $3.3 million to $52.3 million in FY 2003 to reflect the increased duties assigned the government's central clearinghouse for a broad array of information on both money laundering and terrorist financing.

Last year, in the USA PATRIOT Act, the Committee took steps to elevate FinCEN to bureau status in the Department of Treasury, reflecting the Committee's longstanding view of the importance of its efforts. The Committee applauds the proposed budget increase for FinCEN, which continues a series of budgetary increases over the past three years as FinCEN has become an increasingly important tool to help Federal and State enforcement agencies combat money laundering. However, the Committee notes that the scope of new activities for FinCEN delineated in the USA PATRIOT Act are so broad, and the success of FinCEN so central to the success of efforts to stop terrorism and money laundering, the need for resources — and the wise use of those resources — has never been more paramount. Noting that $2.06 million of the budgetary increase reflects cost-increase adjustments and not new programming, the Committee views the $1 million increase — reflecting eight new full-time equivalent (FTE) personnel slots — as a bare minimum to accomplish new oversight of money services businesses (MSBs) as they are swept into Bank Secrecy Act regulations, as well as other increased duties. Based on FinCEN's use of its new powers and resources, the Committee will examine whether the agency will require additional budgetary resources to fulfill its enhanced mandate of cracking down on terrorist financing and money laundering.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The President's budget contains a request for $68.255 million to fund programs administered by the Community Development Financial Institutions (CDFI) Fund, including funds to implement the New Markets Tax Credit Initiative. The CDFI Fund was established in 1994 as part of the Riegle Community Development and Regulatory Improvement Act. Its statutory mandate is "to promote economic revitalization and community development through investment in and assistance to community development financial institutions, including enhancing the liquidity of community development financial institutions." The administration's budget request for the CDFI Fund represents an almost $12 million reduction from what was appropriated for the CDFI Fund last fiscal year. The budget submission highlights an administration initiative to gather data on the CDFI industry that could be used to target future assistance more effectively.

HOUSING AND COMMUNITY OPPORTUNITY

The Committee commends the President and Secretary of Housing and Urban Development (HUD) Mel Martinez for proposing a fiscal year 2003 housing budget that recognizes two very important facets of sound housing policy: homeownership and rental opportunities. Our country is fighting two battles: one against terrorism and the other to overcome a slow economy. In the midst of all the negative economic news over the last year, the housing market has been the one bright spot. Housing posted its best year in history last year. There is no doubt that housing can be a significant catalyst on the road to economy recovery.

During Secretary Martinez's first appearance before the Housing Subcommittee last year, the Secretary indicated that the new administration would need at least a year to refocus HUD and ensure that it manages and develops a housing policy that earns the confidence of the taxpayer, local and State communities, and Congress. It is the Committee's hope that as the Secretary begins his second year, the Department would continue that process and provide the leadership necessary to shepherd the Nation's housing policy, eliminating programs that are antiquated, costly and ineffective, and replacing them with ideas that are cost-effective, sensitive to the needs of hard-to-house families and individuals, and allow greater local and State control. While Members of the Committee may have various opinions on how to address housing problems, it is clear that there is agreement that improvements can be made. The housing budget the President proposes is a good start.

The Housing Subcommittee held a series of seven hearings on different aspects of the housing problems facing the country as well as the current management and budgetary needs. Out of those hearings, it was apparent that rental housing opportunities should be encouraged, particularly in high-cost areas where working families – such as those of teachers, municipal employees, public safety officers, to name a few – were unable to either buy or, in younger families' experience, rent housing close to where they work. As a result, the Committee, during the last year asked the General Accounting Office (GAO) to review the Federal Housing Administration (FHA) multifamily housing program to determine whether the program could be self-sustaining with an appropriate and fair credit-subsidy cost attached. The Committee is pleased that in this year's budget proposal, the Administration will lower mortgage insurance premiums for the FHA multifamily insurance program, thereby producing an additional 50,000 new rental units, and leveraging approximately $3.5 billion in development in FY 2003 alone.

The Committee also applauds the Administration for its proposal to renew all section 8 rental subsidy contracts, including the creation of 34,000 new rental vouchers. Consistent with what the Committee learned in last year's hearings, there is a backlog of families waiting for assistance. The new vouchers will assist these families as well as hard-to-serve individuals, such as veterans who are homeless and other non-elderly disabled. Moreover, the Committee supports the Administration's position to use these new vouchers in areas and with administrators who have demonstrated an ability to utilize efficiently the program. The Committee is aware that legislation is needed to provide more flexibility to existing rental voucher administrators to address the problem of low voucher utilization rates in high-cost and average rental markets. The Committee looks forward to working with the Administration to achieve that goal.

More importantly, however, the Committee is concerned that the FY 2003 section 8 cost of $17.527 billion is more than 56 percent of the entire departmental budget. The Administration and the Committee will need to review the impact of future section 8 contract renewals to determine where reforms and flexibility can be introduced into the process. This review is necessary in order to avoid the possibility that the entire HUD budget could be consumed in the future with section 8 rental subsidies, leaving no room for new housing initiatives.

On the homeownership front, the Committee applauds the President's commitment to increase homeownership opportunities, particularly among minorities. The Committee recognizes that homeownership opportunities provide an avenue to build and strengthen communities, as well as to provide wealth accumulation for what will be the largest investment in the life of most Americans. Particularly where the homeownership rate among African-American and Hispanic communities fails to reach 50 percent, the Administration's proposal to provide downpayment assistance to low-income creditworthy homebuyers is a step in the right direction. Coupled with this initiative, the Administration correctly recognizes that financial literacy can have a significant impact in the homebuying process, potentially saving the first-time homebuyer the personal funds needed for downpayment and other closing costs; therefore, the Administration's proposal to increase housing counseling funds from $20 million to $35 million and make it a separate initiative should augment direct assistance programs and bolster homeownership rates.

Recognizing that low- and very-low income families could be good homeowners and provide needed stability in their communities, the President proposes to allow a section 8 voucher holder the opportunity to use a year's worth of their voucher allocation for homeownership. Additionally, a three-fold increase in funding to the Self-Help Housing Opportunities Program (SHOP) will leverage limited government funding, faith-based and non-profit organizational leadership and private financing to create approximately 3,800 new homes.

These are good examples of creativity and the leveraging of public and private resources to create stable and vibrant communities.

The Committee applauds the Administration's proposed decoupling of the brownfields program from the Section 108 loan guarantee program to attract more participants. A similar legislative initiative has been referred to the Committee and will be considered during the second session of the 107th Congress. While the Committee is pleased with the $25 million proposed for the Brownfields Redevelopment initiative, it is hoped that this amount will be increased in coming years.

The Committee will review carefully proposals to allow public housing authorities to convert housing developments to section 8 project-based assistance. This conversion, according to the Administration, would allow public housing authorities to leverage private-sector financing for significant rehabilitation. The Committee understands that there is approximately $22 billion in infrastructure costs, as suggested by public housing advocates, and that new business and management techniques are required to preserve, where necessary, public housing. What is unclear is how public housing authorities will finance the debt payments. The Committee supports any new initiatives that can address significant physical structure rehabilitation. At the same time, the Committee wants to ensure the financial viability of this initiative and that the developments enhance communities and support low- and very-low income families who are struggling to make ends meet and move up the economic ladder through education and homeownership.

The Committee encourages the Administration to utilize the HOPE VI program—a program designed to eradicate severely distressed public housing through competitive grants to public housing authorities (PHAs)—to stabilize and sustain neighborhoods, where necessary, with mixed-income housing and appropriate architecture. The Committee is concerned, however, that the program has targeted only large public housing authorities and would like to explore the possibility of expanding this program to smaller PHAs.

In the rural housing area, the Committee is concerned that programs administered by the Rural Housing Service (RHS) are underutilized and that the agency has failed to modernize and keep abreast of current rural markets. Given the absence of an RHS Administrator to manage and provide leadership for the agency during the last thirteen months, the Committee questions the ability of RHS to meet current rural housing needs and to forecast and plan for future initiatives. While the single family direct loan program, known as section 502, is a model for homeownership programs for low- and very-low income families, the single family guarantee component had almost $1 billion in unused budget authority last year. The Committee will work with the Administration to determine how these cost-effective programs can be better utilized.

Under the multifamily programs, the Administration proposes to reduce by 47 percent, from $114 million to $60 million, the section 515 rural multifamily direct loan program. This program has experienced reductions since 1994 when the 103rd Congress investigated fraudulent and mismanagement practices, and discovered that some of the developments did not meet housing quality standards. In more recent years, the program has produced no significant number of housing units and the $60 million suggested this year could only provide rehabilitation for existing stock. The Committee is encouraged by private-sector initiatives that could leverage private funds with minimal Federal involvement.

Under the section 538 multifamily loan guarantee, the Committee is concerned that the program is vastly underutilized. For example, since 1996 when the section 538 program was created, out of 201 RHS selected development proposals, only 12 have been built and 29 granted conditional commitments, leaving 160 proposals either to languish or find alternative financing. The purpose of the program was to provide leveraged funding to produce rental housing. The Committee is concerned that the agency has not met its objectives in the multifamily arena and will attempt to work with both the Departments of Agriculture and HUD to develop and coordinate a national policy that provides housing for urban and rural Americans.

Finally, the House approved legislation last year (H.R. 247) to allow the construction of tornado-safe shelters in manufactured home parks. The Committee believes that this is an important initiative in tornado-prone areas and intends to work with the Administration to ensure safe homes and communities, particularly when facing potential natural disasters.

NATIONAL FLOOD INSURANCE PROGRAM

The Committee maintains jurisdiction over the Federal Emergency Management Agency's National Flood Insurance Program (NFIP) and is especially concerned with the problem of repetitive loss properties. These properties flood regularly because of their location and cost the NFIP approximately $250 million each year. Because of the threat such properties pose to the ability of the NFIP to meet obligations to policy holders without drawing on taxpayer funds, the Committee held a hearing in 2001 to address possible solutions to the problem. The Committee commends the Administration's efforts to address this issue in the FY 2003 budget and will continue to consider improvements to the NFIP that would ensure the effectiveness and financial stability of the program. In addition, the Committee welcomes the administration's support of the specific solutions of mitigation and buyouts as opposed to the simple proposal to eliminate insurance for "several thousand" properties included in the FY 2002 budget.

The Committee especially commends the Administration's request of $300 million for improvements to the nation's flood maps. Flood Insurance Rate Maps help communities guide new development away from flood-prone areas and are the basis of the flood insurance premium rating system. In many cases, these maps are now outdated and unreliable. While FEMA estimates that over $800 million is needed to completely update the flood maps, the $300 million requested in the President's budget is a good start and will allow for many improvements. In addition, the Committee supports the formation of public-private partnerships in an effort to update local flood maps and believes this type of cooperation should be encouraged. The Committee will continue to seek solutions for the problems associated with repetitive flood loss properties.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

The Office of Federal Housing Enterprise Oversight (OFHEO) is the financial safety and soundness regulator of Fannie Mae and Freddie Mac (the enterprises). OFHEO's budget is currently paid for by the enterprises through semi-annual assessments. Congress approves the overall amount as part of its consideration of the VA-HUD appropriations bill each fiscal year. OFHEO's current budget is $27 million and the FY2003 budget request is $30 million. The President's FY2003 budget includes an administrative provision that removes OFHEO from the appropriations process. As recommended by the President, OFHEO should be removed from the appropriations process so that the agency has the flexibility to set resources in response to any rapid changes in the financial condition of the enterprises or in the markets in which they operate. Moreover, this would put OFHEO on the same basis as the other financial safety and soundness regulators, who share similar functions and are also funded by assessments. OFHEO would continue to be subject to Congressional oversight.

EXPORT-IMPORT BANK

The Committee supports funding for the Export-Import Bank (Ex-Im). For FY 2003, the Administration is unfortunately proposing $541.4 million for the program budget which supports the loans, guarantees, and insurance offered by the Bank. The FY 2003 request represents a 26 percent reduction from the $727.3 million appropriated for FY 2002. According to the Administration's budget presentation, OMB's recalculation of credit risk for all international lending programs, including Ex-Im programs, allows the Bank's budget to be cut while increasing bank-supported financing for U.S. exporters from $10.4 billion in FY 2002 to $11.5 billion in FY 2003. The Committee is looking forward to examining OMB's recalculation of credit risk for the Export-Import Bank.

The budget request for Ex-Im also includes an increase in the administrative budget for the Bank from $63 million in FY 2002 to $70.3 million in FY 2003. The Committee notes that $1.9 million of the increase is actually a new charge for the Bank's civil service retirement costs, previously carried elsewhere in the Federal budget. The remainder of the increased resources for the Bank's administrative budget is consistent with the Committee's priorities, as reflected in H.R. 2871, the pending Export-Import Bank Reauthorization Act of 2001.

The Committee hopes to see the reauthorization legislation enacted prior to the March 31, 2002 expiration of the Bank's current statutory authority. The Congressional Budget Office (CBO) estimated last November that the legislation could cost $3.1 billion over the 2002-2006 period, but OMB's recalculation of credit risk may result in a new, lower cost estimate.

INTERNATIONAL FINANCIAL INSTITUTIONS

Authorizing legislation is needed to fully fund the Administration's FY 2003 request for U.S. contributions to the International Development Association (IDA), the African Development Fund (AfDF), and the Global Environmental Facility (GEF). According to the proposed budget, $850 million is needed for IDA, while $123.3 million is needed for the African Development Bank Group, of which $118 million is for the African Development Fund, and $178 million is needed for the GEF, which includes $70.3 million for past arrearages and $107.5 million for the first year of the new replenishment. Total multiyear replenishment obligations for these institutions are: $2.85 billion for IDA-13, $354 million for AFDF-9, and $430 million for the GEF. The Subcommittee on International Monetary Policy and Trade Subcommittee conducted a hearing on the African Development Bank and Fund in April 2001.

The Committee notes the Administration's initiative at the IDA replenishment negotiations to convert up to 50 percent of loans for poor countries into grants. The Committee is awaiting the results of a General Accounting Office (GAO) study on this issue. Some critics of the Administration's grant initiative argue that converting loans to grants will remove the element of financial discipline necessary to ensure concrete, measurable results. For that reason, it is critical that the World Bank, the U.S., and other major donors, identify effective alternatives for ensuring that grants yield meaningful results as measured by indicators in primary health care, education, and economic growth. While it is not clear how the Administration intends to implement its effort to tie additional funding to results — that is, to provide an additional $100 million in FY 2004 and $200 million in FY 2005 based on performance — the Committee will examine this issue during consideration of the IDA reauthorization. With U.S. contributions to IDA rapidly approaching a billion dollars annually, the Committee welcomes any creative, effective approaches to guaranteeing that these dollars yield real dividends in improving the quality of life for the poorest of the poor.

The Committee notes the Administration's commitment to clear $533 million in U.S. arrearages to IDA and other international financial institutions over the next three years, beginning with a down payment of $178 million in FY 2003. The significance of the Administration's effort should not be lost on the international community that has rallied broadly in support of the United States in the days following September 11.

The Committee also is seeking enactment of a bill reported from Committee last November (H.R. 2604), reauthorizing U.S. contributions to the Asian Development Fund and the International Fund for Agricultural Development (IFAD). CBO estimates the cost of the bill over the 2002-2006 period to be $276 million. The $103 million FY 2003 request for the Asian Development Fund is consistent with the Committee's priorities, as reflected in H.R. 2604, as is the Administration's FY 2003 request of $15 million for IFAD. Along with other provisions, H.R. 2604 also reauthorizes the Asian Development Fund over four years and IFAD over two years.

Finally, the Committee notes the Administration's request for $200 million for the newly created Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM). Since the enactment of legislation initiated by this committee in the 106th Congress (Public law 106-264, the Global AIDS and Tuberculosis Relief Act of 2000), the Committee has supported the creation of an international trust fund to combat the global AIDS threat to health and economic development. The Committee notes that the World Bank has been designated to act as the fiduciary agent for the Fund and a representative of the Bank is serving as an ex officio member of its board. The Committee expects to consider legislation to reauthorize the Fund this year.

Minority Views

FUNDING LEVELS

Viewed in comparison with last year's budget submission, the Administration's fiscal year 2003 HUD budget request is an improvement. Last year, the Administration proposed some $2 billion in cuts to critical housing and community development programs, including public housing, HOME block grants, CDBG, and rural housing. Fortunately, Congress rejected these deep cuts, and restored funding for most of these HUD programs.

However, in comparison with housing and community development needs in our country, this year's budget request is inadequate. It is true that the FY 2003 HUD budget shows an increase in budget authority of $2.026 billion compared to the appropriations bill approved just last fall. But, if you exclude "phantom" increases, increases needed merely to renew Section 8 contracts, and other non-programmatic items, the budget actually reflects a small net cut in funding for HUD programs.

In simpler terms, the FY 2003 budget treads water, cutting certain programs to pay for small funding boosts in other programs. Most troubling is the $400 million cut in public housing funding. This cut is made in the Capital Fund, which is used to repair and modernize aging public housing units. At a time when the Administration acknowledges a $20 billion backlog of public housing modernization needs, it is inconsistent to reduce the very funds that are designated to address this backlog.

The budget also zeroes out funding for CDBG earmarks, eliminates the Rural Housing and Economic Development Program, and eliminates funding for Empowerment Zones.

With regard to the selective increases in the budget for certain programs, the impact is minimal. For example, the $88 million proposed increase in funding for CDBG block grants will not even keep up with inflation. The $10 million increase in Section 811 housing is illusory; with $32 million in renewal needs, there will effectively be fewer funds available for new projects. And the request for 34,000 incremental vouchers pales in comparison with levels in the three years immediately after the 1998 Public Housing bill, which authorized incremental vouchers.

THE MYTH OF EXPLODING SECTION 8 COSTS

When analyzing the HUD budget, it is important to keep in mind that the $2 billion increase in Section 8 budget authority is largely illusory. With the exception of the $204 million for the 34,000 incremental vouchers, the remainder of this “increase” merely serves to renew expiring Section 8 contracts. And, as we have noted before, a significant portion of this “increase” is a “phantom.” That is, it results either from expiring multi-year contracts or reductions in Section 8 recaptures - neither of which increase spending (outlays) by even a single dollar.

Once again this year the debate over HUD funding is skewed by the illusion of exploding Section 8 costs. It is true that Section 8 budget authority has doubled over the last eight years. However, this was predicted, due to the phenomenon of expiring multi-year contracts. Since expiring contracts require zero budget authority in the year before expiration, their renewal at full budget authority technically results in an increase - “phantom” increase which has zero impact on spending (outlays).

The reality is that Section 8 spending (ie., outlays) have not even kept up with inflation over the last 8 years. In fiscal year 1995, outlays for Section 8 totaled $15.787 billion. According to the Administration’s FY 2003 budget, Section 8 outlays will be $18.339 billion next year. This modest increase over that eight year period is actually lower the the rate of inflation over the same period.

In light of this reality, we reject the argument that the HUD budget reflects a 7 % increase in resources for housing and community development. This 7% increase is largely a technical increase in Section 8 budget authority, which neither increases funds for HUD programs, nor serves any more families.

PUBLIC HOUSING

Once again, the big loser in the FY 2003 HUD budget is public housing. Last year, at the request of the Administration, Congress terminated the Drug Elimination Program, which had been used to fight crime and drugs in public housing. The Public Housing Capital Fund was also cut by $150 million.

This year, once again, the public housing Capital Fund is slated for a deep cut, of over $400 million. And funding for public housing operating subsidies will not even keep up with inflation.

We cannot continue to cut funding for public housing, without expecting that our public housing stock will deteriorate. We cannot eliminate funding for crime and drug prevention without expecting that housing authorities’ ability to address these problems will not be negatively impacted. We call on Congress to reverse this trend of shrinking the resources provided to public housing, and instead boost funding to meet the backlog of public housing modernization needs.

In this respect, we note that the budget outlines a new proposal to convert some public housing units to Section 8 project-based units. While the concept of leveraging future subsidies to provide needed funds for modernization may be worth exploring, we note that in the context of this budget, this proposal seems to be advanced not to increase resources, but to argue that cuts are less severe than they seem. We believe that any leveraging proposals should be on top of, not in lieu of, existing funding levels.

Moreover, should Congress consider this new proposal, a number of questions need to be fully debated and addressed. For example, will this hasten the privatization of the public housing stock, or at least result in a concentration of the poorest projects in the public housing stock? Are private lenders willing to lend against these units, especially the units in the worst shape which need the most repair?

COMMUNITY DEVELOPMENT

At a time when many communities have not participated in our nation's eight-year economic expansion, and as the economy seems to be softening, the funding cut for the CDBG account is disappointing.

The budget proposes to eliminate CDBG earmarks, a $336 million cut. The argument is made that the money would be better spent on CDBG block grants. However, we note that the budget only reinvests $88 million of this earmark cut in higher CDBG block grants – an increase which will not even keep up with inflation. Further, without getting into the debate on the merits of earmarks, we note that if Congress reinstates funding for earmarks in conference - as it seems to do every year - there will be a $336 million hole in the HUD budget, a hole that we fear could be filled by cuts in other HUD programs.

We do not support the Administration's proposal to eliminate the Rural Housing and Economic Development program. This proposal is made concurrently with a new $16 million Colonias initiative. We note the very strong similarity between Rural Housing and Colonias, and question the apparent conclusion that these types of grants are needed in the Colonias, but are no longer needed in places like the Appalachias or other poorer rural areas.

We are also concerned that funding for Empowerment Zones is zeroed out, in spite of the fact that nine new Empowerment Zones were recently designated by HUD.

HOMELESSNESS

Studies have shown that as many as 840,000 Americans are homeless on any given night, and over the course of the year, as many as 3 million Americans are homeless at one time or another. Therefore, we applaud the Secretary's commitment to ending chronic homelessness within the next decade.

Unfortunately, the budget, which provides flat funding for homeless programs, does not seem to provide the resources needed to meet this commitment. And, it does not clearly address the most critical issue which threatens the ability to develop the 150,000 to 200,000 new permanent housing units needed to serve the chronically homeless over the next ten years. That is the need for a reliable source of funding for renewal of expiring Shelter Plus Care and Supportive Housing permanent housing grants. Without such a source of funding or meaningful funding increases, renewal needs will eat into the existing funding levels, resulting in cuts to services and insufficient funds to build new units.

The simplest way to address this issue is to renew expiring Shelter Plus Care grants through the housing Certificate Fund. In fact the previous Administration proposed this approach, and notably, the House adopted this provision in its House-passed version of the FY 2001 VA-HUD appropriations bill.

Instead, the budget rejects this approach, and fails to provide additional funds to meet increased renewal needs. Since renewal needs under the FY 2003 continuum of care cycle are projected to increase by almost $100 million compared to the prior year, it would appear that the budget effectively forces a reduction in services or in new permanent housing funding or both.

ELDERLY HOUSING

As our nation ages, the affordable housing and related health care challenges create an increasing need, not just for additional affordable housing for low-income seniors, but also for innovative approaches to promote aging in place, such as providing affordable assisted living and expanding the availability of service coordinators.

Unfortunately, overall funding levels for the Section 202 elderly/Section 811 disabled account are the same as last year. With inflation, this means that fewer new elderly and disabled housing units will be built. Moreover, with Section 811 renewal needs increasing, we face the same problem as with the homeless account: a flat funding level combined with increasing renewal needs means that resources for new projects will effectively fall.

EXPANDING HOMEOWNERSHIP OPPORTUNITIES

We applaud the Administration's emphasis on homeownership, while pointing out that, for a variety of reasons, homeownership will not be the solution for all Americans.

The targeted increases in funding for housing counseling and Habitat for Humanity in the budget are commendable. However, we question the $200 million Downpayment Assistance Initiative, proposed as a set-aside in the HOME program. This program was funded at $50 million in last year's appropriation bill, but made contingent on authorizing legislation being enacted prior to June 30th of this year. At this time, neither House or Senate authorizing committees have shown any inclination to take up such authorizing legislation.

More importantly, it is unclear what purpose this initiative serves, compared to simply providing this funding increase in the HOME block grant program. Since down payment assistance programs are permitted under HOME, the Downpayment Assistance Initiative serves no other purpose than to reduce the flexibility of state and local HOME recipients. If, for example, a community has a greater need for housing rehabilitation than for homeownership promotion, that community would instead be required under the Downpayment Assistance Initiative to use this portion of their funds on homeownership.

With respect to FHA, we note that this program has historically been a critical source of mortgage loans for low- and moderate-income homebuyers. As the economy softens, we urge the Administration to closely track FHA default and foreclosure rates. It is also vital that the loss mitigation and appraisal review programs are fully and aggressively implemented, to protect prospective and existing FHA borrowers, as well as the FHA MMIF fund.

With regard to the multi-family loan program, we appreciate that the Administration has followed the recommendations we made last year during the budget and appropriations process to revisit their increase in FHA multi-family premiums, by improving the accuracy of the scoring of these loans and lowering the premiums back down to a level sufficient only to maintain a negative credit subsidy. By dropping the premiums down from 80 to 57 basis points, as outlined in the budget, this will undo most of the damage caused by last year's increase.

HOUSING PRODUCTION

There is a growing consensus that we need to do more to produce additional affordable housing. The combination of Section 8 project-based opt-outs, plus the difficulty of using portable Section 8 vouchers in certain markets, makes this a growing priority. Moreover, the evidence is that housing affordability is increasingly becoming a problem for moderate income families and seniors.

We note that some housing advocates and Democrats have proposed creating a Trust Fund for affordable housing production, funded with excess profits of FHA. Up until recently, tapping into these profits to reinvest in housing was not an option under our budget rules. However, last year, OMB and CBO revised their budgetary treatment of the $3 billion in FHA profits to allow them to be utilized in the HUD budget. Unfortunately, instead of reinvesting all or a portion of these funds in housing, we have simply adjusted the HUD budget and discretionary budget caps downward by this amount.

This continues a pattern we have seen in recent years, with the recapture and diversion of Section 8 funds to non-housing purposes. It is ironic that this comes at a time when some argue that the overall federal budget does not have sufficient resources to increase housing funding to meet our demonstrated needs.

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ADDITIONAL VIEWS

We are disappointed that the President's FY 2003 budget fails to address the Securities and Exchange Commission's (SEC) funding needs. More specifically, the President's budget fails to provide any funding for SEC pay parity – this despite President Bush's recent signing of legislation to reduce SEC fees that also authorized pay parity. Providing Commission staff with pay comparable to staff of other federal financial regulatory agencies is essential to ensuring that the Commission can hire and retain high quality, experienced staff.

In addition to not funding pay parity, we are disappointed that the President's FY 2003 budget fails to provide a badly needed increase in SEC funding for additional staff to provide the oversight and enforcement that are essential to maintaining confidence in our capital markets. The growing numbers of initial public offerings, public companies, and securities transactions have increasingly strained the SEC's ability to provide adequate oversight of our financials markets. It is clear that the SEC has fought a losing battle to keep up with the immense growth of corporate filings, as evidenced by the fact that they were able to review only 8 percent of audited financial statements filed by public companies in 2000. SEC staffing levels have remained flat over a period when market activity has increased markedly; these staffing levels have, in fact, declined during FY2002. The failure of Enron, and the many issues for investors, employees, accountants, auditors, and analysts raised by that failure, has further taxed the ability of the SEC to oversee the markets.

If we are to restore the quality and integrity of our financial reporting system, it is crucial that the SEC receive the funding necessary to increase the staff available to perform its market oversight functions, particularly regular reviews of corporate financial statements. Moreover, the SEC must have the additional enforcement staff necessary to bring enforcement actions swiftly when companies misrepresent their financial condition in their financial statements.

We strongly support the significant increase in resources for the SEC's Divisions of Enforcement and Corporate Finance contemplated in SEC reauthorization legislation. However, we also support the full implementation of pay parity for Commission staff generally. We believe that the FY 2003 budget should include funding for pay parity and for additional staff to help restore confidence in our capital markets.

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Further Additional Views

As part of its multi-year commitment to the Enhanced Heavily Indebted Poor Country Initiative (HIPC), the United States agreed to fund both bi-lateral debt forgiveness and multi-lateral debt forgiveness through the HIPC Trust Fund. The multi-year funding commitment for the multi-lateral trust fund of $600 million has been met through 2002 and prior year appropriations. However, the bi-lateral funding component is not yet complete. On the original funding schedule, the Administration would have requested a final appropriation of $135 million, intended to fund bi-lateral debt forgiveness for the Congo. Based on its assessment that this country will not meet the eligibility requirements for debt forgiveness during FY 2003, the Administration has decided not to request the necessary appropriation. We believe that this final appropriation for bilateral debt forgiveness should follow the original funding schedule under the HIPC initiative, particularly given the possibility that the country would meet its eligibility requirements within the next year.

In general, we believe that the United States and other donor countries should explore ways to expand the scope of debt relief, possibly broadening the program to include other poor countries and/or deepening multi-lateral debt relief for existing HIPC countries. Given concerns that initial estimates of economic growth for the existing HIPC countries may not be met, the United States should ensure that new resources are made available to the initiative so that debt levels are brought to a sustainable level.

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DISSENTING VIEWS

Supporters of limited, constitutional government and free markets will find little, if anything, to view favorably in the Financial Services committee's "Views and Estimates for Fiscal Year 2003." Almost every policy endorsed in this document is unconstitutional and a threat to the liberty and prosperity of the American people.

For example, this document gives an unqualified endorsement to increased taxpayer support for the Financial Crimes Enforcement Network (FINCEN). According to the committee, these increased funds are justified by FINCEN's new authority under the PATRIOT Act. However, Mr. Chairman, FINCEN's powers to snoop into the private financial affairs of American citizens raise serious constitutional issues. Whether the expansion of FINCEN's power threatens civil liberties is ignored in this document; instead, the report claims the only problem with the PATRIOT Act is that the federal financial police state does not have enough power and taxpayer money to invade the privacy of United States citizens!

The committee also expresses unqualified support for programs such as the Export-Import Bank (EX-IM) which use taxpayer dollars to subsidize large, multinational corporations. Ex-Im exists to subsidize large corporations that are quite capable of paying the costs of their own export programs! Ex-Im also provides taxpayer funding for export programs that would never obtain funding in the private market. As Austrian economists Ludwig Von Mises and F.A. Hayek demonstrated, one of the purposes of the market is to determine the highest value of resources. Thus, the failure of a project to receive funding through the free market means the resources that could have gone to that project have a higher-valued use. Government programs that take funds from the private sector and use them to fund projects that cannot get market funding reduce economic efficiency and lower living standards. Yet Ex-Im actually brags about its support for projects rejected by the market!

Finally, the committee's views support expanding the domestic welfare state, particularly in the area of housing. This despite the fact that federal housing subsidies distort the housing market by taking capital that could be better used elsewhere, and applying it to housing at the direction of politicians and bureaucrats. Housing subsidies also violate the constitutional prohibitions against redistributionism. The federal government has no constitutional authority to abuse its taxing power to fund programs that reshape the housing market to the liking of politicians and bureaucrats.

Rather than embracing an agenda of expanded statism, I hope my colleagues will work to reduce government interference in the market that only benefits the politically powerful. For example, the committee could take a major step toward ending corporate welfare by holding hearings and a mark-up on my legislation to withdrawal the United States from the Brenton Woods Agreement and end taxpayer support for the International Monetary Fund (IMF). The Financial Services committee can also take a step toward restoring Congress' constitutional role in monetary policy by acting on my Monetary Freedom and Accountability Act (HR 3732), which requires Congressional approval before the federal government buys or sells gold.

This committee should also examine seriously the need for reform of the system of fiat currency which is responsible for the cycle of booms and busts which have plagued the American economy. Many members of the committee have expressed outrage over the behavior of the corporate executives of Enron. However, Enron was created by federal policies of easy credit and corporate welfare. Until this committee addresses those issues, I am afraid the American economy may suffer many more Enron-like disasters in the future.

In conclusion, the "Views and Estimates" presented by the Financial Services committee endorses increasing the power of the federal police state, as well as increasing both international and corporate welfare, while ignoring the economic problems created by federal intervention into the economy. I therefore urge my colleagues to reject this document and instead embrace an agenda of ending federal corporate welfare, protecting financial privacy, and reforming the fiat money system which is the root cause of America's economic instability.

RON PAUL.