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March 2, 2007

The Honorable John M. Spratt, Jr.
Chairman
Committee on the Budget
U.S. House of Representatives
309 Cannon House Office Building
Washington, DC 20515

Dear Chairman Spratt:

By direction of the Committee on Financial Services, and 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, I am transmitting herewith a committee print entitled "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 2008." I am also transmitting views submitted by Members of the Committee.

The Committee approved the print, as amended, on March 1, 2007, by a voice vote, a quorum being present.

Should you or your staff have further questions regarding this document, please contact the Committee's General Counsel, Mr. Thomas Duncan, at extension 5-4247.

Sincerely,


BARNEY FRANK
Chairman

BF/tgd

Enclosure

cc: The Honorable Spencer Bachus

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 2008

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives for the 110th Congress and section 301(d) of the Congressional Budget Act of 1974, the Committee on Financial Services is transmitting herewith (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2008 and (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during the coming session.

SECURITIES AND EXCHANGE COMMISSION

The President's proposed budget for fiscal year 2008 (FY 2008) includes a three percent increase in total budget for the Securities and Exchange Commission (SEC) that would hold staffing levels across the SEC constant from 2007. This year, the SEC has experienced a reduction in full-time equivalent staff of approximately three percent from 2006 levels. Since 2005, staffing levels overall at the SEC have decreased by more than seven percent on a full-time equivalent basis, and by close to eleven percent in terms of actual positions. The reduction in staffing at the SEC comes despite continued increases in underlying market activity and increases in the number of entities under the direct oversight of the SEC.

Notwithstanding the problems in the mutual fund markets in recent years and the ongoing efforts to improve regulation in that area, staffing in the Division of Investment Management remains below levels from 2004. The shrinkage of staffing in this area may jeopardize the ability of the SEC to address adequately the increasingly complex policy issues that continue to arise in this area, particularly given that registrations of hedge fund advisors remain well above 2004 levels, in spite of the court's reversal of the SEC rule requiring registration of hedge fund managers.

Additionally, inspections are a key component of SEC oversight of investment advisors, but staffing for the Office of Compliance Inspection and Examinations (OCIE) dedicated to investment companies and advisors has been shrinking for the last three years. The SEC expects to conduct only 1,550 inspections of investment companies and advisors in 2007 and in 2008, well below the 1,874 such inspections conducted in 2002. While that decrease is due at least in part to the increasing complexity of many of the inspections conducted, this means that many funds and advisors are not inspected for increasingly lengthy periods of time.

Similar results can be seen in other key divisions of the SEC. Full-time equivalent staff positions in the Division of Enforcement are expected to be down by nine percent since its peak in 2005. In spite of the large number of on-going investigation concerning options back-dating and increasing concerns about the level of insider trading taking place in the markets, staffing in the Division of Enforcement is now back to below 2004 levels. At the same time, the SEC has embarked on major initiatives to overhaul its electronic reporting system for public companies to make their financial reporting more accessible to investors, as well as implementation of major changes to the structure of the trading markets that will

necessitate increased oversight of the markets. The SEC's ability to effectively carry out its on-going responsibilities while undertaking major projects and enforcement efforts may be jeopardized by the overall reductions in staffing.

The Securities and Exchange Commission may also need to slightly adjust its resources to implement regulatory reform of the Sarbanes-Oxley Act of 2002, especially section 404. The Committee will continue to work with the SEC and the Public Company Accounting Oversight Board concerning their rulemaking proposals to ensure that the law's implementation is risk-based and scaleable to a company's size and complexity.

The Committee plans to examine these and other areas of the SEC's operations carefully as we conduct oversight of the agency in the coming year to determine the adequacy of the existing FY 2007 and proposed FY 2008 budgets.

The Committee applauds the President's budget effort to fund the United States Securities and Exchange Commission (the "Commission" and the "SEC") to continue its ongoing mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. In 2007, the Commission expects to collect \$1,380,000,000 in registration, transaction and merger and tender fees, which would be approximately \$488,000,000 more than the SEC's anticipated FY 2007 budget of \$892,000,000. In 2008, the Commission expects to collect \$1,138,000,000 in fees, which would be approximately \$232,000,000 more than the SEC's FY 2008 budget of \$905,000,000. The excess fees collected by the Commission are a tax on investors and new business development and are not being allocated to the agency's oversight of the United States capital markets. The Committee expects to work with the Commission to ensure that fees collected by the Commission are either used to improve the agency's oversight of the United States capital markets or returned to America's investors and businesses.

The Committee believes that the agency should maximize its current staff to make sure the SEC continues to run as an effective and efficient government agency as well as eliminate waste, fraud and abuse.

GOVERNMENT SPONSORED ENTERPRISES

The Committee continues to support improved regulatory oversight of the housing Government Sponsored Enterprises (GSEs) - Fannie Mae, Freddie Mac, and the twelve Federal Home Loan Banks. The GSEs play a significant role in providing liquidity to the secondary mortgage market and financial institutions. The importance of the GSEs to the financial system and national economy necessitates that they be supervised by a regulator with the tools and resources needed to ensure their safety and soundness and mission compliance.

Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System rank among the largest financial institutions in the United States. The GSEs have more than two trillion dollars of outstanding debt obligations, held by a large number of federally insured banking institutions, as well as domestic and international investors including central banks.

Fannie Mae and Freddie Mac, however, have since 2003 disclosed significant accounting irregularities and undergone management reorganizations; some Federal

Home Loan Banks have also experienced accounting problems and management changes. As a result, they too are in the process of making financial restatements.

More can and should be done to improve the regulatory oversight of the GSEs. Fannie Mae and Freddie Mac's regulator in particular has considerably less power for protecting the safety and soundness of its regulated entities as compared to federal banking regulators. Both of the GSE regulators would also benefit from enhanced resources and expertise to adequately monitor the activities of these large and complex institutions.

The Committee believes that consolidating GSE supervision into a single regulatory body likely will result in stronger oversight. Last Congress, the House passed H.R. 1461, the Federal Housing Finance Reform Act of 2005. H.R. 1461 would have established the Federal Housing Finance Agency as an independent agency to oversee the safe and sound operation as well as the mission function of the GSEs. Under that bill, funding for the new regulator would continue to come from assessments on the GSEs, but would have been removed from the appropriations process, as recommended by the Administration. The bill granted the director of the agency stronger powers than current regulators in the areas of capital requirements, portfolio holdings, operations standards, enforcement, and receivership; authority to review and approve new programs and activities also was provided.

Modeled on the successful affordable housing programs of the Federal Home Loan Banks, the bill also established affordable housing funds at Fannie Mae and Freddie Mac to be financed by a percentage of after-tax corporate earnings. For the initial years of operation, these affordable housing funds would help to rebuild housing in the areas most affected by Hurricane Katrina.

While H.R. 1461 did not become law in the 109th Congress, important progress was made in discussions with the Administration on important aspects of the new regulator's authority. The Committee anticipates capitalizing on that progress by taking up similar legislation early in 2007 and hopes for swift action by the Senate shortly thereafter.

In addition, the existing regulator for Fannie Mae and Freddie Mac, the Office of Federal Housing Enterprises (OFHEO), continues to be subject to the appropriations process. Until the GSE regulator is removed from that process, the Committee believes that adequate funding must be provided to ensure that OFHEO can continue to pursue its examinations and reviews of the GSEs' compliance with the existing consent orders at the same time that it engages in on-going enforcement actions concerning prior officials of the GSEs and related litigation.

TERRORISM RISK INSURANCE

The Congress responded to the September 11, 2001 terrorist attacks by enacting the Terrorism Risk Insurance Act (TRIA). This Act was set to expire on December 31, 2005. After the Committee acted in 2005, S. 467, the Terrorism Risk Insurance Extension Act of 2005 (P.L. 109-144), was enacted extending TRIA through calendar year 2007 and eliminating certain lines of coverage.

While there is no reliable way to predict how much insured damage future terrorists might cause, the Congressional Budget Office (CBO) had estimated that S. 467 will increase direct spending by approximately \$1.4 billion over the 2006-2010 period and by \$1.5 billion over the next 10 years. Under TRIA, the Department of

the Treasury will recoup some or all of the costs of providing financial assistance through charges imposed on insurance firms. CBO expects that the increase in Federal spending for financial assistance would be nearly offset by corresponding increase in government receipts over a period of several years. CBO estimates that S. 467 will increase governmental receipts by about \$150 million over the 2006-2010 period, and by \$720 million over the next ten years. According to CBO estimates, the net expected federal outlay, spending less receipts from charges over the period 2006-2015, will be approximately \$780 million. CBO notes that the actual cost could vary greatly from the estimated amounts. The Committee agrees with the CBO that there is no reliable way to estimate how much S. 467 will cost, and that any attempt to budget for losses from terrorist attacks would be pure speculation.

The President's FY 2008 budget allocates an unspecified amount and 8 FTEs for administrative expenses for the Terrorism Risk Insurance Program (TRIP) within the Department of the Treasury. This represents a decrease of 2 FTEs from FY 2007. Considering the ongoing terrorism threat facing the nation, the Committee questions the decrease in FTEs, as it expects the program to be extended prior to its scheduled expiration on December 31, 2007.

OFFICE OF THRIFT SUPERVISION

The Committee notes that consumer complaints are handled by the Office of Thrift Supervision (OTS) through both the regional offices and Washington and that 15 FTEs are allocated for these functions with 3 additional FTEs in Washington. As part of its oversight function, the Committee intends to review the agency's outreach to consumers and tracking of consumer complaints and to monitor the degree to which systemic problems are communicated to the examination staff.

The Committee notes that the OTS FY 2007 Budget and Performance submission articulates eight Key Strategic Issues and Challenges, none of which was consumer-oriented. One of these goals was the Promotion of the Thrift Charter. The Committee notes that this effort is a collateral duty for a number of staff members. The Committee is concerned that an inappropriate amount of resources may be devoted to this issue and will monitor this matter in the exercise of its oversight function.

The Committee is concerned with the sustainability of the examination workforce at OTS, given that 55 percent of current staff will be eligible for retirement by 2010. A sufficiently sized, well-trained examination workforce is essential to the ability of the OTS to fulfill its core mission. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention.

The Committee notes that OTS has operated with a budget surplus for the past five fiscal years, and that its overage currently provides for ten months of expenses. Retained earnings at the end of January 2007 totaled \$176.5 million, which is approximately ten months of expenses. The contingency reserve totaled approximately \$136 million - approximately 7 months of expenses. The Committee will monitor the appropriateness and use of such reserves.

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The Committee notes that consumer complaints are handled through the Customer Assistance Group in Houston and appreciates that more emphasis has been placed on and resources dedicated to this operation over the past few years, in terms of increased hours of service. The OCC anticipates adding three customer assistance specialists in FY 2008. The staff has been increased from 54.4 FTEs, 20 contractors, and a budget of \$6.5 million in 2006 to 63.5 FTEs and 20 contractors with a budget of \$8.3 million in 2007. The Committee supports additional resources and FTEs for this effort. In the exercise of its oversight function, the Committee intends to review the agency's outreach to consumers and tracking of consumer complaints and to monitor the degree to which systemic problems are communicated to the examination staff.

The Committee is concerned with the sustainability of the examination workforce at OCC, given that 30 percent of current staff will be eligible for retirement by 2010. A sufficiently sized, well-trained examination workforce is essential to the ability of the OCC to fulfill its core mission. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention.

The Committee notes that OCC revenues exceed expenses. The Contingency Reserve ensures regulatory and supervisory functions can be maintained on a steady course, notwithstanding swings in income or a major emergency. This reserve is \$292 million as of September 30, 2006. The contingency reserve is approximately 45 percent the FY 2007 budget, and is projected to be at 48 percent by year end. The Asset Replacement Reserve for replacement of major facilities and other fixed assets including the headquarters office building and district offices is fully funded at \$104 million as of September 30, 2006. The Special Reserve for unforeseen budget shortfalls in the current budget year is currently at the target level of \$15 million as of September 30, 2006. The Committee will monitor the appropriateness and use of such reserves.

TREASURY OFFICE OF INSPECTOR GENERAL

The Committee notes the minimal increase in the funding of the Office of the Inspector General (OIG). In FY 2006, the OIG received \$16.8 million, The FY 2007 proposal showed a minor increase to \$17.4 million, and this year's request is \$18.4 million. This increase is meant to maintain current staffing levels at 115, but the Committee believes the OIG should receive additional resources.

The Committee believes that the work product of the Inspector General, both audits and investigations, is useful not only to the Secretary of the Treasury but also to the Committee as it exercises its oversight of the Department. Given Treasury's role as the nation's bursar as well as its roles in enforcing economic sanctions and embargoes and in compiling and analyzing data on financial crimes, the Committee believes that a healthy, independent inspector general operation is vital not only to efficient operation but to continued cost-control efforts. Additionally, the Committee believes that increasing the number of audit positions at the office would be useful to

provide ongoing analysis of a variety of regulatory and compliance operations performed by the Department, including coordination between enforcement and regulatory functions. In particular, the Inspector General has raised questions regarding several major Treasury programs handling huge sums that need audit attention, but have not been audited recently or at all, due to funds availability. For example, Treasury's Debt Issuance Process (\$4.6 trillion in debt held by the public) was last audited in 1999, and the following programs have never been audited:

FMS' Controls Over Disbursements (\$1.9 trillion annually),
CDFI Fund's New Markets Tax Credit Program (\$15 billion),
TTB Tax Audit Division Targeting Program (\$17 billion),
OCC/OTS Examination Coverage of Financial Institutions Off-Shore Outsourcing,
and
Background Checks Over Individuals Handling Sensitive BSA Reports.

Additionally, the OIG needs sufficient funding to perform follow up work to verify that corrective actions for previously reported deficiencies were, in fact, implemented and effective. Increased OIG oversight of Treasury's BSA and intelligence systems development efforts, as well as other high risk capital investments is critical. Given the history of failed and problem-plagued capital investments at Treasury, and the potential for damage to the country's financial systems and increasingly more sophisticated terrorist efforts to circumvent anti-money laundering programs, increased OIG oversight is warranted and necessary. With additional resources, the OIG will be able to more effectively monitor major capital investment projects, particularly in the critical early stages. These audits would help the Department avoid costly overruns, late or failed delivery of systems or projects, weak security controls, and other problems.

The Inspector General identified Treasury's Management of Capital Investments as a significant management and performance challenge. The challenge was first identified in 2004 in response to (1) significant cost escalations with the HR Connect system and (2) delays and significant cost increases noted in an OIG audit of the Treasury Repair and Restoration (TBARR) project due to inadequate planning and other inefficiencies during the renovation itself. More recently, they reported in February 2006 that the Department's poor planning and execution of its billion dollar Treasury Communications Enterprise (TCE) procurement led to delays and increased costs. They have also noted an increase in the types and complexities of cases associated with acquisitions of major capital investments. These cases include procurement irregularities, potential conflict of interest, and unauthorized release of proprietary software.

For FY 2007, the Department's portfolio of major IT investments included 54 projects, including 31 projects for non-IRS bureaus and offices. The Department, in consultation with OMB, identified three non-IRS projects as "high risk" – HR Connect, BSA Direct, and Treasury Foreign Intelligence Network (TFIN). The high risk nature of these projects was recently underscored by the FinCEN's suspension of BSA Direct after significant concerns were raised about schedule delays and project management.

Based on available resources OIG has focused much of its efforts to date on mandated work such as (1) the annual financial audits under the Chief Financial Officers Act, Government Management Reform Act, and other statutes, (2) the annual independent evaluation of the Department's information security policies and practices under the Federal Information Security Management Act (FISMA); and (3) the biannual independent review of the Department's privacy and data protection policies and procedures under section 522 of the Transportation, Treasury, Independent Agencies, and General Government Appropriations Act, 2005 (Public Law 108-447). Their remaining resources have focused principally on the high risk area of the Department's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) programs. For the foreseeable future, these areas of focus will not change, but improved coverage is imperative. The Committee believes increased resources are critical to improving capital investment audit and oversight.

Additional resources would be used to increase the OIG staff by hiring personnel with the specific capabilities and skills required to accomplish increasingly complex audits of major IT systems acquisitions, improve OIG technical ability, and allow for the use of expert contractors where prudent and necessary. With additional funding, OIG will be able to audit capital investment projects at inception or early in their life cycle for the purpose of ensuring well defined requirements; reasonable cost estimates; appropriate acquisition plans; adequate project management; and, with respect to IT investments, appropriate security at the "front end." OIG also expects to be able to better monitor steady-state projects to, among other things, determine whether reported returns on investments have been achieved. The Committee believes these goals are important and should receive additional resources sufficient to carry out these goals.

TREASURY BUREAU OF FINANCIAL CRIME ENFORCEMENT NETWORK

The Committee notes the decrease in the President's budget request for the Financial Crimes Enforcement Network (FinCEN) from \$91.3 million requested for FY 2007 to \$87.4 million requested for FY 2008. The Committee questions and will monitor issues surrounding the request for \$2.5 million to begin the design and initial development of the Cross-Border Wire Transfer System, noting that the Treasury Secretary has not determined, as required by section 6302 of the Intelligence Reform and Terrorism Prevention Act of 2004 (Public Law 108-458), that the reporting of such transmittals is reasonably necessary to conduct the anti-money laundering and anti-terrorism financing efforts of the Secretary, nor certified the technical feasibility of such a program. The Committee notes the requested \$1.613 million to improve Bank Secrecy Act (BSA) E-filing, and will monitor FinCEN's efforts to increase the number of institutions filing electronically and the total number of electronic filings. The Committee, noting its concern over the suspension of the BSA Direct program and associated program-management deficiencies at FinCEN, also notes with approval the request for \$1.75 million to enhance FinCEN's project-management functions. The Committee is concerned that FinCEN has been operating without a Director since December 2006 and that the last Director served for less than a year. The Committee believes that it is important for this position be filled and that the candidate selected be committed to

a period of service necessary to provide adequate direction, and expresses general concern about FinCEN's ability to attract and retain top personnel in general. The Committee will closely monitor the ability of FinCEN to meet its goals without leadership continuity.

Treasury's Financial Crimes Enforcement Network (FinCEN), together with Federal banking and securities, industry regulators, issued customer identification rules under section 326 of the USA PATRIOT Act, 31 U.S.C. 5318(l). Section 326 of the USA PATRIOT Act required that these regulations prescribe minimum procedures for financial institutions to use and their customers, after reasonable notice, to comply with, to verify the identity of new account holders "to the extent reasonable and practicable." The Committee is concerned that the flexibility of the regulations has allowed illegal immigrants to abuse the system and open bank accounts, procure credit cards, and take out residential mortgages. The Committee will hold hearings and consider legislation to ensure that this practice does not continue.

TREASURY OFFICE OF FOREIGN ASSETS CONTROL

The Committee notes the increase in funding for the Office of Foreign Assets Control, from the FY 2007 budget (including funds from the Omnibus appropriations bill) of \$22.8 million to \$25.081 million for FY 2008, an increase that includes two more full-time staffers to deal with terrorism issues and three more for issues dealing with weapons of mass destruction. The Committee also notes the Treasury pilot program to develop a state-of-the-art case management system at OFAC. The Committee will monitor OFAC's efforts to combat terrorist networks and state sponsors of terrorism and weapons of mass destruction proliferation through sanctions as their work increases through Executive Orders and Treasury designations. The Committee will continue to monitor and encourage OFAC's efforts to increase communication between the agency, institutions, and the law enforcement and intelligence communities, to increase efficiencies and decrease compliance burdens.

TREASURY OFFICE OF TERRORISM AND FINANCIAL INTELLIGENCE

The Committee notes the increase in requested funding for the Treasury Office of Financial Intelligence (OTFI), from an FY 2007 request of \$45.4 million to a FY 2008 request of \$56.224 million. The Committee will monitor the development of specific new initiatives to disrupt the financing of terror throughout the world. The Committee notes that many of the OTFI initiatives requested in the FY 2007 budget request were fully funded in the FY 2007 Omnibus appropriations bill.

TREASURY OFFICE OF TECHNICAL ASSISTANCE

The Committee notes the \$24.8 million requested for Treasury's Office of Technical Assistance (OTA), an increase from the \$23.7 million requested by the President for FY 2007. The Committee will closely monitor OTA's use of resources and coordination with relevant government agencies in providing technical

assistance abroad. The Committee is concerned that the problems outlined in the GAO report (GAO-06-19) "Terrorist Financing: Better Strategic Planning Needed to Coordinate U.S. Efforts to Deliver Counter-Terrorism Financing and Technical Assistance Abroad" continue to exist in the delivery of technical assistance abroad and that Treasury and State have failed to adopt the recommendations of GAO; the report stated that the U.S. government lacks an integrated strategy to coordinate the delivery of counter-terrorism financing training and technical assistance to countries vulnerable to terrorist financing as a result of the effort not having key stakeholder acceptance of roles and procedures, a strategic alignment of resources with needs, or a process to measure performance. The Committee is concerned that despite the Committee holding two hearings that covered this subject in the 109th Congress and the GAO findings, the Office continues to resist adopting recommendations that would resolve these issues. The Committee will continue to monitor the situation closely and urge Treasury and State to better coordinate their efforts and use of resources in the delivery of technical assistance abroad.

UNITED STATES MINT AND THE BUREAU OF ENGRAVING AND PRINTING

The Committee notes that the United States Mint and the Bureau of Engraving and Printing (BEP) operate with continuing indefinite appropriations and thus do not receive new annual appropriations, but believes continued fiscal restraint at the two bureaus nevertheless is important. The Committee will monitor the Mint as it produces and distributes circulating coins, including the Presidential \$1 and Sacagawea \$1 coins; 24-karat First Spouse Gold coins and 24-karat Gold Bullion coins; and as it produces coins honoring Oklahoma, New Mexico, Arizona, Alaska and Hawaii as part of the 50 State Quarters Program. The Committee will review any proposals of the Mint, if offered, related to its work with the Federal Reserve in determining the appropriate production levels and distribution of circulating coins of each denomination, and will review, if offered, any Mint proposal to control or decrease the cost of producing circulating coins by considering alternate compositions to alleviate the upward cost pressures of commodity metal prices. The Committee will monitor BEP as it produces and delivers notes to the Federal Reserve System. Additionally, the Committee will monitor the BEP as it redesigns the \$5 and \$100 notes, and as the new \$5 note begins circulation in spring 2008 and the new \$100 begins circulation in FY 2009. The Committee will also monitor BEP's anti-counterfeiting efforts.

DEBT RELIEF

This Committee has for a number of years worked in a very bipartisan way on the issue of debt relief for the world's poorest countries as an essential component in the overall effort to help alleviate the desperate poverty and misery that exists in many parts of the world.

The Committee commends the efforts of the Administration in establishing the Multilateral Debt Relief Initiative (MDRI), which is the most recent and comprehensive effort by the International Monetary Fund (IMF), World Bank, and African Development Bank (AfDB) to provide poor country debt relief. Proposed by

G8 finance ministers in June 2005, the MDRI provides 100 percent debt relief to select countries that are already participating in the joint-IMF/World Bank Heavily Indebted Poor Countries (HIPC) program. The goal of the MDRI program is to free up payments that would otherwise be made to these international financial institutions so that poor countries can use those resources to focus on alleviating illness, desperate hunger and poverty.

The Committee strongly supports the President's FY 2008 request for \$207.3 million for debt relief activity, which includes U.S. contributions to the HIPC trust fund and the Tropical Forest Conservation Act debt relief program, and funding to cover the cost of canceling the remainder of the Democratic Republic of Congo's debt to the U.S.

The Committee commends the Administration's decision to begin bilateral cancellation for Liberia in the FY 2008 budget, and commends in particular the Administration's recent efforts in working with other donor countries to identify existing resources at the IMF and elsewhere to eliminate Liberia's arrears to the World Bank, the IMF and the African Development Fund, which will allow Liberia to move towards 100 percent debt forgiveness.

The Committee is encouraged by the economic progress and institutional reform Liberia has achieved under the leadership of President Johnson-Sirleaf since she was elected in 2005 after a quarter century of bloody coups and wars. The moral argument for canceling all Liberia's debt without delay is clear, since much of the debt burden was accumulated during the oppressive and undemocratic regimes of Samuel Doe and Charles Taylor, who did not use the money to benefit the people of Liberia. The Committee fully supports President Johnson-Sirleaf's continued reform efforts and urges the Administration to make complete debt cancellation for Liberia a top priority.

The Committee continues to have a particular concern about the very dire situation of the people of Haiti. The Committee urges the Administration to also focus its efforts and its advocacy within the international community to swiftly provide complete debt cancellation for Haiti to help alleviate one of the worse cases of human misery in the hemisphere and to show the people of Haiti the kind of compassion and understanding that the Committee believes good policy calls for.

MULTILATERAL DEVELOPMENT BANKS

The President's FY 2008 budget includes net increases of \$219 million for multilateral development banks and institutions such as the World Bank, Inter-American Development Bank, and the African Development Fund. Notably, the request includes \$175 million to cover past arrears to these institutions, \$150 million of which is owed to the World Bank International Development Association (IDA). In total, IDA receives a \$119 million increase over its FY 2007 level, which importantly will cover the US commitment to the historic 100 percent multilateral debt relief initiative. Other institutions receiving increases include the Inter-American Development Bank (\$34 million increase), the Asian Development Bank (\$35 million increase), the African Development Fund (\$7 million increase) and the International Fund for Agricultural Development (\$3 million increase).

The Committee supports these funding requests, and urges the Administration to continue to press for increased accountability, openness and

transparency both within the recipient countries and within the institutions themselves, so that the multilateral development banks can more effectively carry out their mission to alleviate poverty, promote sustained economic growth, and deal with the years of abuse and neglect and misery in which so many people have been condemned to live.

EXPORT-IMPORT BANK OF THE UNITED STATES

The Export-Import Bank (the Bank) was re-authorized in the 109th Congress for five years (Public Law 109-438). The Bank is an important source of financing for U.S. exporters and plays a particularly important role in assisting these exporters when they are at a commercial disadvantage due to subsidies provided to their foreign competition by foreign governments.

The Committee notes that the Administration's budget request includes a proposal which would make the Bank a self-funding agency. The proposal would permit the Bank to rely on its own revenues in order to fund its program and administrative budgets. The Committee will be seeking more information on this proposal and is particularly interested in assessing the impact of this proposal on the fees the Bank charges its clients, and particularly its small business clients. The Committee, noting past instances in which the Bank at least partially failed to carry out statutory requirements, particularly with respect to enabling small business exporters, will also thoroughly consider any impact this proposal may have on the oversight function of Congress generally and this Committee in particular.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The Administration's fiscal year 2008 budget request for the Community Development Financial Institutions Fund (CDFI Fund) represents a significant decrease in funding from the amounts Congress appropriated in previous years, including \$118 million for fiscal year 2001 and \$55 million for FY 2006. For fiscal year 2008, the CDFI Fund would only receive \$28.6 million.

The CDFI Fund was established by the Riegle-Neal Community Development and Regulatory Improvement Act of 1994 to encourage financial institutions to provide funding and technical assistance for economic development initiatives in underserved rural and urban communities. The Treasury Department administers the program, which awards grants to banks, credit unions, and other entities that have been certified as eligible CDFIs. The CDFI Fund has played an important role in the economic revitalization of distressed communities across the nation. Since its inception, the Fund has made over \$820 million in capital grants, equity investment, loans and awards to fund technical assistance and organizational capacity building awards to CDFIs and other financial institutions to support activities in underserved communities. According to Treasury officials, for every Federal dollar the CDFI Fund invests in a local CDFI through its grant program, the CDFI leverages close to \$20 in private sector investment.

Although the program's authorization expired in 1998, the CDFI Fund has continued to receive appropriated funds in the years since because of its bipartisan support and proven track record. The Committee is disturbed by this reduction as

well as the Administration's proposal (for the third consecutive year) to eliminate funding for important CDFI competitive grant programs. The Committee remains committed to preserving the CDFI Fund and ensuring it remains an effective tool for promoting economic development and increased financial services in under served communities.

HOUSING AND COMMUNITY OPPORTUNITY

SUMMARY

The Department of Housing and Urban Development (HUD) and Rural Housing Service (RHS) programs are designed to provide a housing safety net for our nation's poorest families and the homeless, to foster economic opportunities for low- and moderate-income families, and to strengthen urban and rural communities.

Unfortunately, the FY 2008 HUD budget continues a six year effort by the Bush Administration to dismantle or make deep funding cuts to critical federal housing programs. These cuts impair the ability of federal housing programs to serve lower income families, seniors, and disabled persons.

As was proposed last year, the FY 2008 Bush Administration Rural Housing Service (RHS) budget also cuts funding for programs which build, repair, and preserve affordable rural housing units, and proposes to shift rural homebuyers into more expensive federal mortgage loan products, which will reduce homeownership opportunities.

The FY 2008 budget proposes to cut a number of critical HUD programs by a combined total of more than \$1.5 billion compared to the recently enacted FY 2008 Continuing Resolution. If enacted, funding levels for most of the major HUD programs will have suffered substantial reductions in real terms since the Bush Administration took office – including a 51 percent cut to the Section 811 disabled housing program, a 38 percent cut to the Section 202 elderly housing program, a 43 percent cut to Community Development Block Grants (CDBG), a 30 percent cut to public housing, a 20 percent cut in Native American housing block grants, a 9 percent cut to HOME block grants, and a 17 percent cut to Fair Housing enforcement.

Moreover, if adopted, the Administration FY 2008 budget would mean that in just six years, a number of important housing programs will have been eliminated. These include: the public housing Drug Elimination Program (eliminated in 2001) and the HOPE VI public housing revitalization program; Brownfields redevelopment grants; Urban Empowerment Zone funding; the HUD Rural Housing and Economic Development program; Section 108 CDBG loans used by cities to leverage larger economic revitalization projects; the RHS Section 515 rental housing construction and preservation program, and the RHS Section 502 Direct Home Mortgage Loan mortgage program.

AFFORDABLE HOUSING CONSTRUCTION-ELDERLY AND DISABLED

The President's budget abandons a 30 year federal commitment to build affordable housing for persons with severe disabilities. The budget proposes a 51 percent cut (\$112 million) to the HUD Section 811 disabled housing program. The

budget virtually eliminates any funds for Section 811 disabled housing construction, even though that program has been used effectively by Faith-Based Organizations and other non-profit organizations. This is the third year in a row that the Administration has tried to virtually eliminate such new construction funding for affordable housing for the disabled.

The President's budget also proposes a 22 percent cut (\$160 million) to the HUD Section 202 elderly housing program. This cut to the 202 program comes at a time when over 8.4 million seniors make less than \$10,500 a year, and 1.4 million very low income seniors pay more than 50 percent of their income for rent or live in substandard housing, and when there are an estimated nine seniors waiting for each Section 202 unit that becomes available.

AFFORDABLE RENTAL HOUSING

The FY 2008 budget also undermines the major existing HUD rental assistance programs. The budget continues Bush Administration efforts to curtail the Section 8 voucher program, which have resulted in the loss of some 150,000 vouchers over the last three years. The Bush Administration appears to have backed off its previous efforts to block grant the voucher program and appears to drop previous proposals to significantly weaken targeting rules that direct scarce voucher resources to our nation's poorest families and rent rules that ensure that rents are affordable. The budget also includes a sound provision to incentivize housing agencies to use their vouchers to serve more families, by basing administrative fees on the number of voucher families served.

However, the FY 2008 voucher renewal funding request provides for an increase of only \$9 billion, compared to a voucher baseline of \$14.45 billion. This microscopic increase would not even come close to covering the \$150 million to \$200 million cost of new tenant protection vouchers – vouchers which are not really new vouchers, but just a transfer of assistance from other HUD programs like project-based assistance. The request would also not provide for any inflation adjustment. A conservative estimate would be that the request is more than \$500 million less than necessary to maintain the vouchers funded under the FY 2007 Continuing Resolution. This would exacerbate the loss of vouchers in recent years.

The Bush Administration budget continues the serious under-funding of public housing, a program which serves our poorest families, seniors, and disabled persons. The President's budget proposes another \$450 million in cuts to public housing. Once again the bulk of the cuts are in the Public Housing Capital Fund, which is used to repair and maintain units. For the fifth year in a row, the Administration is also trying to eliminate the highly successful HOPE VI program to revitalize distressed and obsolete public housing projects. While the Administration has not succeeded in killing the HOPE VI program, funding has fallen from \$574 million just a few years ago to only \$99 million appropriated for FY 2007. The budget proposes to rescind even this meager \$99 million, which was approved by Congress just a few weeks ago.

Finally, the budget would also cut \$34 million (23 percent) from the Lead Paint prevention program, which is used to ameliorate health risks to children in older apartments with health threatening lead paint hazards.

COMMUNITY AND ECONOMIC DEVELOPMENT

Cities and counties use flexible Community Development Block Grants (CDBG) to meet critical local community development, infrastructure, and affordable housing needs. Two years ago, the Administration budget proposed to eliminate CDBG as we know it, to consolidate and transfer CDBG and 17 other programs to the Commerce Department, and to cut overall funding for these programs by 35 percent. Fortunately, this proposal was strongly rejected on a bipartisan basis by Congress.

The Administration has since backed off from this proposal to eliminate CDBG – but has not backed off from its goal of making severe funding cuts. The FY 2007 budget cuts \$736 million (20 percent) from CDBG block grants.

The President's budget also eliminates funding for a number of other community development programs, including HUD Brownfields Redevelopment grants (funded at \$25 million in recent years), Urban Empowerment Zones, and Section 108 CDBG loans that cities use to leverage larger scale economic development projects.

RURAL HOUSING

The President's budget zeroes out funding for the Section 515 multi-family rental housing direct loan program. This action abrogates the Federal role in preserving the existing affordable housing stock of over 500,000 RHS Section 515 rural rental housing units. A November 2004 RHS-commissioned study concluded that 92 percent of this 515 housing stock was worthy of being preserved, at a cost of \$210 million in the first year, and \$2.6 billion over the long run. Yet, instead of addressing this need, the President's budget fails to ask for a single dollar for building, repairing, or preserving Section 515 rural units.

The budget also zeros out the Section 502 single family direct loan program and severely cuts the Self-Help program, both of which promote homeownership for rural Americans. The elimination of Section 502 direct loans and the cuts to Self-Help are inconsistent with a stated Administration priority for homeownership.

In the place of the Sections 502 and 515 direct loan programs, the Administration proposes shifting homeowners and renters to rural loan guarantee programs for both single and multifamily RHS loans. Guaranteed loans have a much higher interest rate than direct loans and result in significantly increased monthly expenses for homeowners and renters. On top of that, even the current higher cost of a guaranteed loan will become even higher for a homebuyer using and RHS mortgage loan, because the Administration budget proposes to raise the 502 guaranteed loan fee from 2 percent to 3 percent. For a relatively small increase in credit subsidy appropriations compared to the Administration budget, it would be possible to maintain the Section 502 direct loan program and to avoid increasing loan fees on Section 502 guaranteed loans.

The budget also cuts funding for the farm labor housing program by more than half.

Finally, as noted, the HUD budget eliminates funding for the Rural Housing and Economic Development program, funded at \$25 million in recent years.

HOUSING INITIATIVES

The Committee is providing leadership on meeting America's critical affordable housing needs. The Committee will advance a number of measures that will, among other things, increase home ownership, preserve and increase the stock of affordable rental housing, and better meet the housing needs in rural communities. The budgetary impact of most of these pieces of legislation is neutral. Many initiatives will generate a significant increase in government revenues that will offset any additional spending.

GSE Affordable Housing Fund

The Committee's proposed GSE bill creates an "Affordable Housing Fund," to be managed by the new GSE regulator [the "Director"]. Funds may be used for grants for the production, preservation, and rehabilitation of rental housing and for homeownership for first-time homebuyers, in both urban and rural areas. One hundred percent of the affordable housing funds available in the first year will go to Louisiana and Mississippi for affordable housing needs arising out of Hurricane Katrina. Thereafter, funds are allocated by formula to the States, District of Columbia, Federal territories, and federally recognized tribes. Funds are derived through contributions by Fannie Mae and Freddie Mac in amounts equal to 4.2 basis points on each GSE's total new business purchases each year from 2007 through 2011. The program sunsets after five years. Seventy-five percent of these funds are used for affordable housing purposes, and the remaining twenty-five percent are allocated to the Federal government, to keep the bill deficit neutral. In addition, this bill is on budget because although it will result in higher spending, this spending is offset by collections.

FHA Bill

The bill will produce major reforms of the Federal Housing Administration (FHA) by, among other things, raising loan limits, allowing flexibility in the amount of down payment required by borrowers, authorizing mortgage insurance premiums to be adjusted based on loan level risk, and expanding the Home Equity Conversion Mortgages (HECM) program. In addition, the proposed FHA bill contains important consumer protections, timely payment incentives and high risk borrower protections.

Whatever costs there might be regarding serving less creditworthy borrowers are expected to be more than offset from higher revenues from high cost loan limits, along with eliminating the HECM loan limit cap. The Committee notes that the Administration has proposed fee increases in the FHA multifamily loan and Ginnie Mae programs. The Committee opposes these fee increases because they will adversely HUD's ability to provide homeownership and rental housing opportunities.

Multifamily Housing

The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) was enacted with two goals in mind: (1) eliminate above-market rents at properties with FHA-insured mortgages and project-based Section 8 assistance and

(2) to preserve affordable rental housing in markets where it is needed. To achieve these goals, the legislation created a Mark-to-Market (M2M) program comprised of a set of preservation tools. These tools, which have been used to preserve more than 220,000 affordable apartments at an estimated net cost savings to the taxpayer of \$1.9 billion, were set to expire on September 30, 2006. A five-year extension of the M2M preservation tools was included in the long-term Continuing Resolution for Fiscal Year 2007 (H.J. Res. 20; Public Law 110-5).

The Committee notes, however that the Continuing Resolution did not include some of the M2M recommended by the Department of Housing and Urban Development and included in legislation approved by the Committee in the last Congress [H.R. 6115]. That bill included provisions which would have increased the portfolio-wide cap on exception rents, extended the three-year limit on the HUD Secretary's ability to modify, assign, or forgive subordinate debt, and expanded the range of properties eligible for Mark-to-Market restructuring. According to the Congressional Budget Office, these reforms would have resulted in additional cost-savings for the Federal government. Accordingly, the Committee believes that enactment of these preservation provisions will further strengthen the M2M program. The Committee also strongly believes that any such savings from enactment of these reforms should be reinvested in activities that preserve the existing stock of affordable housing units.

FEDERAL EMERGENCY MANAGEMENT AGENCY

The National Flood Insurance Program (NFIP) experienced unprecedented claims resulting from the 2005 hurricane season. The NFIP has borrowed more than \$17 billion from the U.S. Treasury to meet its contractual obligations with policyholders to pay claims from the 2005 hurricane season.

In the 109th Congress the NFIP's borrowing authority was increased from \$1.5 billion to \$3.5 billion to \$18.5 billion, and finally \$20.775 billion. The NFIP estimates it will reach this limit in September 2007, and the Administration projects the NFIP will need an additional \$350 million in borrowing authority this year to pay claims and make interest payments on its outstanding debt. Interest payments are estimated to be more than \$800 million annually, which is just under half of the annual revenue of the NFIP.

The Committee understands the contractual relationship and legal obligation to meet existing policyholder claim obligations and make interest payments on outstanding debt. The Committee will continue to work with FEMA to understand the fiscal condition of the NFIP and to garner better estimates of future borrowing authority needs to ascertain the proper course to follow.

The Committee will consider a bill this year to reform the NFIP and increase the borrowing authority if needed to pay policyholder claims and make interest on the NFIP's outstanding debt. The reform measures will attempt to strengthen the NFIP by increasing participation in the program, remove subsidies for certain preFIRM properties, strengthen mitigation programs to better protect homes from flooding, authorize flood map modernization programs to improve risk assessment, and increase accountability for the NFIP and FEMA in executing the program.

The Committee will also conduct oversight hearings to learn whether the NFIP claims process has resulted in any misdirected or fraudulent claims against the NFIP, particularly from the unprecedented claims resulting from the Katrina and Rita hurricanes.

The Committee supports the Administration's 2008 budget request of \$124 million for flood insurance mitigation programs, which the Committee has authorized.

Additional Views on Housing and Community Opportunity

The importance and relevance of a Federal role in housing and community and economic development could not be clearer during the past year and a half in the aftermath of Hurricanes Katrina and Rita. Hurricane Katrina devastated 90,000 square miles, left 770,000 people homeless, and caused a death toll of 1,464 in Louisiana alone. The Federal government's response, as well as coordination with local and state governments and the private sector, will be critical in the ensuing years. As a result, the Committee places increased importance on the Administration's proposed housing and community development budgets that include the Department of Housing and Urban Development (HUD), the Rural Housing Service (RHS) administered by the U.S. Department of Agriculture, the National Reinvestment Corporation and the National Flood Insurance Program (NFIP) administered by the Federal Emergency Management Agency (FEMA). At the outset, the Committee acknowledges that programmatic success should not be based on multiyear comparative Federal funding levels, but rather on whether the program or line-item met its program objectives and relevance in a manner that maximizes taxpayer investments in homeownership, community and economic development without duplicating successful private-sector initiatives.

Department of Housing and Urban Development

For the FY 2008 budget year, the Administration proposes \$35.2 billion for programs administered by the Department of Housing and Urban Development (HUD), which represents an increase of \$1.6 billion over last year's request. In releasing the details of the budget, Secretary of HUD Alphonso Jackson stated that "With the resources provided in President Bush's FY 2008 Budget, we will continue to help families achieve the dream of homeownership; put a roof over the heads of more homeless men and women; create affordable housing that allows more teachers, first responders, and nurses to live in the communities they serve; and support community organizations that deliver social services to the less fortunate."

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

The Committee is pleased that the budget continues the President's commitment to increasing homeownership and to fostering an "ownership society." Homeownership is the key to financial independence. It helps build stronger communities and offers children a stable and positive environment in which to grow and develop. According to the U.S. Census, at the end of the fourth quarter of 2005, the number of American families who owned their own home continued to approach the 70 percent rate, with non-Hispanic White homeownership at 76 percent, African American homeownership at 48 percent and Hispanic homeownership at 50 percent. These are impressive statistics, but the Committee believes that private and public-sector initiatives could do better to close the opportunity gaps that exist in the

country. The President's budget includes a number of initiatives to continue narrowing the homeownership gap, such as continued funding for both the American Dream Downpayment Program and for housing counseling initiatives. Last year, the Administration proposed, and the House of Representatives passed, a flexible FHA (Federal Housing Administration) product that, by design, would increase homeownership in very low-income communities. The Committee commends this Administration for its commitment to modernize FHA.

While homeownership policy continues to be the best way to strengthen families and improve communities, the Committee also recognizes that there are those families that are not yet ready or able to pursue the American dream of homeownership. For those working-class and low-income families and individuals, there is a growing need for affordable rental housing units. The availability of more affordable rental housing could provide the foundation for low-income families to save financial resources and prepare for homeownership. However, in areas where there is a severe shortage of affordable rental housing, low- and very-low income families will find it difficult to prepare for the American dream of homeownership when they are faced with paying, in some cases, more than fifty to sixty percent of their gross income for rent. Additionally, a by-product of this affordable housing shortage is the negative effect on local businesses who find it increasingly difficult to retain workers or maintain productivity or flexibility when employees must commute extraordinary distances to and from work.

In the 109th Congress, the Committee held 34 housing hearings, including those in the Subcommittee and Full Committee, as well as joint hearings. To date, the Housing Subcommittee has held three hearings during the early months of the 110th Congress, including field hearings in New Orleans and Mississippi. Top issues of concern in the past Congress included reform of the Housing Choice Voucher Program (Section 8), FHA reform, and GSE legislation. It is expected that the Committee will continue its focus on these activities, with a particular emphasis on the ongoing issue of Gulf Coast recovery.

Community Development Block Grant. The Community Development Block Grant (CDBG) program was created in 1974 to consolidate a variety of grant programs that were focused on urban and community development. At the time, CDBG was envisioned as a simpler process providing great flexibility for state and local decision makers to determine local needs that primarily benefit low- and moderate income neighborhoods and citizens. Some of these eligible activities include: the acquisition of real property; rehabilitation of residential and nonresidential properties; provision of public facilities and improvements, such as water and sewer, streets and neighborhood centers; clearance; homeownership assistance; and assistance to for-profit businesses for economic development activities.

The President's FY 2008 budget proposal would "reform" the CDBG program in two ways by providing formula changes that require tighter low-income targeting to communities with little funding resources and by providing bonus funds to communities that expand homeownership and opportunity. As a result, the Administration's proposal would eliminate HUD programs, such as the Brownfields

Economic Redevelopment Initiative and Section 108 Loan Guarantees, with the understanding that these functions will be allowed under the existing CDBG program. In terms of FY 2008 funding, the Administration's proposal would be funded at \$3.037 billion, plus \$17 billion in supplemental CDBG disaster funds to support state and local plans to address the housing, infrastructure, and long-term recovery needs of the Gulf Coast.

The Committee recognizes that any formula change for any program is problematic in that there will be winners and losers after the change is implemented. Moreover, the Committee understands that a program such as the CDBG should warrant review and the program itself should constantly update itself to reflect the contemporary needs of our communities. In this case, there is little doubt that a 32 year-old year program without formula changes or little programmatic changes is long overdue. However, the Committee also notes that the Administration made dramatic proposals to the CDBG program in its FY 2006 and FY 2007 budget proposals that never culminated in formal legislative proposals.

With that background, the Committee recognizes and applauds the Administration's attempt to again update the CDBG program to reflect new community needs and to direct these Federal funds to the neediest neighborhoods and residents. The Committee believes, however, that its rationale is not based on any solid empirical data or reliable reporting system that quantifies and assesses the program's accomplishments or failures. During the Committee's hearings on the FY 2006 budget, the Office of Management and Budget evaluated CDBG as a non-performing program through its PART analysis. Yet, upon closer review, it was unclear to the Committee that CDBG ever had a decent reporting system that could quantify and measure results. According to a National Academy of Public Administration study in 2005, attempts by the Administration and its predecessors to quantify and assess the achievements of the CDBG program were met with technological failures. For example, HUD's current reporting system uses COBOL, a programming language first developed in 1960.

Furthermore, as the House Government Reform Committee noted in its Fifth Report [See Report 109-365]:

The administration's PART analysis, while successful in identifying key opportunities for reform of some programs, may not be an appropriate evaluative tool for the Community Development Block Grant program because of its flexibility. The administration should consider whether alternative analytical tools exist that can better measure the CDBG program.

Therefore, while there is anecdotal evidence to suggest that a dramatic overhaul is warranted, the Committee finds any empirical data or reporting system inadequate to provide necessary information to allow the Congress as well as the Administration the appropriate tools to make key decisions. The Committee believes that the proposal needs further work to assess the fairness of the current formula driven program as well as better information in order to assess the future goals and benchmarks of the program. In time, with a better reporting and data

system, the necessary overhaul can be accomplished in a more fair and prudent manner.

HOME—The HOME Investment Partnerships. The HOME program provides grants to states and local governments to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income Americans. Eligible uses include downpayment assistance; tenant-based assistance; housing rehabilitation; assistance to homebuyers; and new construction of housing. The Administration proposes \$1.97 billion for the HOME program in FY 2008, an increase of \$50 million over last year's request. The Committee applauds the Administration's focus on homeownership and notes that the HOME program leverages approximately \$4 for every \$1 of appropriated funds, indicating significant private-sector involvement in the development of affordable housing.

Brownfields. The Brownfields Economic Development Initiative (BEDI) program is important to our communities because it assists local governments in returning contaminated sites to productive uses. Unlike Brownfield programs in other agencies, the main focus of the BEDI program is economic development. The BEDI program gives local communities a valuable tool to address blight, create new jobs, and expand their tax base. HUD proposed in the FY 2003 budget to decouple the BEDI program from the Section 108 CDBG loan guarantee program. The Committee supports this decoupling, as evidenced by House passage of H.R. 280, and urges HUD to follow through on this proposal. The BEDI program can be a powerful tool for communities interested in brownfields redevelopment, and the Committee supports retention of the program and efforts to make it accessible to more communities.

The Committee notes with concern the elimination of funding for the Brownfields Economic Development Initiative (BEDI) and the proposal to include Brownfields redevelopment as an eligible activity under the Community Development Block Grant. The Committee believes the House has spoken clearly about the importance of the BEDI program. In addition, the House recently passed legislation authored by Rep. Gary G. Miller (CA), the Brownfields Redevelopment Enhancement Act (H.R. 644), to provide greater access to the BEDI program. The Committee believes that to stop funding now or make the program even less accessible for communities would undermine the work of the House.

GSE Housing Goals. In HUD's 2008 budget, the Administration continued with the increases first set out by HUD in 2004, whereby HUD increased all three housing goals (low-and-moderate-income, special affordable, and underserved communities) gradually from 2005 to 2008, with the sub-goal in each category for home purchases. In 2008, the levels are 56 percent for low-and-moderate-income, 27 percent for special affordable and 39 percent for underserved communities. The Committee applauds the Administration's efforts to expand homeownership through a variety of avenues, including ensuring that Government Sponsored Enterprises (GSEs) meet their responsibility to provide housing opportunities for all Americans.

Federal Housing Administration. The Administration's FY 2008 budget proposes comprehensive reform for the Federal Housing Administration's (FHA) single-family mortgage insurance activities, similar to that passed by the House in the 109th Congress as H.R. 5121. Once again, the Budget calls for an array of products to more fairly price FHA's guarantee to individual borrowers. FHA will base each borrower's mortgage insurance premiums upon the risk that the borrower poses to the FHA Mortgage Insurance Fund. Under this proposal, the mortgage insurance premiums will consider the borrower's credit history, loan-to-value ratio, debt-to-income ratio, and will be based on FHA's historical experience with similar borrowers. The Administration believes that this change will decrease premiums for many of FHA's traditional borrowers, thereby increasing their access to homeownership. The Committee applauds the goal of enabling FHA to respond more flexibly to changing market conditions and to offer new products specifically designed for hard to reach families.

Since its inception in 1934, FHA has played an innovating role in financing homeownership and affordable housing opportunities for all Americans. Over the past eight years alone, FHA has financed nearly eight million homes and over 754,000 units of affordable rental housing. The mortgage market has changed dramatically in recent years, creating what is today the world's most sophisticated real estate finance system. This system has led to the highest rate of homeownership in U.S. history and to the efficient production of thousands of units of affordable rental housing each year.

The Committee recognizes that FHA continues to face challenges in effectively managing its resources and programs in this quickly changing mortgage market. These challenges have already diminished FHA's market share and its ability to serve families not adequately addressed by the conventional mortgage market. Unanswered, these issues will leave the families served by FHA programs with fewer alternatives for homeownership or affordable rental housing. The Committee appreciates the steps the Administration and FHA have taken to rectify this by streamlining its paperwork requirements and removing impediments to its use by lenders and buyers.

American Dream Downpayment. On December 16, 2003, the President signed P.L. 108-186, the American Dream Downpayment Act. Under this program, HUD may award grants to state and local governments to assist low-income families who are first time homebuyers with incomes at or below 80 percent of the local area median income. This year, the FY 2008 Budget provides \$50 million to continue funding this initiative, although this is significantly lower than last year's proposal. The American Dream Downpayment Initiative (ADDI) has helped nearly 14,000 families to purchase their first home, nearly half of whom are minorities. The Committee supports this important homeownership program, which allows first-time homebuyers to purchase a home.

Financial Literacy and Housing Counseling. The Committee continues to believe that counseling is an important component of the successful homeownership process. Homebuyer education is the most cost effective way to educate renters and homeowners to help them make informed financial choices and avoid high-risk,

high-cost loans that place them at greater risk of foreclosure. The Administration's budget requests \$50 million (a \$5 million increase over last year's proposal) to prepare families for buying their first home, help them steer clear of predatory lending practices, and assist current homeowners to avoid default. The Committee applauds the Administration's continued commitment to counseling programs and supports the Administration's FY 2008 budget request of \$50 million.

Section 8 Housing Choice Voucher Program. The Administration's budget request for the Housing Choice Voucher program is \$16.9 billion, an increase of nearly \$100 million over the FY 2007 request. This increase is in addition to a \$137 million increase to Section 8 Project-Based rental assistance, over last year's request. While the Administration has proposed an increase in funding for 2008, the Committee shares the Administration's concern about the rising cost of the Housing Choice Voucher Program and the effect that this spiraling cost is having on funding for other important HUD programs. The voucher program provides rental subsidies to more than 2 million families nationwide. In 1998, project based and tenant based Section 8 programs consumed 42 percent of HUD's budget. That percentage rose to 57 by FY 2005 and will surpass 62 percent in the Department's 2008 budget. In response to the unsustainable cost increases, Congress has converted the previous "unit-based" allocation system to a "dollar-based" system. The Administration maintains that for the dollar-based system to work, program requirements need to be simplified, and Public Housing Authorities (PHAs) need to be provided greater flexibility. The current set of laws and rules that govern the voucher program are complex and cumbersome and they limit the program's effectiveness to help families, many of whom must wait years to receive any help from their local housing authorities. In its budget, the Administration proposes expanding the "dollar-based" approach. Under their plan, the PHAs will continue to receive a set dollar amount as in 2005 and 2006, but they will have the freedom to adjust the program to the unique and changing needs of their community. Further, local PHAs will be able to design their own tenant rent policies, and in turn, reduce the number of errors made, save money, and create incentives to work.

The Committee is pleased that the Administration is proposing to eliminate the cap on the number of vouchers issued by the 2,400 PHAs administering the program. This change would allow PHAs to better utilize all appropriated funds and could assist approximately 180,000 additional families.

Last Congress, the Committee approved H.R. 5443, the Section 8 Reform Act of 2006, which would reform the Housing Choice Voucher Program. The Committee supports the goal of making the existing programs both flexible, efficient and cost effective and looks forward to working with the Administration to craft reform legislation that will create a more efficient and effective program to help low-income families needing of decent, safe, and affordable housing.

Self-Help Homeownership. The President's budget proposes \$39 million for HUD's SHOP Program. Under the SHOP program competitive grants are made to national and regional nonprofit organizations and consortia that have experience in providing or facilitating self-help housing opportunities. Under this program, homebuyers and volunteers are required to contribute a significant amount of sweat

equity toward home construction. The Committee fully supports the Self-Help Homeownership Opportunity Program and believes it is an important component in achieving the goal of producing new homes for very low-income families.

Hope VI. The Administration again proposes eliminating funding for the HOPE VI program. In addition, the Administration proposes the rescission of \$99 million, appropriated for FY 2007. The Committee understands that while the HOPE VI program has enjoyed many successes, it has also been plagued with accountability and management problems. It is interesting to note that the HOPE VI program was originally established as a 10-year program with the goal of demolishing an estimated 86,000 units of the country's worst public housing; The Administration maintains that this goal has been accomplished. Despite the fact that the original goal has been met, the Committee on Appropriations continues to include funding for the HOPE VI program. Congress has resisted eliminating the funding or taking back money already appropriated. Last Congress, Congressman Christopher Shays (CT) introduced, and the House passed, legislation to reauthorize Hope VI through FY 2007. It is important to note that during the 108th Congress, this Committee responded to concerns raised regarding the HOPE VI program by considering and approving legislation. In addition to reauthorizing the program, the legislation established a new form of HOPE VI grant to be used to fund the redevelopment of distressed Main Street areas in small, predominantly rural communities. The legislation included several management changes to make the program more accountable and sensitive to the people it is intended to assist and to address the slow expenditure rate of HOPE VI funds.

Homeless Assistance. The Administration will propose legislation this year to consolidate its three competitive homeless assistance programs into a single program. The Administration believes that consolidation will provide more consistent funding, expand eligible activities – including prevention – across programs, eliminate multiple match requirements, and simplify the competitive and award process. The Administration's 2008 budget proposal includes continued commitment to addressing the needs of homeless persons and families. The President's 2008 Budget provides a record-breaking \$1.586 billion for Homeless Assistance Grants, \$350 million more than in 2005. The Committee applauds the Administration's continued commitment to addressing the needs of homeless persons and families and looks forward to working with the Administration to accomplish that goal. In addition, the Committee is pleased to see that the Administration remains committed to the goal of ending chronic homelessness and stands ready to assist the Administration in reaching that goal.

Housing Opportunities for Persons with AIDS (HOPWA). The President's budget seeks \$300 million to support stable housing, improved access to health care and more supportive services for low-income persons living with HIV/AIDS, the same amount requested for FY 2007. Through formula grants to states and local communities, as well as competitively awarded grants, these resources will provide critically needed housing assistance to more than 75,000 families. The Administration's budget includes a proposal that would allow HUD to change the formula so that the distribution of funds is more equitable and recognizes housing cost differences in communities across the country. The Committee believes that

HOPWA is an important program that deserves continued funding and supports efforts to increase funding. The Committee will carefully review the Administration's proposal to change the HOPWA proposal and will work with the Administration to enhance efficiency and effectiveness of the program.

Public Housing. The President's FY 2008 budget includes \$4 billion for the Public Housing Operating Fund to fund local housing authorities in their daily operation and \$2.02 million for the Public Housing Capital Fund to help local housing authorities fund major repairs and modernization in their housing units. There are about 1.25 million units of public housing worth an estimated \$90 billion in the United States. Preserving our public housing stock is fundamental to maintaining adequate levels of affordable housing in this country. The increasing cost of preserving current public housing units dictates that we examine the current program and identify new alternative ways to address this problem. The Administration is committed to the implementation of the Public Housing's Capital Fund Financing Program. This program allows PHAs to borrow from banks or issue bonds using future Capital Fund grants as collateral or debt service, subject to annual appropriations. In this way, the Administration believes that PHAs are able to leverage the Capital Funds to make improvements.

In 1998, Congress directed HUD to undertake the Harvard Cost Study, a review of public housing costs analyzing how PHAs manage their units. The Administration is committed to implementing the congressionally mandated formula for allocating subsidies for public housing operations and intends to implement the formula by FY 2008. As explained in their budget, the implementation will include transitioning the management of public housing to an asset-based model similar to how private-sector multifamily housing is managed. Project-based accounting is scheduled to be implemented in FY 2008 and asset based management by FY 2011.

The Committee shares the Administration's concern about the rising cost of maintaining the current public housing stock. The Committee supports removing confusing and restrictive federal regulations that prevent state and local governments from developing creative and efficient ways to address their particular concerns. Furthermore, the Committee believes that providing PHAs with greater flexibility will help to address the rising costs associated with maintaining the current public housing stock. The Committee will review the Administration's proposals carefully and looks forward to working with the Administration to create a more efficient, cost effective system that both preserves current stock and promotes the creation of additional affordable housing for low-income families.

Housing for the Elderly (Section 202). The President's budget includes \$545 million for the Supportive Housing for the Elderly Housing (Section 202) program. This represents a 26 percent reduction compared to FY 2006. The Administration believes that this budget request will allow for renewal of all expiring rental assistance contract and amendment funds for qualifying increased costs of pipeline construction projects. This budget is consistent with the Administration's desire to investigate ways that Housing for the Elderly can be reformed to make the program more efficient and cost effective. Section 202 provides assistance to expand the supply of housing with supportive services for the elderly. The Committee

understands how important it is to reevaluate programs and seek ways to improve their administration and operation. However, the Committee recognizes the significant role this program plays in meeting the housing needs of this most vulnerable segment of our population and wants to be sure not to compromise the mission of the Housing for the Elderly program.

Supportive Housing for Persons with Disabilities (Section 811) The Section 811 program provides assistance to expand the supply of housing equipped with supportive services for persons with disabilities. The Administration has again proposed a significant reduction in funding for the Section 811 program in its FY 2008 budget. The FY 2008 budget requests \$125 million. While this represents a \$6 million increase over HUD's FY 2007 budget request, it is approximately 50% below the enacted levels for FY 2007. Nearly all of this proposed reduction would come from the portion of the 811 program that produces new units of permanent supportive housing, the capital advance/project-based side of the program, i.e. capital grants and project-based rental assistance directed to non-profit disability groups that develop supportive housing (specifically, housing targeted to individuals with severe disabilities who need services directly linked to their housing). The Committee notes the Department has proposed a \$15 million leverage financing demonstration. This plan would develop and implement a demonstration project that would encourage the leveraging of HUD grants with other funds, with a primary focus on tax credit equity, to increase the number of households served in the Section 811 program. In developing the program, the Department would consider mixed-finance arrangements including low-income housing tax credits and other creative financing options for development and/or rental operating assistance. The Committee recognizes that the disabled population has special housing needs. For this reason, the Committee will review the Administration's section 811 budget proposal very carefully to determine the effect on this most vulnerable population.

Neighborhood Reinvestment Corporation (NRC). In FY 2008, the Administration is requesting \$119.8 million for NRC, which is a \$3 million increase from the FY 2007 continuing resolution of \$116.8 million. NRC, doing business as NeighborWorks America, was chartered by Congress in 1978. It is the national presence of nearly 240 resident-led, chartered organizations within the NeighborWorks network. In addition to its housing focus, NRC is known for its homebuyer education and training. In FY 2005 and 2006, there was a sub-earmark of \$5 million to expand mixed-income, affordable multifamily housing opportunities. The Committee notes that this Corporation leverages \$20 for every \$1 in appropriated funds for homeownership and affordable rental housing. Recently, NRC has undertaken studies to develop an automated underwriting system that would be tailored towards lower-income, non-traditional borrowers in its quest to expand homeownership. This initiative, as well as other studies and demonstrations, should be partnered with the Federal Housing Administration and other public-service oriented organizations or agencies so that the Federal taxpayer's investment is maximized and the benefits and lessons learned through the Corporation can have a broader appeal and benefit.

Rural Housing Service, Department of Agriculture

The U.S. Department of Agriculture's Rural Development (RD) mission area administers programs that are designed to meet the diverse needs of rural communities with a variety of loan, loan guarantee, and grant programs, which include technical assistance and cooperative development. Within the RD mission area is the Rural Housing Service (RHS). It has two primary programs under this Committee's jurisdiction – Single Family Housing and Multi-Family Housing.

RHS is responsible for providing decent, safe, sanitary, and affordable housing and community facilities in rural communities. It issues loans and grants for rural single family houses and Rural Rental Housing (RRH) apartment complexes. RHS applicants may include individuals, private organization, and public entities.

In its FY 2008 budget proposal, RHS continues to address a multitude of management and budget challenges in both its single and multifamily housing programs. RHS's budget contains a reduction in its Section 515 direct loan program, by eliminating funding for new loans, and shifting resources towards the more flexible Section 538 guaranteed loan program. Although the Administration proposed eliminating this funding for FY 2007, an estimated \$90 million for new Section 515 direct loans is estimated was appropriated.

RHS continues to have a portfolio of about 16,500 existing multi-family projects that provide housing for about 460,000 low-income tenants, many of whom are elderly. These projects were primarily built in the 1980s and in many instances are in need of repairs and rehabilitation. The projects have an outstanding indebtedness of about \$12 billion. Recently, the Supreme Court ruled in favor of Section 515 project owners who wished to prepay their loans and remove their property from the subsidized market. A recent capital needs assessment indicated that about ten percent of these projects are potentially viable for non-subsidized use and could leave the program. There are also concerns about the physical condition of existing projects and the ramifications of allowing projects to leave the program. Both the Committee and RHS support a restructuring and revitalization program that will maintain affordable housing in rural America, protect tenants, and, as a prudent policy, provide potential long-term savings to the Federal taxpayer. Last Congress, Congressman Geoff Davis (KY) introduced legislation that the Committee approved, that would allow prepayment of certain pre-1989 Section 515 loans and create a revitalization program for ailing properties.

RHS's FY 2008 budget proposal addresses the immediate need to provide assistance for tenants of Section 515 projects that prepay and leave the program. It includes \$28 million to be used primarily for rural housing vouchers to be administered, to the maximum extent possible, consistent with HUD's Section 8 program. Upon enactment of Section 515 restructuring legislation, these funds would also be available for debt restructuring and other revitalization incentives. The Committee applauds the Administration for its continued commitment to this important issue.

While the FY 2008 budget does not include loans made directly by the government for Section 515 multi-family housing, it includes \$200 million, more than triple the amount available for FY 2007, for Section 538 loan guarantees. The Section 538 program serves a broad range of rural families with incomes up to 115 percent of the area median income who can afford to pay unsubsidized rents. This is in contrast to the Section 515 program which almost exclusively serves very low-income rural families, with average incomes at 50 percent, or below, of area median income. The Administration believes that the more efficient Section 538 guarantee program, which can be leveraged with private dollars, better serves the needs of the affordable rural housing portfolio. Regulations for administering the program were recently revised to make the program a more attractive component of a complete funding package, including access to secondary market funds and use of tax credits and other subsidies. However, only approximately one-fifth of the Section 538 portfolio is comprised of very low-income families. This is a point of concern for the Committee, which is focused on ensuring that the needs of very-low income rural multifamily tenants are met. The Committee urges RHS to more clearly define what effect this proposed reduction in Section 515 funding will have on very low-income tenants.

The Section 502 single-family housing program provides direct and guaranteed loans for the purchase of modest housing in rural areas. The Section 502 direct mortgage program would be unfunded in FY 2008, with a shift to the Section 502 guaranteed mortgage program. Like the Section 538 program, the guaranteed mortgage program will allow RHS to leverage the funding with private dollars. However, the Committee cautions that this doesn't hinder the ability of low-income rural families to transition to homeownership. and hinder the ability of borrowers to secure a Section 502 loan.

The Section 502 and 521 rural rental assistance program provides funding for multi-year contracts with project owners for reducing rent payments to make up the difference between the 30 percent of income the low-income tenant pays and the rent required for the project owner to meet debt servicing requirements. Most of the funding for this program is used to renew expiring contracts on projects that are financed for up to 50 years although dependent on rental assistance that is funded in four-year term increments. The 2008 budget reflects substantial increases for rental assistance payments for low-income families. Recent appropriations acts have reduced the renewal period from five to four years in 2006. The change initially produced budget savings due to the reduced cost for renewing units over a shorter time frame. However, it also accelerates the rate at which units need to be renewed. For 2008, about 150,000 units will need to be renewed, at a cost of \$567 million. In total, there are about 275,000 units with rental assistance payments contracts.

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

**National Flood Insurance Program (NFIP), Federal Emergency
Management Agency**

The National Flood Insurance Program (NFIP) was created as part of the National Flood Insurance Act of 1968 to enable the federal government to help cover the cost of flood damages. Prior to that time, insurance companies generally did not offer coverage for flood disasters because of the high risks involved. This year, as in years past, the Administration has requested funds for permanent and temporary staff and ongoing operations, including flood mitigation activities and flood map modernization. For FY 2008, the Administration is requesting \$124 million for these activities.

Flood insurance claims liabilities arising from Hurricanes Katrina, Rita and Wilma are estimated at about \$25 billion dollars, far surpassing the total claims paid in the entire history of the NFIP. Congress increased the NFIP's borrowing authority in the 109th Congress from \$1.5 billion to \$3.5 billion, to \$18.5 billion, and finally to \$20.775 billion. The NFIP estimates it will reach this limit in September 2007, and the Administration projects the NFIP will need an additional \$450 million in borrowing authority this year to pay claims and make interest payments on its outstanding debt. The Federal Emergency Management Agency (FEMA) is legally obligated to pay claims arising from flood events where policies are in place, and homeowners who are not paid could initiate legal action against FEMA and the U.S. Government. Interest payments are estimated to be more than \$800 million annually, which is just under half the annual revenue of the NFIP.

Last Congress, the House passed H.R. 4973, the Flood Insurance Reform and Modernization Act, which would enact a number of important reforms focused on maintaining the long-term solvency of the NFIP. The Committee understands the contractual relationship and legal obligation to meet existing policyholder claim obligations, and to shore up the program to make it operate more efficiently, especially in the wake of large-scale flood events. The Committee will continue to work with FEMA to understand the fiscal condition of the NFIP and to garner better estimates of future borrowing authority needs to ascertain the proper course to follow.

The Housing Subcommittee of the Financial Services Committee held five hearings to discuss outstanding flood insurance-related issues during the 109th Congress. Given the lingering effects of the 2005 hurricanes, the National Flood Insurance Program will continue to receive close scrutiny. As the Congress continues to examine options for reforming the program to ensure its long-term effectiveness, the Committee wishes to emphasize that continued investment in mitigation funding and aggressive modernization of flood maps are two of the most important priorities to ensure the program's future success.

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