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 2013

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives, section 301(d) of the Congressional Budget Act of 1974, and section 425 of Senate Concurrent Resolution 13, 112th Congress, the Committee on Financial Services (Committee) 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 2013; (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during the coming session; and (3) recommendations for improved governmental performance.

OUR NATION'S FISCAL CHALLENGE

The President's Fiscal Year 2013 budget proposal is truly historic. It proposes the most government spending in history, the largest tax increase in history and the biggest debt in history. Not only does the budget proposal break the President's promise to "cut the deficit in half" by the end of his term, its record tax increases, borrowing and spending will hurt job growth and weaken our economy at a time when millions of Americans are already out of work.

Under the President's budget, the federal government will spend $3.8 trillion in FY 2013, and total federal spending over the next ten years will equal $47 trillion – a net increase of $1.5 trillion over current projections. This massive increase in spending will force our nation even deeper into debt. During President Obama's term in office, the size of our national debt has surpassed the size of our economy. Today the national debt equates to $47,000 for every man, woman and child in America. The President proposes to add $11 trillion to the debt. Spending on entitlement programs is the prime driver of our debt, yet President Obama's budget proposes no needed reforms and would allow mandatory spending and interest on the debt to grow by more than 96 percent over the coming decade.

In addition to its higher spending and deeper debt, the President's budget would impose $1.9 trillion in new taxes on families, small businesses and job creators – the largest tax hike in history. America's frail economy cannot withstand the litany of tax increases the President calls for in his budget. As the President's own budget concedes, these higher taxes will not reduce the debt. However, they *will* make it even harder for families to get ahead and harder for small businesses to create jobs.

The Committee finds that for those programs and agencies within its jurisdiction, the Administration's FY 2013 budget proposal fails to impose the spending discipline necessary to put this nation's finances in order. Just as ordinary Americans must live within their means, so must their government. Those who serve the American people must learn to do more with less. Because the resources of the American people and their government are not infinite, government officials must allocate those scarce resources wisely to fewer programs. The decision to cut spending is not an easy one. But it is necessary. And it will result in a more resilient economy and stronger nation for future generations of Americans. Because the Administration has failed to make these difficult choices, the Committee cannot, as a general matter, support the requests contained in the Administration's budget for fiscal year 2013.

SECURITIES AND EXCHANGE COMMISSION

In its budget for FY 2013, the Administration has requested $1.566 billion for the Securities and Exchange Commission (SEC), which is $245 million more than the SEC's FY 2012 spending authority. The Administration has asked for an increase in the number of SEC personnel to 5,180 positions (4,509 full time employees), which is 676 more positions (196 full time employees) than the SEC's FY 2012 levels.

The SEC's three-part mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. But in the run-up to the financial crisis, the SEC repeatedly failed to fulfill any part of its mission: the SEC failed to adequately supervise the nation's largest investment banks, which resulted in the bailout of Bear Stearns and the collapse of Lehman Brothers and the ensuing financial panic; the SEC failed to supervise the credit rating agencies that bestowed AAA ratings on securities that later proved to be no better than junk; and the SEC failed to ensure that issuers made adequate disclosures to investors about securities cobbled together from poorly underwritten mortgages that were bound to fail. Apart from these failures, the SEC's inability to detect the Madoff and Stanford Ponzi schemes cast further doubt on its ability to protect investors.

In light of these failures, Section 967 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) mandated that the SEC hire "an independent consultant . . . to examine the internal operations, structure, funding, and the need for comprehensive reform of the SEC." The SEC retained the Boston Consulting Group (BCG), which recommended that the SEC immediately overhaul its structure and management to optimize the use of its resources in light of the mandates placed upon it by the Dodd-Frank Act.

The BCG found that the SEC had a needlessly complex organizational structure, characterized by multiple reporting lines, fragmented authority, and duplicative and overlapping responsibilities. The BCG recommended that the SEC restructure several SEC divisions and offices, for example combining the Office of Compliance, Inspections, and Examinations into the Division of Trading and Markets and the Division of Investment Management. The BCG also found that the positions of Chief Operating Officer and Executive Director could be combined in one office, and that the Office of Public Affairs, Office of Investor Education and Advocacy, and Office of Legislative and Intergovernmental Affairs could be combined into a new Office of External Relations. The BCG suggested that after the SEC implemented these recommendations, Congress review those reforms to determine whether they improved the SEC's effectiveness.

In addition to recommending that the SEC reorganize its structure, the BCG also recommended that each SEC division and office group rank its activities into one of four categories: high-priority activities that were critical to the SEC's mission; activities that could be scaled back or eliminated; activities that could be delegated to self-regulatory organizations (SROs); and activities for which SEC management could request implementation flexibility.

The BCG also found that the SEC lacked "the full range of data management, analytics, knowledge management, and workflow capabilities that the agency requires—particularly given the increasing scale and complexity of the securities markets and trends such as high-frequency trading." While the SEC's senior management recognizes the critical role of technology at the agency, the BCG found that the SEC's Office of Information Technology did not have a clear strategy for adopting and implementing new technologies, instead responding to technology needs as they arose.

The SEC's FY 2013 budget shows that the SEC is making progress toward implementing some of the BCG's recommendations, and the Committee supports these efforts. The Committee supports the SEC's plans to spend $50 million from the Reserve Fund for information technology upgrades. The Committee also supports the SEC's pledge to "devote significant attention to development and consideration of possible rule changes designed to facilitate access to capital for smaller companies while at the same time protecting investors." Indeed, the Committee has approved a number of bipartisan measures – several of which have also passed the House – to promote capital formation at emerging growth companies.

But the SEC has made little progress in implementing the organizational recommendations made by the BCG; in fact, the SEC has completed few of the consolidations that the BCG recommended. Moreover, it appears that the SEC has similarly ignored the BCG's recommendation that the SEC prioritize its activities and focus on those that are critical to the SEC's mission. Instead, it appears that the SEC continues to expend resources on activities and issues that have only a tenuous relationship to investor protection and capital formation.

The SEC also needs to be a better steward of the substantial funding it receives, as evidenced by the 21,000 staff hours spent on the proxy access rulemaking (at an estimated cost of $2.2 million), which the U.S. Court of Appeals for the D.C. Circuit subsequently unanimously struck down. Moreover, the SEC continues to spend time and resources on non-mandatory rulemakings, such as the imposition of a fiduciary-like standard of care for broker-dealers even though former SEC Commissioner Kathleen Casey and Commissioner Troy Paredes expressed the view in January 2011 that the SEC staff had failed "to adequately justify its recommendation that the Commission embark on fundamentally changing the regulatory regime for broker-dealers and investment advisers." The Committee continues to believe that the SEC could better protect investors and prevent Madoff-like fraud by using its resources to conduct more examinations of registered investment advisers. In FY 2011, only 8% of registered investment advisers were examined and the Commission projects that it would examine only 11% of registered investment advisers in FY 2013.

SECURITIES INVESTOR PROTECTION CORPORATION

The Securities Investor Protection Corporation (SIPC) protects investors against losses that result from broker-dealer failures, thereby promoting investor confidence in the nation's securities markets. The Dodd-Frank Act increased SIPC's line of credit with Treasury from $1 billion to $2.5 billion. In its budget request, the Administration asserts that SIPC is not projected to draw on its $2.5 billion line of credit over the next ten years, a claim that the Committee finds to be overly optimistic.

In 2008, SIPC was confronted with two unprecedented events: the failure of Lehman Brothers and the Madoff fraud and their subsequent liquidations. Although SIPC has so far handled these "hundred year" events without having to access taxpayer funds, the Madoff proceeding continues to present SIPC with challenges that could overwhelm the SIPC fund. In addition to the Lehman Brothers and Madoff liquidations, SIPC may also be responsible for claims resulting from the Stanford Ponzi scheme. On June 15, 2011, the SEC instructed SIPC to liquidate the Stanford Group's broker-dealer. SIPC refused, and on December 12, 2011, the SEC sued SIPC in federal district court to force it to liquidate the broker-dealer. If the court finds that Stanford's customers are entitled to SIPC coverage, these new claims could overwhelm the SIPC fund.

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

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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

GOVERNMENT SPONSORED ENTERPRISES

The Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac were placed into the conservatorship of the Federal Housing Finance Agency (FHFA) in September 2008. To date, Fannie Mae has drawn more than $112 billion and Freddie Mac has drawn nearly $73 billion in taxpayer funds, for a total of approximately $185 billion ($153 billion, net of dividends paid), making the conservatorship of the GSEs the costliest of all the taxpayer bail-outs carried out over the past three years. Last October, the FHFA projected that the cumulative Fannie Mae and Freddie Mac draws on the Treasury range from $221 billion to $363 billion through 2013.

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

TROUBLED ASSET RELIEF PROGRAM

Established in the fall of 2008 under the under the Emergency Economic Stabilization Act, the Troubled Asset Relief Program (TARP) was intended to be a temporary measure to address a crisis in the financial markets by making capital available to financial institutions. Members of Congress who voted for the Emergency Economic Stabilization Act did so with the assurance that funds appropriated for TARP would be returned to the Treasury when the crisis ended. Because most financial institutions that received TARP funds have repaid those funds with interest and fees, TARP's costs are now estimated to be far less than originally projected in 2008. The Administration, however, has used TARP funds to pay for mortgage assistance programs that have failed to help homeowners and exposed taxpayers to losses from these programs, and the Administration has indicated that it will continue to use TARP funds to pay for these programs. Because of these programs, the Administration in the FY 2013 budget estimates that TARP losses will grow by $20 billion, from $48 billion to $68 billion. To cover these costs, the President's budget includes a plan to extract $61 billion over the next ten years from the nation's largest banks, nearly double the amount the President proposed last year. Such a "bank tax" would either be passed on in the form of higher fees to consumers, or it could reduce the amount of credit available to businesses and consumers. To protect the fragile economic recovery and to avoid shifting this tax to consumers and job creators, the Committee opposes the "bank tax" proposed by the Administration and recommends that TARP be immediately shut down and unused funds be returned to the taxpayers.

CONSUMER FINANCIAL PROTECTION BUREAU

The Consumer Financial Protection Bureau (CFPB) is a federal agency created by the Dodd-Frank Act to regulate the provision of credit, financial products, and financial services to consumers. The Dodd-Frank Act confers upon one person—the CFPB's Director—a broad mandate to protect consumers as well as a correspondingly broad authority to write rules, supervise compliance, and enforce all consumer financial protection laws and regulations other than those governing investment products regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission. Although the Dodd-Frank Act houses the CFPB within the Federal Reserve Board as an "independent bureau," the Dodd-Frank Act makes clear that the Federal Reserve Board has no supervisory authority over the CFPB and that the CFPB is to be completely autonomous of the Federal Reserve Board in carrying out its mission.

The CFPB's Director sets the CFPB's budget, which is paid for from the Federal Reserve System's annual combined earnings. For FY 2013, the CFPB's budget is capped at 12 percent of those earnings, or $597.6 million; after FY 2013, the cap is adjusted upward for inflation. Because the CFPB's budget is funded directly from the Federal Reserve System's earnings and not subject to the Congressional appropriations, the CFPB need not submit a detailed budget request, nor does the agency have to justify or explain its budget to Congress. In FY 2011, for example, the CFPB articulated no strategic plan to govern its operations. Without a strategic plan, the CFPB had to request $28 million more over the course of FY 2011 than it estimated it would need in the President's Fiscal Year 2012 Budget.

As of February 15, 2012, the CFPB had 778 employees on its payroll, which represents the 546 new employees the CFPB hired and 232 employees that were transferred to the CFPB from seven other federal agencies. But without a detailed budget and justification that sets forth the rationale for the CFPB's spending and hiring, Congress cannot judge whether the Bureau has hired too many or too few employees. The Committee views the CFPB's operations as unacceptably opaque, and considers the CFPB's budget to lack sufficient justification. The Committee may consider legislation to subject the CFPB to the Congressional appropriations process to promote greater budgetary accountability and transparency.

EXPORT-IMPORT BANK OF THE UNITED STATES

The Export-Import Bank is an independent agency that provides export financing through its loan, guarantee, and insurance programs, which helps U.S. exporters compete in the global marketplace and supports job creation in the United States. The Export-Import Bank is designed to provide export financing when the private sector is unable or unwilling to do so, and to help ensure that U.S. exporters can compete on an equal footing against foreign exporters financed by their governments. The Export-Import Bank estimates that each $1 billion of U.S. exports supports 7,300 U.S. jobs. Last year, the Export-Import Bank provided approximately $32.7 billion in export financing, including $6.0 billion in small business financing, which supported 288,000 U.S. jobs.

By collecting fees from its users, the Export-Import Bank has become a self-sustaining agency which has returned $3.7 billion to the Treasury since 2005. The Export-Import Bank is expected to recoup its FY 2013 appropriation, and it is projected to return approximately $359.1 million to the Treasury this year. The Committee has focused its consideration of the Export-Import Bank's reauthorization request on improving operations to better serve U.S. businesses while ensuring that the Export-Import Bank maintains its fiscal soundness.

In its budget, the Administration has proposed consolidating the trade-related functions of the Export-Import Bank with several other federal agencies. While the Committee support efforts to streamline government and eliminate wasteful spending, the Committee has an obligation to ensure that organizational changes are cost-effective and do not impose costs that outweigh the benefits of the changes. The Committee is concerned that changes to the structure of the Export-Import Bank and the provision of export financing could make it more difficult for U.S. companies to compete against their foreign counterparts.

MULTILATERAL DEVELOPMENT BANKS

The Administration has requested $2.9 billion for Treasury's international programs, a fourteen percent decrease from last year's request. The request includes funds for annual payments to multilateral development banks (MDBs); payments toward debt relief for some of the world's poorest countries; payments to World Bank trust funds; and payments to multilateral environmental organizations. The MDBs provide concessional lending and grants to the world's poorest countries and provide non-concessional lending to middle-income and poorer credit-worthy countries. The MDBs have provided resources to member countries in the aftermath of natural disasters and have been counter-cyclical lenders during economic downturns, including the most recent recession and the attendant global contraction of credit.

The U.S. provides funding to MDBs through pledges made by Treasury on behalf of the U.S. to international organizations. Congress considers these pledges and funds them through the appropriations process. The Committee will examine the individual requests and seek to ensure that the MDBs are using resources effectively and consistent with the goals of the institution. The Committee expects that Treasury will consult with the Committee before it begins discussions on new commitments to the MDBs.

The Committee urges Treasury to advocate that governments receiving assistance from the multilateral development institutions do not engage in gross violations of human rights or corrupt activities.

INTERNATIONAL DEVELOPMENT ASSOCIATION

The Administration has requested $1.4 billion for the second of three annual payments to replenish the International Development Association (IDA), the World Bank facility that lends to 79 of the world's poorest countries. The IDA's mission is to help these countries meet basic health, infrastructure, and development needs. The IDA is active in countries that are important to U.S. foreign policy, such as Afghanistan and Haiti.

The IDA provides the world's poorest and least credit-worthy countries with access to capital, which permits these countries to build the credit record necessary to raise capital from private sources. The Committee believes that the U.S. must retain its leadership role in the IDA, which permits the U.S. to veto unwelcome changes to the IDA's governing articles. The Committee will conduct oversight of U.S. contributions to the IDA to make sure that the IDA's projects are reviewed for effectiveness and that the IDA remains vigilant in its efforts to end corruption.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The Administration has requested a total of $187 million for the second of five installments of $117.4 million toward a general capital increase and the first of four installments of $69.6 million toward a selective capital increase for the International Bank for Reconstruction and Development (IBRD). In response to requests from world leaders, the IBRD increased lending sharply at the onset of the economic crisis. In 2009, the IBRD increased lending to $39 billion, up from an average $15 billion per year. Member nations have agreed to increase capital to avoid reducing lending in the near-term. The IBRD has been a source of capital for middle-income and credit-worthy poorer countries during the economic crisis and has helped stabilize the global economy.

The World Bank's new lending instrument, Program for Results (P4R), links disbursement of funds to achievement of program results. P4R borrower governments may use their own procurement rules and are not required to comply with World Bank best practices. The Committee is concerned that innovation should not undermine strong procurement standards and anti-corruption safeguards and directs the Treasury to consult with the Committee before agreeing to adopt any aspect of the P4R policy.

DEBT RELIEF

The Administration has requested $250 million to forgive all of Sudan's outstanding debt to the U.S., contingent upon Sudan fulfilling the terms of the comprehensive peace agreement and meeting the Administration's benchmarks for human rights, peace, and stability in Sudan and neighboring states. The Committee believes that Sudan has not yet met these conditions. The Administration has requested the authority to transfer funding to other accounts if Sudan does not meet the Administration's benchmarks. The Committee will want to be sure that any transfer authority is subject to congressional oversight and could not be used in a manner inconsistent with congressional intent.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Administration has requested $44.8 billion in gross budget authority for the Department of Housing and Urban Development (HUD) for FY 2013, which is $1.4 billion (or 3.2 percent) more than FY 2012 enacted levels. Most of HUD's FY 2013 Budget—83 percent—will go towards renewing rental assistance for approximately 5.4 million residents in subsidized housing; at least half of those residents are either elderly or disabled. The Committee remains concerned that even as HUD's budget continues to grow, HUD has failed to address the problems of unexpended balances and slow spend-out rates in many of its programs. In particular, the Committee continues to have concerns about HUD's administration of the Section 8, HOME, Section 202, Section 811 programs for elderly and person with disabilities, and Community Development Block Grant programs, which concerns are detailed below. Given that there are more than 160 federal housing programs already in existence, the Committee is concerned that the Administration's new housing initiatives may overlap existing programs. The Committee will continue to monitor HUD's programs in order to consolidate or reduce duplicative programs and to ensure that funds appropriated to HUD are in fact being spent promptly for the purposes for which they were allocated and that these funds are being efficiently used by their recipients.

NATIONAL HOUSING TRUST FUND

Created by the Housing and Economic Recovery Act of 2008 (P.L. 110-289), the National Housing Trust Fund was originally to be funded by Fannie Mae and Freddie Mac. Because Fannie Mae and Freddie Mac are effectively insolvent and in conservatorship, however, they cannot fund the program. The Administration has therefore requested $1 billion in funding in its FY 2013 budget proposal. Given that the Trust Fund was established to meet needs similar to those currently being addressed by other government programs, the Committee questions whether there is a need to create yet another federal bureaucracy to administer essentially the same program already being administered by other federal agencies.

FORECLOSURE MITIGATION PROGRAMS

As the Committee noted last year, the Administration continues to devise and deploy foreclosure mitigation programs that have failed to stem the tide of foreclosures and that have cost taxpayers billions of dollars. Originally envisioned as a $75 billion effort that would help up to 9 million at-risk borrowers, the Making Home Affordable initiative includes federally-funded foreclosure prevention programs such as the Home Affordable Modification Program (HAMP), the Federal Housing Administration (FHA) Refinance Program, and the Hardest Hit Fund. In addition to these programs, the Committee is also concerned about the effectiveness of programs such as the Emergency Homeowners Loan Program (EHLP). All these programs have failed to meet their objectives.

Funding for programs in the Making Home Affordable initiative is derived from the Troubled Asset Relief Program (TARP). The Administration has obligated $45.6 billion of TARP money for its Making Home Affordable initiative. Both the Administration and the Congressional Budget Office (CBO) have indicated that since these programs consist largely of direct grants that require no repayment by recipients, the programs have a 100 percent taxpayer subsidy rate. In other words, the government does not intend to recover any of the $45.6 billion it spends on these programs. Thus, either taxpayers will be left to cover the entire cost of these programs directly, or indirectly in the form of higher fees or reduced access to credit if the costs are recouped in some other manner such as the President's proposed "bank tax" on financial institutions.

Although $30 billion of TARP funds has been obligated to HAMP, the results of this program have been disappointing. Although HAMP was originally projected to assist 3 to 4 million homeowners, according to program performance data through December 2011, only 2.01 million trial modifications were started under the program; of those trial modifications, only 762,839 (less than 38 percent) have transitioned to active permanent modifications. HAMP has been roundly criticized by a wide range of independent government watchdogs, including the Special Inspector General for the TARP, who testified before the Subcommittee on Insurance, Housing and Community Opportunity that "supporters of HAMP have little reason to hope that it will be anything more than it is today—a program that benefits only a small portion of distressed homeowners, offers others little more than false hope, and in certain cases causes more harm than good."

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

The Administration has also obligated more than $8 billion from TARP for the FHA Refinance Program, which was intended to help homeowners who owe more on their homes than the home is currently worth. Like HAMP, this program has also proven to be ineffective. From its inception in 2010 through December 2011, the FHA has reported that the program has made only 647 total loan endorsements from 2,181 total applications. The program is currently scheduled to continue until December 31, 2012. In 2011, the House passed legislation (H.R. 830) to terminate the FHA Refinance Program and return all unobligated balances from the program to the taxpayer.

The Committee is also concerned about the cost and effectiveness of the EHLP. The 111th Congress appropriated $1 billion to the EHLP, which was designed to provide loans or credit advances to borrowers who cannot pay their mortgages because of unemployment or reduction in income. Although eligibility for new EHLP participants expired on September 30, 2011, the Committee remains concerned about the underwriting of loans made under the program. The Committee is also concerned that the program's almost 100 percent subsidy rate will result in substantial losses to taxpayers. In 2011, the House passed legislation (H.R. 836) to terminate the EHLP and return all unobligated balances from the program to the taxpayer.

FEDERAL HOUSING ADMINISTRATION

As private sector lenders withdrew from the mortgage market during the economic crisis, the Federal Housing Administration (FHA) increased its overall share of the market from less than 5 percent to over 30 percent. Today, the FHA is the largest government insurer of mortgages in the world, with a mortgage portfolio of 7.1 million loans and a combined unpaid principal balance of over $1 trillion. The FHA's market share for mortgage insurance in-force is 58.4 percent of all mortgages insured in the U.S. As the FHA's share of the market grew, however, increased delinquencies and foreclosures have resulted in significant deterioration in the FHA's financial position. Late last year, an independent actuarial review showed that the FHA Mutual Mortgage Insurance Fund's (MMIF) capital reserve ratio had dropped to 0.24 percent, far below the Congressionally-mandated threshold of 2 percent. Given these figures, the FHA's finances appear to be heading toward insolvency. The Committee is therefore gravely concerned about the FHA's finances and is committed to protecting the taxpayers from losses sustained by the FHA.

According to the President's FY 2013 budget proposal, FHA is projecting a potential draw down of $688 million in emergency funds from the Treasury to replenish the MMIF. The Administration's acknowledgment that the MMIF may need to be recapitalized by diverting taxpayer funds from the Treasury underscores the risk that FHA poses to American taxpayers. To protect the FHA's scarce capital, the Committee urges the Administration to be vigilant in its efforts to weed out mortgage originators that seek to dump loans that were poorly or fraudulently underwritten on the FHA.

The Committee commends FHA for reforming the premiums it charges for mortgage insurance in 2009 and 2010 to better manage risk. But the Committee also believes that the FHA must explore additional measures to strengthen its credit policies. The Committee is also concerned that the FHA lacks the capacity to properly oversee its single-family loan insurance portfolio. With the increase in high cost loan limits through the end of 2013, the FHA must diligently monitor lenders to ensure that FHA programs are not being abused. The Committee looks forward to reviewing FHA's proposal to change its underwriting criteria to ensure that qualified borrowers are able to access and sustain mortgages insured by the FHA.

HOUSING COUNSELING

The Administration has requested $55 million for housing counseling to serve approximately 185,000 low-to-moderate income families and to train approximately 4,800 counselors. The Committee has supported initiatives to standardize and develop housing counseling metrics to assess the effectiveness of counseling programs. The Committee therefore views the establishment of the Office of Housing Counseling as a welcome first step in ensuring that the effectiveness and costs of counseling programs at HUD are being measured. The Committee will continue to monitor federally-funded housing counseling programs—including state, local and nonprofit counseling programs—to assess their effectiveness at mitigating foreclosures and assisting consumers in avoiding predatory or abusive lending practices.

HOUSING PROGRAMS FOR THE ELDERLY AND DISABLED

Section 202 (Supportive Housing for the Elderly) and Section 811 (Supportive Housing for Persons with Disabilities) are programs that help make housing available for the elderly and disabled. The Administration has requested $475 million for Section 202 programs, $150 million for Section 811 programs, and $111 million for the renewal of vouchers targeted at disabled populations. Given that the Frank Melville Supportive Housing Investment Act (P.L. 111-374) was enacted more than a year ago, the Committee expects HUD to meet the objectives of the Act, which are to provide more flexibility to align Section 811 programs with other federal, state, and local funding sources, and allow federal funds to be leveraged with other funds to make more housing available for the disabled. The Committee is aware that the 202 and 811 programs have unexpended balances; it will review these programs so that these funds can be used to better meet the needs of the elderly and disabled.

SECTION 8 VOUCHER PROGRAM

The Administration has requested an increase in funding for the Section 8 housing choice voucher program to $19.074 billion, from $18.914 billion enacted in 2012. While changes to the voucher funding formula over the last decade have increased voucher usage and efficiency, comprehensive reform is still needed. In 2007, the Office of Management and Budget reported that HUD "does not track long-term performance outcome measures because the agency lacks a reporting mechanism to capture how program funds are used." The Office of Management and Budget also found that the program's effectiveness remained unknown. The Committee will continue to work towards reforming Section 8 in the second session of the 112th Congress. The Committee believes that the public is better served not by expanding Section 8 but by reforming the program so that public housing authorities can serve more people within existing funding levels. The Committee believes that Section 8 recipients who are neither elderly nor disabled should be encouraged to move toward self-sufficiency so that assistance can be provided to those applicants who have patiently waited for assistance, in some cases for almost ten years.

PROJECT-BASED SECTION 8

The Administration has requested $8.7 billion for Project-Based Rental Assistance, a decline from the 2012 enacted level of $9.340 billion. The Committee is concerned that changes to the contract renewal process for project-based vouchers will push renewal costs into later years. As part of its examination of the project-based Section 8 program, the Committee will continue work on the Administration's proposals for converting public housing units to long-term, project-based Section 8 contracts.

PUBLIC HOUSING

The Administration has requested $6.594 billion for the Public Housing Operating Fund and the Public Housing Capital Fund, which will be combined and used to repair and maintain public housing units. Because the funds needed to maintain existing public housing stock outpace appropriations, the Committee will work on alternative means of financing the development of affordable housing, including the Administration's Rental Assistance Demonstration (RAD). The Administration has requested a number of reforms to HUD's affordable housing programs, which the Subcommittee on Insurance, Housing and Community Opportunity has already advanced in the 112th Congress. These reforms include an adjustment for inflation to the minimum rent contribution, updates to income calculation deductions, and new flexibility for housing authorities to best utilize their capital and operating funds for public housing.

The Administration has eliminated funding for the HOPE VI program, and has proposed folding the HOPE VI program into its Choice Neighborhoods program in 2013. The Administration has requested $150 million for the Choice Neighborhoods program. The Committee remains concerned about the performance of the Hope VI program, which has lagged for years. In the program's last comprehensive review in 2003, the Office of Management and Budget rated the program as ineffective. The Committee will continue to evaluate the HOPE VI program, and it will evaluate the effectiveness of the Choice Neighborhoods program. The Committee will also examine the prohibition of demolition-only grants, one-for-one replacement requirements, and tenant eligibility standards on housing availability.

McKINNEY-VENTO HOMELESS ASSISTANCE GRANTS

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

COMMUNITY AND ECONOMIC DEVELOPMENT

Cities and counties use flexible Community Development Block Grants (CDBG) to meet local development, infrastructure, and affordable housing needs. For FY2013, the Administration has requested $3.1 billion for CDBG, making it the fourth largest program administered by HUD. As in previous years, concerns have been raised that some CDBG money is used to fund projects that reflect exclusively local priorities. In 2003, the Office of

Management and Budget designated the CDBG program as ineffective, indicating that the program had failed to use tax dollars effectively; OMB attributed this failure of the CDBG program to a lack of clarity regarding the program's purpose, poor management, and other significant weaknesses. The Committee remains concerned about questionable uses of CDBG funds, and it will examine how CDBG funds are used by recipients, as well as the program's history of slow spend-out rates, to ensure that CDBG funds are spent appropriately. The Committee will also consider whether CDBG funds can be better targeted to benefit economically distressed communities.

RURAL HOUSING

The Administration's $28.31 million Rural Housing Service (RHS) budget request for FY 2013 represents a $322,000, or 1.18 percent increase, over its RHS budget request for FY 2012. The Administration notes that it will "not fund certain programs in order to focus resources on more efficient and less costly programs." The most significant program that was eliminated in the RHS budget is the Section 515 multifamily direct loan program for new construction. The Committee will review innovative proposals to address potential funding decreases in all RHS single-family and multifamily programs.

NATIONAL FLOOD INSURANCE PROGRAM

According to the Government Accountability Office (GAO), the National Flood Insurance Program (NFIP) must be fundamentally reformed to stabilize its long-term finances. As of January 31, 2011, the NFIP owes $17.775 billion in outstanding debt and accrued interest to Treasury, which it borrowed to pay flood claims resulting from hurricanes in 2005. The GAO found that the NFIP is failing to collect sufficient premiums from policyholders to cover the costs of estimated future losses. Approximately 25 percent of the NFIP's policies are subsidized, and these are primarily for high-risk structures built before the flood plain regulations and flood risk mapping went into effect. Some policyholders are paying rates that may be only 35 to 40 percent of actuarially-sound rates, which is a subsidy to these policyholders at taxpayer expense.

In 2011, the House twice passed broadly supported, bipartisan legislation that would move the NFIP closer to actuarially sound, risk-based pricing and institute reforms that would improve the structure and performance of the NFIP. To protect taxpayers from excessive and unwarranted exposure, Congress must move forward with comprehensive reforms to overhaul the NFIP that will increase the role of the private insurance sector in flood risk management.

HOME INVESTMENT PARTNERSHIPS PROGRAM

The HOME Investment Partnerships Program (HOME) is a formula-based block grant program that disburses funds to states and localities to provide affordable housing. HUD delegates authority to participating jurisdictions to manage and monitor the ultimate recipients of HOME funds. Since it began in 1990, HOME has received over $30 billion in appropriations. Over the past five years (FY 2007-11), funding for the program averaged $1.7 billion annually. Funding for HOME was cut dramatically following the Committee's examination of the program last year.

On June 3, 2011, the Full Committee held an oversight hearing to examine HUD's administration of the HOME program. The Committee examined reported mismanagement of funds, including the failure of grant recipients to begin projects, the failure of grant recipients to complete projects, and the program's failure to produce habitable residences. On November 2, 2011, the Subcommittees on Oversight & Investigations and Insurance, Housing and Community Opportunity held a joint hearing on fraud and mismanagement in the program. One witness – a former executive director of a HUD HOME-funded organization, which she was convicted of defrauding – testified under oath that HUD had failed to ensure that recipients of HOME funds had the development experience necessary to initiate and complete projects.

Following these hearings, Congress reduced the funding for the program by 37% to $1 billion for FY 2012 – a $607 million cut. In setting the FY 2012 funding level, the report to the Senate's spending bill noted "concerns that have been raised in recent months about the oversight of the HOME Investment Partnership Program." Likewise, in a statement in support of the House-Senate Conference Report, which included the cut and other restrictions on the program, the House Chairman of the Committee on Appropriations noted the need for "reforms to the mismanaged HOME" program. The Committee notes that in December 2011, HUD proposed new HOME regulations, which according to its Federal Register notice are "designed to enhance accountability by States and units of local government in the use of HOME funds, strengthen performance standards and require more timely housing production."

The Administration's FY 2013 Budget Request seeks $1 billion for the HOME program. To remedy the shortcomings identified at the Committee hearings, the Administration, as part of its Budget Request, also asks Congress to change the HOME authorizing statute to require that "no funds provided under this heading may be awarded for development activities to a community housing development organization that cannot demonstrate that it has staff with demonstrated development experience."

The Committee continues to be concerned about HUD's oversight of the HOME program; the Committee is particularly concerned that HUD appears unable to track the progress of the projects funded under the program. The Committee supports the reductions made to the HOME program in the Administration's FY 2013 Budget. The Committee also supports the legislative language suggested in the Administration's Budget that specifies that funds will not be provided to community housing development organizations that do not have development experience. The Committee will continue to monitor HUD's oversight of the HOME program to ensure that funds allocated to HOME projects produce affordable housing and are not wasted.

UNITED STATES MINT

The Committee is concerned about the Mint's ability to operate without appropriated funding. The Secretary's decision in December to suspend production of circulating $1 coins will deduct several million dollars of seigniorage from the amount the Mint returns to the Treasury general fund. High prices for commodity metals used to produce circulating coins have pushed production costs to the point where one-cent and five-cent coins are produced for an amount considerably above face value. The Committee notes that circulating coin production costs have been high for nearly a decade, and that the

Mint has not proposed legislation to change the metallic composition of coins. The Committee further notes that 15 months after Congress directed the Mint to propose legislative changes to coin composition, the Mint has offered no proposals. In view of this history and in recognition that since 1792, Congress has made all decisions on coin weight, size and composition, the Committee rejects a legislative proposal contained in the Administration's budget that Congress transfer to the Mint the authority to independently decide the composition, size and weight of coins.