Substitute Amendment

Offered by Ranking Member Spencer Bachus

Committee Budget Views and Estimates

March 11, 2009

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 2010

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 207(e) of Senate Concurrent Resolution 21, 110th Congress, 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 2010; (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.

HOUSING AND COMMUNITY OPPORTUNITY

SUMMARY

The President's 2010 budget commits significant amounts to an already ballooning HUD budget. The Obama Administration's $47.5 billion HUD budget request is in addition to the significant HUD funding increases in both the American Recovery and Reinvestment Act of 2009 (ARRA) and the Fiscal Year 2009 Omnibus Appropriations Act. ARRA alone added $13.161 billion to HUD's budget while the 2009 Omnibus contributed almost $38 billion to various housing programs. Many of the programs that will benefit from the funding increases already have billions of dollars in unexpended balances and are plagued by slow spend out rates. The Fiscal Year 2010 HUD budget will add even more to HUD's budget without examining the problems of unexpended balances and slow spend out rates in many of HUD's programs. Furthermore, as described in detail below, a number of the programs to be funded by the President's budget are duplicative or should be reformed to ensure they are run in a cost-effective and efficient manner.

The Committee remains concerned about program transparency and oversight of eligible entities who receive government funds. For example, the Association of Community Organizations for Reform Now (ACORN) is eligible to receive billions of taxpayer dollars under the President's budget. ACORN qualifies for and receives millions in funding as a HUD-certified housing counselor through HUD's HOME and Community Development Block Grant programs. According to a 2008 analysis conducted by House Republicans, ACORN has received at least $53 million in direct Federal funding since 1994. The group receives millions more from the government through indirect funding from states and cities. At a time of financial distress, Congress should not reward bad actors that illegally manipulate our electoral process. Last Congress, eligibility standards were included in Public Law 110–289, the "Housing and Economic Recovery Act of 2008" (HERA), which barred groups such as ACORN from receiving assistance under the Neighborhood

Stabilization Program. ACORN was rendered ineligible for funding through language that prevented any group indicted for Federal election fraud or that hired an individual indicted for Federal election fraud from accessing funds made available through the neighborhood stabilization program. These same safeguards and restrictions should be incorporated in the Administration's budget and be applied across all government programs.

The Committee believes, as America moves deeper into recession, the last thing our leaders should do is raise taxes and increase spending. The President's FY 2010 budget does both. This is the time to show the American people the Committee understands the economic pain they are suffering and show them the Committee is willing to tighten our belt. President Obama committed to performing top-down reviews of every government agency and program during the 2008 presidential campaign. As the Administration embarks on monumental spending increases, the Committee would remind the Administration of its promise and pledge to support a spending freeze until a top-down review of government agencies and programs is completed.

FORECLOSURE MITIGATION AND CRAM DOWN

President Obama has announced a three-part Homeowner Affordability and Stability Plan to help up to 9 million borrowers. The plan includes (1) a refinancing plan for mortgages owned by Fannie Mae or Freddie Mac; (2) a $75 billion loan modification program; and (3) a commitment of $200 billion to purchase Fannie and Freddie preferred shares. Funding for the modification plan will come from the Troubled Asset Relief Program (TARP) and the GSEs. While the Committee understands the need to address the rising foreclosure rate in this country, the Committee is concerned that any government plan must ensure that unscrupulous and irresponsible actors will not be bailed out by the overwhelming majority of working families that have lived responsibly within their means.

The House recently passed H.R. 1106, the "Helping Families Save their Homes Act of 2009," which would allow bankruptcy judges to restructure principal residence mortgages that are under threat of foreclosure. Under the bill, bankruptcy courts will be able to reduce (or "cram down") mortgage principal; adjust interest rates; extend maturity dates; disallow creditor claims on mortgages subject to rescission under the Truth in Lending Act; and limit recovery of mortgage-related creditor fees. The Committee is concerned that H.R. 1106 threatens to undermine recent measures taken to unfreeze credit and will have a detrimental effect on housing. Standard & Poor's and others warn that bankruptcy cram downs will cause the securities tied to these loans to lose value and force ratings downgrades for broad classes of mortgage-backed securities (MBS) – requiring banks and insurance companies to increase MBS-associated capital reserves by up to hundreds of billions of dollars. Lenders' increased risk will lead to higher interest rates and down payment requirements throughout the mortgage market.

Hope For Homeowners

Last year, Congress enacted the Hope for Homeowners program, which was designed to provide Federal Housing Administration (FHA) loans for at risk borrowers, combined with a requirement for existing lenders to write down existing loans to below the home's current market value. Since its inception, Members have raised concerns about the effectiveness of the Hope for Homeowners program, and as predicted this program has been a failure by virtually every metric. The Committee was told at the time by its sponsors that this legislation would help hundreds of thousands of struggling borrowers with negative equity obtain more sustainable mortgages guaranteed by the FHA. Some six months after its creation, the Hope for Homeowners program has fallen far short of those expectations, receiving some 701 applications and closing on a mere 50 loans. The Congressional Budget Office (CBO) now estimates the program will assist only 25,000 at a cost of $579 million, or just over $23,000 per assisted family. Congress should eliminate this program because it is ineffective, costly and does not maximize the taxpayer's investment in providing foreclosure mitigation to distressed homeowners.

Neighborhood Stabilization Program

Congress has appropriated approximately $6 billion in two rounds of funding for the Neighborhood Stabilization Program, designed to provide emergency assistance to state and local governments for the redevelopment of abandoned and foreclosed homes. Congress should monitor the utilization of these program funds to maximize their efficiency and effectiveness, as well as evaluate the capacity of states and nonprofit groups in the deployment and strategic use of these funds. The Committee is concerned about the spend out rate of Neighborhood Stabilization funds as well as the perverse incentive the program offers to banks and other lenders to foreclose on troubled borrowers. The Neighborhood Stabilization Program was enacted on July 30, 2008 with a $4 billion initial appropriation. To date, none of these original stabilization funds have been disbursed and yet this Congress authorized approximately $2 billion in additional funding for this program in the Economic Stimulus package. The Committee remains concerned about the program's transparency and oversight of eligible entities for Neighborhood Stabilization funding, including groups like the Association of Community Organizations for Reform Now (ACORN).

AFFORDABLE HOUSING

National Housing Trust Fund

Created by the Housing and Economic Recovery Act of 2008 (HERA), the Trust Fund was originally to be funded by Fannie Mae and Freddie Mac. Given the GSE's current status in conservatorship, this is not possible and the President has requested $1 billion in funding. The Fund's mission as stated in the President's FY '10 Budget is "to finance the development, rehabilitation, and preservation of affordable housing for very low income residents." The Committee is concerned that the Trust Fund duplicates the efforts of other programs, such as the HOME Investment Partnerships program that is tasked with providing grants to states and local governments to implement strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income Americans. Of equal concern is the availability of Trust Fund monies to non-profit groups such as the Association of Community Organizations for Reform Now (ACORN), which has been implicated in voter fraud.

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. However, the Committee is concerned about funding levels and misuse of housing counseling funds by certain groups. The 2009 Omnibus appropriations bill contained over $100 million for counseling programs---$65 million through HUD and $50 million through the Neighborhood Reinvestment Corporation. The Stimulus included $200 million for Neighborhood Stabilization Program "capacity building." The Association of Community Organizations for Reform Now (ACORN), as a HUD-approved counseling agency, could avail itself of these monies.

Housing for the Elderly (Section 202)

Section 202 provides assistance to expand the supply of housing with supportive services for the elderly. The Fiscal Year 2009 Omnibus Appropriations bill, as approved by the House, included a $30 million increase ($765 million) for the Section 202 program. The Committee will continue to work to ensure the viability of this important program. In the 110th Congress, the House passed H.R. 2930, "Section 202 Supportive Housing for the Elderly Act of 2007" under suspension. The bill would allow project sponsors to recover funds due to unexpected project costs and emergencies; delegate capital grant application processing of mixed finance projects to state or local agencies; facilitate the conversion of projects to assisted living facilities; require senior preservation rental assistance contracts to prevent tenant displacement; and extend project sponsorship to national non-profits. The Committee understands how important it is to reevaluate programs and seek ways to improve their administration and operation. The Committee is concerned that the Section 202 currently has an unexpended balance of $4.4 billion. The Committee wants to ensure that funds for this program are disbursed as quickly and efficiently as possible to meet the significant housing needs of this most vulnerable segment of our population. The Committee will continue to seek assurances that the mission of the Housing for the Elderly program is not compromised.

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 Fiscal Year 2009 Omnibus Appropriations bill, as approved by the House, included a $13 million increase ($250 million) for the Section 811 program. In the 111th Congress, The Committee looks forward to working on bipartisan legislation to make the program more cost effective and efficient. The Committee will monitor the spend-out rates of the Section 811 program, which currently has a $1 billion unexpended balance.

Section 8 Voucher Program

The Administration's budget request would increase funding for the Housing Choice Voucher program for FY 2010. While the details of the funding increases proposed by the Obama Administration have not been provided to the Committee, the FY 2009 Consolidated Appropriations Act appropriated $16.8 billion dollars for the program, which was an increase of $341 million over the FY 2008 appropriated levels (P.L. 110-161). The Section 8 housing voucher program is the nation's largest low-income housing assistance program helping over 2 million low-income households, elderly and disabled secure afford modest housing in the private market. The program has grown to replace public housing as the primary tool for subsidizing the housing costs of low-income families and takes up almost 50 percent of HUD's discretionary budget. Given the growing size of the Section 8 program, it is critical to make improvements in the delivery of housing assistance to families in need. The Committee continues to believe that our ultimate aim should not necessarily be to expand this program, but instead to reform it to allow Public Housing Agencies (PHAs) to serve more people. This is important not only philosophically, but practically, because the Committee faces a situation of growing waiting lists for Section 8 vouchers without the resources to serve everyone. Also, the Committee believes that the Committee must encourage Section 8 recipients to move toward self-sufficiency so that the Committee can provide a similar helping hand to those who have patiently waited, in some cases for almost ten years, for assistance.

Homelessness Prevention

The Committee is committed to addressing the needs of homeless persons and families and looks forward to working to accomplish this goal. The Committee is pleased to see the President's Budget expands homelessness prevention programs for veterans. According to the President's budget summary, the budget will expand "current services to homeless veterans through a collaborative pilot program with non-profit organizations. This pilot will help maintain stable housing for veterans who are at risk of falling into homelessness while helping VA to continue providing them with supportive services." The veterans homelessness prevention program was based on H.R. 3329, the "Homes for Heroes" Act which passed the House on July 9, 2008 with strong bipartisan support.

Public Housing

The 2009 Omnibus made $2.45 billion for Public Housing Capital Fund available through September 2012. The stimulus bill provided $4 billion for the Fund. However, the Capital Fund currently has $7 billion in unexpended balances. ($2 B in 2008; $1.5 B 2007; $1 B 2006 and $500 million in 2005.) While these funds have been obligated, the "spend out" rate is very slow. Given the backlog in the pipeline, the Committee believes there must be an effort to determine why there continues to be large unexpended balances. Furthermore, the 2009 Omnibus provided for $20 million of Capital Fund monies to be used to address "crime and drug-related activities" and other emergencies and natural disasters. This initiative resembles the Drug Elimination Program, which was a failed and duplicative initiative, eliminated by the Bush Administration. The Public Housing Operating Fund received $4.5 billion from the 2009 Omnibus, $255 million above 2008 levels.

COMMUNITY AND ECONOMIC DEVELOPMENT (CDBG)

Cities and counties use flexible Community Development Block Grants (CDBG) to meet critical local community development, infrastructure, and affordable housing needs. The Fiscal Year 2010 HUD budget provides full funding for the Community Development Block Grant program at $4.5 billion. In addition, the Budget proposal reforms the program's formula to better target economically distressed communities. In addition to the $4.5 billion from the President's FY 2010 budget, the CDBG program will receive $3.6

billion available through September 2011 from the 2009 Omnibus and $1 billion from the Stimulus. The Committee believes strong oversight of this program will promote transparency and accountability. For example, the Association of Community Organizations for Reform Now (ACORN), a group which has been implicated in numerous cases of voter fraud, has received millions of Federal block grant monies from states and localities, according to a 2008 analysis by the Republican Leader.

RURAL HOUSING

The Committee notes that the American Recovery and Reinvestment Act of 2009 included $11 billion in additional funding for the Section 502 single family direct and guaranteed loans programs, which will help to address the recent increase in loan volume resulting from the mortgage crisis. The Committee should continue to monitor the loan commitment authority of Section 502 programs and examine innovative proposals to address potential funding shortfalls in all Rural Housing Service (RHS) single family and multifamily programs.

FEDERAL HOUSING ADMINISTRATION (FHA)

As private sector lenders have all but disappeared from the single family mortgage markets, FHA has significantly increased its market share from less than 5 percent to more than 20 percent, providing a critical source of affordable mortgage loans for a troubled housing sector. Last Congress, comprehensive legislation was adopted to reform FHA and to increase mortgage limits to make the program viable in higher cost housing markets. Increased delinquencies and foreclosures across the nation will mean that the financial health of the FHA program needs to be monitored, particularly in light of growing FHA loan volume. The Administration must be vigilant in its efforts to weed out the bad actors who seek to use the FHA program and pawn their bad loans off on the American taxpayer. As recently as March 9, 2009, *The Washington Post* reported that many FHA borrowers are defaulting on their loans before they even make their first mortgage payment. *The Washington Post* analysis pointed out that in the past year alone, the number of FHA borrowers who defaulted without making their first payment nearly tripled, far outpacing the agency's overall growth in new mortgages. Given this alarming trend, the Obama Administration must make sure that the program has the tools and technology to handle FHA's increased responsibility. With the increase in loan limits and the recent changes in the FHA reverse mortgage program, sufficient resources must be committed to the program to ensure proper monitoring of FHA-approved lenders/licensees, and to ensure that the program is not being abused by those seeking to take advantage of the American taxpayer.

SECURITIES AND EXCHANGE COMMISSION

The House-passed omnibus appropriations bill included $943 million as the SEC's funding for FY 2009, 4 percent more than the FY 2008 congressionally approved budget. The allegations against money manager Bernard L. Madoff, who is charged with defrauding individual and institutional investors of billions of dollars, highlights the need for the Commission to have adequate resources to fulfill its mission. Congress must ensure that the Commission is adequately funded and staffed, and that the Commission uses its resources effectively in achieving its mission to protect investors. However, given the SEC's failure in regard to the Madoff fraud and the ongoing investigation by the SEC Inspector General, it would be fiscally irresponsible to significantly increase the Commission's budget without first examining current program efficiencies and without proposing additional program consolidation, elimination, or other savings, including but not limited to returning the functions of the Office of Compliance Inspections and Examinations to the Division of Investment Management and the Division of Trading and Markets. Until the Inspector General releases its report and an examination occurs, a fiscally responsible 4 percent increase, which mirrors the FY 2009 budget increase, would be a sufficient amount to maintain current staffing levels.

FINANCIAL BAILOUT

The budget includes a $250 billion "contingent reserve for further efforts to stabilize the financial system" and indicates that the President anticipates that this reserve would support $750 billion in undefined "asset purchases." The Committee will reserve judgment on such a vague proposal as it attempts to determine the specific types of actions the Administration is contemplating. It will examine the classes of eligible assets and institutions and also insist that the Administration develop clear guidelines and performance metrics before spending hundreds of billions of dollars. Finally, in evaluating this proposal and other taxpayer-subsidized plans for propping up the financial system, the Committee will continue to push for an exit strategy that brings an end to the unprecedented government involvement in the private sector.

OFFICE OF THRIFT SUPERVISION

The Committee notes that consumer complaints at the Office of Thrift Supervision (OTS) are handled by 26 full-time equivalent employees (FTEs) at a cost of $4.4 million, an increase from last year when 21 FTEs and $3,664,332 were allocated for this function. As part of its oversight responsibility, the Committee intends to continue its review of the agency's outreach to consumers and tracking of consumer complaints and the degree to which systemic problems are communicated to the examination staff.

Last year, the Committee expressed its intent that the OTS dedicates significant resources to the issuance and enforcement of tough new regulations combating unfair or deceptive acts or practices by financial institutions. The Committee expects that appropriate resources be dedicated to continuing these efforts.

The Committee is concerned with the sustainability of the examination workforce at OTS, given that a significant percent of current staff will be eligible for retirement by 2012. OTS has planned to hire 1,095 additional FTEs in 2009 budget and has experienced a 97 percent retention rate. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention of a diverse workforce.

The Committee also supports OTS efforts to enhance its training and professional development programs to ensure that the agency has comprehensive, robust and ongoing training for staff on compliance with and enforcement of fair lending laws.

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The Committee notes that consumer complaints are handled through the Customer Assistance Group in Houston, which received 95,000 calls in 2008, of which approximately 37,000 were complaints and 58,000 were inquiries. The projected consumer assistance FTE target for 2009 is the equivalent of 91 FTEs and a budget of $12.1 million, an increase from the 65.5 FTEs and 22 contractors with a $9.1 million budget last year. The Committee supports additional resources and FTEs for this effort. In the exercise of its oversight function, the Committee intends to continue its review of the agency's outreach to consumers and tracking of consumer complaints and the degree to which systemic problems are communicated to the examination staff.

In 2008, the Office of the Comptroller of the Currency (OCC) spent $93.4 million on their regulatory program, which includes enforcement. In 2009, their estimated spending is $102.3 million. Last year, the Committee expressed its intent that the OCC dedicate at least $20 million to the issuance and enforcement of tough new regulations combating unfair or deceptive acts or practices by financial institutions. The Committee expects that appropriate resources be dedicated to continuing these efforts.

The Committee is concerned with the sustainability of the examination workforce at OCC. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention of a diverse workforce. The Committee also supports OCC's special authority from the Office of Personnel Management (OPM) to rehire up to 25 FTEs of recently retired bank examiners. The Committee also supports OCC efforts to enhance its training and professional development programs to ensure that the agency has comprehensive, robust and ongoing training for staff on compliance with and enforcement of fair lending laws.

FEDERAL DEPOSIT INSURANCE CORPORATION

The Committee notes that consumer complaints are handled by 28 FTEs and $7.2 million is allocated for these functions, a significant increase, due to higher contract costs for the Washington call center, and a reflection of the increased call volume. Last year, 33 FTEs in 2 call centers and $4 million was budgeted for these functions. In 2008, the Federal Deposit Insurance Corporation (FDIC) responded to 6,267 written complaints and 502 inquiries regarding state nonmember institutions. In addition, the FDIC responded to 4,211 calls regarding state nonmember institutions. During 2008, the FDIC received 18,953 written deposit insurance inquiries from consumers and bankers. This activity represents a 360 percent increase over 2007, where the FDIC received 4,125 written deposit insurance inquiries.

In addition to written deposit insurance inquiries, the FDIC received 81,979 telephone inquiries from consumer and bankers during 2008. In contrast, the FDIC replied to 15,899 deposit insurance telephone inquiries for the entire year in 2007. The 2008 activity represents a 415 percent increase over 2007. In the exercise of its oversight function, the Committee intends to continue its review of the agency's outreach to consumers and tracking of consumer complaints and the degree to which systemic problems are communicated to the examination staff.

The FDIC estimates that it will devote approximately $72 million to enforcement of consumer protection laws and regulations in 2009. Last year, the Committee expressed its intent that the FDIC dedicate at least $20 million to the issuance and enforcement of tough new regulations combating unfair or deceptive acts or practices by financial institutions. The Committee expects that appropriate resources be dedicated to continuing these efforts.

The Committee is concerned with the sustainability of the examination and resolution workforce at the FDIC. The FDIC Board has increased authorized field examiner staffing levels over the last two years and is filling many of these new positions with retired examiners who are being employed under a waiver of dual compensation authority delegated to the FDIC by OPM. Currently, there are 171 re-employed annuitants employed by the FDIC, primarily in supervision and resolution. The Committee supports this waiver as a means to ensure an experienced workforce to address the emerging problems in the banking industry and to increase supervisory resources available for training new examiners. Furthermore, the Committee supports the FDIC's targeted recruiting of displaced financial services employees with appropriate expertise to meet their hiring goals of 180 additional Financial Institution Specialists this year. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention of a diverse workforce. The Committee also supports FDIC efforts to enhance its training and professional development programs to ensure that the agency has comprehensive, robust and ongoing training for staff on compliance with and enforcement of fair lending laws.

The Committee supports continued FDIC efforts to identify small dollar loan programs that provide an affordable alternative to payday and other high cost loans.

NATIONAL CREDIT UNION ADMINISTRATION

The Committee notes that the National Credit Union Administration (NCUA) established a toll free Central Office Consumer Hotline in July 2007, and that currently 1.5 FTE and $220,000 are dedicated to this Hotline. The agency has also allocated up to 15 staff to this task for high volume periods, specifically to respond to more than ten thousand inquiries regarding credit union share insurance over the past several months. The Committee intends to continue its review of the agency's outreach to consumers and tracking of consumer complaints and the degree to which systemic problems are communicated to the examination staff.

The NCUA estimates that it will devote approximately $8 million and 56 FTEs to regulatory enforcement, including the enforcement of consumer protection laws and regulations in 2009. This is an increase from last year, when 45 FTEs and $6.8 million was allocated to these efforts. Last year, the Committee expressed its intent that the NCUA dedicate significant resources to the issuance and enforcement of tough new regulations combating unfair or deceptive acts or practices by financial institutions. The Committee expects that appropriate resources be dedicated to continuing these efforts.

The Committee is concerned with the sustainability of the examination staffs at the NCUA, as 8 percent of all staff and 26 percent of senior staff are eligible to retire in 2009. Nearly half of the senior staff will be eligible to retire in five years. The Committee supports the continued allocation of sufficient resources to succession planning, training needs, staff recruitment and retention of a diverse workforce. The Committee also supports NCUA efforts to enhance its training and professional development programs to ensure that the agency has comprehensive, robust and ongoing training for staff on compliance with and enforcement of fair lending laws.

GOVERNMENT SPONSORED ENTERPRISES

The housing Government Sponsored Enterprises (GSEs) – Fannie Mae, Freddie Mac, and collectively the twelve Federal Home Loan Banks – are among the largest financial institutions in the United States, with more than two trillion dollars of outstanding debt obligations. Fannie Mae and Freddie Mac own or guarantee approximately $5.3 trillion of the $12 trillion in home mortgages outstanding, and the GSEs continue to play a significant role in providing liquidity to financial institutions for mortgage financing, notwithstanding the global credit crisis.

In July 2008, the Housing and Economic Recovery Act of 2008 (HERA) was enacted. This law established, among other things, a new independent agency, the Federal Housing Finance Agency (FHFA), to oversee the GSEs, and endowed the agency with broad supervisory and regulatory powers over operations, activities, corporate governance, safety and soundness, and mission. As a result of the law, funding for the FHFA continues to come from assessments on the GSEs, but those funding levels are no longer part of the appropriations process. HERA also gave the Department of the Treasury standby authority to buy stock or debt in Fannie Mae and Freddie Mac until December 31, 2009.

Like many other financial institutions, the GSEs have suffered in the current difficult economic environment. Fannie Mae and Freddie Mac began reporting losses in 2008 due to deteriorating credit quality requiring write-downs in the value of their assets, and increasing debt costs resulting in higher expenses. Concerns about the capital positions of Fannie Mae and Freddie Mac in light of these losses caused the FHFA to place those entities in conservatorship in September 2008; continuing losses since then have caused both entities to draw upon the Treasury line of credit authorized by HERA. A number of the Federal Home Loan Banks also have experienced strains and are expected to report fourth quarter 2008 losses. The increased level of government involvement in the GSEs resulted in a decision of the Congressional Budget Office (CBO) to incorporate the transactions of Fannie Mae and Freddie Mac within the Federal budget.

The rescue of Fannie and Freddie represented an extraordinary Federal intervention in private enterprise and could become the most expensive in history. As a result of the government's intervention, the GSEs' common and preferred shareholders were substantially diluted, and have lost, at least temporarily, their voting rights and dividends. Further, common shares are first in line to absorb losses, followed by preferred shares, which total $36 billion on a combined basis.

The administration's budget also would increase Treasury's potential capital commitment to the GSEs to $400 billion. Following nearly five months of operating under a Federal conservatorship, Fannie and Freddie executives again find themselves torn between satisfying conflicting missions. Rather than grappling with profit-seeking and serving a public purpose, the GSEs today struggle with aligning the government's efforts to spur housing through lower mortgage costs and taxpayers' fears that they will have to bear the costs of large loan defaults. According to the CBO, the Federal takeover of Fannie and Freddie has added $200 billion to the Federal deficit, in discounted present value terms. By 2019, CBO expects the GSEs to cost the government $310 billion, but anticipates that number will rise dramatically if the GSEs' level of support does not taper soon or if the mortgage markets fail to stabilize quickly.

INTERNATIONAL MONETARY FUND

In November 2008, the Treasury Department sent a legislative request to Congress that would increase the United States' quota in the International Monetary Fund (IMF) as part of a quota reform agreement that was struck by the IMF's member countries earlier in the year. The agreement and legislative request also included a plan to sell a portion of the IMF's gold holdings in order to establish a trust fund that would be the source of the IMF's administrative budget going forward. In the event that the November 2008 request is included in the FY2010 budget request, the Committee will be prepared to consider it and the extent to which it supports broader goals of reforming the IMF and improving its effectiveness in the midst of the current global economic crisis.

EXPORT-IMPORT BANK OF THE UNITED STATES

As a result of changes in the FY 2008 budget, the U.S. Export-Import Bank (Exim) now funds its lending operations through fees and earnings and does not receive an annual appropriation. Exim does face an annual limitation on the amount of income it can use to support new lending and the size of its lending portfolio is limited to $100 billion. The Committee will consider the adequacy of the current authorization level for Bank lending as well as other potential constraints on the Bank's ability to play a greater role in filling the gap in trade finance resulting from the credit crisis. The Committee will also closely monitor the Bank's competitiveness relative to foreign export credit agencies (ECAs), with particular attention to competitiveness with the export credit practices of countries that are not members of the Organization for Economic Co-operation and Development.

TERRORISM RISK INSURANCE

The Congress responded to the September 11, 2001 terrorist attacks by enacting the Terrorism Risk Insurance Act (TRIA) and the Terrorism Risk Insurance Extension Act of 2005 (P.L. 109-144) that extended TRIA through December 31, 2007. In response to the continued unavailability of terrorism risk reinsurance in the private market, Congress enacted the Terrorism Risk Insurance Program Reauthorization Act of 2007 (P.L. 110-160) to extend TRIA through calendar year 2014.

The President's budgets for FY 2004 through FY 2008 did "not include estimates of the timing and magnitude of potential insurance claims under the [TRIA] program. . . . [g]iven the uncertainty surrounding the risk of future terrorist attacks." However, the FY 2009 budget included an estimated Federal cost of providing terrorism risk insurance in the amount of $416 million, supposedly based on how private insurers price such risk. The estimate included in the President's budget for FY 2009 is significantly greater than the projected outlays estimated by the Congressional Budget Office (CBO), raising concerns about the apparent discrepancy in risk calculations. The Committee recognizes that the President's budget for FY 2010 continues to use the assumptions underlying the President's budget for FY 2009 and the Committee renews its concerns regarding the departure from the assumptions used in the President's budgets for FY 2004 through FY 2008. The Committee needs more information to assess the rationale and data associated with the variance in these estimates. The Committee also notes that the President's budget for FY 2010 calls for revisions to the Terrorism Risk Insurance Program (TRIP) and looks forward to learning more about these proposed revisions.

The President's FY 2009 budget allocated 10 FTEs for the administration of the TRIP within the Department of the Treasury. This allocation is consistent with prior years' allocations for the TRIP and the Committee anticipates agreeing with a similar allocation were it to appear in the President's budget for FY 2010.

FEDERAL EMERGENCY MANAGEMENT AGENCY

The National Flood Insurance Program (NFIP) is facing serious challenges and needs comprehensive reform to stabilize its long-term finances, according to the Government Accountability Office (GAO). In addition to carrying an $18 billion debt to the Treasury from borrowing to pay flood claims relating to the 2005 hurricanes, the NFIP is not collecting enough premiums to cover the estimated risk of future claims.

Again, according to the GAO, the NFIP, by design, is not actuarially sound. Rates for approximately 25 percent of policies are subsidized, and these are primarily for high-risk structures constructed before the NFIP's flood plain regulations went into effect. Some policyholders are paying rates that may be only 35 to 40 percent of actuarially-sound rates based on the estimated risk of loss from flooding. Even FEMA's calculations of estimated risk-based rates have been called into question by the GAO.

The Committee remains concerned about efforts to expand the NFIP to include coverage for windstorms, which would further exacerbate the financial weakness of the program and displace the private insurance market for windstorm coverage. Both the House and the Senate versions of long-term NFIP reauthorization measures passed in the last Congress contained reforms supported by many Members to move the NFIP closer to full-risk pricing. It is important that the Congress move forward with comprehensive reforms to strengthen the NFIP, and avoid misguided efforts that could weaken it, without further delay.

Saving Small Businesses

Small business growth will trigger the nation's economic recovery. As such, the Committee will not support any legislation or provision in any bill that raises taxes on business development.

Stabilizing The American Economy

Because the country faces some of its most difficult challenges in generations, the Committee will reject any proposal to raise taxes on families or small businesses, especially during a recession.

Protecting Homeownership

Millions of Americans are struggling to make their mortgage payments every month. This Committee is determined not to make those challenges any greater by raising taxes on homeowners or homeownership.

Responsible Spending

The Committee recommends that no spending authorized by this budget for an affordable housing fund shall be effective except to the extent that the Committee provides for offsetting decreases in spending of the Federal Government, such that the net effect of the provision does not either increase the Federal deficit or reduce the Federal surplus.

Limiting Tax Burdens

The Committee recommends that no spending authorized by this budget for the TARP or a future $750 billion bank bailout shall be effective except to the extent that the Committee provides for offsetting decreases in spending of the Federal Government, such that the net effect of the provision does not either increase the Federal deficit or reduce the Federal surplus.

Reform Without Mortgaging Our Children's Future

The Committee recommends that no spending authorized to bail out Fannie Mae or Freddie Mac shall be effective except if included in this year's budget. And no spending to bail out the failed GSEs shall be effective except to the extent that the Committee provides for offsetting decreases in spending of the Federal Government, such that the net effect of the provision does not either increase the Federal deficit or reduce the Federal surplus.