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COMMITTEE PRINT

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 2005

FEBRUARY 25, 2004. Approved by the Committee on Financial Services.

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

R E P O R T

together with

MINORITY, ADDITONAL, AND DISSENTING VIEWS

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives for the 108th 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 2005 and (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during the coming session.

OVERVIEW

The world is a very different place than the last time this Committee sat down to map out its budget priorities. The Nation is at war, and the threat from terrorism persists. The economy is rebounding from a shallow recession and many economists believe that the major economic indicators point to a strengthening economy.

However, much of this economic progress is threatened by growing deficits. The Administration projects a deficit of more than $500 billion for fiscal year 2005 and asks that the Congress do its part to reduce the deficit by half in the coming 5 fiscal years. This is no small feat given the budgetary demands of the war in Iraq and against terrorism, the need to improve the Nation's infrastructure, and providing assistance to those in need.

Despite the challenges, the Committee believes that reducing the deficit is an important priority. Continued deficit spending can have long-term effects on the economy. Higher deficits can lead to higher interest rates for businesses and consumers, resulting in reduced investment in equipment and human capital, lower consumer spending, and depressing the economic recovery. Further, increased interest rates can push the dream of homeownership out of reach for many Americans. Given the importance of the recent growth in the housing market in blunting the effects of the recession, it is important to keep that sector of the economy strong.

Deficits cannot be resolved by spending cuts alone. While reducing government outlays is an important part of the equation, fostering a robust economy that generates revenue to the Treasury is equally important. In order to foster the kind of growth that will lead the Nation away from deficit spending and into more secure budgets, it is essential that businesses and consumers have confidence in our markets and the basics of the economy.

The Committee has spent much of the past two years reinforcing the institutions which can bring back confidence to our markets. From passage of the landmark Sarbanes-Oxley Act in 2002, which fundamentally restructured the responsibilities of corporations to their shareholders, to last year's enactment of the Fair and Accurate Credit Transactions Act (FACT Act), which ensures that consumers have easy access to the information in their credit files and the tools needed to fight identity theft, the Committee has acted to improve confidence in all of the sectors of the economy. Similarly, the House also recently passed legislation authored in this Committee to bring back accountability to the mutual fund industry, so as to reassure investors that savings and investment is a prudent course of action.

The Committee is pleased to see that the President's budget continues important investments in the safety and soundness of our financial markets, such as the increased funding for the Securities and Exchange Commission (SEC) to protect investors, and commits to improvements in the regulatory apparatus which oversees important sectors of the economy, such as the proposal for a new regulator for the government sponsored enterprises of Fannie Mae and Freddie

Mac. Similarly, the President's budget reinforces the Administration's continuing commitment to fostering homeownership, through the newly funded FHA zero-down payment program, among other programs.

Just as last year, the Committee's legislative and oversight agenda will emphasize the need to improve investor confidence in our regulatory and market institutions, while recognizing the Nation's current fiscal situation, and the need to reduce the deficit for the long-term stability of the economy. However, by improving investor confidence in our markets, reducing transaction costs for businesses and consumers, and leveraging Federal investments in key sectors of the economy, such as housing, the Committee believes that the economy will grow, the recovery will continue, and the deficit will be reduced.

Details of the Committee's views and estimates on the fiscal year 2005 concurrent resolution on the budget follow.

SECURITIES AND EXCHANGE COMMISSION

One of the Committee's highest priorities in recent years has been to restore and promote investor confidence, a necessary component of a strong economy. The importance of the Securities and Exchange Commission in achieving that goal cannot be understated. The corporate scandals of recent years have underscored the need for effective and rigorous corporate governance. The Sarbanes-Oxley Act has already achieved much success in comprehensively changing attitudes both inside and outside the boardroom to ensure greater protection of investors and more efficient, competitive markets. That legislation empowered the Commission through enhanced administrative and budgetary authority. The enhanced budget authority that the President has proposed for the Commission will enable the Commission to continue its effective implementation of the provisions contained in the Sarbanes-Oxley Act, as well as its continued oversight of the new Public Company Accounting Oversight Board.

The Committee commends the President for his commitment to fund the needs of the SEC, and strongly supports the President's FY 2005 Budget to provide the SEC with $893 million, an $81 million increase over the 2004 level. The Committee lauds the President for providing the SEC with the greatest increase in its budget over the last 4 years compared to any previous administration. Since 2000, the SEC's budget has increased 243 percent. This commitment to America's investing public helps strengthen our capital markets, create jobs, and grow the economy.

In recent months, the confidence of the investing public has been shaken by rampant scandals in the mutual fund industry. The Committee, and the House of Representatives, took prompt action in passing H.R. 2420, the Mutual Funds Integrity and Fee Transparency Act, to ensure investors that their interests would be guarded by stronger independent boards of trustees, greater transparency of potential conflicts of interest, fund business practices and fees, and sensible regulations designed to prevent and punish those who engage in illegal market timing and late trading activities. Mutual funds have brought the benefits of professional management, portfolio diversification, and securities ownership to ninety-five million individuals. Mutual fund investors should be the direct beneficiaries of greater fee-based competition among mutual funds, more accessible and understandable information about mutual fund fees, stronger oversight by independent fund directors, and enhanced firewalls against a variety of conflicts of interest raised by the way mutual funds are operated and sold. H.R. 2420 would provide all of these reforms and should be enacted to protect the nation's current and future mutual fund investors. Passage of this legislation will place even more responsibilities on the SEC. While the SEC has proposed rules to implement many of the provisions for mutual fund reform laid out in H.R. 2420, additional rulemaking and enforcement will be necessary to fully comply with the directives contained in this important legislation.

GOVERNMENT SPONSORED ENTERPRISES

The Committee supports the President's call for improved regulation of the housing Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. The Committee is concerned that the current safety and soundness regulator, the Office of Federal Housing Enterprise Oversight (OFHEO), does not have sufficient resources, authority, financing, or staff to adequately monitor the activities of these large and complex institutions. This became clear to the Committee following the announcement that Freddie Mac would release three of its top executives, including the CEO, due to efforts to manage earnings. Since the announcement by Freddie Mac, OFHEO has done a commendable job of investigating the activities at Freddie Mac, imposing fines and penalties for the behavior in question, and recommending improvements in the corporate governance of the enterprises. However, the Committee believes that these problems at Freddie Mac could have been avoided and should have been investigated at the first sign of trouble. The Securities and Exchange Commission and the U.S. Attorney for the Eastern District of Virginia continue to investigate the activities at Freddie Mac.

The housing GSEs play an important role in providing liquidity to the secondary mortgage market. However, the size and influence of the GSEs on the national economy require that they be supervised by a regulator that has the tools to ensure the safety of the housing and financial markets. Fannie Mae, the Federal Home Loan Bank System, and Freddie Mac rank as the 2nd, 3rd, and 5th largest financial institutions in the United States respectively. The GSEs have outstanding debt obligations in the trillions of dollars and this debt is held by a large number of banking institutions, as well as domestic and international governments.

Oversight of Fannie Mae and Freddie Mac can be improved both with respect to the safety and soundness of their operations and with respect to their fulfillment of their housing mission. While it is important to recognize the unique operations of these GSEs, it is equally as important to recognize that they are all involved in sophisticated derivatives transactions and other complex financial dealings. The oversight of these transactions should be monitored by a regulator with the expertise and authority to ensure the safety and soundness of the enterprises.

The Committee looks forward to working closely with the Administration to craft a regulatory structure for the GSEs that promotes housing while protecting the national economy and the U.S. taxpayers. The Committee agrees that funding for a new regulator should continue to come through assessments on the GSEs and should be moved outside of the appropriations process. The Committee also agrees with the Administration that housing mission-related oversight of the GSE's should also be funded by assessments on the GSEs in order to improve the quality and rigor of that oversight.

The Committee also notes a growing interest among the Administration, relevant Senators, and some members of this Committee that regulation of the Federal Home Loan Banks (FHLBs) should be consolidated with the new regulator of Fannie Mae and Freddie Mac. While the FHLBs are unique in their ownership structure, there are many similarities between their operations and those of Fannie Mae and Freddie Mac. As the Committee continues its consideration of proposals to improve the regulation of the GSEs, it will carefully consider all of the proposals, including whether a unified regulatory structure for these entities will yield the desired improvements in safety and soundness regulation.

TERRORISM RISK INSURANCE

During the 107th Congress, the Committee responded to the September 11 terrorist attacks by passing the Terrorism Risk Insurance Act (TRIA). This temporary program, administered by the Department of the Treasury, is scheduled to sunset on December 31, 2005. Given

TRIA's planned expiration, the Committee finds that the increased budget allocation for the program's general administrative costs warrants closer examination.

UNITES STATES MINT AND THE BUREAU OF ENGRAVING AND PRINTING

The President's budget message contains a proposal to study the advisability of combining the Department of Treasury's two money-manufacturing bureaus, the Bureau of Engraving and Printing (BEP) and the United States Mint (Mint). While the Committee understands and applauds the stated goal—achieving cost savings through reduction of administrative costs—and understands that on the surface this proposal may appear appealingly simple, the Committee will need to study the proposal further to determine if it is in fact cost effective.

The Committee notes that for good historical reasons the cultures and products of the Bureau and the Mint are different, as are their geographic locations, the nature of their workforces, and the mixture of unions representing those workforces. Furthermore, the distribution system and the budgetary accounting protocols for the two bureaus are entirely separate, and changes could lead to inadvertent budgetary effects. For instance, in the case of the BEP, the Federal Reserve is the issuer of its products, which are counterweighted by Treasury securities held in a portfolio that pays dividends to the Treasury. In contrast, the Treasury is the issuer of the Mint's coins, with no counterweight and after-production-cost funds deposited directly, but not scored, in the General Fund to avoid borrowing.

The Committee is aware of an ongoing study regarding the further privatization of some of the Mint's manufacturing options, which is due to be completed before the end of the year. The results of this study may fundamentally change the underlying assumptions regarding the cost of the Mint's operations, and thusit may be premature to contemplate the merger of these two agencies before the results of that study are known.

The Committee further notes concerns regarding internal control issues at the Mint raised by the Office of Inspector General and the General Accounting Office (GAO). The Committee also notes the long shutdown of the Mint's Philadelphia facility due to Occupational of Safety and Health Administration (OSHA) violations. While the current Director has made strides towards addressing many of these issues, the Committee will need to evaluate any proposal for combining the two agencies in light of progress on existing problems.

Finally, any examination of whether the merger of these two agencies is prudent must include a review of whether the Department of the Treasury should continue to administer this function, or whether it should be given to the Federal Reserve, as many other countries have consolidated monetary manufacturing and distribution systems.

The Committee does plan to examine two potential areas of cost savings for the Mint and BEP. First, both the Mint and BEP maintain their own separate security forces. Given the ongoing mission of the Secret Service to prevent the counterfeiting of U.S. coins and currency and to provide perimeter security at the White House and Department of the Treasury, consolidating these forces into the existing structure of the Secret Service may yield savings to the taxpayer, while improving the security of our currency production operations.

Second, the Committee is aware of recent reports of the Treasury Department's Inspector General which were critical of the Mint's leasing of new office space in downtown Washington. The Committee will work with the appropriate oversight authorities to ensure that both the BEP and Mint use their current real estate assets efficiently.

UNITED STATES SECRET SERVICE

The Committee notes with dismay that the budget message contains no new funding for the United States Secret Service's Electronic Crimes Task Force. While the Committee is not the authorizer for the Department of Homeland Security, it has a direct interest in the success of the electronic crimes task forces and believes an expansion of the program would be a direct benefit to all financial-services sectors under Committee jurisdiction. The regional task forces are a model of public-private cooperation, melding Federal, State and local law enforcement, academia, the private sector, and various non-governmental organizations that have interlocking interests in preventing a variety of crimes facilitated by computers and telecommunications, with the crimes ranging from child abuse to identity theft, credit care and related fraud, money laundering and terrorist financing. Given the success of the task forces at trust-building between these often-estranged groups, and in the speeding-up—or in some cases the initiation—of information flow leading to crime prevention or solving, the extraordinary leveraging of small amounts of funding for equipment and training cannot be overstated. The Committee views the task forces as important tools to protect the safety and soundness of the financial services sector and urges an expansion of funding.

The Committee also notes that the budget message for the Secret Service contains no specific budget item for expansion of overseas liaisons with foreign governments and foreign law enforcement with the specific mission of preventing the counterfeiting of currency and other security documents, including passports, identification cards, tax excise stamps, shipping manifests and bills of lading, etc. The Committee strongly believes that the Service does an exemplary job of suppressing counterfeiting at home and of working with other countries' governments and law enforcement to prevent the counterfeiting of U.S. currency and security documents abroad, funding this from regular budget lines. However, the Committee believes that especially in a time of increased terrorism and rapid globalization of financial markets, a small and specific investment in manpower and supplies is of utmost importance. Developing countries often lack the technical expertise to write, pass, implement, and enforce adequate laws against such activities, and in the cases where the Service has been able to invest even a single agent in a country liaising through its nearest large foreign field office, the results often have been dramatic. Given the increased need to know with certainty the true identity of the originator and recipient of financial transactions, and given the potential to fund terror acts with the proceeds of counterfeiting U.S. or other currencies, the Committee feels that identifiable, ongoing funding for this specific purpose is vital. Concurrently, the Committee notes the success of the Service's foreign field office program, particularly in South America and in South-Central Europe, and urges increased funding for expansion or new field offices, particularly in southern and western South America and in the Balkans. The Committee feels that these investments would help leverage other budget priorities at a minimal cost.

MILLENNIUM CHALLENGE ACCOUNT

On January 23, 2004, the President signed into law the Consolidated Appropriations Act (Public Law No. 108-199) which, among other things, authorized the Millennium Challenge Account (MCA). The MCA fosters innovation in development assistance to poor countries by seeking to assure accountability and measurable results. The funds in the Millennium Challenge Account will be distributed to developing countries that demonstrate a strong commitment toward good governance, the health and education of their people, and sound economic policies that foster enterprise and entrepreneurship.

The MCA will be headed by a Cabinet-level board of directors, including the Secretary of the Treasury. The Committee continues to have an oversight role over the MCA, since the Committee has jurisdiction over the international activities of the Department of the Treasury. The Committee also has an interest in encouraging consistent development assistance policies. The Financial Services Subcommittee on Domestic and International Monetary Policy, Trade, and Technology conducted a hearing on the MCA on June 11, 2003.

The Committee strongly supports the Administration's request for a substantial increase in funding for the MCA. The MCA, when combined with other multilateral assistance programs, sends a message of solidarity with the rest of the world in the fight to alleviate poverty and create better living conditions among countries that need that support the most. Finally, the Committee notes with favor that the funding request for the MCA initiative comes in addition to a requested increase in most existing core development accounts.

DEBT RELIEF

The Committee commends the President's request to provide an additional $75 million for the Trust Fund for the Highly Indebted Poor Countries (HIPC). This request fulfills the remaining portion of the U.S. pledge of $150 million to help meet the needs of the HIPC Trust Fund. These funds are consistent with the President's commitment made at the G-8 Summit in Kananaskis, Canada to contribute to the U.S. share of the projected HIPC Trust Fund financing gap. The Committee views multilateral debt relief as necessary to promoting the long-term debt sustainability of developing countries. The Committee has also requested the GAO examine different ways to measure debt relief. The Committee is looking forward to the completion of this GAO study in the near future and to continued oversight activities on debt relief issues.

WORLD BANK TRUSTEE ROLE IN THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS, AND MALARIA

The Global AIDS and Tuberculosis Relief Act of 2000, which was authored by the former Committee on Banking and Financial Services, was signed into law (Public Law 106-264) in August 2000. This legislation supports the creation of a World Bank AIDS Trust Fund. These initial steps by Congress were instrumental in establishing the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund). Section 10 of the Framework Document for the Global Fund establishes the World Bank, an agency within the jurisdiction of the Committee on Financial Services, as the trustee for the Fund. The Committee looks forward to continuing its oversight over the World Bank's role as the Trustee for the Fund. The Committee also wants to continue to work with the Administration to maintain the effectiveness and accountability of the Global Fund.

The Committee notes with favor the Administration's funding requests for this trust fund. Although the amount is below the appropriated level for the last two fiscal years, the Committee notes the New York Times observation that this funding still represents "a big leap" in funding for global or international anti-AIDS programs compared to funding commitments in the last decade. The Committee believes that other aspects of the proposed budget underscore the Administration's continued commitment to fighting AIDS and believes these additional resources should be taken into account when assessing the United States' commitment to fight AIDS and other infectious diseases at the global level. For example, the World Bank's concessional lending window (the International Development Association) has committed to direct 18 percent to 21 percent of IDA lending to anti-AIDS programs and natural disaster reconstruction. The Administration is proposing a $1 billion appropriation for IDA. The Committee also appreciates the Administration's request for a substantial increase in the bilateral international AIDS program to target HIV/AIDS in 14 hard hit countries, and recognizes that the MCA initiative will be able to provide additional money, in part through grants, to help support developing countries' anti-AIDS programs.

NORTH AMERICAN DEVELOPMENT BANK (NADBANK)

The President's budget for FY 2005 seeks congressional authorization to implement reforms agreed to by President Bush and President Fox in March 2002 regarding the NADBank. These reforms include allowing the NADBank to authorize grants and to expand the geographic area of operations in Mexico. This Committee completed consideration of H.R. 254 on February 13, 2003, which authorized the President to agree to these reforms regarding the NADBank. The House passed this legislation (H.R. 254) on February 26, 2003. The Senate has yet to act on this legislation.

EXPORT-IMPORT BANK OF THE UNITED STATES

In the 107th Congress, the Committee reauthorized the Export-Import Bank (Ex-Im) for 4 years (Public Law 107-189) and views this agency as an important tool in facilitating the export of U.S. goods to foreign markets, especially in light of export support provided by other export credit agencies abroad to companies that compete with American companies for business internationally. The authorization mandated, among other things, that Ex-Im increase its level of small business transactions and invest in technology improvements to improve the access to the Bank's products. The Committee supports the continued investment by the Ex-Im Bank in technology.

The Committee remains concerned over the inconsistent appropriations for the loan credit subsidy for Ex-Im. The credit subsidy is the predicted cost of Ex-Im's portfolio of lending and insurance products. The volatility in Ex-Im's appropriation requests for the last three years has been directly related to whether appropriated funds were used. For instance, in FY 2003, Ex-Im received an appropriation of $513 million for its credit subsidy. No appropriation for credit subsidies were needed in FY 2004 because of excessive carry over loan subsidies and funds from cancelled transactions during the prior year. For FY 2005, the Administration now is requesting $125.7 million in credit subsidy. This appropriation request is lower than anticipated need because carryovers continue from previous year loan subsidies and cancellations. The Committee questions whether the taypayer would be better served with more consistent appropriations and more solid usage projections from year to year.

FINANCIAL CRIMES ENFORCEMENT NETWORK AND OFFICE OF FOREIGN ASSETS CONTROL

The Committee commends the President for requesting an increase in the budget of the Financial Crimes Enforcement Network (FinCEN) of almost $8 million, or 12.7 percent, to $64.5 million, to maintain current service levels. The increase reflects the importance of the duties assigned to the Government's central clearinghouse for a broad array of information on both money laundering and terrorist financing, and the increased duties assigned the bureau in title III of the USA PATRIOT Act (Public Law 107-56).

The Committee particularly commends the budget's focus on maintaining and improving the "Gateway" program designed to enable local, State and Federal law enforcement officers better, faster access to the data FinCEN collects. Appropriately, the FY 2005 budget request emphasizes the goal of making the Gateway program the single contact point for all law enforcement with respect to financial crimes. In the Committee's view, the importance of increasing information flow on financial crimes, and of decreasing the time necessary to access and act upon such information, is vital to both preventing and to solving crimes with a financial component. The Committee also notes with approval the budget's continued attention, in a separate line item, to FinCEN's ongoing efforts to establish a program for registration of money-service businesses, such as wire transfer providers and other non-bank financial institutions.

The Committee also notes that the importance of FinCEN's mission in combating terrorism and financial crimes is so crucial that the need for resources and the wise use of those resources continues to be paramount, and will continue to examine whether the bureau needs more resources, or needs to use them differently. In particular, the Committee is concerned with what it views as an unduly tentative start to efforts to automate institutions' filings with FinCEN of reports required by the Bank Secrecy Act, and the equally fitful rollout of FinCEN's system of notifying institutions of the need for increased vigilance on particular individuals or organizations of interest to law enforcement because of suspected financial crimes, including terrorist financing. The Committee believes that to be useful in preventing or quickly solving crimes that have a financial component, the sharing of data needs to be secure, essentially seamless and instantaneous. The Committee has traditionally had an interest in minimizing the burden on financial institutions of filing such information, and believes the Patriot Act Compliance System (PACS) mandated by the USA PATRIOT Act could, if properly deployed, go a long way towards that end.

The Committee supports the modest 2 percent increase—to $22.3 million—for the Office of Foreign Assets Control (OFAC), representing no new initiatives and no added positions. The Committee will continue to monitor OFAC, which administers and enforces economic sanctions and embargoes against targeted foreign governments and foreign or domestic groups that pose a threat to national security, for any extra needs.

Finally, the Committee continues to study the organization of the remaining Treasury Department enforcement components in light of the transfer of a significant portion of Treasury's enforcement functions to the new Department of Homeland Security. The Committee notes the creation last year of a new Assistant Secretary for Intelligence and Analysis position to handle classified information related to financial crimes and terrorism, and the Treasury's statement that in the new budget year it will work to integrate that position with existing Treasury operations. The Committee continues to believe that the Department must make a more disciplined and comprehensive effort to reorganize and revitalize its enforcement efforts to make them more effective.

Treasury Inspector General

The Committee notes with dismay the near-level funding of the Office of Inspector General, with a proposed increase of just over $1.2 million, to $14.2 million. The increase is focused mainly on adding 13 full-time equivalent positions, which is a welcome but, in the Committee's view, insufficient number. The Committee believes that the work product of the Inspector General 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 and the reliability and usefulness of Bank Secrecy Act and similar data. In particular, as questions have been raised about the controls in and compliance with the Office of Foreign Assets Control in its fight against money laundering and terror financing, adequate resources to devote to a study of that subject are important. Given that a large portion of the Inspector General's office moved to the new Department of Homeland Security (DHS) and to the Department of Justice upon the formation of DHS, the Committee believes that the Treasury Inspector General's office remains under-funded.

FINANCIAL SERVICES REGULATORY RELIEF

The Committee expects to bring to the House floor this session H.R. 1375, the Financial Services Regulatory Relief Act, legislation giving banks, thrifts, and credit unions relief from outdated and unnecessary regulatory burdens, as a way of improving the productivity of the financial services sector and counter-balancing the significant regulatory burdens imposed upon depository institutions as part of the global effort to combat terrorist financing. The Committee favorably reported H.R. 1375 during the first session. The Congressional Budget Office estimated that enactment of H.R. 1375, as reported by the Committee, would reduce Federal revenues by a total of $117 million over the 2004-2013 period, and that direct spending would increase by a total of $22 million over the same period. The Committee expects to mitigate the direct spending increases identified by CBO prior to consideration of H.R. 1375 by the full House.

INTEREST ON STERILE RESERVES

Last session, the House passed by voice vote H.R. 758, the Business Checking Freedom Act of 2003, authorizing the Federal Reserve to pay interest on reserves that depository institutions are required to hold at Federal Reserve Banks against their customers' transaction accounts. The Senate has not taken up the legislation. For the reasons outlined below, the Committee expects that enactment of H.R. 758 would have little effect on the FY 2005 Federal budget.

Under the Federal Reserve Act, banks, thrifts, and credit unions are required to maintain reserves at Federal Reserve banks based on the volume of transaction accounts that they hold. Because the Federal Reserve pays no interest on such reserves, they have come to be known as “sterile reserves,” and depository institutions have developed techniques for minimizing their reserve requirements, chiefly through “sweep” programs that permit funds to be transferred out of reservable transaction accounts into non-reservable instruments, such as money market deposit accounts, at the end of each business day. As a result, reserve balances at the Federal Reserve banks have declined dramatically in recent years, falling from approximately $28 billion in 1993 to approximately $7 to 8 billion in 2002. According to the Federal Reserve, the precipitous decline in reserves has potentially adverse consequences for its ability to conduct effective monetary policy, and the Fed has therefore strongly supported legislation to permit it to pay interest on reserves.

CBO’s analysis of H.R. 758 concluded that the payment of interest on reserves would cost approximately $608 million over 5 years (FY 2004-2008). However, because the legislation offset this cost through 2007 by mandating the transfer of an equal amount of Federal Reserve surplus funds to the U.S. Treasury, CBO deemed the legislation to be effectively budget-neutral for the period 2004-2007. If budget offsets are not found for subsequent years, CBO estimated that the legislation would result in a loss of revenues for the period 2008-2013 of approximately $1.5 billion.

DEPOSIT INSURANCE REFORM

Last session, the House passed H.R. 522, the Federal Deposit Insurance Reform Act of 2003, by a vote of 411 to11. Although the Senate has not yet acted on deposit insurance reform, the Committee will continue to push for enactment of this important legislation, to ensure the continued vitality of a program that has promoted public confidence and stability in the nation’s banking system for the last 70 years.

H.R. 522 will preserve the value of customer deposits at insured depository institutions, advance the national priority of enhancing retirement security for all Americans, and guarantee that the value, benefit and costs of deposit insurance are allocated equitably and fairly across all depository institutions and their customers. The bill merges the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF); increases the deposit insurance coverage limit from $100,000 to $130,000, and indexes it every 5 years for inflation; doubles the new coverage level for certain retirement accounts; and gives the Federal Deposit Insurance Corporation (FDIC) greater discretion to administer the deposit insurance fund with more sensitivity to cyclical forces in the banking system and the economy as a whole.

In the 107th Congress, the House passed deposit insurance reform legislation substantially similar to H.R. 522 which the CBO estimated would *decrease* net Federal spending by $700 million. Yet in performing its analysis of H.R. 522, the CBO applied a different set of assumptions, and concluded that the legislation would *increase* net Federal spending by some $1.9 billion. CBO acknowledged the speculative nature of its estimate, stating that "it is possible that the FDIC could use its broad discretion [under H.R. 522] differently than we have assumed and that could result in either fewer or greater premium collections that CBO has estimated."

The FDIC has strongly challenged the CBO's assumption that the FDIC would not achieve revenue-neutrality in administering the deposit insurance fund under H.R. 522. In a March 31, 2003, letter to Chairman Oxley, FDIC Chairman Don Powell stated: "Because any analysis that determines H.R. 522 will result in an increase in net government spending must necessarily rely on assumptions regarding how the FDIC Board will exercise the discretion provided in the legislation, I can assure Congress that the leadership of the FDIC has no intention of managing the deposit insurance system in a way that increases cost to the government or increases the burden on insured institutions. The costs of the deposit insurance system will continue to be borne by the banking industry * * *." Consequently, the Committee disagrees with the CBO analysis and believes that the enactment of the legislation will have little budgetary impact.

Office of the Comptroller of the Currency Preemption Regulation and Consumer Law Enforcement

On January 13, 2004, the Office of the Comptroller of the Currency (OCC) published final rules relating to the application of State laws and State agency visitorial powers to the operations of national banks and national bank operating subsidiaries. The Committee notes that these rules may represent an unprecedented expansion of Federal preemption authority and a significant expansion of OCC's regulatory responsibilities to monitor and enforce consumer law compliance. The Committee notes further that this expansion of authority comes without congressional authorization, and without a corresponding increase in budget resources for the agency.

The Administration's budget projects OCC spending as increasing only 2 percent from FY 2004 to FY 2005, which seems to foreclose the possibility of additional staff being dedicated to these expanded responsibilities. In fact, the OCC expects no staffing increases in FY 2005.

The new rules necessitate that the OCC investigate all consumer complaints for 2150 national banks in the 50 States from a single customer assistance center which only takes calls from 9 am to 4 pm, on four days each week, excluding Federal holidays. There are currently only 40 full time staff members allocated for these tasks at the OCC. In contrast, according to the Conference of State Bank Supervisors, State banking agencies and State attorney generals' offices employ nearly 700 full time examiners and attorneys to monitor and enforce consumer law compliance. In the area of abusive mortgage lending practices alone, State bank supervisory agencies initiated 20,332 investigations in 2003 in response to consumer complaints, which resulted in 4,035 enforcement actions.

In order to fulfill this vastly increased portfolio of regulatory responsibilities, the Committee is concerned that the OCC will be forced to utilize funds designated for other purposes to engage in consumer law enforcement activities that typically have been undertaken by the States. The Treasury Department's FY2005 budget justification suggests that additional program responsibilities, including more expansive consumer enforcement, can be accomplished by the "redirection" of current full time staff. This approach appears impractical given the magnitude of the enforcement efforts now conducted by State agencies of all U.S. States. The Committee is concerned that such action could weaken the OCC's ability to carry out its primary mission of ensuring the safety and soundness of the national bank system and implementing other critical Congressional mandates in Federal law.

HOUSING AND URBAN DEVELOPMENT BUDGET

The Administration proposes $31.3 billion in FY 2005 budget authority for the Department of Housing and Urban Development (HUD), representing a 2.8 percent increase. In releasing the President's budget, Acting Secretary Alphonso Jackson stated, "This budget will create new opportunities for families and individuals who seek affordable housing and the American dream of homeownership and will generate new stability and prosperity for the communities in which they live and work." This Committee is mindful that HUD faces many difficult management and budget challenges. Programs such as the Section 8 rental housing assistance now account for more than one-half of the HUD budget. In addition, some argue that many of the Nation's 1.25 million public housing units are in need of capital repair.

Over the past few years, this Committee and the current and past Administrations, have continued to seek bipartisan ways to make existing housing programs work better. As an example, in 2003, the Committee successfully enacted legislation through the American

Dream Downpayment Act that would annually benefit approximately 45,000 new homeowners and families. At the same time, the Committee successfully enacted legislation to increase FHA multifamily loan limits, which addresses the acute issue of affordable rental housing in extremely high-cost areas. The combination of these two legislative efforts should provide momentum to assist new families and individuals that have been left out of the conventional housing and/or mortgage finance markets.

Again, the Committee is pleased that the Administration is proposing new initiatives to address acute homeownership and rental housing challenges. In meeting the President's homeownership agenda to increase minority homeownership by at least 5.5 million households, the Committee recognizes that a range of options are necessary, including: H.R. 3755, the Zero Downpayment Act of 2004, a potential housing counseling bill, as well as efforts suggested by the President through the tax code to implement a "Low-Income Housing Tax Credit." A combination of proposals could address the issue of a less than 50 percent homeownership rate among minority communities, as compared to a general homeownership rate of 68 percent.

While homeownership policy is the best avenue for strengthening families and improving communities, the Committee also recognizes that there is a sector of American society that is not yet ready or available to pursue homeownership. Therein is the conundrum of this Committee and other policy-makers: how to address a growing need for affordable rental housing in those regions of the country where it is purported that few if any housing units exist for working class or low-income families.

The Committee recognizes that there are several perspectives and approaches to create new rental housing opportunities. However, any new approach is handcuffed by the potential hemorrhaging of the Section 8 rental housing subsidy program that will eventually consume the entire budget of the Department of Housing and Urban Development, unless serious and dramatic reform is undertaken. This is a reality that this Committee has expressed in previous Committee Budget Views and Estimates. Without meaningful reform, the good work achieved by other housing programs, such as the Community Development Block Grant or Home Investment Partnerships Everywhere (HOME), would most likely evaporate.

In 2003, the Subcommittee on Housing and Community Opportunity held 17 housing hearings, with 5 specifically focused on the Section 8 rental housing subsidy program and another 9 hearings on affordable housing issues. At that time, housing experts and advocacy groups expressed concern about the President's proposal to block grant the rental subsidy program to State governments for their control and administration. While that proposal was not considered by this Committee, in its budget request, the Administration presents a new proposal that attempts to address the same program issues and concludes that a serious budget crisis is imminent.

Given the strident budgetary constraints, it is the Committee's responsibility to review all the proposals, including those of the Administration, to determine what course-of-action, if any, should be pursued. During this process, the Committee will balance the question of how to achieve reform that meets budgetary realities, that allows the program to work more efficiently, and that ensures assistance to working and/or low-income families.

In the first session of the 108th Congress, the Committee held numerous public hearings in order to understand and to educate the public about current housing issues. In the second session of the 108th Congress, the Committee expects to undertake similar hearings.

Zero Down Payment Mortgage. In his FY 2005 budget, the President proposed legislation to offer a new mortgage product to help first-time homebuyers purchase a home by allowing zero down payment loans and financing of the settlement costs. HUD estimates that this new FHA product will help an estimated 150,000 families a year purchase their first home. Legislation to implement this new program was introduced on February 3, 2004, by Representatives Tiberi and Scott (H.R. 3755, the Zero Down Payment Act of 2004). The Committee will hold hearings on this important initiative and looks forward to working with the Administration to see that this program is enacted.

American Dream Downpayment. The Committee is pleased that the Administration has again included funding for the American Dream Downpayment initiative. Last year, this Committee was instrumental in guiding this program to enactment. Clearly, this is a program that will help tens of thousands of low-income families a year to become first-time homeowners.

Housing Counseling. The Committee believes that counseling is an important component of the successful homeownership process and agrees with the President that it is important to help families learn about the loan products and services available to them. Being able to identify and avoid predatory lending practices is critical to increasing homeownership. Counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The Committee applauds the Administration's proposal to increase funding for housing counseling. The President's plan includes a record $45 million to support 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling. In the past three years, the Bush Administration has more than doubled funding to this program.

Section 8 Block Grant Proposal. The FY 2005 budget request for Section 8 is $1.633 billion below the level HUD projects is needed to renew all Section 8 assistance. This could result in the elimination of funding for up to 250,000 vouchers.

The budget includes legislation to block grant the Section 8 voucher program. The main feature of this proposal is the elimination of the right housing authorities now have to rent to a specified number of families, and to receive funding to cover the full cost of such assistance. Instead, Congress would block grant each housing authority a lump sum amount, which, in the first year alone, is $1.6 billion less than is necessary to serve the same number of families now being served nationwide. The block grant feature would let funding spiral downward in future years.

The result is that housing authorities would have to make either major reductions in the number of families they assist, or in the subsidy provided to each family—or more likely, a combination of the two.

The Administration's proposed program rule changes would facilitate these cuts. This year's plan drops the "maintenance" of effort requirement included in last year's proposal. This allows housing authorities to implement the cuts by reducing the number of families being served.

The proposal also eliminates most of the current statutory tenant protections, offering housing authorities other flexible options to implement these deep cuts. Housing authorities could simply cut the subsidy level—an option made possible by the Administration proposal to end the current rules under which each voucher holder pays no more than 30 percent of net income for a fair market rental unit in their community.

Housing authorities could also implement the cuts by kicking out poor people from the program, and replacing them with families that are not as poor. This option is made possible by the Administration proposal to eliminate the "targeting" of scarce voucher resources to those most in need. Under current targeting rules, 75 percent of new vouchers must go to extremely low income families (defined as families with incomes below 30 percent of local area median income). The Administration proposal eliminates this requirement entirely. The proposal would also allow assistance to go to seniors and disabled persons who are not low-income (currently defined as those below 80 percent of the local area median income).

Public Housing. The President's budget includes $3.6 billion for the Public Housing Operating Fund to fund local housing authorities in their daily operation and $2.7 million for the Public Housing Capital Fund to help local housing authorities fund major repairs and modernizations in their housing units. Also, in FY 2005, up to $55 million will be available for the ROSS program, which provides supportive services and assistance to residents in becoming economically self-sufficient. HUD will introduce a demonstration program in 2005, Freedom to House: Public Housing Reform Demonstration Program designed to improve public housing. The Freedom to House Initiative will allow 50 PHAs the freedom to establish rents for their residents based on their local rental market, rather than on national rental estimates. Under this program, PHAs will also have the ability to combine their capital and operating funds. The Administration believes that this will allow PHAs to significantly cut their administrative costs which will allow them to service more families. This Committee is aware of the fact that the current rent setting mechanism does not allow PHAs the flexibility needed to meet the unique housing needs of their local communities. Furthermore, the Committee is equally concerned about the availability of decent, affordable housing for low-income families. Consequently, the Committee will carefully review the Administration's proposals as it determines how best to meet these important challenges.

HOPE VI. The Administration again proposes to discontinue funding for the HOPE VI program. The Committee understands that while the HOPE VI program has enjoyed many successes, the program has been plagued with accountability and management problems. Despite these challenges, each year the Committee on Appropriations continues to include funding for the HOPE VI program. Last year, this Committee considered and approved H.R. 1614, the HOPE VI Program Reauthorization and Small Community Main Street Rejuvenation and Housing Act of 2003. In addition to reauthorizing the program through September 30, 2005, H.R. 1614 includes provisions to allow 5 percent of HOPE VI funds for assistance to smaller communities in order to provide affordable low-income housing in connection with main street revitalization or redevelopment projects. In addition, H.R. 1614 includes several management changes to make the program more accountable and sensitive to the people it is intended to assist. H.R. 1614 was included in S. 811, the American Dream Downpayment Act which became Public Law 108-186. The Committee will continue to conduct oversight of the program to determine if other changes to the program are necessary and to monitor the implementation of the Small Community Main Street Rejuvenation program.

Self-Help Homeownership Opportunity Program (SHOP). The Committee fully supports the Self-Help Homeownership Opportunity (SHOP) Program and believes it is an important component of achieving the goal of producing new homes for very low-income families. The Committee supports President Bush's request for $65 million to fund so-called "sweat equity" homeownership programs to support nonprofit organizations such as Habitat for Humanity, which require low-income families to help construct the homes they will eventually own. These funds will help produce approximately 5,200 new affordable homes nationwide.

The Samaritan Initiative. The Committee applauds the Administration's goal of ending chronic homelessness and supports the $50 million in housing assistance for those experiencing chronic or long-term homelessness included in the President's FY 2005 Budget. The Committee will hold hearings and consider the Administration's proposal to combine HUD's permanent housing funding with assistance from the Departments of Health and Human Services (HHS) and Veterans Affairs (VA) for supportive services such as substance abuse treatment and primary health care.

Brownfields. The Committee notes with concern the elimination of funding for the Brownfields Economic Development Initiative (BEDI) and would like funding restored for the program. While the Environmental Protection Agency (EPA) administers programs to revitalize brownfields, HUD should not vacate its own role in cleaning up these blighted sites. HUD should follow through on its proposal in the FY 2003 budget to decouple the BEDI program from the Section 108 loan program to attract more participants. The BEDI program can be a powerful tool for communities interested in brownfields redevelopment. Fostering a partnership with the EPA will be helpful for both agencies and for the Nation's urban areas.

RESPA Reform. The Committee is committed to the Administration's goal of simplifying the home buying process and making it less expensive to consumers. The Committee will continue to monitor the progress of this rulemaking to ensure that it will be both fair and provide consumers with better opportunities to shop for low-cost mortgages. On December 17, HUD sent a final RESPA reform rule to OMB for consideration.

Federal Emergency Management Agency

The National Flood Insurance Program (NFIP) has been affected by two major developments in the last several years: a major internal realignment of flood insurance and mitigation, and the Federal Emergency Management Agency's (FEMA's) overall consolidation into the new Department of Homeland Security (DHS). In June 2001, FEMA underwent a major realignment designed to integrate better the functions that take place in the emergency management process: preparedness, mitigation, response, and recovery. The realignment combined the agency's mitigation functions and Federal insurance functions to form FEMA. FEMA underwrites issues and services insurance policies under the NFIP with assistance from private insurance companies and servicing contractors.

The NFIP is funded through premium dollars that are paid by the policyholders. However, the President's FY 2005 budget request does include a request for such items as salaries and expenses associated with flood mitigation and flood insurance operations and funds for flood hazard mitigation.

The President's FY 2005 budget includes $200 million for the Flood Map Modernization Fund. This fund is used to update and modernize the inventory of over 100,000 flood maps. Property owners are required to purchase national flood insurance if their properties are in the 100-year flood plain as determined by the flood maps.

The NFIP authorization is due to expire on June 31, 2004. In the first session of the 108th Congress, the House approved short-term program extensions while working on legislation to reauthorize and reform the National Flood Insurance Program. On July 23, 2003, the Committee completed their consideration of H.R. 253, the Flood Insurance Reform Act of 2003, which would extend the authorization of the NFIP through 2008 and would address the problem of repetitive loss properties (buildings that flood regularly because of their location) and the threat such properties pose to the ability of the NFIP to meet obligations to policyholders without drawing on taxpayer funds. Repetitive loss properties cost the NFIP approximately $200 million each year. 1 percent of all properties in the NFIP account for approximately 25 percent to 30 percent of all the NFIP losses. H.R. 253 passed the House on November 20, 2003 and is currently awaiting Senate action.

The Committee wishes to emphasize the importance of reforming this program. A series of short-term extensions will not protect the policyholders and taxpayers from ever-escalating costs. The Committee looks forward to sending legislation to the President reforming this program before the current authorization runs out at the end of June, 2004.

RURAL HOUSING SERVICE

The Rural Housing Service (RHS) faces a variety of management and budget challenges in both its single and multifamily housing programs. The Committee appreciates the Administration's efforts in the

FY 2005 budget proposal to address those challenges. In the years to come, the growth in rural population and the predominance of low-wage jobs will translate into an increased need for affordable capital to fund housing and community facilities. Last year, the Committee held a series of hearings to determine how well the RHS is meeting the housing needs of rural America.

In 2005, the Rural Housing Service FY 2005 budget proposes a reduction in the USDA Rural Housing Service's Section 515 program from $116 million in FY 2004 to $60 million in FY 2005. USDA has a portfolio of about 17,800 existing multi-family projects with an outstanding indebtedness of about $12 billion. Most of these projects were built in the 1980s and are, or will soon be, eligible for prepayment and departure from the program. There are also concerns about the physical condition of existing projects and the ramifications of allowing projects to leave the program. In particular, some have raised concerns about the potential impact on existing tenants and other low-income people on the availability of affordable housing. No new construction would be supported in the FY 2005 budget. Instead, funds would be available only for repairs and rehabilitation of current projects. The Committee is pleased that USDA is conducting a thorough review of the matter and working to develop better strategies for managing the existing portfolio of projects before adding to future costs by funding new projects.

The Section 502 direct mortgage program would be cut slightly, from $1.4 billion in FY 2004 to $1.1 billion in FY 2005. Of particular note is the inclusion of an increase in the fee on guaranteed 502 loans. In October 2002, the one-time fee on guaranteed loans to purchase housing was reduced from 2 percent to 1.5 percent and to ½ percent for loans to refinance existing RHS loans. This action was taken as part of the President's initiative to increase homeownership, especially among minorities. This reduction resulted in a significant increase in demand. The FY 2005 budget reflects a partial offset, with the fee on new loans being increased from 1.5 percent to 1.75 percent. The Administration expects this change to reduce subsidy costs and to provide for a more manageable growth in the program. In addition, the budget proposes legislation to allow guaranteed loans to exceed 100 percent of appraised value by the amount of the fee on such loans. The administration believes this will help ensure that rural families are not denied home ownership for lack of funds to pay the cost of the fee.

The 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 shorter-term increments. In developing the Consolidated Appropriations Bill for 2004, Congress decided to reduce the renewal cycle on rental assistance payment contracts from 5 years to 4 years. The 2005 budget continues this policy and the Committee agrees.

Most other USDA RHS programs would be funded at about the same levels as in 2004. The budget would eliminate USDA's capacity-building Rural Community Development Initiative, funded at $6 million in FY 2004. 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.

NEIGHBORHOOD REINVESTMENT CORPORATION

The Committee is pleased that the Administration has proposed a total of $115 million for the Neighborhood Reinvestment Corporation (NRC) including $5 million for a multi-family rental-housing. This funding level will allow the NRC to continue its mission "to revitalize older urban neighborhoods by mobilizing public, private, and community resources at the neighborhood level."

COMMITTEE CONSIDERATION

The Committee met in open session on February 25, 2004 and considered 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 2005" and ordered the Committee print reported to the Committee on the Budget by a voice vote, a quorum being present.

COMMITTEE VOTES

A motion by Mr. Oxley to report the Committee print to the Committee on the Budget was agreed to by a voice vote. The following amendments were considered by record vote. The names of members voting for and against follow:

An amendment by Mr. Frank of Massachusetts, revising the provisions addressing the Section 8 Block Grant Proposal, was agreed to by a record vote of 34 yeas and 26 nays (Record vote no. 16).

Record vote no. FC-16

Representative	Aye	Nay	Present	Representative	Aye	Nay	Present
Mr. Oxley		X		Mr. Frank (MA)	X		
Mr. Leach				Mr. Kanjorski	X		

Record vote no. FC-16

Representative	Aye	Nay	Present	Representative	Aye	Nay	Present
Mr. Bereuter	X			Ms. Waters	X		
Mr. Baker				Mr. Sanders	X		
Mr. Bachus				Mrs. Maloney	X		
Mr. Castle		X		Mr. Gutierrez	X		
Mr. King		X		Ms. Velázquez	X		
Mr. Royce		X		Mr. Watt	X		
Mr. Lucas (OK)		X		Mr. Ackerman	X		
Mr. Ney				Ms. Hooley (OR)	X		
Mrs. Kelly		X		Ms. Carson (IN)	X		
Mr. Paul		X		Mr. Sherman	X		
Mr. Gillmor		X		Mr. Meeks (NY)	X		
Mr. Ryun (KS)		X		Ms. Lee	X		
Mr. LaTourette				Mr. Inslee	X		
Mr. Manzullo		X		Mr. Moore	X		
Mr. Jones (NC)		X		Mr. Capuano	X		
Mr. Ose		X		Mr. Ford	X		
Mrs. Biggert		X		Mr. Hinojosa	X		
Mr. Green (WI)		X		Mr. Lucas (KY)	X		
Mr. Toomey		X		Mr. Crowley	X		
Mr. Shays				Mr. Clay	X		
Mr. Shadegg		X		Mr. Israel	X		
Mr. Fossella				Mr. Ross	X		
Mr. Gary G. Miller (CA)				Mrs. McCarthy (NY)	X		
Ms. Hart		X		Mr. Baca	X		
Mrs. Capito		X		Mr. Matheson	X		
Mr. Tiberi		X		Mr. Lynch	X		
Mr. Kennedy (MN)				Mr. Miller (NC)	X		
Mr. Feeney		X		Mr. Emanuel	X		
Mr. Hensarling		X		Mr. Scott (GA)	X		
Mr. Garrett (NJ)		X		Mr. Davis (AL)	X		
Mr. Murphy		X		Mr. Bell (TX)	X		
Ms. Ginny Brown-Waite (FL)		X					
Mr. Barrett (SC)		X					
Ms. Harris							
Mr. Renzi		X					

*Mr. Sanders is an independent, but caucuses with the Democratic Caucus.

An amendment by Mr. Gutierrez, adding a provision entitled "Office of the Comptroller of the Currency Preemption Regulation and Consumer Law Enforcement", was agreed to by a record vote of 34 yeas and 28 nays (Record vote no. 17).

Record vote no. FC-17

Representative	Aye	Nay	Present	Representative	Aye	Nay	Present
Mr. Oxley		X		Mr. Frank (MA)	X		

Record vote no. FC-17

Representative	Aye	Nay	Present	Representative	Aye	Nay	Present
Mr. Leach				Mr. Kanjorski	X		
Mr. Bereuter		X		Ms. Waters	X		
Mr. Baker				Mr. Sanders	X		
Mr. Bachus				Mrs. Maloney	X		
Mr. Castle		X		Mr. Gutierrez	X		
Mr. King	X			Ms. Velázquez	X		
Mr. Royce		X		Mr. Watt	X		
Mr. Lucas (OK)		X		Mr. Ackerman	X		
Mr. Ney				Ms. Hooley (OR)	X		
Mrs. Kelly	X			Ms. Carson (IN)	X		
Mr. Paul	X			Mr. Sherman	X		
Mr. Gillmor		X		Mr. Meeks (NY)	X		
Mr. Ryun (KS)		X		Ms. Lee	X		
Mr. LaTourette				Mr. Inslee	X		
Mr. Manzullo		X		Mr. Moore	X		
Mr. Jones (NC)		X		Mr. Capuano	X		
Mr. Ose		X		Mr. Ford	X		
Mrs. Biggert		X		Mr. Hinojosa	X		
Mr. Green (WI)		X		Mr. Lucas (KY)		X	
Mr. Toomey		X		Mr. Crowley		X	
Mr. Shays		X		Mr. Clay	X		
Mr. Shadegg		X		Mr. Israel	X		
Mr. Fossella		X		Mr. Ross	X		
Mr. Gary G. Miller (CA)				Mrs. McCarthy (NY)	X		
Ms. Hart		X		Mr. Baca	X		
Mrs. Capito		X		Mr. Matheson	X		
Mr. Tiberi		X		Mr. Lynch	X		
Mr. Kennedy (MN)				Mr. Miller (NC)	X		
Mr. Feeney		X		Mr. Emanuel	X		
Mr. Hensarling		X		Mr. Scott (GA)	X		
Mr. Garrett (NJ)		X		Mr. Davis (AL)	X		
Mr. Murphy		X		Mr. Bell (TX)	X		
Ms. Ginny Brown-Waite (FL)		X					
Mr. Barrett (SC)		X					
Ms. Harris							
Mr. Renzi		X					

*Mr. Sanders is an independent, but caucuses with the Democratic Caucus.

MINORITY VIEWS

Funding Levels. The Administration's FY 2005 HUD budget request of $34.519 billion in gross budget authority represents a $350 million cut (1 percent), compared to the FY 2004 appropriations level. But, this simple comparison understates the true level of cuts, since it ignores the availability of recaptures as an additional source of budget authority. The steep drop by almost $1.3 billion in Section 8 recaptures from FY 2004 to FY 2005 translates into an additional reduction of that amount in funds available for spending for Section 8 and other programs.

Cuts are once again centered on Section 8 and public housing, the two programs that constitute over 2/3 of the HUD budget and serve the nation's poorest families, seniors, and disabled. The budget also rescinds $675 million in funds that could be used to preserve affordable housing, eliminates a number of critical community development programs, and zeroes out funding for the Rural Housing and Economic Development program. Finally, while major programs such as CDBG, HOME, and Section 202 elderly housing are spared from cuts, they continue to be funded at levels which fail to keep pace with inflation.

Public Housing. The overall public housing budget request of $6.242 billion represents a cut of $182 million (3 percent), compared to the FY 2004 level. This proposed level is $924 million below the funding level in place when the Administration took office, a 19 percent cut in real terms.

The budget zeroes out funding for the HOPE VI program, which has, since its inception, been used to revitalize the nation's most distressed public housing units. According to a February 3, 2004 HUD report, HOPE VI has relocated 51,603 families to better housing, demolished 63,082 distressed and obsolete units, and built and/or rebuilt 29,633 housing units. The Administration argues that the program no longer serves a useful purpose. Yet, Congress just recently reauthorized the program through FY 2006. Unfortunately, the net result of the Administration's effort to terminate the program last year resulted in a funding cut from $574 million to only $149 million for FY 2004.

The budget proposes to cut funding for public housing operating expenses by $6 million, to $3.573 billion. This means that housing authorities' rising costs will not be reimbursed. Funding for the Capital

Fund, used for repair and modernization of public housing, is cut by $22 million, to $2.674 billion.

The budget also includes a legislative proposal (dubbed "Freedom to House"), which would create a demonstration program for 50 public housing authorities, with a stated goal of promoting family self-sufficiency. This proposal, like the Section 8 proposal, would eliminate critical tenant protections, the most important of which is the "Brooke Amendment," which limits the rent that families can pay to no more than 30 percent of their income. Ironically, despite the stated goal of promoting self-sufficiency, the proposal eliminates mandatory income disregards, an important tool in removing work disincentives.

We are relieved that this budget does not include the "minimum rent" provision from last year's budget, which would have raised rents by $600 a year on the poorest public housing residents, and that it does not include the "Public Housing Privatization Initiative" from last year's budget, which permitted the sell-off of the best public housing units and the termination of affordability requirements.

Section 8 Overleasing Prohibition. We are concerned about the growing impact of a provision that has been in place since FY 2003, which strictly prohibits housing authorities from being reimbursed for the cost of using more vouchers than they are authorized to use. This inflexible prohibition has already created problems for voucher programs in Los Angeles and Massachusetts, to name a few, which inadvertently overleased as a result of their efforts to ensure that they would use all of their authorized vouchers. Denying reimbursement for overleasing in such situations will inevitably lead to housing authorities following a deliberate strategy of underleasing, in order to avoid the risk of not being reimbursed for all of its voucher costs. Therefore, we support a return to the longstanding policy which permits housing authorities to use reserves to cover the cost of temporary and unintentional overleasing.

Affordable Housing Preservation. The budget rescinds $675 million of budget authority previously appropriated for contract amendments for Section 236 federally subsidized housing projects. We believe that these funds should be reinvested in the preservation of affordable housing.

Over the last three years, approximately 75,000 federally subsidized housing units have been lost, as a result of owners opting out of their Section 8 contract or prepaying their Section 236 or BMIR loan. These optouts and prepayments allow owners to terminate their legal requirement to rent to low-income tenants. Some of these units could have been preserved as affordable housing if rehabilitation and preservation funds had been made available. Excess Section 236 funds are a potential funding source for this purpose.

Instead, the budget proposes to rescind $675 million in excess Section 236 funds that HUD says are now available. This is on top of the rescission over the last two years (with Administration support) of $703 million of recaptured Section 236 funds that had previously been authorized for housing preservation use. If Congress approves the proposed $675 million rescission, a total of $1.378 billion in funds that could have been used for housing preservation will have been rescinded since this Administration took office.

Affordable Housing Production. This budget continues the Administration policy of opposing any new affordable housing production program, on the grounds that “housing is a local issue.”

During last year’s committee hearing on the FY 2004 HUD budget, the HUD Secretary instead touted the HOME program as a “program that works, that has a proven record” with respect to housing production. However, housing production represents a relatively small proportion of total HOME funds being used nationwide. Moreover, the implication that the HOME program is being expanded is misleading, since HUD”s FY 2005 budget proposal for HOME formula grants represents a 1.3 percent cut in real terms, compared to the level when the Administration took office.

A similar lack of commitment is found in the budget request for the Section 202 program, which is used by non-profits (including faith-based organizations) for new construction of affordable elderly housing units. The Administration’s FY 2005 request of $773.3 million for Section 202 is $400,000 below the approved FY 2004 level and $4 million below the level when this Administration took office. From a longer term perspective, the budget request is a 52 percent cut in real terms compared to the FY 1995 approved funding level of 10 years ago. Put simply, fewer elderly housing units are being built as a result of this Administration’s budget for the Section 202 program.

We are pleased that Congress recently enacted legislation to raise FHA multi-family loan limits in high cost areas, which passed despite opposition from the Administration. We call on HUD to implement this legislation expeditiously, in order to make the federal government’s primary loan program for affordable housing a viable option in these high cost areas. And, we support the Administration’s budget proposal to lower FHA up-front fees on multi-family loans by 10 percent, from 50 to 45 basis points.

Homelessness. The budget request for McKinney-Vento homeless prevention programs continues the Administration’s record of failing to follow through with the funding increases necessary to make its commitment of ending chronic homelessness within a decade a reality.

The budget request of $1.257 billion for the McKinney-Vento homeless prevention grants is $2 million below last year's level. The budget also requests $50 million for its new "Samaritan Initiative," a program that would provide housing grants similar to those available under the McKinney Vento programs, in conjunction with small amounts of HHS and VA homeless service funds. Thus, the budget requests an increase of $48 million for McKinney-Vento homeless programs.

In 2001, HUD Secretary Martinez first stated the Administration's commitment to end chronic homelessness within a decade. HUD acknowledges that this commitment requires 150,000 to 200,000 new units of permanent supportive housing. The cost of building the 15,000 + units needed each year to meet this goal requires an increase in the HUD homeless budget of at least $100 million a year. But, neither the FY 2005 request for a $48 million increase, nor the $42 million increase just approved in the FY04 spending bill are even half the level needed to meet this target.

We note that the FY05 budget request also requests $25 million for a "Prisoner Reentry Initiative, whose goal is to "help individuals exiting prison make a successful transition to community life and long-term employment." We support the goals of this initiative, and look forward to details about how this proposal will be implemented. Of course, funding for this initiative must supplement full funding for the chronic homelessness initiative, as opposed to being paid for out of funds needed for that initiative, as the FY 2005 budget proposes.

Finally, we note that HUD's budget summary includes a purported $153 million increase for the Emergency Food and Shelter program. In fact this is not an increase, but is merely a proposed transfer of the program from FEMA to HUD.

Community Development. The Administration budget represents a significant dis-investment in community development.

Community Development Block Grants (CDBG) represent the primary flexible federal funding source for cities, counties, and states for community development and housing activities. The Administration budget request of $4.331 billion for CDBG funding represents a $7 million cut compared to the FY 2004 level. Flat funding levels in recent years means that CDBG block grants have fallen 9 percent in real terms since the Bush Administration took office—a decline in purchasing power of over $400 million.

As it has recent years, the Administration budget eliminates important community development programs. The Brownfields program

($25 million in FY 2004) is zeroed out. Empowerment Zone funding ($15 million in FY 2004) is zeroed out. And, the CDBG Section 108 loan program is also targeted for extinction, despite the fact that a credit subsidy of only $7 million was needed last year.

Homeownership. We continue to support the Administration's stated goal of expanding homeownership. However, we are concerned that the Administration's emphasis on this goal appears to come at the expense of other affordable housing programs which serve the millions of Americans for whom homeownership is not an appropriate or realistic option at this time. We also note that for millions of Americans, affordable rental housing is the first step on the path to homeownership; therefore, the cuts in the budget affecting rental housing ultimately serve as an impediment to homeownership.

We also note that the Administration's rhetorical emphasis on homeownership is not always backed by its actions. More than a year ago, Congress approved $87 million for the Administration's signature homeownership initiative, the American Dream Downpayment Initiative. Yet, the Administration has yet to make this money available. Congress also recently enacted authorizing legislation for the program, and appropriated an additional $75 million. HUD should act quickly to make all of these funds available.

The Administration has frequently touted the use by low-income families of Section 8 assistance for a down payment on a home purchase. Authority to use Section 8 for this purpose was enacted into law in 2000. Yet, this Administration still has not acted to give housing authorities the authority to use this option. The Administration has blamed a "subject to appropriation" clause in the authorizing legislation for the delay in its implementation. The Administration has submitted deletion of this clause as a legislative proposal, there is no evidence that it has made any effort to get this enacted.

We note that the Administration is also proposing FHA legislative initiatives in this year's budget, to provide more loan opportunities for potential homebuyers who have credit problems or who do not have the necessary downpayment to buy a home. We are interested in exploring these and any other ideas that might expand homeownership opportunities. However, we believe that appropriate safeguards must be put in place to ensure the suitability of borrowers to undertake the responsibilities that go with homeownership. And, we should debate the appropriateness and impact of raising fees for borrowers using these new loan products. Finally, we are concerned about other proposals in the budget which would narrow eligibility for existing borrowers to obtain refunds when they prepay their FHA loan.

RURAL HOUSING SERVICE

Rural Housing Service. The FY 2005 Rural Housing Service (RHS) budget continues a regrettable trend of reducing our commitment to our federally assisted rural housing stock.

The main RHS program that serves affordable rural rental housing is the Section 515 loan program. Section 515 funds can be used for rehabilitation and preservation of the existing housing stock, as well as new construction. The budget request cuts funding for this program nearly in half—from an approved loan level of $116 million in FY 2004 to a proposed level of only $60 million. This request is totally inadequate to meet the needs of the existing housing stock, much less fund new construction.

The budget also cuts RHS single family loans. The Section 502 direct single family mortgage program is cut by 19 percent, from $1.358 billion in loan authority in FY 2004 to $1.1 billion in FY 2005. This program is used by low-income rural households to purchase and repair homes. The Section 502 guaranteed single family mortgage program is cut by 7.7 percent, from $2.709 billion in loan authority to $2.5 billion. This program serves households with incomes up to 115 percent of area median income.

We are also concerned about the proposal to zero out funding for the Rural Community Development Initiative, funded last year at $6 million. This program provides funds to state, regional and national intermediary organizations to provide grants to improve local organizations' ability to develop housing and expand economic activity.

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ADDITIONAL VIEWS

THE WORLD BANK TRUSTEE ROLE IN THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS, AND MALARIA

We are concerned that the Administration's request for the multilateral Global Fund to Fight AIDS, TB and Malaria would cut the U.S. contribution by more than half, which would threaten the Global Fund's ability to continue its ongoing anti-HIV/AIDS efforts and prevent an expansion of proven, effective programs for needy people around the world.

We appreciate that the President requested a substantial increase in our bilateral international AIDS Initiative that targets HIV/AIDS in 15 hard-hit countries, and we also recognize that the Millennium Challenge Account (MCA) program will, in part, be able to provide additional money to help support developing countries' anti-AIDS programs. But a number of countries, particularly in sub-Saharan Africa and Latin America, that do not qualify for the 15-country bilateral AIDS initiative or for the highly selective MCA program, will not receive the help they need to fight pandemic diseases and develop their economies. Therefore, we believe more resources should be devoted to the multilateral Global Fund to Fight AIDS, TB and Malaria, which is better able to address the AIDS pandemic in all needy countries, and has the ability to leverage greater international financing from other potential donors.

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Additional Views

INTERNATIONAL REMITTANCES

On January 13, 2004, in the Declaration of Nuevo Leon at the Summit of the Americas, the Bush Administration joined other democratically elected heads of state and governments in Latin America in making a commitment to reduce the cost of international remittances by at least 50 percent by 2008. Despite such an important commitment, we are disappointed that the President's FY 2005 budget does not include any significant funding, nor meaningful policy initiatives, to achieve the lofty goal stated in the Declaration. While the U.S. Agency for International Development funds limited projects in certain areas, which we strongly support, it is difficult to see how such limited funding will have an impact in the region, let alone foster the necessary competition and transparency in the U.S. marketplace to reduce the current high cost of remittances.

We note that the volume of remittances to Latin America in recent years has grown significantly, even during the recent economic downturn. According to the Inter-American Dialogue, a non-profit organization devoted to policy analysis of a variety of Western Hemisphere issues, remittances to Latin America grew from $10 billion in 1996 to $32 billion in 2003. Mexican workers in the United States sent to their families in Mexico, the largest single recipient of remittances in Latin America, a record $12 billion in 2003, representing a significant source of Mexico's outside income. In fact, except for Mexico, the rapid growth in remittances has exceeded the amount that some Central American, Caribbean, and South American countries receive in direct foreign investment, or development assistance.

It is clear from various studies that the U.S. represents the largest, most vibrant market for remittances to Latin America. According to a joint study of the Inter-American Development Bank and the Pew Hispanic Center, more than 10 million Latin American immigrants send remittances to their home countries on a regular basis. Over three-quarters of all remittances that are destined for Latin America—approximately $25 billion—originate in the United States.

Unfortunately, the cost of remittances in the U.S. has declined at a much slower rate than the growth in their volume. In fact, a sizeable portion of the hard-earned savings of immigrants never reaches their intended recipients in Latin America because they are claimed by fees and arbitrary exchange rates that are not priced at market rates by some, though not all, remittance providers.

According to testimony delivered by Robert Suro of the Pew Hispanic Center before the Committee on October 1, 2003, participants in a survey the Center conducted who sent remittances to Latin America expressed surprise that the amount of money delivered to their relatives in the region was often less than what hey had expected. Survey participants were often unaware of the total costs prior to the transaction. The study provided by Mr. Suro as part of his testimony concluded that reducing the costs to five percent of the amount remitted would free up more than one billion dollars for some of the poorest households in the United States, Mexico and Central America.

In our view, competition is only effective if consumers have the relevant information to make informed decisions. As a result, we support legislation introduced by Rep. Luis Gutierrez to require any financial institution or money transmitting business initiating an international money transfer on behalf of a consumer to provide meaningful disclosures regarding fees assessed, including any exchange rate or currency conversion fees. Offering basic transparency for remittances services would provide consumers the ability to make more informed and educated decisions regarding the services they choose.

In conclusion, we are disappointed that the President's FY 2005 budget fails to address such an important issue as reducing the costs of remittances—particularly in light of the President's own commitment, along with his counterparts in Latin America, to reduce fees in half by 2008. We hope that the Bush Administration will reconsider its position, and send an amended budget request to Congress that not only addresses the need to reduce costs, but pledges to work with this Committee and the Congress to enact meaningful fee and cost disclosure legislation that would foster transparency and competition in the U.S. marketplace.

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ADDITIONAL VIEWS

Due to a scheduling conflict, we regrettably missed the February 25th Financial Services Committee roll call vote on the amendment concerning recent rulemaking by the Office of the Comptroller of the Currency offered by Representative Luis Gutierrez (D-IL) to the 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 2005." We are opposed to this amendment and had our schedules allowed us to be in attendance for the vote on the Gutierrez amendment, we would have voted "no."

ROBERT W. NEY
SPENCER BACHUS
STEVEN LATOURETTE
GARY G. MILLER
MARK KENNEDY
KATHERINE HARRIS.

ADDITIONAL VIEWS OF MR. NEY

I applaud the Administration for its continued efforts to find a solution to the long-standing concern with the Section 8 tenant-based voucher program. Over the past few years, Congress has grappled with issues regarding the overall cost of the program, underused vouchers, the allocation of vouchers for public housing authorities (PHAs) and the general management of the program. Last year, in its FY 2004 budget, the Administration proposed a different approach to address these long-standing concerns with the Section 8 tenant-based voucher program. "Housing Assistance for Needy" (HANF) would move this program to a State-run block grant model over a two year period while requiring each State to provide vouchers to at least the same number of families as currently receiving support. The Subcommittee held a series of hearings on this proposal, but no legislative action was taken regarding the Administration's HANF proposal.

This year, the Administration proposes a different approach designed to address the dramatic increase in program costs. Instead of a block grant to the States, the Flexible Voucher Program (FVP) would change the current unit-based funding for the Housing Choice Voucher Program to a dollar-based grant program that will be administered by public housing authorities. The new FVP will allow public housing authorities (PHAs) to set rents using local rental market data. Proponents argue that giving local officials the authority to use local rental market data will stop the spiraling cost of the Housing Choice Voucher Program. The Administration believes that this new FVP program will lead to significant cost savings to the voucher program and will provide performance-based incentives for PHAs to serve more families presently waiting of rental assistance.

As part of the new Flexible Voucher Program, local housing agencies would be allowed to use rental assistance vouchers toward moving low-income families into homeownership. The housing agencies could either provide mortgage assistance in lieu of a rental subsidy or offer families a one-time down payment grant equaling up to one-year's worth of their rental assistance. The Committee is cognizant of the fact that unless dramatic reform is undertaken, the Section 8 rental housing subsidy program will eventually consume the entire HUD budget. The Committee will review the Administration's new proposals carefully as it contemplates how best to address this quandary, and looks forward to working with the Administration to find a solution to the budget and management challenges facing the Section 8 program.

ROBERT W. NEY.

DISSENTING VIEWS

The Committee on Financial Services' "Views and Estimates for Fiscal Year 2005" begins by expressing concerns about the long-term threat Congress's record level of deficit spending poses to the American economy and pledging to support efforts to reduce the deficit. Yet, in the rest of the document, the Committee advocates increasing spending on both foreign and domestic welfare. The Committee also advocates new regulations that will retard economic growth, as well as violate the United States Constitution and infringe on individual liberty.

This document claims that "investor confidence" was boosted by the Sarbanes-Oxley Act, which imposed new federal regulations on capital markets, including mandating new duties for board members and dictating how private companies must structure their boards of directors. One of Sarbanes-Oxley's most onerous provisions makes every member of a company's board of directors, as well as the company's Chief Executive Officer, criminally liable if they fail to catch accounting errors.

Investigative reporter John Berleau detailed in the Insight magazine article "Sarbanes-Oxley is a Business Disaster" that the new mandates in Sarbanes-Oxley have caused directors, accounting, audit, and legal fees to double. In addition, the cost of directors' liability insurance has almost doubled from $1.3 million to almost $2.5 million since Sarbanes-Oxley became law. Not surprisingly, the impact of these new costs hit especially hard on small businesses—the traditional engine of job creation in America.

The costs of compliance with Sarbanes-Oxley divert capital away from activities that create jobs. Yet, the Committee is actually considering imposing Sarbanes-Oxley-like regulations on the mutual funds industry! Instead of expanding the regulatory state, the Committee should examine the economic effects of Sarbanes-Oxley and, at the least, pass legislation exempting small businesses from the law's requirements.

The Committee's "Views and Estimates" gives an unqualified endorsement to increased taxpayer support for the Financial Crimes Enforcement Network (FINCEN), while ignoring the growing erosion of our financial privacy under the PATRIOT Act and similar legislation.

In fact, the Committee ignores the recent stealth expansion of the Federal Bureau of Investigation (FBI)'s powers to seize the records of dealers in precious metals, jewelers, and pawnshops without a warrant issued by an independent judge. Instead, this document Instead of serving as cheerleaders for the financial police state, the Committee should act to curtail the federal government's ability to monitor the financial affairs of law-abiding Americans.

While the Committee's "Views and Estimates" do devote considerable space to discussing the Government Sponsored Enterprises, it makes no mention of the billions of dollars in subsidies Congress has given to the GSEs. These subsidies distort the market, create a short-term boom in housing, and endanger the economy by allowing the GSEs to attract capital they could not attract under pure market conditions.

Like all artificially created bubbles, the boom in housing prices cannot last forever. When housing prices fall, the financial losses suffered by the mortgage debt holders will be greater than they would have been had the government not actively encouraged over-investment in housing.

Government subsidies helped Fannie and Freddie triple their debt to more than $2.2 trillion from 1995 to 2002. Fannie and Freddie's combined debt could soon surpass the privately held debt of the entire federal government. A taxpayer bailout of the GSEs would dwarf the savings-and-loan bailout of the early nineties and could run up the national debt to unmanageable levels.

However, according to the Committee on Financial Services, the problem with GSEs is not taxpayer subsidizes but a lack of proper regulation! Therefore, the only GSE reform recommended by this document is to create a new regulator to oversee the GSEs. In fact, new regulators, or new regulations, will not do anything to correct the market distortions caused by government support of the GSEs.

Instead of reorganizing the deck chairs of the GSEs' looming fiscal Titanic, the Committee should pass my HR 3071, the Free Housing Market Enhancement Act. This act repeals government subsidies of the housing-related GSEs—Fannie Mae, Freddie Mac, and the National Home Loan Bank Board.

The Committee's inconsistency regarding deficit reduction is shown by its embrace of increasing spending for almost every foreign aid program under the Committee's jurisdiction. Of course, Congress has neither Constitutional nor moral authority to take money from the American people and send it overseas. Furthermore, foreign aid rarely helps improve the standard of living of the citizens of "beneficiary" countries. Instead, the aid all too often enriches corrupt politicians and helps stave off pressure for real reform. Furthermore, certain proposals the Committee embraces smack of economic imperialism, suggesting that a country, whose economic and other policies please American politicians and bureaucrats, will be rewarded with money stolen from the American taxpayer.

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

Rather than embracing an agenda of expanded statism, I hope my colleagues will work to reduce government interference in the market that only benefits the politically powerful. For example, the Committee could take a major step toward ending corporate welfare by holding hearings and a mark-up on my legislation to withdraw the United States from the Brenton Woods Agreement and end taxpayer support for the International Monetary Fund (IMF). If the Committee is not going to defund programs such as Ex-Im, it should at least act on legislation Mr. Sanders will soon introduce denying corporate welfare to industries that move a substantial portion of their workforce overseas. It is obscene to force working Americans to subsidize their foreign competitors.

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

Perhaps the most disappointing omission from the Committee's "Views and Estimates" is the failure to address monetary policy. This is especially so given the recent declines in the value of the dollar caused by the Federal Reserve's continuing boom and bust monetary policy.

It is long past time for Congress to examine seriously the need to reform the system of fiat currency. The Committee should also examine how Federal Reserve polices enable excessive public and private sector debt and the threat that debt poses to the long-term health of the American economy. Additionally, the Committee should examine how the American government and economy would be affected if the dollar lost its privileged status as the world's reserve currency. After all, the main reason the United States Government is able to run such large deficits without suffering hyperinflation is that foreign investors are willing to hold US debt instruments. If, or when, the dollar's weakness causes foreigners to be reluctant to invest in US debt instruments, the results could be cataclysmic for the US economy.

In conclusion, the "Views and Estimates" presented by the Committee on Financial Services claims to endorse fiscal responsibility yet also supports expanding international, corporate, and domestic spending. The Committee's "Views and Estimates" also endorses increasing the power of the federal police state. Perhaps most disturbingly, this document ignores the looming economic problems created by the Federal Reserve's inflationary monetary polices and the resulting increase in private and public sector debt. I therefore urge my colleagues to reject this document and instead embrace an agenda of ending federal corporate welfare, protecting financial privacy, and reforming the fiat money system that is the root cause of America's economic instability.

RON PAUL.