SPENCER BACHUS, AL, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

BARNEY FRANK, MA, RANKING MEMBER

October 12, 2011

The Honorable Jeb Hensarling
Co-Chair, Joint Select Committee On Deficit Reduction
129 Cannon House Office Building
Washington, DC 20515

The Honorable Patty Murray
Co-Chair, Joint Select Committee On Deficit Reduction
448 Russell Senate Office Building
Washington, D.C. 20510

Dear Co-Chairs Hensarling and Murray,

My colleagues in the House Democratic caucus and I support a reduction of the federal deficit and debt burden. The Joint Select Committee must emphasize balance and fairness in its approach in order to promote economic growth and spur job creation. Revenues must be part of any Joint Select Committee proposal, otherwise crucial programs within the jurisdiction of the Financial Services Committee and across the government will be at risk of devastating cuts through sequestration. As Ranking Member of the House Financial Services Committee, I respectfully submit and suggest that the Joint Select Committee adopt the options below as part of its effort to meet the requirements of the Budget Control Act of 2011.

**Revenue Enhancements**

**Reintroduce the "big bank fee".** Impose a risk-based fee on "financial companies" (banks, bank holding companies, insurance companies, securities firms, and others) with assets greater than $50b and hedge funds greater than $10b, with the receipts going to reduce the federal deficit. This proposal is similar to that proposed by House conferees during the Wall Street Reform and Consumer Protect Act.

**License/regulate internet gambling.** Enactment of the Campbell/Frank (H.R. 1174) bill and the companion McDermott (H.R. 2230) bill to license, regulate and tax internet gambling would raise revenue of up to $41.8 billion over 10 years, according to JCT, which in the last Congress jointly scored their predecessor bills, H.R. 2267 and H.R. 2268. The measures would also create jobs in the gaming and related industries. An alternative bill introduced by Rep. Barton, which is limited to poker, has not been scored, but presumably would raise less revenue.

**Increase the Guarantees Fees Charged by Fannie Mae and Freddie Mac.** Enact an increase in the guarantee fees charged by Fannie Mae and Freddie Mac. The Administration has proposed a modest increase of 10 basis points, and under this proposal existing mortgages would be unaffected and the monthly cost of a typical $220,000 new mortgage would increase by less than $15. New revenue would equal roughly $28 billion over 10 years.

**Reform the National Flood Insurance Program to Charge Actuarially Sound Premiums.** The Administration has proposed to enact the reform proposals included in the House-passed flood insurance bill (H.R. 1309). These reforms include increasing premiums for those currently paying below the actuarial value and redefining repetitive loss properties. OMB estimates that these reforms would generate approximately $4.2 billion in new revenue over 10 years.

**Impose a fee for the Rural Housing Service single family loan guarantee program.** This bi-partisan proposal would eliminate the need for a federal subsidy to cover the costs of the loan guarantee by requiring the RHS to charge an RHS-approved lender a guarantee fee equal to 1% of the principal obligation of the loan and an up-front fee of either .5 percent or an amount sufficient to cover the loan guarantee costs if the .5 percent fee is insufficient. Such fees were imposed in the last Congress for the RHS multi-family loan guarantee program. We expect revenues from this change of roughly $1 million per year.

**Allow Ginnie Mae to securitize FHA-HFA risk share loans.** This proposal enhances efforts of state Housing Finance Agencies (HFAs) to develop and preserve assisted multifamily housing by authorizing Ginnie Mae to securitize any FHA risk-share loans under the same terms and conditions as if the loan were insured under the National Housing Act. There is no risk to Ginnie Mae or to the FHA under this proposal. This proposal is broadly supported by state HFAs, FHA and Ginnie Mae, and it would result in additional receipts of approximately $2 million per year.

**Securities industry revenue provisions.** Below are two options that would increase revenue to the federal government from broker-dealers and other participants in the securities industry.

*Increase SIPC fund to a minimum of $10 billion.* This proposal would set by statute a required level of $10 billion for the Securities Investor Protection Corporation (SIPC) fund. To ensure that resources are available when a broker-dealer fails, this proposal would also require the fund to replenish quickly after making advances. SIPC makes advances from its fund up to $500,000 to customers of an insolvent SIPC member broker-dealer, which are paid for by a premium levied on member broker-dealers. SIPC currently sets the target size of the fund by revising its bylaws, matching it to its line of credit from the SEC (via Treasury borrowing), which is currently $2.5 billion. The minimum fund level was raised shortly after Wall Street Reform passed from $1 billion to $2.5 billion, and this would raise it to $10 billion.

*Increase the size of the SEC reserve fund to at least $1 billion*, by increasing the SEC's merger and acquisitions (M&A) fees and securities registration fees above the targets set in the Wall Street Reform Act. The Act created the SEC reserve fund, authorizing deposits of up to $50 million per year from M&A and registration fees, but limiting the balance of the fund to no more than $100 million. The SEC is currently authorized to spend up to $100 million from the fund without restriction on how those funds could be spent. This proposal would restrict use of the SEC reserve fund only to respond to extraordinary market events, such as the 2010 "flash crash," and to fund long-term IT infrastructure projects.

## Spending Reduction

**Prohibit Treasury officials from using Military Air Transport for Business Travel.**
Treasury Secretary Paulson began using US military air transportation to travel on official business instead of using commercial air, even when traveling to safe locations. Each flight costs a minimum of $150,000. Secretary Geithner has continued this practice. Although this proposal has not been formally scored, requiring the Treasury Secretary to fly commercial air under most circumstances could save several million dollars a year. Exceptions to the prohibition should be made when travel by military transport is necessary for national security reasons, as is the practice of other cabinet secretaries.

Sincerely,

Barney Frank

BARNEY FRANK
Ranking Member
House Committee on Financial Services