



CONGRESSIONAL BUDGET OFFICE  
U.S. Congress  
Washington, DC 20515

December 5, 2008

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

Dear Mr. Chairman:

This letter responds to your request for information about how alternative proposals to provide \$34 billion in bridge loans to the automobile industry would affect the federal budget. CBO analyzed the budgetary effects of two scenarios: under one scenario, the Congress would provide new emergency budget authority to cover the full cost of bridge loans; under the other scenario, the Secretary of the Treasury would administer the loans through the Troubled Assets Relief Program (TARP). Under both scenarios the loans would support firms' ongoing operations and would carry interest rates of 5 percent for the first five years after disbursement and 9 percent thereafter.

Earlier today, CBO transmitted a letter to the Honorable Steny H. Hoyer that also discussed proposals to make bridge loans to the automobile industry. In that letter we discussed conceptual issues such as the budgetary treatment and estimated cost of federal activities under the Federal Credit Reform Act (FCRA) and TARP.

The following table summarizes key features, costs, and the net budgetary impact of the scenarios that CBO evaluated for \$34 billion in bridge loans.

<b>Legislative Proposal for \$34 Billion in Bridge Loans:</b>	<b>Appropriation of New Budget Authority</b>	<b>Administer Loans Through the Troubled Assets Relief Program (TARP)</b>
<b>Budgetary Treatment</b>	Federal Credit Reform Act	TARP
<b>Estimated Subsidy Rate</b>	50% of loan principal	70% of loan principal
<b>Budget Authority Needed to Fully Fund \$34 Billion in Bridge Loans</b>	\$17.0 billion	\$23.8 billion
<b>Gross 10-Year Budget Cost</b>	\$17.0 billion	\$23.8 billion
<b>Offsets to Gross Cost From Anticipated Spending Under Current Law</b>	None	\$6.8 billion to \$10.2 billion of estimated TARP outlays under current law
<b>Net 10-Year Budget Cost</b>	\$17.0 billion	\$13.6 billion to \$17.0 billion

CBO estimates that the subsidy rate for bridge loans under standard credit reform accounting (following the requirements of FCRA) would be 50 percent. By comparison, we estimate a subsidy rate of 70 percent for providing such loans under TARP because that program’s accounting requires an adjustment to reflect market risk. Using those subsidy rates, CBO estimates a budget cost of \$17.0 billion for the use of new budget authority (with FCRA accounting), and a net budget cost of \$13.6 billion to \$17.0 billion for use of existing TARP authority.

CBO also estimated the extent to which costs under both of the scenarios you specified could be reduced if legislation also rescinded \$7.5 billion previously appropriated to the Department of Energy to cover costs of loans to the automobile industry under section 136 of the Energy Independence and Security Act of 2007. Those funds are available under current law to support loans for capital reinvestments in manufacturing facilities designed to produce vehicles with greater fuel efficiency and reduced emissions.

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CBO estimates that rescinding funds for section 136 loans would reduce net budgetary costs of either proposal by \$7.5 billion. (Under current law, CBO expects outlays for the costs of those loans would occur over a period of several years.) Thus, we estimate that resulting net costs under a proposal to provide an emergency appropriation of \$17 billion for bridge loans would result in a net cost of \$9.5 billion over the next 10 years. We also estimate that the resulting net costs of providing the same amount of bridge loans under TARP would total between \$6.1 billion and \$9.5 billion over the next 10 years. Under TARP accounting, the estimated costs reflect the market risk associated with such loans. In contrast, regular FCRA accounting requires estimation of a subsidy cost based on Treasury-rate discounting (without incorporating private market risk).

Finally, you asked us to indicate the amount of bridge loans that could be supported with \$7.5 billion in subsidy budget authority. Assuming such loans would be administered under FCRA and not under TARP, CBO estimates that such funding would support roughly \$15 billion in loans.

I hope this information is helpful. If you wish further details, we would be happy to provide them. CBO's staff contact is Megan Carroll.

Sincerely,

A handwritten signature in black ink that reads "Robert A. Sunshine". The signature is written in a cursive, flowing style.

Robert A. Sunshine  
Acting Director

cc: Honorable Paul Ryan  
Ranking Member