AN ANALYSIS OF THE PRESIDENT'S CREDIT BUDGET FOR FISCAL YEAR 1986

Staff Working Paper

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables may not add to totals because of rounding.

PREFACE

This staff working paper analyzing the federal credit budget was prepared by the Congressional Budget Office (CBO) at the request of the House and Senate Budget Committee staffs. The paper provides a general introduction to credit budget concepts and historical data on credit budgets. It reviews the Administration's credit budget proposals for the years 1986 to 1990, which have been reestimated by CBO. Major proposed program changes are discussed in terms of new credit program levels, the net outlay increases and savings represented, and the subsidy cost implications of the proposal. Finally, the paper details the credit budget by major function. It includes descriptions of all major credit programs, and the impact of the President's request on the larger credit programs.

The paper was prepared by Dick Emery and Mark Weatherly of the Budget Process Unit. Review and comment were provided by Marvin Phaup. Sherry Snyder edited the manuscript which was typed by Paula Gatens and Brenda Lockhart. Any questions or comments on its contents should be directed to them at (202) 226-2835.

TABLE OF CONTENTS

TABLE OF FIGURES

SUMMARY

The Administration's 1986 budget proposed decreases in credit levels consistent with the intention to reduce the federal government's presence in capital markets, and to improve the spending deficit of the government.

The Congressional Budget Office (CBO) has reestimated the President's budget using CBO economic assumptions and technical estimating methods. When the reestimated President's budget is compared with CBO baseline projections, which assume no change in current policy, the President's proposal is for $25.8 billion in new direct loan obligations for 1986. This would be a 52 percent decrease from the previous year. The President has proposed gradually lower direct loan levels in each year from 1987 to 1990. Direct loan programs slated for sizable reductions or elimination include the programs of the Farmers Home Administration, the Rural Electrification and Telephone Revolving Fund, the Export-Import Bank, and the Small Business Administration.

To offset partially this loss of subsidized borrowing to program constituents, the Administration proposes a slight increase in guaranteed loans. Relative to the CBO baseline, guarantee commitments would increase in 1986 by $2.4 billion, or 3 percent. For the five-year period ending in 1990, the Administration's proposals would increase guarantees by $10.3 billion, or 2.5 percent over the guarantee amount estimated to occur under current policies.

Although federal guaranteed loans represent governmental intrusion into private capital markets, they have no budgetary effect unless a default on the guaranteed loan ensues. Therefore guarantees usually have a small effect on outlays and the government's deficit position. Federal direct loans, in contrast, have a more immediate impact on outlays. The $110 billion reduction from baseline of direct loans that the Administration proposes translates into nearly $80 billion in reduced outlays over the period. Direct loans are unique among forms of government spending in that they also represent future cash inflows as loans are repaid. For this reason the outlay impact of one fewer dollar in direct loan obligations is not properly understood unless the change in the government's cash position is viewed over the time period including loan repayment.

The President's Office of Management and Budget (OMB) and CBO have been examining ways of capturing this cash effect over time. One way of measuring the effect--expressed as the "subsidy" implicit in the government loan--is used in this report. In Chapters II and III major program changes are viewed from several perspectives: their effect on total government credit activity, their outlay effect, and the change in subsidies extended.

CHAPTER I

CREDIT ACTIVITY IN AGGREGATE

The credit budget includes both the loans the federal government makes and the loans it guarantees. A direct loan is a cash payment by a federal agency to a borrower to be repaid with interest over the life of the loan. Direct loans are almost always at subsidized interest rates. A guaranteed loan is a contractual commitment by a federal agency to repay the principal and interest on a loan, in whole or in part, in case of default by the borrower. Guaranteed loans reduce the lenders' exposure to risk, but generally do not involve federal expenditures except when borrowers default.

The credit budget is stated in terms of direct loan obligations and new loan guarantee commitments. Obligations for direct loans are contracts requiring that the government disburse a loan immediately or at some future time. Commitments for guaranteed loans are agreements entered into by the government to guarantee a loan when the borrower or lender fulfills stipulated conditions. Both concepts define the point at which the government becomes legally bound, the point most amenable to executive and legislative control.

The credit budget does not include the lending of privately owned government-sponsored enterprises (for example, the Federal National Mortgage Association and the Student Loan Marketing Association). The loans of these organizations are not guaranteed by the government, but are perceived to have the moral and political backing of the government.

REVIEW OF RECENT CREDIT ACTIVITY

In 1984, federal direct loan obligations decreased by nearly 5 percent while primary loan guarantees dropped more than 26 percent from the previous year's levels (see Table 1 and Figure 1). The relative impact on the economy of these changing federal credit levels is more apparent when federal lending is viewed as a percentage of gross national product (GNP).

TABLE 1. SUMMARY OF ANNUAL AND OUTSTANDING DIRECT LOAN OBLIGATIONS AND LOAN GUARANTEE COMMITMENTS (By fiscal year, in billions of dollars)

Fiscal Year	Direct Loan Obligations	Primary Loan Guarantee Commitments	Secondary Loan Guarantees	Cumulative Outstanding Direct Loans	Cumulative Outstanding Primary Loan Guarantees
1970	10	27	--	51	125
1971	10	39	3	53	140
1972	19	45	4	50	159
1973	18	36	4	57	174
1974	19	29	4	61	180
1975	29	30	6	74	189
1976	30	26	9	86	201
TQ	6	9	3	90	200
1977	36	59	17	101	214
1978	50	55	18	120	226
1979	39	87	42	141	265
1980	45	82	64	164	299
1981	50	77	44	185	309
1982	43	54	36	208	331
1983	41	97	64	223	364
1984	39	71	40	229	387

SOURCE: Budget of the United States Government, Special Analysis on Federal Credit, 1972-1986.

NOTE: TQ = transition quarter.

Figure 1.
ANNUAL FEDERAL CREDIT ACTIVITY

SOURCE: Budget of the United States Government, Special Analysis on Federal Credit, Fiscal Years 1972-1986

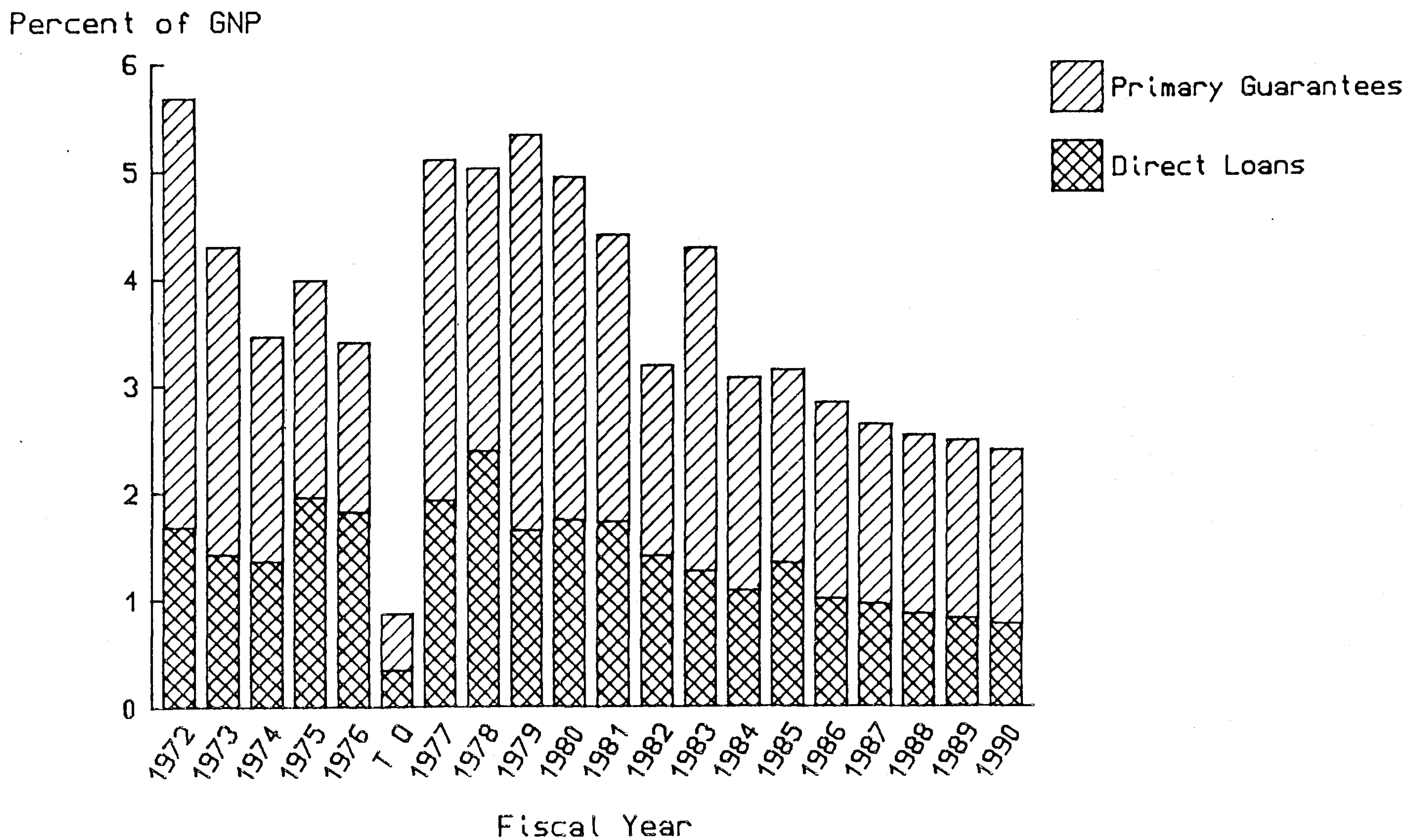
Direct loans dropped from 1.3 percent of GNP in 1983 to 1.1 percent in 1984, compared with the historical high in 1978 when direct loans were 2.4 percent of GNP (see Figure 2). Guaranteed loans decreased from 3 percent of GNP in 1983 to 2 percent in 1984; this compares with the high in 1972 when federal loan guarantees were 4 percent of GNP. Much of the decrease in direct loans in 1984 was in the Commodity Credit Corporation (CCC) where total obligations decreased from nearly $14 billion in 1983 to $5 billion in 1984. The drop in guarantee commitments was largely accounted for by the Federal Housing Administration (FHA), which went from $44.6 billion in 1983 to $17 billion in 1984 commitments. A more detailed discussion of individual credit programs appears in Chapter III.

While credit activity declined from 1983 to 1984, compared with pre-1977 loan levels the last eight years have evidenced an increased use of loans and guarantees as policy tools. Some of the causes of these high credit levels are controllable, while others result from prevailing economic conditions and other factors external to the budget process. Identifying the causes for yearly changes in federal credit activity is essential in order to select the options for credit program control. Some loan levels have increased because of inflation, because of either explicit decisions by the Congress to keep pace with inflation or decisions by borrowers to take advantage of the lower government loan rates relative to increasing rates in the private credit markets. In the largest entitlement programs, such as Guaranteed Student Loans, loan levels have increased with the growth in the eligible population. Housing aid (which comprises by far the largest type of federal credit assistance) has increased with the recent growth in the first-time home-buying population (ages 30 to 35), and yet responds inversely to inflation, when higher market interest rates keep prospective home buyers out of the market.

HOW FEDERAL CREDIT LEVELS ARE DETERMINED AND CONTROLLED

In both direct and guaranteed loan totals, only the amount included in annual appropriation limits is directly specified by the Congress. In 1984, 28 percent of direct loans obligated and 35 percent of primary guarantees committed were subject to annual limits. A small amount of direct loans (8 percent in 1984) is controlled through action on budget authority, such as

Figure 2.
FEDERAL LENDING as PERCENT of GNP



SOURCE: Congressional Budget Office

the Food For Peace and Low-Rent Public Housing programs. 1/ Table 2 gives an idea of the extent and kind of scrutiny applied to credit programs.

The majority of credit levels are determined indirectly by authorizing language specifying the characteristics of groups entitled to credit assistance, such as farmers who faced physical disasters or veterans who served more than two years who want to buy a personal residence. In addition, almost 9 percent of 1984 direct loans was made by agencies honoring guarantees of loans from private lenders which lapsed into default. At the time a guarantee defaults, the agency repays the lender holding the guarantee. The borrower then owes repayment to the government and the amount is recorded as a direct loan. If the agency believes there is no hope of repayment, however, the amount is written off. This type of direct loan, as well as those made by the Federal Financing Bank (FFB) to agency-guaranteed borrowers, can be controlled only indirectly by limiting guarantee levels, or by specifying through authorizing language the types of eligible loans and borrowers that can be guaranteed.

The Credit Budget

The unified budget does not adequately convey information on credit programs. It records direct loans net of repayments from past loans. In addition, proceeds from the sale of certificates of beneficial ownership are treated as repayments in calculating the net lending figure, keeping billions of dollars in direct loans from being recorded in the unified budget. Guaranteed loans appear only in the event of a default claim, which usually occurs years after the original loan was guaranteed. The credit budget was established to provide an explicit view of all gross lending by the federal government in any year. Formally adopted for use in the 1981 budget, the

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1. Actual direct loans for the public housing program will be abnormally high in 1985 because of a one-time conversion of $13 billion in guarantees to direct loans. The General Counsel of the Department of Housing and Urban Development, anticipating an unfavorable ruling by the Internal Revenue Service regarding the tax-exempt status of public housing bonds, decided to stop guaranteeing the bonds. Maturing bonds were converted to direct loans instead of being "rolled over," or renewed, as was previously the case.

TABLE 2. SOURCES OF CREDIT PROGRAM LEVELS
(By fiscal year, in billions of dollars)

	1984 Actual	1985 Budget Resolution	1985 Current Estimate	1986 Baseline
Direct Loan Obligations				
New Loans to the Public				
Annual appropriation limits	14.4	17.9	18.3	19.0
Unused balance of limitation	-3.2	-1.5	-1.9	-0.6
Appropriations of budget authority	3.1	1.7	16.1	3.7
Unrestricted program authorizations	15.1	13.4	14.4	14.5
Direct loans by FFB to agency-guaranteed borrowers	6.3	4.1	2.2	2.2
Defaulting loan guarantees	3.5	2.6	2.9	2.8
Gross direct loan obligations	39.2	38.2	52.0	41.6
Financing Transactions				
Repurchase from FFB of maturing loan assets	10.3	6.9	6.9	1.3
Sale of agency loan assets to FFB	13.2	10.6	12.0	7.2
Loan Guarantee Commitments				
New Guarantees to the Public				
Annual appropriation limits	62.1	60.9	62.2	65.0
Unused balance of limitation	-37.0	-2.0	-27.8	-28.5
Unrestricted program authorizations	45.7	53.3	34.3	39.2
Primary loan guarantee commitments	70.8	112.2	68.7	75.7
Financing Transactions				
Guarantees of agency loan asset sales to the FFB	13.2	10.6	12.0	7.2
Guarantees of FFB-originated direct loans	6.3	4.1	2.2	2.2
Secondary guarantees	68.3	68.3	68.2	71.3
Unused balance of limitation	-28.6	--	-27.0	-28.2
Total secondary guarantee commitments	39.7	68.3	41.2	43.1

SOURCE: Data for 1984 are from Budget of the U.S. Government: Fiscal Year 1986. Estimates for 1985 and 1986 are from Congressional Budget Office.

credit budget is stated in terms of direct loan obligations and loan guarantee commitments. It is at the point of obligation and commitment that the government becomes legally bound to the future costs of loan programs.

Unfortunately, future costs, and therefore the actual total cost, of federal credit activity are not portrayed in either the unified or the credit budget. A proposal to remedy this problem is discussed in the section below on subsidies. The credit budget does, however, record off-budget credit activity, which is excluded by statute from the unified budget.

The Budget Resolution

Beginning with fiscal year 1981, targets have been included in the budget resolutions for direct loan obligations and for primary and secondary loan guarantee commitments. Credit control through the budget resolutions has evolved since 1981 as described in the following box.

A number of bills have been sponsored in recent years to integrate credit formally into the Congressional budget process. In the 99th Congress, the most comprehensive bill is H.R. 1195, the Congressional Budget Act Amendments of 1985 (the Beilenson Bill), which includes provisions to make the credit targets established in the budget resolution binding and any proposal that would exceed these targets subject to a point of order.

Off-Budget Credit Activity

Problems in the budgetary control of federal credit programs are compounded by the fact that the Rural Electrification Administration (REA), the Federal Financing Bank (FFB), and all guaranteed loans are off-budget. The distinction between on- and off-budget is primarily a distinction that affects unified budget outlays--a legal distinction, not one that affects either the federal government's actual borrowing requirements or any other economic impact of these activities. Table 3 shows the FFB's net outlays from agency credit activity that are excluded from the unified budget totals ($7.3 billion in 1984).

The Beilenson bill proposes to include on-budget the budget authority, credit authority and estimates of outlays and receipts of all off-budget entities. The Administration's budget for 1986 includes similar proposals to move all agencies on-budget.

1981

- o The budget resolution established a Congressional federal credit budget for 1981;
- o Set nonbinding aggregates for direct loans, primary guarantees, and secondary guarantees; and
- o Set nonbinding limits on off-budget lending.

1982

- o The resolution added credit targets by major budget function;
- o Added nonbinding limits for Federal Financing Bank (FFB) origination of direct loans to agency-guaranteed borrowers and FFB purchase of loan assets from agencies; and
- o Added "sense of Congress" language that direct borrowing by agencies be restricted to FFB.

1983

- o The resolution set credit targets by function for next two fiscal years targets made binding upon adoption of First Concurrent Resolution as the Second Concurrent Resolution, the only year in which credit targets were binding).

1984

- o The resolution set nonbinding credit targets by function for next three fiscal years; and
- o Added language that agency transactions with the FFB be charged to agency budget authority and outlays, beginning with the fiscal year 1985 budget (subsequently not enacted).

1985

- o The resolution set nonbinding credit targets for the next three fiscal years.

TABLE 3. OFF-BUDGET OUTLAYS
(By fiscal year, in billions of dollars)

Program	1984 Actual	1985 Estimated	1986 Estimated
Sale of Certificates of Beneficial Ownership to Federal Financing Bank			
Agricultural Credit Insurance Fund	1,410	2,052	3,139
Rural Housing Insurance Fund	1,090	2,197	1,946
Rural Development Insurance Fund	320	733	472
Rural Electrification Administration	69	164	311
Others	-28	-20	-24
Total	2,861	5,126	5,844
Federal Financing Bank Direct Loans to Agency-Guaranteed Borrowers			
Foreign Military Sales	2,818	1,884	485
Rural Electrification Administration	1,648	1,923	1,701
Alternative Fuels Administration	404	274	0
Geothermal Energy	-39	79	14
Low-rent Public Housing	112	-32	-35
Small Business Administration	262	388	379
Tennessee Valley Authority	137	90	87
Others	-867	-35	-75
Total	4,474	4,571	2,556

SOURCE: Data for 1984 are from 1986 Budget of the U.S. Government: Fiscal Year 1986--Appendix. Estimates for 1985 and 1986 are from the Congressional Budget Office.

There are several possible ways of bringing the transactions of the FFB on-budget. One is to bring the FFB itself on-budget. This would involve including the receipts and disbursements of the FFB in the unified budget and limiting the extent to which the FFB could purchase direct loans from agencies to amounts specifically approved in prior appropriation acts. Even if the FFB was placed on-budget, however, the agencies initiating the direct or guaranteed loans would not be charged with the budget authority and outlays for their transactions with the FFB.

More accurate and thorough information for Congressional decision-makers would be gained by changing the budgetary treatment of loan asset sales and direct loans to agency-guaranteed borrowers by the FFB. Since loan asset sales are in fact borrowings from the FFB using agency direct loans as collateral (see Congressional Budget Office, Federal Financing Bank and the Budgetary Treatment of Federal Credit Activity, 1982) it would be a more direct portrayal to record this transaction as new loans by the agency, and an increase in its outlays.

Similarly, recording FFB direct loans to agency-guaranteed borrowers as direct loans initiated by the agency, not by the FFB, also would be more accurate. This provision is included in the Beilenson Bill. The budget authority and outlays for these loans would be charged to the agency's budget, and the FFB would record them as lending to the agency.

Charging these off-budget transactions to the initiating agencies would have the same effect on the budget deficit as moving the FFB on-budget. It would, however, make agencies' total funding and lending activities readily apparent, thereby improving decisions about the allocation of federal resources among the various functions and agencies.

What Becomes of Guaranteed Loans Terminated for Default

As mentioned above, one category of direct loans that is not subject to Congressional control is that which results from defaulted guarantees. Guaranteed loans are excluded from the definition of budget authority by the Congressional Budget Act. The basis for this exclusion is that guarantees reflect contingent liabilities of the government and only use budgetary resources if the loan defaults and the lender makes a claim against the guarantee. These claims occur when a borrower has fallen behind in loan payments to the point where the original lender classifies the loan to be in default. At the point of the guarantee claim, the government disburses funds to the lender and takes over the loan. Subsequent payments by the borrower are then made directly to the agency that has placed the loan on its books. The loan is normally converted from a guaranteed loan to a direct loan by this procedure. Of the nearly $39 billion in direct loan obligations for 1984, $3.6 billion was obligated to fulfill commitments to honor guarantee claims (see Table 4).

TABLE 4. GUARANTEED LOANS TERMINATED FOR DEFAULT AND SUBSEQUENT DIRECT LOAN OBLIGATIONS (By fiscal year, in millions of dollars)

	1984 Guarantees Terminated For Default	1984 Direct Loans For Default Claims	1985 Direct Loans For Default Claims (Estimated)
Guaranteed Student Loans	749	749	870
Guarantee Reserve Fund	613	613	683
Small Business Admin.-- Business Loan Investment Fund	613	569	487
Export-Import Bank	461	321	302
Federal Housing Administration Fund	1,756	304	296
Federal Ship Financing Fund	93	102	200
Agency for International Development-Housing	3	27	29
Geothermal Resources	0	0	25
VA Loan Guaranty Fund	1,121	24	23
Economic Development Fund	13	13	12
Health Professions Education Loans	4	4	4
Trade Adjustment Assistance	0	0	4
Indian Loan Guarantee and Insurance Fund	2	2	3
Medical Facilities	1	2	2
Grants to Amtrak	880	880	0
Total	6,309	3,610	2,940

SOURCE: Data for 1984 are from Budget of the United States Government: Fiscal Year 1986--Appendix. Estimates for 1985 are from Congressional Budget Office.

The entire amount of guarantees terminated for default does not always become a direct loan obligation, as explained below. Following is a description of some of the anomolies in the treatment of defaulted guarantees that preclude budgetwide consistency.

Small Business Administration--Business Loan Investment Fund. All guarantees terminated because of default become direct loans on SBA's books. The guarantee amount that is written off represents 100 percent of the loan's face value owed to the lender. However, since SBA guarantees only between 80 percent and 90 percent of the loan, the amount they pay to the lender--and the amount subsequently recorded as a new direct loan by the SBA--is less than the guarantee write-off and is equal to the federally guaranteed portion of the loan.

Export-Import Bank (Eximbank). Most defaulted guarantees are included in a countrywide debt rescheduling program, under which Eximbank expects to recover most of the loans they assume upon default. Of the $460 million of guarantees terminated for default in 1984, 30 percent or $139 million was written off as uncollectable or forgiven debt.

Federal Housing Administration. Over $1.7 billion, or nearly 1 percent of loans guaranteed by the Federal Housing Administration (FHA) was terminated for default in 1984. Most of this amount represents defaults on multifamily properties. Of this amount, only $304 million was converted to direct loan obligations for guarantee claims. The vast majority of guarantee terminations in any year result in property being acquired outright by the FHA. In all cases the FHA fulfills its guarantee to the lender by buying the mortgage. FHA then attempts to resell the property, sometimes financing the new purchaser by extending a direct loan. As can be seen in Table 4, in 1984 FHA was successful in reselling the property for only 20 percent of the guarantees they honored. If the resale value is less than the guarantee claim paid off, FHA incurs a loss in the transaction. Such losses amounted to $1.6 million in 1984. FHA also incurs expenses involved in maintaining their properties in sellable condition and by paying taxes on the property.

Veterans Loan Guaranty Revolving Fund. Like the FHA program, the Veterans Administration (VA) acquires property when they honor a defaulted loan guarantee. In 1984 over $1.1 billion in guarantees was written off, representing almost 1 percent of total outstanding VA guarantees. The VA acquires property in roughly 95 percent of these foreclosures, as they did for $986 million in 1984. Under recently revised accounting procedures, this represents the acquisition of a physical asset and is not counted as a direct loan as it was in the past. For a small amount of defaulted guarantees ($24 million in 1984), the VA exercises a degree of forbearance to the veteran not available from private lenders. The VA allows the veteran to retain the property and make payments to the VA. This situation represents the acquisition of a loan asset by the VA and is the only type of defaulted guarantee that, for the VA, becomes a direct loan immediately upon termination of a guarantee.

The rest of the acquired property is sold eventually. Occasionally the VA must first make improvements on the property ($35 million in 1984). When a qualified new buyer is found, a new direct loan is written and enters VA's portfolio of loan assets as a "vendee loan." To offset the agency expenditure of the property acquisition and resale, VA then packages these vendee loans and sells them through the secondary mortgage market. Sales of vendee loans provided the VA with $812 million in financing in 1984, representing the entire amount of vendee loans initiated in that year.

Federal Ship Financing Fund. As in most programs, when a guaranteed loan defaults, the agency pays the lender and assumes the direct loan on its books. The guarantee is written off at the face value amount of the loan. When the Federal Ship Financing Fund records the obligation as a direct loan, it capitalizes any unpaid accrued interest owed by the borrower, and hence the direct loan recorded is an amount higher than the guaranteed loan written off.

Agency for International Development-Housing Program. Direct loans incurred for guarantee claims in this program are individual payments to the lender which the AID-guaranteed borrower has missed ($27 million in 1984). Unlike default claims incurred by other federal agencies, the loan is not bought in its entirety from the lender. The lender retains the loan on its books, and the borrower makes subsequent payments to that lender. AID records the payment amount as a direct loan. The borrower owes the amount of the missed payment to AID.

The AID-guaranteed loans terminated for default ($3.2 million in 1984) consist largely of loans made in the 1960s, without host country guarantees, to countries that later experienced high currency inflation rates. The lender receives payments in dollars while the borrower still pays in its home currency at the exchange rate on the dollar that existed when the loan was originated (a practice no longer continued). AID makes up the difference to the lender. The amount of the guarantee written off is determined by the difference between the borrower's payments and the amount in dollars that the lender requires.

Use of a Subsidy Calculation

Over and above the limitations presented by net lending and off-budget spending, current budgetary treatment of credit activity understates the costs of subsidies provided, defaults anticipated, and future receipts. Credit activity is substantially different from other kinds of direct spending in that it produces a money-generating asset. Future expected cash inflows from a particular loan depend on its interest rate and loan maturity, as well as on incidence of default. These loan characteristics vary widely among government credit programs and, for some, within a program itself. Disaster loans made by the Small Business Administration, for instance, can be made at either 4 percent if no alternative financing is available to the borrower, or at 8 percent if private financing is available.

One way of capturing the effect of various loan terms, and of estimating future cash inflows of direct loans extended, is to compare the government's loan terms with those of a comparable loan made by the private sector, and to estimate the subsidy to the borrower implicit in the government loan. For instance, if a borrower could take out a loan from a commercial bank at 14 percent and instead takes advantage of a government loan offered at 10 percent, then in effect the government is subsidizing the other 4 percent for the borrower. If the government allows the loan to be repaid over a longer period than a private loan would be, as is usually the case, then the subsidy is even greater.

When the Congress approves outlays for direct loans, it does not consider the future repayments. Clearly, a loan extended at 10 percent will create larger future cash inflows than one extended at 5 percent, and so the effect on the government's future revenues varies widely from program to program. Unfortunately, there has been no examination of loan terms among programs to assure a logical or consistent conformity with agreed-on budgetary priorities. In some cases the interest rate was fixed years ago, such as the 5 percent rate for REA loans, while in others, such as the Export-Import Bank, the rate is tied to current Treasury rates and is changed several times a year accordingly.

As a way of addressing the variance in interest rates (and in the future expected revenues from loans), the Congress could establish guidelines for deter-mining the loan terms among credit programs. Alternatively, the value of the subsidy extended in a particular loan program could be determined and placed on-budget as an outlay of the originating agency. In tables found in Chapter III, the current subsidy extended by the larger loan programs is listed and expressed as a percentage of the face value of the loan principal. This percentage would be multiplied by the amount of direct or guaranteed loan volume for the year and recorded as an agency outlay. This approach would adequately reflect the fact that a dollar loaned at a lower interest rate by one program costs the government more than a dollar loaned at a higher rate by another program.

CHAPTER II

THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

The Administration proposes to reduce future direct lending relative to amounts expected if current policies are not changed. Primary loan guarantees would be increased slightly compared with current policy while secondary guarantees would stay at current policy levels. 1/ If the President's proposals are adopted, 1986 direct lending, relative to the baseline projection, would be reduced by 38 percent or $15.8 billion, and primary guarantees would increase by 3 percent or $2.4 billion. Total assisted credit--the sum of the direct and guaranteed lending--would decrease by $13.4 billion.

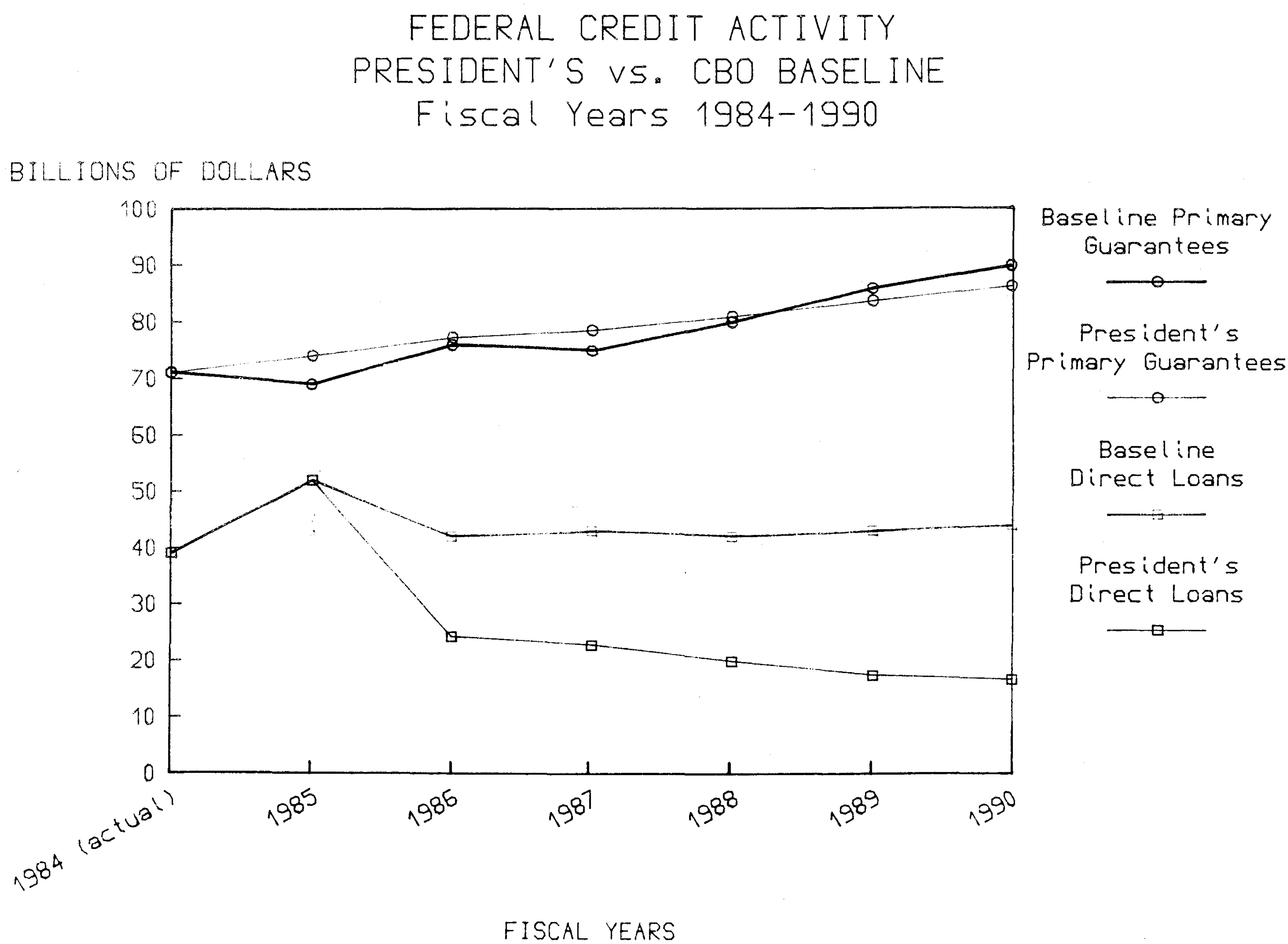
Over the next five years, 1986-1990, the cumulative projected effects of the Administration's credit proposals are (see Figure 3):

- o Direct loan obligations: $-109.5 billion.
- o Primary loan guarantee commitments: $10.3 billion.
- o Outlays attributed to credit assistance: $-79.8 billion.
- o Credit subsidies: $-48.9 billion.

Subsidized government lending would be cut back most in agriculture, export financing, housing, electricity production and distribution, and general business. Increases in loan guarantees are offered as a substitute for some direct loan programs slated for reduction. Growth in guarantees is pro-

1. Secondary guarantees in which government provides a second guarantee on top of an earlier, primary one, arise principally from Government National Mortgage Association guarantees of securities already backed by FHA and VA guaranteed mortgages. Secondary guarantees have no significant cash-flow or subsidy cost, and thus are not treated further here.

FIGURE 3.


FEDERAL CREDIT ACTIVITY
PRESIDENT'S vs. CBO BASELINE
Fiscal Years 1984-1990
BILLIONS OF DOLLARS
100
90
80
70
60
50
40
30
20
10
0
1984 (actual)
1985
1986
1987
1988
1989
1990
FISCAL YEARS
Baseline Primary Guarantees
President's Primary Guarantees
Baseline Direct Loans
President's Direct Loans

jected for agriculture, export financing, and housing. Reductions in guarantee activity are requested for business and student loans.

Credit Budget Activity Levels

Assuming the continuation of current policy, CBO projects that direct loan obligations by the federal government would reach $43.7 billion while federal primary guarantee commitments would climb to $89.7 billion in 1990 (see Table 5). These projections and the President's credit proposals are stated in terms of loan obligations and guarantee commitments rather than in some other measure--disbursements, for example--to focus on the point at which government makes an irrevocable offer to provide assistance and to bear the associated subsidy costs. Obligations and commitments are the last points of control for credit activity and costs. Table 5 also shows the Administration's request for loans and guarantees. The Administration's proposed reduction from current policy in direct loans is $15.8 billion in the first year, reaching $25.9 billion in the fifth year, a cumulative reduction of more than 50 percent over the five-year period. Primary guarantees would be higher than in the baseline projection by approximately $2 billion per year through 1990. Total assisted credit is reduced by more than $99 billion over the five years.

Outlay Savings and Deficit Reductions

Changes in obligations and commitments do not translate immediately into dollar-for-dollar changes in cash outlays. Direct loan obligations may be paid out over several years in accord with the cash needs of the borrower who, for example, may be constructing an electric power plant. As loans mature into the repayment stage, they yield a positive cash inflow that reduces outflow financing requirements. Similarly, years may pass before a commitment to guarantee loans leads to claims for payment (default); only a fraction of guaranteed loans end in default and foreclosure. Changes in direct loans and guarantees, therefore, are unlikely to produce equal changes in cash disbursements and the deficit. A comparison of Tables 5 and 6 confirms year-to-year differences between changes in the volume of assisted credit and outlays. In 1986, for example, total assisted lending is projected to decline by $13.4 billion under the President's proposal, whereas cash outlays fall by $9.7 billion (see Table 6).

TABLE 5. CBO ESTIMATE OF ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal year, in billions of dollars)

Major Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			CBO Baseline			
Direct loan obligations	41.6	42.6	42.5	42.9	43.7	213.3
Primary guarantee commitments	75.7	75.2	79.9	85.7	89.7	406.2
Total, new lending	117.3	117.9	122.3	128.6	133.4	619.5
Secondary guarantees	43.1	45.0	46.9	48.8	50.9	234.7
			Proposed Changes			
Direct loan obligations	-15.8	-20.5	-22.8	-24.5	-25.9	-109.5
Primary guarantee commitments	2.4	1.7	1.8	2.0	2.5	10.3
Total, new lending	-13.4	-18.8	-21.0	-22.5	-23.5	-99.2
Secondary guarantees	0.0	0.0	0.0	0.0	0.0	0.0
			President's Budget as Estimated by CBO			
Direct loan obligations	25.8	22.2	19.7	18.3	17.8	103.8
Primary guarantee commitments	78.1	76.9	81.7	87.7	92.2	416.6
Total new lending	103.9	99.1	101.3	106.1	109.9	520.3
Secondary guarantees	43.1	45.0	46.9	48.8	50.9	234.7

SOURCE: Congressional Budget Office.

Subsidy Cost Savings

Neither obligations and commitments nor outlays for a particular year measure the value of resources consumed by federal credit assistance. Nor do changes in obligations, commitments, and outlays measure changes in subsidy costs. In 1984, for instance, total federal direct loan obligations and guarantee commitments amounted to $39.1 billion and $70.8 billion, respectively. Cash disbursements less repayments of principal and interest, however, totaled only $6.3 billion. Neither the total of $109 billion in assisted credit nor the contemporaneous cash outlay indicates the amount that the government will eventually lose, over and beyond recoveries, in administrative expenses, defaults, and negative interest spreads.

To obtain a useful measure of these subsidy costs, the value of assets exchanged in credit transactions must be compared. In a loan transaction, the government gives up cash and receives a promissory note for the same amount. In every case, the note signed by the borrower would be worth less in private markets than the cash disbursed. The government gives up cash now for a promise of repayment of principal and some interest in the future. But the value of the promissory note is reduced by the government's

TABLE 6. IMPACT ON THE UNIFIED BUDGET OF THE PRESIDENT'S PROPOSED CHANGES IN THE CREDIT BUDGET, 1986-1990 (By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Outlay Impact of Changes	-9.7	-13.7	-17.8	-19.4	-19.2	-79.8

SOURCE: Congressional Budget Office.

cost (in excess of fees) of processing the loan and monitoring collections, by the certainty of some defaults and late payments, and by the lower interest on some government loans than on government borrowings. The value of the loan note is less than the value of the principal by virtue of present and future subsidy costs, expressed in terms of their present value. If the government lends $100 under such terms that the loan note received is worth $90, the subsidy cost of the loan is $10. For loan guarantees, subsidy cost is the difference between the present value of future costs to be incurred by government under the guarantee agreement and the present value of fees to be received by government.

A reasonable measure of subsidy cost is the difference between the amount paid by a borrower without government assistance--to a private lender--and the amount paid with assistance, adjusted for differences in the time of payments. This difference is revealing because the private lender must recover all expected costs--defaults, administrative expenses, interest--from the borrower. The difference between payments to the private lender and to the government reflects expected, unrecovered costs or subsidy costs. Subsidy costs for both direct loans and guarantees are conveniently expressed as a percentage of principal. For 1984, the Office of Management and Budget (OMB) estimates that the average subsidy value for federal direct loans was approximately 21 percent of principal and for guarantees approximately 10 percent of principal. OMB estimated that subsidy costs of federal credit in 1984 amounted to $8.3 billion for direct loans and $7.4 billion for guarantees.

These subsidy costs are estimates rather than observed market values and are therefore subject to substantial error. One proposal for obtaining market valuations of subsidy cost is the Credit Accounting Reform Act of 1985 introduced by Congressman Gradison and Senator Trible. Under this plan, the government would sell its direct loans to private investors at competitive auction and reinsure its guarantee liabilities with private insurance specialists.

Until such market value subsidies are available, estimates must be used. For the purposes of this analysis, CBO has in general applied the OMB subsidy estimates for 1984 to the proposed credit reductions to obtain projected subsidy cost savings. The OMB subsidy estimates have been adjusted, as noted, to account for changes in the portfolio mix. These estimates are shown in Table 7. Adoption of the President's request would save an average of over $9.7 billion in resources per year. This amount is 61 percent of the projected reductions in cash outlays. It indicates the value of resources that would be freed for other uses by adoption of the proposed program changes.

TABLE 7. MAJOR CHANGES IN SUBSIDIES ESTIMATED FOR FEDERAL CREDIT PROGRAMS
(By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Proposed Changes						
Direct loans	-4.8	-5.3	-5.6	-6.0	-6.5	-28.2
Guaranteed loans	-2.9	-4.0	-4.3	-4.6	-4.8	-20.6
Total	-7.7	-9.3	-9.9	-10.7	-11.3	-48.9

SOURCE: Subsidy estimates are calculated using OMB's estimated subsidies from Special Analysis Tables F-11, F-12, and F-13 in the Budget, CBO's credit budget baseline, and CBO's reestimate of the President's credit budget proposals.

CBO REESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

As part of its analysis of the President's credit budget, CBO has reestimated the Administration's budget program to reflect CBO baseline economic assumptions and technical estimating methods. The effect of these reestimates on credit program levels is shown in Table 8. The net effect of reestimates is to increase the President's credit budget for both direct loan obligations and guaranteed loan commitments.

The net adjustment to direct loans is an increase of $3 billion from 1986 through 1990. Only one program--the direct loans of the VA Loan Guaranty Revolving Fund has consistently large reestimates. CBO assumes that the increase in guarantee fees from 1 to 5 percent, will result in substantially higher property acquisition for defaulted guaranteed loans and in substantially higher vendee loans than assumed by the Administration. CBO estimates for Commodity Credit Corporation commodity price-support loans differ from Administration estimates--both higher and lower over the

TABLE 8. CBO REESTIMATES OF ADMINISTRATION CREDIT BUDGET REQUESTS (By fiscal year, in billions of dollars)

Major Program	1985	1986	1987	1988	1989	1990
	Direct Loans					
Original Administration Request	51.9	24.2	22.7	19.9	17.3	16.8
Agriculture Credit Insurance Fund	0.7	0.0	0.0	-0.1	-0.3	0.0
Commodity Credit Corporation	0.1	1.2	-1.1	-0.8	0.6	0.6
VA Loan Guaranty Revolving Fund	0.3	0.5	0.5	0.6	0.8	1.1
Other	0.2	-0.1	0.0	0.1	-0.1	-0.5
Direct Loan Change	1.3	1.6	-0.6	-0.2	1.0	1.2
Administration Request as Reestimated by CBO	53.2	25.8	22.2	19.7	18.3	17.8
	Guaranteed Loans					
Original Administration Request	74.0	77.2	78.5	80.9	83.7	86.3
Synthetic Fuels Corporation	-0.1	3.6	-0.5	-0.4	-0.2	0.0
Commodity Credit Corporation	0.0	-1.5	-1.5	-1.5	-1.5	-1.5
Guaranteed Student Loans	0.8	0.1	-1.0	-1.5	-2.1	-2.4
VA Loan Guaranty Revolving Fund	1.6	-1.2	1.2	4.1	7.8	9.7
Other	0.0	0.0	0.1	0.0	0.0	0.0
Guaranteed Loan Change	2.3	0.9	-1.6	0.8	4.0	5.9
Administration Request as Reestimated by CBO	76.4	78.1	76.9	81.7	87.7	92.2

five-year projection period--because of different yield and price assumptions. CBO has assumed higher disaster loan payments in 1985 for the Agricultural Credit Insurance Fund. The Administration has proposed to eliminate emergency disaster loans where federal crop insurance is not available. CBO assumes that this would effectively eliminate the program. The residual loans in the Administration's projections for 1988 and 1989 have been revised accordingly.

CBO has increased the Administration's estimates for guaranteed loans for 1986 through 1990 by a net adjustment of $10 billion. VA loan guarantee estimates have been increased by $21.6 billion over the five-year period to reflect both the increasing demand from Vietnam veterans for home mortgages and the relatively low interest rate assumptions. CBO also has a higher estimate of Synthetic Fuels Corporation guarantees. The Administration's budget showed guaranteed loans made (that is, disbursed) rather than commitments. Offset against these higher estimates, CBO estimates that the adoption of a 5 percent placement fee on CCC export credit guarantees will reduce demand for and consequently the volume of these loans. CBO also assumes a greater reduction in Guaranteed Student Loan volume stemming from the President's proposed restrictions on program eligibility.

MAJOR PROGRAM CHANGES PROPOSED BY THE ADMINISTRATION

The aggregate savings projected from adoption of the President's request result from a mix of cutbacks and increases spread across a number of programs. This section describes these changes for programs in which the projected effects are especially large.

Tables 9, 10, and 11 show the effects of the Administration's credit proposals on loan and guarantee activity, outlays, and subsidies, respectively. The assumptions used by CBO in compiling these tables are summarized below:

- **Table 9. Major Changes in the Baseline Credit Program Levels Proposed in the Administration's Budget.** The CBO baseline estimate maintains 1985 credit program levels through 1990. Discretionary programs--those limited by annual appropriation action--have been increased to adjust for inflation. Open-ended credit programs, such as Guaranteed Student Loans and VA mortgage assistance, are projected on the basis of policies in place in 1985 and CBO economic and technical assumptions.

TABLE 9. MAJOR CHANGES IN THE BASELINE CREDIT PROGRAM LEVELS PROPOSED IN THE ADMINISTRATION'S BUDGET
(By fiscal year, in billions of dollars)

Major Program	1985	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Direct Loan Obligations				
CBO Baseline	51.9	41.6	42.6	42.5	42.9	43.7	213.3
Administration Proposals							
Foreign Military Sales Credit	---	0.5	0.4	0.3	0.2	0.0	1.4
Export-Import Bank	1.1	-4.0	-4.3	-4.4	-4.6	-4.8	-22.1
Rural Electrification and Telephone Revolving Fund	0.0	-1.6	-1.9	-2.2	-2.5	-2.8	-11.0
Agriculture Credit Insurance Fund	0.0	-4.3	-4.6	-4.6	-4.9	-5.2	-23.6
Commodity Credit Corporation	0.0	0.0	-1.8	-3.6	-4.1	-4.2	-13.7
Rural Housing Insurance Fund	0.0	-3.4	-3.5	-3.7	-3.8	-4.0	-18.4
Small Business Administration	0.0	-1.3	-2.1	-2.3	-2.6	-2.8	-11.0
Community development grant guarantee	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7
Rural Development Insurance Fund	0.0	-0.4	-0.5	-0.5	-0.5	-0.6	-2.5
Low-rent public housing	0.0	0.0	-0.9	-1.1	-1.1	-1.2	-4.3
Other	0.0	-1.1	-1.2	-0.6	-0.4	-0.3	-3.6
Direct Loan Change	1.3	-15.8	-20.5	-22.8	-24.3	-25.9	-109.5
Administration Request	53.2	25.8	22.2	19.7	18.3	17.8	103.8

(Continued)

Table 9. (Continued)

Major Program	1985	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Guaranteed Loan Commitments				
CBO Baseline	68.8	75.7	75.2	79.9	85.7	89.7	406.2
President's Proposals							
AID housing guarantees	---	-0.1	-0.2	-0.2	-0.2	-0.2	-0.9
Export-Import Bank	---	1.6	1.1	0.6	0.2	-0.3	3.1
Agriculture Credit Insurance Fund	0.0	2.3	2.2	2.2	2.2	2.1	11.0
Commodity Credit Corporation	0.0	-1.5	-1.5	-1.5	-1.5	-1.5	-7.5
Federal Housing Administration	7.0	7.9	8.4	8.5	8.6	8.6	42.0
Small Business Administration	0.5	-2.4	-2.5	-2.6	-2.7	-2.8	-13.1
Rural Development Insurance Fund	---	-0.2	-0.2	-0.2	-0.2	-0.2	-0.9
Guaranteed Student Loans	0.0	-1.5	-3.3	-3.4	-3.6	-3.7	-15.4
VA Loan Guaranty Revolving Fund	0.0	-3.5	-2.1	-1.4	-0.4	0.9	-6.5
Other	0.0	-0.2	-0.3	-0.3	-0.3	-0.4	-1.5
Guaranteed Loan Change	7.6	2.4	1.7	1.8	2.0	2.5	10.3
Administration Request	76.4	78.1	76.9	81.7	87.7	92.2	416.6

SOURCE: Congressional Budget Office.

- <u>Table 10.</u> **Major Changes in Baseline Outlays for Credit Programs Resulting from the Administration's Budget.** CBO outlay estimates for the President's proposals include all identifiable credit program outlays: loan disbursements, interest subsidies, administrative costs, repayments and prepayments, and loan guarantee defaults and fees.

- <u>Table 11.</u> **Major Changes in Subsidies for Credit Programs Resulting from the Administration's Budget.** Subsidy estimates are based on OMB subsidy ratios shown in Special Analysis F of the Budget--Tables 11, 12, and 13. The OMB subsidy estimates are calculated from a comparison of the terms on government loans with the terms on hypothetical private loans to the same borrower or class of borrowers. The baseline subsidy estimates apply the OMB subsidy ratios assuming continuation of the 1985 mix of loan programs and average depth of subsidy. Subsidy estimates for the President's proposals for 1986 through 1990 show reductions in the subsidies provided by many programs as a result of proposed changes in loan terms.

CLOSING COMMENT

When the Congress considers the possible savings from adopting the President's budget proposals for federal credit, these savings--all in relation to baseline projections--should be viewed in terms of reductions in assisted credit, outlay savings, and resources freed for other uses. Each of the proposed changes would affect the volume of credit, outlays, and subsidies and, in fact, most would reduce these three measures. The concept of savings that is relevant will depend on the motivation for Congressional action. Where the objective is to reduce the credit market presence of federally assisted borrowers, the credit budget measure of activity will provide the appropriate gauge for savings. Where the current budget deficit is the object of concern, the outlay savings indicate the potential gain. Where the goal is to reduce the consumption of economic resources by federal credit programs, subsidy cost savings should be the guide. It should be noted that where federal credit is being traded off against spending, the appropriate cost saving from credit cutbacks is subsidy cost rather than outlay savings, which tend to overstate most credit program reductions.

TABLE 11. MAJOR CHANGES IN SUBSIDIES ESTIMATED FOR CREDIT PROGRAMS RESULTING FROM THE ADMINISTRATION'S BUDGET (By fiscal year, in billions of dollars)

Major Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
		Direct Loans				
Administration Proposals						
Foreign Military Sales Credit	0.3	0.3	0.2	0.1	0.0	0.9
Export-Import Bank	-0.6	-0.7	-0.7	-0.7	-0.8	-3.5
Rural electrification and telephone revolving fund	-0.7	-0.8	-0.8	-0.9	-1.0	-4.1
Agriculture Credit Insurance Fund	-1.2	-1.3	-1.2	-1.3	-1.4	-6.4
Commodity Credit Corporation	0.0	0.0	-0.1	-0.1	-0.1	-0.2
Rural Housing Insurance Fund	-2.3	-2.4	-2.5	2.6	2.7	-12.3
Small Business Administration	-0.2	-0.4	-0.4	-0.4	-0.5	-1.9
Community development grant guarantee	0.0	0.0	0.0	0.0	0.0	0.0
Rural Development Insurance Fund	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Low-rent public housing	0.0	0.0	0.0	0.0	0.0	-0.1
Direct Loan Change	-4.8	-5.3	-5.6	-6.0	-6.5	-28.2

(Continued)

TABLE 10. MAJOR CHANGES IN BASELINE OUTLAYS FOR CREDIT PROGRAMS RESULTING FROM THE ADMINISTRATION'S BUDGET (By fiscal year, in billions of dollars)

Major Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Foreign Military Sales Credits	0.0	0.1	0.3	0.2	0.2	0.8
Export-Import Bank	-0.3	-1.2	-1.7	-1.9	-2.0	-7.1
Rural Electrification and Telephone Revolving Fund	0.0	-0.5	-1.2	-1.6	-2.0	-5.2
Agriculture Credit Insurance Fund	-4.4	-4.4	-4.0	-3.9	-3.8	-20.5
Commodity Credit Corporation	0.2	0.0	-1.7	-1.7	-1.4	-4.6
Rural Housing Insurance Fund	-2.0	-3.1	-3.6	-4.0	-4.4	-17.2
Small Business Administration	-1.2	-1.5	-1.7	-1.9	-0.7	-7.0
Community Development Grant Guarantee	0.0	0.0	-0.1	-0.2	-0.2	-0.5
Rural Development Insurance Fund	0.0	-0.1	-0.2	-0.4	-0.5	-2.2
Low-rent public housing	-0.7	-1.7	-2.0	-2.0	-2.1	-8.6
Federal Housing Administration	-0.3	-0.4	-0.4	-0.5	-0.5	-2.2
Guaranteed Student loans	-0.5	-0.5	-1.0	-1.3	-1.8	-5.2
VA Loan Guaranty Revolving Fund	-0.5	-0.5	-0.4	-0.2	0.0	-1.6
Outlay Changes for Loan Programs	-9.7	-13.7	-17.8	-19.4	-19.2	-79.8

SOURCE: Congressional Budget Office.

Table 11. (Continued)

Major Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Guaranteed Loans			
Administration Proposals						
AID housing guarantees	0.0	0.0	0.0	0.0	0.0	-0.2
Export-Import Bank	0.1	0.0	0.0	0.0	0.0	0.1
Commodity Credit Corporation	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Federal Housing Administration	0.1	0.1	0.1	0.1	0.1	0.6
Small Business Administration	-0.6	-0.6	-0.6	-0.6	-0.7	-3.0
Rural Development Insurance Fund	0.0	0.0	0.0	0.0	0.0	-0.1
Guaranteed Student Loans	-0.8	-1.8	-1.9	-1.9	-2.0	-8.4
VA Loan Guaranty Revolving Fund	-1.6	-1.7	-1.8	-2.1	-2.2	-9.4
Guaranteed Loan Change	-2.9	-4.0	-4.3	-4.6	-4.8	-20.6

SOURCE: Congressional Budget Office.

CHAPTER III

THE CREDIT BUDGET BY MAJOR BUDGET FUNCTION

This chapter provides a description of the credit activities of the government by major budget function. It describes each active credit program in terms of the CBO baseline assumptions and the Administration's request. It also describes program characteristics such as interest rates, target populations, and program financing, plus any Administration-proposed changes in the programs. Three types of tables are used to illustrate the credit activity:

- o A baseline summary table, giving CBO baseline estimates for 1985-1990, by account;
- o A table giving loan characteristics of both government loans and comparable private loans, by major program; and
- o A table showing the activity levels, subsidy costs, and outlays for the major credit program proposals in the President's 1986 request.

Data on credit programs in this chapter are CBO's baseline credit budget projections and reestimates of the President's 1986 request. Data on the President's credit budget have been taken from the Appendix to the Budget of the United States Government, Fiscal Year 1986--specifically, the series of schedules titled "Status of Direct Loans" and "Status of Loan Guarantees" that follow the "Program and Financing" schedule for each budget account containing credit activity and from the "Special Analysis on Federal Credit." Subsidy estimates are from the OMB Special Analysis, except where noted.

Table 12 summarizes the 1985-1990 proposed credit activities by function. Direct loan programs are concentrated in four functions: agriculture, international affairs, commerce and housing, and energy. The bulk of guaranteed lending is in support of housing through the commerce and housing, veterans' affairs, and income security functions.

TABLE 12. CBO CREDIT BUDGET BASELINE BY FUNCTION
(By fiscal year, in billions of dollars)

Function		CBO Baseline Estimates					
		1985	1986	1987	1988	1989	1990
	Direct Loan Obligations						
050	National Defense	--	--	--	--	--	--
150	International Affairs	10.1	11.7	12.3	12.7	13.1	13.7
250	General Science, Space, and Technology	--	--	--	--	--	--
270	Energy	2.7	2.7	2.7	2.8	2.9	3.0
300	Natural Resources and Environment	0.1	0.1	0.1	0.1	0.1	0.1
350	Agriculture	13.8	14.4	13.6	12.9	13.1	13.1
370	Commerce and Housing Credit	6.5	6.8	7.1	7.7	7.7	8.0
400	Transportation	0.3	0.2	0.1	0.1	0.1	0.1
450	Community and Regional Development	1.7	1.5	2.0	2.3	2.3	2.3
500	Education, Training, Employment and Social Services	1.2	1.1	1.1	1.1	1.2	1.2
550	Health	a/	a/	a/	a/	a/	a/
600	Income Security	14.3	1.8	2.3	1.8	1.5	1.5
700	Veterans' Benefits and Services	1.3	1.3	1.2	1.1	0.9	0.8
750	Administration of Justice	--	--	--	--	--	--
800	General Government	--	--	--	--	--	--
850	General Purpose Fiscal Assistance	--	--	--	--	--	--
	Total	51.9	41.6	42.5	42.6	42.9	43.8

(Continued)

a. Less than $50 million.

Table 12. (Continued)

Function		CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
		Loan Guarantee Commitments					
050	National Defense	--	--	--	--	--	--
150	International Affairs	10.3	10.8	11.2	11.7	12.2	12.7
250	General Science, Space, and Technology	--	--	--	--	--	--
270	Energy	0.1	4.1	--	--	--	--
300	Natural Resources and Environment	--	--	--	--	--	--
350	Agriculture	5.7	5.7	5.8	5.8	5.8	5.9
370	Commerce and Housing Credit	26.4	27.7	29.3	31.1	33.0	35.0
400	Transportation	0.3	0.3	0.3	0.3	0.3	0.3
450	Community and Regional Development	0.2	0.2	0.2	0.2	0.2	0.2
500	Education, Training, Employment and Social Services	8.8	9.0	9.4	9.6	10.0	10.4
550	Health	0.2	0.3	0.3	0.3	0.3	0.3
600	Income Security	--	--	--	--	--	--
700	Veterans' Benefits and Services	16.8	17.6	18.8	20.9	23.9	24.9
750	Administration of Justice	--	--	--	--	--	--
800	General Government	--	--	--	--	--	--
850	General Purpose Fiscal Assistance	--	--	--	--	--	--
	Total	68.8	75.7	75.2	79.9	85.7	89.7

SOURCE: Congressional Budget Office.

FUNCTION 050: NATIONAL DEFENSE

The only active credit program in the defense function is a program of loan guarantees administered by the Department of Defense to assist private businesses in fulfilling defense production contracts. Current loan disbursements are for prior obligations only and are made through the Federal Financing Bank (FFB) with an accompanying guarantee by the Department of Defense. Neither the CBO baseline nor the Administration project any new commitments in this function.

FUNCTION 150: INTERNATIONAL AFFAIRS

Credit assistance in the international affairs function includes loans to foreign countries for economic development, the purchase of military equipment, and the purchase of U.S. surplus commodities. The Export-Import Bank and Foreign Military Sales programs are among the largest of all credit programs. Table 13 summarizes the new direct loan obligations and new loan guarantee commitments in this function.

The CBO baseline projects a total of $11.7 billion in direct loan obligations in 1986, increasing to $13.6 billion in 1990. New primary loan guarantee commitments are estimated to total $10.7 billion to $12.7 billion over the same period. The Administration is requesting $8.1 billion in new direct loans, and $12.1 billion in new loan guarantees, in 1986.

Export-Import Bank

Under current policies, the Export-Import Bank (Eximbank) provides direct loans to foreign countries and firms to purchase U.S. exports at an estimated subsidy of 16.1 percent of loan principal. Guaranteed loan subsidies are estimated to be 4.1 percent. The Administration is proposing to eliminate direct lending by Eximbank, which otherwise would be expected to obligate $4.0 billion in 1986. As a partial offset, loan guarantees are to be increased by $1.6 billion in 1986. These changes are reflected in Table 15. Eximbank would also be authorized to spend up to $100 million (plus $36 million for application fees) per year to "buy down" the interest rates on $1.8 billion of federally guaranteed private loans to foreign importers of U.S. goods. Table 15 also shows the projected $7.1 billion reduction in Eximbank outlays for direct loans. The subsidy cost savings from implementing the President's proposal is $2.3 billion over five years. This total consists of a $3.5 billion reduction in subsidy savings for direct loans offset by $1.2 billion in increased subsidies for the $3.1 billion in increased guarantees over the period.

Foreign Military Sales

The FMS program provides a mix of forgiven loans--effectively grants--and concessional and Treasury rate loans to foreign countries and organizations to purchase U.S. defense articles and services. In 1985 the mix of forgiven

TABLE 13. INTERNATIONAL AFFAIRS CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
Direct Loan Obligations							
Functional Development Assistance	406	371	387	404	421	439	457
Economic Support Fund	288	341	356	371	387	403	420
P.L. 480	806	867	907	948	988	1,030	1,072
Foreign Military Sales	5,716	4,940	5,162	5,384	5,611	5,848	6,095
Guarantee Reserve Fund (Defaults)	613	683	793	824	793	793	785
Export-Import Bank	1,467	2,302	4,046	4,337	4,411	4,576	4,769
Other	50	63	67	60	63	62	64
Total	9,346	10,067	11,718	12,329	12,674	13,151	13,662
Loan Guarantee Commitments							
Overseas Private Investment Corp.	92	150	157	164	170	178	185
AID Housing	150	160	167	174	182	189	197
Export-Import Bank	7,149	10,000	10,450	10,900	11,360	11,840	12,340
Total	7,391	10,310	10,774	11,238	11,712	12,207	12,722
Financing Transactions a/							
Guarantees of Direct Loans Made by the FFB	--	--	--	--	--	--	--
Foreign Military Sales	4,401	0	0	0	0	0	0

SOURCE: Congressional Budget Office.

a. Agency loan asset sales are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

and less deeply subsidized loans resulted in an average subsidy of 64 percent of loan volume. The Administration's budget proposes both to increase the volume of FMS loans over the baseline assumptions and to increase the proportion of forgiven loans. Direct loan volume would exceed the baseline by $1.4 billion over the four-year period 1986-1990, and subsidies would increase by $2.9 billion. Outlays would increase by $800 million.

Agency for International Development's Housing Loan Guarantee Program

The housing guarantee program of the Agency for International Development (AID) extends guarantees to assist developing countries in providing housing for lower-income groups. Under current policy all guarantees are coguaranteed by the receiving countries. The loans bear interest of approximately 11 percent for 30 years. OMB estimates that completely private financing would cost 14.7 percent interest for 20-year loans. Given these rates, the baseline subsidy is 19.6 percent of principal. The Administration is proposing to eliminate the program after 1986. Its proposal would reduce the loan volume by $864 million over the next five years, but save $170 million in subsidies for that period. The resource savings are therefore much smaller than the reduced loan volume might suggest.

Functional Development Assistance and the Economic Support Fund

The Agency for International Development extends discretionary loans for a variety of purposes through these two programs. Loans are discretionary in that the program's administrator may fund a project either as a grant or as a concessional loan. The proportion of loans to grants has decreased in the last 10 years from approximately 7:3 to less than 1:10 in 1984.

Loan terms are identical in both programs. Interest is set at 2 percent for the first 10 years, then at 3 percent for up to 30 additional years. The average maturity for loans of the Economic Support Fund has tended to be less than this limit, making the effective subsidy percentage shown in Table 14 slightly less than that for Functional Development Assistance loans (61.6 percent vs. 63.4 percent).

TABLE 14. INTERNATIONAL AFFAIRS CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent)		Term (Years)		
	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	Subsidy as a Percent of Principal
Direct Loans					
Functional Development Assistance	2.8	15.3	34	10	63.4
Economic Support Fund	3.0	14.6	15	15	61.6
Foreign Military Sales-Forgiven	0.0	14.7	(NA)	1	100.0
Concessional	5.0	13.7	7	10	48.3
By FFB	12.5	14.6	20	20	15.8
Export-Import Bank	11.2	15.2	9	9	16.1
Guaranteed Loans					
AID Housing	11.1	14.7	30	20	19.6
Overseas Private Investment Corp.	14.0	14.7	10	7	4.3
Export-Import Bank	12.0	14.9	3	3	4.2

SOURCE: Compiled by Congressional Budget Office using data from Special Analysis F, Tables 11 and 12.

TABLE 15. INTERNATIONAL AFFAIRS CREDIT PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE
(By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Direct Loan Obligations			
Export-Import Bank	-4,046	-4,089	-4,371	-4,576	-4,769	-21,851
Foreign Military Sales	493	395	290	171	35	1,384
Other	-18	-233	-42	-20	-64	-377
Total	-3,571	-3,927	-4,123	-4,425	-4,798	-20,844
			Primary Gaurantee Commitments			
Overseas Private Investment Corp. (OPIC)	-7	-14	-20	-28	-35	-104
AID Housing	-122	-174	-182	-189	-197	-864
Export-Import Bank	1,550	1,100	640	160	-340	3,110
Total	1,421	912	438	-57	-572	2,142
			Subsidy Costs			
Direct Loans						
Export-Import Bank	-651	-658	-704	-737	-768	-3,518
Foreign Military Sales	691	644	594	535	466	2,929
Total	40	-14	-110	-202	-302	-588
Guaranteed Loans						
OPIC	-0.3	-0.6	-0.9	-1.2	-1.5	-4.5
AID Housing	-24	-34	-36	-37	-39	-170
Export-Import Bank	64	45	26	7	-14	128
Total	39.7	10.4	-10.9	-31.2	-54.5	-46.5
			Outlays			
Export-Import Bank	-300	-1,200	-1,700	-1,900	-2,000	-7,100
Foreign Military Sales	0.0	100	300	200	200	800

SOURCE: Congressional Budget Office.

FUNCTION 270: ENERGY

This function includes credit programs for rural electrification and telephones funded through the Rural Electrification Administration (REA), power projects funded through the Bonneville Power Administration, and the Tennessee Valley Authority (TVA). Table 16 summarizes the new direct loan obligations and new loan guarantee commitments in this function.

Rural Electrification Administration

The Rural Electrification Administration of the Department of Agriculture conducts two capital investment programs: rural electrification, to provide electric service to farms and other rural establishments; and the rural telephone program, to furnish and improve telephone service in rural areas. Both programs are operated through the Rural Electrification and Telephone Revolving Fund, which the Congress placed off-budget to exempt its activities from outlay or expenditure ceilings.

REA direct loans are made at 5 percent and guaranteed loans at the Treasury rate plus 1/8 of 1 percent for 35 years under current policy. Comparable private loans are estimated by OMB to bear 14.6 percent interest for 15 years in the case of direct loans and 3 years for guaranteed loans (see Table 17). The Administration proposes to phase down government lending to rural electric and telephone cooperatives to zero by 1990. The Administration also proposes to increase the interest rate on REA direct loans to the Treasury rate plus 1 and 1/8 percent. REA direct loan obligations and direct loans orginated from the Federal Financing Bank are projected to be reduced by $11 billion over the five-year period (see Table 18). Subsidies would decline because of both the lower loan volume and the proposed increase in rates for the REA direct loans. Baseline subsidies would be reduced by $4.1 billion. Outlays are estimated to be cut by $5.2 billion.

Tennessee Valley Authority

The Tennessee Valley Authority is a government-owned corporation created to oversee the unified development of a river basin area that covers parts of seven states. The Seven States Energy Corporation is a TVA subsidiary that finances TVA's nuclear fuel acquisition. The corporation borrows from the

TABLE 16. ENERGY CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
		Direct Loan Obligations					
Rural Electrifcation Administration (REA)	1,079	1,100	1,114	1,142	1,190	1,240	1,292
REA Direct Loans from FFB	1,002	1,325	1,342	1,376	1,434	1,494	1,556
Tennessee Valley Authority (TVA)	60	88	90	92	96	100	104
TVA Direct Loans from FFB	137	90	87	73	---	---	---
Geothermal Resource Development	---	25	---	---	---	---	---
Bonneville Power Administration	40	40	40	42	43	45	47
Total	2,318	2,668	2,673	2,725	2,763	2,879	2,999
		Loan Guarantee Commitments					
Synthetic Fuels Corporation	---	---	4,000	---	---	---	---
Geothermal Resource Development	6	85	80	---	---	---	---
Total	6	85	4,080	---	---	---	---
		Financing Transactions a/					
REA Sale of Loan Assets to the FFB a/	69	164	311	321	337	354	380
REA Guaranteed Loans Financed as Direct Loans by the FFB	1,002	1,325	1,342	1,376	1,434	1,494	1,556
TVA Guaranteed Loans Financed as Direct Loans by the FFB	137	90	87	73	---	---	---

SOURCE: Congressional Budget Office.

a. Agency loan asset sales are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

FFB to finance its lending, with TVA guaranteeing the indebtedness through purchase agreements. The CBO baseline projections for the corporation's borrowing from the FFB are $90 million in 1985, $87 million in 1986, $73 million in 1987, and nothing thereafter (see Table 16). Rollovers of existing loans have been excluded from both CBO's and the Administration's numbers.

TVA also has a direct loan program for making low-interest loans for conservation through utilities serving the borrowers. TVA is then paid back through these utilities. CBO's baseline projection is $90 million in new direct loan obligations in 1986, increasing to $104 million by 1990.

TABLE 17. ENERGY CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FOR FISCAL YEAR 1984

	Interest Rate (Percent)		Term (Years)		
Program	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	Subsidy as a Percent of Principal
			Direct Loans		
Rural Electrification Administration (REA)					
Electric	11.6	14.6	35	15	39.6
Telephone	5.0	14.6	35	15	41.7
REA-FFB					
Electric	11.6	15.1	35	3	18.1
Telephone	11.6	14.6	35	15	16.7
Tennessee Valley Authority-- FFB	12.0	14.6	30	15	12.1

SOURCE: Congressional Budget Office. Subsidy estimates are taken from Special Analysis Tables 11 and 12 and OMB backup materials.

Synthetic Fuels Corporation

CBO assumes that $4.0 billion in loans will be guaranteed by the Synthetic Fuels Corporation in 1986. The corporation has the discretion to provide assistance in the form of purchase agreements, price guarantees, and direct and guaranteed loans.

Bonneville Power Administration

The Bonneville Power Administration provides direct loans for energy conservation. These loans are made through the power distribution companies serving borrowers for the purpose of promoting residential conservation measures. The cost of interest is included in the rates charged to all power recipients, since energy conservation is perceived as a general benefit to the Bonneville system.

In 1984, a limit of $40 million was enacted for new direct loan obligations, only $770,000 of which was obligated. CBO's baseline projection for 1985 is $40 million, increasing to $47 million by 1990. The Administration has requested a limit of $20 million for 1986 and would hold the program at that level through 1990.

Geothermal Resources Development

The geothermal resources development program provides loan guarantees to assist the private sector in developing geothermal resources by minimizing lender's financial risk associated with the introduction of new technology. The CBO baseline estimate for new loan guarantee commitments is $85 million in 1985 and $80 million in 1986.

TABLE 18. RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE (By fiscal year, in millions of dollars)

Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Direct Loan Obligations			
Non-Federal Financing Bank (FFB)	-539	-707	-900	-1,095	-1,292	-4,533
FFB	-1,042	-1,151	-1,284	-1,419	-1,556	-6,450
Total	-1,581	1,858	-2,184	-2,514	-2,848	-10,985
			Subsidy Costs			
Non-FFB	-512	-547	-592	-639	-687	-2,977
FFB	-187	-206	-230	-255	-279	-1,158
Total	-699	-753	-822	-894	-966	-4,135
			Outlays			
Total	---	-500	-1,200	-1,600	-2,000	-5,200

SOURCE: Congressional Budget Office.

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

Baseline assumptions for this function cover one direct loan program: the Interior Department's water resources loan program. Table 19 shows new direct loan obligations for this program.

The Small Reclamation Projects Act provides authorization for loans to irrigation districts and other public agencies for construction or rehabilitation of small water resource projects. The Distribution Systems Loan Act provides loans to organizations for the construction of irrigation and municipal or industrial waste distribution systems on authorized federal reclamation projects. The Administration requested $40 million for this program in 1986, and proposes phasing down the program to $1 million in 1990, a total reduction of $269 million over the period.

The Administration requested $9,000 in new loan obligations for the reconstruction of the Filene Center at Wolf Trap Farm Park for the Performing Arts for 1985--the remainder of the $8 million authorized. It also requested direct loans of $5.6 million in 1985 and $11.2 million in 1986 for Environmental Protection Agency abatement, control, and compliance activities. No new funds were included in the CBO baseline for either activity.

TABLE 19. NATURAL RESOURCES AND ENVIRONMENT CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
		Direct Loan Obligations					
Bureau of Reclamation Loan Program	44	68	71	73	76	78	81

SOURCE: Congressional Budget Office.

FUNCTION 350: AGRICULTURE

Credit assistance for agriculture consists of loans and loan guarantees of the Farmers Home Administration's Agriculture Credit Insurance Fund (ACIF) and the Commodity Credit Corporation (CCC), both in the Department of Agriculture. Table 20 shows new direct loan obligations and new loan guarantee commitments by the ACIF and the CCC in fiscal years 1984-1990.

Agriculture Credit Insurance Fund

The Farmers Home Administration (FmHA) finances direct loans and guarantees for purchasing, operating, and improving farms. Emergency disaster loans are also provided to assist recovery from natural disasters, including compensation for loss of income from reduced crop yields. Most borrowers are not acceptable credit risks for commercial or farm credit banks. Although the average ACIF loan conveys a subsidy of about 27 percent of principal, this average is significantly raised by the 52.5 percent subsidy on emergency disaster loans, which may bear interest as low as 5 percent for terms of up to 40 years (see Table 21). Under the CBO baseline, ACIF lending would average $5 billion annually, and new guarantees would average $800 million. The average subsidy on guarantees is estimated to be 4 percent of principal.

The President proposes to limit direct loans to $400 million in 1986 and to reduce the ceiling $100 million per year until 1990 when direct lending would be halted. Guarantees for farm operating loans would be increased to $3 billion, but the guarantee would be limited to 70 percent of principal--rather than the current 100 percent figure--and borrowers would be charged a 5 percent loan guarantee/origination fee. Emergency disaster loans would be available only where federal crop insurance is not available. Because federal all-risk crop insurance is currently available in virtually all counties of the United States, emergency lending would fall to insignificant levels--a five-year reduction of $9.7 billion.

If adopted, the President's proposal would significantly reduce ACIF activity and shift it away from deep-subsidy direct lending. Total assisted credit would decline by more than $2 billion per year (see Table 22). Outlay reductions would also exceed $4 billion per year, and subsidy costs would drop to about $50 million annually from the current rate of $1.3 billion.

Commodity Credit Corporation

The two major credit activities of the Commodity Credit Corporation (CCC) are price-support, nonrecourse direct loans to producers, and guarantees of loans made to finance U.S. agricultural exports. CCC price-support "loans" are more closely related to purchase agreements than to pure credit transactions but are treated here as loans, for consistency with Administration practice. The CCC makes direct loans to producers, with the crop serving as collateral. On the maturity date of a loan, the borrower can either pay off the loan or forfeit the commodity collateral to the CCC. If the market price is near or below the loan support price, the farmer has an incentive to default. If the market price is above the loan support price, the farmer typically then sells the crop, pays off the loan, and pockets the difference. These loans are called nonrecourse because the government has no claim on the farmer other than the commodity collateral. The CCC's loss, therefore, depends on crop prices. OMB estimates that CCC commodity loans entail a subsidy of only 1.3 percent of principal. This small subsidy does not consider the nonrecourse provision, which would not be included in a private loan. The existence of the nonrecourse provision potentially converts the loan subsidy to a price support equal to the difference between the crop price and the level specified in the nonrecourse agreement. Export loan guarantees against defaults are also assigned a shallow subsidy of 2.9 percent.

The President proposes to set loan support prices at 75 percent of the three-year average price of the commodity and to limit nonrecourse crop loans to $200,000 per farmer. An origination fee of 5 percent of the principal is proposed to be levied on export guarantees, and a small direct loan program for exports is to be terminated.

If the President's proposal is adopted, direct commodity loans would decline by an average of $3.4 billion annually over 1987-1990. Lending would decline because price-support loan rates would fall relative to market prices, thus reducing farmers' incentives to use nonrecourse loans. Fiscal year 1986 lending would not be affected since the proposed changes begin with the 1986 crop year. New loan guarantees are projected to be $1.5 billion per year lower over 1986-1990 because of the origination fee.

TABLE 20. AGRICULTURE CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
				Direct Loan Obligations			
Agriculture Credit Insurance Fund	4,004	4,515	4,721	4,928	4,785	4,981	5,183
Commodity Credit Corporation (CCC) Price Support Loans	5,278	9,275	9,677	8,652	8,127	8,072	7,919
Total	9,465	13,790	14,398	13,580	12,912	13,053	13,102
				Loan Guarantee Commitments			
Agriculture Credit Insurance Fund	443	706	738	770	802	836	871
CCC Export Credit Guarantees	4,179	5,000	5,000	5,000	5,000	5,000	5,000
Total	4,622	5,706	5,738	5,770	5,802	5,836	5,871
				Financing Transactions			
Agriculture Credit Insurance Fund Sale of Loan Assets to the FFB a/	6,805	6,209	4,389	2,395	1,918	4,674	3,847
Repurchase of Loan Assets	6,805	6,209	4,389	2,395	1,918	4,674	3,847

SOURCE: Congressional Budget Office.

a. Agency loan asset sales are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

TABLE 21. AGRICULTURE CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent) Average Government Loan	Interest Rate (Percent) Estimated Private Loan	Term (Years) Average Government Loan	Term (Years) Estimated Private Loan	Subsidy as a Percent of Principal
Direct Loans					
Agriculture Credit Insurance Fund					
Economic emergency	10.0	14.5	7	7	12.7
Emergency disaster	5.0	15.3	40	7	52.5
Farm operating	10.0	15.3	7	7	14.4
Farm ownership	10.4	14.5	40	25	27.7
Other	10.4	14.5	40	25	22.2
Commodity Credit Corporation					
Commodity loans	10.6	13.8	1	1	1.3
Export loans	11.5	14.9	3	1	4.8
Rescheduled loans	13.5	14.9	5	5	6.8
Storage facility loans	10.6	14.5	4	1	6.5
Primary Guaranteed Loans					
Agriculture Credit Insurance Fund:					
Economic emergency	13.8	15.2	7	7	3.7
Farm operating	13.2	14.5	7	7	3.2
Farm ownership	12.5	14.5	40	25	10.7
Commodity Credit Corporation					
Export credits	11.8	14.0	3	1	2.9

SOURCE: Congressional Budget Office. Subsidy estimates are taken from Special Analsis Tables 11 and 12 and OMB backup materials.

TABLE 22. AGRICULTURE CREDIT PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE
(By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Direct Loan Obligations			
Agriculture Credit Insurance Fund (ACIF)	-4,321	-4,628	-4,585	-4,881	-5,183	-23,598
Commodity Credit Corporation (CCC)	---	-1,775	-3,556	-4,149	-4,187	-13,667
Total	-4,321	-6,403	-8,141	-9,030	-9,370	-47,265
			Primary Guarantee Commitments			
ACIF	2,262	2,230	2,198	2,164	2,129	10,983
CCC	-1,500	-1,500	-1,500	-1,500	-1,500	-7,500
Total	762	730	698	664	629	3,483
			Subsidy Costs			
Direct Loans						
ACIF	-1,197	-1,266	-1,242	-1,308	-1,375	-6,387
CCC	---	-28	-56	-66	-66	-216
Total	-1,197	-1,294	-1,298	-1,374	-1,341	-6,603
Guaranteed Loans						
ACIF	-7	-8	-9	-11	-12	-46
CCC	-81	-81	-81	-81	-81	-358
Total	-88	-89	-90	-92	-93	-404
			Outlays			
ACIF	-4,400	-4,400	-4,000	-3,900	-3,800	-20,500
CCC	200	---	-1,700	-1,700	-1,400	-4,600
Total	-4,200	-4,400	-5,700	-5,600	-5,200	-25,100

SOURCE: Congressional Budget Office.

FUNCTION 370: COMMERCE AND HOUSING CREDIT

These credit programs are designed to promote the flow of funds into commerce and housing. Programs include the mortgage insurance and purchase activities of the Department of Housing and Urban Development, the Rural Housing Insurance Fund of the Farmers Home Administration, the business loan programs of the Small Business Administration, the National Credit Union Administration, and other activities.

The CBO baseline estimates $6.8 billion in new direct loan obligations and $27.7 billion in new primary loan guarantee commitments for 1986. Table 23 summarizes the credit activity in this function for 1984 through 1990. The Administration's proposed decreases in direct loans in this function are estimated by CBO to total $26 billion over the 1986-1990 period.

Federal Housing Administration (FHA)

The FHA revolving fund finances about 40 separate credit programs including the Section 203(b) home mortgage insurance plan. The only significant proposed change affecting these programs is to raise the mortgage insurance fee from 3.8 percent of principal to 5 percent. This increase is expected to eliminate the $105 million annual subsidy on single-family mortgage guarantees and to increase revenue by $400 million per year over the next five years.

The Administration estimates guaranteed loan commitments of $30 billion in 1985, increasing to around $40.5 billion in 1990. CBO estimates commitments of $23 billion in 1985, increasing to $32 billion in 1990.

Rural Housing Insurance Fund

The Rural Housing Insurance Fund (RHIF) finances some of the government's deepest subsidy loan programs. Home ownership loans with zero downpayment are made at 3 percent interest for 33 years, for example. The next largest category, after home ownership loans, consists of rental housing loans which can carry effective rates of 1 percent for 50-year terms (see Table 24). The average subsidy on RHIF loans is 67 percent of principal. Current lending is about $3.2 billion per year, projected to reach $4.0 billion in 1990 under current policy.

The President proposes to terminate Farmers Home Administration housing loans (except for those to finance essential repairs to existing occupied dwellings), to shift rural housing assistance to the Department of Housing and Urban Development, and to adopt a two-year moratorium on new assistance. If adopted, these measures would reduce subsidies by about $2.5 billion per year for 1986 through 1990 and outlays by an average of $3.4 billion a year over the same period.

Small Business Administration

The Small Business Administration (SBA) provides direct and guaranteed loans to small businesses, and guaranteed loans for pollution control equipment. OMB estimates that the average subsidy for SBA general business direct loans was 20.9 percent and for SBA general business guaranteed loans, 23.0 percent in 1984. The Administration has proposed to eliminate the SBA direct loan programs starting in 1986. This would reduce baseline direct loans, which include guarantee claims and loans made by the FFB to agency-guaranteed borrowers, by $6.0 billion. In addition, SBA baseline primary guarantees would be reduced by by $13.1 billion over five years. CBO estimates the outlay savings from 1986 to 1990 to be $4.5 billion (see Table 25). Assuming a constant subsidy level and mix of SBA programs in the baseline, the subsidy costs would be reduced by $2.5 billion in direct loans and $2.8 billion in guarantees over the five-year period.

MAJOR PROGRAM CHANGES PROPOSED BY THE ADMINISTRATION

Housing for the Elderly and Handicapped. The Administration has proposed a two-year moratorium on new direct loan commitments, decreasing obligations by $573 million in 1986 and $629 million in 1987. The subsidy savings from the moratorium are estimated to be $146 million in 1986 and $146 million in 1987.

Fisheries Loan Fund. Direct loans have been used to assist commercial fishermen in purchasing, repairing and outfitting boats. In the last two years, however, priority has been given to those borrowers who were in danger of default on federally guaranteed mortgages or on direct loans made by the Federal Ship Financing Fund. Loan interest rates average 3 percent. The Administration proposes eliminating direct loans on this account starting in 1986, when baseline obligations are estimated to be $7 million.

Federal Ship Financing Fund--Fishing Vessels. Direct loans of this account are to forestall possible defaults and claims on defaulted mortgages. Interest rates on loans are the Treasury rate plus approximately 1 percent. The obligation level is to be reduced in 1986 and eliminated in 1987. Guaranteed loan commitments are proposed to be eliminated starting in 1986, representing a decrease from baseline levels of $52 million.

Trade Adjustment Assistance. The Administration has proposed to rescind nearly all of the $6.5 million in direct loan obligations appropriated for 1985, and not to extend direct loans thereafter. To qualify for direct loans, a firm must demonstrate that imports of competitive goods have contributed both to declines in sales or production and to the release of a significant portion of the firm's employees. Direct loans are used to supply working capital for the implementation of methods to increase a firm's competitiveness. Interest rates on these loans are set at the Treasury rate plus an amount adequate to cover administrative costs and probable losses. In 1984, the rate averaged around 14 percent.

The Administration proposes to eliminate the program's loan guarantees starting in 1986. These guarantees are for loans to diversify or modernize the operations of a firm affected by competition from foreign imports. Baseline guarantee commitments rise from $17 million in 1986 to $20 million in 1990.

TABLE 23. COMMERCE AND HOUSING CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
		Direct Loan Obligations					
Rural Housing Insurance Fund (RHIF)	2,776	3,444	3,510	3,525	3,957	3,906	3,997
Federal Housing Admin. (FHA) Fund	457	318	322	339	351	365	382
Housing for the Elderly and Handi-capped Fund	666	600	623	649	676	705	734
Central Liquidity Facility (NCUA)	449	500	600	654	682	710	740
Federal Deposit Insurance Corporation (FDIC)	5658	180	150	300	300	300	300
Federal Savings and Loan Insurance Corporation (FSLIC)	656	90	148	140	140	140	140
Small Business Admin. (SBA)-Business Loan and Investment Fund	1,229	1,341	1,418	1,463	1,504	1,541	1,600
Other	51	55	52	54	55	59	60
Total	11,942	6,528	6,823	7,124	7,665	7,726	7,953
		Primary Loan Guarantee Commitments					
Rural Housing Insurance Fund	30	25	20	6	4	2	2
FHA Fund	17,071	23,324	24,840	26,454	28,174	30,005	31,955
FSLIC	223	246	351	276	209	150	75
Federal Ship Financing Fishing Vessels	51	50	52	54	57	59	62

(Continued)

TABLE 23. (Continued)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
		Primary Loan Guarantee Commitments (Continued)					
Small Business Administration							
Pollution Control	11	150	157	164	170	178	185
Business Loan and Investment Fund	2,987	2,628	2,248	2,338	2,440	2,544	2,652
Other	26	26	27	29	30	31	33
Total	20,399	26,449	27,695	29,321	31,084	32,969	34,964
		Financing Transactions					
RHIF Sale of Loan Assets to the FFB a/	5,020	4,307	1,946	2,274	2,421	3,234	3,821
RHIF Repurchase of Loan Assets from FFB	3,930	2,110	0	150	0	1,000	640
SBA Business Loan and Investment Fund Repurchase of Loan Assets from FFB	1	1	1	1	1	1	1
SBA Business Loan and Investment Fund Guarantees of Direct Loans made by FFB	478	622	650	678	706	736	767
		Secondary Loan Guarantee Commitments					
Government National Mortgage Association	39,665	41,252	43,108	44,964	46,862	48,842	50,904

SOURCE: Congressional Budget Office.

a. Agency loan asset sales are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

TABLE 24. COMMERCE AND HOUSING CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent) Average Government Loan	Interest Rate (Percent) Estimated Private Loan	Term (Years) Average Government Loan	Term (Years) Estimated Private Loan	Subsidy as a Percent of Principal
Direct Loans					
Rural Housing Insurance Fund (RHIF)					
Farm labor housing	1.0	14.0	33	25	69.9
Home ownership	3.0	14.0	33	25	61.8
Rental housing	1.0	14.5	50	5	77.7
Other	1.0	16.2	20	15	62.4
Federal Housing Admin. (FHA)	12.9	13.2	30	30	1.1
Housing for Elderly and Handicapped	9.0	13.1	40	30	25.4
Small Business Admin. (SBA)					
Business Loan and Investment Fund	13.5	17.8	7	2	20.9
National Credit Union Administration	9.9	11.0	3	3	0.2
Guaranteed Loans					
FHA					
Single-family	12.9	13.1	30	30	1.1
Multi-family	13.5	13.9	40	15	3.5
SBA					
Pollution control	12.5	14.0	20	30	8.4
Business Loan and Investment Fund	13.0	17.8	9	2	23.0

SOURCE: Congressional Budget Office. Subsidy estimates are taken from Special Analysis Tables 11 and 12 and OMB backup materials.

TABLE 25. COMMERCE AND HOUSING PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE
(By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Direct Loan Obligations			
Rural Housing Insurance Fund (RHIF)	-3,374	-3,523	-3,678	-3,834	3,996	-18,405
National Credit Union Administration (NCUA)	-50	-104	-132	-160	-190	-636
Housing for Elderly and Handicapped	-573	-629	-113	-118	-122	-1,555
Small Business Admin. Business Loan and Investment Fund	-898	-984	-1,168	-1,392	-1,561	-6,003
Other	-26	12	109	124	244	463
Total	-4,921	-5,228	-4,982	-5,380	-5,625	-26,136
			Primary Guarantee Commitments			
SBA						
Pollution control	-157	-164	-170	-178	-185	-854
Business Loan and Investment Fund	-2,248	-2,338	-2,440	-2,544	-2,652	-12,222
Federal Housing Admin. (FHA)	7,897	8,385	8,522	8,591	8,587	41,982
Other	-69	-72	-76	-78	-82	-377
Total	5,423	5,811	5,836	5,791	5,668	28,529

(Continued)

Table 25. (Continued)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Subsidy Costs			
Direct Loans						
RHIF	-2,257	-2,357	-2,461	-2,565	-2,673	-12,313
Housing for Elderly and Handicapped	-146	-160	-29	-30	-31	-396
SBA Business Loan Investment Fund	-189	-207	-245	-292	-1,561	-2,494
Total	-2,592	-2,724	-2,735	-2,887	-4,265	-15,203
Guaranteed Loans						
SBA						
Pollution control	-13	-14	-14	-15	-16	-72
Business Loan and Investment Fund	-517	-538	-561	-585	-610	-2,811
FHA	117	124	126	127	127	621
Total	-413	-427	-449	-473	-498	-2,261
			Outlays			
RHIF	-2,041	-3,105	-3,573	-4,007	-4,432	-17,158
SBA Pollution Control and Business Loan and Investment Fund	-719	-1,087	-1,071	-1,115	-472	-4,464
FHA	-322	-374	-428	-486	-548	-2,158

SOURCE: Congressional Budget Office.

FUNCTION 400: TRANSPORTATION

This function includes credit programs of the Department of Transportation that provide financial assistance for highway, rail, air, and water transportation. The CBO baseline estimate for 1986 direct loan obligations is $170 million, while the estimate for guaranteed loans is $309 million (see Table 26). The terms of loans under these programs are described in Table 27. Table 28 highlights the effect of the Administration's request on these programs relative to the CBO baseline.

Rail Programs

The improved financial situation for railroad companies has contributed to the proposal to eliminate railroad credit assistance programs after 1986. Direct loans for the Rail Service Assistance program were last made in 1984. Regular direct loans will end in 1985 for the Railroad Rehabilitation and Improvement program, but a small amount of direct loans by the Federal Financing Bank to guaranteed borrowers of the program may continue. The Administration has proposed that they be discontinued in 1986.

The Administration has also proposed that guaranteed loans by the Rail Service Assistance program be eliminated after 1986.

Highway Programs

The Highway Trust Fund will make less than $500,000 in direct loans in 1985, after which credit assistance will end under this program.

The Right-of-way Revolving Fund makes no-interest cash advances to states to allow them to buy land in advance of highway construction. Baseline estimates are for $52 million in direct loans in 1985, rising to $61 million in 1990.

Shipping Programs

The Maritime Administration's Federal Ship Financing Fund makes direct and guaranteed loans. Direct loans under the program are largely a result of guaranteed loan default claims. In recent years, claims have been relatively

TABLE 26. TRANSPORTATION CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
Direct Loan Obligations							
Highway Trust Fund	27	a/	0	0	0	0	0
Rail Service Assistance	60	0	0	0	0	0	0
National Railroad Passenger Corp.	880	0	0	0	0	0	0
Railroad Rehabilitation and Improvement	48	18	3	3	3	3	3
Right-of-way Revolving Fund	26	50	52	55	57	59	61
Aircraft Purchase Guarantee Program	22	0	0	0	0	0	0
Federal Ship Financing Fund	127	228	115	85	60	60	60
Total	1,190	296	170	143	120	122	124
Guarantee Loan Commitments							
Rail Service Assistance	12	9	9	10	10	10	11
Federal Ship Financing Fund	177	300	300	300	300	300	300
Total	189	309	309	310	310	310	311
Financing Transactions b/							
Railroad Rehabilitation and Improvement Guarantees of direct loans made by FFB	6	2	3	3	3	3	3

SOURCE: Congressional Budget Office.

a. Less than $500,000.

b. Agency loan asset sales are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

high, reflecting the troubled financial state of the maritime industry. The Administration has proposed to increase control over guarantees by limiting the guaranteed loan volume through appropriations starting in 1986. The proposed limit would be $900 million in each of the next five years. Actual expected guarantees are $300 million per year.

TABLE 27. TRANSPORTATION CREDIT PROGRAMS LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

	Interest Rate (Percent)		Term (Years)		
Program	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	Subsidy as a Percent of Principal
		Direct Loans			
Federal Ship Financing Fund	13.1	17.4	10	3	9
Right-of-way Revolving Fund	0	12.9	10	20	42.8
		Guaranteed Loans			
Federal Ship Financing Fund	13.9	15.9	20	10	7.9

SOURCE: Compiled by CBO using data from Special Analysis F Tables 11 and 12.

TABLE 28. TRANSPORTATION CREDIT PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE (By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Direct Loans			
Railroad Rehabilitation and Improvement	-3	-3	-3	-3	-3	-15
Right-of-way Revolving Fund	-2	-5	-7	-9	-11	-34
			Primary Guarantee Commitments			
Rail Service Assistance	a/	-10	-10	-10	-11	-41

SOURCE: Congressional Budget Office.

a. Less than $500,000.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

This function includes credit assistance for community development in the Department of Housing and Urban Development, area and regional development in the Departments of Commerce and Agriculture, disaster loans of the Small Business Administration, and assistance to Indian tribes in the Department of the Interior. For 1986, the CBO baseline projects $1.5 billion in new direct loan obligations, a decrease of $189 million from 1985. New loan guarantee commitments are projected to be $176 million in 1986. The credit activity in this function for 1984 through 1990 is summarized in Table 29.

The Administration's request for new direct loan obligations as estimated by CBO, is $415 million in 1986. The Administration has proposed eliminating virtually all of the loan guarantee programs in this function in 1986, a proposal that would reduce the baseline loan guarantees by $904 million between 1986 and 1990.

Rural Development Insurance Fund (RDIF)

This revolving fund the smallest of the three major Farmers Home Administration funds and finances three credit programs: direct loans for water and waste disposal; direct loans for community facilities such as fire stations, town halls, and social centers; and loan guarantees to facilitate commercial and industrial development. Loan obligations are currently running at almost $500 million annually; new commitments to guarantee are less than $200 million per year. Direct loans are made at rates as low as 5 percent for 40 years. The average RDIF loan subsidy is 20 percent of principal. For guarantees, the subsidy is 8 percent of the principal amount (see Table 30).

The President proposes to terminate RDIF credit programs, except for $50 million in water and waste disposal loans in 1986, and to transfer responsibility for these activities to the Community Development Block Grant program. If adopted, this proposal would reduce total assisted lending by $3.4 billion (see Table 31); Farmers Home Administration credit subsidies would be reduced by $577 million.

Community Development Block Grant Guarantees

The Secretary of Housing and Urban Development guarantees the debt securities of Community Development Block Grant (CDBG) recipients to finance

TABLE 29. COMMUNITY AND REGIONAL DEVELOPMENT CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
		Direct Loan Obligations					
Rural Development Insurance Fund (RDIF)	412	711	476	496	656	622	562
Community development grants, FFB direct loans	87	115	120	125	131	136	142
Rural Telephone Bank	143	185	193	202	210	219	220
Housing Rehabilitation Loan Fund	86	80	89	92	99	106	113
Small Business Admin. Disaster Loan Fund	314	600	600	1,069	1,115	1,159	1,207
Other	30	44	43	49	51	52	54
Total	1,082	1,735	1,521	2,033	2,262	2,294	2,298
		Loan Guarantee Commitments					
RDIF	124	150	157	164	170	178	185
Economic Development Revolving Fund	11	---	---	---	---	---	---
Other	19	19	19	19	19	19	19
Total	154	169	176	183	189	197	204
		Financing Transactions					
RDIF Sale of Loan Assets to the FFB a/	1,300	1,328	502	246	418	361	586
RDIF Repurchase of Loan Assets from the FFB	980	595	30	---	---	---	295
Community Development Block Grant Guaranteed Loans Financed as Direct Loans by the FFB	124	150	157	164	170	178	185

SOURCE: Congressional Budget Office.

a. Agency loan assets are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

the acquisition of property and preparation of sites in anticipation of CDBG development. The guarantees are financed by and converted to direct federal loans by the Federal Financing Bank at a rate of 1/8 of 1 percent above the Treasury rate. The loans are largely repaid from the CDBG grants. Because the loan is made at approximately the Treasury rate and repaid with government funds, the subsidy is minimal. OMB estimated the subsidy to be 1.6 percent of principal for funds committed in 1984. The Administration has proposed the elimination of the program. Over the five-year period 1986-1990, baseline direct loans would be reduced by $654 million, outlays by $459 million, and subsidy costs by $10 million.

Rural Telephone Bank

The Rural Telephone Bank (RTB) is an off-budget entity that was established in 1971 by Public Law 92-12 to provide a supplemental source of financing for the Rural Electrification Administration's telephone program. The RTB makes direct loans, charging an interest rate based on its average cost of money. The CBO baseline estimate for RTB new direct loan obligations is $193 million in 1986, increasing to $220 million by 1990. The Administration proposes to phase out the RTB through 1989 when new lending would be terminated. Baseline RTB obligations would be reduced by $582 million, subsidy costs by $165 million, and outlays by $393 million over the five-year period 1986-1990.

Rehabilitation Loan Fund

This fund finances rehabilitation of residential and commercial properties. In the past few years, these loans have been financed from carryover balances, loan repayments, and other program income. CBO's baseline projections include obligations of approximately $100 million annually for the program. The Administration has proposed the elimination of the program. If this occurs, subsidy costs would be reduced by $192 million and outlays by $293 million over the projection period.

Small Business Administration Disaster Assistance

The Small Business Administration makes direct loans to assist businesses and property owners to recover from natural disasters under Section 7(b) of the Small Business Act, as amended.

The CBO baseline projects new direct loan obligations of $600 million in 1986, increasing to $1.2 billion by 1990. Baseline estimates increase

TABLE 30. COMMUNITY AND REGIONAL DEVELOPMENT CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent)		Term (Years)		Subsidy as a Percent of Principal
	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	
Direct Loans					
Rural Development Insurance Fund (RDIF) Community Facilities and Water and Waste	8.8	12.0	40	20	20.1
Community Development Block Grants	12.2	12.5	6	6	1.6
Rural Telephone Bank	9.5	14.6	35	15	28.3
Rehabilitation Loan Fund	4.7	15.2	15	15	38.5
SBA Disaster Loans a/	4.0	17.8	12.5	1	57.4
	8.0	17.8	11.75	2	42.9
Guaranteed Loans					
RDIF Industrial Development Fund	12.5	14.8	15	7	7.8

SOURCE: Compiled by CBO using data from Special Analysis F Tables 11 and 12 (except where noted).

a. Congressional Budget Office estimate.

dramatically from 1986 to 1987, reflecting the expiration of a cap on physical disaster lending (see Table 29). The Administration's request proposes the elimination of the Small Business Administration. Disaster loans would be reduced in 1986 to $149 million and to zero thereafter. Over the projections period the Administration's request would reduce baseline estimates for direct loan obligations by $5.0 billion, subsidy costs by $2.7 billion, and outlays by $2.5 billion.

TABLE 31. COMMUNITY AND REGIONAL DEVELOPMENT CREDIT PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE (By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Direct Loan Obligations			
Rural Development Insurance Fund (RDIF)	-425	-496	-517	-539	-562	-2,593
Community Development Block Grant--FFB	-120	-125	-131	-136	-142	-654
Rural Telephone Bank	-8	-63	-118	-173	-220	-582
Rehabilitation Loan Fund	-89	-92	-99	-106	-113	-499
Small Business Admin. Disaster Loans	-451	-1,069	-1,115	-1,159	1,207	-5,001
			Primary Loan Guarantee Commitments			
RDIF	-157	-164	-170	-178	-185	-854
			Subsidy Costs			
Direct Loans						
RDIF	-85	-100	-104	-108	-113	-510
Community Development Block Grant	-2	-2	-2	-2	-2	-10
Rural Telephone Bank	-2	-18	-33	-49	-62	-165
Rehabilitation Loan Fund	-34	-35	-38	-41	-44	-192
SBA Disaster Loans	-247	-586	-611	-635	-661	-2,740
Guaranteed Loans						
RDIF	-12	-13	-13	-14	-14	-67
			Outlays			
RDIF	-7	-82	-242	-426	-504	-1,261
Community Development Block Grant	-12	-46	-78	-161	-162	-459
Rural Telephone Bank	-37	-52	-80	-103	-121	-393
Rehabilitation Loan Fund	-7	-72	-72	-71	-71	-293
SBA Disaster Loans	-438	-384	-650	-748	-276	-2,496

SOURCE: Congressional Budget Office.

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES

Credit programs in this function consist primarily of direct loans and loan guarantees to assist students and their families in financing college educations. In addition, loans are made to colleges and other academic institutions to finance construction of facilities. The CBO baseline estimate for direct loan obligations is $1.1 billion in 1986, increasing to nearly $1.2 billion by 1990. The baseline projects total loan guarantee commitments of $9.0 billion in 1986, increasing to $10.4 billion in 1990. Table 32 summarizes the credit activity in this function.

The Administration's budget, as estimated by CBO, requests $857 million in 1986 new direct loan obligations, decreasing to $600 million in 1990. New loan guarantee commitments are estimated to be $7.6 billion in 1986, decreasing to $6.7 billion by 1990.

Student Financial Assistance

National direct student loans (NDSLs) are low-interest loans to assist financially needy students in pursuing postsecondary education at eligible institutions. In 1984, the NDSL average interest rate was 5 percent for a term of 13 years. OMB estimated that comparable private financing would have interest rates of 18.5 percent for a term of 5 years--a subsidy of 68.1 percent of direct loan obligations (see Table 33). The CBO baseline contains $202 million in NDSL new direct loan obligations in 1986, rising to $252 million in 1990. The Administration does not request any new direct loan obligations after 1985 for NDSLs, a reduction of $1.1 billion from baseline estimates.

Guaranteed Student Loans

The Guaranteed Student Loan (GSL) program is designed to promote the availability of commercial and other loans to students and their parents to help pay education costs. This is accomplished through the provision of federal insurance and reinsurance against borrower default and through interest subsidy payments. OMB estimated that while GSLs were made at 8 percent for a term of 14 years during 1984, comparable private loans would cost 15 percent for a term of 10 years. The subsidy was estimated to be 52 percent of the face value of the loans.

The CBO baseline estimate for new loan guarantee commitments is $9.0 billion in 1986. Direct loan obligations used to pay claims on defaulted guaranteed student loans are estimated to be $860 million in 1986. In its budget the Administration has proposed a number of restrictions on the GSL program: a $4,000 per year cap on all subsidized grant and loan aid per student; a $32,500 cap on income eligibility; and reductions in the GSL allowances to lenders. In addition, all borrowers with income below $32,500 would be subject to a needs test. CBO estimates that GSL loan volume would fall by a total of $15.4 billion from the baseline between 1986 and 1990 and that outlays would be reduced by $5.2 billion between 1986 and 1990 (see Table 34). Applying the OMB subsidy estimates yields a reduction in subsidy costs of $8.7 billion.

TABLE 32. EDUCATION ACTIVITIES CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
Direct Loan Obligations							
Student Financial Assistance	169	192	202	212	225	238	252
Guaranteed Student Loans	769	937	860	865	870	880	900
College Housing	40	40	41	43	44	46	47
Total	979	1,169	1,103	1,120	1,139	1,164	1,199
Loan Guarantee Commitments							
Guaranteed Student Loans	7,597	8,750	9,050	9,365	9,590	9,970	10,400

SOURCE: Congressional Budget Office.

College Housing Loans

Title IV of the Housing Act of 1950 authorized loans at 3 percent interest rates to colleges and eligible hospitals for the construction and acquisition of housing facilities. The CBO baseline projects average annual new direct loan obligations of $44 million for 1986 through 1990. The Administration is again proposing to eliminate new college housing loans after 1985.

TABLE 33. EDUCATION CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

	Interest Rate (Percent)		Term (Years)		
Program	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	Subsidy as a Percent of Principal
			Direct Loans		
Guaranteed Student Loan Defaults	4.0	20.0	14.5	10.0	77.4
Student Financial Assistance (NDSL)	5.0	18.5	13.0	5.0	68.1
College Housing	3.0	12.8	30.0	30.0	60.7
			Guaranteed Loans		
Guaranteed Student Loans	8.0	15.0	14.0	10.0	52.0

SOURCE: Compiled by Congressional Budget Office using data from Special Analysis F, Table 12.

NOTE: Guarantee fees for government loans are 7.5 percent versus 13.5 percent for private loans.

TABLE 34. EDUCATION CREDIT PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE (By fiscal year, in millions of dollars)

Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Direct Loan Obligations						
Guaranteed Student Loans--Defaults	-3	-30	-100	-130	-300	-563
Primary Guarantee Commitments						
Guaranteed Student Loans	-1,450	-3,315	-3,390	-3,570	-3,700	-15,425
Subsidy Costs						
Primary Guarantees						
Guaranteed Student Loans	-754	-1,724	-1,763	-1,856	-1,924	-8,021

SOURCE: Congressional Budget Office.

FUNCTION 550: HEALTH

Credit assistance in the health function includes loans and loan guarantees for health facilities and practitioners, health maintenance organizations, and the education and training of health care professionals. Direct loan obligations in 1985 are expected to be $7 million, while guaranteed loan obligations are estimated at $250 million (see Table 35).

Health Resources

Direct loans are made by the National Health Service Corps. Half of the $1 million obligated in each year goes to development of medical facilities in communities not receiving grant support, and half goes to help establish private medical practices in areas with a shortage of practitioners (to a maximum of $12,500 per person). Loans are made for five years at the Treasury rate for corresponding maturities.

Health Maintenance Organizations

The growing acceptance of health maintenance organizations (HMOs) by the investment community has made private funding increasingly available since the program's inception. Disbursals for loans are only being made for prior-year direct loan obligaions. No new loans are to be obligated under this program.

Health Professions Education Assistance Loans (HEAL)

Loans are guaranteed for graduate students in the health professions for up to $20,000 per year, to a maximum of $80,000 per person. Interest rates for the loans are set at the 90-day Treasury bill rate plus 3.5 percent (except for a few selected professions), and can be repaid over 25 years after a nine-month grace period following graduation. Because of a relatively high default incidence, the Administration has proposed increasing the origination fee from 2 percent to 5 percent. The Administration has also proposed making the guarantee commitment level subject to appropriation each year starting in 1986. The proposed guarantee commitment level is $100 million per year compared with baseline estimates of $260 million in 1986, rising to $325 million in 1990 (see Tables 35 and 37).

TABLE 35. HEALTH CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
Direct Loan Obligations							
Health Resources	1	1	1	1	1	1	1
Medical Facilities Guarantee and Loan Fund--Defaults	2	2	2	2	2	2	2
HMOs	2	0	0	0	0	0	0
Health Professions Education Assistance--Defaults	4	4	4	4	5	5	5
Total	9	7	7	7	8	8	8
Loan Guarantee Commitments							
Health Professions Education Assistance	250	250	260	275	290	310	325
Financing Transactions a/							
Medical Facilities--Guarantees of Loan Assets Sold to FFB	0	5	0	0	0	0	0
HMOs--Guarantees of Loan Assets Sold to FFB	1	3	1	0	0	0	0

SOURCE: Congressional Budget Office.

a. Agency loan asset sales are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

TABLE 36. HEALTH CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent)		Term (Years)		Subsidy as a Percent of Principal
	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	
Guaranteed Loans					
Health Professions Education Assistance	13.2	15	16.3	10	48

SOURCE: Compiled by the Congressional Budget Office using data from Special Analysis F, Table 12.

NOTE: Guarantee fees for government loans are 2 percent versus 13.5 percent for private loans.

TABLE 37. HEALTH CREDIT PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE (By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
			Primary Guarantee Commitments			
Health Professions Education Assistance	-160	-175	-190	-210	-225	-960
			Subsidy Costs			
Health Professions Education Assistance	-77	-175	-91	-101	-108	-552

SOURCE: Congressional Budget Office.

FUNCTION 600: INCOME SECURITY

Credit assistance in the income security function is primarily for housing. Local public housing authorities (PHAs) are assisted in the construction of low-rent public housing, and interest-free direct loans are provided to nonprofit organizations planning to build subsidized housing for low-income, elderly, and handicapped tenants. The Pension Benefit Guaranty Corporation also administers direct loan assistance to companies to prevent the loss of pension benefits to participants if pension plans are terminated or are otherwise unable to pay insured benefits. Table 38 illustrates the lending activity in this function.

Low-Rent Public Housing

This program provides federal credit assistance for the construction, acquisition, or modernization of public housing projects by PHAs. Before 1984, the federal government provided direct loans to finance the early stages of construction and then guaranteed tax-exempt state and local bonds to finance the projects permanently. The notes are ultimately repaid from federal rental assistance payments. Because of federal repayment, loans bear little risk. OMB estimated a subsidy cost of 3 percent in 1984.

The 1985 base for direct loans includes a one-time disbursement of $13 billion for the conversion of financing for low-rent public housing from guaranteed tax-exempt state and local notes to direct federal loans. CBO projects total obligations of $8.8 billion from 1986 through 1990. The Administration proposes to phase the program out beginning in 1987. From 1987 through 1990, obligations would be reduced by $4.3 billion.

TABLE 38. INCOME SECURITY CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
			Direct Loan Obligations				
Direct Loans							
Low-Rent Public Housing	1,413	14,303	1,822	2,292	1,755	1,487	1,445
Non-profit Sponsor Assistance	1	2	2	2	2	2	2
Pension Benefit Guaranty Corporation	1	2	2	2	2	2	2
Total	1,414	14,306	1,825	2,295	1,759	1,490	1,449
			Loan Guarantee Commitments				
Low-Rent Public Housing	13,723	---	---	---	---	---	---

SOURCE: Congressional Budget Office.

FUNCTION 700: VETERANS' BENEFITS AND SERVICES

Credit assistance to veterans includes direct loans in the form of borrowing against the cash value of life insurance policies, for educational purposes, and loans and guarantees by the Veterans Administration (VA) to purchase homes. The CBO baseline projection for new direct loan obligations is $1.3 billion in 1986, decreasing to $800 million in 1990. For new loan guarantee commitments, CBO projects $17.6 billion increasing to $24.9 billion over the same period (see Table 39).

VA Education Loan Fund

Legislation has been proposed to repeal the authority to make education direct loans to veterans because of the excessively high default rates of the program (greater than 70 percent). Baseline obligations are less than $100,000 in each of the next five years.

VA Loan Guaranty Revolving Fund

The Veterans Administration insures or guarantees the purchase or construction of homes for veterans (see Table 40 for details on interest rates and terms of these loans). The President has proposed to increase the origination fee charged by VA from 1 percent to 5 percent of the full principal of a VA-guaranteed mortgage. CBO projects that the higher fee value would decrease the number of new loan originations by 20 percent, and the dollar value of loan guarantees by 6 percent below baseline estimates for the five-year period. In addition, as most fees would be financed rather than paid in lump sum up front, there would be an increase in the length of time during which mortgagors would have no equity in the properties. For this reason, both defaults and vendee loans would increase over baseline projections by an estimated $36 million in 1987, rising by an additional $894 million by 1990 (see Table 41). The average default costs to the VA would also rise by 5 percent because the fee would be financed as part of the mortgage principal.

The net impact of these proposed changes could be outlays that are actually higher in 1990 than would be expected under current law.

TABLE 39. VETERANS' CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
Direct Loan Obligations							
Insurance Programs (All)	131	150	156	162	168	174	180
Vocational Rehabilitation Revolving Fund	1	1	1	1	1	1	1
Educational Loans	a/	a/	a/	a/	a/	a/	a/
Direct Loan Revolving Fund	1	1	1	1	1	1	1
Loan Guaranty Revolving Fund	1,137	1,151	1,154	1,052	922	740	620
Total	1,270	1,303	1,312	1,216	1,092	916	801
Loan Guarantee Commitments							
Loan guaranty Revolving Fund	16,465	16,778	17,642	18,757	20,891	23,899	24,921

SOURCE: Congressional Budget Office.

a. Less than $100,000.

TABLE 40. VETERANS' CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent) Average Government Loan	Interest Rate (Percent) Estimated Private Loan	Term (Years) Average Government Loan	Term (Years) Estimated Private Loan	Subsidy as a Percent of Principal
Direct Loans					
Loan Guaranty Revolving Fund					
Vendee and acquired loans	13.0	14.0	30	30	9.7
National Service Life Insurance	11.0	13.2	4	4	4.1
Guaranteed Loans					
Loan Guaranty Revolving Fund	13.0	14.5	30	30	9.0

SOURCE: Compiled by Congressional Budget Office using data from Special Analysis F, Tables 11 and 12.

TABLE 41. VETERANS' CREDIT PROGRAMS: IMPACT OF THE PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE (By fiscal year, in millions of dollars)

Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Direct Loan Obligations						
Loan Guaranty Revolving Fund	-2	36	230	549	894	1,707
Primary Guarantee Commitment						
Loan Guaranty Revolving Fund	-3,460	-2,071	-1,402	-410	863	-6,480
Subsidy Costs						
Direct Loans						
Loan Guaranty Revolving Fund	-0.2	3	22	53	87	163
Guaranteed Loans						
Loan Guaranty Revolving Fund	-1,559	-1,655	-1,841	-2,104	-2,191	-9,185
Outlays						
Loan Guaranty Revolving Fund	-514	-517	-357	-180	10	-1,558

SOURCE: Congressional Budget Office.

FUNCTION 800: GENERAL GOVERNMENT

Neither the CBO baseline nor the Administration projects any new loan guarantee commitments in this function. The function previously contained two loan guarantee programs: loans to the U.S. territories of Guam and the Virgin Islands, and General Services Administration (GSA) loans for lease-purchase agreements on some federal buildings. The loan guarantees have been financed through the Federal Financing Bank as off-budget direct loans. In 1982, $12 million in new loan guarantees was committed for the GSA program.

FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE

No new lending is anticipated in function 850 after 1984 (see Table 42). Credit assistance in this function consisted of direct loans from the U.S. Treasury to the District of Columbia for capital projects. In 1984, the District sold general obligation bonds, which were the first long-term bonds issued that were not backed by the U.S. Treasury. The District is expected to continue to finance its capital needs directly through the bond market.

TABLE 42. GENERAL PURPOSE CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates 1985	1986	1987	1988	1989	1990
Direct Loans							
District of Columbia capital projects	115	--	--	--	--	--	--