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

December 8, 2008

Honorable Christopher S. Bond
United States Senate
Washington, DC 20510

Dear Senator:

On December 4, 2008, CBO transmitted a letter to the Honorable Robert C. Byrd describing the budgetary impact of S. 3715, the Auto Industry Emergency Bridge Loan Act, as introduced on November 20, 2008. You asked us to evaluate the impact of certain proposed amendments to that bill.

Both the introduced version of S. 3715 and the proposed amended version would:

- Rescind $7.5 billion of funds previously appropriated to the Department of Energy (DOE) to cover the cost of providing up to $25 billion in direct loans to automobile manufacturers and component suppliers pursuant to section 136 of the Energy Independence and Security Act of 2007 (EISA), and

- Appropriate $7.5 billion to the Department of Commerce (DOC) to cover the cost of up to $25 billion in "bridge loans" to support ongoing operations of eligible automobile manufacturers and component suppliers.

In contrast to the budgetary treatment for federal credit programs required under the Federal Credit Reform Act (FCRA), the introduced version of S. 3715 would credit repayments of bridge loans to a separate fund that would be available, without further Congressional action, to support new loans authorized under section 136 of EISA. Your proposed amendments would make any such section 136 loans subject to future appropriation action.

As noted in our previous letter, CBO estimates that $7.5 billion in subsidy budget authority provided under S. 3715, as introduced, would cover the cost of only $7.5 billion in bridge loans because the repayments on the initial loans would ultimately not accrue to the government; rather, they would be used to cover the costs of section 136 loans. That provision would increase the estimated subsidy costs of the bridge loans to 100 percent of the aggregate face value of the loans.

You asked CBO to evaluate the impact of proposed changes to S. 3715 that would make DOE's authority to make section 136 loans contingent on subsequent appropriation of funds to cover anticipated subsidy costs of those loans. Because the amendments would make such authority subject to future appropriation actions, CBO estimates that the subsidy rate, following credit reform accounting, would be about 50 percent of the face value of loans. Thus, if your proposed changes were incorporated into S. 3715, CBO estimates that the $7.5 billion appropriated under the bill would support roughly $15 billion in loans.

While the proposed changes to S. 3715 would allow more loans than the introduced language, those changes would not affect CBO's estimate of the legislation's net impact on the federal deficit. Because it would rescind and appropriate the same amount of funds, S. 3715 would not provide any additional net funding for loans to the automobile industry. Under current law, however, CBO anticipates that loans under section 136 of EISA will be disbursed gradually over the next several years. In contrast, we estimate that the proposed bridge loans would be fully disbursed in 2009 and thus would result in a net increase in direct spending of roughly $7 billion in this fiscal year. That increased spending would be offset by lower spending in later years, resulting in a net increase in spending of $2.3 billion over the 2009-2013 period but no net change in spending over the 2009-2018 period. Enacting S. 3715 would not affect revenues.

We hope this information is helpful to you. If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Megan Carroll.

Sincerely,

Robert A. Sunshine
Acting Director

cc: Honorable Carl Levin