Federal Credit Activities: An Analysis of President Reagan's Credit Budget for 1982

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CONGRESS OF THE UNITED STATES CONGRESSIONAL BUDGET OFFICE

FEDERAL CREDIT ACTIVITIES:

AN ANALYSIS OF PRESIDENT REAGAN'S

CREDIT BUDGET FOR 1982

The Congress of the United States
Congressional Budget Office

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.

All Administration estimates in this report are from The Budget of the United States Government--Fiscal Year 1982, Budget Revisions--Fiscal Year 1982 (March 1981) and Office of Management and Budget data.

PREFACE

This analysis of the Administration's 1982 credit budget was prepared at the request of the House and Senate Budget Committees. It is intended to supplement the budget documents by bringing together in one place information on the credit budget. The paper reviews major proposed changes in federal credit activity during 1981 and 1982 and presents a function-by-function examination of the Administration's credit program estimates. It also discusses the integration of credit budgeting into the federal budget process.

The paper was prepared by CBO's Budget Process Unit. The first three chapters were written by Elisabeth Rhyne. Marvin Phaup and John D. Shillingburg provided useful comments. The functional chapter was written by Deirdre E. Briggs, Michael Margeson, and Mitchell I. Mutnick. Patricia H. Johnston provided editorial and production assistance. Kathie Farri and Nancy E. Wenzel typed the paper for publication.

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FIGURE

Last year the Administration and the Congress established a federal credit budget. The development of the credit budget was prompted by three concerns:

- o Federal credit--in the form of direct loans and loan guarantees--grew rapidly, and apparently without control, in the 1970s.

- o Federal credit activities can have important economic consequences--for the allocation of credit resources among various uses, the composition of economic activity, and the economy's growth rate--that the Congress should recognize even though the magnitude of these effects is unknown.

- o The budgetary treatment of credit programs is less rigorous than that for direct spending and taxes, a factor that may have played a part in the rapid growth of federal credit.

The credit budget, which records estimates of new direct loans and new loan guarantees for each fiscal year, attempts to correct for the understatement in the unified budget of the size of federal credit activities. In 1980 the federal government made obligations to extend $39 billion in new direct loans and $70 billion in new loan guarantees. Yet net on-budget direct lending, the only portion of the credit budget included in the unified budget, accounts for less than 2 percent, or $9 billion, of total 1980 outlays. The unified budget understates the amount of new federal credit extended each year in three respects; the credit budget corrects for this understatement in each case, as follows:

- o Direct loans by off-budget agencies are excluded by law from the budget totals. All direct loans, however are recorded in the credit budget.

- o Loan guarantees are excluded by law from the budget totals, except in the event of default. They are fully counted in the credit budget.

- o The unified budget records net loan disbursements. The credit budget records gross new credit activity.

Because the unified budget treatment understates credit activities, it has fostered the perception of federal credit as an almost costless form of federal assistance. The credit budget is designed to correct this perception by recording the total volume in each fiscal year of new credit activities. Through the imposition of limitations on the authority of agencies to enter into new obligations for direct loans and new commitments to guarantee loans, the credit budget can also enhance Congressional control of individual credit programs.

THE CREDIT BUDGET FOR 1982

The proposed credit budget totals for 1982 demonstrate the Reagan Administration's intent to use the credit budget as a vehicle to reduce federal activity in credit markets. According to the Administration, new federal loan and loan guarantee activity will be 15 percent higher in 1981 than it was the year before, but will decrease in 1982 to only 6 percent above the 1980 total (see Summary Table). Despite the large increase in 1981, the credit budget totals presented in the March 1981 Budget Revisions for Fiscal Year 1982 are 9 percent lower for 1981 and 13 percent lower for 1982 than those presented by the previous Administration in the January budget. The current estimates show containment and then reversal of the rapid growth trend in federal credit in recent years.

The Administration is requesting the termination of several credit programs, including the loan and loan guarantee programs of the Economic Development Administration and the National Consumer Cooperative Bank, housing rehabilitation loans, and several energy development programs. For 1981 many of the decreases from the January totals depend on requests for reductions in previously appropriated limitations; these requests are analogous to rescissions. In 1982 the major volume of savings occurs in large credit programs for which appropriation limitations are being requested. The greatest saving in credit budget totals occurs in loan guarantees for home mortgages which, though not reduced, will not be allowed to grow. Reductions in direct loans result largely from low estimates for disaster spending, achieved in part through changes in program administration. Student loans, synthethic fuel production, the Export-Import Bank, and the Farmers Home Administration also account for large reductions. The Administration has announced its intent to promote the use of private financing by many federal credit programs, and as an initial step has restricted access of some agencies to the Federal Financing Bank.

There is a risk that the proposed decrease in credit planned for 1982 will not occur, as credit program estimates are often subject to great uncertainties. The original 1981 credit budget estimate was 8 percent lower than the latest total, even after the new Administration's attempts to streamline it. Disaster loans and mortgage insurance programs have been among the major contributers to unexpected increases in credit budget totals, though the Administration contends that most of these activities are potentially controllable through Congressional limitations.

SUMMARY TABLE. CREDIT BUDGET TOTALS (By fiscal year, in billions of dollars)

Credit Activity	Actual 1979	Actual 1980	Administration Estimates 1981	Administration Estimates 1982
Direct Loan Obligations				
Total direct loans	51.4	61.4	71.2	56.9 a/
Less FFB loan asset purchases	-10.9	-12.1	-16.2	-6.2
Direct loans, adjusted	40.5	49.3	55.0	50.7 a/
New Loan Guarantee Commitments				
Gross guarantees	135.2	161.0	184.7	168.7
Less secondary guarantees b/	-42.4	-64.4	-66.2	-64.7
Less guarantees of direct loans b/	-18.1	-24.4	-33.3	-25.4
Primary loan guarantees	74.7	72.2	85.2	78.5
Total, Credit Budget	115.2	121.5	140.2	129.2 a/

a/ These figures are higher than those presented in the Administration's March 1981 Budget Revisions because of a $1.3 billion error in Farmers Home Administration estimates. See note to that effect on p. 19 of Budget Revisions.

b/ For defintions of secondary guarantees and guarantees of direct loans, see Appendix A.

CONGRESSIONAL ACTION ON THE CREDIT BUDGET

The Congress may act on the credit budget in two ways. First, it may include aggregate credit targets in the concurrent budget resolutions.

Second, it may include limitations on new credit activity for some programs in the 1982 appropriations bills.

Budget Resolution Targets. In its budget resolutions for fiscal year 1981, the Congress set targets for total federal credit activity for the first time. The second resolution included targets of $73.5 billion for direct loan obligations, $82.8 billion for primary loan guarantee commitments, and $53.0 billion for secondary guarantee commitments. 1/ The Administration's totals for the 1981 credit budget are within the direct loan and primary guarantee targets set in the resolution. The secondary loan guarantee total exceeds the target by $13.2 billion, as a result of increased commitments for GNMA mortgage-backed securities. Because the credit targets in the second resolution are not binding, the Congress will not be prevented from considering the requested supplemental increase in the 1981 GNMA limitation.

Appropriation Limitations. Limits in appropriations bills on new program activity instituted in the first credit budget are the mechanism for controlling the annual activity of individual programs. For both 1981 and 1982, the Carter Administration chose not to propose limitations for all programs, but instead exempted those for which it considered annual limitations inappropriate, such as entitlement and emergency credit programs. For 1982, the Reagan Administration is recommending exemptions for 54 percent of new direct loan obligations, and for 30 percent of new primary loan guarantee commitments.

As the Congress experiments with the credit budget as a means to exert greater control over the annual level of federal credit activities, three issues arise. First, should budget resolution targets be made binding? Legislation has been introduced in the 97th Congress to amend the Congressional Budget Act of 1974 to subject credit targets to the same point of order and other controls now used for unified budget targets and ceilings.

Second, who should have the responsibility for placing limitations on the annual levels of new credit activity for individual programs? At present, this responsibility is not clearly assigned for many programs. It has been suggested that new authorizations for direct loans and loan guarantees be made subject to advance approval in appropriation legislation. Last

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1/ Secondary loan guarantees are new guarantees on loans that have received an earlier federal guarantee, such as Government National Mortgage Association guarantees of securities backed by federally insured mortgages.

session, the Senate included a section in its first concurrent resolution recommending that all new bills authorizing loan guarantees include an explicit statement requiring approval of guarantee amounts in an appropriation act. Several large credit programs, such as the one authorized by the New York City Loan Guarantee Act, have already included such statements. Without some change, however, in law or rules of the House and Senate, jurisdiction over limitations may be an area of continued dispute.

Third, which, if any, programs should be exempt from annual limitation? The Congress has not yet thoroughly reviewed the Administration's criteria for exempting programs from limitation, nor has it made any evaluation of the appropriateness of annual limitations for certain kinds of programs. To achieve systematic control over credit programs, the Congress will have to develop a policy on exemptions from annual activity limitations.

CHAPTER I. THE NEED FOR A CREDIT BUDGET

The U.S. government extends credit to assist a wide array of activities. The amount of new credit extended under federal auspices now constitutes a significant share of the new credit advanced in the economy each year. Last year, the Carter Administration and the Congress instituted a credit budget. This step was prompted by concern over the size and growth of federal credit, the consequences of federal credit for the economy, and by the realization that the budgetary treatment of credit programs was less rigorous than that for direct spending or taxes. The credit budget, which records estimates of new direct loans and loan guarantees for each fiscal year, attempts to correct for the understatement in the unified budget of the size of federal credit activities.

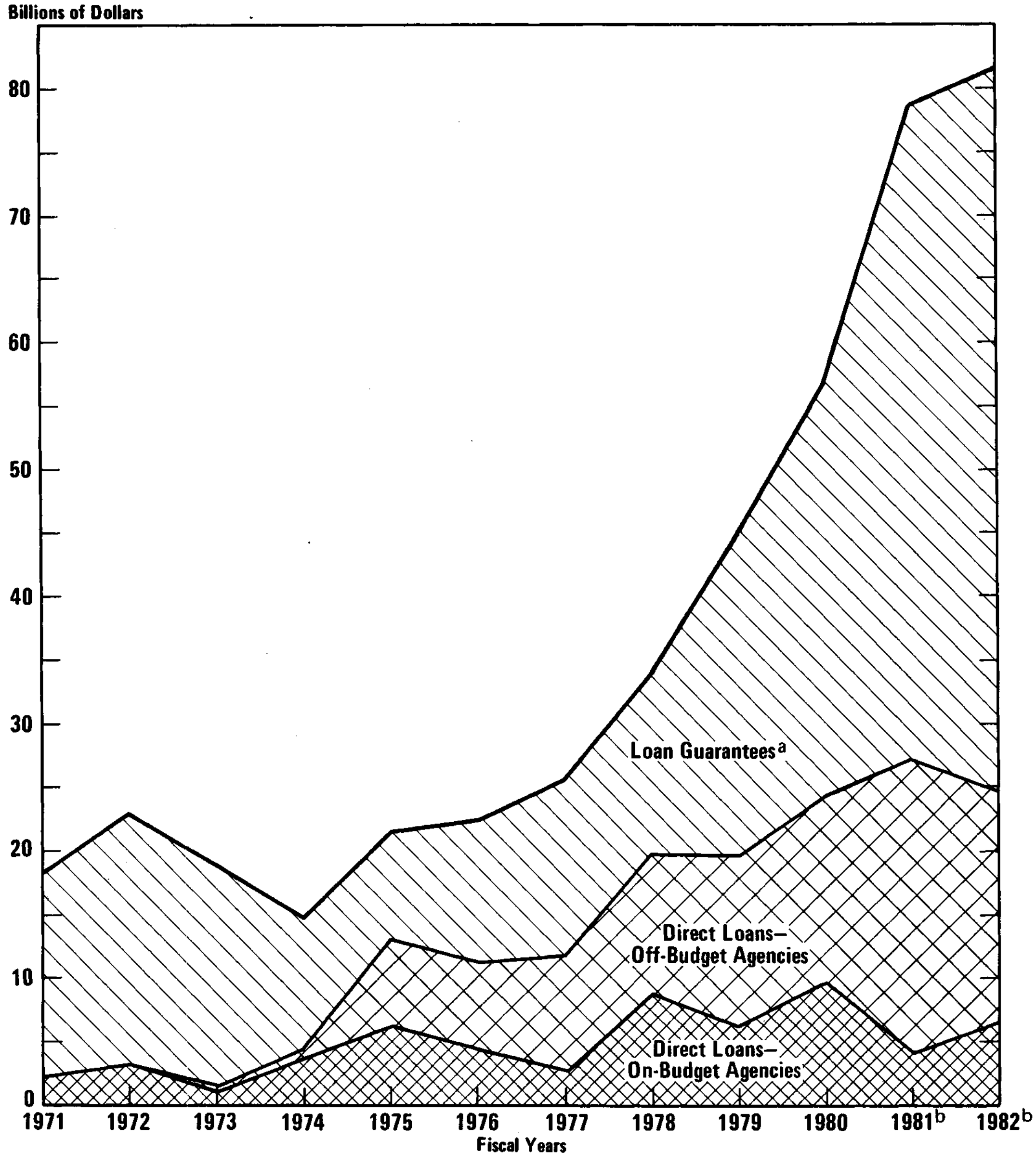
SIZE AND GROWTH OF FEDERAL CREDIT

The federal government extends credit in two basic forms: direct loans and loan guarantees. Federal agencies make direct loans to individuals, businesses, nonprofit organizations, and local governments for a variety of purposes, often at subsidized interest rates. The Small Business Administration, for example, lends money under its disaster relief program to businesses damaged by natural disasters. In a loan guarantee, the federal government pledges to repay principal and interest on a loan in case of default by the borrower, thus eliminating the lender's exposure to risk. No federal funds are involved unless the borrower defaults. The Veterans Administration, for example, guarantees repayment of home mortgages extended to veterans by savings and loans or other financial institutions.

The growth in net federal credit--that is, net direct lending and net loans guaranteed--is shown in Figure 1. 1/ In recent years both net loans guaranteed and net direct loans extended each year have grown rapidly. Net loans guaranteed annually rose from $14.0 billion in 1977 to $32.4 billion in 1980, an increase of 131 percent. Annual net direct lending rose from $11.6 billion in 1977 to $24.2 billion in 1980, an increase of 108 percent. Most of the growth in direct lending occurred in lending by off-budget agencies, whose activities are excluded from the unified budget totals.

1/ For definitions of net lending and other terms used in this paper, see Appendix A.

Figure 1.
Components of Net Federal Credit, Fiscal Years 1971-1982



SOURCE: *The Budget of the United States Government, Fiscal Year 1982,* Special Analysis on Credit.

[a] Primary guarantees: excludes secondary guarantees and guaranteed loans acquired by on- and off-budget agencies.

[b] Estimates.

Federal loans and loan guarantees have not only grown faster than direct federal spending, they have also grown faster in the past few years than other forms of credit. Federal credit as a percentage of all credit advanced in the United States each year has grown steadily from 8 percent in 1977 to 16 percent in 1980. 2/ If lending by the privately owned, government-sponsored credit enterprises, such as the Federal National Mortgage Association, is included, the federally directed share increases from 12 to 23 percent in this period. 3/ It is difficult to gauge trends in the rate of federal participation in credit markets, as the proportion is highly sensitive to private market conditions; even allowing, however, for large annual fluctuations, there appears to have been significant upward movement during the latter part of the decade.

ECONOMIC EFFECTS OF FEDERAL CREDIT

Control of federal credit activities is important because these programs have the potential to change the allocation of credit among uses, the composition of economic activity, and the economy's growth rate. 4/ Federal credit also uses scarce budget resources by providing substantial subsidies to some borrowers.

In the absence of government intervention, credit and investment resources flow into those uses in which rates of return, adjusted for risk, are perceived to be highest. Enterprises facing low prospective rates of return receive little credit in private markets. The government may intervene to change this allocation if it believes market perceptions of profitability and risk are wrong, or if it believes the market fails to take into account significant social costs and benefits of some activities.

2/ These percentages are based on net lending from the Federal Reserve flow-of-funds model of credit markets. Budget of the United States Government for Fiscal Year 1982, Special Analysis on Credit.

3/ The government-sponsored enterprises are often regarded in financial markets as part of the federal credit system. They are excluded from the credit budget, however.

4/ The magnitude of these effects is unknown at present. See Congressional Budget Office, Conference on the Economics of Federal Credit Activity, Part I--Proceedings (December 1980).

In its direct loan programs, the federal government exploits its premier standing in the credit markets to borrow at a risk-free rate and to lend to favored borrowers at a lower rate than the borrowers could have obtained on their own. If the government loan goes to a borrower who would not have otherwise obtained the funds, then another potential borrower is probably denied credit or "crowded-out" of the market by the government program. The key element in assessing the economic effects of such a reallocation is to determine which borrower, the favored one or the one crowded out, would have used the funds more productively. Unless the government chooses its credit recipients with extreme care, funds may be reallocated from more useful to less useful purposes, even after social costs and benefits are taken into account.

Loan guarantees are similar in effect to direct loans. By assuming a large share of default risk, the government is able to direct resources to uses that would otherwise be regarded as too risky to qualify for financing. A federal loan guarantee does not affect the real risk involved in a project or activity. It merely shifts the burden of that risk from lenders to taxpayers. Crowding-out of unguaranteed, but less risky borrowers, is likely to occur. Again, the net effect on productivity and economic growth depends on the relative value of the supported and unsupported activities. In fact, most federal financial assistance has been directed toward increasing the flow of credit into housing, agriculture, and troubled low earnings industries.

Federal credit delivers substantial subsidies to some borrowers. When a federally sanctioned borrower who otherwise would pay 16 percent interest in private credit markets obtains funds at 6 percent, the federal government is providing a subsidy equal to 10 percent of the principal for each year the loan is outstanding. The Office of Management and Budget estimates (by assuming a 15 percent alternative interest rate for all borrowers) that during 1980, newly committed loans and guarantees provided interest subsidies with a minimum present value of $19 billion. 5/

CREDIT IN THE BUDGET PROCESS

The Unified Budget. Despite its large volume, federal credit activity appears to be small in the unified budget. For example, net on-budget direct lending, the only portion of the credit budget included in the unified

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5/ Budget of the United States Government for Fiscal Year 1982, Special Analysis F, pp. 188-193.

budget totals, accounted for less than 2 percent, or $8.8 billion, of outlays in 1980. Net lending by on-budget agencies is not, however, an adequate representation of the amounts of new credit extended each year by the federal government. It understates new credit extensions in three respects.

First, most direct lending is extended by off-budget agencies, whose activities are excluded by law from the unified budget totals. Net off-budget direct loans were $14.7 billion in 1980, compared to on-budget loans of $8.8 billion. These off-budget loans, which are primarily attributable to the Federal Financing Bank (FFB), are similar to on-budget loans in every respect except their off-budget status.

Second, loan guarantees are excluded by law from the definition of budget authority. At the time the federal government assumes liability for repayment nothing is recorded in the budget. Although costs may eventually be incurred in the form of default losses, there is no way in the unified budget to measure the federal government's contingent liability.

Third, even when the budget records agency direct loan activity, it obscures the actual volume of new credit channelled through the programs by subtracting repayments against new loans. For example, in 1980 the Commodity Credit Corporation extended almost $5 billion in loans to farmers. Repayments on loans extended in earlier years were even higher, however, so that the net loan outlays recorded in the budget were negative.

The Credit Budget. The credit budget corrects for the understatement of new credit activity in the unified budget. Its totals include all new credit activity of the government: on-budget direct loans, off-budget direct loans, and loan guarantees. (It does not, however, include activities of government-sponsored credit enterprises, which are not subject to annual budget oversight.) The new activity is recorded on a gross basis, without subtracting repayments, although some financing transactions are netted out to prevent double counting in the totals. The activity is also recorded at the point of obligation or commitment for credit, rather than at the point when loans are actually made.

In addition to improving acknowledgement in the budget process of total new federal credit activity, the credit budget features are designed to improve control over annual activity of individual programs. Limitations are proposed on the authority of agencies to enter into new obligations rather than on disbursements so that decisions will be made at the point where the government becomes legally bound to extend credit instead of

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after that point has passed. 6/ Placing limitations on gross, rather than net, activity levels controls total new credit extended, rather than only the increment of new credit after deducting repayments on prior activity.

The Congress may act on the credit budget for 1982 in two ways. First, in its concurrent budget resolutions, the Congress may set targets for total new credit budget activity. Second, the Congress may include limitations on new direct loan obligations and new loan guarantee commitments by program in 1982 appropriations bills. The credit budget gives the Administration and the Congress the means to exercise greater oversight of federal credit. Control of credit growth will only be achieved, however, when credit budgeting has become an integral part of the budget process, and when the allocation of resources through credit is considered as carefully as the allocation through direct spending.

PLAN OF THE PAPER

This paper provides information to assist the Congress in reviewing the credit budget totals and the proposed limitations on individual programs. Chapter II discusses the Administration's credit budget totals for 1981 and 1982, as presented in the March budget revisions, noting important components of the proposals. Chapter III discusses several issues facing the Congress as it refines the new credit budget process. Chapter IV describes each active program in the credit budget, by function, based on information presented in the March revisions to the 1982 budget.

6/ The federal government makes an obligation for a direct loan or a commitment for a loan guarantee by agreeing with a prospective borrower to lend directly or to guarantee borrowing from a third party, contingent on the fulfillment of specified conditions. Time often elapses between the obligation or the commitment and the disbursement of the loan or extension of the guarantee. This is particularly true when credit financing is used for construction projects, which have long planning and financing lead times.

CHAPTER II. THE CREDIT BUDGET FOR 1982

The Reagan Administration's 1982 Budget Revisions request that the Congress set a target of $129.2 billion for credit in its concurrent budget resolutions. The budget also contains requests for appropriation and authorization actions on individual programs. In the 1982 budget, the Administration has also revised the 1981 credit budget totals. To achieve the reduced activity levels proposed for many programs, decreases in the previously enacted appropriated limitations on the 1981 levels of these programs have been requested. This chapter reviews the requests for Congressional action.

THE CREDIT BUDGET TOTALS

The Administration's fiscal year 1982 budget estimates that the aggregate level of new credit activity will rise dramatically in 1981 and fall, though not as sharply, in 1982. The decrease in 1982 is dependent on the enactment of proposed legislative changes (see Table 1).

According to these estimates, during 1981 new direct loan obligations will rise to $55.0 billion, up $5.7 billion from 1980, and new loan guarantee commitments will reach $85.2 billion, up $13.0 billion from 1980. The 1981 credit budget total, $140.2 billion, would be 15 percent higher than in 1980.

For 1982, the Administration estimates that new direct loan obligations will fall by $4.3 billion, to within 3 percent of the 1980 level. New loan guarantee commitments will fall by a greater amount--$6.7 billion--but will still exceed the 1980 level by 9 percent. These decreases, if achieved, would lower the combined 1982 credit budget total to $129.2 billion, only 6 percent above the 1980 total. If new credit activity is lower in 1982 than 1981, it will be a significant departure from the recent trend of growth in federal credit, which has averaged over 30 percent annually since 1977.

As part of its overall effort to contain the growth of the federal government, the Reagan Administration is attempting to use the credit budget as a vehicle to reduce federal activity in credit markets, even though many of the reductions have little to offer by way of savings in the direct spending budget. The credit budget totals presented in the March 1981 Budget Revisions, are substantially lower than the totals presented by the

TABLE 1. CREDIT BUDGET TOTALS (By fiscal year, in billions of dollars)

Credit Activity	Actual 1979	Actual 1980	Administration Estimates 1981	Administration Estimates 1982
Direct Loan Obligations				
Total direct loans	51.4	61.4	71.2	56.9 a/
Less FFB loan asset purchases	-10.9	-12.1	-16.2	-6.2
Direct loans, adjusted	40.5	49.3	55.0	50.7 a/
New Loan Guarantee Commitments				
Gross guarantees	135.2	161.0	184.7	168.7
Less secondary guarantees b/	-42.4	-64.4	-66.2	-64.7
Less guarantees of direct loans b/	-18.1	-24.4	-33.3	-25.4
Primary loan guarantees	74.7	72.2	85.2	78.5
Total, Credit Budget	115.2	121.5	140.2	129.2 a/

a/ These figures are higher than those presented in the Administration's March 1981 Budget Revisions because of a $1.3 billion error in Farmers Home Administration estimates. See note to that effect on p. 19 of Budget Revisions.

b/ For defintions of secondary guarantees and guarantees of direct loans, see Appendix A.

previous Administration in the January budget, particularly for 1982. The revised credit budget is 9 percent lower for 1981 and 13 percent lower for 1982 than the January budget (see Table 2). The reductions include "rescissions," or requests for reductions in previously enacted 1981 program levels as well as requests for legislation terminating several programs. The largest segment of the reduction in both years occurs in loan guarantees for home mortgages.

The Administration's proposed restraint of credit programs is relatively more stringent than that for direct spending. Despite the planned program changes, direct spending is expected to grow in nominal terms in both 1981 and 1982, while federal credit is expected to show a decrease in

1982. The credit reductions are sharper in part because few credit programs fall within the large portions of the budget whose size the Administration intends to maintain, defense and "social safety net" programs. The remaining portions of the budget, including most credit programs, have been targeted for proportionally greater decreases.

TABLE 2. THE CREDIT BUDGET TOTALS--JANUARY BUDGET COMPARED TO MARCH REVISIONS (By fiscal year, in billions of dollars)

Credit Activity	1981 Estimates: January Budget	1981 Estimates: March Revisions	1982 Estimates: January Budget	1982 Estimates: March Revisions
New Direct Loan Obligations				
Total direct loans	74.2	71.2	60.2	56.9
Less FFB loan asset purchases	-16.6	-16.2	-8.2	-6.2
Direct loans, adjusted	57.6	55.0	52.0	50.7
New Loan Guarantee Commitments				
Gross guarantees	202.1	184.7	196.4	168.7
Less secondary guarantees	-73.2	-66.2	-74.3	-64.7
Less guarantees of direct loans	-32.7	-33.3	-25.2	-25.4
Primary loan guarantees	96.2	85.2	96.9	78.5
Total, Credit Budget	153.8	140.2	148.9	129.2

Credit program estimates are subject to the same or perhaps greater uncertainties than those that plague spending estimates. The Congress should be aware that there is a risk that the decrease in the Administration's 1982 credit budget may not be achieved, especially if the experience with estimates for the 1981 credit budget is any guide. The 1981 estimate presented in the 1982 budget is 8 percent higher than the original estimate in the 1981 budget. The decreases now planned for 1982 are dependent on both accuracy of estimates and enactment of the requested authorization changes and appropriation limitations.

In the March revisions the Administration made an important technical adjustment to the credit budget totals, which changes the base of the direct loan total, and results, for example, in a downward shift of \$6.2 billion in 1982. The adjustment corrects for double counting of direct loans sold by the Farmers Home Administration (FmHA) and other agencies to the Federal Financing Bank (FFB). Such loans are counted twice in the new direct loan obligation total, originally as new FmHA obligations, and again when the FFB purchases the loans as new FFB obligations. The revised total eliminates this double counting. In Table 2 the January budget has also been adjusted to preserve comparability. 1/

COMPONENTS OF THE 1982 CREDIT BUDGET

Direct Loans. The \$4.3 billion decrease in the direct loan total between 1981 and 1982 depends largely on reductions in the disaster loan programs of FmHA and the Small Business Administration (SBA). The combined 1982 level of the two programs is estimated at \$2.0 billion, \$5.6 billion below the 1981 level, and \$3.3 billion below that for 1980 (see Table 3). Some of the 1982 decrease can be explained by proposals of the Administration to transfer most of the SBA program to FmHA, and to place further restraints on the FmHA program. Most of the change, however, is the result of the normal budgetary practice of using minimal level estimates for disaster relief programs. It is generally expected that supplemental program increases will be enacted after needs arise. If this occurs in 1982, the anticipated reduction in direct lending may not be achieved.

Other programs estimated to show a major decrease between 1981 and 1982 are the Export-Import Bank and the non-disaster lending of the FmHA. There is a further \$1.6 million decrease in direct loans by the FFB to the Student Loan Marketing Association (SLMA). This change does not affect the credit budget total, however. The shift from FFB to private financing changes the status of SLMA holdings from direct to primary guaranteed loans and raises the primary loan guarantee total by the same amount that it lowers the direct loan total.

Finally, several programs will show large increases in 1982, including security assistance loans to foreign nations, GNMA mortgage purchase assistance, the Commodity Credit Corporation price support program and lending by the FFB to local public housing authorities and the TVA's Seven States Energy Corporation. These increases total \$6.6 billion.

1/ An adjustment has also been made to the loan guarantee total, to include \$3.4 billion in 1981 and \$4.5 billion in 1982 of Tennessee Valley Authority guarantees, previously omitted.

TABLE 3. MAJOR CREDIT PROGRAM CHANGES IN LEVELS OF ACTIVITY BETWEEN FISCAL YEARS 1981 AND 1982 (In billions of dollars)

Program	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982	Change Between 1981 and 1982
New Direct Loan Obligations				
FmHA				
Disaster loans	4.5	6.1	1.6	-4.5
Loan asset repurchases	4.5	3.6	1.5	-2.1
Other programs	3.5	3.7	5.1	+1.4
SBA disaster loans	1.2	2.1	0.4	-1.7
International security programs	1.3	0.9	2.7	+1.8
Commodity Credit Corporation	4.9	3.6	4.5	+0.9
GNMA mortgage purchase assistance	2.2	1.8	3.6	+1.8
Export-Import Bank	4.4	5.1	4.4	-0.7
Guaranteed loans purchased by the FFB				
Student Loan Marketing Association	1.1	2.1	0.5	-1.6
Low-rent public housing	0.1	1.7	2.7	+1.0
Tennessee Valley Authority	2.4	3.4	4.5	+1.1
All other direct loans	19.2	20.9	19.2	-1.7
Total, direct loans	49.3	55.0	50.7	-4.3
New Loan Guarantee Commitments				
Synthetic and alternate fuels	---	6.0	2.0	-4.0
FmHA primary guarantees	1.6	0.8	0.2	-0.6
Guaranteed student loans	4.8	7.2	5.7	-1.5
Guarantees of SLMA obligations	-1.1	-2.1	-0.5	+1.6
Federal Housing Administration	29.1	34.2	35.0	+0.8
Export-Import Bank	8.0	7.6	8.2	+0.6
All other guarantees	29.8	31.5	27.9	-3.6
Total, primary guarantees	72.2	85.2	78.5	-6.7

Loan Guarantees. The changes between 1981 and 1982 in direct loans are concentrated in a relatively small number of programs. The $6.7 billion reduction in loan guarantees, however, is spread throughout a larger number of programs. The two largest changes occur in synthetic and alternate fuel production, and the guaranteed student loan program. The $4.0 billion reduction in synthetic fuel guarantees is an artifact of the one-shot form of the alternate fuels production program, which is expected to commit all $4.5 billion of its guarantee authority in 1981 before yielding to the off-budget Synthetic Fuels Corporation, which will make commitments at a lower, steadier rate. Student loan insurance is expected to decrease by $1.5 billion in 1982, assuming the Congress enacts an Administration proposal to tighten program eligibility. The proposal would end in-school interest subsidies, institute a needs test, and raise interest rates for parent loans to market levels.

Further decreases occur because many of the loan guarantee programs, such as Federal Housing Administration mortgage insurance, are being held in 1982 to a level close to that of 1980 or 1981. Though the reductions may appear small, holding to 1980 or 1981 levels in 1982 represents a significant change from the growth trend most of these programs had been experiencing. The Administration is also planning to terminate several loan guarantee and direct lending programs, including HUD's housing rehabilitation program, the Economic Development Administration, several energy development programs, and the National Consumer Cooperative Bank. Because these programs are already scheduled to operate at reduced levels in 1981, the 1982 decreases are not large.

Functional Distribution of Credit. Table 4 displays the credit budget by functional categories. The largest function, Commerce and Housing Credit, accounts for 32 percent of 1982 gross direct lending and 64 percent of gross guaranteed lending. A large portion of the guaranteed lending in this function is for GNMA guarantees of mortgage-backed securities. These guarantee commitments, which totaled $63 billion in 1980 and are estimated to total $64 billion in 1981 and 1982, are secondary guarantees of pools of Federal Housing Administration (FHA) and Veterans Administration (VA) insured loans. At the bottom of Table 4, secondary guarantees are deducted from the total of gross commitments as part of the adjustments made to calculate primary loan guarantee commitments.

Other important functions are International Affairs, Income Security (largely assistance to local public housing authorities), Energy, and Agriculture. The relative importance of energy as a category of credit assistance has grown in recent years because of loan guarantees for new alternative fuel production initiatives and a continued reliance on extensive FFB lending for the Tennessee Valley Authority and the Rural Electrification Administration. Including the FFB loans, new direct loan obligations for energy would total $9.8 billion in 1982 under the Administration's proposals.

TABLE 4. THE CREDIT BUDGET BY FUNCTION (By fiscal year, in billions of dollars) a/

Function	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1980	1981 b/	1982 b/	1980	1981 b/	1982 b/
International Affairs (150)	7.0	7.3	8.2	9.8	10.4	11.0
FFB purchases	2.4	2.6	2.7	---	---	---
Energy (270)	1.2	0.9	0.7	8.2	14.6	11.7
FFB purchases	5.6	8.2	9.1	---	---	---
Agriculture (350)	12.5	12.3	8.9	6.2	9.4	3.6
FFB purchases	5.3	7.0	1.2	---	---	---
Commerce and Housing Credit (370)	12.2	13.3	14.2	102.9	111.0	107.5
FFB purchases	4.8	7.4	3.9	---	---	---
Transportation (400)	0.2	0.1	0.2	1.7	1.6	1.5
FFB purchases	1.2	0.5	0.3	---	---	---
Community and Regional Development (450)	3.3	3.9	0.8	2.7	2.8	1.3
FFB purchases	1.5	1.7	1.2	---	---	---
Education, Training, Employment and Social Services (500)	0.7	0.6	0.9	5.8	9.3	6.2
FFB purchases	1.1	2.1	0.5	---	---	---
Income Security (600)	1.3	0.3	0.3	17.0	17.8	17.4
FFB purchases	0.1	1.7	2.7	---	---	---
Veterans' Benefits and Services (700)	0.6	0.6	0.6	6.3	7.4	7.4
All Other Functions	0.2	0.2	0.3	0.4	0.4	1.0
FFB purchases	0.2	0.3	0.3	---	---	---
Total, gross	61.4	71.2	56.9	161.0	184.7	168.7
Less						
FFB loan asset purchases	-12.1	-16.2	-6.2	---	---	---
Secondary loan guarantees	---	---	---	-64.4	-66.2	-64.7
Guarantees of direct loans made by another agency	---	---	---	-24.4	-33.3	-25.4
Total	49.3	55.0	50.7	72.2	85.2	78.5

a/ Budget functions that have no credit programs have been omitted from this table. Includes both on- and off-budget lending.

b/ Administration March estimates.

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Federal Financing Bank Activity. One of the fastest growing components of the credit budget has been the Federal Financing Bank, an agency of the Treasury, which purchases loans made by some agencies (loan assets) and acts as a lender for other agencies (guaranteed loan originations). 2/ New loans by the FFB are distributed in Table 4 by budget function of the agency originating FFB financing. This distribution emphasizes the fact that agencies retain responsibility for the FFB loans they sponsor. Table 5 summarizes FFB activity proposed by the the Administration for 1980 through 1982. Guaranteed loan originations are expected to increase in both 1981 and 1982. Loan asset purchases, which often fluctuate widely from year to year, are estimated to be less than half as large in 1982 as in 1981. The Administration has discretion over the activity levels of the FFB and can vary them without prior Congressional approval. The current estimates reflect steps it has already announced to restrict access by certain agencies to FFB financing, in an attempt to stem the FFB's growth. The Student Loan Marketing Association and the Rural Electrification Administration are both being directed to find private sources of financing. A large part of the reduction in loan asset activity results from lower program levels for the Farmers Home Administration, meaning lower FFB financing requirements.

TABLE 5. FFB-FINANCED CREDIT ACTIVITY (By fiscal year, in billions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Purchases of loan assets	12.1	16.2	6.2
Guaranteed loan originations	10.1	15.3	15.6
Total	22.2	31.5	21.8

Credit Program Appropriation Limitations. Annual appropriation limitations on new direct loan obligations and loan guarantee commitments are the means for controlling individual programs in the credit budget. The Administration's 1982 budget contains a series of requests for Congressional action on proposed limitations. The President is proposing limitations on 46 percent of all direct loan obligations and 70 percent of all loan guarantee commitments, amounting to 61 percent of the total credit budget (see Table 6).

2/ See Appendix B for an explanation of these FFB functions.

TABLE 6. LIMITATION REQUESTS IN THE FISCAL YEAR 1982 BUDGET REVISIONS (In billions of dollars)

Credit Activity	Credit Budget	Administration Limitation Request	Percent Limited
Direct Loan Obligations, Adjusted	50.7	23.3	46
Loan Guarantee Commitments, Primary	78.5	55.2	70
Total	129.2	78.5	61

The Reagan Administration, following the practice of the Carter Administration, did not propose limitations on programs for which it believed annual limitations were unenforceable or contrary to the nature of the program. It granted exemptions for three basic types of lending: entitle ment and other mandatory programs; disaster, emergency, and insurance programs; and intragovernmental financing transactions. A few programs are exempt for other reasons. The Synthetic Fuels Corporation, for example, is free from limitation to allow it the maximum possible independence in its operations (see Table 7). The March revisions, however, contain two changes from previous exemption policies: The SBA disaster loan program is requested for limitation, and the college housing loan program is exempted.

By nature, the programs subject to appropriation limitations tend to offer more opportunity for discretionary changes than do the exempt programs. The March revisions to the January budget have therefore proposed larger reductions in the portion of the credit budget subject to limit, leaving the exempted programs at levels closer to those presented in the January budget. While new commitments for loan guarantee programs subject to limit were reduced by $16.7 billion, commitments for exempted programs were reduced by only $1.7 billion. This emphasizes the point that the restraint planned for credit programs in 1982 is dependent on Congressional approval of the limitation requests.

TABLE 7. PROGRAMS PROPOSED TO BE EXEMPT FROM LIMITATION FOR FISCAL YEAR 1982 (In millions of dollars)

Program	Direct Loan Obligations Exempted	Loan Guarantee Commitments Exempted
Entitlement and Other Mandatory Programs		
Commodity Credit Corporation	4,520	2,000
Low-rent public housing	300	17,446
Student loans	---	5,697
Veterans' housing and education	9	7,383
Railroad assistance	116	31
All loan guarantee default claims	1,492	---
Insurance and Emergency Programs		
Financial institution insurance programs	214	25
Veterans' insurance programs	205	---
FmHA disaster loans	1,600	---
Other emergency programs	15	---
Intragovernmental Financing Transactions		
Agriculture credit insurance (FmHA) a/	882	1,416
Rural development insurance (FmHA) a/	66	1,000
Rural housing insurance (FmHA) a/	1,019	3,695
Student Loan Marketing Association b/	---	500
Tennessee Valley Authority b/	---	4,502
Other		
Federal Financing Bank	21,838	---
Synthetic Fuels Corporation	---	2,000
PL 480 - Food for Peace	808	---
Student financial assistance	286	---
All other	69	---
Total gross exemptions, unadjusted	33,439	45,695

a/ Sales of loan assets to the Federal Financing Bank.

b/ Guarantees of direct FFB loans.

REVISIONS TO THE 1981 CREDIT BUDGET

In the Second Budget Resolution for 1981 the Congress passed non-binding targets for 1981 credit budget totals. In the 1982 budget presented by President Carter, the revised estimates for the 1981 credit budget exceeded the targets set by the Congress (see Table 8). The March revisions reduce the 1981 totals for direct loans and primary loan guarantees slightly below the resolution targets. The secondary loan guarantee total, $66.2 billion, primarily for FNMA mortgage-backed securities, still exceeds the target by $13.2 billion.

TABLE 8. THE CREDIT BUDGET TOTALS FOR FISCAL YEAR 1981 (In billions of dollars)

Credit Activity	Original Adminis- tration Estimate	Second Budget Resolution	January Budget	March Revision
Direct Loan Obligations, Unadjusted				
Unified budget	35.4	44.6	42.1	38.6
Off-budget	25.3	28.9	32.2	32.6
Total, direct loan obligations	60.7	73.5	74.2	71.2
Primary Loan Guarantee Commitments a/	81.4	82.8	92.8	81.8
Total, credit budget	142.1	156.3	167.0	153.0
Secondary Loan Guarantee Commitments	53.1	53.0	73.2	66.2

a/ Does not include correction for TVA guarantees.

The targets in the budget resolutions themselves were greater than the original estimate presented in the 1981 budget by 10 percent. Two factors pushed the 1981 credit budget totals beyond the original estimate and the resolution. First, some of the increases may be ascribed to the fact that the credit budget is a new development and that relatively little attention has been devoted to credit program estimates in the past. A large number of agencies simply underestimated the rate of increase in their activity by a few percentage points. Second, several unanticipated events pushed federal lending higher in 1981: natural disasters created demands for loans to businesses and farmers; the demand for federally backed mortgage credit rose sharply as borrowers faced high market interest rates; and the Carter Administration's restructuring of the student loan program was not enacted.

The need for increases in direct lending estimates for disaster relief were already evident by the time of the second budget resolution and were incorporated into its total. The estimates for loan guarantees for housing, however, increased only after the second resolution had been passed.

In the March revisions the Administration has taken some steps to bring the 1981 totals below the resolution targets which require no Congressional action, and has proposed others that will require Congressional approval. The major reductions from the January budget were achieved simply by withdrawing supplemental requests for increases in loan levels, leaving programs subject to their previously enacted limitation. This action accounts for reductions from January of $0.9 billion in direct loans (primarily SBA disaster insurance), $5.8 billion in primary guarantees (FHA mortgage insurance and the Export-Import Bank), and $8.0 billion in secondary guarantees (GNMA mortgage-backed securities). It also represents a change from previous practice for several of these programs, as they will for the first time face limitations lower than the demand for loans and guarantees from eligible applicants. If the current limitations remain in force for SBA, FHA, and GNMA, the programs will have to devise methods for selection among the eligible applicants.

The Administration is also requesting that the Congress act to bring down the 1981 credit budget totals by reducing appropriation limitations previously enacted. These reductions are analagous to rescissions of appropriations. Reductions in limitations are requested for $2.0 billion in new direct loan obligations, with the largest reductions requested for the Export-Import Bank (from $5,900 million to $5,148 million) and for the FmHA (from $6,904 million to $6,339 million). Limitation reductions requested for loan guarantee commitments total $0.4 billion, for reductions in the levels of aircraft purchase and Economic Development Administration guarantees.

CHAPTER III. ISSUES IN CREDIT BUDGETING

The term "budget" may refer to a system that records all financial transactions, or it may refer to a procedure for controlling financial activity in order to allocate scarce resources effectively. The credit budget is an important step forward in providing complete accounting for federal credit. Yet control over levels of activity remains incomplete. As the Congress considers increasing budgetary control over its credit resources, three questions arise:

- Should the credit budget totals in the concurrent budget resolutions be binding?

- Who should be responsible for placing limitations on individual programs?

- Should any credit programs be exempt from limitation and, if so, which ones?

BUDGET RESOLUTONS

The credit targets set by the Congress in the 1981 budget resolutions are not now binding; they have none of the enforcement mechanisms included in the Congressional Budget Act of 1974. They could, however, be made binding through changes in legislation. Legislation has been introduced in the 97th Congress in the House (H.R. 2372) and the Senate (S. 265) to amend the Congressional Budget Act to include the credit budget in the Congressional budget process at every step, and to subject budget resolution credit ceilings to the same point-of-order provisions that now apply to direct spending ceilings. For 1982, the Congress has the options of making the credit budget totals binding, or of continuing to experiment with various credit budget procedures.

Whether or not credit targets are to be made binding, the Congress will have to give further consideration to which credit aggregates to include in the budget resolutions. Targets were set in the first budget resolution for 1981 for on- and off-budget direct loans and for primary loan guarantees. In the second resolution, targets were added for secondary loan guarantees. Explicit targets were not set for activities funded through the FFB. Because FFB lending was included as part of off-budget direct loans, there were implicit targets on the volume of new FFB activity (see Table 9).

The Congress may wish to set explicit budget resolution targets for FFB activity in 1982, as a means to strengthen Congressional oversight of this form of federal lending. The Administration's credit budget makes no provision, however, for controlling FFB transactions. Setting budget resolution targets for FFB lending would be an indication that the Congress intends to limit the authority of agencies to finance lending through the FFB, authority that has previously been largely a matter of administrative discretion. The targets could be accompanied by limitations by program on the amount of lending that could be financed through the FFB during the fiscal year.

TABLE 9. CREDIT TARGETS IN THE FISCAL YEAR 1981 SECOND BUDGET RESOLUTION (In billions of dollars)

Credit Activity	Budget Resolution Targets	Amounts Implicity Assumed in Resolution Targets
New Direct Loan Obligations		
Unified budget	44.6	44.6
Off-budget	28.9	28.9
Less FFB purchases of loan assets	---	-18.7
Total, direct loan obligations	---	54.8
New Loan Guarantee Commitments		
Gross guarantees	---	165.3
Less secondary guarantees	53.0	-53.0
Less guarantees of direct loans a/	---	-29.5
Total, primary guarantees	82.8	82.8

a/ Largely guarantees of FFB loans and loan asset purchases by the FFB.

PROGRAM LIMITATIONS

In its consideration of the fiscal year 1982 credit budget, the Congress may wish to resolve the question of who should be responsible for placing limitations on the annual activity levels of federal credit programs. The Carter Administration's 1981 credit budget proposed annual dollar limitations in the form of appropriation language setting an annual ceiling on the authority of agencies to incur obligations for direct loans and to enter into commitments for guaranteed loans. In action on 1981 appropriations, the

Congress enacted limitations totaling $25.3 billion on new direct loan obligations and $42.9 billion on new primary loan guarantee commitments.

In the absence of such limitations, most loan and guarantee programs have no annual limits on the amount of new loans that can be extended or guaranteed in a fiscal year. The programs are governed by authorizing legislation which may have limits on the total amount of loans or guarantees that can be outstanding any one time or, for direct loans, limits on budget authority with which to finance net lending.

It is not clear at this time who should have jurisdiction over annual limitations. Though activity levels for most programs are governed by authorizing legislation for the most part, authorizing committees have not exercised discretion over annual levels of new lending or new guarantees. The Appropriations Committees, on the other hand, have begun to exercise discretion through the limitations. At present, House and Senate rules neither require nor prohibit appropriation action; there is no clear basis for affirming or denying the authority of Appropriations Committees to report annual limitations in their bills. The lack of a specific legal requirement for appropriation limitations led the House State, Justice and Commerce Appropriations Subcommittee to declare that the authorizing committee had sole jurisdiction over new loans for most programs in its area, on the grounds that an appropriated limitation would constitute a change to authorizing legislation.

The Congress has several alternatives available to resolve this issue. The jurisdiction of the authorizing committees in this area could be explicitly affirmed in the rules. Alternatively, the Congress could amend the rules to require approval in appropriations before any credit authority can take effect. This would establish a two-step, authorization/appropriation sequence for credit programs, just as is now required for most direct spending programs. The credit control bills mentioned above include such provisions for newly enacted legislation, as did the Senate-passed version of the First Concurrent Resolution on the Budget for 1981. Such a requirement could instead be written into authorizing legislation, program by program. Recent authorizations for some credit programs, such as the Chrysler and New York City loan guarantee programs, have included language requiring approval in appropriations.

EXEMPTIONS FROM LIMITATIONS

If appropriation limitations continue to be the vehicle for program control, what should the criteria be for exempting a program from limitation? The Administration is not proposing limitations on entitlement,

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disaster, or emergency programs, or on financing transactions (see Table 7 in Chapter II). Other programs are also granted exemptions from limitations on a case-by-case basis. The criteria have not been formalized by the Administration, however, nor has the Congress explicitly reviewed them. To achieve systematic control of credit programs, the Congress will have to define a policy regarding exemptions from limitations.

If the Congress wishes to exempt entitlement credit programs from annual limitations, it must first determine which credit programs are in fact entitlements. If an agency has no discretion but must extend a loan or guarantee to every eligible borrower that applies, then the program is an entitlement and a limitation could not control the program's annual level of activity.

If the Congress wished to establish an exemption policy for emergency and insurance programs, it would need to determine whether the requirement to wait for a supplemental increase in a limitation would render a program unable to provide assistance on a timely basis. If an annual limitation in appropriations is found to be an unsuitable control mechanism, the program could be classified exempt. To achieve reductions in the levels of such programs, it might be necessary to resort to instructions to authorizing committees mandating reductions in program levels, in much the same way that reconciliation instructions are used to instruct the authorizing committees to make reductions in mandatory spending programs.

Exemptions for FFB transactions present slightly different problems. The programs that use the FFB are controlled through annual limitations on their new transactions with the public. Because the FFB transactions do not affect credit program activity levels, their volume has been left to administrative discretion. The Congress has not, for example, limited the sale of Farmers Home Administration loan assets. Such financing transactions, however, can alter budget outlays and federal borrowing requirements substantially. Because of these effects on the unified budget, the Congress may wish to consider enacting limitations on the volume of lending an agency may finance through the FFB.

A related problem is the practice of proposing limitations in excess of estimated obligation or commitment levels. These "padded" limitation requests are justified on the grounds of needed flexibility. This practice, however, is not in keeping with standard budgetary practice in either the credit budget or the unified budget. In the unified budget, the Congress would provide budget authority in the amount of the expected program level, granting additional amounts as necessary through supplemental appropriations. Limitations on new activity for these credit programs could be handled in the same fashion. 1/ In several instances the Administration's 1982 budget proposes limitations in excess of new activity estimates (see Table 10). For example, the requested 1982 limitation on the Central Liquidity Facility of the National Credit Union Administration is $750 million above the estimated obligation level.

TABLE 10. PROGRAMS FOR WHICH PROPOSED LIMITATION FOR 1982 EXCEEDS ESTIMATED NEW ACTIVITY (In millions of dollars)

Program	Estimated New Activity	Limitation Request	Excess
New Direct Loan Obligations			
Rural Electrification and Telephone Revolving Fund	700	900	200
Rural Telephone Bank	185	220	35
Central Liquidity Facility (NCUA)	3,650	4,400	750
Loans to the District of Columbia	145	155	10
New Loan Guarantee Commitments			
Rural Electrification and Telephone Revolving Fund	5,245	6,755	1,510

OTHER ISSUES

As the Congress implements the credit budget as part of the Congressional budget process, many of the procedures of the Congressional Budget Act will have to be adapted to the credit budget. These include developing procedures for scorekeeping Congressional action on the credit budget, setting functional as well as aggregate credit targets, and developing rules for allocating the credit budget targets by committee in

1/ This practice also poses a scorekeeping problem. In arriving at its credit budget totals, the Administration included the estimated program level, not the higher requested limitation. If the Congress enacted the limitation, however, the higher amount would be scored in the Congressional credit budget.

the conference reports on the concurrent resolutions. These changes raise a variety of technical issues that will have to be addressed by the Budget Committees and their staffs.

CHAPTER IV. THE CREDIT BUDGET BY FUNCTION

This chapter discusses the estimates for federal credit activities for fiscal year 1982 and the limitations the Administration proposed for a portion of those activities. The chapter is organized by major functional category, using the same budget functions for which the Congress sets targets and ceilings for direct spending in the concurrent resolutions on the budget. The tables highlight past and requested Congressional action.

Data on credit programs in this chapter are from the appendix to The Budget of the United States Government for Fiscal Year 1982 as updated in the March Budget Revisions and from Office of Management and Budget data. The source of data is the series of schedules entitled "Status of Direct Loans" and "Status of Loan Guarantees" that follow the "Program and Financing" schedule for each budget account containing credit activity. The data in these schedules do not necessarily correspond to obligations and outlay data in the "Program and Financing" schedule. Nor do the data in these status schedules correspond to credit program data in Special Analysis F, Federal Credit Programs, which accompanies the budget, because of the differences in the coverage of the credit budget and the special analysis. Table F-12 in that analysis contains an explanation of these differences.

One set of figures in the tables summarizing credit activity for several of the programs in this chapter may be confused with total outlay figures in the "Program and Financing" schedule. "Net direct loan outlays" in the credit tables indicates that portion of total outlays for an account that is attributable to changes in direct loan principal outstanding. These are new direct loan disbursements, minus repayments, loan sales, write-offs for default, and other adjustments. The total for net loan outlays will not in many cases be equal to total outlays for the budget account because of other activities, receipts, and balances in the account. The corresponding figure, net loans guaranteed, is slightly different. It includes new loans guaranteed minus guarantees terminated on loans that have been completely paid off; it does not include partial repayments.

Two observations must be made about the functional summary tables in this chapter. First, they make no distinction between on-budget and off-budget credit activities. Second, they do not include Federal Financing Bank (FFB) lending attributed to the originating agencies. For this attribution, see Table 4 in Chapter II.

NATIONAL DEFENSE (FUNCTION 050)

The only active credit program in the national defense function is a program of loans and loan guarantees administered by the Department of Defense to assist private enterprises in fulfilling defense production contracts. Title III of the Defense Production Act of 1950 as amended (50 USC 2091) sets a limit of $20 million for individual loan guarantees and $25 million for direct loans that may be made by defense procurement agencies without prior Congressional approval. There have been no direct loans in recent years. For fiscal year 1982 the Administration is requesting a limitation of $30 million on new loan guarantee commitments. During the two year period 1979-1980, the Carter Administration requested a total limitation of $60 million. For the same period only $520,000 in loan guarantee commitments were issued, leaving $59.5 million in loan guarantee authority unused.

The Administration is also requesting appropriation language stating that direct loan obligations are authorized to the extent necessary to cover defaults on guaranteed loans. No estimates of defaults were included in the 1982 Budget. Table 11 summarizes credit activity in function 050.

TABLE 11. NATIONAL DEFENSE--SUMMARY OF CREDIT ACTIVITY (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Loan Guarantee Commitments			
Limitation enacted	30.0	30.0	---
Limitation proposed	---	30.0	30.0
Commitments subject to limitation	0.5	30.0	30.0
Guaranteed Loans Outstanding	---	5.0	5.0

INTERNATIONAL AFFAIRS (FUNCTION 150)

Credit assistance in the international affairs function includes loans to foreign countries for economic development, for the purchase of military equipment, and for purchase of U.S. surplus commodities. International trade is promoted through assistance to U.S. firms doing business overseas and to foreign countries and businesses making purchases in the United States. The Export-Import Bank is one of the largest of all federal credit programs. Table 12 summarizes the major credit programs in this function.

TABLE 12. INTERNATIONAL AFFAIRS--SUMMARY OF MAJOR CREDIT PROGRAMS (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Economic Support Fund	713	255	1,000	---	---	---
Functional Development Assistance	445	396	369	---	---	---
Overseas Private Investment Corp.	4	10	---	175	120	100
Housing and Other Credit Guarantee Programs	---	---	---	175	150	150
Food for Peace	877	840	808	---	---	---
Emergencies in the Diplomatic and Consular Service	1	1	1	---	---	---
Foreign Military Sales Credit	635	640	1,652	1,450	2,546	2,573
Export-Import Bank	4,365	5,148	4,400	8,031	7,559	8,220
Total	7,040	7,290	8,230	9,831	10,375	11,043

a/ Administration estimates.

The Administration's 1982 budget recommends limitations for $7.3 billion of new direct loan obligations and for all new loan guarantee commitments in function 150. The Food for Peace program and loans for emergencies in the diplomatic and consular service are exempted from the requirement for limitation, as are direct loans for loan guarantee defaults in the foreign military sales credit program.

Direct loan obligations in function 150 are estimated to rise by 13 percent from 1981 to 1982. New loan guarantee commitments will increase 6 percent from 1981 levels. The following sections highlight 1980-1982 activities in each major program of function 150.

Economic Support Fund

The Economic Support Fund provides grants, cash transfers, or direct loans to countries of strategic importance to the United States, particularly those in the Middle East. Loans from the fund require annual authorization and appropriations equal to their face value.

The International Security and Development Cooperation Act of 1980 (Public Law 96-533), passed in late December 1980, eliminated loans to Egypt and Israel and replaced them with cash grants. As a result of this change, direct loan obligations for 1981 are expected to be only $255 million. For 1982 the Administration requests a limitation of $1.0 billion for new direct loan obligations. The limit requested is almost four times higher than the obligations estimated for 1981. CBO estimates that obligations will not be made as quickly as the Administration predicts, and will reach only $695 million for 1982. Few repayments are expected, resulting in large net loan outlays in the unified budget.

Table 13 summarizes the lending activity of the Fund.

Functional Development Assistance--Agency for International Development

The Foreign Assistance Act of 1961 (sections 103-106) authorizes grants and direct loans for various development assistance programs administered by the Agency for International Development (AID). These funds may be used for development assistance projects in the areas of agriculture, rural development, nutrition, health, education, human resources development, and energy research.

TABLE 13. ECONOMIC SUPPORT FUND LOANS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	---	---
Limitation proposed	---	---	1,000.0
Obligations subject to limitation	---	---	1,000.0
Obligations exempt from limitation	713.0	255.0	---

For 1982 the Administration proposes a limitation of $369.4 million on new direct loan obligations. The proposed limitation is a 22 percent reduction from the January request. Almost no repayments are expected during 1981 or 1982. Table 14 summarizes activity in this program.

TABLE 14. FUNCTIONAL DEVELOPMENT ASSISTANCE LOANS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	---	---
Limitation proposed	---	---	369.4
Obligations subject to limitation	---	---	369.4
Obligations exempt from limitation	444.8	396.0	---

Overseas Private Investment Corporation (OPIC)

OPIC encourages U.S. investment overseas through programs of risk insurance against losses due to war or political upheaval. It also offers investment financing through direct loans and loan guarantees. The Foreign

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Assistance Act of 1969 as amended (22 U.S.C. 2194 et seq.) authorizes OPIC to guarantee up to 75 percent of the principal of a loan. Maximum contingent liability is limited to $750 million or four times the amount of guarantee fees collected, whichever is smaller.

For fiscal year 1982 the Administration proposes terminating OPIC's direct loan program and reducing new loan guarantee commitments to $100 million. The new loan guarantee commitments for 1982 are estimated to decrease 17 percent from 1981, after an estimated 32 percent decrease in 1981 from 1980.

In previous years OPIC was partially financed by sale of loan assets to the Federal Financing Bank. It is now in the process of repurchasing those loan assets. Table 15 details OPIC activities for 1980-1982.

Housing and Other Credit Guarantee Programs

The housing guarantee program provides federal guarantees of long-term financing extended by U.S. lenders for housing projects and programs in developing nations. The International Development Cooperation Act of 1979 (Public Law 96-53) extends the authority of this program through the end of fiscal year 1982. The act sets a ceiling of $1,555 million on the total principal amount of guarantees that may be outstanding at one time for housing guarantees, and a ceiling of $20 million on the total principal amount of guarantees outstanding for self-help community development programs. Loans guaranteed under this program may not have an average face value in a fiscal year exceeding $15 million, nor may the total loans guaranteed for projects in any country for a fiscal year exceed $25 million. The interest rate for guaranteed loans is expected to average 14 percent in 1981; it varies with the Federal Housing Administration insured mortgage rate.

For fiscal year 1982, the Administration proposes a limitation of $150 million on new loan guarantee commitments. Table 16 summarizes recent activity for this program.

Food for Peace (Public Law 480)

Public Law 480, the Agriculture Trade Development and Assistance Act of 1954, authorizes the Commodity Credit Corporation (CCC) to extend credit to foreign countries and exporters to finance the sale of agricultural commodities. Credit sales for dollars are repayable over 20 years; sales for convertible foreign currencies are repayable over 40 years. Outstanding loans had accumulated to $7.1 billion by the end of 1980.

TABLE 15. CREDIT ACTIVITIES FOR OVERSEAS PRIVATE INVESTMENT CORPORATION (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations			
Limitation enacted	---	---	---
Limitation proposed	---	10.0	---
Obligations subject to limitation	---	10.0	---
Obligations exempt from limitation	4.3	---	---
New Loan Guarantee Commitments			
Limitation enacted	---	---	---
Limitation proposed	---	---	100.0
Commitments subject to limitation	---	---	100.0
Commitments exempt from limitation	175.3	120.0	---
Sale of Loan Assets to FFB			
Repurchases	-4.3	-5.0	-5.0
Outstanding FFB holdings	33.2	28.2	23.2

TABLE 16. HOUSING AND OTHER CREDIT GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Loan Guarantee Commitments			
Limitation enacted	---	---	---
Limitation proposed	---	---	150.0
Commitments subject to limitation	---	---	150.0
Commitments exempt from limitation	175.0	150.0	---

New direct loan obligations for 1982 are estimated to total $808.2 million. No limitation is proposed because the full program amounts for the Public Law 480 program must be appropriated each year. The Administration contends, therefore, that a separate limitation on new loans obligations is not necessary.

Table 17 summarizes Public Law 480 loans for 1980-1982.

TABLE 17. FOOD FOR PEACE (PUBLIC LAW 480) LOANS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation	876.8	839.6	808.2
Net Direct Loan Outlays	651.1	658.6	682.4
Direct Loans Outstanding	7,134.2	7,792.8	8,475.2

Emergencies in the Diplomatic and Consular Services

Public Law 84-885 authorizes the Secretary of State to make expenditures to meet emergencies arising in the diplomatic and consular service. The funds are used for relief and repatriation loans to U.S. citizens abroad. No limitation is proposed because the full program amounts must be appropriated each year. The Administration contends, therefore, that a separate limitation on new loan obligations is unnecessary. It also argues that a limitation would restrain the Secretary's power to meet emergencies.

New loans are estimated to total $1 million for 1982. Defaults on loans in 1982 are estimated to be 30 percent, up from 20 percent in 1980. Table 18 summarizes loan activity for this program during 1980-1982.

Foreign Military Sales Credit

The Arms Export Control Act (22 U.S.C. 2763, 2764) authorizes direct loans by the Department of Defense and federal guarantees of commercial or Federal Financing Bank loan agreements to foreign countries for the purchase of defense articles and services. The direct loans require an appropriation equal to the face value of the loan and are offered only when there is a legal requirement that repayment be forgiven or when special conditions make a guarantee inappropriate. In 1980, 1981, and 1982 the government is expecting to make forgiveness credits for $500 million in direct loans each year. The forgiven loans have in effect been converted into grants. These credits result in a negative figure for net lending activity in the program.

TABLE 18. EMERGENCIES IN THE DIPLOMATIC AND CONSULAR SERVICES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates	
		1981	1982
New Direct Loan Obligations			
Obligations exempt from limitation	0.9	1.0	1.0
Direct Loans Outstanding	3.9	4.3	4.7

Until the beginning of fiscal year 1982, the guaranteed loan program required an appropriation equal to 10 percent of the loan prinicipal that was to be guaranteed. The International Security and Development Cooperation Act of 1980 (Public Law 96-533) amends the Arms Export Control Act by eliminating the 10 percent requirement and creating a guarantee reserve. The President is required to maintain the reserve at a level of $750 million, and, if the reserve falls below that level, to request additional appropriations to replenish the fund.

For fiscal year 1982, the Administration is requesting appropriated limits of $1.48 billion for direct loan obligations. This represents an almost threefold expansion in direct loan obligations over 1981 and previous levels. The $2.6 billion requested for new loan guarantee commitments represents almost no growth in 1982. Defaults on guaranteed loans during fiscal year 1982 are estimated at $170 million. The default payments will increase total new direct loan obligations to $1.65 billion for 1982.

In recent years all new guaranteed loans have been financed through the Federal Financing Bank. Thus, the loans are actually direct loans of the federal government held off-budget; no private lender is involved. By the end of 1982, the FFB will be holding 98 percent of all outstanding loans. Table 19 illustrates the financing of foreign military sales credit for 1980-1982.

TABLE 19. FOREIGN MILITARY SALES CREDIT (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations			
Limitation enacted	---	500	---
Limitation proposed	---	500	1,482
Obligations subject to limitation	---	500	1,482
Obligations exempt from limitation	635	140 a/	170 a/
Total obligations	635	640	1,652
New Loan Guarantee Commitments			
Limitation enacted	---	2,546	---
Limitation proposed	---	2,546	2,573
Commitments subject to limitation	---	2,546	2,573
Commitments exempt from limitation	1,450	---	---
Guarantees of FFB Loans			
New FFB loans	2,380	2,600	2,700
Repayments	-448	-556	-767
Outstanding FFB holdings	7,209	9,253	11,186

a/ Disbursements for loan guarantee default claims.

Export-Import Bank

The Export-Import Bank (Eximbank) is a wholly owned government corporation that aids in financing exports by U.S. firms to foreign countries or firms. Eximbank provides direct loans, loan guarantees, insurance, or reinsurance on terms and conditions that make U.S. products competitive with foreign products. Eximbank's authority for loans, guarantees, or insurance outstanding is limited to $40 billion (12 U.S.C. 635e). Only 25 percent of loan guarantees or insurance outstanding is charged against that limitation, up to a limitation of $25 billion. In addition, an annual limitation on program activity and administrative expenditures has been included in Foreign Assistance Appropriation Acts.

Originally the Carter Administration requested a limitation of $4.7 billion for direct loans for 1981. This was increased to $5.9 billion by the Foreign Operations Subcommittee in their appropriation bill. The bill was not enacted, however, and the programs within it are being funded under a continuing resolution. The revised budget proposes substantial cutbacks from January levels in Eximbank loan and loan guarantee authority and reduction in interest rate subsidies, effective in both 1981 and 1982. The reduction in 1981 direct loans will require the Congress to enact a limitation $752 million lower than the current limitation. Under the revised proposals, in 1982 the Eximbank will be held near its 1980 level (see Table 20).

TABLE 20. CREDIT ACTIVITIES FOR EXPORT-IMPORT BANK (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	5,900	---
Limitation proposed	---	5,148	4,400
Obligations subject to limitation	---	5,148	4,400
Obligations exempt from limitation	4,365	---	---
New Loan Guarantee Commitments			
Limitation enacted	---	7,559	---
Limitation proposed	---	7,559	8,220
Commitments subject to limitation	---	7,559	8,220
Commitments exempt from limitation	8,031	---	---

ENERGY (FUNCTION 270)

This function includes credit programs for energy research and development, conservation, and production. While the Department of Energy administers most of these programs, the Department of Agriculture, the Tennessee Valley Authority, and the Synthetic Fuels Corporation also have programs of energy credit assistance.

The Administration's 1982 budget anticipates major increases in energy loan guarantees for 1981, followed by a decrease in 1982. Table 21 summarizes the gross levels of new energy credit activity for 1980-1982. New programs of loan guarantees for synthetic fuels facilities account for the substantial increase in 1981 over 1980. Overall, new commitments for loan guarantees are estimated to increase 78 percent in 1981 over the actual level, and drop 19 percent in 1982.

Direct lending in the energy function is expected to decline in 1981 and 1982. The decline results from major shifts planned in Rural Electrification Administration activity.

The following sections highlight activity of the major energy credit programs for fiscal years 1980 through 1982.

Synthetic Fuels Corporation and Energy Security Reserve

The Synthetic Fuels Corporation was established by the Energy Security Act (Public Law 96-294) as part of an effort to reduce U.S. dependence on imported oil. The goal of the corporation is to assist private industry to finance the development of two million barrels of oil substitutes by 1992. To achieve this goal, the Corporation will provide the private sector with financial assistance in the form of direct loans, loan guarantees, price guarantees, and purchase agreements. The legislation creating the Corporation provides that the Corporation's budget not be included in the budget totals. It is financed, however, by payments from the on-budget Energy Security Reserve in the Department of the Treasury.

New loan guarantee commitments are estimated at $2 billion for 1982, one-third above the 1981 estimate of $1.5 billion (see Table 22). No repayments or defaults are projected through 1982.

When the Energy Security Reserve was established, 1981 authority was made available from the reserve to the Department of Energy to issue loan guarantees to carry out preliminary synthetic fuel development activities. In 1981 $4.5 billion in loan guarantees are estimated under this authority.

TABLE 21. ENERGY PROGRAMS--SUMMARY OF CREDIT ACTIVITY (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Synthetic Fuels Corporation	---	---	---	---	1,500	2,000
Energy Security Reserve	---	---	---	---	4,500	---
Rural Electrification Administration	1,175	913	700	5,688	5,095	5,245
Tennessee Valley Authority	2	---	---	2,436	3,437	4,502
Biomass and Geothermal Energy Development	---	20	---	79	45	---
Other Energy Programs	5	2	2	6	---	---
Total	1,182	935	702	8,209	14,577	11,747

a/ Administration estimates.

TABLE 22. SYNTHETIC FUELS AND ENERGY SECURITY RESERVE LOAN GUARANTEES (By fiscal year, in millions of dollars)

		Administration Estimates	
Credit Activity	1980 Actual	1981	1982
New Loan Guarantee Commitments Exempt from Limitation			
Synthetic Fuels Corporation	---	1,500	2,000
Energy Security Reserve	---	4,500	---
Total new commitments	---	6,000	2,000
Guaranteed Loans Outstanding	---	6,000	8,000

Rural Electrification Administration

The Rural Electrification Administration (REA) of the Agriculture Department 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 (RETRF), which the Congress placed off-budget to exempt its activities from outlay or expenditure ceilings.

REA makes both direct and guaranteed loans through the RETRF. The direct loan program provides direct loans not to exceed 35 years in term, at either 2 or 5 percent interest rates, in accordance with criteria specified in law. REA also guarantees loans made by FFB and other qualified lenders at rates agreed upon by borrower and lender. FFB rates are more advantageous to the borrower, since they are only one-eighth of one percent above the Treasury's borrowing rate. Through the use of loan sales and FFB origination of REA guaranteed loans, all of the RETRF's activity is financed by the FFB. Because REA's loans have a grace period before repayment begins, there are no repayments to FFB scheduled during 1981 or 1982.

In the last few years, a range for direct loan limitations have been included in appropriation acts to allow for changed economic circumstances in rural areas during the fiscal year. This practice is continued in the 1982 budget, which recommends a limit of $900 million on direct loan obligations although expected new obligations are only $700 million. For loan guarantees the limit requested, $6,755 million, is $1,510 million above the expected commitment level.

The Administration is proposing major cutbacks in REA activity, including discontinuing further REA use of the FFB as a direct lender for guaranteed loans, raising interest rates on certain loans from 2 percent to 5 percent and ending loans to telephone companies. To achieve the reduction in 1981, the Administration is requesting that the previously enacted direct loan ceiling of $1.4 billion be reduced to $1.2 billion. The FFB changes can be made without Congressional action. For 1982 the Administration is proposing increasing the limitation on new loan commitments loan program. Table 23 presents the 1980-1982 activity of the RETRF.

Tennessee Valley Authority

The Tennessee Valley Authority (TVA) is a government-owned corporation created to oversee the unified development of a river basin comprising parts of seven states. The Seven States Energy Corporation is a TVA subsidiary that makes loans and loan guarantees for nuclear energy

TABLE 23. RURAL ELECTRIFICATION LOAN AND LOAN GUARANTEE ACTIVITY (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	1,250	1,425	---
Limitation proposed	---	1,238	900
Obligations subject to limitation	1,175	913	700
New Loan Guarantee Commitments			
Limitation enacted	---	---	---
Limitation proposed	---	---	6,755
Commitments subject to limitation	---	---	5,245
Commitments exempt from limitation	5,687	5,095	---
FFB Lending a/			
New FFB loans	3,188	4,736	4,600
Repayments	-3	---	---
Outstanding FFB holdings	10,336	15,072	19,672

a/ Includes loan asset sales and loan guarantee originations.

projects in the seven states. To finance its lending, the Corporation borrows from the FFB with TVA guaranteeing the indebtedness. As a result of this activity TVA is guarantor of new FFB obligations estimated at $4.5 billion for 1982. TVA also makes direct loans itself, estimated at $68 million for 1982. Because of a dispute about the exact nature of TVA's activities, these loan obligations have not been included in the credit budget. TVAs activities are shown in Table 24.

Other Energy Credit Programs

Biomass Energy Development. The Energy Security Act (Public Law 96-294) authorized direct loans and loan guarantees to aid commercial production of alcohol and other fuels from crops and crop waste, timber, animal and timber waste, and other forms of biomass and urban waste. The Secretaries of Agriculture and Energy may guarantee loans up to 90 percent

TABLE 24. TENNESSEE VALLEY AUTHORITY LOANS AND LOAN GUARANTEES (By fiscal year, in millions of dollars)

	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation	2	---	---
Direct Loans Outstanding	3	3	3
New Loan Guarantee Commitments Exempt from Limitation	2,436	3,437	4,502
Guarantees of FFB Loans			
New FFB loans	2,436	3,437	4,502
Repayments	-1,751	-3,160	-4,245
Outstanding FFB holdings	685	962	1,219

of the cost of construction as estimated on the date of the guarantee or commitment and 60 percent of cost increases thereafter. The authority to guarantee loans expires on September 30, 1984.

The Administration, in its March budget revisions, is proposing to reduce direct loan obligations for 1981 to $20 million, down from $100 million planned in the January budget. It proposes to eliminate the program entirely in 1982.

Geothermal Resources Development Fund. The Geothermal Energy, Research, Development, and Demonstration Act of 1974, as amended, provides that the Secretary of Energy may guarantee loans up to $100 million each for the commercial development of geothermal energy. No limits on aggregate program activity were specified in the enabling legislation. Limitations on outstanding indebtedness were included in the appropriations acts for fiscal years 1977 to 1981; the 1981 Energy, Water and Related Agencies Appropriation Act set a ceiling of $500 million on the outstanding indebtedness of the fund.

The original budget estimates for 1980 and 1981 assumed rapid growth of geothermal loan guarantees, far in excess of actual program growth to date. At the end of 1979, only $14.3 million in loans had been guaranteed. The Administration is proposing to terminate this program in 1982.

Bonneville Power Administration. The budget included estimates for two direct loan pilot programs to be conducted by the Bonneville Power Administration. These programs would provide direct loans to customers for installation, home insulation, and solar energy water heaters. The estimates assumed $2.4 million in new direct loan obligations for 1981 and $2.4 million--the proposed limitation--for 1982.

Wind Energy Systems. The Wind Energy Systems Act of 1980 (Public Law 96-345) allows the Secretary of Energy to make direct loans for up to 75 percent of the total purchase and installation costs of wind energy systems. The Administration is proposing to terminate this program in 1982.

Other energy credit programs are summarized in Table 25.

TABLE 25. OTHER ENERGY CREDIT PROGRAMS (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Biomass Energy Development	---	20.0	---	---	---	---
Goethermal Resources Devleopment	---	---	---	78.5	45.0	---
Bonneville Power Administration Loans	b/	2.4	2.4	---	---	---
Wind Energy Loan Program	4.7	---	---	---	---	---
Total	4.7	22.4	2.4	78.5	45.0	---

a/ Administration estimates.

b/ Less than $50,000.

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NATURAL RESOURCES AND ENVIRONMENT (FUNCTION 300)

This function contains only one credit program: the direct loan program of the Interior Department's Water and Power Resources Services (formerly the Bureau of Reclamation). The Service makes loans to irrigation districts or other public agencies under the Distribution Systems Loan Act (43 U.S.C. 421a-h) and the Small Reclamation Projects Act of 1956, (43 U.S.C. 422a-k) to enable them to construct irrigation systems or municipal and industrial water supply systems. Budget authority for loans under both acts must be specifically provided in appropriations. For fiscal year 1982 the Administration is proposing a limitation on gross obligations of $24.4 million. Table 26 summarizes all credit activity in function 300.

TABLE 26. WATER AND POWER LOAN PROGRAM (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	38.0	---
Limitation proposed	---	38.0	24.4
Obligations subject to limitation	---	25.1	24.4
Obligations exempt from limitation	12.5	---	---

AGRICULTURE (FUNCTION 350)

Credit assistance for agriculture consists of loans and loan guarantees of the Farmers Home Administration's Agricultural Credit Insurance Fund (ACIF) and the Commodity Credit Corporation (CCC), both in the Department of Agriculture. Table 27 summarizes new direct loan obligations and new loan guarantee commitments by the ACIF and the CCC in fiscal years 1980-1982.

TABLE 27. AGRICULTURE--SUMMARY OF CREDIT ACTIVITY (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Agricultural Credit Insurance Fund	7,528	8,721	4,358	5,420	7,456	1,597
Commodity Credit Corporation	4,947	3,571	4,520	744	1,947	2,000
Total	12,475	12,292	8,878	6,164	9,403	3,597

a/ Administration estimates.

Agricultural Credit Insurance Fund

Through the ACIF, the Farmers Home Administration (FmHA) makes a wide variety of direct loans to farmers, ranchers, and others engaged in agricultural activities. The principal programs of the ACIF are loans for farm ownership, farm operations, and disaster relief. FmHA also conducts a small program of guarantees of private lending for these same purposes.

Terms for direct loans made through the ACIF are more favorable than those for commercial loans. Farm ownership loans and other property or resource development loans have long-term maturities, usually 35 to 40 years, and bear interest at the ACIF's cost of borrowing from the Treasury plus a small administrative fee. Low-income borrowers receive 25 percent of all loans extended. These loans are made at special interest rates of 6 percent or less. Farm operating loans have a shorter term, usually 7 to 10 years, but use the same cost-of-money basis for setting interest rates. Again 25 percent of the loans are reserved for low-income farmers, who receive a subsidized interest rate of 6 percent. Disaster loans are also made for farm ownership and operating purposes and have similar maturities. Loans on losses carry a 5 percent interest rate. Guaranteed loans by the ACIF have the same maturities as direct loans; the interest rate is negotiated between the borrower and the lender.

In the March budget revisions the Administration is proposing to reduce direct lending in these programs below the amount specified in the January budget. For 1981 the Administration is proposing a rescission of $89 million, which would reduce the new direct loan limitation for the ACIF to $1,705 million. The largest portion of the reduction, $80 million, is planned for the farm ownership loan program. The Administration will direct the Farmers Home Administration to focus its activities exclusively on those who cannot obtain credit in private lending markets.

In the January budget, ACIF activity for 1982 was expected to fall from its 1981 level to $5.7 billion, based on smaller estimates of disaster loan requirements. In the March revisions the Administration proposes to reduce new direct loan obligations by another $1.3 billion to $4.4 billion. 1/ This proposed reduction will primarily affect the farm ownership loan program, and assumes further decreases in disaster loans.

The ACIF is a revolving fund. Sales of direct loans held by the ACIF provide funds for further loans, subject to limitations set by the appropriation language. Groups of loans are packaged as a pool, and certificates of beneficial ownership (CBOs), or loan assets, in that pool are sold. Most CBOs are sold with a guarantee to the off-budget Federal Financing Bank. Because receipts from these loan asset sales are considered to be repayments on the loans in the pool, they are counted as negative outlays and thus offset new lending. Selling loan assets to the FFB, therefore, has the effect of transferring budget outlays from the ACIF to the off-budget FFB.

In the credit program control system, the Administration has chosen to propose limitations only on the new direct loans and loan guarantees by the ACIF to the public. Sales of loans assets and guarantees of these sales, are considered to be a means of financing. Therefore, limitations are not proposed on the new direct loan obligations or on the new loan guarantee

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1/ The credit budget totals in the March Budget Revisions included a reduction of $2,650 million in direct loan obligations for the ACIF for fiscal year 1982. The correct figure is $1,300 million. CBO has adjusted the credit budget totals accordingly.

commitments associated with the loan asset sales. Of the $4.4 billion in new direct loan obligations for 1982, $0.9 billion is for repurchases of loan assets sold in previous years. Of the $1.6 billion in new loan guarantee commitments proposed, all but $181 million are guarantees of loan asset sales. Table 28 summarizes the direct loan and loan guarantee activities for the ACIF for fiscal years 1980-1982.

TABLE 28. AGRICULTURAL CREDIT INSURANCE FUND LOANS AND LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates	
		1981	1982
New Direct Loan Obligations			
Limitation enacted	1,744	1,794	---
Limitation proposed	---	1,705	2,126
Obligations subject to limitation	1,325	1,705	2,126
Obligations exempt from limitation			
Repurchase of loan assets	1,330	1,266	882
Disaster loans	4,873	5,750	1,350
Total obligations	7,528	8,721	4,358
New Loan Guarantee Commitments			
Limitation enacted	81	81	---
Limitation proposed	---	81	181
Commitments subject to limitation	81	81	181
Commitments exempt from limitation a/	5,339	7,375	1,416
Total commitments	5,420	7,456	1,597
Sale of Loan Assets to FFB			
New sales to FFB	5,257	7,045	1,166
Repurchases	-1,275	-1,025	-735
Outstanding FFB holdings	16,567	22,587	23,018

a/ Guarantees of loan asset sales to the FFB and the public.

Commodity Credit Corporation

The Commodity Credit Corporation (CCC) conducts three direct loan and two loan guarantee programs for farm income stabilization and support. Table 29 summarizes the activities of these programs for fiscal years 1980-1982.

TABLE 29. COMMODITY CREDIT CORPORATION LOANS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Export loans			
Limitation enacted	2,200	2,200	---
Obligations subject to limitation	719	18	---
Commodity loans			
Obligations exempt from limitation	3,866	3,368	4,470
Storage facility loans			
Obligations exempt from limitation	363	185	50
Total obligations	4,947	3,571	4,520
New Loan Guarantee Commitments			
Exempt from Limitation			
Agricultural Fuels	5	38	---
Export Guarantees	740	1,913	2,000
Total commitments	745	1,951	2,000

The CCC's principal form of credit assistance is the nonrecourse commodity loan. The CCC makes direct loans to producers with the crop or commodity serving as collateral. On the date of maturity, an average of seven months later, the producer may pay off the loan or deliver the commodity to the CCC. Commodity loans act to set a floor under market prices because they are based on a given support price. If the market price is below this support price, the farmer does not repay the loan but instead delivers his crop to the CCC. If the market price is above the support price, he pays back the loan and sells the crop himself. For 1982 the Administration estimates that new direct loan obligations for commodity loans will equal $4.5 billion, an increase of nearly 33 percent from the 1981 estimate.

The Administration is proposing legislation to charge interest on all loans equal to the Treasury's cost of borrowing, and to eliminate the interest waiver for the first year on reserve loans held by farmers. The purpose of this legislation is to reduce costs to the government of the price support programs.

The CCC also conducts an export credit sales program to maximize exports of agricultural commodities and products. For fiscal year 1982 the Administration proposes no new loan obligations for short- and medium-term export loans. Rather, it wishes to place greater reliance upon loan guarantees for financing commercial export sales of agricultural commodities. This policy was initiated during the previous Administration after new direct loan obligations fell short of the enacted limitation for fiscal year 1980. During that year only $0.7 billion of $2.2 billion was used for new direct loan obligations, resulting in an unused balance of $1.5 billion. Since that time, new direct loan obligations have declined and will be zero in 1982.

The third direct loan program conducted by the CCC provides financing for the purchase, construction, or remodeling of commodity storage facilities. The loans have 10-year terms and bear interest at a rate based on the CCC's borrowing rate from the Treasury. The Administration is proposing to phase out the storage facility loan program by 1986 because of a surfeit of storage capacity. For fiscal year 1981 the Administration proposes to reduce new direct loan obligations $180 million below the 1980 level, and for fiscal year 1982 new obligations will drop another $135 million.

The Rural Development Act of 1972 directed the CCC to guarantee loans of up to $15 million each for not more than four pilot projects for the production of industrial hydrocarbon and alcohol fuels from agricultural commodities and forestry products. During 1980 one project received final approval with a loan guarantee of $4.6 million. Final approval of three tentatively approved projects, with new loan guarantee commitments totaling $33.7 million, is expected in 1981.

As the direct loan export program is phased out, the CCC's noncommercial risk assurance program will take over its activities. Under this program the CCC guarantees U.S. exporters against default due to noncommercial risks on payments owed to them under deferred payment sales contracts. This program primarily is intended to protect exporters from defaults caused by political instability. For 1982 the Administration estimates that new loan guarantee commitments for the risk assurance program will equal $2 billion.

COMMERCE AND HOUSING CREDIT (FUNCTION 370)

Credit programs in this function are designed to promote the flow of funds into housing and commerce. These programs include the mortgage insurance and purchase activities of the Department of Housing and Urban Development (HUD), the rural housing activities of the Department of Agriculture (USDA), the business loan programs of the Small Business Administration (SBA), the National Consumer Cooperative Bank, and other activities.

In the Administration's proposed budget for 1982, new direct loan obligations would increase approximately 7 percent from the 1981 level, while new loan guarantee commitments would fall by 3 percent, after a large increase from 1980 to 1981. Table 30 summarizes the new direct loan obligations and loan guarantee commitments in this function for 1980-1982.

TABLE 30. COMMERCE AND HOUSING PROGRAMS--SUMMARY OF CREDIT ACTIVITY (By fiscal year, in billions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
FHA	0.3	0.3	0.3	29.1	34.2	35.0
GNMA	2.2	1.8	3.6	63.2	64.0	64.2
Housing for the Elderly or Handicapped	0.9	0.9	0.9	---	---	---
Rural Housing Credit	6.8	6.4	4.7	4.8	7.2	3.7
National Credit Union Administration	0.3	2.1	3.7	0.1	0.1	b/
Chrysler Guarantees	---	---	---	0.8	0.7	---
Small Business Assistance	0.8	0.7	0.8	4.8	4.9	4.4
Deposit Insurance Programs	0.9	1.1	0.2	---	---	---
Other	b/	0.1	b/	0.1	0.1	0.1
Total	12.2	13.3	14.2	102.9	111.1	107.5

a/ Administration estimates.

b/ Less than $50 million.

Federal Housing Administration

The first major loan guarantee program of the federal government was home mortgage insurance, begun during the Depression. Today home mortgage insurance continues to be the largest of federal credit activities. The mortgage insurance programs of the Federal Housing Administration (FHA) are administered through the FHA Fund, which is actually a collection of insurance funds. The Mutual Mortgage Insurance Fund provides mortgage insurance for single-family homes. Premiums are determined on an actuarial basis and are more than sufficient to cover expected losses. The Cooperative Management Housing Insurance Fund provides mortgage insurance for management-type cooperatives. The General Insurance Fund provides specialized mortgage insurance for property improvement loans and loans for cooperatives, condominiums, group practice medical facilities, nonprofit hospitals, and others. The Special Risk Insurance Fund provides mortgage insurance to high-risk borrowers who would otherwise not be eligible for mortgage insurance.

According to the latest estimates FHA guarantee commitments will rise 17 percent from 1980 to 1981, and will be held at near the 1981 level ($35 billion) in 1982. These commitment levels are substantially lower than the levels requested in the January budget. The January budget had requested $4.8 billion more in 1981 and $9.0 million more in 1982. The reductions in FHA proposed in the March revision account for by far the largest portion of the overall reduction in the credit budget. In the past FHA guarantees have essentially been constrained only by demand from eligible borrowers. For 1981, for example, the January budget requested a supplemental increase in the enacted limitation in the face of unexpectedly harsh housing market conditions. The proposed March revisions would require for the first time that the FHA take steps to select from among eligible borrowers or to alter its activity in some other way in order to meet the limitation.

For 1982 the Administration is proposing a limitation of $76 million on new direct loan obligations. This limitation applies only to direct loans for temporary mortgage assistance payments. Exempt from limitation are new direct loan obligations used to cover a portion of defaults against FHA-insured mortgages. In cases of default, the FHA pays off the holder of the guaranteed mortgage, and the mortgage becomes a direct loan for which the FHA seeks repayment. The FHA does not convert all defaults into direct loans. Instead, it pays off some defaulted mortgages with grants. For 1982 the Administration estimates that total defaults on guaranteed mortgages will equal $593 million. Of that amount $202 million will be converted into direct loans, and $391 million will be written off as cash losses. Table 31 details the activity of the FHA fund for 1980-1982.

TABLE 31. FEDERAL HOUSING ADMINISTRATION LOANS AND LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations			
Limitation enacted	---	14	---
Limitation proposed	---	14	76
Obligations subject to limitation	---	14	76
Obligations exempt from limitation a/	301	268	202
Total obligations	301	282	278
New Loan Guarantee Commitments			
Limitation enacted	---	34,155	---
Limitation proposed	---	34,155	35,000
Commitments subject to limitation	---	34,155	35,000
Commitments exempt from limitation	29,106	---	---

a/ Disbursements for loan guarantee default claims.

Government National Mortgage Association

Major federal support for the mortgage market is provided by the activities of the Government National Mortgage Association (GNMA). Tables 32 and 33 summarize GNMA activities for 1980-1982. GNMA guarantees securities issued by mortgage bankers and other financial institutions backed by pools of privately held, federally-insured mortgages. The GNMA-guaranteed securities are attractive to investors who have not traditionally invested in mortgages. Through these guarantees GNMA is able to draw more funds into housing credit. For 1981 the Administration is proposing a supplemental increase in the enacted limitation from $53 billion to $64 billion. This is $8 billion less than the January supplemental request. The requested level for 1982 is almost the same as that for 1981.

GNMA makes commitments at the request of mortgage lenders to guarantee their securities at a later date. Requests for GNMA commitments are expected to exceed the limitation in both 1981 and 1982, and GNMA will have to take administrative action to determine how to select from among eligible borrowers and lenders. Because banks subsequently sell far fewer securities than they receive commitments on, it is possible that commitments could be reduced without changing the volume of securities actually guaranteed.

TABLE 32. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION--TANDEM PLAN DIRECT LOANS, (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
Special Assistance Functions			
Limitation enacted	2,154	1,800	---
Limitation proposed	---	1,800	3,600
Obligations subject to limitation	2,154	1,800	3,600
Emergency Mortgage Purchase Assistance			
Obligations exempt from limitation	41	24	5

GNMA also purchases mortgages to support the flow of housing credit. Through the tandem plan or its special assistance functions fund, GNMA purchases below-market interest rate FHA and VA loans from lenders, paying the lenders full market rates. It also returns to the lender a premium that functions as a subsidy for making the low rate loan. GNMA then sells these loans itself at market rates to other institutional investors. For 1982 the Administration is requesting a limitation of $3.6 billion for new direct loan obligations. This is twice the 1981 limitation, and $3.3 billion higher than the January budget estimate. The January estimate assumed enactment of legislation to convert the tandem plan from loans to equivalent grants. Withdrawal of the proposal in the March revisions raises the 1982 estimate to its current level.

As part of the tandem plan, GNMA also has authority to purchase conventional, FHA, and VA mortgages on an emergency basis whenever the HUD Secretary determines, with Congressional approval, that housing credit needs to be supplemented. The last such authority was granted in September 1976. New commitment activity since that time has been limited to increases in existing contracts. The Administration does not expect any new commitments to be made through 1982, although amendments to existing contracts were estimated to total $5 million in 1982.

TABLE 33. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION--GUARANTEES OF MORTGAGE-BACKED SECURITIES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation	5	8	9
Net Direct Loan Outlays	2	4	4
Direct Loans Outstanding	6	10	14
New Loan Guarantee Commitments			
Limitation enacted	---	53,000	---
Limitation proposed	---	64,000	64,208
Commitments subject to limitation	---	64,000	64,208
Commitments exempt from limitation	63,200	---	---

Housing for the Elderly or Handicapped

Section 202 of the Housing Act of 1959, as amended, provides for a program of direct loans to nonprofit sponsors, consumer cooperatives, and certain public agencies to construct rental housing for elderly and handicapped persons. The loans have a maximum term of 40 years and bear interest at Treasury's borrowing rate, plus an allowance to cover administrative costs and probable losses.

For 1982, the Administration is proposing a limitation of $850.8 million for new direct loan obligations. This is a reduction of 5 percent from the limitation proposed in 1981. The Administration estimates that new direct loan obligations of $850.8 million would provide financing for approximately 17,200 units of housing. It should be noted that, although there is a high level of loan activity in this program, there are few repayments in 1980-1982. Table 34 summarizes direct lending from the fund for fiscal years 1980-1982.

TABLE 34. LOANS FOR HOUSING FOR THE ELDERLY OR HANDICAPPED (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	920	---
Limitation proposed	---	920	851
Obligations subject to limitation	---	896	851
Obligations exempt from limitation	933	---	---
Net Direct Loan Outlays	782	829	823
Direct Loans Outstanding	1,975	2,804	3,628

Rural Housing Credit

The Farmers Home Administration (FmHA) of USDA conducts two programs in function 370 that provide rural housing credit. FmHA's Rural Housing Insurance Fund (RHIF) makes direct (and some guaranteed) loans for rural housing purchases, rental and cooperative housing projects, farm labor housing projects, and preparation of rural housing sites. The authority for these loans is provided by Title V of the Housing Act of 1949, as amended.

Direct loans by the RHIF are largely financed through the sale of certificates of beneficial ownership (loan assets) to the Federal Financing Bank. Through these transactions the balance of loans outstanding in the on-budget RHIF is kept to a minimum but there is a corresponding rise in off-budget FFB loan balances. In its credit program control system, the Administration is proposing limitations on RHIF's new direct loan and loan guarantee transactions with the public but not on the fund's transactions with the FFB. Almost all the loan guarantee activity in this fund consists of guarantees of the loan assets as they are sold to FFB, rather than of guarantees of private rural housing loans.

The Administration is planning to hold the activities of RHIF in 1981 and 1982 to approximately the 1980 level. The moderate-income homeownership loans program will be reduced, while the other programs will continue to grow. The Administration is directing FmHA to target its lending to those who cannot obtain credit elsewhere. To achieve the restraint planned for 1981, the Administration is requesting that the already enacted limitation of $4,102 million be reduced by $316 million. Total obligations for direct loans decrease during 1981 and 1982 because of decreasing repurchases of loan assets from FFB.

The second FmHA program is much smaller than RHIF. Through the Self-Help Housing Land Development Program, authorized by the Housing and Urban Development Act of 1968 (Public Law 90-448), the FmHA makes loans to public or private nonprofit organizations to finance the acquisition and development of sites for homes to be constructed by self-help. For 1982, the Administration is proposing a limitation of $2 million for new direct loan obligations. Table 35 summarizes RHIF and the Self-Help Housing Land Development program activities for 1980-1982.

National Credit Union Administration Credit Activities

Credit Union Central Liquidity Facility. Public Law 95-630 established the Central Liquidity Facility of the National Credit Union Administration. The facility, which began operations October 1, 1979, provides direct loans to member credit unions to meet seasonal and emergency needs. The facility's funds come from stock subscriptions paid by participating credit unions and through borrowing from the FFB.

For 1982 the Administration is proposing a limitation of $4.4 billion on new direct loan obligations. This limitation exceeds the estimate for new obligations to be made during 1982 by $750 million. For 1981 the limitation exceeded the estimate by $2.2 billion. The Administration contends that a limitation that exceeds anticipated obligations is needed in order to provide for emergency liquidity needs.

Credit Union Share Insurance Fund. This insurance fund, authorized by Public Law 91-468, is used to insure member deposits in federal credit unions. Each insured credit union is required to pay a premium of one-twelfth of one percent of the total amount of its member accounts. These premiums are expected to make the insurance fund self-supporting. The Share Insurance fund is exempt from limitation, under the Administration's criteria, because it is an insurance activity, the needs of which are not easily anticipated. Table 36 summarizes the activities of the Central Liquidity Facility and the Credit Union Share Fund for 1980-1982.

TABLE 35. RURAL HOUSING CREDIT ACTIVITIES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	4,004	4,102	---
Limitation proposed	---	3,786	3,727
Obligations subject to limitation	3,755	3,786	3,727
Obligations exempt from limitation a/	2,997	2,607	1,019
Total obligations	6,751	6,393	4,746
New Loan Guarantee Commitments			
Limitation enacted	500	25	---
Limitation proposed	---	25	---
Commitments subject to limitation	19	25	---
Commitments exempt from limitation b/	4,759	7,127	3,695
Total commitments	4,778	7,152	3,695
Sale of Loan Assets to FFB			
New sales to FFB	4,681	7,067	3,645
Repurchases	-2,775	-2,000	-740
Outstanding FFB holdings	17,076	22,143	25,048

a/ The obligations exempt from limitation consist primarily of the repurchase of loan assets from the FFB.

b/ Guarantees of loan asset sales to the FFB and the public.

TABLE 36. NATIONAL CREDIT UNION ADMINISTRATION LENDING (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations			
Central Liquidity Facility			
Limitation enacted	---	4,400	---
Limitation proposed	---	4,400	4,400
Obligations subject to limitation	---	2,208	3,650
Obligations subject to exemption	310	---	---
Share Insurance Fund			
Obligations exempt from limitation	16	19	21
Total obligations	326	2,227	3,671
New Loan Guarantee Commitments Exempt from Limitation	79	50	25

National Consumer Cooperative Bank

The National Consumer Cooperative Bank (NCCB), chartered by Public Law 95-351, is a mixed-ownership government corporation whose purpose is to provide credit at reasonable rates to consumer cooperative organizations. The Bank makes direct loans to cooperatives with a maximum term of 40 years at rates comparable to those privately available. The Bank may also guarantee loans by private lending institutions to cooperatives. The NCCB has an Office of Self-Help Development and Technical Assistance to provide assistance to cooperatives. This office may make capital investment advances to consumer cooperatives that are not eligible for regular loans by the bank.

In its 1981-1982 budget revisions, the Reagan Administration is proposing to terminate the National Consumer Cooperative Bank. Termination of the NCCB is based on the premise that credit-worthy cooperatives can obtain loans from private credit sources. In addition, the Administration asserts that much of the NCCB lending has been to housing cooperatives which can obtain credit from other federal housing programs.

For 1981 the Administration is proposing in rescission requests to reduce the new direct loan obligation ceiling for the bank itself from $163 million to $107 million, and for the self-help office from $24 million to $18 million. No further obligations are expected in 1982 for the bank, and only $13 million for the self-help office. Table 37 summarizes the loan activities of the bank.

TABLE 37. NATIONAL CONSUMER COOPERATIVE BANK (NCCB) LOANS AND GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
NCCB			
Limitation enacted	---	163.4	---
Limitation proposed	---	57.0	---
Obligations subject to limitation	---	57.0	---
Obligations exempt from limitation	21.8	---	---
Self-Help Development Loans			
Limitation enacted	---	41.1	---
Limitation proposed	---	5.7	13.1
Obligations subject to limitation	---	5.7	13.1
Obligations exempt from limitation	0.6	---	---

Chrysler Corporation Loan Guarantees

The Chrysler Corporation Loan Guarantee Act of 1979 authorized the Secretary of the Treasury to guarantee up to $1.5 billion of Chrysler's debt to assist the troubled automaker in its efforts to regain commercial viability. The act states that the loan guarantee authority could be granted only in amounts as provided by appropriations. The accompanying appropriation, Public Law 96-183, provided that all $1.5 billion could be committed as needed. By 1982 the loan guarantee ceiling will be reached and no additional loan guarantee authority is requested. Table 38 summarizes the activity of the Chrysler guarantee program for fiscal years 1980-1982.

TABLE 38. CHRYSLER LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Adminsitration Estimates 1981	1982
New Loan Guarantee Commitments	800	700	---
New Loans Guaranteed	800	700	---
Guaranteed Loans Outstanding	800	1,500	1,500

Small Business Activities

The Small Business Administration (SBA) provides credit to small businesses in the form of direct loans, loan guarantees, guarantees of surety bonds, lease contracts, and pollution control equipment contracts. The SBA also provides disaster loans, assigned to function 450. The Administration expects new SBA direct loan obligations in function 370 show a slight decline from 1980 through 1982. Most of the component programs are being held to 1980 levels, though a few, such as the surety bond guarantee program, will decrease. The total loan guarantee estimate reflects an approximately 25 percent reduction from the $5.9 billion total proposed in the January budget. Table 39 summarizes new direct loan obligations and new loan guarantee commitments for 1980-1982.

Business Loan and Investment Fund. This fund accounts for most of the credit assistance for small businesses. Through it are funded direct loans to individual businesses and to small business development companies. This fund also administers guarantees for business loans, loans to the handicapped, economic opportunity loans, energy loans, and small business development company and investment company debt. For 1982 the Administration is proposing consolidating the business loan programs into a single program. A similar proposal was made during 1981 but was not enacted into law. The Administration also proposes raising interest rates on direct loans to the rates charged on guaranteed loans.

Direct loan and loan guarantee activity of the Business Loan and Investment Fund is summarized in Table 40. For 1982 the Administration is proposing a limitation of $260 million for new direct loan obligations. New direct loan obligations exempt from limitation are expected to equal $499 million. Most of that amount will be used to cover defaults of SBA guaranteed loans. In cases of default, the SBA pays the holder of the guaranteed loans, and then converts the guarantee into a direct loan. The

Administration proposes a limitation of $3.2 billion for new 1982 loan guarantee commitments, the same as in 1980.

TABLE 39. SMALL BUSINESS ASSISTANCE CREDIT ACTIVITIES (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Credit Activity	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Business Loan and Investment Fund	761	744	759	3,176	3,388	3,150
Surety Bond Guarantees	---	---	---	1,534	1,400	1,200
Pollution Control Equipment Guarantees	---	---	---	99	100	95
Total	761	744	759	4,809	4,888	4,445

a/ Administration estimates.

In the past the FFB has purchased loan assets sold by the SBA. No new asset sales are contemplated for 1982, and the FFB holding will decline as repayments are made. The FFB also makes direct loans guaranteed by the SBA to small business investment companies (SBICs) to finance their provision of equity capital for small businesses. For 1982 the Administration estimates that new loans by the FFB will total $295 million. At the end of 1982 FFB holdings of guaranteed direct loans to SBICs and SBA loan assets will total $1.09 billion.

Deposit Insurance Programs

Federal Savings and Loan Insurance Corporation. The Federal Savings and Loan Corporation (FSLIC) insures deposits in federally chartered and qualified state-chartered savings and loan associations. The FSLIC, which functions under the direction of the Federal Home Loan Bank Board, derives its authority to provide this insurance from Title IV of the National Housing Act.

As part of its protection offered to prevent default by an institution, the FSLIC is authorized to make loans to institutions experiencing financial difficulties. The FSLIC was excluded from a limitation requirement because

TABLE 40. BUSINESS LOAN AND INVESTMENT FUND, LOANS AND LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations			
Limitation enacted	---	---	---
Limitation proposed	---	---	260
Obligations subject to limitation	---	---	260
Obligations exempt from limitation a/	761	789	499
Total obligations	761	789	759
New Loan Guarantee Commitments			
Limitation proposed	---	4,000	3,150
Obligations subject to limitation	---	---	3,150
Obligations exempt from limitation	3,176	3,388	---
FFB Lending b/			
New FFB loans	149	293	295
Repayments	-22	-30	-39
Outstanding FFB holdings	568	831	1,087

a/ Includes disbursements for loan guarantee default claims.

b/ Includes loan asset sales and loan guarantee originations.

its credit activities support its insurance activities, and an annual limitation would impede its ability to function effectively.

For 1982 the Administration estimates that new direct loan obligations will equal $190 million. FSLIC loans are highly sensitive to economic conditions facing savings and loans, and, in particular, variations in interest rates and demand for housing. The Administration's low estimate for new direct loan obligations for 1982, following over $1 billion in obligations made in 1981, reflects its belief that economic conditions will improve in the coming year.

Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation, which provides protection for bank depositors, was established by the Banking Act of 1933. The Corporation makes and enforces rules that promote sound banking practices. The Administration is not requesting new direct loan obligations for 1981 or 1982. Table 41 summarizes the new direct loan obligations of the FSLIC and the FDIC for 1980-1982.

TABLE 41. DEPOSIT INSURANCE PROGRAMS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Exempt from Limitation			
Federal Savings and Loan Insurance Corporation	588.9	1,055.3	190.0
Federal Deposit Insurance Corporation	325.0	---	---

Federal Ship Financing Fund--Fishing Vessels

Additional credit assistance is provided by the Federal Ship Financing Fund--Fishing Vessels. The fishing vessels financing program is subject to the proposed limitations of the control system. For 1982 the Administration is proposing a limitation of $75 million on new loan guarantee commitments, slightly below the expected 1981 activity level. Table 42 summarizes the loan guarantee activity of the Federal Ship Financing Fund for 1980-1982.

TABLE 42. FEDERAL SHIP FINANCING FUND--FISHING VESSELS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Loan Guarantee Commitments			
Limitation enacted	---	---	---
Limitation proposed	---	---	75.0
Commitments subject to limitation	---	---	75.0
Commitments exempt from limitation	73.8	88.0	---

TRANSPORTATION (FUNCTION 400)

Function 400 includes credit programs of the Department of Transportation (DOT) and the Maritime Administration of the Department of Commerce that provide financial assistance for rail, air, and sea transportation projects. Table 43 summarizes new direct loan obligations and new loan guarantee commitments for programs in function 400 for 1980-1982.

TABLE 43. TRANSPORTATION--SUMMARY OF CREDIT ACTIVITY (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Credit Assistance for Railroads						
Railroad rehabilitation b/	128.7	106.0	113.0	277.5	395.0	354.0
Regional rail reorganization	19.2	6.8	1.0	---	---	---
Emergency rail	1.9	2.0	2.2	---	---	---
Subtotal	149.8	114.8	116.2	277.5	395.0	354.0
Aircraft Loan Guarantees	---	---	---	247.0	300.0	100.0
Federal Credit for Ship Financing	11.0	15.0	15.0	1,222.6	900.0	1,050.0
Federal Highway Loans	23.3	13.5	19.0	---	---	---
Total	184.1	143.3	150.2	1,747.1	1,595.0	1,504.0

a/ Administration estimates.

b/ Includes rail service assistance.

Railroad assistance accounts for over three fourths of all new direct loan obligations for 1982. Loan guarantee assistance in function 400 is dominated by the ship financing guarantees of the Maritime Administration, though aid to railroads and aircraft purchase loan guarantees are sizable programs.

The Administration proposes no limitations on direct loan obligations for 1982, but does propose limitations on all new loan guarantee commitments, except for a portion of rail assistance. The following sections highlight the credit activity for each program.

Credit Assistance for Railroads

The federal government provides direct loans and loan guarantees through four programs to help railroads finance capital improvements. Total new direct loan obligations for rail assistance are expected to decrease by 22 percent between 1980 and 1982. During the same period, loan guarantee commitments will increase by 28 percent.

Railroad Rehabilitation and Restructuring Credit. 2/ The Federal Railroad Administration (FRA), under the authority of the Railroad Revitalization and Regulatory Reform Act of 1976 (the "4R Act"), makes direct loans to railroads by purchasing redeemable preference shares. The funds from sale of these shares are used for capital expenditures for rail freight services.

The "4R Act" also authorizes FRA to guarantee long-term debt obligations issued by railroads to finance new facilities and rehabilitation of existing equipment. Some FRA guarantees have been issued to railroads under bankruptcy reorganization proceedings. The Administration estimates that new guarantees of railroad obligations will increase from $278 million in 1980 to $354 million in 1982. All new FRA guaranteed loans have been originated by the FFB, a practice the Administration expects to continue in 1982. Thus, the guarantee program functions as an off-budget direct loan program. For fiscal year 1981, the Congress chose not to place a limitation on new guarantee commitments but instead to limit the total amount of guarantee commitments that could be outstanding to $770 million. These credit activities are summarized in Table 44.

2/ This program is presented in the 1982 budget document under two account titles: Rail Service Assistance and Railroad Rehabilitation and Improvement. The division into two accounts is erroneous. The combined program is shown here.

TABLE 44. RAILROAD REHABILITATION AND RESTRUCTURING LOANS AND LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation	128.7	106.0	113.0
New Loan Guarantee Commitments			
Limitation enacted	---	20.0	---
Limitation proposed	---	20.0	322.6
Commitments subject to limitation	---	20.0	322.6
Commitments exempt from limitation a/	277.5	375.0	31.4
Total commitments	277.5	395.0	354.0
Guarantees of FFB Loans			
New FFB loans	222.7	308.9	269.0
Repayments	-24.1	-335.0	-6.7
Outstanding FFB holdings	783.6	757.3	1,026.3

a/ Includes DOT commitments to guarantee U.S. Railroad Association debt.

Guarantees of Amtrak Debt. The National Railroad Passenger Corporation (Amtrak) was originally financed through FFB purchases of its debt. Because of its lack of profits, it has not been able to pay back that debt, nor is it expected to in the future. It has, however, been required to pay interest to the FFB. To reduce its debt service expenses, Amtrak has engaged in an unusual practice: its appropriated grants for capital improvements have been placed on deposit with the FFB, temporarily reducing the balance of FFB holdings on which interest is charged. These grants have remained on deposit during the period of up to five years between the appropriation and actual expenditure. In 1980 Public Law 96-254 ended this practice and Amtrak is now withdrawing its FFB deposits as it uses the funds to pay for delivered equipment. The Department of Transportation guarantees these FFB transactions. By the end of 1982, Amtrak will come within $25 million of its $850 million ceiling on total indebtedness (see Table 45).

TABLE 45. LOAN GUARANTEES FOR AMTRAK (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
Loans Guaranteed			
Net loans guaranteed a/	63.6	235.2	54.5
Guaranteed loans outstanding	535.3	770.5	825.0
Guarantees of FFB Loans			
Repayments	-65.9	-236.6	-55.7
Outstanding FFB holdings	461.4	698.0	753.7

a/ Includes guarantees of Amtrak debt and lease purchases.

Regional Rail Reorganization Program. The U.S. Railway Association (USRA) was established in 1975 to develop and implement plans for restructuring and rehabilitating bankrupt railroads in the Northeast and Midwest.

USRA provides loans to Conrail's predecessor railroads to cover debts incurred by these companies prior to the conveyance of their rail properties to Conrail. Most of the loan funds flow through Conrail to the other companies and are included in the credit control system. Loans made directly by the USRA to other firms are excluded from credit budget control. The Administration estimates that loan obligations will be $1 million in 1982, down from $19.2 million in 1980. Repayments in 1981 will be $241 million, much larger than in other years. The repayments result from the settlement of Penn Central claims litigation. Some of the claims settlement funds received from the government will be used by railroads to pay off their outstanding federal loans.

Emergency Rail Facilities Restoration Program. The Emergency Rail Facilities Restoration Act, Public Law 92-591, authorized the Secretary of Transportation to make loans to restore railroad facilities damaged by natural disasters during June 1972 (hurricane Agnes). This program was terminated in 1974. New direct loan obligations made since 1974 cover deferred interest payments.

Table 46 summarizes the credit activity of the regional reorganization and emergency facilities restoration programs.

TABLE 46. OTHER RAILROAD ASSISTANCE LOANS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations Exempt from Limitation			
Regional rail reorganization	19.2	6.8	1.0
Emergency rail facilities	1.9	2.0	2.2
Net Direct Loan Outlays	-1.2	-232.2 a/	2.2
Direct Loans Outstanding	421.3	189.1	192.3

a/ Includes receipts from settlement of Penn Central litigation.

Aircraft Loan Guarantees

The Federal Aviation Administration (FAA) is authorized to guarantee 90 percent of principal and 100 percent of interest on loans up to $100 million per carrier for the purchase of aircraft and equipment by private airlines. Of the $350 million total, at least $100 million is targeted for commuter carriers serving small communities. This authority will terminate October 24, 1983.

For the past two years, new loan guarantee commitments have been substantially lower than the limitation set. For 1981 actual commitments are estimated to be 25 percent less than the limitation enacted. To insure that commitments do not increase, the Administration is requesting a reduction of the enacted limitation, to $300 million. The program is scheduled to be sharply reduced in 1982, with estimated new guarantee commitments only one-third as high as commitments in 1981. Table 47 summarizes aircraft loan guarantee credit activity for 1980-1982.

Federal Credit for Ship Financing

Under Title XI of the Merchant Marine Act of 1936, as amended, the Maritime Administration (MarAd) of the Department of Commerce is authorized to guarantee construction loans and mortgages on U.S.-flag vessels built in the United States. Guarantees for loans under Title XI have no proof-of-need requirement. Guaranteed loans may have a maximum term of 25 years and may cover up to 87.5 percent of the cost of the vessel. There is no dollar maximum on the size of loans that may be guaranteed. Outstanding guaranteed loan principal may not exceed $10 billion dollars.

TABLE 47. AIRCRAFT PURCHASE LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Loan Guarantee Commitments			
Limitation enacted	650.0	400.0	---
Limitation proposed	---	300.0	100.0
Commitments subject to limitation	247.0	300.0	100.0

MarAd may also make direct loans in the form of advances to operators of vessels built under Title XI guarantees to forestall possible defaults and to satisfy claims on defaulted loans. Table 48 summarizes activity levels for 1980-1982.

This program is scheduled to remain below the 1980 level in both 1981 and 1982. The Administration is proposing a limitation of $1.1 billion on new commitments for loan guarantees in 1982. It considers the limitation on annual activity a supplement to the ceiling on total indebtedness.

Federal Highway Loans

The Highway Act of 1968 authorized $300 million for the establishment of a right-of-way revolving fund and a federal aid to highways loan program. The funds are used to make interest free direct loans to the states. The first fund is for the purchase of right-of-way parcels in advance of highway construction to prevent inflation of land prices from increasing construction costs.

The initial legislation required the states to pay back the loans within seven years from the date of the advance. Subsequent legislation extended the time limit for repayment indefinitely, and no repayments are expected from 1980 through 1982. Table 49 summarizes the two programs' activities.

TABLE 48. FEDERAL CREDIT FOR SHIP FINANCING (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations Exempt from Limitation a/	11.0	15.0	15.0
Net Direct Loan Outlays	6.1	5.3	3.5
Direct Loans Outstanding	129.9	135.2	138.7
New Loan Guarantee Commitments			
Limitations enacted	---	---	---
Limitation proposed	---	---	1,050.0
Commitments subject to limitation	---	---	1,050.0
Commitments exempt from limitation	1,222.6	900.0	---

a/ Disbursements for loan guarantee default claims.

TABLE 49. FEDERAL HIGHWAY LOANS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations Exempt from Limitation	23.3	13.5	19.0
New Direct Loans	29.3	54.8	64.0
Net Direct Loan Outlays	29.3	54.8	64.0
Direct Loans Outstanding	190.2	245.0	309.1

COMMUNITY AND REGIONAL DEVELOPMENT (FUNCTION 450)

This function contains credit assistance programs for community development in the Department of Housing and Urban Development, for area and regional development in the Departments of Commerce and Agriculture and smaller agencies, disaster loans of the Small Business Administration, and assistance to Indian tribes in the Department of Interior.

New direct loan obligations in function 450 are estimated to total $846 million in 1982, down 74 percent from 1980, and 79 percent from the 1981 estimate. New loan guarantee commitments are expected to decrease to $1.3 billion in 1982. This is a decrease of 54 percent from the 1981 estimate. Table 50 summarizes new credit activity for the major programs in function 450.

Community Development Loan Guarantees

Title I of the Housing and Community Development Act of 1974, as amended, established the Community Development Block Grant Program. Under the program, HUD makes annual grants to state and local governments for community development programs. Section 108 of that act provides that the Secretary may guarantee debt certificates issued by grant recipients in amounts equal to three times their grant award to enable them to finance acquisition of real property and rehabilitation of publicly owned property. The recipients pledge their grants as security for the guaranteed loan.

Section 108 guarantees were first issued in 1979. In that year $5.4 million of the $11.8 million of loans guaranteed were originated by the Federal Financing Bank. The Administration's estimates assumes that all loans guaranteed in fiscal year 1982 will be originated by the FFB. In effect, the Section 108 guarantee program has been converted to an off-budget program of direct loans to local governments, in which the loans are secured by federal grant payments.

For 1982 the Administration estimates no increase in new commitments from the 1981 level. The level for new commitments for fiscal year 1982 is $250 million. Table 51 summarizes new activity for 1980-1982.

New Communities Fund

The New Communities Fund is authorized by the Housing and Urban Development Act of 1968, as amended, and Title VII of the Housing and Urban Development Act of 1970, as amended. It is administered by the New Community Development Corporation. The fund provided assistance to private and public developers of new communities by guaranteeing their bonds, debentures, notes, and other obligations. Of the 13 new community projects that were guaranteed, nine defaulted on their loans. The $25 million requested for fiscal year 1981 was to cover these defaults. The Administration anticipates no new direct loan obligations or loan guarantee commitments in fiscal year 1982 for the New Communities Fund, as shown in Table 52.

TABLE 50. COMMUNITY AND REGIONAL DEVELOPMENT--SUMMARY OF CREDIT ACTIVITY (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Housing and Urban Development						
Community development	---	---	---	157	250	250
Rehabilitation loans	203	45	---	---	---	---
New communities	10	25	---	---	---	---
Commerce						
Economic Development Administration	116	66	---	48	163	---
Coastal energy impact loans	33	7	---	---	---	---
Agriculture						
Rural development insurance fund	1,423	1,507	196	2,509	2,338	1,000
Rural Electrification Administration	210	201	185	24	3	---
Other Agencies						
SBA disaster loans	1,237	2,070	440	2	---	---
CSA programs	25	9	8	---	2	2
Interior credit programs	19	15	16	b/	2	28
Total	3,277	3,945	846	2,740	2,758	1,280

a/ Administration estimates.

b/ Less than $50,000.

TABLE 51. COMMUNITY DEVELOPMENT BLOCK GRANT LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Loan Guarantee Commitments			
Limitation enacted	---	250.0	---
Limitation proposed	---	250.0	250.0
Commitments subject to limitation	---	250.0	250.0
Commitments exempt from limitation	156.9	---	---
New Loans Guaranteed	45.0	270.0	270.0
Guaranteed Loans Outstanding	46.2	305.5	537.5
Guarantees of FFB Loans			
New FFB loans	45.5	127.0	180.0
Repayments	-11.0	-11.0	-38.0
Outstanding FFB holdings	46.3	162.3	342.3

TABLE 52. NEW COMMUNITIES FUND LOANS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Exempt from Limitation	10.0	25.0	---
Net Direct Loan Outlays	9.9	25.0	---
Direct Loans Outstanding	129.5	154.5	154.5
Guarantees of FFB Loans			
Repayments	-5.0	---	---
Outstanding FFB holdings	33.5	33.5	33.5

Housing Rehabilitation Loans

Section 312 of the Housing Act of 1964, as amended, authorizes direct loans for the rehabilitation of residential and commercial properties. These loans may be used in areas undergoing federally assisted development provided for in the programs for urban renewal, code enforcement, community development block grant, and urban homesteading.

The Administration has proposed the termination of the Rehabilitation Loan Fund. It contends that the fund's functions are accomplished by other programs, notably the Community Development Block Grant Program. For 1981 the Administration is proposing a rescission to reduce the new direct loan obligation ceiling from $197 million to $45 million. For 1982 no further obligations are anticipated. Table 53 details rehabilitation loan activity for fiscal years 1980-1982.

TABLE 53. REHABILITATION LOANS (By fiscal year, in millions of dollars

Credit Activity	1980 Actual	Administration Estimates	
		1981	1982
New Direct Loan Obligations			
Limitation enacted	---	197.0	---
Limitation proposed	---	45.0	---
Obligations subject to limitation	---	45.0	---
Obligations exempt from limitation	203.3	---	---

Economic Development Administration

The Economic Development Administration (EDA) of the Department of Commerce provides business development loans and loan guarantees in economically distressed areas to encourage private credit and investment that, it is hoped, will create new jobs. These assistance programs are authorized by the Public Works and Economic Development Act of 1965, as amended, and Title II of the Trade Act of 1974. EDA's direct loan program makes credit available for retaining, constructing, expanding, or improving facilities in manufacturing or service industries. EDA's loan guarantee program assists firms that have difficulty in obtaining private financing for fixed asset and working capital expansions. In 1978 and 1979 portions of the EDA revolving fund were set aside as reserves for a program of loan guarantees to assist steel firms. The guarantees were to enable the firms to overcome problems of foreign competition and to invest in needed modernization and pollution control equipment, thereby saving jobs.

The Administration is proposing to eliminate funding for the Economic Development Administration. The Administration asserts that EDA programs are not effective, and that other means will be used to stimulate economic expansion and employment opportunities in distressed areas. The Administration proposes that development assistance to rural areas be provided by the FmHA.

For 1981 the Administration is proposing a rescission to reduce the limitation on new direct loan obligations from $116.4 million to $66 million. No further obligations are expected in 1982. The Administration is also requesting that the limitation for new loan guarantee commitments be reduced to $163 million for 1981. No new loan guarantee commitments are contemplated for 1982. Table 54 details activity for EDA credit programs.

TABLE 54. ECONOMIC DEVELOPMENT CREDIT ASSISTANCE (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations			
Limitation enacted	61.8	116.4	---
Limitation proposed	---	66.0	---
Obligations subject to limitation	61.8	66.0	---
Obligations exempt from limitation a/	54.6	---	---
New Loan Guarantee Commitments			
Limitation enacted	---	425.0	---
Limitation proposed	---	163.0	---
Commitments subject to limitation	---	163.0	---
Commitments exempt from limitation	48.3	---	---

a/ Direct loan to cover the default of Wisconsin Steel loan guarantee.

Coastal Energy Impact Loans

The Coastal Zone Management Act, as amended, authorizes grants, loans, loan guarantees, and repayment assistance to states and local governments to assist in financing new or improved public facilities necessitated by energy related activities in coastal and outer continental shelf areas. Energy related activities in these areas include offshore drilling for natural gas and oil, port receiving and storage facilities, and petroleum refineries for imported oil. The act sets up the Coastal Energy Impact Fund in the National Oceanic and Atmospheric Administration (NOAA) of the Department of Commerce.

The Administration is proposing to terminate coastal energy impact loans in the belief that states and localities are capable of dealing with the effects of oil and gas development. For 1981 the Administration is proposing a rescission to reduce the new direct loan obligation ceiling by $40 million to $7.4 million. No further obligations are anticipated for 1982.

Table 55 details the direct loan program of the Coastal Energy Impact Fund for fiscal years 1980-1982.

TABLE 55. COASTAL ENERGY IMPACT LOANS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	47.4	---
Limitation proposed	---	7.4	---
Obligations subject to limitation	---	7.4	---
Obligations exempt from limitation	33.1	---	---

Rural Development Insurance Fund

The Farmers Home Administration makes loans for water systems, waste disposal facilities, community facilities, and industrial development through the Rural Development Insurance Fund (RDIF). Water and waste development loans are made to Indian tribes, nonprofit corporations, and public and quasipublic agencies. Community facility loans may cover fire and rescue services, transportation systems and social, cultural, or recreational facilities. Both the water and community facility loans have a term that is the lesser of the useful life of the facility or 40 years. Their interest rate may not exceed 5 percent. Table 56 details the direct lending and loan guarantee activities under the RDIF.

TABLE 56. RURAL DEVELOPMENT INSURANCE FUND CREDIT ACTIVITIES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
Direct Loan Obligations			
Limitation enacted	950	1,010	---
Limitation proposed	---	850	130
Obligations subject to limitation	948	850	130
Obligations exempt from limitation a/	475	657	66
Total obligations	1,423	1,667	196
New Loan Guarantee Commitments			
Limitation enacted	1,066	741	---
Limitation proposed	---	741	---
Commitments subject to limitation	1,066	741	---
Commitments exempt from limitation b/	1,443	1,597	1,000
Total commitments	2,509	2,338	1,000
Sale of Loan Assets to FFB			
New sales to FFB	1,443	1,597	1,021
Repurchases	-450	-625	---
Outstanding FFB holdings	4,318	5,290	6,311

a/ The obligations exempt from limitation consist primarily of the repurchase of loan assets from the FFB.

b/ The commitments exempt from limitation are for guarantees of loan asset sales.

For 1981 the Administration is proposing a rescission to reduce the authority to incur direct loans for water and waste projects from $750 million to $590 million, reducing the limitation for the entire RDIF to $850 million.

The Administration is proposing legislation to increase the present interest rate for water and waste loans to the average rate applied to municipal bonds sold for the same type of project. This change is proposed in order to curb the growth of interest subsidy outlays. Further loan obligations for water and waste disposal projects in 1982 are contingent upon the enactment of this legislation.

Industrial development guaranteed loans may be made to cooperatives, corporations, Indian tribes, municipalities, or individuals. The loans are to assist in financing business and industrial facilities, purchasing real estate, paying start-up costs, or supplying working capital. The interest rate on loans to private entrepreneurs is the cost of Treasury borrowing plus administrative expenses, and the maturity is 30 years. Loans to public entities have a 5 percent interest rate and a 40-year maturity. No further loan guarantee commitments are expected for 1982. The Administration is proposing to terminate this program.

As a further part of its effort to curb the lending activities of Farmers Home Administration credit programs, the Administration is proposing to reduce new direct loan obligations for community facility loans of the RDIF. For fiscal year 1982, the Administration is proposing $130 million in new direct loan obligations for community facilities. In addition, the Administration is proposing legislation to increase the present interest rate for community facility loans to the average municipal bond rate.

It should be noted that the RDIF is a revolving fund largely financed by the sale of loan assets (certificates of beneficial ownership) to the FFB. The Administration did not make direct loan and loan guarantee activity relating to sales and purchases of loan assets subject to the proposed limitation. These transactions are considered to be a means of financing, not program activity.

Rural Electrification Administration

The Rural Electrification Administration (REA) administers two credit programs in function 450: the Rural Communications Development Fund, and the off-budget Rural Telephone Bank. Table 57 summarizes the credit activities of these programs.

Rural Communications Development Fund. The Consolidated Farm and Rural Development Act authorizes loans and loan guarantees for the financing of community antenna television services in rural areas. Originally this activity was financed out of the Rural Development Insurance Fund of the Farmers Home Administration. In 1980 the activity was transferred to a new revolving fund in the REA.

TABLE 57. RURAL ELECTRIFICATION ADMINISTRATION CREDIT ACTIVITIES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual a/	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Rural Communications Development Fund			
Limitation enacted	10.0	31.4	---
Limitation proposed	---	15.1	---
Obligations subject to limitation	10.0	31.4	---
Rural Telephone Bank			
Limitation enacted	199.9	220.0	---
Limitation proposed b/	---	220.0	220.0
Obligations subject to limitation	199.9	185.0	185.0
New Loan Guarantee Commitments			
Rural Communications Development Fund			
Limitation enacted	24.0	2.6	---
Limitation proposed	---	2.6	---
Commitments subject to limitation	24.0	2.6	---

a/ Activity in part of 1980 was financed through the Rural Development Insurance Fund. Such amounts are included in that fund.

b/ The proposed limitation provides "not less than $160,000,000 nor more than $220,000,000."

Under the community facilities program, nonprofit organizations may receive 35-year loans at 5 percent interest to provide television service in rural areas comparable to service in urban areas. Profit-making organizations may obtain loans from a business and industrial development loan program, again for a 35-year term, but at rates just above Treasury borrowing costs.

The Administration is proposing to terminate the Rural Communications Development Fund. The Administration believes that private lenders can adequately provide credit for this activity. For 1981 the Administration is proposing a rescission of $16.3 million which reduces the ceiling on new direct loan obligations to $15.1 million. No further new direct loan obligations or loan guarantee commitments are contemplated for 1982.

Rural Telephone Bank (RTB). The Rural Telephone Bank, established by Public Law 92-12, provides a supplemental source of financing for the REA telephone program. The bank borrows from the Treasury and bases the interest rates for its loans on its average cost of money. On all loans through September 30, 1980, the weighted average interest rate was 7.08 percent. During the first quarter of 1981, loans were made at 10.25 percent.

For fiscal year 1982, the Administration is proposing a minimum of $160 million for new direct loan obligations and a maximum of $220 million. A point estimate of $185 million is included in the credit budget. For fiscal year 1981 a limitation of the same amount was enacted, while it was estimated that only $185 million in new direct loan obligations would be made.

SBA Disaster Loans and Loan Guarantees

The Small Business Administration (SBA) makes both direct and guaranteed loans to assist small businesses and property owners to recover from physical disasters under sections 7(b), 7(f), and 7(g) of the Small Business Act, as amended. Such loans are specifically exempted from limitation on annual new obligations. The Administration is proposing to increase the interest rates on physical disaster loans to the cost of Treasury borrowing.

Nonphysical disaster loans are made to small businesses that need assistance in complying with various federal or state statutes and regulations and to small businesses that have suffered economic loss because of displacement or economic injury. Examples of the former include assisting small businesses in complying with pollution control, meat and poultry inspection, and occupational safety requirements. Examples of the latter include economic loss caused by closure of federal offices and military bases or energy shortages. For fiscal year 1982, the Administration is proposing to eliminate nonphysical disaster loans as part of its plan to limit disaster assistance to those most in need.

In the March budget revisions the Administration withdrew the $780 million supplemental appropriation requested in the January budget. The disaster loan program has generally required a supplemental every year to accommodate the needs of all eligible applicants. If no supplemental is passed in 1981, the SBA will for the first time have to devise a method for selecting recipients from the pool of eligible applicants. For 1982 the Administration is continuing to press for restraint in disaster loans by requesting that the program no longer be exempt from limitation. The relatively low limitation requested for 1982--$440 million--reflects in part a decision to transfer much of the disaster lending to the Farmers Home Administration.

Table 58 details disaster loan assistance through the SBA disaster loan revolving fund for 1980-1982.

TABLE 58. SMALL BUSINESS ADMINISTRATION DISASTER LOANS AND LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation proposed	---	---	440
Obligations subject to limitation	---	---	440
Obligations exempt from limitation a/	1,237	2,070	---
New Loan Guarantee Commitments Exempt from Limitation	2	---	---
Guaranteed Loans Outstanding	7	6	4

a/ Obligations made for physical disaster loans are exempt from limitation.

Community Services Administration Credit Programs

The Community Services Administration (CSA) administers two credit programs: rural development loans and loan guarantees, and loans to community development credit unions. Table 59 details the activities of the rural development loan fund and the credit union loans.

Rural Development Loan Fund. Through this fund, loans and loan guarantees are provided to borrowers in rural communities that have substantial concentrations of low-income persons. The loans and guarantees are for group ventures, developing either business or community facilities that will provide increased income, employment, and ownership opportunities for low-income residents. Loans and guarantees may be made directly or to intermediary organizations that, in turn, lend or guarantee funds to eligible borrowers. For fiscal year 1982, the Administration is proposing a limitation of $8 million on new direct loan obligations and $2 million on new loan guarantee commitments.

Community Development Credit Unions. A revolving fund was established in fiscal year 1980 to be jointly administered by CSA and the National Credit Union Administration. The fund makes "seed money" loans to newly chartered community development credit unions. These credit unions will provide financing for community development needs. The Administration proposes that no new direct loan authority be made available for fiscal year 1982.

TABLE 59. COMMUNITY SERVICES ADMINISTRATION CREDIT (By fiscal year, in millions of dollars)

	Direct Loans			Loan Guarantees		
	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Rural Development Loan Fund						
New Obligations	20.0	8.0	8.0	---	2.0	2.0
New transactions	b/	24.0	8.0	---	---	---
Community Development Credit Unions						
New obligations	5.0	1.0	---	---	---	---
New transactions	---	6.0	---	---	---	---

a/ Administration estimates.

b/ Less than $50,000.

Indian Credit Assistance

To provide Indian tribes on federal reservations greater access to credit, the Indian Financing Act of 1974 established a revolving fund for loans and the Indian guarantee and insurance fund. The former provides direct loans, while the latter guarantees private lending to Indians.

For fiscal year 1982 the Administration is proposing a limitation of $14.8 million on new direct loan obligations. The Administration is requesting a limitation of $27.6 million on new loan guarantee commitments for fiscal year 1982. Table 60 details the activities of the revolving fund and the Indian loan guarantee and insurance fund.

TABLE 60. INDIAN CREDIT ASSISTANCE (By fiscal year, in millions of dollars)

	Direct Loans			Loan Guarantees		
Credit Activity	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Revolving Fund for Loans						
New obligations	17.1	12.7	14.8	---	---	---
New transactions	17.0	13.4	14.8	---	---	---
Guarantee and Insurance Fund						
New obligations	1.5	1.8	1.3	---	2.3	27.6
New transactions	1.5 b/	1.8 b/	1.3 b/	7.7	2.3	27.6

a/ Administration estimates.

b/ Disbursement for loan guarantee default claims.

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (FUNCTION 500)

Credit programs in this function consist primarily of loans and loan guarantees to assist students and their families in financing college educations. In addition there are loans and loan guarantees to colleges and other institutions to finance construction of facilities. Table 61 gives a summary of credit assistance in education.

TABLE 61. EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES--SUMMARY OF CREDIT ASSISTANCE (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Guaranteed Student and Parent Loans	271	343	588	4,750	7,185	5,697
Guarantees of SLMA Obligations	---	---	---	1,070	2,095	500
National Direct Student Loans	305	186	286	---	---	---
College Housing Loans	114	76	60	---	---	---
Total	690	605	924	5,820	9,280	6,197

a/ Administration estimates.

Guaranteed Student and Parent Loan Programs

The guaranteed student loan program is designed to stimulate commercial, state, and nonprofit lenders to provide loans to students and parents to help pay the costs of education at universities, colleges, and vocational schools. The Administration is proposing a number of changes in the guaranteed student loan program for 1981 and 1982: the amount of a loan would be determined according to the student's assessed financial need; in-school interest subsidies on new loans to students would be eliminated; and interest rates on loans to parents would be set at the market rate, eliminating federal subsidies. These changes would probably reduce the number of program participants and hence lower the level of new loan commitments.

Table 62 provides a summary of the credit activity in the guaranteed student loan program. The Administration estimates that total loan guarantee commitments will decrease by 21 percent, from $7,185 million in 1981 to $5,697 million in 1982, reflecting the proposed changes in the program. The 1981 estimate does not include the impact of the proposal on 1981 loans; the 1982 estimate does. CBO's estimate for new loan guarantee commitments in 1981 is $5.6 billion, reflecting the major impact the proposal would have as early as 1981. CBO estimates that new commitments will fall to $5.1 billion in 1982. The difference of $600 million from the Administration's 1982 estimate derives from CBO's assumption that very few parents would borrow under the program at the proposed nonsubsidized interest rates. If no changes are enacted, CBO estimates that new loan guarantee commitments for 1982 will be $8.8 billion.

TABLE 62. CREDIT ACTIVITIES FOR THE GUARANTEED STUDENT LOAN PROGRAM (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation a/	271	343	588
New Loan Guarantee Commitments Exempt from Limitation	4,750	7,185	5,697
Net Loans Guaranteed	3,347	5,580	2,903
Guaranteed Loans Outstanding	11,649	17,157	20,060

a/ Primarily disbursement for loan guarantee default claims.

The Administration estimates the total obligations for defaults of guaranteed loans (which are converted to direct loans) at $588.1 million for 1982, an increase of 72 percent over the 1981 level of $342.7 million. While total obligations are increasing as the program gets larger, there is a slowly declining default rate--now approximately 9 percent.

Guarantees of SLMA Obligations

The Student Loan Marketing Association (SLMA) is classified as a govenment-sponsored private credit corporation, although to date SLMA's capital has come from the Federal Financing Bank. The Department of Education guarantees SLMA's borrowing from the FFB, and these guarantees are recorded as secondary guarantees in the credit budget. SLMA performs three basic credit functions for the guaranteed student loan program. First, it is a lender of last resort to enable students to obtain a federally insured loan. Secondly, it purchases insured loan portfolios from financial institutions. Finally, it serves to consolidate federal loans for students with several seperate loans. Loan activity in the entire student loan program has grown over 300 percent in the last three years, and banks are seeking SLMA services for their greatly expanded portfolios. SLMA's market share in student loan insurance lending activity is expected to remain constant.

As part of its attempt to promote private rather than government financing the Administration recently announced that the SLMA will no longer finance its activities through the FFB. To facilitate the transition to private financing, the FFB will purchase $2.1 billion in SLMA debt in 1981, almost double the 1980 purchases. The Administration is proposing a substantial decrease in federal funding in 1982 with its requested limitation of $500 million. Thereafter, no further FFB transactions would occur. Table 63 summarizes the credit activity for this program.

TABLE 63. GUARANTEES OF STUDENT LOAN MARKETING ASSOCIATION OBLIGATIONS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Loan Guarantee Commitments Exempt from Limitations	1,070	2,095	500
Guarantees of FFB Loans			
Net FFB loan purchases	1,070	2,095	500
Outstanding FFB holdings	2,345	4,440	4,940

National Direct Student Loan Program

National direct student loans (NDSL) are long-term, low interest loans to assist financially needy students in pursuing post-secondary education at eligible institutions. The Administration estimates total direct lending obligations of $286 million for fiscal year 1982 for NDSL. The federal government makes loans in the form of capital contributions to the revolving funds at higher education institutions. Colleges use their receipts to make new loans, rather than repaying the federal government. The new federal capital, combined with $514 million in college revolving fund capital, is estimated to provide $800 million in loans for the 1980-1981 school year. This level of activity is expected to decline for the 1981-1982 school year as a result of the proposed reduction of the federal capital contribution. The 1982 request does not quite restore the contribution to the 1980 level for the 1982-1983 school year. Table 64 summarizes the activity for this program.

TABLE 64. CREDIT ACTIVITY FOR NDSL PROGRAM (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations Exempt from Limitation	305	186	286
New Direct Loans	311	283	210
Collections on defaults	-23	-25	-27
Net direct loan outlays	287	258	184
Direct Loans Outstanding	4,098	4,356	4,539

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 or acquisition of housing facilities. The loans have a 40-year term. Through a rescission the Administration is proposing to reduce college housing loans to $76 million in 1981, because of the decline in the college age population. At the same time it is requesting the removal of the limitation of $110 million which was previously enacted. For 1982, the Administration expects a further reduction, to $50.0 million. Table 65 summarizes the credit activity in this area.

TABLE 65. CREDIT ACTIVITY FOR COLLEGE HOUSING LOANS (By fiscal years, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations			
Limitation enacted	---	110.0	---
Limitation proposed	---	---	---
Obligations exempt from limitation	113.7	76.0	50.0

HEALTH (FUNCTION 550)

Credit assistance in the health function includes loans and loan guarantees for health services, health maintenance organizations, and the education and training of health care professionals. Table 66 summarizes the levels of new direct loan obligations and new loan guarantee commitments for 1980-1982.

TABLE 66. HEALTH--SUMMARY OF CREDIT PROGRAMS (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Health Maintenance Organizations	35.6	51.5	91.9	33.4	51.5	75.5
Health Professions Graduate Student Loan Insurance	---	0.1	0.2	31.7	48.0	100.0
Health Resources	29.9	13.5	---	---	---	---
Health Services	0.1	0.5	1.0	---	---	---
Total	65.6	65.6	93.1	65.1	99.5	175.5

a/ Administration estimates.

For 1982 the Administration proposes a total of \$93.1 million in new direct loan obligations, a 42 percent increase over 1981. The increase is due primarily to loans to health maintenance organizations (HMOs). The Administration proposes \$176 million in new loan guarantee commitments, a 76 percent increase over 1981. These large increases are caused by higher levels of loan guarantees for HMOs and for the Health Professions Graduate Student Loan Insurance program. The major increases in direct loans to HMOs in both 1981 and 1982 will have no impact on the unified budget since the majority of the new loans are to be sold to the Federal Financing Bank as loan assets. This lending is effectively transferred off-budget through such sales.

Health Maintenance Organization and Medical Facilities Loan and Loan Guarantee Funds

The Public Health Service Act authorizes financial assistance to HMO's in the form of grants, contracts, loans, and loan guarantees for planning, development, acquisition, and construction of ambulatory health care facilities. Both the direct and guaranteed loans have a 20-year maturity and bear interest at 12 percent.

The budget estimates for 1981 and 1982 envision a substantial increase in lending and guarantees under this program, which has grown slowly since its inception in 1975. Total direct loan obligations in 1982 are estimated to be $91.9 million, a 78 percent increase over 1981. Total loan guarantee commitments are estimated to be $76 million in fiscal year 1982, a 46 percent increase over 1981 estimates.

Direct loans are financed through a revolving fund. As new loans are made they are sold to the FFB as loan assets to provide funds for additional loans. All the loan sales are fully guaranteed. For fiscal 1982, a limitation of $76 million for direct loan obligations is being requested, as is a limitation of $76 million for the guarantee of loan asset sales to the FFB. The authorizations for direct and guaranteed lending will expire on September 30, 1981, so reauthorization will be required before the end of this session of the Congress.

The medical facilities program has made direct loans for public facilities and loan guarantees for private, nonprofit facilities in the past, financed through the FFB. No new loan guarantee commitments or loan obligations are planned in 1981 or 1982.

Table 67 summarizes the credit activities of HMO and medical facilities funds.

Other Health Programs

Health Professions Graduate Student Loans. The Health Professions Graduate Student Loan Insurance Fund enables students to borrow from private lenders to help pay the cost of their medical training under Title VII of the Public Health Service Act. The federal government fully insures the principal amount of the loans. The students pay 12 percent annual interest on the 10-year loans. Only students who received guaranteed loans prior to September 30, 1980 can receive new guaranteed loans. Since only a student who started graduate school in either 1978, 1979, or 1980 may receive these loans, 1982 should be the last year with high commitment levels. The Administration anticipates that loans totaling $100 million will be made to

TABLE 67. CREDIT ACTIVITIES FOR HEALTH MAINTENANCE ORGANIZATIONS AND MEDICAL FACILITIES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	155.0 a/	---
Limitation proposed	---	---	75.5
Obligations subject to limitation	---	---	75.5
Obligations exempt from limitation	35.6	51.5	16.4 b/
Total obligations	35.6	51.5	91.9
Net Direct Loan Outlays	-2.5	-34.2	-6.1
Direct Loans Outstanding	216.8	182.6	176.5
New Loan Guarantee Commitments			
Limitation enacted	---	170.0	---
Limitation proposed	---	---	75.5
Commitments subject to limitation	---	---	75.5
Commitments exempt from limitation	33.4 c/	51.5 c/	---
Net Loans Guaranteed	32.0	51.0	59.1
Guaranteed Loans Outstanding	115.7	166.7	225.8
Sale of Loan Assets to FFB			
New sales to FFB	39.8	51.5	75.5
Repurchases	-17.7	-4.9	-21.2
Outstanding FFB holdings	269.1	315.7	370.0

a/ A limitation of $155 million was reported by the House Appropriations Committee. The program is operating, however, under continuing resolution, based on 1980 when there was no limitation.

b/ Disbursement for guarantee default claims.

c/ Primarily guarantees of loan assets sold to FFB.

10,000 students, averaging around $10,000 each in 1982. The Administration's recommended limitation of $100 million for 1982, is a 108 percent increase over the 1981 commitment level. Direct loan obligations for 1982 are expected to be $0.2 million, to cover defaults on guaranteed loans.

Health Resources. Credit activity in health resources consists mainly of interest subsidy payments to meet federal commitments on long-term guaranteed loans for health professions school facilities. When necessary, funds are provided for default payments on federally guaranteed loans. No new direct loan obligations are anticipated for 1982.

Health Services. The Secretary of Health and Human Services may make loans to community organizations in eligible areas for the initial costs of establishing health-care delivery sites for the National Health Service Corps. The Administration estimates new direct loan obligations of $1 million for fiscal year 1982.

Table 68 summarizes the activity for health professions graduate students, health resources, and health services.

TABLE 68. OTHER HEALTH CREDIT PROGRAMS (By fiscal years, in millions of dollars)

	Direct Lending			Loan Guarantees		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Health Professions Loans						
New obligations	---	0.1 b/	0.2 b/	31.7	48.0	100.0
New transactions	---	0.1	0.2	31.7	48.0	100.0
Health Resources						
New obligations	29.9	13.5	---	---	---	---
New transactions	27.6	28.0	9.0	---	---	---
Health Services						
New obligations	0.1	0.5	1.0	---	---	---
New transactions	0.4	0.4	0.5	---	---	---

a/ Administration estimates.

b/ Disbursement for loan guarantee default claims.

INCOME SECURITY (FUNCTION 600)

Credit assistance in the income security function is primarily for housing. Local public housing authorities are assisted in the construction of low-rent public housing, and a "seed money" loan program assists nonprofit sponsors in the planning of housing projects to be financed by the Housing for the Elderly or Handicapped Fund (in function 370). Only the loans to nonprofit sponsors are subject to limitation. Table 69 summarizes the credit activity levels in function 600 for 1980-1982. The following sections highlight each activity.

TABLE 69. INCOME SECURITY--SUMMARY OF CREDIT ACTIVITY (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Low-Rent Public Housing	1,318.1	300.0	300.0	17,012.6	17,838.6	17,446.3
Nonprofit Sponsor Assistance	0.6	2.3	2.6	---	---	---
Pension Benefit Guaranty Corporation	---	2.3	2.7	---	---	---
Total	1,318.7	304.6	305.3	17,012.6	17,838.6	17,446.3

a/ Administration estimates.

Low-Rent Public Housing

The low-rent public housing program provides credit assistance to local public housing agencies (PHAs) for the construction, acquisition, or modernization of public housing projects. Credit assistance is provided at three different stages in the process. First, the federal government makes direct loans to PHAs to finance early costs, such as design and planning. These are shown in the direct loan portion of Table 70. The Administration estimates total direct loan obligations of $300 million for fiscal year 1982, the same level estimated for the previous year.

At a second stage, when the volume of direct loans has accumulated to a size that can be made attractive to private investors, PHAs issue short-term, tax-exempt notes that are guaranteed by federal pledges to issue direct loans in case of default. These short-term notes are for terms averaging between 90 days and one year, and are shown in the guaranteed lending portion of Table 70. They constitute the largest volume of lending under the program. With these guaranteed notes, the PHAs raise sufficient funds to repay the initial direct federal loans and to continue project construction. Loan guarantee commitments are estimated at $17.4 billion for fiscal year 1982, a slight decrease from the 1981 estimate of $17.8 billion. The $17.4 billion represents the gross of all new lending extended during the year. Because the loans mature within a year, this overstates the net volume of funds involved, but is an accurate reflection of total new activity.

TABLE 70. LOW-RENT PUBLIC HOUSING LOANS AND LOAN GUARANTEES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation	1,318	300	300
Net Direct Loan Outlays	38	---	---
Direct Loans Outstanding	94	94	94
New Loan Guarantee Commitments Exempt from Limitation	17,013	17,839	17,446
Guarantees of FFB Loans			
New FFB Loans	119	1,684	2,654
Repayments	---	-606	-92
Outstanding FFB holdings	119	1,197	3,759

At or near completion of construction or modernization, the third or permanent stage of financing takes place. In the past, the PHAs sold long-term, tax-exempt bonds to the public. These were secured by the government's implied guarantee through long-term contracts of annual contributions sufficient to meet interest and principal requirements. No such bonds have been offered in recent years because of high interest rates. Long-term financing is now provided by the Federal Financing Bank and in some cases by refinancing of the short-term notes. The Administration anticipates sharp increases in the use of the FFB for permanent financing, estimating that new FFB loan purchases will rise from $0.1 billion in 1980 to $2.7 billion in 1982.

The activity estimated in this account for 1981 and 1982 is below the levels estimated in the January budget. The difference arises in part from assumptions of less public housing construction and modernization due to 1981 rescissions in other forms of public housing funding.

Other Income Security Programs

Nonprofit Sponsor Assistance. The nonprofit sponsor assistance program provides interest-free direct loans to nonprofit organizations sponsoring construction of housing for the elderly or handicapped. To demonstrate their commitment, the sponsors are required to put up 20 percent or $50,000, whichever is less, of the start-up costs. The interest-free or "seed money" loans cover the remainder. Once the project is approved, the sponsor's 20 percent and the "seed money" loan are repaid from the initial proceeds of the construction loan from the Housing for the Elderly or Handicapped Fund (in function 370). For 1982, the Administration is requesting a limitation of $2.6 million for new direct loan obligations, which represents an increase of 13 percent over the 1981 request (see Table 71).

Pension Benefit Guarantee Corporation. The Pension Benefit Guarantee Corporation administers insurance programs to prevent the loss of pension benefits to participants if pension plans terminate and are not able to pay the insured benefits. A recent amendment (Public Law 96-364) provided that the corporation's receipts and disbursements should be included in the totals of the U.S. budget, beginning in 1981. Prior to this amendment the corporation had been off-budget. Table 71 summarizes credit activity for nonprofit sponsor assistance and for the Pension Benefit Guaranty Corporation.

TABLE 71. OTHER INCOME SECURITY PROGRAMS (By fiscal year, in millions of dollars)

Program	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
Nonprofit Sponsor Assistance			
New loan obligations	0.6	2.3	2.6
New direct loans	a/	a/	a/
Pension Benefit Guaranty Corporation			
New obligations	---	2.3	2.3
New transactions	---	2.3	2.7

a/ Less than $50,000.

Credit assistance to veterans includes direct loans for educational purposes, direct loans in the form of borrowing against the cash value of life insurance policies, and loans and guarantees to purchase homes. For fiscal year 1982, new direct loan obligations are estimated to total $647 million, while new loan guarantee commitments will reach $7.4 billion. Because this credit assistance is considered part of the benefits to which veterans are entitled, the Administration is not recommending limitations on most of these programs. Table 72 summarizes the estimated gross activity levels of veterans' credit programs.

TABLE 72. VETERANS' BENEFITS--SUMMARY OF CREDIT ASSISTANCE (By fiscal year, in millions of dollars)

Program	New Direct Loan Obligations 1980	1981 a/	1982 a/	New Loan Guarantee Commitments 1980	1981 a/	1982 a/
Insurance Policy Loans	256.7	209.4	202.2	---	---	---
Education Loans	7.7	9.6	9.6	---	---	---
Housing Loans	361.6	408.2	435.6	6,310.4	7,421.9	7,383.0
Total	626.0	627.2	647.4	6,310.4	7,421.9	7,383.0

a/ Administration estimates.

Insurance Policy Loans

Veterans and their survivors may borrow against the cash values of life insurance policies issued by the federal government under five programs: the Service-Disabled Veterans' Insurance program, the Veterans' Reopened Insurance program, the National Service Life Insurance program, the U.S. Government Life Insurance program, and the Veterans' Special Life Insurance program. The Administration proposes to change the present 5 percent interest rate on these policy loans to a rate equal to 2 percent less than the market rate for loans with similar security and repayment periods. It is anticipated that the higher interest rates will cause demand for the loans to decrease. These are regulatory changes, requiring no Congressional action. Loan activity in the insurance programs is expected to decline in the next two years to $209.4 million in new loans in 1981 and to $202.2 million in 1982.

Education Loans

Veterans may borrow up to $2,500 per academic year for educational expenses directly from the Veterans' Education Loan Fund. These loans carry an interest rate of 7.0 percent and have a maturity of 10 years. Repayments on previous loans are returned to the revolving fund and used to make new loans. New loans for 1982 are estimated to total $6.4 million, down slightly from the $6.9 million estimated for 1981.

Veterans may also receive advances of up to $200 to pay expenses while taking vocational rehabilitation training courses. These advances are interest-free and are repaid over 10 months through a reduction in education benefits. The Administration estimates the new loan obligations level for vocational rehabilitation for 1982 to be $3.2 million. Credit activity for veterans' education and vocational rehabilitation is highlighted in Table 73.

TABLE 73. CREDIT ACTIVITY FOR VETERANS' EDUCATION PROGRAMS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates	
		1981	1982
New Direct Loan Obligations Exempt from Limitation	7.7	9.6	9.6
Net Direct Loan Outlays	1.1	1.9	-0.1
Direct Loans Outstanding	62.4	64.3	64.2

Housing Credit

The principal form of credit assistance to veterans is guarantees of loans made by private lenders for the purchase or construction of homes. In fiscal year 1982, the Administration estimates that $7,383 million in loan guarantee commitments will be made, very close to the 1981 level. Because of prior year commitments, new loans guaranteed in 1981 and 1982 will exceed new commitments. Unlike most loan guarantee programs, the Veterans Administration (VA) does not insure the full value of the mortgages it guarantees, but only the portion at highest risk. While the credit budget records only the government's contingent liability for the guarantees, the full principal is also important, as a measure of the resources being directed through the assistance of the VA. By 1982 the VA is expected to have $64 billion in outstanding contingent liability, while the full principal value of the mortgages insured will total $130 billion.

The Veterans Administration is also authorized to make direct loans to severely disabled veterans for specially adapted housing. New obligations for these loans will be only $2 million in 1982. In addition, the VA takes over defaulting guaranteed loans, pays off the lender, and assists borrowers by rescheduling payments. These actions, in effect, constitute extension of a direct loan to satisfy a guarantee claim, and are recorded in 1982 as $381 million in new direct loan obligations. Finally, in 1982, the VA will make obligations to purchase $49 million in existing VA-insured loans from the public. Credit activity for veterans' housing programs is shown in Table 74.

TABLE 74. CREDIT ACTIVITY FOR VETERANS' HOUSING PROGRAMS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation a/	362	408	436
Net Direct Loan Outlays	-29	-42	-40
Direct Loans Outstanding	481	439	399
New Loan Guarantee Commitments Exempt from Limitation	6,310	7,422	7,383
New Loan Guarantees	6,701	10,496	11,234
Guaranteed Loans Outstanding	46,270	54,089	64,425
Full Principal Value of Guaranteed Loans Outstanding	97,424	114,354	130,052

a/ Primarily disbursement for loan guarantee default claims and purchases of existing VA loans from the public.

GENERAL GOVERNMENT (FUNCTION 800)

Credit assistance in function 800 is limited to one active program: loans and guarantees for U.S. territories made by the Department of the Interior. This has included direct loans to Guam for rehabilitation after typhoons, guarantees of Guam Power Authority obligations, and guarantees of bonds and loans for capital improvement projects in the Virgin Islands. The Virgin Islands and Guam Power Authority projects have been financed through the Federal Financing Bank, which purchased obligations guaranteed by the Secretary of the Interior. The authority to make such guarantees is provided by Public Law 94-392.

For fiscal year 1982, the Administration is requesting a $31 million limitation on new commitments to guarantee loans for the Virgin Islands. These loans will also be extended by the FFB. Table 75 summarizes the credit activity in this program.

Federal Financing Bank. Beginning in fiscal year 1982, the administrative expenses of the Federal Financing Bank are included in the general government function rather than in function 370. For the purposes of the credit budget, loan activities of the FFB are distributed among the major functional categories. (For a discussion of the Federal Financing Bank, see Appendix B of this study.)

TABLE 75. GUARANTEED LOANS TO U.S. TERRITORIES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Loan Guarantee Commitments			
Limitation enacted	10.0	---	---
Limitation proposed	---	---	31.0
Commitments subject to limitation	9.0	---	31.0
Net Loans Guaranteed	8.7	-0.3	30.0
Guaranteed Loans Outstanding	66.2	65.9	95.9
Guarantees of FFB Loans			
New FFB loans	9.0	---	31.0
Repayments	-0.3	-0.3	-0.3
Outstanding FFB holdings	66.2	65.9	96.6

GENERAL PURPOSE FISCAL ASSISTANCE (FUNCTION 850)

Credit assistance in function 850 consists of direct loans to the District of Columbia and loan guarantees for New York City. Table 76 summarizes the activity levels for these programs.

TABLE 76. DISTRICT OF COLUMBIA AND NEW YORK CITY-- SUMMARY OF CREDIT PROGRAMS (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Direct Loans to the District of Columbia	90.0	133.3	145.0	---	---	---
New York City Loan Guarantees	---	---	---	300.0	300.0	755.9
Total	90.0	133.3	145.0	300.0	300.0	755.9

a/ Administration estimates.

Loans to the District of Columbia

The District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198) terminated the District's permanent authority to borrow from the Treasury to finance capital improvement. It authorized interim loans by the Treasury to the District for capital projects until the District is able to develop its own bond-financing program. Because of delays in the program's development, the interim financing program has been extended to include all new projects approved in the 1980 and 1981 budgets.

The Administration is proposing a ceiling on federal lending to the District of $155 million, and plans to phase out such lending by 1984. The Administration expects that the District government will enter the municipal bond market and have no further need to borrow from the Treasury by 1984. The limitation requested for 1981 is $10 million higher than the expected level of new obligations (see Table 77).

TABLE 77. LOANS TO THE DISTRICT OF COLUMBIA FOR CAPITAL OUTLAYS (By fiscal year, in millions of dollars)

	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	200.0	---
Limitation proposed	---	200.0	155.0
Obligations subject to limitation	---	133.3	145.0
Obligations exempt from limitation	90.0	---	---

New York City Loan Guarantees

Public Law 93-339, the New York City Loan Guarantee Act of 1978, authorizes the Secretary of the Treasury to guarantee $1.65 billion of borrowing by New York City through June 30, 1982, to enable it to regain financial soundness after the financing crisis of 1975. The act prescribes the amounts of borrowing that may be guaranteed each year during the life of the program. In addition, the act requires New York City to pay an annual guarantee fee of 0.5 percent to the Treasury.

For fiscal year 1982, the Administration requests that Congress limit new loan guarantee commitments to $755.9 million, more than twice the level of new commitments in 1981. This will exhaust the $1.65 billion in loan guarantee authority provided in authorizing legislation. Table 78 describes activity in the New York City loan guarantee program.

TABLE 78. NEW YORK CITY LOAN GUARANTEE PROGRAM a/ (By fiscal year, in millions of dollars)

	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Loan Guarantee Commitments			
Limitation enacted	---	---	---
Limitation proposed	---	300.0	755.9
Commitments subject to limitation	---	---	755.9
Commitments exempt from limitation	300.0	300.0	---
Net Loans Guaranteed	276.7	210.9	662.4
Guaranteed Loans Outstanding	776.7	987.6	1,650.0

a/ The New York City fiscal year runs from July 1 to June 30.

APPENDIXES

APPENDIX A. GLOSSARY OF CREDIT TERMS USED IN THIS PAPER

Certificates of Beneficial Ownership (CBOs). Securities backed by pools of agency direct loans, which are usually sold to the Federal Financing Bank, but occasionally to the public.

Direct Loan. A disbursement of funds by the federal government directly to the borrower under a contract that requires the repayment of such funds with or without interest, including the purchase of or participation in a loan made by another lender and the acquisition of a federally guaranteed loan in satisfaction of default claims.

Direct Loan Obligation. A binding agreement by the government to make a direct loan once specified conditions are fulfilled by the borrowers.

Direct Loans Outstanding, Loan Guarantees Outstanding. The stock of direct loan principal currently outstanding. The stock of guaranteed loans outstanding that have not yet been fully repaid.

Guaranteed Loan Originations. Direct loans extended by the Federal Financing Bank (FFB) at the request of another federal agency under that agency's loan guarantee authority. Such loans are fully guaranteed by the requesting agency. (Same as guarantees of direct loans, but used in reference to the FFB direct loan rather than to the guarantee.)

Guarantees of Direct Loans. A guarantee by one federal agency of repayment of a loan for which another federal agency (usually the Federal Financing Bank) acts as the direct lender.

Loan Assets. Agency direct loans sold, usually as certificates of beneficial ownership, to the FFB or the public, thereby reducing the agency's outstanding loan balance.

Loan Guarantee. A pledge by the federal government to repay principal and/or interest on a loan in whole or in part in the event of default by the borrower.

Loan Guarantee Commitment. A binding agreement by the government to guarantee a loan once specified conditions are fulfilled by borrower and lender.

Net Lending, Net Direct Loan Outlays, Net Loan Guarantees. For direct loans, new disbursements for direct loans, minus repayments, prepayments, and other loan offsets. For loan guarantees, new loans guaranteed minus guarantees for which the loan has been fully repaid.

New Lending, Gross Lending; New Guarantees, Gross Guarantees. New credit extended in a fiscal year, without subtracting any repayments.

Primary Loan Guarantees. Guarantees of loans to borrowers by nonfederal government lenders. Secondary guarantees and guarantees of direct loans are deducted from gross new guarantees to arrive at the total for primary loan guarantees.

Secondary Loan Guarantees. Guarantees of repayment of loans previously guaranteed by the federal government, usually in the form of a guarantee of a security backed by guaranteed loans, for example, mortgage-backed securities.

APPENDIX B. THE ROLE OF THE FEDERAL FINANCING BANK

Loans financed through the Federal Financing Bank (FFB) have been one of the fastest growing federal activities in recent years. Some of the FFB's activities have inadvertently created opportunities for agencies to expand their activities without having them recorded in the unified budget. 1/ These activities lead to two forms of FFB direct lending: purchase of loan assets from agencies, and origination as direct lender of agency guaranteed loans. Although responsibility for originating and servicing these FFB loans remains with the parent agency, the outlays are recorded as off-budget outlays of the FFB. In 1980, through the FFB's loan asset purchases, $7.6 billion in on-budget outlays of net loans were converted into off-budget outlays and, through its loan guarantee orginations, $6.8 billion in net guaranteed loans were converted into direct loans.

FFB Purchases of Loan Assets

Loan assets are loans made by an agency or securities backed by loans in an agency's portfolio; the securities are also known as certificates of beneficial ownership (CBOs). The receipts from sales of loan assets by an agency are counted in its budget as repayments on loans. Thus, they are offset against gross new lending to reduce that agency's net lending.

In the past, agencies sold loan assets to private investors in order to substitute private financing for public. This practice in effect converted on-budget direct loans into loans involving no federal funds. In most, if not all cases, the agencies guaranteed repayment of the loans. When the FFB was established, it replaced the private investors as a purchaser of most new loan assets from agencies. This was done for the same reason that agency debt was transferred to the FFB--to reduce the variety of federal debt issued to the public and to reduce the interest rate for agencies. While the FFB's purchases of loan assets lower financing costs, they convert on-budget direct loans to off-budget loans, reducing the unified budget deficit while at the same time increasing off-budget outlays.

1/ For more background on the Federal Financing Bank itself, see Congressional Budget Office, "The Federal Financing Bank: A Primer" in Loan Guarantees: Current Concerns and Alternatives for Control, A Compilation of Staff Working Papers (January 1979).

When agencies sell loan assets to the FFB, they retain responsibility for all aspects of loan servicing and for repayment in case of default. In fact, agencies do not really sell assets to the FFB; instead, they borrow from the FFB in much the same way that other agencies sell their own debt securities. Borrowing by agencies is not a budgetary transaction. It does not affect outlays, as the sale of loan assets does. According to budgetary principles, the sale by agencies of loan assets to the FFB ought to be treated simply as borrowing by the agency from the FFB. The current budgetary treatment of CBO sales by the Farmers Home Administration and the Rural Electrification Administration as sales of loan assets are, however, required by law. The Congress could revise that requirement, and treat the sale of loan assets as borrowing by the agency from the FFB. This would end the transfer of outlays to off-budget status, and would have the same effect on budget totals as bringing FFB's loan asset purchases on budget. If loan assets had been treated as borrowing in 1980, budget outlays would have been $7.6 billion higher. Alternatively, the Congress could set limits on the amounts of loan assets that each agency could sell to the FFB during a year, continuing to allow loan asset sales to reduce on-budget outlays, but limiting the annual volume of new lending that could be transferred off-budget.

FFB Origination of Guaranteed Loans

By purchasing loan assets and certificates of beneficial ownership, the FFB acts indirectly as a lender: it lends to agencies that in turn use these funds to finance program activity. The FFB also acts as a primary lender at the request of various federal agencies. In these instances, if an agency guarantees repayment of all interest and principal in the event of default by a borrower, the FFB makes a direct loan to that borrower at interest rates 1/8 of 1 percent above Treasury borrowing costs. In this case, an on-budget agency may use guarantee authority, a nonbudgetary transaction, to make an off-budget direct federal loan at below market interest rates.

The credit control appropriation limitations set a ceiling on the level of agencies' commitments to guarantee loans; however, no limitation is set on what portion of the guaranteed loans may, in fact, be financed as off-budget direct loans through the FFB. As with loan asset sales, the decision to use the FFB as the lender is a matter of executive discretion. Several alternatives are available to the Congress to improve control over the conversion of guaranteed loans into off-budget direct loans. First, it could change the budgetary treatment of FFB loan originations, recording them as on-budget direct lending by agencies and borrowing by the agency from the FFB. This would require that agencies be given budget authority and that outlays be recorded in agency budgets. Alternatively, limitations could be set for each program on the amount of loans guaranteed by that agency in a fiscal year that could be originated by the FFB. Finally, the FFB could be placed on-budget with no other changes.

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