CBO PAPERS

AN ANALYSIS OF
THE ADMINISTRATION'S
CREDIT BUDGET
FOR FISCAL YEAR 1991

April 1990

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NOTES

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

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

Data concerning the Administration's budget are from the Office of Management and Budget. The source of other data, unless otherwise noted, is the Congressional Budget Office.

PREFACE

This analysis of the Administration's 1991 credit budget was prepared by the Congressional Budget Office (CBO) at the request of the Staff of the House and Senate Budget Committees. The report discusses the Administration's credit budget and its proposals for loan asset sales, credit reform, and changes in policies and user fees for securities issued by some government-sponsored enterprises. The Administration's budget is analyzed principally in terms of changes from CBO's baseline credit budget projections.

The paper was prepared by Susan Borghard, Danila Girerd, Marvin Phaup, and Robin Seiler of CBO's Budget Process Unit under the supervision of James L. Blum. The authors gratefully acknowledge the contribution of CBO's cost analysts in developing the baseline projections and estimates and Tom Cuny for extensive comments and suggestions. Sherry Snyder edited the report.

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CHAPTER I
SUMMARY AND INTRODUCTION

The Administration's credit proposals reflect three of its budgetary objectives for federal credit programs: to reduce credit subsidies, to reduce outlays and the deficit, and to target program benefits to the neediest borrowers. If all of the Administration's credit recommendations were adopted, subsidies would be reduced by $1 billion, the deficit would be lowered by $2 billion, and the proportion of assistance provided to the least advantaged borrowers would be increased for some programs in 1991.

STRATEGIES AND AGGREGATE EFFECTS

Subsidy reduction is pursued largely through a two-part strategy of substituting guaranteed loans for direct loans and then taking steps to reduce the government's expected loss on the guarantee. Converting direct loans into federally guaranteed private loans tends to reduce the subsidy because private loans, even if guaranteed by the government, usually carry higher interest rates than direct federal loans. These higher rates cover the administrative and financing costs of lending, which are paid by private lenders rather than the government. In addition, federal credit agencies are more likely to be authorized to collect substantial fees for guarantees than for loan originations. These fees directly reduce the government's net loss from providing credit assistance. The Administration is also proposing higher fees in several guarantee programs, including some intended to replace direct loans. To reduce further the government's cost, reductions in the proportion of the loan principal guaranteed and higher down payments on guaranteed loans are proposed for some programs. If all of the Administration's proposals were enacted, the subsidy saving would be about $2 billion in 1991 from the CBO projected baseline level.

The necessity of meeting the deficit target of $64 billion specified in the Balanced Budget Act for 1991 is also reflected in many of the Administration's proposals for credit. Some proposed measures that would reduce credit subsidies would also reduce outlays, though not by the same amounts. For example, converting federal direct loans into an equal volume of guaranteed private loans will reduce outlays in the short term by the full amount of the loan disbursement. In contrast, the reduction in subsidy is only the difference between the government's loss on the direct loan and its loss on the guarantee. The Administration's proposals to increase guarantee fees and to terminate several small direct loan programs would also reduce federal outlays. If all of the Administration's credit proposals were adopted, 1991 outlays would be reduced by $2 billion relative to the CBO baseline.

The Administration plans to try to increase the proportion of credit assistance aimed at the neediest borrowers through several means. First, the reduced level of direct loans for farm ownership is to be reserved explicitly for "socially disadvantaged" borrowers. Similarly, the smaller volume of direct loans for rural electrification and telephone services are to be reserved for the financially weakest borrowers. Second, the Administration proposes to use more direct means of providing assistance to beneficiaries than credit, including grants, vouchers, and rental assistance. Third, improved loan documentation is to be required in some guarantee programs to assure that eligibility standards are met, as well as to reduce the government's losses from defaults.

If all of the Administration's credit budget proposals were adopted, direct loan obligations would be $4.5 billion below the CBO baseline projection for 1991 and guarantee commitments would be $2.5 billion above the baseline projection. Secondary guarantees--guarantees of securities backed by Federal Housing Administration (FHA), Department of Veterans Affairs (VA), and Farmers Home Administration (FmHA) mortgages--in 1991 would be $5 billion below the baseline level, as shown in the following table:

	1991	1992	1993	1994	1995
			Direct Loans		
CBO Baseline	21.1	17.9	18.2	18.6	18.9
Proposed Changes	-4.5	-4.7	-5.4	-6.0	-6.6
President's Budget	16.6	13.2	12.9	12.6	12.3
			Guaranteed Loans		
CBO Baseline	103.1	104.1	106.8	110.2	113.6
Proposed Changes	2.5	5.4	5.3	5.3	4.5
President's Budget	105.6	109.4	112.1	115.4	118.0
			Secondary Guaranteed Loans		
CBO Baseline	85.4	88.8	92.4	96.1	99.9
Proposed Changes	-5.0	-8.6	-9.8	-11.0	-12.4
President's Budget	80.4	80.2	82.6	85.1	87.5

For 1992 and 1993, the increase in guarantee commitments is approximately equal to the reduction in direct loan obligations. For direct loans, the Administration's proposed changes are smaller than those proposed in the 1990 budget, which would have reduced direct loan obligations by $6.6 billion relative to the baseline. While the proposed guarantee activity appears more expansive in 1991 (an increase of $2.5 billion versus no change in 1990), the projected net increase is accounted for by factors other than basic changes in policy. Specifically, the increase in guarantees is more than accounted for by the proposal to extend permanently the 1990 temporary increase in mortgage size limits for FHA insurance on single-family homes.

Four programs account for 75 percent of the proposed $4.5 billion reduction in direct loans in 1991, relative to the CBO baseline (see Table 1). Foreign Military Sales (FMS) loans would be converted to grants; most loans to rural electric and telephone cooperatives and about half of the baseline loans for farm ownership and operation would be converted to loan guarantees; and about half of the direct mortgage lending for rural housing by the Farmers Home Administration would be replaced with rental housing vouchers and guaranteed loans on which the interest rate to the borrower would be reduced an average of five percentage points through government grants. The FMS, rural electrification, and farm ownership proposals all appeared in the 1990 budget and are resubmitted for 1991.

The mix of pluses and minuses shown for proposed changes in guaranteed loans means that the biggest changes involve both increases and decreases in commitments. Several of the proposed increases are complementary with the proposals to substitute guarantees for direct loans. This switching of direct loans to guarantees explains the increases projected for rural electrification, rural housing, and the Rural Telephone Bank, which would assume responsibility for all direct lending to borrowers of telephone loans now carried on by the Rural Electrification Administration. The Federal Housing Administration increase reflects the President's proposal to extend permanently the 1990 increase in FHA's mortgage limits. The decreases in projected guarantees for veterans' affairs stem largely from the dampening effect of proposed increases in guarantee fees and required down payments. Guaranteed student loans would be reduced below baseline levels by tightening eligibility standards and making it more difficult for students without a high school diploma to obtain student loans. The community development Section 108 guarantee program would also be terminated.

Federal secondary guarantees would be reduced $5 billion in 1991 as a result of the Administration's proposal, resubmitted from 1990, to increase the fee charged by the Government National Mortgage Association (GNMA) for guaranteeing timely payment of principal and interest on securities backed by federally insured mortgages. These fees are intended to cover potential losses from this activity and to create a "level playing field" for private guarantors of mortgage-backed securities.

The Administration continues to express its concern about effective control of federal credit programs in proposing extension of appropriated limits to programs not currently limited, including Commodity Credit Corporation and Small Business Administration guarantees, and adoption of credit reform.

Loan asset sales and induced prepayments of outstanding federal loans have dropped sharply from the peak levels of activity reached in 1988 and 1989. The Administration is proposing only one sale in 1991 that is not included in the baseline, a $235 million sale of college housing loans. When combined with other programmatic proposals, loan asset sales would increase only $100 million over the baseline in 1991.

The Administration is again proposing the adoption of credit reform. Although the proposal would not change the benefits provided by any credit program, it would make it possible to compare accurately the cost of cash and credit

TABLE 1. MAJOR CHANGES IN THE ADMINISTRATION'S PROPOSED CREDIT PROGRAMS (By fiscal year, in billions of dollars)

Program	1991	1992	1993	1994	1995
Direct Loans					
CBO Baseline	21.1	17.9	18.2	18.6	18.9
Proposed Changes					
Foreign Military Sales Credit	-0.4	-0.4	-0.5	-0.5	-0.5
Rural Electrification Administration	-1.5	-1.2	-1.5	-1.7	-1.9
Agricultural Credit Insurance Fund	-0.5	-0.6	-0.7	-0.8	-0.9
Rural Housing Insurance Fund	-1.0	-1.1	-1.3	-1.4	-1.6
Housing for the Elderly or Handicapped	-0.2	-0.3	-0.3	-0.3	-0.3
Small Business Administration (Disaster)	-0.1	-0.1	-0.1	-0.1	-0.1
Other	-0.8	-1.0	-1.0	-1.2	-1.3
Total	-4.5	-4.7	-5.4	-6.0	-6.6
President's Request	16.6	13.2	12.9	12.6	12.3
Guaranteed Loans					
CBO Baseline	103.1	104.1	106.8	110.2	113.6
Proposed Changes					
Rural Electrification Administration	1.1	1.2	1.2	1.3	1.3
Commodity Credit Corporation Fund	0.2	0.2	0.2	0.2	0.2
Rural Housing Insurance Fund	0.6	0.7	0.7	0.8	0.8
Federal Housing Administration	3.0	5.8	5.8	5.8	5.0
Community Development Grants	-0.1	-0.2	-0.2	-0.2	-0.2
Rural Telephone Bank	0.2	0.2	0.2	0.2	0.2
Guaranteed Student Loans	-0.3	-0.3	-0.3	-0.3	-0.3
Department of Veterans' Affairs (Guaranty and Indemnity Fund)	-1.8	-1.8	-1.9	-1.9	-2.0
Other	-0.4	-0.4	-0.4	-0.6	-0.5
Total	2.5	5.4	5.3	5.3	4.5
President's Request	105.6	109.4	112.1	115.4	118.0
Secondary Guaranteed Loans					
CBO Baseline	85.0	88.4	91.9	95.6	99.4
Proposed Changes (Government National Mortgage Association)	-5.0	-8.6	-9.3	-10.5	-11.9
President's Request	80.0	79.8	82.6	85.1	87.5

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

programs. It would also facilitate comparisons of the cost, rather than the volume, of federal loans and guarantees. Finally, credit reform would enable subsidy costs, which would be subject to appropriations, to be recognized in the budget when they can still be controlled.

Credit activity by government-sponsored enterprises (GSEs) is again highlighted in the President's budget as a source of significant financial risk to the federal government. The Administration is proposing to levy fees on securities issued by three of these enterprises, including the two largest--the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)--as well as the smaller Student Loan Marketing Association (Sallie Mae).

CHAPTER II
THE FEDERAL CREDIT BUDGET

The use of a credit budget as a supplement to the unified budget was proposed by the Administration and adopted by the Congress in 1981. The purpose of the credit budget is to control the volume of assisted credit and to measure the federal government's involvement in private credit markets. The credit budget displays the projected levels of new direct loan obligations, new guarantee commitments, and new secondary guarantees. The full face value of guarantee commitments is reported in the credit budget even if the federal government's contingent liability is less than 100 percent of the loan. The credit budget reports gross new loan activity and does not subtract loan repayments, expiring guarantees, or defaults.

Baseline credit budget estimates of direct and guaranteed loans follow standard CBO baseline projection principles. For credit entitlement programs, the baseline shows CBO estimates of loan demand under existing eligibility criteria. For credit programs subject to Appropriations Committee control, current year appropriations of loan limitations and budget authority are increased at the projected rate of inflation. The Appropriations Committees currently set limits for programs that account for 38 percent of direct loan volume and 75 percent of guarantee commitments, either through activity limitations or budget authority.1/

For appropriated accounts in which the actual activity level is estimated to be below the appropriated limit, the difference is called the "estimate of unused balance." 2/ Except for certain accounts specified in law, the amount that will go unused is not available for obligation or commitment in subsequent years. Further, the credit budget totals for these programs include the estimated levels of activity--not the appropriated ceilings where those ceilings exceed expected activity levels. Accordingly, the credit budget numbers reported here are estimates of loan activity under baseline assumptions.

This chapter provides a function-by-function comparison of the CBO baseline credit budget and the President's proposed credit budget as reestimated by CBO. Proposed program changes are highlighted, but technical differences between the CBO baseline and CBO's reestimate of the President's credit budget are also indicated.

The description of each function includes the CBO baseline activity level for that function, a list of program changes implied by the Administration's proposals, and the activity level estimated to result from the adoption of all proposed actions.

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1. In one instance, the Small Business Administration's (SBA) Business Loan Investment Fund (BLIF), the report language in the appropriation specifies loan limits. Although the report language is not legally binding, the Administration generally stays within these limitations.

2. In the Rural Electrification Administration (REA) and Rural Telephone Bank (RTB) accounts, the "estimate of unused balance" reflects the difference between the appropriated ceiling and floor. Only when the demand for these loans is less than the appropriated floor is there a genuine unused balance. Baseline demand is less than the floor for REA telephone and power supply loans.

A list of program levels in the CBO baseline and the President's budget as reestimated by CBO is provided in the appendix.

INTERNATIONAL AFFAIRS (Function 150)

The Administration is proposing two principal policy changes in this function: the conversion of all Foreign Military Sales direct loans to grants; and a shift from Private Sector Revolving Fund direct loans to federal guarantees of private loans (see Table 2).

Most of the dollar volume change is accounted for by ending FMS direct loans. Baseline FMS direct loans are projected at $420 million in 1991. The conversion of FMS direct loans to grants reduces direct loan levels in the credit budget. It has no effect on disbursements and would result in no net outlay savings from the CBO baseline, but would reduce interest receipts and--after a grace period of five years--principal receipts.

In order to increase the private sector's role in offering credit to developing countries, the Administration is proposing to terminate the Private Sector Revolving Fund's direct loans and increase its guarantees by $30 million in 1991. The Administration is also requesting a decrease in the direct loan appropriation and a slight increase in the guarantee commitment appropriation for the Export-Import Bank.

A backlog of authorized but unused activity in the Agency for International Development housing guarantee program has prompted the Administration to request several million dollars less than in previous years. In addition, the Administration's request for the Overseas Private Investment Corporation guarantees is slightly below baseline activity levels while direct loans are slightly above baseline.

The secondary guarantees through the Trade Credit Insurance Fund are guarantees of Eximbank's short-term guarantees to Central American republics. The reduction from the CBO baseline shown with the President's proposal in 1993 through 1995 appears to be an error in the President's budget rather than a policy change.

ENERGY (Function 270)

The Administration is proposing several changes in the Rural Electrification Administration (REA) credit programs. The proposals include a reduction in direct loans with a shift to partial federal guarantees, institution of guarantee fees, shifting all borrowers of telephone loans to the Rural Telephone Bank (RTB) for direct loans and partial guarantees, and no appropriation for the REA economic development subaccount. If adopted, these proposals would reduce direct loans by about $1.5 billion and increase guarantees by $1.1 billion in 1991 (see Table 3).

TABLE 2. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 150: INTERNATIONAL AFFAIRS (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	1.90	1.98	2.06	2.14	2.23
Proposed Changes					
Foreign Military Sales Credit	-0.42	-0.44	-0.45	-0.47	-0.49
Expenses, P.L. 480	-0.07	-0.07	-0.08	-0.09	-0.10
Overseas Private Investment Corporation	a	a	a	a	a
Private Sector Revolving Fund	a	a	a	a	a
Export-Import Bank	-0.14	-0.14	-0.15	-0.16	-0.17
Total	-0.63	-0.66	-0.69	-0.72	-0.77
President's 1991 Budget as Estimated by CBO	1.28	1.32	1.37	1.42	1.46
Guaranteed Loan Commitments					
CBO Baseline	6.72	6.99	7.28	7.57	7.89
Proposed Changes					
Overseas Private Investment Corporation	-0.03	-0.04	-0.04	-0.04	-0.04
Agency for International Development (Housing Guarantees)	-0.00	-0.01	-0.01	-0.02	-0.02
Private Sector Revolving Fund	0.03	0.03	0.02	0.02	0.01
Total	-0.01	-0.02	-0.03	-0.04	-0.05
President's 1991 Budget as Estimated by CBO	6.71	6.97	7.25	7.53	7.84
Secondary Guaranteed Loan Commitments					
CBO Baseline	0.41	0.43	0.45	0.47	0.48
Proposed Changes (Trade Credit Insurance Fund)	-0.01	-0.03	-0.45	-0.47	-0.48
President's 1991 Budget as Estimated by CBO	0.40	0.40	0.00	0.00	0.00

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Less than $5 million, but greater than zero.

TABLE 3. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 270: ENERGY
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	1.98	1.64	1.96	2.14	2.33
Proposed Changes (Rural Electrification and Telephone Revolving Fund)	-1.48	-1.19	-1.50	-1.73	-1.93
President's 1991 Budget as Estimated by CBO	0.50	0.45	0.46	0.41	0.40
Guaranteed Loan Commitments					
CBO Baseline	0.00	0.00	0.00	0.00	0.00
Proposed Changes (Rural Electrification and Telephone Revolving Fund)	1.10	1.15	1.20	1.25	1.28
President's 1991 Budget as Estimated by CBO	1.10	1.15	1.20	1.25	1.28

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

The Administration proposes vast reductions in REA direct loans and would shift most borrowers to private loans with a federal guarantee of 70 percent to 90 percent. Only borrowers of electricity distribution loans would be eligible for the remaining $200 million in direct loans, as well as $400 million in private loans for which the government would provide a 70 percent guarantee. Direct loans to power producers, currently financed through the Federal Financing Bank (FFB), would be replaced entirely by private loans with 90 percent of principal guaranteed by REA. All REA borrowers would be shifted to the Rural Telephone Bank (function 450) for either direct loans or private loans with 70 percent guarantees. Loans for both telephones and electricity would be targeted toward the neediest borrowers.

Under the proposals, guarantee commitments would not increase as much as direct loan obligations would decline. In 1991, REA guarantee limitations are proposed at $1.1 billion compared with a reduction in direct loans of about $1.5 billion. Guarantee activity would be restrained somewhat by the Administration's proposal to institute a single-payment loan guarantee fee of 1 percent of guaranteed principal in 1991. To eventually offset the expected default costs of the guarantee program, the fee would be increased by one half of one percent per year, until it reaches the target level of 5 percent.

In 1990, the Congress appropriated $5 million for the REA economic development subaccount, of which 75 percent is assumed to be used for no-interest loans and the remaining 25 percent for grants. The Administration is not seeking an appropriation for 1991; instead, loans and grants would be made available through authorized financing derived from interest earnings from borrowers' "advance" or overpayments on their loan.3/

NATURAL RESOURCES AND ENVIRONMENT (Function 300)

The Administration proposes to continue construction loans on two projects currently being financed by the Bureau of Reclamation's direct loan program. The loans made by the Bureau of Reclamation are intended to rehabilitate, enlarge, and improve pumping plants, canals, and drainage systems. The level of activity proposed for 1991 is reduced by $28 million from the CBO baseline (see Table 4). The Administration is proposing to restrain funding for new projects beginning in 1991 and is seeking an appropriation of only $5 million.

The Administration again proposes to cease obligating direct loans for the Environmental Protection Agency's (EPA) Abatement, Control, and Compliance Fund in 1991. The Administration believes that program objectives have been met and that responsibility should be shifted to state and local governments.

3. The advance payment is deposited into the borrowers' individual "cushion-of-credit" account and earns interest at approximately the long-term Treasury rate. Borrowers are credited with approximately 5 percent interest earnings, and the difference between the 5 percent and the Treasury rate is available for new economic development loans and grants. In the event a borrower misses a scheduled payment on an REA loan, the payment is drawn from the borrower's cushion-of-credit account.

TABLE 4. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
	Direct Loan Obligations				
CBO Baseline	0.06	0.07	0.07	0.07	0.08
Proposed Changes					
Bureau of Reclamation Loan Program	-0.03	-0.03	-0.03	-0.04	-0.04
Abatement, Control, and Compliance	-0.03	-0.03	-0.03	-0.04	-0.04
Total	-0.06	-0.06	-0.07	-0.07	-0.08
President's 1991 Budget as Estimated by CBO	a	a	a	0.00	0.00

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Less than $5 million, but greater than zero.

AGRICULTURE (Function 350)

The Administration's proposals for credit programs in function 350 include a reduction in direct loans, the institution of an interest rate buydown for guaranteed loans, and out-year increases in guarantee fees for the Agricultural Credit Insurance Fund (ACIF). In addition, the Administration is proposing appropriated guarantee limitations for export financing by the Commodity Credit Corporation (see Table 5).

The limitation on ACIF nondisaster direct loans would be reduced to $525 million in 1991 and would decline by $50 million in each subsequent year through 1995. The proposed limitation for 1991 represents a decrease of $492 million from CBO baseline obligations. Borrowers of direct loans would be limited to seven years of eligibility. Farm ownership loans would be targeted toward "socially disadvantaged" borrowers, while farm operating direct loans would be targeted toward young or new farmers and existing borrowers.

To offset the reduction in direct loans, an interest rate buydown is being proposed for guaranteed loans. The buydown is to average 3 percent on $400 million in guarantees in 1991, with subsidized guarantees increasing by $50 million per year thereafter. No increase in total guarantee limitations is proposed, however, because estimates of demand for ACIF guarantees would still be below the proposed limitation. In addition, the President proposes increasing the existing guarantee origination fee from 1 percent to 1 1/2 percent beginning in 1993. The fees would then increase by 1/2 percent each year thereafter until the fee reaches 5 percent.

The Administration is proposing to place a limitation on the export financing guarantees made through the Commodity Credit Corporation. Because the limitation being proposed is $200 million above the CBO baseline estimate of demand in 1991, it has no effect on the level of activity in the credit budget relative to the CBO baseline for guarantee commitments.

COMMERCE AND HOUSING CREDIT (Function 370)

The Administration is proposing major reductions in direct loan activity in this function (see Table 6). Most of the projected cuts are in direct loans of the Rural Housing Insurance Fund (RHIF), the Section 202 elderly or handicapped housing program, and the Small Business Administration (SBA) loan program. These reductions would be offset by proposed increases in guaranteed loans, leasing of existing units for the elderly and handicapped, and rental subsidies. An increase in fees by the Government National Mortgage Association on secondary guarantees is also being proposed.

Direct RHIF loans of the Farmers Home Administration (FmHA) would be reduced by $955 million from the CBO baseline and replaced with rental housing vouchers and guaranteed loans. Direct loans for single-family houses would be

TABLE 5. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 350: AGRICULTURE (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	9.12	8.96	8.78	8.74	8.59
Proposed Changes (Agricultural Credit Insurance Fund)	-0.53	-0.64	-0.74	-0.84	-0.93
President's 1991 Budget as Estimated by CBO	8.58	8.32	8.04	7.91	7.66
Guaranteed Loan Commitments					
CBO Baseline	7.00	7.26	6.65	6.70	6.76
Proposed Changes (Commodity Credit Corporation Fund)	0.20	0.20	0.20	0.20	0.20
President's 1991 Budget as Estimated by CBO	7.20	7.46	6.85	6.90	6.96

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

TABLE 6. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 370: COMMERCE AND HOUSING CREDIT (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	6.01	3.30	3.39	3.50	3.63
Proposed Changes					
Rural Housing Insurance Fund	-0.95	-1.13	-1.31	-1.45	-1.59
Self-Help Housing Land Development Fund	a	a	a	a	a
Business Loan and Investment Fund	-0.07	-0.08	-0.08	-0.08	-0.08
FHA Fund (Mutual mortgage)	a	a	a	a	a
FHA General and Special Risk Insurance Fund	b	b	b	b	b
Housing for the Elderly or Handicapped Fund	-0.21	-0.26	-0.27	-0.31	-0.33
Total	-1.24	-1.47	-1.67	-1.84	-2.00
President's 1991 Budget as Estimated by CBO	4.78	1.83	1.73	1.66	1.63
Guaranteed Loan Commitments					
CBO Baseline	60.24	59.68	62.02	64.45	67.00
Proposed Changes					
Rural Housing Insurance Fund	0.59	0.69	0.74	0.79	0.84
Federal Ship Financing Fund, Fishing Vessels	-0.10	-0.11	-0.11	-0.12	-0.12
Business Loan and Investment Fund	0.01	a	-0.01	-0.04	-0.08
FHA Fund (Mutual mortgage)	-6.00	-3.31	-3.62	-3.95	-5.04
FHA General and Special Risk Insurance Fund	9.01	9.12	9.45	9.78	10.13
Total	3.51	6.40	6.45	6.47	5.73
President's 1991 Budget as Estimated by CBO	63.75	66.08	68.47	70.93	72.72
Secondary Guaranteed Loan Commitments					
CBO Baseline	84.98	88.41	91.93	95.60	99.44
Proposed Changes (Government National Mortgage Association)	-4.98	-8.61	-9.33	-10.50	-11.94
President's 1991 Budget as Estimated by CBO	80.00	79.80	82.60	85.10	87.50

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

NOTE: FHA = Federal Housing Administration.

a. Less than zero, but greater than negative $5 million.

b. Less than $5 million, but greater than zero.

reduced by $751 million in 1991 from CBO baseline levels, while loans for multifamily houses would be reduced by $204 million. The total assisted housing units, including 8,000 vouchers funded through a separate FmHA program, would be approximately at 1990 levels. Of the $594 million in proposed single-family guarantees, half would be assisted by an interest buydown grant that would average five percentage points. For example, borrowers would pay an effective interest rate on a subsidized guaranteed loan of 4 percent rather than 9 percent.

The Administration is proposing to reduce Section 202 direct loans for new construction of housing for the elderly or handicapped. The funding level would be $209 million below the CBO baseline in 1991. To offset the reduction, rental assistance would be funded for 3,000 existing units. The Administration would also limit lending from the Small Business Administration's direct loan program to minority-owned firms. Direct loans would be reduced by $72 million from the CBO baseline in 1991. The Administration proposes to substitute a binding appropriation ceiling of $4.4 billion for the current ceiling for guarantee commitments in 1991. The Business Loan and Investment Fund guarantee fee would also be increased to 5 percent from the current cap of 2 percent, with the exception of the minority investment companies whose fee would be increased to 3 percent.

Direct loans from the Self-Help Housing Land Development Fund and loans from the Federal Ship Financing Fund are proposed for termination in 1991. Direct loans for land development are made to qualified private or public nonprofit organizations so that they may acquire and develop building sites for home construction. This proposal would decrease direct loans by $520,000 in 1991. The Federal Ship Financing Fund guarantees construction loans and mortgages on U.S.-flag vessels built in this country. Terminating this program would reduce guaranteed loans by $104 million in 1991.

Although the Administration is waiting to submit a specific proposal addressing the long-term financial problems of the FHA fund's single-family housing program until an actuarial study of the fund is completed, the 1991 budget assumes that the 1990 mortgage limits will be permanently extended. This extension requires a change in the authorizing statute. The Administration's proposal would result in an increase in guarantee commitments of $3 billion in 1991. If enacted, near-term receipts would increase as a result of additional fees collected; however, default claims are expected to increase in the out-years. In addition, the Administration proposes to separate the reporting of the Mutual Mortgage Insurance Fund, which is intended to be unsubsidized, and the programs in the General and Special Risk Insurance Fund. This separation will provide more information about the four funds in FHA.

The Administration is proposing to increase the fees on GNMA guarantees of mortgage-backed securities. If adopted, the secondary guarantee commitments would decrease by nearly $5 billion in 1991.

The President's budget significantly understated 1991 direct loans in function 370 by failing to include $2.7 billion in direct loans representing advances made to failing thrifts through the Resolution Trust Corporation (RTC) revolving fund. The CBO baseline and the CBO reestimate of the President's budget include these obligations, as well as $100 million in RTC vendee loans (loans made to finance the sale of properties held by the RTC). The President's Midsession Review is expected to include these loans.

TRANSPORTATION (Function 400)

The CBO baseline includes $3.6 million in loans for Amtrak improvements. In 1990, funds were provided for improvements on the Chicago, Missouri, and Western Railroad, with the federal funds matched dollar for dollar by the state of Illinois. The Administration is not requesting funds for any additional loans in 1991. The CBO baseline inflates loan levels subject to appropriations for the projection period, hence the apparent cuts shown in Table 7.

COMMUNITY AND REGIONAL DEVELOPMENT (Function 450)

Under the Administration's proposals, direct loans in 1991 would be reduced by $339 million and guarantees by $58 million in function 450 (see Table 8). Most of the reduction would be accounted for by changes in Rural Development Insurance Fund programs, SBA disaster loans, guarantees for Community Development Grants, the Rehabilitation Loan Fund, and the Rural Telephone Bank.

The Administration proposes a $117 million reduction in direct loan limits in the Rural Development Insurance Fund program for water, waste, and community facilities. These borrowers would be eligible for $100 million in guaranteed loans. Guaranteed loans for business and industry development are proposed for termination, which would reduce baseline guarantees by $101 million in 1991.

The President's budget also includes a proposal to increase direct loans of the Rural Development Loan Fund. These loans are made to intermediary lenders who in turn lend the funds to small rural businesses or other borrowers for economic development purposes.

The Administration is proposing to limit eligibility for direct loans of the Small Business Administration's Disaster Loan Fund, which provides loans to homeowners and businesses for uninsured losses resulting from disasters. Borrowers would be required to demonstrate inability to acquire financing from private lenders in order to qualify for a federal disaster loan. This proposal would reduce baseline direct loan totals by $98 million in 1991. The Administration is also proposing to increase the loan interest rate, currently capped at 8 percent, to the Treasury cost of borrowing.

The Section 312 direct loan program (Rehabilitation Loan Fund) offers credit to communities for housing rehabilitation in low-income areas. The Administration is proposing to terminate this program in 1991 because it believes the program duplicates funding provided by other, more efficient, rehabilitation programs. Termination would result in a $75 million decrease from CBO's baseline projection for direct loans.

Further restrictions on activity in this function would be achieved by limiting Rural Telephone Bank direct loans to $125 million per year for 1991 through 1995

TABLE 7. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 400: TRANSPORTATION (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	0.05	0.05	0.05	0.05	0.06
Proposed Changes					
Amtrak corridor improvement loans	a	a	a	a	a
Right-of-Way Revolving Fund (Trust revolving fund)	b	b	b	a	a
Total	b	a	a	-0.01	-0.01
President's 1991 Budget as Estimated by CBO	0.05	0.05	0.05	0.05	0.05

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Less than zero, but greater than negative $5 million.

b. Less than $5 million, but greater than zero.

TABLE 8. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	1.13	1.18	1.22	1.27	1.32
Proposed Changes					
Rural Development Insurance Fund	-0.12	-0.19	-0.20	-0.27	-0.32
Rural Telephone Bank	-0.06	-0.07	-0.07	-0.08	-0.09
Rural Development Loan Fund	0.01	0.01	0.01	0.01	a
Small Business Administration Disaster Loan Fund	-0.10	-0.10	-0.11	-0.11	-0.12
Rehabilitation Loan Fund	-0.08	-0.08	-0.08	-0.08	-0.08
Total	-0.34	-0.42	-0.45	-0.54	-0.60
President's 1991 Budget as Estimated by CBO	0.79	0.76	0.77	0.73	0.72
Guaranteed Loan Commitments					
CBO Baseline	0.40	0.37	0.39	0.40	0.42
Proposed Changes					
Rural Development Insurance Fund	-0.10	-0.06	-0.04	-0.03	-0.01
Rural Telephone Bank	0.20	0.20	0.20	0.20	0.20
Economic Development Assistance Programs	-0.01	-0.01	-0.01	-0.01	-0.01
Indian Loan Guaranty and Insurance Fund	0.00	0.05	0.05	0.05	0.05
Community Development Grants (Guarantees)	-0.15	-0.15	-0.16	-0.17	-0.17
Total	-0.06	0.02	0.03	0.04	0.05
President's 1991 Budget as Estimated by CBO	0.35	0.40	0.42	0.45	0.47

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Less than $5 million, but greater than zero.

(compared with a 1990 loan limit of $177 million). To help shift borrowers of telephone loans to private financing, the Administration is proposing an annual limitation on guarantee commitments of $200 million, of which 70 percent would be guaranteed by the RTB. An up-front fee of 1 percent of principal would be charged on the federally guaranteed portion of a loan. This fee is proposed to increase by 1/2 percent per year until it reaches the target level of 5 percent. The interest rate on RTB direct loans is proposed to be increased from 5 percent to near Treasury rates.

The Administration proposes to terminate guaranteed loans of the Section 108 Community Development Block Grant program, resulting in a decrease from the CBO baseline of $147 million in 1991. Once again, the Administration is proposing to terminate loan guarantees of the Economic Development Administration.

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

Two changes are proposed in the credit budget for this function. First, direct loans for college housing and academic facilities are to be sharply reduced, from $30 million in 1990 to $5 million in 1991. Second, the Administration is proposing to decrease the average reinsurance rate from 97 percent to 90 percent for the Stafford Student Loans. This proposal is aimed at making the guaranteeing agencies (consisting of state and nonprofit private entities who insure lenders against default loss) improve their loan documentation requirements. The budget also proposes to replace the current variable reinsurance fee that the government charges guaranteeing agencies with a flat fee of 0.5 percent. In addition, the requirements for first-time students would be tightened. CBO estimates that these changes would decrease total guaranteed loan commitments by $254 million in 1991 (see Table 9).

HEALTH (Function 550)

The Administration is proposing to limit guaranteed loans of the Health Professions Graduate Student Loan Insurance Fund. This limit would put funding at $105 million below the CBO baseline estimate (see Table 10).

INCOME SECURITY (Function 600)

The Administration is proposing two changes that affect credit in function 600. If adopted, these changes would decrease direct loans by $86 million in 1991 (see Table 11).

The Housing Act of 1987 (Public Law 100-242) created the Flexible Subsidy Fund to receive the excess rents collected from Section 236 loans for multifamily housing projects. (Section 236 loans are insured by the Federal Housing Administration.) Excess rents are either loaned or granted to assist projects that are in serious financial trouble but are still considered economically viable. The $60

TABLE 9. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	0.03	0.03	0.03	0.04	0.04
Proposed Changes (College Housing and Academic Facilities)	-0.03	-0.03	-0.03	-0.03	-0.04
President's 1991 Budget as Estimated by CBO	0.01	a	a	a	a
Guaranteed Loan Commitments					
CBO Baseline	12.81	13.49	13.85	14.02	14.12
Proposed Changes (Guaranteed Student Loans)	-0.25	-0.27	-0.28	-0.29	-0.31
President's 1991 Budget as Estimated by CBO	12.56	13.22	13.57	13.72	13.81

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Less than $5 million, but greater than zero.

TABLE 10. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 550: HEALTH (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Guaranteed Loan Commitments					
CBO Baseline	0.29	0.31	0.32	0.34	0.35
Proposed Changes (Health Professions Graduate Student Loan Fund)	-0.11	-0.19	-0.26	-0.29	-0.33
President's 1991 Budget as Estimated by CBO	0.19	0.12	0.06	0.05	0.03

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

TABLE 11. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 600: INCOME SECURITY (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	0.09	0.09	0.09	0.09	0.09
Proposed Changes					
Nonprofit Sponsor Assistance	a	a	a	a	a
Flexible Subsidy Fund	-0.06	-0.06	-0.06	-0.06	-0.06
Nehemiah Housing Opportunity Fund	-0.03	-0.03	-0.03	-0.03	-0.03
Total	-0.09	-0.09	-0.09	-0.09	-0.09
President's 1991 Budget as Estimated by CBO	b	b	b	b	b

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Less than zero, but greater than negative $5 million.

b. Less than $5 million, but greater than zero.

TABLE 12. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 700: VETERANS BENEFITS AND SERVICES
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Direct Loan Obligations					
CBO Baseline	0.67	0.61	0.57	0.54	0.51
Proposed Changes					
Direct Loan Revolving Fund	a	a	a	a	a
Loan Guaranty Revolving Fund	-0.09	-0.10	-0.09	-0.08	-0.06
Guaranty and Indemnity Fund	-0.00	-0.01	-0.03	-0.05	0.08
Total	-0.09	-0.11	-0.12	-0.13	-0.14
President's 1991 Budget as Estimated by CBO	0.59	0.50	0.45	0.41	0.37
Guaranteed Loan Commitments					
CBO Baseline	15.65	15.97	16.32	16.67	17.04
Proposed Changes					
Guaranty and Indemnity Fund	-1.80	-1.84	-1.90	-1.97	-2.03
Loan Guaranty Revolving Fund	-0.08	-0.10	-0.10	-0.10	-0.10
Total	-1.87	-1.94	-2.00	-2.06	-2.13
President's 1991 Budget as Estimated by CBO	13.78	14.03	14.31	14.61	14.91

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Less than zero, but greater than negative $5 million.

million decrease in direct loans reflects the Administration's plan to make no new loans through this fund in 1991.

The Nehemiah Housing Opportunity Fund provides loans to eligible families to assist in the purchase of new or rehabilitated units. The President's budget proposes that the Nehemiah loan program's objective be met through grants from the Housing Opportunities for People Everywhere (HOPE) program, which would reduce direct loan obligations in 1991 by $25 million below the CBO baseline (see Table 11).

VETERANS BENEFITS AND SERVICES (Function 700)

The Congress enacted legislation last fall transferring most of the loan activity from the Loan Guaranty Revolving Fund to the Guaranty and Indemnity Fund. The Administration is proposing four changes in the 1991 budget that would affect the credit programs in this function. Overall, direct loans would be decreased by $89 million and guarantee commitments would be decreased by $1.9 billion in 1991 (see Table 12).

The first proposal is to terminate the manufactured home loan program in the Loan Guaranty Revolving Fund. This action would decrease guarantees by $26 million in 1991. The second proposal is to include the Department of Veterans' Affairs' (VA) average loss on the resale of acquired properties in the calculation of the net value of a property securing a defaulted loan. If adopted, this proposal would reduce the number of properties the VA acquires on foreclosure, thus reducing vendee direct loans by $89 million in 1991.

The third proposal is to increase the origination fee on all new guaranteed loans to 1.75 percent of the mortgage principal, regardless of the size of the down payment. If adopted, this proposal would slightly decrease the total guarantees in function 700. The fourth proposal is to require a 4 percent down payment on loans over $25,000. This proposal would decrease demand for guarantee commitments by $1.9 billion in 1991.

CREDIT BUDGET TOTALS

Aggregate credit activity, shown in the CBO baseline and for changes proposed, does not clearly indicate credit activity at the program level. Tables A-1 and A-2 in the appendix to this report provide program details of direct loan obligations and guarantee commitments. The program activity shown in the tables reflects projected activity level--not the appropriated limits if these limits exceed expected loans or guarantees. Table A-3 shows those accounts with estimates of unused balance.

CHAPTER III
OUTLAY EFFECTS OF THE PRESIDENT'S CREDIT BUDGET PROPOSALS

Federal credit programs result in both cash payments and collections. Net outlays--that is, payments net of collections--for each account contribute directly to the federal deficit. Direct loan disbursements, guarantee payments for defaults, and interest paid are the largest components of credit outlays. Collections are mostly obtained from repayments, recoveries, fees, sales of loan assets, and sales of property acquired as a result of default.

The most frequently used ways of lowering net outlays and the unified budget deficit with credit programs are to reduce direct loans, to increase or institute guarantee fees, to sell loans held by the account, and to induce borrowers to prepay their outstanding loans. Collections from loan asset sales and prepayments do not reduce the Balanced Budget Act deficit, however, unless those sales and prepayments are considered to be routine and ongoing, or legislation providing for such transactions was enacted before September 18, 1987.

DIRECT LOAN REDUCTIONS

Direct loan disbursements can be reduced by lowering loan obligations through program reductions or terminations, with or without substituting federally guaranteed private loans for federal direct loans. Where federal guarantees of private loans are substituted for direct loans, outlays will be reduced in the short term but may increase in later years; that is, a private lender, rather than the federal government, disburses the guaranteed loan. In the future, however, the federal government will be required to make payments to honor its guarantee as defaults occur. Similarly, short-term outlays can be reduced by converting direct loans for the purchase of housing into rental vouchers; that is, the first-year rent is less than the purchase price. The rents must be paid annually in the future, however.

The Administration proposes to convert direct loans to guarantees for the Rural Electrification Administration, the Rural Telephone Bank, the Farmers Home Administration, the Small Business Administration, and for international development assistance. Almost $1.3 billion of the $2 billion in net outlay savings relative to the CBO baseline is to be achieved by converting direct loans into federally guaranteed private loans in 1991. Most of these savings occur in functions 270, 350, and 370 (see Tables 13 and 14).

FEE INCREASES

Increasing guarantee and origination fees has a more long-term effect on net outlays for federal credit than converting direct loans to guarantees--assuming that the creditworthiness of the borrower is not changed as fees are increased. The Administration proposes higher fees in 1991 for many programs, including Veterans' Affairs, the Small Business Administration, the Government National Mortgage

TABLE 13. OUTLAY SAVINGS FROM THE CBO BASELINE FOR THE ADMINISTRATION'S CREDIT CHANGES, BY TYPE OF CHANGE
(By fiscal year, in millions of dollars)

	1991	1992	1993	1994	1995
Reduce Direct Loan Obligations					
REA Economic Development	-3	-5	-5	-5	-4
Bureau of Reclamation	-18	-28	-33	-37	-39
Housing for the Elderly or Handicapped Fund	0	-9	-41	-71	-91
Business Loan and Investment Fund	-34	-54	-49	-47	-46
Rural Development Insurance Fund	-5	-33	-83	-130	-170
Small Business Administration Disaster Loan Fund	-53	-84	-81	-80	-82
College Housing and Academic Facilities	0	-2	-19	-28	-30
Loan Guaranty Revolving Fund	-111	-34	2	20	26
Gurarancy Indemnity Fund	-0	-7	-16	-24	-25
Total Outlay Effect	-223	-256	-325	-402	-461
Change Direct Loans to Guarantees					
Private Sector Revolving Fund	-0	-1	-2	-2	-1
Rural Electrification Administration	-78	-305	-558	-839	-1,101
Agricultural Credit Insurance Fund	-507	-574	-625	-620	-683
Rural Housing Insurance fund	-694	-1,006	-1,238	-1,418	-1,562
Rural Telephone Bank	-1	-16	-27	-38	-44
Total Outlay Effect	-1,281	-1,903	-2,450	-2,917	3,389
Terminate Programs					
Abatement Control	-32	-33	-34	-36	-37
Self-Help Housing Land Development Fund	-1	-1	-1	-1	-1
Community Development Grants	0	0	0	0	0
Rehabilitation Loan Fund	-24	-66	-69	-67	-67
Loan Guaranty Revolving Fund (Manufactured housing)	0	0	-0	-0	-1
Total Outlay Effect	-56	-100	-104	-104	-105

(Continued)

TABLE 13. (Continued)

	1991	1992	1993	1994	1995
Impose or Raise Fees or Other Payments					
Rural Electrification Administration	-9	-10	-18	-25	-31
Agricultural Credit Insurance Fund	0	0	-5	-10	-15
Government National Mortgage Association	-8	-34	-62	-93	-117
Business Loan and Investment Fund	-98	-102	-105	-109	-111
Rural Telephone Bank	-1	-2	-3	-4	-4
Guaranteed Student Loans	-10	-105	-235	-280	-300
Guaranty Indemnity Fund					
Fees	-92	-100	-102	-97	-86
Down payments	18	17	-7	-36	-73
Government-Sponsored Enterprises	-52	-306	-666	-871	-1,092
Total Outlay Effect	-252	-643	-1,203	-1,526	-1,829
Sell Loan Assets					
Loan Sales	-235	0	0	0	0
Total Outlay Effect	-235	0	0	0	0
All Other					
Foreign Military Sales	0	0	0	0	0
Rural Development Loan Fund	1	3	6	8	7
Total Outlay Effect	1	3	6	8	7
Grand Totals	-2,046	-2,899	-4,075	-4,939	-5,779

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

TABLE 14. OUTLAY SAVINGS FROM THE CBO BASELINE FOR THE ADMINISTRATION'S CREDIT CHANGES, BY BUDGET FUNCTION (By fiscal year, in millions of dollars)

	1991	1992	1993	1994	1995
Function 150: International Affairs					
Private Sector Revolving Fund	-0	-1	-2	-2	-1
Foreign Military Sales	0	0	0	0	0
Total Outlay Effect	-0	-1	-2	-2	-1
Function 270: Energy					
Rural Electrification Administration	-78	-305	-558	-839	-1,101
REA Guaranty Fee	-9	-10	-18	-25	-31
REA Economic Development	-3	-5	-5	-5	-4
Total Outlay Effect	-90	-320	-581	-869	-1,136
Function 300: Natural Resources and Environment					
Abatement Control	-32	-33	-34	-36	-37
Bureau of Reclamation	-18	-28	-33	-37	-39
Total Outlay Effect	-50	-61	-68	-73	-76
Function 350: Agriculture					
Agricultural Credit Insurance Fund	-507	-574	-625	-620	-683
ACIF Increased Guaranty Fees	0	0	-5	-10	-15
Total Outlay Effect	-507	-574	-630	-630	-698
Function 370: Commerce and Housing					
Rural Housing Insurance Fund	-694	-1,006	-1,238	-1,418	-1,562
Self-Help Housing Land Development Fund	-1	-1	-1	-1	-1
Housing for the Elderly or Handicapped Fund	0	-9	-41	-71	-91
Government National Mortgage Association	-8	-34	-62	-93	-117
Business Loan and Investment Fund					
Obligations	-34	-54	-49	-47	-46
Fees	-98	-102	-105	-109	-111
Total Outlay Effect	-835	-1,207	-1,495	-1,738	-1,928

(Continued)

TABLE 14. (Continued)

	1991	1992	1993	1994	1995
Function 450: Community and Regional Development					
Community Development Grants	0	0	0	0	0
Rehabilitation Loan Fund	-24	-66	-69	-67	-67
Rural Development Insurance Fund	-5	-33	-83	-130	-170
Rural Telephone Bank					
Obligations	-1	-16	-27	-38	-44
Fees	-1	-2	-3	-4	-4
Rural Development Loan Fund	1	3	6	8	7
Small Business Administration					
Disaster Loan Fund	-53	-84	-81	-80	-82
Total Outlay Effect	-83	-198	-257	-311	-360
Function 500: Education, Training Employment, and Social Services					
Guaranteed Student Loans	-10	-105	-235	-280	-300
College Housing and Academic Facilities	0	-2	-19	-28	-30
Loan Sales	-235	0	0	0	0
Total Outlay Effect	-245	-107	-254	-308	-330
Function 700: Veterans Benefits and Services					
Loan Guaranty Revolving Fund					
Manufactured housing	0	0	-0	-0	-1
Payoffs	-111	-34	2	20	26
Guaranty Indemnity Fund					
Payoffs	-0	-7	-16	-24	-25
Fees	-92	-100	-102	-97	-86
Down payments	18	17	-7	-36	-73
Total Outlay Effect	-184	-124	-123	-137	-157
Function 800: General Government					
Government-Sponsored Enterprise User Fees	-52	-306	-666	-871	-1,092
Total Outlay Effect	-52	-306	-666	-871	-1,092
Grand Totals	-2,046	-2,899	-4,075	-4,939	-5,779

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

TABLE 15. LOAN ASSET SALES AND PREPAYMENT RECEIPTS: CBO BASELINE, PRESIDENT'S 1991 BUDGET, AND CBO REESTIMATES (By fiscal year, in millions of dollars)

	1990	1991
Sales		
Rural Housing Insurance Fund (Junior securities)		
CBO Baseline	350	0
President's Budget	350	0
CBO Reestimate	350	0
Economic Development Administration		
CBO Baseline	48	0
President's Budget	55	0
CBO Reestimate	48	0
Department of Education, College Housing		
CBO Baseline	27	0
President's Budget	27	236
CBO Reestimate	27	236
Department of Veterans' Affairs (Vendee loans, non- or partial recourse)		
CBO Baseline	766	0
President's Budget	551	0
CBO Reestimate	766	0
Department of Veterans' Affairs (Vendee loans, recourse sales)		
CBO Baseline	0	720
President's Budget	0	447
CBO Reestimate	0	590

(Continued)

TABLE 15. (Continued)

	1990	1991
Prepayments		
Foreign Military Sales		
CBO Baseline	1,747	0
President's Budget	1,747	0
CBO Reestimate	1,747	0
Rural Electrification Administration		
CBO Baseline	500	0
President's Budget	500	0
CBO Reestimate	500	0
Railroad Rehabilitation		
CBO Baseline	130	10
President's Budget	137	18
CBO Reestimate	130	10
Rural Development Insurance Fund		
CBO Baseline	25	0
President's Budget	13	0
CBO Reestimate	25	0
Totals		
Sales		
CBO Baseline	1,191	720
President's Budget	983	683
CBO Reestimate	1,191	826
Prepayments		
CBO Baseline	2,402	10
President's Budget	2,397	18
CBO Reestimate	2,402	10
Grand Total		
CBO Baseline	3,593	730
President's Budget	3,380	701
CBO Reestimate	3,593	836

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

TABLE 16. LOAN ASSET SALES AND PREPAYMENT COLLECTIONS, 1987-1990 (By fiscal year, in millions of dollars)

Program	1987 Sales	1987 Prepay-ments	1988 Sales	1988 Prepay-ments	1989 Sales	1989 Prepay-ments	1990[a] Sales	1990[a] Prepay-ments
Export-Import Bank	0	1,901	0	643	0	0	0	0
Foreign Military Sales	0	0	0	3,152	0	5,935	0	155
Rural Electrification Administration	0	583	0	2,000	0	0	0	0
Rural Housing Insurance Fund	1,728	0	0	0	0	0	0	0
Federal Housing Administration Fund	0	0	87	25	25	0	0	0
Small Business Administration (Business Loan and Investment Fund)	0	3	0	0	0	0	0	0
Bureau of Reclamation	0	0	0	154	0	0	0	0
Railroad Rehabilitation	0	0	0	112	0	83	0	99
Rural Development Insurance Fund	1,004	51	0	1,062	0	1,082	0	0
Rural Telephone Bank	0	0	0	131	0	0	0	0
Economic Development Administration	0	10	0	0	0	0	0	0
Housing and Urban Development Public Facilities	0	8	169	0	0	0	0	0
Department of Education	97	479	291	0	0	0	27	0
Department of Veterans' Affairs (Vendee sales, nonrecourse)	0	0	296	0	433	0	290	0
Total	2,829	3,035	843	7,279	458	7,100	254	317

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Sales and prepayments as of April 1990.

Association, and guaranteed student loans. The proposals to offer guarantees to REA, RTB, and RHIF borrowers include payments of fees by these borrowers. A "user fee" is also proposed to be levied on securities issued by several privately owned but government-sponsored enterprises (GSE). This fee might be more properly classified as a receipt than an offsetting collection (see Chapter V). The combined effect on outlays for 1991 of all the fee increases proposed by the Administration for credit programs, including the GSE user fee, is estimated to be about $250 million. Another $280 million is projected to be saved in 1991 by reduced direct loan activity and program terminations.

LOAN ASSET SALES AND PREPAYMENTS

The sale of loans held by the government and the induced prepayment of outstanding loans was used to reduce budget outlays and the unified deficit by $8 billion and $7 billion in 1988 and 1989, respectively.4/ For 1990, the baseline projection of collections from these transactions is only $3.6 billion. For 1990, less than 20 percent of that amount has been realized so far. For 1991, less than $1 billion in proceeds is projected in the baseline (see Table 15, pages 32 and 33). The Administration proposes an additional $235 million in sales of college housing loans, which would require legislation, and $130 million less in Department of Veterans' Affairs vendee loan sales, for a net increase above the baseline for loan sales and prepayments of about $100 million. Only two of the Administration's proposed sales would affect the Balanced Budget Act 1991 deficit--the VA vendee loan sale and the prepayments or sale of Railroad Rehabilitation loans--though all would reduce the unified budget deficit. The wave of loan asset sales and loan prepayments, which swept through the budget in the late 1980s, apparently has receded.

The 1989 loan sales efforts included VA vendee loans and the Federal Housing Administration's loans for single-family houses (see Table 16). These sales produced $458 million in receipts. Prepayments from Foreign Military Sales, the Rural Development Insurance Fund (RDIF), and Railroad Rehabilitation produced collections totaling $7.1 billion.

Two of the four proposed loan sales for 1990 have yet to occur. The Administration's proposals include sales from the VA, the Department of Education, the RHIF, and the Economic Development Administration (EDA). To date, the VA has sold vendee loans with partial recourse for a total of $290 million in collections. The Department of Education sold the junior certificates from the two previous sales (1987 and 1988) for $27 million in net collections. The RHIF is scheduled to sell the junior securities from the 1987 loan sale, and EDA is scheduled to sell loans as well.

The Administration's budget includes prepayments in 1990 from FMS, Railroad Rehabilitation, the RDIF, and the Rural Electrification Administration. To date, FMS borrowers have prepaid $155 million and Railroad Rehabilitation borrowers have prepaid loans for net collections of $90.4 million.

4. For a description of the 1987 and 1988 loan sales and prepayments, refer to CBO's "Analysis of the Administration's Credit Budget for Fiscal Year 1990" (Staff Working Paper, April 1989), Chapter III.

CHAPTER IV
CONTROL AND PROPOSED REFORM OF THE CREDIT BUDGET

One purpose of the credit budget is to control new federal direct loan obligations and guarantee commitments. Control is exercised principally through activity ceilings imposed in appropriation acts that limit the total dollar amount of loan obligations and guarantee commitments during a particular budget year. Deficiencies in this control mechanism, however, have prompted proposals for reform.

CREDIT BUDGET CONTROLS

All direct and guaranteed loans are subject to controls established in the budget process. However, the type of control varies among programs. There are three general mechanisms used in the budget process for limiting obligations and commitments. The first two are controlled by the revolving funds, through which most credit activity is conducted. These funds could obligate and outlay fund balances without further Congressional action, except that the Congress has established two forms of control: annual appropriation act limitations and eligibility criteria for borrowers established in authorizing legislation. For the activities not financed by revolving funds, control is normally exercised by limiting the amount of available budget authority. Table 17 categorizes the credit programs by type of limitation.

The majority of credit programs are limited by annual appropriation act limitations. This is the most direct method of controlling new loan volume. In a few cases, the appropriation level effectively restricts activity. However, in the past several years, the levels of other obligation and commitment activity have been lower than the enacted limitation. Table 18 shows a sampling of programs, some of whose activity levels have fallen below the appropriation limitation. The Central Liquidity Facility's activity level, for example, has been between 5 percent and 26 percent of the appropriation limitation in the past five years. In some cases, such as the Export-Import Bank direct loans, the appropriation limit has been reduced to match more closely actual demand.

The nonrevolving fund programs are controlled by budget authority. Specific program limitation is not required in appropriation acts, because obligations may not be made in the absence of appropriations. Hence, the total dollar amount of loans obligated and committed, in combination with other programs in the same account, cannot exceed budget authority for that account.

Entitlements, such as guaranteed student loans and VA home mortgage guarantees, are subject to the least stringent of controls. These are mandatory programs with eligibility criteria established in authorizing legislation. Eligibility requirements limit the number of qualified recipients, but actual guarantee levels are determined by demand.

TABLE 17. LIMITATION STATUS OF FEDERAL CREDIT PROGRAMS, WITH CBO BASELINE 1990 OBLIGATION AND COMMITMENT LEVELS (By fiscal year, in millions of dollars)

Account	1990 CBO Baseline Obligations/Commitments
Programs with Annual Appropriation Act Limitations	
Direct Loans	
Foreign Military Sales Credit	404.3
Overseas Private Investment Corporation	19.9
Private Sector Revolving Fund (AID)	3.5
Export-Import Bank	612.4
Rural Electrification and Telephone Revolving Fund	1,794.4
Bureau of Reclamation Loan Program	31.5
Agricultural Credit Insurance Fund	1,591.0
Rural Housing Insurance Fund	1,905.7
Self-Help Housing Land Development Fund (FmHA)	0.5
Central Liquidity Facility	590.7
Federal Housing Administration Fund	0.0
Housing for the Elderly or Handicapped Fund	472.7
Right-of-Way Revolving Fund (Trust revolving fund)	42.4
Amtrak Corridor Improvement Loans	3.5
Rural Development Insurance Fund	444.7
Rural Telephone Bank	177.0
Rural Development Loan Fund	19.3
College Housing and Academic Facilities	30.0
Nonprofit Sponsor Assistance	1.1
Direct Loan Revolving Fund (VA)	1.0
Total	8,145.4
Guaranteed Loans	
Overseas Private Investment Corporation	211.5
Housing and Other Credit Guaranty Programs (AID)	99.6
Private Sector Revolving Fund (AID)	91.1
Export-Import Bank	10,339.3
Agricultural Credit Insurance Fund	3,036.7
Federal Housing Administration	73,837.5
Rural Development Insurance Fund	193.3
Economic Development Assistance Programs	187.5
Community Development Grants	141.8
Total	88,138.3
Secondary Loan Guarantees	
Trade Credit Insurance Fund	398.3
Government National Mortgage Association	81,713.5
Total	82,111.8
Programs Constrained by Account-Level (Credit and Noncredit) Budget Authority	
Direct Loans	
Expenses, Public Law 480	790.0
Emergencies in the Diplomatic Corps and Consulates	0.6
Rural Development Loans	5.2
Abatement, Control, and Compliance (EPA)	30.5
Business Loan and Investment Fund	82.0
Revolving Fund for Loans (BIA)	12.8
Disaster Loan Fund (SBA)	950.0
Rehabilitation Loan Fund (Section 312, HUD)	75.0
Flexible Subsidy Fund	50.0
Nehemiah Housing Opportunity Fund	24.2
Total	2,020.3

(Continued)

TABLE 17. (Continued)

Account	1990 CBO Baseline Obligations/Commitments
Programs Constrained by Account-Level (Credit and Noncredit) Budget Authority (continued)	
Guaranteed Loans	
Foreign Military Sales Financing	1,746.7
Federal Ship Financing Fund	78.3
Business Loan and Investment Fund	4,117.6
Indian Loan Guaranty and Insurance Fund	45.0
Total	5,987.6
Programs Limited Only by Authorizing Legislation	
Direct Loans	
Tennessee Valley Authority Fund	294.9
Commodity Credit Corporation Fund	6,146.0
Agricultural Credit Insurance Fund	75.0
Credit Union Share Insurance Fund	30.0
Rural Housing Insurance Fund	450.0
Resolution Trust Corporation	8,700.0
Resolution Trust Corporation Vendees	25.0
Pension Benefit Guaranty Corporation Fund	0.2
Loan Guaranty Revolving Fund (VA)	723.9
Vocational Rehabilitation Revolving Fund (VA)	1.3
Education Loan Fund (VA)	0.0
Guaranty and Indemnity Fund (VA)	0.0
Total	16,446.3
Guaranteed Loans	
Rural Electrification Administration	500.0
Commodity Credit Corporation Fund	5,300.0
Farm Credit System Financial Assistance	635.0
Credit Union Share Insurance Fund	1.0
Rural Development Insurance Fund (Drought)	200.0
Guaranteed Student Loans	12,640.0
Health Professions Graduate Student Loans	275.0
Loan Guaranty Revolving Fund (VA)	3,657.6
Guaranty and Indemnity Fund	10,898.0
Guaranty and Indemnity Fund (Loans sold)	0.0
Loan Guaranty Revolving Fund (Loans sold)	766.1
Total	34,872.7

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

NOTES: AID = Agency for International Development; FmHA = Farmers Home Administration; VA = Department of Veterans' Affairs; EPA = Environmental Protection Agency; BIA = Bureau of Indian Affairs; SBA = Small Business Administration; HUD = Department of Housing and Urban Development.

TABLE 18. LIMITATIONS ON APPROPRIATION ACT ACTIVITY AND ACTUAL LEVELS, SELECTED PROGRAMS (By fiscal year, in millions of dollars)

	1985		1986		1987		1988		1989		
	Limit	Actual as Percentage of Limit	Limit	Actual as Percentage of Limit	Limit	Actual as Percentage of Limit	Limit	Actual as Percentage of Limit	Limit	Actual as Percentage of Limit	1990 Proposed Limit
Direct Loan Obligations											
Rural Electrification and Telephone Revolving Fund	1,100	70	2,129	139	2,155	48	2,159	74	2,204	40	1,794
Rural Telephone Bank	185	91	177	72	185	100	80	100	177	100	177
Export-Import Bank	3,865	17	1,059	55	680	100	693	100	695	100	612
Central Liquidity Facility (NCUA)	600	8	568	5	600	18	600	11	600	26	600
Guaranteed Loan Commitments											
Agricultural Credit Insurance Fund	1,246	94	1,916	81	2,498	63	2,793	45	2,776	77	3,037
Economic Development Assistance	167	0	188	12	188	0	188	0	188	2	188
Export-Import Bank	10,000	78	11,484	48	11,355	59	14,601	39	17,866	31	10,191
FHA Fund	50,900	93	141,500	73	100,000	80	96,000	52	96,000	57	73,838
GNMA, Mortgage-backed Securities	68,250	80	175,000	79	150,000	93	144,000	37	144,000	38	81,714

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

NOTE: NCUA = National Credit Union Administration; FHA = Federal Housing Administration; GNMA = Government National Mortgage Association.

CREDIT REFORM

The President's budget once again endorses the proposal to change the budgetary treatment of federal direct loans and federal guarantees of private loans. Although few specific details are offered in the latest budget, the proposal appears unchanged from the plan advanced in the 1989 and 1990 budgets. That proposal is described and compared with alternatives in Congressional Budget Office, *Credit Reform: Comparable Budget Cost for Cash and Credit* (December 1989). In the present analysis, credit reform is discussed only in general terms.

What is Credit Reform?

The proposal for credit reform is to change the budgetary accounting and appropriation control of federal direct loans and federal guarantees of private loans. No program changes are required. The same federal agencies would continue to provide the same benefits to the same beneficiaries after credit reform as before. No transactions between the federal government and the rest of the world would be directly affected. Credit reform would be invisible to beneficiaries of federal credit assistance.

This is not to suggest that the budgetary accounting and control changes under credit reform would be trivial. These changes are intended to alter the way credit programs are recorded in the budget and treated in the budget process. Credit reform would focus budgetary attention and control on the subsidies provided through federal credit and would recognize them in the budget when the transaction that extends assistance occurs. The guiding budgetary principle is that the costs of credit assistance should be recognized when the final decision is made to incur these costs, rather than when cash is actually disbursed or received by the government.

Why Credit Reform?

Under the current federal budget practice, virtually all federal credit programs combine businesslike transactions with subsidies, and do so in a way that makes it difficult to identify or control the amount of subsidy provided. When the government makes direct loans, the budget records the full amount of the loan as an outlay, which adds to the deficit, even though only the subsidy will be a cost to the taxpayer. When the government issues a loan guarantee, it may collect a fee, which reduces the deficit when collected. Yet the cost to the taxpayer will not be recognized until the point of default when the guarantee has to be honored. Thus, the current budgetary treatment of credit programs creates a bias in favor of guarantees and deferred cost recognition and against direct loans.

In part because of the differences in budgetary treatment, guarantees have been growing in recent years while federal direct loan activity has diminished. For example, from 1980 through 1989, new direct loan obligations fell from $36.2 billion per year to $16.2 billion, while guaranteed loan commitments increased from $88.2 billion to $105.4 billion.5/

The federal budget accounting system also includes a subsystem based on obligations; that is, the authority to obligate federal monies, granted by and controlled through appropriations, is tracked and recorded in the budget. Unfortunately, obligational authority is not controlled or recorded consistently for federal credit programs. As discussed earlier in this chapter, the federal appropriation process provides authority to issue loan obligations for some but not all direct loan programs. Ceilings are imposed on the issue of guarantee commitments for some but not all programs. In addition, appropriation acts may provide an agency with authority to borrow and to disburse funds or to restore losses from prior activities. Under current policy, the authority provided through appropriations to credit programs is not a consistent, comparable cost measure and, therefore, is not a viable alternative to the biased cost measures for credit that are produced by the current system.

How Would Credit Reform Work?

The mechanics of credit reform are based on the possibility of dividing each federal credit transaction into a commercial component and a subsidy component. The commercial element in a federal credit transaction is the unsubsidized part. In the case of a direct loan, the government advances cash in exchange for a promissory note. If the government advances $100 for a promissory note with a value (because of a low interest rate, high probability of default, and high collection costs) of $80, then $80 of the transaction represents an equal-value exchange of assets, and $20 is the subsidy component.

In a guaranteed loan, the government often collects a fee for assuming the liability associated with the guarantee. If the government issues a guarantee that has a market value of $5 in exchange for a $1 fee, then $1 of the transaction is a commercial, unsubsidized exchange. The subsidy element is the $4 in extra value provided by the government.

The subsidy component of a federal credit transaction consumes federal budgetary resources; the commercial part of the transaction does not. Credit reform would separate credit transactions into these subsidy and commercial components and treat these components differently in the budget. Specifically, the subsidy component is used as the budget cost of a credit program. This subsidy amount would be shown as the cost of the transaction, and no credit assistance could be provided to a borrower without a prior appropriation of the subsidy amount by the Congress.

The subsidy and commercial components can be differentiated in the budget by assigning each to a different account and reporting them separately in the budget. Subsidy costs would be provided to the subsidy account for each program in appropriation acts. As these subsidies are obligated by government agencies, they

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5. Approximately $11 billion of this decrease in direct loans results from the deletion of loans for defaulting guarantees from the direct loan totals.

would be paid to the commercial or financing accounts. The financing accounts would fund federal loans with subsidy payments and monies borrowed from the Treasury. Similarly, loan guarantee payments would be paid by the financing accounts with funds obtained from subsidy payments and interest on funds held by the Treasury.

For example, when a $100 direct loan, with a $20 subsidy, is disbursed by the federal government, $20 would be shown as outlays of the subsidy account and $80 would be shown as net outlays of the financing account. The estimated long-term cost of the loan is $20; $80 is the present value of expected repayments. All repayments would be credited to the financing account.

Under all versions of credit reform, the subsidy account would be treated as the program account in the budget. The financing accounts may be reported either in a nonprogram financing function or "below the deficit line" where they would be shown as a means of financing the deficit. If the financing accounts are reported "above the deficit line" in a nonprogram function, total outlays and the deficit would be unaffected by credit reform; that is, the program account would show $20 in outlays for a hypothetical $100 direct loan, and the financing account would show the remaining $80. If the financing accounts are reported "below the line," only the subsidy amount would be included in budget outlays and the deficit.

The essential feature of credit reform is that the budget would distinguish subsidies from the cash flows associated with costless, equal-value exchanges. The subsidy component would be elevated to the budget cost of credit assistance, and the commercial component is relegated to a less visible position in the budget. Whether the financing component should be shown in an above-the-line, nonprogram function or below the line depends on the confidence one has in the estimates of subsidy costs and on how far one is willing to go in diminishing the prominence afforded the financing flows.

<u>What Effect Would Credit Reform Have on the Budget?</u>

Credit reform would affect the composition of budget outlays by dividing the cash flows from new credit assistance between new program subsidy and financing accounts. If both new accounts are shown above the line, then the budget deficit would be unaffected. If the financing accounts are moved below the line, the recorded federal deficit would rise by as much as $6 billion to $7 billion per year in the early years of implementation. This increase stems from the large cost of guarantees, which is currently unrecognized when the guarantee is extended. However, this increase is an accounting change only. Although it would more accurately show the government's use of financial resources, no increase in federal spending or borrowing would be required.

By changing the budgetary basis of credit programs from current period cash flow to the discounted present value of costs, credit reform could contribute to better-informed budget decisions about credit. Program cost information would be improved both in absolute and relative terms. For the first time, the budget would

TABLE 19. CBO ESTIMATE OF THE SUBSIDY EFFECTS OF THE ADMINISTRATION'S CREDIT PROPOSALS FOR 1991 (In millions of dollars)

	1991 Subsidy Effect
Direct Loans	
CBO Baseline	3,038.2
Rural Electrification and Telephone Revolving Fund	-308.5
Rural Housing Insurance Fund	-504.6
Other	-380.8
Total	-1,193.9
CBO Reestimate	1,844.3
Guaranteed Loans	
CBO Baseline	8,394.8
Rural Electrification and Telephone Revolving Fund	128.7
Rural Housing Insurance Fund	152.7
Guaranteed Student Loans	-171.6
Department of Veterans' Affairs Guaranty and Indemnity Fund	-238.5
Other	9.4
Total	-119.3
CBO Reestimate	8,275.5
Total	
CBO Baseline	11,433.0
CBO Reestimate	10,119.8
Total Subsidy Effect	-1,313.2

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

show the cost of credit and alternative policies in comparable terms. Common, comparable costs measures would be reported for grants, low-risk loans, high-risk loans, and guarantees of varying risk.

Credit reform could be expected to have two effects on budgeting. First, by requiring that subsidies be appropriated before credit assistance can be obligated, credit programs would be more closely controlled by the Congress. Second, as the biased cash-basis cost measures of credit are replaced by subsidy costs, more use would likely be made of currently disfavored direct loans. Similarly, currently favored guarantees would likely become a somewhat less popular instrument of policy.

To illustrate the effect that credit reform would have on the budget, CBO has calculated the subsidy cost savings from the President's credit budget proposals. The calculation involves first estimating baseline subsidy costs. This is done by multiplying the loan levels in the CBO baseline by the Office of Management and Budget's (OMB) subsidy rates under current law. Second, the subsidy costs are estimated assuming that all of the President's credit proposals are adopted. These costs are obtained by multiplying the loan levels in the CBO reestimate of the President's budget by the OMB subsidy rates that would result if the proposed changes were enacted. The difference between these two subsidy amounts represents the total subsidy savings from the President's proposals both to reduce the subsidy rates and to change the composition of credit assistance. As shown below, estimated subsidy savings total about $1 billion (see Table 19).

The aggregate subsidy savings from the President's credit proposal in 1991 are about $1 billion, while outlay savings are estimated to be about $2 billion. For example, the REA proposal would save $90 million in outlays in 1991 while the subsidy savings would be a net total of $180 million. Another contrast is the guaranteed student loans. The President's proposals would save only $10 million in outlays in 1991 while the subsidy savings would total $172 million in 1991. Credit reform would change the focus of budgeting decisions from outlays to subsidies and make budget costs for cash and credit programs directly comparable.

CHAPTER V

GOVERNMENT-SPONSORED ENTERPRISES

Government-sponsored enterprises (GSEs) are privately owned financial intermediaries chartered and supervised by the federal government to allocate credit to favored borrowers outside the federal budget. Five GSEs have supported lending for agriculture, housing, and higher education for many years. Two new entities will begin to reinsure higher-education construction loans and finance farm mortgages later this year. The government has chartered three other corporations to finance spending to resolve insolvent thrifts and agricultural lenders. They are also treated as GSEs, although under federal budget concepts they would more properly be included in the unified budget.

AN OVERVIEW OF GOVERNMENT-SPONSORED ENTERPRISES

Agricultural credit is provided by the member institutions of the Farm Credit System (FCS). The Farm Credit Banks (FCBs), formed in 1988 through the merger of the Federal Intermediate Credit Banks and the Federal Land Banks, make short- and medium-term loans for agricultural production, processing, and marketing and long-term loans secured by farm real estate. The FCBs lend to farmers and to local Agricultural Credit, Production Credit, Federal Land Bank, and Federal Land Credit Associations. The Banks for Cooperatives make loans to farmer-owned marketing, supply, and service cooperatives and to rural utilities. In 1990, the Federal Agricultural Mortgage Corporation (Farmer Mac) will begin to guarantee securities backed by farm mortgages and certain rural housing loans originated by the FCS and private lenders.

Residential mortgage lending is supported by three institutions: the Federal Home Loan Banks (FHLBs), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal National Mortgage Association (Fannie Mae). The FHLBs traditionally have made advances to federally insured savings and loans. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) made other depository institutions eligible to borrow from the FHLBs. Freddie Mac and Fannie Mae purchase home mortgages originated by lenders and finance the acquisitions by selling debt and guaranteed mortgage-backed securities. Fannie Mae's retained mortgage portfolio is about four times larger than Freddie Mac's. Freddie Mac and Fannie Mae also guarantee mortgage-backed securities issued by lenders.

For higher education, the Student Loan Marketing Association (Sallie Mae) invests principally in federally guaranteed student loans (GSLs). Later this year the College Construction Loan Insurance Association (Connie Lee), which is jointly owned by the federal government and Sallie Mae, will begin to insure and reinsure debt issued by colleges and other higher educational institutions to finance construction projects. The government's equity interest in Connie Lee makes it a mixed-ownership government corporation that, under the principles enunciated in

1968 by the President's Commission on Budget Concepts, should be included in the unified budget. However, the President's budget designates Connie Lee as a GSE.

In 1987, the government created the Financing Corporation (FICO) to borrow up to $10.8 billion and use the money to recapitalize the Federal Savings and Loan Insurance Corporation (FSLIC). A portion of the FSLIC's future thrift assessment income was committed to pay the interest on the bonds FICO was authorized to issue. Early in 1988, a new component of the Farm Credit System, the Financial Assistance Corporation (FAC), was chartered to borrow $4 billion and use the funds to assist ailing parts of the FCS. The government committed to guarantee and pay a portion of the interest on FAC debt. FIRREA chartered the Resolution Funding Corporation (REFCORP) to borrow up to $30 billion to finance the resolution of insolvent federally insured thrifts by the Resolution Trust Corporation (RTC), one of the successor agencies of the FSLIC. The law committed the Treasury to pay most of the interest on REFCORP debt.

FICO, FAC, and REFCORP differ fundamentally from the seven other GSEs in that they exist solely to finance the liquidation of federal liabilities, they do not assist private borrowers, and they have either an explicit federal guarantee of their debt or an explicit federal commitment to help repay some of their debt. Nonetheless, the Administration and the Congress have chosen to treat the three corporations as GSEs and to exclude them from the unified budget.

Securities issued, guaranteed, and reinsured by GSEs totaled nearly $846 billion outstanding at the end of 1989 (see Table 20). Nearly $750 billion of that amount financed loans to residential mortgage lenders and borrowers. Between 1970 and 1989, outstanding borrowings and guarantees increased over twenty-two-fold. GSE securities outstanding increased at an average annual rate of nearly 18 percent. Securities issued and guaranteed by the FHLBs, Freddie Mac, and Fannie Mae increased over thirtyfold during that period. Table 20 also shows the Administration's estimates of GSE securities and insurance outstanding at the end of 1990 and 1991.

Aside from the government's explicit support of debt issued by FICO, FAC, and REFCORP, the federal government has no legal obligation to provide financial assistance to the GSEs or otherwise enable them to meet their obligations. Nevertheless, the GSEs' special relationship to the government and benefits under federal law indicate that the government will assist them if they get into serious financial trouble and imply a de facto federal guarantee of their liabilities. The Agricultural Credit Act of 1987 provided such assistance to the Farm Credit System after it lost $4.6 billion in 1985 and 1986. This willingness to assist troubled GSEs means that the government bears most of the financial risks that they take.

The government's implicit assumption of risk reduces the yields that investors require on GSE securities, enabling them to borrow at near-Treasury rates. Another cause of lower yields on GSE securities is the large amount of their outstanding debentures and residential mortgage-backed securities (MBSs), which makes the securities more marketable and liquid than comparable securities that wholly private firms have issued in much smaller amounts. Although the yield savings cannot be estimated precisely, the following ranges approximate the amounts

TABLE 20. GOVERNMENT-SPONSORED ENTERPRISE SECURITIES, GUARANTEES, AND REINSURANCE OUTSTANDING AT END OF YEAR (In billions of dollars)

Enterprise	1970	1975	1980	1985	1987	1988	1989	Estimated 1990	1991
Farm Credit System									
Banks for Cooperatives	1.5	3.2	8.4	8.1	8.9	11.2	11.5	11.8	12.6
Farm Credit Banks[a]	11.3	23.7	53.6	61.8	35.3	43.4	42.1	41.2	41.2
Financial Assistance Corp.	b	b	b	b	b	0.5	0.8	1.5	1.9
Federal Agricultural Mortgage Corp.[c]	b	b	b	b	b	b	b	1.0	1.7
Federal Home Loan Bank System									
Banks	11.2	20.6	36.6	73.6	105.1	126.7	144.3	128.4	120.7
Financing Corporation	b	b	b	b	b	3.7	8.1	8.1	8.1
Resolution Funding Corp.	b	b	b	b	b	b	b	20.4	29.8
Federal Home Loan Mortgage Corp.									
Debt	b	5.1	4.7	13.8	17.1	20.6	27.1	27.8	29.2
Mortgage-backed securities	b	1.2	16.8	92.0	208.9	220.7	257.9	306.0	344.3
Federal National Mortgage Assoc.									
Debt	13.2	28.2	52.3	91.7	92.6	106.0	111.5	119.0	127.3
Mortgage-backed securities	b	b	b	48.8	130.5	167.2	208.9	258.8	308.3
College Construction Loan Insurance Association[d]	b	b	b	b	b	b	1.5	1.9	2.3
Student Loan Marketing Association	b	0.2	2.3	12.7	21.3	25.0	32.0	34.8	37.8
Total	37.2	82.3	174.8	402.4	619.7	724.9	845.9	960.7	1,065.3

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

NOTE: Amounts may not add to totals because of rounding.

a. Before 1987, composed of the Federal Intermediate Credit Banks and the Federal Land Banks.

b. Not yet operating.

c. Guarantees.

d. Reinsurance.

by which the yields on comparable securities issued by wholly private financial intermediaries exceed the yields on GSE securities: 0.3 percent to 0.4 percent for MBSs issued or guaranteed by Fannie Mae and Freddie Mac, 0.1 percent to 0.2 percent for debt issued by Sallie Mae, 0.2 percent to 0.4 percent for debt issued by the FHLBs and Freddie Mac, 0.6 percent to 0.9 percent for debt issued by Fannie Mae, and 1.6 percent to 2.0 percent for debt issued by the Farm Credit System.

USER FEES ON GSE SECURITIES

The President's budget proposes to levy fees on securities issued or guaranteed by Freddie Mac, Fannie Mae, and Sallie Mae, but not on other GSE securities. Under the proposal, the three GSEs would be charged 10 basis points (0.1 percent) of the face value of all new notes, bonds, and other debt securities they issued in 1991. This fee would rise to 20 basis points in 1992 and 30 basis points in 1993 and subsequent years. Freddie Mac and Fannie Mae would be charged a fee of 5 basis points on new mortgage-backed securities they guaranteed in 1991. The latter fee would rise to 10 basis points in 1992 and 15 basis points in 1993 and subsequent years. The purpose of the fees would be to reimburse the government for the borrowing advantages these GSEs enjoy as a result of their special ties to the government.

The budget classifies the collections from the proposed GSE user fees as offsetting receipts--that is, income to the government from purely business-type operations. However, the imposition of the fees appears to be an exercise of the government's sovereign power to tax, rather than a voluntary market transaction. If so, under current federal budget concepts, the collections should be recorded as revenues not as offsets to outlays. Table 21 shows the Administration's estimates of the amounts the new fees would generate in 1991 through 1995.

Analysts have speculated that implicit federal assumption of credit risk accounts for about 15 to 20 basis points of the spread of 30 to 40 basis points between the yields on Fannie Mae and Freddie Mac MBSs and on Aa-rated MBSs issued by wholly private firms. If so, the MBS fee of 15 basis points proposed by the President would cover most of the cost to the government of implicitly backing their MBSs. The GSEs would pass the fee through to the lenders from which they buy home mortgages by lowering the prices they were willing to pay for the loans. Lenders in turn would pass the fee through to borrowers by increasing mortgage interest rates by about 15 basis points. This would be equivalent to increasing the size of the mortgage that a borrower would have to take out to buy a house by about 1.5 percent. Many borrowers would respond by reducing the amount they were willing to pay for housing. This reduction in demand would reduce housing prices and construction activity in the short run. Housing prices would recover somewhat in the long run as underlying demand growth caught up with supply, but whether they would be higher or lower than they would be in the absence of the user fee would depend on the production costs of the homebuilding industry. If the industry's costs rise as the quantity of housing it produces decreases, then the reduction in demand would increase housing prices.

Absent other changes in law, imposing a fee of 30 basis points on debt issued by Fannie Mae and Freddie Mac would give them an incentive to shift to MBS

TABLE 21. GOVERNMENT-SPONSORED ENTERPRISE USER FEES PROPOSED IN THE PRESIDENT'S 1991 BUDGET (By fiscal year)

Enterprise	1991	1992	1993	1994	1995
	User Fees (Basis points)				
Fannie Mae					
Debt	10	20	30	30	30
Mortgage-backed securities	5	10	15	15	15
Freddie Mac					
Debt	10	20	30	30	30
Mortgage-backed securities	5	10	15	15	15
Sallie Mae Debt	10	20	30	30	30
	Receipts (Millions of dollars)				
Fannie Mae					
Debt	11.0	66.6	169.4	232.8	306.8
Mortgage-backed securities	18.4	111.9	174.3	180.4	186.1
Freddie Mac					
Debt	0.9	5.3	13.6	19.4	25.3
Mortgage-backed securities	17.1	103.7	263.8	375.8	491.3
Sallie Mae Debt	4.5	18.9	44.7	62.6	82.4
Total	51.8	306.4	665.7	871.0	1,091.9

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

NOTE: Fannie Mae is the Federal National Mortgage Association; Freddie Mac is the Federal Home Loan Mortgage Association; Sallie Mae is the Student Loan Marketing Association.

financing. Such a change would be more significant for Fannie Mae. Imposing the fee on Sallie Mae would not affect the yields paid by GSL borrowers, which are set by law. It would reduce Sallie Mae's earnings, perhaps by more than implicit federal risk-bearing increases them. Sallie Mae would continue to benefit from the provision of law that prevents other financial intermediaries from investing exclusively in GSLs.

APPENDIX
THE CREDIT BUDGET IN THE CBO BASELINE AND IN THE PRESIDENT'S 1991 BUDGET AS ESTIMATED BY CBO

For most purposes, proposals for changes in policies are most usefully described in terms of the resulting change in the baseline. Accordingly, changes in levels are emphasized in the text of this report. The data in this appendix, reported by account, supplement the text by reporting levels--rather than changes--of direct loan obligations, guarantee commitments, and estimates of unused balance in the CBO baseline and in the President's 1991 budget as reestimated by CBO.

TABLE A-1. DIRECT LOAN OBLIGATIONS IN THE CBO BASELINE AND IN THE PRESIDENT'S 1991 BUDGET AS ESTIMATED BY CBO (By fiscal year, in millions of dollars)

	1990	1991	1992	1993	1994	1995
			Function 150: International Affairs			
Foreign Military Sales Credit						
CBO Baseline	404	420	437	455	473	492
CBO Reestimate	404	0	0	0	0	0
Expenses, Public Law 480						
CBO Baseline	790	821	854	888	924	961
CBO Reestimate	790	752	780	807	833	856
Emergencies in the Diplomatic Service						
CBO Baseline	1	1	1	1	1	1
CBO Reestimate	1	1	1	1	1	1
Overseas Private Investment Corporation						
CBO Baseline	20	21	22	22	23	24
CBO Reestimate	20	23	24	25	26	26
Private Sector Revolving Fund						
CBO Baseline	3	4	4	4	4	4
CBO Reestimate	3	0	0	0	0	0
Export-Import Bank						
CBO Baseline	612	637	663	689	716	745
CBO Reestimate	612	500	520	539	558	575
			Function 270: Energy			
Rural Electrification and Telephone Revolving Fund						
CBO Baseline	1,002	1,683	1,342	1,605	1,778	1,963
CBO Reestimate	1,002	201	152	102	52	32
Tennessee Valley Authority Fund (Energy supply)						
CBO Baseline	295	299	296	354	363	372
CBO Reestimate	295	299	296	354	363	372

(Continued)

TABLE A-1. (Continued)

	1990	1991	1992	1993	1994	1995
Function 300: Natural Resources and Environment						
Bureau of Reclamation Loan Program						
CBO Baseline	31	33	34	35	37	38
CBO Reestimate	31	5	3	3	0	0
EPA Abatement, Control, and Compliance						
CBO Baseline	31	32	33	34	36	37
CBO Reestimate	31	0	0	0	0	0
Function 350: Agriculture						
Agricultural Credit Insurance Fund						
CBO Baseline	1,131	1,198	1,242	1,288	1,335	1,385
CBO Reestimate	1,131	664	600	550	500	450
Commodity Credit Corporation Fund						
CBO Baseline	6,146	7,919	7,719	7,491	7,406	7,210
CBO Reestimate	6,146	7,919	7,719	7,491	7,406	7,210
Function 370: Commerce and Housing Credit						
Rural Housing Insurance Fund						
CBO Baseline	2,356	2,402	2,452	2,502	2,556	2,614
CBO Reestimate	2,356	1,447	1,317	1,187	1,107	1,027
Self-Help Housing Land Development Fund						
CBO Baseline	1	1	1	1	1	1
CBO Reestimate	1	0	0	0	0	0
Resolution Trust Corporation						
CBO Baseline	8,725	2,800	0	0	0	0
CBO Reestimate	8,725	2,800	0	0	0	0
Credit Union Share Insurance Fund						
CBO Baseline	30	30	30	30	30	30
CBO Reestimate	30	30	30	30	30	30
Central Liquidity Facility						
CBO Baseline	153	160	173	194	227	277
CBO Reestimate	153	160	173	194	227	277

(Continued)

TABLE A-1. (Continued)

	1990	1991	1992	1993	1994	1995
Function 370: Commerce and Housing Credit (continued)						
Business Loan and Investment Fund						
CBO Baseline	75	77	81	84	87	91
CBO Reestimate	75	5	5	5	6	6
FHA Fund (Mutual mortgage)						
CBO Baseline	0	50	50	50	48	45
CBO Reestimate	0	47	47	47	47	43
FHA General and Special Risk Insurance Fund						
CBO Baseline	0	0	0	0	0	0
CBO Reestimate	3	3	3	3	3	3
Housing for the Elderly or Handicapped Fund						
CBO Baseline	473	492	511	532	553	575
CBO Reestimate	473	283	253	258	242	245
Function 400: Transportation						
Amtrak Corridor Improvement Loans						
CBO Baseline	3	4	4	4	4	4
CBO Reestimate	3	0	0	0	0	0
Right-of-Way Revolving Fund (Trust revolving fund)						
CBO Baseline	42	44	46	48	50	52
CBO Reestimate	42	48	48	48	48	48
Function 450: Community and Regional Development						
Rural Development Insurance Fund						
CBO Baseline	445	462	481	500	520	541
CBO Reestimate	445	346	296	296	246	221
Rural Telephone Bank						
CBO Baseline	177	184	192	199	207	215
CBO Reestimate	177	125	125	125	125	125

(Continued)

TABLE A-1. (Continued)

	1990	1991	1992	1993	1994	1995
Function 450: Community and Regional Development (continued)						
Rural Development Loan Fund						
CBO Baseline	19	20	21	22	23	23
CBO Reestimate	19	30	30	29	29	27
Revolving Fund for Loans						
CBO Baseline	13	9	9	9	15	15
CBO Reestimate	13	9	9	9	15	15
Disaster Loan Fund						
CBO Baseline	950	383	398	414	431	448
CBO Reestimate	950	285	296	308	318	328
Rehabilitation Loan Fund						
CBO Baseline	75	75	75	75	75	75
CBO Reestimate	75	0	0	0	0	0
Function 500: Education, Training, Employment, and Social Services						
College Housing and Academic Facilities						
CBO Baseline	30	31	32	34	35	37
CBO Reestimate	30	5	4	3	2	1
Function 600: Income Security						
Pension Benefit Guaranty Corporation Fund						
CBO Baseline	a	2	2	2	2	2
CBO Reestimate	a	2	2	2	2	2
Nonprofit Sponsor Assistance						
CBO Baseline	1	1	1	1	1	1
CBO Reestimate	1	1	1	1	1	1
Flexible Subsidy Fund						
CBO Baseline	50	60	60	60	60	60
CBO Reestimate	0	0	0	0	0	0
Nehemiah Housing Opportunity Fund						
CBO Baseline	24	25	26	27	28	29
CBO Reestimate	24	0	0	0	0	0

(Continued)

TABLE A-1. (Continued)

	1990	1991	1992	1993	1994	1995
Function 700: Veterans Benefits and Services						
Direct Loan Revolving Fund						
CBO Baseline	1	1	1	1	1	1
CBO Reestimate	1	0	0	0	0	0
Loan Guaranty Revolving Fund						
CBO Baseline	724	669	573	471	372	285
CBO Reestimate	724	581	471	378	295	226
Vocational Rehabilitation Revolving Fund						
CBO Baseline	1	1	1	1	2	2
CBO Reestimate	1	1	1	1	2	2
Education Loan Fund						
CBO Baseline	a	a	a	a	a	a
CBO Reestimate	a	a	a	a	a	a
Guaranty and Indemnity Fund						
CBO Baseline	0	4	37	93	163	225
CBO Reestimate	0	4	30	67	109	140

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

NOTE: EPA = Environmental Protection Agency; FHA = Federal Housing Administration.

a. Less than $500,000.

TABLE A-2. GUARANTEED LOAN COMMITMENTS IN THE CBO BASELINE AND IN THE PRESIDENT'S 1991 BUDGET AS ESTIMATED BY CBO (By fiscal year, in millions of dollars)

	1990	1991	1992	1993	1994	1995
Guaranteed Loan Commitments						
Function 150: International Affairs						
Foreign Military Sales Credit						
CBO Baseline	1,747	0	0	0	0	0
CBO Reestimate	1,747	0	0	0	0	0
Overseas Private Investment Corporation						
CBO Baseline	212	220	229	238	247	257
CBO Reestimate	212	185	192	200	206	213
Housing and Other Credit Guaranty Programs						
CBO Baseline	100	104	108	112	116	121
CBO Reestimate	100	100	100	100	100	100
Private Sector Revolving Fund						
CBO Baseline	91	95	99	102	107	111
CBO Reestimate	91	125	125	125	125	125
Export-Import Bank						
CBO Baseline	6,050	6,300	6,550	6,825	7,100	7,400
CBO Reestimate	6,050	6,300	6,550	6,825	7,100	7,400
Function 270: Energy						
Rural Electrification and Telephone Revolving Fund						
CBO Baseline	500	0	0	0	0	0
CBO Reestimate	500	1,100	1,150	1,200	1,250	1,280

(Continued)

TABLE A-2. (Continued)

	1990	1991	1992	1993	1994	1995
Guaranteed Loan Commitments (continued)						
Function 350: Agriculture						
Agricultural Credit Insurance Fund						
CBO Baseline	1,200	1,248	1,299	1,350	1,404	1,461
CBO Reestimate	1,200	1,248	1,299	1,350	1,404	1,461
Commodity Credit Corporation Fund						
CBO Baseline	5,300	5,300	5,300	5,300	5,300	5,300
CBO Reestimate	5,300	5,500	5,500	5,500	5,500	5,500
Farm Credit System Financial Assistance						
CBO Baseline	635	450	660	0	0	0
CBO Reestimate	635	450	660	0	0	0
Function 370: Commerce and Housing Credit						
Rural Housing Insurance Fund						
CBO Baseline	0	0	0	0	0	0
CBO Reestimate	0	594	694	744	794	844
Credit Union Share Insurance Fund						
CBO Baseline	1	1	1	1	1	1
CBO Reestimate	1	1	1	1	1	1
Federal Ship Financing Fund, Fishing Vessels						
CBO Baseline	100	104	108	113	117	122
CBO Reestimate	100	0	0	0	0	0
SBA Business Loan and Investment Fund						
CBO Baseline	4,118	4,396	4,574	4,757	4,947	5,145
CBO Reestimate	4,118	4,403	4,579	4,748	4,909	5,061
FHA Fund (Mutual mortgage)						
CBO Baseline	57,561	55,743	54,992	57,153	59,390	61,729
CBO Reestimate	57,561	49,747	51,685	53,532	55,445	56,688
FHA General and Special Risk Insurance Funds						
CBO Baseline	0	0	0	0	0	0
CBO Reestimate	0	9,006	9,121	9,445	9,780	10,131

(Continued)

TABLE A-2. (Continued)

	1990	1991	1992	1993	1994	1995
Guaranteed Loan Commitments (continued)						
Function 450: Community and Regional Development						
Rural Development Insurance Fund						
CBO Baseline	393	201	209	217	226	235
CBO Reestimate	393	100	150	175	200	225
Rural Telephone Bank						
CBO Baseline	0	0	0	0	0	0
CBO Reestimate	0	200	200	200	200	200
Economic Development Assistance Programs						
CBO Baseline	10	10	10	10	10	10
CBO Reestimate	35	0	0	0	0	0
Indian Loan Guaranty and Insurance Fund						
CBO Baseline	45	45	0	0	0	0
CBO Reestimate	45	45	45	45	45	45
Community Development Grants (Guarantees)						
CBO Baseline	142	147	153	159	166	173
CBO Reestimate	142	0	0	0	0	0
Function 500: Education, Training, Employment, and Social Services						
Guaranteed Student Loans						
CBO Baseline	12,640	12,810	13,490	13,845	14,015	14,115
CBO Reestimate	12,640	12,556	13,223	13,565	13,721	13,807

(Continued)

TABLE A-2. (Continued)

	1990	1991	1992	1993	1994	1995
Guaranteed Loan Commitments (continued)						
Function 550: Health						
Health Professions Graduate Student Loan Fund						
CBO Baseline	275	290	305	320	335	350
CBO Reestimate	275	185	120	60	50	25
Function 700: Veterans Benefits and Services						
Guaranty and Indemnity Fund						
CBO Baseline	10,898	14,906	15,305	15,729	16,172	16,615
CBO Reestimate	10,898	13,110	13,461	13,828	14,205	14,582
Loan Guaranty Revolving Fund						
CBO Baseline	4,424	743	670	587	501	420
CBO Reestimate	4,424	665	572	485	403	329
Secondary Guaranteed Loan Commitments						
Function 150: International Affairs						
Trade Credit Insurance Fund						
CBO Baseline	398	414	431	448	466	485
CBO Reestimate	398	400	400	0	0	0
Function 370: Commerce and Housing Credit						
Government National Mortgage Association						
CBO Baseline	81,714	84,982	88,414	91,927	95,604	99,445
CBO Reestimate	81,714	80,000	79,800	82,600	85,100	87,500

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.

a. Less than $500,000.

TABLE A-3. CREDIT PROGRAMS WITH ESTIMATES OF UNUSED BALANCE: CBO BASELINE AND PRESIDENT'S 1991 BUDGET AS ESTIMATED BY CBO (By fiscal year, in millions of dollars)

	1991	1992	1993	1994	1995
Direct Loans					
Agricultural Credit Insurance Fund					
CBO Baseline					
Ceiling	1,749	1,815	1,884	1,955	2,030
Est. of Unused Balance	-551	-573	-596	-620	-645
Difference	1,198	1,242	1,288	1,335	1,385
CBO Reestimate					
Ceiling	664	600	550	500	450
Est. of Unused Balance	0	0	0	0	0
Difference	664	600	550	500	450
Federal Housing Administration (Mutual mortgage)					
CBO Baseline					
Ceiling	91	94	98	102	106
Est. of Unused Balance	-41	-45	-49	-54	-61
Difference	50	50	50	48	45
CBO Reestimate					
Ceiling	124	168	212	212	212
Est. of Unused Balance	-76	-121	-165	-166	-169
Difference	47	47	47	47	43
Rural Development Loan Fund					
CBO Baseline					
Ceiling	20	21	22	23	23
Est. of Unused Balance	0	0	0	0	0
Difference	20	21	22	23	23
CBO Reestimate					
Ceiling	30	30	30	30	30
Est. of Unused Balance	0	0	-1	-2	-4
Difference	30	30	29	29	27
Direct Loan Revolving Fund					
CBO Baseline					
Ceiling	2	2	2	2	2
Est. of Unused Balance	-1	-1	-1	-1	-1
Difference	1	1	1	1	1
CBO Reestimate					
Ceiling	0	0	0	0	0
Est. of Unused Balance	0	0	0	0	0
Difference	0	0	0	0	0

(Continued)

TABLE A-3. (Continued)

	1991	1992	1993	1994	1995
		Guaranteed Loans			
Export-Import Bank					
CBO Baseline					
Ceiling	10,599	11,027	11,465	11,924	12,403
Est. of Unused Balance	-4,299	-4,477	-4,640	-4,824	-5,003
Difference	6,300	6,550	6,825	7,100	7,400
CBO Reestimate					
Ceiling	10,599	11,023	11,431	11,820	12,186
Est. of Unused Balance	-4,299	-4,473	-4,606	-4,720	-4,786
Difference	6,300	6,550	6,825	7,100	7,400
Agricultural Credit Insurance Fund					
CBO Baseline					
Ceiling	3,158	3,286	3,416	3,553	3,696
Est. of Unused Balance	-1,910	-1,987	-2,066	-2,149	-2,235
Difference	1,248	1,299	1,350	1,404	1,461
CBO Reestimate					
Ceiling	2,750	2,750	2,750	2,750	2,750
Est. of Unused Balance	-1,502	-1,451	-1,400	-1,346	-1,289
Difference	1,248	1,299	1,350	1,404	1,461
Federal Housing Administration (Mutual mortgage)					
CBO Baseline					
Ceiling	76,791	79,892	83,067	86,390	89,860
Est. of Unused Balance	-21,048	-24,900	-25,914	-27,000	-28,132
Difference	55,742	54,992	57,153	59,390	61,729
CBO Reestimate					
Ceiling	62,000	56,000	56,200	56,500	56,688
Est. of Unused Balance	-12,253	-4,315	-2,668	-1,055	0
Difference	49,747	51,685	53,532	55,445	56,688
Economic Development Assistance					
CBO Baseline					
Ceiling	195	203	211	219	228
Est. of Unused Balance	-185	-193	-201	-209	-218
Difference	10	10	10	10	10
CBO Reestimate					
Ceiling	0	0	0	0	0
Est. of Unused Balance	0	0	0	0	0
Difference	0	0	0	0	0

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget.