An Analysis of the President's Credit Budget for Fiscal Year 1985

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CONGRESS OF THE UNITED STATES CONGRESSIONAL BUDGET OFFICE

AN ANALYSIS OF THE PRESIDENT'S CREDIT BUDGET FOR FISCAL YEAR 1985

The Congress of the United States
Congressional Budget Office

NOTES

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

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

PREFACE

This Congressional Budget Office (CBO) analysis of the President's 1985 credit budget was prepared at the request of the House and Senate Budget Committees. It presents CBO's baseline credit budget projections together with CBO's reestimate of the President's credit budget proposals. The report also provides estimates of the savings in federal outlays that would result from the Administration's proposed credit budget reductions. Finally, it presents a function-by-function examination of the 1985 credit budget.

The paper was prepared by Richard P. Emery, Jr., Deirdre B. Phillips and Marvin M. Phaup of CBO's Budget Process Unit. The authors gratefully acknowledge the assistance of CBO's cost analysts in developing baseline credit budget projections, and the helpful comments of Robert W. Hartman. Robert L. Faherty edited the report, assisted by Nancy H. Brooks. Paula Gatens typed the several drafts and prepared the final manuscript for publication.

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SUMMARY

The President's credit budget for 1985 continues the Administration's efforts to constrain the credit activities of the federal government. The Administration argues that direct and guaranteed lending by the federal government, which grew rapidly during the second half of the 1970s, must be reduced in order to reduce the importance of government-assisted credit in capital markets. Reduced federal credit activities would also mean lower deficits in the unified budget.

The Congressional Budget Office (CBO) estimates that the Administration's credit proposals would hold annual new direct and guaranteed lending below the 1983 level for the next three years and would allow only modest increases during 1987-1989. This represents a reduction of more than $120 billion in total direct and guaranteed loans from the levels that would be reached under current polices as projected in the CBO credit baseline. New direct loan obligations would decrease from the 1983 actual level of $40.2 billion to $34.4 billion over the next five years, while primary guarantee commitments would be allowed to rise gradually from $97.9 billion in 1983 to $118.5 billion in 1989.

THE CREDIT BUDGET UNDER CURRENT POLICY

Over the past ten years direct loan obligations and primary loan guarantee commitments grew from a combined total of $48.5 billion in 1974 to $138.1 billion in 1983, almost a threefold increase. The Congressional Budget Act of 1974 did not establish formal procedures for control of these credit activities. The effort to do so began in 1981, when the Administration proposed and the Congress enacted a credit budget--setting targets for direct and guaranteed loan program levels for the first time. Since then the Congress has continued and expanded its attempts to control federal credit activities.

The First Concurrent Resolution on the Budget for Fiscal Year 1984 established credit budget targets for direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments for 1984; it also revised targets previously set for 1983 (see Summary Table 1). As part of the implementation of the credit budget, CBO tracked Congressional action on the credit budget and reported periodically to the Budget Committees on the status of the credit budget. CBO's current estimate for the credit budget for 1984 is shown in Summary Table 1. Direct loan obligations for 1984 are $4.0 billion below the resolution targets, and primary loan guarantees are $3.5 billion above the resolution targets.

SUMMARY TABLE 1. COMPARISON BETWEEN THE BUDGET RESOLUTION AND THE CURRENT ESTIMATE (By fiscal year, in billions of dollars)

	1983		1984	
	Budget Resolution	Actual	Budget Resolution	Current Estimate
New Direct Loan Obligations	48.7 a/	41.4	41.6 a/	37.6
New Primary Loan Guarantee Commitments	99.6	97.2	101.7	105.2
New Secondary Loan Guarantee Commitments	68.2	64.2	68.2	68.2

a. Budget resolution targets for new direct loan obligations have been revised to eliminate refinancing of maturing debt.

In order better to understand proposed policy changes in the credit budget, CBO has prepared baseline projections of federal credit program levels. Like other baseline projections, these show the levels of federal credit activity that would result if current policies were to remain in place. The limits set by appropriations actions for fiscal year 1984 are the base from which the majority of credit programs are projected. Exceptions to this rule are programs for which there are no appropriations limits (entitlements, defaults, and Federal Financing Bank transactions) and some programs for which the appropriations limits substantially exceed the actual level of obligations or commitments that the program will generate. For both of these exceptions, CBO used estimated obligations or commitments in 1984 as the base for projections.

Programs with obligations or commitments at the appropriations limit were inflated in the projections to keep the real activity constant; thus, the credit budget projections increase with the projected rise in prices. Programs with 1984 base levels lower than appropriations limits were inflated in a similar fashion. In cases where the projections would have exceeded existing authorization ceilings on lending activity, the authorization ceiling limited the baseline. Credit programs without appropriation limits were projected to be consistent with CBO's estimates of loan activity, defaults, economic conditions, and Federal Financing Bank (FFB) transactions for the individual accounts. In addition to the inflation rate, the major economic assumptions that affect baseline credit projections are interest rates, housing sales, farm prices, foreign exchange rates, and the demand for U.S. exports.

THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

The Administration proposes a credit budget for fiscal year 1985 of $135.3 billion in new lending, a reduction of $7.4 billion from the proposed 1984 current estimate. Compared with CBO's revised baseline projections, the Administration's proposal would reduce total new lending during 1984-1989 by $119.5 billion, or 12 percent. Direct loans would decrease by $44.1 billion during the 1984-1989 period, a cumulative six-year reduction of 18 percent from the CBO baseline projection. The level of primary loan guarantees rises slightly from 1984 to 1989 under the Administration's proposal. CBO's estimate of the Administration's policy proposals for primary guarantees represents a 10 percent reduction from the baseline projection for 1984-1989. Summary Table 2 shows changes in CBO's credit budget baseline projections proposed by the President's credit budget.

Administration proposals that would result in major changes from the CBO baseline are described below:

Foreign Military Sales Credit. The Administration proposes a credit program level for foreign military sales of $5.7 billion in 1984 and $5.1 billion in 1985. The decrease in the program level in 1985 reflects a shift from loans to grants, a reduction in the credit volume, but an increase in the amount of assistance (subsidy). The major policy change proposed for foreign military sales credit is a shift from guaranteed loans financed by the Federal Financing Bank at Treasury rates to loans made at concessional rates and to forgiven loans. This increased subsidy reflects the difficult economic conditions in Israel and Egypt and other recipient countries. The proposed credit program levels are $6.2 billion below the baseline estimates for the five-year period.

SUMMARY TABLE 2. CBO ESTIMATE OF ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988	1989
CBO Baseline							
Direct loan obligations	40.2	37.6	37.7	41.9	43.1	45.1	46.3
Primary guarantee commitments	97.9	105.2	111.6	117.9	124.6	131.0	136.7
Total, new lending	138.1	142.7	149.4	159.8	167.7	176.1	183.0
Secondary guarantees	64.2	68.2	71.4	74.6	77.5	80.3	82.6
Proposed Changes							
Direct loan obligations	---	0.6	-5.0	-7.5	-9.4	-10.9	-11.9
Primary guarantee commitments	---	-7.1	-9.1	-12.6	-13.9	-14.5	-18.1
Total, new lending	---	-6.5	-14.1	-20.1	-23.3	-25.4	-30.0
Secondary guarantees	---	---	-3.1	-6.3	-9.3	-12.0	-14.4
President's Budget as Estimated by CBO							
Direct loan obligations	40.2	38.1	32.7	34.4	33.7	34.2	34.4
Primary guarantee commitments	97.9	98.1	102.6	105.3	110.7	116.5	118.5
Total, new lending	138.1	136.2	135.3	139.7	144.4	150.7	152.9
Secondary guarantees	64.2	68.2	68.2	68.2	68.2	68.2	68.2

Export-Import Bank. The Administration proposes to continue direct and guaranteed loans of the Export-Import Bank at the level of the limits enacted for 1984 through the 1985-1989 period: $3.8 billion in direct loans and $10.0 billion in guaranteed loans annually. The requests exceed CBO's baseline estimates in 1984 and 1985, but fall short of the baseline from 1987 to 1989. CBO's lower estimates for 1984 and 1985 result from a combination of factors: the high-valued dollar, which is hurting all exports; and the economic conditions of the participating countries, many of which are still suffering from the economic recession.

Rural Electrification Administration (REA). The Administration has requested 1985 limits of $575 million in direct loans and $1.3 billion in guaranteed loans. Since REA guarantees are financed through the FFB, making them direct loans, the request is recorded as a $2.7 billion reduction in direct loans from the baseline. The Administration's request reflects a reduced demand for electrical power and lower energy prices, both of which have reduced the demand for power plant construction financing. The Administration assumes REA loan levels will be held at the 1985 level through 1989, a total reduction from the CBO baseline estimates of $14.8 billion.

Agriculture Credit Insurance Fund (ACIF). The Administration's request for ACIF farm operating and farm ownership loans will remain at approximately the 1984 level of $2.5 billion through 1989, a reduction of $1.8 billion from the baseline projection for the period.

Rural Housing Insurance Fund. The Administration proposed a limit of $2.3 billion for rural housing direct loans for 1985, a $1.0 billion cut from the 1984 enacted limit. Assistance to low-income individuals for purchasing homes and for low-income rural rental housing is to be reduced by approximately 25 percent. Unsubsidized housing assistance is to be terminated. Funding for rural housing insurance is to be held at the 1985 level through 1989. The Administration's proposal for rural housing is $7.3 billion below CBO's baseline estimate.

Federal Housing Administration (FHA). The Administration proposed a limit of $50.9 billion for FHA-insured mortgage loans for 1985, the level enacted in 1984, and assumed that the program limit will remain at this level through 1989. The Administration assumed that actual insurance commitments will increase gradually from $38.1 billion in 1984 to $49.0 billion in 1989. The Administration estimates are $50.8 billion below CBO's baseline projections for 1984-1989. The Administration included the acquisition of property in its direct loan estimates for FHA. Once the property is acquired the indebtedness is terminated. CBO has reduced the Administration's credit estimates to exclude the costs of property acquisition.

Government National Mortgage Association (GNMA) Mortgage-Backed Securities. The Administration requested a limitation of $68.2 billion for GNMA mortgage-backed securities, the level enacted in 1984. For 1985-1989, its estimates fall $34.3 billion short of the baseline.

SBA Business Loan Investment Fund (BLIF). The Administration's 1985 request for BLIF proposed the elimination of most on-budget direct loans and a phased reduction in loans guaranteed by the Small Business Administration (SBA) between 1985 and 1989. Priority for credit assistance would be given to handicapped and minority borrowers. The Administration's request is $2.5 billion below the baseline estimate for direct loans and $11.4 billion below the baseline estimate for guaranteed loans for 1984-1989.

SBA Disaster Loans. The Administration requested a limit of $440 million for SBA disaster loans for 1985, $0.3 billion below the baseline estimate. The baseline estimate is based on historical experience with natural disasters. The Administration's estimates are $2.2 billion below the baseline for 1984-1989.

VA Loan Guaranty and Revolving Fund. The Administration's 1985 budget proposes several changes in the operation of the Veterans Administration (VA) mortgage insurance progams that will reduce the direct loan volume below the baseline estimates. The most significant change would be the elimination of VA financing of the sale of real property owned by the agency--vendee loans. The Administration's request would result in a $3.1 billion reduction in baseline estimates for VA direct loans.

Programs Proposed to Be Terminated. The Administration has proposed the termination of ten direct loan programs and four loan guarantee programs between 1984 and 1989. Most of these programs are relatively small. The cumulative impact is to cut $5.2 billion from baseline direct loan estimates and $2.1 billion from baseline loan guarantee estimates over the projection period. The largest direct loan programs proposed for elimination are FFB financing for community development grant guarantees, student financial assistance, and loans to Washington, D.C. The two largest guarantee programs proposed for elimination are the industrial development guarantee program of the Rural Development Insurance Fund (RDIF) and the Economic Development Administration's guarantee programs.

As part of its analysis of the President's credit budget, CBO has reestimated the President's program to reflect CBO baseline economic assumptions and technical estimating methods. The net adjustment to direct loans is an increase of $254 million in 1984, $1.1 billion in 1985, and a total of $9.4 billion from 1984 through 1989. The CBO estimate of the Administration's loan guarantee program resulted in increases of $720 million in 1984, $3.7 billion in 1985, and a cumulative increase of $52.2 billion from 1984 to 1989.

IMPACT ON THE UNIFIED BUDGET

CBO estimates that the President's credit budget proposals will result in combined on- and off-budget outlay savings of approximately $1.8 billion in 1985 and $25.7 billion from 1985 through 1989 (see Summary Table 3). The cumulative outlay savings will be generated by a $113.0 billion cumulative reduction from baseline estimates of direct loan obligations and loan guarantee commitments. The budget deficit will be increased by additional on-budget outlays of $0.3 billion in 1985 and $9.1 billion over the projections period: an increase that will be more than offset by reductions in off-budget outlays. Treasury borrowing requirements--which include both on- and off-budget outlays--will be reduced by the combined on- and off-budget decrease.

SUMMARY TABLE 3. IMPACT ON THE UNIFIED BUDGET OF THE PRESIDENT'S PROPOSED CHANGES IN THE CREDIT BUDGET
(By fiscal year, in billions of dollars)

	1985	1986	1987	1988	1989	Cumulative Five-Year Changes
On-Budget Outlay Impact	0.3	1.5	2.4	2.5	2.3	9.1
Off-Budget Outlay Impact	-2.1	-5.7	-7.8	-9.1	-10.1	-34.8
Total	-1.8	-4.2	-5.3	-7.8	-26.0	-25.7

The proposed reduction of $113.0 billion in direct and guaranteed lending results in surprisingly small savings to the unified budget. While credit budget reductions can contribute to reducing the federal deficit, their contribution will probably not be large.

CHAPTER I. GROWTH AND CONTROL OF FEDERAL CREDIT

Federal credit activity, including both direct loans and loan guarantees, has grown in size and, consequently, in significance during the past two decades. Between 1970 and 1983, the annual volume of new loans and guarantees rose from $37 billion to $138 billion and total outstanding loans and guarantees increased from $176 billion to $587 billion. In 1982, the program level for new direct loans and guarantees was approximately equal to 17 percent of federal outlays and 4 percent of gross national product (GNP). This growth was driven by many factors including: inflation, which necessitated dollar increases to maintain constant real levels of credit activity; the perception that credit expansion could avoid many of the limits on spending imposed by the Congressional Budget Act of 1974; and the creation of the Federal Financing Bank in 1973, which allowed more than half the government's direct loans to be shifted off-budget.

The explosive growth of federal credit, especially in the 1970s, drew the concerned attention of the Congress. The earliest attempts at control involved traditional fiscal instruments: appropriations and, to a lesser extent, authorizing legislation. Appropriations acts impose annual limits on spending and credit program levels. For example, Federal Housing Administration (FHA) loan guarantee volume is subject to an annual upper limit specified in appropriations acts for the Department of Housing and Urban Development. Authorizing legislation is also used to control credit activity levels by defining eligibility standards. Beginning with the budget for 1981, however, efforts at control centered increasingly on the credit budget--a statement of target ceilings for direct loan obligations and new loan guarantee commitments included in the Congressional budget resolutions. Partly because of these procedures, total federal credit assistance has grown very little in nominal terms and has declined as a percent of GNP since 1979.

An essential element in the adoption of a credit budget is the baseline projection, which is a forecast of credit activity based on certain assumptions--namely, that the economy will perform in a specified way and that current policies will be continued unchanged. A comparison of the baseline with the President's budget (reestimated with baseline economic assumptions) isolates proposed policy changes. These are expressed in terms of differences in activity levels. For example, the Congressional Budget Office (CBO) baseline projection for new direct loan obligations in 1985 is $37.7 billion. The President's reestimated budget, however, is projected by

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CBO to result in 1985 loan obligations of $32.7 billion--a policy reduction of about 13 percent.

This chapter defines federal credit, discusses the economic significance and growth of federal credit, describes the budget control instruments available to the Congress, and provides CBO projections of federal credit activity under current policy for 1984-1989.

WHAT IS FEDERAL CREDIT?

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

The credit budget does not include the lending of privately owned government-sponsored enterprises (for example, the Federal National Mortgage Association, the Farm Credit System, and the Student Loan Marketing Association). These enterprises were established by the government to develop secondary markets for housing, agriculture, and student loans in an effort to improve liquidity for primary lenders by making their loans more attractive to a broader range of investors. The loans of these organizations are not guaranteed by the government, but are perceived to have the moral and political backing of the government.

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

THE NEED FOR THE CREDIT BUDGET

Federal credit activities have consequences far beyond their effects on the budget deficit. They tend to shift loans from one group of borrowers to another, or to maintain financing for activities for which the loans would not otherwise be available, or to put resources to work that would otherwise be temporarily idle.

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

In its direct loan programs, the federal government utilizes its premier standing in the credit markets to borrow at a risk-free rate and lend to selected borrowers at a lower rate than the borrowers could have obtained on their own. If the government loan goes to a borrower who would not otherwise have obtained the funds, another potential borrower may be denied credit.

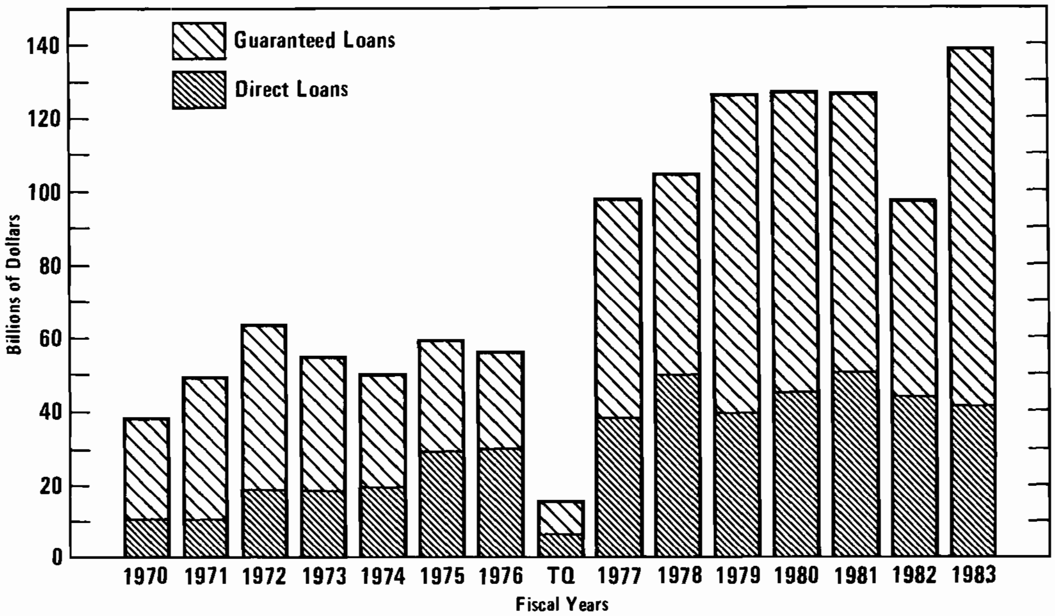
Loan guarantees are similar in effect to direct loans. By assuming a large share of default risk, the government can move resources into uses that would otherwise be regarded as too risky to qualify for financing on "reasonable terms." A federal loan guarantee does not reduce the real risk involved in a project or activity. Instead, it shifts the burden of risk from lenders to the government. Since guarantees place some unaided borrowers at the end of the queue, the net effect on productivity and economic growth depends on the relative value of the supported and unsupported activities and on how much reallocation of credit results from federal intervention. Most federal financial assistance has been directed toward increasing the flow of credit into housing, agriculture, and troubled industries with low earnings.

The credit budget is intended to make visible the resource flow allocated by direct loan and loan guarantee programs of the federal government. The credit budget does not measure the social benefits or costs of federal loan programs; it does provide a structure for reviewing the total volume of direct and guaranteed loans extended within a fiscal year.

GROWTH OF CREDIT

Direct loan obligations and loan guarantee commitments have increased substantially over the past decade. Figure I-1 shows annual federal credit activity for 1970 through 1983. In absolute terms, loan guarantees increased far more than have direct loans between 1970 and 1983, but both direct loan obligations and loan guarantee commitments almost quadrupled in volume.

Figure I-1.
Annual Federal Credit Activity



Factors affecting the growth of federal credit included:

- o Inflation during the 1970s decreased the real value of the dollar and increased the nominal value of individual loans. Real federal credit increased 58 percent from 1970 to 1983.
- o The interest rates for many federal credit programs were fixed by statute at relatively low rates. The high market rates during the late 1970s made these fixed-rate loans more valuable.
- o The Budget Act of 1974 put increased emphasis on controlling spending and increased the appeal of off-budget direct loans and of guaranteed loans, which were excluded from the budget and perceived to be a largely costless form of federal assistance.

- Creation of the Federal Financing Bank (FFB) in 1973 allowed \$88.2 billion in new lending to be shifted off-budget and \$58.3 billion to be converted from agency guarantees to off-budget direct loans over the period. Net off-budget outlays of \$107.1 billion were recorded for the FFB for the period.

- The growth in program levels began to level off during the 1980s in part because of the Administration's policy and in part, possibly, because the credit budget was implemented beginning in 1981.

Table I-1 provides the historical data on which Figure I-1 is based. The lower figures for direct loan obligations and loan guarantee commitments in 1982 reflect the recession rather than credit budget controls. Secondary guarantees, which almost consist entirely of the

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

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

SOURCE: Budget of the United States Government, Special Analyses on Federal Credit, 1972-1985.

Government National Mortgage Association (GNMA) mortgage-backed securities, are guarantees of Veterans Administration (VA) and FHA mortgages that grow at approximately the same rates as the underlying insurance programs. Growth in outstanding direct loans and loan guarantees has slowed in the last few years as borrowers have begun to repay the high volume of new loans and guarantees extended in the late 1970s.

CONGRESSIONAL ACTION ON CREDIT

The Congress takes actions that affect the credit budget in all three major categories of legislation: budget resolutions, authorizations, and appropriations. Budget resolutions for four fiscal years have included language setting the limits on the credit budget. The resolution for fiscal year 1983 included potentially binding credit budget targets; the language for 1984 was less restrictive. Since the initial efforts at credit budgeting beginning with the 1981 budget, appropriations bills have expanded the number of programs covered by annual credit program limits. Some credit programs, however, retain open-ended authorizations that do not require appropriations. This section reviews the recent actions of the Congress on the credit budget and concludes with CBO's current estimate for the 1984 credit budget and the baseline projections for 1985-1989.

Credit Budget Process

During the past two sessions, the Congress has considered formal changes in the Congressional budget process to include the credit budget. Legislation implementing various credit budget procedures has been introduced in both the House and the Senate. In the second session of the 97th Congress, the Senate Budget Committee established a temporary subcommittee on federal credit chaired by Senator Gorton. This subcommittee recommended that government lending activities be permanently integrated in the Congressional budget process and that the executive branch report more frequently on actual direct loan obligations and loan guarantee commitments, standardize information on defaults, terminate the treatment of defaulted loan guarantees as new direct loans, and adopt legislation that would attribute the budget authority and outlays of the Federal Financing Bank to the agency effecting the credit transaction. At the beginning of the 98th Congress, Senator Gorton (for himself as well as Senators Metzenbaum, Percy, Moynihan, and Proxmire) introduced the Federal Credit Control Act of 1984 to implement these proposals. In the House, Congressmen Mineta and Bethune introduced the Federal Lending and Oversight Control bill to amend Titles III and IV of the Congressional Budget Act to incorporate credit in the budget process. Senators Trible and Proxmire and Congressman Gradison sponsored bills that required the inclusion of the transactions of the Federal Financing Bank in the budget totals.

The Task Force on the Budget Process of the House Committee on Rules, chaired by Congressman Beilenson, has adopted recommendations that would fully incorporate credit into the budget process. Aggregate direct loan obligations and loan guarantee commitments would be included in the budget resolution, with allocations according to budget function; allocations among the committees of jurisdiction would also be required. Under the proposal, legislation exceeding the resolution targets would be out of order. The Task Force also recommends the continued use of appropriations limitations on all credit programs currently limited and on all new credit programs.

Credit in the Budget Resolution

The budget resolution for 1983 set nonbinding targets for direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments for 1983, and revised those previously set for 1982. It further allocated these targets among the budget functions. The targets were provided for 1982 and 1983, but not beyond. This resolution went beyond previous Congressional action on the credit budget in several respects:

- First, it limited newly enacted credit authorizations to be effective only to the extent provided in appropriations bills.
- Second, it applied point-of-order enforcement on second resolution ceilings for the credit budget. In the past, only aggregate nonbinding targets had been set.
- Third, it required the Budget Committees to allocate the credit budget to appropriation and authorizing committees, and the committees of jurisdiction to allocate the credit budget in nonbinding terms among major programs or subcommittees.

The budget resolution for 1984 included credit targets for 1983 through 1986. The resolution established a reserve to be available for new initiatives in domestic programs. This affected three credit programs: agriculture credit insurance fund, emergency mortgage foreclosure relief, and a National Industrial Development Bank. The functional allocations--with and without the reserve--specified direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments. The conference report on the resolution included tables showing the House and

Senate versions and conference substitute aggregate credit levels. The general provisions to the resolution included "sense of the Congress language" that the levels of direct loan obligations and primary loan guarantee commitments specified should be considered binding. The provisions also specified that borrowing by federal agencies be restricted to the FFB to the maximum extent possible and that the appropriate committees of jurisdiction consider legislation revising the treatment of the FFB (see Chapter III). The resolution for 1984 did not include formal provisions comparable to those adopted for 1983 to make the credit budget binding.

Limitations on Obligations and Commitments

Appropriations limits are the effective control mechanism for the credit budget, with 18 major programs limited by appropriations. Four appropriations bills contain the majority of these programs: Agriculture and Related Agencies, HUD-Independent Agencies, Commerce-Justice and Related Agencies, and Foreign Operations. Table I-2 summarizes these limitations.

A review of the actual direct loan obligations and loan guarantee commitments for the past few years shows large gaps between program limits and the actual obligations and commitments for a substantial number of programs. In some cases, the shortfall in program level resulted from the recession. This was particularly true for the loan guarantees of the Federal Housing Administration and GNMA guarantees of mortgage-backed securities. In the case of the Export-Import Bank, the shortfall resulted in part from the worldwide economic recession reflected in the depressed market for commercial aircraft and power plant equipment, and from the overall strength of the dollar which made U.S. exports relatively more expensive. The Rural Electrification Administration (REA) did not make loan guarantee commitments up to the appropriated floor level of $4.1 billion in 1983, reflecting the lower demand for new sources of electricity, the higher cost of construction, and lower projected returns attributable to falling energy prices.

Limitations have also been set above realistic projections of program levels. This appears to have occurred in the Commodity Credit Corporation direct export loan program. The program level was from $1.5 billion to $2.2 billion below the appropriated limits enacted for the years 1980 to 1982. Although a lack of demand for home mortgages has restricted the FHA loan guarantee volume in the past two years, the limitation set by the Congress exceeded the actual commitment by more than $20 billion in 1981 and 1982. Similarly, the shortfall in expected commitments of the REA, while in part

TABLE I-2. MAJOR PROGRAM LIMITATIONS (By fiscal year, in millions of dollars)

Program	Enacted 1983	Enacted 1984	Proposed 1985
Direct Loans			
Foreign Military Sales Credit	1,175	1,315	5,115
Export-Import Bank	4,400	3,865	3,830
Rural Electrication Administration	1,425	1,425	575
Agriculture Credit Insurance Fund	2,499	2,582	2,544
Commodity Credit Corporation price supports	500	100	---
Rural Housing Insurance Fund	3,314	3,285	2,320
Housing for the elderly and handicapped	634	666	500
GNMA Special Assistance Functions Fund	500	---	---
Rural Development Insurance Fund	730	400	350
Rural Telephone Bank	220	220	185
Other	359	151	1,359
Total	15,757	14,009	16,778
Loan Guarantees			
Foreign Military Sales Credit	3,932	4,401	---
Overseas Private Investment Corp.	100	100	150
Housing and other guaranty credit	150	150	150
Export-Import Bank	9,000	10,000	10,000
Rural Electrification Administration	5,950	4,145	1,325
Agriculture Credit Insurance Fund	181	156	206
SBA pollution control	250	---	150
FHA mortgage assistance	50,900	50,900	50,900
Railroad rehabilitation	100	20	---
Rural Development Insurance Fund	300	300	---
EDA guarantees	167	150	---
Community development guarantees	225	225	---
Other	151	872	4,732
Total	71,406	71,419	67,613
Secondary Guarantees			
GNMA mortgage-backed securities	68,250	68,250	68,250

due to lower demand for new electrical power, may also be due to inflated appropriation limitations. In both 1982 and 1983, the limitation was $6.0 billion. Actual commitments were beneath this ceiling by $1.3 billion in 1982 and $2.5 billion in 1983. Table I-3 shows the shortfall by major programs for 1979 through 1983. CBO's current estimate for 1984 assumes that a number of programs will not reach the levels established by the limits.

CBO Current Estimate for 1984

Sources of Credit Program Levels. The credit program levels that make up the credit budget are determined by different types of Congressional action, a majority of which are in the jurisdiction of the Appropriations Committees. The most direct controls are the annual appropriations

TABLE I-3. SHORTFALL FROM MAJOR PROGRAM LIMITATIONS (By fiscal year, in millions of dollars)

Program	1979	1980	1981	1982	1983
Direct Loans					
Agriculture Credit Insurance Fund	590	419	82	264	63
Rural Housing Insurance Fund	9	249	465	545	426
Rural Electrification and Telephone Revolving Fund	---	75	325	326	325
Rural Telephone Bank	---	931	60	35	48
Commodity Credit Corporation Export Loans	672	1,481	2,178	2,154	295
Export-Import Bank	---	---	30	884	3,555
FHA mortgage assistance	---	---	---	76	45
Loan Guarantees					
Rural Development Insurance Fund	--	---	109	472	218
Rural Electrification and Telephone Revolving Fund	---	---	---	1,288	2,508
SBA pollution control	---	---	---	200	242
SBA Business Loan Investment Fund	---	---	---	1,281	---
Export-Import Bank	---	---	7,416	3,388	476
FHA mortgage assistance	---	---	23,635	21,424	6,289
GNMA mortgage-backed securities	---	---	21,850	31,868	4,025
EDA guarantees	---	---	443	---	164

limits. Even before the advent of the credit budget, the Appropriations Committees set limits on Farmers Home Administration (FmHA) new direct loan obligations and new loan guarantee commitments. After the credit budget was initiated, the Administration began to submit proposed appropriations limits for an expanded group of programs as part of its credit budgets. As shown in Table I-4, 37 percent of the 1984 current estimate for direct loan obligations and 70 percent for loan guarantee commitments were established by appropriations limits. Loan levels for a limited number of programs--for example, Public Law 480, the Food for Peace program--are determined directly by appropriations of budget authority. Credit program levels determined by budget authority amount to $0.8 billion of the 1984 current estimate. The appropriations limits on program levels also indirectly control the volume of FmHA and REA loan assets and related guarantees and the volume of some guarantees sold to the FFB--for example, those of REA and the foreign military sales credit program.

The levels of other credit programs are determined both by program characteristics established in authorizing statutes and by program levels set in appropriations bills. The volume of direct loans for defaulting guarantees for the foreign military sales credit program, for example, is influenced by appropriations limits on loan volume and by authorizations that specify eligible borrowers. Finally, in a limited number of credit programs, the loan levels are determined by the program authorization. Because Veterans Administration loan guarantees are available to any qualified veteran, loan volume is determined by demand.

Appropriations limitations enacted for 1984 are the primary basis of CBO's current estimate. In three accounts, however, REA, Rural Telephone Bank, and Eximbank, CBO estimates loan volume will be lower than the limitations set for 1984. In all three cases, the 1983 actuals were significantly below the appropriated limits for that year. CBO's lower estimates are based on the anticipated continuation of the trend in demand for these programs. The current estimate for 1984 serves as the starting point for the baseline credit budget projections in this report.

1984 Current Estimate Compared to Budget Resolution. CBO's current estimate for new direct loan obligations in 1984 is $37.6 billion, $10.3 billion below the budget resolution target. The difference is primarily due to a $2.9 billion reduction from 1983 in the Export-Import Bank, and a $6.2 billion accounting change in Tennessee Valley Authority (TVA) direct loans that excludes rollovers of existing TVA loans from the totals. The VA loan guaranty revolving fund estimate, however, is $0.5 billion higher than 1983 in direct loans. The current estimate for new loan guarantee commitments in 1984 is $105.2 billion, $3.5 billion higher than the budget resolution. The

TABLE I-4. SOURCES OF CREDIT PROGRAM LEVELS
(By fiscal year, in billions of dollars)

	1983 Actual	1984 Budget Resolution	1984 Current Estimate
Direct Loans			
Annual appropriations limits	14.1	16.0	14.1
Unused balance of limitations	-4.8	---	2.8
Appropriation of budget authority	0.8	0.8	0.8
Repurchase of maturing loan assets a/	(6.7)	(6.7)	(10.3)
Sale of agency loan assets to the FFB a/	(10.0)	(13.9)	(15.2)
Sale of agency-guaranteed securities to the FFB	8.8	15.4	8.8
Defaulting loan guarantees	4.5	2.4	5.2
Unrestricted program authorizations	16.8	13.3	11.6
Gross direct loan obligations	40.2	47.9	37.6
Loan Guarantees			
Annual appropriations limits	139.7	132.7	139.7
Unused balance of limitation	-14.4	---	-5.2
Guarantees of agency loan asset sales to FFB	10.0	13.9	15.2
Unrestricted program authorizations	45.6	52.8	47.7
Gross loan guarantee commitments	180.9	199.4	197.5
Adjustments to exclude intra-governmental transactions			
Secondary guarantees	-64.2	-68.3	-68.3
Guarantees of direct loans	-18.8	-29.4	-24.0
Primary guarantees	97.9	101.7	105.2

a. Amounts in parentheses are intragovernmental transactions not included in the credit budget totals.

difference is primarily due to a $9.7 billion increase in VA mortgage guarantees. Reductions from the resolution include $1.6 billion in Eximbank and $0.3 billion in the REA. The estimate for secondary guarantees has not changed. Table I-5 provides a comparison between the budget resolution credit aggregates and CBO's current estimates.

TABLE I-5. COMPARISON OF THE BUDGET RESOLUTION TOTALS AND THE CURRENT ESTIMATE (By fiscal year, in billions of dollars)

	1983		1984	
	Budget Resolution	Actual	Budget Resolution	Current Estimate
New Direct Loan Obligations	54.3	40.2	47.9	37.6
New Primary Loan Guarantee Commitments	99.6	97.9	101.7	105.2
New Secondary Loan Guarantee Commitments	68.3	64.2	68.3	68.3

1984 Current Estimate Compared to 1983 Actual. Table I-6 shows the major changes between 1983 actuals and CBO's current estimate for 1984. Total direct loan obligations in 1984 are currently estimated at $37.6 billion, $2.6 billion below the 1983 actual level. The largest reductions from 1983 levels are expected in the Commodity Credit Corporation ($6.3 billion) and the Federal Housing Administration ($1.0 billion). In the CCC program, large harvests in 1982 and 1983 resulted in increased demand for price support loans. The effects of the payment-in-kind program and recent drought have increased farm prices, resulting in reduced demand for price support loans in 1984. The FHA program experienced large numbers of home mortgage defaults in 1983 that are expected to decrease in 1984. Increases from the actual levels are expected in disaster loans, foreign military sales direct and FFB-financed loans, and low-rent public housing.

TABLE I-6. MAJOR CHANGES IN THE CREDIT BUDGET BETWEEN 1983 AND 1984 (In millions of dollars)

Major Programs	1983 Actual	1984 Current Estimate	Change
Direct Loans			
Foreign Military Sales Credit	1,175	1,315	+140
FFB Foreign Military Sales Credit	3,932	4,401	+469
Agriculture Credit Insurance Fund	3,022	4,947	+1,925
Rural Housing Insurance Fund	2,952	3,309	+357
Amtrak	---	880	+880
Rural Development Insurance Fund	744	410	-334
VA Loan Guaranty Revolving Fund	923	1,192	+269
GNMA Special Assistance Functions Fund	500	---	-500
SBA Disaster Loan Fund	198	762	+564
Export-Import Bank	845	1,355	+510
Commodity Credit Corporation	13,915	6,231	-7,684
Aircraft purchase guarantees	153	---	-153
Community development guarantees	61	180	+119
Low-rent public housing	247	1,000	+753
Other	---	---	---
Total Direct Loan Obligations	40,197	37,573	-2,624
Loan Guarantees			
CCC Export Guarantees	4,669	4,000	-669
FHA mortgage assistance	44,611	46,574	+1,963
GNMA mortgage-backed securities a/	(64,223)	(68,250)	(+4,025)
Agriculture Credit Insurance Fund	70	706	+636
Federal Ship Financing	322	450	+128
SBA pollution control	8	250	+242
Low-rent public housing	14,261	14,709	+448
VA Loan Guaranty Revolving Fund	15,354	18,650	+3,296
Other	---	---	---
Primary Guarantees	97,904	105,172	+7,267

a. Amounts in parentheses are intragovernmental transactions not included in the credit budget totals.

Total loan guarantee commitments are expected to increase by $7.3 billion in 1983 to $105.2 billion in 1984. The largest increases are in FHA mortgage assistance ($2.0 billion) and VA home mortgage assistance ($4.0 billion). The demand for housing loans is expected to increase because of the economic recovery. Actuals for 1983 for FHA and VA housing have been adjusted to be consistent with CBO's baseline projections (see Chapter IV).

BASELINE CREDIT PROJECTIONS

Both CBO and the Administration have provided credit projections for 1986-1989. The Administration's projections reflect policy changes proposed by the President for 1984 and 1985 in his January budget. The CBO credit budget baseline, like CBO's unified and off-budget baseline projections, shows the level of federal activity that would result if current policies were to remain in place. The limits set by the House and Senate Appropriations Committees for fiscal year 1984 are the base from which the majority of credit programs are projected. For programs that have no appropriations limits (entitlements, defaults, and FFB transactions) and some programs for which the appropriations limits are above the actual level of obligations or commitments, CBO's estimates of program obligations or commitments were used as the base for projections.

Programs with obligations or commitments at the appropriations limit were inflated, keeping the program constant in real terms. Programs with 1984 base levels lower than appropriations limits were inflated in a similar fashion. In cases where the projections would have exceeded existing authorization ceilings on lending activity, the authorization ceiling limited the baseline. Credit programs without appropriations limits were projected to be consistent with CBO's estimates of loan activity, defaults, economic conditions, or FFB transactions for the individual accounts. In addition to the inflation rate, the major economic assumptions that affect baseline credit projections are interest rates, housing sales, and farm prices.

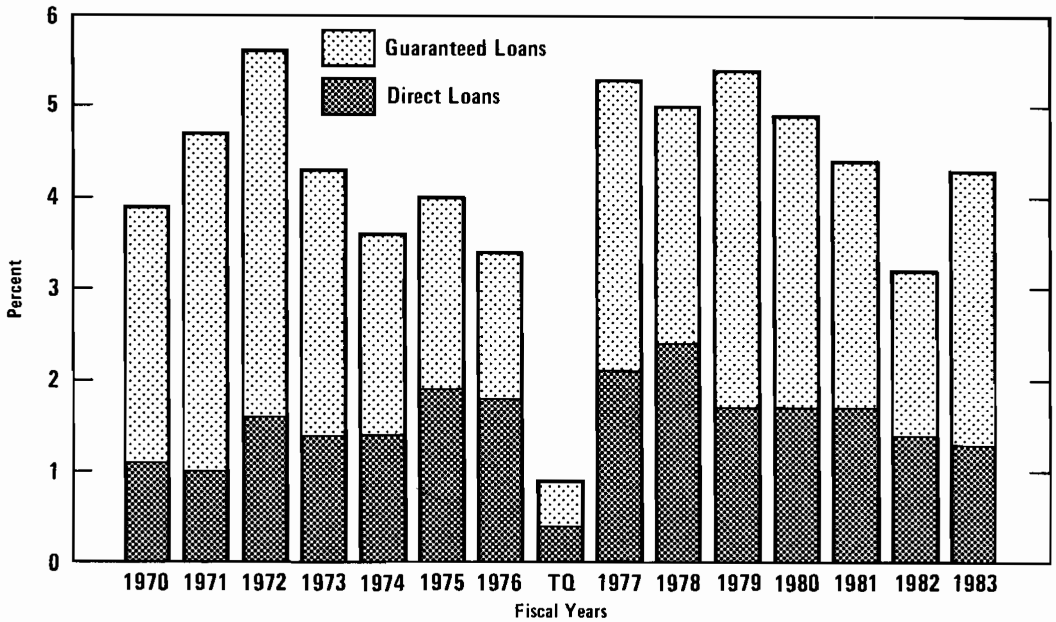
The baseline credit budget projections used in this report have been revised from those in CBO's Baseline Budget Projections for Fiscal Years 1985-1989 published in February 1984. Adjustments have been made to baseline estimates for credit program levels that are affected by administrative action to reflect administrative changes announced in the President's budget for fiscal year 1985. Table I-7 shows the reestimates of the baseline projections.

CBO's baseline projections show net direct loan obligations and primary loan guarantee commitments rising from a total of $142.7 billion in 1984 to $183.0 billion in 1989, for an average annual increase of 6 percent.

TABLE I-7. BASELINE CREDIT PROJECTIONS (By fiscal year, in billions of dollars)

Program	1984 Base	Projections 1985	1986	1987	1988	1989
Direct Loans						
February Baseline	39.2	39.3	41.9	43.6	45.4	46.8
Commodity Credit Corp.	-1.6	-0.7	0.5	0.1	-0.1	0.1
Central liquidity facility	0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Amtrak	0.8	---	---	---	---	---
SBA disaster loans	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3
Guaranteed student loans	0.1	0.1	0.2	0.2	0.2	0.2
Other	-0.6	---	-0.3	-0.5	---	-0.4
Revised baseline	37.6	37.7	41.9	43.1	45.1	46.3
Loan Guarantees						
February Baseline	108.1	115.7	123.3	129.8	136.1	142.5
Commodity Credit Corp.	1.0	-0.1	-0.3	-0.4	-0.5	-0.6
Federal Housing Admin.	-4.3	-4.2	-4.8	-5.0	-5.2	-5.5
SBA Business Loan Investment Fund	0.4	0.5	0.5	0.6	0.6	0.7
Guaranteed student loans	0.2	0.6	0.8	1.0	1.1	1.1
Loan Guarantee Revolving Fund	-0.4	-0.6	-1.3	-1.0	-0.6	-0.8
Other	0.2	-0.2	-0.3	-0.3	-0.3	-0.4
Revised baseline	104.2	111.8	118.2	125.0	131.5	137.3
Total	142.7	149.4	159.8	167.7	176.1	183.6
Secondary Guarantees	68.3	71.4	74.6	77.5	80.3	82.6
Revised Baseline as a Percent of GNP						
New direct loan obligations	1.0	0.9	1.0	0.9	0.9	0.8
Primary loan guarantee commitments	2.8	2.8	2.7	2.7	2.6	2.5
Secondary guarantees	1.9	1.8	1.7	1.6	1.6	1.5

Figure I-2.
Federal Lending as a Percent of GNP



The projected increase is mostly for primary loan guarantee commitments, which rise from $105.2 billion in 1984 to $136.7 billion in 1989. Direct loan obligations increase from $37.6 billion to $46.3 billion during the period.

While projected federal credit activity rises in absolute terms, it declines as a percentage of GNP between 1984 and 1989. GNP is projected to grow 51 percent from 1984 to 1989, while credit activity is projected to rise only 28 percent. This trend is in contrast to the 1973-1982 period, when GNP doubled and credit activity tripled. Figure I-2 shows credit as a percentage of GNP. Net direct loan obligations fall from 1.0 percent of GNP in 1984 to 0.8 percent in 1989. Primary loan guarantees fall from 2.8 percent of GNP in 1984 to 2.5 percent in 1989.

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CHAPTER II. THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

The Administration's credit budget proposal for fiscal year 1985 continues the efforts initiated in the 1982 budget to reduce federal credit activities. It would finance $135.3 billion in new lending, a reduction of $7.4 billion from the 1984 current estimate. Compared to CBO's revised baseline projections presented in Chapter I, the Administration's credit budget would reduce total new lending during 1985-1989 by $113.0 billion or 14 percent. Direct loans would average about $34 billion annually throughout the five-year period. This would be $44.7 billion below the CBO baseline projections and would represent a reduction of 21 percent. Primary loan guarantees would increase only slightly by 1989. This would represent an 11 percent reduction from the baseline projections for 1985-1989. Table II-1 shows changes to the CBO credit budget baseline projections proposed by the President's credit budget.

Direct loan obligations would fall slightly in 1984, but be cut by 14 percent in 1985 from a baseline estimate of $37.7 billion to $32.7 billion. For primary guarantees, the Administration proposes cuts of $7.1 billion in 1984 and $9.1 billion in 1985. Through 1989, most federal lending programs would be held at 1984 levels, reduced, or terminated.

MAJOR CHANGES IN 1985

The Administration's proposals for 1985 call for reductions in most federal credit programs. Table II-2 shows the major changes made in the CBO baseline by the President's credit budget. The Administration held its estimates for most programs in 1986-1989 at 1985 levels, in contrast to the CBO baseline estimates which are adjusted to maintain constant real program levels.

Administration proposals that would result in major changes from the CBO baseline are described briefly below:

Foreign Military Sales Credit (FMSC). Currently loans are made to foreign countries for the purchase of defense articles and services. Approximately 80 percent of these loans are guaranteed by the Department of Defense and made by the FFB at Treasury interest rates; the remainder are direct loans made at concessional rates or forgiven. The Administration proposes to eliminate the FFB Treasury rate loans and to increase conces-

TABLE II-1. CBO ESTIMATE OF ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988	1989
CBO Baseline							
Direct loan obligations	40.2	37.6	37.7	41.9	43.1	45.1	46.3
Primary guarantee commitments	97.9	105.2	111.6	117.9	124.6	131.0	136.7
Total, new lending	138.1	142.7	149.4	159.8	167.7	176.1	183.0
Secondary guarantees	64.2	68.2	71.4	74.6	77.5	80.3	82.6
Proposed Changes							
Direct loan obligations	---	0.6	-5.0	-7.5	-9.4	-10.9	-11.9
Primary guarantee commitments	---	-7.1	-9.1	-12.6	-13.9	-14.5	-18.1
Total, new lending	---	-6.5	-14.1	-20.1	-23.3	-25.4	-30.0
Secondary guarantees	---	---	-3.1	-6.3	-9.3	-12.0	-14.4
President's Budget as Estimated by CBO							
Direct loan obligations	40.2	38.1	32.7	34.4	33.7	34.2	34.4
Primary guarantee commitments	97.9	98.1	102.6	105.3	110.7	116.5	118.5
Total, new lending	138.1	136.2	135.3	139.7	144.4	150.7	152.9
Secondary guarantees	64.2	68.2	68.2	68.2	68.2	68.2	68.2

proposes to eliminate the FFB Treasury rate loans and to increase concessional rate loans. Total FMSC lending would increase gradually through 1989. The request is $6.2 billion below baseline estimates for the five-year period.

Export-Import Bank. The Administration proposes to continue direct and guaranteed loans of the Export-Import Bank at the level of the limits enacted for 1984 through the 1985-1989 period: $3.8 billion in direct loans and $10.0 billion in guaranteed loans annually. The requests exceed CBO's baseline estimates in 1984 and 1985, but fall short of the baseline from 1987 to 1989. CBO's lower estimates for 1984 and 1985 result from a combination of factors: the high-valued dollar, which is hurting all exports; and the economic conditions of the participating countries, many of which are still suffering from the economic recession.

Rural Electrification Administration (REA). The Administration has requested 1985 limits of $575 million in direct loans and $1.3 billion in guaranteed loans. Since all REA transactions are financed through the FFB, the request is recorded as a $2.7 billion reduction in direct loans from the baseline. The Administration's request reflects a reduced demand for electrical power and lower energy prices, both of which have reduced the demand for power plant construction financing. The Administration assumes REA loan levels will be held at the 1985 level through 1989, a total reduction from the CBO baseline estimates of $14.8 billion.

Agriculture Credit Insurance Fund (ACIF). The Administration's request for ACIF farm operating and farm ownership loans will remain at approximately the 1984 level of $2.5 billion through 1989, a reduction of $1.8 billion from the baseline projections for the period.

Rural Housing Insurance Fund (RHIF). Currently RHIF supports direct loans of $3.3 billion in 1984; home purchases and assistance for low-income borrowers of $3.0 billion; and $231 million for unsubsidized borrowers. The Administration proposed a limit of $2.3 billion for rural housing direct loans for 1985, a $1.0 billion cut from the 1984 enacted limit. Assistance to low-income individuals for purchasing homes and for low-income rural rental housing is to be reduced by approximately 25 percent. Unsubsidized housing assistance is to be terminated. Funding for rural housing insurance is to be held at the 1985 level through 1989. The Administration's proposal for rural housing is $6.9 billion below CBO's baseline estimate.

Federal Housing Administration (FHA). The Administration proposed a limit of $50.9 billion for FHA-insured mortgage loans for 1985, the level enacted in 1984, and assumed that the program limit will remain at this level through 1989. The Administration assumed that actual insurance commitments will increase gradually from $38.1 billion in 1984 to $49.0 billion in 1989. The Administration estimates are $50.8 billion below CBO's baseline projections for 1984-1989. This reduction from the baseline is because of the Administration's assumption that private markets will absorb a larger proportion of housing finance needs in the future.

Government National Mortgage Association (GNMA) Mortgage-Backed Securities. The Administration requested a limitation of $68.2 billion for GNMA mortgage-backed securities, the level enacted in 1984. For 1985-1989, its estimates fall $45.1 billion short of the baseline. The Administration assumes growth in private secondary markets for housing.

TABLE II-2. MAJOR CHANGES IN THE CBO BASELINE MADE BY THE PRESIDENT'S CREDIT BUDGET (By fiscal year, in billions of dollars)

Major Programs	1984	1985	1986	1987	1988	1989
Direct Loans						
CBO baseline	37.6	37.7	41.9	43.1	45.1	46.3
Proposed changes						
Foreign Military Sales Credit a/	---	-0.9	-1.1	-1.2	-1.4	-1.6
Export-Import Bank	1.2	1.3	---	-0.6	-0.8	-1.0
Rural Electrification Administration a/	*	-2.7	-2.8	-2.9	-3.1	-3.3
Agriculture Credit Insurance Fund	---	-0.1	-0.2	-0.4	-0.5	-0.6
Commodity Credit Corporation	0.9	0.4	*	-0.4	-0.3	-0.3
Rural Housing Insurance Fund	---	-1.1	-1.3	-1.5	-1.6	-1.8
SBA Business Loan Investment Fund	-0.1	-0.3	-0.3	-0.5	-0.6	-0.7
SBA Disaster Loan Fund	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4
VA Loan Guaranty Revolving Fund	-0.4	-0.7	-0.6	-0.5	-0.5	-0.5
Programs proposed to be terminated (10)	-0.2	-0.9	-0.9	-1.0	-1.1	-1.4
Other	-0.7	0.2	0.1	-0.2	-0.5	-0.4
Total change	0.6	-5.0	-7.5	-9.4	-10.9	-11.9
President's budget as estimated by CBO	38.1	32.7	34.4	33.7	34.2	34.4

* Less than $50 million.

a. Includes both agency direct loans and FFB direct loans issued for agency guarantees.

Table II-2. (Continued)

Major Programs	1984	1985	1986	1987	1988	1989
Primary Guarantees						
CBO baseline	105.2	111.6	117.9	124.6	131.0	136.7
Proposed changes						
Export-Import Bank	1.6	1.0	---	-0.5	-1.0	-1.4
Rural Electrification Administration b/	(0.8)	(-2.1)	(-2.2)	(-2.3)	(-2.5)	(-2.6)
FHA mortgage assistance	-8.5	-8.3	-8.8	-8.1	-7.3	-9.8
GNMA mortgage-backed securities b/	---	(-3.1)	(-6.3)	(-9.3)	(-12.0)	(-14.4)
SBA Business Loan and Investment Fund	-*	-0.2	-1.6	-2.8	-3.3	-3.5
Guaranteed student loans	-0.6	-1.0	-1.0	-1.0	-1.1	-1.1
Low-rent public housing	0.5	0.2	-0.1	-0.4	-0.8	-1.2
VA Loan Guaranty Revolving Fund	-0.3	-0.6	-0.7	-0.6	-0.5	-0.6
Programs proposed to be terminated (4)	-*	-0.4	-0.4	-0.4	-0.4	-0.4
Other	0.1	0.1	---	---	-0.1	-0.1
Total change	-7.1	-9.1	-12.6	-13.9	-14.5	-18.1
President's budget as estimated by CBO	98.1	102.6	105.3	110.7	116.5	118.5

* Less than $50 million.

b. Amounts in parentheses involve intragovernmental transactions and are not included in the totals.

SBA Business Loan Investment Fund (BLIF). The Administration's 1985 request for BLIF proposes the elimination of most on-budget direct loans and a phased reduction in SBA guaranteed loans between 1985 and 1989. Priority for credit assistance would be given to handicapped and minority borrowers. The Administration's request is $2.5 billion below the baseline estimate for direct loans and $11.4 below the baseline estimate for guaranteed loans for 1984-1989.

SBA Disaster Loans. The Administration requested a limit of $440 million for SBA disaster loans for 1985, $0.3 billion below the baseline estimate. The baseline estimate is based on historical experience with natural disasters. The Administration's estimates are $2.2 billion below the baseline for 1984-1989.

VA Loan Guaranty and Revolving Fund. The Administration's 1985 budget proposes several changes in the operation of the VA mortgage insurance progams that will reduce the direct loan volume below the baseline estimates. The most significant change would be the elimination of VA financing of the sale of real property owned by the agency--vendee loans. The Administration proposes that these loans be financed by conventional mortgages. The Administration's request would result in a $3.2 billion reduction in baseline estimates for VA direct loans; about 80 percent of this is attributable to the termination of VA financing for vendee loans.

Guaranteed Student Loans (GSL). The Administration has proposed three changes to the GSL program: a requirement that all applicants be subject to a needs analysis; a reduction in government liability subject to default from 100 percent to 80 percent; and the termination of administrative cost allowance and reserve fund advances. CBO estimates that these changes would reduce loan volume by $1.0 billion to $6.8 billion in 1985. Guaranteed loan volume would be reduced by $5.2 billion between 1985 and 1989.

Low-rent Public Housing. The Administration has proposed the continuation of current policy for low-rent public housing financing for most of the activity. CBO's estimate of loan guarantee volume varies slightly due to differing technical assumptions about the program. The Administration intends to begin to convert short-term guaranteed financing to long-term FFB financing: a $30 million appropriation has been requested to pay for the interest costs of $1.2 billion in FFB financing in 1985.

Programs Proposed to be Terminated. The Administration has proposed the termination of ten direct loan programs and four loan guarantee programs between 1984 and 1989. Most of these programs are relatively small. The cumulative impact is to cut $5.2 billion from baseline direct loan estimates and $2.1 billion from baseline loan guarantee estimates over the projections period. The largest direct loan programs proposed for elimination are FFB financing for community development grant guarantees (HUD), national direct student loans (Department of Education), and loans to Washington, D.C. The RDIF industrial development guarantee program (Agriculture), and the Economic Development Administration's (Commerce) guarantee programs are the two largest guarantee programs proposed for elimination.

IMPACT OF THE PRESIDENT'S PROPOSED CREDIT BUDGET ON FEDERAL OUTLAYS

CBO estimates that the President's credit budget proposals would result in on- and off-budget outlay savings of approximately $1.8 billion in 1985 and $25.7 billion from CBO's baseline outlay estimates from 1985 through 1989. The 1985-1989 savings would be generated by a $113.0 billion cumulative reduction from baseline estimates of direct loan obligations and loan guarantee commitments. The deficit would be increased only by the increases in on-budget outlays: $0.3 billion in 1985 and $9.1 billion over the projections period. The Treasury borrowing requirements--which consist of on- and off-budget outlays--would be reduced by the combined on- and off-budget decrease. Table II-3 shows CBO's estimate of the outlay impact of the President's credit budget proposals by major program.

The on-budget outlay increase results almost entirely from the proposed shift of foreign military sales credit (FMSC) guarantees financed as direct loans by the off-budget FFB to on-budget direct loans the Department of Defense. On-budget outlays for FMSC loans would increase by $1.2 billion in 1985 and $13.7 billion over the projections period. The off-budget FFB outlays for this program fall by $1.2 billion in 1985 and $18.1 billion over the projections period. Compared to CBO baseline estimates, the combined on- and off-budget impact of the projected funding for FMSC direct loans is a $4.4 billion savings. Treasury borrowing requirements for FMSC direct loans would, therefore, be $4.4 billion lower than the baseline given the President's programs.

Other Administration credit budget proposals would offset most of the on-budget outlay increase because of the shift in FMSC loans: net outlay savings of $0.9 billion in 1985 and $4.6 billion from 1985 through 1989. The largest on-budget savings results from termination of a number of credit programs and cuts in SBA business and disaster loan programs. CBO estimates that the Administration's proposed termination of direct student loans and loans to Washington, D.C. would reduce on-budget outlays by $965 million and $676 million respectively over the projections period. Proposed reductions in SBA programs are estimated to save $2.8 billion from 1985 to 1989.

TABLE II-3. CBO ESTIMATE OF THE OUTLAY IMPACT OF THE PRESIDENT'S PROPOSED CHANGES IN THE CREDIT BUDGET (By fiscal year, in billions of dollars)

	1985	1986	1987	1988	1989	Cumulative Five-Year Changes
Changes in On-Budget Outlays						
Export-Import Bank	*	*	-*	-0.2	-0.4	-0.6
Foreign Military Sales Credit	1.2	2.0	3.1	3.6	3.8	13.7
Agriculture Credit Insurance Fund	-*	-*	-*	-*	-0.1	-0.2
Commodity Credit Corporation	b/	b/	b/	b/	b/	b/
Rural Housing Insurance Fund	-*	-0.1	-0.1	-0.2	-0.3	-0.8
SBA Business Loan Investment Fund	-0.3	-0.2	-0.3	-0.4	-0.5	-1.7
SBA Disaster Loan Fund	-0.2	-0.2	-0.2	-0.2	-0.2	-1.1
Guaranteed student loans	-0.3	-0.3	-0.4	-0.5	-0.5	-2.0
VA Loan Guaranty Revolving Fund	-0.3	0.2	0.1	-*	-0.1	-0.2
Terminating programs	-0.3	-0.4	-0.5	-0.5	-0.5	-2.2
Other a/	---	---	---	---	---	---
On-budget outlay impact of President's credit budget	0.3	1.5	2.4	2.5	2.3	9.1
Changes in Off-Budget Outlays						
Foreign Military Sales Credit	-1.2	-3.3	-4.3	-4.3	-5.1	-18.1
Rural Electrification Admin.	*	-0.8	-1.5	-2.5	-2.5	-7.2
Agriculture Credit Insurance Fund	-0.1	-0.3	-0.4	-0.5	-0.6	-1.9
Rural Housing Insurance Fund	-0.8	-1.1	-1.3	-1.5	-1.6	-6.3
SBA Business Loan Investment Fund	-*	-0.1	-0.1	-0.1	-0.1	-0.5
Terminating Programs	-*	-0.2	-0.2	-0.2	-0.1	-0.8
Off-budget outlay impact of President's credit budget	-2.1	-5.7	-7.8	-9.1	-10.1	-34.8
Combined On- and Off-Budget Outlay Impact	-1.8	-4.2	-5.3	-6.6	-7.8	-25.7

* Less than $50 million.

a. No estimate was developed for the "Other" credit budget changes which are spread among a large number of programs.

b. No separate estimate has been developed for the outlay impact of commodity price support loans which are an integral part of Commodity Credit Corporation price support programs.

Reductions of \$34.8 billion in off-budget outlays during 1985-1989 are all attributed to the FFB. As noted above, the Administration has proposed that FMSC guarantees, now financed by the FFB, be converted to agency direct loans. Proposed cuts in REA and SBA business loan and investment guarantees are estimated to save FFB outlays since the FFB originates all REA and some SBA guarnatees. The savings in FFB outlays attributed to the Farmers Home Administration's Agriculture Credit Insurance Fund and Rural Housing Insurance Fund reflect lower loan asset purchases. The Administration proposed that ACIF direct loans be held constant and proposed a substantial cut in RHIF direct loans; the lower volume of direct loans will reduce loan asset sales and concurrently FFB outlays.

CBO REESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

As part of its analysis of the President's credit budget, CBO has reestimated the Administration's budget program to reflect CBO baseline economic assumptions and technical estimating methods. The effect of these reestimates on the credit budget is shown in Table II-4. The net effect of reestimates is to increase the President's credit budget for both direct loan obligations and guaranteed loan commitments.

The net adjustment to direct loans is an increase of \$254 million in 1984, \$1.1 billion in 1985, and a total increase of \$9.4 billion from 1984 through 1989. The largest direct loan reestimates affect three major programs. Agriculture credit insurance fund emergency disaster loans have been reestimated to the historical trend for the program. The Administration estimated that the program would continue at close to the 1982 level, an abnormally low year for disaster conditions. For Commodity Credit Corporation commodity price support loans, CBO estimates higher loan levels reflecting different yield and price assumptions. Finally, CBO revised the FHA and VA default estimates to exclude acquisition of property, an expenditure CBO does not view appropriately defined to be a direct loan. While property acquisition does reflect defaulting loans, it does not result in increased indebtedness.

The CBO estimate of the Administration's loan guarantee program resulted in increases of \$0.7 billion in 1984, \$3.7 billion in 1985, and a cumulative increase of \$52.2 billion from 1984 to 1989. The largest reestimate was for VA loan guarantees. CBO's higher estimate reflects the Vietnam veteran population entering peak home-buying ages combined with relatively optomistic interest-rate assumptions, both contributing to high loan volumes. CBO assumes lower loan volume for the guaranteed student loan program, given Administration policy, than does the Administration. CBO assumed that Synthetic Fuels Corporation assistance will all be either price

TABLE II-4. CBO REESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	1989
Direct Loans						
President's budget	37.9	31.7	32.3	32.0	32.4	31.9
CBO reestimates						
Agriculture Credit Insurance Fund--disaster loans	0.4	1.3	1.5	1.6	1.7	1.6
CCC commodity price support loans	1.1	0.9	2.0	1.5	1.6	2.4
FHA default estimates	-1.3	-1.3	-1.3	-1.4	-1.5	-1.6
Other net reestimates	---	0.1	-0.1	---	0.1	0.2
President's budget as estimated by CBO	37.9	32.4	34.4	33.7	34.2	34.4
Primary Guarantees						
President's budget	97.4	98.8	96.9	99.7	103.1	103.6
CBO reestimates						
Synthetic Fuels Corporation	-4.1	-2.4	---	---	---	---
Agriculture Credit Insurance Fund--economic emergency	0.6	---	---	---	---	---
Guaranteed student loans	-0.7	-1.2	-1.4	-1.7	-2.2	-2.7
VA Loan Guaranty Revolving Fund	5.0	7.3	9.8	12.7	15.6	17.6
President's budget as estimated by CBO	98.1	102.5	105.3	110.7	116.5	118.5

guarantees or some other form of assistance that is more heavily subsidized than loan guarantees. Finally, the upward adjustment for economic emergency loan guarantees corrects an inconsistency in the Administration's budget presentation.

CHAPTER III. FEDERAL CREDIT IN THE UNIFIED BUDGET AND TOTAL BUDGET

The alarming size of the budget deficit for 1985 and beyond is encouraging efforts to close the widening gap between outlays and receipts. As a contributor to the deficit, federal credit activity must be considered a candidate for deficit reduction along with the other components of the budget. The budget treatment of credit transactions, however, tends to obscure the links between credit program levels and budget costs.

The Administration's credit budget for 1985 proposed $31.7 billion in new direct loan obligations and $98.8 billion in new commitments to guarantee debts of others. The unified budget assigned this considerable volume of activity a cost of $13.0 billion in net outlays. If taken at face value, these numbers may suggest that, even if credit activity were cut to zero, the savings would be only $13.0 billion. Correctly measured, the cost of proposed federal credit activity in 1985 will be much higher. 1/

Before trade-offs between spending and credit programs can be weighed, the basis of the credit costs in the unified budget must be understood. 2/

BUDGET MEASURES OF FEDERAL CREDIT ACTIVITY

Federal credit activity consists of direct loans to qualified borrowers and guarantees of eligible private debt. In both cases, borrowers are able to obtain funds on more favorable terms than comparable unassisted borrowers. The federal budget documents account for direct loans in terms of amounts

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1. The Administration's credit budget estimates used in other parts of this report have been reestimated by CBO to be consistent with CBO technical and economic assumptions. Administration January estimates--prior to reestimate--are used here to be consistent with the other measures of credit activity cited in the budget documents.

2. A more detailed analysis of the difficulties inherent in budget accounting for federal credit and some proposed solutions may be found in the forthcoming CBO paper, New Approaches to the Budgetary Treatment of Federal Credit Assistance.

obligated, disbursed (gross and net of repayments), and total outstanding loans. Guaranteed loan transactions are reported in terms of amounts committed, extended (gross and net of expirations), and total guarantees outstanding. The budget cost of credit activity, however, is summarized in net lending, or equivalently, net outlays for direct loans. As a budget cost measure, net lending suffers from two shortcomings:

- Some credit accounts are excluded from the unified budget outlays and deficit--the largest being the Federal Financing Bank; and

- Net lending does not reflect the subsidy value of current credit transactions.

The following sections discuss these interrelated budget measures of federal credit activity: net lending, off-budget accounts, the Federal Financing Bank, subsidy costs, and defaults.

NET LENDING

For the unified budget deficit in the current year, the key measure of credit activity is net lending. Net lending is the difference between loan funds disbursed and offsetting receipts including repayments. When new disbursements exceed repayments, net lending cash outflow is accounted for like other outlays. (If repayments exceed disbursements, the budget would record negative outlays from the cash inflow.)

The contribution of federal credit activity to the budget deficit in 1985 was projected in the President's budget to be $13.0 billion, as shown in Table III-1(A). Even though new direct loan obligations are projected to decline by more than $6 billion in 1985, net lending is expected to increase more than $3 billion. This reflects the delay between obligation and disbursement of loan funds. Many, if not most, loan disbursements in a particular year result from commitments issued in earlier years. The third set of figures in Table III-1(A), loans outstanding, is the size of the loan portfolio held by government and is the sum of net outlays for direct loans in previous years.

Table III-1(B) summarizes government guarantee activity. Commitments represent the volume of private debt that the government is obligated to guarantee, in whole or in part, against default. Net guarantees reflect new loans guaranteed and disbursed less expiring commitments issued in the past. Outstanding guarantees from the previous year plus this year's net guaranteed loans sum to this year's outstandings. The table shows no outlay

TABLE III-1. FEDERAL GOVERNMENT TOTAL CREDIT ACTIVITY
(By fiscal year, in billions of dollars)

	Actual	Estimates	
	1983	1984	1985
A. Direct Loans			
Obligations			
On-budget	31.8	27.7	29.0
Off-budget	9.6	10.2	2.7
Total	41.4	37.9	31.7
Net lending=outlays			
On-budget	4.8	-3.9	2.5
Off-budget	10.5	13.2	10.5
Total	15.3	9.3	13.0
Loans outstanding (end of year)			
On budget	105.0	101.1	103.7
Off-budget	118.0	131.2	141.6
Total	223.0	232.3	245.3
B. Guaranteed Loans a/			
Commitments	97.2	97.4	98.8
Net guaranteed loans	34.1	39.4	38.9
Loans outstanding (end of year)	363.8	403.2	442.2

SOURCE: Budget of the United States Government, Fiscal Year 1985 Special Analysis F. Tables F-14 and F-15. CBO has reestimated direct loan obligations to be $32.7 billion in 1985 and loan guarantee commitments to be $98.1 billion in 1984 and $102.5 billion in 1985.

a. To avoid double counting, these figures exclude guarantees of debts previously guaranteed and loans advanced by another government account.

figure for loan guarantees, because the commitment to guarantee does not produce an immediate or specific amount of cash outflow. In fact, when a claim for default is filed under a loan guarantee, the government pays off the lender and draws a loan note on the defaulting borrower. In this manner, the guarantee obligation is converted to a direct loan. Outlays from guarantee defaults are recorded as net outlays associated with a direct loan disbursement. Guarantees do not have an attributed outlay cost.

ON- AND OFF-BUDGET LOANS

The unified budget is an incomplete statement of the accounts of U.S. agencies. The unified budget includes all accounts not excluded by law, but existing statutes prohibit the inclusion of credit activity carried on by the Rural Electrification and Telephone Revolving Fund (RETRF), the Rural Telephone Bank, and the Federal Financing Bank. Accounts included in the unified budget are described as on-budget and the remainder as off-budget.

Summing the direct loan transactions of the unified budget agencies yields the on-budget entries in Table III-1(A). The differences between total government direct loans and on-budget direct loans are substantial. For example, net outlays for federal credit assistance in 1985 are understated by $10.5 billion in the on-budget, unified figures. And more than half of the loans originated by the federal government and currently outstanding are off-budget.

The off-budget designation is a matter of law rather than program difference. No differences exist, for example, between the loan and guarantee programs of the off-budget RETRF and the on-budget Small Business Administration Business Loan and Investment Fund that would justify excluding the former and including the latter in the unified budget. The off-budget status of the RETRF and the Rural Telephone Bank, however, explains very little of the difference between on-budget and total direct loans in Table III-1(A). This is evident from the low activity levels reported in these two accounts and shown in Table III-2. Most of the difference between on-budget and total direct lending is attributable to the off-budget Federal Financing Bank.

THE EFFECT OF FFB TRANSACTIONS ON UNIFIED BUDGET MEASURE OF CREDIT COST

Before the establishment of the FFB in 1973, many federal credit agencies borrowed directly from U.S. credit markets through the issue of

TABLE III-2. RURAL ELECTRIFICATION AND RURAL TELEPHONE DIRECT LOAN ACTIVITY (By fiscal year, in millions of dollars)

	Actual	Estimates	
	1983	1984	1985
Rural Electrification and Telephone Revolving Fund Direct Loans			
Obligations	1,101	1,100	575
Net outlays	104	277	92
Outstanding loans	9,978	10,155	10,247
Rural Telephone Bank Direct Loans			
Obligations	172	185	185
Net Outlays	81	186	184
Outstanding loans	1,254	1,439	1,624

SOURCE: Budget of the United States Government, Fiscal Year 1985, Special Analysis F, Table F-14.

agency debt securities. The novelty and small size of these issues resulted in interest rates higher than those on securities of comparable maturities issued by the Treasury. This presented an opportunity to reduce agency interest expense by having Treasury borrow on behalf of the agencies. The FFB (part of the U.S. Treasury Department) was established as an intermediary between the lending public and federal agencies, raising funds by issuing Treasury debt and passing them on to the agencies. Off-budget status was assigned the FFB to avoid double counting of loan funds when the FFB advanced the funds to the agencies and again when the agencies advanced money to borrowers.

The Federal Financing Bank was intended to be a neutral financial intermediary, lowering the agencies' interest costs but not otherwise affecting the federal budget. The FFB authorization provided that the bank's activities should not affect the budgetary status of agencies selling obligations to the bank. Nor were the activity levels of on-budget agencies expected to be affected by the establishment of the FFB. In fact, however, the budget treatment of loan asset sales by the Rural Electrification Admin-

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istration and the Farmers Home Administration and direct loans to guaranteed borrowers financed by the FFB has affected the unified budget. Under current practices, FFB operations contribute to the understatement of the unified budget deficit and the distortion of costs such that otherwise identical loans appear to have different budgetary costs.

Purchase of Loan Assets. Provisions of law require that sales of certificates of beneficial ownership by the Farmers Home Administration and the Rural Electrification Administration be treated as sales of assets rather than as borrowing by these agencies. The significance of these provisions is that asset sales are treated as negative outlays in the originating agency's budget accounts. Thus, when the Farmers Home Administration makes $1 million in loans and uses them as collateral for selling $1 million in certificates of beneficial ownership to the FFB, the net outlays for the Farmers Home Administration are zero in the unified budget. 3/ The lending activity is recorded as budget authority and outlays of the off-budget Federal Financing Bank.

In 1983, the sale of certificates of beneficial ownership to the FFB by the Farmers Home Administration converted total net lending of $2.4 billion by the three FmHA revolving funds into a reported net cash inflow of $600 million (see Table III-3). This inflow reduced unified budget outlays. Similarly, the off-budget Rural Electric and Telephone Revolving Fund shifted 75 percent of its net outlays to the Federal Financing Bank and understated its net lending by $300 million.

FFB Direct Loans. The FFB is authorized to lend directly to borrowers whose loan notes carry a full guarantee of repayment by a federal agency. The agencies make guarantee commitments to qualified borrowers and then arrange the sale of guaranteed notes to the FFB. The FFB disburses funds raised through the Treasury to the borrowers, thus converting loan guarantees authorized by the Congress into direct loans. The conversion of loan guarantees into direct loans bypasses the constraints established by the Congressional Budget Act of 1974. The Budget Act specifically excludes guaranteed loans from the definition of budget authority. Direct loans, in contrast, require budget authority and are included in the targets and ceilings enacted in the budget resolutions.

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3. Genuine loan sales convey ownership and risk of default to the purchaser. In the case of a "sale" of a certificate of beneficial ownership to the FFB, however, the originating agency retains all risk. Loan asset sales to the FFB have more in common with borrowing than an asset sale.

TABLE III-3. COMPOSITION OF OUTLAYS FOR LOAN PROGRAMS FINANCED BY THE FFB, FISCAL YEAR 1983 (In billions of dollars)

	Agency Outlays	FFB Outlays	Total
Shifting On-Budget Outlays Off-Budget Through Loan Asset Sales			
Farmers Home Administration			
Agriculture Credit Insurance Fund	-0.5	0.7	0.2
Rural Housing Insurance Fund	-0.1	1.8	1.7
Rural Development Insurance Fund	-*	0.5	0.5
Rural Electrification Administration a/	0.1	0.3	0.4
FFB Conversion of Guaranteed Loans to Direct Loans			
Rural Electrification Administration	---	2.7	2.7
Foreign Military Sales Credit	---	2.9	2.9
Tennessee Valley Authority	---	0.2	0.2
Small Business Administration	0.2	0.2	0.4
Alternative fuels production	---	0.5	0.5
Low-rent public housing	*	0.4	0.5

SOURCE: Budget of the United States Government, Fiscal Year 1985, Special Analysis F, Tables F-14 and F-15.

* Less than $50 million.

a. The authorization for the Rural Electrification Administration excludes it from the unified budget. It is in all other respects comparable to on-budget lending programs.

When guaranteed loans are converted to direct loans, agencies increase their direct lending without having to request additional budget authority. The largest programs are the Rural Electric and Telephone Revolving Fund, which effectively increased its direct loans from $400 million to $3.1 billion in 1983, and the Foreign Military Sales Credit program, which used guarantees to extend direct loans of $2.9 billion in 1983 (see Table III-3). Both sales of loan assets to the FFB and FFB direct loans increase the gap between the unified budget deficit and borrowing necessitated by federal credit activity.

Purchase of Agency Debt. As originally intended, the FFB also purchases agency debt from the Export-Import Bank, the Tennessee Valley Authority, and the National Credit Union Administration. Outlays supported by this borrowing are recorded in agency budgets, and the full amount of government borrowing required is recorded in the unified budget. This activity causes no budget distortion.

Proposals to Change the Budget Treatment of FFB Transactions. Numerous proposals have been offered that would increase the comprehensiveness of the unified budget by putting off-budget credit transactions on-budget. Most would accomplish this by:

- Defining sales of certificates of beneficial ownership to be borrowing;
- Requiring that FFB direct loans be treated as direct loans in the accounts of the guarantee agency; and
- Revoking the off-budget status of the FFB, but requiring that its transactions be recorded in the originating agencies' budgets.

THE COST OF CREDIT: CASH OUTFLOW OR RESOURCES CONSUMED?

The unified budget has a cash basis, meaning that activities are assigned costs equal to the amount of cash outflow resulting from the activity. A new loan program (one for which there are no repayments) or a rapidly growing loan account (one for which repayments are low compared with new disbursements) will have a higher net cash outflow than a mature or static program with the same level of new activity. Thus, $100 million in new loans appears to have a higher budget cost in a new or rapidly growing account than $100 million in new loans in an account with a large volume of repayments, even though loan terms are the same in both programs.

The actual cost to taxpayers of a government loan is independent of the account from which the loan is made. The amount of fiscal resources consumed by a federal loan depends on the rate of interest and any fees charged, the maturity of the loan, the likelihood of default, and administrative and other costs. The lower the rate of interest and fees, the longer the maturity, the greater the likelihood of default, and the larger the related expense, the greater the subsidy delivered by the transaction and the greater its cost.

Although the unified budget does not include these costs explicitly, the Office of Management and Budget (OMB) has attempted to estimate them for direct loans. Some of the OMB estimates, taking into account interest rate and maturity differentials between private and government loans, are shown for 1983 in Table III-4. Considerable variation in subsidy is evident. Direct student assistance loans, for example, entail a subsidy of 68 cents per dollar of loan extended. FHA direct loans, by contrast, are made on near-market terms and convey a loan-life subsidy with a present value of one cent per dollar of loan. For all $41.4 billion in direct loans made by the federal government during 1983, OMB estimates that the subsidy value or economic cost was $8.4 billion. This cost estimate, if accurate, means that

TABLE III-4. SUBSIDY COSTS FOR 1983 DIRECT LOAN OBLIGATIONS, SELECTED PROGRAMS

Program	Interest Rate (Percent)		Maturity (Years)		Present Value of Subsidy (Percent of direct loan obligations)
	Government Loan	Private Loan	Government Loan	Private Loan	
Farmers Home Admin. Agriculture Credit Insurance Fund	9.2	13.2	10.0	15.0	14.0
Rural Electric and Telephone Revolving Fund	5.0	13.9	35.0	10.0	15.0
National direct student loans	5.0	18.5	9.5	5.0	68.0
Federal Housing Admin.	13.3	13.5	40.0	30.0	1.0
Export-Import Bank	10.7	13.0	10.0	6.0	14.0
SBA Business Loan Investment Fund	11.8	14.0	7.0	2.0	8.0

SOURCE: Budget of the United States Government, Fiscal Year 1985, Special Analysis F, Table F-9.

the actual cost of direct loans was overstated by almost $7 billion using the cash outflow measure, which assigns these activities a cost of $15.3 billion. (See the net outlay figure in Table III-1A for 1983.)

Another, more likely, possibility is that the OMB cost estimate is too low. The OMB procedure takes into account differences in interest rates, fees, and loan maturities. But it is unlikely that the private interest rate used for comparison fully adjusts for risks of default. Many federal loan programs are specifically designed to reach especially high-risk borrowers. If these programs are successful, government default rates should be higher than those in private loan markets. This conjecture is difficult to test owing to the absence of reliable, consistent government loan default data.

THE EXTENT OF DEFAULTS IN FEDERAL CREDIT

The current federal budget presentation makes it difficult to draw conclusions about the extent of defaults. Default levels are, however, a significant concern, particularly in loan guarantee programs where they are the principal component of costs. Federal credit programs have often been criticized for their high default rates, notably the guaranteed student loan program and the Small Business Administration's business loan programs.

Defaults are recorded in the budget schedules in four categories:

- Direct loans for defaulting guarantees--disbursements for acquisition of loans or collateral resulting from guarantee claims;
- Forgiveness credits--principal repayments waived, as provided by statute in the event of certain specified contingencies;
- Direct loan principal written off for default; and
- Guaranteed loan principal terminated for default.

A default occurs when a lender determines that a borrower is not fulfilling the terms of the contract to repay the loan. In the case of guaranteed loans, the guaranteeing agency must repay the lender. Federal agencies usually do this by paying the original lender the outstanding principal and any accrued interest and rewriting the loan and accrued interest as a direct loan to the original borrower. As shown in Table III-5, direct loans for defaulting guarantees were $4.5 billion in 1983, approximately 10 percent of total new direct loans for the year.

Direct loans for defaulting guarantees affect outlays by increasing net direct lending in the year of their disbursement. Defaults of direct loans, and adjustments to guaranteed loan portfolios for defaulted guarantees, do not result in new expenditures by the government, but are recorded as adjustments to agency loan portfolios.

A review of credit programs shows that default experience varies widely. In the Farmers Home Administration loan programs, defaults are almost never recorded, possibly leading to the conclusion that they rarely occur. In fact, repayments for large numbers of rural housing, rural development, and agriculture credit loans are far in arrears of the schedules set in the original loan contracts. The Farmers Home Administration allows long periods of delinquency. Grace periods and periods in which only interest is repaid are frequently granted.

In the Foreign Military Sales program, the Defense Department makes direct loans, primarily to the governments of Israel and Egypt, to purchase defense articles or services. In the past several years, repayment of these loans has been forgiven. The waiving of repayment is stipulated in the Foreign Operations Appropriations Bill each year. In 1983, $0.6 billion was forgiven, increasing to an estimated $2.3 billion in 1985. There are also significant defaults of FFB-financed guaranteed loans in this account--$0.4 billion in 1983, increasing to $0.5 billion in 1985. When a foreign government is delinquent in making a payment on a Foreign Military Sales guaranteed loan, the guarantee reserve fund makes the payment to the FFB on behalf of that government. The guarantee reserve fund continues making the payments until either the foreign government resumes repayment or the loan is completely repaid. Only the payments that have come due are recorded in the budget as defaults. This practice runs counter to normal banking practices where once several payments on a loan have been missed, the entire outstanding balance is held in default. Accordingly, Foreign Military Sales guaranteed loan defaults are significantly understated in the budget.

The SBA Business Loan Investment Fund records direct loan defaults as write-offs. When an SBA loan defaults, usually in the first two or three years, SBA works with the borrower to reschedule principal and interest repayments. When no repayments are being made and it appears that none will be forthcoming, the loan is written off. Loan guarantees that are in default require that SBA pay off the lender and assume the loan as part of its direct loan portfolio. SBA provides counseling to the borrower and establishes a new repayment schedule. These are recorded in the budget as direct loans for defaulting guarantees. At this point, they are considered as guaranteed loans terminated for default.

TABLE III-5. ESTIMATED DEFAULTS BY MAJOR PROGRAM
(By fiscal year, in millions of dollars)

Program	1983 Actual	1984 Estimate	1985 Estimate
Direct Loans for Defaulting Guarantees			
Foreign Military Sales Credits	440	480	510
CCC commodity price supports	15	---	---
Economic Development Administration	65	60	55
Credit Union Share Insurance Fund	26	22	19
Amtrak	---	880	---
Aircraft purchase guarantees	130	23	---
Federal ship financing	93	60	---
Rail service assistance	---	64	---
AID Housing credit	20	24	19
VA loan guarantees a/	1,056	831	394
SBA Business Loan Investment Fund a/	693	568	511
Export-Import Bank	14	40	52
FHA loan guarantees a/	1,484	1,685	1,593
Guaranteed student loans a/	471	600	630
Other	3	6	6
Subtotal	4,510	5,343	3,926
Forgiveness Credits--Principal Repayments Waived			
Foreign military sales credits	608	1,606	2,337
VA loan guarantees	30	11	10
Other	1	---	---
Subtotal	639	1,617	2,347

(Continued)

SOURCE: Budget of the United States Government, Fiscal Year 1985, Appendix, "Status of Direct Loans" and "Status of Guaranteed Loans" Schedules.

a. CBO reestimates of the President's defaults have been used for these accounts.

Table III-5. (Continued)

Program	1983 Actual	1984 Estimate	1985 Estimate
Direct Loan Principal Written Off for Default			
Agriculture Credit Insurance Fund	31	35	40
Rural Housing Insurance Fund	10	12	11
Economic Development Administration	55	---	---
CCC commodity price supports	13	1	---
VA loan guarantees	2	4	5
SBA disaster loans	98	90	80
SBA Business Loan Investment Fund	280	300	300
Export-Import Bank	5	---	---
FHA loan guarantees	632	553	552
Guaranteed student loans	203	82	116
Other	104	36	38
Subtotal	1,433	1,113	1,142
Guaranteed Loan Principal Terminated for Default			
Foreign Military Sales Credits	440	480	510
Rural Development Insurance Fund	39	23	21
CCC export loans	15	---	---
Economic Development Administration	65	60	55
VA loan guarantees a/	1,056	831	394
Aircraft purchase guarantees	147	---	---
SBA business loan insurance fund a/	790	577	562
Export-Import Bank	14	40	52
FHA loan guarantees a/	1,484	1,685	1,593
Guaranteed student loans a/	486	600	630
Rural Housing Insurance Fund	13	19	25
Rail service assistance	---	64	---
Amtrak	---	880	---
Federal ship financing	86	55	---
Other	44	32	26
Subtotal	4,679	5,346	3,868

In order to measure accurately the cost of federal credit programs, more comparable data will be needed on loan program defaults. The President's budget announced a management initiative to revise and implement common loan program standards.

Summary Comments

Under current budget practice, the Congress has difficulty in determining the resource cost of federal credit activity. The off-budget veil and the net cash outflow measure of costs weaken attempts at rational treatment of federal credit in the budget process. Until the unified budget is more comprehensive and until a more appropriate measure of cost is adopted, budgeting for federal credit will be difficult and restricted necessarily to control of gross activity through appropriations acts and the credit budget.

CHAPTER IV. THE CREDIT BUDGET BY MAJOR BUDGET FUNCTION

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

- A baseline summary table for each function, giving CBO baseline estimates for 1983-1989, by account;

- A major program table giving a detailed breakdown of the credit budget components of major programs.

Data on credit programs in this chapter are CBO's baseline credit budget projections and reestimates of the President's 1985 request. The President's credit budget data have been taken from the Appendix to the Budget of the United States Government, Fiscal Year 1985, specifically the series of schedules entitled "Status of Direct Loans" and "Status of Loan Guarantees" that follow the "Program and Financing" schedule for each budget account containing credit activity and from the "Special Analysis on Federal Credit."

Table IV-1 summarizes the 1984-1989 proposed credit activities by function. Direct loan programs are concentrated in four functions: agriculture, international affairs, commerce and housing, and energy. The great bulk of guaranteed lending is in support of housing through the commerce and housing, veterans' affairs, and income security functions.

TABLE IV-1. CBO CREDIT BUDGET BASELINE BY FUNCTION (By fiscal year, in billions of dollars)

Program	CBO Baseline Estimates					
	1984	1985	1986	1987	1988	1989
Direct Loans						
050 National Defense	---	---	---	---	---	---
150 International Affairs	9.0	10.6	12.3	13.4	14.0	14.6
250 General Science, Space and Technology	0.2	*	---	---	---	---
270 Energy	4.7	4.8	4.9	5.1	5.4	5.6
300 Natural Resources	0.1	0.1	0.1	0.1	0.1	0.1
350 Agriculture	12.8	12.5	13.6	13.7	13.9	14.0
370 Commerce and Housing Credit	5.7	6.0	6.3	6.6	7.0	7.3
400 Transportation	0.1	0.1	0.1	0.1	0.1	0.1
450 Community and Regional Development	3.5	3.1	2.4	2.5	2.8	2.8
500 Education, Training, Employment and Social Services	0.6	0.7	0.7	0.7	0.7	0.8
550 Health	*	*	*	*	*	*
600 Income Security	1.0	*	*	*	*	*
700 Veterans' Benefits and Services	1.3	1.2	1.1	1.0	1.0	1.1
750 Administration of Justice	---	---	---	---	---	---
800 General Government	---	---	---	---	---	---
850 General Purpose Fiscal Assistance	0.3	0.3	0.3	0.3	0.3	0.3
Total	39.2	39.3	41.9	43.6	45.4	46.8

* Less than $50 million.

(Continued)

Table IV-1. (Continued)

Program	CBO Baseline Estimates					
	1984	1985	1986	1987	1988	1989
Loan Guarantees						
050 National Defense	---	---	---	---	---	---
150 International Affairs	8.6	9.3	10.3	10.8	11.3	11.7
250 General Science, Space and Technology	---	---	---	---	---	---
270 Energy	0.2	*	*	*	*	*
300 Natural Resources	---	---	---	---	---	---
350 Agriculture	3.2	3.3	3.4	3.6	3.7	3.8
370 Commerce and Housing Credit	41.5	44.2	44.6	46.7	49.6	49.6
400 Transportation	0.5	0.5	0.5	0.5	0.6	0.6
450 Community and Regional Development	0.5	0.5	0.5	0.5	0.6	0.6
500 Education, Training, Employment and Social Services	7.2	7.2	7.2	7.2	7.2	7.2
550 Health	0.2	0.2	0.2	0.2	0.2	0.2
600 Income Security	14.7	14.7	14.7	14.7	14.7	14.7
700 Veterans' Benefits and Services	19.0	23.4	26.8	29.8	32.6	35.2
750 Administration of Justice	---	---	---	---	---	---
800 General Government	---	---	---	---	---	---
850 General Purpose Fiscal Assistance	---	---	---	---	---	---
Total	108.1	115.7	123.3	129.8	136.1	142.2

FUNCTION 050: NATIONAL DEFENSE

The only active credit program in the defense function is a program of direct loans and loan guarantees administered by the Department of Defense to assist private businesses in fulfilling defense production contracts. The loans may be made for expansion of capacity, development of technological processes, and production of essential materials, including exploration, development, and mining of strategic and critical metals. Title III of the Defense Production Act of 1950 limited individual direct loans to $25 million and individual loan guarantees to $20 million. There have been no direct loans in recent years.

An appropriation limitation of $30 million on new primary loan guarantee commitments was enacted for 1982. For the first time, the program was financed through the Federal Financing Bank as a direct loan guaranteed by the Department of Defense. Disbursement of the $30 million commitment began in 1983. Neither the CBO baseline nor the President's budget projects any new commitments for the program.

During the second session of the 97th Congress, there was extensive debate over H.R. 5540, the Defense Industrial Base Revitalization Act, which sought to make major amendments to the Defense Production Act of 1950. Section 303(g) of the bill authorized $1 billion in each fiscal year from 1983 through 1987 for financial incentives including direct loans, loan guarantees, purchase contracts, and price guarantees to be provided to small and medium-sized businesses to strengthen the national defense industrial base. CBO's cost estimate of the bill projected loan guarantee commitments of $2.3 billion in each specified year with total associated outlays over the five years of $5.0 billion. The bill was to have been taken up in March of 1983, but no bill was enacted.

FUNCTION 150: INTERNATIONAL AFFAIRS

Credit assistance in the international affairs function includes loans to foreign countries for economic development, the purchase of military equipment, and the purchase of U.S. surplus commodities. International trade is promoted through assistance to U.S. firms doing business overseas and to foreign countries and businesses making purchases in the United States. The Export-Import Bank and Foreign Military Sales programs are among the largest of all credit programs. Table IV-2 summarizes the new direct loan obligations and new loan guarantee commitments in this function.

The Administration is proposing limitations on four credit programs: direct loans and loan guarantees for Foreign Military Sales, the Export-Import Bank, and the Overseas Private Investment Corporation; loan guarantees in the housing investment guaranty credit program; and the private sector revolving fund.

The CBO baseline projects a total of \$10.6 billion in new direct loan obligations in 1985, increasing to \$14.5 billion by 1989. The baseline projection for new primary loan guarantee commitments is \$9.3 billion in 1985, increasing to \$11.7 billion by 1989. The Administration is requesting total new direct loan obligations of \$11.2 billion and new loan guarantee commitments of \$10.3 billion in 1985.

Over the next few years, the volume of problem loans in the international affairs function is expected to increase significantly, reducing funds available for new loans. Interest deferred and principal not paid will reduce offsetting receipts currently used to finance new loans. Direct loans extended to cover defaulting guarantees will require funds that are currently used to finance new loans. The net result of these repayment problems will be an increased need for new appropriations to maintain the current level of new loans.

The Administration estimates that principal and interest repayments will be \$265 million lower than expected in 1984 for the functional development assistance and P.L. 480 programs. Delayed repayments, subrogated claims, and capitalized interest will increase outlays by \$1.2 billion in 1984. Repayments to the Foreign Military Sales credit program will be \$10 million less than what is due on direct loans and \$480 million will be disbursed for payment of principal and interest for defaulted guaranteed loans. Costs to the government resulting from repayment problems in international programs are summarized in Table IV-3. The total cost of these repayments from 1984 through 1989 is estimated to be \$8.4 billion.

TABLE IV-2. INTERNATIONAL AFFAIRS CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Functional development assistance	428	409	430	451	473	495	516
Economic Support Fund	418	326	342	359	377	584	411
P.L. 480	810	774	820	850	890	931	971
Foreign military sales	1,175	1,315	1,375	1,437	1,493	1,546	1,592
Foreign military sales, FFB direct loans	3,932	4,401	4,630	4,859	5,092	5,326	5,554
Guarantee Reserve Fund	440	480	510	535	550	565	565
Export-Import Bank	845	1,355	2,500	3,830	4,431	4,634	4,833
Other	30	45	42	34	35	34	36
Total	8,078	9,105	10,649	12,355	13,341	14,125	14,478
Loan Guarantees							
Overseas Private Investment Corp.	100	100	105	110	116	121	123
Housing and other guaranty credit	132	150	158	165	174	182	189
Foreign military sales	3,932	4,401	4,630	4,859	5,092	5,326	5,554
Export-Import Bank	8,524	8,400	9,000	10,000	10,481	10,955	11,433
Subtotal	9,135	12,888	13,494	14,138	14,757	15,350	15,930
Less guarantees of direct loans sold to FFB	-932	-4,401	-4,630	-4,859	-5,092	-5,326	-5,554
New, primary guarantees	8,757	8,650	9,263	10,276	10,770	11,258	11,745

TABLE IV-3. COSTS OF EXPECTED REPAYMENT PROBLEMS IN INTERNATIONAL PROGRAMS (By fiscal year, in millions of dollars)

	1984	1985	1986	1987	1988	1989
Delayed or Lost Receipts						
Functional development assistance	230	250	85	55	5	33
P.L. 480	35	109	58	37	4	22
Foreign military sales	10	10	12	24	37	51
Subtotal	275	369	155	116	46	106
Increased Outlays						
Export-Import Bank	1,160	1,205	730	415	115	446
Housing guarantees	11	13	12	4	---	1
Guarantee Reserve Fund	480	510	535	550	565	565
Subtotal	1,651	1,728	1,277	969	680	1,012
Total Cost	1,926	2,097	1,432	1,085	726	1,118

Foreign Military Sales (FMS)

The Arms Export Control Act, as amended, authorizes direct loans by the Department of Defense and federal guarantees of loan agreements to foreign countries for the purchase of defense articles and services. The direct loans require an appropriation equal to the face value of the loan. Guaranteed loans are controlled by limitations in appropriations acts. The Administration is proposing to provide all military sales in the form of direct loans beginning in 1985. Direct loans will include forgiven loans, or loans with repayment waived, concessional loans, and Treasury rate loans. It estimates that direct loans that are forgiven will total $1.3 billion in 1984 and $2.6 billion in 1985. The 1985 level for proposed forgiven loans is nearly double what has historically been provided. In the past, FMS guaranteed loans have been financed through the FFB. The Administration plan would eliminate the FFB financing and substitute both Treasury rate direct loans

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and concessional-rate loans. The effect is to bring all of the FMS off-budget financing on budget. The interest rate on $0.5 billion of concessional loans will be approximately 5 percent, although certain circumstances may require different, possibly lower, interest rates. The Administration is requesting $2.0 billion for Treasury rate loans in 1985.

For 1985, the CBO baseline projection for FMS new direct loan obligations is $1.4 billion, increasing to $1.6 billion by 1989. The Administration estimates total direct loans of $5.1 billion in 1985, increasing to 5.6 billion by 1989. In 1985, CBO projects $4.6 billion of new direct loans financed through the FFB and guaranteed by the Department of Defense. No new guaranteed loans will be made under the Administration's plan. Table IV-4 summarizes all the foreign military sales credit activity.

TABLE IV-4. FOREIGN MILITARY SALES CREDIT PROGRAM LEVELS (By fiscal year, in millions of dollars)

	1983 Actual	Baseline		President's Reestimated	
		1984	1985	1984	1985
Direct Loans					
Limitation on obligations					
Forgiven loans	1,175	1,315	1,376	1,315	2,575
Concessional loans	---	---	---	---	509
Treasury rate loans	---	---	---	---	2,032
Subtotal, limited direct loans	1,175	1,315	1,376	1,315	5,116
Obligations exempt from limitation					
FFB direct loans	3,932	4,401	4,630	4,401	---
Total	5,107	5,716	6,006	5,716	5,116
Guaranteed Loans					
Limitation on commitments	3,932	4,401	4,630	4,401	---
Less guarantees converted to Treasury rate loans by the FFB	-3,932	-4,401	-4,630	-4,401	---
Total	---	---	---	---	---

The President is requesting an appropriation of $274 million in 1985 and $1.7 billion over the next five years to replenish the Foreign Military Sales guarantee reserve fund. In fiscal year 1981, the Arms Export Control Act was amended to eliminate the requirement that 10 percent of the principal of guaranteed loans be appropriated as a reserve against defaults. The obligated balance of $1.1 billion appropriated in prior years was consolidated to create a guarantee reserve fund to make payments to lenders of FMS guaranteed loans for late payments and rescheduled loans. Such payments are treated as direct loans not subject to limitation. Repayments from borrowing countries are credited to the account. Since the fund was created, net payments have exceeded $100 million per year. The Administration is estimating new direct loan obligations of $510 million in 1985, of which $370 million will be for delinquent payments and $140 million will be for accrued interest and rescheduled loans. Direct loans of the fund are projected at $565 million by 1989.

Export-Import Bank

The Export-Import Bank (Eximbank) is a government corporation that aids in financing exports by U.S. firms to foreign countries or firms. Eximbank provides direct loans, loan guarantees, and insurance or reinsurance on terms and conditions that make U.S. products competitive with foreign products. Authority for loans, guarantees, or insurance outstanding is limited to $40 billion. At the end of 1983, a total of $22.3 billion was outstanding. Annual limitations on the program are included in Foreign Assistance Appropriations Acts.

For 1985, CBO's baseline projection is $2.5 billion in new direct loan obligations, $1.3 billion below the Administration estimate, (see Table IV-5). CBO projects that these loans will increase to $4.8 billion by 1989. CBO projects $9.0 billion in new loan guarantee commitments in 1985, $1.0 billion below the Administration estimate.

Functional Development Assistance

The Foreign Assistance Act of 1961 authorizes grants and direct loans for various development assistance programs administered by the Agency for International Development (AID). These funds may be used for development assistance projects in agriculture, nutrition, health, education, human resources development, and energy research. For 1985, the CBO baseline projection is $430 million in new direct loan obligations. The program is projected to reach $516 million by 1989.

TABLE IV-5. EXPORT-IMPORT BANK CREDIT PROGRAM LEVELS
(By fiscal year, in millions of dollars)

	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Limitation on obligation	4,400	3,865	3,919	3,865	3,830
Less unused balance of limitation	-3,555	-2,510	-1,419	-1,285	---
Total	845	1,355	2,500	2,580	3,830
Guaranteed Loans					
Limitation on commitments					
Financial guarantees	1,202	---	---	1,060	1,060
Medium-term guarantees	539	---	---	1,000	1,000
FCIA insurance	6,784	---	---	7,940	7,940
Specified limits	8,524	10,000	9,000	10,000	10,000
Less unused balance of limitation	-476	-1,600	---	---	---
Total	8,049	8,400	9,000	10,000	10,000

Economic Support Fund

The Economic Support Fund provides grants and loans to countries of strategic importance to the United States, particularly Turkey, Jamaica, and the Caribbean countries. Loans from the fund require annual authorization and appropriations equal to their face value. Interest is accrued at 2 to 3 percent over a period of up to 40 years. The CBO baseline projects $342 million in new direct loan obligations for 1985, increasing to $411 million by 1989.

Food for Peace (Public Law 480)

Public Law 480, the Agriculture Trade Development Act of 1954, authorizes the Commodity Credit Corporation (CCC) to extend credit to foreign countries and exporters to finance the sale of agricultural commodities. Credit sales for dollars are repayable over 20 years; sales for convertible foreign currencies are repayable over 40 years. Outstanding loans at the end of 1983 totaled $8.8 billion. For 1985, the CBO baseline projection is $820 million in new direct loan obligations, increasing to $971 million by 1989.

Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation encourages the participation of U.S. private capital and skills in the economic and social development of less developed friendly countries. Its primary programs are risk insurance against losses resulting from political upheaval and investment financing through direct and guaranteed loans. The Foreign Assistance Act of 1969, as amended, authorizes OPIC to guarantee up to 75 percent of the principal of a loan. Maximum contingent liability is limited to $750 million. For 1985, the CBO baseline projects $10.5 million in new direct loan obligations and $105 million in new loan guarantee commitments.

Housing and Other Guaranty Credit

The housing guaranty program extends guarantees to assist developing countries in formulating and executing sound housing and community development policies to meet the needs of lower income groups. The program's activities include provision of homesites and shelter for poor families; projects to upgrade slums, low-income shelter projects, and project-related community facilities and services.

For 1985, CBO projects $18.9 million in new direct loan obligations, entirely for defaulted loan guarantees. Direct loans are projected to decrease to $9.9 million by 1989. New loan guarantee commitments are projected at $158 million in 1985, increasing to $189 million by 1989. The Administration is proposing supplemental language to allow the program Administrators to borrow up to $40 million for the Treasury for payment of claims from defaulting loan guarantees and rescheduling. In addition, $10 million in appropriations is requested to cover defaults and rescheduling resulting from guarantees provided to risky borrowers.

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

The National Aeronautics and Space Administration (NASA) conducts the only credit program in this function. NASA makes loan guarantees to Western Union Space Communications, Inc., for the construction and acquisition of the Tracking and Data Relay Satellite System. All of the loans guaranteed by NASA are financed through the Federal Financing Bank as off-budget direct loans.

Both the CBO baseline and the Administration project new loan guarantee commitments of $131 million in 1984 for space flight control and data communications. Previously, activity in this funciton was in the NASA research and development account. The FFB is expected to disburse the full $131 million as direct loans in 1984. No new guaranteed loan activity is estimated to occur after 1984. Table IV-6 shows the credit activity for NASA.

TABLE IV-6. GENERAL SCIENCE, SPACE, AND TECHNOLOGY CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
NASA space flight control and data communications, FFB direct loans	---	131	---	---	---	---	---
NASA research and development, FFB direct loans	189	---	---	---	---	---	---
Total	189	131	---	---	---	---	---
Loan Guarantees							
NASA research and development	189	---	---	---	---	---	---
NASA space flight control and data communications	---	131	---	---	---	---	---
Subtotal	189	131	0	0	0	0	0
Less guarantees of direct loans sold to the FFB	-189	-131	---	---	---	---	---
New primary guarantees	0	0	0	0	0	0	0

FUNCTION 270: ENERGY

This function includes credit programs for rural electrification and telephones funded through the Rural Electrification Administration, power projects funded through the Bonneville Power Administration, and the Tennessee Valley Authority. Table IV-7 summarizes the new direct loan obligations and new loan guarantee commitments in this function.

Rural Electrification Administration

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

REA makes both direct and guaranteed loans through the RETRF. RETRF's activity has been financed primarily by the FFB through the use of loan sales and FFB origination of REA guaranteed loans. The direct loan program provides direct loans not to exceed 35 years in term, at an interest rate of 5 percent, in accordance with criteria specified in law. REA guaranteed loans are financed at one-eighth of one percent above the Treasury's borrowing rate.

In the last few years, appropriations language has presented range estimates--a floor and a ceiling--for direct loans to allow for changes in economic circumstances in rural areas during the fiscal year. The practice was continued for 1984 where the enacted limitation is $1.4 billion and the Administration plans to obligate only $1.1 billion. The CBO baseline projection for new direct loan obligations is $1.1 billion in 1985. The Administration is proposing a limitation of $0.6 billion in 1985, all of which it plans to obligate. Loan assets of the REA are pooled and sold to the FFB as certificates of beneficial ownership. The certificates are guaranteed by REA. CBO projects asset sales in 1985 at $0.7 billion, increasing to $0.8 billion by 1989. CBO also has reestimated the Administration's loan asset sales estimate of $0.5 billion to $0.7 billion in 1985. The Administration proposes supplemental legislation to increase the interest rate on direct loans thereby reducing loan asset sales in each year 1984 through 1989. CBO has reestimated the proposal to exclude any reduction in 1984 and to reduce the savings by $315.6 million over the projections period. Table IV-8 summarizes the REA credit activity.

TABLE IV-7. ENERGY CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Rural Electrification Admin. (REA)	1,101	1,100	1,125	1,149	1,185	1,239	1,293
REA, FFB direct loans	3,442	3,360	3,435	3,510	3,620	3,786	3,950
REA, FFB purchased loan assets	344	397	678	634	668	712	771
Tennessee Valley Authority (TVA)	41	84	88	92	96	99	102
TVA, FFB direct loans	161	132	123	131	165	192	225
Geothermal resource development, FFB direct loans	100	---	---	---	---	---	---
Bonneville Power Administration	4	40	42	44	46	47	48
Subtotal	5,193	5,113	5,491	5,560	5,779	6,075	6,389
Less sale of loan assets to the FFB	-344	-397	-678	-634	-668	-712	-771
Total	4,849	4,716	4,813	4,926	5,111	5,363	5,619
Loan Guarantees							
Rural Electrification Administration	3,786	3,758	4,113	4,144	4,288	4,498	4,721
Tennessee Valley Authority	161	132	123	131	165	192	225
Bonneville Power Administration	---	20	21	22	23	24	24
Geothermal resource development	45	---	78	26	41	---	---
Subtotal	3,992	3,910	4,335	4,323	4,517	4,714	4,970
Less guarantees of direct loans sold to the FFB	-3,947	-3,890	-4,236	-4,276	-4,453	-4,691	-4,946
New primary guarantees	45	20	98	47	64	24	24

CBO's baseline estimate for REA loan guarantees, including guarantees of loan asset sales, is $4.1 billion in 1984 and 1985. The Administration proposes to reduce guarantees from $3.8 billion in 1984 to $1.8 billion in 1985, a difference of $2.0 billion. This represents a reduction of $2.3 billion from the baseline in 1985.

The Administration anticipates that demand for new sources of electrical power will continue to be low.

TABLE IV-8. RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND CREDIT PROGRAM LEVELS (By fiscal year, in millions of dollars)

	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Limitation on obligations	1,426	1,425	1,125	1,425	575
Less unused balance of limitation	-325	-325	---	-325	---
Subtotal, limited direct loans	1,101	1,100	1,125	1,100	575
Obligations exempt from limitation					
FFB direct loans	3,442	3,360	3,435	3,360	1,325
FFB purchase of loan assets	(344)	(398)	(678)	(595)	(680)
Subtotal, exempt direct loans	3,442	3,360	3,435	3,360	1,325
Total, direct loans	4,543	4,460	4,560	4,460	1,900
Guaranteed Loans					
Limitation on commitments	5,950	4,145	3,435	4,145	1,325
Less unused balance of limitation	-2,508	-785	---	-785	---
Guarantees converted to Treasury rate loans by FFB	-3,442	-3,360	-3,435	-3,360	-1,325
Subtotal, limited guaranteed loans	---	---	---	---	---
Commitments exempt from limitation					
Guarantees of loan assets sold to FFB	(344)	(398)	(678)	(595)	(680)
Total, guaranteed loans	---	---	---	---	---

Total outstanding commitments for REA loan guarantees in 1983 were \$33.0 billion, \$10.0 billion more than the total loan guarantees made. In 1984, the Administration estimates \$36.3 billion in total commitments and \$27.2 billion in guarantees outstanding, a difference of \$9.1 billion. In 1985, the difference decreases to \$6.6 billion with total commitments estimated at \$37.5 billion and total guarantees outstanding of \$30.9 billion. REA projects often have a long lead time from commitment to actual disbursement of loans.

Tennessee Valley Authority

The Tennessee Valley Authority is a government-owned corporation created to oversee the unified development of a river basin that covers parts of seven states. The Seven States Energy Corporation is a TVA subsidiary that finances TVA's nuclear fuel acquisition. The corporation borrows from the FFB to finance its lending, with TVA guaranteeing the indebtedness through purchase agreements. The CBO baseline projection for the corporation's borrowing from the FFB is \$123 million in 1985, increasing to \$225 million by 1989. Rollovers of existing loans have been excluded from both CBO's and the Administration's numbers.

TVA also has a direct loan program for making low-interest loans for conservation through utilities serving the borrowers. TVA is then paid back through these utilities. CBO's baseline projection is \$88 million in new direct loan obligations in 1985, increasing to \$102 million by 1989.

Synthetic Fuels Corporation

The Administration is proposing that the Synthetic Fuels Corporation guarantee loans of \$4.1 billion in 1984 and \$2.4 billion in 1985. The corporation has the discretion to provide assistance in the form of purchase agreements, price guarantees, and direct and guaranteed loans. CBO has not included either direct or guaranteed loans in the baseline on the assumption that assistance ultimately will take the form of price guarantees.

Bonneville Power Administration

The Bonneville Power Administration provides direct loans for energy conservation. These loans are made through the power distribution companies serving borrowers for the purpose of promoting residential conservation measures. No interest is specifically charged, and repayment of principal occurs over a period of five years. The cost of interest is included in the rates charged to all power recipients, since energy conservation is perceived as a general benefit to the Bonneville system.

In 1984, a limitation of $40 million was enacted for new direct loan obligations. CBO's baseline projection for 1985 is $42 million, increasing to $48 million by 1989. A limitation of $20 million on new loan guarantee commitments was enacted for 1984. The CBO baseline projection is $21 million in 1985, increasing to $24 million by 1989. The Administration is not planning to make any new guarantees in 1984 or during the projections period.

Geothermal Resources Development

The geothermal resources development program provides loan guarantees to assist the private sector in developing geothermal resources by minimizing lender's financial risk associated with the introduction of new technology. The CBO baseline estimate for new loan guarantee commitments is $78 million in 1985.

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

Function 300 contains two direct loan programs: the Interior Department's water resources loan program and loans for reconstruction of the Filene Center at Wolf Trap Farm Park. Table IV-9 summarizes new direct loan obligations in this function.

TABLE IV-9. NATURAL RESOURCES AND ENVIRONMENT CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Bureau of Reclamation loan program	54	52	54	57	59	61	63
Construction (Wolf Trap)	---	8	---	---	---	---	---
Total	54	60	54	57	59	61	63

The Small Reclamation Projects Act provides authorization for loans to irrigation districts and other public agencies for construction or rehabilitation of small water resource projects. The Distribution Systems Loan Act provides loans to organizations for the construction of irrigation and municipal or industrial waste distribution systems on authorized federal reclamation projects. The CBO baseline projection for new direct loan obligations in 1985 is $54 million, increasing to $63 million by 1989.

Public Law 97-310 provides for the reconstruction of the Filene Center at Wolf Trap Farm Park for the Performing Arts. The CBO baseline projection for 1984 new direct loan obligations is $8.0 million. No new loans are projected for 1985.

FUNCTION 350: AGRICULTURE

Credit assistance for agriculture consists of loans and loan guarantees of the Farmers Home Administration Agriculture Credit Insurance Fund and the Commodity Credit Corporation, both in the Department of Agriculture. Table IV-10 summarizes new direct loan obligations and new loan guarantee commitments by the ACIF and the CCC in fiscal years 1983-1989.

Agriculture Credit Insurance Fund

The ACIF provides a wide variety of direct loans to farmers, ranchers, and others engaged in agricultural activities. Loans support farm ownership and operations, soil and water conservation and development, development of recreation enterprises, and emergency disaster relief to individuals. Associations are eligible for loans for irrigation and drainage, Indian land acquisition, watershed protection, flood prevention, and resource conservation and development. Table IV-11 a comparison between CBO baseline estimates and the President's request for the credit activity in the ACIF for 1984-1985.

The terms for direct loans made through the ACIF are more favorable than those for commercial loans. Farm ownership, property, and resource development loans have long-term maturities, usually 35 to 40 years, and bear interest at ACIF's cost of borrowing from the Treasury plus a small administrative fee. Low-income borrowers receive 20 percent of all new loans extended. These loans are made at lower interest rates, usually half the cost of Treasury borrowing to a minimum of 5 percent. Farm operating loans have shorter terms, usually 7 to 10 years, and use the same Treasury interest rate. Twenty percent of the operating loans are made to low-income farmers who receive interest at three percentage points below the government cost of borrowing to a minimum of 5 percent. Disaster loans for farm ownership and operations have the same maturities, and loans on losses are let at 8 percent. Guaranteed loans have the same maturities as direct loans although the interest rate is negotiated between the lender and the borrower.

The ACIF is a revolving fund. Sales of direct loans held by the ACIF provide funds for further loans. Groups of loans are packaged as a pool in a certificate of beneficial ownership, or loan asset, and sold. Most certificates are sold with an ACIF guarantee to the Federal Financing Bank. Because proceeds from these loan assets are considered to be offsetting collections, they are counted as negative outlays and reduce net lending. Selling loan assets to the FFB has the effect of transferring budget outlays

TABLE IV-10. AGRICULTURE CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Agriculture Credit Insurance Fund a/	3,022	4,947	4,911	5,157	5,404	5,649	5,896
Agriculture Credit Insurance Fund, FFB purchases of loan assets	(4,160)	(6,934)	(4,394)	(1,314)	(459)	(572)	(390)
Commodity Credit Corporation price supports and related programs	13,915	6,231	6,615	8,666	8,243	7,965	8,152
Total	16,937	11,178	11,526	13,823	13,647	13,614	14,048
Loan Guarantees							
Agriculture Credit Insurance Fund	71	706	164	172	181	188	197
Agriculture Credit Insurance Fund, guarantees of loan assets sold	(4,160)	(6,934)	(4,394)	(1,314)	(459)	(572)	(390)
Commodity Credit Corporation export credit guarantees	4,669	4,000	3,000	3,000	3,000	3,000	3,000
Total	4,740	4,706	3,164	3,172	3,181	3,188	3,197

NOTE: Amounts in parentheses are financing entries and do not contribute to new credit program activity.

a. ACIF direct loan obligations are shown net of FmHA's repurchase of loan assets from the FFB.

TABLE IV-11. AGRICULTURE CREDIT INSURANCE FUND CREDIT PROGRAM LEVELS
(By fiscal year, in millions of dollars)

	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Limitation on obligations					
Farm ownership	730	6,252	657	625	604
Farm operating	1,685	1,810	1,903	1,810	1,920
Emergency disaster	---	50	---	50	---
Soil and water	47	25	26	25	20
Indian land acquisition	8	12	13	12	---
Watershed protection	26	26	27	26	---
Resource conservation	4	4	4	4	---
Specified limits	2,499	2,552	2,631	2,522	2,544
Less unused balance of limitation	-63	---	---	---	---
Subtotal, limited direct loans	2,436	2,552	2,631	2,552	2,544
Oligations exempt from limitation					
Emergency disaster	586	2,395	2,280	2,395	2,280
Repurchase of loan assets	(3,465)	(5,395)	(4,157)	(5,395)	(4,157)
FFB purchase of loan assets	(4,160)	(6,934)	(4,394)	(6,934)	(4,394)
Subtotal, exempt direct loans	586	2,395	2,280	2,395	2,280
Total, direct loans	3,022	4,947	4,911	4,947	4,824
Guaranteed Loans					
Limitation on commitments					
Farm ownership	75	50	53	50	50
Farm operating	100	100	105	100	150
Soil and water	6	6	6	0	6
Emergency disaster	0	550	---	550	---
Specified limits	181	706	164	706	206
Less unused balance of limitation	-110	---	---	---	---
Subtotal, limited guaranteed loans	71	706	164	706	206
Commitments exempt from limitation					
Guarantees of loan assets sold to the FFB	(4,160)	(6,934)	(4,394)	(6,934)	(4,394
Total, guaranteed loans	71	706	164	706	206

NOTE: Amounts in parentheses are financing entries and do not contribute to new credit program activity.

from the ACIF to the off-budget FFB. In the credit control system, limitations are imposed only on new direct loans and loan guarantees by the ACIF to the public. Sales of loan assets and guarantees of these sales are considered to be financing transactions. Therefore, no limitations are made on direct loan obligations or loan guarantee commitments associated with asset sales.

CBO's baseline projection for ACIF direct loan obligations is $4.9 billion in 1985, increasing to $5.9 billion by 1989. The Administration is requesting a limitation on farm operating and farm ownership loans of $2.5 billion on new direct loan obligations, and is freezing the program at this level through 1989. The Administration estimated the requirement for emergency disaster loans to be $1.0 billion for 1985 and assumed that the program would remain approximately at the $1.0 billion level through 1989. CBO reestimated the Administration's emergency disaster loan number, increasing the estimate by $1.5 billion in 1985, growing to $1.8 billion by 1989. The CBO reestimate reflects the historical expenditure pattern for ACIF disaster loans adjusted for inflation. CBO could not determine a basis for the Administration's lower estimate, nor was legislation proposed to restrict eligibility for the program. The Administration's estimate is $4.4 billion in new loan asset sales for 1985, decreasing to $390 million by 1989. CBO reestimated the Administration's 1984 loan guarantee estimate for ACIF to add $550 million for economic emergency loans, which had been excluded from the President's budget through an oversight. The CBO baseline projection for new loan guarantee commitments for 1985 is $163 million for farm ownership, farm operating, and soil and water guarantees. The Administration has proposed an increase of $50 million in farm operating guaranteed loans and is requesting a limitation of $206 million on new loan guarantee commitments plus guarantees of loan asset sales of $4.4 billion. CBO projects new loan guarantee commitments increasing to $189 million by 1989. The Administration projects guarantees remaining at $206 million through 1989.

The Administration is proposing a number of changes in the ACIF lending programs. In the farm ownership and farm operating programs, legislation is proposed to increase the limitation in principal indebtedness of borrowers, giving additional assistance to beginning farmers. In both programs, legislation will be proposed to eliminate lending for recreational enterprises. The Administration is proposing to eliminate funding for irrigation and drainage loans, resource conservation and development and watershed protection, general recreation loans, and flood prevention loans in 1985. It proposes to increase interest rates in some programs to the cost of Treasury money for all borrowers. In addition, legislation will be proposed to eliminate emergency disaster loans when federal crop insurance is generally available to producers in an area. This proposal is designed to provide

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an incentive for farmers to move toward participation in the crop insurance program rather than rely on the availability of subsidized loans to recover from disaster losses. The prospect that these loans would become available has encouraged some farmers to assume unacceptable financial risk.

Commodity Credit Corporation

The Commodity Credit Corporation (CCC) conducts two direct loan programs and one loan guarantee program for farm income stabilization and support. Table IV-12 summarizes the new direct loan obligations and new loan guarantee commitments for 1983 through 1985.

TABLE IV-12. COMMODITY CREDIT CORPORATION CREDIT PROGRAM LEVELS (By fiscal year, in millions of dollars)

Program	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Short- and medium-term export loans	205	175	175	175	175
Commodity loans	13,622	6,014	6,420	6,946	6,848
Storage facility loans	88	42	20	42	20
Total, direct loans	13,915	6,231	6,615	7,163	7,043
Guaranteed Loans					
CCC export guarantee program	4,669	4,000	3,000	4,000	3,000

The CCC's principal form of credit assistance is the nonrecourse commodity loan. The CCC makes direct loans to producers with the crop or commodity serving as collateral. On the maturity date, approximately nine months later, the producer may either pay off the loan or deliver his crop to the CCC. Commodity loans act to set a floor under market prices because they are based on a given price. If the market price is below the support price, the farmer delivers his crop to the CCC rather than repay the loan. If the market price is above the support price, he sells the crop himself and repays the loan with interest. The CCC commodity support loans are an entitlement. Their volume depends upon: market conditions; support prices, which are determined at the discretion of the Secretary of Agriculture within statutory minimums; and the amount of participation by farmers. The CBO 1985 baseline estimate for new direct loan obligations for commodity loans is $6.6 billion, increasing to $8.2 billion by 1989. The Administration has proposed legislation to freeze target prices beginning in 1985, a change that would reduce loan volume.

The Administration has proposed no new short- and medium-term export loans or storage facility loans after 1985. The CBO baseline shows a program level on direct export credits of $175 million in 1984 and 1985. The Administration has administrative discretion to make no new storage facility loans. CBO has revised the baseline to show no new storage facility loans in accord with the Administration's policy.

The CCC also conducts a noncommercial risk assurance program. Under this program, the CCC guarantees U.S. exporters against default because of noncommercial risks on payments owed to them under deferred payment sales contracts. The program is designed to protect exporters from defaults caused by political instability. In 1983, actual guarantee commitments grew to $4.7 billion because of the combined factors of the inflated value of the dollar and the worldwide economic recession. The Administration estimated requirements to be $4.0 billion in 1984, falling to $3.0 billion in 1985 and remaining at that level through 1989.

FUNCTION 370: COMMERCE AND HOUSING CREDIT

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

The CBO baseline estimates $6.0 billion in new direct loan obligations and $56.6 billion in new loan guarantee commitments for 1985 in the commerce and housing credit function. Table IV-13 summarizes the credit activity in this function for 1983 through 1989. The Administration's request as estimated by CBO proposes $6.0 billion in new direct loan obligations and $44.2 billion in new loan guarantee commitments for 1985.

Federal Housing Administration

The first major loan guarantee program of the federal government was home mortgage insurance, begun during the Depression. Today, home mortgage insurance continues to be the largest federal credit activity. The mortgage insurance programs of the Federal Housing Administration are administered through the FHA fund, which is actually a collection of insurance funds, each providing mortgage insurance for a targeted group of consumers.

For 1985 FHA new direct loan obligations, the baseline estimate is $345 million. Of that amount, $285 million will be used to cover defaults against FHA-insured mortgages. In cases of default, the FHA pays off the holder of the guaranteed mortgage and the mortgage becomes a direct loan for which the FHA seeks repayment. The volume of direct loan obligations estimated for default claims greatly understates the FHA's activities involving defaulted borrowers. In addition to acquiring defaulted mortgages and notes, the FHA acquires defaulted real properties and other assets, incurring substantial property expenses to manage and maintain them. CBO does not reflect real property acquisition in the credit budget, since it involves no lending. Total default-related costs for FHA in 1984 and 1985 are estimated to be $1.7 billion annually. CBO has reestimated the Administration's credit budget for FHA to exclude the acquisition of real property.

CBO estimates that limitations on FHA loan guarantee commitments will increase from $53.5 billion in 1985 to $64.3 billion by 1989 and that loans guaranteed will rise from $49.2 billion to $58.8 billion over the period. The Administration's request assumed a constant limitation level of $50.9

billion from 1985 through 1989 and actual loan guarantee commitments increasing from $40.9 billion in 1985 to $49.0 billion in 1989. The Administration estimates are based on its expectation that private mortgage insurers will be able to adequately serve a relatively larger share of the housing market as interest rates decline and economic conditions improve, and as part of its continuing policy to reduce the federal role in housing credit.

A number of changes have been enacted or are proposed that are designed to make the FHA mortgage insurance program more efficient and self-sufficient. In 1983, legislation was enacted removing statutory ceilings on interest rates for FHA mortgages and to allow direct approval of FHA-insured mortgages by approved mortgage lenders. The method of collecting FHA insurance premiums was also changed requiring either a lump sum payment at the time of settlement, or adding insurance costs to the mortgage value, replacing monthly premium payments. Table IV-14 shows a detailed description of credit activity in the FHA fund.

Government National Mortgage Association

Major federal support for the mortgage market is provided by the activities of the Government National Mortgage Association. GNMA guarantees securities that are issued by mortgage bankers and other financial institutions. These securities are backed by pools of mortgages insured by the FHA, the Veterans Administration, or the Farmers Home Administration. Because the GNMA guarantees are attached to previously insured mortgages, they are counted as secondary guarantees in the credit budget and are deducted from the credit budget totals. The GNMA-guaranteed securities are traded in investment securities markets and because of their liquidity are attractive to investors who have not traditionally invested in mortgages. Through its guarantees, GNMA is able to draw more funds into housing credit.

The CBO baseline projects guaranteed loan commitment limitation levels of $68.2 billion in 1984 and $71.4 billion in 1985, increasing to $82.7 billion in 1989. The Administration is requesting a commitment limitation of $68.2 billion in 1985 and projects that level through 1989, consistent with its policy to restrain the limitation for this program.

In the past, GNMA has also purchased mortgages to support the flow of housing credit. Through its special assistance functions fund or the tandem plan, GNMA purchases below-market-interest-rate FHA and VA loans from lenders, at or near their full face value. GNMA then sells the mortgages at market rates to other investors, absorbing the resulting discount costs. No new funding for this program is authorized for 1984 or beyond.

TABLE IV-13. COMMERCE AND HOUSING CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Rural housing insurance fund a/	2,952	3,309	3,653	3,724	3,773	4,227	4,204
FFB purchase of loan assets	(4,400)	(6,236)	(4,237)	(2,318)	(2,376)	(2,532)	(2,355)
National Credit Union Admin.	220	287	456	453	451	449	447
Federal Housing Admin. fund	415	453	345	373	427	465	507
Housing for the elderly or handi-capped fund	633	666	700	732	765	801	838
Special assistance functions fund	500	---	---	---	---	---	---
SBA business loan and investment fund	851	828	777	776	803	836	863
SBA, FFB direct loans	430	575	600	630	660	689	718
Other	34	61	63	67	68	72	74
Total	6,035	6,179	6,594	6,755	6,948	7,539	7,651
Loan Guarantees							
Rural housing insurance fund	21	---	---	---	---	---	---
Guarantees of loan assets sold to FFB	(4,440)	(6,236)	(4,237)	(2,318)	(2,376)	(2,532)	(2,355)

a. RHIF direct loan obligations are shown net of FmHA's repurchase of loan assets from the FFB.

TABLE IV-13. (Continued)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Federal Housing Admin. fund	44,611	46,574	49,191	51,431	53,905	56,341	58,804
Government National Mortgage Association (GNMA), guarantees of mortgage-backed securities	64,225	68,250	71,390	74,597	77,532	80,262	82,651
Small Business Admin. pollution control equipment contract guarantee revolving fund	8	250	262	272	284	294	304
SBA, business loan and investment fund	3,041	3,685	3,877	4,065	4,260	4,456	4,647
Other	58	66	50	52	55	60	63
Subtotal	111,964	118,825	124,770	130,417	136,036	141,413	146,469
Less							
Guarantees converted to Treasury rate direct loans by FFB	-430	-575	-600	-630	-660	-689	-718
Guarantees of direct loans held by GNMA	-500	---	---	---	---	---	---
Secondary loan guarantees	-64,225	-68,250	-71,390	-74,597	-77,532	-80,262	-82,651
New primary guarantees	46,809	50,000	52,780	55,190	57,844	60,462	63,100

NOTE: Amounts in parentheses are financing entries and do not contribute to new credit program activity.

TABLE IV-14. FEDERAL HOUSING ADMINISTRATION CREDIT PROGRAM LEVELS (By fiscal year, in millions of dollars)

	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Limitation on obligations					
Temporary mortgage assistance	45	56	59	56	65
Less unused balance of limitation	-45	---	---	-38	---
Subtotal, limited direct loans	---	56	59	18	65
Obligations exempt from limitation					
Acquisition of defaulted notes	81	64	63	64	63
Acquisition of defaulted mortgages	334	332	223	332	223
Acquisition of real properties a/	(1,073)	(1,289)	(1,368)	(1,289)	(1,307)
Subtotal, exempt direct loans	415	396	285	396	285
Total, direct loans	415	453	345	415	351
Guaranteed Loans					
Limitation on commitments	50,900	50,900	53,547	50,900	50,900
Less unused balance of limitation	-6,289	-4,326	-4,356	-12,800	-10,000
Guaranteed loans committed	44,611	46,574	49,191	38,100	40,900
Total, guaranteed loans	27,564	30,000	31,360	31,280	33,619

a. CBO excludes acquisition of real property from the definition of direct loans because the transaction of acquiring property involves no debt to the federal government.

Housing for the Elderly or Handicapped

Section 202 of the Housing Act of 1959, as amended, provides for a program of direct loans to nonprofit sponsors to construct rental housing for elderly and handicapped persons. The loans have a maximum term of 40 years and used to bear interest based on the Treasury's borrowing rate, plus an allowance to cover administrative expenses. Recently the Congress limited the interest rates to 9.25 percent, regardless of Treasury costs.

For 1985, the CBO baseline projects new direct loan obligations of $700 million, increasing to $848 million by 1989. The Administration's request for 1985 is $500 million, increasing to $608 million by 1989.

Rural Housing Insurance Fund

The Rural Housing Insurance Fund of FmHA makes direct loans for rural housing purchases, rental and cooperative housing projects, farm labor housing projects, and preparation of rural housing sites.

The CBO baseline projects new direct loan obligations of $3.5 billion for RHIF in 1985 for ongoing program activities of the fund. The RHIF guarantees loan assets, most of which are sold to the FFB. New loan guarantee commitments are projected to be $4.5 billion in 1984.

The Administration's request as estimated by CBO proposes a major cut in new direct loans for rural housing. The Administration has requested new loans of $2.3 billion for 1985, a reduction of 29 percent from the 1984 enacted limit. The Administration has proposed to terminate loans for unsubsidized borrowers. For 1986 through 1989, the Administration has assumed the program would be held at the proposed 1985 level. The Administration's request reflects a savings of $7.3 billion from the baseline projections for RHIF new direct loans. Table IV-15 displays the RHIF credit program levels.

Small Business Administration

The Small Business Administration provides credit to small businesses in the form of direct loans, loan guarantees, and pollution control equipment contracts. Most of this credit assistance occurs in the business loan and investment fund of SBA. Table IV-16 shows detailed credit activity of this fund for 1983 through 1985.

No limitations have been enacted in appropriations language for new direct loans or loan guarantees in 1984. The conference report language of the bill, however, specified limitations of $242 million on new direct loan obligations and $3.3 billion in contingent liability for loan guarantee commitments for the business loan and investment fund. CBO interpreted this language as a limitation on its program level. The Budget Committees, in

TABLE IV-15. RURAL HOUSING INSURANCE FUND CREDIT PROGRAM LEVELS (By fiscal year, in millions of dollars)

	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Limitation on obligation					
Low-income housing	2,300	2,070	2,184	2,070	1,600
Very low-income housing	24	24	25	24	17
Rural rental housing	940	940	992	940	690
Farm labor housing	19	20	21	20	13
Unsubsidized housing	30	231	243	230	---
Other (site)	1	1	1	1	0
Specified limits	3,314	3,285	3,466	3,285	2,320
Less unused balance of limitation	-426	---	---	---	---
Subtotal, limited direct loans	2,888	3,285	3,465	3,285	2,320
Obligations exempt from limitation					
Repurchase of loan assets from FFB	(2,685)	(3,930)	(2,110)	(3,930)	(2,110)
Repurchase of loan assets from public	63	24	187	24	187
FFB purchase of loan assets	(4,400)	(6,236)	(4,237)	(6,236)	(3,477)
Subtotal, nonlimited direct loans	63	24	187	24	187
Total, direct loans	2,952	3,301	3,481	3,301	2,370
Guaranteed Loans					
Commitments exempt from limitation					
Guarantees of loan assets sold to FFB	(4,400)	(6,236)	(4,237)	(6,236)	(3,477)
Loans by private lenders	21	---	---	16	13
Total, guaranteed loans	21	---	---	16	13

NOTE: Amounts in parentheses are financing entries and do not contribute to new credit program activity.

TABLE IV-16. SMALL BUSINESS ADMINISTRATION BUSINESS INVESTMENT AND LOAN FUND CREDIT PROGRAM LEVELS (By fiscal year, in millions of dollars)

	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Obligations exempt from limitation					
SBA-originated direct loans					
Minority enterprise small business investment company loans a/	26	41	43	41	41
Other targeted direct loans	133	201	209	201	---
Disbursements for guarantee claims	693	568	525	568	511
Repurchase of loan assets from FFB	(2)	(1)	(1)	(1)	(1)
Subtotal, SBA direct loans	851	810	777	810	552
FFB direct loans	261	575	600	575	575
Total, direct loans	1,112	1,385	1,377	1,385	1,067
Guaranteed Loans					
Commitments exempt from limitation a/					
Small Business Investment Company 503 development companies	430	575	600	575	575
Other SBA guaranteed loans	2,611	3,110	3,277	3,110	3,110
Subtotal, exempt guaranteed loans	3,401	3,685	3,877	3,685	3,685
Less guarantees converted to Treasury rate loans by FFB	-430	-575	-600	-575	-575
Total, guaranteed loans	2,611	3,110	3,277	3,110	3,110

NOTE: Amounts in parentheses are financing entries and do not contribute to new credit program activity.

a. The President's budget proposes the enactment of limitations for SBA loan programs beginning in 1985.

"scoring" Congressional action on credit budget programs, include only those limitations enacted in appropriations bills.

CBO's baseline estimate for 1985 new direct loan obligations is $777 million, increasing to $863 million by 1989. Direct loans of approximately $242 million will be made available to individual businesses and to minority enterprise small business investment companies (MESBICs) in 1984. The estimated $568 million of the remaining 1984 new direct loan obligations will be used to pay loan guarantee default claims.

Loan guarantee commitments are projected to be $3.9 billion in 1985, increasing to $4.6 billion in 1989. The loan guarantee commitments in the CBO baseline represent the full principal value of the loans, although the government's contingent liability (the percentage of principal that is guaranteed is somewhat less) around 89 percent. This presentation of commitments was instituted last year to reflect more accurately the full impact of federal credit on the economy.

Loan guarantees are provided for business loans, loans to the handicapped, economic opportunity loans and energy loans. The FFB is expected to finance $575 million of the 1985 guaranteed loans as off-budget direct loans. These FFB loans are made to small business investment companies as well as development companies to finance their provision of equity capital for small businesses.

The Administration's request as estimated by CBO is $810 million for 1984 new direct loan obligations. Of that amount, $41 million is for lending to MESBICs, and $568 million is to cover estimated claims on defaulted guaranteed loans. The Administration's budget assumes the phased reduction of SBA guaranteed loans beginning in 1986, resulting in a $7.2 billion reduction relative to baseline estimates for 1985 through 1989.

Pollution Control Equipment Guarantees

Public Law 94-305 established this fund authorizing SBA to guarantee payments by small businesses to contractors for the design, planning, or installation of pollution control facilities. In 1985, the CBO baseline estimate for loan guarantee commitments is $262 million. The Administration has proposed appropriations language limiting 1985 loan guarantee commitments to $150 million.

National Credit Union Administration

The National Credit Union Administration (NCUA), through its central liquidity facility, provides direct loans to member credit unions to meet seasonal and emergency needs. Its share insurance fund insures members' deposits in federal credit unions. The CBO baseline estimate for new direct loan obligations is $287 million for 1984 rising to $447 million in 1989 for these two NCUA programs.

FUNCTION 400: TRANSPORTATION

This function includes credit programs of the Department of Transportation that provide financial assistance for highway, rail, air, and water transportation. The CBO baseline estimate for 1985 direct loan obligations in this function is $72 million. The CBO baseline estimate for loan guarantee commitments in 1985 is $476 million. Table IV-17 summarizes the credit activity in this function.

Federal Highway Administration

Two direct loan programs, the federal aid to highways trust fund and the right-of-way revolving fund, provide assistance to states for highway construction and for right-of-way purchases prior to highway construction. In 1985, CBO's baseline projects that new direct loan obligations for these funds will be $31 million.

Federal Railroad Administration

The CBO baseline includes direct loan obligations of $880 million in 1984 for defaulting Amtrak guarantees. The Secretary of Transportation borrowed funds from the Treasury to repay the original loan financed by the FFB and guaranteed by Amtrak. A supplemental appropriation has been requested for the Department of Transportation for 1984 to retire this debt. No new direct loan obligations are projected after 1984.

New lending for the railroad rehabilitation and improvement financing fund is projected to increase slightly from $23 million in 1984 to $24 million in 1989. The Administration is again proposing appropriations language to eliminate new direct loan obligations and loan guarantee commitments for all railroad assistance programs after 1985.

Maritime Administration, Federal Ship Financing Fund

Under Title XI of the Merchant Marine Act of 1936, as amended, the Maritime Administration is authorized to guarantee construction loans and mortgages to build U.S.-flag vessels in the United States. It also makes direct loans in the form of advances to operators of vessels built under Title XI guarantees to forestall possible defaults and to satisfy claims on defaulted loans.

TABLE IV-17. TRANSPORTATION CREDIT PROGRAM BASELINE
(By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Federal Highway Administration	72	30	31	33	34	35	36
Federal Railroad Administration	33	1,010	---	---	---	---	---
Federal Railroad Administration, FFB purchase of direct loans	15	20	21	22	23	24	24
Maritime Adminisration federal ship financing fund	125	85	20	15	10	10	10
Aircraft purchases, defaults	153	---	---	---	---	---	---
Other	---	18	---	---	---	---	---
Total	402	1,146	72	70	67	69	71
Loan Guarantees							
Federal Railroad Administration	15	33	23	22	23	24	24
Maritime Administration federal ship financing fund	322	450	473	497	521	544	568
Other	9	---	---	---	---	---	---
Subtotal	346	483	496	519	544	568	592
Less guarantees of direct loans sold to FFB	-15	-20	-21	-22	-23	-24	-24
New primary guarantees	331	463	476	497	521	544	568

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established a commitment limitation ceiling of $9.5 billion on the volume of Maritime Administration guarantees for this program. The CBO baseline estimates $450 million in guaranteed loan commitments for 1984, increasing to $568 million by 1989. The Administration estimates that with new commitments of $600 million each year, $7.8 billion in guaranteed commitments will be outstanding by the end of 1985.

For the second year, the Administration has proposed new appropriations language that requests a limitation on commitments of $900 million in 1985. Of that amount, $300 million will be used only if needed in the interest of national security. The Administration also proposes loan guarantee commitment limitations of $900 million annually from 1986 through 1989, estimating that $600 million in guaranteed loans will be made each year.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

This function contains credit assistance for community development in the Department of Housing and Urban Development, area and regional development in the Departments of Commerce and Agriculture, disaster loans of the Small Business Administration, and assistance to Indian tribes in the Department of the Interior. For 1985, the CBO baseline projects $1.7 billion in new direct loan obligations, an increase of $56 million from 1984. New loan guarantee commitments are projected to be $362 million in 1985. Table IV-18 summarizes the credit activity in this function for 1983 through 1989.

The Administration's request as estimated by CBO for new direct loan obligations is $1.0 billion in 1985. The Administration has proposed eliminating all of the loan guarantee programs in this function in 1985, a proposal that would reduce the baseline loan guarantees by $1.9 billion between 1985 and 1989.

Small Business Administration Disaster Assistance

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

The CBO baseline projects new direct loan obligations of $762 million in 1984, increasing to $884 million by 1989. The increase in 1984 and beyond reflects the expiration of legislation enacted in the 1980 reconciliation bill prohibiting farmers from borrowing from SBA for business-related disaster losses. The Administration estimates new direct loan obligations to all borrowers of $440 million in 1984 through 1989. The Administration proposes an appropriation limitation on disaster lending in 1985 as it did in 1984, reflecting its belief that federal disaster relief should supplement state and individual assistance rather than be unlimited. The Congress did not enact a limitation on this program in 1984.

Rural Development Insurance Fund

The Farmers Home Administration makes loans for water systems, waste disposal facilities, community facilities, industrial development, and alcohol fuel production facilities through the Rural Development Insurance Fund.

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TABLE IV-18. COMMUNITY AND REGIONAL DEVELOPMENT CREDIT PROGRAM BASELINE (By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loan Obligations							
Community development grants, FFB direct loans	61	180	188	206	234	275	333
Housing Rehabilitation Loan Fund	45	81	68	66	64	60	58
Rural Development Insurance Fund (RDIF) a/	744	410	472	433	451	708	567
RDIF, FFB purchase of loan assets	(1,010)	(1,615)	(1,109)	(479)	(333)	(438)	(351)
Rural Telephone Bank	172	185	194	202	219	218	224
Small Business Admin. disaster loan fund	198	762	755	791	821	853	884
Other	7	28	25	17	18	17	22
Total	1,227	1,646	1,702	1,715	1,807	2,131	2,085
Loan Guarantee Commitments							
Community development grants	61	180	188	206	234	275	333
RDIF	82	300	312	323	335	346	358
RDIF guarantees of loan assets sold to FFB	(1,010)	(1,615)	(1,107)	(479)	(333)	(438)	(351)
Economic Development Revolving Fund	3	30	30	30	30	30	30
Other	13	19	20	21	22	22	23
Subtotal	159	529	550	580	621	673	744
Less guarantees converted to Treasury rate loans by the FFB	-61	-180	-188	-206	-234	-275	-333
New primary guarantees	98	349	362	374	387	398	411

NOTE: Amounts in parentheses are financing entries and do not contribute to new credit program activity.

a. RDIF direct loan obligations are shown net of FmHA's repurchases of loan assets from the FFB.

For 1985, the CBO baseline projects a limitation of $418 million for new direct loan obligations. In addition, $56 million in direct loan obligations are projected for the repurchase of publicly held loans and $595 million to repurchase maturing certificates of beneficial ownership from the FFB. The CBO baseline projection for 1985 loan guarantee commitments is $312 million, increasing to $358 million by 1989. CBO estimates that an additional $1.1 billion in 1985 guarantee commitments will be required to guarantee loan assets sold to the FFB. Table IV-19 shows detailed 1983-1985 credit activity for RDIF.

The Administration's request as estimated by CBO consists of a limitation on 1985 new direct loan obligations of $350 million. The Administration has proposed to terminate the RDIF industrial development guarantee program in 1985. Total savings from baseline guarantees would be $1.7 billion from 1985 through 1989. The Administration's and CBO reestimates of guarantees of loan asset sales to the FFB are the same.

Community Development Loan Guarantees

Section 108 of the Housing and Community Development Act of 1974, as amended, provided that the Secretary of HUD may guarantee debt certificates issued by community development block grant (CDBG) recipients. A guarantee may be up to three times the amount of the CDBG award, assisting recipients in financing acquisition of real property and in rehabilitating public property.

The CBO baseline projects new loan guarantee commitments of $180 million in 1985. All of the guaranteed loans are financed through the FFB as off-budget direct loans. The Congress has rejected previous Administration attempts to reduce or eliminate this program significantly. For 1985, the Administration again requests no new CDBG loan guarantee commitments.

Rural Telephone Bank

The Rural Telephone Bank (RTB) is an off-budget entity that was established in 1971 by Public Law 92-12 to provide a supplemental source of financing for the Rural Electrification Administration's telephone program. The RTB makes direct loans, charging an interest rate based on its average cost of money. On loans through September 30, 1983, the weighted average interest rate was 8.1 percent. During the first quarter of 1984, loans were made at 10.0 percent interest. To date, the RTB has made loans totaling over $1.9 billion to 524 borrowers.

TABLE IV-19. RURAL DEVELOPMENT INSURANCE FUND
CREDIT PROGRAM LEVELS (By fiscal year, in millions of dollars)

	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Limitation on obligations					
Water and waste disposal systems	600	270	281	270	250
Community facilities	130	130	135	130	100
Subtotal, limited direct loans	730	400	418	400	350
Obligations exempt from limitation					
Repurchase of loan assets from FFB	(505)	(980)	(595)	(980)	(595)
Repurchase of loan assets from public	14	10	56	10	56
FFB purchase of loan assets	(1,010)	(1,615)	(1,109)	(1,626)	(1,125)
Subtotal, exempt direct loans	14	10	56	10	56
Total, direct loans	744	410	474	410	406
Guaranteed Loans					
Limitation on commitments					
Industrial development	300	300	312	300	---
Less unused balance of limitation	-218	---	---	---	---
Subtotal, limited guaranteed loans	82	300	312	300	0
Commitments exempt from limitation					
Guarantees of loan assets sold to FFB	(1,010)	(1,615)	(1,109)	(1,626)	(1,125)
Subtotal, exempt guaranteed loans	---	---	---	---	---
Total, guaranteed loans	82	300	312	300	---

NOTE: Amounts in parentheses are financing entries and do not contribute to new credit program activity.

The CBO baseline estimates for RTB new direct loan obligations are $194 million in 1985, increasing to $224 million by 1989.

Economic Development Administration

The Economic Development Administration (EDA) provides guaranteed loans to encourage private credit and investment in economically distressed areas. The Administration proposes to discontinue all EDA programs as soon as possible, with no new lending activity proposed for EDA programs in 1985. The Administration proposed to eliminate this program in 1984, but the Congress enacted a limit of $167 million on loan guarantees. The actual level of commitments estimated in 1984 is $30 million, less than one-fifth of the limit. This lower level reflects the Administration's approach to the program, which is to discourage new applications. The CBO baseline assumption for 1985 is $30 million based on an assumption of continued conflict between the Administration and the Congress on this program.

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Credit programs in this function consist primarily of direct loans and loan guarantees to assist students and their families in financing college educations. In addition, loans are made to colleges and other academic institutions to finance construction of facilities. The CBO baseline estimate for total direct loan obligations is $841 million in 1985, increasing to $979 million by 1989. The baseline projects total loan guarantee commitments of $7.8 billion in 1985, increasing to $8.3 billion in 1989. Table IV-20 summarizes the credit activity in this function.

The Administration's budget as estimated by CBO requests $630 million in 1985 new direct loan obligations, decreasing to $619 million in 1989. New loan guarantee commitments are estimated to be $6.8 billion in 1985, increasing to $7.2 billion by 1989.

TABLE IV-20. EDUCATION ACTIVITIES CREDIT PROGRAM BASELINE (By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Student financial assistance	181	161	171	181	192	204	217
Guaranteed student loans	502	600	630	656	677	701	722
College housing	40	40	40	40	40	40	40
Total	723	801	841	877	888	945	979
Loan Guarantees							
Guaranteed student loans	7,262	7,400	7,750	7,975	8,150	8,250	8,325

Student Financial Assistance

National direct student loans (NDSLs) are low-interest loans to assist financially needy students in pursuing postsecondary education at eligible institutions. The federal government makes loans in the form of annual capital contributions to revolving funds at higher education institutions. Colleges then use loan repayments and the new federal capital to make new loans, rather than repaying the federal government. The CBO baseline projects $171 million in 1985 new direct loan obligations. The Administration does not request any new direct loan obligations after 1984 for NDSLs.

Guaranteed Student Loans

The guaranteed student loan program is designed to promote the availability of commercial and other loans to students and their parents to help pay education costs. This is accomplished through the provision of federal insurance and reinsurance against borrower default and through subsidy payments. The CBO baseline estimate for new loan guarantee commitments is $7.8 billion in 1985. Direct loan obligations used to pay claims on defaulted guaranteed student loans are estimated to be $630 million in 1985.

The Administration proposes three significant changes from current law for the guaranteed student loan program. First, all applicants would be subject to a needs analysis. Currently, only those with family incomes of over $30,000 are required to undergo a needs analysis. Under this proposal, approximately 800,000 of the 3.2 million borrowers would be either ineligible for a loan or would have their loans reduced. New loan volume is estimated to decrease by approximately $1.1 billion in 1985. Second, the government's liability for costs related to borrower default would be reduced from 100 percent to 80 percent of the claim after July 1, 1984. Third, the administrative cost allowance and reserve fund advances that the government provides to guarantee agencies would be terminated in 1985.

CBO has reestimated the Administration's request for 1985 loan guarantee commitments at $6.8 billion. Direct loans for defaulting guarantees are estimated by CBO to be $630 million.

College Housing Loans

Title IV of the Housing Act of 1950 authorized loans at 3 percent interest rates to colleges and eligible hospitals for the construction and acquisition of housing facilities. The CBO baseline projects $40 million annually in new direct loan obligations for 1985 through 1989.

The Administration is again proposing to eliminate new college housing loans after 1984. If enacted, this would result in a reduction of $40 million in estimated 1984 new direct loan obligations.

FUNCTION 550: HEALTH

Credit assistance in the health function includes loans and loan guarantees for health services, health maintenance organizations, and the education and training of health care professionals. Table IV-21 summarizes new direct loan obligations and new primary loan guarantee commitments in this function.

TABLE IV-21. HEALTH CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Health maintenance organizations	29	10	3	1	---	---	---
FFB purchase of loan assets	(9)	(10)	(3)	(1)	---	---	---
Other	3	3	3	5	5	5	5
Total	32	13	6	6	5	5	5
Loan Guarantees							
Health maintenance organizations	14	10	3	1	---	---	---
Health professions graduate student loan insurance	225	225	175	175	175	175	175
Subtotal	239	235	178	176	175	175	175
Less guarantees of direct loans sold to FFB	9	10	3	1	---	---	---
New primary guarantees	230	225	175	175	175	175	175

For 1985, CBO's baseline projects a total of $6 million in new direct loan obligations, decreasing to $5 million by 1989. CBO projects a total of $175 million annually in new primary loan guarantee commitments from 1985 through 1989.

Health Maintenance Organizations (HMOs)

The Public Health Service Act authorizes financial assistance to HMOs in the form of grants, contracts, loans, and loan guarantees for planning, development, acquisition, and construction of ambulatory health care facilities. Both the direct and the guaranteed loans have a 20-year maturity and bear interest at 12 percent. The CBO baseline projection is $3 million for new direct loan obligations and for new loan guarantee commitments in 1985.

Direct loans are financed through a revolving fund. As new loans are made they are sold to the Federal Financing Bank as loan assets to provide funds for additional loans. All the loan sales are fully guaranteed. CBO projects asset sales of $3 million in 1985.

Health Professions Graduate Student Loans

Under Title VII of the Public Health Service Act, the health professions graduate student loan insurance fund enables students to borrow from private lenders to finance their medical training. The government fully insures the principal amount of the loans. The loans have an interest rate of 12 percent. Repayment begins after a nine-month grace period, when the student has completed the educational training. The CBO baseline projection for new loan guarantee commitments is $175 million in 1985, the same level as the Administration's request.

FUNCTION 600: INCOME SECURITY

Credit assistance in the income security function is primarily for housing. Local public housing authorities (PHAs) are assisted in the construction of low-rent public housing, and interest-free direct loans are provided to nonprofit organizations planning to build subsidized housing for low-income, elderly, and handicapped tenants. The Pension Benefit Guaranty Corporation also administers direct loan assistance to prevent the loss of pension benefits to participants if pension plans are terminated or otherwise unable to pay insured benefits. Table IV-22 illustrates the lending activity in this function.

TABLE IV-22. INCOME SECURITY CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Low-rent public housing	247	1,000	---	---	---	---	---
Non-profit sponsor assistance	*	3	3	3	3	3	3
Pension Benefit Guaranty Corporation	1	2	2	2	2	2	2
Total	248	1,004	4	4	4	5	5
Loan Guarantees							
Low-rent public housing	14,261	14,709	14,709	14,709	14,709	14,709	14,709

Low-Rent Public Housing

This program provides three stages of federal credit assistance for the construction, acquisition, or modernization of public housing projects by PHAs. First, direct loans are made to finance the early costs of project development or modernization. The CBO baseline projects $1.0 billion in new direct loan obligations for 1984.

At a second stage, when the direct loans accumulate to an amount that is attractive to private investors, PHAs sell short-term tax-exempt notes to the public. The notes are used to repay the federal direct loans and to raise additional construction funds. The government effectively guarantees these notes with pledges to issue direct loans if the PHA is unable to refinance them. These notes are used to finance the construction of housing projects. The CBO baseline projects $14.7 billion in new loan guarantee commitments for 1984 and assumes activity will be held at that level through 1989. Since the short-term notes are refinanced at least once a year, the loan guarantee commitments overstate the program activity. The loan guarantee estimate does, however, reflect the new financing instruments expected for the year.

The third stage of federal assistance involves permanent financing of completed or nearly completed projects. Before 1974, completed projects were permanently financed for up to 40 years with long-term tax-exempt bonds sold to the public. Between 1974 and 1979, short-term tax-exempt notes were sold to the public. In 1980, PHAs began selling long-term bonds to the FFB for permanent project financing after construction was completed. The government pledges to make full principal and interest payments on the bonds through annual contributions contracts. The Administration has proposed to finance $1.2 billion in PHA obligations through the FFB in 1985 and has requested $30 million for annual contributions for assisted housing appropriation to cover the interest cost of the FFB financing.

FUNCTION 700: VETERANS' BENEFITS AND SERVICES

Credit assistance to veterans includes direct loans in the form of borrowing against the cash value of life insurance policies and for educational purposes, and loans and guarantees to purchase homes. The CBO baseline projection for new direct loan obligations is $1.2 billion in 1985, decreasing to $1.0 billion by 1989. For new loan guarantee commitments, CBO projects $22.9 billion increasing to $34.4 billion over the same period. CBO's baseline estimate exceeds the Administration's by $7.9 billion in 1985, with the difference increasing to $18.2 billion by 1989. The difference lies entirely in the Veterans Administration loan guaranty revolving fund. The Administration is not requesting limitations on any of these programs because they are considered assistance to which veterans are entitled. Table IV-23 summarizes the new direct loan obligations and new primary loan guarantee commitments in this function.

TABLE IV-23. VETERANS' CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1983 Actual a/	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
Insurance programs	132	135	137	137	135	137	132
Education programs	1	1	1	1	1	1	1
Housing programs	925	1,194	1,064	868	799	801	868
Total	1,058	1,330	1,202	1,006	935	939	1,001
Loan Guarantees							
Housing programs	15,354	18,650	22,870	25,510	28,800	32,010	34,400

a. Under CBO definition.

Insurance Benefits

Veterans and their survivors may borrow against the cash value of life insurance policies issued by the federal government under the following programs: the Service-Disabled Veterans' Insurance program, the Veterans' Reopened Insurance program, the U.S. Government Life Insurance program, and the Veterans' Special Life Insurance program. For 1985, CBO's baseline projection is $137 million for new direct loan obligations.

Education Loans

Certain veterans may borrow up to $2,500 per academic year for educational expenses directly from the Veterans' Education Loan Fund. No interest rate is charged on these loans nor is repayment required as long as the veteran is training at least half-time. When training is completed, the loans carry an interest rate of 11 percent and have a maturity of ten years. Repayments on previous loans are returned to the fund and used to make new loans. The Omnibus Reconciliation Act of 1981 restricted entitlements for these loans to certain small categories of veterans, as of October 1, 1981. In 1984, the Administration estimates that 124 new loans will be made at an average of approximately $960 per loan. The Administration is proposing to repeal the authority permitting the VA to make education loans after 1985 because of the excessively high program default rates.

Veterans may also receive loans up to $564 to pay expenses while taking vocational rehabilitation training courses. These loans are interest free and are repaid over a period of ten months. New loans are made as previous loans are repaid. Both CBO and the Administration estimate a total of $1.5 million in new direct loan obligations for these two programs in 1985.

Housing Credit

The primary form of credit assistance to veterans is guarantees of loans made by private lenders for the purchase or construction of homes. The CBO baseline projection for new loan guarantees in 1985 is $22.9 billion, a 22.6 percent increase over the 1984 base. The largest estimated increase is in original mortage loans with obligations increasing from $16.5 billion in 1984 to $33.8 billion in 1989. The increase is based on optimistic interest rate assumptions and the assumption that Vietnam veterans are at the peak age for buying homes. Refinanced loans decrease dramatically in the projections period, from total obligation of $1.4 billion in 1984 to $90 million in 1989. Vendee loans sold with a VA guarantee decrease from $0.7 billion in

1984 to $0.5 billion in 1989. Table IV-24 summarizes the projected activity in the Loan Guaranty Revolving Fund.

TABLE IV-24. VA LOAN GUARANTY REVOLVING FUND
(By fiscal year, in millions of dollars)

	1983 Actual	Baseline 1984	Baseline 1985	President's Reestimated 1984	President's Reestimated 1985
Direct Loans					
Obligations exempt from limitation					
Claims	148	146	93	284	316
Repurchases	73	101	112	83	66
Loans acquired	6	5	5	3	--
Cash advances	16	12	12	12	12
Vendees established	680	928	840	450	---
Acquisition of real property a/	(813)	(978)	(755)	(489)	(---)
Total, direct loans	923	1,192	1,062	832	394
Guaranteed Loans					
Commitments exempt from limitation					
Original G.I. loans closed	11,307	16,502	21,339	16,502	21,339
Refinanced loans	3,285	1,430	751	1,430	751
Direct loans sold with a guaranty	78	---	---	---	---
Vendees sold with a guaranty	684	718	775	233	---
Total, guaranteed loans	15,354	18,650	22,870	18,165	22,090

a. CBO excludes acquisition of real property from the definition of direct loans because the transaction of acquiring property involves no debt to the federal government.

The Administration has not proposed any changes that would restrict the original mortgage loan financing. CBO's reestimate of the President's request is $18.6 billion in new loan guarantee commitments in 1984, increasing to $34.4 billion in 1989. The reestimate is based on the assumptions of optimistic interest rates and the increasing number of Veitnam veterans of home buying age. The reestimate is $5.0 billion higher than the Administration's estimate in 1984, with the difference increasing to $17.6 billion by 1989. The Administration's estimate of loan guarantees reflects changes in several aspects of the loan guaranty program's operations. These include halting property acquisitions by the VA at foreclosure sales involving VA guaranteed loans, eliminating financing of the sales of acquired property, barring of repurchase agreements on sales of loan assets, and terminating the loan refunding program.

The CBO baseline estimate differs from the Administration's in the manner in which direct loan obligations are calculated. CBO's direct loan estimate includes vendee loans resulting from the sale of property and excludes real property acquisitions and property improvement costs related to these acquisitions. The Administration's estimates for VA direct loan obligations for housing would be increased by $0.2 billion in 1984 by using CBO's definition.

The Veterans Administration is also authorized to make direct loans to severely disabled veterans for specially adapted housing. The CBO baseline projection for new direct loans for this program is $1.8 million in 1985.

FUNCTION 800: GENERAL GOVERNMENT

Neither the CBO baseline nor the Administration project any new loan guarantee commitments in this function in 1984 or 1985. The function previously contained two loan guarantee programs: loans to the U.S. territories of Guam and the Virgin Islands, and General Services Administration (GSA) loans for lease-purchase agreements on some federal buildings. The loan guarantees have been financed through the Federal Financing Bank as off-budget direct loans. In 1982, $12 million in new loan guarantees were committed for the GSA program.

FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE

Credit assistance in function 850 consists of direct loans to the District of Columbia for capital projects and short-term general borrowing. Table IV-25 summarizes the estimated activity level for these two programs.

TABLE IV-25. GENERAL PURPOSE CREDIT PROGRAMS BASELINE (By fiscal year, in millions of dollars)

Program	1983 Actual	CBO Baseline Estimates 1984	1985	1986	1987	1988	1989
Direct Loans							
District of Columbia capital projects	145	115	121	126	132	137	142
Repayable advances to District of Columbia general fund	150	150	159	168	177	185	193
Total	295	265	279	294	309	322	335

The U.S. Treasury makes direct loans to the District of Columbia for capital projects. In 1985, CBO's baseline projection for the program is $121 million, to be used for projects from the general fund and water and sewer enterprise fund. From 1985 through 1989, the program is projected to increase steadily to $142 million.

Temporary advances have been made by the U.S. Treasury to the District of Columbia to meet short-term cash requirements resulting from variation in the rate of disbursements and tax collection during the year. The CBO baseline projection for new direct loans in this program in 1985 is $159 million. From 1985 through 1989, the program is projected to increase steadily to $193 million. The Administration is not planning to make new or future loans for the program since it anticipates that future borrowing will be done in the private market. In each year, repayments are made in the full amount of that year's loan.

APPENDIX

APPENDIX A. CREDIT BUDGET ACCOUNTING

A number of adjustments must be made to gross direct loan obligations and gross loan guarantee commitments in order to assess the impact of the credit budget on the economy. The gross figures include new loans to the public and intragovernmental financing transactions; the latter must be netted out to derive the credit budget totals. Table A-1 shows the accounting for the credit budget.

Direct Loans

Gross direct loans are the sum of all direct loan obligations of the government. Two classes of intergovernmental financing transactions must be removed in order to determine new direct loan obligations to the public:

FFB Purchases of Agency Loan Assets. The Farmers Home Administration (FmHA) and the Rural Electrification Administration (REA) consolidate direct loans extended to participants in their programs into certificates of beneficial ownership and sell these assets to the Federal Financing Bank (FFB). Both the original loan by the agency to the farmer or rural electric cooperative and the purchase of the loan assets by the FFB are recorded as direct loans. The loan by the FFB is subtracted from the credit budget to eliminate double counting.

Repurchases of Maturing Loan Assets. The original sales of REA and FmHA loan assets to the FFB are for relatively short periods, 18 months to five years, to avoid long-term commitments at high interest rates. When the certificates of beneficial ownership mature, the agencies repurchase them by making new direct loans, a financing transaction rather than an extension of credit to a new borrower. The repurchases are subtracted from gross direct loan obligations. This adjustment was introduced by the Administration in its 1984 credit budget. The shift understates the total volume of direct loan obligations, but more accurately reflects new credit market activity. Repurchases have been subtracted from CBO's baseline projections.

TABLE A-1. CREDIT BUDGET ACCOUNTING
(Fiscal year 1983, in billions of dollars)

Type of Transaction	1983 Level
Direct Loans	
New direct loans to the public	32.7
Agency repurchases of loan assets from the FFB a/	8.6
FFB loan asset purchases a/	10.0
Gross direct loan obligations	51.3
Less	
FFB loan asset purchases a/	-10.0
Agency repurchases of loan assets a/	-8.6
New direct loans	41.4
Loan Guarantees	
Gross loan guarantees	180.2
Less	
Secondary guarantees	-64.2
Guarantees of direct loans	
FFB loan asset purchases	-10.0
FFB origination of agency guarantees	-8.8
Primary Guarantees	97.2

a. The tables in this analysis show all financing transactions in parentheses as non-add items because they do not contribute to new credit program activity.

Loan Guarantees

Intragovernmental transactions must also be deducted from gross loan guarantee commitments in order to identify loan guarantees to private borrowers. These transactions include guarantees of repayment of loans previously guaranteed--secondary guarantees--and guaranteed loans that originate as direct loans.

Government National Mortgage Association (GNMA) Secondary Guarantees. GNMA guarantees the prompt repayment of securities backed by Federal Housing Administration (FHA) and Veterans Administration (VA) guaranteed loans, which increases the liquidity of the secondary market in FHA and VA loans. This secondary guarantee does not result in new loans or increase the contingent liability of the government and is therefore subtracted from gross guarantees.

Agency Guarantees Sold to the FFB. The Rural Electrification Administration and the Department of Defense (through the foreign military sales credit program) and other agencies guarantee loans to borrowers and then sell the loans to the FFB. The loan is then originated as a direct loan by the FFB to a private borrower and is recorded in the credit budget as an FFB direct loan. The guarantees are subtracted from gross guarantee totals.

Guarantees of FFB Loan Asset Purchases. In order for the Farmers Home Administration or REA to sell an asset to the FFB, the agency must guarantee its repayment. Agency guarantees of assets sold are subtracted from gross guarantees.

Guarantees remaining after these three adjustments are primary guarantees--guaranteed loans to new borrowers.