STAFF WORKING PAPERS

AN ANALYSIS OF
THE ADMINISTRATION'S
CREDIT BUDGET
FOR FISCAL YEAR 1990

April 1989

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NOTES

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

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

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

PREFACE

This Congressional Budget Office (CBO) analysis of the Administration's 1990 credit budget was prepared at the request of the Staff of the House and Senate Budget Committees. The report discusses the Administration's credit budget proposals, which consist of the specific proposals offered by President Bush and those in President Reagan's budget that have not been modified by President Bush. The Administration's budget is analyzed principally in terms of changes from CBO's baseline credit budget projections. The report also treats the Administration's proposals for loan asset sales, credit reform, and changes in policies toward government-sponsored enterprises.

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April 1989

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CHAPTER I: SUMMARY AND INTRODUCTION

The Administration's credit budget is made up of several distinct elements. The Reagan budget is the basis of the Administration's proposal, but President Bush has made specific proposals for federal credit programs that depart from the Reagan budget. In addition, those nondefense discretionary credit programs not explicitly mentioned in the Bush modifications are included in the residual package of programs that are subject to negotiation between the Administration and the Congress. For this analysis, the Administration's budget is the Reagan budget as explicitly modified by President Bush.

The 1990 credit budget proposal continues to reflect the views and themes that have shaped earlier Reagan budgets. To the extent that the new Administration differs from its predecessor on credit policy, the difference appears to be one of detail and fine tuning. One recurring theme is the expressed conviction that federal credit programs are poorly managed and are inefficient at providing assistance to the needy. Consequently, the Administration's 1990 credit budget proposes to convert several direct loan programs into targeted grants, rural rental vouchers, or cash-equivalent credit vouchers. For other programs--believed to be ineffective, or whose mission is less urgent, or whose beneficiaries are thought to be less needy--the Administration's budget would reduce subsidies by converting direct loans to guaranteed loans, reducing the proportion of the loan guaranteed by the federal government, increasing federal fees or, in some cases, terminating the program. The Administration believes that federal credit program management can be improved by selling loan assets, and therefore it proposes to continue the previous Administration's loan asset sales. In the belief that the present budgetary treatment of credit does not adequately present the subsidies that are implicit in federal credit programs, the Administration also proposes to reform the budgetary treament so as to identify the subsidies explicitly.

If all of the Administration's credit proposals were adopted, direct loan obligations would be $6.6 below the CBO baseline projection for 1990 and guarantee commitments would be $0.1 billion above the baseline projection:

	1990	1991	1992	1993	1994
			Direct Loans		
CBO Baseline	19.5	19.9	19.7	19.7	19.8
Proposed Changes	-6.6	-7.3	-7.8	-8.3	-8.9
President's Budget	12.8	12.6	11.9	11.4	11.0
			Guaranteed Loans		
CBO Baseline	107.8	115.3	120.2	126.1	130.0
Proposed Changes	0.1	-0.3	-0.3	-4.3	-7.2
President's Budget	107.9	115.0	119.9	121.8	122.8

To promote privatization, the Administration also proposes to levy fees on securities issued by some government-sponsored enterprises (GSEs). In addition, President Bush has proposed to create a new sponsored enterprise to finance the accumulated losses of the Federal Savings and Loan Insurance Corporation. An examination of the Administration's proposed legislation, however, suggests that this new enterprise would be a government agency and should be included in the unified budget.

THE ADMINISTRATION'S MAJOR AIMS

Several aims recur throughout the Administration's proposals. These include converting some credit programs to cash grants, increasing the private role in credit provision, reducing federal credit subsidies, improving program management, and reforming the budgetary treatment of credit. They are treated in summary form here and in detail in subsequent chapters.

Converting Credit to Cash-Equivalent Grants or Vouchers

For the recipient, a cash grant provides more flexibility than a loan that must be used for a particular purpose and then repaid. In three direct loan programs, the Administration proposes to substitute grants or vouchers, which the recipient can use as cash: Foreign Military Sales, Rural Housing, and Housing for the Elderly and Handicapped. Specifically, the $400 million in Foreign Military Sales direct loans, which are used by U.S. allies to purchase military equipment, are to be converted to outright grants. Rural Housing Insurance Fund direct loans are to be replaced with 20,000 rural housing vouchers that would pay for about half as many new units as would have been financed by the baseline loan level. Nonprofit sponsors of housing for the elderly and handicapped would also receive credit vouchers, with which they could obtain loans at below-market rates from private lenders rather than direct, subsidized loans from the federal government. CBO estimates that this proposal would entail a reduction in the number of newly assisted units from 9,500 in 1989 to 7,000 in 1990.

Increasing the Private Role and Reducing the Subsidy in Assisted Credit

Where the Administration views existing credit programs as ineffective or of little urgency or as serving less needy beneficiaries, a diminished federal contribution is proposed through lower subsidies and increased private provision. One device for achieving this end is to replace federal direct loans with federally guaranteed private loans. The terms on private loans, even if fully guaranteed by the government, tend to be more stringent than those on direct federal loans. In addition, the President proposes to reduce the proportion of principal guaranteed--which would shift more of the risk to the private lender--and to levy higher guarantee fees on borrowers to reduce the subsidy further. Examples may be seen in the proposals to shift from direct loans to partially insured loans for rural electric and telephone cooperatives, farm owners and operators, and rural communities.

The Administration's preference for private provision of credit for the less needy is also evident in its proposal to assess fees on securities issued by some of the government-sponsored enterprises that funnel credit, without means-testing, to mortgages, higher education, and agriculture. Program terminations would also increase the private role. The President's budget proposes to terminate the direct loan program of the Export-Import Bank of the United States on grounds that the program is redundant. The Administration cites recent international agreements to reduce export subsidies and the continuation of the guaranteed and Tied Aid Credit (grant) programs as justification for ending this program. The Small Business Administration disaster loan program is also slated for termination because hazard insurance is available from public and private agencies.

Improving Federal Credit Program Administration

The credit budget proposals continue the Administration's efforts to raise the performance of credit programs. A number of changes are being carried out by executive agencies, including closer screening of borrowers to effect a closer match between program mission and beneficiaries; more detailed, written forbearance policies to reduce agency "discretion" in easing the terms on loan contracts; and increased efforts to assure that borrowers have an equity stake in federally financed projects.

One of the most visible efforts to improve management is the continuation of loan asset sales and prepayments. Gross proceeds of $3.1 billion are projected by the Administration in 1990 from these accelerated collections. CBO's reestimate of the proceeds from the Administration's proposal is $2.9 billion. Without a change in existing law, however, no more than $300 million of this amount would count toward the Balanced Budget Act deficit reduction targets. These sales and prepayments are motivated by the hope for management improvements. Specifically, the Administration hopes to save on administrative costs through prepayments and by selling to more efficient servicers. An additional goal is to force improvements in loan origination, documentation, and record keeping. Finally, the sale of loans is intended to yield objective measures of the subsidy provided by federal credit (by comparing loan sale prices with the amounts loaned).

To date, loan asset sales appear to have improved federal record keeping for credit and, perhaps, reduced the administrative costs of some loan programs. The information obtained on subsidy cost, however, has been skimpy. One reason for this has been that the sales have been structured in such a way that the government has retained an equity interest in the loans after the sale. For example, in the sale of VA vendee loans in June 1988, the government sold $309 million (face value) of loans for $173 million in cash plus $105 (face value) of junior subordinated securities. These junior securities receive no payments of interest or principal until after all payments due the senior note holders have been paid. Thus, at best, loan asset sales may have identified the maximum subsidy cost on these direct loans. The subsidy would be a maximum in the sense that the government cannot lose more on these loans than the difference between the amount loaned and the cash sale price, while it has retained virtually all of the risk associated with these loans. If loan asset sales are to produce accurate subsidy estimates, the sales must be "structured" to achieve that result rather than to produce a virtually riskless agency debt security.

Reforming the Budgetary Treatment of Credit

Loan asset sales play a smaller role in determining subsidy cost in this budget than they did in the Reagan Administration's 1987 proposal for credit reform. Under that "market plan" proposal, the government would have sold most newly originated loans to determine their subsidy costs. Under the revised credit reform proposal offered last year and reproposed in the 1990 budget, the subsidy cost for most credit programs would be estimated under rules established by the Treasury. These estimated subsidies would be incorporated into the budget, made the basis of appropriations action, and recognized when the government commits to provide assisted credit (a use of budget authority) and when the loans are disbursed (subsidy outlays).

MAJOR CREDIT PROGRAM PROPOSALS

Although the credit budget consists of over 60 accounts, most of the aggregate dollar change in loans and guarantees proposed by the Administration is accounted for by a few programs. For 1990, the Administration proposes to reduce direct loans by $6.6 billion relative to the CBO baseline. As shown in Table I-1, seven loan programs account for $5.8 billion of this amount. Although the Administration proposes no significant net change in guarantee commitments for 1990, a substantial increase is projected for the Rural Electrification Administration. This increase is offset by a $400 million reduction in Guaranteed Student Loan commitments and small changes in a number of other programs.

Direct Loans

The Administration proposes a $2.7 billion reduction in direct loans--relative to the CBO baseline--in 1990 by converting Foreign Military Sales loans to grants ($0.4 billion), rural housing loans to rural rent vouchers ($1.8 billion), and loans for developers of housing for the elderly or handicapped to credit vouchers ($0.5 billion). An additional $2.1 billion would be eliminated by converting direct loans to guaranteed loans for rural electrification ($1.7 billion) and farm ownership and operations ($0.4 billion). Finally, $1 billion would be saved by terminating the SBA disaster loan ($0.3 billion) and Eximbank direct loan ($0.7 billion) programs.

Guaranteed Loans

Under President Reagan's proposals, VA home mortgage guarantees were expected to decline $2.3 billion relative to the baseline in 1990, with the increase in the VA guarantee fee to the FHA level of 3.8 percent. President Bush proposes, however, legislation to extend the currently expiring 1 percent guarantee origination fee and to make the fee permanent. This change eliminates the reduction from the baseline

TABLE I-1. MAJOR PROPOSED CREDIT PROGRAM CHANGES (By fiscal year, in billions of dollars)

Major Program	1990	1991	1992	1993	1994
Direct Loans					
CBO Baseline	19.4	19.9	19.7	19.7	19.8
President's Proposals:					
Foreign Military Sales Credit	-0.4	-0.4	-0.5	-0.5	-0.5
Export-Import Bank	-0.7	-0.8	-0.8	-0.8	-0.9
Rural Electrification Administration	-1.7	-1.8	-2.0	-2.1	-2.2
Agricultural Credit Insurance Fund	-0.4	-0.7	-0.8	-0.9	-1.0
Rural Housing Insurance Fund	-1.8	-1.9	-2.0	-0.9	-1.0
Housing for the Elderly or Handicapped	-0.5	-0.5	-0.5	-0.6	-0.6
SBA Disaster	-0.3	-0.3	-0.0	-0.4	-0.4
Other	-0.8	-0.9	-0.8	-0.9	-1.0
Total, Direct Loans	-6.6	-7.3	-7.8	-8.3	-8.8
President's Request	12.8	-7.3	-7.8	-8.3	-8.8
Guaranteed Loans					
CBO Baseline	107.8	115.3	120.2	126.1	130.0
President's Proposals:					
Rural Electrification Administration	1.8	1.5	1.7	1.4	1.3
Guaranteed Student Loans	-0.4	-0.4	-0.4	-0.4	-0.4
Other	-1.3	-1.4	-1.6	-5.3	-8.1
Total, Guaranteed Loans	0.1	-0.3	-0.3	-4.3	-7.2
President's Request	107.9	115.0	119.9	121.8	122.8

that would have occurred with the Reagan proposal. The Administration's proposal to reduce the special allowance paid to holders of Guaranteed Student Loans would reduce these commitments by an estimated $0.4 billion in 1990. Finally, loan guarantees issued to finance rural electric cooperative debt are estimated to increase $1.8 billion under the proposal to convert direct loans to guarantees and to permit penalty-free, federally assisted prepayments.

CHAPTER II: THE FEDERAL CREDIT BUDGET BY FUNCTION

This chapter provides a function-by-function reconciliation of the CBO baseline projection of federal credit activity and President Reagan's proposed credit budget as estimated by CBO. Proposed program changes are highlighted, but technical differences are also indicated. In those instances where President Bush's proposals are known to differ from President Reagan's, the effect of the differences on program activity is noted.

Each functional description includes the CBO baseline activity level for that function, a listing of program changes implied by the Administration's proposals, and the functional activity level estimated to result from the adoption of all proposed actions. A listing of program levels in the CBO baseline and the President's budget as reestimated is provided at the end of the chapter in Table II-12.

INTERNATIONAL AFFAIRS (Function 150)

The Administration is proposing four policy changes in this function. All Foreign Military Sales (FMS) direct loans and some Public Law 480 direct loans are to be converted to grants; the direct loan program of the Export-Import Bank is to be terminated; and the composition of activity financed by the Private Sector Revolving Fund is to include a higher proportion of guarantees than is currently the case.

Nearly all of the dollar volume change is accounted for by ending FMS and Export-Import Bank direct loans (see Table II-1). Baseline FMS direct loans are projected at $427 million and Export-Import Bank direct loans at $725 million in 1990. The conversion of FMS direct loans to grants reduces direct loan levels in the credit budget. It has no effect on disbursements, but it would reduce interest receipts and--after a grace period of five years--principal receipts.

The termination of the Export-Import Bank direct loan program is made possible, according to the Administration, by international agreements to reduce subsidies on export finance. Tied Aid grants and Export-Import Bank loan guarantee levels are unchanged by this proposal. Because appropriated limits on Export-Import Bank guarantee activity have exceeded the demand in recent years, existing guarantee limits are believed to provide room for any spillover from the halt in direct lending.

A backlog of authorized but uncontracted activity in the Agency for International Development housing guarantee program has prompted the Administration to request $100 million per year in new commitments for the projection period, compared with $125 million in 1989. In addition, the Administration requests for the Overseas Private Investment Corporation are slightly below baseline activity levels.

TABLE II-1. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 150: INTERNATIONAL AFFAIRS (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	2.01	2.10	2.18	2.27	2.37
Proposed Changes:					
Foreign Military Sales Credit	-0.43	-0.45	-0.46	-0.48	-0.50
Expenses, P.L. 480	-0.08	-0.10	-0.12	-0.15	-0.18
Emergencies in the Diplomatic Service	0.00	0.00	0.00	0.00	0.00
Overseas Private Invest-ment Corporation	-0.01	-0.01	-0.01	-0.01	-0.01
Private Sector Revolving Fund	-0.01	-0.01	-0.01	-0.01	-0.01
Export-Import Bank	-0.72	-0.75	-0.79	-0.82	-0.85
Total Proposed Changes	-1.24	-1.32	-1.40	-1.48	-1.56
President's 1990 Budget as Estimated by CBO	0.77	0.78	0.79	0.80	0.80
Guaranteed Loan Commitments					
CBO Baseline	6.41	6.68	6.95	7.24	7.53
Proposed Changes:					
Foreign Military Sales Credit	0.00	0.00	0.00	0.00	0.00
Overseas Private Invest-ment Corporation	-0.01	-0.01	-0.02	-0.02	-0.03
AID Housing Guarantees	-0.03	-0.04	-0.04	-0.05	-0.05
Private Sector Revolving Fund	0.00	0.02	0.04	0.07	0.06
Export-Import Bank	0.00	0.00	0.00	0.00	0.00
Total Proposed Changes	-0.04	-0.03	-0.02	-0.01	-0.02
President's 1990 Budget as Estimated by CBO	6.38	6.65	6.93	7.23	7.51

ENERGY (Function 270)

The Administration again proposes to eliminate direct federal loans to rural electric and telephone cooperatives. Direct loans to power producers, currently guaranteed by the Rural Electrification Administration (REA) and advanced by the Federal Financing Bank (FFB), would be replaced by 90 percent REA guarantees of private loans. Direct loans at 5 percent interest, for electric distribution and telephone borrowers, would be replaced by private loans with 70 percent federal guarantees. This change would reduce 1990 direct loan obligations by $1.7 billion (see Table II-2).

In 1990, REA guarantee limitations are proposed at $1.4 billion compared with baseline direct loans at $1.7 billion. Thus, a 100 percent shift of baseline direct loans to guaranteed loans cannot be accommodated by the proposed limits. Nonlimited guarantees to finance FFB prepayments would add an additional $435 million to the President's budget in 1990. Guarantee activity would be restrained somewhat by the Administration's proposal to institute a loan guarantee origination fee of 1 percent in 1990. To offset the expected default costs of the guarantee program, the fee would rise one percentage point per year, until it reaches 5 percent in 1994. The Administration estimates that the current subsidy on REA guarantees is about 4.2 percent of loan commitments.

NATURAL RESOURCES (Function 300)

The Administration proposes to continue construction loans to five projects currently being financed by the Bureau of Reclamation direct loan program. These loans are intended to rehabilitate, enlarge, and improve pumping plants, canals, and drainage systems. The level of activity proposed for 1990 is close to the baseline level. The Administration is proposing to restrain funding for new projects beginning in 1991 (see Table II-3).

The Administration proposes to cease obligating EPA Abatement, Control, and Compliance Fund direct loans in 1990. The Administration believes that program objectives have been met and that responsibility should be shifted to the state and local governments.

AGRICULTURE (Function 350)

The limitation on direct loans of the Agriculture Credit Insurance Fund (ACIF) would be reduced to $700 million in 1990 and to lower levels in subsequent years. This reduction is consistent with the Administration's efforts to replace direct loans with guarantees of private loans. The projected increase in ACIF guarantees after 1990 is less than the projected decrease in direct loans because privately originated, federally guaranteed loans have more demanding loan terms than existing ACIF direct loans (see Table II-4). In addition, the President proposes increasing the existing guarantee origination fee from 1 percent to 2 percent in 1991, and by 1 percent a year thereafter up to 5 percent.

TABLE II-2. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 270: ENERGY (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	2.03	2.15	2.30	2.38	2.63
Proposed Changes:					
Rural Electrification and Telephone Revolving Fund	-1.73	-1.85	-1.95	-2.06	-2.20
Tennessee Valley Authority	0.00	0.00	0.00	0.00	0.00
Total Proposed Changes	-1.73	-1.85	-1.95	-2.06	-2.20
President's 1990 Budget as Estimated by CBO	0.30	0.30	0.35	0.32	0.43
Guaranteed Loan Commitments					
CBO Baseline	0.00	0.00	0.00	0.00	0.00
Proposed Changes:					
Rural Electrification and Telephone Revolving Fund	1.37	1.37	1.37	1.37	1.37
Guarantees for Prepayments	0.44	0.15	0.31	0.00	0.00
Total Proposed Changes	1.80	1.52	1.68	1.37	1.37
President's 1990 Budget as Estimated by CBO	1.80	1.52	1.68	1.37	1.37

TABLE II-3. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 300: NATURAL RESOURCES (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	0.06	0.06	0.07	0.07	0.07
Proposed Changes:					
Bureau of Reclamation Loan Program	0.00	-0.03	-0.03	-0.03	-0.03
Abatement, Control, and Compliance	-0.03	-0.03	-0.04	-0.04	-0.04
Total Proposed Changes	-0.03	-0.06	-0.06	-0.07	-0.07
President's 1990 Budget as Estimated by CBO	0.03	0.00	0.00	0.00	0.00

TABLE II-4. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 350: AGRICULTURE (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
	Direct Loan Obligations				
CBO Baseline	10.11	10.27	9.74	9.44	9.10
Proposed Changes:					
Agricultural Credit Insurance Fund	-0.41	-0.66	-0.75	-0.85	-0.95
Commodity Credit Corporation Fund	0.00	0.00	0.00	0.00	0.00
Total Proposed Changes	-0.41	-0.66	-0.75	-0.85	-0.95
President's 1990 Budget as Estimated by CBO	9.70	9.62	8.98	8.58	8.15
	Guaranteed Loan Commitments				
CBO Baseline	4.91	4.97	5.03	5.09	5.15
Proposed Changes:					
Agricultural Credit Insurance Fund	0.57	0.59	0.62	0.64	0.67
Operating Guarantees for Drought	-0.57	-0.60	-0.62	-0.65	-0.67
Commodity Credit Corporation Fund	0.00	0.00	0.00	0.00	0.00
Farm Credit System Financial Assistance	0.50	0.50	0.40	0.40	0.00
Total Proposed Changes	0.50	0.50	0.40	0.40	0.00
President's 1990 Budget as Estimated by CBO	5.41	5.47	5.43	5.49	5.15

While the President's credit budget includes the additional ACIF guarantees of $548 million made available in 1989 through the Drought Assistance Act (P.L. 100-387), it does not assume that these levels of activity will continue in the projection period. The CBO baseline, following the Balanced Budget Act procedures, inflates the 1989 amount for the ensuing years.

A continuing ACIF activity--vendee loans--is displayed in the credit budget for the first time. In the process of making and guaranteeing loans, the Farmers Home Administration (FmHA) acquires properties from defaulting borrowers. FmHA disposes of acquired property by sale. In some cases, FmHA finances these sales for the purchaser. That is, FmHA writes a new loan to the new borrower but disburses property instead of cash. The CBO baseline reflects $200 million per year of such loans in 1990 and thereafter.

In the Administration's budget presentation, the Farm Credit System Financial Assistance Corporation (FAC) is off-budget until 1990, when it becomes on-budget. The credit budget records guarantees of debt issued by off-budget entities, but not on-budget ones. Therefore, the baseline shows no commitments to guarantee FAC debt after 1989. The Administration proposes legislation to maintain FAC's off-budget status. If adopted, federal guarantees would increase by $1.8 billion over the next four years.

COMMERCE AND HOUSING CREDIT (Function 370)

The Administration is proposing major reductions in direct loan activity in this function (see Table II-5). Most of the projected cuts are accounted for by proposals to replace Rural Housing Insurance Fund direct loans with housing vouchers; substitute credit vouchers for Section 202, elderly or handicapped housing loans; and terminate the Small Business Administration direct loan program.

Nearly all direct loans of the Rural Housing Insurance Fund (RHIF) would be replaced with 20,000 housing vouchers. This proposal is an expansion of a 1988 experimental initiative by the Department of Housing and Urban Development (HUD) and FmHA to provide rural rental housing assistance through targeting of HUD vouchers.

Although the level and form of assistance are separate issues, it should be noted that the proposed support level is about half the 1989 level of new, subsidized units. The multifamily housing construction direct loan program would be maintained at $100 million in 1990, decreasing to $50 million in 1994. The RHIF proposal alone would reduce direct loan obligations by $1.8 billion in 1990 (see Table II-5). RHIF vendee loans also have been included in the CBO baseline this year. The loans amount to $450 million in 1990.

The Administration is proposing to eliminate Section 202 loans and replace them with $78 million in credit vouchers. These credit vouchers, which are equal to a cash grant, would replace direct loans of $467 million in the 1990 baseline and reduce the number of newly assisted units from 9,500 in 1989 to 7,000 in 1990.

TABLE II-5. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 370: COMMERCE AND HOUSING CREDIT (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	3.26	3.35	3.45	3.56	3.70
Proposed Changes:					
Rural Housing Insurance Fund	-1.82	-1.90	-2.01	-2.10	-2.21
Self-Help Housing Land Development Fund	0.00	0.00	0.00	0.00	0.00
Credit Union Share Insurance Fund	0.00	0.00	0.00	0.00	0.00
Central Liquidity Facility	-0.16	-0.18	-0.20	-0.24	-0.30
Business Loan and Investment Fund	-0.09	-0.10	-0.10	-0.11	-0.11
Federal Savings and Loan Insurance Corporation	0.00	0.00	0.00	0.00	0.00
Federal Housing Administration Fund	0.00	0.00	0.00	0.00	0.00
Housing for the Elderly or Handicapped Fund	-0.47	-0.49	-0.52	-0.57	-0.59
Total Proposed Changes	-2.54	-2.67	-2.83	-3.01	-3.21
President's 1990 Budget as Estimated by CBO	0.71	0.68	0.61	0.55	0.49
Guaranteed Loan Commitments					
CBO Baseline	60.65	66.51	69.78	74.15	76.67
Proposed Changes:					
Federal Ship Financing Fund, Fishing Vessels	-0.08	-0.08	-0.08	-0.09	-0.09
Business Loan and Investment Fund	-0.30	-0.43	-0.57	-0.71	-0.85
Federal Savings and Loan Insurance Corporation	0.00	0.00	0.00	0.00	0.00
Federal Housing Administration Fund	0.00	0.00	0.00	0.00	0.00
Total Proposed Changes					
President's 1990 Budget as Estimated by CBO	60.27	66.00	69.13	69.88	69.88

The Administration is proposing to terminate the Small Business Administration's direct loan program and to institute an annual limit for guaranteed loans of $3.5 billion in 1990. The Business Loan and Investment Fund guarantee fee would also be increased to 5 percent. This would reduce guarantee loan commitments by about $300 million. The Administration intends to reduce the government's contingent liability by increasing the borrower's and lender's share of default costs. Currently, SBA guarantees equal 90 percent of the loan's face value up to $155,000 and 85 percent on loans for more than $155,000. The Administration is proposing to reduce this to 75 percent on loans greater than $75,000 and 80 percent on loans for less than $75,000 over the next five years.

Direct loans for self-help housing land development and loans for federal ship financing are also proposed for termination in 1990. Direct loans for land development are made to qualified private or public nonprofit organizations for the acquisition and development of building sites for the construction of homes. This proposal would decrease direct loans by $521,000 in 1990. The Federal Ship Financing Fund guarantees construction loans and mortgages on U.S. flag vessels built in this country. Ending this program would reduce guaranteed loans by $78 million in 1990.

The Central Liquidity Facility makes direct loans to member credit unions for seasonal and emergency needs. The Facility receives monies from two sources: loans from the Federal Financing Bank and stock subscriptions from credit unions. The Administration is proposing to limit the Facility's direct loans to an aggregate total of $600 million and to limit the account from borrowing at the FFB. This proposal would result in a decrease of $162 million in direct federal loans from the baseline in 1990.

A sharp reduction in FHA guarantees is shown in 1993 and 1994 because the limit on commitments proposed by the President is lower than CBO's baseline commitments. This difference does not reflect any substantive policy change because the Administration has given no indication that it wishes to restrict the growth of these guarantees below demand-driven levels.

TRANSPORTATION (Function 400)

The Administration is proposing a $48 million limit for direct loans in the Right-of-Way Revolving Fund for 1990 and to freeze the limits at this level for ensuing years (see Table II-6).

COMMUNITY AND REGIONAL DEVELOPMENT (Function 450)

Under the Administration's proposals, credit activity in this function would be reduced by between two-thirds and one-half (see Table II-7). Most of the reduction would be accounted for by changes in Rural Development Insurance Fund programs, SBA disaster loans, and community development guarantees.

The Administration proposes a reduction in overall loan limits in the Rural Development Insurance Fund program, combined with a shift from direct to

TABLE II-6. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 400: TRANSPORTATION (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	0.05	0.05	0.05	0.06	0.06
Proposed Changes:					
Federal Ship Financing Fund	0.00	0.00	0.00	0.00	0.00
Right-of-Way Revolving Fund (trust revolving fund)	0.00	0.00	0.00	-0.01	-0.01
Total Proposed Changes	0.00	0.00	0.00	-0.01	-0.01
President's 1990 Budget as Estimated by CBO	0.05	0.05	0.05	0.05	0.05

TABLE II-7. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	1.03	1.07	1.12	1.16	1.20
Proposed Changes:					
Rural Development Insurance Fund	-0.24	-0.26	-0.28	-0.30	-0.32
Rural Telephone Bank	-0.04	-0.04	-0.05	-0.06	-0.07
Rural Development Loan Fund	0.00	0.00	0.00	0.00	0.00
Revolving Fund for Loans	0.00	0.00	0.00	0.00	0.00
Small Business Admin. Disaster Loan Fund	-0.33	-0.34	-0.35	-0.37	-0.38
Rehabilitation Loan Fund	-0.07	-0.08	-0.08	-0.08	-0.08
Total Proposed Changes	-0.68	-0.72	-0.76	-0.81	-0.85
President's 1990 Budget as Estimated by CBO	0.35	0.35	0.35	0.35	0.35
Guaranteed Loan Commitments					
CBO Baseline	0.51	0.53	0.55	0.57	0.60
Proposed Changes:					
Rural Development Insurance Fund	0.10	0.09	0.09	0.08	0.08
Operating Guarantees for Drought	-0.21	-0.22	-0.23	-0.24	-0.25
Economic Development Assistance Programs	-0.01	-0.01	-0.01	-0.01	-0.01
Indian Loan Guaranty and Insurance Fund	0.00	0.00	0.00	0.00	0.00
Community Development Grants (guarantees)	-0.15	-0.16	-0.16	-0.17	-0.18
Total Proposed Changes	-0.27	-0.29	-0.31	-0.33	-0.36
President's 1990 Budget as Estimated by CBO	0.24	0.24	0.24	0.24	0.24

guaranteed loans. Direct loans for water systems and waste facilities would be reduced from their 1989 level of $330 million to $200 million in 1990, while guaranteed loans would be introduced at $50 million. Community facility assistance, currently limited to $96 million in direct loans in 1989, would be switched to guarantees and reduced to $50 million in 1990. Guaranteed loans for business and industry development would remain at their current level of $96 million. Total direct loans in this program would be reduced by $226 million, while guaranteed loans would be increased by $100 million. In addition, the Administration is proposing to increase the fee for guarantees from 1 percent to 5 percent over four years.

The credit budget includes $200 million in 1989 for RDIF guarantees authorized in the Drought Assistance Act (P.L. 100-387). The President's budget assumes that the drought will be a one-time occurrence in 1989. The CBO baseline, following Balanced Budget Act procedures, inflates this $200 million in ensuing years.

The Administration is proposing to terminate the Small Business Administration disaster loan fund, which provides direct loans to homeowners and businesses for uninsured losses resulting from disasters. Borrowers must demonstrate their inability to acquire financing from private lenders to qualify for a disaster loan at 4 percent interest. For other authorized borrowers, the interest rate is capped at 8 percent. The Administration believes that termination of the program would give prospective borrowers incentives to purchase private insurance coverage for disaster-related losses. This proposal would reduce the baseline's direct loan totals by $326 million in 1990.

The Section 312 direct loan program (Rehabilitation Loan Fund) offers credit to communities for housing rehabilitation in low-income areas. The Administration is proposing to terminate this program beginning in 1990. Doing so would result in a $70 million decrease from CBO's baseline projection for direct loans.

Further restrictions on activity in this function would be achieved by limiting Rural Telephone Bank loans to $125 million per year for 1990-1994 (compared with a projected 1989 activity level of $156 million); terminating Section 108 guaranteed loans in the Community Development Block Grant program; and terminating Economic Development Administration loan guarantees. If fully implemented, all of these proposed changes for this function would reduce direct loans by $680 million and guarantees by $270 million in 1990.

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

The Reagan Administration proposes two major credit budget changes in this function (see Table II-8). First, direct loans for college housing and academic facilities ($29.6 million in 1989) are to be terminated in 1990, partly because of the establishment of the College Construction Loan Insurance Association, a new government-sponsored enterprise to assist college facility financing. Second, the Administration is proposing to decrease the percentage of principal guaranteed from 100 percent to 80 percent on Guaranteed Student Loans and to reduce the

TABLE II-8. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	0.03	0.03	0.03	0.03	0.04
Proposed Changes:					
College Housing and Academic Facilities	-0.03	-0.03	-0.03	-0.03	-0.04
Total Proposed Changes	-0.03	-0.03	-0.03	-0.03	-0.04
President's 1990 Budget as Estimated by CBO	0.00	0.00	0.00	0.00	0.00
Guaranteed Loan Commitments					
CBO Baseline	13.12	13.56	13.85	14.01	14.10
Proposed Changes:					
Guaranteed Student Loans	-0.38	-0.38	-0.39	-0.39	-0.39
Total Proposed Changes	-0.38	-0.38	-0.39	-0.39	-0.39
President's 1990 Budget as Estimated by CBO	12.74	13.17	13.46	13.62	13.71

guaranteed yield from 3 1/4 percentage points over the 91-day Treasury bill yield to the bill rate plus 3 percentage points. CBO estimates that these changes in the GSL program would decrease total guaranteed loan commitments by $376 million in 1990.

President Bush's budget adopts the Reagan proposal to reduce the guaranteed yield but proposes to leave the guarantee of principal at 100 percent. The Bush proposal also requests additional funds for 1989 and 1990 to accommodate a higher level of interest rates than had been assumed in the Reagan budget. If the Bush proposal is enacted, CBO projects no change from the Reagan budget level of guarantee commitments.

HEALTH (Function 550)

The Administration is proposing to reduce the direct loan limit for the Health Resources and Services account to $50,000 in 1990 and to terminate it in 1991 (see Table II-9).

Three changes are proposed for the Health Professions Graduate Student Loan Insurance Fund guaranteed loans. The first would increase the premium charged to borrowers from 8 percent to 14.6 percent. This premium would be charged to cover the account's losses resulting from defaults from guaranteed borrowers. The second proposal is to reduce the guaranteed amount from 100 percent to 75 percent. The Administration intends private lenders and schools to share the responsibility for the difference. The third proposal would institute annual limits on guaranteed loans and set the limit at $100 million in 1990. The limit thereafter would decline in steps to $25 million in 1994.

INCOME SECURITY (Function 600)

The Housing Act of 1987 (P.L. 100-242) created a fund to receive the excess rents collected from Section 236 loans for multifamily housing projects insured by the Federal Housing Administration. These rents are spent to assist projects that are in serious financial trouble but are considered to be economically viable. The Administration is proposing that these excess rents be paid instead to the Treasury, and would have the Flexible Subsidy Fund receive an annual appropriation of $35 million. This appropriation would finance loans to these troubled projects. Most of the reduction from the CBO baseline shown with the President's proposal appears to be due to an error in the President's budget rather than a policy change.

The small reductions in the nonprofit sponsor assistance direct loans are the result of requested limitations that are slightly below baseline levels (see Table II-10).

TABLE II-9. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 550: HEALTH
(By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	0.001	0.001	0.001	0.001	0.001
Proposed Changes:					
Health Resources and Services (health care)	-0.000	-0.001	-0.001	-0.001	-0.001
Health Professions Graduate Student Loan Fund	0.041	0.045	0.049	0.052	0.052
Medical Facilities Guarantee and Loan Fund	0.007	0.001	0.001	0.001	0.001
Total Proposed Changes	0.05	0.05	0.05	0.05	0.05
President's 1990 Budget as Estimated by CBO	0.05	0.05	0.05	0.05	0.05
Guaranteed Loan Commitments					
CBO Baseline	0.38	0.40	0.41	0.43	0.44
Proposed Changes:					
Health Professions Graduate Student Loan Fund	-0.28	-0.30	-0.34	-0.38	-0.42
Total Proposed Changes	-0.28	-0.30	-0.34	-0.38	-0.42
President's 1990 Budget as Estimated by CBO	0.10	0.10	0.08	0.05	0.03

TABLE II-10. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 600: INCOME SECURITY (By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	0.05	0.05	0.05	0.05	0.05
Proposed Changes:					
Pension Benefit Guaranty Corporation Fund	0.00	0.00	0.00	0.00	0.00
Nonprofit Sponsor Assistance	0.00	0.00	0.00	0.00	0.00
Flexible Subsidy Fund	-0.01	-0.05	-0.05	-0.05	-0.05
Total Proposed Changes	-0.01	-0.05	-0.05	-0.05	-0.01
President's 1990 Budget as Estimated by CBO	0.038	0.003	0.003	0.003	0.003

VETERANS' BENEFITS AND SERVICES (Function 700)

The Reagan Administration proposed an increase in the origination fee for Department of Veterans' Affairs (VA) guaranteed housing loans and vendee loans from the current 1 percent to 3.8 percent of the mortgage amount to make it comparable with the FHA guarantee fee. The higher fees were expected to cover projected losses from defaults and eliminate the need for appropriations after 1990. The Reagan Administration also proposed to make the origination fee permanent. (The 1 percent fee is scheduled to expire September 30, 1989.) Under current law, the borrower is permitted to add the origination fee to the total amount financed. Veterans with service-related disabilities are to be exempt from this fee. In addition, the Reagan Administration proposed to allow negotiated mortgage rates on VA guaranteed loans. If all the Reagan proposals are adopted, CBO estimates that this would reduce VA guarantees by $3.1 billion in 1990 (see Table II-11). Guarantee commitments are also reduced by the Administration's proposal to sell VA vendee loans without guarantees in 1990 and beyond. The Bush Administration has proposed a permanent extension of the VA origination fee at the current 1 percent level.

TABLE II-11. CBO ESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS, FUNCTION 700: VETERANS' BENEFITS AND SERVICES
(By fiscal year, in billions of dollars)

	1990	1991	1992	1993	1994
Direct Loan Obligations					
CBO Baseline	0.83	0.74	0.69	0.65	0.61
Proposed Changes:					
Direct Loan Revolving Fund	0.00	0.00	0.00	0.00	0.00
Loan Guaranty Revolving Fund	-0.01	-0.02	-0.01	0.01	0.04
Vocational Rehabilitation Revolving Fund	0.00	0.00	0.00	0.00	0.00
Education Loan Fund	0.00	0.00	0.00	0.00	0.00
Total Proposed Changes	-0.01	-0.02	-0.01	-0.01	0.04
President's 1990 Budget as Estimated by CBO	0.81	0.73	0.69	0.66	0.65
Guaranteed Loan Commitments					
CBO Baseline	21.79	22.66	23.62	24.59	25.55
Proposed Changes:					
Loan Guaranty Revolving Fund (Reagan proposal)	-3.09	-3.08	-3.08	-3.09	-3.08
Loan Guaranty Revolving Fund (Bush proposal)	-0.79	-0.76	-0.72	-0.69	-0.65
President's 1990 Budget as Estimated by CBO (Reagan Proposal)	18.70	19.58	20.54	21.50	22.47
President's 1990 Budget as Estimated by CBO (Bush Proposal)	21.00	21.90	22.90	23.90	24.90

Table II-12. DIRECT LOAN OBLIGATIONS AND GUARANTEED LOAN COMMITMENTS: CBO BASELINE AND PRESIDENT'S 1990 BUDGET AS ESTIMATED BY CBO (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	1994
DIRECT LOAN OBLIGATIONS						
Function 150: International Affairs						
Foreign Military Sales Credit						
CBO Baseline	410.0	426.8	445.3	463.7	482.6	502.3
CBO Reestimate	410.0	0.0	0.0	0.0	0.0	0.0
Expenses, Public Law 480						
CBO Baseline	790.9	823.3	858.9	894.5	930.9	968.9
CBO Reestimate	790.9	747.0	758.9	769.9	779.0	786.3
Emergencies in the Diplomatic Service						
CBO Baseline	0.6	0.6	0.7	0.7	0.7	0.7
CBO Reestimate	0.6	0.6	0.7	0.7	0.7	0.7
Overseas Private Investment Corporation						
CBO Baseline	23.0	23.9	25.0	26.0	27.1	28.2
CBO Reestimate	23.0	17.0	17.3	17.5	17.7	17.8
Private Sector Revolving Fund						
CBO Baseline	12.0	12.5	13.0	13.6	14.1	14.7
CBO Reestimate	12.0	3.5	0.0	0.0	0.0	0.0
Export-Import Bank						
CBO Baseline	695.0	723.5	754.8	786.0	818.0	851.4
CBO Reestimate	695.0	0.0	0.0	0.0	0.0	0.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
DIRECT LOAN OBLIGATIONS						
Function 270: Energy						
Rural Electrification and Telephone Revolving Fund						
CBO Baseline	1,621.2	1,729.9	1.848.0	1,951.5	2,058.9	2,199.8
CBO Reestimate	1,621.2	0.5	0.7	0.9	1.1	1.3
Tennessee Valley Authority Fund (Energy Supply)						
CBO Baseline	287.8	298.5	300.9	344.6	316.8	430.2
CBO Reestimate	287.8	298.5	300.9	344.6	316.8	430.2
Function 300: Natural Resources						
Bureau of Reclamation Loan Program						
CBO Baseline	27.8	28.9	30.2	31.4	32.7	34.0
CBO Reestimate	27.8	31.1	2.2	2.6	2.7	0.0
EPA - Abatement, Control, and Compliance						
CBO Baseline	31.5	32.8	34.2	35.6	37.1	38.6
CBO Reestimate	31.5	0.0	0.0	0.0	0.0	0.0
Function 350: Agriculture						
Agricultural Credit Insurance Fund						
CBO Baseline	1,767.2	1,308.5	1,356.4	1,404.3	1.453.3	1,504.4
CBO Reestimate	1,767.2	900.0	700.0	650.0	600.0	550.0
Commodity Credit Corporation Fund						
CBO Baseline	6,447.0	8,801.0	8,918.0	8,332.0	7,938.0	7,596.0
CBO Reestimate	6,447.0	8,801.0	8,918.0	8,332.0	7,938.0	7,596.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
DIRECT LOAN OBLIGATIONS						
Function 370: Commerce and Housing Credit						
Rural Housing Insurance Fund						
CBO Baseline	2,325.0	2,370.6	2,423.7	2,476.7	2,531.6	2,590.1
CBO Reestimate	2,325.0	550.0	520.0	465.0	435.0	380.0
Self-Help Housing Land Development Fund						
CBO Baseline	0.5	0.5	0.5	0.6	0.6	0.6
CBO Reestimate	0.5	0.0	0.0	0.0	0.0	0.0
Credit Union Share Insurance Fund						
CBO Baseline	5.0	30.0	0.0	0.0	0.0	0.0
CBO Reestimate	5.0	30.0	0.0	0.0	0.0	0.0
Central Liquidity Facility						
CBO Baseline	121.0	182.0	197.0	223.0	262.0	321.0
CBO Reestimate	121.0	20.0	20.0	20.0	20.0	20.0
Business Loan and Investment Fund						
CBO Baseline	82.0	94.0	98.0	102.0	106.0	110.0
CBO Reestimate	82.0	0.0	0.0	0.0	0.0	0.0
Federal Savings and Loan Insurance Corporation						
CBO Baseline	75.0	35.0	20.0	20.0	20.0	20.0
CBO Reestimate	75.0	35.0	20.0	20.0	20.0	20.0
Federal Housing Administration Fund						
CBO Baseline	0.0	45.5	85.7	81.1	77.8	71.7
CBO Reestimate	0.0	45.5	85.7	81.1	77.8	71.7
Housing for the Elderly or Handicapped Fund						
CBO Baseline	480.1	499.8	521.4	543.0	565.1	588.1
CBO Reestimate	480.1	32.0	30.0	28.0	0.0	0.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
DIRECT LOAN OBLIGATIONS						
Function 400: Transportation						
Federal Ship Financing Fund						
CBO Baseline	2.0	2.0	2.0	2.0	2.0	2.0
CBO Reestimate	2.0	2.0	2.0	2.0	2.0	2.0
Right-of-Way Revolving Fund (trust revolving fund)						
CBO Baseline	46.0	47.9	50.0	52.0	54.1	56.4
CBO Reestimate	46.0	47.9	47.9	47.9	47.9	47.9
Function 450: Community and Regional Development						
Rural Development Insurance Fund						
CBO Baseline	426.1	443.5	462.7	481.9	501.5	521.9
CBO Reestimate	426.1	200.0	200.0	200.0	200.0	200.0
Rural Telephone Bank						
CBO Baseline	156.0	162.3	169.4	176.4	183.6	191.0
CBO Reestimate	156.0	125.0	125.0	125.0	125.0	125.0
Rural Development Loan Fund						
CBO Baseline	13.6	13.4	14.4	15.5	16.5	17.2
CBO Reestimate	13.6	14.0	14.0	14.0	14.0	14.0
Revolving Fund for Loans						
CBO Baseline	13.0	13.0	13.0	13.0	13.0	13.0
CBO Reestimate	13.0	13.0	13.0	13.0	13.0	13.0
Disaster Loan Fund						
CBO Baseline	313.0	326.0	340.0	354.0	369.0	384.0
CBO Reestimate	313.0	0.0	0.0	0.0	0.0	0.0
Rehabilitation Loan Fund						
CBO Baseline	23.0	70.0	75.0	75.0	75.0	75.0
CBO Reestimate	23.0	0.0	0.0	0.0	0.0	0.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
DIRECT LOAN OBLIGATIONS						
Function 500: Education, Training, Employment, and Social Services						
College Housing and Academic Facilities						
CBO Baseline	29.6	30.9	32.2	33.5	34.9	36.3
CBO Reestimate	29.6	0.0	0.0	0.0	0.0	0.0
Function 550: Health						
Health Resources and Services (health care)						
CBO Baseline	0.5	0.5	0.5	0.5	0.5	0.5
CBO Reestimate	0.5	0.1	0.0	0.0	0.0	0.0
Health Professions Graduate Student Loan						
CBO Baseline	0.0	0.0	0.0	0.0	0.0	0.0
CBO Reestimate	38.6	41.3	45.0	48.5	52.0	52.0
Medical Facilities Guarantee and Loan Fund						
CBO Baseline	0.0	0.0	0.0	0.0	0.0	0.0
CBO Reestimate	6.6	6.5	1.0	1.0	1.0	1.0
Function 600: Income Security						
Pension Benefit Guaranty Corporation Fund						
CBO Baseline	0.2	0.2	1.8	1.8	1.8	1.8
CBO Reestimate	0.2	0.2	1.8	1.8	1.8	1.8
Nonprofit Sponsor Assistance						
CBO Baseline	1.0	1.0	1.0	1.1	1.1	1.2
CBO Reestimate	1.0	0.9	0.9	0.9	1.0	1.0
Flexible Subsidy Fund						
CBO Baseline	0.0	50.0	50.0	50.0	50.0	50.0
CBO Reestimate	0.0	36.5	0.0	0.0	0.0	0.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
DIRECT LOAN OBLIGATIONS						
Function 700: Veterans' Benefits and Services						
Direct Loan Revolving Fund						
CBO Baseline	0.7	0.7	0.7	0.7	0.7	0.7
CBO Reestimate	0.7	0.7	0.7	0.7	0.7	0.7
Loan Guaranty Revolving Fund						
CBO Baseline	866.3	823.6	742.4	690.7	644.8	605.6
CBO Reestimate	866.3	809.0	726.3	684.1	659.6	644.8
Vocational Rehabilitation Revolving Fund						
CBO Baseline	1.0	0.9	0.9	0.9	0.9	0.8
CBO Reestimate	1.0	0.9	0.9	0.9	0.9	0.8
Education Loan Fund						
CBO Baseline	0.018	0.018	0.015	0.012	0.010	0.008
CBO Reestimate	0.018	0.000	0.000	0.000	0.000	0.000
Function 800: General Government						
Administration of Territories						
CBO Baseline	53.0	0.0	0.0	0.0	0.0	0.0
CBO Reestimate	53.0	0.0	0.0	0.0	0.0	0.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
GUARANTEED LOAN COMMITMENTS						
Function 150: International Affairs						
Foreign Military Sales Credit						
CBO Baseline	4,700.0	0.0	0.0	0.0	0.0	0.0
CBO Reestimate	4,700.0	0.0	0.0	0.0	0.0	0.0
Overseas Private Investment Corporation						
CBO Baseline	175.0	182.2	190.1	197.9	206.0	214.4
CBO Reestimate	175.0	175.0	177.7	180.0	181.9	183.4
Housing and Other Credit Guaranty Programs						
CBO Baseline	125.0	130.1	135.8	141.4	147.1	153.1
CBO Reestimate	125.0	100.0	100.0	100.0	100.0	100.0
Private Sector Revolving Fund						
CBO Baseline	50.0	52.1	54.3	56.6	58.9	61.3
CBO Reestimate	50.0	50.0	75.0	100.0	125.0	125.0
Export-Import Bank						
CBO Baseline	5,800.0	6,050.0	6,300.0	6,550.0	6,825.0	7,100.0
CBO Reestimate	5,800.0	6,050.0	6,300.0	6,550.0	6,825.0	7,100.0
Function 270: Energy						
Rural Electrification and Telephone Revolving Fund						
CBO Baseline	500.0	0.0	0.0	0.0	0.0	0.0
CBO Reestimate	500.0	1,800.0	1,515.0	1,675.0	1,365.0	1,365.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
GUARANTEED LOAN COMMITMENTS						
Function 350: Agriculture						
Agricultural Credit Insurance Fund						
CBO Baseline	1,350.1	1,405.3	1,467.0	1,528.6	1,589.5	1,654.1
CBO Reestimate	1,350.1	1,406.0	1,466.0	1,526.0	1,589.0	1,654.0
Commodity Credit Corporation Fund						
CBO Baseline	3,500.0	3,500.0	3,500.0	3,500.0	3,500.0	3,500.0
CBO Reestimate	3,500.0	3,500.0	3,500.0	3,500.0	3,500.0	3,500.0
Farm Credit System Financial Assistance						
CBO Baseline	600.0	0.0	0.0	0.0	0.0	0.0
CBO Reestimate	600.0	500.0	500.0	400.0	400.0	0.0
Function 370: Commerce and Housing Credit						
Federal Ship Financing Fund, Fishing Vessels						
CBO Baseline	75.0	78.1	81.4	84.8	88.2	91.9
CBO Reestimate	75.0	0.0	0.0	0.0	0.0	0.0
SBA - Business Loan and Investment Fund						
CBO Baseline	3,033.0	3,158.0	3,294.0	3,429.0	3,570.0	3,716.0
CBO Reestimate	3,033.0	2,863.0	2,863.0	2,863.0	2,863.0	2,863.0
Federal Savings and Loan Insurance Corporation						
CBO Baseline	55.0	19.0	20.0	20.0	20.0	20.0
CBO Reestimate	55.0	19.0	20.0	20.0	20.0	20.0
Federal Housing Administration Fund						
CBO Baseline	47,455.6	57,390.2	63,113.9	66,247.4	70,466.9	72,844.0
CBO Reestimate	47,455.6	57,390.2	63,113.9	66,247.4	67,000.0	67,000.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
GUARANTEED LOAN COMMITMENTS						
Function 450: Community and Regional Development						
Rural Development Insurance Fund						
CBO Baseline	295.7	307.8	321.1	334.4	348.0	362.2
CBO Reestimate	295.7	195.7	195.7	195.7	195.7	195.7
Economic Development Assistance Programs						
CBO Baseline	10.0	10.0	10.0	10.0	10.0	10.0
CBO Reestimate	10.0	0.0	0.0	0.0	0.0	0.0
Indian Loan Guaranty and Insurance Fund						
CBO Baseline	39.7	41.4	43.1	44.9	46.8	48.7
CBO Reestimate	39.7	41.4	43.1	44.9	45.0	45.0
Community Development Grants (guarantees)						
CBO Baseline	144.0	149.9	156.4	162.9	169.5	176.4
CBO Reestimate	144.0	0.0	0.0	0.0	0.0	0.0
Function 500: Education, Training, Employment and Social Services						
Guaranteed Student Loans						
CBO Baseline	12,495.0	13,120.0	13,555.0	13,850.0	14,005.0	14,100.0
CBO Reestimate	12,228.0	12,744.0	13,173.0	13,464.0	13,617.0	13,711.0

(continued)

Table II-12. (continued)

	1989	1990	1991	1992	1993	1994
GUARANTEED LOAN COMMITMENTS						
Function 550: Health						
Health Professions Graduate Student Loan Fund						
CBO Baseline	360.0	380.0	395.0	410.0	425.0	440.3
CBO Reestimate	230.0	100.0	100.0	75.0	50.0	25.0
Function 700: Veterans' Benefits and Services						
Loan Guaranty Revolving Fund						
CBO Baseline	20,600.0	21,794.2	22,655.5	23,622.1	24,586.8	25,552.2
CBO Reestimate (Reagan)	20,600.0	18,700.0	19,575.0	20,540.0	21,500.0	22,470.0
CBO Reestimate (Bush)	20,600.0	21,000.0	21,900.0	22,900.0	23,900.0	24,900.0

CHAPTER III: LOAN ASSET SALES AND PREPAYMENTS

The Administration proposes to continue selling loan assets and promoting prepayments. Under the Balanced Budget Act, two criteria identify loan sale and prepayment receipts that count toward the act's deficit reduction targets: the sales or prepayments must be routine and ongoing; or legislation providing for such transactions must have been enacted before September 18, 1987. Only a few of the Administration's proposed transactions would affect the Balanced Budget Act deficit calculations, though all would reduce the unified budget deficit. The Administration does not propose these transactions for deficit reduction but claims that they would be a means toward management improvements, administrative cost savings, and better subsidy estimates.

Proceeds from loan sales and prepayments are estimated by the Reagan budget to total $4.3 billion in 1990 if all planned transactions are completed in that year (see Table III-1). CBO estimates the total at $4.1 billion.

The Bush Administration has placed asset sales in the priority category and has adopted nearly all of the Reagan loan sale and prepayment proposals for 1990. The Administration's projected proceeds total $3.1 billion. The Bush proposal, however, increases total targeted receipts for the Rural Housing Insurance Fund loan sales from 1990 to 1994, but reduces planned sales for 1990. The Bush plan is to obtain a total of $3.8 billion in receipts over the next five years consisting of $775 million (including sale of the junior securities) in 1990, $500 million in 1991, $1.5 billion in 1992, $500 million in 1993, and $500 million in 1994. This shift in timing reduces total 1990 receipts from these transactions to $2.9 billion (see Table III-1). No more than $300 million in 1990 would count for the Balanced Budget Act deficit reduction, unless additional authority to sell VA vendee loans without recourse is provided by law (see Table III-2).

BACKGROUND

In 1987, the Administration proposed a three-year pilot program for the nonrecourse sale of loan assets to the public. The sales had the following goals: improving loan origination and documentation; achieving administrative cost savings through transfer of servicing and collection to the private sector; identifying the economic subsidy of federal credit programs; and reducing the deficit. Sales without recourse have been accomplished from various federal portfolios during 1987-1988 and the first half of 1989. The government has not achieved all of its goals for this effort, but some gains have been made.

During 1987, sales were carried out from the Rural Development Insurance Fund (RDIF), Rural Housing Insurance Fund (RHIF), and the Department of Education's (DOEd) College Housing and Higher Education Facilities portfolios. These sales produced $2.8 billion in receipts (see Table III-3). Prepayments netted an additional $3.0 billion from RDIF, College Housing and Higher Education

TABLE III-1. LOAN ASSET SALES AND PREPAYMENT RECEIPTS: CBO BASELINE, PRESIDENT'S 1990 BUDGET, AND CBO REESTIMATES (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	1994
Bush Administration						
Sales						
CBO Baseline	288	300	0	0	0	0
President's Budget	311	2,472	1,832	2,650	967	956
CBO Reestimate	312	2,379	1,714	2,635	1,039	1,080
Prepayments						
CBO Baseline	6,162	0	0	0	0	0
President's Budget	6,553	590	250	250	0	0
CBO Reestimate	6,162	502	150	310	0	0
Grand Total						
CBO Baseline	6,450	300	0	0	0	0
President's Budget	6,864	3,062	2,082	2,900	967	956
CBO Reestimate	6,474	2,881	1,864	2,945	1,039	1,080
Reagan Administration						
Sales						
CBO Baseline	288	300	0	0	0	0
President's Budget	311	3,664	1,724	1,542	859	848
CBO Reestimate	312	3,571	1,606	1,527	931	972
Prepayments						
CBO Baseline	6,162	0	0	0	0	0
President's Budget	6,553	590	250	250	0	0
CBO Reestimate	6,162	502	150	310	0	0
Grand Total						
CBO Baseline	6,450	300	0	0	0	0
President's Budget	6,864	4,254	1,974	1,792	859	848
CBO Reestimate	6,474	4,073	1,756	1,837	931	972

TABLE III-2. LOAN SALES AND PREPAYMENTS THAT REDUCE THE DEFICIT UNDER THE BALANCED BUDGET ACT AS ESTIMATED BY CBO (By fiscal year, in millions of dollars)

Program	1989	1990	1991	1992	1993	1994
		Sales				
Rural Housing Insurance Fund Junior Securities	0	300	0	0	0	0
Rural Development Insurance Fund	256	0	0	0	0	0
Department of Education College Housing and Academic Facilities	32	0	0	0	0	0
Department of Veterans' Affairs Vendee Loans[a]	449	441	418	401	389	379
		Prepayments				
Railroad Rehabilitation	90	0	0	0	0	0
Rural Development Insurance Fund	328	0	0	0	0	0
		Totals				
Sales	737	741	418	401	389	379
Prepayments	418	0	0	0	0	0

a. The VA's authority to sell loans without recourse expires September 30, 1989. Should the Congress allow loan sales without recourse in 1990, these receipts would reduce the deficit under the Balanced Budget Act. These figures do not include the additional cash flows from holding the junior securities.

TABLE III-3. LOAN ASSET SALES AND PREPAYMENT RECEIPTS
(By fiscal year, in millions of dollars)

Program	1987	1988	1989 (to date)
Export-Import Bank			
Sales	0	0	0
Prepayments	1,901	643	8
Foreign Military Sales			
Sales	0	0	0
Prepayments	0	3,152	4,642
Rural Electrification Administration			
Sales	0	0	0
Prepayments	583	2,000	0
Rural Housing Insurance Fund			
Sales	1,728	0	0
Prepayments	0	0	0
Federal Housing Administration Fund			
Sales	0	87	24
Prepayments	0	25	0
Small Business Administration (BLIF)			
Sales	0	0	0
Prepayments	3	0	0
Bureau of Reclamation			
Sales	0	0	0
Prepayments	0	154	0
Railroad Rehabilitation			
Sales	0	0	0
Prepayments	0	112	2
Rural Development Insurance Fund			
Sales	1,004	0	0
Prepayments	51	1,062	366
Rural Telephone Bank			
Sales	0	0	0
Prepayments	0	131	0

(continued)

TABLE III-3. (continued)

Program	1987	1988	1989 (to date)
Economic Development Administration			
Sales	0	0	0
Prepayments	10	0	0
Housing and Urban Development Public Facilities			
Sales	0	169	0
Prepayments	8	0	0
Department of Education			
Sales	97	291	0
Prepayments	479	0	0
Department of Veterans' Affairs Vendees			
Sales (nonrecourse)	0	296	206
Prepayments	0	0	0
Total Sales	2,829	843	230
Total Prepayments	3,035	7,279	5,018

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

Facilities, the Export-Import Bank (EXIMBANK), Housing and Urban Development (HUD) Public Facilities, Small Business Administration (SBA) disaster loans, and the Economic Development Administration (EDA).

The 1988 loan sale and prepayment effort included Department of Veterans' Affairs (VA) vendee loans, loans for College Housing and Higher Education Facilities, HUD Public Facilities loans, and Federal Housing Administration (FHA) single and multifamily loans. The 1988 sales produced $843 million in receipts. Prepayments accounted for a much larger share of activity in 1988. Borrowers prepaid $7.3 billion in RDIF, Railroad Rehabilitation, EXIMBANK, Bureau of Reclamation, HUD single-family, Rural Electrification Administration (REA), Rural Telephone Bank (RTB), and Foreign Military Sales (FMS) loans.

Many of the 1989 sales and prepayments have yet to be accomplished. If, however, all of the sales and prepayments proposed for 1989 occur, $6.5 billion will be received by the close of the fiscal year.

Future loan sales may be structured like the RHIF, RDIF, and DOEd sales in 1987. In those cases, individual loans were sold to a trust, which issued a series of securities whose income is derived from collections on the underlying pool of loans. In exchange for the loans sold in that sale, the agencies received cash and junior securities issued by the trust. The junior securities are a claim on the income from the loan pool that is subordinate to the claim of the senior securities, which were sold to the public. This subordination means that the holders of the senior securities must receive all of their scheduled interest and principal payments before the junior security holders receive any payments. The holders of the junior securities protect the holders of the senior securities against losses on mortgages in the pool. Only the junior securities from the 1987 RDIF Trust have been sold by the federal government. The DOEd, FmHA (RHIF), VA, and HUD currently own the junior securities from the previous sales.

ENERGY (Function 270)

Rural Electrification Administration. To encourage increased use of private financing by electric cooperatives, the President proposes that REA borrowers whose loans were financed by the Federal Financing Bank be afforded an opportunity to prepay their loans without the usual penalty. Borrowers who agree not to seek further financial assistance from REA will be permitted to refinance their loans using an 80 percent federal guarantee. CBO estimates receipts from these prepayments to total $435 million in 1990 (see Table III-4). These prepayment receipts will not count as deficit reduction under the Balanced Budget Act.

COMMERCE AND HOUSING CREDIT (Function 370)

Rural Housing Insurance Fund. The Farmers Home Administration in the Department of Agriculture administers several programs aimed at improving rural housing conditions, including direct mortgage lending at deeply subsidized rates. The Administration is proposing to replace the mortgage loan program for single-family

TABLE III-4. LOAN ASSET SALES AND PREPAYMENT RECEIPTS: CBO BASELINE, PRESIDENT'S 1990 BUDGET, AND CBO REESTIMATES, FUNCTIONS 150 AND 270
(By fiscal year, in millions of dollars)

Program	1989	1990	1991	1992	1993	1994
		Function 150: International Affairs				
Export-Import Bank (Prepayment)						
CBO Baseline	0	0	0	0	0	0
President's Budget	525	0	0	0	0	0
CBO Reestimate	0	0	0	0	0	
Foreign Military Sales (Prepayment)						
CBO Baseline	5,244	0	0	0	0	0
President's Budget	5,000	0	0	0	0	0
CBO Reestimate	5,244	0	0	0	0	0
		Function 270: Energy				
Rural Electrification Administration (Prepayment)						
CBO Baseline	500	0	0	0	0	0
President's Budget	500	500	250	250	0	0
CBO Reestimate	500	435	150	310	0	0

rural homes with 20,000 housing vouchers in 1990, and to sell much of the remaining single-family loan portfolio to gain administrative cost savings. To assist in measuring the economic subsidy, most or all of the 1990 sales will be of newly originated loans. CBO estimates that proceeds from this proposal will total $500 million in 1990, $500 million in 1991, $1.5 billion in 1992, $500 million in 1993, and $500 million in 1994 (see Table III-5). The Congress would have to change existing legislation to allow the proposed nonrecourse sale to take place. The receipts generated from the proposed sales would not reduce the deficit under the Balanced Budget Act.

The Administration is proposing also to sell the junior subordinated securities from the 1987 sale. CBO estimates net receipts of $300 million would be generated by this sale in 1990. The Administration believes these receipts would reduce the deficit under the Balanced Budget Act.

Housing for the Elderly and Handicapped. The Administration is proposing to replace subsidized direct loans with credit vouchers for sponsors of housing for the elderly or handicapped. The credit vouchers would enable banks and other lenders to originate subsidized construction loans in return for an up-front lump-sum payment that would compensate for default risk and the interest subsidy on these loans. The Administration proposes to sell the existing loan portfolio during the 1990-1994 period. CBO estimates that the sale would yield proceeds of $500 million in 1990. The Congress would have to enact legislation to allow this sale to take place. This sale would not count as deficit reduction under the Balanced Budget Act.

Small Business Administration. The Administration is proposing to sell SBA business loans originated during 1989 in order to calculate the economic subsidy. CBO estimates that proceeds from the sale of loans will be $50 million in 1990. SBA has statutory authority to sell loans. The Congress has in the past, however, included language in annual appropriations bills specifically prohibiting sales from SBA loan portfolios. This sale would not count as deficit reduction under the Balanced Budget Act.

TRANSPORTATION (Function 400)

Railroad Rehabilitation. The Administration is proposing to continue its program to liquidate two portfolios through prepayments and/or loan sales. While it estimates that this program will produce receipts of $15 million in 1990, CBO estimates that no prepayments or sales will take place after fiscal year 1989 (see Table III-6). The CBO baseline includes receipts of $90 million in 1989 and zero in all other years. These receipts would count as deficit reduction under the Balanced Budget Act.

COMMUNITY AND REGIONAL DEVELOPMENT (Function 450)

Rural Development Insurance Fund. The Administration is proposing a sale of RDIF loans in 1990. RDIF loans were first sold in 1987. Following this initial loan sale, the Agricultural Credit Act of 1987 required that borrowers be provided an option to prepay their loans before any subsequent sale offerings to the public.

TABLE III-5. LOAN ASSET SALES AND PREPAYMENT RECEIPTS: CBO BASELINE, PRESIDENT'S 1990 BUDGET, AND CBO REESTIMATES, FUNCTION 370
(By fiscal year, in millions of dollars)

Program	1989	1990	1991	1992	1993	1994
Function 370: Commerce and Housing Credit						
Rural Housing Insurance Fund (Sale)--Reagan Proposal						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	1,692	392	392	392	392
CBO Reestimate	0	1,692	392	392	392	392
Rural Housing Insurance Fund, Junior Securities (Sale)-- Reagan Proposal						
CBO Baseline	0	300	0	0	0	0
President's Budget	0	275	0	0	0	0
CBO Reestimate	0	300	0	0	0	0
Rural Housing Insurance Fund (Sale)--Bush Proposal						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	500	500	1,500	500	500
CBO Reestimate	0	500	500	1,500	500	500
Rural Housing Insurance Fund, Junior Securities (Sale)-- Bush Proposal						
CBO Baseline	0	300	0	0	0	0
President's Budget	0	275	0	0	0	0
CBO Reestimate	0	300	0	0	0	0
Housing for the Elderly or Handicapped (Sale)						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	500	572	509	0	0
CBO Reestimate	0	500	572	509	0	0
Small Business Administration, Business Loans (Sale)						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	51	0	0	0	0
CBO Reestimate	0	50	0	0	0	0
Federal Housing Administration, Single-Family Loans (Sale)						
CBO Baseline	0	0	0	0	0	0
President's Budget	23	0	0	0	0	0
CBO Reestimate	24	0	0	0	0	0

TABLE III-6. LOAN ASSET SALES AND PREPAYMENT RECEIPTS: CBO BASELINE, PRESIDENT'S 1990 BUDGET, AND CBO REESTIMATES, FUNCTIONS 400 AND 450 (By fiscal year, in millions of dollars)

Program	1989	1990	1991	1992	1993	1994
Function 400: Transportation						
Railroad Rehabilitation (Prepayment)						
CBO Baseline	90	0	0	0	0	0
President's Budget	200	15	0	0	0	0
CBO Reestimate	90	0	0	0	0	0
Function 450: Community and Regional Development						
Rural Development Insurance Fund (Sale)						
CBO Baseline	256	0	0	0	0	0
President's Budget	256	77	73	81	0	0
CBO Reestimate	256	78	65	65	0	0
Rural Development Insurance Fund (Prepayment)						
CBO Baseline	328	0	0	0	0	0
President's Budget	328	0	0	0	0	0
CBO Reestimate	328	0	0	0	0	0
Rural Telephone Bank (Prepayment)						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	75	0	0	0	0
CBO Reestimate	0	67	0	0	0	0
Economic Development Administration (Sale)						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	55	0	0	0	0
CBO Reestimate	0	44	0	0	0	0
Small Business Administration Disaster Loan Fund (Sale)						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	131	134	88	50	45
CBO Reestimate	0	131	159	150	150	201

RDIF has no prohibition against future sales of loans. The Administration is proposing a sale of $120 million (face value) RDIF loans in 1990, $100 million (face value) in 1991, and $100 million (face value) in 1992. It is proposing to sell newly originated loans during the 1990-1992 period with the intention of estimating the economic subsidy. CBO estimates receipts of $78 million in 1990. These newly originated loans can take an average of three years before they are fully disbursed and the facility financed is operational. The subsidy estimates obtained by this sale will not measure the subsidy at the time the obligation is made if interest rates change over the three-year interim period. Sale receipts would not reduce the deficit under the Balanced Budget Act.

Rural Telephone Bank. An offer to allow prepayments without penalty in exchange for a promise not to borrow again from the RTB is being proposed for RTB borrowers in 1990. CBO estimates that prepayments will generate $67 million in net receipts. These prepayments would require legislation and, in addition, would not reduce the deficit under the Balanced Budget Act.

Economic Development Administration. A sale of EDA's outstanding drought loans is proposed for 1990. These are current loans and were made under the Community Emergency Drought Relief Act of 1977 (P.L. 95-31). These loans have 5 percent interest rates with maturities of 30 to 40 years. CBO estimates receipts of $44 million. EDA has the authority to sell loans to the public. The receipts generated from this sale would not reduce the deficit under the Balanced Budget Act.

Small Business Administration. Termination of the disaster loans program is proposed for 1990. In order to achieve administrative savings, sales of loans are also being proposed for the 1990-1994 period. CBO estimates net proceeds of $131 million in 1990. SBA has statutory authority to sell loans. In the past, however, the Congress has included language in annual appropriations bills specifically prohibiting sales from SBA loan portfolios. This sale would not reduce the deficit under the Balanced Budget Act.

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

College Housing and Academic Facilities. The Administration is proposing to terminate the direct loan program in 1990. In order to achieve administrative savings, it would sell loans from the Department of Education's College Housing and Higher Education Facilities portfolios. CBO estimates net proceeds of $261 million (see Table III-7). Currently, the Higher Education Act Amendments of 1986 explicitly prohibit sales of loans to the public after 1988. Legislation would need to be enacted before any future sales could occur. The receipts generated from this sale would not reduce the deficit under the Balanced Budget Act.

In addition, the Administration is proposing to sell the junior securities in 1989. CBO estimates that net receipts of $32 million would be generated from this sale. This is a sale of securities created in conjunction with the loan sales of 1987 and 1988. The receipts from those sales reduced the deficit under the Balanced Budget Act. The Administration believes that the receipts generated from the sale

TABLE III-7. LOAN ASSET SALES AND PREPAYMENT RECEIPTS: CBO BASELINE, PRESIDENT'S 1990 BUDGET, AND CBO REESTIMATES, FUNCTIONS 500, 550, AND 700 (By fiscal year, in millions of dollars)

Program	1989	1990	1991	1992	1993	1994
Function 500: Education, Training, Employment, and Social Services						
College Housing (Sale)						
CBO Baseline	32	0	0	0	0	0
President's Budget	32	235	0	0	0	0
CBO Reestimate	32	235	0	0	0	0
Academic Facilities (Sale)						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	26	0	0	0	0
CBO Reestimate	0	26	0	0	0	0
Function 550: Health						
Health Maintenance Organizations (Sale)						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	20	0	0	0	0
CBO Reestimate	0	20	0	0	0	0
Medical Facilities (Sale)						
CBO Baseline	0	0	0	0	0	0
President's Budget	0	67	0	0	0	0
CBO Reestimate	0	67	0	0	0	0
Function 700: Veterans' Benefits and Services						
VA Vendee Loans (Sale)						
CBO Baseline	449	0	0	0	0	0
President's Budget	510	535	553	472	417	411
CBO Reestimate	449	441	418	401	389	379

of the junior securities would reduce the deficit under the Balanced Budget Act as well.

HEALTH (Function 550)

Medical Facilities and Health Maintenance Organizations. The Administration is again proposing to sell loans from the Health Maintenance Organizations (HMO) and Medical Facilities portfolios. CBO estimates the government would receive $20 million from the sale of the HMO loans and $67 million from the sale of the Medical Facilities loans in 1990. Legislation would need to be enacted for the sales to occur. The receipts would not count as deficit reduction under the Balanced Budget Act.

VETERANS' BENEFITS AND SERVICES (Function 700)

Vendee Loans. These loans are originated by the Department of Veterans' Affairs (VA) and provide financing to the purchasers of properties acquired by VA as a result of foreclosures on VA-insured mortgages. Current law requires the VA to recommence selling vendee loans with a guarantee against default after September 30, 1989. Under current budgetary scoring rules, recourse loan sales are treated as a means of financing rather than offsetting collections. The President will request statutory authorization to continue selling VA vendee loans without recourse beyond the current expiration. If this authorization is granted, the proceeds will be scored as deficit reduction under the Balanced Budget Act. CBO estimates net proceeds of $441 million in 1990.

CENTRAL FISCAL OPERATIONS (Function 800)

Central Loan Accounting Account (CLAA). To facilitate loan sales and prepayments, the Administration proposes to create a CLAA account in Treasury. Before an agency can sell loans, it must repurchase its debt, called Certificates of Beneficial Ownership (CBOs), held by the FFB. If the agency redeems above-market-rate CBOs, a prepayment premium is owed to the FFB. Similarly, if a borrower prepays agency-guaranteed loans disbursed by the FFB that carry above-market interest rates, a prepayment premium is owed to the FFB. The CLAA account would receive appropriations equal to the estimated premiums owed by the agency or borrowers, and then would pay the FFB. It should be noted that the creation of the CLAA account is merely to facilitate intragovernmental transactions. It does not affect the financial condition of the government or the deficit.

For reference, the total face-value dollar volume of loan portfolios that might be sold or prepaid is shown in Table III-8.

TABLE III-8. LOAN PORTFOLIOS, PROGRAMS WITH PROPOSED LOAN SALES AND PREPAYMENTS (In billions of dollars)

Program	Amount
Export-Import Bank	9.9
Foreign Military Sales	22.0
Rural Electrification Administration	17.0
Rural Housing Insurance Fund (Single-Family Mortgages)	18.2
Housing for the Elderly or Handicapped	6.5
Small Business Administration (Business Loans)	0.1
Federal Housing Administration (Single-Family)	1.3
Railroad Rehabilitation	0.5
Rural Development Insurance Fund	5.1
Rural Telephone Bank	1.4
Economic Development Administration	0.1
Small Business Administration (Disaster Loans)	3.3
Department of Education	
(College Housing)	0.7
(Academic Facilities)	0.1
Health and Human Resources	
(HMOs)	0.1
(Medical Facilities)	0.1
Department of Veterans' Affairs (Vendees)	1.1

CHAPTER IV: THE CREDIT BUDGET: CONCEPT, CONTROL, AND PROPOSED REFORM

The credit budget is an adjunct to the unified budget. Whereas the unified budget has a dual basis of budget authority (the authority to obligate the federal government to pay) and net cash outlays, the credit budget's basis is gross obligations to lend and gross commitments to guarantee. The credit budget consists of all direct loan obligations and guarantee commitments to be issued by federal agencies in a budget year. In one sense--namely that the programs in the credit budget also appear in the unified budget--the credit budget duplicates the unified budget. But the focus in the credit budget is on gross commitments at the point of obligation, rather than on net use of budget authority or net outlays when these occur. Loan repayments and expiring guarantees are not netted against new activity in the credit budget. Moreover, for guarantees, the amount recognized is the full amount of the loan, even if the guarantee is for less than 100 percent of the loan amount.

CREDIT BUDGET CONTROLS

The credit budget is enforced, first, through established budget process controls on budget authority and outlays and, second, through program limitations established in appropriations acts. Although not all credit programs are subject to limitations, most are (see Table IV-1).

Obligation and commitment levels are limited by several types of Congressional action. These mechanisms fall into three general categories: appropriations act limitations, constraints imposed by account-level credit and noncredit budget authority, and authorizing legislation that establishes qualifications for beneficiaries of credit.

The most direct controls are the annual appropriations act limitations. These limitations serve as ceilings (floors in the case of the Rural Electrification Administration and Rural Telephone Bank programs) on the volume of new credit to be extended. In a few cases, the limitations are effective in restricting activity below demand-driven levels. More often, actual demand for federal credit is less than the enacted limitation. Table IV-2 shows nine programs whose activity levels have tended to fall well short of the limitations. It should be noted that for some programs, such as Central Liquidity Fund, the actual use as a percent of the limitation is quite low. For others, as in the case of Export-Import Bank direct loans, the limitation has been reduced in recent years to match more closely program obligations.

Credit programs in accounts that have both grant and loan activity are subject to another type of control. Public Law 480 food assistance, for example, has a grant program and a direct loan program for commodities supplied in connection

TABLE IV-1. LIMITATION STATUS OF FEDERAL CREDIT PROGRAMS, WITH CBO BASELINE 1989 OBLIGATION AND COMMITMENT LEVELS (By fiscal year, in millions of dollars)

Account Title	1989 CBO Baseline Obligations/Commitments
Programs with Annual Appropriations Act Limitations	
Direct Loans	
Foreign Military Sales Credit	410.0
Overseas Private Investment Corporation	23.0
Private Sector Revolving Fund (AID)	12.0
Export-Import Bank	695.0
Rural Electrification and Telephone Revolving Fund	1,621.2
Bureau of Reclamation Loan Program	27.8
Agricultural Credit Insurance Fund	1,767.2
Rural Housing Insurance Fund	2,325.0
Self-help Housing Land Development Fund (FmHA)	0.5
Central Liquidity Facility	121.0
Business Loan and Investment Fund (SBA)	82.0
Federal Housing Administration Fund	0.0
Housing for the Elderly or Handicapped Fund	480.1
Right-of-Way Revolving Fund (trust revolving fund)	46.0
Rural Development Insurance Fund	426.1
Rural Telephone Bank	156.0
Rural Development Loan Fund	13.6
College Housing and Academic Facilities	29.6
Health Resources and Services (health care)	0.5
Nonprofit Sponsor Assistance	1.0
Direct Loan Revolving Fund (VA)	0.7
Administration of Territories	53.0
Total	8,291.1
Guaranteed Loans	
Overseas Private Investment Corporation	175.0
Housing and Other Credit Guaranty Programs (AID)	125.0
Private Sector Revolving Fund (AID)	50.0
Export-Import Bank	5,800.0
Agricultural Credit Insurance Fund	1,350.1
Federal Ship Financing Fund, Fishing Vessels	75.0
Business Loan and Investment Fund	3,033.0
Federal Housing Administration Fund	47,455.6
Rural Development Insurance Fund	295.7
Economic Development Assistance Programs	10.0
Community Development Grants	144.0
Total	58,513.4

(continued)

TABLE IV-1. (continued)

Account Title	1989 CBO Baseline Obligations/Commitments
Programs Constrained by Account-Level (Credit and Non-Credit) Budget Authority	
Direct Loans	
Expenses, Public Law 480	790.9
Emergencies in the Diplomatic Corps and Consulates	0.6
Abatement, Control, and Compliance (EPA)	31.5
Revolving Fund for Loans (BIA)	13.0
Disaster Loan Fund (SBA)	313.0
Rehabilitation Loan Fund (Section 312) (HUD)	23.0
Total	1,172.0
Guaranteed Loans	
Foreign Military Sales Financing	4,700.0
Indian Loan Guaranty and Insurance Fund	39.7
Total	4,739.7
Programs Limited Only by Authorizing Legislation	
Direct Loans	
Tennessee Valley Authority Fund	287.8
Commodity Credit Corporation Fund	6,447.0
Credit Union Share Insurance Fund	5.0
Federal Savings and Loan Insurance Corporation	75.0
Federal Ship Financing Fund	2.0
Pension Benefit Guaranty Corporation Fund	0.2
Loan Guaranty Revolving Fund (VA)	866.3
Vocational Rehabilitation Revolving Fund (VA)	1.0
Education Loan Fund (VA)	0.0
Total	7,684.3
Guaranteed Loans	
Commodity Credit Corporation Fund	3,500.0
Farm Credit System Financial Assistance	600.0
Federal Savings and Loan Insurance Corporation	55.0
Guaranteed Student Loans	12,495.0
Health Professions Graduate Student Loans	360.0
Loan Guaranty Revolving Fund (VA)	20,600.0
Total	37,610.0

TABLE IV-2. LIMITATIONS ON APPROPRIATIONS ACT ACTIVITY AND ACTUAL LEVELS, SELECTED PROGRAMS
(By fiscal year, in millions of dollars)

	1984		1985		1986		1987		1988		1989
	Limit	Actual as Percent of Limit	Limit	Actual as Percent of Limit	Limit	Actual as Percent of Limit	Limit	Actual as Percent of Limit	Limit	Actual as Percent of Limit	Proposed Limit
					Direct Loan Obligations						
Rural Electrification and Telephone Revolving Fund	1,425	76	1,100	70	2,129	139	2,155	48	2,159	74	1,794
Rural Telephone Bank	220	65	185	91	177	72	185	100	80	100	177
Export-Import Bank	3,865	38	3,865	17	1,059	55	680	100	693	100	695
Central Liquidity Fund (NCUA)	no limitation		600	8	568	5	600	18	600	11	600
					Guaranteed Loan Commitments						
Agricultural Credit Insurance Fund	546	81	1,246	94	1,916	81	2,498	63	2,793	45	2,777
Economic Development Assistance	167	7	167	0	188	12	188	0	188	0	188
Export-Import Bank	10,000	71	10,000	78	11,484	48	11,355	59	14,601	39	19,062
FHA Fund	50,900	34	50,900	93	141,500	73	100,000	80	96,000	52	96,000
GNMA, Mortgage-backed Securities	68,250	58	68,250	80	175,000	79	150,000	93	144,000	37	75,000

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

with foreign sales of U.S. food products (Title II). The program limitations in appropriations bills apply to grant and loan activity combined.

Another limitation is that created by the program characteristics established in authorizing statutes. Guaranteed student loans, for example, are limited by legislation that determines qualified recipients. Actual program levels are then based on demand by qualified applicants.

Some credit programs are subject to both appropriations and authorizing limitations. Overseas Private Investment Corporation guaranteed loans, for example, are limited by appropriations, but also have a contingent liability ceiling level stated in authorizing legislation. Still other programs have no specific limit on new loan obligations, but appropriations bills allow amounts in the fund and new collections to be used for new loans and other obligations of the fund. The rehabilitation loan fund in the Department of Housing and Urban Development is an example of this.

Although these mechanisms affect the levels of new activity in these accounts, they are not a direct control over the financial resources consumed by the credit programs. The terms of the government loans, the rates of default, and receipts to the accounts (fees, premiums, and repayments) determine the government's loss on these programs.

CREDIT REFORM

Largely because of the failings of the credit budget as a control mechanism, the Reagan budget resubmits the Administration's August 1988 legislative proposal for credit reform. President Bush has also endorsed credit reform in his revised budget.

The essence of the proposal is to use the government's expected loss, or subsidy cost, on new federal loans and guarantees as the measure of new credit activity in the unified budget. Under the Administration's plan, agencies would be required to estimate, following guidelines issued by the Treasury, the subsidies that would be conveyed by credits extended or guaranteed for a budget year. The President would request appropriations of subsidy cost for each credit program. Agencies would not be able to issue loan obligations or guarantee commitments except to the extent that they had received the requisite subsidy budget authority.

To carry out the Administration's accounting and process reform, a new subsidy account, to receive subsidy appropriations, would be created for every existing credit program account. In addition, two new central revolving funds would be created in the Treasury. One of these revolving funds would finance all post-reform direct loans; the other, all new guarantees. Appropriated subsidies would be transferred from the subsidy accounts to the relevant revolving fund as federally assisted loans were disbursed. The direct loan revolving fund would finance its disbursements with subsidy receipts and borrowing from the Treasury.

These revolving funds are intended to be economically self-sufficient. Over time, the direct loan revolving fund would receive sufficient subsidies and loan repayments to service and retire its debts to the Treasury. The guarantee revolving fund--because most of its outlays would be deferred--would accumulate cash surpluses in the near term from subsidy payments and guarantee fees sufficient to pay its future obligations. These cash balances would be invested in Treasury securities.

To the extent that the Administration's proposal succeeded in shifting budgetary attention from the current cash flow generated by all old and new activity in an account to the subsidy cost of current-period obligations and commitments, this reform would improve both the basis and the recognition of credit program cost. Under the present system of budget accounting for credit, the most visible measure of a credit program's cost is its contribution to outlays and the deficit. Net outlays for a direct loan program in a budget period are an amalgam of repayments and recoveries from existing loans and disbursements of new loans. Net outlays for a guarantee program consist of disbursements for past guarantees offset, in whole or part, by collections of fees and premiums from new guarantees and insurance. Current-period cash flow in neither case indicates the cost of the current-period activity.

Subsidy cost, in contrast, attempts to measure the government's loss on current-period obligations and commitments. It therefore focuses on a meaningful measure of cost, which under credit reform would be recognized in the budget at the time the decision was made to extend credit assistance. Credit reform would thus enable the budget to distinguish clearly between deeply subsidized credits and those made on terms allowing the government to recover the full costs. The recognition of subsidy cost would also permit more equal comparisons of the cost of credit and noncredit programs. Finally, by creating a common cost metric for credit and noncredit programs, this reform might encourage the use of the most cost-effective instrument for a given policy, rather than the one having the smallest effect on the budget in terms of cash flow in the current period.

CHAPTER V: GOVERNMENT-SPONSORED ENTERPRISES

Government-sponsored enterprises (GSEs) are privately owned financial intermediaries chartered by the federal government to allocate credit to favored borrowers. Five GSEs have supported lending for agriculture, housing, and higher education for many years. Two GSEs chartered in 1987 will, when fully operational, help finance farm mortgages and higher-education construction loans. Although the expenditures and borrowing of these corporations are neither included in the unified and credit budgets nor controlled directly by the government, their activities are a major form of federal intervention in the credit markets.

In 1987, the government chartered two new corporations to borrow to finance spending to resolve insolvent thrifts and agricultural lenders. Two GSEs--the Federal Home Loan Banks (FHLBanks) and the Farm Credit banks--were required by law to contribute funds to the new corporations. By mandating these contributions and specifying their use, the government abandoned the traditional practice of creating GSEs solely to give borrowers access to capital markets. The mandatory contributions were defined to be "private equity" and used to justify designating the new corporations as GSEs and excluding them from the budget. President Bush has proposed to charter a third corporation to raise additional funds to meet the federal obligation to depositors of insured, insolvent thrifts.

AN OVERVIEW OF GOVERNMENT-SPONSORED ENTERPRISES

Agricultural credit is provided by two institutions in the Farm Credit System. The Farm Credit Banks make loans to farmer-owned marketing, supply, and service cooperatives and rural utilities, and short- and intermediate-term farm loans. The Federal Land Banks made long-term loans secured by farm real estate. In 1989, a third GSE, the Federal Agricultural Mortgage Corporation (Farmer Mac), will begin guaranteeing securities backed by farm mortgages and certain rural housing loans. This type of intervention increases the marketability and liquidity of the underlying loans and induces lenders to make them.

Residential mortgage lending is supported by three institutions: the Federal Home Loan Banks (FHLBanks), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal National Mortgage Association (Fannie Mae). The FHLBanks make advances to federally insured savings and loans. Freddie Mac and Fannie Mae purchase loans originated by mortgage lenders and finance the acquisitions by selling debt and guaranteed mortgage-backed securities. The two GSEs also guarantee mortgage-backed securities issued by mortgage lenders.

For higher education, the Student Loan Marketing Association (Sallie Mae) invests principally in federally guaranteed student loans. the College Construction Loan Insurance Association (Connie Lee), chartered in 1987 and jointly owned by the federal government and Sallie Mae, will insure debt issued by colleges and other higher educational institutions to finance construction projects. Despite the government's equity interest in Connie Lee, in the 1989 and 1990 budgets the Reagan Administration designated the firm as a GSE.

Securities issued and guaranteed by GSEs totaled nearly $725 billion outstanding at the end of 1988 (see Table V-1). Over three-quarters of these securities financed loans to residential mortgage lenders and borrowers. Between 1970 and 1988, outstanding borrowings and guarantees increased over 19-fold. GSE securities outstanding increased at an average annual rate of 18 percent. Securities issued and guaranteed by the FHLBanks, Freddie Mac, and Fannie Mae increased over 40-fold during that period. Table V-1 also shows the Reagan Administration's estimates of GSE securities outstanding at the end of 1989 and 1990.

The special legal status of the GSEs and their relationship to the government provide an implicit federal guarantee of their liabilities. This guarantee enables them to borrow at near-Treasury rates and reduces the yields investors require on securities that they guarantee. Although these savings cannot be estimated precisely, the following ranges approximate the amounts by which the yields on securities issued by comparable, wholly private financial intermediaries exceed the yields on GSE securities: approximately 0.3 percent to 0.4 percent for mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac; 0.3 percent to 0.5 percent for debt issued by Sallie Mae; 0.6 percent to 0.7 percent for debt issued by the FHLBanks and Freddie Mac; 2.0 percent to 2.5 percent for debt issued by Fannie Mae; and 2.8 percent to 3.3 percent for debt issued by the Farm Credit System.

USER FEES ON GSE SECURITIES

President Reagan's budget proposed to levy fees on securities issued or guaranteed by several GSEs. Under the proposal, Freddie Mac, Fannie Mae, Sallie Mae, and Connie Lee would be charged 10 basis points (0.1 percent) of the face value of all new notes, bonds, and other debt securities they issued in 1990. This fee would rise to 20 basis points in 1991 and 30 basis points in 1992 and subsequent years. No fees would be levied on college and other higher-education construction debt insured by Connie Lee. Freddie Mac and Fannie Mae would be charged a five-basis-point fee on new mortgage-backed securities they guaranteed in 1990. The latter fee would rise to 10 basis points in 1991 and 15 basis points in 1992 and subsequent years.

For Freddie Mac and Fannie Mae, new debt subject to the fees would include securities issued not only to replace maturing debt and refinance current portfolios, but to finance increases in their portfolios. Similarly, new mortgage-backed securities guaranteed by them would include securities issued both to replace mortgage-backed securities they had previously guaranteed, but which had matured or been prepaid, and to expand their outstanding mortgage-backed securities. For Sallie Mae and Connie Lee, new securities issued would be defined as any increase above their securities outstanding as of September 30, 1989.

Table V-2 shows the Reagan Administration's estimates of the offsetting receipts that the new fees would generate in 1990-1994. No amounts are shown for fees to be levied on Connie Lee, since it is not yet operational and the Administration did not estimate its future activity. President Bush has not specifically included the proposed fees in his budget proposals for 1990.

TABLE V-1. GOVERNMENT-SPONSORED ENTERPRISE SECURITIES OUTSTANDING AT END OF YEAR (In billions of dollars)

Enterprise	1970	1975	1980	1985	1986	1987	1988	Estimated 1989	Estimated 1990
Farm Credit System									
Banks for Cooperatives	1.5	3.2	8.4	8.1	8.5	8.9	11.2	11.1	11.7
Farm Credit Banks[a]	11.3	23.7	53.6	61.8	55.6	35.3	43.4	42.0	42.0
Financial Assistance Corp.	b	b	b	b	b	b	0.5	1.5	2.3
Federal Home Loan Bank System[c]									
Banks	11.2	20.6	36.6	73.6	88.1	105.1	126.7	145.0	160.0
Financing Corporation	b	b	b	b	b	b	3.7	7.5	10.8
Freddie Mac									
Debt	b	5.1	4.7	13.8	14.9	17.1	20.6	22.6	22.4
Mortgage-backed Securities	b	1.2	16.8	92.0	146.9	208.9	220.7	252.7	279.5
Fannie Mae									
Debt	13.2	28.2	52.3	91.7	91.6	92.6	106.0	103.8	106.5
Mortgage-backed Securities	b	b	b	48.8	86.4	130.5	167.2	185.3	205.7
Sallie Mae	b	0.2	2.3	12.7	15.5	21.3	25.0	29.1	33.5
Total	37.2	82.3	174.8	402.4	507.5	619.7	724.9	800.5	874.4

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

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

a. Before fiscal year 1987, includes the Federal Intermediate Credit Banks and the Federal Land Banks.

b. Not yet chartered.

c. President Bush has proposed the creation of a Resolution Funding Corporation (REFCORP) to finance the resolution of insolvent thrifts, and would consder the entity to be a government-sponsored enterprise. Anticipated REFCORP borrowings are not shown in the table because CBO believes that the corporation would be a federal agency.

TABLE V-2. GOVERNMENT-SPONSORED ENTERPRISE USER FEES PROPOSED IN THE PRESIDENT'S 1990 BUDGET
(By fiscal year, fees in basis points and receipts in millions of dollars)

Enterprise	1990		1991		1992		1993		1994	
	BP	$	BP	$	BP	$	BP	$	BP	$
Fannie Mae										
Debt	10	12.0	20	48.8	30	111.2	30	150.3	30	190.5
Mortgage-backed Securities	5	17.5	10	70.9	15	162.7	15	221.1	15	280.8
Freddie Mac										
Debt	10	0.5	20	2.0	30	4.5	30	6.0	30	7.5
Mortgage-backed Securities	5	24.5	10	101.1	15	231.9	15	315.2	15	400.3
Sallie Mae Debt	10	4.5	20	18.9	30	44.7	30	62.6	30	82.4
Total		58.9		241.7		554.9		755.2		961.5

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

RESOLUTION FUNDING CORPORATION

President Bush has proposed to charter a new corporation, the Resolution Funding Corporation (REFCORP), to borrow $50 billion in the 1989-1991 period. The FHLBanks would be required to transfer a portion of their retained earnings to the corporation. REFCORP would use the money, along with thrift industry assessments, to purchase zero-coupon Treasury bonds that, upon maturity, could be used to retire its debt. REFCORP would transfer the funds it borrowed to a new federal agency, the Resolution Trust Corporation (RTC), which would disburse the money to resolve insolvent thrifts. REFCORP would pay interest on its debt with additional FHLBank retained earnings, the proceeds of RTC liquidations of insolvent thrifts, and funds provided by the Treasury. CBO estimates that, in present value terms, Treasury payments would cover over 90 percent of the cost of servicing the corporation's debt.

Because the FHLBanks, a government-sponsored enterprise, would contribute funds to REFCORP, the Administration has designated it as a GSE also and excluded it from the budget. This budgetary treatment would be consistent with that of the Financing Corporation (FICO), which was established in 1987 to raise money to be spent to resolve insolvent thrifts. FICO was excluded from the budget on the grounds that funds it received from the FHLBanks were an equity investment that made it a private corporation. As a GSE, REFCORP's bonds would have to pay interest rates about 0.2 percent to 0.4 percent higher than those on Treasury bonds. This would increase the cost of borrowing $50 billion by $1 billion to $2 billion, in present value terms.

There are several reasons for considering REFCORP to be a federal agency whose borrowing and spending should be included in the budget. First, the corporation would be created by the government for the sole purpose of borrowing funds and transferring them to a federal agency, RTC. Second, REFCORP actions would be controlled by the RTC Oversight Board, which would consist of three federal officials. Third, although the bill would designate the transfer of FHLBank earnings to REFCORP as purchases of "nonvoting capital stock" in the latter, the FHLBanks could not be paid "dividends" on the "stock" or otherwise benefit financially from REFCORP's activities, and could not recoup the money they contributed. Fourth, the sole beneficiary of the existence of REFCORP and the contribution of funds by the FHLBanks would be the federal government, not the corporation's nominal "owners." Fifth, the bill would give REFCORP the ability to levy and collect assessments on federally insured thrifts. These assessments would be indistinguishable from those collected by federal agencies included in the budget.

REFCORP, as proposed by the Administration, would closely resemble the Financial Assistance Corporation (FAC) chartered in 1987 to finance assistance to insolvent Farm Credit System member institutions. For 10 years the government will make payments to FAC equal to some or all of the interest on debt it issued. FAC is controlled by federal officials, and the contribution of Farm Credit System funds to FAC is not an equity investment. President Reagan's fiscal year 1990 budget reversed the previous treatment of FAC as a government-sponsored enterprise, designating it as an on-budget federal agency. Including the borrowing and spending of REFCORP in the budget would be consistent with the current budgetary treatment of FAC.

For these reasons, CBO believes that REFCORP would be a federal agency. Ultimately, the designation of FICO, FAC, REFCORP, and similar government-chartered corporations as federal agencies or government-sponsored enterprises, and the budgetary treatment of them, are policy choices. Any legislation chartering REFCORP or a similar entity could make the choice explicit by stipulating the entity's budgetary treatment.