Federal Credit Activities: An Analysis of the President's Credit Budget for 1981

Staff Working Paper

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CONGRESS OF THE UNITED STATES CONGRESSIONAL BUDGET OFFICE

FEDERAL CREDIT ACTIVITY:
AN ANALYSIS OF THE PRESIDENT'S
CREDIT BUDGET FOR 1981

The Congress of the United States
Congressional Budget Office

NOTES

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

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

All estimates in this report are from The Budget of the United States Government --Fiscal Year 1981.

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PREFACE

This analysis of the new credit credit control system and credit budget included by the Administration in its 1981 budget was prepared at the request of the House Budget Committee's Task Force on the Budget Process. The paper examines the implications of a credit control system for the federal budget process and the implications of federal credit activity for the economy. The heart of the paper, however, is a function-by-function examination of the Administration's credit program estimates for 1980 and 1981.

The paper was prepared by John D. Shillingburg of CBO's Budget Process Unit. Marvin Phaup of its Fiscal Analysis Division contributed the chapter on the economic effects of federal credit. The author wishes to acknowledge the technical assistance provided by James B. Atherton of the Office of Management and Budget. Francis S. Pierce edited the manuscript and Kathryn A. Quattrone typed the paper for publication with assistance from Thelma L. Jones, Deborah L. Vogt, and Nancy E. Wenzel.

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CONTENTS

CONTENTS (CONTINUED)

TABLES

TABLES (Continued)

TABLES (Continued)

APPENDIX TABLE

FIGURE

SUMMARY

The President's budget for fiscal year 1981 contains, for the first time, an explicit budget for federal credit activities. The federal credit budget consists of new obligations for direct loans and new commitments for loan guarantees. For 1981, the credit budget totals $142 billion, almost one-quarter of the size of the federal budget for spending. In addition, the Administration is requesting annual appropriation bill limitations for selected federal credit programs. The purposes of the federal credit budget and the annual program limitations are to exercise greater control over the growth of federal credit activities, to ensure that the level of resources for these activities is justified, that the allocation of resources among the various programs is consistent with national priorities, and that more careful consideration is given to the impact of total federal credit activity on the economy as a whole.

THE ADMINISTRATION'S CREDIT CONTROL SYSTEM

The Administration's proposed credit control system, announced a year ago in the 1980 budget, is a response to the concerns raised by the rapid growth in recent years in the volume of federal credit activities, particularly in federal guarantees of private loans. Federal credit programs have been controlled to some extent through the normal budget process. For example, the budget authority and outlays for most direct loans of the federal government are included in the unified budget, net of loan repayments. Also, limitations of various kinds have been placed on some loan guarantee programs. But the volume of new direct loans by off-budget federal entities such as the Federal Financing Bank (FFB) grew by 70 percent between 1976 and 1979, or twice the rate of growth in total budget outlays. New loan guarantees grew even faster during the same period--by 108 percent. Furthermore, loan guarantees can often substitute for on-budget direct lending or other outlays to escape normal budget controls. In fact, many federally guaranteed loans are converted to off-budget direct loans when they are financed through the FFB.

More and more attention has been focused on the growth of federal credit programs in recent years, and it has become clear that traditional budget techniques, with their focus on direct spending and taxing, are unable to control credit program levels. As a result, the federal government does

58-342 O - 80 - 2

not have a process for deciding which borrowers, among all borrowers competing for federal credit, should be first to receive federal loans or loan guarantees. Nor does it make determinations about how much of the nation's credit resources it should allocate through federal credit programs. The Administration's proposed credit budget and annual program limitations represent a major first step to exercising greater and more systematic control over federal credit activities.

The Federal Credit Budget

Table S-1 shows the totals for the credit budget presented by the Administration. About two-fifths of the credit budget consists of new direct loan obligations by both on-budget and off-budget programs. Total direct loan obligations in 1981 are estimated at $60.7 billion, only 1.7 percent above the estimated 1980 level compared with a 16.1 percent increase between 1979 and 1980. The share of new direct loan obligations by off-budget entities is estimated to increase sharply from 34 percent in 1979 to 42 percent in 1981. Loan guarantee commitments are estimated to total $81.4 billion in 1981, 8.3 percent above the 1980 level which, in turn, is only slightly higher than in 1979.

The Administration's credit budget contains several new initiatives for direct loans and loan guarantees. The Administration is proposing a $1.5 billion loan program to support rail freight restructuring for railroads other than Conrail, of which $250 million is to be available in 1981. Authority to guarantee over $300 million of loans for this purpose is also requested. The Administration is proposing a Basic Student Loan program to replace the existing insured loan program. Basic student loan obligations in 1981 are estimated to total $1.2 billion if the new program is enacted, up 109 percent over 1980. Guaranteed loans would still be available to supplement the basic loans; they would, however, not have as heavily-subsidized interest rates. The largest new initiative in the Administration's credit budget involves loan guarantees for the development of synthetic fuel production facilities. The Administration anticipates that $2.3 billion in new loans for this purpose will be guaranteed in 1980 and another $2 billion in 1981.

The Administration's credit budget anticipates a substantial reduction in only one credit program: disaster loans by the Farmers Home Administration (FmHA). The Administration assumes that the economic emergency program of loans to farmers will not be renewed by the Congress when it expires in May of this year. Based on this assumption, the Administration estimates new direct loan obligations for FmHA agricultural credit will decline from $8.1 billion in 1979 to $5.0 billion in 1981.

TABLE S-1. THE PROPOSED FEDERAL CREDIT BUDGET: IN BILLIONS OF DOLLARS

	1979 Actual	1980 Estimate	1981 Estimate
New Direct Loan Obligations:			
By on-budget agencies	33.9	36.4	35.4
By off-budget entities	17.5	23.3	25.3
Total, new direct loan obligations	51.4	59.7	60.7
New Loan Guarantee Commitments a/	74.7	75.2	81.4
Total, Federal Credit Budget	126.1	134.9	142.1
Memorandum:			
Proposed Limitations:			
Limitation on new direct loan obligations	---	---	27.2
Limitation on new loan guarantee commitments	---	---	32.5

a/ Primary guarantees. Secondary guarantees and guarantees of loans acquired by on- and off-budget agencies are deducted to avoid double-counting.

ANNUAL PROGRAM LIMITATIONS

In its first credit budget the Administration has chosen to proceed cautiously with respect to recommending limitations on individual programs: for 1981 it is proposing limitations totalling $27.2 billion for direct loan obligations and $35.2 billion for loan guarantee commitments. The proposed limitations thus cover only about 45 percent of total new direct loan obligations and 40 percent of total loan guarantee commitments.

Two general categories of programs have been exempted from limitations: emergency credit assistance, such as the disaster loan programs of the Farmers Home Administration and the Small Business Administration, and entitlement programs, such as veterans' credit assistance. In both cases, the Administration argues that an annual limitation cannot be effective. It is also proposing one-time exemptions from limitations for housing credit activities in 1981. It is concerned that the new credit control system not be perceived as restricting the flow of credit to the housing industry at a time when it may be entering a period of relative weakness. A one-time exemption is also granted the agricultural export credit activities of the Commodity Credit Corporation, to maintain the President's flexibility to expand agricultural export activities. The Administration intends to review these one-time exemptions during the preparation of the 1982 budget.

THE ROLE OF THE FFB: AN OPEN DOOR TO OFF-BUDGET FINANCING

Over 90 percent of the credit activity of off-budget entities is handled through the Federal Financing Bank (FFB), which acts as an off-budget lender for on-budget agencies. By purchasing loans and certificates of beneficial ownership (pools of loans, called CBOs) from on-budget agencies, the FFB transfers on-budget loans off-budget. The FFB also acts as a primary lender at the request of various on-budget federal agencies. If an agency guarantees the full repayment of interest and principal in the event of default by a borrower, the FFB will make a direct loan to that borrower, at interest rates only marginally above the cost of Treasury borrowing.

The Administration plans to control the credit activities of the FFB by placing limitations on the credit activity of agencies using the FFB as a lender--that is, on the authority of agencies to make new direct loans that may eventually be sold to the FFB, or on their authority to guarantee loans, some of which may be made, or originated, by the FFB. This would control the absolute total of federal credit activity, and thus place a ceiling on the absolute amount of credit that could be financed by the FFB in a given year. It would not, however, control in any year the level of the FFB's activity as on off-budget lender within that ceiling. The failure of the Administration to propose limitations on actual FFB activity means that the control system leaves open a door through which credit programs of on-budget agencies may be financed off-budget.

Table S-2 shows the effects on the unified budget deficit if the activities financed off-budget by the FFB were financed on-budget in the respective agencies. The Administration's 1981 deficit of $15.8 billion would be more than doubled by the addition of $16.2 billion of net FFB lending. 1/

TABLE S-2. EFFECT OF FFB-FINANCED CREDIT ACTIVITY ON THE UNIFIED BUDGET DEFICIT: IN BILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Outlays, Unified Budget	493.7	563.6	615.8
Receipts	465.9	523.8	600.0
Deficit, Unified Budget	27.7	39.8	15.8
Plus: Net Loan Outlays, FFB	13.3	16.2	16.2
Deficit, Unified Budget Plus FFB Activity a/	41.0	56.0	32.0

a/ This does not include FFB administrative expenses, transfers, and interest charges.

The Congress currently exercises no control over the timing or amount of the off-budget financing of the FFB. It does not, however, escape the consequences of off-budget FFB financing. The ceiling on the public debt must be increased dollar-for-dollar with each additional off-budget loan. Even if the Congress balances the unified budget, it will have to continue raising the debt ceiling if the FFB continues to act as an off-budget lender.

1/ This estimate is based on the assumption that all activities currently financed off-budget would be continued at the same levels if their outlays were included in the unified budget totals. It is entirely possible, however, that if these activities had to be counted in the unified budget totals, they might not be continued at their current levels--on the assumption that some of these credit activities are undertaken largely because they can be financed off-budget.

Two alternatives are available to the Congress that would enable it to exert control over the volume of FFB-financed activity during a fiscal year. First, the budgetary treatment of FFB activities could be changed to count them as direct activities of the agencies initiating the transaction. This would have the effect on the unified budget deficit illustrated in Table S-2. Alternatively, the Congress could set limits on the amounts of activity that could be financed off-budget by the FFB during a fiscal year. This would not affect budget outlays or the deficit as now constituted. It would simply fill in the control vacuum left by the Administration's decision not to impose such controls.

THE ECONOMIC EFFECTS OF FEDERAL CREDIT

Federal credit programs have consequences far beyond their effects on the budget deficit. They tend to shift resources from some uses into others, or to maintain them in activities from which they would otherwise depart, or to put resources to work that would otherwise be temporarily idle.

Most federal credit has been of the resource shifting type. The housing sector has been a principal beneficiary: the Federal Housing Administration (FHA) and the Veterans Administration together have more than $150 billion in guaranteed home mortgages outstanding. They will issue more than $60 billion in new guarantees in fiscal years 1980 and 1981.

Another favored sector is agriculture and, more generally, the less-urbanized regions. The Farmers Home Administration and the Rural Electrification Administration will direct over $24 billion in credit to rural areas during 1980 and 1981.

Over the short run, perhaps several years, the economic effects of these policies are mostly distributional. Some--those who get more credit--are made better off; others, who get less, are made worse off. The longer-run, cumulative impacts, however, are mostly structural. By directing credit toward some uses and implicitly away from others, the federal government significantly influences almost every facet of economic life.

Some federal credit has been provided to maintain resources in their current uses. This includes assistance to shipbuilding, aircraft manufacturing, steel production, and automobile manufacturing. In 1980-1981, federally assisted credit to these industries will total about $4 billion.

Over time, all economies are continuously changing. Some change is temporary and soon reversed: fluctuations of the business cycle, strikes, bad weather, shortages and interruptions of supplies. Businesses adjust to these temporary changes in a variety of ways, usually without direct government assistance. Some change, however, is fundamental and permanent. It can result from such factors as new technology, new government regulations, changes in consumer tastes, changes in resource availability, or shifts in international trade patterns. As these changes occur, shifts in prices and profitability tend to signal the need for a reallocation of resources and provide the inducements for these to occur.

These reallocations are never accomplished quickly. They always cause economic dislocation, and are thus painful. If the federal government is persuaded that the cause of an industry's or firm's difficulties is temporary, despite a contrary judgment by financial markets, it may grant short-term aid. If the judgment is well-founded, a needless and inefficient industrial disruption will have been avoided. If, however, the government commits itself to the support of an enterprise in long-term difficulties, a large and continuing burden will be imposed on taxpayers and the economy. The threat of economic failure is the principal disciplining force in market capitalism. It restrains prices and wages and promotes innovation and efficiency. Without this spur, the U.S. economy cannot grow and prosper.

Some credit programs are directed to employing idle resources. For instance, some housing programs have countercyclical goals: they mitigate the severity of downturns in housing by accelerating the shift of resources into housing during recessions.

The total short-term impact of aggregate federal credit is not known. Nor can it easily be reduced to a single numerical index, such as the unified budget deficit. Some conclusions are possible, however.

First, the total amount of Treasury borrowing from the public is a better measure of the pressure placed on financial markets by the federal sector than is the unified budget deficit. The unified budget understates credit activity by including direct loans on a net basis only and by excluding off-budget direct loans and loan guarantees. The total Treasury borrowing requirement is shown along with the budget deficit in Table S-3. This comparison suggests that the unified deficit projects a greater decline in federal borrowing than will occur, even if the Administration's assumptions about the state of the economy in 1981 are realized.

TABLE S-3. THE UNIFIED BUDGET DEFICIT AND TOTAL TREASURY BORROWING FROM THE PUBLIC, FISCAL YEARS 1979-1981: IN BILLIONS OF DOLLARS

	Actual	Administration Estimates	
	1979	1980	1981
Unified Deficit	27.7	39.8	15.8
Borrowing from the Public	33.6	44.3	33.1

Second, the total federal economic presence--including federal credit--is likely to be more expansive in the short run than would be suggested by the figures in the unified budget. One reason is that the subsidy inherent in the provision of federal credit is largely excluded from the unified budget. These subsidies are estimated to increase from $24.3 billion in 1979 to $26.7 billion in 1980 and to $28.7 billion in 1981.

The economic effects of federal credit may be summarized as follows: in the short run, federal credit affects the level and distribution of income and wealth by changing the allocation of investment resources. Over the longer run, federal credit may affect the structure of the economy in ways inconsistent with the efficient use of resources and continued growth in productive capacity. Not all federal credit programs lead to these undesired results. The unrestrained and unexamined growth of federal credit, however, is cause for concern.

OPTIONS FOR CONGRESSIONAL ACTION

A Congressional response to the Administration's proposed credit control system could take several forms. First, the Congress could choose to continue its existing approach of enacting limitations on some credit programs and not on others. It could pick and choose among the limitations recommended in the Administration's credit budget, enacting those that seem needed for one reason or another.

A second alternative would be for the Congress to extend across the board its practice of setting limitations on annual activity of credit programs. This alternative, through its more complete coverage, would permit the Congress to make allocations of federal credit among competing programs. It would not, however, afford the Congress an opportunity to decide on and enforce a ceiling on total credit to be extended through federal programs.

A third alternative would be for the Congress to establish its own credit budget, thereby creating a process by which it could set targets and ceilings on total federal credit, as well as enact limitations on individual programs. At a hearing before the House Budget Committee's Task Force on the Budget Process last November, representatives of the Office of Management and Budget, the Treasury, the Board of Governors of the Federal Reserve System, and the Congressional Budget Office recommended that the Congress adopt this course of action.

Bills are pending before both houses of Congress to implement a comprehensive credit program control system. H.R. 5683, the Federal Credit Program Control Act of 1979, was introduced in the House of Representatives by Representatives Mineta, Giaimo, Gephardt, Nelson, Conable, and Holt. In the Senate, S. 2151, a slightly modified version of H.R. 5683, was introduced by Senator Percy. These bills would extend the target- and ceiling-setting processes of Title III of the Congressional Budget Act of 1974 to gross direct lending and loan guarantees. They would also amend Title IV to make new loan guarantee programs effective only in amounts provided in appropriations. 2/

2/ Other bills incorporating the provisions of H.R. 5683 have been introduced by Representatives Giaimo, Holt, and Bethune.

CHAPTER I. INTRODUCTION

The growth of federal credit activities in recent years has been rapid, in some cases more rapid than the growth of direct spending. Most credit programs fall outside of the traditional budget techniques, which focus on direct spending and taxing. Because of their largely off-budgetary nature, the federal government is unable to make decisions about the total size and composition of its credit program. To remedy this problem, the Administration has proposed for the first time a federal credit budget to be considered together with the unified budget. As a result, the Congress has an opportunity in 1980 to consider how to incorporate review of federal credit activities into its annual budget process.

THE GROWTH OF FEDERAL CREDIT

Federal credit operations consist of direct loans and loan guarantees. The federal government makes direct loans to individuals, businesses, nonprofit organizations, and local governments for a variety of purposes:

- The Commodity Credit Corporation makes loans to producers to finance next year's crop.

- The Small Business Administration makes loans to small businesses for expansion.

- The Economic Development Administration makes loans to local governments for public works and to businesses for commercial expansion in economically distressed areas.

- The Export-Import Bank makes loans to businesses to assist them to compete in overseas markets.

Direct loans are also made by the various off-budget agencies. Loans are made by the U.S. Railway Association to various railroads as part of the reorganization and consolidation in Conrail. Also direct loans for Rural Electrification Administration programs are made by the Rural Electrification and Telephone Revolving Fund. By far the largest volume of off-budget direct loans are made by the Federal Financing Bank (FFB), which acts as a financing agent for many on-budget programs.

A loan guarantee may be defined as an action by which the federal government removes or reduces a lender's risk by pledging to repay principal and interest in case of default by the borrowers. Loan guarantees have been an important component of credit advanced by the federal government during the post-World War II era.

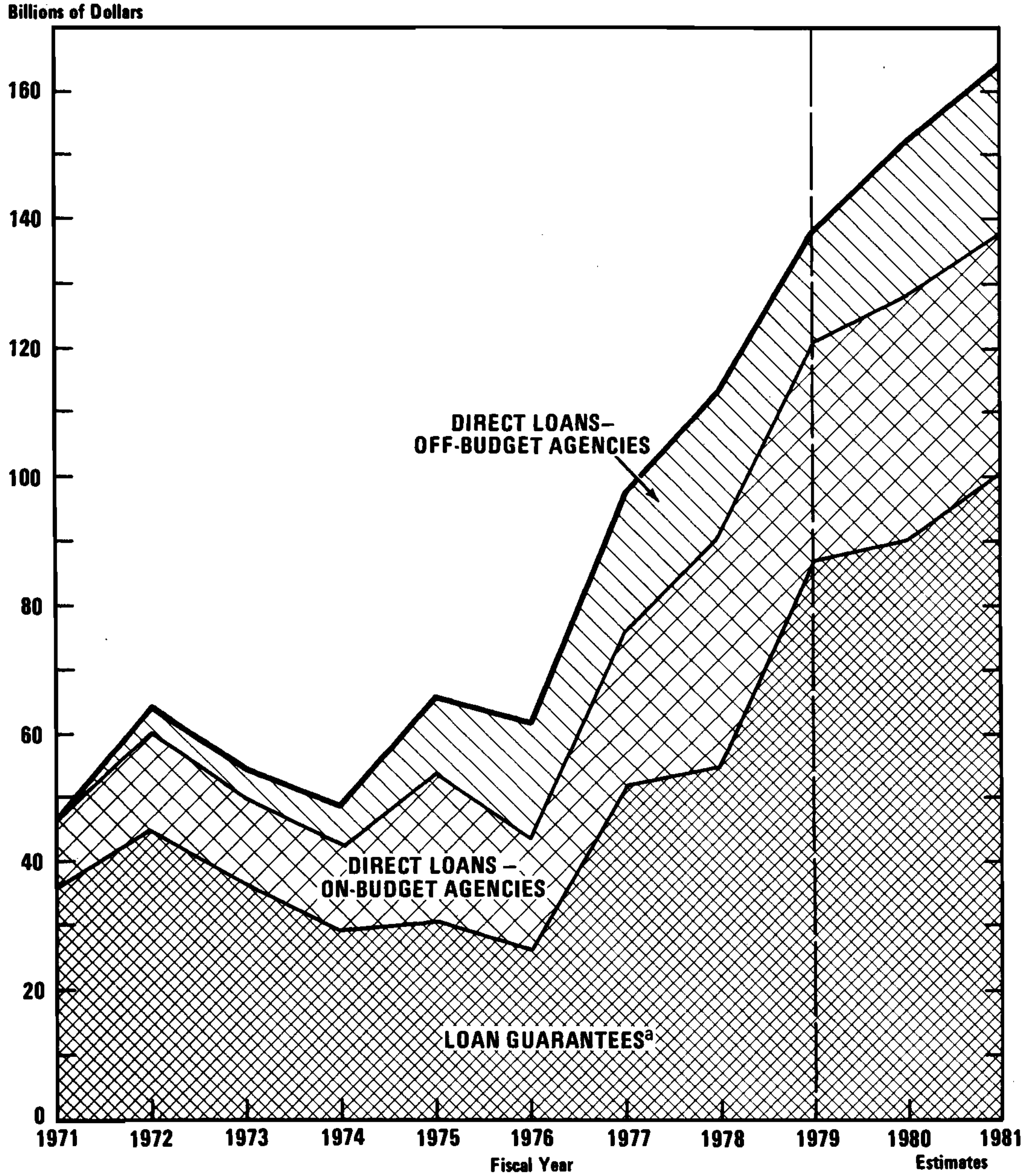
Federal credit assistance, in the form of direct loans and loan guarantees, has grown rapidly in recent years. In fact, off-budget direct loans and loan guarantees have experienced more rapid growth in recent years than have direct federal expenditures. In the four-year period 1976-1979, expenditures increased by 35 percent. During that same period new loans guaranteed increased 108 percent and new direct loans by off-budget entities posted an increase of 70 percent. Direct loans by on-budget agencies, on the other hand, increased only 31 percent. 1/

Figure 1 illustrates the growth of federal credit activity in the last decade. Loan guarantees experienced their greatest growth in fiscal years 1977 and 1979, achieving growth rates of 98 percent in 1977 and 58 percent in 1979. Direct loans by on-budget agencies increased fastest in 1977 and 1978, 42.5 percent the first year and 44 percent the second year. Direct loans by off-budget agencies increased rapidly in 1975--99 percent--and continued in 1976--53 percent.

One possible explanation for this growth of federal credit programs may well be their budgetary treatment. Since loan guarantees are excluded by statute from the definition of budget authority, they are effectively beyond the control of a budget process that focuses only on budget authority, outlays, and receipts. In addition, some direct loans are effectively hidden off-budget because of two practices--sales of loan assets to the FFB and purchases by the FFB of guaranteed obligations. Thus, it should be no surprise that off-budget lending and loan guarantees have grown faster in recent years than on-budget direct loans.

1/ These comparisons are based on credit data in Special Analysis E for 1978 and Special Analysis F for 1981. The data in Figure 1 are based on data in the special analyses on credit for fiscal years 1973-1981.

Figure 1.
Growth of Total New Commitments for Federal Credit, 1971-1981



SOURCE: Budget of the United States Government, Special Analysis on Credit, Fiscal Years 1973-1981.

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

The extra-budgetary nature of loan guarantees and the predominance of off-budget direct lending mean that most of the growth in federal credit assistance is occurring outside any Congressional process or mechanism for allocating resources. This poses several problems. First, the year-to-year growth of most programs is largely uncontrolled. The programs are often authorized on an open-ended basis or have only a ceiling on total outstanding indebtedness set so high as to be no restraint at all on annual growth. As a result, the Congress does not set priorities among the competing needs of borrowers seeking loans or loan guarantees from the federal government.

A second problem is that the Congress does not limit the total amount of credit extended by the federal government through loans and loan guarantees. In a period of restrained growth of the money supply, such as we now face, growth in the total amount of credit provided through federal programs may well mean that borrowers not eligible for these programs who seek credit in the private market may not be able to obtain it, or may have to pay more for it through higher interest rates. For both these reasons, the lack of a process for allocating credit resources may hinder the Congress in its attempt to manage the federal credit program more effectively.

The Congress does not totally escape the consequences of unplanned credit growth. The ceiling on the public debt must be increased dollar-for-dollar with each additional off-budget loan. Because there are no controls on the levels of off-budget lending, even if the Congress balances the budget it will have to continue raising the debt ceiling because of off-budget lending.

A third problem presented by the lack of a resource allocation process for credit programs is the potential for making inappropriate decisions. Loan guarantees, in particular, have been subject to inappropriate use. Because they have no direct budget cost, they appear to be free. Several programs of capital development have been financed using loan guarantees. Three of these have encountered serious difficulties. Under the New Communities program, developers could seek guaranteed financing for site preparation of "new towns," and 13 guarantees were issued. All 13 projects proved unable to pay the debt servicing on their loans and had to be reorganized by the federal government, resulting in a $90 million loss. Two transportation ventures--Amtrak and Washington, D.C.'s METRO--received guaranteed financing for capital construction. Neither has been able to meet the burden of servicing its debt, and during the last session the Congress had to consider bills to provide them with direct assistance so they could get out of financing difficulties.

INCLUDING CREDIT IN THE BUDGET PROCESS

At a hearing before the House Budget Committee's Task Force on the Budget Process last November, representatives of the Office of Management and Budget (OMB), the Treasury, the Board of Governors of the Federal Reserve System, and the Congressional Budget Office recommended that the federal government include federal credit activity in its budget process. 2/

In the fiscal year 1981 budget, the Administration presents for the first time a federal credit budget and recommends limitations on the gross activity of individual credit programs in accordance with that budget. It is not, however, proposing legislation to establish a formal federal credit program control system. The procedures for formulating the limitations on individual programs recommended in the budget were established by OMB as part of the budget preparation instructions and did not require changes in law. The Administration suggests that the Congress could set targets and ceilings on gross lending and gross guarantees to provide a framework for considering the proposed limitations on individual programs. It stops short, however, of proposing such changes in law.

OPTIONS FOR CONGRESSIONAL ACTION

A Congressional response to the proposal for controls could take several forms. The Congress could choose to continue the existing case-by-case approach to control of federal credit programs. In recent years, limitations on the annual activity of some federal credit programs have been enacted, either through authorizing legislation or through limitations enacted in various appropriations bills. Continuing this piecemeal approach, the Congress could pick and choose among the limitations recommended in the budget, enacting those that for one reason or another seem needed.

2/ Control of Federal Credit, Hearing before the Task Force on the Budget Process, Committee on the Budget, House of Representatives, 96:1 (November 13-14, 1979). The Congressional Budget Office previously recommended to the Congress that it establish a credit section in the budget resolutions in Loan Guarantees: Current Concerns and Alternatives for Control (August 1978). Appendix A contains a listing of other resource materials on the budgetary treatment of federal credit programs.

Alternatively, the Congress could extend across the board the practice of setting limitations on annual activity of credit programs. Extending limitations across the board could be done through either the authorizations process or the appropriations process. In either case, enacting limitations on particular programs takes care of only one problem: it provides the Congress an opportunity to make allocations among competing programs. It does not, however, help the Congress decide on and enforce a ceiling on the total amount of credit extended through federal programs. Only by adding a process to set targets and ceilings on the total amount of federal credit can the Congress create a federal credit budget and thus address both problems.

A comprehensive Congressional response to the proposed controls on credit programs would include setting targets and ceilings on the total federal credit program, as well as enacting limitations on individual programs. Bills are pending before both houses to implement a comprehensive credit program control system. H.R. 5683, the Federal Credit Program Control Act of 1979, introduced by Representative Norman Mineta and cosponsored by Representatives Giaimo, Gephardt, Nelson, Conable, and Holt, would extend the target- and ceiling-setting processes of Title III of the Congressional Budget Act to gross direct lending and loan guarantees. The bill would also amend Title IV to make new loan guarantee programs effective only in amounts approved in appropriations. 3/ In the Senate, Senator Percy offered a slightly modified version of H.R. 5683, first as an amendment to the Chrysler Loan Guarantee Act and later as a separate bill, S. 2151.

PLAN OF THIS PAPER

This paper has been prepared to assist the Congress in reviewing federal credit programs for fiscal year 1981. The next chapter discusses the proposed federal credit budget for fiscal year 1981. The third chapter discusses the economic effects of federal credit activities. The final chapter presents on a function-by-function basis a discussion of the Administration's estimates for major federal credit programs.

3/ The provisions of H.R. 5683 have been included in other bills, including the expenditure limitation proposals by Representatives Giaimo and Holt. Representative Bethune has also introduced a modified version of H.R. 5683.

CHAPTER II. THE PRESIDENT'S PROPOSED CREDIT BUDGET: AN OVERVIEW

In its 1981 budget, the Administration carries out the intention, announced in its 1980 budget, to establish a system to control federal credit activities. The new control system consists of a federal credit budget, itemizing the loans and loan guarantees of on- and off-budget agencies and setting forth proposed limitations on their annual activity.

For fiscal year 1981, the federal credit budget is estimated to total $142.1 billion, divided, as shown in Table 1, between new direct loan obligations of $60.7 billion and new loan guarantee commitments of $81.4 billion. 1/ The Administration expects total federal credit assistance to continue growing in fiscal years 1980 and 1981, but not at the rapid rates of the mid-1970s described in Chapter I. For 1981, the Administration estimates that the credit budget will increase 5.3 percent over the 1980 estimate of $134.9 billion, and 12.7 percent over the 1979 total of $126.1 billion.

In its first credit budget, the Administration is proceeding cautiously in proposing limitations on the annual activity of individual programs. For 1981, it proposes limitations on individual programs of $27.2 billion for direct lending and $32.5 billion for loan guarantees, or only about 45 percent of total new direct loan obligations and 40 percent of new loan guarantee commitments. 2/ The decision not to propose limitations on the credit activities of on-budget agencies financed through the off-budget Federal Financing Bank (FFB) means that the control system leaves open a door through which activities may escape the bounds of the unified budget.

1/ The proposed credit budget does not include all forms of federal credit activity. Consequently, its totals are not consistent with those given in Special Analysis F, "Federal Credit Programs," that accompanies the 1981 budget. Appendix B explains the differences between the credit budget and the coverage of Special Analysis F.

2/ The federal government makes an obligation for a direct loan or a commitment for a loan guarantee by agreeing with a prospective borrower to lend directly to him, or to guarantee his borrowing from a third party, contingent on the fulfillment of specified conditions. Time

58-342 O - 80 - 3

TABLE 1. THE PROPOSED FEDERAL CREDIT BUDGET: IN BILLIONS OF DOLLARS

	1979 Actual	1980 Estimate	1981 Estimate
New Direct Loan Obligations:			
By on-budget agencies	33.9	36.4	35.4
By off-budget entities	17.5	23.3	25.3
Total, new direct loan obligations	51.4	59.7	60.7
New Loan Guarantee Commitments a/	74.7	75.2	81.4
Total, Federal Credit Budget	126.1	134.9	142.1
Memorandum:			
Proposed Limitations:			
Limitation on new direct loan obligations	---	---	27.2
Limitation on new loan guarantee commitments	---	---	32.5

a/ Primary guarantees. Secondary guarantees and guarantees of loans acquired by on- and off-budget agencies are deducted to avoid double-counting.

2/ (Continued)

often elapses between the obligation of a loan or the commitment of a guarantee, the satisfaction of the conditions, and the disbursement of the loan or extension of the guarantee. This is particularly true when credit financing is used for construction projects, which have long planning and financing lead times. The proposed control system places control on direct loan obligations and loan guarantee commitments because, at those points, the federal government commits itself and cannot cancel the loan or guarantee arrangement without the agreement of the other parties.

This chapter considers the proposed credit budget and its interaction with the credit control system and the unified budget. It begins with an overview of the credit budget for fiscal years 1980 and 1981. It then discusses the cautious approach that the Administration has taken with respect to proposing limitations on individual credit programs. Finally, it discusses the role of the Federal Financing Bank (FFB) as an off-budget financing agent for federal credit activity and the effects of FFB's credit activity on the unified budget.

THE FEDERAL CREDIT BUDGET FOR 1980 AND 1981

Overall, the Administration's estimates indicate a slowing of federal credit growth in 1980 and 1981. New loan obligations and loan guarantee commitments will increase in total only 5.3 percent in 1981, after a 7.0 percent increase in 1980. Among the types of credit activity, direct loan obligations of off-budget entities will post the largest increase in the two years, up an estimated 33 percent in 1980 over 1979, while on-budget direct loan obligations will increase by only 7 percent and loan guarantee commitments will remain near their 1979 level--increasing, in fact, by less than 1 percent. In 1981, direct loan obligations by on-budget agencies will actually decline, according to Administration estimates, by 2.7 percent, while off-budget direct loan obligations and new loan guarantee commitments will both increase by a little more than 8 percent.

Table 2 displays the credit budget by functional categories. As might be expected, function 370, Commerce and Housing Credit, is the largest: it accounts for 63.5 percent of total direct lending and 62.5 percent of guaranteed lending in 1981. Only three other functions have significant direct lending activity: Agriculture, International Affairs, and Community and Regional Development. Together with function 370, these account for over 96 percent of direct loan obligations in 1981. Guaranteed lending, on the other hand, is spread more widely among the functional categories, reflecting the wider diversification of activities being financed through this mechanism.

The Administration's credit budget contains several new initiatives. In the Energy function (270), it is proposing a major synthetic fuels initiative utilizing loan guarantees. The Administration anticipates that $4.3 billion in new loans for the development of synthetic fuel production facilities will be guaranteed in 1980 and 1981. The Administration's credit budget also contains new direct loan initiatives in the Transportation function (400) and the Education, Training, Employment and Social Services function (500). The Administration will propose a five-year $1.5 billion loan program for

TABLE 2. THE FEDERAL CREDIT BUDGET BY FUNCTION: IN BILLIONS OF DOLLARS

Function	New Direct Loan Obligations a/			New Loan Guarantee Commitments		
	1979	1980 b/	1981 b/	1979	1980 a/	1981 a/
National Defense	*	---	---	---	*	*
International Affairs (150)	6.2	7.0	7.5	10.4	9.8	11.4
General Science, Space and Technology (250)	---	---	---	0.2	---	---
Energy (270)	1.3	1.2	1.2	6.0	8.8	8.5
Natural Resources and Environment (300)	*	*	*	---	---	---
Agriculture (350)	14.2	11.5	9.4	5.7	5.5	5.6
Commerce and Housing Credit (370)	24.4	34.7	36.2	84.5	90.8	100.3
Transportation (400)	0.2	0.2	0.5	1.1	2.0	2.3
Community and Regional Development (450)	3.3	2.9	3.0	2.8	3.6	4.6
Education, Training, Employment and Social Services (500)	0.7	0.7	1.3	3.3	4.6	2.2
Health (550)	0.1	0.1	0.2	*	0.2	0.3
Income Security (600)	0.3	0.3	0.3	13.0	11.4	14.6
Veterans' Benefits and Services (700)	0.6	0.7	0.8	8.0	10.3	10.4
Administration of Justice (750)	*	---	---	---	---	---
General Government (800)	*	---	---	*	---	*
General Purpose Fiscal Assistance (850)	0.1	0.1	0.2	0.5	0.3	0.3
Total, unadjusted	51.4	59.7	60.7	135.1	147.3	160.3
Adjustment for double-counting:						
Less: Secondary guarantees and guarantees of direct loans by another agency	---	---	---	-60.5	-72.1	-78.9
Total, Federal Credit Budget	51.4	59.7	60.7	74.7	75.2	81.4

* Less than $50 million.

a/ Includes both on- and off-budget lending.

b/ Administration estimates.

railroads, of which $250 million would be available in 1981. In function 500 the Administration is proposing a Basic Student Loan program to replace the existing insured loan program. Basic student loan obligations in 1981 are estimated to total $1.2 billion if the new program is enacted, up 109 percent over 1980. Guaranteed loans would still be available to supplement the basic loans; they would, however, not have as heavily subsidized interest rates.

Only in one function does the Administration anticipate a substantial reduction: function 350, Agriculture. The drop in new direct loan obligations from $14.2 billion in 1979 to $9.4 billion in 1981 reflects the Administration's assumption that the economic emergency loan program, due to expire in May of this year, will not be renewed by the Congress and that loan obligations for physical disaster loans will decline slowly also.

THE PROPOSED LIMITATIONS: A CAUTIOUS FIRST STEP

The new control system proposes annual dollar limitations on program activity. These limitations are in the form of appropriation language setting an annual ceiling on the authority to incur obligations for the principal of direct loans and the authority to enter into commitments to guarantee loan principal. For 1981 the Administration is proposing a limitation of $27.2 billion for direct loan obligations and $32.5 billion for loan guarantee commitments--covering only about 45 percent of total new direct loan obligations and 40 percent of new loan guarantee commitments. Table 3 displays on a function-by-function basis the amount of new direct loan obligations and new loan guarantee commitments for which the Administration has proposed limitations, and the amounts that are not subject to proposed limitations.

In preparing its first credit budget, the Administration has chosen to proceed cautiously with respect to recommending limitations on individual programs. Two general categories of programs have been exempted from limitations: emergency assistance and insurance programs, and entitlement programs. In the first instance, programs of emergency credit assistance and credit insurance such as the Federal Deposit Insurance Corporation (FDIC) or the disaster loan programs of the Small Business Administration (SBA) and the Farmers Home Administration have been exempted because annual limitations could prevent them from responding to unanticipated contingencies. In the case of entitlement programs, such as VA home mortgage insurance, qualified recipients have a legal right to loans or loan guarantees. Annual limitations could not be effective, since loan disbursements or guarantee extensions are governed by the participation rates of eligible recipients. All veterans' credit programs have been exempted for this reason.

TABLE 3. NEW OBLIGATIONS AND COMMITMENTS--AMOUNTS PROPOSED FOR LIMITATION AND NOT SUBJECT TO LIMITATION: IN BILLIONS OF DOLLARS

Function	New Direct Loan Obligations, 1981		New Loan Guarantee Commitments, 1981	
	Proposed for Limitation	Not Subject to Limitation	Proposed for Limitation	Not Subject to Limitation
National Defense (050)	---	---	*	---
International Affairs (150)	6.7	0.8	11.4	---
Energy (270)	1.4	---	7.1	2.0
Natural Resources and Environment (300)	*	---	---	---
Agriculture (350)	3.8 a/	5.6	0.1	5.5
Commerce and Housing Credit (370)	11.7	26.7	6.2	94.1
Transportation (400)	0.5	*	2.2	0.1
Community and Regional Development (450)	1.7	1.2	2.9	1.7
Education, Training, Employment and Social Services (500)	0.9	0.4	2.2	---
Health (550)	0.2	---	0.3	---
Income Security (600)	*	0.3	---	14.6
Veterans' Benefits and Services (700)	---	0.8	---	10.4
General Purpose Fiscal Assistance	0.2	---	0.3	---
Total	27.1	35.8	32.5	128.4
Memorandum: Limitations proposed in excess of estimated obligations or commitments:				
REA (270)	0.2	---	0.6	---
NCUA Liquidity Facility (370)	2.2	---	---	---
Housing for Elderly or Handicapped (370)	0.1	---	---	---
Total	2.5	---	0.6	---

* Less than $50 million.

a/ OMB classified $2.0 billion of disaster loans as subject to limitation, although no limitation is proposed.

In addition, the Administration is proposing one-time exemptions from the limitations requirement for housing credit activities in 1981. This exemption covers programs such as FHA basic mortgage insurance and Government National Mortgage Association (GNMA) guarantees of mortgage-backed securities, and reflects the Administration's concern "that the new credit control system not be perceived as restricting credit to the housing industry at a time when it may be entering a period of relative weakness. . .." 3/ As a result, most of function 370 is not subject to limitation. The Administration is also proposing one-time exemptions from limitations for the agricultural export credit activities of the Commodity Credit Corporation (CCC) because it does not wish to restrict the President's authority to expand agricultural export activities. This accounts for the exclusion from proposed limitation of most of function 350. The Administration intends to review these one-time exemptions during the preparation of the 1982 budget.

Special mention must be made of the Federal Financing Bank. The FFB does not conduct programs on its own; rather, it serves as a financing agent for the credit activities of other agencies. The Administration proposes in its control system not to control the FFB's activities, but rather the original transactions of agencies that use FFB financing. The next section discusses the difficulties of this approach.

THE ROLE OF THE FEDERAL FINANCING BANK

Of the $134.9 billion in the 1980 credit budget, only $5.5 billion--the estimate for net direct lending by on-budget agencies--is included in the totals of the unified budget. Direct lending is included in the unified budget on a net basis--new loans minus repayments and other adjustments--because net lending represents the change in the federal government's financial condition as a result of its lending activity. The relationship between the unified budget and the credit budget is not limited, however, to net lending by on-budget agencies.

In fact, the credit activities of the largest off-budget entity--the Federal Financing Bank--represent direct lending for on-budget agencies. FFB's activities consists of direct loans in the form of purchases of loan

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3/ Budget of the United States Government: Fiscal Year 1981, p. 82.

assets from on-budget agencies and direct loans to borrowers receiving guarantees from on-budget agencies. FFB's direct loans resemble in all respects, save their budgetary status, direct loans by on-budget agencies that do affect unified budget totals. All of FFB's activities, purchases of loan assets and origination of loans guaranteed by federal agencies, require that the on-budget agency guarantee to indemnify FFB against any loss. Thus, a significant portion of guarantee activity is also involved.

The Administration plans to control the credit activities of the FFB by placing limitations on the activity of agencies conducting transactions with the FFB--that is, by limiting the authority of agencies to make new direct loan obligations that will eventually result in loans being sold to the FFB--or on the authority to make commitments to guarantee loans, some of which may be originated by the FFB. While this approach will result in controls on the absolute total of federal credit activity, and thus will set a ceiling on the amount of federal credit that could be financed by the FFB, it will not control in any year the actual activity level of the FFB within that ceiling. The failure of the Administration to propose limitations on actual FFB activities means that opportunities to manipulate unified budget totals through off-budget credit activity remain uncontrolled.

FFB Purchases of Loan Assets

Loan assets take two forms: loans that an agency has made in the past and is currently holding, and certificates of beneficial ownership (CBOs). CBOs are securities backed by loans in an agency's portfolio; the agency continues to hold and service the loans, even though it sells the certificates. The receipts from sales of loan assets and CBOs are counted in the budget as repayments on loans, and are thus offset against new lending to compute net lending.

Over the years, agencies have sold loan assets to private investors in order to substitute private financing of loans for public financing, thus reducing the federal role in credit markets. Such sales have also been advantageous to the agencies because they lowered the agencies' net lending and thus their outlays. Sales of loan assets and CBOs to the FFB, on the other hand, have only the advantage of lowering agency outlays; they do not have the concomitant advantage of securing private financing. In fact, they simply transfer on-budget outlays off-budget. This reduces the federal (unified) deficit, but not the federal role in credit markets. Only 22 percent of loan assets estimated to be sold in 1981 will be sold to the public; the remaining 78 percent will be sold to the FFB.

The sales to FFB of loan assets and CBOs are further complicated by the fact that the FFB, as a prerequisite for a purchase, requires the selling agency to guarantee the full value of the loan or security. If a loan is defaulted, the agency absorbs the loss, not the FFB. Thus, agencies do not really sell assets; instead, they borrow from the FFB with the loan or CBO as collateral. Borrowing by agencies is not a budgetary transaction, and does not reduce outlays, as the sale of an asset does. According to budgetary principles, the sale by agencies of guaranteed loans and CBOs ought to be treated as borrowing and not as offsets against new lending. Only legal requirements now maintain the fiction of CBO sales as sales of assets. 4/

The timing of CBO and asset sales is a matter of administrative discretion. Thus, it is not possible for the Congress to predict accurately in advance the budget impact of such sales for a fiscal year. Table 4 details FFB purchases of loan assets in fiscal years 1979-1981.

Two alternatives are available to the Congress that would enable it to exert control over the volume of sales of CBOs and loan assets to the FFB during a fiscal year. First, budgetary treatment of sales to the FFB could be changed to count them as borrowing by the agency from the FFB. No outlays would then be transferred off-budget. A second alternative would be to set limits on the amounts of CBOs or assets that could be sold to the FFB by an agency during a fiscal year.

FFB Origination of Guaranteed Loans

By purchasing loan assets and CBOs, the FFB acts indirectly as a lender: it lends to agencies that in turn lend to the public. The FFB also acts as a primary lender at the request of various on-budget federal agencies. If an agency guarantees that it will repay 100 percent of interest and principal in the event of default by a borrower, the FFB will make a direct loan to that borrower at interest rates just slightly above the Treasury borrowing costs. In this case, the use of guarantee authority,

4/ Provisions of law require that sales of CBOs by the Farmers Home Administration and the Rural Electrification Administration be treated as repayments. For more information, see "Loan Asset Sales: Current Budgetary Treatment and Alternatives," in Loan Guarantees: Current Concerns and Alternatives for Control--A Compilation of Staff Working Papers (CBO: January 1979).

TABLE 4. FFB-FINANCED FEDERAL CREDIT ACTIVITY: IN BILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
Purchases of Loan Assets:			
New direct loans	10.9	11.2	13.1
Repayments	-1.5	-4.4	-3.7
Net loan outlays	9.4	6.6	9.4
Guaranteed Loan Originations:			
New direct loans	5.1	10.8	10.9
Repayments	-1.2	-1.2	-4.1
Net loan outlays	3.9	9.6	6.8
Total, Net Loan Outlays	13.3	16.2	16.2

which is not a budgetary transaction, by an on-budget agency, results in an off-budget direct loan at interest rates below the market rate. It also results in a substitution of public credit for private credit. The function of a loan guarantee is to channel private credit to a borrower by removing the lender's risk. The private lender is presumed to screen the borrower for creditworthiness and the project for its ability to generate necessary income for repayment. However, when the FFB makes, or originates, the direct loan, no private credit is involved. Nor is there any scrutiny by the FFB, as lender, of the borrower's creditworthiness and ability to repay. The FFB relies on the guarantee by the agency to protect it against loss. For fiscal year 1981, the Administration estimates that the FFB will make new loans of $10.8 billion. After deducting repayments, net loan outlays would total $6.8 billion. Table 4 details FFB loan originations for fiscal years 1979-1981.

The Administration's refusal to set limitations on the transactions of agencies with the FFB means that, while a limitation is proposed for an agency's total commitments to guarantee loans, no limitation is set on how much of it may in fact be financed off-budget by the federal government, through the FFB. As with loan asset sales, the decision to use the FFB as lender is a matter of executive discretion. Two alternatives are available to the Congress to establish some control over the conversion of guaranteed loans into off-budget direct loans. First, it could change the budgetary treatment of FFB loan originations: recording them as on-budget direct lending by the agencies and borrowing between the agency and the FFB. This would require that agencies be given budget authority and would result in the recording of outlays in agency budgets. Alternatively, limitations could set for each program on the amount of loans guaranteed by that agency in a fiscal year that could be originated by the FFB.

Effects of FFB Financing

Table 4 details the total FFB-financed credit activity for fiscal years 1979-1981. While net loan outlays for 1980 and 1981 are estimated to be the same each year, the mix each year is different. In 1980, net loan purchases are estimated to total only $6.4 billion, but in 1981 this increases to $9.4 billion. The decline in 1980 and the subsequent increase in 1981 reflects the Administration's decisions to postpone asset sales originally planned for 1980 to 1981, in order to lower 1981 outlays.

Table 5 shows the effects on the unified budget deficit if the off-budget activities financed by the FFB were incorporated into the budget. The Administration's 1981 deficit of $15.8 billion would be doubled by the addition of $16.2 billion of net FFB lending. This estimate is based on the assumption that all activities currently financed off-budget would be continued at the same levels if their full outlays were included in the budget totals. It is entirely possible that, if budgetary treatments were changed to return these activities to the unified budget, the programs would not be continued at their current levels--on the assumption that some of these credit activities are undertaken largely because they can be financed off-budget.

TABLE 5. EFFECT OF FFB-FINANCED CREDIT ACTIVITY ON THE UNIFIED BUDGET DEFICIT: IN BILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Outlays, Unified Budget	493.7	563.6	615.8
Receipts	465.9	523.8	600.0
Deficit, Unified Budget	27.7	39.8	15.8
Plus: Net Loan Outlays, FFB	13.3	16.2	16.2
Deficit, Unified Budget Plus FFB Activity a/	41.0	56.0	32.0

a/ This does not include FFB administrative expenses, transfers, and interest charges.

CHAPTER III. THE ECONOMIC EFFECTS OF FEDERAL CREDIT

The principal consequence of government economic policies is to change the allocation of resources among individuals and alternative uses. Through taxing, spending, regulating, and providing credit, government plays a major role in determining what, how, how much, when, and for whom goods and services are produced. Federal credit programs contribute to this reallocation by conferring on preferred borrowers a sheltered, subsidized access to the nation's pool of investment resources. The share of loan funds going to one group or purpose is increased through federal credit assistance at the expense of others who receive a smaller share.

The term "federal credit" covers a variety of programs. Not all have the same economic effects. To identify the particular consequences of different federal credit programs, it is helpful to distinguish three types of policies: 1/

- Resource-shifting policies;
- Resource-maintaining policies;
- Resource-employment policies.

RESOURCE-SHIFTING POLICIES

These policies increase the flow of resources into some uses relative to the flow that would result from capital market decisions. In terms of dollar volume of credit assistance provided, this category has dominated U.S. credit activity. The most favored sectors have been housing and rural economic development, though smaller quantities of subsidized credit have been extended to others including shipbuilding, qualified "small" businesses, students and educational institutions, and exporters.

1/ Some federal credit programs could be included in more than one of these categories.

Over the short run, perhaps several years, the economic consequences of these policies are mostly distributional. Some people--those who get more credit and income--are made better off; others, who get less, are made worse off. The longer-run, cumulative impacts, however, are mostly structural. By directing credit toward some uses and implicitly away from others, government is significantly influencing almost every facet of economic life including:

- o The number, size, and types of housing available;
- o Methods used in farming and industry;
- o The stock and design of productive machines, tools, and structures;
- o The potential and actual growth rate of the economy; and even
- o The national defense production capability.

The extent of this transformation is indicated by the nature and scale of federal assistance to housing and agriculture. The Federal Housing Administration (FHA) and the Veterans Administration (VA), which together have more than $150 billion in guaranteed residential mortgages outstanding, will issue more than $60 billion in new guarantees in fiscal years 1980-81. The Department of Housing and Urban Development plans to guarantee more than $20 billion in 1980-81 through its subsidized low-rent public housing program. Moreover, during this period, privately owned but government-sponsored housing finance entities such as the Federal National Mortgage Association (FNMA), the Federal Home Loan Banks (FHLB) and the Federal Home Loan Mortgage Corporation (FHLMC) will advance over $150 billion to increase the flow of investment funds into the housing sector. 2/

2/ The amount by which credit flowing to a sector is increased by government loans and guarantees is probably less than the total of assisted credit. That is, some of these loans would have been made without government assistance.

The government's smaller, but highly significant, role in promoting the flow of capital into rural regions is, perhaps, less well recognized. The Department of Agriculture's Farmers Home Administration (FmHA) is highly active in this effort. In addition to subsidizing home ownership in less urbanized regions, FmHA provides credit on below-market terms for such diverse purposes as:

- Irrigating, draining, or otherwise improving farm lands;
- Purchasing land;
- Purchasing a business;
- Constructing, enlarging, or improving community facilities that provide "essential" services to rural residents;
- Financing "disaster" rehabilitation;
- Converting farms into recreational enterprises;
- Acquiring building sites;
- Increasing farm efficiency;
- Improving timber production.

FmHA and the Rural Electrification Administration are expected to direct over $24 billion in credit to the less urbanized regions during fiscal years 1980-81.

Supplemented by tax preferences and other federal support that encourage investment in farms and housing, these efforts have succeeded in increasing the allocation of the country's investment resources to these two sectors. Consequently more Americans own houses than they would otherwise, and their houses are larger, better-equipped, and more expensive than they otherwise would have been. Similarly, U.S. farms are larger and more capital-intensive, farm workers are more productive, and farm land is more expensive. But this successful diversion of capital has taken resources away from other sectors, which are less capital-intensive and less productive than they would have been in the absence of this targeted credit assistance to housing and agriculture.

Other resource-shifting programs include credit assistance to small businesses, students, and exporters. Over the 1980-81 period, federally assisted credit to these sectors is expected to total: for exports, $28 billion; for small business, $9 billion; for students, $7 billion. These credit activities rest on the judgment that it is desirable to divert credit to these uses from the alternatives to which it would have been allocated by private financial markets.

The major, new resource-shifting credit initiative in the proposed budget is to provide $4.3 billion in loan guarantees during 1980 and 1981 for synthetic fuels production. Synthetic fuels development is such a high-risk undertaking, given the uncertainty of future energy prices, that private business is unlikely to invest in such projects without public assistance. Government action to direct resources into synfuel production could be based on the judgment that private investors overestimate the risk, or that government is better able to pool risks, or that the national security benefits of successful synfuel development make the risk worth taking.

RESOURCE-MAINTAINING POLICIES

These policies are intended to maintain resources in uses to which they were once directed by market forces but which now are less profitable than alternative uses. This type of credit assistance has typically been provided to capital-intensive industries on the grounds that their difficulties are temporary, that an industry is essential to national defense, or that the adjustment cost of reallocating resources to alternative uses is too high. Credit assistance afforded to shipbuilding, aircraft manufacturing, steel, and autos falls into this category. For 1980-81, federally assisted credit to these industries will total about $4 billion.

The demand for this type of federal credit arises from the process of economic change. Over time, all economies are continuously changing. Some change is temporary and soon reversed. Changes associated with the business cycle, strikes, adverse weather, and interruptions of supply from abroad expose particular lines of economic activity to episodes of prosperity and retrenchment. Businesses adjust to these temporary ups and downs in a variety of ways, usually without direct government assistance. Some change, however, is fundamental and permanent. New technologies and new government regulations render old methods inefficient and obsolete. Consumer tastes and preferences change. Some kinds of resources become relatively more scarce. International trade patterns shift. When these kinds of change occur, economic efficiency requires that resources be reallocated in conformity with the new reality. In the absence of government intervention, and with well-functioning markets, changes in prices and profitability would both signal the need for such a reallocation and provide inducements for it to occur.

But these reallocations are almost never accomplished quickly, and they are always painful because they mean that some people must acquire new skills, do new kinds of work and, often, move to new places. It is natural and rational for people to resist these changes and to attempt to enlist government in that resistance.

If government is persuaded that the cause of an industry's or firm's difficulties is temporary, despite a contrary judgment by financial markets, it may grant the industry or firm short-term aid. If the decision turns out to be well-founded, a needless and inefficient industrial disruption will have been avoided. If, however, the government commits itself to the support of an enterprise in long-term difficulties, a large and perhaps continuing burden will be imposed on all taxpayers both by the out-of-pocket subsidy and by the loss to the economy from the inefficient allocation of resources.

At least two considerations may justify continued support of an unprofitable enterprise: its importance for national defense, and its use of highly specialized resources. In the first case, if the industry is deemed essential to national defense, consideration might be given to more direct and explicit budgetary assistance so that the outlay can be more readily subjected to competition from alternative budgetary means of achieving the same objective. The second case arises when the resources used in an industry are so highly specialized that they have little value in other uses. The argument runs, for example, that steel mills and the skills of steel-workers are so specific to the production of steel that closing a mill would result in little increase in the production of other things. This is an argument for a policy aimed at the gradual shifting of resources from a declining sector, rather than its abrupt closing down.

While the use government credit policies to maintain resources in an industry can be consistent with economic efficiency, it should be adopted sparingly. The judgment of financial markets can be wrong about the duration of a firm's difficulties. Financial markets are incapable of taking into account the national defense value of an industry or the adjustment costs of reallocating resources to new uses. Nonetheless, the task of identifying specific cases where the market is wrong is extremely difficult.

58-342 O - 80 - 4

If the federal government were to take the attitude that no large firm could fail and no large industry wither, the effect on the U.S. economy would be highly destructive. The threat of economic failure is the principal disciplining force in market capitalism. It restrains prices and wages and promotes innovation and efficiency. Without this spur, the U.S. economy cannot grow and prosper. The adoption of a federal credit budget will not of itself help the Congress decide when the judgment of financial markets should be overruled, but it may be a first step toward avoiding the peril posed by sustaining declining industries that are not essential to national defense, whose difficulties are not temporary, and whose resources are not particularly specialized to their current use.

RESOURCE-EMPLOYMENT POLICIES

These policies use federal credit assistance in an attempt to offset short-term fluctuations in the pace of economic activity. The immediate objective is usually to employ resources that would otherwise be temporarily unemployed. The effects of federally assisted credit on short-run employment can be examined from two perspectives: by considering specific programs, and by attempting to assess the overall impact of aggregate federal credit.

Targeted Countercyclical Credit: Housing

Housing construction is a highly cyclical activity. As measured by housing starts, it usually declines more than total economic activity during recessions and recovers more strongly than the rest of the economy during expansions. As a result, construction employment is more unstable than many other lines of work. One objective of federal housing credit policy has been to mitigate this risk of unemployment by accelerating the shift of resources into housing during recessions. Accordingly, given the low level of construction activity expected in the next year or so, FHA assistance is projected to increase significantly in 1980-81.

Proposals have also been made to reactivate the Emergency Mortgage Purchase Assistance plan. First adopted in 1974, this program permits the Government National Mortgage Association (GNMA) to make commitments to purchase mortgages from financial institutions at specified below-market interest rates. Once a thrift institution or mortgage banker receives such a commitment, it can make low-interest funds available to builders who, in turn, use the attraction of below-market rates to sell newly built houses.

The program probably succeeds in shifting some construction to the present from the future, thus adding stability to construction employment. It also provides a subsidy to those builders selected for participation. It maintains upward pressure on house prices and, more generally, may be inconsistent with the current budget policy of deliberately slowing the pace of economic activity in order to reduce the rate of inflation.

The Impact of Aggregate Federal Credit

Year-to-year changes in the size and financing of the federal budget influence the pace of economic activity. The force of this influence is usually evaluated by examining changes in federal spending, taxes, and the deficit. In pursuit of the objective of price stability, the President's 1981 budget projects an increase in federal spending of less than 10 percent and an increase in federal tax revenues to 21.8 percent of gross national product (GNP)--a level exceeded only in 1944. The unified budget deficit is projected to decline to about $16 billion in 1981.

The unified budget, however, does not reflect the full measure of the federal impact on credit markets or on private spending. It substantially understates the effects of federal credit and federally sponsored credit.

First, direct lending by on-budget federal credit agencies such as the Farmers Home Administration is reported in the budget net of repayments. While net lending reflects the borrowing necessary to support federal lending, it seriously understates the level of economic activity induced and maintained by subsidized credit. Second, the direct lending of some federal entities is, by statute, excluded from the unified budget. 3/ Line 1 of Table 6 shows the unified budget measure of direct lending. Line 2 depicts new, gross lending by on-budget and off-budget agencies. Whereas line 1 suggests a small, declining federal credit role, line 2 describes a large, growing federal involvement. Third, loan guarantees extended by the federal government appear in the unified budget only when federal expenditures are necessitated by default. Total new loan guarantee commitments are shown in line 3 of Table 6. Fourth, government-sponsored, privately-owned enterprises such as the Federal National Mortgage Association and the Federal Home Loan Bank system are excluded from the unified budget. The scale of their operations is shown in line 4 of Table 6.

3/ The most significant of these is the Federal Financing Bank. See Chapter II.

TABLE 6. MEASURES OF FEDERAL CREDIT ACTIVITY, FISCAL YEARS 1979-1981: IN BILLIONS OF DOLLARS

	Actual	Administration Estimates	
	1979	1980	1981
Net Direct Loan Obligations (Unified Budget)	6.0	5.5	-0.6
Gross Direct Loan Obligations (On- and Off-Budget)	51.4	59.7	60.7
New Loan Guarantee Commitments	74.7	75.2	81.4
Credit Advanced by Federally-Sponsored Privately-Owned Enterprises	81.2	77.1	88.9

The total short-term impact of these enormous sums of federal credit is not known. Nor can it be easily reduced to a single numerical index such as the unified budget deficit, since this would require extensive knowledge of the circumstances surrounding each transaction, including the degree to which federal credit simply replaces private financing. Some conclusions are possible, however. First, the total amount of Treasury borrowing is a better measure of the pressure placed on financial markets by the federal sector than is the unified budget deficit. The total Treasury borrowing requirement is shown along with the budget deficit in Table 7. This comparison suggests that the unified deficit projects a greater decline in federal borrowing than will occur, even if the Administration's assumptions about the state of the economy in 1981 are realized. Second, the total federal economic presence--including federal credit--is likely to be more expansive in the short run than would be suggested by the figures in the unified budget. One reason is that the subsidy inherent in the provision of federal credit is largely excluded from the unified budget. "Special Analysis F" of the Administration's budget for 1981 contains estimates of this interest subsidy defined as "the difference between the present value of the interest payments that the borrower makes under government assistance and the present value of the interest payments that would have resulted from a comparable private loan." 4/ These subsidies are estimated to increase from $24.3 billion in 1979 to $26.7 billion in 1980 and to $$28.7 billion in 1981.

TABLE 7. THE UNIFIED BUDGET DEFICIT AND TOTAL TREASURY BORROWING FROM THE PUBLIC, FISCAL YEARS 1979-1981: IN BILLIONS OF DOLLARS

	Actual	Administration Estimates	
	1979	1980	1981
Unified Deficit	27.7	39.8	15.8
Borrowing from the Public	33.6	44.3	33.1

SUMMARY OF ECONOMIC EFFECTS

Federal credit assistance has major effects on the U.S. economy. By changing the allocation of investment resources, it affects the level and distribution of income and wealth in the short run. Favored sectors gain. Over the longer term, it may affect the structure of the economy in ways inconsistent with the efficient use of resources and continued growth in productive capacity. Not all federal credit programs lead to these undesired results. But the unrestrained and unexamined growth of federal credit is cause for concern. Effective public policy requires that budget limits be applied to federal credit so that its use may be subjected to careful evaluation.

4/ Office of Management and Budget (OMB), Special Analyses, Budget of the U.S. Government, 1981, p. 195.

CHAPTER IV. THE FEDERAL CREDIT BUDGET BY FUNCTION

This chapter discusses the estimates for federal credit activities for fiscal year 1981 and the limitations the Administration has proposed for a portion of those activities. The discussion is organized by major functional category, using the same functions for which the Congress sets targets and ceilings for direct spending in the concurrent resolutions on the budget.

All the data on credit programs in this chapter, including both the 1979 actual data and the estimates for 1980 and 1981, are from the appendix to The Budget of the United States Government--Fiscal Year 1981. This paper contains no Congressional Budget Office reestimates of the credit programs. The Administration's 1981 budgetary proposals have been reestimated by the Congressional Budget Office in An Analysis of the President's Budgetary Proposals for Fiscal Year 1981 (February 1980).

All credit program data in this paper are from the schedules entitled "Status of Direct Loans" and "Status of Loan Guarantees" that follow the Program and Financing schedule for each budget account containing credit activity. The data in these Status schedules do not necessarily correspond to obligations and outlay data in the Program and Financing schedule. Nor do the data in these Status schedules correspond to credit program data in Special Analysis F, Federal Credit Programs, which accompanies the budget, because of the differences in the coverage of the credit budget and the special analysis. Appendix B contains an explanation of these differences.

Two terms in the tables summarizing credit activity for many of the programs in this chapter may be confused with other terms in the Program and Financing schedule. "Net loan outlays" in the credit tables indicates that portion of total outlays for an account that are attributable to net direct loan activity. The total for net loan outlays will not in many cases be equal to total outlays for the budget account because of other activities, receipts, and balances in the account. "Payments for guarantee claims" in the credit tables is included in the total for new direct loan disbursements, reflecting an OMB convention of initially recording the disposition of guarantees claims as a direct loan. In some programs, this is what actually occurs: the agency takes over a loan, paying off the original lender and helping the borrower return to a schedule of repayments. Other programs, however, simply pay off guarantee claims and record a loss. OMB records all payments of guarantee claims initially as direct loans; loans are finally liquidated through repayments, forgiveness, or write-offs.

Finally, two observations must be made about the functional summary tables in this chapter. First, they make no distinction between on-budget and off-budget credit activities. Second, summing the totals of the functional tables to arrive at the grand total of the credit budget introduces two forms of double-counting. For example, the Government National Mortgage Association (GNMA) guarantees mortgage-backed securities, which are in reality pools of FHA- and VA-guaranteed loans. To avoid double-counting in total loan guarantees, the amounts of secondary guarantees, as these guarantees of already-guaranteed loans are called, are deducted. A second form of double-counting results when guaranteed loans are converted into direct loans, as when the FFB originates a loan guaranteed by another federal agency. Rather than count the loan as both guaranteed and direct, a second adjustment deducts from the total for loan guarantees, all guaranteed loans that are converted into direct loans. These adjustments are not made at the functional level, but instead at the summary level, as in Table 2 in Chapter II.

NATIONAL DEFENSE (FUNCTION 050)

Credit programs in the national defense function consist of loans and loan guarantees to assist private enterprises in fulfilling defense production contracts. Title III of the Defense Production Act of 1950 (50 U.S.C. 2091), as amended, sets a limit of $20 million for individual loan guarantees and $25 million for individual direct loans that may be made by defense procurement agencies without prior Congressional approval. For fiscal year 1981, the Administration is requesting a limitation of $30 million on new loan guarantee commitments, the same level as estimated for 1980. It is also requesting language stating that direct loan obligations are authorized to the extent necessary to cover defaults on guaranteed loans. No defaults, however, are included in the estimates. Table 8 summarizes credit activity in function 050.

TABLE 8. NATIONAL DEFENSE--SUMMARY OF CREDIT ACTIVITY: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	1	---	---
Proposed limitation	---	---	---
Payments for guarantee claims	1	---	---
Repayments	-11	-11	-10
Net lending	-12	-11	-10
Direct loans outstanding	45	34	24
Loan Guarantees:			
New loan guarantee commitments	---	30	30
Proposed limitation	---	---	30
New loans guaranteed	---	30	30
Repayments	-47	-25	-30
Guaranteed loans outstanding	136	141	141

INTERNATIONAL AFFAIRS (FUNCTION 150)

Credit assistance in the international affairs function includes loans to foreign countries for economic development, for the purchase of military equipment, and for purchases of U.S. surplus commodities. The function also includes assistance to U.S. firms doing business overseas and to foreign countries and businesses making purchases in the United States. Table 9 summarizes the major credit programs in this function.

TABLE 9. INTERNATIONAL AFFAIRS--SUMMARY OF MAJOR CREDIT PROGRAMS: IN MILLIONS OF DOLLARS

Program	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
Economic Support Fund	713	1,075	886 b/	---	---	---
Foreign Military Credit Sales	595	540	500 b/	5,165	1,690	2,140b/
Defaults	---	---	15	---	---	---
Development Assistance	---	---	507 b/	---	---	---
Overseas Private Investment Corporation	3	15	15 b/	53	70	150b/
Housing and Other Credit Guarantee Programs	---	---	---	145	175	200b/
Export-Import Bank	4,090	4,504	4,754 b/	5,016	7,815	8,893
Food for Peace	778	850	781	---	---	---
Total	6,179	6,984	7,458	10,379	9,750	11,383
Proposed for Limitation	---	---	6,662	---	---	11,383

a/ Estimated.
b/ Proposed limitation.

The 1981 budget recommends a limitation of $6.7 billion for new direct loan obligations in function 150 and of $11.4 billion for new loan guarantee commitments. Direct loans for guarantee claims in the Foreign Military Credit Sales Program and for the Food for Peace Program were not made subject to the requirement for limitations.

Direct loan obligations in function 150 are estimated to increase in both 1980 and 1981, although the 1980 increase of 13 percent is nearly double the 1981 increase of 6.8 percent. New loan guarantee commitments fall in 1980 from the 1979 levels. The 1979 level was unusually high, however, because of a large increase in new loan guarantee commitments under the foreign military credit sales program. Not all of the $5.2 billion of 1979 commitments were actually guaranteed in that year; in fact only $1.6 billion of guarantees were issued. The commitments signed in 1979 will result in guaranteed loans in 1980 and 1981. The Export-Import Bank also posts large increases in guarantee commitments in 1980 and 1981. In 1980 and 1981 the Export-Import Bank will for the first time guarantee up to $1 billion in loans to be originated by the FFB.

The following sections highlight 1979-1981 activities in each major program of function 150.

Economic Support Fund

The Economic Support Fund provides grants, cash transfers, or direct loans to countries of political importance to the United States. Loans from the fund require appropriations equal to their face value. For 1981, the Administration is requesting new budget authority of $2.1 billion and a limitation of $886 million for new direct loan obligations. This limit is 17.5 percent below the estimated 1980 loan obligations but above the 1979 level. Loan obligations previously signed, but undisbursed, will total nearly $1.8 billion at the start of 1981.

New lending for 1980--$1.06 billion--will be up slightly from the 1979 level of $1.0 billion, but will drop in 1981 to $890 million. Net lending outlays for 1981 will be $855 million. Table 10 summarizes lending activity of the fund for fiscal years 1979-1981.

TABLE 10. ECONOMIC SUPPORT FUND DIRECT LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates	
		1980	1981
New Direct Loan Obligations	713.0	1,074.7	886.0
Proposed Limitation	---	---	886.0
New Direct Loans	1,000.5	1,065.0	890.0
Repayments	-25.8	-20.2	-35.0
Interest Deferrals	1.5	---	---
Net Loan Outlays	976.2	1,044.8	855.0
Direct Loans Outstanding	3,069.4	4,114.2	4,969.2

Foreign Military Credit Sales

Sections 23 and 24 of the Arms Export Control Act authorize direct loans by the Department of Defense and federal guarantees of commercial or Federal Financing Bank loan agreements to foreign countries for the purchase of defense articles and services. The direct loans require an appropriation equal to the face value of the loan and are offered only when there is a legal requirement that repayment be forgiven or special conditions make a guarantee inappropriate. The guaranteed loan program requires an appropriation equal to 10 percent of the loan principal that is to be guaranteed. In recent years, a ceiling on sales credits available through direct and guaranteed loans for a fiscal year has been set in annual authorizations.

For fiscal year 1981, the Administration is requesting an appropriation of $714 million, providing $500 million for direct loans and $214 million as a reserve for $2.14 billion in new guarantees. Limitations of $500 million and $2.14 billion are being proposed respectively for new direct loan obligations and new loan guarantee commitments.

Direct lending under the Foreign Military Credit Sales Program has been declining in recent years. For 1981, new loans are estimated to total $525 million, including $10 million from prior year obligations and $15 million for claims on defaulted guaranteed loans.

In recent years the guaranteed loan program has been largely financed through the off-budget Federal Financing Bank. Table 11 illustrates the financing of guaranteed foreign military sales credit for 1979-1981. In 1979, FFB acted as the lender, originated 99.6 percent of the new loans guaranteed. At year's end, FFB's holdings constituted 93 percent of all loans guaranteed under the program. In both 1980 and 1981 the Administration assumes that all new loans guaranteed will be financed by FFB, bringing its holdings to 99.1 percent of the total loans outstanding. In effect, the Foreign Military Credit Sales guarantee program has been converted to an off-budget direct loan program. Foreign countries are able to get direct loans at Treasury rates, but there is no impact on the unified budget totals.

Development Assistance

Sections 103-106 of the Foreign Assistance Act of 1961 authorize grants and direct loans for various functional development assistance programs administered by the Agency for International Development. These funds may be used for development assistance projects in the areas of agriculture, rural development, nutrition, health, education, human resource development, technical assistance, and energy research.

For 1981 the Administration is proposing a limitation of $507.1 million on new direct loan obligations. By the end of 1981, direct loans outstanding will total an estimated $1.5 billion, up 50.2 percent from the total of loans outstanding at the end of 1979. Table 12 summarizes activity in this program for fiscal years 1979-1981.

Overseas Private Investment Corporation (OPIC)

OPIC encourages U.S. investment overseas through programs of political risk insurance against losses--expropriation, inconvertibility, and war damages--and investment financing through direct loans and loan guarantees. Up to 75 percent of the principal of a loan may be guaranteed by OPIC. Maximum contingent liability is limited to $750 million or four times the amount of guarantee fees collected as a guarantee reserve, whichever is smaller. OPIC may also make direct loans out of a Direct Investment Fund held by the Corporation.

TABLE 11. FOREIGN MILITARY CREDIT SALES--SUMMARY OF ACTIVITY, 1979-1981: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	595.0	540.0	515.0
Proposed limitation	---	---	500.0
New direct loans	553.1	510.0	510.0
Payments for guarantee claims	87.2	40.0	15.0
Repayments and other resources	-148.4	-165.0	-145.0
Loan forgiveness credits	-529.1	-500.0	-500.0
Net loan outlays	-37.2	-115.0	-120.0
Outstanding loans	786.4	671.4	551.4
Loan Guarantees:			
New loan guarantee commitments	5,165.0	1,690.0	2,140.0
Proposed limitation	---	---	2,140.0
New loans guaranteed	1,621.7	2,900.0	2,600.0
Repayments on guaranteed loans	-387.1	-500.0	-650.0
Terminations for default	-87.2	-40.0	-15.0
Other adjustments	59.1	-100.0	-100.0
Guaranteed loans outstanding	5,670.0	7,930.0	9,765.0
FFB Financing:			
New FFB guaranteed loan originations	1,615.1	2,900.0	2,600.0
Outstanding FFB loan originations	5,270.9	7,690.9	9,680.9
Outstanding FFB loans as a percentage of total guaranteed loans outstanding	93.0	97.0	99.1

TABLE 12. DEVELOPMENT ASSISTANCE LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
New Direct Loan Obligations	a/	a/	507.1
Proposed Limitation	---	---	507.1
New Direct Loans	312.3	246.3	266.8
Repayments	---	- *	-0.1
Net Loan Outlays	312.3	246.3	266.7
Loans Outstanding	1,022.7	1,269.1	1,535.8

* Less than $50,000.

a/ The Administration's credit control system does not indicate new direct loan obligations in 1979 and 1980. The program and financing schedule for this account in the Budget Appendix, however, indicates that $447.9 million in 1979 and $384.6 million in 1980 were obligated for capital investment, presumably direct loans.

For fiscal year 1981 the Administration is proposing a limitation of $15 million on new direct loan obligations and of $150 million on new loan guarantee commitments. Table 13 details OPIC's activities for 1979-1981. The estimated $17 million of new direct loans in 1981 represents a 161 percent increase over the 1979 actual level, and a 60 percent increase over the 1980 estimate. New loans guaranteed in 1981 are estimated to drop 40.7 percent from the 1980 estimated level. Over the period, outstanding guaranteed loans rise from $92.1 million at the end of 1979 to $256.1 million by the end of 1981, an increase of 178 percent over two years.

TABLE 13. OVERSEAS PRIVATE INVESTMENT CORPORATION--LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
Direct Lending:			
New direct loan obligations	3.0	15.0	15.0
Proposed limitation	---	---	15.0
New direct loans	5.2	9.6	16.0
Payments for guarantee claims	1.3	1.0	1.0
Repayments	-3.2	-3.2	-4.0
Write-offs for default	-1.9	---	---
Net loan outlays	1.4	7.4	13.0
Direct loans outstanding	22.9	30.3	43.3
Loan Guarantees:			
New loan guarantee commitments	52.8	70.0	150.0
Proposed limitation	---	---	150.0
New loans guaranteed	---	128.1	76.0
Repayments on guaranteed loans	-29.7	-19.3	-18.8
Terminations for default	-1.3	-1.0	-1.0
Guaranteed loans outstanding	92.1	199.9	256.1

Housing and Other Credit Guarantee Programs

The Housing Guarantee program provides federal guarantees of long-term financing extended by U.S. lenders for housing projects and programs in developing nations. The International Development Cooperation Act of 1979 (Public Law 96-53) extends the authority of this program through the end of fiscal year 1982 and sets a ceiling of $1.555 billion on the total principal amount of guarantees that may be outstanding at one time. Loans that may be guaranteed under this program may not have an average face value in a fiscal year exceeding $15 million dollars, nor may the total loans guaranteed for projects in any country for a fiscal year exceed $25 million. The interest rate for the guaranteed loans is to range between one-half of one percent and one percent above the current rate of interest applicable to housing mortgages insured by FHA.

For fiscal year 1981, the Administration is proposing a limitation of $200 million on new loan guarantee commitments. New loans guaranteed are estimated to total $112 million, bringing outstanding guaranteed indebtedness to $931 million. Table 14 summarizes recent activity for this program.

TABLE 14. HOUSING AND OTHER CREDIT GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates	
		1980	1981
New Loan Guarantee Commitments	145.0	175.0	200.0
Proposed Limitation	---	---	200.0
New Loans Guaranteed	96.2	101.5	112.0
Repayments on Guaranteed Loans	-16.1	-20.0	-22.2
Outstanding Guaranteed Loans	759.7	841.2	931.0

Food for Peace

Public Law 480, also known as the Agricultural Trade Development and Assistance Act of 1954, authorizes the Commodity Credit Corporation to extend credit to foreign countries and to exporters to finance the sale of agricultural commodities to foreign countries. Credit sales for dollars are repayable over 20 years; sales for convertible foreign currencies are repayable over 40 years.

New direct loan obligations for 1981 are estimated to total $781.1 million. No limitation is proposed because the full program amounts for the Public Law 480 program, including activities financed by balances, must be appropriated each year. The Administration contends, therefore, that a separate limitation on new loan obligations is unnecessary. The Administration also wishes to preserve the President's flexibility to increase export sales credits during 1981 if conditions warrant such action.

58-342 O - 80 - 5

New loans for 1981 are estimated to total $781.1 million for 1981, down from the estimated 1980 level of $850.4 million. Loans outstanding are estimated to increase to $7.8 billion at the end of 1981. Table 15 summarizes Public Law 480 loans for 1979-1981.

TABLE 15. FOOD FOR PEACE LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
New Direct Loan Obligations	777.8	850.4	781.1
New Direct Loans	754.5	850.4	781.1
Repayments	-167.6	-160.7	-180.4
Interest Deferrals	23.3	---	---
Net Loan Outlays	610.2	689.7	600.7
Direct Loans Outstanding	6,483.1	7,172.8	7,773.5

The Administration has sent to the Congress a supplemental for 1980 of $100 million and a budget amendment for 1981 in the same amount. Most, but not all of these additional amounts, if approved, would result in new lending. A small portion would be used to pay ocean shipping charges in connection with credit sales arranged under Public Law 480.

Export-Import Bank

The Export-Import Bank of the United States (Eximbank) is a wholly-owned government corporation that aids in financing and facilitating exports by U.S. firms to foreign countries or firms. Eximbank provides direct loans, loan guarantees, insurance, or reinsurance on terms and conditions that make U.S. products competitive with foreign products, given the export assistance granted by other governments. For instance, on December 18, 1979, Eximbank notified the Congress of its intention to extend a loan of $31.1 million and a guarantee of commercial borrowing of $62.3 million to SABENA, the Belgian national airline. The loan and guarantee would cover 90 percent of the cost of SABENA's purchase of two DC-10 aircraft for its fleet. The loan will have an interest rate of 8.375 percent yearly. In its explanation, Eximbank noted:

> Eximbank is prepared to extend financing to SABENA for ninety percent of the U.S. costs of the DC-10 aircraft in order to meet government-supported subsidized financing offered in support of a competing European Airbus proposal. 1/

Eximbank's authority for loans, guarantees, or insurance outstanding is limited to $40 billion. Only 25 percent of loan guarantees or insurance outstanding is charged against that limitation, up to a limitation of $25 billion. In addition, an annual limitation on program activity, as well as administrative expenditures, has been included in the Foreign Assistance Appropriations Act.

For 1981 the Administration proposes to change the form of limitation on Eximbank activity to make it consistent with the language being used generally in the 1981 budget for direct and guaranteed loan programs. For 1981 a limitation of $4.8 billion is proposed for new direct loan obligations and of $8.9 billion for new loan guarantee commitments. This represents only a 5.6 percent increase over 1980 for new direct loan obligations, but a 13.8 percent increase for new loan guarantee commitments.

Table 16 summarizes Eximbank activity for fiscal years 1979-1981. The Administration's estimate for 1980 assumes growth in new direct loans of 61 percent over 1979. The growth levels off in 1981, at only 7.7 percent over the 1980 estimate. New loans guaranteed are estimated to increase by 14 percent in 1980 and by 18.5 percent in 1981. The 1981 budget also assumes for the first time that Eximbank will seek financing of guaranteed loans through the FFB. It is estimated that $50 million of the new loans guaranteed will be originated by the FFB in 1980, increasing to $350 million in 1981. In effect, the actual direct loan program for Eximbank for 1981 consists of $2.8 billion in on-budget loans and $350 million in off-budget loans.

1/ Congressional Record, January 24, 1980, p. H246.

TABLE 16. EXPORT-IMPORT BANK LOAN AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	4,089.7	4,504.0	4,754.0
Proposed limitation	---	---	4,754.0
New direct loans	1,628.5	2,624.0	2,826.0
Payments for guarantee claims	1.0	10.0	10.0
Repayments	-1,320.5	-1,461.0	-1,504.0
Net loan outlays	309.0	1,173.0	1,332.0
Direct loans outstanding	11,859.1	13,032.1	14,364.1
Loan Guarantees:			
New loan guarantee commitment	5,016.3	7,815.0	8,893.0
Proposed limitation	---	---	8,893.0
New loans guaranteed	4,591.1	5,237.2	6,207.3
Repayments on guaranteed loans	-3,588.2	-3,971.8	-4,397.5
Terminations for default	-1.0	-10.0	-10.0
Guaranteed loans outstanding	4,894.9	6,150.3	7,950.2
FFB Financing:			
New FFB guaranteed loan originations	---	50.0	350.0
FFB holdings of guaranteed loan originations	---	50.0	400.0

GENERAL SCIENCE, SPACE, AND TECHNOLOGY (FUNCTION 250)

This function includes the general science and basic research programs of the National Science Foundation and the Department of Energy, and the space programs of the National Aeronautics and Space Administration (NASA).

There is only one credit program in function 250: guarantees by NASA of loans to Western Union Space Communications, Inc., for the construction of the Tracking and Data Relay Satellite System (TDRSS). TDRSS consists of four satellites that will relay data and commands to and from spacecraft and a ground control center.2/ TDRSS will be able to maintain tracking of earth orbital spacecraft with only one ground station, enabling NASA to close most of the ground stations around the world in the present spaceflight tracking system, resulting in significant cost savings.

NASA is acquiring the use of TDRSS satellites under a 10-year service contract with Western Union. At the end of the 10-year term, the contract payments will have amortized Western Union's cost of constructing the system. NASA will then have the option to acquire the system for $1.

Western Union has been able to obtain loans from the Federal Financing Bank to finance the construction of TDRSS. Under the loan agreement, FFB is protected against default by Western Union because the company assigns to FFB the service contract payments to be made by NASA. Thus, NASA will effectively repay the interest and principal on FFB's loan to Western Union. Through this arrangement NASA has secured construction of a capital project without first obtaining budget authority or recording outlays. The off-budget construction outlays will be repaid over 10 years with on-budget contract payments.

2/ NASA will have exclusive use of two satellites, Western Union will have exclusive use of the third, and the fourth will be a shared spare. Western Union will use its satellite for commercial communications traffic.

As a class, long-term contracts that have the effect of guaranteeing loans do not fall under the Administration's proposed credit controls. An exception has been made in the case of TDRSS guarantees because of the FFB-financing of the loan to Western Union. The Administration's control system controls off-budget FFB financing by limiting the agencies' ability to enter into such transactions. Therefore, it is necessary to include NASA's guarantee of FFB loans to Western Union in the control system.

Because the full amount of guarantee commitments signed in prior years has not been exhausted, the Administration is not requesting authority for new guarantee commitments in 1981. In 1980 and 1981, $233 million of additional FFB loans to Western Union will be guaranteed, based on these prior commitments. Loans outstanding will total $653.3 million at the end of 1981. Table 17 summarizes recent activity.

TABLE 17. GENERAL SCIENCE, SPACE, AND TECHNOLOGY--SUMMARY OF TDRSS SATELLITE GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimate	
		1980	1981
Guarantee Commitments Available, Start of Year	267.4	233.0	101.1
New Loan Guarantee Commitments	152.0	---	---
Proposed Limitation	---	---	---
New Loans Guaranteed	186.4	131.9	101.1
Guaranteed Loans Outstanding	420.3	552.2	653.3

ENERGY (FUNCTION 270)

This function includes credit programs for energy research and development, conservation, and production. The Department of Energy (DOE) administers most of these programs. The Department of Agriculture's Rural Electrification Administration and the Tennessee Valley Authority also have programs of energy credit assistance.

The Administration's 1981 budget anticipates major increases in energy credit assistance for fiscal years 1980 and 1981. Table 18 summarizes the gross levels of new energy credit activity for fiscal years 1979-1981. The budget assumes the enactment in 1980 of energy legislation pending before the Congress. Consequently, new programs of loan guarantees for synthetic fuels facilities and direct loans and loan guarantees for biomass fuel facilities account for substantial increases in 1980 and 1981 over 1979. In addition, the Administration's estimates assume that the slow-starting geothermal energy loan guarantee program will dramatically increase activity in 1980 and 1981. Overall, new commitments in 1980 for loan guarantees post a 46.6 percent increase over the 1979 actual level; in 1981 new commitments drop slightly from the 1980 level.

Direct loan growth is not as rapid as the growth in loan guarantee programs. New direct loan programs for biomass fuel facilities and for hydropower feasibility studies account for most of the growth in loan obligations between 1979 and 1981. Overall, new direct loan obligations in 1981 post an 11 percent increase over 1979, after dropping in 1980 below the 1979 levels. The 1980 drop is due to a 12 percent decrease in rural electrification direct loan obligations in 1980 from the 1979 level.

The following sections highlight activity of the major energy credit programs for fiscal years 1980 and 1981.

Synthetic Fuels Promotion

The budget estimates that the federal government will guarantee $2.3 billion of loans in 1980 to finance the construction of synthetic fuel production plants. For 1981, it estimates an additional $2.0 billion of loans will be guaranteed. Table 19 summarizes synthetic fuel loan guarantee activity.

TABLE 18. ENERGY CREDIT PROGRAMS--SUMMARY OF GROSS ACTIVITY: IN MILLIONS OF DOLLARS

	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979 Actual	1980 Estimate	1981 Estimate	1979 Actual	1980 Estimate	1981 Estimate
Synthetic Fuels	---	---	---	---	2,300	2,000
Biomass Loans	---	50	50	---	250	250
Geothermal Energy	---	---	---	1	300	206
Other Energy Programs	---	20	12	---	65	30
Rural Electrification a/	1,250	1,100	1,100	6,015	5,904	5,990
Total	1,250	1,176	1,162	6,016	8,819	8,476
Memorandum:						
Amounts for which limitation already enacted	---	---	---	---	1,500	---
Amounts not subject to limitation	---	---	---	---	---	2,000
Proposed limitation	---	---	1,387	---	---	7,141

a/ As noted in Table 21, the estimated 1981 loan obligations total \$1.1 billion. The proposed limitation is set at \$1.325 billion. Similarly, loan guarantee commitments are estimated to total \$5.99 billion. The proposed limitation, however, is \$6.655 billion.

TABLE 19. LOAN GUARANTEES FOR SYNTHETIC FUELS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
New Loan Guarantee Commitments:			
Energy Security Reserve	---	1,500	---
Energy Security Corporation	---	800	2,000
Total, new commitments	---	2,300	2,000
New Loans Guaranteed:			
Energy Security Reserve	---	1,500	---
Energy Security Corporation	---	800	2,000
Total, new loans guaranteed	---	2,300	2,000
Guaranteed Loans Outstanding	---	2,300	4,300

Public Law 96-126, the Department of the Interior and Related Agencies Appropriations Act for 1980, established an Energy Security Reserve in the Department of Energy. Funds appropriated to the Reserve may be used to expedite the financing of synthetic fuels programs upon enactment of legislation pending before the Congress. Of the $19 billion appropriated to the Reserve, Public Law 96-126 makes $2.2 billion immediately available to the Energy Department for activities under existing authority. Of this sum, $1.5 billion is to be used for purchase commitments or price guarantees of alternative fuels, as authorized by the Federal Nonnuclear Energy Research and Development Act of 1974 (Public Law 95-577). Another $500 million is established as a reserve for defaults for loan guarantees issued to finance the construction of synthetic fuels facilities, under section 19 of Public Law 95-577. The language of Public Law 96-126 includes a limitation of $1.5 billion on total indebtedness that may be guaranteed.

The Administration's 1981 budget estimates that \$1.5 billion of guarantees will be issued in 1980. It also assumes enactment in 1980 of legislation establishing the off-budget Energy Security Corporation. The budget estimates that in 1980 the Corporation will make new commitments to guarantee loans of \$800 million. This will increase in 1981 to \$2.0 billion. It is assumed that all commitments will result in guaranteed loans in both years, resulting at the end of 1981 in a total of \$2.8 billion in outstanding loans guaranteed.

Biomass Loans

The Administration is proposing for fiscal year 1980 a new program to encourage the development of small and medium-sized facilities to convert biomass--grain, farm residues, and other agricultural resources--into synthetic fuels. The Administration's program would provide \$3 billion of credit assistance over 10 years: \$50 million annually for direct loans and \$333 million annually for guaranteed loans, of which the federal government would guarantee repayment of only 75 percent, or \$250 million. Both direct and guaranteed loans would have 10-year maturities and bear 12 percent annual interest. The biomass loan program will be financed out of the Energy Security Trust Fund, the respository for windfall tax revenues.

Geothermal Resources Development Fund

The Geothermal Energy, Research, Development, and Demonstration Act of 1974, as amended, provides that the Secretary of Energy may guarantee loans up to \$100 million each for the commercial development of geothermal energy. No limits on aggregate program activity were specified in the enabling legislation. Limitations on outstanding indebtedness were included in the appropriations acts for fiscal years 1977-1980. In accordance with the new control system, the budget proposes that a limitation on new commitments be established instead for fiscal year 1981.

The budget estimates for fiscal year 1980 and 1981 assume rapid growth of geothermal loan guarantees, far in excess of actual program growth to date. At the end of 1979, only \$14.3 million in loans had been guaranteed. For 1980, the budget assumes new guarantees of \$330 million, more than 20 times the amount guaranteed in the first three years. For 1981, new loans guaranteed drop back to \$206 million. By the end of 1981, guaranteed loans outstanding will exceed \$539 million, according to the estimates. Table 20 summarizes the program's history.

TABLE 20. GEOTHERMAL LOAN GUARANTEE ACTIVITY: IN MILLIONS OF DOLLARS

	Actual			Estimates	
	1977	1978	1979	1980	1981
Limitation on Outstanding Guaranteed Indebtedness a/	200.0	300.0	300.0	350.0	---
Proposed Limitation on New Commitments	---	---	---	---	206.0
New Loans Guaranteed	11.9	1.8	0.7	329.7	206.0
Repayments on Guaranteed Loans	---	---	---	-10.8	---
Guaranteed Loans Outstanding	11.9	13.7	14.3	333.2	539.2

a/ Set in appropriations acts.

Rural Electrification

The Rural Electrification Administration (REA) of the Agriculture Department conducts two capital investment programs: rural electrification, to provide electric service to farms and other rural establishments; and the rural telephone program, to furnish and improve telephone service in rural areas. Both programs are operated through the Rural Electrification and Telephone Revolving Fund (RETRF), which the Congress placed off-budget during the Nixon Administration to exempt its activities from outlay or expenditure ceilings. Its activities, however, are no different from on-budget activities of other agencies.

REA makes both direct and guaranteed loans through the RETRF. The direct loan program (which goes by the name of insured loans) provides direct loans not to exceed 35 years in term, at either 2 or 5 percent interest rates, in accordance with criteria specified in law. REA also guarantees loans made by FFB and other qualified lenders at rates agreed upon by borrower and lender. (FFB rates are more advantageous to the borrower, since they are only one-eighth of one percent above Treasury's borrowing rate.)

The need for rural electrification and telephone revolving credit is closely related to the economic conditions of rural areas. In the last few years, it has been a practice to include in appropriations a range for insured loan limitations to allow for changed economic circumstances during the fiscal year. This practice is continued in the 1981 budget. REA recommends a floor on insured loan obligations of $1.1 billion and a ceiling of $1.3 billion. REA recommends a floor on new loan guarantee commitments of $5.1 billion and a ceiling of $6.6 billion. The ceiling figures are being used as the recommended limitations in the credit control system.

Table 21 illustrates the RETRF's financing. Through the use of loan sales to the FFB and FFB origination of REA guaranteed loans, 88 percent of the RETRF's activity for 1981 is financed by the FFB. Even if the RETRF were placed on budget, it would not substantially affect the unified budget deficit: with repayment, fees, and other income, outlays for 1980 and 1981 are estimated at zero.

Other Energy Credit Programs

The Administration's budget assumes new activity in 1980 and 1981 on a variety of small loan and loan guarantee programs designed to stimulate development of alternative energy sources and conservation of existing energy resources. Table 22 summarizes the new activity levels of these programs.

As part of its efforts to establish a small-scale hydroelectric development industry, the Administration will propose a Hydropower Feasibility Studies Loan Program. This program will provide support for studies to identify feasible sites for the rehabilitation and retrofitting of existing dams with equipment to generate electricity from water power, and for the development of new small power dams. The Administration estimates that new direct loan obligations will total $20 million in 1980 and $10 million--its proposed limitation--in 1981.

The Administration's budget also includes estimates for two direct loan pilot programs to be conducted by the Bonneville Power Administration. These programs would provide direct loans to customers for installation, home insulation, and solar energy water heaters. The Administration's estimates for 1980 assume $4 million in new direct loan obligations and $2 million--the proposed limitation--for 1981.

TABLE 21. RURAL ELECTRIFICATION LOAN AND LOAN GUARANTEE ACTIVITY: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct (or Insured) Lending:			
New direct loan obligations	1,250	1,100	1,100
Proposed limitation	---	---	1,325
New loans	1,105	1,325	1,404
Repayments	-314	-353	-365
Sales of CBOs	-586	-760	-845
Net loan outlays	205	212	194
Direct loans outstanding	9,317	9,530	9,723
Loan Guarantees:			
New loan guarantee commitments	6,015	5,905	5,990
Proposed limitation	---	---	6,655
New loans guaranteed	2,065	3,500	4,000
Guarantees of loan sales	586	760	845
Total, guaranteed loans	2,650	4,260	4,845
Guaranteed loans outstanding	7,535	11,794	16,639
FFB Financing:			
Purchases of CBOs	586	760	845
FFB guaranteed loan originations	1,735	3,400	3,900
Total, FFB lending	2,320	4,160	4,745
FFB Loans Outstanding	7,150	11,309	16,054

TABLE 22. OTHER ENERGY CREDIT PROGRAMS--SUMMARY: IN MILLIONS OF DOLLARS

	Direct Lending			Loan Guarantees		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
Hydropower Loan Program						
New obligations	---	20	10	---	---	---
New transactions	---	20	10	---	---	---
Bonneville Power Administration Loans						
New obligations	---	4	2	---	---	---
New transactions	---	2	2	---	---	---
Coal Loan Guarantees						
New obligations	---	---	---	1	49	---
New transactions	---	---	---	---	25	25
Electric and Hybrid Vehicles Guarantees						
New obligations	---	---	---	---	16	30
New transactions	---	---	---	---	8	21
TVA						
New obligations	---	2	---	---	---	---
New transactions	---	2	---	---	---	---
Total						
New obligations	---	26	12	1	65	30
New transactions	---	22	12	---	33	46
Proposed Limitation	---	---	12	---	---	30

a/ Estimated.

In 1980, two loan guarantee programs that have been on the books for several years, but which have not yet issued any guarantees, will become active. The Electric and Hybrid Vehicle Resource, Development, and Demonstration Act of 1976 (Public Law 94-413) authorized loan guarantees to small businesses to finance construction of demonstration vehicles. For fiscal year 1978, the Interior Appropriations Act prohibited issuance of any guarantees. Although this ban was lifted for fiscal year 1979, no guarantees were made in that year. For 1980, the Administration estimates that new commitments of $16 million will be signed, resulting in new loan guarantees of $7.5 million. For 1981 the Administration requests a limitation on new commitments of $30 million; new loans guaranteed are estimated, however, to total only $20.5 million.

The Energy Policy and Conservation Act (Public Law 94-163) authorized guarantees of loans for the development of new underground coal mines. The fiscal year 1977 Interior Appropriations Act prohibited issuance of guarantees in that year. The ban was lifted in fiscal year 1978 and a ceiling of $62 million was set on outstanding guaranteed indebtedness. Not until 1979, however, were any commitments signed, and that year saw only $854,000 in guarantee commitments. For 1980, the Administration estimates new commitments of $49 million, resulting in $25 million of new loans guaranteed. No limitation on new commitments for 1981 is proposed; new guaranteed loans of $25 million will be made out of the remaining balance of 1980 commitments.

NATURAL RESOURCES AND ENVIRONMENT (FUNCTION 300)

This function contains the expenditures for water resource development, conservation and land management, recreational resources development, pollution control and abatement, and other natural resource programs. The function contains only one credit program subject to limitation: the direct loan program of the Interior Department's Water and Power Resources Services (formerly the Bureau of Reclamation). Two other small programs are liquidating their loan holdings.

The Service makes loans to irrigation districts or other public agencies under the Distribution Systems Loan Act (43 U.S.C. 421a-h) and the Small Reclamation Projects Act of 1956 (43 U.S.C. 422a-k) to enable them to construct irrigation distribution and drainage systems or municipal and industrial water supply delivery and distribution systems. Budget authority for loans under both acts must be specifically provided in appropriations. For fiscal year 1981 the Administration is proposing a limitation on gross obligations of $38 million. Table 23 summarizes all credit activity in function 300 and its budgetary impact.

TABLE 23. NATURAL RESOURCES AND ENVIRONMENT--SUMMARY OF CREDIT ACTIVITY: IN MILLIONS OF DOLLARS

	1979 Actual	1980 Estimate	1981 Estimate
Water and Power Loan Program:			
New direct loan obligations	36	27	38
Proposed limitation	---	---	38
New direct loans	22	40	18
Repayments	-5	-7	-7
Net loan outlays	17	33	11
Direct loans outstanding	262	295	306
Other Programs: a/			
New direct loans	1	---	---
Repayments and adjustments	5	-1	-1
Net loan outlays	7	-1	-1
Direct loans outstanding	32	32	30

a/ This activity reflects the liquidation and servicing of outstanding loans under two small Interior programs: Water and Power Service Emergency Fund and Surveys, Investigation, and Research Program of the Geological Survey.

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AGRICULTURE (FUNCTION 350)

Credit assistance for agriculture consists of loans and loan guarantees by the Commodity Credit Corporation (CCC) and the Agricultural Credit Insurance Fund (ACIF) of the Farmers Home Administrations (FmHA), both in the Department of Agriculture. Table 24 summarizes new direct loan obligations and new loan guarantee commitments by CCC and the ACIF in fiscal years 1979-1981.

TABLE 24. AGRICULTURE--SUMMARY OF CREDIT ACTIVITY: IN BILLIONS OF DOLLARS

	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980a/	1981a/	1979	1980a/	1981a/
Commodity Credit Corporation	6.1	5.0	4.3	0.1	0.9	2.0
Agricultural Credit Insurance Fund	8.1	6.4	5.0	5.6	4.6	3.6
Total	14.2	11.5	9.4	5.7	5.5	5.6
Proposed for Limitation	---	---	b/	---	---	0.1

a/ Estimated.

b/ Of the $3.8 billion listed as proposed for limitation in the Agricultural Credit Insurance Fund, only $1.8 billion is actually subject to limitation. See the note to Table 27.

New direct loan obligations for both CCC and the ACIF are both expected to decline in 1980 and 1981. The decline of about $1.8 billion in CCC direct lending is offset by an equal increase in new loan guarantee commitments, reflecting an Administration decision to emphasize guarantees of export credit as opposed to direct lending in fiscal year 1981. The decline in ACIF lending is attributable to a decline in disaster loan obligations. All other loan programs of the ACIF maintain their 1979 levels in 1980 and 1981. Only farm ownership loans experience real program growth in 1980 and 1981.

The Administration is proposing limitations on only $1.8 billion of new direct loan obligations by the ACIF and $0.1 billion of loan guarantee commitments. All CCC activity has been exempted from limitation because of an Administration decision not to place restrictions on the President's authority to expand agricultural export credit sales at this time. This exception will be reviewed for the 1982 budget. A large portion of the ACIF's activity has been exempted for two reasons. First, $2.0 billion of ACIF's estimated loan obligations are for disaster loans which are like an entitlement program. The remaining ACIF loan obligations not subject to limitation represent repurchases of loans and certificates of beneficial ownership, activity considered to be a means of financing.

The following sections highlight CCC and ACIF activity.

CCC Credit Activities

The Commodity Credit Corporation conducts three direct loan and two loan guarantee programs in support of its farm income stabilization and support activities. Table 25 summarizes activities under these programs for fiscal years 1979-1981.

CCC's principal credit form of credit assistance is the nonrecourse commodity loan. CCC makes direct loans to producers with the crop or commodity serving as collateral. On maturity, the producer may pay off the loan or deliver the commodity to the CCC. Commodity loans act to set a floor under market prices because they are based on a given support price. If the market price is below this support price, the farmer does not repay the loan but instead delivers his crop to CCC. If the market price is above the support price, he pays back the loan and sells the crop himself. For 1981 the budget estimates new commodity loans to total $4.1 billion, up 6.3 percent from the 1980 estimate.

CCC also conducts an export credit sales program to maximize exports of agricultural commodities and products. A short-term sales program finances commercial export sales for periods under three years. The medium-term sales program finances sales on three- to ten-year terms. The budget estimates show activity under this program declining to $800 million of new loans in 1980, down from $1.5 billion in 1979. No loans will be made in 1981, according to the Administration. Instead, greater emphasis will be placed on loan guarantees under the risk assurance program.

TABLE 25. CCC DIRECT LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
New Direct Loans:			
Short- and medium-term export loans	1,527.4	800.0	---
Commodity loans	3,896.7	3,868.8	4,111.0
Storage facility loans	678.9	375.0	225.0
Total, new loans	6,103.0	5,043.8	4,336.0
Repayments	-5,487.1	-5,861.0	-5,384.5
Adjustments:			
Interest deferral (export loans)	0.9	---	---
Write-offs for default (commodity loans)	-22.7	-17.7	-14.6
Total, adjustments	-21.8	-17.7	-14.6
Net Loan Outlays	594.1	-834.9	-1,063.1
Loans Outstanding	7,827.2	6,992.4	5,929.3
New Loans Guaranteed:			
Agricultural fuels pilot projects	42.8	---	---
Risk assurance	92.8	938.1	2,000.0
Total, new loans guaranteed	135.6	938.1	2,000.0
Repayments	---	-30.9	-343.6
Outstanding Loans Guaranteed	135.6	1,042.8	2,699.2

CCC also conducts a direct loan program to finance the purchase, construction, or remodeling of commodity storage facilities. The loans have a ten-year term and bear interest at a rate based on CCC's borrowing rate from the Treasury. New storage loans estimated for 1980 and 1981 are $375 million and $225 million respectively. These estimates are down from the $678.9 million of storage loans made in 1979.

Section 509 of the Rural Development Act of 1972 directed CCC to guarantee loans of up to $15 million each for not more than four pilot projects for the production of industrial hydrocarbon and alcohol fuels produced from agricultural commodities and forestry products. During 1979 four projects were selected and guarantees totaling $42.8 million were tentatively approved. Final approval is expected in 1980.

To support its export program, CCC also runs a noncommercial risk assurance program. Under the program, CCC guarantees, for a fee, U.S. exporters against default due to noncommercial risks on payments owed to them under deferred payment sales contracts. The 1981 budget shows dramatic increases in new guarantees under this program for 1980 and 1981. New guarantees are assumed to increase ten-fold in 1980 to $938 million, from $92.8 million in 1979. In 1981 new guarantees are expected to double the 1980 level, totalling $2.0 billion. The growth in loan guarantees represents a shift from the direct loan export program to reliance instead on the risk assurance guarantee program. The total level of export credit increases from $1.7 billion in loans and loan guarantees in 1979 to $2.0 billion of guaranteed loans in 1981.

Agricultural Credit Insurance Fund

Through the Agricultural Credit Insurance Fund, the Farmers Home Administration makes a wide variety of direct loans to farmers, ranchers, and others engaged in agricultural activities. The principal loan programs of the ACIF are its farm ownership, farm operating, and disaster loans. In addition, FmHA uses the ACIF to make loans to a variety of cooperative associations: irrigation and drainage associations, watershed and flood protection associations, Indian tribal land acquisition associations, grazing associations, and resource and conservation development associations. FmHA also conducts a small program of guarantees of private lending for these same purposes.

Terms on direct loans made through the ACIF are more favorable than terms on commercial loans. Farm ownership loans and other property or resource development loans have long-term maturities, usually 35-40 years, and bear interest at the ACIF's cost of borrowing from the Treasury plus a small administrative fee. For low-income borrowers, who receive 25 percent of loans extended, special interest rates of 6 percent or less are available. Farm operating loans have a shorter term, usually 7-10 years, but use the same cost-of-money basis for setting interest rates. Again, 25 percent of the loans are reserved for low-income farmers, who receive a subsidized interest rate of 6 percent. Disaster loans are also made for farm ownership and operating purposes, and have similar maturities. On loans for losses prior to October 1, 1978, the interest rate was 3 percent. Loans on losses since that time carry a 5 percent interest rate. Guaranteed loans have the same maturities as direct loans by the ACIF; the interest rate is negotiated between the borrower and lender.

The Administration's 1981 budget assumes a decline in new direct loan obligations through the ACIF in fiscal years 1980 and 1981. As illustrated in Table 26, the decline in total direct loan obligations and loan guarantee commitments levels actually reflects decreases only in disaster loans, not in all types of lending through the ACIF. In fact, lending levels for all programs except disaster loans are assumed to at least maintain their 1979 levels in fiscal years 1980 and 1981. Farm ownership loan obligations are estimated to increase 14 percent in 1980 over their 1979 levels and to maintain that increased level through 1981.

TABLE 26. AGRICULTURAL CREDIT INSURANCE FUND--NEW DIRECT LOAN OBLIGATIONS AND LOAN GUARANTEE COMMITMENTS BY TYPE: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Farm Ownership	763	870	870
Farm Operating	895	875	875
Emergency:			
Natural disasters	2,872	2,500	2,000
Economic emergencies	3,090	1,100	---
Soil and Water	52	53	53
Other	42	56	50
Total	7,714	5,454	3,848

The Administration's 1980 and 1981 estimates assume a slowdown in disaster loan obligations. In 1979 disaster loans accounted for more than 75 percent of ACIF loan and loan guarantee obligations. That share is expected to drop to 66 percent in 1980, and finally to just over 50 percent in 1981. The budget assumes that the economic emergency loan program, whose authority expires May 15, 1980, will not be reauthorized by the Congress.

The ACIF is a revolving fund. Sales of direct loans held by the ACIF provide funds for further loans, subject to limitations set by the appropriations language. Loans may be individually sold to private investors. More often, however, groups of loans are packaged as a pool, and certificates of beneficial ownership (CBOs) in that pool are sold. Most CBOs are sold to the off-budget Federal Financing Bank. Because receipts from a CBO sale are considered to be repayments on the loans in the pool, the receipts are counted as negative outlays and thus offset new lending. Selling CBOs to the FFB, thus, has the effect of transferring budget outlays from the ACIF to the off-budget FFB. 3/

In its credit program control system, the Administration has chosen to propose limitations only on the new direct loans and loan guarantees by the ACIF for the public. Sales of loans and CBOs, and guarantees of these sales, are considered to be a means of financing. Therefore, limitations are not being proposed on the new direct loan obligations associated with the repurchase of loans and CBOs or on the new loan guarantee commitments associated with the guarantee of CBOs and loan sales. For example, new direct loan obligations by the ACIF are estimated to total $5.04 billion in 1981. Of this amount $1.27 billion is for repurchases of loans and CBOs sold in previous years. Therefore, the Administration is proposing a limitation on new program activity of $3.77 billion of new direct loan obligations. 4/ Tables 27 and 28 detail for direct loans and loan guarantees respectively those portions of ACIF credit activity that are new program activity and those portions that are considered a means of financing that activity.

3/ For more information on the budgetary treatment of sales of loan assets and CBOs, see "Loan Asset Sales: Current Budgetary Treatment and Alternatives," in Loan Guarantees: Current Concerns and Alternatives for Control; A Compilation of Staff Working Papers (Congressional Budget Office, January 1979).

4/ The President is actually proposing a limitation of $1.77 billion and assuming $2.0 billion in disaster sales, for which no limitation is proposed. The figure of $3.8 billion is included in the control system to distinguish the program activity from the means of financing.

TABLE 27. DIRECT LOANS BY THE AGRICULTURAL CREDIT INSURANCE FUND: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Program Activity:			
New direct loan obligations	7,529.3	5,098.6	3,767.6
Proposed limitation	---	---	3,767.6 a/
New direct loans	7,383.3	5,199.4	3,815.5
Repayments	-1,843.7	-2,612.0	-3,064.0
Write-offs for default	-10.9	-11.2	-12.3
Other adjustments	15.1	18.0	20.2
Net loan outlays	5,543.8	2,594.2	759.4
Means of Financing (Sales of Loans and CBOs):			
New direct loan obligations	557.0	1,338.8	1,273.8
New direct loans:			
Purchase of loans	44.0	47.4	97.0
Purchase of CBOs	513.0	1,291.4	1,176.8
Repayments (sales of CBOs)	-5,395.0	-4,220.8	-3,512.0
Net loan outlays	-4,838.0	-2,882.0	-2,238.2
Net Loan Outlays, All Activity	705.8	-287.8	-1,478.8
Outstanding Loans	2,033.9	1,746.2	267.3

a/ Includes $2.0 billion of emergency loans not subject to limitation. OMB mistakenly classified this as subject to limitation.

TABLE 28. AGRICULTURAL CREDIT INSURANCE FUND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Program Activity:			
New loan guarantee commitments	182.5	356.0	81.0
Proposed limitation	---	---	81.0
New loans guaranteed	181.1	110.4	353.7
Repayments on guaranteed loans	-377.4	-399.0	-417.0
Terminations for default	-5.8	-8.2	-4.6
Guarantees of loans issued to replace defaulting loans previously sold	56.2	-0.1	-0.1
Net loans guaranteed	-145.9	-296.9	-68.0
Means of Financing (Guarantees at Loan and CBO Sales):			
New loan guarantee commitments	5,395.0	4,220.8	3,512.0
New loans guaranteed	5,395.0	4,220.8	3,512.0
Terminations for repurchase of guaranteed loans sold	-556.8	-1,338.8	-1,273.8
Net loans guaranteed	4,838.2	2,882.0	2,238.2
Net Loans Guaranteed, All Activity	4,692.3	2,585.1	2,170.2
Guaranteed Loans Outstanding	14,133.5	16,718.5	18,888.7

Direct lending by the ACIF declines in 1980 and 1981, compared to the 1979 peak, because of the cutback in disaster loans discussed above. New program lending is estimated to fall by 29 percent in 1980, and by another 25 percent in 1981, to $3.8 billion. Net loan outlays, including the effect of CBO sales as a means of financing, become negative in 1980 and 1981 as receipts from the CBO sales, combined with repayments received, exceed new lending. Net loan outlays go from a positive $706 million in 1979 to a negative $1.48 billion in 1981. Although CBO sales are declining in absolute terms, they are estimated to increase in 1980 and 1981 as a percent of new lending. The result is to reduce the ACIF's portfolio of loan holdings from $2.0 billion in 1979 to $267.3 million at the end of 1981, and to lower total ACIF outlays from $238 million in 1980 to minus $1.02 billion in 1981.

As seen in Table 28, most of the guarantee activity of the ACIF consists of guarantees of CBOs sold to the FFB. New guarantees of private lending are estimated to total $81 million in 1981, compared to $3.5 billion in guarantees of CBO sales.

COMMERCE AND HOUSING CREDIT (FUNCTION 370)

Credit programs in this function are designed to promote the flow of funds into housing and commerce, especially small businesses. These programs include the mortgage insurance and purchase activities of the Department of Housing and Urban Development (HUD), the rural housing activities of the Department of Agriculture (USDA), the business loan programs of the Small Business Administration (SBA), and the National Consumer Cooperative Bank. Also included in this function are the lending activities of the off-budget Federal Financing Bank. In dollar terms, this function makes more direct loans and guarantees more loans than any other single function. The function contains 63.6 percent of new direct loan obligations and 62.6 percent of new loan guarantee commitments. Table 29 summarizes the new direct loan obligations and loan guarantee commitments by programs in function 370 for 1979-1981.

TABLE 29. COMMERCE AND HOUSING CREDIT SUMMARY: IN BILLIONS OF DOLLARS

	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980a/	1981a/	1979	1980a/	1981a/
Mortgage Credit (FHA)	0.1	0.3	0.2	33.9	31.5	34.2
Mortgage Purchases (GNMA)	2.0	2.0	1.8	41.8	47.2	53.0
Housing for the Elderly or Handicapped	0.8	0.8	0.8	---	---	---
Rural Housing	4.9	7.0	6.4	4.5	5.2	7.2
Credit Union Liquidity Facility	---	1.8	2.2	---	---	---
National Consumer Cooperative Bank	---	0.1	0.2	---	---	*
Chrysler Guarantees	---	---	---	---	1.5	---
Small Business Assistance	0.5	0.6	0.8	4.2	5.3	5.8
Federal Financing Bank	16.0	22.0	23.9	---	---	---
Other	0.1	0.1	*	0.1	0.1	0.1
Total, Function 370	24.4	34.7	36.2	84.5	90.8	100.3
Proposed for Limitation	---	---	11.7	---	---	94.1

* Less than $50 million.

a/ Estimated.

Most of the credit--direct and guaranteed--extended through programs in this function is not subject to limitation under the credit program control system. The Administration's exemption of almost all housing credit programs, because of the difficulties associated with estimating housing credit levels during this period of economic uncertainty, accounts for this fact. Only 6 percent of new loan guarantee commitments are proposed for limitation, while 30.8 percent of new direct loan obligations are under proposed limitations.

For 1981, the budget estimates that new loan guarantee commitments will total $100.3 billion, up from $90.8 billion in 1980 and $84.5 billion in 1979. Mortgage guarantees will increase in 1981 after dropping during 1980. On the other hand, as mortgage credit turns down in 1980, mortgage purchases are estimated to increase, to provide credit for a faltering housing market. Direct loans increase by an estimated 58.2 percent from 1979 to 1981. Excluding the FFB, direct loans increase from $8.4 billion in 1979 to $14.7 billion in 1981, paced by the increasing activity of the new Central Liquidity Facility of the National Credit Union Administration.

The following sections highlight the major activities in this function.

Provision of Mortgage Credit

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

For 1981 the Administration estimates that applications will be received for mortgage insurance covering 849,000 units. It expects that insurance will be written covering 566,448 units with an insurance value of over $21 billion. This is an 11 percent increase over 1980 estimated levels.

Direct loans are made for defaulting insurance policies. The Administration estimates a large increase in direct loans for 1980, 171 percent above 1979 levels. In 1981, loans for defaults will drop back slightly. Table 30 summarizes the activities of the FHA fund for fiscal years 1979-1981.

TABLE 30. FEDERAL HOUSING ADMINISTRATION FUND, LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimate 1980	Administration Estimate 1981
Direct Lending:			
New direct loan obligations	102.3	277.5	224.9
New loans	102.3	277.5	224.9
Repayments and loan sales	-72.7	-74.5	-81.0
Write-offs for default	-14.7	-17.0	-20.0
Other capital recoveries	-167.0	-419.7	-397.7
Net loan outlays	-152.1	-233.7	-273.8
Loans outstanding	3,120.6	2,886.9	2,613.1
Loan Guarantees:			
New loan guarantee commitments	33,975.8	31,513.7	34,154.7
New loans guaranteed	19,390.0	19,530.5	21,684.3
Repayments on guaranteed loans	-7,268.2	-8,776.7	-10,346.9
Terminations for default	-647.0	-780.0	-734.0
Guaranteed loans outstanding	105,894.5	115,868.3	126,471.7

Mortgage Purchase Activity

Major federal support for the mortgage market is provided by the activities of the Government National Mortgage Association (GNMA). Table 31 summarizes GNMA activities for 1979-1981. GNMA guarantees securities backed by privately-held pools of mortgages issued by mortgage

TABLE 31. GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE PURCHASE ACTIVITY, 1979-1981: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimate 1980	Administration Estimate 1981
Direct Lending:			
Special assistance functions			
New obligations	2,011.1	2,004.0	1,802.0
New loans	149.6	762.6	1,222.4
Emergency mortgage purchase assistance			
New obligations	41.5	60.0	24.0
New loans	1,342.1	1,168.2	537.2
Totals			
New obligations	2,052.6	2,064.0	1,826.0
Proposed limitation	---	---	1,800.0
New loans	1,491.7	1,930.8	1,759.6
Repayments and loan sales and other adjustments	-1,628.9	-1,302.0	-2,808.0
Net loan outlays	-137.2	628.8	-1,048.4
Loans outstanding	3,137.7	3,766.5	2,718.1
GNMA Guarantees of Mortgage-Backed Securities:			
New loan guarantee commitments	41,750.0	47,200.0	53,000.0
New loan guarantees	22,175.9	20,500.0	25,000.0
Repayments on guaranteed loans	-4,581.7	-5,582.6	-6,100.0
Guaranteed loans outstanding	70,558.4	85,475.8	104,375.8

bankers and other financial institutions. 5/ The GNMA-guaranteed securities are attractive to investors who have not traditionally invested in mortgages. Through these guarantees, GNMA is able to attract more funds for housing credit. New securities guaranteed by GNMA will total an estimated $25 billion in 1981, up 25 percent from the 1980 estimated level of $20 billion.

GNMA also purchases mortgages to support the flow of housing credit. Through its special assistance functions fund, it operates its tandem plan. GNMA purchases from lenders FHA and VA loans, made at below-market interest rates, and it pays market rates for these--returning to the lender a premium that functions as a subsidy to him for making the FHA or VA loan. GNMA then sells these loans itself at market rates to other institutional investors, such as the private Federal National Mortgage Association (FNMA). For 1981 the Administration is requesting a limitation of $1.8 billion for new direct loan obligations. This is 10 percent below the 1979 and 1980 new obligation levels. This reduction in tandem plan obligations does not represent a 10 percent reduction in support of mortgage activity. It is partially offset by the Administration's proposal for an experimental program of mortgage assistance grants to lenders. Tandem plan loan disbursements show large increases in 1980 and 1981 over 1979 levels: $763 million in 1980, up 400 percent over 1979, and $1.2 billion in 1981, up 60 percent over the 1980 estimate.

GNMA also has authority to purchase conventional, as well as FHA-VA, mortgages on an emergency basis whenever it determines, with Congressional approval, that housing credit needs to be supplemented. The last such authority was granted in September 1976. In fiscal years 1980 and 1981 the Administration anticipates that new emergency purchase authority will not be needed. Purchases from remaining commitments under that earlier authority will total an estimated $1.2 billion in 1980 and $537 million in 1981.

5/ GNMA guarantees of FHA/VA loan pools are considered to be secondary guarantees. As such, they are deducted from the total for new guarantees to avoid double-counting. This adjustment can be seen in Table 2.

Housing for the Elderly or Handicapped

Section 202 of the Housing Act of 1959 provides for a program of direct loans to nonprofit sponsors, consumer cooperatives, and certain public agencies to construct rental housing for elderly and handicapped persons. The loans have a maximum term of 40 years and are to bear interest at a rate determined by the average of the Treasury's borrowing rate for all public debt obligations plus an allowance to cover administrative costs and probable losses. For 1980 this rate will be in the neighborhood of 8.5 percent.

For 1981 the Administration is proposing a limitation of $895 million for new direct loan obligations. New loan disbursements are estimated to total $685 million, down 7.4 percent from the 1980 estimate, but up 40.5 percent over the actual 1979 new lending. The Administration estimates that the new obligations of $895 million will eventually result in 18,800 units of housing being constructed. Table 32 summarizes direct lending from the fund for fiscal years 1979-1981.

TABLE 32. HOUSING FOR THE ELDERLY OR HANDICAPPED FUND--LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
New Direct Loan Obligations	815.3	839.0	830.0
Proposed Limitation a/	---	---	895.0
New Loans	487.6	740.0	685.0
Repayments	-6.6	-7.0	-8.6
Net Lending	481.0	733.0	676.4
Loans Outstanding	1,192.9	1,925.9	2,602.3

a/ The proposed limitation includes $65 million in new obligations that may be made from prior year obligations cancelled in 1981.

Rural Housing Credit

The Farmers Home Administration (FmHA) of USDA conducts two programs in function 370 that provide rural housing credit. Through the Self-Help Housing Land Development Program, FmHA makes loans to qualified public or private nonprofit organizations to finance the acquisition and development of sites for homes to be constructed by the self-help method. For 1981, the Administration is proposing a limitation of $5 million for new direct loan obligations. The Administration estimates that this will result in 24 loans being made and 700 homesites being prepared. The estimates for 1980 and 1981 assume that new direct loans will double each year, as can be seen in Table 33.

TABLE 33. SELF-HELP HOUSING LAND DEVELOPMENT LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates	
		1980	1981
New Direct Loan Obligations	1.7	1.0	5.0
Proposed Limitation	---	---	5.0
New Direct Loans	0.6	1.4	3.3
Repayments	-0.6	-0.7	-1.2
Net Loan Outlays	---	0.7	2.1
Loans Outstanding	0.8	1.6	3.7

A much larger supplier of federal rural housing credit assistance is FmHA's Rural Housing Insurance Fund (RHIF). The RHIF makes direct and insured loans and guarantees loans for rural housing purchases, rural rental and cooperative housing projects, farm labor housing projects, and preparation of rural housing sites. Direct loans by the RHIF are largely financed through the sale of certificates of beneficial ownership to the Federal Financing Bank. In its credit program control system the Administration has chosen to propose limitations on RHIF's new direct loan and loan guarantee transactions with the public but not on the fund's transactions with the FFB. Tables 34 and 35 detail for direct loans and loan guarantees respectively those portions of RHIF credit activity that are program activity and those that are a means of financing.

58-342 O - 80 - 7

TABLE 34. RURAL HOUSING INSURANCE FUND--DIRECT LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Program Activity:			
New direct loan obligations	3,790.5	4,003.0	3,722.6
Proposed limitation	---	---	3,722.6
New direct loans	3,661.5	3,940.4	3,795.8
Repayments	-1,035.8	-1,113.0	-1,215.0
Write-offs for default	-4.2	-5.0	-5.5
Other adjustments	8.4	8.4	10.6
Net loan outlays	2,629.9	2,830.8	2,585.9
Means of Financing:			
New direct loan obligations	1,134.7	3,004.0	2,630.0
New direct loans:			
Purchases of loans	62.1	120.0	24.0
Purchases of CBOs	1,072.6	2,884.0	2,390.0
Repayments:			
Loan sales	-70.4	-50.0	-40.0
Sales of CBOs	-3,930.0	-4,626.8	-6,888.8
Net loan outlays	-2,865.7	-1,672.8	-4,298.8
Total, Net Loan Outlays	-235.8	1,158.0	-1,712.9
Outstanding Loans	754.8	1,912.8	199.8

The Administration estimates that new direct loans to the public by the RHIF will decline slightly in 1981 from the 1980 estimated levels, but will remain above the 1979 actual new loan disbursements of $3.7 billion. The means of financing consists of FmHA purchases of CBOs previously sold to the FFB and of loans sold to the public. New loan and CBO sales in 1981, however, are more than twice these purchases of earlier CBOs and loans. The Administration estimates that new sales of loans and CBOs will total

TABLE 35. RURAL HOUSING INSURANCE FUND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Program Activity:			
New loan guarantee commitments	500.0	500.0	275.0
Proposed limitation	---	---	275.0
New loans guaranteed	4.9	300.0	365.0
Repayments on guaranteed loans	-67.8	-50.7	-32.4
Terminations for default	-1.0	-1.0	-1.6
Guarantees of loans issued to replace defaulting loans sold	1.2	1.0	1.6
Net loans guaranteed	-62.7	249.3	33.6
Means of Financing:			
New loan guarantee commitments	4,000.4	4,676.8	6,928.8
New loans guaranteed	4,000.4	4,676.8	6,928.8
Terminations for repurchase of guaranteed loans sold	-1,134.7	-3,004.0	-2,630.0
Net loans guaranteed	2,865.7	1,672.8	4,298.8
Net Loans Guaranteed, All Activity	2,803.0	1,922.1	4,631.4
Guaranteed Loans Outstanding	17,268.4	19,190.4	23,821.8

$6.9 billion in 1981, up 48.2 percent from the 1980 estimate of $4.7 billion. This large increase is the result of a decision by the Administration to postpone sales originally planned for 1980. Instead, the outstanding loans held by the fund are allowed to increase in 1980, to be greatly reduced in 1981 by the estimated sales. Through these manipulations, the Administration is able to lower 1981 unified budget outlays by transferring $4.3 billion of direct loan outlays to the off-budget FFB. This leaves net loan activity for the fund of minus $1.7 billion.

Credit Union Central Liquidity Facility

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

For fiscal year 1981 the Administration estimates that the facility will make $2.2 billion in direct loans to members, up 22.2 percent from the first year's loans of $1.8 billion. To provide for unanticipated emergency liquidity needs, the Administration is recommending a limitation of $4.4 billion, twice the anticipated loan level. Table 36 summarizes the facility's 1980-1981 lending program.

TABLE 36. NCUA CENTRAL LIQUIDITY FACILITY LENDING: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates	
		1980	1981
New Direct Loan Obligations	---	1,800.0	2,200.0
Proposed Limitation	---	---	4,400.0
New Direct Loans	---	1,800.0	2,200.0
Repayments	---	-1,500.0	-2,200.0
Loans Outstanding	---	300.0	300.0

National Consumer Cooperative Bank

The National Consumer Cooperative Bank, chartered by Public Law 95-351, is a mixed-ownership government corporation whose purpose is to provide credit at reasonable rates to consumer cooperative organizations. The Bank makes direct loans to cooperatives with a maximum term of 40 years and at lower interest rates than available from commercial banks and other lending institutions. The Bank may also guarantee loans by private lending institutions to cooperatives eligible to borrow from the Bank itself.

For fiscal year 1981 the Administration is proposing a limitation of $125.8 million on new direct loan obligations and of $5 million on new loan guarantee commitments. New loans are estimated to total $100 million, up from $22 million in the Bank's first year of operation, 1980. The $5 million of guaranteed loans in 1981 mark the first use of the guarantee authority. Table 37 summarizes the credit activities of the Bank.

TABLE 37. NATIONAL CONSUMER COOPERATIVE BANK LOANS AND GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	---	41.3	125.8
Proposed limitation	---	---	125.8
New loans	---	22.0	100.0
Repayments	---	-3.0	-5.0
Net lending	---	19.0	95.0
Loans outstanding	---	19.0	114.0
Guaranteed Lending:			
New loan guarantee commitments	---	---	5.0
Proposed limitation	---	---	5.0
New loans guaranteed	---	---	5.0
Repayments on guaranteed loans	---	---	-0.5
Guaranteed loans outstanding	---	---	4.5

The bank has an Office of Self-Help Development and Technical Assistance to provide assistance to cooperatives. The office may make capital investment advances to consumer cooperatives that are not eligible for regular loans by the bank. The President is proposing a limitation of $56.1 million on new obligations for such advances in 1981. Table 38 summarizes the self-help development loan program.

TABLE 38. SELF-HELP DEVELOPMENT LOANS BY THE NATIONAL CONSUMER COOPERATIVE BANK: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
New Direct Loan Obligations	---	12.4	56.1
Proposed Limitation	---	---	56.1
New Direct Loans	---	6.8	55.6
Direct Loans Outstanding	---	6.8	62.4

Chrysler Corporation Loan Guarantees

The Chrysler Corporation Loan Guarantee Act of 1979 authorized the Secretary of the Treasury to guarantee up to $1.5 billion of Chrysler's debt to assist the troubled automaker to regain commercial viability. The Act stated that the loan guarantee authority would be effective only in amounts provided in appropriations. Public Law 96-183 provided that all $1.5 billion could be committed as needed.

The Administration's budget estimates that all $1.5 billion will be committed in 1980. Consequently, no new commitments are contemplated for 1981, and no limitation is proposed. In 1980 $940 million will be guaranteed; an additional $312 million will be guaranteed in 1981, according to the Administration's estimates. Table 39 summarizes the activity of the Chrysler guarantee program for fiscal years 1980 and 1981.

TABLE 39. CHRYSLER LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
New Loan Guarantee Commitments	---	1,500.0	---
Commitments Used	---	940.0	312.0
Commitments Outstanding	---	560.0	248.0
New Loans Guaranteed	---	940.0	312.0
Guaranteed Loans Outstanding	---	940.0	1,252.0

The Federal Financing Bank

The Federal Financing Bank is an off-budget entity; it accounts for about 95 percent of off-budget direct lending. Table 40 summarizes its direct lending activities by type: direct loans via purchase of loan assets, or new direct loans guaranteed by another federal agency. No limitation is proposed for FFB lending. Although it finances direct loans for a wide variety of activities, the FFB is recorded in the credit control system as a separate subfunction in function 370, Commerce and Housing Credit. The Administration is now attributing, on a memorandum basis, the FFB's outlays to those functions in which the FFB has financed activities. It has not chosen, however, to distribute the FFB's lending by function.

TABLE 40. FEDERAL FINANCING BANK DIRECT LENDING: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Purchases of Direct Loans from Other Agencies (Loan Assets)	10,911	11,164	13,086
New Direct Loans Guaranteed by Other Agencies	5,134	10,839	10,856
Total, New Loans	16,045	22,004	23,942
Repayments on Loan Assets	-1,526	-4530	-3,682
Repayments on Direct Loans	-1,237	-1,224	-4,016
Net Loan Outlays	13,282	16,249	16,245
Direct Loans Outstanding	47,100	63,349	79,594

The activity of the FFB and its relationship to the credit budget and the unified budget are discussed in Chapter II.

Small Business Activities

Credit assistance is provided to small businesses in function 370 in the form of direct loans, loan guarantees, and guarantees of small business surety bonds, lease contracts, and pollution control equipment contracts. Overall, new direct loan obligations for 1981 are estimated to increase by 22.2 percent over the estimated 1980 levels and nearly 45 percent over 1979 actual levels. The Administration is proposing a limitation of $783 million for new direct loan obligations. New loan guarantee commitments are also growing: only 7.5 percent above the 1980 estimates, but 38.2 percent above the 1979 actual levels. The proposed limitation for loan guarantee commitments in 1981 is $5.8 billion. Table 41 summarizes new loan obligations and new guarantee commitments for fiscal years 1979-1981.

TABLE 41. SMALL BUSINESS ASSISTANCE CREDIT ACTIVITIES: IN MILLIONS OF DOLLARS

	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
Business Loan and Investment Fund	540.7	640.9	783.0	2,729.3	3,595.0	4,000.0
Surety Bond Guarantees	---	---	---	1,390.9	1,700.0	1,700.0
Pollution Control Equipment Contract Guarantees	---	---	---	40.4	50.0	50.0
Total, Small Business Activities	540.7	640.9	783.0	4,160.6	5,345.0	5,750
Proposed Limitation	---	---	783.0	---	---	5,750

a/ Estimated.

Business Loan and Investment Fund. This fund accounts for most of the credit assistance for small businesses. Through it are funded direct loans to small businesses, small business development companies, and small business investment companies. This fund also administers the guarantee programs of section 7(a) business loans, section 7(h) handicapped loans, section 7(i) economic opportunity loans, section 7(l) energy loans, and guarantees of small business development company and investment company debt. For 1981 the Administration proposes consolidating all the loan programs of section 7 into a single program. Increased emphasis will be placed on the use of loan guarantees. In addition, the Administration will propose raising the limit on individual loan guarantees from $500,000 to $750,000.

Loan and loan guarantee activity of the Business Loan and Investment Fund is displayed in Table 42. About half of the direct loan activity involves loans made in payment of guarantee claims. Defaults on guaranteed loans are running at a little better than 10 percent of new loans guaranteed, according to Administration estimates. Defaults on all direct loans, including those made for defaulting guaranteed loans, are not estimated to increase as fast as new loans, causing them to decline from 25 percent of new direct loans in 1979 to 20 percent in 1981.

In the past the FFB has purchased direct loan assets sold by the SBA. No new asset sales are contemplated for 1980 or 1981, and the FFB holdings will decline as repayments are made. The FFB has also made direct loans guaranteed by the SBA to small business investment companies (SBICs) to finance their provision of equity capital for small businesses. For 1980 and 1981 the Administration estimates that new loans by the FFB to investment companies will total $190 million and $187 million respectively, double the 1979 actual levels. At the end of 1981 FFB holdings of guaranteed direct loans to SBICs will total $708 million.

Other Small Business Assistance. The SBA also assists small businesses by guaranteeing surety and performance bonds posted on behalf of small businesses and by guaranteeing pollution control equipment contracts. The latter activity may also involve guarantees of tax-free bonds issued by small businesses for the use or purchase of pollution control equipment.

TABLE 42. BUSINESS LOAN AND INVESTMENT FUND, LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loans	303.6	345.5	368.9
Payments for guarantee claims	263.5	262.3	383.3
Total, direct loans	567.1	607.8	752.2
Repayments, loan sales, and adjustments	-213.6	-211.0	-232.0
Write-offs for default	-143.8	-150.0	150.0
Net loan outlays	209.7	246.8	370.2
Loans outstanding	2,000.1	2,246.9	2,617.1
Loan Guarantees:			
New loans guaranteed	2,381.7	2,943.0	3,402.0
Repayments on guaranteed loans	-1,471.5	-1,648.1	-1,905.0
Terminations for default	-263.5	-262.3	-383.3
Guaranteed loans outstanding	6,697.0	7,729.6	8,843.3
FFB Financing:			
FFB guaranteed loan originations	86.9	190.0	187.0
FFB holdings of guaranteed loans	336.4	524.0	708.0
FFB holdings of loan assets	94.4	75.8	57.8

Other Commerce and Housing Credit

Additional credit assistance is provided by the Federal Ship Financing Fund--Fishing Vessels, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration's Share Insurance Fund. Table 43 summarizes their activities. Only the Fishing Vessels financing program is subject to the proposed limitations of the control system. For 1981 the Administration is proposing a limitation of $100 million on new loan guarantee commitments, up 15 percent from the 1980 level.

TABLE 43. OTHER COMMERCE AND HOUSING CREDIT--SUMMARY: IN MILLIONS OF DOLLARS

	Direct Lending			Loan Guarantees		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
New Obligations/Commitments Proposed for Limitation:						
Federal Ship Financing Fund--fishing vessels	---	---	---	63	87	100
Proposed limitation	---	---	---	---	---	100
Not Proposed for Limitation:						
FSLIC	32	71	29	---	---	---
NCUA share insurance	17	12	11	14	16	18
Total	50	84	40	77	103	118
New Lending/Guarantees:						
Federal Ship Financing Fund--fishing vessels	---	---	---	63	87	100
FSLIC	32	71	29	---	---	---
NCUA share insurance	17	12	11	14	16	18
Total	50	84	40	77	103	118
Budget Impact:						
Less repayments on above programs	-25	-24	-28	-15	-23	-42
Less repayments on other programs with no new activity	-2	-19	-46	---	---	---
Net loan outlays/net credit guaranteed	---	---	---	62	80	75

a/ Estimated.

The Administration excluded both the FSLIC and NCUA Share Insurance Funds from the limitations requirements because their credit activities support their insurance activities. Annual limitations would hamper their ability to function effectively, according to the Administration.

TRANSPORTATION (FUNCTION 400)

Function 400 includes credit programs of the Department of Transportation (DOT) and the Maritime Administration of the Department of Commerce that provide financial assistance for rail, air, and sea transportation projects. Table 44 summarizes new direct loan obligations and new loan guarantee commitments for programs in function 400 for fiscal years 1979-1981.

TABLE 44. TRANSPORTATION--SUMMARY OF CREDIT ACTIVITY: IN MILLIONS OF DOLLARS

	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
Credit Assistance for Railroads:						
Railroad rehabilitation	68.1	202.7	---	33.4	350.0	270.0
Rail service	5.0	10.4	253.0	80.2	159.0	133.0
Amtrak	---	---	---	45.6	84.6	7.3
Regional rail reorganization (USRA)	53.1	22.0	22.0	---	---	---
Subtotal, Railroads	126.2	235.1	275.0	159.2	593.6	410.3
Aircraft Loan Guarantees	---	---	---	10.8	400.0	400.0
Federal Ship Financing Credit	28.9	10.0	250.0	977.9	970.0	1,500.0
Total	155.1	245.1	525.0	1,147.9	1,963.6	2,310.3
Proposed for Limitation	---	---	503.0			2,217.3

a/ Estimated.

Overall, direct loan assistance appears to be split evenly between rail assistance and ship financing. As noted in the discussion of the Ship Financing Fund, the $250 million estimate does not, however, represent an estimate of probable activity. Direct lending for railroads doubles between 1979 and 1981, based on a new rail services direct loan program proposed for 1981. This program will replace the expiring railroad rehabilitation direct loan program.

Loan guarantee assistance in function 400 is dominated by the Title XI ship financing guarantees of the Maritime Administration. The Administration's estimates assume dramatic growth in 1980 loan guarantee commitments for aircraft purchases, as the new program expands, and for railroad rehabilitation debt obligations, which increase tenfold over 1979.

The Administration is proposing a limitation on all direct loan obligations for 1981 except for the off-budget activities of the U.S. Railway Association (USRA). Likewise, only DOT guarantees of USRA debt, included in the rail service activity, are excluded from the limitation on new loan guarantee commitments for 1981.

The following sections highlight the credit activities for each program.

Credit Assistance for Railroads

The federal government provides direct loans and loan guarantees through four programs to assist railroads to finance improvements. Total new loan direct obligations for rail assistance will more than double between 1979 and 1981. Loan guarantee commitments will increase sharply in 1980 to nearly $600 million and then drop back in 1981 to just over $400 million.

Railroad Rehabilitation and Improvement Credit. The Federal Railroad Administration (FRA), under the authority of the Railroad Revitalization and Regulatory Reform Act of 1976 (the "4R Act"), makes direct loans to railroads by purchasing redeemable preference shares to provide for capital expenditures for rail freight services. This authority will expire at the end of 1980, but lending will continue in 1981 out of prior year obligations. The Administration's estimates assume 25 percent growth in new loans in 1980 over 1979, and 30 percent growth in 1981 over the estimated 1980 level. Loans outstanding by the end of 1981 will have more than doubled in the two years 1980-1981. Table 45 summarizes activities under this program.

TABLE 45. RAILROAD REHABILITATION AND IMPROVEMENT CREDIT ASSISTANCE: IN MILLIONS OF DOLLARS

	1979	Administration Estimate	
	Actual	1980	1981
Direct Lending:			
New direct loan obligations	68.1	202.7	---
New direct loans	79.8	100.0	130.0
Repayments	---	---	---
Net loan outlays	79.8	100.0	130.0
Direct loans outstanding	159.0	259.0	389.0
Loan Guarantees:			
New loan guarantee commitments	33.4	350.0	270.0
Proposed limitation	---	---	270.0
New loans guaranteed	57.0	82.9	181.6
Repayments on guaranteed loans	-0.1	-4.4	-7.4
Outstanding loans guaranteed	92.7	171.2	345.4
FFB Financing:			
New FFB-originated guaranteed loans	57.0	82.9	181.6
Repayments on originated loans	-0.1	-4.4	-7.4
Net FFB loans	56.9	78.5	174.2
FFB loans outstanding	92.7	171.2	345.4

The 4R Act also authorizes FRA to guarantee long-term debt obligations issued by railroads to finance new facilities and rehabilitation of existing equipment. Some FRA obligation guarantees have been issued to railroads under bankruptcy reorganization proceedings. The Administration estimates that new guarantees of railroad obligations will increase by 44 percent in 1980, from $57.9 million in 1977 to $82.9 million. The 1981 estimate shows even more dramatic growth to $181.6 million, up 119 percent over 1980 and 218 percent over the 1979 actual level. As Table 45 indicates, all the FRA guaranteed obligations have been originated by the FFB, a situation the Administration expects will continue in 1980 and 1981. The obligation guarantee program has, thus, throughout its existence functioned as an off-budget direct loan program.

Rail Service Assistance. This activity contains a mixture of credit programs to assist railroads. Under this activity, the FRA guarantees the repayment of debt obligations issued by the U.S. Railway Association (USRA) to the FFB. Commitments to guarantee such debt are not proposed for limitation in 1981. Another program provides for guarantees of certificates of debt of railroads undergoing reorganization under the Emergency Rail Services Act of 1970, as amended. A limitation of $40 million on new commitments for such guarantees is proposed for 1981.

The Administration is also proposing a major new direct loan program to replace the expiring authority of FRA under the 4R Act to purchase redeemable preference shares. Under this new program FRA will be able to issue repayable credits for a variety of purposes. The Administration will request an authorization of $1.5 billion, of which it is proposing a limitation of $250 million in direct loan obligations in 1981. Table 46 summarizes these activities.

Guarantees of Amtrak Debt. The Administration is proposing a limitation of $7.3 million on new commitments to guarantee loans for Amtrak, the National Railroad Passenger Corporation. This is down considerably from the $84.6 million estimate for 1980. The outstanding balance of guaranteed loans at the end of 1981 is estimated to be $579.7 million, of which $472.2 million is owed to the FFB. In recent years, $25 million has been appropriated annually to reduce Amtrak's outstanding guaranteed debt. These appropriated reductions will reduce the ceiling on total indebtedness that may be guaranteed from $900 million to $825 million at the end of fiscal year 1981. Table 47 summarizes Amtrak guarantee activity for fiscal years 1979-1981.

Regional Rail Reorganization Loan Program. The U.S. Railway Association was established in 1973 to develop and implement plans for restructuring and rehabilitating bankrupt railroads in the Northeast and Midwest. USRA's administrative expenses are included in the budget totals; some of its activities are not.

TABLE 46. RAIL SERVICE CREDIT ASSISTANCE: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimate 1980	Administration Estimate 1981
Direct Lending:			
New direct loan obligations	5.0	10.4	253.0
Proposed limitation	---	---	3.0
Proposed legislation	---	---	250.0
New direct loans	4.2	3.5	45.0
Loans outstanding	4.2	7.7	52.7
Loan Guarantees:			
New loan guarantee commitments	80.2	159.0	133.0
Proposed limitation a/	---	---	40.0
New loans guaranteed	110.4	164.0	133.0
Repayments on guaranteed loans	-25.5	-22.0	-22.0
Guaranteed loans outstanding	537.1	679.2	790.2
FFB Financing:			
New FFB guaranteed loan obligations	20.1	164.0	133.0
Repayments	---	-22.0	-22.0
FFB holding of guaranteed loan originations	20.1	162.1	273.1

a/ Limitation does not apply to DOT commitments to guarantee USRA debt.

USRA makes loans to ConRail--not included in the credit program control system--and loans to other railroads as part of implementation of the final system plan and to defray the expenses they incurred prior to conveyance of their rail properties to ConRail--which are included in the control system. The Administration estimates that loans for the latter purpose will total $22 million in both 1980 and 1981, down from $53.1 million in 1979. Aggregate loans outstanding may not exceed $395 million.

58-342 O - 80 - 8

TABLE 47. LOAN GUARANTEES FOR AMTRAK: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimate 1980	1981
New Loan Guarantee Commitments	45.6	84.6	7.3
Proposed Limitation	---	---	7.3
New Loans Guaranteed	45.6	84.6	7.3
Repayments (Appropriations to Reduce Debt)	-25.0	---	-52.0
Other Adjustments	-122.6	3.3	64.7
Guaranteed loans outstanding	471.8	559.7	579.7
FFB Financing			
New FFB Guaranteed Loan Originations	808.0	84.6	7.3
Repayments	-910.1	---	-52.0
FFB Holdings of Guaranteed Loan Originations	432.3	516.9	472.2

Since outstanding loans totaled $387.3 million at the end of 1979, loans in 1980 and 1981 are made only in amounts equal to expected repayments. No limitation is proposed on new direct loan obligations because of the activity's off-budget status. Table 48 summarizes the regional rail reorganization credit activities in fiscal years 1979-1981.

Aircraft Loan Guarantees

Through September 7, 1977, the Federal Aviation Administration (FAA) was authorized to guarantee 90 percent of principal and 100 percent of interest on loans up to $30 million per carrier for the purchase of aircraft and equipment. A new program was authorized October 24, 1978, to replace the expired program. Under the new program, the FAA is authorized to guarantee 90 percent of principal and 100 percent of interest on loans up to $100 million per carrier. This authority will terminate October 24, 1983. Greater emphasis is to be placed in the new program on guarantees for carriers serving small communities

TABLE 48. REGIONAL RAIL REORGANIZATION LOAN PROGRAM: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimate 1980	Administration Estimate 1981
New Direct Loan Obligations	53.1	22.0	22.0
New Direct Loans	53.1	22.0	22.0
Repayments	-22.9	-22.0	-25.0
Net Loan Outlays	30.2	---	-3.0
Direct Loans Outstanding	387.3	387.3	384.3

The 1981 budget anticipates substantial growth in new loans guaranteed in 1980 over 1979. For 1980, it is estimated that loan principal of $400 million will be guaranteed, meaning the total principal value of loans to small carriers would be $444.4 million. This is up from $8.0 million in loan principal guaranteed in 1979. The 1981 program level is estimated to be the same as in 1980. These estimates are summarized in Table 49.

TABLE 49. LOAN GUARANTEES FOR AIRCRAFT: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimate 1980	Administration Estimate 1981
New Loan Guarantee Commitments	10.8	400.0	400.0
Proposed Limitation	---	---	400.0
New Loans Guaranteed	8.0	401.7	400.0
Repayments on Guaranteed Loans	-24.9	-14.4	-39.8
Outstanding Guaranteed Loans a/	171.1	558.4	918.6

a/ Includes loans outstanding under both the old and the new programs.

Federal Ship Financing Credit

Under Title XI of the Merchant Marine Act of 1936, as amended, the Maritime Administration (MarAd) of the Department of Commerce is authorized to guarantee construction loans and mortgages on U.S.-flag vessels built in the United States. Guarantees for loans under Title XI have no proof-of-need requirement. Guaranteed loans may have a maximum term of 25 years and may cover up to 87½ percent of the entire cost of the vessel. There is no dollar maximum on the size of loans that may be guaranteed. Outstanding indebtedness on all loan principal that may be guaranteed under Title XI may not exceed $10 billion dollars. MarAd may also make direct loans in the form of advances to operators of vessels built under Title XI guarantees to forestall possible defaults and to satisfy claims on defaulted loans.

The Administration estimates that new loans guaranteed in 1981 will total $1.5 billion, an increase of over 96 percent over the estimated 1980 level, which is itself a 53.5 percent increase over the 1979 actual level. At the end of 1981, guaranteed loans outstanding will total over $7.4 billion, almost $2.6 billion under the statutory ceiling. Table 50 summarizes activity levels for 1979-1981.

The Administration is proposing a limitation of $1.5 billion on new commitments for loan guarantees in 1981. As noted in the program narrative in the Appendix to the budget, the Administration considers the limitation on annual activity to complement the ceiling on total guaranteed indebtedness:

> The amount of the limitation proposed for 1981 of $1.5 billion is adequate to provide loan guarantee assistance to most potential applicants while at the same time acting as a more effective control over this program than the present $10 billion statutory limitation. 6/

6/ The Budget of the United States Government, Fiscal Year 1981--Appendix, p. 253.

TABLE 50. FEDERAL SHIP FINANCING CREDIT: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimate 1980	Administration Estimate 1981
Direct Lending:			
New direct loan obligations	28.9	10.0	250.0
Proposed limitation	---	---	250.0
New direct loans	7.7a/	10.0	250.0
Loans for guarantee claims	21.2	---	---
Repayments	-16.9	-3.7	-240.7
Default write-offs and other adjustments	-12.3	---	---
Net loan outlays	-0.3	6.3	9.3
Direct loans outstanding	118.1	124.5	133.8
Loan Guarantees:			
New loan guarantee commitments	977.9	970.0	1,500.0
Proposed limitation	---	---	1,500.0
New loans guaranteed	497.3	763.4	1,500.0
Repayments on guaranteed loans	-210.1	-248.1	-291.1
Terminations for default	-21.2	---	---
Guaranteed loans outstanding	5,702.5	6,217.8	7,426.8

a/ Does not include $5.7 million of direct loans in the form of interest deferral. Interest deferrals are excluded from the credit program control system because they are noncash extensions of credit.

The 1981 estimates also show a tremendous increase in the direct lending by MarAd. New direct loans in 1981 are estimated to total $250 million, up dramatically from the $10 million level of 1980. Repayments, however, are also estimated to increase to $240 million, leaving net lending at $10 million level. The Administration is proposing a limitation of $250 million on new direct loan obligations. As noted earlier, forbearance loans are used to assist vessel operators through short-term cash-flow difficulties to avoid default, as well as to pay claims on defaulted guaranteed loans. The $250 million estimate is designed to provide flexibility to MarAd to make such forbearance loans during fiscal year 1981, if necessary, without requiring possible supplementals to increase a limitation originally set at a lower level, as indicated by past program activity. The "padded" new loan estimate, combined with an equally padded repayments estimate, leaves net loan outlays relatively unchanged, but provides the agency flexibility under any direct loan limitation.

COMMUNITY AND REGIONAL DEVELOPMENT (FUNCTION 450)

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

New direct loan obligations in function 450 are estimated to total \$2.95 billion in 1981, down 10.4 percent from 1979 and up just over 0.5 percent from the 1980 estimate of \$2.93 billion. New loan guarantee commitments, on the other hand are expected to increase substantially in 1980 and 1981. The 1980 estimate of \$3.64 billion is up 30.5 percent over 1979; the 1981 estimate of \$4.56 billion reflects a 25 percent increase over the 1980 estimate and a 63 percent increase over the 1979 actual level. Table 51 summarizes new credit activity for the major programs in function 450.

The rapid increase in loan guarantees in function 450 is based on enactment of the Administration's proposal to increase the loan guarantee authority of the Economic Development Administration (EDA) with the financing incentives first proposed in the National Development Bank. The Administration's estimates assume tenfold growth in EDA guarantees in 1980 and a further 80 percent increase in 1981 to \$1.6 billion. Also expected to grow rapidly are guarantees secured by community development block grants.

Of the \$2.95 billion of new direct loan obligations, the Administration is proposing a limitation on about 60 percent, or \$1.75 billion. The major items not subject to the limitation are \$525 million of SBA disaster loan obligations and \$667 million of rural development loan obligations of the Farmers Home Administration. Likewise, the Administration is proposing a limitation on \$2.85 billion of the \$4.56 billion of new loan guarantee commitments, or about 62.5 percent. Not subject to limitation are \$1.7 billion of loan guarantee commitments for sales of certificates of beneficial ownership (CBOs) and loans, considered as a means of financing.

The following sections highlight the major credit activities of function 450.

TABLE 51. COMMUNITY AND REGIONAL DEVELOPMENT, SUMMARY OF CREDIT ACTIVITY: IN MILLIONS OF DOLLARS

	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
HUD Programs:						
Block grant loan guarantees	---	---	---	31	200	300
Rehabilitation loans	225	230	255	---	---	---
Urban renewal loans	108	34	10	---	---	---
Commerce:						
Economic development	73	191	191	76	900	1,620
Steel guarantees	---	---	---	567	---	---
Coastal energy impact loans	28	61	53	---	---	---
Agriculture:						
Rural Development Insurance Fund	1,435	1,435	1,617	2,080	2,518	2,634
Rural Communications Development Fund	---	10	34	---	24	---
Rural Telephone Bank	131	185	185	---	---	---
Other Agencies:						
SBA disaster loans	1,288	750	575	2	---	---
CSA programs	---	25	9	---	---	2
Interior Indian credit programs	8	13	21	34	---	2
Total	3,294	2,935	2,950	2,790	3,642	4,559
Proposed for Limitation	---	---	1,748	---	---	2,850

Block Grant Loan Guarantees

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

The Administration's 1981 budget envisions rapid growth in new commitments for Section 108 guarantees. New commitments in 1980 total an estimated $200 million, up from an actual $30.8 million in 1979. The estimate for 1981 increases by 50 percent again, to $300 million. Table 52 summarizes activity levels in fiscal years 1979-1981.

TABLE 52. COMMUNITY DEVELOPMENT BLOCK GRANT LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979	Administration Estimates	
	Actual	1980	1981
New Loan Guarantee Commitments	30.8	200.0	300.0
Proposed Limitation	---	---	300.0
New Loans Guaranteed	11.8	164.9	290.0
Repayments on Guaranteed Loans	- *	-2.7	-26.5
Guaranteed Loans Outstanding	11.8	174.0	437.5
FFB Financing:			
New FFB guaranteed loan obligations	5.4	164.9	290.0
Repayments on guaranteed loan originations	- *	-2.7	-26.5
FFB holdings of guaranteed loan originations	5.4	167.5	431.0

* Less than $50,000.

Section 108 guarantees were first issued in 1979. In that year, \$5.4 million of the \$11.8 million of loans guaranteed were originated by the FFB. The Administration's estimates assume that all loans guaranteed in fiscal years 1980 and 1981 will be originated by the FFB. In effect, the Section 108 guarantee program has been converted to an off-budget program of direct loans to local governments, in which the loans are secured by federal grant payments.

Rehabilitation Loans

Section 312 of the Housing Act of 1964, as amended, authorizes direct loans for the rehabilitation of residential and commercial properties. These loans may be used in areas undergoing federally-assisted development under the urban renewal, code enforcement, community development block grant, and Section 810 urban homesteading programs.

For 1981 the Administration is proposing a limitation of \$255 million on new direct loan obligations. Of this amount \$240 million would be new obligations, while the remaining \$15 million would be prior-year obligations recovered and reused. This level of new obligations is estimated to result in \$242 million new direct loans, up 15 percent from the 1980 estimate. The 1980 estimate itself represents nearly 40 percent growth over the 1979 actual level. Table 53 details rehabilitation loan activity for fiscal years 1978-1981.

TABLE 53. REHABILITATION LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
New Direct Loan Obligations	224.9	230.2	255.0
Proposed Limitation	---	---	255.0
New Direct Loans	150.3	209.8	242.0
Repayments	-31.6	-32.7	-41.4
Write-offs for Default	-0.2	---	---
Net Loan Outlays	118.5	177.1	200.6
Direct Loans Outstanding	504.1	681.2	881.8

Urban Renewal Credit Assistance

Title I of the Housing Act of 1949, as amended, established the federal urban renewal program of grants and loans to local public agencies for rehabilitation and redevelopment of slums and blighted areas. The Community Development Block Grant program replaced the urban renewal program and terminated its authority on January 1, 1975. While no new projects have been approved since that date, loans and guarantees are being made to projects pending completion. The volume of these new transactions has been slowing in recent years (although new loans guaranteed are estimated to increase in 1981) and repayments are causing outstanding balances to decline, as seen in Table 54.

TABLE 54. URBAN RENEWAL PROGRAM, LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	107.6	34.4	10.2
New direct loans	167.6	52.5	15.0
Repayments	-184.5	-70.6	-19.8
Net loan outlays	-16.9	-18.1	-4.8
Direct loans outstanding	23.0	4.8	---
Loan Guarantees:			
New loans guaranteed	42.9	30.0	144.8
Repayments on guaranteed loans	-267.7	-257.3	-193.6
Guaranteed loans outstanding	466.0	238.7	190.0

Economic Development Administration Credit Programs

The Economic Development Administration (EDA) of the Department of Commerce provides business development loans and loan guarantees in economically distressed areas to leverage private credit and investments that, it is hoped, will create new jobs.

EDA's direct loan program makes low-cost credit available for retaining, constructing, expanding, or improving facilities in manufacturing or service industries in economically distressed areas. It is hoped that such assistance will produce or retain jobs, thereby reducing unemployment. For fiscal year 1981 the Administration is proposing that a limitation of $191.4 million on new direct loan obligations be added to the Economic Development Assistance appropriation. As shown in Table 55, the limitation for 1981 is the same as the estimated level of new obligations for 1980. Both are up from the 1979 level of $72.6 million.

TABLE 55. ECONOMIC DEVELOPMENT CREDIT ASSISTANCE: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	72.6	191.4	191.4
Proposed limitation	---	---	191.4
New direct loans	56.6	62.1	49.1
Payments for guarantee claims a/	28.4	27.9	45.9
Total, new loans	85.0	90.0	95.0
Loan Guarantees:			
New loan guarantee commitments	76.0	900.0	1,620.0
Proposed limitation	---	---	1,620.0
New loans guaranteed	76.0	900.0	1,620.0
Repayments on guaranteed loans	-45.1	-67.5	-85.0
Terminations for default	-25.6	-25.1	-41.3
Guaranteed loans outstanding	211.2	1,018.6	2,512.2

a/ Default payments are recorded as direct loans under OMB's credit control system, even though no loan may be extended. The loan remains recorded until it is written off, forgiven, or liquidated.

New direct loans are estimated to total $49.1 million in 1981, down from the 1979 and 1980 levels, while loans to pay guarantee claims total $45.9 million in 1981, up over 60 percent from the 1979-1980 levels. Once made, direct loans are transferred to the Economic Development Revolving Fund for liquidation (see Table 56). At the end of fiscal year 1981, outstanding loans will total an estimated $803 million.

TABLE 56. ECONOMIC DEVELOPMENT REVOLVING FUND: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
Direct loans outstanding, start	614.5	672.8	737.8
Repayments	-19.5	-25.0	-30.0
Write-offs for default	-7.2	---	---
Loan balances transferred	85.0	90.0	95.0
Direct loans outstanding, end	672.8	737.8	802.8
Loan Guarantees:			
New loan guarantee commitments	567.0	---	---
New loans guaranteed	567.0	---	---
Guaranteed loans outstanding	580.8	580.8	580.8

EDA's loan guarantee program assists firms that have difficulty in obtaining private financing for fixed asset and working capital expansions. The 1981 budget assumes enactment of legislation pending in a Congressional conference committee that would combine EDA's existing loan guarantee programs with financing incentives formerly contained in the National Development Bank proposal. Using this assumption, the 1981 budget anticipates rapid growth in EDA loan guarantees. New loans guaranteed in 1980 are estimated to total $900.0 million, up from $76 million in 1979. New loans guaranteed in 1981 are estimated to increase 80 percent over the 1980 level, to $1.62 billion. The Administration is proposing a limitation on new loan guarantee commitments of $1.62 billion in 1981.

The Economic Development Revolving Fund was established to receive principal and interest payments on loans made under the Area Redevelopment Act, the Public Works and Economic Development Act of 1965, and the Trade Act of 1975. In 1978 and 1979, portions of the balances in the revolving fund were set aside as reserves for a program of loan guarantees to assist steel firms. The guarantees were to enable the firms to overcome problems of foreign competition and invest in needed modernization and pollution control equipment, thereby saving jobs. In 1979 new loans of $567.0 million were guaranteed for steel firms.

Coastal Energy Impact Fund

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

Table 57 details the direct loan program of the Coastal Energy Impact Fund for fiscal years 1979-1981. (While loan guarantees are authorized, no guarantees have been issued, and the Administration's estimates do not anticipate any in fiscal years 1980 or 1981.) Direct loans were first made in 1979. The Administration's estimates for 1980 and 1981 assume rapid growth of direct lending. Loans in 1980 are estimated to total $25.5 million, up 211 percent over the 1979 actual level. In 1981, loans will total an estimated $50.0 million, a nearly 100 percent increase over 1980. The Administration is proposing a limitation of $53.4 million on new direct loan obligations in 1981.

Rural Development Insurance Fund

The Farmers Home Administration makes or guarantees loans for water systems and waste disposal facilities, community facilities, and industrial development through the Rural Development Insurance Fund (RDIF).

TABLE 57. COASTAL ENERGY IMPACT LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
New Direct Loan Obligations	27.2	61.0	53.4
Proposed Limitation	---	---	53.4
New Direct Loans	8.2	25.5	50.0
Repayments	---	-0.1	-0.8
Net Loan Outlays	8.2	25.4	49.2
Direct Loans Outstanding	8.2	33.6	82.8

Water and waste disposal development loans are made to Indian tribes, nonprofit corporations, and public and quasipublic agencies for the development, storage, treatment, purification, or distribution of water and for the collection, treatment, or disposal of waste in rural areas. Community facility loans are made to construct, enlarge, extend, or improve community facilities, such as fire and rescue services, transportation systems, and social, cultural, or recreational facilities. Both the water and community facility loans have a term that is the lesser of the useful life of the facility or 40 years. Their interest may not exceed 5 percent.

Industrial development loans may be made to cooperatives, corporations, partnerships, Indian tribes, municipalities, counties, or individuals. The loans are to assist in financing business and industrial acquisition, construction, conversion, enlargement, repair, or remodernization of industrial facilities. Industrial development loans may also be used to finance the purchase and development of land, easements, rights-of-way, buildings, equipment, supplies, and materials or to pay startup costs or supply working capital. FmHA may also guarantee loans for industrial development purposes. Industrial development loans have a maximum maturity of 30 years, except for loans to public bodies. The interest rate on loans to private entrepreneurs is the cost of Treasury borrowing plus administrative expenses. Loans to public bodies have a 40-year maturity and 5 percent interest rate.

Like the Agricultural Credit Insurance Fund (function 350) and the Rural Housing Insurance Fund (function 370), the RDIF is a revolving fund largely financed by sales of CBOs to the FFB. As in the other two cases, the Administration has not made subject to the proposed limitation direct loan and loan guarantee activity relating to sales and purchases of individual loans and CBOs. These transactions are considered to be a means of financing, not program activity. Tables 58 and 59 detail respectively for direct lending and loan guarantees program activity separately from financing activity.

TABLE 58. RURAL DEVELOPMENT INSURANCE FUND DIRECT LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
Program Activity:			
New direct loan obligations	1,150.0	950.0	950.0
Proposed limitation	---	---	950.0
New direct loans	749.2	902.3	1,031.5
Repayments	-49.6	-61.6	-74.3
Other adjustments	1.1	0.9	0.8
Net loan outlays, program activity	700.7	841.6	958.0
Means of Financing (Purchases and Sales of Loans):			
New direct loan obligations	284.5	484.5	666.6
New direct loans	284.5	484.5	666.6
(Purchases of loans)	(14.3)	(23.0)	(22.8)
(Purchases of CBOs)	(270.2)	(461.5)	(643.8)
Repayments	-980.1	-1,452.1	-1,708.6
(Sales of loans)	(---)	(-10.0)	(-9.0)
(Sales of CBOs)	(-980.1)	(-1,442.1)	(-1,699.6)
Net loan outlays, financing	-695.6	-967.6	-1,042.0
Net Loan Outlays, Total	5.1	-126.0	-84.0
Outstanding Loans	348.1	222.1	138.1

TABLE 59. RURAL DEVELOPMENT INSURANCE FUND GUARANTEED LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
Program Activity:			
New loan guarantee commitments	1,100.0	1,066.0	926.0
Proposed limitation	---	---	926.0
New loans guaranteed	853.2	969.8	992.3
Repayments on guaranteed loans	-228.5	-230.2	-227.5
Terminations for default	-26.4	-18.0	-25.0
Other adjustments	-0.5	0.4	0.3
Net loans guaranteed, program	597.8	722.0	740.1
Means of Financing (Guarantees of Loans and CBO Sales):			
Net loan guarantee commitments	980.1	1,452.1	1,708.6
Net loans guaranteed	980.1	1,452.1	1,708.6
Terminations for repurchase of guaranteed loans and CBOs sold	-269.6	-484.5	-666.6
Net loans guaranteed, financing	710.5	967.6	1,042.0
Net Loans Guaranteed, Total	1,308.3	1,689.6	1,782.1
Guaranteed Loans Outstanding	5,468.1	7,157.7	8,939.7

The Administration is proposing a limitation of $950 million on new direct loan obligations for 1981. It is estimated that $700 million of loan obligations will be for water and waste disposal loans, while another $240 million will be for community facilities loans. New loans, including loans out of prior-year obligations, are estimated to total $1.03 billion in 1981, up 14 percent over the 1980 estimate of $902 million. The 1980 estimate reflects estimated growth of 20 percent over the 1979 level of $74.7 million.

58-342 O - 80 - 9

Although new lending is estimated to increase, the balance of outstanding loans is expected to decline, as sales of CBOs increase and the fund loan portfolio is liquidated. Sales of CBOs are estimated to increase 47 percent in 1980, and another 17.9 percent in 1981. The 1981 sales are estimated to total $1.7 billion, or nearly 75 percent more than in 1979. The effect is to transfer these outlays off-budget, lowering the unified budget total but increasing the off-budget deficit.

Guarantees of private lending through the RDIF also increase in 1980 and 1981 over 1979. The Administration is proposing a limitation of $926 million on new loan guarantee commitments in 1981, all of which will be for guarantees of business and industrial loans. New guarantees in 1980 increase by an estimated 13.7 percent over 1979 to $970 million. New guarantees in 1981 are estimated to total $992 million, for a 2.3 percent increase over 1980.

Rural Communications Development Fund

The Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq) authorizes loans and loan guarantees for the financing of community antenna television services in rural areas. Originally this activity was financed out of the Rural Development Insurance Fund of the Farmers Home Administration. For 1980 the activity was transferred to a new revolving fund, the Rural Communications Development Fund, in the Rural Electrification Administration (REA).

Two different types of borrowers are eligible for financing through the fund. Under the community facilities program, nonprofit organizations may receive 35-year loans at 5 percent interest to provide community antenna television service in rural areas comparable to urban areas. Profit-making organizations may get loans from the business and industrial development loan program, again for a 35-year term, but at rates just above Treasury borrowing costs.

For fiscal year 1981 the Administration is proposing a limitation of $34.0 million on new direct loan obligations, to be divided between the two programs: $10 million for loans to nonprofit organizations under the community facility program, the remaining $24 million for the business and industrial development program. New direct loans are estimated to total $4.3 million in 1980 and $15.7 million in 1981. New loan guarantee commitments of $24 million will be signed in 1980, according to budget estimates. This will result in new loans guaranteed of $8.9 million for both fiscal years 1980 and 1981. Table 60 summarizes activity in the fund for fiscal years 1980 and 1981.

TABLE 60. RURAL COMMUNICATIONS DEVELOPMENT FUND, LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual a/	Administration Estimates 1980 a/	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	---	10.0	34.0
Proposed limitation	---	---	34.0
New direct loans	---	4.3	15.7
Direct loans outstanding	---	4.3	20.0
Loan Guarantees:			
New loan guarantee commitments	---	24.0	---
New loans guaranteed	---	8.9	8.9
Guaranteed loans outstanding	---	8.9	17.7

a/ Activity in 1979 and part of 1980 was financed through the Rural Development Insurance Fund. Such amounts for 1979 and 1980 are included in that fund.

Rural Telephone Bank

The Rural Telephone Bank (RTB) provides a supplemental source of financing for the REA telephone program. The bank borrows from the Treasury and bases the interest rates on its loans on its average cost of money. On all loans through September 30, 1979, the weighted average interest rate was 6.9 percent. During the first quarter of fiscal year 1980, loans were made at 8.0 percent interest.

For fiscal year 1981, the Administration is proposing limitation language setting a minimum of $160 million for new direct loan obligations and a maximum of $220 million. A point estimate of $185 million is being included in the control system. Table 61 summarizes RTB activity for fiscal years 1979-1981. New direct loans in both 1980 and 1981 are estimated to total $185.0 million, up 41 percent from the 1979 level of $130.5 million.

TABLE 61. RURAL TELEPHONE BANK LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates	
		1980	1981
New Direct Loan Obligations	130.8	185.0	185.0
Proposed Limitation	---	---	185.0 a/
New Direct Loans	130.5	185.0	185.0
Repayments	-5.3	-7.0	-9.4
Net Loan Outlays	125.2	178.0	175.6
Direct Loans Outstanding	739.3	917.3	1,092.8

a/ The proposed limitation provides "not less than $160,000,000 nor more than $220,000,000." A point estimate of $185 million is the amount included in the control system.

SBA Disaster Loans and Loan Guarantees

The Small Business Administration makes both direct and guaranteed loans to assist small businesses to recover from physical disasters and other injurious conditions under sections 7(b), 7(f), and 7(g) of the Small Business Act, as amended. Physical disaster loans are made under section 7(b)(1) and (2) to property owners for rehabilitation of property damaged by natural disasters. The Administration estimates that new loan approvals will total $350 million in 1981. Physical disaster loans are specifically not covered by the limitation proposed for the new direct loan obligations out of the Disaster Loan Fund.

Nonphysical disaster loans are made to small businesses that need assistance in complying with various federal or state statutes and regulations, and to small businesses that have suffered economic loss due to displacement or economic injury. Examples of the former include assisting small businesses in complying with air and pollution control requirements, meat and poultry inspection requirements, and occupational safety requirements. Examples of the latter include economic loss due to displacement of or closure of federal activities and military bases, due to energy shortages, or due to closure of military facilities because of the conclusion of SALT treaties. The Administration proposes a limitation of $50 million on new direct loan obligations for these nonphysical disaster loans.

Table 62 details disaster loan assistance through the SBA disaster loan revolving fund for fiscal years 1979-1981. The Administration estimates that new direct loan obligations in 1980 and 1981 will decline from the 1979 peak level of $1.3 billion. New loans also decline in 1980 and 1981, to $540 million in 1981. No new loan guarantee activity is anticipated in 1981.

Community Services Administration Credit Programs

The Community Services Administration (CSA) administers two credit programs: rural development loans and loan guarantees, and loans to community development credit unions. Tables 63 and 64 detail, respectively, the activities of the rural development loan fund and the credit union loans.

Rural Development Loan Fund. Through this fund loans and loan guarantees are provided to borrowers in rural areas or communities that have substantial numbers or concentrations of low-income persons. The loans and guarantees are for group ventures, developing either business or community facilities, which will provide increased income, employment, and ownership opportunities for low-income residents. Loans and guarantees may be made directly to eligible organizations or to intermediary organizations that, in turn, lend or guarantee funds to eligible borrowers. Direct loans are estimated to jump from $3,000 in 1979 to $18.4 million in 1980, then drop back to $8.0 million for 1981. The first loan guarantee commitments are expected to be concluded in 1981. For 1981, the Administration is proposing a limitation of $8.0 million on new direct loan obligations and of $2.0 million on new loan guarantee commitments.

Community Development Credit Unions. The President proposed in his 1980 budget, and the Congress approved, a revolving fund to be jointly administered by CSA and the National Credit Union Administration. The fund, capitalized with $6.0 million for 1980, will make "seed money" loans to newly-chartered community development credit unions. These credit unions will provide financing for community development needs. For 1981 the Administration is proposing a limitation of $1.0 million on new direct loan obligations, down from the 1980 estimate of $5.0 million.

TABLE 62. SMALL BUSINESS ADMINISTRATION DISASTER LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
Direct Lending:			
New direct loan obligations	1,288.2	750.0	575.0
Proposed limitation a/	---	---	50.0
New direct loans	1,249.5	775.0	540.0
Repayments	-367.0	-446.0	-461.0
Write-offs for default	-21.0	---	---
Net loan outlays	861.5	329.0	79.0
Direct loans outstanding	4,570.5	4,899.5	4,978.5
Loan Guarantees:			
New loan guarantee commitments	2.4	---	---
New loans guaranteed	0.8	2.4	---
Repayments on guaranteed loans	-2.9	-3.0	-2.5
Guaranteed loans outstanding	7.4	6.8	4.3

a/ Limitation is proposed only on disaster loans under sections 7(b)(3)-(9) and 7(g). No limitation is proposed for loans under Sections 7(b)(1) and 7(b)(2).

Indian Credit Assistance

To provide Indian tribes on federal reservations greater access to credit, the Indian Financing Act of 1974 (Public Law 93-262) established a Revolving Fund for Loans and the Indian Loan Guaranty and Insurance Fund. The former provides direct loans, while the latter insures or guarantees private lending to Indians.

TABLE 63. COMMUNITY SERVICES ADMINISTRATION RURAL DEVELOPMENT LOAN FUND, LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	*	20.0	8.0
Proposed limitation	---	---	8.0
New direct loans	*	18.4	8.0
Repayments	-1.6	-1.4	-1.6
Write-offs for default	-0.8	-0.5	-0.4
Net loan outlays	-2.4	16.5	6.0
Direct loans outstanding	9.8	26.3	32.3
Loan Guarantees:			
New loan guarantee commitments	---	---	2.0
Proposed limitation	---	---	2.0
New loans guaranteed	---	---	2.0
Guaranteed loans outstanding	---	---	2.0

* Less than $50,000.

TABLE 64. COMMUNITY DEVELOPMENT CREDIT UNION LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
New Direct Loan Obligations	---	5.0	1.0
Proposed Limitation	---	---	1.0
New Direct Loans	---	5.0	1.0
Repayments	---	-0.5	-1.5
Net Loan Outlays	---	4.5	-0.5
Direct Loans Outstanding	---	4.5	4.0

Tables 65 and 66 detail respectively the activities of the Revolving Fund for Loans and the Indian Loan Guaranty and Insurance Fund. For 1981 the President is proposing a limitation of $12.7 million on new direct loan obligations from the Revolving Fund and of $2.9 million on obligations from the Insurance Fund. A limitation of $2.3 million is proposed on new loan guarantee commitments for 1981.

TABLE 65. INDIAN CREDIT ASSISTANCE, REVOLVING FUND FOR LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates	
		1980	1981
New Direct Loan Obligations	5.1	10.2	12.7
Proposed Limitation	---	---	12.7
New Direct Loans	5.4	10.7	12.7
Repayments	-4.0	-3.7	-3.6
Write-offs for Defaults	-0.2	-0.2	-0.2
Other Adjustments	---	5.0	---
Net Loan Outlays	1.2	11.8	8.9
Direct Loans Outstanding	65.4	77.2	86.1

The Administration announced in its 1981 budget a legislative proposal to establish a Northwest Indian Fishery Fund. The fund would provide credit assistance to treaty tribe fishermen in their efforts to share in the salmon and steelhead fishing resources of Washington State. The fund would be capitalized with $15 million, $5 million to be appropriated for 1981. The legislative proposal will contain a limitation on new direct loan obligations of $5 million. New loans for 1981 are estimated to total $5 million.

TABLE 66. INDIAN LOAN GUARANTY AND INSURANCE FUND: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	2.6	3.2	2.9
Proposed limitation	---	---	2.9
New direct loans	2.6	3.2	2.9
Repayments	---	- *	- *
Write-offs for default	---	-1.6	-1.9
Other adjustments	0.2	*	-0.7
Net loan outlays	2.8	1.6	0.3
Direct loans outstanding	3.0	4.8	5.0
Loan Guarantees:			
New loan guarantee commitments	34.0	---	2.3
Proposed limitation	---	---	2.3
New loans guaranteed	1.4	32.6	2.3
Repayments on guaranteed loans	-1.9	-5.9	-6.6
Terminations for default	-2.3	-2.9	-2.1
Guaranteed loans outstanding	44.4	68.3	61.9

* Less than $50,000.

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

Credit programs in this function consist of loans and loan guarantees to assist students and their families in financing college educations, and loans and loan guarantees to colleges and other institutions to finance construction of facilities. As seen in Table 67, student assistance accounts for the largest part of this function's credit program.

TABLE 67. EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES--SUMMARY OF CREDIT ASSISTANCE: IN MILLIONS OF DOLLARS

	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
Student Assistance	569	582	1,221	2,769	3,960	2,160
Guarantees of SLMA Obligations	---	---	---	530	670	---
College Housing	90	89	110	---	---	---
Total	659	671	1,331	3,290	4,630	2,160
Proposed Limitation	---	---	900	---	---	2,160

a/ Estimated.

Student Assistance

As part of the reauthorization of higher education programs in 1981, the Administration is proposing a reform of existing student assistance programs. The Administration proposes to replace the two existing programs with a combined program of basic direct loans and supplemental guaranteed loans to be administered by a new Government Student Loan Association within the Department of Education.

The new basic direct loan program would consist of direct federal loans to students based on need. The amount of the loan would be determined based on the student's education costs, other financial assistance, and contributions by the student and his or her family. Additional assistance would be available in the form of supplemental loans from private lenders that would be guaranteed by the federal government. Supplemental loans could cover the portion of a student's educational costs not covered by basic loans and other sources. Interest rate subsidies under the supplemental guaranteed loans would be less than under the current guaranteed student loan program. Table 68 compares new obligations and new lending levels under both the old programs and the new program. The Administration's basic loan program represents a substantial increase in direct loans available to students, with a corresponding decrease in the guaranteed student loans.

TABLE 68. STUDENT ASSISTANCE LOAN AND LOAN GUARANTEE LEVELS, 1979-1981: IN MILLIONS OF DOLARS

	Direct Lending			Loan Guarantees		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
National Direct Student Loans						
New obligations	310	286	---	---	---	---
New loans	164	301	275	---	---	---
Student Loan Insurance:						
New obligations	259	296	321	2,760	2,960	---
New lending	253	272	314	2,760	3,960	---
Proposed Government Student Loan Association:						
New obligations	---	---	900	---	---	2,160
New lending	---	---	464	---	---	2,160
Total						
New obligations	569	582	1,221	2,760	3,960	2,160
New lending	417	573	1,053	2,760	3,960	2,160

a/ Estimated.

Guarantees of SLMA Obligations

The Student Loan Marketing Association (SLMA) is a government-sponsored credit intermediary created to function as a secondary market for guaranteed student loans. All of the functions of SLMA would be assumed by the proposed Government Student Loan Association if established.

SLMA obtains funds for its activities by issuing its own debt obligations. The Education Amendments of 1972 authorize the Secretary of Education to guarantee SLMA's debt obligations. All such obligations have been sold to the FFB, providing in effect off-budget financing of the secondary market for guaranteed student loans.

College Housing and Other Higher Education Loans

Title IV of the Housing Act of 1950 authorized loans at 3 percent interest rates to colleges and eligible hospitals for the construction or acquisition of housing and related facilities. The loans have a 40-year term. In fiscal years 1978-1981 a limited loan program is being conducted using repayments and other income for new loans. For 1981 the Administration is requesting a limitation of $110 million on new direct loan obligations. This represents an increase of 22.2 percent over the 1979-1980 levels of $90 million. New loans are estimated to total $100 million, up 33 percent from the 1980 estimate of $75 million.

HEALTH (FUNCTION 550)

Credit assistance in the health function includes loans and loan guarantees to finance the construction of medical facilities and the education and training of health care professionals. Table 69 summarizes the levels of new direct loan obligations and new loan guarantee commitments for fiscal years 1979-1981.

TABLE 69. HEALTH--SUMMARY OF CREDIT PROGRAMS: IN MILLIONS OF DOLLARS

	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980a/	1981a/	1979	1980a/	1981a/
Health Maintenance Organizations	36	113	155	24	165	210
Health Professions Graduate Student Loan Insurance	---	---	---	9	40	48
Medical Facilities Loan and Guarantee Fund	3	---	---	---	---	---
Other	24	15	1	---	---	---
Total	63	128	156	33	205	258
Proposed for Limitation	---	---	156	---	---	258

a/ Estimated.

For 1981 the Administration is proposing a limitation on new direct loan obligations of $156 million, a 22 percent increase over 1980 and almost one-and-a-half times the 1979 actual level. All of the increase is in loans to health maintenance organizations (HMOs). The Administration's proposed limitation on loan guarantee commitments of $258 million is also paced by a 27.3 percent increase for guarantees to HMOs. The Administration also foresees major increases in the Health Profession Graduate Student Loan Insurance levels.

The major increases in direct loans to HMOs in both 1980 and 1981 will have no impact on the unified budget, however, since the Administration assumes that 96 percent of the new loans will be sold to the FFB as loan assets. This amount of lending is effectively transferred on-budget through such sales.

The following sections highlight major programs in function 550.

Health Maintenance Organization Loan and Loan Guarantee Fund

Title XIII of the Public Health Service Act authorizes financial assistance in the form of grants, contracts, loans, and loan guarantees to health maintenance organizations (HMOs) for planning, initial development and operations, and acquisition and construction of ambulatory health care facilities. The estimates for 1980 and 1981 envision a substantial increase in lending and guarantees under this program, which has had slow growth since its inception in 1975. For 1980 the Administration is assuming 23 direct loans averaging $2.5 million for initial operating assistance and 25 loans averaging $2.0 million apiece for ambulatory health care facilities. His estimates for 1981 assume 35 operating loans averaging $3.0 million each and another 25 ambulatory facility loans, again $2.0 million each. Accordingly, a limitation of $155 million for direct loan obligations is requested.

The direct loans are financed through a revolving fund. As new loans are made, they are sold to the FFB to provide funds for additional loans. All the loan sales are fully guaranteed. In addition, some private lending is also guaranteed. For fiscal year 1981, the Administration is requesting a limitation of $210 million for new loan guarantee commitments: $140 million for loan sales and $70 million for guarantees of private lending.

Both the direct and guaranteed loans have a 20-year maturity and bear interest at 12 percent. The authorizations for direct and guaranteed lending expire on September 30, 1981.

Table 70 summarizes the credit activity of the HMO fund and its financing. It clearly illustrates how it is possible to achieve tremendous growth in direct loans--the 1981 estimates realize 330 percent growth over 1979--while showing less than a 5 percent increase in on-budget lending: from $14.3 million in 1979 to $15.0 million in 1981. Using the FFB, the direct loans can be transferred completely off-budget.

TABLE 70. HEALTH MAINTENANCE ORGANIZATION LOAN AND LOAN GUARANTEE FUND--ACTIVITY AND FINANCING: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	1981
Direct Loans:			
New direct loan obligations	36.0	113.0	155.0
Proposed limitation	---	---	155.0
New direct loans	36.1	113.0	155.0
Loans sales	-21.8	-115.0	-140.0
Net loan outlays	14.3	-2.0	15.0
Direct loans outstanding	25.8	23.8	38.8
Guaranteed Loans:			
New loan guarantee commitments	24.0	165.0	210.0
Proposed limitation	---	---	210.0
New loans guaranteed	2.1	50.0	70.0
Guarantees of loans sold	21.8	115.0	140.0
Total, loans guaranteed	23.9	165.0	210.0
Repayments on guaranteed loans	-0.1	-0.8	-1.6
Guaranteed loans outstanding	83.6	247.8	456.2
FFB Transactions:			
New FFB loan purchases	20.9	115.0	140.0
Repayments	-0.5	-0.8	-1.6
FFB holdings	77.3	191.5	329.9

Health Professions Graduate Student Loan Insurance Fund

This program enables students to borrow from private lenders to help pay the cost of their medical education and training under Title VII of the Public Health Service Act. The federal government fully insures the principal amount of the loans. The students pay the 12 percent annual interest on the 10-year loans. The authorization specified limits on new guaranteed loans of $500 million, $510 million, and $520 million respectively for fiscal years 1978, 1979, and 1980. After fiscal year 1980, only students who have received guaranteed loans prior to September 30, 1980, can receive new guaranteed loans.

The program has been slow getting started: no loans were guaranteed until fiscal year 1979, and only 1,152 loans totaling $9 million were guaranteed during that year. The budget estimates assume much faster growth for fiscal years 1980 and 1981: 433 percent between 1979 and 1981. According to these estimates, HHS will guarantee 5,000 loans in 1980 and 6,000 in 1981. Since each loan averages $8,000, the Administration is requesting a limitation on guaranteed loan commitments of $48 million in 1981. Table 71 summarizes the activity of this program.

TABLE 71. GUARANTEES FOR HEALTH PROFESSIONS GRADUATE STUDENTS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Loans:			
New direct loan obligations	---	*	0.2
Loans to pay guarantee claims	---	*	0.2
Direct loans outstanding	---	*	0.2
Loan Guarantees:			
New loan guarantee commitments	9.0	40.0	48.0
Proposed limitation	---	---	48.0
New loans guaranteed	9.0	40.0	48.0
Repayments on guaranteed loans	-*	-0.4	-0.9
Guarantees terminated for default	---	-*	-0.2
Guaranteed loans outstanding	9.0	48.6	95.5

* Less than $50 thousand.

Medical Facilities Guarantee and Loan Fund

The Health Resources Administration of the Health and Human Services Department (HHS) may make loans and loan guarantees to public and private nonprofit agencies for modernization, construction, and conversion of hospitals and other medical facilities, under Titles VI and XVI of the Public Health Service Act. A revolving fund--the Medical Facilities Guarantee and Loan Fund--was established to facilitate financing for these activities.

Guaranteed loans are financed through normal commercial channels. In addition to guaranteeing the loan, HHS may assist borrowers by paying up to 3 percent of the interest on the loan. The direct loan program also involves an interest subsidy. HHS loans money to eligible organizations by purchasing interest-bearing bonds from them. It then resells the bonds to other investors at higher interest rates. Appropriated interest subsidy payments provide the difference between the interest paid to HHS by the original borrowers and the interest due to the investors. In addition, HHS fully guarantees the repayment of principal and interest on the bonds.

In recent years some of the bonds have been sold to the off-budget Federal Financing Bank. The effect of these sales has been to transfer the on-budget loans from the revolving fund to the off-budget FFB.

In recent years a limitation on cumulative commitments for direct and guaranteed loans has been added to the annual appropriation for interest subsidies. The fiscal year 1980 Labor-HEW appropriations bill set that limit at $1.5 billion. For fiscal year 1981, the Administration is recommending a zero limitation: no new obligations for direct loans or commitments for guaranteed loans are anticipated. There will be $9.9 million of guarantees issued on loans for which guarantee commitments had been signed in previous years.

Table 72 details the medical facilities credit activity for fiscal years 1978-1981. In 1978, although there were new direct loans of $13.6 million, sales of $14.8 million of loan assets to the FFB meant the fund received more than it lent out. The $14.8 million of assets sold were fully guaranteed and brought the total holdings of FFB to $163.7 million. Direct loans held in the fund amounted to only $22.0 million. Only 12 percent of direct loans outstanding by the fund had been recorded in the budget: 88 percent had been shifted off-budget through the FFB. A $3 million default on a privately-held guaranteed loan lowered guaranteed loans outstanding in 1979 but increased the direct loans held by the fund, as the loan was acquired by

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TABLE 72. MEDICAL FACILITIES GUARANTEE AND LOAN FUND--LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	Actual		Administration Estimates	
	1978	1979	1980	1981
Direct Loans:				
New direct loans	13.6	---	---	---
Direct loans for guarantee claims	---	3.0	---	---
Repayments	---	---	-0.2	-0.5
Sales of loan assets	-14.8	---	---	---
Net loan outlays	-1.2	3.0	-0.2	-0.5
Loans outstanding	22.0	25.0	24.8	24.3
Loan Guarantees:				
New loans guaranteed	8.0	14.9	12.0	9.9
Guarantees of direct loans sold	14.8	---	---	---
Total guarantees	22.8	14.9	12.0	9.9
Repayment on guaranteed loans	-31.6	-38.3	-34.0	-35.0
Guarantees terminated due to default	---	-3.0	---	---
Guaranteed loans outstanding	1,347	1,320.6	1,298.6	1,273.5
FFB Transactions:				
FFB purchase of direct loans	13.8	---	---	---
Repayments	-2.1	-3.6	-4.2	-4.4
FFB holdings	163.7	160.1	155.9	151.5

the fund in payment of the claim. The estimated $9.9 million of loans to be guaranteed in 1981 will exhaust all signed guaranteed commitments outstanding. With no new commitments or loan obligations planned, repayments will cause outstanding direct and guaranteed loans to decline through fiscal year 1981.

Other Health Credit Programs

The Secretary of Health and Human Services may make loans up to $50,000 each to community organizations for the initial costs of establishing National Health Service Corps health care delivery sites in eligible areas. The Administration is proposing a limitation on new direct loan obligations of $1 million for fiscal year 1981.

Other health credit programs provide direct loans for nurse training and health professions education and loan guarantees for construction of health teaching facilities. These programs have no new obligations or commitments in 1981, according to the Administration's estimates; however, the Administration estimates $6.7 million of new lending for the nurse training and health professions educations programs out of prior-year obligations. The health teaching facilities guaranteed loan program has no new activity. The outstanding balance of guaranteed loans is reduced in 1979-1981 as guaranteed loans are repaid.

Table 73 summarizes the activity in these programs for fiscal years 1979-1981.

TABLE 73. OTHER HEALTH CREDIT PROGRAMS, SUMMARY OF ACTIVITY: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
National Health Service Corps Community Organization Loans:			
New direct loan obligations	0.8	1.0	1.0
Proposed limitation	---	---	1.0
New loans	0.5	1.3	1.0
Repayments	---	-0.2	-0.4
Loans outstanding	0.5	1.6	2.1
Nurse Training and Other Health Professions Education:			
New direct loan obligations	23.4	13.5	---
New loans	35.6	21.2	6.8
Repayments	-1.1	-1.2	-1.3
Loans outstanding	599.4	619.5	524.9
Health Teaching Facilities Guarantees:			
New loans guaranteed	---	---	---
Repayments on guaranteed loans	-0.1	-1.1	-1.2
Guaranteed loans outstanding	74.0	72.9	71.7

INCOME SECURITY (FUNCTION 600)

Credit assistance in the income security function is primarily related to assisting local public housing authorities in the construction of low-rent public housing. A "seed money" loan program assists nonprofit sponsors in the planning of housing projects to be financed by the Housing for the Elderly or Handicapped Fund (described in Function 370). For 1981 the budget announces a legislative proposal to provide the off-budget Pension Benefit Guaranty Corporation (PBGC) authority to make loans to insolvent pension plans.

Only the loans to nonprofit sponsors are subject to limitation. The Administration proposes a limitation of $2.3 million for new direct obligations for that program. The remaining $305 million of direct loan obligations and the $14.6 billion of new loan guarantee commitments are exempted from the requirement that a limitation be proposed. Table 74 summarizes the new credit activity levels in function 600.

TABLE 74. INCOME SECURITY, SUMMARY OF ACTIVITY: IN MILLIONS OF DOLLARS

	New Direct Loan Obligation			New Loan Guarantee Commitments		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
Low-Rent Public Housing	276.5	300.0	300.0	13,081.0	11,366.1	14,646.9
Nonprofit Sponsor Association Loans	1.9	2.1	2.3	---	---	---
Loans to Insolvent Pension Plans--						
Pension Benefit Guarantee Corp.	---	---	5.0	---	---	---
Total	278.4	302.1	307.3	13,081.0	11,366.1	14,646.9
Proposed Limitation	---	---	2.3	---	---	---

a/ Estimated.

The following sections highlight each activity.

Low-Rent Public Housing

The low-rent public housing program provides credit assistance to local public housing agencies for the construction, acquisition, or modernization of public housing projects. Credit assistance is provided at three different stages in the process. First, the federal government makes direct loans to PHAs to finance the early costs--design, planning, etc. At a second stage, when the direct loans have accumulated to a size that can be made attractive to private investors, the PHAs issue short-term, tax-exempt notes that are secured or guaranteed by federal pledges to issue direct loans in case of default. With these guaranteed notes, the PHAs raise sufficient funds to repay the initial direct federal loans and to continue project construction.

At or near completion of construction or modernization, the third or permanent stage of financing takes place. In the past, the PHAs would sell long-term, tax-exempt bonds to the public. These would be secured by the government's implied guarantee through its long-term contracts of annual contributions sufficient to meet interest and principal requirements. No such bonds have been offered in recent years because of the high interest rates. HUD prefers not to see PHAs committeed to 40-year, tax-exempt bonds that pay more than 6.0 percent interest. Since 1974, interest rates on long-term, tax-exempt bonds have been above 6 percent.

The Administration's 1981 budget proposes a major change in the permanent financing of low-rent public housing. Beginning in 1980, long-term project financing bonds will be sold to the FFB. As a result, no longer will private investment funds finance public housing; the federal government will now make long-term off-budget direct loans for construction of public housing. HUD will guarantee the repayment to the FFB of principal and interest on these bonds.

Table 75 summarizes loans and guarantees for public housing construction. Short-term direct federal loans for initial costs are estimated to total $300 million, in both 1980 and 1981, up 8.4 percent from 1979. The Administration estimates that guaranteed loans in 1980 will total $10 billion, up 5.8 percent from 1979. Of that amount $1.6 billion is for guarantees of FFB-originated, long-term direct loans. For 1981, the Administration estimates guaranteed loans will increase by 8.25 percent over 1980, all of it for guarantees of short-term interim financing. No new loans by the FFB are estimated to occur in 1981.

TABLE 75. LOW-RENT PUBLIC HOUSING LOANS AND LOAN GUARANTEES: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	276.5	300.0	300.0
New loans	276.5	300.0	300.0
Repayments	-267.8	-300.0	-300.0
Direct loans outstanding	56.2	56.2	56.2
Loan Guarantees:			
New loan guarantee commitments	13,081.3	11,366.1	14,646.9
New loans guaranteed	9,451.3	10,000.0	10,825.0
Repayments on guaranteed loans	-8,968.5	-9,800.0	-8,825.0
Guaranteed loans outstanding	15,049.9	15,249.9	17,249.9
FFB Financing			
New guaranteed loan originations	---	1,575.0	---
Repayments		-18.3	-49.9
Outstanding FFB originated loans	---	1,556.7	1,506.8

Nonprofit Sponsor Assistance

This program provides interest-free direct loans to nonprofit organizations sponsoring construction of housing for the elderly or handicapped. The sponsors, to demonstrate their commitment, are required to put up 20 percent or $50,000, whichever is less, of the startup costs. The interest-free or "seed money" loans cover the remainder. Once the project is approved the sponsor's 20 percent and the seed money loan are repaid from the initial proceeds of the construction loan from the Housing for the Elderly or Handicapped Fund (in function 370).

Table 76 summarizes activity under this program for fiscal years 1979-1981. The $2.3 million loan obligation level for 1981 will finance an estimated 71 seed money loans.

TABLE 76. NONPROFIT SPONSOR ASSISTANCE LOANS: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
New Direct Loan Obligations	1.9	2.1	2.3
Proposed Limitation	--	--	2.3
New Loans	1.4	2.1	2.3
Repayments	-0.7	-1.4	-1.8
Loans Forgiven	*	--	--
Net Loan Outlays	0.7	0.7	0.4
Outstanding Loans	2.5	3.1	3.6

Loans to Pension Plans

The 1981 budget announces a legislative proposal to provide the off-budget Pension Benefit Guaranty Corporation authority to make direct loans to insolvent multiemployer pension plans. Loans would be made to a pension plan only after it takes a series of prescribed steps to return the plan to a sound financial basis. For 1981 the Administration estimates that new direct loan obligations of $5 million would be needed, resulting in an equal amount of direct loans.

Credit assistance to veterans includes direct loans in the form of borrowing against the cash value of life insurance policies, direct loans for educational purposes, and direct loans and loan guarantees for veterans wishing to purchase homes. For fiscal year 1981 new direct loan obligations are estimated to total $787 million, while new loan guarantee commitments will reach $10.4 billion. Because this credit assistance is considered part of the benefits to which veterans are entitled, the Administration is not recommending limitations on the gross activity levels of these veterans' credit programs. Table 77 summarizes the estimated gross activity levels of veterans' credit programs. The following sections highlight each type of veterans' credit assistance.

TABLE 77. SUMMARY OF CREDIT ASSISTANCE TO VETERANS: IN MILLIONS OF DOLLARS

Program	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980 a/	1981 a/	1979	1980 a/	1981 a/
Insurance Policy Loans	172	168	167	---	---	---
Education Loans	9	9	9	---	---	---
Housing Loans	394	569	611	8,070	10,278	10,390
Total	575	745	787	8,070	10,278	10,350

a/ Estimated.

Insurance Policy Loans

Veterans and their survivors may borrow against the cash values of life insurance policies issued by the federal government under five programs: the Service-Disabled Veterans Insurance program, the Veterans Reopened Insurance program, the National Service Life Insurance program, the U.S. Government Life Insurance program, and the Veterans Special Life Insurance program.

Education Loans

Veterans may borrow up to $2,500 for an academic year for educational expenses from the Veterans' Education Loan Fund. These loans carry the same interest rate as insured student loans--7.0 percent--and have a maturity of 10 years. New loans for 1981 are estimated to total $7.7 million, down slightly from the $8.5 million estimated for 1980. Repayments on previous loans are returned to the revolving fund and used to make new loans.

Veterans may also receive advances of up to $200 to pay expenses while taking vocational rehabilitation training courses. These advances are interest-free and are repaid over 10 months by reduced benefits. The Administration will propose increasing the maximum advance from $200 to $400, thus increasing the 1981 loan level from $920,000 to $1.5 million.

Housing Credit

The principal form of credit assistance to veterans is guarantees of loans made by private lenders for the purchase or construction of homes. The Veterans Administration (VA) may also make direct loans to veterans for the purchase, construction, or renovation of residences in rural areas and small towns, where private credit for making guaranteed loans has generally been unavailable. In addition, VA sometimes takes over defaulting guaranteed loans, pays off the lender, and assists borrowers by rescheduling payments. These actions, in effect, constitute extension of a direct loan to satisfy a guarantee claim.

In fiscal year 1981 the VA will make new commitments to guarantee loans in the amount of $10.4 billion, resulting in new guaranteed loans of $9.6 billion. The Administration estimates that new direct loans will total $611 million, of which $58.2 million will be for new direct loans to veterans and $552.5 represent direct loans made as payment for claims on defaulted guaranteed loans. Table 78 summarizes recent housing credit activity.

The Administration's estimates assume rapid growth in 1980 over 1979 levels: 29.1 percent more new loans guaranteed in 1980. This growth will level off in 1981, according to the estimates. Direct loan estimates also follow this pattern, both for new loans to veterans and loans to pay off guarantee claims.

TABLE 78. VA HOUSING CREDIT ACTIVITY: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Loans:			
New direct loan obligations	394	569	611
New direct loans	38	56	58
Direct loans for guarantee claims	356	512	552
Total, direct loans	394	558	611
Repayments	-369	-674	-648
Net loan outlays	25	-116	-37
Direct loans outstanding	510	395	358
Loan Guarantees:			
New loan guarantee commitments	8,070	10,278	10,350
New loans guaranteed	7,735	9,524	9,584
Outstanding guaranteed loans	42092	48,410	54,839

ADMINISTRATION OF JUSTICE (FUNCTION 750)

Section 406 of the Omnibus Crime Control and Safe Streets Act of 1968 (42 U.S.C. 3746), as amended, authorized the Law Enforcement Assistance Administration (LEAA) to make grants to qualifying colleges or universities for loans to fulltime students enrolled in law enforcement degree programs. The loans cannot exceed $2,200 per academic year. Loans would be forgiven at the rate of 25 percent for each full year of employment in a public law enforcement agency following completion of school. Section 305 of the Department of Education Organization Act, Public Law 96-88, transferred this program to the new Department of Education. The transfer is to be effected during fiscal year 1980. No new direct loan obligations are anticipated by the Administration for fiscal years 1980 or 1981. As indicated in Table 79, only the loans outstanding will be transferred to the new department.

TABLE 79. LAW ENFORCEMENT EDUCATION PROGRAM: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates	
		1980	1981
New Direct Loan Obligations	25.8	---	---
New Direct Loans	31.7	2.7	---
Repayments and Adjustments	-0.9	-9.3	---
Forgiveness Credits	-19.4	-25.0	---
Net Loan Outlays	11.4	-31.6	---
Direct Loans Outstanding	160.7	---	---
Outstanding Loans Transferred to Department of Education	---	129.1	---

GENERAL GOVERNMENT (FUNCTION 800)

The general government function of the credit budget contains one active program: loans and guarantees for U.S. territories made by the Department of the Interior. This credit assistance has included direct loans to Guam for typhoon rehabilitation, guarantees of Guam Power Authority obligations, and guarantees of bonds and loans for capital improvement projects in the Virgin Islands. The Administration is not requesting authority for new direct loan obligations or loan guarantee commitments for 1981. Loan and guarantee activity in fiscal years 1980 and 1981 represent loan disbursements and guarantees from prior-year obligations and commitments, as detailed in Table 80. The Virgin Islands and Guam Power Authority projects were financed through the Federal Financing Bank, which purchased obligations guaranteed by the Secretary of the Interior.

Repayments on outstanding loans from two expired programs are recorded in function 800. The programs are the old Reconstruction Finance Corporation and Corps of Engineer loans for the construction of power systems in the Ryukyu Islands. In 1979 the balance of outstanding loans from the RFC was eliminated by $0.2 million in repayments and $1.6 million of loans being written off. Repayments of $0.4 million are received in fiscal years 1979-1981 for the Ryukyu Islands power system loans, reducing the outstanding balance to $5.5 million at the end of 1981.

TABLE 80. LOANS TO U.S TERRITORIES, 1979-1981: IN MILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
New direct loan obligations	3.4	---	---
New direct loans	---	2.4	1.0
Repayments	-0.9	-1.1	-1.2
Net loan outlays	-0.9	1.3	-0.2
Outstanding loans	35.3	36.7	36.4
Loan Guarantees:			
New loans guaranteed	--	10.0	---
Repayments on guaranteed loans	-0.2	-1.0	-37.5
Guaranteed loans outstanding	57.6	66.6	29.1
Memorandum:			
New FFB guaranteed loan originations	---	10.0	---
Repayments	-0.2	-1.0	-37.5
FFB holdings of guaranteed loan originations	57.6	66.6	29.1

GENERAL PURPOSE FISCAL ASSISTANCE (FUNCTION 850)

Credit assistance in function 850 consists of direct loans to the District of Columbia and loan guarantees for New York City. Table 81 summarizes the gross activity levels for these programs.

TABLE 81. DISTRICT OF COLUMBIA AND NEW YORK CITY CREDIT PROGRAMS: IN MILLIONS OF DOLLARS

Program	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1979	1980 a/	1981 b/	1979	1980 a/	1981 b/
Loans to the District of Columbia	100	145	174	---	---	---
New York City Loan Guarantees	---	---	---	500	250	300
Total	100	145	174	500	250	300

a/ Estimated.
b/ President's recommended limitation.

Loans to D.C.

The District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198) terminated the District's permanent authority to borrow from the Treasury to finance capital improvement. It authorized interim loans by the Treasury to the District for capital projects until the District is able to develop its own bond-financing program. Because of delays in the program's development, the interim financing program has been extended to include all projects approved prior to October 1, 1979. Legislation is pending before the Congress to extend the interim financing to projects approved in fiscal year 1980 and 1981 also.

For fiscal year 1981 the Administration is requesting a limitation of $174 million for gross obligations for direct loans. This sum is identical to the amount requested for appropriations, since all these loans are subject to appropriation. Net lending for fiscal year 1981 is estimated to be $148.4 million, up 22 percent from the 1980 estimate.

New York City Loan Guarantees

Public Law 93-339, the New York City Loan Guarantee Act of 1978, authorized the Secretary of the Treasury to guarantee $1.65 billion of borrowing by New York City to enable it to regain financial soundness after the financing crisis of 1975. Section 104 of the Act prescribes the amounts of borrowing that may be guaranteed each year during the life of the program. Section 104 also provides that in fiscal years 1980, 1981, and 1982, either house of Congress may, by resolution, disapprove guarantee activity for that year. Table 82 summarizes the statutory limitations, the recommended limitation for fiscal year 1981, and current activity.

The Administration states that the city is well on its way to regaining sound fiscal health. 7/ All of the $750 million of "up-front" guarantees required by the city's long-term financing plan will have been issued by the end of fiscal year 1980. The remaining $900 million guarantee authority is to be used only in the event of necessity. At this time the Administration believes that the city will be able to obtain sufficient long-term financing in fiscal years 1981 and 1982 on its own and with the assistance provided by the Municipal Assistance Corporation. Therefore, it is not anticipated that any of the $900 million standby authority will be needed.

7/ Statement of Roger C. Altman, Assistant Secretary of the Treasury (Domestic Finance) before the Senate Committee on Banking, Housing and Urban Affairs, January 28, 1980.

TABLE 82. NEW YORK CITY LOAN GUARANTEE PROGRAM, BY CITY FISCAL YEAR a/: IN MILLIONS OF DOLLARS

	1979 b/	1980	1981	1982
Statutory Limitation on:				
Guarantees from new authority	500	250	325	325
Guarantees from unused prior authority	---	750	1,000	1,325
Guarantees outstanding	750	1,000	1,325	1,650
President's Recommended Limitation on New Commitments	c/	c/	300	c/
New Loans Guaranteed	500	250	---	c/
Guaranteed Loans Outstanding	500	726	679	c/

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

b/ The fiscal year 1979 limitation was $750 million total and could be used for guarantees of long-term or seasonal debt, or both. Guarantees of long-term debt could not exceed $500 million; seasonal loans could not be guaranteed in an amount more than $325 million. The statute permitted any remainder of the $750 million total unused to be available during fiscal year 1980. The seasonal guarantee authority was not used.

c/ Not applicable.

APPENDIXES

APPENDIX A. BUDGETARY TREATMENT OF FEDERAL CREDIT PROGRAMS: A BIBLIOGRAPHY

The following bibliography has been prepared to assist readers who wish to delve more deeply into the issues surrounding the budgetary treatment of federal credit programs.

A Guidelines Handbook on Federal Loan Guarantee Programs, House Banking, Finance, and Urban Affairs Committee, Subcommittee on Economic Stabilization, 96:1 (February 1979).

Catalog of Federal Loan Guarantee Programs, House Banking, Finance and Urban Affairs Committee, Subcommittee on Economic Stabilization, 95:1 (September 1977).

Congressional Budget Office, Loan Guarantees: Current Concerns and Alternatives for Control (August 1978).

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Control of Federal Credit, Hearings before the House Budget Committee, Task Force on the Budget Process, 96:1 (November 13-14, 1979).

Federal Credit Programs, Hearings before the Senate Banking, Housing, and Urban Affairs Committee, 96:1 (March 2, 1979).

Federal Loan Guarantees, Hearings before the House Banking, Finance, and Urban Affairs Committee, Subcommittee on Economic Stabilization, 95:1 (March 29-30, 1977).

General Accounting Office, Federal Credit Assistance: An Approach to Program Design and Analysis, PAD 78-31 (May 31, 1978).

Loan Guarantees and Off-Budget Financing, Hearings before the House Banking, Currency and Housing Committee, Subcommittee on Economic Stabilization; House Ways and Means Committee, Subcommittee on Oversight; and House Budget Committee, Tax Expenditure Task Force, 94:2 (November 10, 1976).

APPENDIX B. DIFFERENCES BETWEEN THE CREDIT BUDGET AND THE SPECIAL ANALYSIS ON CREDIT PROGRAMS

In the first phase of its credit control system, the Administration proposes to control only the extension of or guarantee of the principal of a loan. In practice this means that only the principal amount of direct loans will be subject to control, not any interest subsidies or other special terms. For guaranteed lending, only the amount of loan principal that is actually guaranteed by the federal government--that becomes a contingent liability of the federal government--will be counted in the control system.

Application of this principle results in the exclusion from the credit budget of credit activity that is included in the coverage of the special analysis on federal credit programs that accompanies the budget each year. 1/ Specific types of credit activity excluded from the credit budget include:

- Investments in obligations or preferred stock of private enterprises, counted as direct lending in the special analysis;
- Deferred or delinquent interest capitalized into new loan principal, counted as a direct loan;
- The unguaranteed portion of loan principal of partially-guaranteed loans, counted as part of loan guarantees in the special analysis;
- Long-term leases of property or equipment that secure a borrower's financing, counted as loan guarantees; and
- Price guarantees or guarantees to purchase unsold output, also counted as loan guarantees.

Also, the Administration's credit budget excludes credit activities of federal agencies that do not involve federal monies. Specifically, the Tennessee Valley Authority's weatherization and insulation loan programs, conducted out of TVA's power receipts, are not counted in the credit budget, although they are included in the special analysis. Table B-1 reconciles the totals of the credit budget to the totals of Special Analysis F.

1/ "Federal Credit Programs," Special Analysis F in Special Analyses: Budget of the United States Government--Fiscal Year 1981.

TABLE B-1. RECONCILIATION OF THE CREDIT BUDGET TOTALS WITH THE SPECIAL ANALYSIS F TOTALS: IN BILLIONS OF DOLLARS

	1979 Actual	Administration Estimates 1980	Administration Estimates 1981
Direct Lending:			
Total, new direct loan obligations-- Credit Budget	51.4	59.7	60.7
Plus: Direct loan obligations for activities excluded from control system--			
Export-Import Bank	-0.7	0.8	2.0
Tennessee Valley Authority	---	0.1	0.2
USRA (purchases of Conrail securities)	0.7	0.6	0.2
Total, new direct loan obligations--Special Analysis F	51.4	61.2	63.1
Loan Guarantees:			
Total, new loan guarantee commitments-- Credit Budget	74.7	75.2	81.4
Plus: Full principal of loans partially guaranteed--			
Energy Security Trust Fund	---	0.1	0.1
Farmers Home Administration	0.1	0.1	0.1
Economic Development Administration	0.1	0.1	0.2
Aircraft guarantees	*	*	*
Veterans Administration	9.6	10.6	12.3
Export-Import Bank	0.9	1.4	1.6
Small Business Administration	0.6	0.3	0.2
Plus: Loan guarantee commitments for activities excluded from the control system--			
International Financial Institutions, callable capital	0.9	1.1	1.6
Tennessee Valley Authority	---	1.4	3.0
Total, new loan guarantee commitments--Special Analysis F	86.9	90.2	100.6

* Less than $50 million.