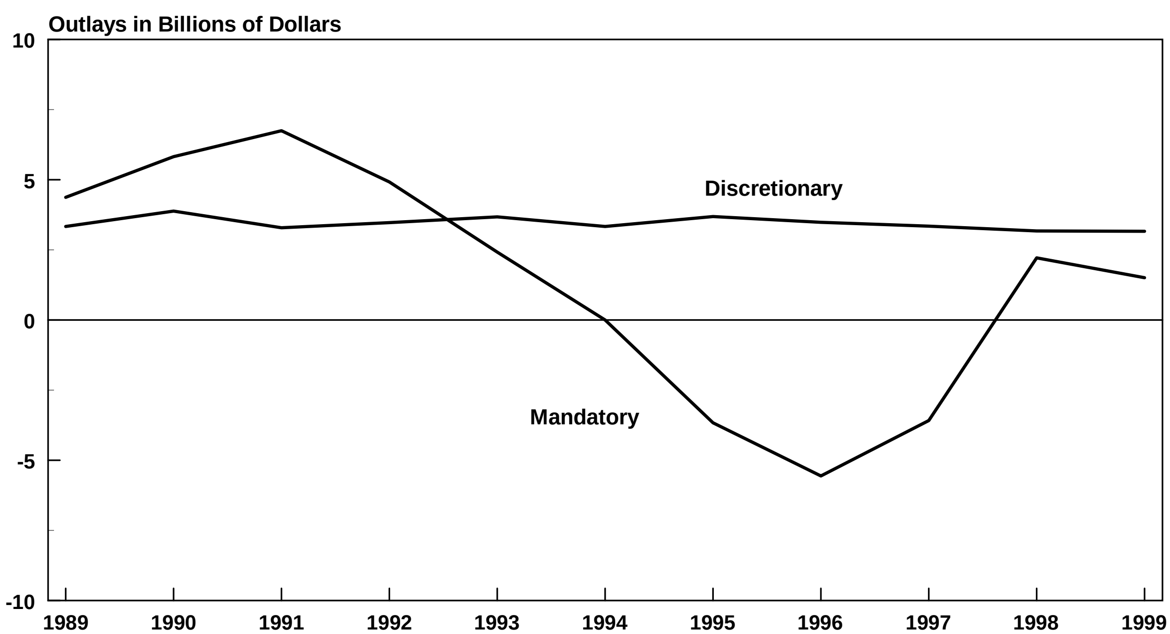
370

Commerce and Housing Credit

Budget function 370 funds programs administered by the Department of Commerce, the Federal Housing Administration, and the Small Business Administration, among others. They include programs to regulate and promote commerce and provide housing credit and deposit insurance. (The figure below excludes spending for deposit insurance.) Also included in this category are outlays for loans and other aid to small businesses and support for the government's effort to gather and disseminate economic and demographic data. CBO estimates that discretionary outlays for function 370 will total about $3 billion in 1999. Discretionary budget authority of $3.6 billion was provided for the function for 1999.



370-01 END THE CREDIT SUBSIDY FOR MAJOR SMALL BUSINESS ADMINISTRATION BUSINESS LOAN GUARANTEE PROGRAMS

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	132	84
2001	132	124
2002	132	127
2003	132	127
2004	132	127
2005	132	127
2006	132	127
2007	132	127
2008	132	127
2009	132	127
Cumulative		
2000-2004	660	589
2000-2009	1,320	1,224

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

370-05

The Small Business Administration (SBA) operates several loan guarantee programs to increase small businesses' access to capital and credit. Under the Federal Credit Reform Act of 1990, the credit subsidy for those programs is the estimated net present value cost of projected defaults (excluding administrative costs) to the SBA of guaranteeing loans over their lives. SBA's largest business credit programs are the general business loan guarantee, or 7(a) program; the certified development company, or 504 program; and the small business investment company (SBIC) equity capital programs. One of the programs, the certified development company loan program, now operates with a zero subsidy rate. Equalizing the subsidy rate of all major SBA business loan guarantee programs at zero would reduce outlays by $1.2 billion for the 2000-2009 period measured against the 1999 funding level.

Under the 7(a) loan guarantee program, the federal government guarantees 80 percent of the principal for business loans up to $100,000 and 75 percent of the principal for larger ones. Small business investment companies in the SBIC program are private investment firms licensed by the SBA. They make equity investments and long-term loans to small firms, using their own capital supplemented with SBA-guaranteed debentures.

In 1996, the Congress amended both the Small Business Act and the Small Business Investment Act to reduce subsidy rates and improve the performance of the SBA's business loan programs. One of the most significant changes the Congress made was to increase the fees paid by loan recipients for most business loans. Those increases help to reduce program costs because the revenues from the fees cover some of the expenses if a borrower defaults. The Congress also cut the percentage of each loan amount that the government guarantees under the SBA's largest loan program—the 7(a) program—from about 90 percent to about 80 percent. Reducing the guarantee rate should induce banks to more carefully evaluate loan applications because the banks will share more responsibility for any losses from defaults. If banks use more care in approving SBA loans, the default rate should decline, and the program's cost to the government should decrease. Adjusting fees (and changing loan guarantee levels) to cover potential default losses could make the major SBA business loan programs financially sound. As the subsidy rate declined to zero, the Congress would no longer have to appropriate funds to cover the government's expected losses.

Critics of this option believe SBA assistance aids small businesses by filling a gap in financing when banks and other traditional sources do not provide loans for the purposes, in the amounts, and with the terms required by small business borrowers. Some critics argue against increasing program fees or reducing guarantee rates because such changes would reduce access to credit for small businesses. Others argue that subsidies are not necessary because the loan programs provide the mechanism to pool risk so that the private sector will make financing available. Some supporters of this option argue, however, that SBA assistance serves only a tiny fraction of the nation's small businesses and that most of the program's borrowers could obtain financing without the SBA's help.

370-02 REDUCE COSTS OF THE ITA BY ELIMINATING TRADE PROMOTION ACTIVITIES OR CHARGING THE BENEFICIARIES

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	58	40
2001	231	173
2002	231	213
2003	231	231
2004	231	231
2005	231	231
2006	231	231
2007	231	231
2008	231	231
2009	231	231
Cumulative		
2000-2004	982	888
2000-2009	2,137	2,043

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

350-06

RELATED CBO PUBLICATIONS:

Antidumping Action in the United States and Around the World: An Analysis of International Data (Paper), June 1998.

How the GATT Affects U.S. Antidumping and Countervailing-Duty Policy (Study), September 1994.

The International Trade Administration (ITA) of the Department of Commerce has four major program activities: the Import Administration, which investigates antidumping and countervailing-duty cases; the trade development program, which assesses the competitiveness of U.S. industries and runs export promotion programs; the market access and compliance (MAC) unit, which works to unlock foreign markets for U.S. goods and services; and the U.S. and foreign commercial services, which counsel U.S. businesses on exporting. The MAC unit, and perhaps the countervailing-duty program against foreign subsidies, may be necessary to maintain public support for free-trade policies, and in some cases, they can be defended on economic grounds. The ITA's export promotion, marketing, and counseling activities could be eliminated, however, or the beneficiaries could be charged fees to cover more of the programs' costs. The ITA already charges some fees for some services, but those fees do not cover the cost of all such activities.

Some people argue that such activities are better left to the firms and industries involved rather than to the ITA. Others argue that those activities might have some economies of scale, especially for small firms. If so, having one entity (the federal government) counsel exporters on foreign legal and other requirements, disseminate knowledge of foreign markets, and promote U.S. products abroad might make sense. In that case, net federal spending could be reduced by charging the beneficiaries of those programs their full cost.

Fully funding the ITA's trade promotion activities through charges that are voluntary for all beneficiaries may not be possible, however. For example, in many cases, promoting the products of selected firms in a given industry that want and pay for such promotion may be impossible without also encouraging demand for the products of all other firms in that industry. In those circumstances, all the firms have an incentive not to purchase the services because they know that they are likely to receive the benefits whether they pay for them or not. Consequently, if the federal government wanted to charge beneficiaries for the ITA's services, it might have to require that all firms in an industry (or the industry's national trade group) decide together whether to purchase the ITA's services. If the firms decided to purchase them, all firms in the industry would be required to pay according to some equitable formula.

When beneficiaries do not pay the full cost of services, the ITA's activities effectively subsidize the industries involved. Those implicit subsidies are an inefficient means of helping the industries because they are partially passed on to foreigners in the form of lower prices for U.S. exports. Because the current-account balance is determined by total saving and investment in the U.S. economy, over which the ITA has no influence, the agency's activities do not improve the current-account balance. As a result of the changes they cause in exchange rates and other variables, some combination of reduced exports in other industries and increased imports completely offsets all increases in exports resulting from ITA activities. Thus, the ITA's export promotion activities hurt other U.S. firms.

370-03 ELIMINATE THE ADVANCED TECHNOLOGY PROGRAM

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	158	16
2001	197	59
2002	197	132
2003	197	187
2004	197	197
2005	197	197
2006	197	197
2007	197	197
2008	197	197
2009	197	197
Cumulative		
2000-2004	946	591
2000-2009	1,931	1,576

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

370-04

The Omnibus Trade and Competitiveness Act of 1988 established the Advanced Technology Program (ATP) within the Commerce Department's National Institute of Standards and Technology. This option would eliminate the ATP, whose objective is to further the competitiveness of U.S. industry by helping convert discoveries in basic research more quickly into technological advances with commercial potential. The program awards research and development (R&D) grants on the basis of merit to individual companies, independent research institutes, and joint ventures. The grants support research in generic technologies that have applications for a broad range of products as well as precompetitive research (preceding product development).

The ATP's grants are limited to $2 million over a three-year period when awarded to a single firm, but they have no dollar limit when awarded to a joint venture over a period of up to five years. Joint ventures must pay at least half of the R&D costs of each project, however, which helps ensure a project's commercial viability.

The ATP has awarded 352 grants from its inception through 1997, including awards to 100 joint ventures. Roughly two-thirds of the firms participating in awards are small or medium-sized firms, with large firms accounting for only 20 percent of grant recipients. Universities and other nonprofit organizations account for about 10 percent. Total funding committed to the research projects was $2.3 billion, of which the ATP paid roughly half.

Starting in 1998, the ATP explicitly required applicants to disclose their prior efforts to secure private financing. ATP officials also made consideration of spillover benefits part of the selection criteria. The ATP was responding to earlier research done by the General Accounting Office (GAO), which found that almost two-thirds of applicants had not even sought private capital before applying to the ATP and that half of the proposals the ATP rejected were subsequently funded privately. GAO found that the changes in the selection process, although positive, are insufficient, rely on the self-interested applicants for crucial information, or are difficult to operationalize.

Opponents of the program argue that private investors, not the federal government, are better able to decide which research efforts should be funded. Furthermore, citing the GAO survey, critics argue that even when the federal government chooses "a winner," it is just as likely as not to be displacing private capital. The U.S. venture capital markets are the best developed in the world and do an effective job of funding new ideas.

Program supporters argue that surveys of the ATP's award recipients indicate that the awards have accelerated the development and commercialization of advanced technology by two years or more in the majority of planned commercial applications. In addition, those surveys reveal that recipients are more willing to tackle high-risk technology development projects as a result of their grants, presumably increasing both the amount and the breadth of the R&D funded.

370-04 ELIMINATE THE MANUFACTURING EXTENSION PARTNERSHIP AND THE NATIONAL QUALITY PROGRAM

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	88	11
2001	110	35
2002	110	75
2003	110	105
2004	110	110
2005	110	110
2006	110	110
2007	110	110
2008	110	110
2009	110	110
Cumulative		
2000-2004	528	336
2000-2009	1,078	886

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

370-03

The Manufacturing Extension Partnership (MEP) and the National Quality Program reside in the National Institute of Standards and Technology. MEP consists primarily of a network of manufacturing extension centers that assist small and midsize firms with expertise in the latest management practices, manufacturing techniques, and other knowledge. The nonprofit centers are not owned by the federal government but are partly funded by it. The National Quality Program consists mainly of the Malcolm Baldridge National Quality Award, which is given to firms for achievements in quality. This option would eliminate the MEP.

Proponents of MEP point to the economic importance of small and midsize firms, which produce more than half of U.S. output and employ two-thirds of U.S. manufacturing workers. Small firms, they argue, often face limited budgets, lack of expertise, and other barriers to obtaining the information that MEP provides. Those circumstances and the substantial reliance of larger firms on small and midsize companies for supplies and intermediate goods lead proponents to contend that MEP is needed for U.S. productivity and international competitiveness.

Opponents may question the need for government to provide such technical assistance. Small firms thrived long before MEP began in 1989, in part because other sources of expertise were available. Many professors of business, science, and engineering are also consultants to private industry, and other ties between universities and private firms facilitate the transfer of knowledge. In fact, some of the centers MEP subsidizes predate MEP.

Furthermore, MEP cannot improve the competitiveness of the economy as a whole. The competitiveness of particular firms helped by MEP may improve, resulting in more exports or fewer competing imports. However, those changes in trade cause the dollar to rise in foreign exchange markets, decreasing the competitiveness of other U.S. firms. Overall, the balance of trade is not affected.

Finally, one may question MEP's positive effect on the economy's productivity. Federal spending for MEP is a subsidy for the firms MEP helps. In most cases, subsidies promote inefficiency by allowing inefficient firms to remain in business, tying up capital, labor, and other resources that would otherwise be used more productively elsewhere. In the case of businesses that increase their exports, part of the subsidy is likely to be passed on to foreign customers in the form of lower prices.

Like MEP advocates, defenders of the National Quality Program argue that it promotes U.S. competitiveness. The same counterargument used for MEP also applies to the National Quality Program. Opponents may argue that businesses need no government incentive to maintain quality—the threat of lost sales is sufficient. Furthermore, winners of the Baldridge Award often mention it in their advertising, which means they value it. If so, they should be willing to pay contest entry fees large enough to eliminate the need for federal funding.

370-05 ELIMINATE THE MINORITY BUSINESS DEVELOPMENT AGENCY

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	22	6
2001	27	25
2002	27	27
2003	27	27
2004	27	27
2005	27	27
2006	27	27
2007	27	27
2008	27	27
2009	27	27
Cumulative		
2000-2004	130	112
2000-2009	265	247

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

370-01

The Minority Business Development Agency (MBDA) of the Department of Commerce plays the lead coordinating role in all federal programs for minority business development. Through public/private partnerships, the MBDA provides a variety of direct and indirect business services. It provides management and technical assistance, expands domestic and international marketing opportunities, and collects and disseminates business information. The agency also provides support for advocacy, research, and technology to reduce information barriers. This option would eliminate the MBDA, saving $2.5 billion over the 2000-2009 period.

The arguments for and against the MBDA mirror in part those of the larger debate over affirmative action. Proponents contend that minority groups, especially African Americans, have historically been, and continue to be, hindered by pervasive discrimination. They argue that such discrimination leads to financial and educational disadvantage and lack of experience, which means that members of minority groups are less competitive relative to (non-Hispanic) whites in the business world. Discrimination also hinders minority businesses in their task of developing business relationships with suppliers and customers. Minorities, according to the program's advocates, need a helping hand to compensate for those unfair handicaps.

Opponents maintain that discrimination has substantially declined and that which remains is best fought by enforcing civil rights laws in the courts. Although, on average, African Americans and certain other minority groups are economically and educationally disadvantaged in comparison with whites, in many individual instances the reverse is true: individual African Americans or members of other minorities may be quite wealthy and educated and are competing with individual whites who are not. In such cases, opponents point out, a desire to help the disadvantaged would argue for helping the white person—not the minority group member. It is unfair, according to that argument, to help current-generation minority individuals at the expense of current-generation whites simply because previous generations of whites benefited from discrimination against previous generations of minorities. Opponents contend that such help should be limited to remedies for specific acts of illegal discrimination that have been proved in court or to general help for anyone who is disadvantaged, regardless of race. If the MBDA was eliminated, the Small Business Administration would continue to provide assistance to small businesses in general.

370-06 ELIMINATE NEW FUNDING FOR THE RURAL RENTAL HOUSING ASSISTANCE PROGRAM

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	55	3
2001	55	28
2002	55	42
2003	55	53
2004	55	54
2005	55	54
2006	55	54
2007	55	54
2008	55	54
2009	55	54
Cumulative		
2000-2004	275	180
2000-2009	550	450

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

600-02, 600-05, and REV-29

The Section 515 housing program, administered by the Rural Housing Service (RHS), provides low-interest mortgage loans to developers of multifamily rental projects in rural areas. Those mortgages typically have credits that reduce the effective interest rate to 1 percent and, in turn, lower rental costs for Section 515 tenants.

Under current rules, assisted tenants pay rent equal to the greater of 30 percent of their adjusted income or the minimum project rent. (The minimum project rent for each unit consists of a proportionate share of the amortization costs of the 1 percent mortgage and the project's operating expenses.) The owner of the housing project keeps the minimum rent, and the RHS collects any payments above it. Many of the poorest tenants receive additional federal subsidies through the Rural Rental Assistance Payments program that reduce their rent payments to 30 percent of their income.

Eliminating all new commitments for assistance under the Section 515 program would reduce federal outlays by about $450 million over the 2000-2009 period.

Support for this option is based on the view that expanding rural rental assistance is inappropriate when other federal programs are being cut. In addition, turnover among current project residents would ensure that the program would help some new income-eligible families each year.

Critics of this option point out that it would reduce the proportion of rural families the program can help as the number of eligible families continues to grow. Moreover, eliminating new funding for the program would slow the growth in the supply of standard-quality, low-income rental units in rural areas.

370-07 CHARGE A USER FEE ON COMMODITY FUTURES AND OPTIONS CONTRACT TRANSACTIONS

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	15	15
2001	60	60
2002	60	60
2003	60	60
2004	60	60
2005	60	60
2006	60	60
2007	60	60
2008	60	60
2009	60	60
Cumulative		
2000-2004	255	255
2000-2009	555	555

SPENDING CATEGORY:

This fee could be classified as a discretionary offsetting collection, a mandatory offsetting receipt, or a revenue depending on the specific language of the legislation establishing the fee.

The Commodity Futures Trading Commission (CFTC) administers the amended Commodity Exchange Act of 1936. The purpose of the commission is to allow markets to operate more efficiently by ensuring the integrity of futures markets and protecting participants from abusive and fraudulent trade practices. A fee on transactions overseen by the CFTC could cover the agency's operating costs. Such a fee would be similar to one now imposed on securities exchanges to cover the operating costs of the Securities and Exchange Commission (SEC).

A per-contract transaction fee could be imposed and remitted quarterly and adjusted periodically so that the money collected equals the CFTC's cost of operation. On the basis of the number of contracts traded in 1998, a fee of 10 cents per contract would generate enough money to cover the CFTC's operating expenses—$555 million over the 2000-2009 period. The CFTC would collect the fee. The Congressional Budget Office envisions that authorizing legislation would establish the fee, but only appropriation language would trigger the collection of the fee. The fee would then be classified as an offsetting collection.

The main arguments for the fee are based on the principle that users of government services should pay for those services. Participants in transactions that the CFTC regulates, rather than general taxpayers, are seen as the main beneficiaries of the agency's operations and therefore should pay a fee, according to proponents of the fee. Furthermore, the precedent for charging user fees has already been established by the SEC and other federal financial regulators, such as the Office of Thrift Supervision and the Office of the Comptroller of the Currency. Considerations of equity and fairness suggest that not charging a comparable fee to support CFTC operations could give futures traders an unfair advantage over securities traders.

People who argue against the fee maintain that such charges tend to encourage evasion by those who have to pay them. Users might try to avoid fees by limiting or shifting transactions to activities that are exempt from charges, which could conceivably cause some market participants to desert U.S. exchanges for foreign exchanges. Major competing foreign exchanges, however, already charge transaction fees. Even with the proposed 10-cent fee, U.S. futures exchanges may still have a cost advantage over their major foreign competitors.

CBO expects a fee of 10 cents to cause a negligible decrease in transactions because that fee is small compared with fees already imposed by the exchanges and the industry's self-regulatory organization, the National Futures Association.

370-08 ELIMINATE FHA MORTGAGE INSURANCE REBATES

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	158	158
2001	158	158
2002	158	158
2003	158	158
2004	158	158
2005	158	158
2006	158	158
2007	158	158
2008	158	158
2009	158	158
Cumulative		
2000-2004	790	790
2000-2009	1,580	1,580

SPENDING CATEGORY:

Mandatory

The Federal Housing Administration (FHA) insures home mortgages made by private lenders. It assumes the default risk on loans to eligible home buyers, who usually make down payments of 5 percent or less and often have debt payment burdens that are high relative to their income. The agency charges both up-front and annual insurance premiums to cover its default losses. The up-front premium equals 2.25 percentage points of the mortgage amount; the annual premium equals 0.5 percentage point of the outstanding loan balance. The FHA partially refunds the up-front premium if the borrower pays off the mortgage in full during the first seven years. If the borrower takes out a new loan that the FHA insures, the refund is credited toward the up-front premium on the new loan. If the rebate and the equivalent credit were eliminated for newly insured loans, the government would save $158 million in 2000 and $790 million over five years. Over 10 years, the savings would total $1.6 billion.

Eliminating the rebate would raise the cost of FHA insurance, which could lead some borrowers to take their business to the private mortgage insurance industry rather than to the FHA. Borrowers who pose less default risk than the average ones served by the FHA would be most likely to do that because they are most likely to exercise their prepayment option. The increase in the cost of insurance would be fairly small for the average FHA borrower, however, who prepays within seven years only about 20 percent of the time. For the average FHA borrower, eliminating the rebate would be equivalent to increasing the up-front premium by about $1.70 for every $1,000 borrowed (17 basis points). Many borrowers probably do not place a high value on the rebate when deciding whether to use FHA or private insurance.

Eliminating the rebate of the FHA's up-front premium would make it easier for prospective FHA borrowers to evaluate the cost of the agency's insurance. It would also have the advantage of better directing FHA insurance to borrowers in need of government assistance. But the resulting increase in the relative cost of FHA insurance could hamper the agency's ability to attract low-risk borrowers, whose presence helps to maintain an actuarially sound insurance program. Because eliminating the rebate would probably not cause many low-risk borrowers to take their business elsewhere, however, it would probably have little effect on the soundness of the program. (The most effective way to ensure the program's soundness would be to introduce greater variation in FHA premiums based on a borrower's default risk.) In addition, raising the cost of FHA insurance by eliminating the rebate could cause some higher-risk borrowers to delay their home purchases or buy smaller homes. Because the FHA has a strong market presence among younger borrowers and low- and moderate-income and minority borrowers and neighborhoods, those home buyers and areas would most likely be affected. Whether higher-risk FHA borrowers account for the value of the rebate in deciding on the size and timing of their home purchases is unclear, however.

370-09 INCREASE THE GINNIE MAE GUARANTEE FEE

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	40	40
2001	40	40
2002	40	40
2003	40	40
2004	40	40
2005	0	0
2006	0	0
2007	0	0
2008	0	0
2009	0	0
Cumulative		
2000-2004	200	200
2000-2009	200	200

SPENDING CATEGORY:

Discretionary

The Government National Mortgage Association, or Ginnie Mae, is a government corporation that facilitates the financing of federally insured and guaranteed home mortgages. Ginnie Mae guarantees mortgage-backed securities (MBSs) collateralized by home mortgages that are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs or the Department of Agriculture's Rural Housing Service. Ginnie Mae now charges issuers an annual fee of 6 cents for every $100 (6 basis points) of guaranteed MBSs backed by single-family loans. Under current law, a fee increase to 9 basis points is scheduled to take effect in 2005. Moving the fee hike up to 2000 would save $40 million in 2000 and $200 million over five years.

The cost of the fee increase would be shared by two groups: the firms that issue and service the mortgages backing MBSs guaranteed by Ginnie Mae and borrowers who take out such loans. Ginnie Mae issuers would lose income from a reduction in their servicing fee from the current maximum of 44 basis points to 41 basis points (federal law limits the sum of the Ginnie Mae guarantee and servicing fees to 50 basis points). A Ginnie Mae servicing fee of 41 basis points would probably still surpass competitive levels, which has the benefit of inducing issuers to service loans well. Some issuers with low profit margins would leave the market as a result, but other firms in this highly competitive industry would increase their business. Issuers leaving the business would prefer to sell their portfolios rather than default, so Ginnie Mae's default costs would probably be unaffected.

Alternatively, some issuers of Ginnie Mae MBSs might try to maintain their profit margins by raising the interest rates on new federally insured or guaranteed mortgages they made. Fully passing on to borrowers the cost of an increase of 3 basis points in the guarantee fee would raise the monthly payments on a $100,000 loan by $2.50. An increase of that size would probably have little effect on the demand for federally insured and guaranteed mortgages or the volume of Ginnie Mae MBSs issued. Borrowers take out such loans mainly because the government accepts lower down payments and has less stringent underwriting guidelines than do private mortgage insurers.

Proponents of raising the Ginnie Mae guarantee fee by 3 basis points argue that the hike would result, at most, in a modest increase in the cost of using FHA mortgage insurance that would lead few, if any, borrowers to switch to private mortgage insurance. In addition, proponents argue that a modest reduction in the profitability of issuers of Ginnie Mae MBSs would not adversely affect the policy objective of ensuring a steady supply of credit to housing. Opponents of moving up the fee hike argue that any increase in the cost of using FHA mortgage insurance is unwarranted. They are also concerned about the precedent of raising the fee, which could open the door to later increases that could jeopardize the viability of many Ginnie Mae issuers or hasten the consolidation of the mortgage banking industry.

370-10 REQUIRE ALL GSEs TO REGISTER WITH THE SEC

	Added Receipts (Millions of dollars)
Annual	
2000	259
2001	257
2002	258
2003	258
2004	249
2005	256
2006	262
2007	92
2008	97
2009	102
Cumulative	
2000-2004	1,282
2000-2009	2,091

NOTE: Most of the additional receipts would be revenues; a portion of the fees would be offsetting collections credited against discretionary spending.

RELATED OPTION:

920-04

RELATED CBO PUBLICATIONS:

Assessing the Public Costs and Benefits of Fannie Mae and Freddie Mac (Report), May 1996.

Controlling the Risks of Government-Sponsored Enterprises (Report), April 1991.

Government-sponsored enterprises (GSEs) are private financial institutions chartered by the federal government to support the flow of funds to agriculture, housing, and higher education. GSEs achieve their public purposes by borrowing on the strength of an implicit federal guarantee of their debt obligations. The implicit guarantee lowers GSEs' cost of borrowing, conveying subsidies that give them a competitive advantage in financial markets. The federal government also explicitly subsidizes five GSEs—Fannie Mae, Freddie Mac, the Federal Home Loan Bank System, the Farm Credit System, and Sallie Mae—by exempting them from the registration requirements of the Securities Act of 1933. That statute requires all corporations issuing stock or debt securities with maturities of more than nine months to register such offerings with the Securities and Exchange Commission (SEC), disclose uniform information about the securities, and pay registration fees. A sixth enterprise, Farmer Mac, is not exempt from SEC registration. In 1992, the Department of the Treasury, the Federal Reserve, and the SEC advocated requiring the five GSEs that are now exempt to register their securities with the SEC, which would save $259 million in 2000, $1.3 billion over five years, and $2.1 billion by 2009.

Requiring issuers to register their securities with the SEC protects investors by ensuring that all offerings are accompanied by disclosures of uniform information. GSEs were originally exempted from the requirement in part to relieve them of the costs of registering until they became accepted names in the marketplace. That rationale no longer applies: the five exempt GSEs are well known in financial markets. Repealing the exemption would not impose significant additional regulatory burdens on those GSEs because they now disclose most of the required information voluntarily. Moreover, it would reduce the competitive advantage that the enterprises have over other firms that finance loans by issuing debt or mortgage-backed securities. A more level playing field would likely lead to a more efficient allocation of credit.

To register with the SEC, each of the five GSEs would pay about 26 cents for every $1,000 (about 3 basis points) in securities it issued in 2000. SEC registration fees are scheduled to decline gradually under current law and will be less than 1 basis point in 2007 and later years. Competition from wholly private firms and between the enterprises would limit the GSEs' ability to recoup the cost of paying registration fees by raising the interest rates on the loans they finance. Fully absorbing the costs of registration would have little effect on either the enterprises' profits or the interest rates paid by the borrowers they serve. If Fannie Mae absorbed the full cost of registering its securities, for example, that GSE's after-tax return on equity would probably decline by less than 1 percentage point. But if Fannie Mae and Freddie Mac raised the rates on the home mortgages they buy so that the rate would cover the full cost of registering securities issued to finance such loans, the payments of homeowners with 30-year, fixed-rate loans with an initial balance of $150,000 would rise by less than 30 cents per month.

370-11 IMPOSE A LEASE FEE ON ANALOG TELEVISION LICENSEES

	Added Receipts (Millions of dollars)
Annual	
2000	200
2001	200
2002	200
2003	200
2004	200
2005	200
2006	200
2007	150
2008	134
2009	100
Cumulative	
2000-2004	1,000
2000-2009	1,784

SPENDING CATEGORY:

This fee could be classified as a discretionary offsetting collection or a mandatory offsetting receipt depending on the specific language of the legislation establishing the fee.

RELATED CBO PUBLICATION:

Two Approaches for Increasing Spectrum Fees (Memorandum), November 1998.

In the next several years, new digital television service will be introduced, and the current analog television service will be turned off once the new service is well established. Analog television broadcasts are tentatively scheduled to end in 2006 but most likely will continue in many markets for awhile. After 2006, the analog licensees have the option of requesting an extension of their licenses in markets where digital television can be used by 85 percent of the households.

This option, also proposed in the President's budget, would impose a fee totaling $200 million per year on analog broadcasters, beginning in fiscal year 2000. (Television broadcasters now pay a fee of about $10 million per year that covers the cost to the Federal Communications Commission of regulating the television industry.) The proposed fee would continue for as long as a broadcaster held a license to broadcast analog television. After 2006, the number of analog broadcasters would decline, on a market-by-market basis, as the transition to digital television is completed. CBO estimates that this option would raise $200 million in 2000 and almost $1.8 billion over the 2000-2009 period.

Proponents of the fee argue that broadcasters receive the right to use valuable publicly owned airwaves and should compensate the public for that right. In addition, the public has an interest in completing the transition to digital television by the end of 2006. The fee, which is approximately 20 times the current fee paid by broadcasters, would create a significant financial incentive for broadcasters not to extend their analog licenses after 2006.

Opponents of the fee argue that it places an undue burden on broadcasters and the television-viewing public and that the collection level set in the Administration's proposal is not supported by an economic rationale. Although the broadcast industry should be able to absorb the cost of the fee, the burden on some individual broadcasters could be significant, depending on how the fee is distributed among television licensees. Broadcasters may argue that the fee would consume revenues that would otherwise be used to support the transition to digital television, thus possibly delaying the introduction of the new service. Finally, broadcasters may cease broadcasting analog television in 2006 to avoid paying the fee even if the market they are in has not sufficiently converted to digital television. (Sufficient conversion means that 85 percent of households in a market would be able to receive the new signal). Consequently, many households may not be able to receive on-air television.