370

Commerce and Housing Credit

Budget function 370 covers 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. Also included in this category are outlays for loans and other aid to small businesses and support for the government's efforts to gather and disseminate economic and demographic data. CBO estimates that discretionary outlays for function 370 will total about $7.4 billion in 2000. That level—more than twice the 1999 figure—includes funding for the 2000 census.

Federal Spending, Fiscal Years 1990-2000 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimate 2000
Budget Authority (Discretionary)	3.9	2.8	4.2	4.1	4.0	3.9	4.1	3.1	3.1	3.8	7.0
Outlays											
Discretionary	3.8	3.4	3.4	3.7	3.4	3.7	3.5	3.4	3.2	3.5	7.4
Mandatory	63.8	72.9	7.5	-25.6	-7.6	-21.5	-14.0	-18.0	-2.2	-0.9	-2.5
Total	67.6	76.3	10.9	-21.9	-4.2	-17.8	-10.5	-14.6	1.0	2.6	4.9
Memorandum:											
Annual Percentage Change in Discretionary Outlays		-12.6	1.0	9.7	-9.1	10.3	-6.2	-4.0	-5.3	10.6	111.4

370-01 End the Credit Subsidy for Major Small Business Administration Business Loan Guarantee Programs

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	125	80
2002	125	118
2003	125	120
2004	125	120
2005	125	120
2001-2005	625	558
2001-2010	1,250	1,158
Relative to WIDI		
2001	127	81
2002	129	121
2003	131	125
2004	134	128
2005	136	130
2001-2005	657	585
2001-2010	1,372	1,267

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 2001-2010 period measured against the 2000 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
Relative to WODI		
2001	61	43
2002	244	183
2003	244	225
2004	244	244
2005	244	244
2001-2005	1,037	939
2001-2010	2,257	2,159
Relative to WIDI		
2001	63	44
2002	260	195
2003	267	245
2004	275	272
2005	283	279
2001-2005	1,148	1,035
2001-2010	2,684	2,554

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

300-05, 400-05, and 400-06

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
Relative to WODI		
2001	114	11
2002	143	43
2003	143	96
2004	143	136
2005	143	143
2001-2005	686	429
2001-2010	1,401	1,144
Relative to WIDI		
2001	117	12
2002	149	44
2003	151	99
2004	154	142
2005	157	152
2001-2005	728	449
2001-2010	1,560	1,252

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). This option would eliminate the ATP, saving $1.1 billion through 2010.

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 468 grants from its inception through 1999, including awards to 157 joint ventures. Roughly two-thirds of the firms participating in awards are small or medium-sized firms or joint ventures led by small or medium-sized firms; large firms account for only 20 percent of grant recipients. Universities and other nonprofit organizations participated in 256 projects as joint-venture partners. Total funding committed to the research projects was $3.0 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
Relative to WODI		
2001	87	11
2002	109	36
2003	109	75
2004	109	104
2005	109	109
2001-2005	523	335
2001-2010	1,068	880
Relative to WIDI		
2001	89	11
2002	113	37
2003	116	77
2004	118	109
2005	120	116
2001-2005	556	350
2001-2010	1,194	968

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 Baldrige National Quality Award, which is given to firms for achievements in quality. This option would eliminate the MEP and the National Quality Program, saving $880 million through 2010.

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 Baldrige 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
Relative to WODI		
2001	22	6
2002	27	25
2003	27	27
2004	27	27
2005	27	27
2001-2005	130	112
2001-2010	265	247
Relative to WIDI		
2001	23	7
2002	28	26
2003	29	28
2004	30	29
2005	30	30
2001-2005	140	120
2001-2010	302	280

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 $247 million over the 2001-2010 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 the 85 Percent Market Adoption Test for Digital Television

	Added Receipts (Millions of dollars)
2001	0
2002	300
2003	300
2004	0
2005	0
2001-2005	600
2001-2010	600

SPENDING CATEGORY:

Mandatory

The Balanced Budget Act of 1997 (BBA) requires the Federal Communications Commission (FCC) to auction licenses to use certain parts of the radio spectrum made available by the transition from analog television broadcasting to digital television broadcasting that is now in progress. Those parts of the spectrum will not be available for use by auction winners until 2007 at the earliest; they will not be available until even later in markets in which less than 85 percent of the households are able to receive a digital television signal. The BBA further stipulates that the receipts from the auction must be deposited in the Treasury no later than September 30, 2002. This option would eliminate the 85 percent market adoption test, which the Congressional Budget Office estimates will increase auction receipts by $600 million.

As mandated by law, the nation's television broadcasters are currently shifting their operations from a technology based on analog signals to a newer, higher capacity-signal system based on digital technology. Current law anticipates that the transition from analog to digital broadcasting will be completed by the end of 2006, but it also provides for extending the transition if less than 85 percent of the households in a television market are able to receive the new digital signal at that time. Once the 85 percent adoption test is met and the transition is deemed complete, broadcasters in that market will stop broadcasting the old analog signals. The move to a digital system may require households to invest in new equipment before they can receive the new signals.

Current law also stipulates that the rights to use certain parts of the radio spectrum freed by the adoption of the digital television standard must be auctioned before the transition is complete. Thus, even with a timely transition, bidders will be making their offers with the understanding that the licenses they bid on will not permit full use of the associated spectrum until the transition's end. Since the BBA was enacted, however, it has become increasingly clear that the 85 percent goal probably will not be met in many markets by 2006 and that the transition will be extended in those areas. As the time between paying for and making profitable use of the spectrum freed by the transition appears to be lengthening, estimates of the receipts that will be raised by selling the rights to use it have been revised downward. Eliminating the 85 percent exemption and guaranteeing that the transition will not continue beyond the end of 2006 would decrease the time between the auction and the spectrum's availability and, consequently, increase receipts.

The argument in favor of this option rests on the economic value created by the earlier availability for other purposes of a portion of the frequencies currently allocated to television broadcasting. That argument is based on the conjecture that the new uses of the spectrum in question will be more valuable than the losses in television viewing created by a more rapid transition. Viewers who do not adopt digital television by 2006, the option's proponents might say, do not highly value television, and thus the social loss of disenfranchising them is correspondingly small. In the current case, higher auction receipts are a by-product of the radio spectrum's being used more efficiently.

The main argument against this option emphasizes the economic and social costs of ending the transition before the 85 percent market penetration level is reached. Those households that are last to adopt digital television and most likely to be disenfranchised by an earlier end to the transition may be the households that are least able to afford the equipment required for the upgrade to digital televison. In addition, depriving more than 15 percent of the population of free, over-the-air broadcast television may be an undesirable social consequence.

370-07 Charge a User Fee on Commodity Futures and Options Contract Transactions

	Savings (Millions of dollars) Budget Authority	Outlays
2001	62	62
2002	62	62
2003	62	62
2004	62	62
2005	62	62
2001-2005	310	310
2001-2010	620	620

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. Meeting the CFTC's operating expenses of $620 million over the 2001-2010 period would require a nominal fee of around 10 cents per contract, assuming that the number of contracts traded annually over the period remains near the number traded in 1999. 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 a nominal fee, U.S. futures exchanges may still have a cost advantage over their major foreign competitors.

CBO expects a fee of around 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
2001	240	240
2002	240	240
2003	240	240
2004	240	240
2005	240	240
2001-2005	1,200	1,200
2001-2010	2,400	2,400

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 points 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 $240 million in 2001 and $1.2 billion over five years. Over 10 years, the savings would total $2.4 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. Given the FHA's forecast of prepayment rates on newly insured loans, eliminating the rebate would be equivalent to increasing the up-front premium by about $2.50 for every $1,000 borrowed (25 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
Relative to WODI		
2001	40	40
2002	40	40
2003	40	40
2004	40	40
2005	0	0
2001-2005	160	160
2001-2010	160	160
Relative to WIDI		
2001	40	40
2002	40	40
2003	40	40
2004	40	40
2005	0	0
2001-2005	160	160
2001-2010	160	160

NOTE: Although Ginnie Mae is characterized as a discretionary program, this option would save the same amounts under a WODI and WIDI baseline.

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 2001 would save $40 million in 2001 and $160 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 diligently service loans. 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 the 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 or the Department of Veterans Affairs' loan guarantees 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)
2001	313
2002	304
2003	294
2004	274
2005	274
2001-2005	1,459
2001-2010	2,109

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 $313 million in 2001, $1.5 billion over five years, and $2.1 billion through 2010.

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 (MBSs). (Although bank securities are exempt from the registration requirements of the 1933 act, the securities of bank holding companies and all MBSs issued by non-GSEs are not.) A more level playing field would probably lead to a more efficient allocation of credit.

To register with the SEC, each of the five GSEs would pay about 25 cents for every $1,000 (about 2.5 basis points) in securities it issued in 2001. 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 lowered the prices they pay for the home mortgages they buy to cover the full cost of registering securities issued to finance such loans, the origination fees paid by homeowners with loans with an initial balance of $150,000 would rise by less than $38.

370-11 Eliminate New Funding for the Rural Rental Housing Assistance Program

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	45	3
2002	45	23
2003	45	34
2004	45	43
2005	45	44
2001-2005	225	147
2001-2010	450	368
Relative to WIDI		
2001	46	3
2002	46	23
2003	47	35
2004	48	45
2005	49	46
2001-2005	236	152
2001-2010	493	398

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

600-02, 600-05, and REV-30

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 basic rent. (The basic 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 basic 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 $368 million over the 2001-2010 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.