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 $3.7 billion in 2001, a decrease from the high level of 2000, which included funding for the 2000 census. (The large negative amounts for mandatory spending in the mid-1990s reflect proceeds from the resolution of failed banks and thrifts.)

Federal Spending, Fiscal Years 1990-2001 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Estimate 2001
Budget Authority (Discretionary)	3.9	2.8	4.2	4.1	4.0	3.9	4.1	3.1	3.1	3.8	7.1	3.0
Outlays												
Discretionary	3.8	3.4	3.4	3.7	3.4	3.7	3.5	3.4	3.2	3.5	6.4	3.7
Mandatory	63.8	72.9	7.5	-25.6	-7.6	-21.5	-14.0	-18.0	-2.2	-0.9	-3.2	-3.4
Total	67.6	76.3	10.9	-21.9	-4.2	-17.8	-10.5	-14.6	1.0	2.6	3.2	0.2
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	82.5	-42.8

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

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	163	104
2003	163	153
2004	163	156
2005	163	156
2006	163	156
2002-2006	815	725
2002-2011	1,630	1,505
Relative to Inflated Appropriations		
2002	167	107
2003	170	159
2004	173	165
2005	176	168
2006	180	171
2002-2006	866	770
2002-2011	1,818	1,678

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 (over the lives of the loans) of projected defaults minus fees, recoveries, and administrative costs. 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 those programs, the certified development company loan program, now operates without a federal subsidy. Reducing the subsidy of all of the SBA's major business loan guarantee programs to zero would reduce outlays by $1.5 billion over the 2002-2011 period measured against the 2001 funding level and by about $1.7 billion measured against the 2001 funding level adjusted for inflation.

Under the 7(a) program, the SBA's largest loan 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 loans. Small business investment companies in the SBIC program (private investment firms licensed by the SBA) 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 when borrowers default. The Congress also cut the percentage of each loan amount that the government guarantees under the 7(a) program from about 90 percent to the current levels of about 80 percent. Reducing the guarantee rates further 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 costs to the government should decrease. Adjusting fees (and changing loan guarantee levels) to cover potential default losses could make the SBA's major 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 the SBA's 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 the SBA's assistance serves only a tiny fraction of the nation's small businesses and that most of the programs' borrowers could obtain financing without the SBA's help.

370-02 Reduce Costs of the International Trade Administration by Eliminating Trade Promotion Activities or Charging the Beneficiaries

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	65	49
2003	259	205
2004	259	241
2005	259	259
2006	259	259
2002-2006	1,101	1,013
2002-2011	2,396	2,308
Relative to Inflated Appropriations		
2002	67	51
2003	278	219
2004	286	265
2005	294	292
2006	304	301
2002-2006	1,229	1,128
2002-2011	2,889	2,771

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

150-02, 300-05, 350-02, 350-06, 350-09, 400-05, and 400-06

RELATED CBO PUBLICATIONS:

Causes and Consequences of the Trade Deficit: An Overview (Memorandum), March 2000.

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 units: 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. This option would eliminate the ITA's trade promotion activities or charge the beneficiaries. Those changes would save $2.3 billion through 2011 relative to current appropriations and $2.8 billion relative to current appropriations adjusted for inflation.

Some people argue that such activities are better left to the firms and industries involved 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 costs.

Fully funding the ITA's trade promotion activities through voluntary charges may not be possible, however. For example, in many cases, promoting the products of selected firms in a given industry that are willing to pay for such promotion may be impossible without also encouraging demand for the products of other firms in that industry. In those circumstances, 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 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 costs 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 nation's 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 that 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 increases in exports resulting from the ITA's 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 Current Appropriations		
2002	117	19
2003	146	64
2004	146	115
2005	146	137
2006	146	145
2002-2006	701	480
2002-2011	1,431	1,210
Relative to Inflated Appropriations		
2002	120	19
2003	153	66
2004	156	121
2005	159	146
2006	163	156
2002-2006	751	508
2002-2011	1,618	1,347

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). Implementing this option would save, over the 2002-2011 period, $1.2 billion relative to the 2001 funding level and $1.3 billion relative to that level adjusted for inflation.

The ATP has awarded 522 grants from its inception through 2000. The total funding committed to the research projects was $3.3 billion, of which the program paid roughly half. 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.

Starting in 1998, the ATP explicitly required applicants to disclose their prior efforts to secure private financing. ATP officials also made the likelihood of spillover benefits part of the selection criteria. The ATP was responding to evaluations 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, were insufficient or difficult to implement and that the process relied on the self-interested applicants for crucial information.

Opponents of the program argue that private investors are better able than the federal government to decide which research efforts should be funded. 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, do an effective job of funding new ideas, and focus on many of the same research areas as the ATP, critics argue. Furthermore, venture capital funds have grown more than tenfold since the ATP was conceived. In the first three quarters of 2000, venture capital funds raised $76 billion, about 500 times the size of the ATP. That size differential increases the odds that the ATP is funding work that might have been funded by venture capital firms.

Supporters of the program 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 Current Appropriations		
2002	88	16
2003	110	64
2004	110	93
2005	110	106
2006	110	110
2002-2006	528	389
2002-2011	1,078	939
Relative to Inflated Appropriations		
2002	91	17
2003	115	66
2004	118	98
2005	121	113
2006	123	120
2002-2006	568	414
2002-2011	1,227	1,053

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

300-15 and 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 by providing expertise in the latest management practices and 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 MEP and the National Quality Program, saving $939 million through 2011 relative to current appropriations and about $1.1 billion relative to current appropriations adjusted for inflation.

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, a 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 the 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 the program.

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 that the program 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. However, as with the MEP, the National Quality Program can at best improve the competitiveness of some U.S. firms at the expense of others. It cannot make the economy as a whole more competitive. 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 Current Appropriations		
2002	22	11
2003	27	23
2004	27	27
2005	27	27
2006	27	27
2002-2006	130	115
2002-2011	265	250
Relative to Inflated Appropriations		
2002	22	11
2003	29	24
2004	29	29
2005	30	30
2006	31	30
2002-2006	141	124
2002-2011	306	286

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 $250 million over the 2002-2011 period relative to current appropriations and $286 million relative to current appropriations adjusted for inflation.

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 a lack of experience, which reduces the competitiveness of minority groups 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 handicaps.

According to opponents, 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. Moreover, if the MBDA was eliminated, the Small Business Administration would continue to provide assistance to small businesses in general.

370-06 Charge a User Fee on Commodity Futures and Options Contract Transactions

	Savings (Millions of dollars) Budget Authority	Outlays
2002	68	68
2003	68	68
2004	68	68
2005	68	68
2006	68	68
2002-2006	340	340
2002-2011	680	680

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 foster competitive and financially sound commodity futures and options markets and to ensure the integrity of those markets and protect 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, collected by the CFTC, 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 equaled the CFTC's cost of operation. Meeting the CFTC's operating expenses of $680 million over the 2002-2011 period would require a nominal fee of around 10 cents per contract, if the number of contracts traded annually over the period remained near the number traded in 1999. If authorizing legislation established the fee but appropriation language triggered its collection, 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. 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 the CFTC's operations could give futures traders an unfair advantage over securities traders.

Arguments against the fee are that it would be an unnecessary tax on those who use U.S. futures and options exchanges and that it would make those exchanges less efficient and less competitive. Users might try to avoid the fee 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 might still have a cost advantage over their major foreign competitors.

370-07 Charge All Banks and Thrifts Deposit Insurance Premiums

	Added Receipts (Millions of dollars)
2002	1,800
2003	1,800
2004	2,000
2005	1,600
2006	1,100
2002-2006	8,300
2002-2011	13,100

SPENDING CATEGORY:

Mandatory offsetting receipts

Federal deposit insurance protects accounts up to $100,000 in the event of a bank's failure, and the Federal Deposit Insurance Corporation Improvement Act of 1991 authorized the Federal Deposit Insurance Corporation (FDIC) to levy risk-based premiums on banks to cover the cost of that insurance. However, the Deposit Insurance Fund Act of 1996 limited the FDIC's ability to charge risk-based premiums. Currently, deposit insurance premiums are assessed on about 7 percent of all banks and thrifts; the remainder pay nothing for deposit insurance even though they pose some risk of loss for the government. This option would apply to banks and thrifts the FDIC's rate schedule for banks that was in effect before 1996; as a result, the vast majority of institutions that are currently not paying deposit insurance premiums would pay an annual premium of 4 basis points (4 cents per $100 of deposits) per year. This option would increase receipts to the government by $1.8 billion in 2002, $8.3 billion over five years, and $13.1 billion over 10 years.

The Deposit Insurance Fund Act of 1996 stipulated that when the accumulated reserves of a deposit insurance fund exceeds 1.25 percent of insured deposits, the FDIC is prohibited from charging premiums of all but the riskiest institutions. The risk classification of a bank or thrift is based on the amount of capital held, the quality of its assets, the effectiveness of its management, and other factors. That target level of 1.25 percent of insured deposits has been exceeded for the past five years for the Bank Insurance Fund (and for the past three years for the Savings Association Insurance Fund). However, the Congressional Budget Office projects that, under current law, the accumulated insurance reserves will fall below the 1.25 percent target balance in 2005, largely because of growing deposits in banks that currently pay no premiums. Under the 1996 act, the FDIC must raise rates for all banks to an average of 23 basis points when that happens. The FDIC's current schedule of insurance premiums ranges from zero to 27 basis points.

There are several rationales for charging all banks and thrifts some deposit insurance premium even when insurance funds' reserves exceed 1.25 percent of insured deposits. First, that target level of reserves bears no relation to expected losses. That level of reserves is less than half of the deposit insurance funds' losses from 1989 to 1992. Second, even institutions in the best risk category pose some risk of failure over time and consequently should pay some premium, just as private insurers impose some premium on even the best risks. Third, recent experience indicates that some failures occur abruptly from risks that cannot be easily quantified or tracked, such as fraud or trading losses by rogue traders.

A disadvantage of this option is that the 4-basis-point premium, which would be paid by most institutions, is only a crude approximation of the risks they pose. Some would be charged too much and some too little. Ideally, a more accurate risk-based system of premiums, including some charge to the least risky institutions, could be reinstated. Aligning the prices of insurance more closely with risks for the vast majority of insured institutions would shift the cost of risk taking from the government back to the depositories.

Opponents of the premium hike contend that the current level of reserves provides ample protection to taxpayers. They believe that a strengthened regulatory regime and better risk-management practices make a repeat of the bank and thrift crisis highly unlikely. In addition, banks and thrifts may pass the cost of deposit insurance on to borrowers and depositors. To the extent that depositors undervalue FDIC insurance, banks might be put at a competitive disadvantage in attracting deposits compared with uninsured substitutes such as money market mutual funds.

370-08 Require All Government-Sponsored Enterprises to Register with the Securities and Exchange Commission

	Added Receipts (Millions of dollars)
2002	287
2003	291
2004	281
2005	290
2006	297
2002-2006	1,446
2002-2011	2,023

SPENDING CATEGORY:

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

RELATED OPTION:

920-03

RELATED CBO PUBLICATIONS:

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

Controlling the Risks of Government-Sponsored Enterprises (Study), 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 four GSEs—Fannie Mae, Freddie Mac, the Federal Home Loan Bank System, and the Farm Credit System—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 fifth enterprise, Farmer Mac, is not exempt from registering with the SEC. In 1992, the Department of the Treasury, the Federal Reserve Board, and the SEC advocated requiring the four GSEs that are now exempt to register their securities with the SEC. Implementing that recommendation would save $287 million in 2002, $1.4 billion over five years, and $2.0 billion through 2011.

Requiring firms to register public securities with the SEC protects investors by ensuring full disclosure of uniform financial 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 four exempt GSEs are well known in financial markets. Repealing the exemption would not impose significant additional administrative costs on those GSEs because registration can be done electronically. Moreover, repealing the exemption would reduce the competitive advantage that the enterprises have over other firms that finance loans by issuing debt or mortgage-backed securities. (Although bank securities are exempt from the registration requirements of the 1933 law, the securities of bank holding companies and all mortgage-backed securities 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 four GSEs would pay about 2.5 cents per $100 in securities it issued in 2002 (about 2.5 basis points). 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 costs of registering its securities, for example, its after-tax return on equity would probably decline by less than 2 percentage points. But if Fannie Mae and Freddie Mac lowered the prices they pay for the home mortgages they buy to cover the full costs of registering securities issued to finance such loans, the origination fees paid by homeowners having loans with an initial balance of $150,000 would rise by less than $38.

370-09 Eliminate New Funding for the Rural Rental Housing Assistance Program

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	56	3
2003	56	29
2004	56	43
2005	56	54
2006	56	55
2002-2006	280	184
2002-2011	560	459
Relative to Inflated Appropriations		
2002	57	3
2003	58	29
2004	59	44
2005	61	56
2006	62	59
2002-2006	297	191
2002-2011	624	502

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

600-02

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.

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 over the 2002-2011 period by $459 million relative to current appropriations and $502 million relative to current appropriations adjusted for inflation.

Even with this reduction in federal spending, turnover among current project residents would ensure that the program would help some new income-eligible families each year. However, the option would reduce the proportion of rural families the program can help even 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.