SUMMARY

Last year the Administration and the Congress established a federal credit budget. The development of the credit budget was prompted by three concerns:

- o Federal credit--in the form of direct loans and loan guarantees--grew rapidly, and apparently without control, in the 1970s.

- o Federal credit activities can have important economic consequences--for the allocation of credit resources among various uses, the composition of economic activity, and the economy's growth rate--that the Congress should recognize even though the magnitude of these effects is unknown.

- o The budgetary treatment of credit programs is less rigorous than that for direct spending and taxes, a factor that may have played a part in the rapid growth of federal credit.

The credit budget, which records estimates of new direct loans and new loan guarantees for each fiscal year, attempts to correct for the understatement in the unified budget of the size of federal credit activities. In 1980 the federal government made obligations to extend $39 billion in new direct loans and $70 billion in new loan guarantees. Yet net on-budget direct lending, the only portion of the credit budget included in the unified budget, accounts for less than 2 percent, or $9 billion, of total 1980 outlays. The unified budget understates the amount of new federal credit extended each year in three respects; the credit budget corrects for this understatement in each case, as follows:

- o Direct loans by off-budget agencies are excluded by law from the budget totals. All direct loans, however are recorded in the credit budget.

- o Loan guarantees are excluded by law from the budget totals, except in the event of default. They are fully counted in the credit budget.

- o The unified budget records net loan disbursements. The credit budget records gross new credit activity.

Because the unified budget treatment understates credit activities, it has fostered the perception of federal credit as an almost costless form of federal assistance. The credit budget is designed to correct this perception by recording the total volume in each fiscal year of new credit activities. Through the imposition of limitations on the authority of agencies to enter into new obligations for direct loans and new commitments to guarantee loans, the credit budget can also enhance Congressional control of individual credit programs.

THE CREDIT BUDGET FOR 1982

The proposed credit budget totals for 1982 demonstrate the Reagan Administration's intent to use the credit budget as a vehicle to reduce federal activity in credit markets. According to the Administration, new federal loan and loan guarantee activity will be 15 percent higher in 1981 than it was the year before, but will decrease in 1982 to only 6 percent above the 1980 total (see Summary Table). Despite the large increase in 1981, the credit budget totals presented in the March 1981 Budget Revisions for Fiscal Year 1982 are 9 percent lower for 1981 and 13 percent lower for 1982 than those presented by the previous Administration in the January budget. The current estimates show containment and then reversal of the rapid growth trend in federal credit in recent years.

The Administration is requesting the termination of several credit programs, including the loan and loan guarantee programs of the Economic Development Administration and the National Consumer Cooperative Bank, housing rehabilitation loans, and several energy development programs. For 1981 many of the decreases from the January totals depend on requests for reductions in previously appropriated limitations; these requests are analogous to rescissions. In 1982 the major volume of savings occurs in large credit programs for which appropriation limitations are being requested. The greatest saving in credit budget totals occurs in loan guarantees for home mortgages which, though not reduced, will not be allowed to grow. Reductions in direct loans result largely from low estimates for disaster spending, achieved in part through changes in program administration. Student loans, synthethic fuel production, the Export-Import Bank, and the Farmers Home Administration also account for large reductions. The Administration has announced its intent to promote the use of private financing by many federal credit programs, and as an initial step has restricted access of some agencies to the Federal Financing Bank.

There is a risk that the proposed decrease in credit planned for 1982 will not occur, as credit program estimates are often subject to great uncertainties. The original 1981 credit budget estimate was 8 percent lower than the latest total, even after the new Administration's attempts to streamline it. Disaster loans and mortgage insurance programs have been among the major contributers to unexpected increases in credit budget totals, though the Administration contends that most of these activities are potentially controllable through Congressional limitations.

SUMMARY TABLE. CREDIT BUDGET TOTALS (By fiscal year, in billions of dollars)

Credit Activity	Actual 1979	Actual 1980	Administration Estimates 1981	Administration Estimates 1982
Direct Loan Obligations				
Total direct loans	51.4	61.4	71.2	56.9 a/
Less FFB loan asset purchases	-10.9	-12.1	-16.2	-6.2
Direct loans, adjusted	40.5	49.3	55.0	50.7 a/
New Loan Guarantee Commitments				
Gross guarantees	135.2	161.0	184.7	168.7
Less secondary guarantees b/	-42.4	-64.4	-66.2	-64.7
Less guarantees of direct loans b/	-18.1	-24.4	-33.3	-25.4
Primary loan guarantees	74.7	72.2	85.2	78.5
Total, Credit Budget	115.2	121.5	140.2	129.2 a/

a/ These figures are higher than those presented in the Administration's March 1981 Budget Revisions because of a $1.3 billion error in Farmers Home Administration estimates. See note to that effect on p. 19 of Budget Revisions.

b/ For defintions of secondary guarantees and guarantees of direct loans, see Appendix A.

CONGRESSIONAL ACTION ON THE CREDIT BUDGET

The Congress may act on the credit budget in two ways. First, it may include aggregate credit targets in the concurrent budget resolutions.

Second, it may include limitations on new credit activity for some programs in the 1982 appropriations bills.

Budget Resolution Targets. In its budget resolutions for fiscal year 1981, the Congress set targets for total federal credit activity for the first time. The second resolution included targets of $73.5 billion for direct loan obligations, $82.8 billion for primary loan guarantee commitments, and $53.0 billion for secondary guarantee commitments. 1/ The Administration's totals for the 1981 credit budget are within the direct loan and primary guarantee targets set in the resolution. The secondary loan guarantee total exceeds the target by $13.2 billion, as a result of increased commitments for GNMA mortgage-backed securities. Because the credit targets in the second resolution are not binding, the Congress will not be prevented from considering the requested supplemental increase in the 1981 GNMA limitation.

Appropriation Limitations. Limits in appropriations bills on new program activity instituted in the first credit budget are the mechanism for controlling the annual activity of individual programs. For both 1981 and 1982, the Carter Administration chose not to propose limitations for all programs, but instead exempted those for which it considered annual limitations inappropriate, such as entitlement and emergency credit programs. For 1982, the Reagan Administration is recommending exemptions for 54 percent of new direct loan obligations, and for 30 percent of new primary loan guarantee commitments.

As the Congress experiments with the credit budget as a means to exert greater control over the annual level of federal credit activities, three issues arise. First, should budget resolution targets be made binding? Legislation has been introduced in the 97th Congress to amend the Congressional Budget Act of 1974 to subject credit targets to the same point of order and other controls now used for unified budget targets and ceilings.

Second, who should have the responsibility for placing limitations on the annual levels of new credit activity for individual programs? At present, this responsibility is not clearly assigned for many programs. It has been suggested that new authorizations for direct loans and loan guarantees be made subject to advance approval in appropriation legislation. Last

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1/ Secondary loan guarantees are new guarantees on loans that have received an earlier federal guarantee, such as Government National Mortgage Association guarantees of securities backed by federally insured mortgages.

session, the Senate included a section in its first concurrent resolution recommending that all new bills authorizing loan guarantees include an explicit statement requiring approval of guarantee amounts in an appropriation act. Several large credit programs, such as the one authorized by the New York City Loan Guarantee Act, have already included such statements. Without some change, however, in law or rules of the House and Senate, jurisdiction over limitations may be an area of continued dispute.

Third, which, if any, programs should be exempt from annual limitation? The Congress has not yet thoroughly reviewed the Administration's criteria for exempting programs from limitation, nor has it made any evaluation of the appropriateness of annual limitations for certain kinds of programs. To achieve systematic control over credit programs, the Congress will have to develop a policy on exemptions from annual activity limitations.

CHAPTER I. THE NEED FOR A CREDIT BUDGET

The U.S. government extends credit to assist a wide array of activities. The amount of new credit extended under federal auspices now constitutes a significant share of the new credit advanced in the economy each year. Last year, the Carter Administration and the Congress instituted a credit budget. This step was prompted by concern over the size and growth of federal credit, the consequences of federal credit for the economy, and by the realization that the budgetary treatment of credit programs was less rigorous than that for direct spending or taxes. The credit budget, which records estimates of new direct loans and loan guarantees for each fiscal year, attempts to correct for the understatement in the unified budget of the size of federal credit activities.

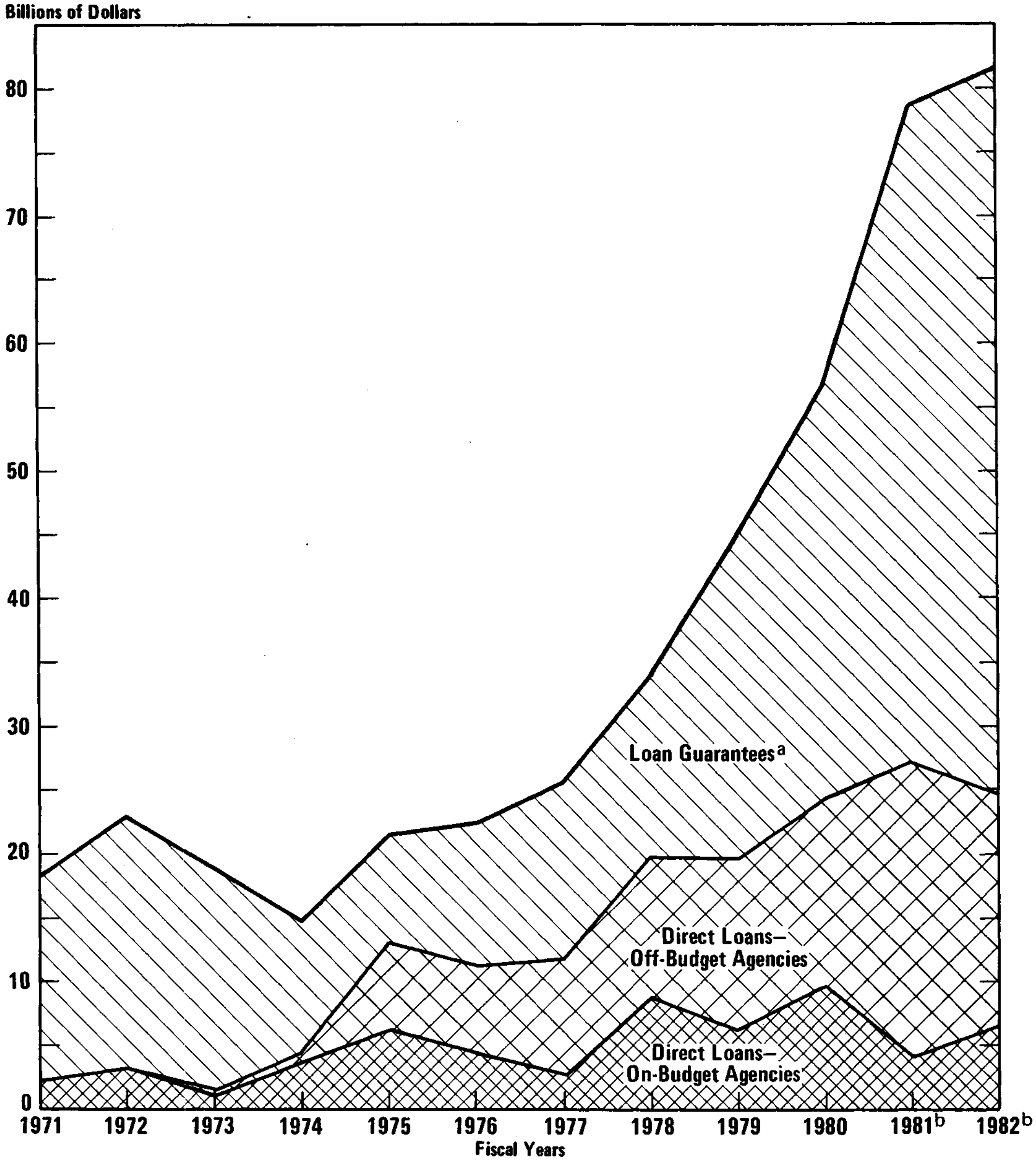
SIZE AND GROWTH OF FEDERAL CREDIT

The federal government extends credit in two basic forms: direct loans and loan guarantees. Federal agencies make direct loans to individuals, businesses, nonprofit organizations, and local governments for a variety of purposes, often at subsidized interest rates. The Small Business Administration, for example, lends money under its disaster relief program to businesses damaged by natural disasters. In a loan guarantee, the federal government pledges to repay principal and interest on a loan in case of default by the borrower, thus eliminating the lender's exposure to risk. No federal funds are involved unless the borrower defaults. The Veterans Administration, for example, guarantees repayment of home mortgages extended to veterans by savings and loans or other financial institutions.

The growth in net federal credit--that is, net direct lending and net loans guaranteed--is shown in Figure 1. 1/ In recent years both net loans guaranteed and net direct loans extended each year have grown rapidly. Net loans guaranteed annually rose from $14.0 billion in 1977 to $32.4 billion in 1980, an increase of 131 percent. Annual net direct lending rose from $11.6 billion in 1977 to $24.2 billion in 1980, an increase of 108 percent. Most of the growth in direct lending occurred in lending by off-budget agencies, whose activities are excluded from the unified budget totals.

1/ For definitions of net lending and other terms used in this paper, see Appendix A.

Figure 1.
Components of Net Federal Credit, Fiscal Years 1971-1982



SOURCE: *The Budget of the United States Government, Fiscal Year 1982,* Special Analysis on Credit.

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

[b] Estimates.

Federal loans and loan guarantees have not only grown faster than direct federal spending, they have also grown faster in the past few years than other forms of credit. Federal credit as a percentage of all credit advanced in the United States each year has grown steadily from 8 percent in 1977 to 16 percent in 1980. 2/ If lending by the privately owned, government-sponsored credit enterprises, such as the Federal National Mortgage Association, is included, the federally directed share increases from 12 to 23 percent in this period. 3/ It is difficult to gauge trends in the rate of federal participation in credit markets, as the proportion is highly sensitive to private market conditions; even allowing, however, for large annual fluctuations, there appears to have been significant upward movement during the latter part of the decade.

ECONOMIC EFFECTS OF FEDERAL CREDIT

Control of federal credit activities is important because these programs have the potential to change the allocation of credit among uses, the composition of economic activity, and the economy's growth rate. 4/ Federal credit also uses scarce budget resources by providing substantial subsidies to some borrowers.

In the absence of government intervention, credit and investment resources flow into those uses in which rates of return, adjusted for risk, are perceived to be highest. Enterprises facing low prospective rates of return receive little credit in private markets. The government may intervene to change this allocation if it believes market perceptions of profitability and risk are wrong, or if it believes the market fails to take into account significant social costs and benefits of some activities.

2/ These percentages are based on net lending from the Federal Reserve flow-of-funds model of credit markets. Budget of the United States Government for Fiscal Year 1982, Special Analysis on Credit.

3/ The government-sponsored enterprises are often regarded in financial markets as part of the federal credit system. They are excluded from the credit budget, however.

4/ The magnitude of these effects is unknown at present. See Congressional Budget Office, Conference on the Economics of Federal Credit Activity, Part I--Proceedings (December 1980).

In its direct loan programs, the federal government exploits its premier standing in the credit markets to borrow at a risk-free rate and to lend to favored borrowers at a lower rate than the borrowers could have obtained on their own. If the government loan goes to a borrower who would not have otherwise obtained the funds, then another potential borrower is probably denied credit or "crowded-out" of the market by the government program. The key element in assessing the economic effects of such a reallocation is to determine which borrower, the favored one or the one crowded out, would have used the funds more productively. Unless the government chooses its credit recipients with extreme care, funds may be reallocated from more useful to less useful purposes, even after social costs and benefits are taken into account.

Loan guarantees are similar in effect to direct loans. By assuming a large share of default risk, the government is able to direct resources to uses that would otherwise be regarded as too risky to qualify for financing. A federal loan guarantee does not affect the real risk involved in a project or activity. It merely shifts the burden of that risk from lenders to taxpayers. Crowding-out of unguaranteed, but less risky borrowers, is likely to occur. Again, the net effect on productivity and economic growth depends on the relative value of the supported and unsupported activities. In fact, most federal financial assistance has been directed toward increasing the flow of credit into housing, agriculture, and troubled low earnings industries.

Federal credit delivers substantial subsidies to some borrowers. When a federally sanctioned borrower who otherwise would pay 16 percent interest in private credit markets obtains funds at 6 percent, the federal government is providing a subsidy equal to 10 percent of the principal for each year the loan is outstanding. The Office of Management and Budget estimates (by assuming a 15 percent alternative interest rate for all borrowers) that during 1980, newly committed loans and guarantees provided interest subsidies with a minimum present value of $19 billion. 5/

CREDIT IN THE BUDGET PROCESS

The Unified Budget. Despite its large volume, federal credit activity appears to be small in the unified budget. For example, net on-budget direct lending, the only portion of the credit budget included in the unified

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5/ Budget of the United States Government for Fiscal Year 1982, Special Analysis F, pp. 188-193.

budget totals, accounted for less than 2 percent, or $8.8 billion, of outlays in 1980. Net lending by on-budget agencies is not, however, an adequate representation of the amounts of new credit extended each year by the federal government. It understates new credit extensions in three respects.

First, most direct lending is extended by off-budget agencies, whose activities are excluded by law from the unified budget totals. Net off-budget direct loans were $14.7 billion in 1980, compared to on-budget loans of $8.8 billion. These off-budget loans, which are primarily attributable to the Federal Financing Bank (FFB), are similar to on-budget loans in every respect except their off-budget status.

Second, loan guarantees are excluded by law from the definition of budget authority. At the time the federal government assumes liability for repayment nothing is recorded in the budget. Although costs may eventually be incurred in the form of default losses, there is no way in the unified budget to measure the federal government's contingent liability.

Third, even when the budget records agency direct loan activity, it obscures the actual volume of new credit channelled through the programs by subtracting repayments against new loans. For example, in 1980 the Commodity Credit Corporation extended almost $5 billion in loans to farmers. Repayments on loans extended in earlier years were even higher, however, so that the net loan outlays recorded in the budget were negative.

<u>The Credit Budget.</u> The credit budget corrects for the understatement of new credit activity in the unified budget. Its totals include all new credit activity of the government: on-budget direct loans, off-budget direct loans, and loan guarantees. (It does not, however, include activities of government-sponsored credit enterprises, which are not subject to annual budget oversight.) The new activity is recorded on a gross basis, without subtracting repayments, although some financing transactions are netted out to prevent double counting in the totals. The activity is also recorded at the point of obligation or commitment for credit, rather than at the point when loans are actually made.

In addition to improving acknowledgement in the budget process of total new federal credit activity, the credit budget features are designed to improve control over annual activity of individual programs. Limitations are proposed on the authority of agencies to enter into new obligations rather than on disbursements so that decisions will be made at the point where the government becomes legally bound to extend credit instead of

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after that point has passed. 6/ Placing limitations on gross, rather than net, activity levels controls total new credit extended, rather than only the increment of new credit after deducting repayments on prior activity.

The Congress may act on the credit budget for 1982 in two ways. First, in its concurrent budget resolutions, the Congress may set targets for total new credit budget activity. Second, the Congress may include limitations on new direct loan obligations and new loan guarantee commitments by program in 1982 appropriations bills. The credit budget gives the Administration and the Congress the means to exercise greater oversight of federal credit. Control of credit growth will only be achieved, however, when credit budgeting has become an integral part of the budget process, and when the allocation of resources through credit is considered as carefully as the allocation through direct spending.

PLAN OF THE PAPER

This paper provides information to assist the Congress in reviewing the credit budget totals and the proposed limitations on individual programs. Chapter II discusses the Administration's credit budget totals for 1981 and 1982, as presented in the March budget revisions, noting important components of the proposals. Chapter III discusses several issues facing the Congress as it refines the new credit budget process. Chapter IV describes each active program in the credit budget, by function, based on information presented in the March revisions to the 1982 budget.

6/ The federal government makes an obligation for a direct loan or a commitment for a loan guarantee by agreeing with a prospective borrower to lend directly or to guarantee borrowing from a third party, contingent on the fulfillment of specified conditions. Time often elapses between the obligation or the commitment and the disbursement of the loan or extension of the guarantee. This is particularly true when credit financing is used for construction projects, which have long planning and financing lead times.

CHAPTER II. THE CREDIT BUDGET FOR 1982

The Reagan Administration's 1982 Budget Revisions request that the Congress set a target of $129.2 billion for credit in its concurrent budget resolutions. The budget also contains requests for appropriation and authorization actions on individual programs. In the 1982 budget, the Administration has also revised the 1981 credit budget totals. To achieve the reduced activity levels proposed for many programs, decreases in the previously enacted appropriated limitations on the 1981 levels of these programs have been requested. This chapter reviews the requests for Congressional action.

THE CREDIT BUDGET TOTALS

The Administration's fiscal year 1982 budget estimates that the aggregate level of new credit activity will rise dramatically in 1981 and fall, though not as sharply, in 1982. The decrease in 1982 is dependent on the enactment of proposed legislative changes (see Table 1).

According to these estimates, during 1981 new direct loan obligations will rise to $55.0 billion, up $5.7 billion from 1980, and new loan guarantee commitments will reach $85.2 billion, up $13.0 billion from 1980. The 1981 credit budget total, $140.2 billion, would be 15 percent higher than in 1980.

For 1982, the Administration estimates that new direct loan obligations will fall by $4.3 billion, to within 3 percent of the 1980 level. New loan guarantee commitments will fall by a greater amount--$6.7 billion--but will still exceed the 1980 level by 9 percent. These decreases, if achieved, would lower the combined 1982 credit budget total to $129.2 billion, only 6 percent above the 1980 total. If new credit activity is lower in 1982 than 1981, it will be a significant departure from the recent trend of growth in federal credit, which has averaged over 30 percent annually since 1977.

As part of its overall effort to contain the growth of the federal government, the Reagan Administration is attempting to use the credit budget as a vehicle to reduce federal activity in credit markets, even though many of the reductions have little to offer by way of savings in the direct spending budget. The credit budget totals presented in the March 1981 Budget Revisions, are substantially lower than the totals presented by the

TABLE 1. CREDIT BUDGET TOTALS (By fiscal year, in billions of dollars)

Credit Activity	Actual 1979	Actual 1980	Administration Estimates 1981	Administration Estimates 1982
Direct Loan Obligations				
Total direct loans	51.4	61.4	71.2	56.9 a/
Less FFB loan asset purchases	-10.9	-12.1	-16.2	-6.2
Direct loans, adjusted	40.5	49.3	55.0	50.7 a/
New Loan Guarantee Commitments				
Gross guarantees	135.2	161.0	184.7	168.7
Less secondary guarantees b/	-42.4	-64.4	-66.2	-64.7
Less guarantees of direct loans b/	-18.1	-24.4	-33.3	-25.4
Primary loan guarantees	74.7	72.2	85.2	78.5
Total, Credit Budget	115.2	121.5	140.2	129.2 a/

a/ These figures are higher than those presented in the Administration's March 1981 Budget Revisions because of a $1.3 billion error in Farmers Home Administration estimates. See note to that effect on p. 19 of Budget Revisions.

b/ For defintions of secondary guarantees and guarantees of direct loans, see Appendix A.

previous Administration in the January budget, particularly for 1982. The revised credit budget is 9 percent lower for 1981 and 13 percent lower for 1982 than the January budget (see Table 2). The reductions include "rescissions," or requests for reductions in previously enacted 1981 program levels as well as requests for legislation terminating several programs. The largest segment of the reduction in both years occurs in loan guarantees for home mortgages.

The Administration's proposed restraint of credit programs is relatively more stringent than that for direct spending. Despite the planned program changes, direct spending is expected to grow in nominal terms in both 1981 and 1982, while federal credit is expected to show a decrease in

1982. The credit reductions are sharper in part because few credit programs fall within the large portions of the budget whose size the Administration intends to maintain, defense and "social safety net" programs. The remaining portions of the budget, including most credit programs, have been targeted for proportionally greater decreases.

TABLE 2. THE CREDIT BUDGET TOTALS--JANUARY BUDGET COMPARED TO MARCH REVISIONS (By fiscal year, in billions of dollars)

Credit Activity	1981 Estimates January Budget	1981 Estimates March Revisions	1982 Estimates January Budget	1982 Estimates March Revisions
New Direct Loan Obligations				
Total direct loans	74.2	71.2	60.2	56.9
Less FFB loan asset purchases	-16.6	-16.2	-8.2	-6.2
Direct loans, adjusted	57.6	55.0	52.0	50.7
New Loan Guarantee Commitments				
Gross guarantees	202.1	184.7	196.4	168.7
Less secondary guarantees	-73.2	-66.2	-74.3	-64.7
Less guarantees of direct loans	-32.7	-33.3	-25.2	-25.4
Primary loan guarantees	96.2	85.2	96.9	78.5
Total, Credit Budget	153.8	140.2	148.9	129.2

Credit program estimates are subject to the same or perhaps greater uncertainties than those that plague spending estimates. The Congress should be aware that there is a risk that the decrease in the Administration's 1982 credit budget may not be achieved, especially if the experience with estimates for the 1981 credit budget is any guide. The 1981 estimate presented in the 1982 budget is 8 percent higher than the original estimate in the 1981 budget. The decreases now planned for 1982 are dependent on both accuracy of estimates and enactment of the requested authorization changes and appropriation limitations.

In the March revisions the Administration made an important technical adjustment to the credit budget totals, which changes the base of the direct loan total, and results, for example, in a downward shift of \$6.2 billion in 1982. The adjustment corrects for double counting of direct loans sold by the Farmers Home Administration (FmHA) and other agencies to the Federal Financing Bank (FFB). Such loans are counted twice in the new direct loan obligation total, originally as new FmHA obligations, and again when the FFB purchases the loans as new FFB obligations. The revised total eliminates this double counting. In Table 2 the January budget has also been adjusted to preserve comparability. 1/

COMPONENTS OF THE 1982 CREDIT BUDGET

Direct Loans. The \$4.3 billion decrease in the direct loan total between 1981 and 1982 depends largely on reductions in the disaster loan programs of FmHA and the Small Business Administration (SBA). The combined 1982 level of the two programs is estimated at \$2.0 billion, \$5.6 billion below the 1981 level, and \$3.3 billion below that for 1980 (see Table 3). Some of the 1982 decrease can be explained by proposals of the Administration to transfer most of the SBA program to FmHA, and to place further restraints on the FmHA program. Most of the change, however, is the result of the normal budgetary practice of using minimal level estimates for disaster relief programs. It is generally expected that supplemental program increases will be enacted after needs arise. If this occurs in 1982, the anticipated reduction in direct lending may not be achieved.

Other programs estimated to show a major decrease between 1981 and 1982 are the Export-Import Bank and the non-disaster lending of the FmHA. There is a further \$1.6 million decrease in direct loans by the FFB to the Student Loan Marketing Association (SLMA). This change does not affect the credit budget total, however. The shift from FFB to private financing changes the status of SLMA holdings from direct to primary guaranteed loans and raises the primary loan guarantee total by the same amount that it lowers the direct loan total.

Finally, several programs will show large increases in 1982, including security assistance loans to foreign nations, GNMA mortgage purchase assistance, the Commodity Credit Corporation price support program and lending by the FFB to local public housing authorities and the TVA's Seven States Energy Corporation. These increases total \$6.6 billion.

1/ An adjustment has also been made to the loan guarantee total, to include \$3.4 billion in 1981 and \$4.5 billion in 1982 of Tennessee Valley Authority guarantees, previously omitted.

TABLE 3. MAJOR CREDIT PROGRAM CHANGES IN LEVELS OF ACTIVITY BETWEEN FISCAL YEARS 1981 AND 1982 (In billions of dollars)

Program	1980 (Actual)	Administration Estimates 1981	Administration Estimates 1982	Change Between 1981 and 1982
New Direct Loan Obligations				
FmHA				
Disaster loans	4.5	6.1	1.6	-4.5
Loan asset repurchases	4.5	3.6	1.5	-2.1
Other programs	3.5	3.7	5.1	+1.4
SBA disaster loans	1.2	2.1	0.4	-1.7
International security programs	1.3	0.9	2.7	+1.8
Commodity Credit Corporation	4.9	3.6	4.5	+0.9
GNMA mortgage purchase assistance	2.2	1.8	3.6	+1.8
Export-Import Bank	4.4	5.1	4.4	-0.7
Guaranteed loans purchased by the FFB				
Student Loan Marketing Association	1.1	2.1	0.5	-1.6
Low-rent public housing	0.1	1.7	2.7	+1.0
Tennessee Valley Authority	2.4	3.4	4.5	+1.1
All other direct loans	19.2	20.9	19.2	-1.7
Total, direct loans	49.3	55.0	50.7	-4.3
New Loan Guarantee Commitments				
Synthetic and alternate fuels	---	6.0	2.0	-4.0
FmHA primary guarantees	1.6	0.8	0.2	-0.6
Guaranteed student loans	4.8	7.2	5.7	-1.5
Guarantees of SLMA obligations	-1.1	-2.1	-0.5	+1.6
Federal Housing Administration	29.1	34.2	35.0	+0.8
Export-Import Bank	8.0	7.6	8.2	+0.6
All other guarantees	29.8	31.5	27.9	-3.6
Total, primary guarantees	72.2	85.2	78.5	-6.7

Loan Guarantees. The changes between 1981 and 1982 in direct loans are concentrated in a relatively small number of programs. The $6.7 billion reduction in loan guarantees, however, is spread throughout a larger number of programs. The two largest changes occur in synthetic and alternate fuel production, and the guaranteed student loan program. The $4.0 billion reduction in synthetic fuel guarantees is an artifact of the one-shot form of the alternate fuels production program, which is expected to commit all $4.5 billion of its guarantee authority in 1981 before yielding to the off-budget Synthetic Fuels Corporation, which will make commitments at a lower, steadier rate. Student loan insurance is expected to decrease by $1.5 billion in 1982, assuming the Congress enacts an Administration proposal to tighten program eligibility. The proposal would end in-school interest subsidies, institute a needs test, and raise interest rates for parent loans to market levels.

Further decreases occur because many of the loan guarantee programs, such as Federal Housing Administration mortgage insurance, are being held in 1982 to a level close to that of 1980 or 1981. Though the reductions may appear small, holding to 1980 or 1981 levels in 1982 represents a significant change from the growth trend most of these programs had been experiencing. The Administration is also planning to terminate several loan guarantee and direct lending programs, including HUD's housing rehabilitation program, the Economic Development Administration, several energy development programs, and the National Consumer Cooperative Bank. Because these programs are already scheduled to operate at reduced levels in 1981, the 1982 decreases are not large.

Functional Distribution of Credit. Table 4 displays the credit budget by functional categories. The largest function, Commerce and Housing Credit, accounts for 32 percent of 1982 gross direct lending and 64 percent of gross guaranteed lending. A large portion of the guaranteed lending in this function is for GNMA guarantees of mortgage-backed securities. These guarantee commitments, which totaled $63 billion in 1980 and are estimated to total $64 billion in 1981 and 1982, are secondary guarantees of pools of Federal Housing Administration (FHA) and Veterans Administration (VA) insured loans. At the bottom of Table 4, secondary guarantees are deducted from the total of gross commitments as part of the adjustments made to calculate primary loan guarantee commitments.

Other important functions are International Affairs, Income Security (largely assistance to local public housing authorities), Energy, and Agriculture. The relative importance of energy as a category of credit assistance has grown in recent years because of loan guarantees for new alternative fuel production initiatives and a continued reliance on extensive FFB lending for the Tennessee Valley Authority and the Rural Electrification Administration. Including the FFB loans, new direct loan obligations for energy would total $9.8 billion in 1982 under the Administration's proposals.

TABLE 4. THE CREDIT BUDGET BY FUNCTION (By fiscal year, in billions of dollars) a/

Function	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1980	1981 b/	1982 b/	1980	1981 b/	1982 b/
International Affairs (150)	7.0	7.3	8.2	9.8	10.4	11.0
FFB purchases	2.4	2.6	2.7	---	---	---
Energy (270)	1.2	0.9	0.7	8.2	14.6	11.7
FFB purchases	5.6	8.2	9.1	---	---	---
Agriculture (350)	12.5	12.3	8.9	6.2	9.4	3.6
FFB purchases	5.3	7.0	1.2	---	---	---
Commerce and Housing Credit (370)	12.2	13.3	14.2	102.9	111.0	107.5
FFB purchases	4.8	7.4	3.9	---	---	---
Transportation (400)	0.2	0.1	0.2	1.7	1.6	1.5
FFB purchases	1.2	0.5	0.3	---	---	---
Community and Regional Development (450)	3.3	3.9	0.8	2.7	2.8	1.3
FFB purchases	1.5	1.7	1.2	---	---	---
Education, Training, Employment and Social Services (500)	0.7	0.6	0.9	5.8	9.3	6.2
FFB purchases	1.1	2.1	0.5	---	---	---
Income Security (600)	1.3	0.3	0.3	17.0	17.8	17.4
FFB purchases	0.1	1.7	2.7	---	---	---
Veterans' Benefits and Services (700)	0.6	0.6	0.6	6.3	7.4	7.4
All Other Functions	0.2	0.2	0.3	0.4	0.4	1.0
FFB purchases	0.2	0.3	0.3	---	---	---
Total, gross	61.4	71.2	56.9	161.0	184.7	168.7
Less						
FFB loan asset purchases	-12.1	-16.2	-6.2	---	---	---
Secondary loan guarantees	---	---	---	-64.4	-66.2	-64.7
Guarantees of direct loans made by another agency	---	---	---	-24.4	-33.3	-25.4
Total	49.3	55.0	50.7	72.2	85.2	78.5

a/ Budget functions that have no credit programs have been omitted from this table. Includes both on- and off-budget lending.

b/ Administration March estimates.

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Federal Financing Bank Activity. One of the fastest growing components of the credit budget has been the Federal Financing Bank, an agency of the Treasury, which purchases loans made by some agencies (loan assets) and acts as a lender for other agencies (guaranteed loan originations). 2/ New loans by the FFB are distributed in Table 4 by budget function of the agency originating FFB financing. This distribution emphasizes the fact that agencies retain responsibility for the FFB loans they sponsor. Table 5 summarizes FFB activity proposed by the the Administration for 1980 through 1982. Guaranteed loan originations are expected to increase in both 1981 and 1982. Loan asset purchases, which often fluctuate widely from year to year, are estimated to be less than half as large in 1982 as in 1981. The Administration has discretion over the activity levels of the FFB and can vary them without prior Congressional approval. The current estimates reflect steps it has already announced to restrict access by certain agencies to FFB financing, in an attempt to stem the FFB's growth. The Student Loan Marketing Association and the Rural Electrification Administration are both being directed to find private sources of financing. A large part of the reduction in loan asset activity results from lower program levels for the Farmers Home Administration, meaning lower FFB financing requirements.

TABLE 5. FFB-FINANCED CREDIT ACTIVITY (By fiscal year, in billions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	1982
New Direct Loan Obligations			
Purchases of loan assets	12.1	16.2	6.2
Guaranteed loan originations	10.1	15.3	15.6
Total	22.2	31.5	21.8

Credit Program Appropriation Limitations. Annual appropriation limitations on new direct loan obligations and loan guarantee commitments are the means for controlling individual programs in the credit budget. The Administration's 1982 budget contains a series of requests for Congressional action on proposed limitations. The President is proposing limitations on 46 percent of all direct loan obligations and 70 percent of all loan guarantee commitments, amounting to 61 percent of the total credit budget (see Table 6).

2/ See Appendix B for an explanation of these FFB functions.

TABLE 6. LIMITATION REQUESTS IN THE FISCAL YEAR 1982 BUDGET REVISIONS (In billions of dollars)

Credit Activity	Credit Budget	Administration Limitation Request	Percent Limited
Direct Loan Obligations, Adjusted	50.7	23.3	46
Loan Guarantee Commitments, Primary	78.5	55.2	70
Total	129.2	78.5	61

The Reagan Administration, following the practice of the Carter Administration, did not propose limitations on programs for which it believed annual limitations were unenforceable or contrary to the nature of the program. It granted exemptions for three basic types of lending: entitle ment and other mandatory programs; disaster, emergency, and insurance programs; and intragovernmental financing transactions. A few programs are exempt for other reasons. The Synthetic Fuels Corporation, for example, is free from limitation to allow it the maximum possible independence in its operations (see Table 7). The March revisions, however, contain two changes from previous exemption policies: The SBA disaster loan program is requested for limitation, and the college housing loan program is exempted.

By nature, the programs subject to appropriation limitations tend to offer more opportunity for discretionary changes than do the exempt programs. The March revisions to the January budget have therefore proposed larger reductions in the portion of the credit budget subject to limit, leaving the exempted programs at levels closer to those presented in the January budget. While new commitments for loan guarantee programs subject to limit were reduced by $16.7 billion, commitments for exempted programs were reduced by only $1.7 billion. This emphasizes the point that the restraint planned for credit programs in 1982 is dependent on Congressional approval of the limitation requests.

TABLE 7. PROGRAMS PROPOSED TO BE EXEMPT FROM LIMITATION FOR FISCAL YEAR 1982 (In millions of dollars)

Program	Direct Loan Obligations Exempted	Loan Guarantee Commitments Exempted
Entitlement and Other Mandatory Programs		
Commodity Credit Corporation	4,520	2,000
Low-rent public housing	300	17,446
Student loans	---	5,697
Veterans' housing and education	9	7,383
Railroad assistance	116	31
All loan guarantee default claims	1,492	---
Insurance and Emergency Programs		
Financial institution insurance programs	214	25
Veterans' insurance programs	205	---
FmHA disaster loans	1,600	---
Other emergency programs	15	---
Intragovernmental Financing Transactions		
Agriculture credit insurance (FmHA) a/	882	1,416
Rural development insurance (FmHA) a/	66	1,000
Rural housing insurance (FmHA) a/	1,019	3,695
Student Loan Marketing Association b/	---	500
Tennessee Valley Authority b/	---	4,502
Other		
Federal Financing Bank	21,838	---
Synthetic Fuels Corporation	---	2,000
PL 480 - Food for Peace	808	---
Student financial assistance	286	---
All other	69	---
Total gross exemptions, unadjusted	33,439	45,695

a/ Sales of loan assets to the Federal Financing Bank.

b/ Guarantees of direct FFB loans.