Credit assistance to veterans includes direct loans for educational purposes, direct loans in the form of borrowing against the cash value of life insurance policies, and loans and guarantees to purchase homes. For fiscal year 1982, new direct loan obligations are estimated to total $647 million, while new loan guarantee commitments will reach $7.4 billion. Because this credit assistance is considered part of the benefits to which veterans are entitled, the Administration is not recommending limitations on most of these programs. Table 72 summarizes the estimated gross activity levels of veterans' credit programs.

TABLE 72. VETERANS' BENEFITS--SUMMARY OF CREDIT ASSISTANCE (By fiscal year, in millions of dollars)

	New Direct Loan Obligations			New Loan Guarantee Commitments		
Program	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Insurance Policy Loans	256.7	209.4	202.2	---	---	---
Education Loans	7.7	9.6	9.6	---	---	---
Housing Loans	361.6	408.2	435.6	6,310.4	7,421.9	7,383.0
Total	626.0	627.2	647.4	6,310.4	7,421.9	7,383.0

a/ Administration estimates.

Insurance Policy Loans

Veterans and their survivors may borrow against the cash values of life insurance policies issued by the federal government under five programs: the Service-Disabled Veterans' Insurance program, the Veterans' Reopened Insurance program, the National Service Life Insurance program, the U.S. Government Life Insurance program, and the Veterans' Special Life Insurance program. The Administration proposes to change the present 5 percent interest rate on these policy loans to a rate equal to 2 percent less than the market rate for loans with similar security and repayment periods. It is anticipated that the higher interest rates will cause demand for the loans to decrease. These are regulatory changes, requiring no Congressional action. Loan activity in the insurance programs is expected to decline in the next two years to $209.4 million in new loans in 1981 and to $202.2 million in 1982.

Education Loans

Veterans may borrow up to $2,500 per academic year for educational expenses directly from the Veterans' Education Loan Fund. These loans carry an interest rate of 7.0 percent and have a maturity of 10 years. Repayments on previous loans are returned to the revolving fund and used to make new loans. New loans for 1982 are estimated to total $6.4 million, down slightly from the $6.9 million estimated for 1981.

Veterans may also receive advances of up to $200 to pay expenses while taking vocational rehabilitation training courses. These advances are interest-free and are repaid over 10 months through a reduction in education benefits. The Administration estimates the new loan obligations level for vocational rehabilitation for 1982 to be $3.2 million. Credit activity for veterans' education and vocational rehabilitation is highlighted in Table 73.

TABLE 73. CREDIT ACTIVITY FOR VETERANS' EDUCATION PROGRAMS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation	7.7	9.6	9.6
Net Direct Loan Outlays	1.1	1.9	-0.1
Direct Loans Outstanding	62.4	64.3	64.2

Housing Credit

The principal form of credit assistance to veterans is guarantees of loans made by private lenders for the purchase or construction of homes. In fiscal year 1982, the Administration estimates that $7,383 million in loan guarantee commitments will be made, very close to the 1981 level. Because of prior year commitments, new loans guaranteed in 1981 and 1982 will exceed new commitments. Unlike most loan guarantee programs, the Veterans Administration (VA) does not insure the full value of the mortgages it guarantees, but only the portion at highest risk. While the credit budget records only the government's contingent liability for the guarantees, the full principal is also important, as a measure of the resources being directed through the assistance of the VA. By 1982 the VA is expected to have $64 billion in outstanding contingent liability, while the full principal value of the mortgages insured will total $130 billion.

The Veterans Administration is also authorized to make direct loans to severely disabled veterans for specially adapted housing. New obligations for these loans will be only $2 million in 1982. In addition, the VA takes over defaulting guaranteed loans, pays off the lender, and assists borrowers by rescheduling payments. These actions, in effect, constitute extension of a direct loan to satisfy a guarantee claim, and are recorded in 1982 as $381 million in new direct loan obligations. Finally, in 1982, the VA will make obligations to purchase $49 million in existing VA-insured loans from the public. Credit activity for veterans' housing programs is shown in Table 74.

TABLE 74. CREDIT ACTIVITY FOR VETERANS' HOUSING PROGRAMS (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations Exempt from Limitation a/	362	408	436
Net Direct Loan Outlays	-29	-42	-40
Direct Loans Outstanding	481	439	399
New Loan Guarantee Commitments Exempt from Limitation	6,310	7,422	7,383
New Loan Guarantees	6,701	10,496	11,234
Guaranteed Loans Outstanding	46,270	54,089	64,425
Full Principal Value of Guaranteed Loans Outstanding	97,424	114,354	130,052

a/ Primarily disbursement for loan guarantee default claims and purchases of existing VA loans from the public.

GENERAL GOVERNMENT (FUNCTION 800)

Credit assistance in function 800 is limited to one active program: loans and guarantees for U.S. territories made by the Department of the Interior. This has included direct loans to Guam for rehabilitation after typhoons, guarantees of Guam Power Authority obligations, and guarantees of bonds and loans for capital improvement projects in the Virgin Islands. The Virgin Islands and Guam Power Authority projects have been financed through the Federal Financing Bank, which purchased obligations guaranteed by the Secretary of the Interior. The authority to make such guarantees is provided by Public Law 94-392.

For fiscal year 1982, the Administration is requesting a $31 million limitation on new commitments to guarantee loans for the Virgin Islands. These loans will also be extended by the FFB. Table 75 summarizes the credit activity in this program.

Federal Financing Bank. Beginning in fiscal year 1982, the administrative expenses of the Federal Financing Bank are included in the general government function rather than in function 370. For the purposes of the credit budget, loan activities of the FFB are distributed among the major functional categories. (For a discussion of the Federal Financing Bank, see Appendix B of this study.)

TABLE 75. GUARANTEED LOANS TO U.S. TERRITORIES (By fiscal year, in millions of dollars)

Credit Activity	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Loan Guarantee Commitments			
Limitation enacted	10.0	---	---
Limitation proposed	---	---	31.0
Commitments subject to limitation	9.0	---	31.0
Net Loans Guaranteed	8.7	-0.3	30.0
Guaranteed Loans Outstanding	66.2	65.9	95.9
Guarantees of FFB Loans			
New FFB loans	9.0	---	31.0
Repayments	-0.3	-0.3	-0.3
Outstanding FFB holdings	66.2	65.9	96.6

GENERAL PURPOSE FISCAL ASSISTANCE (FUNCTION 850)

Credit assistance in function 850 consists of direct loans to the District of Columbia and loan guarantees for New York City. Table 76 summarizes the activity levels for these programs.

TABLE 76. DISTRICT OF COLUMBIA AND NEW YORK CITY--SUMMARY OF CREDIT PROGRAMS (By fiscal year, in millions of dollars)

Program	New Direct Loan Obligations			New Loan Guarantee Commitments		
	1980	1981 a/	1982 a/	1980	1981 a/	1982 a/
Direct Loans to the District of Columbia	90.0	133.3	145.0	---	---	---
New York City Loan Guarantees	---	---	---	300.0	300.0	755.9
Total	90.0	133.3	145.0	300.0	300.0	755.9

a/ Administration estimates.

Loans to the District of Columbia

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

The Administration is proposing a ceiling on federal lending to the District of $155 million, and plans to phase out such lending by 1984. The Administration expects that the District government will enter the municipal bond market and have no further need to borrow from the Treasury by 1984. The limitation requested for 1981 is $10 million higher than the expected level of new obligations (see Table 77).

TABLE 77. LOANS TO THE DISTRICT OF COLUMBIA FOR CAPITAL OUTLAYS (By fiscal year, in millions of dollars)

	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Direct Loan Obligations			
Limitation enacted	---	200.0	---
Limitation proposed	---	200.0	155.0
Obligations subject to limitation	---	133.3	145.0
Obligations exempt from limitation	90.0	---	---

New York City Loan Guarantees

Public Law 93-339, the New York City Loan Guarantee Act of 1978, authorizes the Secretary of the Treasury to guarantee $1.65 billion of borrowing by New York City through June 30, 1982, to enable it to regain financial soundness after the financing crisis of 1975. The act prescribes the amounts of borrowing that may be guaranteed each year during the life of the program. In addition, the act requires New York City to pay an annual guarantee fee of 0.5 percent to the Treasury.

For fiscal year 1982, the Administration requests that Congress limit new loan guarantee commitments to $755.9 million, more than twice the level of new commitments in 1981. This will exhaust the $1.65 billion in loan guarantee authority provided in authorizing legislation. Table 78 describes activity in the New York City loan guarantee program.

TABLE 78. NEW YORK CITY LOAN GUARANTEE PROGRAM a/ (By fiscal year, in millions of dollars)

	1980 Actual	Administration Estimates 1981	Administration Estimates 1982
New Loan Guarantee Commitments			
Limitation enacted	---	---	---
Limitation proposed	---	300.0	755.9
Commitments subject to limitation	---	---	755.9
Commitments exempt from limitation	300.0	300.0	---
Net Loans Guaranteed	276.7	210.9	662.4
Guaranteed Loans Outstanding	776.7	987.6	1,650.0

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

APPENDIXES

APPENDIX A. GLOSSARY OF CREDIT TERMS USED IN THIS PAPER

Certificates of Beneficial Ownership (CBOs). Securities backed by pools of agency direct loans, which are usually sold to the Federal Financing Bank, but occasionally to the public.

Direct Loan. A disbursement of funds by the federal government directly to the borrower under a contract that requires the repayment of such funds with or without interest, including the purchase of or participation in a loan made by another lender and the acquisition of a federally guaranteed loan in satisfaction of default claims.

Direct Loan Obligation. A binding agreement by the government to make a direct loan once specified conditions are fulfilled by the borrowers.

Direct Loans Outstanding, Loan Guarantees Outstanding. The stock of direct loan principal currently outstanding. The stock of guaranteed loans outstanding that have not yet been fully repaid.

Guaranteed Loan Originations. Direct loans extended by the Federal Financing Bank (FFB) at the request of another federal agency under that agency's loan guarantee authority. Such loans are fully guaranteed by the requesting agency. (Same as guarantees of direct loans, but used in reference to the FFB direct loan rather than to the guarantee.)

Guarantees of Direct Loans. A guarantee by one federal agency of repayment of a loan for which another federal agency (usually the Federal Financing Bank) acts as the direct lender.

Loan Assets. Agency direct loans sold, usually as certificates of beneficial ownership, to the FFB or the public, thereby reducing the agency's outstanding loan balance.

Loan Guarantee. A pledge by the federal government to repay principal and/or interest on a loan in whole or in part in the event of default by the borrower.

Loan Guarantee Commitment. A binding agreement by the government to guarantee a loan once specified conditions are fulfilled by borrower and lender.

Net Lending, Net Direct Loan Outlays, Net Loan Guarantees. For direct loans, new disbursements for direct loans, minus repayments, prepayments, and other loan offsets. For loan guarantees, new loans guaranteed minus guarantees for which the loan has been fully repaid.

New Lending, Gross Lending; New Guarantees, Gross Guarantees. New credit extended in a fiscal year, without subtracting any repayments.

Primary Loan Guarantees. Guarantees of loans to borrowers by nonfederal government lenders. Secondary guarantees and guarantees of direct loans are deducted from gross new guarantees to arrive at the total for primary loan guarantees.

Secondary Loan Guarantees. Guarantees of repayment of loans previously guaranteed by the federal government, usually in the form of a guarantee of a security backed by guaranteed loans, for example, mortgage-backed securities.

APPENDIX B. THE ROLE OF THE FEDERAL FINANCING BANK

Loans financed through the Federal Financing Bank (FFB) have been one of the fastest growing federal activities in recent years. Some of the FFB's activities have inadvertently created opportunities for agencies to expand their activities without having them recorded in the unified budget. 1/ These activities lead to two forms of FFB direct lending: purchase of loan assets from agencies, and origination as direct lender of agency guaranteed loans. Although responsibility for originating and servicing these FFB loans remains with the parent agency, the outlays are recorded as off-budget outlays of the FFB. In 1980, through the FFB's loan asset purchases, $7.6 billion in on-budget outlays of net loans were converted into off-budget outlays and, through its loan guarantee orginations, $6.8 billion in net guaranteed loans were converted into direct loans.

FFB Purchases of Loan Assets

Loan assets are loans made by an agency or securities backed by loans in an agency's portfolio; the securities are also known as certificates of beneficial ownership (CBOs). The receipts from sales of loan assets by an agency are counted in its budget as repayments on loans. Thus, they are offset against gross new lending to reduce that agency's net lending.

In the past, agencies sold loan assets to private investors in order to substitute private financing for public. This practice in effect converted on-budget direct loans into loans involving no federal funds. In most, if not all cases, the agencies guaranteed repayment of the loans. When the FFB was established, it replaced the private investors as a purchaser of most new loan assets from agencies. This was done for the same reason that agency debt was transferred to the FFB--to reduce the variety of federal debt issued to the public and to reduce the interest rate for agencies. While the FFB's purchases of loan assets lower financing costs, they convert on-budget direct loans to off-budget loans, reducing the unified budget deficit while at the same time increasing off-budget outlays.

1/ For more background on the Federal Financing Bank itself, see Congressional Budget Office, "The Federal Financing Bank: A Primer" in Loan Guarantees: Current Concerns and Alternatives for Control, A Compilation of Staff Working Papers (January 1979).

When agencies sell loan assets to the FFB, they retain responsibility for all aspects of loan servicing and for repayment in case of default. In fact, agencies do not really sell assets to the FFB; instead, they borrow from the FFB in much the same way that other agencies sell their own debt securities. Borrowing by agencies is not a budgetary transaction. It does not affect outlays, as the sale of loan assets does. According to budgetary principles, the sale by agencies of loan assets to the FFB ought to be treated simply as borrowing by the agency from the FFB. The current budgetary treatment of CBO sales by the Farmers Home Administration and the Rural Electrification Administration as sales of loan assets are, however, required by law. The Congress could revise that requirement, and treat the sale of loan assets as borrowing by the agency from the FFB. This would end the transfer of outlays to off-budget status, and would have the same effect on budget totals as bringing FFB's loan asset purchases on budget. If loan assets had been treated as borrowing in 1980, budget outlays would have been $7.6 billion higher. Alternatively, the Congress could set limits on the amounts of loan assets that each agency could sell to the FFB during a year, continuing to allow loan asset sales to reduce on-budget outlays, but limiting the annual volume of new lending that could be transferred off-budget.

FFB Origination of Guaranteed Loans

By purchasing loan assets and certificates of beneficial ownership, the FFB acts indirectly as a lender: it lends to agencies that in turn use these funds to finance program activity. The FFB also acts as a primary lender at the request of various federal agencies. In these instances, if an agency guarantees repayment of all interest and principal in the event of default by a borrower, the FFB makes a direct loan to that borrower at interest rates 1/8 of 1 percent above Treasury borrowing costs. In this case, an on-budget agency may use guarantee authority, a nonbudgetary transaction, to make an off-budget direct federal loan at below market interest rates.

The credit control appropriation limitations set a ceiling on the level of agencies' commitments to guarantee loans; however, no limitation is set on what portion of the guaranteed loans may, in fact, be financed as off-budget direct loans through the FFB. As with loan asset sales, the decision to use the FFB as the lender is a matter of executive discretion. Several alternatives are available to the Congress to improve control over the conversion of guaranteed loans into off-budget direct loans. First, it could change the budgetary treatment of FFB loan originations, recording them as on-budget direct lending by agencies and borrowing by the agency from the FFB. This would require that agencies be given budget authority and that outlays be recorded in agency budgets. Alternatively, limitations could be set for each program on the amount of loans guaranteed by that agency in a fiscal year that could be originated by the FFB. Finally, the FFB could be placed on-budget with no other changes.

O