tration loan guarantees are available to any qualified veteran, and hence loan volume is determined by demand.

1983 Current Estimate Compared to Budget Resolution. CBO's current estimate for new direct loan obligations in 1983 is $49.5 billion, $3.5 billion below the budget resolution target. The difference is due to the $1.4 billion reduction in the Commodity Credit Corporation because of the lower-than-assumed appropriation for short- and medium-term export loans; a $2.5 billion reduction in the limitation assumed for the Special Assistance Functions Fund; and a $1.0 billion reduction in the estimate of low-income public housing direct loans financed through the FFB. The current estimate for new loan guarantees is $94.6 billion, $7.3 billion below the budget resolution target. The difference is due to lower enacted appropriations levels than assumed in the resolution for foreign military sales and for the Rural Electrification Administration, and a reduction of $12.9 billion in the amount assumed for veterans' loan guarantees. The limit for FHA loan guarantees was $5.9 billion higher than the amount assumed in the resolution target. The estimate for secondary guarantees has not changed.

1983 Current Estimate Compared to 1982 Actual. Both the Administration and CBO have assumed substantial growth in the credit budget from 1982 to 1983. Table I-4 shows the major changes between 1982 actuals and CBO's current estimate for 1983. Changes in direct loans between 1982 and 1983 were not directly related to the recession. Administration proposals to increase foreign military sales credit and to decrease the Government National Mortgage Association (GNMA) special assistance functions fund were enacted by the Congress. The increase in Tennessee Valley Authority (TVA) borrowing from the Federal Financing Bank (FFB) for the Seven States Energy Corporation is due to the accumulating interest from refinancing outstanding loans. The increases for loan guarantees, in contrast, can mostly be attributed to the effect of the recession on 1982 loan levels and to high interest rates. Federal Housing Administration (FHA) mortgage assistance, GNMA mortgage-backed securities, and Veterans Administration (VA) loan guarantee fund guarantee levels were all low in 1982 as a result of the slump in the housing markets. Similarly, the international recession reduced demand for Export-Import Bank guarantees and for Commodity Credit Corporation (CCC) commodity export loans. The revival in the economy is expected to increase demand for federal loan guarantees in 1983.

Limits on Obligations and Commitments. The credit budget procedures implemented over the past four years have emphasized appropriations limits as the effective control for the credit budget. A review of the actual direct loan obligations and loan guarantee commitments for 1981 and 1982

TABLE I-4. MAJOR CHANGES IN THE CREDIT BUDGET BETWEEN 1982 AND 1983 (In millions of dollars)

Major Programs	1982 Actual	1983 Current Estimate	Change
Direct Loan Obligations			
Foreign Military Sales Credit	800	1,175	+375
FFB Foreign Military Sales	3,084	3,638	+554
FFB Tennessee Valley Authority	4,513	5,641	+1,128
GNMA Special Assistance Function Fund	1,980	500	-1,480
SBA Disaster Loan Fund	237	603	+366
Other	37,158	37,946	+788
Total Direct Loan Obligations	47,722	49,503	+1,731
Loan Guarantee Commitments			
Export-Import Bank	5,832	9,000	+3,168
CCC Export Guarantees	1,551	4,800	+3,249
SBA Business Loan Insurance Fund	2,018	3,300	+1,281
FHA Mortgage Assistance	18,576	45,900	+27,324
GNMA Mortgage-Backed Securities a/	(36,382)	(68,250)	(+31,868)
Economic Development Revolving Fund	14	170	+156
VA Loan Guaranty Revolving Fund	5,983	8,000	+2,017
Other	19,753	23,400	+3,647
Primary Guarantees	53,728	94,570	+40,842

a/ Amounts in parentheses are intragovernmental transactions not included in the credit budget totals.

shows that for a substantial number of programs there were large gaps between program level ceilings or limits and the obligations and commitments. To some extent these program shortfalls were due to the recession. In other cases the limits have been set too high to exert any real control over program levels (see Table I-5).

CBO's current estimate for 1983 assumes that a number of programs will not reach the levels established by the limits.

BASELINE CREDIT PROJECTIONS

This year, for the first time, both CBO and the Administration have provided credit projections for 1985-1988. The Administration's projections reflect policy changes proposed by the President for 1983 and 1984 in his January budget. The CBO credit budget baseline, like CBO's unified and off-budget baseline projections, shows the level of federal activity that would result if current policies were to remain in place. The limits set by the House and Senate Appropriations Committees for fiscal year 1983 are the base from which the majority of credit programs are projected. Exceptions to this rule exist for programs that have no appropriations limits (entitlements, defaults, and FFB transactions) and some programs for which the appropriations limits are above the actual level of obligations or commitments that the program will generate. For both of these exceptions, CBO's estimates of program obligations or commitments were used as the base for projections.

Programs with obligations or commitments at the appropriations limit were inflated in the projections to keep the limits constant with the projected rise in prices. Programs with 1983 base levels lower than appropriations limits were inflated in a similar fashion. The projections were limited in some cases by existing authorization ceilings on lending activity, however. Credit programs without appropriations limits were projected to be consistent with CBO's estimates of loan activity, defaults, economic conditions, or FFB transactions for the individual accounts. In addition to the inflation rate, the major economic assumptions that affect baseline credit projections are interest rates, housing sales, and farm prices.

The baseline credit budget projections used in this report have been revised from those published in CBO's Baseline Budget Projections for Fiscal Years 1984-1988 (February 1983). The major revision is the adjustment to direct loans to subtract repurchase of loan assets from gross direct loans. Adjustments have also been made to baseline estimates for credit program levels that are affected by administrative action to reflect administrative

TABLE I-5. LIMITS ON NEW DIRECT LOAN OBLIGATIONS AND NEW LOAN GUARANTEE COMMITMENTS COMPARED TO ACTUAL OBLIGATIONS OR COMMITMENTS (In millions of dollars)

Program	1981			1982		
	Limit	Actual Obligation or Commitment	Unused	Limit	Actual Obligation or Commitment	Unused
Direct Loan Obligations a/						
ACIF	1,174	1,692	82	2,129	1,865	264
RHIF	3,950	3,485	465	3,725	3,180	545
REA	1,425	1,000	325	1,425	1,100	326
RTB	220	168	60	220	185	35
CCC	2,200	22	2,178	2,200	46	2,154
Eximbank	5,461	5,431	30	4,400	3,516	884
FHA	14	14	---	76	---	76
Loan Guarantee Commitments b/						
RDIF	852	743	109	611	139	472
REA	---	---	---	6,400	5,112	1,288
SBA, Pollution Control	---	---	---	250	50	200
SBA, BLIF	---	---	---	3,300	2,019	1,281
Eximbank	8,059	7,416	643	9,220	5,832	3,388
FHA	34,155	23,635	10,520	40,000	18,576	21,424
GNMA-MBS	64,000	42,150	21,850	68,250	36,382	31,868

a/ Agriculture Credit Insurance Fund (ACIF), Rural Housing Insurance Fund (RHIF), Rural Electrification Administration (REA), Rural Telephone Bank (RTB), Commodity Credit Corporation (CCC), Export-Import Bank (Eximbank), Federal Housing Administration (FHA).

b/ Rural Development Insurance Fund (RDIF), Rural Electrification Administration (REA), Small Business Administration (SBA) Pollution Control, SBA Business Loan and Investment Fund (BLIF), Export-Import Bank (Eximbank), Federal Housing Administration (FHA), Government National Mortgage Association Mortgage-Backed Securities (GNMA-MBS).

changes announced in the Budget. Table I-6 shows the reestimates of the baseline projections.

CBO's baseline projections show net direct loan obligations and primary loan guarantee commitments rising from a total of $144.1 billion in 1983 to $172.3 billion in 1988, for an average annual increase of 4 percent. The projected increase is mostly for primary loan guarantee commitments, which rise from $94.6 billion in 1983 to $118.6 billion in 1988. Net direct loan obligations remain at about $50 billion annually throughout the period.

While projected federal credit activity rises in absolute terms, it declines as a percentage of GNP between 1983 and 1988. GNP is projected to grow 50 percent from 1983 to 1988 while credit activity is projected to rise only 20 percent. This trend is in contrast to the period 1973 to 1982, when GNP doubled and credit activity tripled. Figure 1 shows credit as a percentage of GNP. Net direct loan obligations fall from 1.6 percent of GNP in 1983 to 1.1 percent in 1986 through 1988. The decline for primary loan guarantees is more gradual, falling from 3.0 percent of GNP in 1983 to 2.5 percent in 1988.

Figure 1.
Federal Credit as a Percentage of GNP

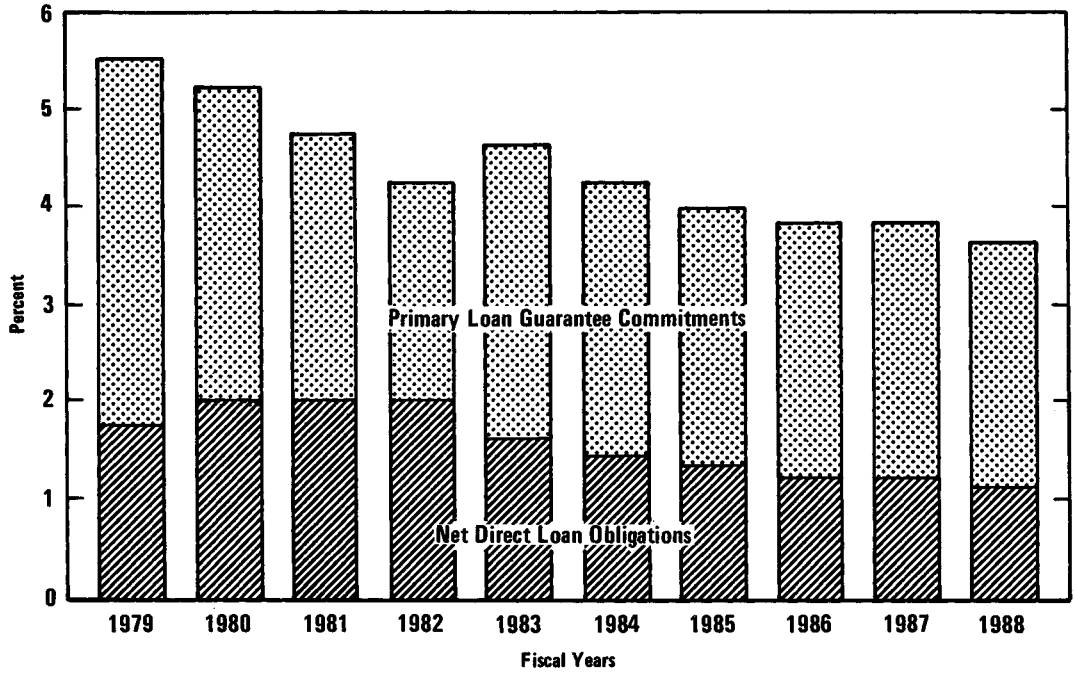

TABLE I-6. BASELINE CREDIT PROJECTIONS (By fiscal year, in billions of dollars)

	1983 Base	Projections 1984	1985	1986	1987	1988
New Direct Loan Obligations						
Baseline	49.4	49.3	48.8	47.4	50.3	52.2
Adjustments						
Repurchase of loan assets	-6.7	-10.3	-7.0	-1.3	-0.5	-4.6
Other	6.8	10.1	6.4	3.9	2.6	6.1
Revised baseline	49.5	49.1	48.2	50.0	52.4	53.7
Primary Loan Guarantees						
Baseline	86.5	89.9	95.0	100.7	106.1	111.5
Adjustments	8.1	6.6	7.3	7.7	7.8	7.1
Revised Baseline	94.6	96.5	102.3	108.4	113.9	118.6
Total	144.1	145.6	150.5	158.4	166.3	172.3
Secondary Guarantees	68.2	71.5	74.9	78.1	81.3	84.4
Revised Baseline as a Percent of GNP						
New direct loan obligations	1.6	1.4	1.3	1.2	1.2	1.1
Primary loan guarantee commitments	3.0	2.8	2.7	2.6	2.6	2.5
Secondary guarantees	2.1	2.0	2.0	1.9	1.8	1.8

CHAPTER II. THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

The Administration's credit budget proposal for fiscal year 1984 continues the efforts initiated in the 1982 budget to reduce federal credit activities. It would finance $125.5 billion in new lending, a reduction of $15.8 billion from the proposed 1983 level. Most credit programs would be held constant or reduced. The principal exceptions are federal mortgage assistance programs, where higher loan levels are assumed in 1983 due to the expected revival of the housing industry, and the Export-Import Bank and foreign military credit sales in 1983 and 1984. Over the next five years, new lending would increase only slightly, reaching $134.2 billion by 1988.

Compared to CBO's revised baseline projections presented in Chapter I, the Administration's credit budget would reduce total new lending during 1984-1988 by $145.2 billion or 18 percent. Direct loans would average about $38 billion annually throughout the five-year period. This would be $62.9 billion below the CBO baseline projections and would represent a reduction of 25 percent. Primary loan guarantees would rise substantially from 1982 actual obligations to 1983, but then increase only slightly by 1988. This would represent a 15 percent reduction from the baseline projection for 1984-1988. Table II-1 shows changes to the CBO credit budget baseline projections proposed by the President's credit budget.

In 1983 and 1984, the Administration's proposals would result in cuts of $2.8 billion and $20.1 billion respectively from the revised CBO baseline. Direct loan obligations would fall slightly in 1983, but be cut by 20 percent in 1984 from a baseline estimate of $49.1 billion to $39.4 billion. For primary guarantees, the Administration proposes cuts of $2.7 billion in 1983 and $10.4 billion in 1984. Most federal lending programs would be held at 1984 levels through 1988.

MAJOR CHANGES IN 1984

The Administration's proposals for 1984 call for increases in lending for international affairs and reductions in most other areas. Table II-2 shows the major changes made in the CBO baseline by the President's credit budget. The Administration held its estimates for most programs in 1985-1988 at 1984 levels, in contrast to the CBO baseline estimates which are inflated to maintain constant program levels.

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TABLE II-1. CBO ESTIMATE OF ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal year, in billions of dollars)

	1982	1983	1984	1985	1986	1987	1988
CBO Baseline							
Direct loan obligations	47.8	49.5	49.1	48.2	50.0	52.4	53.7
Primary guarantee commitments	53.7	94.6	96.5	102.3	108.4	113.9	118.6
Total, new lending	101.5	144.1	145.6	150.5	158.4	166.3	172.3
Secondary guarantees	36.4	68.2	71.5	74.9	78.1	81.3	84.4
Proposed Changes							
Direct loan obligations	---	-0.1	-9.7	-10.3	-12.6	-14.6	-15.7
Primary guarantee commitments	---	-2.7	-10.4	-13.3	-16.4	-19.8	-22.4
Total, new lending	---	-2.8	-20.1	-23.6	-29.0	-34.4	-38.1
Secondary guarantees	---	---	-12.8	-16.2	-19.5	-22.6	-25.7
President's Budget as Estimated by CBO							
Direct loan obligations	47.8	49.4	39.4	37.9	37.4	37.9	38.0
Primary guarantee commitments	53.7	91.9	86.1	88.9	92.0	94.1	96.2
Total, new lending	101.5	141.3	125.5	126.8	129.4	132.0	134.2
Secondary guarantees	36.4	68.2	58.6	58.6	58.6	58.6	58.6

Programs That Would Be Increased

Increased credit program levels have been proposed for the Export-Import Bank and the foreign military credit sales program. The Administration has proposed an appropriations limit of $10 billion for the Export-Import Bank loan guarantees, an increase of $1 billion over the level enacted in 1983 and of $627 million over CBO's baseline estimate. The increase represents part of the Administration's efforts to meet officially supported foreign competition. For 1985-1988, the Administration assumes

TABLE II-2. MAJOR CHANGES IN THE CBO BASELINE MADE BY THE PRESIDENT'S CREDIT BUDGET (By fiscal year, in billions of dollars)

Major Programs	1983	1984	1985	1986	1987	1988
Direct Loan Obligations						
CBO baseline	49.5	49.1	48.2	50.0	52.4	53.7
Proposed changes						
Foreign military credit sales a/	0.5	0.4	0.2	-0.1	-0.3	-0.5
Export-Import Bank	---	-0.8	-1.0	-1.2	-1.4	-1.6
Rural housing insurance fund	*	-3.2	-3.0	-4.0	-4.6	-4.8
Rural Electrification Administration a/	-0.1	-2.3	-2.6	-2.9	-3.1	-3.4
Commodity Credit Corporation	---	-0.5	-0.5	-0.6	-0.6	-0.6
GNMA special assistance functions fund	---	-0.5	-0.6	-0.6	-0.6	-0.6
Agriculture credit insurance fund	-0.3	-0.7	-0.8	-1.1	-1.3	-1.4
SBA disaster loan fund	-0.2	-0.7	-0.5	-0.5	-0.5	-0.6
Other	---	-1.4	-1.5	-1.5	-2.2	-2.2
Total change	-0.1	-9.7	-10.3	-12.6	-14.6	-15.7
President's budget as estimated by CBO	49.4	39.4	37.9	37.4	37.9	38.0

Export-Import Bank guaranteed loans would be held at the 1984 level, a $2.0 billion reduction from the baseline estimate for the period. The Administration has requested a supplemental of $525 million for foreign military credit sales loan guarantees in 1983, and has requested the supplemented amount for 1984. The proposed supplemental would provide $100 million to assist in

Table II-2. (Continued)

Major Programs	1983	1984	1985	1986	1987	1988
Primary Loan Guarantees						
CBO baseline	94.6	96.5	102.3	108.4	113.9	118.6
Proposed changes						
Export-Import Bank	-1.0	0.6	0.1	-0.3	-0.7	-1.1
Rural Electrification Administration b/	---	(-1.6)	(-2.0)	(-2.5)	(-2.9)	(-3.2)
SBA business loan and investment fund	-0.6	-0.8	-1.2	-2.0	-2.8	-2.9
FHA mortgage assistance	---	-8.3	-10.6	-12.8	-14.9	-16.9
GNMA mortgage-backed securities b/	---	(-12.8)	(-16.2)	(-19.5)	(-22.6)	(-25.7)
Guaranteed student loans	-0.5	-1.0	-1.0	-1.0	-1.0	-0.9
Other	0.6	-0.9	-0.7	-0.3	-0.4	-0.6
Total change	-2.7	-10.4	-13.4	-16.4	-19.8	-22.4
President's budget as estimated by CBO	91.9	86.1	88.9	92.0	94.1	96.2

* Less than $50 million.

a/ Includes both agency direct loans and FFB direct loans issued for agency guarantees.

b/ Amounts in brackets involve intragovernmental transactions and are not included in the totals.

the rebuilding of the Lebanese armed forces and $425 million to avoid adverse effects of military assistance reductions to various countries. For 1985-1988, the Administration assumes the 1984 level. The total reduction from the baseline for foreign military sales credits through 1988 would be $0.3 billion. All foreign military sales credit guarantees are being financed through the Federal Financing Bank (FFB). The 1984 request appears as an increase of $397 million in FFB direct loan obligations.

Programs That Would Be Decreased

Credit budget decreases have been proposed for all other budget functions. The major changes from CBO's baseline are outlined below:

Rural Electrification Administration (REA). The Administration has requested 1984 limits of $575 million for direct loans and $3,360 million for loan guarantees. Since all REA transactions are financed through the FFB, the request is recorded as a $2.3 billion reduction in direct loan obligations from the baseline. The Administration assumes REA loan levels will be held at the 1984 level through 1988. The savings from the baseline in 1984-1988 for REA would be $14.3 billion. The Administration anticipates that an increase in the availability of supplemental financing from the National Rural Utility Finance Corporation and other sources will satisfy a part of the capital requirements of the rural electric systems.

Commodity Credit Corporation (CCC). The Administration proposes $8.0 billion for CCC commodity price-support loans, a $2.4 billion reduction from the current services estimates. The reduction reflects implementation of the payment-in-kind (PIK) program under existing authority. Under PIK, the farmers are offered surplus commodities held in CCC reserves in exchange for reducing production of wheat, feed grains, rice, or cotton. The estimated savings would result from reduced commodity loans.

Rural Housing Insurance Fund (RHIF). The Administration has proposed to terminate new loans for rural housing assistance and to establish a block grant to states for rural housing. The number of low-income rural housing units would be reduced from 90,000 in 1983 to 3,000 in 1984. The proposal would reduce direct loans by $19.6 billion from the baseline in 1984-1988.

SBA Business Loan and Investment Fund (BLIF). The 1984 request for SBA business loans proposes cuts for both direct loans and guarantees and assumes a lower level of direct loans for defaulting guarantees than provided in the baseline. The Administration proposes phasing down SBA loan guarantee assistance to $1.0 billion by 1988, $9.7 billion below baseline estimates for 1984-1988. The reduction of SBA assistance is an integral part of the Administration's effort to restrain and reduce federal credit programs. The Administration assumes that this will increase the availability of private credit for business.

Federal Housing Administration (FHA) Mortgage Assistance. For 1984, the Administration requested $39.8 billion for FHA loan guarantees, a reduction of $8.3 billion from the CBO baseline. The Administration assumes that the growing capacity of private mortgage insurers will reduce

the need for federal assistance. Its estimates assume that FHA guarantees will be held at the 1984 level through 1988, a total of $63.5 billion below the baseline for this period.

Government National Mortgage Association (GNMA) Mortgage-Backed Securities. The Administration requested a limitation of $58.6 billion for GNMA secondary guarantees in 1984, a cut of $12.8 billion from the baseline. For 1984-1988, its estimates fall $96.8 billion below the baseline.

Small Business Administration (SBA) Disaster Loans. The Administration has proposed a limit of $440 million for SBA disaster loans. In the past the Congress has chosen not to limit SBA disaster loans. In light of previous Congressional action, the Budget Committees agreed to treat SBA disaster loans as an open-ended program. CBO estimates a loan level more than double that assumed by the Administration for 1984. For 1984-1988, the Administration estimate is $2.8 billion below the baseline.

Guaranteed Student Loans. The Administration proposed two significant changes from current law for the guaranteed student loan program: needs analysis for all applicants and an increase in the origination fee for graduate and professional student loans from 5 to 10 percent. CBO estimates that these changes will result in about a $1.0 billion annual decrease in guaranteed student loans in 1984-1988.

Other Programs. The Administration has assumed no further funding for CCC short- and intermediate-term direct export loans and for the GNMA special assistance functions fund tandem plan program. The CCC direct export loans were limited at $2.2 billion in 1981 and 1982, but were not disbursed. In 1983, the Agriculture and Related Agencies Appropriations bill set a minimum for the program of $500 million. Both programs were funded at the level of $500 million in 1983 and were included in CBO's base at that level. For the projections period, the baseline is $5.7 billion above the Administration estimate for these two programs.

In addition to the proposed reduction in rural housing insurance (RHIF) funding, the Administration has proposed to change the budgetary treatment of RHIF loan asset sales to the FFB. This would require loan assets to be treated as borrowing by the rural housing insurance fund. The current rural housing authorization requires that these transactions be recorded as the sale of an asset generating collections that offset outlays. Its outstanding assets would be restructured as agency debt. The impact of the change would be to convert the financing of repurchase of loan assets from an offsetting collection to agency borrowing. The total FFB portfolio of $26.9 billion in RHIF loan assets would be converted to agency debt. Ultimately, off-budget outlays of the FFB would be reduced, as shown in the budget

impact estimate in the next section, and the budget outlays of RHIF would increase. The proposed change in financing would not affect loan levels since it would change intragovernmental transactions that are netted from total lending.

Table II-3 compares the CBO baseline for the rural housing insurance fund with the Administration's request. The changes in new rural housing loans and purchases of existing loans from the public, resulting from the proposed rural housing block grant, reduce baseline credit budget estimates by $19.6 billion from 1984 to 1988. The legislative change in RHIF loan assets would reduce RHIF sales by $13.8 billion during the projections period, but since loan asset sales are netted from credit budget totals it would not affect the credit budget.

IMPACT OF THE PRESIDENT'S PROPOSED CREDIT BUDGET ON FEDERAL OUTLAYS

CBO estimates that the President's credit budget proposals would result in on- and off-budget outlay savings of $3.1 billion in 1984 and $37.6 billion from 1984 through 1988. The 1984-1988 savings would be generated by a $145.2 billion cumulative reduction from baseline estimates of direct loan obligations and loan guarantee commitments. The deficit would be reduced only by the cuts in on-budget outlays: $0.3 billion in 1984 and $12.6 billion over the projections period. The Treasury borrowing requirements--which consist of on- and off-budget outlays--would be reduced by the total on- and off-budget decrease. Table II-4 shows CBO's estimate of the outlay impact of the President's credit budget proposals by major program.

On-budget outlay savings result principally from proposed cuts in the rural housing insurance fund, GNMA special assistance functions fund, and the SBA disaster loan fund. No savings have been estimated for the elimination of CCC's direct export loans. No budget authority or outlays were included in the baseline for this program. The $4.9 billion lower loan guarantee level for the guaranteed student loan program is estimated to result in savings of $0.7 billion over the projections period. Both of the other loan guarantee programs that affect on-budget outlays actually make money for the government: reductions in FHA mortgage assistance and GNMA mortgage-backed securities have an impact equivalent to adding to outlays by decreasing receipts.

Reductions of $25.0 billion in off-budget outlays during 1984-1988 are all attributed to the FFB. Proposed cuts in the Rural Electrification Administration (REA) guarantees and SBA business loan and investment fund guarantees are estimated to save FFB outlays since the FFB originates all

TABLE II-3. COMPARISON BETWEEN THE CBO BASELINE AND THE ADMINISTRATION'S REQUEST FOR THE RURAL HOUSING INSURANCE FUND (By fiscal year, in billions of dollars)

Major Programs	1983	1984	1985	1986	1987	1988
CBO baseline						
New rural housing loans	3.3	3.5	3.6	3.8	3.9	4.1
Purchase of existing loans from the public	0.1	*	0.1	0.6	1.0	1.1
Repurchase of loan assets from FFB a/	(2.7)	(3.9)	(2.2)	(0.1)	(0.2)	(0.2)
Sale of loan assets to the FFB a/	(5.1)	(6.3)	(4.8)	(2.7)	(2.9)	(3.0)
Total, new direct loan obligations	3.4	3.5	3.7	4.3	5.0	5.2
Proposed Changes						
New rural housing loans	---	-3.2	-3.3	-3.5	-3.6	-3.8
Purchase of existing loans loans from the public	---	*	0.3	-0.5	-1.0	-1.0
Repurchase of loan assets from the FFB a/	---	(-3.9)	(-2.2)	(-0.1)	(-0.2)	(-0.2
Sale of loan assets to the FFB a/	---	(-2.1)	(-3.1)	(-2.7)	(-2.9)	(-3.0)
Agency debt a/	---	(4.2)	(1.8)	---	---	---
Total change	---	-3.2	-3.0	-3.9	-4.6	-4.8
President's Budget as Estimated by CBO						
New rural housing loans	3.3	0.3	0.3	0.3	0.3	0.3
Purchase of existing loans from the public	0.1	*	0.4	0.1	0.1	0.2
Repurchase of loan assets from FFB a/	(2.7)	---	---	---	---	---
Sale of loan assets to the FFB a/	(5.1)	(4.3)	(1.8)	---	---	---
Agency debt a/	---	(4.2)	(1.8)	---	---	---
Total, new direct loan obligations	3.4	0.3	0.7	0.5	0.5	0.5

* Less than $50 million.

a/ Amounts shown in brackets are intragovernmental transactions and are subtracted from gross direct loan obligations in calculating new direct loans to the public.

TABLE II-4. CBO ESTIMATE OF THE OUTLAY IMPACT OF THE PRESIDENT'S PROPOSED CHANGES IN THE CREDIT BUDGET (In billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
Changes in On-Budget Outlays						
Export-Import Bank	*	-0.3	-0.5	-0.7	-0.8	-2.3
Foreign military sales credit	-0.1	-0.3	-0.3	-0.4	-0.4	-1.5
Agriculture Credit Insurance Fund	-0.2	-0.1	-0.1	-0.1	-0.2	-0.7
Commodity Credit Corporation	---	---	---	---	---	---
Rural Housing Insurance Fund	0.3	-0.6	-0.7	-1.2	-1.5	-3.7
GNMA mortgage-backed securities	*	*	*	*	*	*
GNMA Special Assistance Functions Fund	---	*	-0.1	-1.5	-1.7	-3.3
FHA mortgage assistance	---	0.3	0.4	0.4	0.5	1.6
SBA disaster loan fund	-0.3	-0.5	-0.4	-0.4	-0.4	-2.0
Guaranteed student loans	*	-0.1	-0.2	-0.2	-0.2	-0.7
Other a/	---	---	---	---	---	---
On-budget outlay impact of President's credit budget	-0.3	-1.6	-1.9	-4.1	-4.7	-12.6
Changes in Off-Budget Outlays						
Foreign military sales credit	0.4	0.3	0.2	0.1	-0.1	0.9
Rural Electrification Admin.	-0.1	-0.9	-1.5	-2.1	-2.5	-7.1
Agricultural credit insurance fund	-0.6	-0.8	-1.1	-1.3	-1.5	-5.3
Rural housing insurance fund	-2.4	-2.5	-2.6	-2.7	-2.8	-13.0
SBA business loan investment fund	-0.1	-0.1	-0.2	-0.2	-0.2	-0.8
Off-budget outlay impact of President's credit budget	-2.8	-4.0	-5.2	-6.2	-7.1	-25.2
Combined On- and Off-Budget Outlay Impact	-3.1	-5.6	-7.0	-10.2	-11.7	-37.6

* Less than $50 million.

a/ No estimate was developed for the "Other" credit budget changes which are spread among a large number of programs.

REA and some SBA guarantees. The reductions shown for the agriculture credit insurance fund and the foreign military sales credit program result from the Administration's assumed freeze from 1984 through 1988. The largest off-budget savings are due to the legislative proposal to classify RHIF asset sales as agency debt. If the RHIF program was not to be cut, off-budget outlays would be reduced but on-budget outlays increased. This is because agency debt requires borrowing authority and is not offset against on-budget outlays as are loan asset sales.

CBO REESTIMATES OF ADMINISTRATION CREDIT BUDGET PROPOSALS

As part of its analysis of the President's credit budget, CBO has reestimated the Administration's budget program to reflect CBO baseline economic assumptions and technical estimating methods. The effect of these reestimates on the credit budget is shown in Table II-5. The net effect of reestimates is to increase the President's credit budget for direct loan obligations but to decrease the primary guarantee estimates.

The net adjustment to direct loans is an increase of $0.3 billion in 1983, $0.6 billion in 1984, and a total increase of $3.1 billion from 1983 through 1988. The largest direct loan reestimate results from the reclassification of the guarantee reserve fund, which was recorded by the Administration as a repurchase of loan assets. The guarantee reserve fund is used entirely to finance defaulting foreign military sales guarantees, which are not loan assets although they are held by the FFB. The reestimates to TVA guarantees originated by the FFB and CCC commodity price support loans reflect less optimistic outyear economic assumptions. The lower estimate for direct loans for the VA direct loan revolving fund is due to a reclassification of direct loans for defaulting guarantees to exclude property acquisition from the definition of direct loans.

The CBO estimate of the Administration's loan guarantee program resulted in decreases of $10.8 billion in 1983, $12.6 billion in 1984, and a cumulative decrease of $63.8 billion from 1983 to 1988. The largest reestimate was for VA loan guarantees. The Administration had originally estimated a 212 percent increase from the 1982 level to a 1983 loan guarantee volume of $18.6 billion, with a further increase to $19.9 billion in 1984. CBO also assumed a more modest recovery for the housing industry; its 1983 estimate is 50 percent higher than the 1982 actuals, and its 1984 estimate increases by another 12.5 percent. CBO assumes a lower loan volume for the guaranteed student loan program, given Administration policy, than does the Administration.

TABLE II-5. CBO REESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS (By fiscal years, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Direct Loan Obligations						
President's Budget	49.1	38.8	37.4	37.4	37.1	37.4
CBO reestimates						
Guarantee reserve fund-repurchase of loan assets	0.3	0.3	0.3	0.4	0.4	0.5
TVA	0.2	0.1	*	-0.3	-0.7	-1.1
CCC	---	---	---	---	1.0	1.1
SBA business loan and investment fund	0.1	0.3	0.2	0.1	0.1	0.1
SBA disaster loan fund	---	---	0.2	0.2	0.3	0.3
Guaranteed student loan fund	---	---	*	*	*	-0.1
VA loan guaranty revolving fund	0.1	-0.1	-0.3	-0.2	-0.1	*
Other	-0.4	---	0.1	-0.1	-0.3	-0.2
Net reestimates	0.3	0.6	0.5	0.1	0.7	0.6
President's budget as estimated by CBO	49.4	39.4	37.9	37.4	37.9	38.0
Primary Loan Guarantee Commitments						
President's Budget	102.7	98.7	100.9	103.1	103.4	104.2
CBO reestimates						
Guaranteed student loan fund	-0.8	-1.8	-2.2	-2.7	-3.0	-3.4
VA loan guarantee revolving fund	-10.6	-10.9	-9.9	-8.5	-6.3	-4.7
Other	0.6	0.1	0.1	0.1	---	0.1
Net reestimates	-10.8	-12.6	-12.0	-11.1	-9.3	-8.0
President's budget as estimated by CBO	91.9	86.1	88.9	92.0	94.1	96.2

* Less than $50 million.

CHAPTER III. THE BUDGET IMPACT OF FEDERAL CREDIT ACTIVITIES

The budgetary treatment of federal credit activities has historically led to misunderstandings about the long-term cost of credit programs, about the incidence of defaults, and generally about the impact of the credit budget on federal spending. Two particular misconceptions tend to arise. On the one hand, federal credit is sometimes seen as a free good that does not cost the government anything. On the other hand, opponents of credit programs sometimes argue that they are bound to usurp capital from more productive uses. Neither perception is necessarily accurate.

This chapter reviews several characteristics of federal credit activity in an effort to place its budget impact in context. The fact that many credit activities involve long-term subsidies to borrowers is explored through a discussion of the discounted present value of such subsidies. The problem of defaults in federal credit programs is reviewed. Next, net lending is considered in terms of its impact on outlays and on capital markets. Finally, the role of the Federal Financing Bank (FFB) in distorting the budget impact of credit activities is examined. Data have been extracted from the President's Budget to support this discussion, rather than estimated independently by CBO.

THE INTEREST SUBSIDIES IN FEDERAL CREDIT

The federal government extends direct loans to selected borrowers at interest rates and for terms that are more favorable than would be provided by private credit markets. The difference between the market rate and the rate charged to the borrower represents a subsidy to the borrower. The difference between the Treasury's borrowing cost and the rate charged to the borrower determines the cost of the subsidy to the government. The two estimates of subsidy, one from the borrower's viewpoint, the other from the lender's, can be very different in some loan programs.

The annual value of interest subsidies to borrowers equals the subsidy expressed as a percent times the volume of outstanding loans. To measure the full cost of a new loan extended or the savings that would be generated from reducing loan programs, it is necessary to specify the annual interest subsidies for the life of the loan and to convert this stream to its discounted present value.

Table III-1 presents the discounted present values for selected federal credit assistance programs for 1982. Present-value analysis is more useful as a tool for examining the cost of a specific program than it is for estimating the value of total federal subsidies, since the calculation of present value requires a number of sensitive assumptions that are subject to considerable change from year to year--e.g., market interest rates, Treasury borrowing rates, and the discount rate. For example, if a credit program offers loans at 3 percent interest for a period of 33 years, when the private rate is 13 percent (OMB's estimates for rural housing in 1982), each $100 loan represent the equivalent of a $64 grant, the present value of the interest subsidy. The annual subsidy for the same $100 loan would be approximately $8. Present-value analysis thus presents an estimate of the long-term costs of the program.

TABLE III-1. INTEREST SUBSIDY VALUES FOR SELECTED FEDERAL CREDIT PROGRAMS, FISCAL YEAR 1982

	Average Terms		Annual Market Rate (percent)	Obligations (millions of dollars)	Present Value of Subsidy (millions of dollars)
	Interest Rate (percent)	Years to Maturity			
Economic Support Fund	3.0	40.0	12.5	366	241
Agriculture Credit Insurance Fund	9.2	10.0	14.0	4,199	744
Rural Housing Insurance Fund	3.0	33.0	13.0	3,454	2,203
Rural Electric and Telephone	4.9	35.0	14.5	1,099	649
FFB, Loans to the Public	10.3	10.0	14.6	30,082	4,750

SOURCE: Budget of the United States Government, Fiscal Year 1984, Special Analysis F, Federal Credit Programs.

THE EXTENT OF DEFAULTS IN FEDERAL CREDIT ACTIVITIES

The current federal budget presentation makes it difficult to draw conclusions as to the extent of defaults in federal credit activities. Default levels are, however, a significant concern, particulary in loan guarantee programs where they are the principal source of costs. Federal credit programs have often been criticized for their high default rates, notably the guaranteed student loan program and the Small Business Administration's business loan programs. The remainder of this section presents information on defaulting loans.

Defaults are recorded in the budget schedules in four categories:

- Direct loans for defaulting guarantees--disbursements for acquisition of loans or collateral resulting from guarantee claims;
- Forgiveness credits--principal repayments waived, as provided by statute in the event of certain specified contingencies;
- Direct loan principal written off for default; and
- Guaranteed loan principal terminated for default.

A default occurs when a lender determines that a borrower is not fulfilling the terms of the contract to repay the loan. In the case of guaranteed loans, the guaranteeing agency must repay the lender. Federal agencies usually do this by paying the original lender the outstanding principal and any accrued interest and rewriting the loan and accrued interest as a direct loan to the original borrower from the government. As shown in Table III-2, direct loans for defaulting guarantees were $2.1 billion in 1982, approximately 4 percent of total new direct loans for the year.

Direct loans for defaulting guarantees affect outlays directly by increasing net direct lending in the year of their disbursement. Defaults of direct loans, and adjustments to guaranteed loan portfolios for defaulted guarantees, do not result in new expenditures by the government. Direct loan defaults, forgiveness credits--the waiving of principal repayment--and termination of guaranteed loans are recorded as adjustments to agency loan portfolios. These other adjustments for default reduce future repayments, thus reducing cash receipts to the lending agency.

Default experience varies substantially from program to program. Some loans are backed by collateral, such as Federal Housing Administration (FHA) mortgages and SBA business loans. Others, such as the student loan programs, are backed only by the signature of the borrower. Commodity

TABLE III-2. ESTIMATED DEFAULTS BY MAJOR PROGRAM (In millions of dollars)

	1982 Actual	1983 Estimate	1984 Estimate
Direct Loans for Defaulting Guarantees			
Foreign military sales credits	217	253	306
CCC price supports	168	---	---
Economic Development Administration	68	67	65
Credit union share insurance fund	23	24	20
VA loan guarantees a/	709	796	615
SBA business loan investment fund a/	504	794	730
Export-Import Bank	25	95	63
FHA loan guarantees a/	284	298	225
Guaranteed student loans a/	289	391	424
Other	19	16	16
Subtotal	2,306	2,733	2,464
Forgiveness Credits (principal repayments waived)			
Foreign military sales credit	497	875	1,000
Economic Development Administration	53	---	---
Administration of territories	16	---	---
VA loan guarantees	9	-5	-5
Urban mass transportation fund	6	18	---
Other	3	---	---
Subtotal	584	888	995

Credit Corporation price-support loans have crops pledged against them. Some foreign military sales credit loans are forgiven in the original authorizing legislation. These variations among programs make calculation of defaults and comparison among programs difficult. Rather than drawing conclusions from summary statistics, default data should be considered on a program-by-program basis.

Table III-2. (Continued)

	1982 Actual	1983 Estimate	1984 Estimate
Direct Loan Principal Written Off For Default			
Agriculture credit insurance fund	20	25	27
CCC price supports	---	1,512	3,763
VA loan guarantees	46	42	43
SBA disaster loans	67	61	59
SBA business loan investment fund	241	330	360
Export-Import Bank	32	---	---
FHA loan guarantees	132	206	152
Student loans	43	---	---
Other	50	98	31
Subtotal	631	2,274	4,435
Guaranteed Loan Principal Terminated For Default			
Foreign military sales credit	217	253	306
Rural development insurance fund	16	24	18
CCC export loans	168	---	---
Economic Development Administration	68	67	65
VA loan guarantees	709	679	709
Aircraft purchase guarantees	16	38	---
SBA business loan insurance fund	845	1,149	850
Export-Import Bank	25	95	63
FHA loan guarantees	890	1,144	1,151
Guaranteed student loans	286	375	424
Other	39	49	34
Subtotal	3,279	3,873	3,620

a/ CBO reestimates of the President's defaults have been used for these accounts.

For example, focusing on direct loans for defaulting guarantees understates FHA's defaults. The FHA wrote off $890 million in guaranteed

loan principal for default in 1982. Loans were assumed as direct loans by FHA for only $284 million of that amount. FHA acquired property for the remaining $606 million of the defaulted mortgages.

By design, most federal loans are riskier than comparable non-subsidized assistance. A survey conducted by the Senate Budget Committee found that approximately 25 percent of federal credit programs require proof that loans were not available elsewhere as a condition of eligibility. For this reason, a greater default rate should be expected.

NET LENDING

Net lending--new loans less repayments--is the factor in federal credit activities that contributes most to the impact of the credit budget on federal outlays. Net lending is also a concept used in measuring the impact of federal credit activities on capital markets. This section first discusses the factors that contribute to net lending. It then reviews the impact of the credit budget on capital markets.

Net Lending and Outlays

As noted in the previous chapter, CBO estimates that credit budget changes proposed by the Administration would result in outlay savings of $37.6 billion over the next five years compared to the baseline. The savings seem surprisingly small as against reductions of $145.2 billion in direct and guaranteed loans. The savings would come primarily from reductions in net lending.

Net lending leads to increased cash expenditures by the government, and therefore to higher outlays. The volume of net lending is determined by the rate at which loans are disbursed and by the rate at which they are repaid--which varies depending upon the term of the loan. The credit budget controls new direct loan obligations and new loan guarantee commitments. In any year, disbursements will involve obligations and commitments from that budget year and from one or more previous years. Repayments are generated from the entire portfolio of outstanding loans.

Net lending varies, depending upon program characteristics. For example, the Commodity Credit Corporation (CCC) commodity price-support loans are obligated and disbursed to farmers in a single transaction. Loans are made against a specific crop. If the market price is above the value of the loan, the farmer sells the crop and repays the loan. Otherwise he turns the crop over to the CCC in payment for the loan. The average