

increased the 1982 base for health services from \$1 million to \$13.2 million, but is requesting a limitation of \$1 million for 1983.

Health Maintenance Organizations Loan and Loan Guarantee Fund

The Health Maintenance Organization (HMO) program provides grants and loans for the establishment or expansion of HMOs. Loans may also be awarded for construction of ambulatory care facilities. HMOs provide specific health services to their members in return for a prepaid, fixed payment. They are an alternative to the traditional health-care delivery system, which provides health care on a fee for service basis.

Both the direct and guaranteed loans have a 20-year maturity and bear interest at 12 percent. Direct loans are financed through a revolving fund. As new loans are made, they are sold to the FFB loan as assets to provide funds for additional loans. All of the loan sales are fully guaranteed by the Department of Health and Human Services.

As part of the effort to eliminate federal subsidies, the Administration has reestimated 1982 new direct loan obligations from \$92 million to \$41 million, a \$50 million reduction. For 1983, direct lending is estimated at \$38.4 million. Limitations of \$75.5 million and \$24.5 million are requested for 1982 and 1983, respectively. Loan guarantee commitments have been reestimated from the \$75.5 million appropriations limitation to \$36.5 million for 1982. For 1983, the Administration has requested a limitation of \$24.5 million. The Administration is proposing to phase out the federal subsidy program to HMOs by the end of 1983.

Health Professions Graduate Student Loan Program

The Health Professions Graduate Student Loan Insurance Fund enables students to borrow from private lenders to help pay the cost of their medical training under Title VII of the Public Health Service Act. Limitations of \$200 million and \$80 million have been requested for loan guarantee commitments in 1982 and 1983, respectively. The Administration plans to make commitments of only \$80 million in 1982, \$120 million below the proposed limitation.

FUNCTION 600: INCOME SECURITY

(In millions of dollars)

	Direct Loan Obligations			Loan Guarantee Commitments		
	1981	1982	1983	1981	1982	1983
Low Rent Public Housing <u>a/</u>	2,196	1,500	1,000	19,343	18,293	19,771
Other Income Security	2	5	5	---	---	---
Off-Budget Federal Entity Federal Financing Bank <u>b/</u>						
Low rent public housing	<u>822</u>	<u>1,261</u>	<u>1,026</u>	<u>---</u>	<u>---</u>	<u>---</u>
Subtotal	3,020	2,766	2,031	19,343	18,293	19,771
Less						
Guaranteed loans held as direct loans by the FFB						
Low-rent public housing	<u>---</u>	<u>---</u>	<u>---</u>	<u>-822</u>	<u>-1,261</u>	<u>-1,026</u>
Total, income Security	3,020	2,766	2,031	18,520	17,032	18,745

a/ Includes guarantees of direct loans made by the Federal Financing Bank (FFB) as shown below.

b/ The FFB is an off-budget entity that finances direct loans sold or guaranteed by other federal agencies. The deductions below eliminate overlap with transactions shown above in this table.

Credit assistance in the income security function is primarily for housing. Local public housing authorities are assisted in the construction of low-rent public housing and a "seed money" loan program assists nonprofit organizations to build Section 8 subsidized housing for low-income elderly and handicapped tenants. Only the loans to nonprofit sponsors are subject to limitation.

Low-Rent Public Housing

The low-rent public housing loan fund provides federal financing for the construction, acquisition, or modernization of public housing projects owned by local public housing agencies (PHAs) until the projects can be financed through the Federal Financing Bank (FFB). Direct loans are made to finance the early costs for both the development and modernization of projects. The Administration estimates total direct loan obligations of \$1 billion for 1983 and has reestimated the 1982 level at \$1.5 billion, up \$1.2 billion from the 1982 base estimate of \$300 million.

When the volume of direct loans has accumulated to a size that is attractive to private investors, PHAs issue short-term, tax-exempt notes (See definition of tax-exempt credit in Appendix A.) that are guaranteed by federal pledges to issue direct loans in case of default. These short-term notes are for terms averaging between 90 days and one year. They constitute the largest volume of lending under this program. With the guaranteed notes, PHAs can raise sufficient funds to repay the initial direct federal loans and to continue construction. The Administration has reestimated loan guarantee commitments from the 1982 base level of \$17.4 billion to \$18.3 billion. Commitments are estimated at \$19.8 billion for 1983. The \$19.8 billion represents the gross of all new lending extended during the year. Because the loans mature within a year, this overstates the net volume of funds involved, but it is an accurate reflection of total new activity.

Near completion of construction, the third or permanent stage of financing takes place. This long-term financing is provided by the FFB and, in some cases, by refinancing the short-term notes. The Administration has reestimated new FFB loan purchases from the 1982 base of \$2.6 billion to \$1.2 billion. For 1983, the Administration estimates \$1.0 billion in new FFB loan purchases.

The Administration proposes to end new construction and acquisition of public housing programs. The commitments already made to the programs will be used to support modernization activities and sales of permanent financing to the FFB.

Nonprofit Sponsor Assistance

The nonprofit sponsor assistance program provides interest-free direct loans to nonprofit organizations to plan housing projects to be financed under the Section 202 Housing for the Elderly or Handicapped program (in function 370). To ensure a sufficient commitment to the project and demonstrate their financial capacity, sponsors are required to provide 20

percent or \$50,000, whichever is less, of the start-costs. The interest-free, seed-money loans cover the remainder. Once the project is approved, these funds are repaid from the initial proceeds of the construction loan from the Housing for the Elderly or Handicapped program. For 1983, the Administration is requesting a limitation of \$1.7 million for new direct loan obligations, which represents a decrease of 35 percent from the 1982 request of \$2.6 million.

Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation administers insurance programs to prevent the loss of pension benefits to participants if pension plans are terminated and not able to pay the insured benefits. Since 1981, P.L. 96-364 has required inclusion of the Corporation's receipts and disbursements in the unified budget totals. For 1983, direct loan obligations are estimated at \$2.8 million, a slight increase over the 1982 level.

FUNCTION 700: VETERANS' BENEFITS AND SERVICES

(In millions of dollars)

	<u>Direct Loan Obligations</u>			<u>Loan Guarantee Commitments</u>		
	1981	1982	1983	1981	1982	1983
Insurance Policy Loans	241	118	152	---	---	---
Education Programs	7	2	2	---	---	---
Mortgage Insurance and Other Housing Programs	<u>738</u>	<u>757</u>	<u>781</u>	<u>11,719</u>	<u>19,542</u>	<u>22,451</u>
Total, veterans', benefits and services	987	878	936	11,719	19,542	22,451

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 direct and guaranteed loans to purchase homes. For 1983 new direct loan obligations are estimated to total \$936 million. New loan guarantee commitments are estimated at \$22.4 billion. Since most of the credit assistance in this function is considered to be part of the benefits to which veterans are entitled, the Administration is not recommending limitations on most of these programs.

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. The Administration estimates that \$22,451 million in loan guarantee commitments will be made in 1983. For 1982 the Administration has estimated that \$19,542 million will be made, a 52 percent increase from the current 1982 base of \$8,228 million. This represents a change in credit budget accounting. In the past, the credit budget has only recorded the government's contingent liability for the guarantees. The new procedure records the full principal, a measure of the resources being allocated through the assistance of the Veterans Administration (VA). Under this measure, a comparable figure for the current 1982 would be over \$22 billion. The 1982 estimate, therefore, assumes a reduction in housing loans.

The Veterans Administration is also authorized to make direct loans to severely disabled veterans for specially adapted housing. New obligations for these loans are estimated at \$1.9 million in 1982 and 1983. In addition, the VA takes over defaulting guaranteed loans, pays off the lender, and assists borrowers in rescheduling payments. This constitutes extension of a direct loan to satisfy a guarantee claim, and is estimated to be \$444.3 million in 1983. Finally, in 1983, the VA will make obligations to repurchase \$6.9 million in existing VA-insured loans from private lenders.

Insurance Policy Loans

Veterans and their survivors may borrow against the cash values of life insurance policies issued by the 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 expects policy loans against VA-administered life insurance to increase direct loan obligations to \$152.7 million in fiscal 1983, as veterans take advantage of the projected decline in market interest rates. This assumption may prove incorrect. Veterans may be less likely to borrow against their life insurance policies as market interest rates decline. Decreasing the value of one's life insurance policy may be more attractive only when other sources of credit have become prohibitively expensive. The Administration has reestimated direct loan obligations from the 1982 base of \$202.4 million to \$118 million.

FUNCTION 800: GENERAL GOVERNMENT

(In millions of dollars)

	Direct Loan Obligations			Loan Guarantee Commitments		
	1981	1982	1983	1981	1982	1983
Loans to U.S. Territories and Other <u>a/</u>	---	---	---	---	30	8
Off-Budget Federal Entities						
Federal Financing Bank <u>b/</u>						
Loans to U.S. territories	---	30	---	---	---	---
Subtotal	---	30	---	---	30	8
Less						
Guaranteed loans held as direct loans by the FFB						
Loans to U.S. territories	---	---	---	---	-30	---
Total, general government	---	30	---	---	---	8

a/ Includes guarantees of direct loans made by the Federal Financing Bank (FFB) as shown below.

b/ The FFB is an off-budget entity that finances loan asset sales or loan guarantees made by other federal agencies. The deductions below eliminate overlap with transactions shown above in this table.

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 program 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.

For fiscal year 1983, the Administration is requesting an \$8 million limitation on new loan guarantee commitments for the construction of power facilities for American Samoa.

FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE

(In millions of dollars)

	Direct Loan Obligations			Loan Guarantee Commitments		
	1981	1982	1983	1981	1982	1983
Loans to the District of Columbia	134	145	145	---	---	---
Repayable Advance to D.C. General Fund	80	80	---	---	---	---
Guarantees of New York City Loans	---	---	---	<u>300</u>	<u>300</u>	---
Total, general purpose fiscal assistance	214	225	145	300	300	---

Credit assistance in function 850 consists of direct loans to the District of Columbia and loan guarantees for New York City.

Loans to the District of Columbia

The District of Columbia Self-Government and Governmental Reorganization Act (P.L. 93-198) terminated the District's permanent authority to borrow from the Treasury to finance capital improvements. 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 1982 and 1983 budgets.

The Administration plans to submit legislation to discontinue the city's authority to borrow interest-free, short-term funds from the U.S. Treasury. For 1983 the Administration is proposing a ceiling on federal lending to the District of \$145 million, the same level approved in 1982.

New York City Loan Guarantees

Public Law 93-339 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 its fiscal crisis of 1975.

The Administration has estimated that only \$300 million of the \$755 million limit appropriated for 1982 will be needed before termination of the program.

APPENDIXES

APPENDIX A. GLOSSARY OF CREDIT BUDGET TERMS

Certificates of Beneficial Ownership (CBOs). Farmers Home Administration and Rural Electrification Administration securities backed by pools of agency direct loans, which are generally sold to the Federal Financing Bank and occasionally to the public.

Contingent Liability. The actual portion of a loan that the government would have to pay in the event of default by a guaranteed borrower.

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. Includes 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 borrower.

Direct Loans Outstanding. The stock of direct loan principal currently outstanding.

Federal Financing Bank (FFB). A unit of the Treasury Department that assists federal agencies in financing marketable agency-issued or agency-guaranteed securities. The Bank borrows at the Treasury's current rates and lends to agencies and agency-guaranteed borrowers at the Treasury rate plus one-eighth percent. Since the rate is generally below the rate that these agencies and borrowers would have to pay in the private credit market, they can save a considerable amount in interest costs by financing through the FFB.

Full Principle Value of a Loan. The total value of a loan guaranteed by the government. Full principle value is used to reflect the impact of federal loan guarantees on capital markets by showing the total amount of resources allocated as a result of the federal intervention.

Government-Sponsored Enterprises. Privately owned corporations that promote a secondary market in various types of loans, primarily home mortgages. They began as government corporations and then became independent entities. Although their bonds are not backed by any guarantee

from the federal government, they are usually treated in the securities market as government securities.

Guaranteed Loans Held as Direct Loans by the FFB. Direct loans extended by the 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 loans rather than to the guarantees).

Interest Subsidy. The difference between the interest rate charged by the private credit market and that charged under a federal credit program for an identical loan.

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 full 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.

Loan Guarantees Outstanding. The stock of guaranteed loans currently outstanding.

Net Lending, Net Direct Loan Outlays. New disbursements for direct loans minus repayments, prepayments, and other loan offsets.

Net Loan Guarantee. New loans guaranteed minus guaranteed loan amounts that have been repaid.

Primary Loan Guarantees. Federal government guarantees of loans made to private borrowers by private lenders. Secondary guarantees and guarantees held as direct loans by the FFB are deducted from gross new guarantees to arrive at the total for primary loan guarantees.

Secondary Loan Guarantees. Guarantees of repayment for loans previously guaranteed by the federal government. The largest secondary guarantee program is the Government National Mortgage Association (GNMA) mortgage-backed security program. The GNMA secondary guarantees take the form of a guarantees of securities that are backed by mortgages already guaranteed by the Federal Housing Administration or the Veterans Administration.

Tax-Exempt Credit. Because interest on bonds of state and local governments and some of their agencies is exempt from federal income tax, investors are willing to purchase them at lower interest rates than comparable private securities. This foregone tax revenue represents an interest subsidy from the federal government.

APPENDIX B. SAMPLES OF SCHEDULES

PREPARATION AND SUBMISSION
OF BUDGET ESTIMATES (1981)

Exhibit 33A

SCHEDULE ON STATUS OF DIRECT LOANS

PY - past year
CY - current year
BY - budget year

Account title and identification code must be the same as other budget materials (show specific subfunction code for multi-function accounts) (section 21.3).

A-11-33A

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
500-101

DEPARTMENT OF GOVERNMENT
BUREAU OF BUSINESS MANAGEMENT
COMMERCIAL REVOLVING FUNDS

Status of Direct Loans (in thousands of dollars)

Identification code	19 PY actual	19 CY estimate	19 BY estimate
16-4023-0-3-754			
Position with respect to limitation on obligations:			
111001 Limitation on obligations.....	18,700	12,800	13,100
113001 Obligations exempt from limitation.....	1,300	1,700	1,900
115001 Obligations incurred, gross...	-20,000	-14,500	-15,000
119001 Unused balance of limitation, expiring.....	1,300	---	---
Cumulative balance of direct loans outstanding:			
121001 Outstanding, start of year....	33,650	46,195	38,510
New loans:			
123101 Disbursements for direct loans.....	18,700	12,800	13,100
123201 Disbursements for guarantee claims.....	1,300	1,700	1,900
Recoveries:			
125101 Repayments and prepayments..	-6,625	-20,075	-8,280
Adjustments:			
126101 Write-offs for default.....	-430	-1,410	-809
126301 Other adjustments 1/.....	-400	-700	-1,100
129001 Outstanding, end of year.....	46,195	38,510	43,321
Addendum: Federal Financing Bank transactions:			
Direct loans made by the PFB and guaranteed by this account:			
141001 Outstanding, start of year..	---	---	4,800
143001 New loan disbursements.....	---	5,000	5,000
145001 Repayments.....	---	-200	-1,100
149001 Outstanding, end of year....	---	4,800	8,700

1/ Proceeds from the sale of collateral acquired by foreclosure.

Amounts must agree with those shown in appropriation language - enacted for CY and proposed for BY.

Starting balance must equal previous year's ending balance.

SOURCE: OMB Circular No. A-11, Exhibit 33A, June 15, 1981.

SCHEDULE ON STATUS OF LOAN GUARANTEES

PY - past year
CY - current year
BY - budget year

A-11-33B

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.

DEPARTMENT OF GOVERNMENT
BUREAU OF BUSINESS MANAGEMENT
COMMERCIAL REVOLVING FUND
Status of Loan Guarantees (in thousands of dollars)

Identification code	19PY actual	19CY estimate	19BY estimate
16-4023-0-3-754			
Position with respect to limitation on commitments:			
211001 Limitation on commitments.....	20,000	20,310	18,700
215001 Commitments, gross.....	16,130	-20,310	-18,700
219001 Unused balance of limitation, expiring.....	3,870	---	---
Cumulative balance of guarantees outstanding:			
221001 Outstanding, start of year....	70,000	71,186	71,985
Loans guaranteed:			
223101 New loans guaranteed.....	12,586	12,799	14,611
225001 Repayments or prepayments...	-10,100	-10,300	-10,850
Adjustments:			
226201 Terminations for default....	-1,300	-1,700	-1,900
229001 Outstanding, end of year.....	71,186	71,985	73,846
Memorandum:			
229901 U.S. contingent liability for guaranteed loans outstanding, end of year.....	71,186	71,985	73,846

Account title and identification code must be the same as other budget materials (show specific subfunction code for multi-function accounts) (section 21.3).

Note:
Report full principal amount of loans guaranteed, except as indicated.

Amounts must agree with those shown in appropriation language - enacted for CY (except as noted in section 33.4) and proposed for BY.

Starting balance must equal previous year's ending balance

SOURCE: OMB Circular No. A-11, Exhibit 33B, June 15, 1981.

APPENDIX C. CBO CREDIT PUBLICATIONS

Loan Guarantees: Current Concerns and Alternatives for Control, Background Paper (August 1978)

Loan Guarantees: Current Concerns and Alternatives for Control: A Compilation of Staff Working Papers (January 1979)

"Federal Credit Programs: A Statistical Compilation"

"Loan Asset Sales: Current Budgetary Treatment and Alternatives"

"The Federal Financing Bank: A Primer"

"Loan Insurance and Guarantee Programs: A Comparison of Current Practices and Procedures" (Prepared for the Congressional Budget Office by Peat, Marwick, Mitchell and Company, February 1980)

Federal Credit Activities: An Analysis of the President's Credit Budget for 1981, Staff Working Paper (February 1980)

Federal Credit Activities: An Analysis of President Reagan's Credit Budget for 1982, Staff Working Paper (April 1981)

Conference on the Economics of Federal Credit Activity, Part I, Special Study (December 1980)

Conference on the Economics of Federal Credit Activity, Part II, Special Study, (September 1981)

"Macroeconomic Consequences of Federal Credit Activity" by Mary Kay Plantes and David Small, University of Wisconsin

"Loan Guarantees and Crowding Out" by Herbert M. Kaufman, Arizona State University

"Subsidies in Government Credit Programs: General Theory with Illustrations from the Mortgage Market" by William L. Silber and Deborah G. Black, New York State University

"Moral Hazard, Adverse Selection, and SBA Business Loan Guarantees" by William C. Hunter, University of Georgia

"The Effects of Federal Loan Guarantees on Small Entrepreneurs: Focus on Commercialization of Electric and Hybrid Vehicles" by Christopher F. Baum, Commonwealth Research Group, Inc. and Boston College

"Valuation of Loan Guarantees" by E. Phillip Jones, The Wharton School--University of Pennsylvania and Scott P. Mason, Harvard Business School

The Federal Financing Bank and the Budgetary Treatment of Federal Credit Activities (January 1982)





