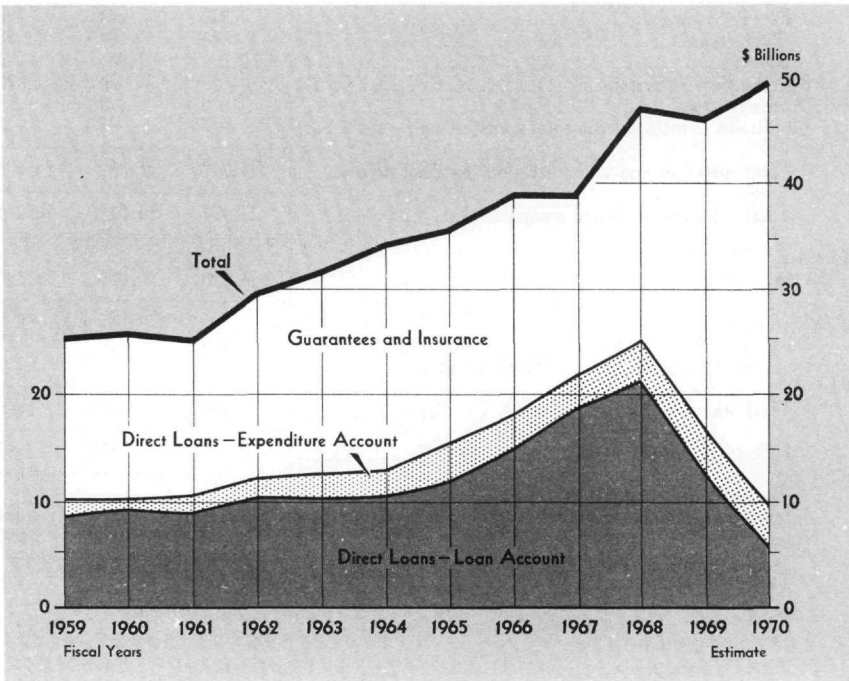
SPECIAL ANALYSIS E

FEDERAL CREDIT PROGRAMS

Introduction

Federal credit aids—direct loans and insurance or guarantees of private loans—continue to play a major role in Government programs for: (a) improvement of housing and encouragement of homeownership; (b) development of agricultural and other natural resources; (c) assistance to economic development and military preparedness abroad; (d) promotion of business, especially exports, transportation, and small business generally; (e) redevelopment of communities and regions; and (f) aid to higher education.

Federal Credit Programs
New Commitments



Federal credit programs help borrowers to help themselves. In several programs, the credit aids are part of a package of Federal assistance. Such a package sometimes also includes, for example, grants to provide necessary public facilities for depressed areas; grants for work-training, education, and other types of community action to help combat poverty; technical aids to help underdeveloped countries plan and construct basic transportation systems; or management advice to help rural residents plan, develop, and operate their farms economically and productively.

From 1961 through 1968 the overall level of Federal credit assistance steadily rose at a rate comparable to the rise in the gross national product. This reflected both broadening of many existing programs and initiation of new programs to meet emerging needs.

Simultaneously, other programs established for temporary reasons in earlier years have been liquidating their operations as outstanding loans are repaid or privately refinanced. Moreover, as certain programs demonstrated their ability to finance needed credit operations on a self-supporting basis, private investors have often refinanced outstanding Federal loans or directly financed the new credit requirements of borrowers.

During the current fiscal year, the Secondary Market Operations Trust Fund of the Federal National Mortgage Association, the Federal intermediate credit banks and the banks for cooperatives have been converted from mixed-ownership to wholly private enterprises. As a result, only part of their operations in 1969 and none in 1970 are included in the budget. Tables E–1, E–2, and E–3 reflect in total and detail the impact of this shift from public to private status.

The increasing emphasis on private financing is also causing major changes in the package of credit assistance made available in recent years. These changes would be extended still further by proposed legislation. Instead of relying primarily on direct loans with their major immediate budgetary impact, Federal agencies are encouraging greater private financing by undertaking to guarantee or insure such private funds against loss, to pay a large enough share of the interest cost to enable eligible borrowers to qualify for the loans or to combine the two approaches. Examples of this approach in existing programs, include: (a) federally insured loans and interest subsidies for college students; (b) insured loans and supplementary interest payments to finance housing for moderate and low income families in both urban and rural areas; and (c) payment of a portion of the interest on privately financed loans for college housing and academic facilities. Other current proposals to apply this approach to Federal aid for other groups are mentioned later in this analysis and in Special Analysis O on "Federal Aid to State and Local Governments".[1]

Scope of Special Analysis

This analysis: (a) summarizes the 1968–70 trends in Federal credit programs; (b) indicates the relationship between the credit programs and the overall budget totals; and (c) discusses certain subsidy aspects of credit programs.

The 1970 analysis includes information on the level and trends of all Federal credit programs. It comprises not only those operated by wholly owned Government agencies, but also those administered by mixed-ownership corporations and trust funds. Both currently active programs and programs in process of liquidation are included.

The principal disbursements and repayments of most, but not all of the direct Federal loans covered by this analysis are included in the loan account. In addition, in line with the recommendations of the President's Commission on Budget Concepts, two specific types of direct loan programs, accounting for about 15% of direct loan commitments in 1968, are reflected in the expenditure account; these programs comprise: (a) foreign loans made largely on noncommercial terms; and (b) other loans where the terms of the loan contract make repayment in certain respects contingent rather than mandatory. Disbursements, repayments and net outlays for each appropriation and fund account which finance these programs are listed in a table in

[1] See pp. 204–205, 214.

the Appendix.[1] In the case of programs in the loan account, net lending is also separately identified, for each applicable account, in Part 4 of the budget.

As in previous years, the analysis includes both direct Federal loans and Federal guarantees and insurance of loans made by private lenders. It excludes all borrowing operations of Federal agencies, whether from the Treasury or the public. Pursuant to the recommendations of the Commission on Budget Concepts, sales of certificates of participation in loans by the Export-Import Bank and by the Federal National Mortgage Association as trustee for several agencies are treated as borrowing.

In addition, contrary to the practice followed last year, the analysis covers both loans made and repayable in dollars and loans made in dollars but repayable either in dollars or foreign currencies. The analysis continues to exclude all loans which are both made and repayable in foreign currency. This exclusion facilitates reconciliation with other budget totals.[2]

The 1970 analysis covers credit programs administered by 10 departments and 13 other agencies. The estimates for 1969 and 1970 include credit aid authorized by legislation enacted during the past year. Such legislation, summarized in the last section of this analysis,[3] authorized an unusually large number of important changes in Federal credit programs. Many of the changes either shift Federal lending institutions to private ownership, as previously mentioned, or substitute federally supported private financing for direct Federal loans.

The analysis also reflects the impact on credit programs of proposed legislation: (a) establishing new insurance programs for farm operating loans and loans to cooperatives by the Farmers Home Administration, as well as insured loans using interest subsidies on taxable bonds for water and sewer facilities; and (b) authorizing Federal guarantees of annual debt service on bonds issued by the Washington Metropolitan Area Transit Authority to finance the Federal share of the cost of mass transit in the national capital area. Credit assistance would also be provided in unspecified amounts under other proposals: (c) to help local communities finance increased airport capacity; (d) to authorize loan guarantees and interest subsidies for the fiscal years 1970–71 to help finance construction of waste treatment works; (e) to authorize loan guarantees and interest subsidies for the fiscal years 1971–75 to help finance modernization and construction of medical facilities; and (f) to establish an urban development bank.

New Commitments

New commitments are the best single measure of the short-run trends in most Federal credit programs. They also often give the best advance indication of trends in the financing impact of these programs, since changes in the level of new commitments frequently precede corresponding changes in the volume of loans disbursed by either public agencies or private lenders and in the purchase of goods and services by the ultimate borrowers.

In this analysis, commitments are defined as approvals by Federal agencies of direct loans or of insurance or guarantees of private loans. They are shown on a gross basis, including administrative reservations, commitments which do not later result in actual credit exten-

[1] See Appendix, pp. 1097–1100.

[2] Data on loans repayable in foreign currency (including both loans made in dollars and loans made in foreign currency) are contained in table H-8 in Special Analysis H.

[3] See pp. 67–69.

sions, and the unguaranteed portions of loans partially covered by Federal guarantees.

Table E-1. **NEW COMMITMENTS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ASSISTANCE AND ACCOUNT**

(in millions of dollars)

Agency or program	1968 actual		1969 estimate		1970 estimate	
	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans
EXPENDITURE ACCOUNT						
Funds appropriated to the President:						
Military assistance	74	190	296	--------	250	100
Economic assistance	1,084	100	777	216	1,388	200
Department of Agriculture: Commodity Credit Corporation	2,410	--------	2,573	511	2,087	510
Department of Health, Education, and Welfare	235	--------	228	--------	195	--------
Other programs	8	--------	13	--------	28	--------
Total, expenditure account	3,811	290	3,887	727	3,948	810
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	27	--------	15	--------	19	--------
Department of Agriculture:						
Commodity Credit Corporation	195	--------	257	--------	236	--------
Rural Electrification Administration	470	--------	470	--------	470	--------
Farmers Home Administration	495	803	445	993	140	2,403
Department of Commerce:						
Economic Development Administration	64	5	65	9	107	14
Maritime Administration	--------	127	--------	120	--------	143
Department of Health, Education, and Welfare	153	436	12	641	14	794
Department of Housing and Urban Development:						
Renewal and Housing Assistance	766	1,300	708	2,112	809	3,124
Metropolitan Development	50	--------	40	50	50	100
Federal Housing Administration	637	13,495	421	16,752	218	21,425
Government National Mortgage Association	1,701	--------	1,887	500	705	2,500
Federal National Mortgage Association	2,662	--------	782	--------	--------	--------
Department of the Interior	24	5	15	10	17	14
General Services Administration	23	49	25	--------	25	--------
Veterans Administration:						
Housing loans and guarantees	433	3,829	523	4,213	197	4,948
Insurance policy loans	132	--------	133	--------	136	--------
District of Columbia	112	--------	133	--------	132	--------
Export-Import Bank	2,526	1,226	2,390	2,511	2,347	2,597
Farm Credit Administration:						
Banks for cooperatives	1,818	--------	979	--------	--------	--------
Federal intermediate credit banks	7,407	--------	3,119	--------	--------	--------
Federal Home Loan Bank Board	17	--------	32	--------	--------	--------
Small Business Administration	449	314	286	579	282	798
Other agencies or programs	10	12	50	16	68	99
Purchase of obligations of federally sponsored enterprises	1,193	--------	--------	--------	--------	--------
Total, loan account	21,362	21,600	12,787	28,504	5,973	38,959
Grand total	25,173	21,891	16,674	29,232	9,920	39,769

Direct loans.—New commitments for direct loans drop from $25.2 billion in 1968 to $16.7 billion in 1969 and $9.9 billion in 1970. The bulk of the 2-year drop is accounted for by conversion of the three major groups of Federal agencies to private ownership, removing their commitments ($11.9 billion in 1968).

Other major reductions arise from cessation of purchases of non-Federal securities ($1.2 billion), and replacement of GNMA mortgage purchase programs with private financing ($1 billion).

Guarantees and insurance.—In contrast to the trend for direct loans new commitments for guarantees and insurance of private loans are expected to rise rapidly from $21.9 billion in 1968 to $29.2 billion in 1969 and $39.8 billion in 1970. This is primarily attributable to: (a) the initial impact of the 10-year housing program on housing construction, particularly construction financed by Federally-insured or guaranteed loans; (b) relaxation of inflexible statutory ceilings on interest rates; and (c) the government-wide emphasis on shifting from direct loans to private financing.

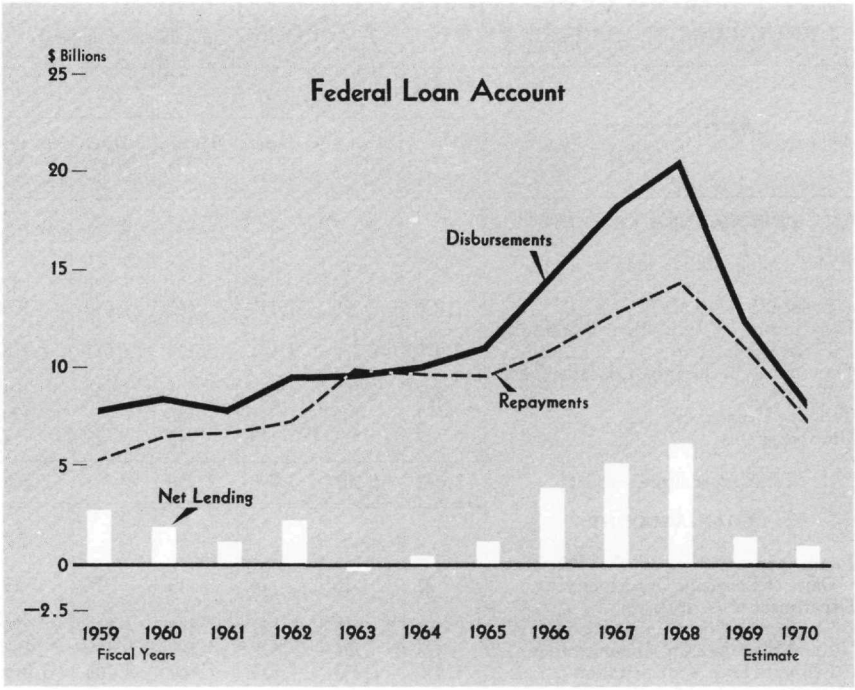
The specific agencies responsible for the bulk of the anticipated increase in guarantee and insurance commitments over the 2-year period are the Federal Housing Administration ($7.9 billion), the Government National Mortgage Association ($2.5 billion), Renewal and Housing Assistance programs ($1.8 billion), the Farmers Home Administration ($1.6 billion), the Export-Import Bank ($1.4 billion), and the Veterans Administration ($1.1 billion).

Overlapping commitments.—Total estimated new commitments of $49.7 billion in 1970 include several cases where two or more types of Federal assistance are provided for the same borrower or on the same property or project at different stages in the financing process, for example, commitments by the Government National Mortgage Association for purchase of mortgages insured or guaranteed by other Federal agencies. In addition, in several programs the same authority is used both to make direct loans and to guarantee or insure private loans, for example, by the Commodity Credit Corporation, the Farmers Home Administration, and the urban renewal and low-rent public housing programs of the Department of Housing and Urban Development. In the latter cases, the guarantee commitments are usually estimated on the basis of past experience.

Disbursements and Repayments

Gross disbursements for direct loans have the most immediate impact on the budget. In long-established programs, or in programs involving short-term loans, however, the cash outflow required for such disbursements usually is largely or wholly offset by repayments on the outstanding portfolio of loans. This is true for most of the credit extensions by the Farmers Home Administration and the Commodity Credit Corporation, as well as for the interim financing of public housing and urban renewal projects.

On the other hand, long-term loans, such as those to finance construction of college housing and academic facilities or rural electrification and telephone systems, as well as purchases of mortgages to help finance residential housing, can have a major net impact on the budget, since repayments often fall short of new loans.



Federal guarantees and insurance of private loans ordinarily have only minor and indirect budget consequences. Principal disbursements of Federal funds normally occur only when the borrower defaults, or in a few programs when holders of such insured loans exercise their repurchase options.

In accordance with the recommendations of the Commission on Budget Concepts, both the budget as a whole and this analysis segregate and treat separately net lending—the excess of principal disbursements over collections of all credit programs in the loan account. The gross data on disbursements are also adjusted to reflect writeoffs, losses, and recoveries. As a result, the net lending in any year usually equals the change between the loans outstanding in the loan account at the beginning of the year and the total outstanding at the year-end.

The same principles are followed in deriving the gross and net loan expenditures for credit programs in the expenditure account. As a result, the net loan disbursements for all credit programs in the loan account and the totals for the credit programs in the expenditure account are identical with the outlays shown as "loans" in the "additions to Federal assets" category in Special Analysis D.[1] For those loan programs in the expenditure account not financed through revolving funds, repayments are separately recorded in miscellaneous receipts, rather than netted against expenditures for each program.

[1] See Table D–2 on pp. 36-39.

Table E-2. **DISBURSEMENTS AND REPAYMENTS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ACCOUNT** (in millions of dollars)

Agency or program	1968 actual		1969 estimate		1970 estimate	
	Disbursements	Repayments	Disbursements	Repayments	Disbursements	Repayments
EXPENDITURE ACCOUNT						
Funds appropriated to the President:						
Military assistance	44	68	25	36	138	87
Economic assistance	1,036	80	1,119	162	1,030	109
Department of Agriculture: Commodity Credit Corporation	2,379	1,236	2,541	2,194	2,051	2,438
Department of Health, Education, and Welfare	174	1	204	*	159	*
Treasury Department	2	109	--------	46	--------	120
Other programs	7	13	10	13	23	14
Total, expenditure account	3,642	1,507	3,898	2,450	3,401	2,768
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	27	10	14	13	18	13
Department of Agriculture:						
Commodity Credit Corporation	195	115	257	132	236	225
Rural Electrification Administration	495	204	528	190	555	189
Farmers Home Administration	1,570	1,432	1,629	1,860	2,706	3,016
Department of Commerce:						
Economic Development Administration	62	9	65	14	107	20
Maritime Administration	−3	8	--------	9	--------	8
Department of Health, Education, and Welfare	110	4	103	4	98	6
Department of Housing and Urban Development:						
Renewal and Housing Assistance	872	530	1,058	662	1,227	970
Metropolitan Development	49	4	52	5	34	6
Federal Housing Administration	583	524	339	266	157	85
Government National Mortgage Association	1,134	199	1,316	717	579	544
Federal National Mortgage Association	2,217	279	249	72	--------	-------
Department of the Interior	22	4	18	6	16	6
General Services Administration	23	22	25	15	25	17
Veterans Administration:						
Housing loans and guarantees	388	130	460	159	137	226
Insurance policy loans	132	84	133	85	136	81
District of Columbia	60	39	75	43	100	44
Export-Import Bank	1,646	739	1,730	1,440	1,638	1,390
Farm Credit Administration:						
Banks for cooperatives	1,818	1,659	979	767	--------	-------
Federal intermediate credit banks	7,407	7,011	3,119	3,355	--------	-------
Federal Home Loan Bank Board	5	9	32	17	--------	17
Small Business Administration	406	231	277	293	274	320
Other agencies or programs	10	17	19	16	71	13
Purchase of obligations of federally sponsored enterprises	1,193	1,125	--------	954	--------	-------
Total, loan account	20,422	14,389	12,478	11,092	8,113	7,197
Grand total	24,064	15,897	16,376	13,542	11,514	9,965

Over the 1959–68 period, gross disbursements for all Federal programs in the loan account rose from $7.9 billion to $20.4 billion. Net lending ranged from a low in 1963—when repayments exceeded new loan disbursements by $0.1 billion—to peaks of $5.1 billion in 1967 and $6 billion in 1968.

In contrast, in 1968–70 sharp reductions in the budgetary impact of these programs will occur. By 1970, gross disbursements will drop to an estimated $8.1 billion—only 40% of the 1968 level. Almost all of this decline results from the conversion to private ownership of three major groups of lending agencies, which disbursed $11.4 billion in loans during 1968.

Similarly, net lending is expected to drop to $1.4 billion in 1969 and $0.9 billion in 1970. Roughly half ($2.5 billion) of this $5.1 billion decrease over the 2-year period stems from the conversions to private ownership. Other sharp cutbacks will occur in the Government National Mortgage Association ($0.9 billion), Export-Import Bank ($0.7 billion), Farmers Home Administration ($0.4 billion), the Veterans Administration ($0.3 billion), and the Small Business Administration ($0.2 billion). In all of these cases, major sales of existing assets to private lenders and/or shifts to federally insured private loans are largely or wholly responsible for the reduced budgetary impact.

Net loan outlays in the expenditure account will also fall sharply from $2.1 billion in 1968 to $1.4 billion in 1969 and $0.6 billion in 1970. This is almost entirely the result of a complete reversal in operations of the Commodity Credit Corporation from net outlays of $1.1 billion in 1968 to an anticipated excess of repayments of $0.4 billion in 1970. Loan disbursements for the foreign economic assistance programs of the Agency for International Development will remain relatively unchanged at about $1 billion each year. This is partly because most of such loans permit deferment of principal repayments during several early years.

Outstanding Direct and Guaranteed Loans

The best index of the level of Federal credit programs over a period of years is provided by the total outstanding direct and guaranteed loans. By the close of 1970, these will amount to $168.3 billion in the loan account and an additional $22.2 billion in the expenditure account—or a gross total of $190.6 billion.

Table E-3. **OUTSTANDING DIRECT LOANS, AND GUARANTEED AND INSURED LOANS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ACCOUNT** (in millions of dollars)

Agency or program	1968 actual		1969 estimate		1970 estimate	
	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans
EXPENDITURE ACCOUNT						
Funds appropriated to the President:						
Military assistance	19	251	8	380	59	565
Economic assistance	8,919	338	9,798	546	10,630	743
Department of Agriculture: Commodity Credit Corporation	2,227	923	2,574	1,435	2,188	1,945
Department of Health, Education, and Welfare	1,132	-------	1,336	-------	1,495	-------
Treasury Department	4,580	-------	4,534	-------	4,414	-------
Other programs	173	-------	170	-------	178	-------
Total, expenditure account	17,052	1,512	18,421	2,361	18,965	3,253
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	87	-------	88	-------	94	-------
Department of Agriculture:						
Commodity Credit Corporation	374	-------	499	-------	510	-------
Rural Electrification Administration	4,797	-------	5,135	-------	5,501	-------
Farmers Home Administration	2,371	2,339	2,144	3,350	1,837	5,507
Department of Commerce:						
Economic Development Administration	244	13	295	19	382	30
Maritime Administration	89	649	81	716	73	803
Department of Health, Education, and Welfare	266	762	365	1,401	457	2,179
Department of Housing and Urban Development:						
Renewal and housing assistance	3,529	8,482	3,925	9,619	4,182	11,520
Metropolitan development	329	-------	370	50	398	150
Federal Housing Administration	688	58,634	761	64,144	833	72,853
Government National Mortgage Association	3,758	-------	4,360	500	4,385	3,000
Federal National Mortgage Association	6,624	-------	-------	-------	-------	-------
Department of the Interior	183	16	195	20	205	25
General Services Administration	172	49	182	49	189	49
Veterans Administration:						
Housing loans and guarantees	2,461	33,369	2,762	34,487	2,673	36,156
Insurance policy loans	804	-------	853	-------	907	-------
District of Columbia	202	-------	234	-------	290	-------
Export-Import Bank	5,059	1,600	5,349	3,059	5,596	4,278
Farm Credit Administration:						
Banks for cooperatives	1,457	-------	-------	-------	-------	-------
Federal intermediate credit banks	3,940	-------	-------	-------	-------	-------
Federal Home Loan Bank Board	145	-------	160	-------	143	-------
Small Business Administration	1,549	441	1,533	797	1,487	1,267
Other agencies or programs	63	206	68	201	122	274
Obligations of federally sponsored enterprises	955	-------	-------	-------	-------	-------
Total, loan account	40,143	106,559	29,359	118,413	30,266	138,092
Grand total	57,195	108,071	47,779	120,774	49,231	141,344

Outstanding direct loans in the loan account will fall by an estimated $10.8 billion during the current fiscal year to $29.4 billion on June 30, 1969. A small net increase of $0.9 billion is expected during 1970. Loans totaling $12 billion held by the three major groups of lending agencies which converted to private ownership during 1969 are included in the 1968 totals, but not in those for 1969 and 1970. In addition, investments of several Federal agencies in obligations of the Federal land banks and the Federal home loan banks totaling almost $1 billion on June 30, 1968, are being liquidated during 1969.

Apart from the removal of these loans from the totals shown, a net increase of $3.1 billion in loans in the loan account is expected over a 2-year period. Significant increases include the Rural Electrification Administration ($0.7 billion), the Renewal and Housing Assistance programs—mainly college housing loans—($0.7 billion), the Government National Mortgage Association ($0.6 billion), the Export-Import Bank ($0.5 billion), and the Veterans Administration ($0.3 billion). Loans held by the Farmers Home Administration fall by $0.5 billion.

Outstanding loans in the expenditure account will rise by $1.4 billion in 1969 and $0.5 billion in 1970. An increase of $1.7 billion in the portfolio of foreign economic assistance loans made by the Agency for International Development is the most substantial change projected for the 2-year period.

Outstanding guaranteed and insured loans for both accounts are expected to rise by an estimated $12.7 billion in 1969 and by a record $20.6 billion during 1970. The net increase in the portfolio of the Federal Housing Administration ($14.2 billion) accounts for almost half of the 1968–70 rise. Other major increases are anticipated by the Farmers Home Administration ($3.2 billion), Renewal and Housing Assistance programs and the Government National Mortgage Association (each $3 billion) the Veterans Administration ($2.8 billion), and the Export-Import Bank ($2.7 billion).

The amounts shown include both the guaranteed and unguaranteed portion of outstanding loans in order to give a more complete picture of the economic impact of these programs and to tie in better with banking statistics. The estimated contingent liability of the Federal Government by the end of 1970 will be $20.9 billion less than the $141.3 billion principal amount of the loans guaranteed and insured. Most of this difference is accounted for by the veterans loan guarantee program, where the Government's liability will be $18.2 billion lower than the amount of guaranteed loans outstanding.

Interest Rates and Maturities

Two of the major ways in which Federal credit programs help achieve program objectives are by providing more favorable interest rates or maturities than many borrowers can obtain from other sources. Table E–4 summarizes the current range of interest rates charged by the various major credit programs on direct loans (or prevailing on insured or guaranteed loans) and the customary maturities for both direct and insured and guaranteed loans. These terms are on newly committed loans by currently active programs, and do not necessarily correspond to those on outstanding loans, or on loans covered by commitments made in earlier years.

Table E-4. **INTEREST RATES AND MATURITIES FOR MAJOR ACTIVE CREDIT PROGRAMS CLASSIFIED BY AGENCY OR PROGRAM, DECEMBER 1968**

Agency or program	Direct loans		Guaranteed and insured loans	
	Interest rate (percent)	Maturity (years)	Interest rate (percent)	Maturity (years)
EXPENDITURE ACCOUNT				
Funds appropriated to the President:				
Military assistance	6–6½	5–10	7–8	1–7
Economic assistance	2–5¾	5–40	6–7½	5–25
Department of Agriculture: Commodity Credit Corporation	[1] 2½–5⅝	1–40	[1] 3½–6	½–1
Department of Health, Education, and Welfare	0–5¼	[2] 20		
LOAN ACCOUNT				
Office of Economic Opportunity	4⅛	1–30		
Department of Agriculture:				
Commodity Credit Corporation	4–7	½–5		
Rural Electrification Administration	2	35		
Farmers Home Administration	1–6¾	1–50	4–6¾	5–40
Department of Commerce:				
Economic Development Administration	4¾–5¼	12–40	6½–7½	3–10
Maritime Administration			6	25
Department of Health, Education, and Welfare	2½–6	½–40	3–7	½–15
Department of Housing and Urban Development:				
Renewal and Housing Assistance	3–5⅝	¼–50	3.6–3.8	¼–40
Metropolitan Development	4¾–5	40		
Federal Housing Administration	3–6¾	1–40	[3] 3–6¾	1–40
Government National Mortgage Association	3–6¾	1–40		
Department of the Interior	0–6	0–50	5–6	5–15
General Services Administration	3–6½	8–30		
Veterans Administration:				
Housing loans and guarantees	4–7½	7–30	4–6¾	7–30
Insurance policy loans	4	(4)		
District of Columbia	0–5⅝	½–40		
Export-Import Bank	6	1¼–20	6–10	½–20
Federal Home Loan Bank Board	4–7.2	1–25		
Small Business Administration	3–5⅝	1–30	3–8	1–30

[1] When commodity loan is repaid by forfeiting collateral, no interest is charged. On export loans lower interest is charged during initial grace period.
[2] On student loans, maturities begin when student leaves school and exclude periods of military or Peace Corps service.
[3] In addition, property improvement loans are insured for 4½% to 5½% discount per year (or an effective annual rate of 8.8% to 10.6%), and with maturities of 6 months to 7 years.
[4] Indefinite.

Interest rates charged on direct loans vary both among the numerous Federal credit agencies and sometimes among the types of loans made by a single agency. Some of the differences in rates reflect differences in the cost of providing the loan (including the cost of borrowing the necessary funds), of administering the several types of loans and of incurring the varying degrees of risk of probable loss. In many cases, the rate charged is governed by statutory limits or formulas. Frequently, these are intended to assure loans at rates

below those prevailing in the private market or below the cost to the Government, in order to provide special assistance to particular groups of borrowers as a method of accomplishing Federal program objectives. In some cases, the rates charged reflect mainly Government borrowing costs in earlier periods, rather than current market yields of Government obligations.

Interest rates charged borrowers on insured and guaranteed loans tend to correspond more closely to market rates of interest on comparable loans by private lenders—allowing for the reduction or removal of the normal private credit risk. Numerous changes in the statutory provisions governing interest rates have provided greater administrative flexibility to adjust rates to correspond with the changing conditions of the private credit market.

In a few cases, interest rates paid by the borrowers on insured loans are set below the market rate and a secondary market is provided to assure the willingness of the private lender to originate the loans. The Federal Housing Administration for example, was authorized in the Housing Act of 1961 to insure certain types of loans to finance moderate-income housing at rates (currently 3%), well below those prevailing in the private market and the Government National Mortgage Association has been purchasing all of such mortgages.

In other cases, the Federal agency pays part of the interest cost necessary to obtain private financing. For example, loans made by the Commodity Credit Corporation at 3½% interest to farmers are pooled and sold to investors with a CCC guarantee at market rates of interest—6% in December 1968. Similarly, the Farmers Home Administration sells direct loans (on an insured basis) to private investors at discounts sufficient to assure market yields to the purchasers. And, under 1968 legislation, instead of large continuing commitments for GNMA purchases, in 1970 contracts will be made for Federal payments to reduce to as low as 1% the interest costs on private borrowing of homeowners and landlords providing moderate income housing.

Unlike most other programs, Government outlays on credit programs are largely or wholly repayable with interest, so that the ultimate net cost is normally low. Some programs are fully self-supporting; in others, income from interest payments or insurance and guarantee fees covers most of the current expenses, and sometimes provides reserves for future losses. But a substantial number of loan programs contain an element of subsidy; e.g., by lending at more favorable interest rates than the cost of money to the Government and/or at rates inadequate to defray the administrative expenses of the program or to establish an adequate reserve for probable future losses.

The Commission on Budget Concepts recommended:

(a) "That the full amount of the interest subsidy on loans compared to Treasury borrowing costs be reflected and specifically disclosed in

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the expenditure account of the budget, and furthermore, that it be measured on a capitalized basis at the time the loans are made"; and

(b) "That effective measures be developed to reflect (in the expenditure rather than the loan account of the budget) the further subsidy involved in the fact that Federal loans have a larger element of risk than Treasury borrowing. This should be done by creation of allowances for losses and making appropriate credits to those allowances and charges to expense as new loans are extended."

The Commission recognized and experience has proved that extensive further study and consultation would be necessary to develop the information and methods necessary to place these recommendations in force. In the interim, as this analysis indicates, many changes have been occurring in the level and type of direct lending activity in the loan account. Three major groups of self-supporting credit agencies have converted to private ownership. Other major direct loan programs are being shifted to insured loans. To help accomplish this shift, several programs under recently enacted legislation have made explicit provision for interest supplements to be separately provided in order to reduce the costs to low or moderate income borrowers while maintaining gross interest rates high enough to be attractive to private lenders. The net effect of several of these programs will be to transfer most or all of the interest subsidies on future loans to the expenditure account without requiring special accounting provisions to transfer between accounts. This approach permits a considerable expansion in insured loans, both under existing and proposed legislation, while at the same time adding to the current costs the necessary amounts of interest subsidies.

Maturities, both on direct and on insured or guaranteed loans, often are substantially more liberal than on private loans of similar types. Private lenders are often limited by law or supervisory policy to shorter maturities. When a Federal agency insures or guarantees the loans, however, these limitations customarily do not apply. Lenders can, safely, extend their loan maturities and borrowers can take advantage of lower periodic installments to acquire assets yielding income or tangible benefits over a long period of years.

Government-Sponsored Credit Programs

Six major groups of Government-sponsored privately owned institutions administer credit programs. The programs of these institutions are neither included in the budget totals nor subject to budgetary control. Detailed schedules and explanatory statements of five of these groups and of the Board of Governors of the Federal Reserve System are printed as annexed budgets in Part III of the Appendix. The operations of the Federal Reserve banks have no direct effect on budget totals, but payments of excess Federal Reserve profits are regularly made to the Treasury and become budget receipts.

Table E-5. **OUTSTANDING LOANS FOR MAJOR GOVERNMENT-SPONSORED CREDIT PROGRAMS** (in millions of dollars)

Agency	Outstanding at end of—			
	1967 actual	1968 actual	1969 estimate	1970 estimate
Department of Housing and Urban Development:				
Federal National Mortgage Association	[1] 4,592	[1] 6,624	8,122	9,772
Farm Credit Administration:				
Banks for cooperatives	[1] 1,298	[1] 1,457	1,669	1,884
Federal intermediate credit banks	[1] 3,544	[1] 3,940	4,413	4,942
Federal land banks	5,304	5,973	6,519	7,165
Federal Home Loan Bank Board: Federal home loan banks	4,302	4,889	5,800	7,300
Federal Reserve, Board of Governors: Federal reserve banks	204	439	(2)	(2)
Total	19,244	23,322	26,523	31,063

[1] During mixed-ownership status.
[2] Estimates are not available.

Three of the six groups of credit agencies have been converted to private ownership pursuant to legislation enacted by the last Congress. All three of them, as well as the Federal land banks and the Federal home loan banks, have been expanding their programs in recent years and anticipate continuing growth through 1970. If the outstanding loans of the newly converted private agencies at the close of 1968 are used as a base, the five groups of agencies (excluding the Federal Reserve banks) anticipate a net increase of $8.2 billion in their outstanding portfolios during the 2-year period ending June 30, 1970.

Summary of Legislation Authorizing New and Broadened Federal Credit Programs

The following summary lists all legislation authorizing new Federal credit programs or revising existing programs in major respects enacted during the last session of Congress. It excludes simple extensions in expiring laws and increases in funds for continuing programs.

I. Agency for International Development, and Export-Import Bank

A. Foreign Assistance Act of 1968—Public Law 90–554

Revises interest rates for development loans and standards for guarantees of investments in financial institutions.

B. Amendments to Export-Import Bank Act of 1945—Public Law 90–267

Prescribes more specific standards for recipients and purposes of Export-Import Bank loans.

C. Additional authority for Export-Import Bank—Public Law 90–390

Broadens lending criteria to provide more flexibility in assisting U.S. balance of payments.

D. Foreign Military Sales Act—Public Law 90–629

(1) Authorizes President to make direct credit sales of defense articles abroad, and to guarantee political and credit risks of private financing on a partial reserve basis; and (2) prohibits Export-Import Bank from financing future sales of such articles to less developed countries.

II. Department of Agriculture

A. Amendments to Consolidated Farmers Home Administration Act of 1961—Public Law 90–488

(1) Broadens lending authority to include loans for enterprises to supplement farm income and for farm conversion to recreation; and (2) establishes a flexible interest formula.

III. Department of Commerce

A. Amendment to Merchant Marine Act of 1936—Public Law 90–341

Provides flexible maximum interest rates on insured ship mortgage loans.

IV. Department of Health, Education, and Welfare

A. District of Columbia Medical Facilities Construction Act of 1968—Public Law 90–457

Authorizes long-term, low-interest loans to help finance construction and modernization of D.C. medical facilities.

B. Health Manpower Act of 1968—Public Law 90–490

Revises maximum amounts and repayment terms on student loans.

C. Amendments to higher education legislation—Public Laws 90–460 and 90–575

(1) Modifies insured student loan programs by: (a) authorizing Federal guarantees to cover 80% of losses on loans insured by non-Federal agencies, (b) revising terms of Federal advances to such agencies, (c) eliminating interest subsidies on insured loans during repayment period, (d) increasing size of individual loans, (e) providing more flexible interest rate and administrative cost allowances, and (f) liberalizing repayment deferments; (2) liberalizes administrative expense reimbursement and teacher cancellation provisions on NDEA student loans; and (3) authorizes annual interest grants to reduce cost of borrowing from non-Federal sources for academic facility construction.

D. Vocational Education Amendments of 1968—Public Law 90–576

Authorizes debt service grants to reduce borrowing costs from non-Federal sources for construction of residential vocational schools and dormitories.

V. Departments of Housing and Urban Development and Agriculture and Veterans Administration

A. Amendments to veterans and housing laws—Public Law 90–301

Provides more flexibility temporarily in maximum interest rates on federally guaranteed or insured housing loans.

B. Housing and Urban Development Act of 1968—Public Law 90–448

(1) Authorizes Federal payments to cover bulk of interest on private loans financing homeownership or rental housing for lower income families; (2) revises existing insurance programs by: (a) relaxing underwriting standards for older, declining urban neighborhoods, and (b) creating a Special Risk Insurance Fund for high risks arising from environmental conditions or the credit background of the mortgagor; (3) provides FHA insurance for loans for: (a) purchase of fee simple title from lessors, (b) supplemental improvements, (c) seasonal housing, and (d) nonprofit hospitals; (4) authorizes interest-free loans to nonprofit sponsors for planning low-income housing; (5) establishes new guarantee program for obligations issued to finance new community land development; (6) provides for conversion to private ownership of Secondary Market Operations of FNMA; (7) authorizes Federal guarantees of mortgage-backed securities issued by private financial institutions, including FNMA; (8) authorizes the Secretary of Agriculture to make housing loans with interest down to 1% to low-income families and to advance funds on liberal terms for housing for rural trainees and for mutual and self-help housing; and (9) authorizes debt service grants to reduce interest costs of colleges using non-Federal financing for housing and related facilities.

VI. Department of the Interior

A. Guam Development Fund Act of 1968—Public Law 90–601

Authorizes federally financed loans and loan guarantees for private economic development in Guam.

VII. Department of Justice

Omnibus Crime Control and Safe Streets Act of 1968—Public Law 90–351

Provides student loans for education related to law enforcement or preparing for employment in law enforcement.

VIII. Department of Transportation

A. Federal-Aid Highway Act of 1968—Public Law 90–495

Authorizes non-interest-bearing advances to States to permit early acquisition of rights-of-way and related relocation costs.

IX. Farm Credit Administration

Amendments to Federal Farm Loan Act and Farm Credit Act—Public Law 90–582

Authorizes conversion to private ownership of Federal intermediate credit banks and banks for cooperatives.

SPECIAL ANALYSIS E

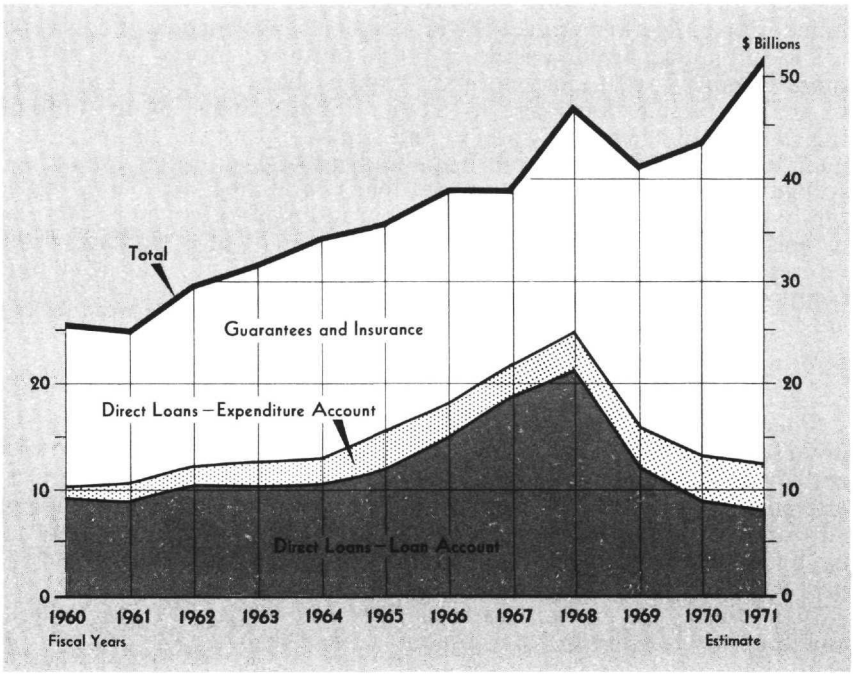
FEDERAL CREDIT PROGRAMS

INTRODUCTION

Direct loans and Federal insurance or guarantees of private loans continue to play a major role in Government programs for: (a) improvement of housing and encouragement of homeownership; (b) development of agricultural and other natural resources; (c) assistance to economic development and military preparedness abroad; (d) promotion of business, especially exports, transportation, and small business generally; (e) redevelopment of communities and regions; and (f) aid to higher education. In addition, Government-sponsored private lending agencies provide major credit assistance in the first two of these areas.

Federal Credit Programs

New Commitments for Direct Loans and Guaranteed and Insured Loans



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Federal credit programs help borrowers to help themselves. In several programs, credit aids are part of a package of Federal assistance. Such a package sometimes also includes, for example, grants to provide necessary public facilities for depressed areas; grants for work-training, education, and other types of community action to help combat poverty; technical aids to help underdeveloped countries plan and construct basic transportation systems; or management advice to help rural residents plan, develop, and operate their farms productively.

From 1961 through 1968, the overall level of Federal credit assistance—measured by the volume of direct loans and of guarantees and insurance of private loans—rose steadily at a rate comparable to the rise in the gross national product. This reflected both broadening of many existing programs and initiation of new programs to meet emerging needs.

During the fiscal year 1969 the Secondary Market Operations Trust Fund of the Federal National Mortgage Association, the Federal intermediate credit banks and the banks for cooperatives were converted from mixed-ownership to wholly private enterprises. As a result, only part of their operations in 1969 and none in 1970 or 1971 are included in the budget. Tables E–1, E–2, and E–3 reflect in total and detail the impact of this shift from public to private status.

The increasing emphasis on private financing has also caused major changes in the package of credit assistance made available in recent years. These changes would be extended still further by proposed legislation. Instead of relying primarily on direct loans with their major immediate budgetary impact, Federal agencies are encouraging greater private financing by undertaking to guarantee or insure such private funds against loss, to pay a large enough share of the interest cost to enable eligible borrowers to qualify for the loans, or to combine the two approaches. Examples of this approach in existing programs, include: (a) federally insured loans and interest subsidies for college students; (b) insured or guaranteed loans combined with supplementary payments to finance housing for low and moderate income families in both urban and rural areas; and (c) payment of a portion of the interest on privately financed loans for college housing and academic facilities. Other current proposals to apply this approach to Federal aid for other groups are mentioned later in this analysis.

Scope of Special Analysis

This analysis: (a) summarizes 1969–71 trends in Federal credit programs; (b) indicates the relationship between the credit programs and overall budget totals; and (c) discusses certain subsidy aspects of credit programs. It provides information on the level and trends of all direct loan and loan guarantee and insurance programs operated by Federal agencies and trust funds—including both currently active programs and programs in process of liquidation.

In addition, a final table summarizes net changes in outstanding amounts both of direct Federal loans (included in the budget) and of guaranteed and insured loans and loans made by Government-sponsored agencies (not reflected in budget outlays).

The principal disbursements and repayments of most of the direct Federal loans covered by this analysis are included in the loan account. In addition, in line with the recommendations of the 1967 Commission on Budget Concepts, two specific types of direct loan programs, accounting for about one-third of direct loan commitments in 1970 and 1971, are reflected in the expenditure account; these programs comprise: (a) foreign loans made largely on noncommercial terms; and (b) other loans where the terms of the loan contract make repayment in certain respects contingent rather than mandatory. Disbursements, repayments, and net outlays for each appropriation and fund account which finance these programs are listed in a table in the Appendix.[1] In the case of programs in the loan account, net lending is also separately identified, for each applicable account, in Part 5 of the budget.

As in previous years, the analysis excludes all borrowing operations of Federal agencies, whether from the Treasury or the public. Sales of certificates of participation in pools of loans by the Export-Import Bank and by the Government National Mortgage Association as trustee for several agencies are treated as borrowing. Similarly, beginning with the fiscal year 1970, sales of certificates of interest by the Commodity Credit Corporation, formerly classified as sales of guaranteed loans, are treated as agency borrowing.

The tables in the 1971 analysis include only data on loans that are both disbursed and repayable in dollars. The 1970 analysis had also included loans disbursed in dollars but repayable in foreign currency. The change in the analysis is in line with current policy which requires that on all new commitments loans disbursed in dollars be repaid in dollars.[2]

The 1971 analysis covers credit programs administered by 10 departments and 12 other agencies. The estimates for 1970 and 1971 include credit aid authorized by legislation enacted during the past year. Such legislation, summarized in the last section of this analysis,[3] authorized several important changes in Federal credit programs.

The analysis also reflects the impact on credit programs of proposed legislation: (a) authorizing direct loans, loan guarantees, and interest subsidies to help finance modernization and construction of medical facilities; (b) substituting federally supported borrowing from the public in place of direct Federal loans to finance public works and other capital outlays by the District of Columbia; (c) permitting sales of direct loans by the Veterans Administration at prices consistent with market yields; and (d) expanding ship mortgage insurance as part of the program to revitalize the Merchant Marine. Credit assistance would also be provided in unspecified amounts under other proposals: (e) authorizing loans for advance acquisition of necessary land for urban mass transportation projects; (f) establishing a Rural Telephone Bank and authorizing more flexible interest rates for future direct

[1] See appendix, pp. 1081–84.

[2] The level and trends in direct loans of Government agencies disbursed or repayable in foreign currencies are as follows (in millions of dollars):

	1969	1970	1971
Outstanding, start of year (dollar equivalent)	5,629	5,825	5,850
Disbursements	334	175	117
Repayments—dollars	12	7	7
Repayments—local currencies	125	142	159
Net disbursements	196	25	−50
Outstanding, end of year	5,825	5,850	5,801

[3] See pp. 79–80.

loans to rural telephone borrowers; (g) authorizing Farmers Home Administration to insure taxable obligations and pay interest subsidies on borrowing by public agencies; and (h) establishing an environmental financing authority.

New Commitments

New commitments are the best single measure of short-run trends in most Federal credit programs. They also often give the best advance indication of trends in the financing impact of these programs, since changes in the level of new commitments frequently precede corresponding changes in the volume of loans disbursed by either public agencies or private lenders and in the purchase of goods and services by the ultimate borrowers.

In this analysis, commitments are defined as approvals by Federal agencies of direct loans or of insurance or guarantees of private loans. They are shown on a gross basis, including administrative reservations, commitments that do not later result in actual credit extensions, and the unguaranteed portions of loans partially covered by Federal guarantees.

Direct loans.—New commitments for direct loans fall from $15.9 billion in 1969 to $13.3 billion in 1970 and to $12.3 billion in 1971. The sharp drop from 1969 to 1970 reflects primarily (a) the conversion to private ownership of the three major groups of Federal agencies with 1969 commitments of $4.7 billion and (b) nonrecurring 1969 loans of $1.7 billion to the newly private FNMA—all of which were repaid by the end of the fiscal year. On the other hand, commitments of the Export-Import Bank are expected to rise by $1.9 billion in 1970 and by another $0.6 billion in 1971.

Guarantees and insurance.—New commitments for guarantees and insurance of private loans are expected to rise rapidly from $25.3 billion in 1969 to $30.2 billion in 1970 and $39.1 billion in 1971.

The 2-year increase is primarily attributable to expansion in the volume of mortgage insurance commitments by the Federal Housing Administration ($6.6 billion), the Veterans Administration ($1.3 billion), and the Farmers Home Administration ($0.9 billion). These increases, almost entirely for housing purposes, will be made possible in part by the extensive purchases of such obligations by the privately owned FNMA, in both 1970 and 1971, and by the somewhat easier credit conditions anticipated in 1971.

In addition, guarantee commitments in urban renewal and public housing programs are expected to rise by $1.2 billion, primarily to accelerate expansion of low-rent public housing construction. Under authority provided in 1968, GNMA expects to guarantee $0.5 billion in 1970 and $1 billion in 1971 in private securities backed by insured housing loans. Outside the housing field, the Export-Import Bank plans by 1971 almost to double the $1.7 billion of commitments made for guaranteed loans in 1969.

Table E-1. NEW COMMITMENTS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ASSISTANCE AND ACCOUNT (in millions of dollars)

Agency or program	1969 actual		1970 estimate		1971 estimate	
	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans
EXPENDITURE ACCOUNT						
Funds appropriated to the President:						
Military assistance	226	55	250	100	235	150
Economic assistance [1]	723	216	859	295	1,161	535
Agriculture:						
Commodity Credit Corporation	2,647	666	3,057	-------	2,715	-------
Health, Education, and Welfare	225	-------	189	-------	164	-------
Other programs	15	-------	32	-------	36	-------
Total, expenditure account	3,837	937	4,387	395	4,311	685
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	13	-------	19	-------	14	-------
Agriculture:						
Commodity Credit Corporation	221	-------	223	-------	212	-------
Rural Electrification Administration	470	-------	470	-------	470	-------
Farmers Home Administration	489	895	433	1,136	415	1,779
Commerce:						
Economic Development Administration	76	10	71	14	94	24
Maritime Administration	1	142	-------	200	-------	300
Health, Education, and Welfare	14	687	23	794	35	1,125
Housing and Urban Development:						
Renewal and Housing Assistance	681	1,987	718	2,817	636	3,209
Metropolitan Development	45	-------	42	150	42	250
Federal Housing Administration	355	14,429	193	16,742	188	21,063
Government National Mortgage Association	2,557	-------	1,516	500	851	1,000
Federal National Mortgage Association	782	-------	-------	-------	-------	-------
Interior	14	4	17	6	17	6
General Services Administration	28	-------	45	-------	52	-------
Veterans Administration:						
Housing loans and guarantees	359	4,017	441	4,200	455	5,300
Insurance policy loans	150	-------	158	-------	153	-------
District of Columbia	110	-------	150	-------	190	115
Export-Import Bank	1,298	1,723	3,200	2,606	3,850	3,389
Farm Credit Administration:						
Banks for cooperatives	1,059	-------	-------	-------	-------	-------
Federal intermediate credit banks	2,872	-------	-------	-------	-------	-------
Federal Home Loan Bank Board	38	*	519	-------	19	-------
Small Business Administration	248	470	532	668	357	825
Other agencies or programs	87	2	113	5	71	2
Obligations of federally sponsored enterprises	132	-------	-------	-------	-------	-------
Total, loan account	12,099	24,366	8,883	29,838	8,122	38,388
Grand total	15,936	25,303	13,280	30,233	12,432	39,073

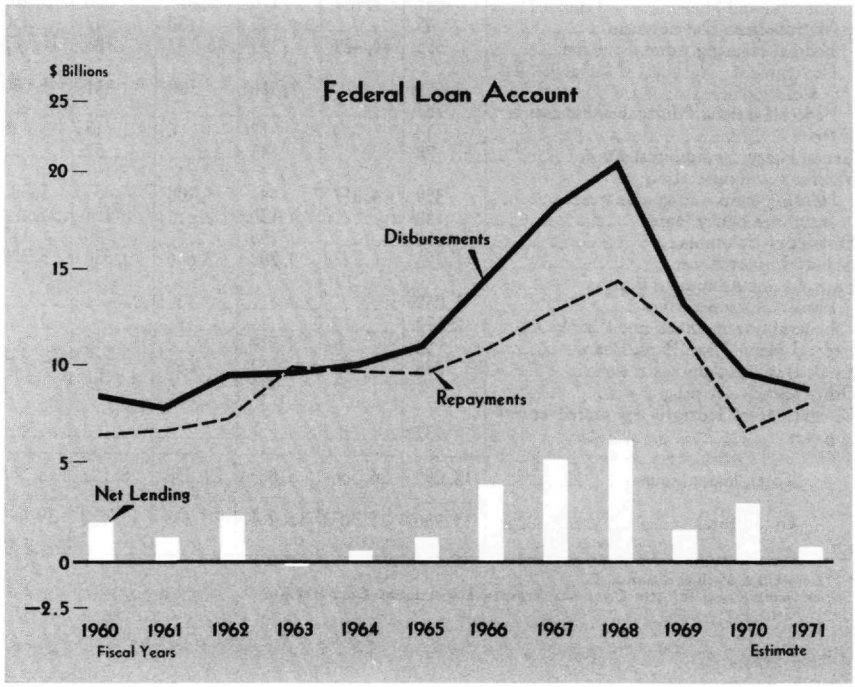
*Less than $500 thousand.
[1] Including in 1971 the Overseas Private Investment Corporation.

Overlapping commitments.—Total estimated new commitments of $51.4 billion in 1971 include several cases where two or more types of Federal assistance are provided for the same borrower or on the same property or project at different stages in the financing process. For example, commitments by GNMA are for purchase of mortgages insured or guaranteed by other Federal agencies. In several programs, the same authority is used both to make direct loans and to guarantee or insure private loans. This is true of certain programs of the Farmers Home Administration, and in urban renewal and public housing programs of the Department of Housing and Urban Development. In the latter cases, the allocation of direct loan and guarantee commitments is estimated on the basis of past experience.

Disbursements and Repayments

Gross disbursements for direct loans have the most immediate impact on the budget. In long-established programs, or in programs involving short-term loans, however, the cash outflow required for such disbursements usually is largely or wholly offset by repayments on the outstanding portfolio of loans. This is true for most of the credit extensions by the Farmers Home Administration and the Commodity Credit Corporation, as well as for the interim financing of public housing and urban renewal projects.

On the other hand, long-term loans, such as those to finance construction of college housing and academic facilities or rural electrification and telephone systems, as well as purchases of mortgages to help finance residential housing, can have a major net impact on the budget, since repayments in the early years often fall short of new loans.



Federal guarantees and insurance of private loans, except when accompanied by interest subsidies, ordinarily have only minor and indirect budget consequences. Principal disbursements of Federal funds normally occur only when the borrower defaults, or in a few programs when holders of such insured loans exercise their repurchase options.

In accordance with the recommendations of the Commission on Budget Concepts, both the budget as a whole and this analysis segregate and treat separately net lending—the excess of principal disbursements over collections of all credit programs in the loan account. The gross data on disbursements are also adjusted to reflect writeoffs, losses, and recoveries. As a result, the net lending in any year equals the change between the loans outstanding in the loan account at the beginning of the year and the total outstanding at the end of the year.

The same principles are followed in deriving the gross and net loan expenditures for credit programs in the expenditure account. As a result, the net loan disbursements for all credit programs in the loan account and the totals for the credit programs in the expenditure account are identical with the outlays shown as "loans" in the "additions to Federal assets" category in Special Analysis D.[1] For those loan programs in the expenditure account not financed through revolving funds, repayments are separately recorded in miscellaneous receipts, rather than netted against expenditures for each program.

Over the 1959–68 period, gross disbursements for all Federal programs in the loan account rose from $7.9 billion to $20.4 billion. Net lending ranged from a low in 1963—when repayments exceeded new loan disbursements by $0.1 billion—to peaks of $5.1 billion in 1967 and $6.1 billion in 1968.

By contrast, in 1969–71, sharp reductions in the budgetary impact of these programs are occurring. In 1969, gross disbursements dropped to $17.0 billion, followed by a further decline to $13.8 billion in 1970 and $12.6 billion in 1971. All of this decline can be accounted for by the conversion to private ownership of three major groups of lending agencies, which disbursed $11.4 billion in loans during 1968 and $4.2 billion in the portion of 1969 prior to their shifts to private ownership.

Net lending—the excess of disbursements over receipts in the loan account—in 1969 dropped to $1.5 billion. In 1970, it will increase to $2.9 billion, but will fall in 1971, to $0.7 billion. The decline in 1971 results from the estimated increases of $1.9 billion in sales of direct loans by four agencies, together with a reduction of $0.8 billion in repurchases by two of these agencies. Details by agency are shown at the bottom of table E–2.

Net loan outlays in the expenditure account will fall from $1.9 billion in 1969 to $0.9 billion in 1970 and 1971. This is almost entirely the result of reduction in the net loan expenditures of the Commodity Credit Corporation from $0.8 billion in 1969 to a modest excess of repayments in 1970 and 1971. Net loan disbursements for the foreign economic assistance programs of the Agency for International Development will remain relatively unchanged at about $0.8 billion each year. This is partly because most of such loans permit deferment of principal repayments during several early years.

[1] See table D–2 on pp. 47–49.

Table E-2. DISBURSEMENTS AND REPAYMENTS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ACCOUNT (in millions of dollars)

Agency or program	1969 actual		1970 estimate		1971 estimate	
	Disbursements	Repayments	Disbursements	Repayments	Disbursements	Repayments
EXPENDITURE ACCOUNT						
Funds appropriated to the President:						
Military assistance	77	19	139	68	262	59
Economic assistance	957	139	923	116	881	137
Agriculture:						
Commodity Credit Corporation	2,620	1,801	3,106	3,163	2,632	2,664
Health, Education and Welfare	201	1	160	*	135	1
Treasury Department	55	46	-------	121	-------	148
Other programs	9	12	29	12	39	14
Total, expenditure account	3,919	2,018	4,357	3,481	3,948	3,023
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	9	12	16	12	11	14
Agriculture:						
Commodity Credit Corporation	221	137	223	194	212	220
Rural Electrification Administration	402	172	505	157	492	167
Farmers Home Administration	1,765	1,444	2,413	2,140	2,580	3,439
Commerce:						
Economic Development Administration	50	8	99	10	62	12
Maritime Administration	1	8	-------	9	-------	7
Health, Education, and Welfare	100	5	101	6	137	8
Housing and Urban Development:						
Renewal and Housing Assistance	842	618	1,247	1,035	1,050	884
Metropolitan Development	48	4	44	5	40	6
Federal Housing Administration	297	277	125	130	129	71
Government National Mortgage Association	2,439	1,883	662	256	698	344
Federal National Mortgage Association	249	72	-------	-------	-------	-------
Interior	17	5	17	5	16	5
General Services Administration	28	23	45	18	52	32
Veterans Administration:						
Housing loans and guarantees	327	138	396	199	388	664
Insurance policy loans	150	86	158	87	153	88
District of Columbia	108	43	149	46	190	44
Export-Import Bank	1,668	1,303	2,136	1,418	1,903	1,592
Farm Credit Administration:						
Banks for cooperatives	1,059	934	-------	-------	-------	-------
Federal intermediate credit banks	2,872	3,158	-------	-------	-------	-------
Federal Home Loan Bank Board	36	15	519	524	19	24
Small Business Administration	208	225	458	255	352	257
Other agencies or programs	88	12	174	76	115	42
Obligations of federally sponsored enterprises	132	1,058	-------	5	-------	-------
Total, loan account	13,117	11,640	9,489	6,589	8,604	7,921
Grand total	17,036	13,659	13,846	10,070	12,552	10,944
Repurchases and sales of financial assets included in above totals:						
Agriculture:						
Commodity Credit Corporation, net	-------	667	-------	-------	-------	-------
Farmers Home Administration	405	958	830	1,598	407	2,914
Housing and Urban Development	-------	*	-------	50	-------	100
Veterans Administration	-------	1	-------	61	-------	526
Export-Import Bank	-------	378	350	384	-------	500
Total	405	2,005	1,180	2,093	407	4,040

*Less than $500 thousand.

Outstanding Direct and Guaranteed Loans

The best index of the level of Federal credit programs over a period of years is provided by total outstanding direct and guaranteed loans. By the close of 1971, these will amount to $176.4 billion in the loan account and an additional $22.5 billion in the expenditure account—or a gross total of $198.9 billion.

Outstanding direct loans in the loan account will rise by an estimated $2.9 billion during the current fiscal year and by $0.7 billion in 1971, to a total of $33.1 billion on June 30, 1971. Significant increases over the 2-year period include the Export-Import Bank ($1.0 billion), the Rural Electrification Administration and the GNMA (each $0.7 billion), HUD's renewal and housing assistance programs—mainly college housing loans—($0.4 billion) and the Small Business Administration ($0.3 billion). Loans held by the Farmers Home Administration will fall by $0.6 billion.

Outstanding loans in the expenditure account will rise by $2.5 billion in 1970 and $0.9 billion in 1971. An increase of $1.5 billion in CCC direct loans results indirectly from reclassification of $1.6 billion in certificates of interest as agency debt. At the same time, the portfolio of foreign economic assistance loans made by the Agency for International Development will rise by $1.6 billion during the 2-year period.

Outstanding guaranteed and insured loans for both accounts are expected to rise by an estimated $9.0 billion in 1970 and by a record $18.3 billion during 1971. The net increase in outstanding loans insured by the Federal Housing Administration ($13.1 billion) accounts for almost half of the 1969–71 rise. Other major increases are anticipated by HUD in its renewal and housing assistance programs ($3.3 billion), the Farmers Home Administration ($2.8 billion), the Export-Import Bank ($2.5 billion), the Veterans Administration ($2.0 billion), the Student Loan Insurance program of the Office of Education ($1.4 billion), and the Small Business Administration ($0.8 billion). The only significant decrease is the elimination of $1.6 billion in guaranteed certificates of interest of the CCC, because of the reclassification of this item.

The amounts shown include both the guaranteed and unguaranteed portion of outstanding loans in order to give a more complete picture of the economic impact of these programs and to tie in better with banking statistics. The estimated contingent liability of the Federal Government by the end of 1971 will be $19.9 billion less than the $145.1 billion principal amount of the loans guaranteed and insured. Most of this difference is accounted for by the veterans loan guarantee program, where the Government's liability will be $16.4 billion lower than the amount of guaranteed loans outstanding.

Interest Rates and Maturities

Two of the major ways in which Federal credit programs help achieve program objectives are by providing more favorable interest rates or maturities than many borrowers can obtain from other sources. Table E–4 summarizes the current range of interest rates charged by the various major credit programs on direct loans (or

Table E-3. OUTSTANDING DIRECT LOANS, AND GUARANTEED AND INSURED LOANS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ACCOUNT (in millions of dollars)

Agency or program	1969 actual		1970 estimate		1971 estimate	
	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans
EXPENDITURE ACCOUNT						
Funds appropriated to the President:						
Military assistance	77	366	147	457	349	482
Economic assistance [1]	7,837	389	8,644	755	9,387	1,268
Agriculture: Commodity Credit Corporation	3,046	1,590	4,579	--------	4,547	-------
Health, Education, and Welfare	1,326	--------	1,486	--------	1,621	-------
Treasury Department	4,829	--------	4,708	--------	4,560	-------
Other programs	245	--------	262	--------	286	-------
Total, expenditure account	17,360	2,345	19,826	1,212	20,751	1,750
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	85	--------	89	--------	87	-------
Agriculture:						
Commodity Credit Corporation	458	--------	487	--------	479	-------
Rural Electrification Administration	5,026	--------	5,375	--------	5,700	-------
Farmers Home Administration	2,694	2,679	2,970	3,266	2,112	5,523
Commerce:						
Economic Development Administration	286	25	375	39	428	63
Maritime Administration	82	622	73	644	66	775
Health, Education, and Welfare	360	1,394	455	2,106	584	2,902
Housing and Urban Development:						
Renewal and Housing Assistance	3,446	9,806	3,658	11,220	3,824	13,103
Metropolitan development	367	--------	406	40	440	95
Federal Housing Administration	708	63,001	703	68,203	762	76,080
Government National Mortgage Association	4,256	--------	4,661	500	5,015	1,500
Interior	195	18	207	21	218	24
General Services Administration	172	49	199	49	219	49
Veterans Administration:						
Housing loans and guarantees	2,650	34,927	2,848	35,057	2,571	36,945
Insurance policy loans	868	--------	938	--------	1,003	-------
District of Columbia	266	20	370	20	516	135
Export-Import Bank	5,421	2,039	6,139	3,218	6,450	4,519
Federal Home Loan Bank Board	166	*	161	--------	155	-------
Small Business Administration	1,531	603	1,734	969	1,829	1,450
Other agencies or programs	451	176	547	161	619	144
Obligations of Federally-sponsored enterprises	5	--------	--------	--------	--------	-------
Total, loan account	29,496	115,358	32,395	125,513	33,078	143,306
Grand total	46,856	117,703	52,221	126,725	53,829	145,056

*Less than $500 thousand.
[1] Including, in 1971, the Overseas Private Investment Corporation.

prevailing on insured or guaranteed loans) and the customary maturities for both direct and insured and guaranteed loans. These terms are on newly committed loans by currently active programs, and do not necessarily correspond to those on outstanding loans, or on loans covered by commitments made in earlier years.

Interest rates charged on direct loans vary both among the numerous Federal credit agencies and sometimes among the types of loans made by a single agency. Some of the differences in rates reflect differences in the cost of providing the loan (including the cost of borrowing the necessary funds), of administering the several types of loans, and of incurring the varying degrees of risk of probable loss.

Table E-4. INTEREST RATES AND MATURITIES FOR MAJOR ACTIVE CREDIT PROGRAMS CLASSIFIED BY AGENCY OR PROGRAM, DECEMBER 1969

Agency or program	Direct loans		Guaranteed and insured loans	
	Interest rate (percent)	Maturity (years)	Interest rate (percent)	Maturity (years)
EXPENDITURE ACCOUNT				
Funds appropriated to the President:				
Military assistance	7¼–7¾	5–10	9–9½	1–7
Economic assistance	2–4½	5–40	6–9½	5–25
Agriculture: Commodity Credit Corporation	[1] 2–5	1–40	----------	----------
Health, Education, and Welfare	0–6⅜	[2] 1–20	----------	----------
LOAN ACCOUNT				
Office of Economic Opportunity	4⅛	1–30	----------	----------
Agriculture:				
Commodity Credit Corporation	5–7⅜	½–5	----------	----------
Rural Electrification Administration	2	35	----------	----------
Farmers Home Administration	1–7½	1–50	4–7½	5–40
Commerce:				
Economic Development Administration	5¾–6¼	12–40	9–12	3–10
Maritime Administration	----------	----------	8¼–8½	20–25
Health, Education, and Welfare	2½–8	½–40	7	[2] ½–15
Housing and Urban Development:				
Renewal and Housing Assistance	3–6	¼–50	5.6–6.0	¼–40
Metropolitan Development	0–5⅜	40	----------	----------
Federal Housing Administration	0–8½	1–40	[3] 3–8½	1–40
Government National Mortgage Association	3–8½	1–40	----------	----------
Interior	0–8½	0–50	6½–8	5–15
General Services Administration	6¼–7½	8–10	----------	----------
Veterans Administration:				
Housing loans and guarantees	7½–8½	7–30	7½–8½	7–30
Insurance policy loans	4	([4])	----------	----------
District of Columbia	0–6¼	½–40	----------	----------
Export-Import Bank	6	1¼–20	6–10	½–10
Federal Home Loan Bank Board	4–7.2	1–25	----------	----------
Small Business Administration	3–6⅝	1–30	6–12	1–30

[1] When commodity loan is repaid by forfeiting collateral, no interest is charged. On export loans lower interest is charged during initial grace period.
[2] On student loans, maturities begin when student leaves school and exclude period of military, Peace Corps, or Vista service.
[3] In addition, property improvement loans are insured for 4½% to 5½% discount per year (or an effective annual rate of 8.8% to 10.6%), and with maturities of 6 months to 7 years.
[4] Indefinite.

In many cases, the rate charged is governed by statutory limits or formulas. Frequently, these are intended to assure loans at rates below those prevailing in the private market or below the cost to the Government, in order to provide special assistance to particular groups of borrowers as a method of accomplishing Federal program objectives. In some cases, the rates charged reflect mainly Government borrowing costs in earlier periods, rather than current market yields of Government obligations.

Interest rates charged borrowers on insured and guaranteed loans tend to correspond more closely to market rates of interest on comparable loans by private lenders—allowing for the reduction or removal of the normal private credit risk. Numerous changes in the statutory provisions governing interest rates have provided greater administrative flexibility to adjust rates to correspond with the changing conditions of the private credit market.

In a few cases, interest rates paid by the borrowers on insured loans are set below the market rate and a secondary market is provided to assure the willingness of the private lender to originate the loans. The Federal Housing Administration for example, was authorized in the Housing Act of 1961 to insure certain types of loans to finance moderate-income housing at rates (currently 3%), well below those prevailing in the private market and GNMA has been purchasing all of such mortgages. This program is now being gradually replaced by direct interest subsidies on privately financed loans.

In other cases, the Federal agency pays part of the interest cost necessary to obtain private financing. For example, the Farmers Home Administration, in selling direct loans (on an insured basis) to private investors undertakes to make supplementary interest payments sufficient to assure market yields to the purchasers. In several of its programs, the Department of Housing and Urban Development makes contracts to pay part of the interest, and in certain programs both principal and interest, in order to reduce or eliminate the financing costs on private borrowing used to acquire housing for low- or moderate-income families, as well as to finance college housing.[1]

Unlike most other programs, Government outlays on credit programs are largely or wholly repayable with interest, so that the ultimate net cost is normally low. Some programs are fully self-supporting; in others, income from interest payments or insurance and guarantee fees covers most of the current expenses, and sometimes provides reserves for future losses. But a substantial number of credit programs contain an element of subsidy; e.g., by payment of interest subsidies on guaranteed loans, or by lending at more favorable interest rates than prevail in the private market.

Three major groups of self-supporting credit agencies in 1969, were converted to private ownership. Other major direct loan programs are being shifted to insured loans, with explicit provision for interest supplements to be separately provided in order to reduce the costs to low or moderate income borrowers while maintaining gross interest rates high enough to be attractive to private lenders. The net effect of several of these programs will be to transfer most or all of the

[1] For more detailed discussion, see Special Analysis N "Federal Housing Activities," pp.214-15.

interest subsidies on future loans to the expenditure account. This approach permits a considerable expansion in insured loans, both under existing and proposed legislation, while at the same time adding to the current costs the necessary amounts of interest subsidies.

Maturities, both on direct and on insured or guaranteed loans, often are substantially more liberal than on private loans of similar types. Private lenders are often limited by law or supervisory policy to shorter maturities. When a Federal agency insures or guarantees the loans, however, these limitations customarily do not apply. Lenders can safely extend their loan maturities and borrowers can take advantage of lower periodic installments to acquire assets yielding income or tangible benefits over a long period of years.

Government-Sponsored Credit Programs

Six major types of Government-sponsored privately owned institutions administer credit programs. The programs of these institutions are neither included in the budget totals, nor subject to budgetary control. Detailed schedules and explanatory statements of five of these groups and of the Board of Governors of the Federal Reserve System are printed as annexed budgets in Part III of the Appendix. The operations of the Federal Reserve banks have no direct effect on budget totals, but payments of excess Federal Reserve earnings are regularly made to the Treasury and become budget receipts.

The five Government-sponsored credit programs—excluding the Federal Reserve banks (for which no forecasts are available)—anticipate continued expansion in their lending activity in both 1970 and 1971. Their total loan portfolios are expected to rise by a record

Table E-5. **NET CHANGES IN OUTSTANDING LOANS FOR MAJOR GOVERNMENT-SPONSORED CREDIT PROGRAMS** (in millions of dollars)

Agency	Increases			Outstanding end of 1971 estimate
	1969 actual [1]	1970 estimate	1971 estimate	
Housing and Urban Development:				
Federal National Mortgage Association [2]	[1] 1,442	5,648	4,600	18,538
Farm Credit Administration:				
Banks for cooperatives	[1] 17	97	103	1,795
Federal intermediate credit banks	[1] 701	436	479	5,270
Federal land banks	583	577	582	7,716
Federal Home Loan Bank Board:				
Federal home loan banks	1,524	4,487	2,400	13,300
Total	4,267	11,245	8,164	46,619
Federal Reserve, Board of Governors:				
Federal Reserve banks	1,469	(3)	(3)	(3)

[1] 1969 data exclude following net changes prior to conversion to private ownership: Federal National Mortgage Association, $223 million; banks for cooperatives, $123 million; and Federal intermediate credit banks, −$278 million.
[2] Data for Federal National Mortgage Association represent gross unpaid principal amounts.
[3] Estimates not available.

amount of $11.2 billion in 1970 and by another $8.2 billion in 1971 to $46.6 billion on June 30, 1971. Most of the 2-year increase represents purchases of insured and guaranteed housing mortgages by the Federal National Mortgage Association and advances by the Federal home loan banks to member institutions engaged almost entirely in home mortgage lending. Hence, these programs, like the Government-guaranteed and insured loans previously discussed, are currently being devoted largely to supporting the housing market.

Summary of Federal and Federally Assisted Credit

Changes in the outstanding volume of credit either directly provided or given major assistance by the types of programs discussed in this analysis are summarized in table E–6. The coverage includes direct Government loans, Government-guaranteed and insured loans, and loans of Government-sponsored enterprises (excluding the Federal Reserve banks). Adjustments are made to exclude double counting, e.g., cases where loans by these agencies are also guaranteed or insured.

During the fiscal year 1969, the aggregate amount of such credit outstanding increased by $15.1 billion. On the basis of present estimates, further increases will occur of $19.1 billion in 1970 and $22.3 billion in 1971, bringing the total outstanding credit and credit assistance to $220.4 billion on June 30, 1971.

In addition to the rapid rise in total volume of Federal and federally assisted credit, sharp shifts in the year-to-year pattern will occur. During the current 1970 fiscal year and to a lesser extent in 1971,

Table E–6. **NET CHANGES IN OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT** (in millions of dollars)

Type of credit assistance	Increase or decrease in credit			Outstanding end of 1971 estimate
	1969 actual	1970 estimate	1971 estimate	
Direct Government loans:				
Expenditure account	1,901	2,466	925	20,751
Loan account	[1] 1,476	2,900	683	33,078
Net, direct loans	[2] 3,377	5,365	1,608	53,829
Guaranteed and insured loans	9,694	9,022	18,331	145,056
Less net increase in holdings by:				
Federal National Mortgage Association	1,665	5,648	4,600	18,538
Government National Mortgage Association	560	404	348	5,069
Less guarantees of securities backed by insured mortgages	----------	500	1,000	1,500
Net, guaranteed and insured loans	7,469	2,470	12,523	119,941
Government-sponsored agencies,[3] loans	[2] 4,267	11,245	8,164	46,619
Total	15,113	19,080	22,295	220,389

[1] Excludes change of $11,824 million in amounts of outstanding direct loans resulting from conversion to private ownership.

[2] Direct loan data for 1969 include and other data exclude following loans made or purchased prior to conversion to private ownership: Federal National Mortgage Association, $177 million (acquisition cost); banks for cooperatives, $123 million; and Federal intermediate credit banks, −$278 million.

[3] Excludes Federal Reserve banks.

the five Government-sponsored credit agencies—especially the Federal National Mortgage Association and the Federal home loan banks—will provide an increased share of the total expansion. By contrast, because of the tight credit market, the rise in the outstanding volume of guaranteed and insured loans will be about the same as in 1969, and even this rise will only be possible because of the sizable purchases of such loans by FNMA.

In 1971, improvement in private financial markets is expected to accommodate a significant increase in the volume of guaranteed and insured housing loans, with somewhat less dependence upon FNMA purchases. The same improvement should also reduce needs for advances by the home loan banks.

Summary of Legislation Authorizing New and Broadened Federal Credit Programs

The following summary lists all legislation authorizing new Federal credit programs or revising existing programs in major respects enacted during the last session of Congress. It excludes simple extensions in expiring laws and increases in funds for continuing programs.

I. Agency for International Development

A. Foreign Assistance Act of 1969—Public Law 91–175

(1) Establishes Overseas Private Investment Corporation authorized to make direct loans, guarantees, and investments and otherwise stimulate U.S. private investment abroad; (2) broadens Latin American housing guarantee program; and (3) authorizes pilot program of community development loan guarantees for Latin America.

II. Department of Health, Education, and Welfare

A. Emergency Insured Student Loan Act of 1969—Public Law 91–95

Authorizes payment of special incentive allowances up to 3% of the principal amount of future insured student loans to assure eligible holders equitable returns.

III. Departments of Housing and Urban Development and Agriculture

A. Housing and Urban Development Act of 1969—Public Law 91–152

(1) Lowers down payments on sales housing loans insured by the Federal Housing Administration and increases maximum mortgage amounts for these and other insured loans; (2) authorizes FHA loan insurance for mobile homes; (3) liberalizes terms on which the Government National Mortgage Association can purchase and sell insured mortgages; (4) authorizes supplemental grants to encourage urban renewal loans from private sources; and (5) authorizes the Secretary of Agriculture to lend funds to public or private nonprofit organizations to provide sites for rural housing for low- and moderate-income families.

IV. Federal Home Loan Bank Board and Small Business Administration

A. Credit program amendments and interest rate control extension—Public Law 91–151

(1) Requires Secretary of the Treasury to lend to the Federal home loan banks when necessary to supply reasonable amounts of funds to the mortgage market; and (2) directs the Small Business Administration to increase loans to small business investment companies by $70 million.

V. Small Business Administration and Department of Agriculture

A. Disaster Relief Act of 1969—Public Law 91–79

Authorizes partial cancellation of principal and/or waiver of interest due, and liberalizes other standards on certain disaster loans made by the Small Business Administration and on similar emergency loans made by the Secretary of Agriculture.

SPECIAL ANALYSIS E

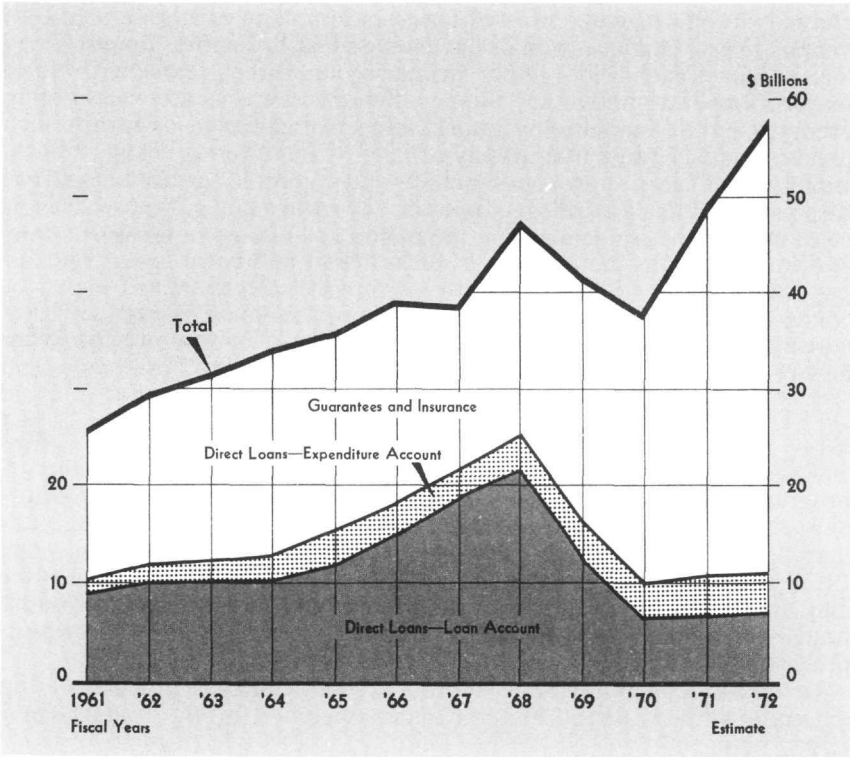
FEDERAL CREDIT PROGRAMS

Introduction

Federal credit aids—direct loans, Federal insurance or guarantees of private loans, and interest subsidies—play a major role in Government programs for: (a) Improvement of housing and encouragement of homeownership; (b) development of agricultural and other natural resources; (c) assistance to foreign economic development and security; (d) promotion of business, especially exports, transportation, and small business generally; (e) redevelopment of communities and regions; and (f) aid to higher education. In addition, Government-sponsored private lending agencies provide major credit assistance in the first two of these areas.

Federal Credit Programs

New Commitments



In several programs, credit aids are part of a package of Federal assistance. Such a package sometimes also includes, for example, grants to provide necessary public facilities for depressed areas; grants for work-training, education, and other types of community action to help combat poverty; technical aids to help underdeveloped countries plan and construct basic transportation systems; or management advice to help rural residents plan, develop, and operate their farms productively.

From 1961 through 1968, the combined level of Federal direct loans and guarantees and insurance of private loans rose steadily at a rate comparable to the growth of the gross national product. This reflected both broadening of many existing programs and initiation of new programs to meet emerging needs.

However, during 1969, the Secondary Market Operations Trust Fund of the Federal National Mortgage Association (FNMA), the Federal intermediate credit banks and the banks for cooperatives were converted from mixed-ownership to privately owned enterprises. As a result, the trend of the direct and guaranteed loans as shown in the chart of new commitments,[1] suggests a diminution—but this dip is only a matter of classification. The outstanding loans of these federally sponsored enterprises continue to be shown in table E–5—and are included in an overall summary of Federal and federally assisted credit in table E–6 and an accompanying chart.

The increasing emphasis on private financing has also caused major changes in the package of credit assistance made available in recent years. These changes would be extended still further by proposed legislation. Instead of relying primarily on direct loans with their major immediate budgetary impact, Federal agencies are encouraging greater private financing by undertaking to guarantee or insure such private funds against loss, to pay a share of the interest costs, or both. Examples of these approaches include: (a) Federally insured loans and interest subsidies for college students; (b) insured or guaranteed loans combined with supplementary payments to finance housing for low- and moderate-income families in both urban and rural areas; and (c) payment of a portion of the interest on privately financed loans for college housing and academic facilities and medical facilities. Other current proposals to apply these approaches to Federal aid for other groups are mentioned later in this analysis.

Scope of Special Analysis

This analysis: (a) summarizes 1970–72 trends in Federal credit programs; (b) indicates the relationship between the credit programs and overall budget totals; and (c) provides (for the first time) summary estimates of loan subsidy costs provided during the past year. Information is summarized for all direct loan, and loan guarantee and insurance programs operated by Federal agencies and trust funds—including both currently active programs and programs in process of liquidation.

In addition, a final table summarizes net changes in outstanding amounts both of direct Federal loans (included in the budget) and

[1] See p. 67.

of guaranteed and insured loans and loans made by Government-sponsored agencies (not reflected in budget outlays).

The principal disbursements and repayments of most of the direct Federal loans covered by this analysis are included in the loan account. In addition, in line with the recommendations of the 1967 President's Commission on Budget Concepts, two specific types of direct loan programs, accounting for more than one-quarter of direct loan commitments, are reflected in the expenditure account; these programs comprise: (a) foreign loans made largely on noncommercial terms; and (b) other loans where the terms of the loan contract make repayment in certain respects contingent rather than mandatory. A major example of the latter is the nonrecourse commodity loan program of the Commodity Credit Corporation. Disbursements, repayments, and net outlays for each appropriation and fund account which finances these programs are listed in the Appendix to the Budget.[2] In the case of programs in the loan account, net lending is also separately identified, for each applicable account, in Part 6 of the budget.

The tables in this analysis include only data on loans that are both disbursed and repayable in dollars. Loan disbursements in foreign currencies are not charged to the budget, and loan repayments in foreign currencies are not credits to the budget. Current policy requires that, in all new commitments, loans disbursed in dollars be repaid in dollars. However, a few commitments outstanding at the time of policy change called for dollar disbursements but permit repayment in foreign currency.[3]

The 1972 analysis includes coverage of new credit programs and changes to existing programs authorized by legislation enacted during the past year. Such legislation, summarized in the last section of this analysis[4] authorized several important changes in Federal credit programs.

The analysis also reflects the impact (to the extent that data are available) on Federal credit programs of proposed legislation: (a) authorizing insurance of farm operating loans by the Farmers Home Administration, and revising interest rates on farm ownership loans; (b) establishing a Rural Telephone Bank; (c) revising student-aid programs to provide subsidized loans to lower income students, and establishing a National Student Loan Association to help finance loans to students at all income levels; (d) substituting federally supported borrowing from the public for direct loans to finance public works and other capital outlays by the District of Columbia; and (e) creating an Environmental Financing Authority to assist local communities to finance waste treatment projects on reasonable terms by substituting the Authority's borrowing for local obligations.

[2] See Appendix, pp. 1099–1102.

[3] The level and trends in direct loans of Government agencies disbursed or repayable in foreign currencies are as follows (in millions of dollars):

	1970	*1971*	*1972*
Outstanding, start of year (dollar equivalent)	5,825	5,816	5,793
Disbursements	143	135	125
Repayments—dollars	12	10	10
Repayments—local currencies	140	147	146
Net disbursements	−10	−22	−31
Outstanding, end of year	5,816	5,793	5,762

[4] See pp. 84–86.

New Commitments

New commitments for direct loans and guarantees often give the best advance indication of trends in the financing impact of these programs. In a few cases, commitment and loan disbursement occur simultaneously. But in most others, such as loans for construction purposes, fairly long leadtimes may elapse between commitment and disbursement. Although not all commitments result in loans, sometimes because the borrower finds other funds in the meantime, commitments generally stimulate fairly prompt initiation of economic activity—such as the start of a construction project to be financed at completion.

In this analysis, commitments are defined to include administrative reservations as well as final approvals by Federal agencies of direct loans or of insurance or guarantees of private loans. They are shown on a gross basis and include the unguaranteed portions of loans partially covered by Federal guarantees.

Direct loans.—New commitments for direct loans will rise from $10.4 billion in 1970 to $10.9 billion in 1971 and to $11.3 billion in 1972. This trend is much slower than the growth of federally aided credit as a whole and reflects efforts to gradually move the Federal Government out of the lending business as a primary lender. Federal credit policy is moving instead to greater reliance on private credit resources, confining credit assistance mainly to supplementary credit aids and devices that provide greater access to credit resources by certain classes of borrowers in accordance with Federal priorities. Despite the relatively slow rise in direct lending, however, major increases in loan commitments from 1970 to 1972 are expected for some programs: those for Export-Import Bank will rise by $1 billion, and those for several international assistance programs are to rise by $0.7 billion.

Guarantees and insurance.—New commitments for guarantees and insurance of private loans are expected to rise rapidly from $27.5 billion in 1970 to $37.8 billion in 1971 and $46.6 billion in 1972.

The 2-year increase from 1970 to 1972 is primarily attributable to expansion in the volume of mortgage insurance commitments by the Federal Housing Administration ($10.2 billion), the Veterans Administration ($2.2 billion) and the Farmers Home Administration ($1.1 billion). These increases, mainly for housing purposes, will be made possible in part by the extensive purchases of such obligations by the privately owned FNMA, in both 1971 and 1972, and by the somewhat easier credit conditions anticipated in 1971–72.

In addition, guarantee commitments for community development and new communities are expected to rise over the 2 years by $1.4 billion. Under authority provided in 1968, GNMA expects to guarantee $1.3 billion in 1971 and $1.6 billion in 1972 in private securities backed by insured housing loans.[5] Outside the housing field, HEW will increase commitments by $2.1 billion, mostly for insured student loans, and the Export-Import Bank plans by 1972 to raise its level of commitments for guaranteed loans by roughly $1.1 billion over the 1970 level.

[5] See footnote 1 to table E–1.

Table E-1. **NEW COMMITMENTS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ASSISTANCE AND ACCOUNT** (in millions of dollars)

Agency or program	1970 actual		1971 estimate		1972 estimate	
	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans
EXPENDITURE ACCOUNT						
Funds appropriated to the President:						
International security assistance	70	------	683	67	486	96
International development assistance	807	51	831	52	947	94
Agriculture:						
Commodity Credit Corporation	2,833	------	2,491	------	2,772	------
Health, Education, and Welfare	217	------	281	------	34	------
Other programs	11	------	10	------	17	------
Total, expenditure account	3,937	51	4,296	119	4,256	190
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	3	------	4	------	------	------
Overseas Private Investment Corporation	------	91	15	48	25	119
Agriculture:						
Commodity Credit Corporation	260	------	342	------	386	------
Rural Electrification Administration	470	------	470	------	564	------
Farmers Home Administration	451	1,136	458	1,317	87	2,268
Commerce:						
Economic Development Administration	61	*	64	------	63	1
Maritime Administration	------	110	------	321	------	241
Trade Adjustment Assistance	------	------	------	------	100	100
Health, Education, and Welfare	21	959	61	1,521	429	3,070
Housing and Urban Development:						
Low-rent public housing	169	1,517	185	1,669	172	1,548
Community development loans	677	569	640	952	767	1,519
Federal Housing Administration	------	16,324	------	22,434	------	26,468
Government National Mortgage Association [1]	995	------	75	------	28	------
New communities fund	------	75	------	160	------	250
Other mortgage credit	127	202	100	200	100	200
Interior	13	------	11	------	17	------
Transportation	3	------	92	125	35	------
Veterans Administration:						
Housing loans and guarantees	307	3,720	334	4,887	236	5,962
Insurance policy loans	194	------	203	------	214	------
District of Columbia	129	------	163	------	183	71
Export-Import Bank	2,209	2,280	2,927	2,976	3,246	3,400
Federal Home Loan Bank Board	90	------	13	------	19	------
Small Business Administration	452	446	452	1,022	343	1,192
Other agencies or programs	3	2	2	------	2	------
Total, loan account [1]	6,507	27,431	6,611	37,632	7,016	46,409
Grand total [1]	**10,444**	**27,482**	**10,907**	**37,751**	**11,272**	**46,599**

* Less than $500 thousand.

[1] To avoid double counting, excludes GNMA commitments for guarantee of mortgage backed securities—1970–72 amounts are $438 million, $1,301 million, $1,550 million.

Overlapping commitments.—Total estimated new commitments of $49 billion in 1971 and of $58 billion in 1972 include several cases where two or more types of Federal assistance are provided for the same borrower or on the same property or project at different stages in the financing process. In several programs, the same authority is used both to make direct loans and to guarantee or insure private loans. This is true of certain programs of the Farmers Home Administration, and in urban renewal and public housing programs of the Department of Housing and Urban Development. In the latter cases, the allocation of direct loan and guarantee commitments is estimated on the basis of past experience.

Disbursements and Repayments

Gross disbursements for direct loans have the most immediate impact on the budget. In long-established programs, or in programs involving short-term loans, however, the cash outflow required for such disbursements usually is largely or wholly offset by repayments on the outstanding portfolio of loans. This is true for most of the credit extensions by the Farmers Home Administration and the Commodity Credit Corporation, as well as for the interim financing of public housing and urban renewal projects.

On the other hand, long-term loans, such as those to finance construction of college housing and academic facilities or rural electrification and telephone systems, as well as puchases of mortgages to help finance residential housing, can have a major net impact on the budget, since repayments in the early years often fall short of new loans.

Federal Loan Account

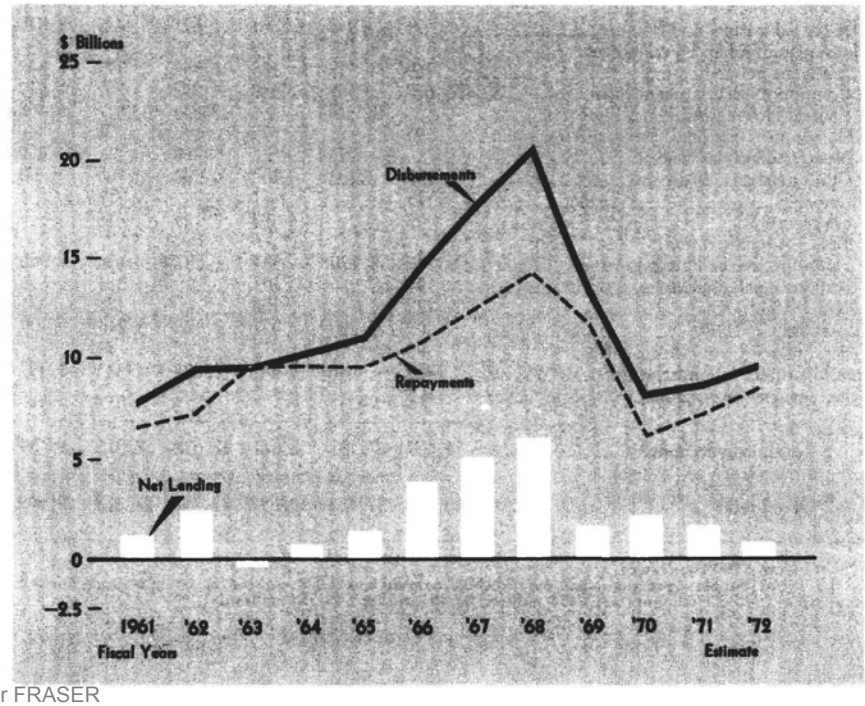


Table E-2. **DISBURSEMENTS AND REPAYMENTS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ACCOUNT** (in millions of dollars)

Agency or program	1970 actual		1971 estimate		1972 estimate	
	Disbursements	Repayments	Disbursements	Repayments	Disbursements	Repayments
EXPENDITURE ACCOUNT						
Funds appropriated to the President:						
International security assistance	136	79	554	26	488	117
International development assistance	899	100	817	130	811	126
Agriculture:						
Commodity Credit Corporation	2,811	2,910	2,444	2,683	2,739	1,933
Health, Education, and Welfare	192	1	256	1	5	1
Treasury	1	121	------	149	------	152
Other programs	23	20	34	15	41	19
Total, expenditure account	4,062	3,231	4,105	3,004	4,084	2,349
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	1	11	2	9	−3	8
Agriculture:						
Commodity Credit Corporation	260	209	342	267	386	304
Rural Electrification Administration	492	175	528	174	516	178
Farmers Home Administration	2,105	2,141	2,160	2,705	2,584	3,038
Commerce:						
Economic Development Administration	65	8	85	13	59	15
Maritime Administration	------	9	------	7	------	7
Trade adjustment assistance	------	------	------	------	60	2
Health, Education, and Welfare	116	6	102	9	470	440
Housing and Urban Development:						
Low-rent Public Housing	720	721	745	733	826	816
Community development loans	678	609	650	513	737	664
Federal Housing Administration	91	146	176	64	151	65
Government National Mortgage Association	816	224	785	243	531	466
Other mortgage credit	291	69	205	56	117	51
Interior	9	9	15	3	22	3
General Services Administration	44	24	52	32	52	57
Veterans Administration:						
Housing loans and guarantees	270	170	312	435	203	553
Insurance policy loans	194	89	203	92	214	94
District of Columbia	129	39	163	49	183	46
Export-Import Bank	1,569	1,277	1,738	1,490	1,852	1,453
Federal Home Loan Bank Board	111	21	12	13	18	13
Small Business Administration	342	215	379	217	408	212
Other agencies or programs	12	10	152	71	55	9
Total, loan account	8,313	6,182	8,807	7,196	9,440	8,494
Grand total	**12,375**	**9,413**	**12,913**	**10,200**	**13,524**	**10,843**
Repurchases and sales of loans included above:						
Agriculture:						
Farmers Home Administration	543	1,668	407	2,219	190	2,571
Health, Education, and Welfare	------	------	------	------	------	430
Housing and Urban Development	------	98	------	7	------	50
Veterans Administration	------	38	------	300	------	432
Export-Import Bank	260	406	------	420	------	400
Other agencies (GSA)	------	------	------	------	------	25
Total	803	2,210	407	2,946	190	4,138

In accordance with the recommendations of the 1967 President's Commission on Budget Concepts, both the budget as a whole and this analysis segregate and treat separately net lending—the excess of principal disbursements over collections of all credit programs in the loan account. The gross data on disbursements are also adjusted to reflect writeoffs, losses, and recoveries. As a result, the net lending in any year equals the change between the loans outstanding in the loan account at the beginning of the year and the total outstanding at the end of the year.

The same principles are followed in deriving the gross and net loan expenditures for credit programs in the expenditure account. As a result, the net loan disbursements for all credit programs in the loan account and the totals for the credit programs in the expenditure account are identical with the outlays shown as "loans" in the "additions to Federal assets" category in Special Analysis D.[6]

Although repayments on prior loans are customarily offset against new loan disbursements, the reuse of loan repayments to make new loans in most instances is as discretionary as the spending of newly appropriated funds from revenue sources. Therefore, gross disbursements rather than net are the best measure of loan program levels.

Federal guarantees and insurance of private loans, except when accompanied by interest subsidies, ordinarily have only minor and indirect Federal budget consequences. Principal disbursements of Federal funds normally occur only when the borrower defaults, or in a few programs when holders of such insured loans exercise their repurchase options.

Over the 1959–68 period, gross disbursements for all Federal programs in the loan account rose from $7.9 billion to $20.4 billion. Net lending ranged from a low in 1963—when repayments exceeded new loan disbursements by $0.1 billion—to peaks of $5.1 billion in 1967 and $6.1 billion in 1968.

By contrast, in 1969–72, sharp reductions in the budgetary impact of these programs have been occurring. In 1969, gross disbursements dropped to $13.1 billion, followed by a further decline to $12.1 billion in 1970; but these are expected to rise somewhat, to $12.9 billion in 1971 and to $13.5 billion in 1972. The 1968–70 decline is mainly accounted for by the conversion to private ownership of three major groups of lending agencies, which disbursed $11.4 billion in loans during 1968 and $4.2 billion in the portion of 1969 prior to their shifts to private ownership.

Net lending—the excess of disbursements over receipts in the loan account—in 1969 dropped to $1.5 billion. In 1970, it increased to $2.1 billion, but will fall in 1971, to $1.6 billion and in 1972, to $0.9 billion. The declines in 1971 and 1972 result largely from the estimated increases of $0.7 billion and $1.2 billion in sales of direct loans by six agencies, together with reductions of $0.4 billion and $0.2 billion in repurchases by two of these agencies. Details by agency are shown at the bottom of table E–2.

[6] See table D–3 on pp. 49–51.

Net loan outlays in the expenditure account fell from $1.9 billion in 1969 to $0.8 billion in 1970, but will reach $1.1 billion in 1971, and $1.7 billion in 1972, almost entirely the result of an expected increase in the net loan expenditures of the Commodity Credit Corporation from excess repayments of $0.1 billion in 1970 to excess disbursements of $0.8 billion in 1972.

Outstanding Direct and Guaranteed Loans

A useful measure of the growth of Federal credit programs over a period of years is provided by the total of outstanding direct and guaranteed loans. By the close of 1972, direct loans outstanding will total $56 billion and guaranteed loans outstanding will total $167 billion—a gross total of $224 billion.

Outstanding direct loans in the loan account rose by an estimated $2.1 billion during 1970 and will rise by $1.6 billion in 1971 and by $0.9 billion in 1972, to a total of $34.2 billion on June 30, 1972. Significant increases over the 2-year period include the Export-Import Bank ($0.6 billion), the Rural Electrification Administration ($0.7 billion), the GNMA ($0.6 billion), and the Small Business Administration ($0.4 billion). Loans held by the Farmers Home Administration will fall by $1.0 billion.

Outstanding direct loans in the expenditure account will rise by $1.1 billion in 1971 and $1.7 billion in 1972. The portfolio of foreign economic assistance loans made by the Agency for International Development and its successors will rise by $1.4 billion during the 2-year period, accounting for most of the increase.

Outstanding guaranteed and insured loans for both accounts are expected to rise by an estimated $17.9 billion in 1971 and by $26.5 billion during 1972. The net increase in outstanding loans insured by the Federal Housing Administration ($25.7 billion) accounts for more than half of the 1970–72 rise. Other major increases are anticipated by HUD in its low-rent public housing program ($2.3 billion), the Farmers Home Administration ($2.7 billion), the Export-Import Bank ($1.7 billion), the Veterans Administration ($3.3 billion), the Student Loan Insurance program of the Office of Education ($3.6 billion), and the Small Business Administration ($1.2 billion).

The amounts shown include both the guaranteed and unguaranteed portion of outstanding loans in order to give a more complete picture of the economic impact of these programs. The estimated contingent liability of the Federal Government by the end of 1972 will be $20.7 billion less than the $167.4 billion principal amount of the loans guaranteed and insured. Most of this difference is accounted for by the veterans loan guarantee program, where the Government's liability will be $18.7 billion lower than the amount of guaranteed loans outstanding.

Table E-3. OUTSTANDING DIRECT LOANS, AND GUARANTEED AND INSURED LOANS FOR FEDERAL CREDIT PROGRAMS CLASSIFIED BY TYPE OF ACCOUNT (in millions of dollars)

Agency or program	1970 actual		1971 estimate		1972 estimate	
	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans
EXPENDITURE ACCOUNT						
Funds appropriated to the president:						
International security assistance	134	448	662	402	1,033	348
International development assistance	8,633	227	9,320	191	10,004	256
Agriculture:						
Commodity Credit Corporation	4,537	-------	4,297	-------	5,103	-------
Health, Education, and Welfare	1,515	-------	1,770	-------	1,755	-------
Treasury	4,388	-------	4,240	-------	4,088	-------
Other programs	256	49	275	49	297	49
Total, expenditure account	19,463	723	20,564	642	22,299	653
LOAN ACCOUNT						
Funds appropriated to the President:						
Office of Economic Opportunity	75	-------	68	-------	57	-------
Overseas Private Investment Corporation	------	90	3	238	15	302
Agriculture:						
Commodity Credit Corporation	509	-------	584	-------	666	-------
Rural Electrification Administration	5,343	-------	5,697	-------	6,035	-------
Farmers Home Administration	2,659	4,952	2,115	5,896	1,662	7,633
Commerce:						
Economic Development Administration	343	14	414	13	459	13
Maritime Administration	73	630	66	926	59	1,128
Trade adustment assistance	------	-------	------	-------	58	100
Health, Education, and Welfare	470	1,952	563	3,379	593	5,601
Housing and Urban Development:						
Low-rent public housing	90	8,072	102	9,123	112	10,310
Community development loans	751	2,962	888	3,338	961	3,791
Federal Housing Administration	641	67,594	753	78,712	839	93,242
Government National Mortgage Association [1]	4,847	-------	5,391	-------	5,456	-------
New communities fund	------	-------	------	95	------	200
Other mortgage credit	3,658	-------	3,807	-------	3,873	-------
Interior	191	-------	203	-------	222	-------
Transportation	7	3	42	101	77	125
General Services Administration	180	-------	200	-------	195	-------
Veterans Administration:						
Housing loans and guarantees	2,749	36,040	2,626	37,165	2,276	39,379
Insurance policy loans	973	-------	1,084	-------	1,204	-------
District of Columbia	357	20	471	20	608	91
Export-Import Bank	5,714	1,200	5,961	1,958	6,360	2,894
Federal Home Loan Bank Board	256	-------	256	-------	261	-------
Small Business Administration	1,658	808	1,821	1,358	2,016	1,976
Other agencies or programs	62	15	105	14	103	13
Total, loan account [1]	31,615	124,352	33,226	142,336	34,172	166,797
Grand total [1]	**51,078**	**125,076**	**53,790**	**142,978**	**56,472**	**167,450**

[1] To avoid double counting, excludes GNMA guarantees of mortgage backed securities—1970–72 guarantees outstanding are $438 million, $1,739 million, $3,289 million.

Interest Subsidies

Federal credit programs help achieve Federal program objectives by providing more favorable terms than many borrowers can obtain from other sources, and often provide access to credit that might not otherwise be available to them on any terms. Lower interest rates, longer maturities, and higher loan-to-value ratios are the most common favorable terms. Forebearance in the event of hardship, and other protection in the event of default or opportunity to refinance, are also occasional favorable features.

This discussion focuses on the interest subsidies and the various approaches to measuring both the immediate and long-run costs of these subsidies. Additional subsidy elements—such as costs of administration and losses, forgiveness of part or all of loan principal under certain program conditions, or the subsidies resulting from tax-exempt interest—are not calculated.

Direct loan subsidies.—Unlike most other programs, Government outlays for direct loans are largely or wholly repayable, generally with interest, so that the long-run net cost usually is substantially less than the initial gross outlays. Few direct loan programs are fully self-supporting, however. Even where statutory interest rate formulas are designed to reflect Treasury borrowing costs, there is often no additional fee assessed to reimburse the Government for administrative costs and provision for losses.

The net impact on the budget of the interest rates charged borrowers on direct loans in any one year includes both the subsidy costs arising from the new loans made during the year and the subsidy costs currently attributable to all outstanding loans made in prior years. By the same token, the loans made each year that provide credit to borrowers at submarket interest rates will add to the net budget outlays for many years to come, depending on the maturity of the loan. Once such loans are committed and disbursed, the future costs are largely predetermined, and the net outlays resulting from the excess of interest costs over interest receipts are relatively uncontrollable.

Guaranteed and insured loan subsidies.—In recent years, an increasing number of guaranteed loan programs have provided significant subsidies in order to help meet the needs of their borrowers. In some cases, guarantee fees or insurance premiums cover part or all of administrative expenses and probable losses; for others there are no such charges. In some programs, such as in the Farmers Home Administration insured loan programs, the Government agency makes a direct loan at interest rates below the market and resells the loan with its guarantee and with a commitment to pay additional interest to the private purchaser of the loan.

Most important are the increasing number of long-term contracts to provide debt service grants. These range from commitments to cover both interest and principal amounts on low-rent public housing loans, first authorized in 1937, to the more recent practice of underwriting a major share but not all of interest costs on a variety of housing programs, as well as similar contracts for student loans, and academic facilities, and on medical facilities loans.

Just as is the case with direct loans, the net impact on the budget of subsidies for guaranteed and insured loans includes both those arising from new loans and those attributable to outstanding loans made in prior years. Likewise, these subsidies add to net budget outlays over future years, and it is appropriate to measure their ultimate net cost in meaningful terms.

Subsidy measurement.—One way to measure the ultimate net cost of the successive annual subsidy costs of direct loans is in "present value" terms in accordance with the recommendations of the 1967 President's Commission on Budget Concepts. This is accomplished by capitalizing future subsidies at an appropriate interest rate. One such rate might be the rate Treasury must pay for its current longer term borrowings; another might be the rate which the borrower would have to pay in the private market for a guaranteed loan. The rates borrowers would have to pay without Government subsidy or guarantee would likewise provide a useful illustration, but these can't be readily determined—since many borrowers might otherwise be unable to borrow at any rate.

Table E–4 contains estimates, on both an annual and a present-value basis, of the interest subsidy costs attributable to the major direct loans, as well as to the guaranteed and insured loans made during 1970. Two rates are used—7½% and 9½%—to illustrate both the first year subsidy and the present value of future subsidies under alternative interest rate assumptions. The lower rate is close to the average Treasury borrowing rate for 5- to 7-year issues in 1970; the higher rate approximates the typical gross yield on guaranteed loans in that year.

Precise subsidy measurements are not available and several assumptions have been required. The estimates are mainly intended to be illustrative rather than exact or comprehensive measures. The data provided here are a first step toward the difficult task of meeting the widespread interest in the measurement of the cost of loan subsidies.

Loan subsidies, annual basis.—To identify the current budgetary cost of interest subsidies on new loans, the table presents estimates of the subsidy costs for the first full year after the loans are disbursed. This provides a measure of the annual rate of subsidies payable on new loans that is more meaningful than the subsidies actually paid on such loans in 1970. On this basis, the first full-year subsidy cost for 1970 direct loans is estimated to be $297 million at 7½% and $448 million at 9½%; while the corresponding cost for 1970 guaranteed and insured loans is estimated to be $551 million at 7½% and $749 million at 9½%. Price support and economic assistance programs accounted for more than half of the direct loan subsidies. Housing loans received well over half of the subsidies for guaranteed and insured loans.

Table E-4. ESTIMATED INTEREST SUBSIDY COSTS AND BENEFITS OF MAJOR DIRECT LOANS MADE AND GUARANTEED AND INSURED LOANS COMMITTED IN 1970 (in millions of dollars)

Agency and program	Gross loan outlays	Borrower loan terms [1] (percent—years)	Subsidy if rate were 7½%		Subsidy if rate were 9½%	
			1st full year	Capitalized value	1st full year	Capitalized value
DIRECT LOANS						
Funds appropriated to the President:						
Security assistance	136	6–10	1	9	3	20
Development assistance	906	[2] 2–40	50	517	68	609
Agriculture:						
CCC: Price support	2,338	3½–1	94	87	140	128
CCC: Public Law 480	494	2½–33	19	226	27	272
Farmers Home Administration	578	([4])	7	49	16	100
Rural Electrification Administration	497	2–33	20	246	29	290
Health, Education, and Welfare:						
Capital for student loans	217	[3] 0–13	16	76	21	95
Higher education facilities	102	3–40	4	46	6	57
Housing and Urban Development:						
Urban renewal	595	2–½	16	16	22	21
Low-rent public housing	720	0–⅔	36	34	46	43
College housing	184	3–40	7	84	10	102
FHA fund	135	5¼–30	2	28	5	46
Housing for elderly	106	3–50	4	53	6	63
VA: Insurance policy loans	195	4–10	4	30	7	44
Export-Import Bank	1,569	6.3–7½	12	65	32	169
Small Business Administration:						
Business and investment fund	279	6.2–11	2	18	6	41
Disaster loan fund	91	3–11	3	19	4	26
Total, major subsidized direct loans	**9,142**	-------	**297**	**1,603**	**448**	**2,126**
GUARANTEED AND INSURED LOANS (commitments)						
Agriculture:						
Rural housing insurance	987	6.3–33	10	118	27	270
Agricultural credit insurance	703	5–40	15	187	28	283
Health, Education, and Welfare:						
Student loan insurance	840	[3] 0–13	63	179	80	268
Higher education facilities	120	3–40	4	46	6	58
Housing and Urban Development:						
Urban renewal	569	1.6–⅔	22	21	30	28
Low-rent public housing	1,517	0–40	114	1,039	144	1,128
Interim financing	3,529	0–⅔	176	168	224	210
College housing	202	3–31	9	81	11	102
Mortgage insurance (subsidized)	3,228	2–34	133	1,628	189	1,914
Export-Import Bank: Portfolio sales	406	5.8–4.5	5	17	10	35
Total, major subsidized, guaranteed and insured loans	**12,101**	-------	**551**	**3,484**	**749**	**4,296**

[1] If terms vary these are estimated averages. Interest rates include insurance premiums where these are charged.
[2] Interest rate shown is for first 10 years only. Rate is 3% for last 30 years.
[3] Zero interest rate applies only while student is in school plus 9 months (average period 3 years): thereafter rate is 3% on direct loans, 7% for insured loans.
[4] Various interest rates and maturities.

Loan subsidies, present value basis.—To measure the ultimate net cost of continuing annual subsidies on loans made or guaranteed in 1970, the table indicates the present value of such subsidies; i.e., the total amount of all future subsidies on such loans discounted at interest rates of 7½% and 9½%. On this basis, the ultimate net cost for direct loans is $1.6 billion when valued at 7½% and $2.1 billion when valued at 9½%.

On guaranteed and insured loans, the calculated present value of long-term subsidy agreements is $3.5 billion at 7½% and $4.3 billion at 9½%. The present values at 7½% for direct loan and for guaranteed and insured loan subsidies are not properly additive as a measure of long-run budget effect since in the latter case the Government actually pays the subsidy based on the private market rate. Moreover, subsidy elements other than interest are mostly excluded. However, the present values at 9½% might be aggregated to illustrate that part of subsidies provided borrowers, not including the value of the guarantee.

Comparable estimates of subsidy costs for loans expected to be made or guaranteed in 1971 and 1972 are not available. The reductions which have already occurred in market rates of interest from the record 1970 levels should tend to reduce the net subsidy outlays for new lending activity. However, the total volume of subsidized loans, particularly insured and guaranteed loans, will probably increase in both 1971 and 1972.

Government-Sponsored Credit Programs

Seven major types of Government-sponsored privately owned institutions administer credit programs. The programs of these institutions are neither included in the budget totals, nor subject to budgetary control. Detailed schedules and explanatory statements of six of these groups and of the Board of Governors of the Federal Reserve System are printed as annexed budgets in part III of the Appendix. The operations of the Federal Reserve banks have no direct effect on budget totals, but payments of excess Federal Reserve earnings are regularly made to the Treasury and become budget receipts. (Actual receipts in 1970 totaled $3.3 billion.)

Table E-5. **NET CHANGES IN OUTSTANDING LOANS FOR MAJOR GOVERNMENT-SPONSORED CREDIT PROGRAMS** (in millions of dollars)

Agency	Increase			Outstanding end of 1972 estimate
	1970 actual	1971 estimate	1972 estimate	
Housing and Urban Development:				
Federal National Mortgage Association [1]	5,402	4,035	3,561	21,102
Farm Credit Administration:				
Banks for cooperatives	155	66	91	1,907
Federal intermediate credit banks	742	642	722	6,461
Federal loan banks	438	464	494	7,953
Federal Home Loan Bank Board:				
Federal home loan banks	3,823	2,264	3,000	15,500
Federal Home Loan Mortgage Corporation	--------	315	−5	310
Total	**10,560**	**7,786**	**7,863**	**53,233**
Federal Reserve, Board of Governors:				
Federal Reserve banks	−638	(2)	(2)	(2)

[1] Data for Federal National Mortgage Association represent gross unpaid principal amounts.
[2] Estimates not available.

One Government-sponsored enterprise is new. The Federal Home Loan Mortgage Corporation was created by the Emergency Home Finance Act of 1970 (Public Law 91–351), as a secondary market facility for mortgages held by savings institutions. The Corporation began operations in 1971. In addition, legislation is being proposed to create two other institutions whose borrowing and lending will be outside budget totals: (1) the Environmental Financing Authority will serve primarily as a conduit to provide for municipal borrowing from the private credit markets, substituting the Authority's taxable obligations for the obligations of small municipalities that have difficulty in obtaining financing on reasonable terms for waste treatment plants; and (2) the National Student Loan Association will serve primarily as a secondary market facility to provide liquidity and new capital to banks and university operated student loan funds by selling its own federally guaranteed obligations in the private capital markets. Planning for the two organizations has not been completed and data for them are not reflected in table E–5.

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The six Government-sponsored credit programs—excluding the Federal Reserve banks (for which no forecasts are available)—anticipate continued expansion in their lending activity in both 1971 and 1972, though at a slower pace than in 1970. Their total loan portfolios are expected to rise by $7.8 billion in 1971 and by another $7.9 billion in 1972 to $53.2 billion on June 30, 1972. Most of the 2-year increase represents purchases of insured and guaranteed housing mortgages by the Federal National Mortgage Association and advances by the Federal home loan banks to member institutions engaged almost entirely in home mortgage lending. Hence, these programs, like the Government-guaranteed and insured loans previously discussed, are currently being devoted largely to supporting the housing market.

Summary of Federal and Federally Assisted Credit

Changes in the outstanding volume of credit either directly provided or given major assistance by the types of programs discussed in this analysis are summarized in table E–6. The coverage includes direct Government loans, Government-guaranteed and insured loans, and loans of Government-sponsored enterprises (excluding the Federal Reserve banks). Adjustments are made to exclude double counting, e.g., cases where loans by the sponsored agencies are also guaranteed or insured.

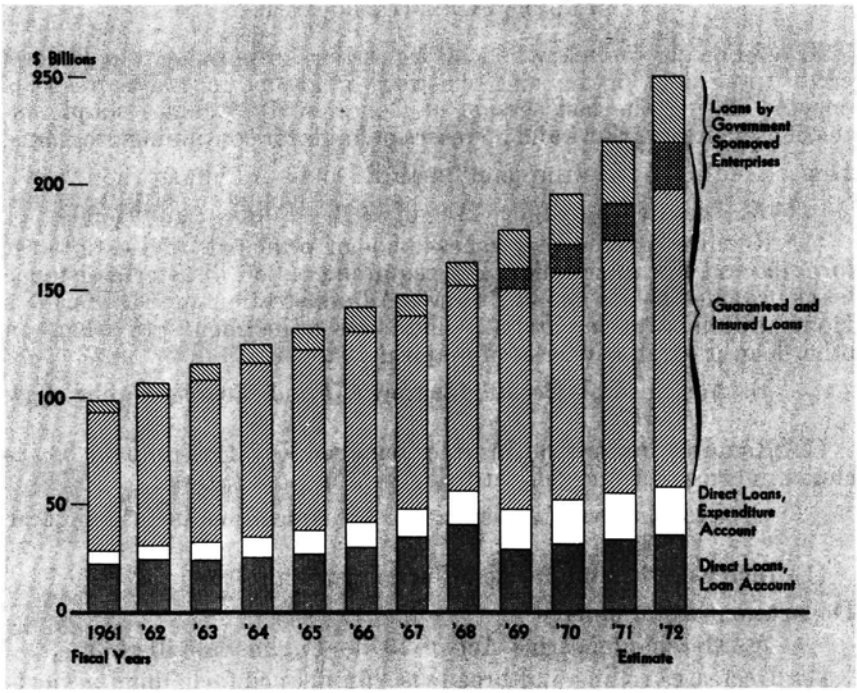
During 1970 the aggregate amount of such credit outstanding increased by $15.9 billion. On the basis of present estimates, further increases will occur of $23.6 billion in 1971 and $31.4 billion in 1972, bringing the total outstanding credit and credit assistance to $250 billion on June 30, 1972.

Table E–6. **NET CHANGES IN OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT** (in millions of dollars)

Type of credit assistance	Increase or decrease in credit			Outstanding end of 1972 estimate
	1970 actual	1971 estimate	1972 estimate	
Direct Government loans:				
Expenditure account	831	1,101	1,735	22,299
Loan account	2,131	1,611	946	34,172
Net, direct loans	2,962	2,712	2,681	56,472
Guaranteed and insured loans	8,418	17,901	24,473	167,450
Less net increase in holdings by:				
Federal National Mortgage Association	5,402	4,035	3,661	21,102
Government National Mortgage Association	590	542	56	5,506
Export-Import Bank	58	−58	−90	232
Federal Home Loan Mortgage Corporation	--------	315	−5	310
Net, guaranteed and insured loans	2,368	13,067	20,851	140,300
Government sponsored agencies,[1] loans	10,560	7,786	7,863	53,233
Total	**15,880**	**23,565**	**31,395**	**250,005**

[1] Excludes Federal Reserve banks.

Federal and Federally Assisted Credit Outstanding



In addition to the rapid rise in total volume of Federal and federally assisted credit, sharp shifts in the year-to-year pattern will occur. In late 1971 and 1972, improvement in private financial markets is expected to permit a significant increase in the volume of guaranteed and insured housing loans, with somewhat less dependence upon FNMA purchases. The same improvement should also reduce needs for advances by the home loan banks, but increased lending by the new Federal Home Loan Mortgage Corporation is anticipated.

The share of the total expansion accounted for by guaranteed and insured loans (net) is expected to rise from 15% in 1970 to 66% in 1972, while the share provided by federally sponsored enterprises drops from 66% to 25%. The share provided by direct Federal loans also drops—from 19% to 9%.

Federal Credit Policy.—Federal credit programs which the Congress has placed outside the budget—guaranteed and insured loans, or loans by federally sponsored enterprises—escape regular review by either the executive or the legislative branch. The evaluation of these extra-budgetary programs has not always been consistent with that provided regular budget programs. Their effects on fiscal policy have not been rigorously included in the overall budget process. And their effects on overall debt management are not coordinated well with the overall public debt policy. Legislation is therefore to be proposed which will permit these programs to be reviewed and coordinated along with other Federal programs.

Summary of Legislation Authorizing New and Broadened Federal Credit Programs

The following summary lists all legislation authorizing new Federal credit programs or revising existing programs in major respects enacted during the last session of Congress. It excludes simple extensions in expiring laws and increases in funds for continuing programs.

Department of Agriculture and Small Business Administration

A. Disaster Assistance Act of 1970—Public Law 91–606

(1) Requires partial forgiveness of loan principal, revises interest formula and liberalizes eligibility requirements on disaster assistance loans provided by the Small Business Administration and the Farmers Home Administration; and (2) liberalizes adjustment provisions on other loan programs in cases of major disasters.

B. Agricultural Credit Insurance Fund Loans—Public Law 91–617.

(1) Requires interest on insured loans sold by this fund to be included in gross income subject to Federal income taxation.

C. Consolidated Farmers Home Act Amendments—Public Law 91–620.

(1) Increases maximum size of farm ownership loans.

Department of Commerce

A. Merchant Marine Act of 1970—Public Law 91–469

(1) Decreases ceiling and broadens ship financing eligible for mortgage insurance; and (2) revises interest payable on ship sales mortgage installments.

Department of Defense (and other agencies)

A. Defense Production Act amendments—Public Law 91–379

(1) Limits maximum amount of any single loan guarantee; and (2) prohibits, with prescribed exceptions, use of guarantee authority to prevent financial insolvency or bankruptcy.

Department of Health, Education, and Welfare

A. Medical Facilities Construction and Modernization Amendments of 1970—Public Law 91–296

(1) Authorizes loan guarantees and loans to modernize and construct medical facilities; (2) authorizes interest subsidies on guaranteed loans to nonprofit private agencies, and to purchasers of guaranteed loans to public agencies; and (3) requires that interest and interest subsidies on guaranteed loans be included in gross income subject to Federal income taxes.

B. Health Training Improvement Act of 1970—Public Law 91–519.

(1) Authorizes capital contributions to help finance low-interest loans to students of allied health professions, with partial cancellation of principal for service in certain areas.

Department of Housing and Urban Development and other agencies

A. Emergency Home Finance Act of 1970—Public Law 91–351

(1) Authorizes FNMA secondary market for conventional mortgages; (2) creates Federal Home Loan Mortgage Corporation to purchase and sell residential mortgages; and (3) provides interest subsidy payments to FNMA and FHLMC on mortgage loans to finance middle-income housing and authorizes insurance of such mortgages.

B. Housing and Urban Development Act of 1970—Public Law 91–609

(1) Authorizes guarantees of obligations to finance new community development and related purposes, but requires income of guaranteed obligations of State development agencies to be subject to Federal taxation; (2) authorizes loans to pay interest on such obligations; (3) authorizes grants to State agencies equal to the difference between the interest rate on guaranteed securities and prevailing rates on similar tax-exempt issues; (4) authorizes increased interest subsidies on insured loans by Farmers Home Administration to provide housing for domestic farm labor; and (5) provides for guarantee of construction surety bonds by SBA.

C. Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970—Public Law 91–646

(1) Authorizes reimbursement for increased interest costs for replacement housing for homeowners displaced by federally assisted programs; (2) liberalizes insurance of mortgages for displacees; and (3) authorizes interest-free loans to nonprofit groups for preliminary housing expenses.

Department of Transportation

A. Urban Mass Transportation Assistance Act of 1970—Public Law 91–453

(1) Authorizes loans (and grants) for acquisition and construction of facilities and equipment and of real property required for mass transportation assistance.

B. Rail Passenger Service Act of 1970—Public Law 91–518

(1) Authorizes guarantees of obligations of the National Rail Passenger Corporation issued to finance roadbed improvement and rolling stock; and (2) authorizes interim loans or loan guarantees for railroads contracting with NRPC to provide passenger service.

C. Federal-aid Highway Act of 1970—Public Law 91–605

(1) Authorizes compensation for increased mortgage interest rates payable on housing by owners displaced by highway program.

D. Emergency Rail Services Act of 1970—Public Law 91–663

(1) Authorizes guarantees of trustee certificates of railroads undergoing reorganization.

Veterans Administration

A. Veterans Housing Act of 1970—Public Law 91–506

(1) Authorizes guaranteed and direct loans to eligible veterans for mobile homes and lots at interest rates determined by Administrator; and (2) removes time limit on veteran's eligibility for all types of credit assistance.

National Credit Union Administration

A. Insurance for credit union shares—Public Law 91–468

(1) Authorizes loans to reopen closed credit unions or to prevent closing of insured credit unions.

Securities Exchange Commission

A. Securities Investor Protection Act of 1970—Public Law 91–598

(1) Authorizes loans to SIPC fund if assessments and other income are insufficient.

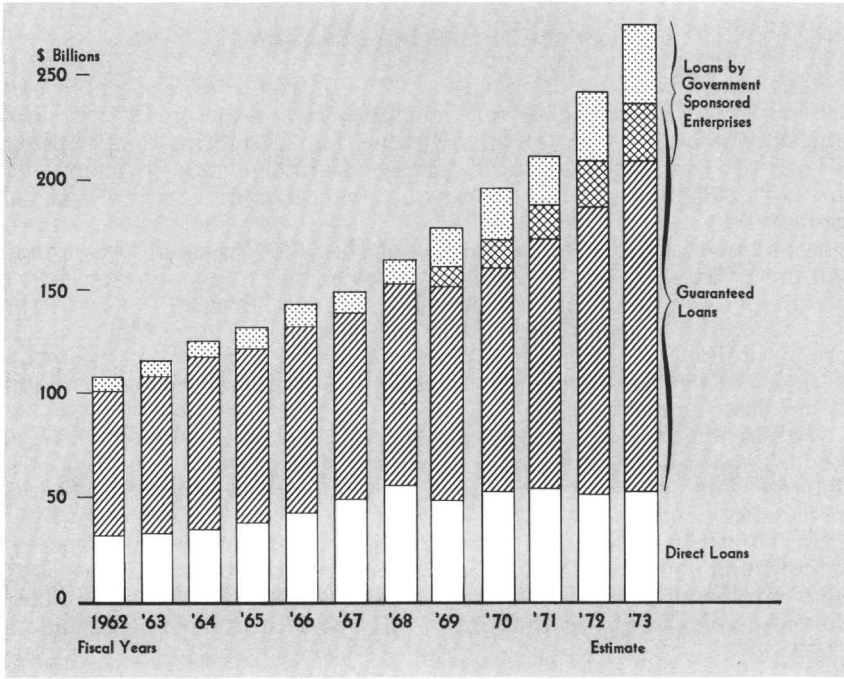
SPECIAL ANALYSIS E

FEDERAL CREDIT PROGRAMS

INTRODUCTION

Federal credit aids—direct loans, insurance or guarantees of private loans, and interest subsidies—play a major role in Government programs to: (a) Improve housing and encourage homeownership; (b) develop agricultural and other natural resources; (c) develop and redevelop communities and regions; (d) promote commerce, especially exports, transportation, and small business; (e) aid higher education; and (f) assist foreign economic development and security. Moreover, several Government-sponsored credit agencies provide additional credit assistance, outside the budget, in most of these areas.

Federal and Federally Assisted Credit Outstanding



The combined level of Federal direct loans, guarantees [1] of private loans, and loans of federally sponsored enterprises, has risen steadily during the past decade. This growth reflects both the expansion of existing programs and the initiation of new programs to meet emerging needs. However, there have been significant shifts in the way that credit aids have been provided, resulting from increasing reliance upon private financing facilities, accompanied by restraint of the Government's role as a direct lender. A major benchmark in this trend was the conversion to private ownership in 1969 of three enterprises formerly included in the budget—the Secondary Market Operations Trust Fund of the Federal National Mortgage Association (FNMA), the Federal intermediate credit banks, and the banks for cooperatives.

The increased emphasis on private financing (and away from direct loans with their immediate large budgetary impact) is frequently being accompanied by agency undertakings to pay a share of the interest costs, usually under long term subsidy contracts. Examples of these approaches include: (a) Federally insured loans and interest subsidies for college students; (b) insured loans combined with supplementary payments to finance housing for low- and moderate-income families, and (c) payment of a portion of the interest on privately financed loans for college housing and academic facilities.

Scope of Special Analysis

This analysis: (a) Summarizes 1971–73 trends in Federal credit programs; (b) indicates the relationship between the credit programs and overall budget totals; (c) identifies and estimates loan subsidy values; (d) provides data on off-budget credit agencies sponsored by the Government; and (e) aggregates Federal and federally assisted credit.

In line with the recommendations of the 1967 President's Commission on Budget Concepts, Federal direct loans are classified in either the loan account, or the expenditure account. Programs not in the loan account are special cases, and comprise: (a) Foreign loans made largely on noncommercial terms, and (b) other loans where the terms of the loan contract make repayment in certain respects contingent rather than mandatory.

Disbursements, repayments, and net outlays for each budget account containing loan transactions are listed in the Appendix to the Budget.[2] For programs in the loan account, net lending is also separately identified in Part 5 of the budget.

Since most loan disbursements and repayments in foreign currencies are not included in the budget, the tables in this analysis include only data on loans that are both disbursed and repayable in dollars. Current policy requires that loans disbursed in dollars be repaid in

[1] Statutory usage of the terms guarantee and insurance follows no consistent pattern that distinguishes between them. The term guarantee is, therefore, used frequently in this text to cover both terms.

[2] See Appendix, p. 1088.

dollars; however, loans disbursed in foreign currencies may stipulate repayment either in dollars or in local currencies.[3]

This analysis includes coverage of new credit programs and changes to existing programs enacted during the past year. Such legislation, summarized in the last section of the analysis, authorizes several important changes in Federal credit programs.

Proposed legislation.—The analysis also reflects the impact (when estimated) [4] of proposed legislation: (a) Establishing new direct and guaranteed loan programs for economic development for American Indians; (b) providing subsidized insured loans to lower income students, and establishing a secondary market facility for insured student loans; (c) authorizing direct and guaranteed loans for construction of facilities and initial operating costs for health maintenance organizations; (d) authorizing direct loans to public housing agencies to help finance or refinance development, acquisition, or operation of low-income housing projects; (e) establishing a Federal financing bank to improve the efficiency of Federal borrowing programs, and authorizing improved Treasury coordination of agency borrowing and guarantee programs; (f) substituting federally supported borrowing from the public for direct loans to finance capital programs by the District of Columbia; (g) establishing a District of Columbia development bank to aid economic development in the District of Columbia; (h) creating an environmental financing authority to help eligible local communities finance waste treatment projects; (i) authorizing the Small Business Administration (SBA) to purchase nonvoting preferred securities from minority enterprise small business investment companies (MESBIC), and granting interest subsidies on SBA loans to MESBIC's; (j) authorizing the insurance of interest and principal of railroad equipment obligations; (k) converting farm operating loans from a direct to an insured basis; and (l) authorizing Federal guarantee of taxable revenue bonds for the Washington Metropolitan Area Transit Authority, and providing for Federal payment of 25% of interest costs thereon.

New Commitments

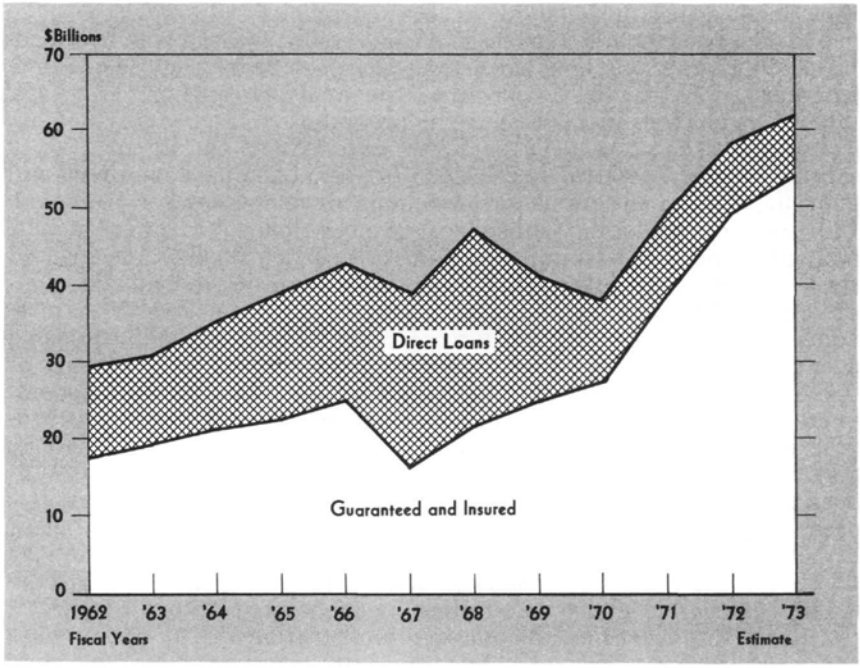
New commitments to make direct loans or to guarantee private loans usually provide some advance indication of trends in the financial impact of these programs. In a few cases, commitment and loan disbursement occur simultaneously. But in most others, such as loans for construction, fairly long leadtimes may elapse between commitment and disbursement. Not all commitments result in loans, but most are a key factor in stimulating new economic activity.

[3] The level and trends in direct loans of Government agencies disbursed or repayable in foreign currencies (in millions of dollars) are:

	1971	*1972*	*1973*
Outstanding, start of year (dollar equivalents)	5,816	5,676	5,644
Disbursements	22	131	12
Repayments—dollars	12	10	10
Repayments—local currencies	140	153	161
Net disbursements	−130	−32	−159
Adjustments	−10	-----	-----
Outstanding, end of year	5,676	5,644	5,485

[4] Estimates are not provided for items (a), (e), (f), and (h).

Federal Credit Programs —New Commitments



In this analysis, commitments are defined to include preliminary administrative reservations of funds as well as final approvals by Federal agencies of direct loans or guarantees of private loans. They are shown on a gross basis and include the unguaranteed portions of loans not fully covered by Federal guarantees.

Direct loans.—New commitments for direct loans will decline from $10.5 billion in 1971 to $9.3 billion in 1972 and $8.1 billion in 1973. Unlike the growth of federally guaranteed or federally sponsored credit, the trends for direct loans are falling. Despite this decline, however, there will be modest increases for a few programs (see table E–1).

The Export-Import Bank, excluded from budget totals by statute on August 17, 1971, plans to raise its direct loan commitments by about $5 billion in 1973 over the 1971 level.

To avoid double counting, the direct loan commitment data do not reflect the innovative use of direct loan commitments resulting from the new tandem plan of the Government National Mortgage Association (GNMA). Under this plan, GNMA partly supports the market for guaranteed housing loans when requirements for market yields significantly exceed the interest rate ceiling placed on these loans by the guaranteeing agency. GNMA makes advance commitments to purchase these loans at a suitable purchase price, with the intention of reselling them at marketable yields. However, market conditions have recently improved and few such commitments are now being exercised; nonetheless, GNMA expects continued need for commitment support despite a low level need for followthrough by direct loan outlays and resale. Commitment levels under the plan are not projected at this time, but could reach several billion dollars in both 1972 and 1973.

Table E-1. **NEW COMMITMENTS FOR FEDERAL CREDIT PROGRAMS**
(in millions of dollars)

Agency or program (*expenditure account programs in italics*)	1971 actual		1972 estimate		1973 estimate	
	Direct loans	Guaranteed loans	Direct loans	Guaranteed loans	Direct loans	Guaranteed loans
Funds appropriated to the President:						
International security assistance	*688*	*46*	*350*	*200*	*493*	*136*
International development assistance	*718*	*56*	*790*	*121*	*918*	*105*
Overseas Private Investment Corporation	2	9	10	31	25	51
Agriculture:						
Rural Electrification Administration	487	------	662	------	689	------
Farmers Home Administration	463	1,898	286	2,426	11	3,288
Commodity Credit Corporation	421	------	450	------	450	------
Commodity loans	*1,748*	------	*2,580*	------	*1,988*	------
Public Law 480—Long-term export credits	*558*	------	*598*	------	*705*	------
Commerce:						
Economic Development Administration	60	*	63	4	73	6
Maritime Administration	------	281	1	344	------	439
Trade adjustment assistance	------	------	25	50	25	50
Health, Education, and Welfare	51	1,644	101	2,251	151	2,972
Expenditure account loans	*278*	------	*339*	------	*53*	------
Housing and Urban Development:						
Low-rent public housing	171	1,709	175	1,748	216	2,159
Community development loans	623	1,091	662	2,622	705	800
Federal Housing Administration	17	22,629	50	25,377	50	29,247
Government National Mortgage Association [1]	537	------	293	------	188	------
New communities fund	------	50	28	160	28	300
Other mortgage credit	75	263	100	200	100	200
Interior	14	------	24	------	27	------
Transportation	90	106	57	55	80	109
Veterans Administration:						
Housing loans and guarantees	239	4,356	285	7,409	287	7,691
Insurance policy loans	143	------	130	------	123	------
District of Columbia	41	20	143	20	190	70
Emergency Loan Guarantee Board	------	------	------	120	------	30
Export-Import Bank [2]	2,362	3,507	319	4,512	------	4,176
Federal Home Loan Bank Board	6	------	19	------	8	------
Small Business Administration	572	863	633	1,318	375	1,965
Other agencies and programs	64	20	84	16	45	21
Expenditure account loans	*24*	------	*48*	------	*55*	------
Total, loan account	6,437	------	4,599	------	3,845	------
Total, expenditure account	*4,014*	------	*4,705*	------	*4,212*	------
Grand total	**10,451**	**38,547**	**9,304**	**48,983**	**8,057**	**53,816**

*Less than $0.5 million.

[1] To avoid double counting, excludes GNMA commitments for guarantees of mortgage backed securities, and for direct purchases of FHA and VA mortgages under the tandem plan.

[2] Excluded from budget totals by statute on Aug. 17, 1971; direct loan commitments excluded from this table are $7,033 million in 1972 and $7,400 million in 1973.

Guarantees.—New commitments for guarantees of private loans are expected to rise rapidly from $39 billion in 1971 to $49 billion in 1972 and $54 billion in 1973.

Most of the increase in new commitments is for guaranteed housing and community development loans by HUD, VA, and the Farmers Home Administration. In percentage terms, nonhousing related credit is growing somewhat faster—up 55% for the 2-year period compared to 37% for housing-related credit.

To avoid double counting, GNMA commitments to guarantee private securities backed by guaranteed housing loans are excluded from table E–1; such guarantees outstanding were increased by $3.0 billion in 1971 and are expected to increase by $2.6 billion in 1972 and $2.7 billion in 1973. The Export-Import Bank plans to raise its 1973 level of commitments for guaranteed loans by about $0.7 billion above the 1971 level.

Disbursements and Repayments

Gross disbursements for direct loans have the most immediate impact on the budget. In long-established programs, or in programs involving short-term loans, the cash outflow required for such disbursements usually is substantially offset by repayments on the outstanding portfolio of loans.

On the other hand long-term loans, such as those which finance construction, can have a major net impact on the budget, since repayments in the early years often fall short of new loan outlays.

Gross data on disbursements are adjusted to reflect writeoffs, forgiveness credits, and other noncash adjustments to loans outstanding, while repayments data are kept on a strictly cash basis. As a result, the net difference between disbursements and repayments in any year equals the change in the loans outstanding between the start and the end of the year—unless accounts are excluded from the budget.

Net loan disbursements for all credit programs in the loan account are identical with data for net lending in Part 5 of the budget. Net loan disbursements for the loan account and the expenditure account are identical to the outlays shown as "loans" in the "additions to Federal assets" category in Special Analysis D (table D–3).

Table E-2. **DISBURSEMENTS AND REPAYMENTS FOR DIRECT LOANS**

(in millions of dollars)

Agency or program (*expenditure account programs in italics*)	1971 actual		1972 estimate		1973 estimate	
	Disbursements	Repayments	Disbursements	Repayments	Disbursements	Repayments
Funds appropriated to the President:						
International security assistance	*513*	*28*	*425*	*98*	*317*	*136*
International development assistance	*890*	*129*	*660*	*110*	*510*	*142*
Overseas Private Investment Corporation	------	------	6	------	16	------
Agriculture:						
Rural Electrification Administration	627	175	576	175	669	201
Farmers Home Administration	2,279	2,498	3,319	3,492	3,585	4,191
Commodity Credit Corporation	400	280	450	313	450	392
Commodity loans	*1,716*	*2,635*	*2,500*	*1,837*	*1,915*	*2,112*
Public Law 480—Long term export credits	*560*	*66*	*598*	*29*	*705*	*44*
Commerce:						
Economic Development Administration	61	10	65	14	60	13
Maritime Administration	------	10	1	8	------	8
Trade adjustment assistance	------	------	10	------	13	1
Health, Education, and Welfare	74	8	112	43	170	111
Expenditure account loans	*238*	*1*	*301*	*1*	*7*	*1*
Housing and Urban Development:						
Low-rent public housing	710	710	825	815	900	890
Community development loans	626	573	664	582	708	630
Federal Housing Administration	190	38	271	74	320	78
Government National Mortgage Association	536	293	393	518	313	897
New communities fund	------	------	------	------	5	------
Other mortgage credit	175	56	119	63	75	60
Interior	12	3	26	4	25	4
Transportation	33	*	108	57	55	*
Treasury Department	*1*	*149*	------	*152*	------	*154*
General Services Administration	13	28	54	18	43	74
Veterans Administration:						
Housing loans and guarantees	234	397	270	559	280	589
Insurance policy loans	143	104	130	107	123	110
District of Columbia	92	34	218	51	218	52
Export-Import Bank [1]	1,406	1,455	127	85	------	------
Federal Home Loan Bank Board	−14	65	19	30	8	20
Small Business Administration	481	257	467	223	323	222
Other agencies and programs	52	19	30	17	1	19
Expenditure account loans	*25*	*12*	*42*	*14*	*36*	*15*
Total, loan account	8,131	7,014	8,258	7,246	8,354	8,560
Total, expenditure account	*3,943*	*3,021*	*4,527*	*2,243*	*3,490*	*2,607*
Grand Total	**12,074**	**10,035**	**12,785**	**9,489**	**11,844**	**11,167**

Repurchases and sales of loans included above	Repurchases	Sales	Repurchases	Sales	Repurchases	Sales
Agriculture:						
Farmers Home Administration	287	2,005	450	3,001	390	3,822
Health, Education, and Welfare	------	------	------	30	------	90
Housing and Urban Development	------	------	------	234	------	593
Veterans Administration	------	244	------	427	------	475
Export-Import Bank [1]	4	269	------	11	------	------
General Services Administration	------	------	------	------	------	50
Other agencies (SBA)	------	30	------	------	------	------
Total	**291**	**2,548**	**450**	**3,703**	**390**	**5,032**

*Less than $0.5 million.

[1] Excluded from budget totals by statute on Aug. 17, 1971; subsequent net lending for 1972 ($1,329 million) and 1973 ($1,187 million) included in table E-5.

Although repayments on prior loans are customarily offset against new loan disbursements, the use of loan repayments to make new loans in most instances is discretionary. Therefore, gross disbursements rather than net are the better measure of loan program levels.

Federal guarantees of private loans, when not accompanied by interest subsidies, ordinarily have only minor and indirect budget consequences. Principal disbursements of Federal funds for guaranteed loans normally occur only when the borrower defaults, or in a few programs when holders of these loans exercise their repurchase options.

Gross loan disbursements (adjusted)[5] are expected to decline by only $0.2 billion from 1971 to 1973. Because of the offsets from repayments and loan sales, net loan disbursements in the same period will also decline—from $2.0 to $0.7 billion. Offsets from loan sales are detailed in table E-2. The majority of such sales are a function of statutory objective and program design.

Outstanding Direct and Guaranteed Loans

The outstanding principal amounts of direct and guaranteed loans provide useful dimensions of the scope of Federal credit assistance and lend perspective to its year-to-year growth (table E-3). By the end of 1973, direct loans outstanding will total $51.4 billion and guaranteed loans outstanding will total $189.4 billion—bringing the gross total to $240.8 billion.

Outstanding direct loans will decrease by $1.7 billion from 1971 to 1973, due mainly to the exclusion of the Export-Import Bank from the 1973 totals.

Outstanding guaranteed loans are estimated to rise by $23 billion in 1972 and by $26 billion during 1973. The net increase in outstanding loans insured by the Federal Housing Administration ($26 billion) accounts for 53% of the 1971–73 rise. Other anticipated major increases are for veterans housing guarantees ($6.8 billion), Farmers Home insured loans ($4.6 billion), and low-rent public housing guarantees ($3.5 billion).

The amounts shown include both the guaranteed and nonguaranteed portions of outstanding loans in order to give a complete picture of the economic impact of these programs. The estimated contingent liability of the Federal Government by the end of 1973 will be $24 billion less than the $189 billion principal amount of the loans guaranteed.

[5] Noncash adjusting entries reduced gross loan disbursements by nearly $200 million in 1971.

Table E-3. **OUTSTANDING DIRECT AND GUARANTEED LOANS FOR FEDERAL CREDIT PROGRAMS** (in millions of dollars)

Agency or program (*expenditure account loans in italics*)	1971 actual		1972 estimate		1973 estimate	
	Direct loans	Guaranteed loans	Direct loans	Guaranteed loans	Direct loans	Guaranteed loans
Funds appropriated to the President:						
International security assistance	*617*	*365*	*945*	*302*	*1,126*	*332*
International development assistance	*9,401*	*178*	*9,951*	*266*	*10,318*	*322*
Overseas Private Investment Corporation	------	225	6	315	22	342
Agriculture:						
Rural Electrification Administration	5,795	------	6,196	------	6,664	------
Farmers Home Administration	2,440	5,361	2,268	7,602	1,661	10,004
Commodity Credit Corporation	628	------	766	------	824	------
Commodity loans	*1,869*	------	*2,530*	------	*2,330*	------
Public Law 480—Long-term export credits	*2,241*	------	*2,810*	------	*3,471*	------
Commerce:						
Economic Development Administration	394	10	444	11	491	15
Maritime Administration	64	886	56	981	48	1,100
Trade adjustment assistance	------	------	10	50	22	50
Health, Education, and Welfare	536	2,611	605	3,932	665	5,892
Expenditure account loans	*1,751*	------	*2,052*	------	*2,065*	------
Housing and Urban Development:						
Low-rent public housing	90	9,463	100	11,094	110	13,007
Community development loans	805	3,042	887	3,382	965	3,498
Federal Housing Administration	794	77,214	991	89,526	1,234	103,254
Government National Mortgage Association [1]	5,091	------	4,965	------	4,381	------
New communities fund	------	56	------	132	5	282
Other mortgage credit	3,777	240	3,833	540	3,848	760
Interior	201	------	223	------	244	------
Transportation	40	108	91	117	146	225
Treasury Department	*4,236*	------	*4,083*	------	*3,929*	------
Veterans' Administration:						
Housing loans and guarantees	2,587	37,597	2,298	40,902	1,989	44,350
Insurance policy loans	1,012	------	1,036	------	1,049	------
District of Columbia	414	20	582	20	748	70
Emergency Loan Guarantee Board	------	------	------	115	------	115
Export-Import Bank [2]	5,665	1,531	------	2,150	------	2,742
Federal Home Loan Bank Board	164	------	153	------	142	------
Small Business Administration	1,882	1,038	2,125	1,890	2,227	2,923
Other agencies and programs	390	173	439	133	390	127
Expenditure account loans	*271*	------	*299*	------	*320*	------
Total, loan account	32,769	------	28,074	------	27,868	------
Total, expenditure account	*20,387*	------	*22,670*	------	*23,553*	------
Grand Total	**53,156**	**140,118**	**50,744**	**163,460**	**51,420**	**189,410**

[1] To avoid double counting, excludes GNMA guarantee of mortgage backed securities—1971–1973 amounts are $3,431 million, $6,061 million, $8,740 million.
[2] Excluded from budget totals by statute on August 17, 1971. See table E-5 for 1972–3.

Interest Subsidies

The primary objective of many Federal credit programs is to provide access to credit that might not otherwise be available for certain desirable purposes. More favorable terms than otherwise available to unassisted borrowers—such as lower interest rates, longer maturities, and higher loan-to-value ratios—are a usual result of providing this access to credit, whether by direct or guaranteed lending.

Additional assistance in meeting the costs of credit is often a further feature of these programs. Such assistance includes concessionary interest rates, waiver of service fees or insurance premiums, and periodic payments of interest or other debt service subsidies for guaranteed loans.

This discussion focuses on interest subsidies and selected approaches to measuring both the immediate and long-run value of these subsidies. Additional subsidy elements—such as costs of administration and losses, forgiveness of part or all of loan principal, or the subsidies resulting from tax-exempt interest—are not fully covered or reflected.

Direct loan subsidies.—Unlike most other Federal outlays, direct loans are largely or wholly repayable, generally with interest. Therefore, the long-run net costs of direct loan programs usually are substantially less than the initial gross outlays. Few direct loan programs are fully self-supporting, however. Even where statutory interest rate formulas are designed to reflect Treasury borrowing costs, there is often no additional fee assessed to reimburse the Government for administrative costs and provision for losses, or for other cost factors not now considered.

The net budget impact of interest charged borrowers on direct loans in any single year includes the subsidy costs arising from both new loans and outstanding loans made in previous years. By the same token, all new loan commitments at submarket interest rates will add to the net budget outlays for all future years during which the loan remains outstanding. Once newly subsidized loans are committed, the future costs are largely predetermined and the net subsidy costs become relatively uncontrollable.

Guaranteed loan subsidies.—In recent years, an increasing number of guaranteed loan programs have provided significant subsidies in order to help meet the needs of their borrowers. In some cases, guarantee fees cover part or all of administrative expenses and probable losses; for others, there are no such charges. In some programs, a Government agency makes a direct loan at interest rates below the market and resells the loan with its guarantee, either at a discount which provides a marketable yield or with a commitment to pay additional interest in periodic installments to the private purchaser of the loan.

Long-term contracts to provide debt service payments are the most frequently used subsidy device. These commitments may cover both interest and principal amounts as they do for low-rent public housing loans, but more often cover some designated share of interest costs. This approach is being used for a growing variety of loan programs, including those for low- and moderate-income housing, student expenses for higher education, academic facilities, and medical facilities.

Just as for direct loans, the net value of subsidies for guaranteed loans includes those arising from both new and outstanding loans. New subsidies add to net budget outlays in future years; and some meaningful measure of their ultimate net cost is needed to lend perspective to budget decisions.

Subsidy measurement.—One way that the impact of future subsidies could be viewed would be simply to total all future payments. However, because of interest, a dollar payable at some future date is not worth as much as a dollar paid out today. Therefore such a simple total would substantially overstate the true value; and a better way to measure the ultimate value of the successive annual loan subsidies would be in "present value" terms, in accordance with the recommendations of the President's Commission on Budget Concepts. This is accomplished by capitalizing (or discounting) future subsidies at an appropriate interest rate.

The selection of an appropriate rate might vary with analytical objectives. The choice for discounting both direct and guaranteed loans in this analysis is 8%—a rate approximately equivalent to the private market rate on guaranteed loans, if an allowance for guarantee costs is added. This selection (over the Treasury borrowing rate for instance) has the advantage of valuing direct loan assets near the price which they should bring if sold to private investors, and also more nearly measures the benefits provided to borrowers. The rate, however, may overstate costs for direct loans retained in Government accounts.

Although variations in the characteristics of individual loans or loan programs are usually translated into variations in market interest rates, the assumption of a uniform discount rate facilitates analysis.

Table E–4 provides estimates of subsidy values that will result from loan commitments made or to be made in the years 1971 through 1973. Both the annual subsidy rates and the discounted present value of all future subsidies are provided. However, estimates of the subsidy elements in the portfolio of loans already outstanding—direct or guaranteed—are not attempted in this analysis. While the estimates are primarily illustrative rather than exact or comprehensive they do facilitate year-to-year comparisons of new subsidy commitments.

Loans subsidies, annual basis.—The annual subsidy values attributable to commitments for subsidized direct loans would grow from $270 million for 1971 commitments to $345 million for 1973 commitments, while the corresponding annual costs for subsidies on guaranteed loan commitments will grow from $350 million to $516 million during the same years.

Table E-4. **ESTIMATED INTEREST SUBSIDY VALUE FOR MAJOR DIRECT AND GUARANTEED LOAN COMMITMENTS**

(in millions of dollars)

Agency and program	Rate[1] (*percent*)	Term[1] (*years*)	Annual subsidy per $100 million commitments[2]	Commitments			Present value at 8%—future subsidies committed in—		
				1971 actual	1972 est.	1973 est.	1971	1972	1973
DIRECT LOANS									
Funds appropriated to the President:									
International security assistance	5.3	13.6	1.8	688	350	493	101.2	51.5	72.5
International development assistance	[3]2.5	40.0	4.4	696	773	900	368.5	409.3	476.6
Agriculture:									
Price support	3.5	0.8	5.0	1,748	2,579	1,988	65.8	97.1	74.9
CCC: Public Law 480	2.0	25.0	4.2	558	598	705	251.4	269.4	317.6
Farmers Home Administration	[5]4.0	31.3	3.1	463	325	310	166.6	116.9	111.5
Rural Electrification Administration	2.0	35.0	4.5	487	572	563	259.7	305.1	300.3
Health, Education, and Welfare:									
Capital for student loans	[4]1.9	14.0	3.8	278	339	53	87.7	106.9	16.7
Higher education facilities	3.0	40.0	4.0	14	22	3	6.8	10.7	1.5
Housing and Urban Development:									
Urban renewal	6.0	0.8	2.3	534	572	615	8.7	9.3	10.0
Low-rent public housing	0.0	1.5	4.3	171	175	216	10.4	10.6	13.1
College housing	3.0	40.0	4.0	75	100	100	36.4	48.5	48.5
FHA fund	5.6	20.0	1.7	167	265	316	28.3	44.9	53.5
VA: Insurance policy loans	4.0	10.0	2.4	144	130	122	23.8	21.5	20.2
Export-Import Bank [6]	6.0	7.0	1.2	2,362	7,352	7,400	148.0	460.7	463.7
Small Business Administration:									
Business and investment fund	5.6	11.7	1.5	273	243	275	31.8	28.3	32.1
Disaster loan fund	4.1	7.2	2.3	299	390	100	36.8	48.0	12.3
Total, major subsidized direct loan commitments							**1,631.9**	**2,038.8**	**2,024.9**

See footnotes at end of table.

480-700 O—72——6

Table E-4. ESTIMATED INTEREST SUBSIDY VALUE FOR MAJOR DIRECT AND GUARANTEED LOAN COMMITMENTS—Con.
(in millions of dollars)

Agency and program	Rate [1] (percent)	Term [1] (years)	Annual subsidy per $100 million commitments [2]	Commitments			Present value at 8%—future subsidies committed in—		
				1971 actual	1972 est.	1973 est.	1971	1972	1973
GUARANTEED LOANS									
Agriculture:									
Rural housing insurance	7.2	33.0	0.6	1,384	1,605	2,144	102.0	118.3	158.1
Agricultural credit insurance	5.0	40.0	2.6	514	821	1,144	157.5	251.6	350.6
Health, Education, and Welfare:									
Student loan insurance	[4] 4.4	10.0	2.2	1,044	1,160	1,351	157.8	175.3	204.2
Higher education facilities	7.0	30.0	0.8	600	620	400	56.0	57.8	37.3
Housing and urban development:									
Urban renewal	3.4	0.8	5.3	1,091	2,622	800	40.8	98.2	30.0
Low-rent public housing	0.0	41.5	5.9	1,709	1,748	2,159	1,213.1	1,240.7	1,532.5
College housing	3.0	31.0	3.8	262	200	200	113.3	86.5	86.5
Mortgage insurance (subsidized)	2.0	34.0	4.5	2,840	6,350	5,799	1,495.1	3,343.0	3,052.9
Export-Import Bank: [6] Portfolio sales	6.0	4.0	1.1	269	150	50	10.2	5.7	1.9
Total, major subsidized and guaranteed loan commitments							**3,345.9**	**5,377.2**	**5,454.0**
Grand total							**4,977.8**	**7,416.0**	**7,478.8**

[1] If terms vary these are estimated averages. Interest rates include insurance premiums where these are charged.
[2] Based on 8% value of funds.
[3] Weighted average: actual rate is 2%, first 10 years; 3% for last 30 years.
[4] Zero interest rate applies only while student is in school plus 9 months (average period 3 years); thereafter rate is 3% on direct loans, 7% for insured loans.
[5] Various interest rates and maturities.
[6] Excluded from budget totals by statute on Aug. 17, 1971.

Loans subsidies, present value basis.—The annual subsidy payments for 1971 commitments imply future budget outlays of $14 billion over the life of the loans. However, after discounting for interest, the present value of these continuing annual subsidies on direct and guaranteed loans committed in 1971 is estimated at $5 billion. For 1972 commitments this present value will be $7.5 bil ion and for 1973 commitments will be $7.5 billion, a 2-year growth of $2.5 billion over the 1971 level.

Credit Agencies Outside the Budget

The transactions of several major federally sponsored credit agencies, created to facilitate financing of important programs of national interest, are excluded from Federal budget totals. The majority of these agencies are privately owned and managed. All, however, are subject to some form of Federal supervision, and all consult the Treasury Department, either by law or by custom, in planning the marketing of their obligations.

These agencies are essentially financial intermediaries, channeling funds from one sector of the capital markets to another. They borrow, under Federal auspices, in the "agency sector" of the bond markets, and lend these funds—for specifically authorized purposes—either directly or by purchasing loans originated by their special clientele.

Some of these agencies began as secondary market operations, or as facilities providing advances of reserves to financial institutions. They had a basic function of providing liquidity to primary lenders in times of tight money conditions, either by buying their loans or by making advances. These loans were then sold or repaid when capital market conditions improved. However, recent policy has converted these institutions to more permanent institutional sources of new capital funds. Pending legislative proposals would add a new student loan marketing association and a District of Columbia development bank.

Four of the enterprises identified in table E–5 are actually systems of regional institutions which pool their borrowings to gain increased efficiency.

Funds loaned by these agencies are not obtained entirely from borrowings in the capital markets. Sale of capital stock and retained earnings also provide some resources for lending. Moreover, the timing of borrowing versus lending will vary from year to year. Table E–5 shows only the lending side of these credit activities; but table C–8 in Special Analysis C (Borrowing, Debt, and Investment) provides complimentary data on their borrowing.

Table E-5. **NET CHANGES IN OUTSTANDING LOANS FOR MAJOR GOVERNMENT-SPONSORED CREDIT PROGRAMS** (in millions of dollars)

Agency	1971 actual	1972 estimate	1973 estimate	Outstanding end of 1973 estimate
Housing and Urban Development:				
Federal National Mortgage Assoc.[1]	2,168	4,987	4,702	25,263
Export-Import Bank [2]	--------	1,329	1,187	8,223
Farm Credit Administration:				
Bank for cooperatives	287	196	223	2,455
Federal intermediate credit banks	812	886	1,019	7,815
Federal land banks	585	625	630	8,834
Federal Home Loan Bank Board:				
Federal home loan banks	−2,995	1,159	1,900	10,300
Federal Home Loan Mortgage Corp.	469	876	1,600	2,945
Total [3]	**1,326**	**10,058**	**11,261**	**65,835**

[1] Loans purchased at discount are recorded at acquisition cost.
[2] Excluded from budget totals by statute on Aug. 17, 1971, with loans outstanding of $5,707 million.
[3] Federal Reserve banks, excluded from these totals, loaned $56 million to their member banks in 1971, increasing outstanding loans to $508 million; estimates not available for other years.

Federal agencies.—In addition to this year's removal of the Export-Import Bank from the budget totals, pending legislation would establish a Federal financing bank to consolidate and improve the efficiency of numerous Federal agency borrowing and loan guarantee activities, but the bank would not change the budget treatment of these activities. Legislation is also proposed to establish an environmental financing authority which would be a conduit for certain local Government borrowings which would not be included in the Federal budget.

The agencies currently in existence expect a 1971–73 lending increase of $21 billion to be supported by a $19 billion increase in borrowing.[1] Of the increase in lending, $10 billion will be invested in federally guaranteed loans.

SUMMARY OF FEDERAL AND FEDERALLY ASSISTED CREDIT

The Federal role in the credit markets affects both the supply of and the demand for credit. Both of these credit impacts can be aggregated, provided adjustments are made to exclude double counting where guaranteed loans as well as Federal and agency debt instruments are in fact held directly in Government accounts or by off-budget credit enterprises.

Table E–6 shows the net new loan *funds advanced* to the public, either directly from Federal budget accounts or through the Federal assistance provided by Federal guarantees of private lending or through the lending of federally sponsored agencies. Total lending under Federal auspices is expected to reach $276 billion in 1973, a 2-year increase of $65 billion and 31% over the 1971 level of $211 billion.

[1] Includes borrowing of Export-Import Bank, not shown in table C-8 because it is added to Federal debt.

Table E-6. **NET CHANGES IN OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT** (in billions of dollars)

Type of credit assistance	Increase or decrease in credit			Outstanding end of 1973 estimate
	1971 actual	1972 estimate	1973 estimate	
Direct loans	2.0	3.3	0.7	51.4
Guaranteed loans	16.1	23.3	25.9	189.4
Less guaranteed loans held in direct loan portfolio by GNMA	.3	−.1	−.6	4.4
In portfolios of sponsored agencies:				
By FNMA	2.2	4.9	4.4	24.9
By FHLMC	.5	.5	.3	1.5
By Export-Import Bank [1]	−.1	−.1	−.1	.1
Net, guaranteed loans	13.2	18.1	21.8	158.6
Loans by sponsored agencies [2]	1.3	10.1	11.3	65.8
Total, Federal and federally assisted lending	**16.5**	**31.5**	**33.8**	**275.9**

[1] Excluded from budget totals by statute on Aug. 17, 1971.
[2] Excludes Federal Reserve banks.

A complimentary aggregate of Federal and federally assisted borrowing is presented in Special Analysis C, Borrowing, Debt, and Investment (table C-9), showing the Federal impact on the credit markets in terms of *funds raised* in the markets.

Summary of Legislation Authorizing New and Broadened Federal Credit Programs

This summary lists legislation enacted during the last session of Congress which authorizes new Federal credit programs or revises existing programs in major respects. It excludes simple extensions in expiring laws and increases in funds for continuing programs.

DEPARTMENT OF AGRICULTURE

The Rural Electrification Act Amendments of 1971—Public Law 92-12

Establishes a rural telephone bank to meet capital needs of the rural telephone system. Federally owned stock is to be retired as soon as possible after 1985. Authorizes the public and private sale of unguaranteed debt instruments. Authorizes loans to corporations and public bodies for the purpose of financing improvements to the telephone lines, facilities, or systems.

1971 Amendments to the Consolidated Farmers Home Administration Act—Public Law 92-173

Authorizes the Secretary of Agriculture to insure emergency loans under the Consolidated Farmers Home Administration Act of 1961 whenever funds are advanced or a loan is purchased by a non-Government lender.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Public Health Service Act—Public Law 92–157

Authorizes a 90% Federal guarantee and a 3% interest subsidy for private construction loans for medical, dental, and other health professions personnel teaching facilities.

The Nurse Training Act of 1971—Public Law 92–158

Authorizes a 90% Federal guarantee and a 3% interest subsidy for private construction loans for nonprofit private nursing schools.

VETERANS ADMINISTRATION

Authorization to sell direct veterans loans—Public Law 92–66

Authorizes Veterans Administration to sell, at reasonable prices under prevailing mortgage market conditions, direct loans made to veterans for the purchase of a home, farm, or business.

FARM CREDIT ADMINISTRATION

Farm Credit Act of 1971—Public Law 92–181

Modifies the authority of the Farm Credit System as follows: (a) Authorizes Federal land banks and production credit associations (PCA) to make nonfarm housing loans in rural areas; (b) Raises limitation on land bank loans to 85% of appraised property value; (c) Authorizes the issuance of a joint security, making each of the three branches of the system obligated for the liabilities of the other; (d) Reduces to 80% the farmer voting media percentage requirement for cooperatives to be eligible to borrow from the banks for cooperatives; (e) Provides new authority for financial-related services necessary for on-farm operations; (f) Provides the authority for land bank and PCA loans to nonfarmers for other than housing when directly related to on-farm operating needs; and (g) Subjects obligations issued by the system to restrictions similar to those provided for by Regulation Q of the Federal Reserve Board.

EMERGENCY LOAN GUARANTEE BOARD

Emergency Loan Guarantee Act—Public Law 92–70

Authorizes the Emergency Loan Guarantee Board chaired by the Secretary of the Treasury to guarantee loans up to $250 million when it is deemed necessary in order to prevent adverse and serious effects on the economy, credit is not otherwise available on reasonable terms, and there is reasonable assurance that the loan will be repaid.

EXPORT-IMPORT BANK

Export Expansion Act of 1971—Public Law 92–126

Excludes the receipts and disbursements of the Export-Import Bank from the totals of the budget, and exempts the Bank's operations from any annual expenditures and net lending limitations

imposed on the budget. Increases the limitations on the aggregate amount of outstanding loans, guarantees, and insurance to $20 billion.

SMALL BUSINESS ADMINISTRATION

Amendments to the Small Business Investment Act of 1958—Public Law 92–213

Authorizes Small Business Administration to guarantee principal and interest on debentures issued by small business investment companies.

SPECIAL ANALYSIS E

FEDERAL CREDIT PROGRAMS

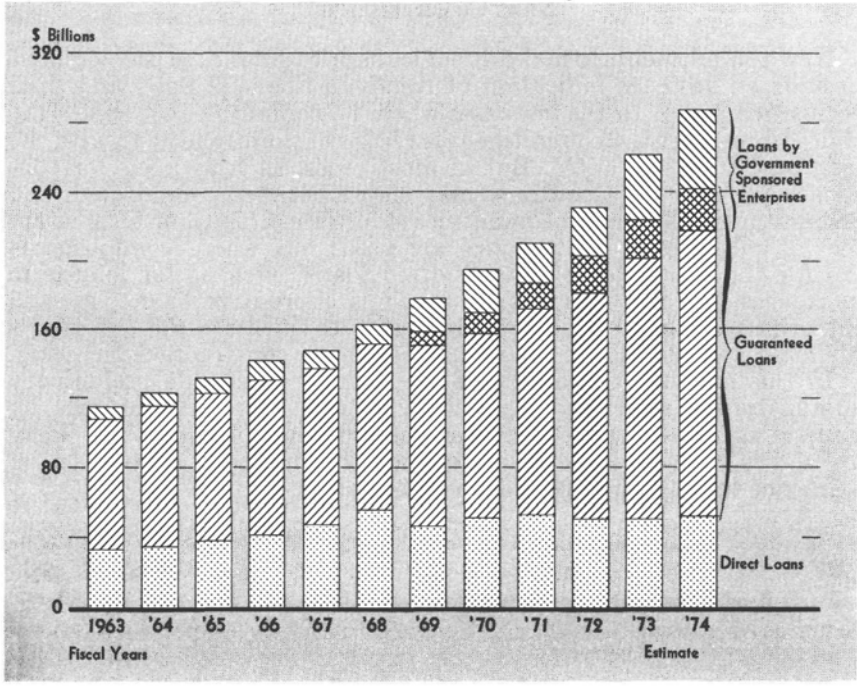
Introduction

Federal credit aids—direct loans, insurance or guarantees of private loans, and interest subsidies—play a major role in many Government programs. Moreover, several Government-sponsored credit agencies provide additional credit assistance outside the budget.

The total credit provided by Federal direct loans, guarantees [1] of private loans, and loans of federally sponsored enterprises, has risen steadily during the past decade. This growth reflects both the expansion of existing programs and the initiation of new programs to meet emerging needs. This trend has been marked almost wholly by increased reliance upon private financing facilities, and a conscious attempt to limit the Government's role as a direct lender. A major benchmark in this trend was the conversion to private ownership in 1969 of three enterprises formerly included in the budget—the Secondary market operations trust fund of the Federal National Mortgage Association (FNMA), the Federal intermediate credit banks, and the banks for cooperatives.

[1] Statutory usage of the terms guarantee and insurance follows no consistent pattern that distinguishes between them. Guarnatee is, therefore, used frequently in this text to cover both terms.

Federal and Federally Assisted Credit Outstanding



The increased emphasis on private financing (and away from direct loans with their immediate large budgetary impact) is frequently being accompanied by Federal payment of a share of the interest costs, usually under long-term subsidy contracts.

Scope of Special Analysis

This analysis summarizes 1972–74 trends of Federal credit programs, indicates the relationship between the credit programs and overall budget totals, identifies and estimates loan subsidy values, provides data on off-budget credit agencies sponsored by the Government, and aggregates Federal and federally assisted credit. Major legislative developments affecting credit programs are also identified—including newly enacted programs, program amendments, and proposed legislation contemplated by the 1974 budget proposals.

Disbursements, repayments, and net outlays for each budget account containing loan transactions are listed in the Appendix to the Budget.[2]

Since most loan disbursements and repayments in foreign currencies are not included in the budget, the tables in this analysis include only data on loans that are both disbursed and repayable in dollars. Recent policy has required that loans disbursed in dollars be repaid in dollars; however, loans disbursed in foreign currencies may stipulate repayment either in dollars or in local currencies.[3]

New Commitments

New commitments to make direct loans or to guarantee private loans provide an advance indication of trends in financial flows and their economic impact. In the few cases where no commitment precedes the loan disbursement, a commitment is recorded simultaneously with the loan outlay or guarantee. But in most cases, such as loans for construction, fairly long leadtimes may elapse between commitment and disbursement. Nearly all commitments for direct loans, or for guarantees of subsidized private loans, are used; but where commitments are for the guarantee of unsubsidized loans, such as for long-term mortgages, the borrower sometimes finds alternative financing—and the principal effect of the commitment is to facilitate the borrower's planning and aid him in obtaining short-term construction financing.

In this analysis, commitments are defined to include preliminary administrative reservations of funds as well as final approvals by Federal agencies of direct loans or guarantees of private loans. They are shown on a gross basis and include the unguaranteed portions of loans not fully covered by Federal guarantees.

[2] See Appendix, p. 1104.

[3] Government agency direct loan transactions disbursed or repayable in foreign currencies (in millions of dollars) are:

	1972	*1973*	*1974*
Outstanding, start of year (dollar equivalents)	5,675	5,354	5,232
Disbursements	65	34	30
Repayment—dollars	−1	−1	−2
Repayments—local currencies	−154	−154	−160
Net disbursements	−90	−121	−133
Adjustments	−230	-----	-----
Outstanding, end of year	5,354	5,232	5,099

Table E-1. **NEW COMMITMENTS FOR FEDERAL CREDIT PROGRAMS**
(in millions of dollars)

Agency or program	1972 actual		1973 estimate		1974 estimate	
	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans
Funds appropriated to the President:						
International security assistance	330	220	350	200	447	313
International development assistance	632	110	632	165	678	351
Agriculture:						
Rural Electrification Administration [1]	663	------	410	------	150	------
Farmers Home Administration	378	2,356	82	3,596	11	2,870
Commodity Credit Corporation	3,172	------	2,935	------	2,941	------
Public Law 480 long-term export credits	514	------	708	------	799	------
Commerce:						
Economic development loans	47	19	26	2	5	------
Maritime Administration	------	258	2	204	------	235
Financial and technical assistance	5	------	16	30	14	20
Health, Education, and Welfare:						
Health programs	63	76	73	87	57	------
Education programs	330	1,824	354	1,702	75	1,671
Housing and Urban Development:						
Low-rent public housing	166	2,071	88	788	15	137
Federal Housing Administration	------	20,824	------	14,531	------	14,882
Government National Mortgage Association	16	------	5	------	------	------
Community development loans	679	1,398	777	1,928	------	------
New communities fund	------	116	------	300	------	250
Other mortgage credit	97	203	------	------	------	------
Interior	20	------	34	35	19	35
Transportation	17	85	88	252	50	1,143
General Services Administration	7	------	25	635	20	483
Veterans Administration:						
Housing loans and guarantees	249	8,242	278	8,732	293	8,643
Insurance policy loans	126	------	125	------	119	------
District of Columbia	186	------	230	------	270	------
Emergency Loan Guarantee Board	------	100	------	60	------	60
Export-Import Bank [2]	319	5,535	------	5,330	------	7,039
Federal Home Loan Bank Board	18	------	10	------	10	------
Small Business Administration:						
Business and investment loans	232	1,364	225	1,965	235	2,703
Disaster loans	133	3	544	------	14	------
Washington Metropolitan Area Transit Authority	------	------	------	443	------	334
Other agencies and programs	100	2	115	5	70	308
Total	**8,498**	**44,808**	**8,132**	**40,988**	**6,293**	**41,478**
MEMORANDUM						
GNMA Tandem plan [3]	7,144	------	4,807	------	2,350	------
GNMA mortgage backed securities [3]	------	3,518	------	4,830	------	5,303
Export-Import Bank [4]	2,967	------	6,400	------	7,500	------

[1] Effective Jan. 1, 1973, rural electrification loans were converted from the regular REA program to insured loans under the Rural development insurance fund of the Farmers Home Administration, with total program increases of $200 million each for 1973 and 1974.
[2] Excluded from budget totals by statute on Aug. 17, 1971.
[3] Excluded from totals because they duplicate commitments counted elsewhere (see text).
[4] Shown here due to the statutory exclusion of the bank's transactions from the (beginning Aug. 17, 1971) budget.

Direct loans.—New commitments for direct loans will decline from $8.5 billion in 1972 to $8.1 billion in 1973 and $6.3 billion in 1974. Despite this decline, however, there will be modest increases for a few programs (see table E–1).

The Export-Import Bank, excluded from budget totals by statute on August 17, 1971, plans to raise its direct loan commitments to $7.5 billion in 1974 compared to a 1972 level of $3.3 billion.

To avoid double counting, the direct loan commitment data do not reflect the use of direct loan commitments resulting from the tandem plan of the Government National Mortgage Association (GNMA). Under this program GNMA partially supports the market for guaranteed housing loans when requirements for market yields significantly exceed the interest rate ceiling placed on these loans by the guaranteeing agency.

GNMA makes advance commitments to purchase these loans at a suitable purchase price, subsequently reselling them at marketable yields. Commitments totaled $7.1 billion in 1972, and are estimated at $4.8 and $2.4 billion, respectively, in 1973 and 1974. The decline in commitment levels is due partly to improved market expectations and partly to the suspension of commitments for subsidized housing programs as of January 5, 1973. Commitments may or may not be used, depending on market conditions at the time of loan closing.

Guarantees.—New commitments for guarantees of private loans are expected to decline from $44.8 billion in 1972 to $41.0 billion in 1973 but rise slightly to $41.5 billion in 1974.

The decrease in new commitments is mainly accounted for by a $6.3 billion decline in insurance commitments of the Federal Housing Administration. Although housing related guarantees continue to dominate, nonhousing commitments are 34% of the total for 1974, compared to 21% in 1972.

To avoid double counting, GNMA commitments to guarantee private securities backed by federally guaranteed housing loans are excluded from table E–1 totals. New GNMA security guarantees were $3.5 billion in 1972 and are expected to be $4.8 billion in 1973 and $5.3 billion in 1974. The Export-Import Bank plans to raise its 1973 level of commitments for guaranteed loans by about $2.1 billion above the 1972 level.

Disbursements and Repayments

Disbursements for direct loans are of significantly different character from most other expenditures in the budget: First, a government asset is established in the amount of the loan; and second, the loan principal amount tends usually to be recovered over the term of the loan. Repayments against outstanding loans are not classified as revenues, but are offset—against new loan disbursements for loan revolving funds, and against general expenditures in the case of nonrevolving accounts.

Gross loan disbursements provide one measure of program levels, but an important caveat with respect to the loan disbursement levels displayed in table E–2 is that only about half of the totals represent *primary* direct loan programs. The remainder are disbursements relating to guarantee programs. In some of the Farmers Home Administration programs, for example, the loan is customarily originated by

Table E-2. **DISBURSEMENTS AND REPAYMENTS FOR FEDERAL CREDIT PROGRAMS** (in millions of dollars)

Agency or program	1972 actual		1973 estimate		1974 estimate	
	Disbursements	Repayments	Disbursements	Repayments	Disbursements	Repayments
Funds appropriated to the President:						
International security assistance	236	58	366	122	370	126
International development assistance	677	106	652	138	572	183
Agriculture:						
Rural Electrification Administration [1]	551	186	716	195	501	208
Farmers Home Administration	3,140	2,940	3,568	4,452	3,039	3,180
Commodity Credit Corporation	3,112	2,542	2,839	3,174	2,838	3,457
Public Law 480 long-term export credits	524	68	708	106	799	98
Commerce:						
Economic development loans	53	14	48	18	34	22
Maritime Administration	------	7	−5	6	------	6
Financial and technical assistance	1	------	6	------	12	------
Health, Education, and Welfare:						
Health programs	62	1	70	2	61	2
Education programs	293	10	335	14	65	20
Housing and Urban Development:						
Low-rent public housing	716	741	750	750	500	510
Federal Housing Administration	249	31	323	124	432	28
Government National Mortgage Association	527	561	143	1,505	131	490
Community development loans	666	658	768	655	720	695
Other mortgage credit	88	65	62	76	31	79
Interior	16	3	29	4	20	5
Transportation	17	*	78	*	60	*
Treasury Department	------	180	−4	227	------	109
General Services Administration	7	24	7	94	20	24
Veterans Administration:						
Housing loans and guarantees	234	579	289	759	297	554
Insurance policy loans	126	111	125	119	119	125
District of Columbia	186	49	230	52	270	53
Export-Import Bank	127	85	------	------	------	------
Federal Home Loan Bank Board	18	24	10	26	10	17
Small Business Administration:						
Business and investment loans	226	187	267	191	277	204
Disaster loans	131	63	378	72	93	119
Other agencies and programs	73	18	59	23	−14	14
Total	**12,057**	**9,314**	**12,818**	**12,905**	**11,257**	**10,327**
MEMORANDUM						
GNMA Tandem plan [2]	324	62	1,590	1,852	1,100	1,100
Export-Import Bank [3]	1,382	1,133	2,888	1,148	3,576	1,958
Repurchases and sales of loans included above (except Export-Import Bank)	Repurchases	Sales	Repurchases	Sales	Repurchases	Sales
USDA: Commodity Credit Corporation	------	------	------	301	------	968
USDA: Farmers Home Administration	574	2,429	600	4,105	650	2,874
Housing and Urban Development	------	211	------	1,076	------	338
Veterans Administration	------	381	------	603	------	417
Other agencies	------	11	------	58	------	16
Total	**574**	**3,032**	**600**	**6,143**	**650**	**4,613**

* Less than 0.5 million.

[1] Effective Jan. 1, 1973, rural electrification loans were converted from the regular REA program to insured loans under the Rural development insurance fund of the Farmers Home Administration, with total program increases of $200 million each for 1973 and 1974.

[2] Mortgage purchases under the Tandem plan are intended for immediate resale. Only net amounts are included in nain table.

[3] These transactions (beginning Aug. 17, 1971) excluded from budget totals by statute.

the agency for resale as an insured loan to private investors. In some other programs, such as the direct loan program of the Veterans Administration, the primary delivery of credit assistance is through a guarantee program, but a direct loan alternative is provided in special cases where guaranteed private loans are unavailable. Finally, direct loan outlays are established when claims are paid under guarantee programs and the Government receives either the original loan or the loan collateral. The loans thus obtained are often either repaid or sold to other investors. Recoveries from liquidation of collateral obtained under defaulted loans are recorded as repayments, and losses thus established are written off.

Gross data on disbursements are adjusted to reflect writeoffs, forgiveness credits, and other noncash adjustments to loans outstanding, while repayments data are kept on a strictly cash basis. As a result, the net difference between disbursements and repayments in any year equals the change in the loans outstanding between the start and the end of the year (adjusted for any transfers of loan balances between accounts).

Net loan disbursements for all credit programs are identical to the outlays shown as "loans" in the "additions to Federal assets" category in Special Analysis D (table D–3).

Gross loan disbursements (adjusted)[4] rise by $0.8 billion in 1973, then drop by $1.6 billion in 1974 to $11.3 billion. Partly because of offsets from repayments and loan sales, net loan disbursements for the same periods decline—from $2.7 billion in 1972, to net repayments of $0.1 billion in 1973. Net disbursements in 1974 are $0.9 billion. Offsets from loan sales are detailed at the bottom of table E–2. Most such sales are from direct loan portfolios related to guarantee programs.

Outstanding Direct and Guaranteed Loans

The outstanding principal amounts of direct and guaranteed loans provide useful dimensions of the scope of Federal credit assistance and lend perspective to its year-to-year growth (table E–3). By the end of 1974, direct loans outstanding will total $51.0 billion and guaranteed loans outstanding will total $196.6 billion. After deducting $3.3 billion guaranteed loans held in government accounts, the 1974 yearend total of these two forms of credit is thus projected at $244 billion.

Outstanding guaranteed loans are estimated to rise by $20.0 billion in 1973 and by $17.6 billion during 1974. The net increase in outstanding loans insured by the Federal Housing Administration ($9.6 billion) accounts for 26% of the 1972–74 rise. Other anticipated major increases are for veterans housing guarantees ($7.4 billion), insured loans of the Farmers Home Administration ($4.9 billion), low-rent public housing guarantees ($3.0 billion), education loan programs ($2.8 billion), and small business loans ($2.5 billion).

[4] Noncash adjusting entries reduced gross loan disbursements by nearly $323 million in 1972.

Table E-3. **OUTSTANDING DIRECT LOANS, AND GUARANTEED AND INSURED LOANS FOR FEDERAL CREDIT PROGRAMS** (in millions of dollars)

Agency or program	1972 actual		1973 estimate		1974 estimate	
	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans	Direct loans	Guaranteed and insured loans
Funds appropriated to the President:						
International security assistance	795	348	1,039	443	1,283	458
International development assistance	9,975	462	10,489	605	10,878	908
Agriculture:						
Rural Electrification Administration [1]	6,160	------	6,681	------	6,974	------
Farmers Home Administration	2,705	6,917	1,821	10,324	1,681	11,780
Commodity Credit Corporation	3,068	------	2,734	301	2,114	969
Public Law 480 long-term export credits	2,697	------	3,299	------	4,001	------
Commerce:						
Economic development loans	433	29	463	31	475	------
Maritime Administration	56	1,082	45	1,176	39	1,358
Financial and technical assistance	1	------	6	30	19	50
Health, Education, and Welfare:						
Health programs	288	5	357	21	416	20
Education programs	2,318	3,839	2,639	5,116	2,684	6,608
Housing and Urban Development:						
Low-rent public housing	65	10,718	65	12,140	55	13,750
Federal Housing Administration	1,011	85,017	1,210	90,580	1,614	94,574
Government National Mortgage Association	5,056	------	3,694	------	3,335	------
Community development loans	813	3,347	926	4,042	951	4,492
New communities fund	------	124	------	232	------	356
Other mortgage credit	3,874	490	3,850	440	3,813	------
Interior	216	------	240	34	256	68
Transportation	57	124	135	358	195	1,448
Treasury Department	4,063	------	3,831	------	3,722	------
General Services Administration	151	49	65	733	61	1,197
Veterans Administration:						
Housing loans and guarantees	2,243	42,002	1,771	45,835	1,513	49,380
Insurance policy loans	1,027	------	1,033	------	1,027	------
District of Columbia	552	20	730	20	947	20
Emergency Loan Guarantee Board	------	100	------	160	------	220
Export-Import Bank [2]	------	2,121	------	2,700	------	3,250
Federal Home Loan Bank Board	158	------	142	------	135	------
Small Business Administration:						
Business and investment loans	1,359	2,009	1,436	3,095	1,509	4,481
Disaster loans	628	5	934	5	909	5
Washington Metropolitan Area Transit Authority	------	------	------	443	------	777
Other agencies and programs	378	105	413	95	385	399
Total	**50,149**	**158,913**	**50,062**	**178,957**	**50,991**	**196,566**
MEMORANDUM						
GNMA mortgage backed securities [3]	------	6,800	------	10,790	------	15,561

[1] Effective Jan. 1, 1973, rural electrification loans were converted from the regular REA program to insured loans under the Rural development insurance fund of the Farmers Home Administration, with total program increases of $200 million each for 1973 and 1974.
[2] Excluded from budget totals by statute on Aug. 17, 1971.
[3] Excluded from totals to eliminate double counting with guarantees of underlying mortgages.

The amounts shown include both the guaranteed and nonguaranteed portions of outstanding loans in order to give a complete picture of the economic impact of these programs. The estimated Government's contingent liability for loan guarantees, by the end of 1974 will be $26 billion less than the $197 billion principal amount of the loans guaranteed.

Interest Subsidies

The primary objective of many Federal credit programs is to provide access to credit that might not otherwise be available for certain desirable purposes. More favorable terms than otherwise available to unassisted borrowers—such as lower interest rates, longer maturities, and higher loan-to-value ratios—are a usual result of providing this access to credit, whether by direct or guaranteed lending.

Additional assistance in meeting the costs of credit is often a further feature of these programs. Such assistance includes concessionary interest rates, waiver of service fees or insurance premiums, and periodic payments of interest or other debt service subsidies for guaranteed loans.

This discussion focuses on interest subsidies and selected approaches to measuring both the immediate and long-run value of these subsidies. Additional subsidy elements—such as costs of administration and losses, forgiveness of part or all of loan principal, or the subsidies resulting from tax-exempt interest—are not fully covered or reflected.

Direct loan subsidies.—Because direct loans are largely or wholly repayable, generally with interest, the long run net costs of loan programs usually are substantially less than the initial gross outlays. Few direct loan programs are fully self-supporting, however. Although programs with statutory interest rate formulas tied to Treasury borrowing costs imply self-support, these are seldom designed to recover all costs—including administrative costs, adequate provision for risk or loss, or the discount required to provide a marketable yield if the loan is sold.

The net budget impact of interest concessions made to borrowers on direct loans for any single year includes the subsidy costs arising from both new loans and outstanding loans made in previous years. By the same token, all new loan commitments at submarket interest rates will add to the net budget outlays for all future years during which the loan remains outstanding. Once newly subsidized loans are committed, the future costs are largely predetermined and the net subsidy costs become relatively uncontrollable.

Guaranteed loan subsidies.—In recent years, an increasing number of guaranteed loan programs have provided significant subsidies in order to help meet the needs of their borrowers. In some cases, guarantee fees or premiums cover part or most of administrative expenses and probable losses; for others, there are no such charges. In some programs, a Government agency makes a direct loan at interest rates below the market and resells the loan with its guarantee, either at a discount (which provides a marketable yield) or with a commitment to pay additional interest in periodic installments to the private purchasers of the loan.

Long-term contracts to provide debt service payments are the most frequently used subsidy device. These commitments sometimes cover both interest and principal amounts, but more often cover some designated share of the interest cost. This approach is being used for a growing variety of loan programs, including those for low- and moderate-income housing, student expenses for higher education, academic facilities and medical facilities.

Just as for direct loans, the net value of subsidies for guaranteed loans includes those arising from both new and outstanding loans. New subsidies add to net budget outlays in future years; and some meaningful measure of their ultimate net cost is needed to lend perspective to budget decisions.

Subsidy measurement.—One way that the impact of future subsidies could be viewed would be simply to total all future payments. However, because of interest, a dollar payable at some future date is not worth as much as a dollar paid out today. Said differently, a dollar payable in the future "costs" less, because a smaller amount invested today at interest would grow sufficiently to meet the obligation when due. Therefore, a simple total of future obligations would substantially overstate the true value. A better way to measure the ultimate value of the successive annual loan subsidies is in "present value" terms, in accordance with the recommendations of the President's Commission on Budget Concepts. This is accomplished by capitalizing (or discounting) future subsidies at an appropriate interest (or discount) rate.

The selection of an appropriate interest rate might vary with analytical objectives. The choice for discounting both direct and guaranteed loans in this analysis is 8%—a rate approximately equivalent to the private market rate on guaranteed loans, if an allowance for guarantee costs is added.[5] This selection (over a Treasury borrowing rate for instance) has the advantage of valuing direct loan assets near the price which they should bring if sold to private investors, and also more nearly measures the benefits provided to borrowers. Though the rate may technically overstate costs directly attributable to direct loans retained in Government accounts, it probably more nearly reflects the value to the public of using these resources for some alternative purposes.

Table E–4 provides estimates of subsidy values that will result from loan commitments made or to be made in the years 1972 through 1974. Both the annual subsidy rates and the discounted present value of all future subsidies are provided. However, the subsidies provided currently—on behalf of guaranteed or direct loans already outstanding—are not covered in this analysis. While the estimates are primarily illustrative rather than exact or comprehensive, they do facilitate year-to-year comparisons of new subsidy commitments.

Loan subsidies, annual basis.—Due to significant credit program changes in the 1974 budget, some of which also affect part of 1973, the *annual* subsidy values attributable to commitments for both direct and guaranteed loans will decline for the first time—from $881

[5] Although variations in the characteristics of individual loans or loan programs are usually translated into variations in market interest rates, the assumption of a uniform discount rate facilitates analysis.

Table E-4. **ESTIMATED INTEREST SUBSIDY VALUES FOR MAJOR DIRECT AND GUARANTEED LOAN COMMITMENTS**
(in millions of dollars)

Agency and program	Borrower loan terms [1]		Annual subsidy per $100 million commitments [2]	Commitments			Present value at 8% discount—future subsidies committed in—		
	Percent	Years		1972 actual	1973 est.	1974 est.	1972	1973	1974
DIRECT LOANS									
Funds appropriated to the President:									
International security assistance	6.0	10.0	1.2	330	350	447	28.0	29.7	37.9
International development assistance	2.5	40.0	4.4	610	600	640	323.0	317.7	338.9
Agriculture:									
Price support	[3] 3.5	.8	5.0	2,681	1,885	2,286	101.0	71.0	47.8
CCC: Public Law 480	2.5	33.0	4.2	514	708	799	248.4	342.2	386.2
Farmers Home Administration	[4] 2.1	29.2	4.3	379	82	11	182.1	39.4	5.3
Rural Electrification Administration [5]	2.0	35.0	4.5	572	284	0	305.1	151.5	0
Health, Education, and Welfare:									
Capital for student loans	[6] 1.9	14.0	3.8	339	347	59	106.9	109.5	18.6
Higher education facilities	3.0	30.0	3.7	11	10	2	4.7	4.3	.9
Housing and Urban Development:									
Urban renewal	5.4	.8	3.0	590	687	0	12.5	14.5	0
Low-rent public housing	0	1.5	4.3	166	88	15	10.1	5.3	.9
College housing	3.0	40.0	4.0	97	0	0	47.1	0	0
FHA fund	5.6	20.0	1.7	217	199	404	36.8	33.7	68.4
VA: Insurance policy loans	5.0	10.0	1.8	126	124	117	15.9	15.6	14.7
Export-Import Bank [7]	6.0	6.0	1.2	3,285	6,400	7,500	179.7	350.1	410.3
Small Business Administration:									
Business and investment fund	5.7	12.5	1.5	232	225	235	27.0	26.2	27.4
Disaster loan fund	1.0	4.0	3.7	133	544	14	17.0	69.5	1.8
Total, major subsidized direct loan commitments							**1,645.2**	**1,580.2**	**1,359.0**

GUARANTEED LOANS									
Agriculture:									
Rural development insurance	5.0	40.0	2.6	0	724	1,358	0	221.9	416.2
Rural housing insurance	4.5	25.0	2.6	1,605	1,776	623	449.1	496.9	174.3
Agricultural credit insurance	5.0	25.0	2.2	751	1,095	844	182.2	265.6	204.7
Health, Education, and Welfare:									
Student loan insurance	[6] 4.4	10.0	2.2	1,309	1,502	1,671	197.9	227.0	252.6
Higher education facilities	6.9	28.7	.9	515	200	0	49.7	19.3	0
Housing and Urban Development:									
Urban renewal	2.8	.8	6.0	1,398	1,928	0	59.2	81.7	0
Low-rent public housing		41.5	5.9	2,071	788	137	1,470.0	559.3	97.2
College housing	3.0	31.0	3.8	203	0	0	87.8	0	0
Mortgage insurance (subsidized)	2.0	34.0	4.5	5,501	2,612	0	2,896.0	1,375.1	0
Export-Import Bank: Portfolio sales [7]	6.0	3.5	1.1	239	50	0	8.0	1.7	0
Total, major subsidized and guaranteed loan commitments							**5,399.9**	**3,248.6**	**1,145.1**
Grand total							**7,045.1**	**4,828.8**	**2,504.1**

[1] If terms vary, these are estimated averages.
[2] Based on 8% value of funds.
[3] Rate is 5.5% for 1974.
[4] Various interest rates and maturities.
[5] Effective Jan. 1, 1973, rural electrification loans were converted from the regular REA program to insured loans under the Rural development insurance fund of the Farmers Home Administration, with total program increases of $200 million each for 1973 and 1974.
[6] Zero interest rate applies only while student is in school plus 9 months; rate thereafter is 3% on direct loans, 7% on guaranteed loans.
[7] Excluded from budget totals by statute, Aug. 17, 1971.

million for 1972 commitments to $718 million for 1973 commitments, and $394 million for 1974 commitments. These program changes are detailed elsewhere in the budget, but include: interest rate increases for commodity loans; rural electrification and telephone credit which are converted from direct to guaranteed loans under the new rural development program at less subsidized interest rates; and suspension or cancellation of some programs for housing, hospital construction, and commodity storage facilities.

Loan subsidies, present-value basis.—The annual subsidy costs of $881 million for 1972 commitments imply total future subsidy costs of $19.8 billion over the life of the loans. However, after discounting, the present value of these continuing annual subsidies is estimated at $7.0 billion. For 1973 commitments, the present value will be $4.8 billion and for 1974 commitments will be $2.5 billion. In all, the 1974 budget changes will save $13.6 billion of future subsidy costs resulting from 1972 commitment levels. In present-value terms, this saving is $4.5 billion.

Credit Agencies Outside the Budget

The transactions of several major federally sponsored credit agencies, created to facilitate financing of important programs of national interest, are excluded from Federal budget totals. The majority of these agencies are privately owned and managed. All, however, are subject to some form of Federal supervision, and all consult the Treasury Department, either by law or by custom, in planning the marketing of their obligations.

All of these agencies are essentially financial intermediaries, channeling funds from one sector of the capital markets to another. They borrow, under Federal auspices, in the "agency sector" of the bond markets, and lend these funds—for specifically authorized purposes—either directly or by purchasing loans originated by their special clientele.[6]

Some of these agencies began as secondary market operations, or as facilities providing advances of reserves to financial institutions. They had a basic function of providing liquidity to primary lenders in times of tight money conditions, either by buying their loans or making advances. These loans were then sold or repaid when capital market conditions improved. However, in recent years, those institutions have converted their roles almost solely to raising new capital funds for their constituents.

Funds loaned by these agencies are not obtained entirely from borrowings in the capital markets. Sale of capital stock and retained earnings also provide some resources for lending. Moreover, the timing of borrowing versus lending will vary from year to year. Table E–5 shows both the lending and borrowing sides of these credit activities.

The home loan banks and the three farm credit systems identified in table E–5 are actually systems of regional institutions which pool their borrowings to gain increased inefficiency.

[6] The program of the Government National Mortgage Association (a budget agency in HUD) to guarantee mortgage-backed securities achieves a very similar "intermediation" result. Discussion of this device appears on page 72.

Table E-5. **NET CREDIT EXTENDED, NET FUNDS RAISED BY BORROWING, BY MAJOR CREDIT AGENCIES OUTSIDE THE BUDGET**
(in millions of dollars)

	1972 actual	1973 estimate	1974 estimate	Outstanding end of 1974 estimate
LENDING				
Student Loan Marketing Association	--------	--------	(1)	(1)
Federal National Mortgage Association [2]	3,050	3,682	3,354	25,660
Environmental Financing Authority	--------	--------	300	300
Export-Import Bank [3]	249	1,741	1,617	9,314
Farm Credit System:				
Banks for cooperatives	25	197	185	2,443
Federal intermediate credit banks	471	705	820	7,905
Federal land banks	851	878	936	10,245
Federal Home Loan Bank Board:				
Federal home loan banks	−1,167	2,726	3,500	12,300
Federal Home Loan Mortgage Corp	886	795	1,495	3,645
Total lending [4]	**4,365**	**10,724**	**12,207**	**71,812**
BORROWING				
Student Loan Marketing Association	--------	--------	(1)	(1)
Federal National Mortgage Association	3,536	3,057	3,070	24,659
Farm Credit System:				
Banks for cooperatives	36	130	169	2,147
Federal intermediate credit banks	438	630	756	7,567
Federal land banks	773	831	856	9,290
Federal Home Loan Bank Board:				
Federal home loan banks	−820	2,502	3,268	11,979
Federal Home Loan Mortgage Corporation	1,000	475	1,500	3,590
Total non-Federal borrowing	4,963	7,625	9,619	59,232
Borrowing reflected in Federal debt:				
Environmental Financing Authority	--------	--------	300	300
Export-Import Bank:				
From the public	196	1,545	1,380	4,744
Government equity	89	200	249	4,655
Total borrowing	**5,248**	**9,370**	**11,548**	**68,931**

[1] Student Loan Marketing Association, established by Public Law 92-318, is expected to become operational in 1974.
[2] Loans purchased at discount are recorded at acquisition cost.
[3] Excluded from budget totals by statute on August 17, 1971 with loans outstanding of $5,707 million and debt outstanding of $1,623 million, and government equity of $4,117 million. Although lending is excluded from budget totals, outstanding debt is included in Federal debt totals.
[4] Federal reserve banks' loans to member banks are excluded from these totals; loans outstanding as of June 30, 1972 amounted to $204 million. A decrease of $304 million: Estimates not available for other years.

One newly authorized enterprise, the Student Loan Marketing Association, is expected to begin purchasing guaranteed student loans in 1974, but as yet has no operating budget.

Last year the federally owned Export-Import Bank was removed from the budget totals by legislation. This year, a newly enacted Environmental Financing Authority joins the list of special credit agencies, and will provide a "conduit" to the private credit market for local governments who find it difficult to obtain the financing

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needed to meet Federal waste treatment standards. While the transactions of these two agencies are not included in budget totals, their borrowings *are* included in Federal debt as reflected in Special Analysis C.

These credit agencies as a group will increase 1972–74 lending by $22.9 billion, investing $8.4 of this in federally guaranteed loans.

SUMMARY OF FEDERAL AND FEDERALLY ASSISTED CREDIT

The Federal role in the credit markets affects both the supply of and the demand for credit. Both of these credit impacts can be aggregated, provided adjustments are made to exclude double counting where guaranteed loans as well as Federal and agency debt instruments are in fact held directly in Government accounts or by off-budget credit enterprises.

Table E–6 shows the net new loan *funds advanced* to the public, either directly from Federal budget accounts or through the Federal assistance provided by Federal guarantees of private lending or through the lending of federally sponsored agencies. Total lending under Federal auspices is expected to reach $287 billion in 1974, a 2-year increase of $55 billion and 24% over the 1972 level of $232 billion.

A complementary aggregate of Federal and federally assisted borrowing—the *funds raised* under Federal auspices appears in Special Analysis C, Borrowing, Debt, and Investment (table C–9).

Table E–6. **NET CREDIT ADVANCED TO THE PUBLIC UNDER FEDERAL AUSPICES** (in billions of dollars)

Type of credit assistance	1972 actual	1973 estimate	1974 estimate	Outstanding end of 1974 estimate
Direct loans [1]	2.7	−0.1	0.9	51.0
Guaranteed loans [1]	18.8	20.0	17.6	196.6
Less guaranteed loans held in direct loan portfolio:				
By GNMA	−*	−1.4	−.4	3.3
In portfolios of sponsored agencies:				
By FNMA	3.2	3.8	3.4	26.4
By FHLMC	.8	.5	.6	2.3
By Export-Import Bank [2]	−.1	−.1	−.1	.1
By EFA	--------	--------	.3	.3
Net guaranteed loans	14.9	17.2	13.8	164.1
Credit by sponsored agencies [1]	4.4	10.7	12.2	71.8
Total, Federal and federally assisted credit	**22.0**	**27.8**	**26.9**	**286.9**

* Less than $50 million.
[1] See tables E–2, E–3, and E–5.
[2] Excluded from budget totals by statute on Aug. 17, 1971.

Proposed Legislation

Legislation will again be requested to establish the Federal Financing Bank to consolidate and improve the efficiency of financing Federal agency obligations. A proposal to provide loan guarantees for Indian small business and economic development will again be submitted. The Small Business Technology Investment Act to provide additional credit leverage for SBIC investments in R.&.D oriented small businesses will be resubmitted.

Newly Enacted Credit Legislation

This summary lists legislation enacted during the last session of Congress which authorizes new Federal credit programs or revises existing programs in major respects. It excludes simple extensions in expiring laws and increases in funds for continuing programs.

DEPARTMENT OF AGRICULTURE

Rural Development Act of 1972—Public Law 92–419

Authorizes the Secretary of Agriculture to guarantee and insure loans for commercial, industrial, and community development. Interest rates for loans to communities, nonprofit associations, and Indian tribes are subsidized; others pay market interest rates. The act also authorizes the substitution of guaranteed and insured loans for direct loans, thereby increasing the roles of private lenders in rural development.

DEPARTMENT OF COMMERCE

Federal Ship Financing Act of 1972—Public Law 92–507

Authorizes the Secretary of Commerce to guarantee payment of principal and interest on any obligation which aids in financing construction, reconstruction or reconditioning of vessels designed principally for commercial and research purposes. Loans of up to 87½% of value may be guaranteed, with total authority of $3 billion.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Education Amendments of 1972—Public Law 92–318

Establishes the Student Loan Marketing Association, a Government-sponsored private corporation, which will be financed by private capital and will serve as a secondary market and warehousing facility to provide increased liquidity for insured student loan investments. Federally reinsured loans insured by States or nonprofit private institutions, as well as federally insured loans, are eligible for coverage. The Association's obligations will be guaranteed by the Secretary of HEW.

DEPARTMENT OF TRANSPORTATION

National Capital Transportation Act of 1972—Public Law 92–349

Authorizes the Secretary of Transportation to guarantee payment of principal and interest on taxable bonds or other indebtedness of the Washington Metropolitan Area Transit Authority. Periodic payment of one-fourth of the net interest cost to the Authority is provided.

Emergency Rail Facilities Restoration Act of 1972—Public Law 92–591

Authorizes the Secretary of Transportation to make loans to railroads for the purpose of restoring or replacing railroad facilities, equipment, or services determined to be essential to public service, which were damaged or destroyed in the natural disasters during June of 1972. Also authorizes loans to assist regional, State and local public bodies in financing the restoration or replacement of railroad facilities or equipment damaged or destroyed as a result of the natural disasters of June 1972.

DEPARTMENT OF THE TREASURY

Federal Water Pollution Control Act Amendments of 1972—Public Law 92–500

Establishes the Environmental Financing Authority to assure that an inability to borrow funds on reasonable terms does not prevent a State or local public body from carrying out projects for construction of waste treatment facilities determined to be eligible for purposes of this act. The Authority is authorized to purchase any obligation or participation issued by a State or local public body to finance the non-Federal share of a construction project determined eligible under the Federal Water Pollution Control Act.

SMALL BUSINESS ADMINISTRATION

Small Business Investment Act Amendments of 1972—Public Law 92–595

Authorizes the Small Business Administration to invest in or guarantee debentures and purchase nonvoting preferred stock of small business investment companies, the investment policy of which is to invest solely in concerns operated by persons whose participation in the free enterprise system is hampered because of social or economic disadvantages. In addition, loans may be made to nonprofit organizations which employ handicapped individuals, equaling at least 75% of the total productive man-hours and/or assisting handicapped individuals in establishing, acquiring or operating a small business concern.

SMALL BUSINESS ADMINISTRATION AND DEPARTMENT OF AGRICULTURE

Amendments for disaster relief—Public Law 92–385

Authorizes the Small Business Administration and the Farmers Home Administration, with respect to disasters occurring between January 1, 1971, and July 1, 1973, to cancel up to $5,000 of the principal of loans made and to reduce the interest rate on such loans. It further authorizes an increase in the period of suspension of principal and interest payments on such loans.