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[H.R. 7416 (95th Congress), A Bill to Require that Receipts and Disbursements of the Federal Financing Bank Be Included in the Federal Budget]. September 20, 1977. 9 pp.

Testimony before the House Committee on Ways and Means: Oversight Subcommittee; by Harry S. Ravens, Director, Program Analysis Div.

Contact: Program Analysis Div.

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H.R. 7416 would require the receipts and disbursements of the Federal Financing Bank (FFB) to be included in the Federal budget and would increase congressional control over Federal credit programs. A recent GAO report dealt with the best means of reflecting the credit assistance activity of the Federal Government in the budget while preserving the benefits from the intermediation role of the FFB. The following were recommended: FFB's receipts and disbursements be included in the Federal budget totals; receipts and disbursements of off-budget agencies that transact business with FFB be included in the budget; and sales of Certificates of Beneficial Ownership be treated in the Federal budget as borrowing. Provisions of H.R. 7416 which would amend the Federal Financing Bank Act of 1973 would solve some problems caused by existing budget treatment of Federal credit programs but would create others. There are questions of interpretations of who would have to transact business with FFB, who may finance through the Bank, and what is to be the nature of constraints on FFB activity. Other questions involve the definition of investment type securities and implications of the ceiling proposed in the legislation for budgetary control. (HTW)

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ON 95th H. R. 7416

Before the Subcommittee on Oversight
of the
House of Representatives' Committee on Ways and Means

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Mr. Chairman and Members of the Committee. Thank you for the opportunity to testify before your Committee on the budget treatment of the Federal Financing Bank (FFB).

We have been asked to discuss H.R. 7416, which would require that the receipts and disbursements of the FFB be included in the Federal budget. We consider this to be desirable. The bill also contains provisions that appear to be designed to increase congressional control over Federal credit programs. This objective is entirely in line with our own views, but we have some reservations about the efficacy of H.R. 7416 in achieving it.

We support putting the FFB on-budget as part of an effort to increase control over the government's credit activities and make the budget numbers reflect more accurately the activities of the government. But the original objective of having an FFB--to achieve better coordination of the government's borrowing activities--is still valid and should be preserved.

The goals of this legislation are commendable. We and others have been studying the problem of how to achieve budgetary control over both the total level of Federal credit assistance activity and the resource allocation process. Congress needs to have adequate budgetary control over and information about credit assistance. With approximately \$300 billion of direct and guaranteed loans outstanding, the Federal Government

is obviously involved in a substantial reallocation of financial resources in the economy. We believe that these credit assistance programs should be subjected to the same congressional oversight as direct expenditure programs. They should not escape scrutiny or control merely because they currently have off-budget status.

When a policy instrument such as guaranteed loans is not included in the budget totals, it becomes more attractive as a policy option than it should be. Loan guarantees, to private borrowers, the loan sales method of financing direct loan programs and certain federal agencies are not fully reflected in the budget totals. Because of this, there has been an understandable tendency to use them when a direct loan or a direct subsidy program might be more effective.

Recommendations of the GAO Report

Many Federal credit assistance transactions, such as the loan guarantees to private borrowers and loan sales, have historically not been counted in Federal budget totals. One argument for the off-budget status of the FFB was to preserve the offbudget status of these transactions. We question, however, whether the budget treatment of Federal credit assistance transactions is appropriate and in accordance with sound budgetary practices, an issue which is crucial to achieving meaningful control over Federal credit

assistance transactions. While we strongly believe that the FFB should be in the budget, the question of the budget status of the FFB is ancillary in many ways to the more fundamental problem of the general budget treatment of credit assistance transactions.

The off-budget status of the Federal Financing Bank is not, for the most part, a cause of our inability to achieve control over Federal credit programs. Instead, it is a symptom of the fact that many Federal credit assistance transactions occur off the budget.

Therefore, the question which we addressed in our report on the Federal Financing Bank was:

What is the best means of reflecting the credit assistance activity of the Federal Government in the budget while preserving to the greatest extent possible the benefits from the intermediation role that the Federal Financing Bank was intended to play?

If a means could be found to include in the budget all Federal credit transactions that presently occur off the budget, then the budget status of the Federal Financing Bank would not enter into the decision on whether or not to use the intermediation facilities of the FFB; the cost savings that the FFB was intended to achieve would be realized; and there would be greater opportunity for meaningful

congressional budgetary control over these programs. Accurately reflecting the aggregate outlay numbers in the budget is important. But it is equally important to assure that Federal credit programs in general (not just those financed by the FFB) compete on the same terms as other direct expenditure programs so that decisions regarding allocations of resources will be made in a more balanced framework. We do not believe the two objectives are inconsistent.

I do not want to leave the impression that we consider all credit assistance transactions to warrant the same budget treatment. Privately financed guaranteed loans are clearly different from federally-financed direct loans. We believe there is a useful role for guaranteed loans and therefore do not believe it would be desirable to require FFB financing of all such loans. Nor do we believe that this is the best way to achieve better control over Federal credit programs.

We prefer to start with the approach set forth in our report entitled, "Government Agency Transactions With the Federal Financing Bank Should be Included On the Budget." In that report, we recommend that:

- FFB's receipts and disbursements be included in the Federal budget totals;
- The receipts and disbursements of off-budget agencies that transact business with the FFB be included in the budget; and

- Sales of Certificates of Beneficial Ownership
be treated in the Federal budget as borrowing.

Provisions of H.R. 7416

As we read H.R. 7416, major provisions of the proposed legislation would:

- Require that transactions of the FFB
be included in the budget;
- Require that federally-guaranteed
"investment type" loans be financed
by the FFB if the guarantees are to
remain in force; and
- Impose a ceiling on the amount of
activity that may be financed by the
FFB during each fiscal year.

Will these provisions, which would amend the Federal Financing Bank Act of 1973, solve the problems caused by the existing budget treatment of Federal credit programs? Our view is that it only solves one piece of the problem, and would create some new problems in the process.

The bill is subject to varying interpretations of what is intended and what will result. Precisely who would have to transact business with the Federal Financing Bank, who may at their discretion finance through the Bank, and what is to be the nature of the constraint on FFB activity?

We have not been able to reach a firm conclusion about who would be required to borrow from or sell guaranteed obligations to the FFB. Under Section 7(a) of the Federal Financing Bank Act, which is not amended by this legislation, the Secretary of Treasury may require that the source of financing for Agency borrowing such as that of TVA and the Export Import Bank (as opposed to sales of guaranteed loan obligations) be the Federal Financing Bank. But the Secretary of Treasury does not have to require it and the proposed legislation does not require it. The obligations of the Farmers Home Administration are exempted from this requirement. Under current budget definitions, there is some question regarding whether CBOs (which presently occupy a large portion of the FFB portfolio), would be considered "obligations" since they are treated as loans.

We would not expect FHA or VA loans, which have historically been originated and serviced by commercial lending institutions to fall within the definition of investment type securities. But, having said that, we are not sure whether the provision might not, in effect, eliminate the loan guarantee as a policy instrument in the case of new programs where the question of who is most capable of originating and servicing government guaranteed loans may not be nearly as clear cut. When the FFB purchases guaranteed loans they become, for all intents and purposes,

direct loans. If the case is so strong for this conversion, then instead of requiring that investment type guaranteed loans go through an on-budget FFB, why not recognize the program for what it is, approve borrowing authority for the Agency administering the program in the congressional budget process, and let the Agency originate, evaluate, and service the loans with funds borrowed from the FFB or Treasury itself at a cost savings?

There is also the possibility that the opposite might occur. In order to avoid outlay effects, there may be a proliferation of "non-investment type" guaranteed loans to private borrowers when direct loans are more appropriate. A solution to this loan guarantee problem will involve considerations far more complex than just the budget status of the FFB.

In addition to these issues, a reading of the proposed Section 6(a)(1) indicates that any agency guaranteeing non-investment type securities may sell those obligations to the FFB. The Bank, it would appear, must purchase these securities as long as such purchase will not exceed the ceiling. The ceiling would thus appear to force someone (perhaps FFB) into the role of credit rationer.

The definition of investment type securities is open-ended and we have not reached a firm conclusion on the impact of this provision. But it is obvious that much of the discretion over precise interpretation resides with the

Secretary of Treasury and that the impact of the provision depends on that interpretation.

What are the implications of the ceiling proposed in this legislation? Under existing law, an annual limitation could not be derived through summation of congressionally-approved limitations on the budget authority of each Federal agency contemplating using the FFB in the coming fiscal year because the budget authority which is justified in the congressional budget process for guaranteed loan programs (and in many cases, for direct loan programs as well) bears little relation to the actual level of activity of the programs. It is this problem which must be resolved before meaningful budgetary control over Federal credit programs can be achieved.

We question just how effective this control would be on the one hand, and we also wonder, who would be doing the controlling. First, it appears that congressional control would only be exercised with regard to the total. Someone has to decide about the pieces. Since there is presently no mechanism for congressional decision on the components, it seems likely that congressional ceilings on the total will force (or permit) executive branch allocation of the pieces.

If all Federal credit agencies involved in guaranteed lending are not required to transact business with the FFB, and since agency debt is also exempted from the requirement,

even control over the aggregate level of credit assistance is dubious. With the FFB on the budget, agencies which are not required to work through FFB may appropriately or inappropriately choose (or be compelled) to finance their programs by borrowing directly in the private capital markets.

The issues of budgetary control and who is doing the controlling are crucial. Because of the problems noted above, it does not seem to us that a ceiling on FFB outlays is a very good way of doing this. We believe that program outlays should be approved by the Congress after weighing the benefits and costs of each program within some overall constraint on Federal activity. Control must be exercised at the agency level. We are not sure that the proposed legislation would achieve this objective because it does not address the issue of existing budget treatment of many Federal credit programs and the way that they are evaluated in the congressional budget process.

Mr. Chairman, this concludes my prepared statement. My colleagues and I would be pleased to try to answer any questions.