U.S. House of Representatives
Committee on the Budget
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Chris Van Hollen,
Ranking Democrat

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VOTE NO ON OVERSTATING CREDIT COSTS (H.R. 1872)

This bill does nothing to address the economic challenges facing America's families. It does not create a single job. It does not renew expired unemployment compensation for millions of workers and their families. It does not raise the minimum wage to a living wage.

- **Mandates a controversial change in budgeting concepts.**
  The bill mandates a change in scorekeeping for federal loan programs to a new approach that some prominent budget experts oppose. In fact, there is still an ongoing debate on whether so-called "fair value" estimates accurately reflect the federal government's costs and risks. Opponents argue that using a "fair value" adjustment would make loans and loan guarantees appear more costly than other equivalent expenditures – discretionary grants, direct federal spending, or a tax expenditure – which erects barriers to passing loan legislation versus tax or other spending legislation.

- **The Administration opposes a switch to so-called "fair value" budgeting.**
  The Office of Management and Budget (OMB) opposes a switch to "fair value" estimates. The OMB Analytical Perspectives for the FY 2015 budget state that "[b]udget estimates for credit programs are more informative when they show the direct cost to the Government in an accurate and transparent manner, comparable to costing methodologies used for other federal programs, as opposed to other definitions of cost that depend on unobservable values."

- **Not yet ready for prime time.**
  There are issues for implementation that require careful examination before mandating the use of so-called "fair value" estimating. The Budget Committee has not held a single hearing solely to examine these various viewpoints. OMB, which would be required to begin using "fair value" estimates for the President's budget in fiscal year 2017, publicly opposes the change.

- **CBO and OMB have not completed estimates under new scoring approach.**
  The bill mandates a switch from the approach used to score loan programs since 1990 to a "fair value" approach designed to add costs to reflect a market-based risk premium. But the Congressional Budget Office (CBO) has not completed new estimates for all the federal loan programs, and OMB is not ready to provide estimates on a "fair value" basis.

- **Congress is considering the fate of housing GSEs.**
  The bill also brings on-budget the housing Government Sponsored Enterprises (Freddie Mac and Fannie Mae). But because Congress is considering alternative approaches to the future

of the housing GSEs, Congress should wait until it resolves their fate before changing the budgetary treatment of GSEs in the federal budget.

Summary of H.R. 1872, which contains four unrelated budget process changes:

Fair Value – Requires that all estimates for direct loan and loan guarantee programs be prepared on a "fair value" basis beginning with the 2017 budget. A so-called "fair value" estimate would apply an additional cost of risk to all loans under the assumption that all U.S. government loan programs should apply the same risk factors that a private business might apply to making a loan, even though the circumstances faced by the government are very different. Currently, all federal credit programs discount future cash flows using the interest rates on U.S. Treasury securities, as mandated by the Federal Credit Reform Act. CBO is still working towards developing "fair value" estimates across the wide array of government loan programs (the largest loan programs are for housing, student loans, and small businesses). OMB opposes the change.

If applied for all loan programs, "fair value" estimates would increase estimated subsidy costs to the government substantially across all federal loans. Funding for most subsidy costs is provided in annual appropriations acts. The bill provides for an adjustment in the discretionary caps to reflect the increases necessary to cover the fair market cost of credit programs.

The bill also requires OMB and CBO to produce studies of whether "fair value" principles should be used for federal insurance programs, which are currently shown on a cash basis.

GSEs on-budget – H.R. 1872 would bring the housing GSEs on-budget. The housing GSEs were non-budgetary for both OMB and CBO's purposes until the government took them into conservatorship. At that point, CBO included their transactions in budget authority and outlays but, largely because OMB has taken a different approach, has not moved to bring their debt outstanding into CBO's estimates of government debt.

Study of receipt classification – H.R. 1872 requires OMB to produce a study on the size and application of the various forms of receipts: those that show up as revenues in the budget, and those that are on the outlay side and offset spending (at an aggregate level or within an individual account). OMB is to recommend any changes in classification, and CBO is to comment on the report and make its own recommendations. Currently, OMB generally decides the classification based on generally agreed upon criteria. In some circumstances, Congress has directed OMB to record revenues contrary to the general rules. Note that Republicans in their last two budgets showed the increase in Civil Service retirement employee contributions as offsets to outlays in their budget resolution even though they are revenues in the federal budget.

Congressional budget justifications – H.R. 1872 requires OMB to develop standardized, searchable formats for federal agencies to use in materials supporting their budgetary requests, which must be posted on each agency's public website as well as in a centralized location on OMB's website. Because agencies post much of this material, requiring similar formats may make it more difficult for agencies to efficiently provide information to interested parties.