



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548



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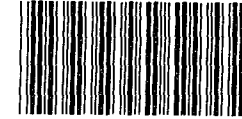
IN REPLY  
REFER TO:

PROGRAM ANALYSIS  
DIVISION

B-114823

DEC 28 1978

Mr. Dale McOmber *R*  
Assistant Director  
Budget Review  
Office of Management  
and Budget



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Dear Dale:

In response to your letter of November 30, 1978, I am providing herein our brief comments on your staff paper "Achieving Better Control over Federal Credit Programs" (November 16, 1978). Because of time limitations, we were not able to examine thoroughly all of the detailed analyses and points in the document. Our comments at this time are therefore restricted to some general observations and a few statements touching on matters in the paper which raise obvious questions. We may have additional comments later, after we have completed a detailed review of the paper.

*OMB*

We concur in the general thrust of the analysis and recommendations. GAO has maintained in several reports that more budgetary controls--in both the legislative and executive branches--are needed in the area of Federal credit activities. The paper's recommendations would take the Government in the right direction.

*DEC 16 1978*

Following are some of the matters that still concern us:

- When should loan guarantee agreements, or contracts, result in the recording of obligations? The paper's discussion (pp. 26-27) seems to leave open the possibility that certain loan amounts may be treated as "obligations" prior to default. We think that such an expansive interpretation of the "obligations" concept may lessen the meaning and usefulness of the concept. Fractional reserves, etc., may be maintained just as easily as unobligated balances, which would make more sense conceptually (although such balances inevitably raise the eyebrows of budget watchers).

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- We reserve judgment concerning the budget treatment of the six Government-sponsored enterprises not included in staff proposal No. 9 (p. 46). GAO has not studied in sufficient depth the budget implications of these enterprises.
- Staff proposal No. 11 (p. 48) addresses the creation of budget authority for the payment of disbursements on loan guarantee defaults, and suggests that any appropriation act limit on loan guarantees constitute sufficient authority for program disbursements. The amount of budget authority could automatically equal the disbursements. Presumably, disbursements would be made in many cases from funds borrowed from the U.S. Treasury. This proposal raises the whole question of the proper budget authority treatment of funds borrowed from the Treasury (or from other sources). Would the proposed method result in a departure from the basic procedure now used in most public enterprise revolving funds (which are largely engaged in credit program activities) for calculating their borrowing authority--i.e., borrowing authority essentially equals net borrowings. We are now finishing our own study of this question, in which we raise concerns about the netting procedure for calculating borrowing authority, and believe that the OMB study of credit programs needs to more fully address this question.
- We note that the comment in staff proposal No. 13 (p. 53, 4th para.) about scorekeeping states that borrowing requirements, lending activities, etc., would still be computed and disclosed on a "net lending" basis. We have already expressed our concerns to you about the lack of reporting on gross amounts in public enterprise revolving funds. We reiterate these concerns.
- We agree with most statements in the paper pointing to the distorting effects of the off-budget status of the Federal Financing Bank (FFB). The paper seems to stop short, however, of a recommendation that all operations of the FFB be put on the budget in the near future. We believe that it is essential that the recommendations concerning the budget treatment of Federal credit activities include a very clear and strong recommendation to place the activities of the FFB on the budget.

- The statement on p. 20 that ". . . it (FFB) has encouraged expanded use of Federal credit programs substantially beyond what would otherwise have occurred" would be difficult to substantiate. Federal credit programs are comprised largely of loan guarantees and direct loans, and the main thrust of the FFB, due to its off-budget status, has been to convert agency guarantees into FFB off-budget direct loans. This has substantially increased the direct loan portion of Federal credit programs. It is not obvious, however, that the FFB's off-budget status has resulted in a "substantial" expansion of the totality of Federal credit programs, including direct loans and guarantees.
- We believe that the statement on p. 20 that "In practice, therefore, the FFB has aided in the avoidance of budget controls by . . . making it possible for agency borrowing to be treated as negative outlays . . ." should be modified. It is not the FFB which has made it possible for agency borrowing to be treated as negative outlays. There are two ways to view the situation. If the FFB were on budget and agency certificates of beneficial ownership (CBO's) continued to be scored as asset sales, there would continue to be negative outlays (an offset to its lending) for the agency and a positive outlay for FFB, and the budget totals would increase by the amount of the FFB purchase. This impact on the budget totals would be the same as in a situation where CBO's were treated as debt transactions, regardless of FFB's budget status. The only difference in the latter case would be that the outlays would be reported in the agency account (as direct loans, etc.) instead of in an FFB on-budget account as asset purchases. With no FFB, and with CBO asset sales into private markets, this form of borrowing would still be treated as a negative outlay. The problem is not with the FFB, but with its budget status and/or the budgetary conventions used to score CBO sales.
- A change of wording is required in the fourth full paragraph, last sentence of page 7. It is true that whether a loan is direct or guaranteed, the ultimate source of funds is the private sector, and in this

sense guaranteed and direct loans "were close substitutes." However, there are guidelines outlining situations where direct versus guaranteed loans are appropriate, and in this sense, they were not "close substitutes." If the former meaning is implied then FFB does not further blur the distinction. If the latter use of the word is meant, then clearly it does.

-- Staff proposal No. 2 is desirable but may require special appropriations provisions in cases where direct and guaranteed loan programs are of the "entitlement" variety. Loan demand from these sorts of programs may, in some cases, be predictable. In others, such as disaster loans, predictions may be impossible and there may have to be more flexible funding provisions. These complexities, however, are no greater than those which are encountered in direct expenditure entitlement programs. The obstacles are certainly not insuperable.

We appreciate the opportunity to comment on your staff paper, and hope that our comments will be helpful. We would be happy to discuss further with you any matters raised in the staff paper or by our comments.

Sincerely yours,

(Signed) Harry S. Havens

Harry S. Havens  
Director

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