DESCRIPTION OF H.R. 4629
TRUTH-IN-BUDGETING ACT OF 1984
(RELATING TO THE BUDGET TREATMENT OF THE FEDERAL FINANCING BANK)

Scheduled for a Hearing

Before the

HOUSE COMMITTEE ON WAYS AND MEANS

on April 4, 1984

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

The House Committee on Ways and Means has scheduled a public hearing on April 4, 1984, on H.R. 4629 (Truth-in-Budgeting Act of 1984), introduced by Mr. Gradison. The bill relates to the budget treatment of the Federal Financing Bank. The Federal Financing Bank was established under the Federal Financing Bank Act which was enacted on December 29, 1973. The Ways and Means Committee was the committee of original jurisdiction.

The Committee on Ways and Means held a hearing on May 12, 1983, on a predecessor bill, H.R. 2868 (Mr. Gradison). On June 30, 1983, Mr. Gradison introduced H.R. 3484, in response to comments received at the May 12 hearing. H.R. 4629 is a further modification of the previous two bills.

This document, prepared in connection with the April 4 hearing, provides a description of H.R. 4629, including present law, background, explanation of provisions, and effective date.

DESCRIPTION OF H.R. 4629

BUDGET TREATMENT OF THE FEDERAL FINANCING BANK

Present Law

The Federal Financing Bank (FFB) was established as an off-budget agency in the Department of the Treasury following enactment of the Federal Financing Bank Act of 1973 on December 29, 1973. The purpose of the Act is to assure coordination of Federal and federally assisted borrowing programs with the overall Federal Government economic, fiscal and debt management policies, to reduce the costs of Federal and federally assisted borrowing from the public, and to assure that the borrowings are financed in a manner least disruptive of private financial markets and institutions.

Although the enabling legislation authorized FFB to issue up to $15 billion in obligations, FFB almost exclusively has sold its obligations to the Treasury which has financed their purchase by increasing accordingly the amount it borrows from the public. This procedure has been followed because it reduces the interest costs of FFB borrowing and of Federal credit programs.

Prior approval by the Secretary of the Treasury is required for any Federal agency with respect to the (1) method of financing, (2) source of financing, (3) timing of financing in relation to market conditions and financing by other Federal agencies, and (4) financing the terms and conditions, including rates of interest and maturities, of obligations it may issue or sell. The Secretary's approval is not required with respect to obligations issued or sold by the Farmers Home Administration or issued or sold under an Act of Congress which expressly prohibits any U.S. guarantee of the obligations.

FFB was established as an off-budget agency and, as such, exempt from any general limitations imposed on expenditures and net lending of the United States. The Act also did not affect the budget status of the Federal agencies selling obligations to FFB or the method of budget accounting for their transactions.

Background

At the end of fiscal year 1983, FFB holdings of outstanding loans originated through or by Federal agencies was $135.9 billion. As shown in table 1, this total will increase by $41 billion through 1987 when the total at the end of fiscal year 1987 is expected to be $177.4 billion. These amounts were estimated in connection with the Administration's budget proposal for fiscal year 1985.

FFB holdings of agency loan assets or guarantees were $106.8 billion at the end of fiscal year 1983. Annual increases through 1987 would raise the amounts to $141.0 billion. In addition, Federal agency borrowing from FFB at the end of fiscal year 1983 was $29.1 billion, and it is expected to increase to $36.4 billion at the end of fiscal year 1987.

The Federal budget understates the amount of federal credit activities because some programs are excluded from the budget and others are reported only in terms of the net cash outflow, i.e., cash repayments on previous loans are offset against the cash outlays for new loans. As a consequence, the true extent of federal lending activity does not enter into budget decisions. This situation makes it easier to expand credit programs than would be the case if the budget and appropriations schedules showed the full amount of credit activity.

In addition, the Federal Financing Bank currently is the vehicle through which many federal agency credit programs are financed by the Treasury. All Federal credit programs are not financed through Treasury and the FFB, as some agencies have been allowed to continue historical patterns of borrowing directly from the financial markets.

Explanation of the Bill

The short title of the bill is the "Truth-in-Budgeting Act of 1984."

Repeal of budget exemption

Section 11(c) of the Federal Financing Bank Act would be amended to include the credit activities of both on-budget and off-budget Federal agencies in the unified budget.

The amendment to this section would require that Federal agency loan guarantees and sales of loan assets which are financed by the Federal Financing Bank would be recorded as outlays in the agency's budget. Any use of budget authority by FFB for the purpose of financing an agency's credit activities would be attributed to the Federal agency itself. In the case of any off-budget Federal agency, the unified budget would include for the agency its receipts from, and disbursements to, the FFB.

Limitation on agency financing

In section 7 of the FFB Act, the role of the Secretary of the Treasury in coordinating orderly financing of Treasury and Federal agency financing is described. The bill would amend this section by the addition of the following new provisions.

A Federal agency that issued, sold, or guaranteed obligations that were financed in investment securities markets during fiscal year 1983 would be allowed to continue such activities, but the agency would not be allowed to finance a level of the activities which is greater than the same percentage of agency credit program activities financed that way in fiscal year 1983. As a result, an agency that had direct access to investment securities markets would be grandfathered to the extent of a percentage, rather than absolute ceiling. A percentage ceiling would permit the amount financed by direct access to investment market to increase only when the total program activity also increased.

Beginning in fiscal year 1985, a Federal agency would have to offer an obligation to FFB before it is permitted to issue, sell, or guarantee an obligation ordinarily financed in the investment securities market. FFB would be required to purchase all obligations submitted to it, unless (1) the originating agency can demonstrate to the Secretary's satisfaction that the agency's program purposes can be served best by obtaining financing through direct access to the investment securities markets, or (2) the Secretary determines that the agency's debt would not be a suitable investment for FFB.

In order to obtain the Secretary's consent to sell obligations to the securities markets, the agency would be required to show that (1) costs from private financing would be lower than FFB financing, (2) private markets or institutions would provide services to borrowers that would outweigh added interest costs, or (3) financing by FFB would lead to undue disruption of private financial markets.

An exemption from FFB financing also would be provided where there is an express statutory prohibition against a Federal guarantee of obligations issued, sold or guaranteed by an agency. This provision would retain the present status of the Seven States Energy Corporation under TVA.

The Secretary of the Treasury would be required to submit to Congress a detailed explanation of his reasons for granting or disapproving an agency's request for financing in private markets or by FFB.

Existing rights, authorities and responsibilities

The bill would not affect any provision that was enacted before January 1, 1984, that relates to the right of an agency, e.g., REA, to sell obligations to the Secretary or FFB or the authority or responsibility of the Treasury and FFB to purchase agency obligations. The bill also would not affect any provision of law enacted before January 1, 1984, that prohibits financing of an agency's obligations by the Secretary or FFB, such as the guarantee of the Chrysler Corp. loan.

Effective Date

The amendments relating to repeal of the budget exemptions and the limitation on agency financing would become effective on October 1, 1984.

The amendments to the Federal Financing Bank Act that would be made by H.R. 4629 could be superseded, modified, or repealed only by amendment of the Federal Financing Bank Act.

Table 1. FFB Holdings of Outstanding Agency Obligations, Fiscal Years 1983-1987 1/

(millions of dollars)

gency and asset types	1983	1984	1985	1986	1987
oan assets purchased:					
Farmers Home Administration					
Agric. credit insurance fund	24,107	25,646	25,884	25,948	26,022
Rural housing insurance fund	25,676	27,858	29,711	30,897	31,889
Rural development insurance fund	6,908	7,554	8,084	8,314	8,466
Rural Electrification Administration	3,468	3,871	4,330	4,592	4,705
Other agencies	347	332	309	285	263
Total	60,506	65,260	68,317	70,036	71,345
irect loans guaranteed:					
Foreign military sales credit	14,293	17,924	19,888	19,559	18,535
Rural Electrification Admin.	18,939	22,504	25,689	29,694	32,499
SLMA (student loan) obligations	5,000	5,000	5,000	5,000	5,000
Alternative fuels production	886	1,356	1,552	1,552	1,552
Low-rent public housing	2,067	2,227	3,396	4,529	5,647
NASA 2/	947	1,079	1,079	1,072	986
SBIC and other SBA	951	1,597	2,016	2,416	2,810
Seven States Energy Corporation (TVA)	1,418	1,583	1,672	1,788	1,819
Others	1,803	1,005	1,120	986	809
Total	46,304	54,274	61,411	66,596	69,655
gency borrowing:					
Export-Import Bank	14,676	16,288	17,938	18,763	19,235
TVA	13,115	13,815	14,31	14,558	14,435
Postal Service 3/	1,154	1,087	1,720	1,633	2,546
National Credit Union Administration	44	100	150	150	150
U.S. Railway Assn. 3/	125	16			
Total	29,114	31,305	34,123	35,104	36,366

Note: Totals may not add due to rounding.

1/ 1983 actuals. Estimates for 1984 through 1987.
2/ Satellite lease program in 1983; space flight, control and data communications programs in 1984 through 1987.
3/ Off-budget agencies.

Source: Table F-17, pp. 69-72, Special Analyses, Budget of U.S. Government for fiscal year 1985.