18. COMMERCE AND HOUSING CREDIT

Table 18–1. FEDERAL RESOURCES IN SUPPORT OF COMMERCE AND HOUSING CREDIT
(In millions of dollars)

Function 370	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	3,721	2,362	3,308	3,770	5,242	3,221	3,230
Mandatory Outlays:							
Existing law	–13,793	–11,418	710	2,512	6,925	5,708	6,778
Proposed legislation	....	....	–714	56	271	–1,683	–1,909
Credit Activity:							
Direct loan disbursements	1,570	8,824	4,973	1,682	1,928	2,258	2,405
Guaranteed loans	181,277	168,959	161,613	161,534	163,350	166,218	169,216
Tax Expenditures:							
Existing law	182,415	188,935	195,875	204,780	213,495	222,030	229,670
Proposed legislation	....	69	243	228	202	174	144

The Federal Government provides financing and encourages private support for commerce and housing in many ways. It provides direct loans and loan guarantees to ease access to mortgage and commercial credit; sponsors private enterprises that support the secondary market for home mortgages; regulates private credit intermediaries, especially depository institutions; and offers tax incentives. All told, the Government provides about $1.5 billion a year in support for housing credit that, in turn, supports over $100 billion in housing loans and loan guarantees. (Another $16 billion in subsidies for low-income housing programs is classified in the Income Security function.)

The Federal Government also dedicates about $2 billion a year to promote business and maintain the safety and soundness of our financial institutions. The Small Business Administration (SBA) provides aid and counsel to small businesses, particularly minority- and women-owned ones. The Commerce Department helps expand U.S. sales and create jobs by promoting technological development and policies that enhance U.S. industrial competitiveness and expand exports. Government regulators protect depositors against losses when insured commercial banks, thrifts, and credit unions fail.

Mortgage Credit

The Government provides loans and loan guarantees to expand access to homeownership, and helps low-income families afford suitable apartments. It helps meet the needs of would-be homeowners who lack the savings, income, or credit history to qualify for a conventional mortgage. It also helps provide credit to finance the purchase, construction, and rehabilitation of rental housing for low-income persons. Housing credit programs run by the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs (VA) supported over $100 billion in loan and loan guarantee commitments in 1996, helping over 1.3 million households (see Table 18–2).

HUD's Mutual Mortgage Insurance (MMI) Fund, which the Federal Housing Administration (FHA) runs, helps increase access to single-family mortgage credit in metropolitan areas. In 1996, the MMI Fund guaranteed over $59 billion in mortgages for over 739,000 households. Over two-thirds of such mortgages

Table 18–2. SELECTED FEDERAL COMMERCE AND HOUSING CREDIT PROGRAMS PORTFOLIO CHARACTERISTICS

	Dollar volume of loans/guarantees written in 1996 (in millions)	Number of housing units/small businesses financed by loans/guarantees written in 1996	Dollar volume of total outstanding loans/guarantees as of the end of 1996 (in millions)
Mortgage Credit:			
HUD FHA Mutual Mortgage Insurance (MMI) Fund	59,221	739,603	363,994
HUD General Insurance and Special Risk Insurance (GI/SRI) Fund	12,220	301,730	91,176
USDA/RHS Section 502 single-family loans	2,700	48,000	21,054
USDA/RHS multifamily loans	150	1,894	11,410
VA guaranteed loans	28,676	291,635	130,031
Subtotal, Mortgage Credit	102,967	1,382,862	617,665
SBA guaranteed loans	8,205	50,520	28,329
Total Assistance	**111,172**	**1,433,382**	**645,994**

go to first-time homebuyers. Fees and premiums paid to the MMI Fund fully offset program costs—the program receives no annual appropriation from Congress.

USDA's Rural Housing Service (RHS) offers direct and guaranteed loans and grants to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. Its 502 direct loan program provides loans for buying, rehabilitating, or repairing single-family homes. Its 502 guaranteed loan program guarantees up to 90 percent of a private loan for buying new or existing housing. Together, the two 502 programs provided $2.7 billion in loans and loan guarantees in 1996, supporting 48,000 households. RHS's 515 program, which generally lends to private developers, finances both the construction and rehabilitation of rural rental housing for low- to moderate-income, elderly, and handicapped rural residents. It provided $150 million in direct loans in 1996, supporting over 1,800 households.

VA helps veterans and active duty personnel buy and improve homes. Its Loan Guarantee Program (classified in the Veterans Benefits and Services function) provides housing credit assistance to veterans and service members. The Government partially guarantees the loans from private lenders, providing $29 billion in loan guarantees in 1996. VA also provides direct loans to the buyers of acquired properties, including $1.3 billion in loans in 1996.

The Government plays an important role in supporting the secondary mortgage market. Congress created the Government National Mortgage Association (Ginnie Mae) in 1968 to support the secondary mortgage market for FHA, VA, and USDA single- and multifamily mortgages. Under its Mortgage-Backed Securities (MBS) program, Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of FHA, VA, and USDA mortgages issued by private mortgage institutions. The program raises liquidity in the secondary mortgage market and attracts new sources of capital for residential loans. To date, Ginnie Mae has originated over $1 trillion in securities, of which over $480 billion remain outstanding. Its MBS single-family program has helped over 19 million low- and moderate-income families buy homes.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan

Mortgage Corporation (Freddie Mac) are congressionally chartered, shareholder-owned corporations known as Government Sponsored Enterprises (or GSEs). Congress chartered them to provide stability in the secondary market for residential mortgages, and promote access to mortgage credit throughout the Nation, including under-served areas. The GSEs issue and guarantee mortgage-backed securities (MBS), and they hold debt-financed portfolios of mortgages, MBS, and other mortgage-related securities. By the end of 1996, Fannie Mae and Freddie Mac had financed $1.51 trillion in mortgages and other assets. As of September 30, 1996, the two GSEs had outstanding $1.4 trillion in mortgages purchased or guaranteed. Because they are classified as private, Fannie Mae and Freddie Mac are not included in the budget.

A third housing GSE, the Federal Home Loan Bank System (FHLBS), is a member-owned cooperative that provides liquidity to mortgage lenders by making collateralized loans, called advances. At the end of 1996, outstanding FHLBS advances totaled $153 billion.

The Government also plays an important role in ensuring that consumers get the information they need to make informed housing decisions. For example, HUD and the Environmental Protection Agency jointly issued a regulation in 1996 to require owners of housing built before 1978 to disclose, to prospective buyers or renters, information about any known lead-based paint hazards. Informed buyers and renters are best-positioned to decide how to protect their families at an affordable cost.

Rental Housing and Homeless Assistance Grants

The Federal Government also provides support for housing assistance through a number of HUD programs in the Income Security function. HUD's rental programs provided subsidies for over 4.8 million low-income households in 1996—1.4 million for units in conventional public housing projects; 1.8 million in rental subsidies attached to privately-owned multifamily housing projects; and 1.6 million in rental vouchers not tied to specific projects. In addition, USDA's RHS rental assistance grants to low-income rural households provided $541 million to support 40,050 new and existing rental units in 1996.

The Federal Government also makes grants to help the homeless, supporting emergency shelters and transitional and permanent housing. Four agencies—HUD, VA, the Department of Health and Human Services, and the Federal Emergency Management Agency—provide 98 percent of the Federal help targeted to the homeless. For 1996, HUD provided $823 million in homeless assistance grants, representing 73 percent of the $1.13 billion targeted Government-wide funding total.

Housing Tax Incentives

The Government provides significant support for housing through tax preferences. The two largest tax benefits are the mortgage interest deduction for owner-occupied homes (which will cost the Government $285 billion in lost revenue from 1998 to 2002) and the deductibility of State and local property tax on owner-occupied homes (costing $95 billion over the same five years).

Other tax provisions also encourage investment in housing: (1) homeowners can avoid capital gains taxes from selling their homes if they use the gains to buy another one (costing $81 billion from 1998 to 2002); (2) taxpayers 55 and older can avoid capital gains taxes on up to $125,000 from selling their homes (costing $27 billion); (3) States and localities can issue tax-exempt mortgage revenue bonds, whose proceeds subsidize purchases by first-time, low- and moderate-income home buyers; and (4) installment sales provisions let some real estate sellers defer taxes. Finally, the Low-Income Housing Tax Credit provides incentives for constructing or renovating rental housing that helps low-income tenants for at least 15 years. The President proposes to expand tax benefits for homeowners, which would ensure that 99 percent of all home sales are exempt from capital gains taxes.

Commerce, Technology, and International Trade

The Commerce Department and SBA promote industrial competitiveness.

Commerce promotes the development of technology and advocates sound technology policies. Commerce's Advanced Technology Program provides cost-shared, competitive grants for industry research and development that are paying off in jobs created, strategic alliances formed, and technology developed. Commerce's Manufacturing Extension Partnership (MEP) provides technological information and expertise to the Nation's 381,000 smaller manufacturers. MEP's clients indicate an 8-to-1 return on Federal investment in firm sales, jobs created or retained, and labor and material savings. Commerce's Patent and Trademark Office (PTO) protects U.S. intellectual property rights around the world through bilateral and multilateral negotiation, and through its domestic patent and trademark system, now issuing over 100,000 patents a year. Its International Trade Administration (ITA) promotes exports, fights unfair foreign trade barriers, and negotiates multilateral and bilateral trade agreements. In 1995 alone, ITA estimates that it supported $15.5 billion in gross exports and 248,000 jobs.

Commerce's Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy. A key effort is the constitutionally-mandated decennial census—the basis for reapportioning seats in the U.S. House of Representatives, redrawing State legislative districts, and distributing billions of dollars of Federal, State, and local funds. In addition, Commerce's Bureau of Economic Analysis prepares and interprets U.S. economic accounts, including the gross domestic product, wealth accounts, and the U.S. balance of payments.

SBA, which Congress created in 1953 to aid, counsel, assist, and protect small business, expands access to capital by guaranteeing private loans. The loans carry longer terms and lower rates than the small businesses otherwise would have received. SBA guaranteed over $8.2 billion in small business loans in 1996.

Financial Regulation

The Government protects depositors against losses when insured commercial banks, thrifts, and credit unions fail. Deposit insurance also wards off widespread disruption in financial markets by making it less likely that one institution's failure will cause a financial panic and a cascade of other failures. From 1985 to 1995, Federal deposit insurance protected depositors in over 1,400 failed banks and 1,100 savings associations, with total deposits of over $700 billion. The Resolution Trust Corporation (RTC), a temporary agency created to handle thrift failures from 1989 to 1995, protected 25 million deposit accounts in 747 failed institutions.

The Federal Deposit Insurance Corporation (FDIC) insures the deposits of banks and savings associations (thrifts) through two separate insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The National Credit Union Administration (NCUA) insures the deposits of credit unions. Currently, these varied kinds of deposits are insured for up to $100,000 per account. The FDIC insures deposits at over 9,500 commercial banks and almost 2,000 savings institutions, for a total of $2.7 trillion in insured deposits. The NCUA insures about 11,500 credit unions, with $260 billion in insured deposits.

Because the Government bears the risk of losses, it regulates banks, thrifts, and credit unions to ensure that they operate in a safe and sound manner. Five agencies regulate Federally-insured depository institutions: The Office of the Comptroller of the Currency regulates national banks, the Office of Thrift Supervision regulates thrifts, the Federal Reserve regulates State-chartered banks that are Fed members, the FDIC regulates other State-chartered banks, and the NCUA regulates credit unions.

Other regulatory institutions include the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC). The SEC oversees U.S. capital markets and regulates the securities industry, protecting investors and maintaining the fairness and integrity of domestic securities markets by preventing fraud and abuse and ensuring the adequate disclosure of information. The CFTC regulates U.S. futures and options markets, preventing fraud and abuse.

Commerce Tax Incentives

The tax law provides incentives to encourage business investment and savings. Those who inherit capital assets, for instance, do not pay taxes on gains that accrued during the original owner's lifetime—a benefit that will cost the Government an estimated $173 billion from 1998 to 2002. Capital gains also are subject to a maximum 28 percent rate, making them attractive to taxpayers who are paying higher income tax rates. Other capital gains provisions benefit investments in small businesses. Other tax provisions benefit small firms, including the graduated corporate income tax and up-front deductions, or "expensing," for certain investments by small businesses.