18. COMMERCE AND HOUSING CREDIT

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

Function 370	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	2,787	3,204	3,336	5,100	2,923	2,858	2,859
Mandatory Outlays:							
Existing law	–17,624	201	689	7,074	8,167	8,372	7,734
Proposed legislation	....	–6	–336	–357	–363	–371	–388
Credit Activity:							
Direct loan disbursements	8,666	2,662	1,500	1,381	1,341	1,322	1,314
Guaranteed loans	180,090	190,463	200,662	203,825	205,906	206,412	210,442
Tax Expenditures:							
Existing law	186,870	183,555	182,730	188,705	196,095	203,500	210,320
Proposed legislation	....	–260	–403	–358	–340	–348	–386

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. In total, the Government provides about $750 million a year in support for housing credit that, in turn, supports over $100 billion in housing loans and loan guarantees. (Another $20 billion in subsidies for low-income housing programs is classified in the Income Security function.)

The Federal Government also dedicates over $2 billion a year to promote business and maintain the safety and soundness of our financial markets and institutions. 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.

As general goals:

- Federal housing credit programs will continue their efforts to expand homeownership Nation-wide and will continue to provide homeownership opportunities to underserved people in low-homeownership areas.
- Financial regulators will work to promote the fairness and integrity of U.S. financial markets and ensure the safety and soundness of federally-insured deposits.

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 of 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 1997, helping over 1.3 million households (see Table 18–2). All of these programs have contributed to the success of the President's National Homeownership Initiative which, along with a strong economy, has helped boost the national homeownership rate to 66 percent—its highest ever.

- In 1999, through its Mortgage Credit programs, the Federal Government will approach the goal set by the President's National Homeownership Initiative, which is a 67.5 percent homeownership rate in the year 2000.

HUD's Mutual Mortgage Insurance (MMI) Fund, run by the Federal Housing Administration (FHA), helps increase access to single-family mortgage credit in both urban and rural areas. In 1997, the MMI Fund guaranteed over $61 billion in mortgages for over 740,000 households. Over three-fourths of such mortgages went to first-time homebuyers. Fees and premiums paid to the MMI Fund fully offset program costs.

- The FHA/MMI fund will continue to remain solvent and self-sustaining.

- FHA will work with the Government National Mortgage Association (Ginnie Mae) to increase the share of first-time homebuyers in each HUD Field Office by one percent a year over 1995 levels, and increase lending in distressed communities by 10 percent.

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. One RHS goal is to reduce the number of rural residents living in substandard housing. The number of substandard housing units in rural areas has fallen from just over three million units in 1970 to just over one million in 1990, paralleling the increase in Federal housing assistance over the same period.

RHS' direct loan program provides subsidized loans to very-low and low-income rural residents. Its single family guaranteed loan program guarantees up to 90 percent of a private loan for buying new or existing housing. Together, the two programs provided $2.7 billion in loans and loan guarantees

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

(Dollar amounts in millions)

	Dollar volume of direct loans/ guarantees written in 1997	Numbers of housing units/small business financed by loans/ guarantees written in 1997	Dollar volume of total outstanding loans/guarantees as of the end of 1997
Mortgage Credit:			
HUD/FHA Mutual Mortgage Insurance Fund	61,175	740,320	306,530
HUD/FHA General Insurance and Special Risk Insurance Fund	13,318	271,655	87,079
USDA/RHS Sec. 502 single-family loans	2,706	55,500	22,526
USDA/RHS multifamily loans	165	2,083	11,901
VA guaranteed loans	24,287	238,833	146,576
Subtotal, Mortgage Credit	101,651	1,308,391	574,612
SBA Guaranteed Loans	10,782	47,146	31,181
Total Assistance	**112,433**	**1,355,537**	**605,793**

in 1997, providing 55,500 decent, safe affordable homes for rural Americans.

In 1999, RHS will continue to reduce the number of rural residents living in substandard housing by:

- providing $4 billion in loan and loan guarantees for 65,000 new or improved homes, a 9,500, or 14.6 percent, increase over 1997.

VA recognizes the service that veterans and active duty personnel provide to the Nation by helping them buy and retain homes. The Government partially guarantees the loans from private lenders, providing $26 billion in loan guarantees in 1997.

- To meet the goal of ensuring that the program meets veterans' needs, VA will improve credit and program management. In 1999, VA will begin implementing electronic data interchange in loan origination and servicing.
- To meet the goal of improving opportunities for veterans to achieve homeownership, VA will collaborate with interested agencies to provide more and better opportunities to finance veteran home purchases. In 1999, VA will collaborate with the Departments of Housing and Urban Development and of Defense.

Congress created Ginnie Mae in 1968 to support the secondary market for FHA, VA, and USDA mortgages. Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of mortgages issued by private institutions. The program raises liquidity in the secondary market and attracts new sources of capital for loans. To date, Ginnie Mae has originated over $1.3 trillion in securities, of which over $530 billion remain outstanding. It has helped over 20 million low- and moderate-income families buy homes.

- In 1999, Ginnie Mae will continue to pool 95 percent of FHA and VA loans for sale to investors, increasing the efficiency of the mortgage markets and lowering financing costs for home buyers.

The Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System (FHLBS) are congressionally chartered, shareholder-owned corporations known as Government Sponsored Enterprises (GSEs). GSEs were chartered to provide stability in the secondary market for residential mortgages, and promote access to mortgage credit throughout the Nation, including under-served areas. Fannie Mae and Freddie Mac issue and guarantee mortgage-backed securities (MBS), and they hold debt-financed portfolios of mortgages, MBS, and other mortgage-related securities. The FHLBS provides liquidity to mortgage lenders by making collateralized loans, called advances, which totaled $182 billion at the end of 1997. Because they are classified as private, the Federal Government does not include GSEs in the budget totals.

Each year, HUD sets housing goals for Fannie Mae and Freddie Mac with regard to lower-income families and under-served communities. For a discussion of these goals, see Chapter 8, "Underwriting Federal Credit and Insurance," in *Analytical Perspectives.*

Rental Housing and Homeless Assistance

The Federal Government provides 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 1997—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 $524 million to support 39,860 new and existing rental units in 1997.

For 1999, agencies will meet the following performance goals:

- Continue RHS' commitment of 40,000 new and existing units in 1999.
- Increase the percentage of families with children in public housing deriving most of their income from work from 37 percent in 1997 to 43 percent by 2000.
- Reduce the isolation of low-income groups within a community or geographic area by increasing the percentage of Section 8

families with children living in low-poverty Census tracts from 60 percent in 1997 to 65 percent in 2000.

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 (HHS), and the Federal Emergency Management Agency—provide 98 percent of the Federal help targeted to the homeless. For 1997, HUD provided $823 million in homeless assistance grants, representing 58 percent of the $1.42 billion targeted Government-wide funding total.

- In 1999, HHS will expand its outreach of services from 80,000 persons contacted in 1997 to 92,000 in 1999.

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 $299 billion from 1999 to 2003) and the deductibility of State and local property tax on owner-occupied homes (costing $100 billion over the same five years).

Other tax provisions also encourage investment in housing: (1) capital gains of up to $500,000 on home sales are exempt from taxes (costing $51 billion from 1999 to 2003); (2) States and localities can issue tax-exempt mortgage revenue bonds, whose proceeds subsidize purchases by first-time, low- and moderate-income home buyers; and (3) 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. This tax expenditure costs about $2.4 billion a year. The President proposes to raise the volume cap on the low-income housing tax credit, thus providing more credits and more housing for low-income families.

Commerce, Technology, and International Trade

The Commerce Department promotes the development of technology and advocates sound technology policies. 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.

- In 1999, PTO will issue over 120,000 patents, and reduce the average pendency time for each invention from 22.7 months to an average of 20.9 months.
- In 1999, PTO will reduce the average pendency for each trademark from the current 16.5 months to an average of 15.5 months.
- To promote intellectual property protection overseas, PTO will provide technical assistance to 52 developing countries.

Commerce's National Institute of Standards and Technology (NIST) works with industry to develop and apply technology, measurements, and standards. NIST administers the Manufacturing Extension Partnership (MEP), which provides technological information and expertise to its clients among the Nation's 382,000 smaller manufacturers.

- In 1999, NIST will increase sales of its collected standard reference materials to 38,142, and its labs will perform 8,900 calibrations and tests, yielding $7 million in revenue.
- In 1999, MEP will improve its coverage of small business by supporting 33,473 completed provider activities, and increase client sales by $389 million.

The International Trade Administration (ITA) strives to promote an improved trade posture for U.S. industry and develop the export potential of U.S. firms in a manner consistent with U.S. foreign and economic policy.

- In 1999, ITA estimates that it will review 15 more applications for free trade zones than in 1998, supporting a gross increase of 25,000 jobs.
- ITA's U.S. Foreign Commercial Service will increase the number of companies that receive export assistance from 11,500 in 1997 to about 14,000 by the end of 1999.

Commerce's Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy, including the constitutionally-mandated decennial census. In 2000, the Census Bureau will conduct a decennial census that will reduce the net undercount by almost 1.6 percent, compared to the 1990 Census. In addition, Commerce's Bureau of Economic Analysis (BEA) prepares and interprets U.S. economic accounts, including the Gross Domestic Product (GDP), wealth accounts, and the U.S. balance of payments.

- In preparation for the 2000 Census, the Census Bureau will canvass 94 million city-style addresses in 1999.
- In 1999, BEA will ensure the timely dissemination of economic data by publishing 12 monthly Surveys of Current Business and 32 national GDP and personal income news releases.

Small Business Administration (SBA)

SBA, which Congress created in 1953 to aid, counsel, assist, and promote small business, expands access to capital by guaranteeing private loans. The loans carry longer terms and lower interest rates than small businesses would otherwise receive. SBA guaranteed over $10.8 billion in small business loans in 1997.

- In 1999, SBA will work to increase the number of small businesses receiving counseling and training to 1.2 million, a 10-percent increase over the estimated 1998 level.
- SBA will guarantee 56,400 new Sec. 7(a) and Sec. 504 business loans in 1999, a seven-percent increase over the expected 1998 volume of 52,500.

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 Federal Deposit Insurance Corporation (FDIC) insures the deposits of banks and savings associations (thrifts) through two separate insurance funds, the Bank Insurance Fund and the Savings Association Insurance Fund. The National Credit Union Administration (NCUA) insures deposits at credit unions. These varied kinds of deposits are insured for up to $100,000 per account. The FDIC insures deposits at over 9,200 commercial banks and over 1,800 savings institutions, with a total value of $2.7 trillion. The NCUA insures deposits in 11,300 credit unions with a total value of $290 billion.

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 Federal Reserve members; the FDIC regulates other State-chartered banks; and the NCUA regulates credit unions.

- In calendar 1998, the FDIC will perform 3,081 safety and soundness inspections.

Other financial 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, protecting market users and the public from fraud and abuse and fostering open, competitive, and financially sound commodity futures and options markets.

- The SEC will work to examine every investment company complex and every investment advisor at least once every five years.
- The CFTC will work to ensure 100-percent compliance from market professionals, financial intermediaries, and Self-Regu-

latory Organizations with CFTC standards for registration, sound financial practices, and effective enforcement programs.

- The CFTC will review every designation application and rule change request, with the exception of stock index futures (which require SEC approval) within 10 to 45 days and respond to trading exchanges (e.g., Chicago Board of Trade) with an approval or deficiency letter.

Federal Trade Commission (FTC)

The FTC enforces various consumer protection and antitrust laws that prohibit fraud, deception, anticompetitive mergers, and other unfair and anticompetitive business practices in the marketplace.

- In 1999, the FTC will save consumers $200 million by stopping fraud and other unfair practices, and another $200 million by stopping anticompetitive behavior.

Federal Communications Commission (FCC)

The FCC works to encourage competition in communications and to promote and support every American's access to telecommunications services. The FCC executes its mission through four main activities: Authorization of Service, Policy and Rulemaking, Enforcement, and Public Information Services.

- In 1999, the FCC will work to achieve 90 percent of customer speed of disposal processing goals to improve its authorization of services activities. The Commission will re-engineer and integrate licensing databases and implement electronic filing to further increase efficiency in the licensing process.

- In 1999, the FCC will improve the connection of classrooms and libraries and rural healthcare facilities to the Internet while maintaining affordable service to rural Americans. The FCC will also strive to make telecommunications services more accessible to persons with disabilities.

Commerce Tax Incentives

The tax law provides incentives to encourage business investment. It taxes capital gains at a lower rate than other income, which will cost the Government $139 billion from 1999 to 2003. In addition, the law does not tax gains on inherited capital assets that accrue during the lifetime of the original owner, which will cost $51 billion from 1999 to 2003. The law also provides more generous depreciation allowances for machinery, equipment, and buildings. Other tax provisions benefit small firms generally, including the graduated corporate income tax rates, preferential capital gains treatment for small corporation stock, and write-offs of certain investments. Credit unions, small insurance companies, and insurance companies owned by certain tax-exempt organizations also enjoy tax preferences. Tax benefits for other kinds of businesses are described in other chapters in Section VI.