

19. COMMERCE AND HOUSING CREDIT

Table 19-1. FEDERAL RESOURCES IN SUPPORT OF COMMERCE AND HOUSING CREDIT
(In millions of dollars)

| Function 370 | 1998 Actual | Estimate | | | | | |
|-------------------------------------|----------------|----------|---------|---------|---------|---------|---------|
| | | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Spending: | | | | | | | |
| Discretionary Budget Authority | 3,128 | 3,704 | 5,369 | 3,343 | 2,863 | 2,902 | 2,941 |
| Mandatory Outlays: | | | | | | | |
| Existing law | -2,160 | -3,058 | 1,179 | 4,054 | 6,224 | 6,563 | 7,024 |
| Proposed legislation | | | -86 | -95 | -103 | -112 | -123 |
| Credit Activity: | | | | | | | |
| Direct loan disbursements | 1,944 | 1,749 | 1,571 | N/A | N/A | N/A | N/A |
| Guaranteed loans | 256,139 | 233,210 | 250,891 | N/A | N/A | N/A | N/A |
| Tax Expenditures: | | | | | | | |
| Existing law | 219,320 | 227,555 | 236,210 | 245,090 | 254,415 | 261,795 | 268,275 |
| Proposed legislation | | -52 | -1,306 | -2,190 | -2,016 | -1,804 | -1,783 |

N/A = Not available

The Federal Government facilitates commerce and supports housing in a range of 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; protects investors when insured depository institutions fail; promotes exports and technology; collects our Nation's statistics; and offers tax incentives. (The Government also provides subsidies for low-income housing through programs classified in the Income Security function.)

Mortgage Credit

The Government provides loans and loan guarantees to increase homeownership, and to help low-income families afford suitable apartments. Housing credit programs of the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs (VA) supported \$150 billion in loan and loan guarantee commitments in 1998, helping more than 1.7 million households (see Table 19-2). 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 66.8 percent—its highest ever.

- In 2000, the national homeownership rate will be 67.5 percent.

HUD's Mutual Mortgage Insurance (MMI) Fund: The MMI Fund, run by the Federal Housing Administration (FHA), helps increase access to single-family mortgage credit in both urban and rural areas. In 1998, the MMI Fund guaranteed over \$90 billion in mortgages for over one million households. Nearly three-fourths of such mortgages went to first-time homebuyers.

- The FHA/MMI fund will continue to remain solvent and self-sustaining.
- In 2000 the share of FHA mortgage insurance for first-time homebuyers will increase by one percent a year over 1995 levels to 73.3 percent in 2000.

USDA's Rural Housing Service (RHS): RHS offers direct and guaranteed loans and grants to help very low- to moderate-income

Table 19-2. SELECTED FEDERAL COMMERCE AND HOUSING CREDIT PROGRAMS: CREDIT PROGRAMS PORTFOLIO CHARACTERISTICS

(Dollar amounts in millions)

| | Dollar volume of direct loans/ guarantees written in 1998 | Numbers of hous- ing units/small business financed by loans/ guarantees written in 1998 | Dollar volume of total outstanding loans/guarantees as of the end of 1998 |
|--|--|--|---|
| Mortgage Credit: | | | |
| HUD/FHA Mutual Mortgage Insur- ance Fund | 90,518 | 1,025,024 | 380,338 |
| HUD/FHA General Insurance and Special Risk Insurance Fund | 15,074 | 277,011 | 89,287 |
| USDA/RHS single-family loans | 3,830 | 56,617 | 23,626 |
| USDA/RHS multifamily loans | 218 | 9,628 | 11,902 |
| VA guaranteed loans | 39,862 | 368,791 | 169,006 |
| Subtotal, Mortgage Credit | 149,502 | 1,737,071 | 674,159 |
| SBA Guaranteed Loans | 11,524 | 45,019 | 33,695 |
| Total Assistance | 161,026 | 1,782,090 | 707,854 |

rural residents buy and maintain adequate, affordable housing. The single family direct loan program provides subsidized loans to very low-income rural residents, while the single family guarantee loan program guarantees up to 90 percent of a private loan for moderate-income rural residents. Together, the two programs provided \$3.8 billion in loans and loan guarantees in 1998, providing 56,617 decent, safe affordable homes for rural Americans.

- In 2000, RHS will further reduce the number of rural residents living in substandard housing by providing \$4.3 billion in loans and loan guarantees for 50,500 new or improved homes.

Veterans' Affairs (VA): 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 \$40 billion in loan guarantees in 1998. One of VA's key goals is to improve loan servicing to avoid veteran foreclosures.

- In 2000, VA will be successful in intervening to help veterans avoid foreclosure 41 percent of the time, from the 1998 level

of 37 percent. (See Chapter 27 for more information.)

Ginnie Mae: Congress created Ginnie Mae in 1968 to support the secondary market for FHA, VA, and USDA mortgages through securitization. To date, Ginnie Mae has helped over 20 million low- and moderate-income families buy homes.

- In 2000, Ginnie Mae will continue to securitize 95 percent of FHA and VA loans, enhancing mortgage market efficiency and lowering financing costs for home buyers.

Rental Housing

The Federal Government provides housing assistance through a number of HUD and USDA programs in the Income Security function. HUD's rental programs provided subsidies for over 4.8 million very-low-income households in 1998. In addition, USDA's RHS rental assistance grants to low-income rural households provided \$547 million to support 39,000 new and existing rental units in 1998. For 2000, agencies will meet the following performance goals:

- RHS will make new and continued rental assistance commitments to fund 44,400 new and existing units.
- Increase the percentage of Section 8 families with children living in low-poverty census tracts from 61 percent in 1998 to 63 percent.

Public Housing and Other Assisted Housing Programs

The Federal Government funds capital and management improvements of public housing authorities across the country. The Government also funds programs supporting the housing needs of particular populations, such as the elderly and disabled.

- Demolish over 13,000 public housing units to move toward the Administration's goal of demolishing 100,000 of the worst public housing units by 2003.
- Help 3,000 low-income, frail elderly live as independently as possible by financing conversion of conventional subsidized apartments to assisted living.

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 \$55.1 billion in 2000) and the deductibility of State and local property tax on owner-occupied homes (costing \$19.5 billion in 2000).

Other tax provisions also encourage investment in housing: (1) capital gains of up to \$500,000 on home sales are exempt from taxes (costing \$98 billion from 2000 to 2004); (2) States and localities can issue tax-exempt mortgage revenue bonds, whose proceeds subsidize purchases by first-time, low- and moderate-income home buyers (costing \$1 billion in 2000); 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 (costing about \$3.3 billion in 2000). The President repropose to raise the volume cap on the low-income housing tax credit, and further proposes to provide permanent authorization

for 15,000 new housing vouchers for extremely low-income elderly linked to Low-Income Housing Tax Credit properties.

Commerce, Technology, and International Trade

Technology Policy: 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 2000, PTO will issue over 154,000 patents, reduce the average processing time for inventions from the 1999 average of 10.9 months to an average of 10.2 months, and attain a 70 percent customer satisfaction measure.
- In 2000, PTO will reduce the average time required for processing trademark applications from the 1999 average of 15.5 months to an average of 13.8 months, and attain an 80 percent customer satisfaction measure.

Commerce's National Institute of Standards and Technology (NIST): NIST works with industry to develop and apply technology, measurements, and standards. NIST administers the Manufacturing Extension Partnership (MEP), which makes technological information and expertise available to smaller manufacturers.

- In 2000, NIST laboratories will produce over 2,100 technical publications and offer 1,330 standard reference materials.
- In 2000, MEP will serve 36,250 clients, increasing their sales by \$591 million and generating \$459 million in additional capital investment.

The International Trade Administration (ITA): 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 2000, ITA will provide counseling assistance to 14,000 small businesses, an increase of 3,500 over 1999 efforts.

- In 2000, ITA's Advocacy Center will support \$10.5 billion in exports \$500 million more than 1999.

Commerce's Bureau of Export Administration (BXA): The BXA is a regulatory agency that enforces U.S. export controls.

- In 2000, BXA will issue 10,400 licenses for dual use commodities (military or civilian use), 400 more than in 1999.

Commerce's Census Bureau and Bureau of Economic Analysis (BEA): The Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy, including the constitutionally-mandated decennial census. In addition, BEA prepares and interprets U.S. economic accounts, including the Gross Domestic Product (GDP).

- In 2000, the Census Bureau will conduct a decennial census. The goal is to count 99.9 percent of the population, thus reducing the 1990 undercount of 1.6 percent to 0.1 percent.

Small Business Administration (SBA): SBA assists and promotes small business by expanding access to capital through guaranteed private sector loans that carry longer terms and lower interest rates than those for which small businesses would otherwise qualify. SBA guaranteed over \$11.5 billion in small business loans in 1998.

- In 2000, SBA will work to increase the number of small businesses receiving counseling and training to 1.3 million, an eight percent increase over the estimated 1999 level.
- SBA will guarantee 63,000 new Sec. 7(a) and Sec. 504 business loans in 2000, a 13 percent increase over the projected 1999 volume of 55,600.
- Following authorization in 2000, America's Private Investment Companies and the New Market Ventures Capital programs will commit a combined \$1.1 billion to private venture capital firms, which the firms will leverage with private-sector capital to make \$1.7 billion in total business investments in low- and moderate-income areas.

Financial Regulation

Federal Deposit Insurance: Federal deposit insurance protects depositors against losses when insured commercial banks, thrifts (savings institutions), and credit unions fail. From 1985 to 1995, this insurance protected depositors in over 1,400 failed banks and 1,100 thrifts, with total deposits of over \$700 billion. Five agencies regulate federally-insured depository institutions to ensure their safety and soundness: 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 Federal Deposit Insurance Corporation (FDIC) regulates other State-chartered banks; and the National Credit Union Administration (NCUA) regulates credit unions.

- In calendar 2000, the FDIC will perform 2,928 safety and soundness examinations.
- In calendar 2000, the NCUA will reduce by seven percent (from 372 to 346) the number of federally insured credit unions with net capital of less than six percent.

SEC and CFTC: The Securities and Exchange Commission (SEC) oversees U.S. capital markets and regulates the securities industry. The Commodity Futures Trading Commission (CFTC) regulates U.S. futures and options markets. Both regulators protect investors by preventing fraud and abuse in U.S. capital markets and ensuring adequate disclosure of information.

- The SEC will examine every investment company complex and every investment advisor at least once during each five-year examination cycle.
- The CFTC will review every designation application and rule change request, except for 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 2000, 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. Through introduction of more efficient licensing and authorization processes, the FCC will ensure a more rapid introduction of new services and technologies. The FCC's policy and rulemaking process promotes a deregulatory, pro-competitive environment, ensures efficient spectrum use, and sets guidelines for equipment and services so that all Americans have access to telecommunications services.

- In 2000, the FCC will achieve 90 percent of enforcement, licensing and service au-

thorization activities within established deadlines.

Commerce Tax Incentives

The tax law provides incentives to encourage business investment. It taxes capital gains at a lower rate than other income. This will cost the Government \$496 billion in 2000. In addition, the law does not tax gains on inherited capital assets that accrue during the lifetime of the original owner. This will cost \$27.1 billion from 2000 to 2004. 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 tax 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.