

17. COMMERCE AND HOUSING CREDIT

Table 17-1. Federal Resources in Support of Commerce and Housing Credit

(In millions of dollars)

Function 370	1999 Actual	Estimate					
		2000	2001	2002	2003	2004	2005
Spending:							
Discretionary Budget Authority ...	3,838	7,226	3,456	3,311	3,279	3,193	3,262
Mandatory Outlays:							
Existing law	-862	-1,613	-767	-1,010	-1,507	-1,299	-657
Proposed legislation			-96	-105	-118	-129	-143
Credit Activity:							
Direct loan disbursements	2,125	1,780	2,041	N/A	N/A	N/A	N/A
Guaranteed loans	306,630	263,988	273,937	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	227,870	235,565	247,145	255,305	264,400	274,725	284,435
Proposed legislation			330	533	531	631	790

N/A = Not available.

The Federal Government facilitates commerce and supports housing through many diverse activities. 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; protects investors when insured depository institutions fail; promotes exports and technology; collects our Nation's statistics; and, offers tax incentives.

Mortgage Credit

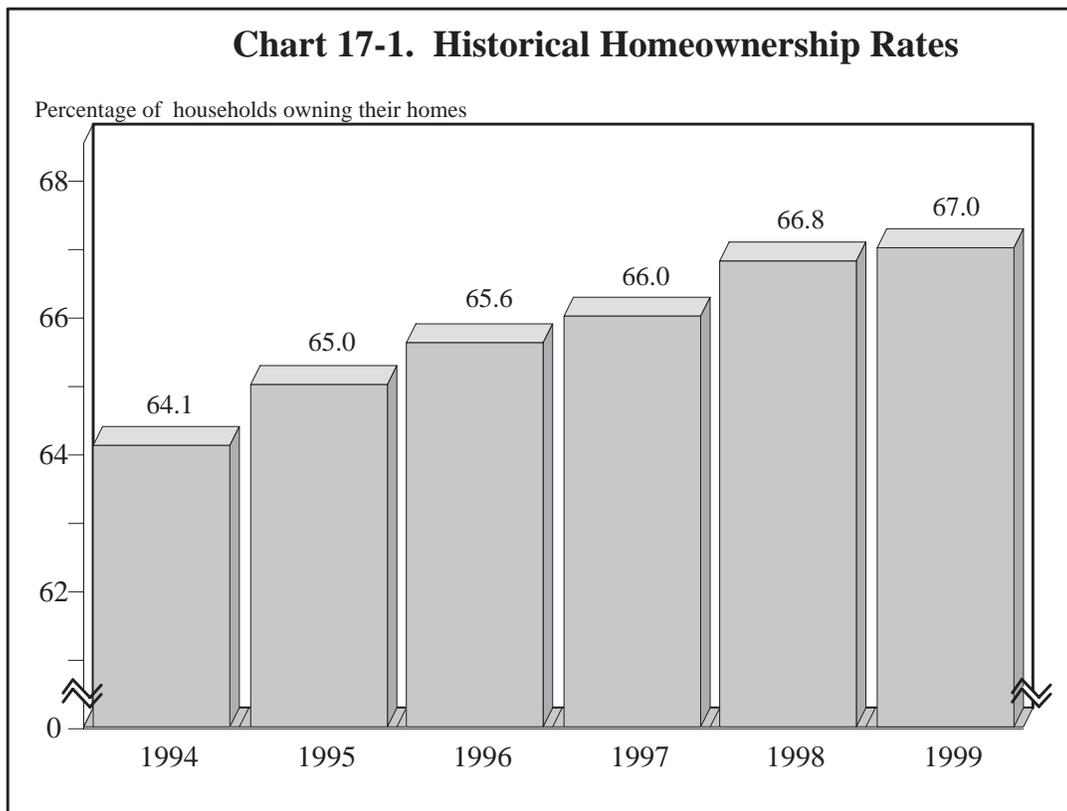
The Government provides loans and loan guarantees to increase homeownership, and to help low-income families afford suitable apartments. Housing credit programs of the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs (VA) supported \$177 billion in loan and loan guarantee commitments in 1999, helping nearly two million households (see Table 17-2). 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 67 percent—its highest ever (see Chart 17-1). An additional 8.7 million families have become homeowners during this Administration.

- In 2001, 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 1999, the MMI Fund insured over \$113 billion in mortgages for over 1.2 million households. Over 80 percent of FHA home purchase mortgages went to first-time home buyers.

- The share of FHA mortgage insurance for first-time home buyers will increase by one percentage point in 2001.
- In 2001, the homeownership rate among households with incomes less than median family income will increase by 0.5 percentage point to 52.5 percent.



USDA's Rural Housing Service (RHS): RHS offers direct and guaranteed loans and grants to help very low- to moderate-income 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 \$4 billion in loans and loan guarantees in 1999, providing 60,261 decent, safe affordable homes for rural Americans. The Administration proposes to provide higher loan levels at lower cost by increasing the single family housing guarantee program loan fee from 1 percent to 2 percent. This change, along with RHS' successful efforts in leveraging, will allow more lending per dollar.

- In 2001, RHS will further reduce the number of rural residents living in substandard housing by providing \$5 billion in loans and loan guarantees for 68,000 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 \$43 billion in loan guarantees in 1999. One of VA's key goals is to improve loan servicing to avoid veteran foreclosures.

- In 2001, VA will be successful in intervening to help veterans avoid foreclosure 40 percent of the time, an increase from the 1998 level of 37 percent. (See Chapter 25, "Veterans Benefits and Services," for more information.)

Ginnie Mae: Congress created Ginnie Mae in 1968 to support the secondary market for FHA, VA, and RHS mortgages through securitization. To date, Ginnie Mae has helped 22.7 million low- and moderate-income families buy homes.

- In 2001, Ginnie Mae will continue to securitize 95 percent of FHA and VA loans, enhancing mortgage market effi-

**Table 17-2. Selected Federal Commerce and Housing Credit Programs:
Credit Programs Portfolio Characteristics**

(Dollar amounts in millions)

	Dollar volume of direct loans/ guarantees written in 1999	Numbers of hous- ing units/small business financed by loans/ guarantees written in 1999	Dollar volume of total outstanding loans/guarantees as of the end of 1999
Mortgage Credit:			
HUD/FHA Mutual Mortgage Insur- ance Fund	113,217	1,219,928	411,474
HUD/FHA General Insurance and Special Risk Insurance Fund	16,924	247,943	92,597
USDA/RHS single-family loans	3,969	60,261	25,373
USDA/RHS multifamily loans	141	10,087	11,925
VA guaranteed loans	43,091	396,399	195,868
Subtotal, Mortgage Credit	177,342	1,934,618	737,237
Business Credit:			
SBA Guaranteed Loans	13,906	45,629	41,132
SBA Direct Loans	40	34	48
Subtotal, SBA Loans	13,946	45,663	41,180
Total Assistance	191,288	1,980,281	778,417

ciency 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 4.7 million very-low-income households in 1999. In addition, USDA's RHS rental assistance grants to low-income rural households provided \$583 million to support 42,000 new and existing rental units in 1998. RHS's multifamily housing programs, 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 as well as farm laborers. The Budget provides \$365 million in direct loans, providing over 7,500 new units for very-low income tenants in rural America. For 2001, these agencies intend to meet the following performance goals:

- Increase the percentage of families with children assisted by HUD's tenant-based Section 8 voucher program that live in low-poverty census tracts from 61 percent in 1999 to 64 percent in 2001.
- The share of families that move from welfare to work while assisted by tenant-based Section 8, will increase from 32 percent in 1999 to 34 percent in 2001.
- Increase to 78 percent the ratio of affordable units actually available to extremely-low-income renters, from 76 percent in 1997.
- RHS will make new and continued rental assistance commitments to fund 43,800 rental assistance units.

Public Housing and Other Assisted Housing Programs

The Federal Government funds capital and management improvements of public housing authorities, as well as supportive services for public housing residents. These programs support the housing needs of particular popu-

lations, such as the elderly and disabled, in addition to low-income families.

- Public Housing Authorities demolished, 46,237 units of dilapidated public housing from 1993 through 1999 with an additional 14,800 scheduled for demolition in 2000. During 2001, 12,000 more units will be demolished, moving the Administration toward the goal of demolishing 100,000 of the worst public housing units by 2003.

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 \$61 billion in 2001 and \$331 billion over five years) and the deductibility of State and local property tax on owner-occupied homes (costing \$23 billion in 2001 and \$125 billion over 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 \$101 billion from 2001 to 2005); (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 (LIHTC) provides incentives for constructing or renovating rental housing that helps low-income tenants (costing approximately \$3.2 billion in 2001). The President proposes to raise the volume cap on the LIHTC and index the cap to inflation starting in 2002.

Commerce, Technology, and International Trade

Technology Policy: The Commerce Department advocates sound technology policies to promote technology development. Commerce's Patent and Trademark Office (PTO) protects U.S. intellectual property rights around the world through international treaties. In 1999, the patent and trademark system was strengthened with the passage of legislation to reform patent law and make the PTO into

a performance-based organization to better serve America's entrepreneurs and innovators.

- In 2001, PTO will issue over 185,000 patents, reduce the average processing time for inventions from the 1999 average of 10.9 months to an average of 10.0 months, and attain an 80 percent favorable customer satisfaction rating.
- In 2001, PTO will register 151,000 trademarks, 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 favorable customer satisfaction rating.

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

- In 2001, NIST laboratories will produce over 2,200 technical publications and offer 1,315 standard reference materials.
- In 2001, MEP will serve more than 33,600 clients, increase their sales by \$678 million and generate \$607 million in additional capital investment.

Commerce's 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 2001, ITA will service over 159,000 small to medium sized businesses, an increase of over 3,000 from the level in 2000.

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

- In 2001, BXA will issue 12,000 licenses for dual use commodities (military or civilian use), 1,600 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 2001, the Census Bureau will complete the decennial census and deliver State apportionment totals to the President by December 31, 2000, and adjusted data for redistricting purposes and the distribution of nearly \$200 billion in Federal funds to States and localities by March 31, 2001.
- BEA and Census will develop new methods to measure the significant structural changes in the economy introduced by rapidly growing E-business activity.

Small Business Administration (SBA): SBA assists and promotes small business by expanding access to capital through guaranteed private sector loans — SBA guaranteed over \$11.5 billion in small business loans in 1999 — that carry longer terms and lower interest rates than those for which small businesses would otherwise qualify. SBA also provides technical assistance and venture capital.

- A key component of the Administration's economic development strategy is to increase access to capital and credit for women and minorities owned firms. The Administration's programs will increase the number of small business loans to women owned firms from 13,500 in 1995 to 18,500 in 2001 and the number of loans to minority owned firms from 10,000 in 1995 to 13,750 in 2001.
- Complementing loan programs are technical assistance programs, which increase the borrower's probability of success. To date, SBA has not experienced any defaults on the direct microloan program, suggesting that the technical assistance has had a positive impact. The Administration intends to increase the number of small businesses receiving counseling and training to 1.2 million, a four-percent increase over the estimated 2000 level and an increase of 300,000 since 1993.

Federal Trade Commission (FTC): The FTC enforces various consumer protection and antitrust laws that prohibit fraud, deception, anti-competitive mergers, and other unfair and anti-competitive business practices in the marketplace.

- In 2001, the FTC will save consumers \$250 million by stopping fraud and other unfair practices, and another \$500 million by stopping anti-competitive behavior.

Federal Communications Commission (FCC): The FCC works to encourage a fully competitive market place in communications and to promote and support every American's access to current and future communications services. Through introduction of more efficient licensing the FCC will ensure a more rapid introduction of new services and technologies. Through policy, economic analysis, and the rulemaking process, the FCC promotes competition in the public interest. The FCC ensures efficient spectrum management; enforces commission rules, regulations and authorities; and promotes consumer information and awareness of communications options and providers through the dissemination of Commission decisions and actions so that all Americans have access to communication services domestically and worldwide.

- In 2001, the FCC will achieve 85 percent of licensing and enforcement 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 \$42 billion in 2001 and \$222 billion over five years. In addition, the law does not tax gains on inherited capital assets that accrue during the lifetime of the original owner. This will cost \$153 billion from 2001 to 2005. 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 this section.

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 failed 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 year 2000, the FDIC will perform 2,788 safety and soundness examinations.

- The NCUA will reduce the percentage of federally insured credit unions with net capital of less than six percent of assets to three percent of operating credit unions.

Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC): SEC regulates U.S. capital markets and the securities industry and facilitates capital formation. The 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.