

## 8. COMMERCE AND HOUSING CREDIT

**Table 8-1. Federal Resources in Support of Commerce and Housing Credit**

(In millions of dollars)

Function 370	2000 Actual	Estimate					
		2001	2002	2003	2004	2005	2006
<b>Spending:</b>							
Discretionary Budget Authority ...	5,115	687	-286	-75	-389	-504	-470
Mandatory Outlays:							
Existing law .....	-1,263	-2,462	6,691	4,740	4,027	4,160	2,900
Proposed legislation .....			-95	-108	-119	-130	-143
<b>Credit Activity:</b>							
Direct loan disbursements .....	1,322	1,725	1,602	1,576	1,567	1,561	1,558
Guaranteed loans .....	218,697	231,340	250,765	263,247	272,765	282,387	289,973
<b>Tax Expenditures:</b>							
Existing law .....	242,455	254,680	266,700	277,810	289,470	301,230	314,770

Notes: Discretionary budget authority is offset by receipts (negative credit subsidy) to the Department of Housing and Urban Development for loan guarantee programs.

2000 discretionary budget authority includes cyclical expenses associated with the decennial census.

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

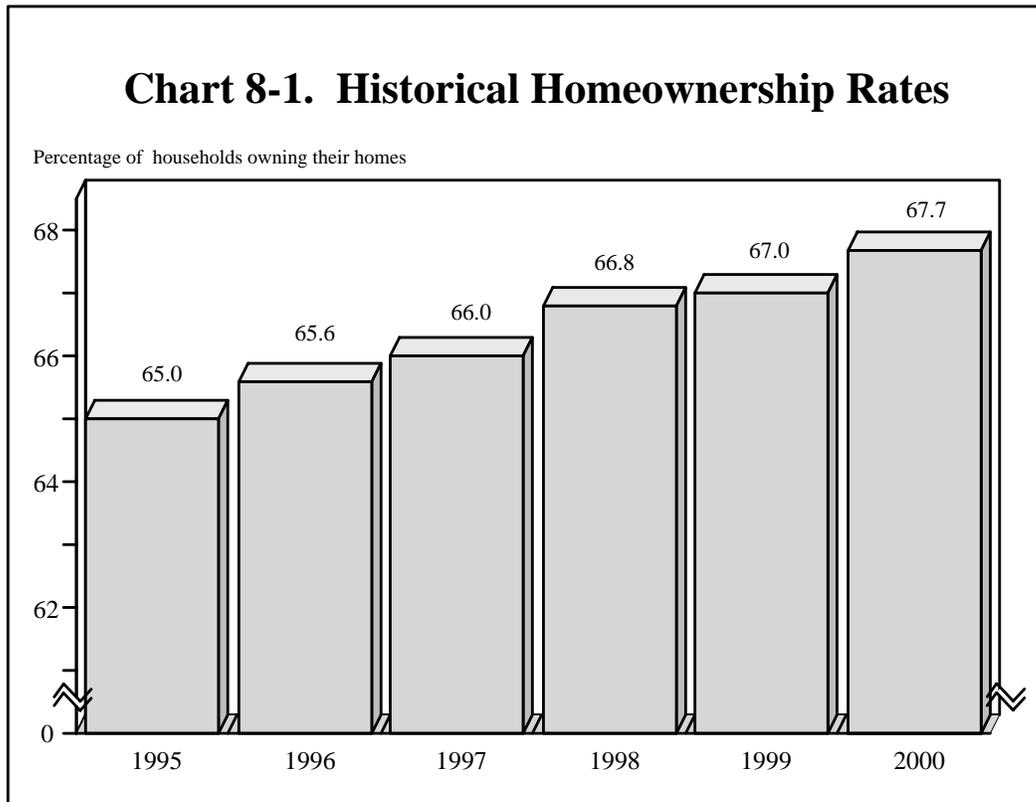
The Government provides loans and loan guarantees to increase homeownership, and to help low-income families afford suitable apartments. Housing credit programs of the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs supported \$123 billion in new loan and loan guarantee commitments in 2000, helping nearly 1.3 million households. All of these programs have contributed to

boosting the national homeownership rate, now at a record high of 67.7 percent (see Chart 8-1).

- The 2002 goal for the national homeownership rate is 68.5 percent.

**HUD's Federal Housing Administration (FHA):** The Mutual Mortgage Insurance (MMI) Fund, run by FHA, helps increase access to single-family mortgage credit across the United States. As noted in Table 8-2, FHA also insures mortgage loans for multi-family housing as part of its General Insurance and Special Risk Insurance Fund. In 2000, the MMI Fund insured over \$86 billion in mortgages for almost 900,000 households. Of the FHA borrowers who purchased their homes in 2000, more than 80 percent are first-time homeowners and 42 percent belong to a minority group. In 2002, FHA will achieve the following:

- the share of FHA mortgage insurance for first-time home buyers will increase to 82



- the share of FHA mortgage insurance for minority households will increase to 44 percent.

To help achieve these goals, the Administration proposes to allow FHA to insure a popular new type of financial product on the mortgage market, hybrid adjustable-rate mortgages (ARMs). Hybrid ARMs are adjustable-rate loans that carry an initial fixed interest rate for longer than one year. Hybrid ARMs will substantially enhance FHA's product line, offering a sound mortgage product to borrowers who do not qualify for a fixed-rate mortgage or cannot afford the fixed-rate pricing, but who want to avoid the volatility associated with traditional ARMs.

The Administration will reduce FHA fraud and improve program controls. Inadequate information systems have weakened FHA's ability to monitor lenders that use its guarantees. A scheme to defraud the Government, known as "property-flipping," recently highlighted internal weaknesses in FHA's single-family systems and controls. To combat the scheme, last year FHA implemented

emergency foreclosure moratoria to protect borrowers in areas where property-flipping was prevalent. FHA will strengthen the integrity of internal systems and controls to eliminate the need for foreclosure moratoria or other emergency responses. Actions will include improving the loan origination process and providing better monitoring of lenders and appraisers.

**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 \$3 billion in loans and loan guarantees in 2000, providing 46,000 decent, safe affordable homes for rural Americans.

- In 2002, RHS will further reduce the number of rural residents living in substandard housing by providing \$4 billion

**Table 8-2. Selected Federal Commerce and Housing Credit Programs: Credit Programs Portfolio Characteristics**

(Dollar amounts in millions)

	Dollar volume of direct loans/guarantees written in 2000	Numbers of housing units/small business financed by loans/guarantees written in 2000	Dollar volume of total outstanding loans/guarantees as of the end of 2000
<b>Mortgage Credit:</b>			
HUD/FHA Mutual Mortgage Insurance Fund .....	86,274	873,265	449,805
HUD/FHA General Insurance and Special Risk Insurance Fund .....	12,506	154,492	98,888
USDA/RHS single-family loans .....	3,324	51,400	27,697
USDA/RHS multifamily loans .....	246	7,400	11,397
VA guaranteed loans .....	20,159	175,559	199,759
Subtotal, Mortgage Credit .....	122,509	1,262,116	787,546
<b>Business Credit:</b>			
SBA Guaranteed Loans .....	13,195	48,422	45,556
SBA Direct Loans .....	27	65	65
Subtotal, Business Credit .....	13,222	48,487	45,621
<b>Total Assistance .....</b>	<b>135,731</b>	<b>1,310,603</b>	<b>833,167</b>

in loans and loan guarantees (equal to the 2001 enacted level) for 55,800 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 loans from private lenders, providing \$20 billion in loan guarantees in 2000. One of VA's key goals has been to improve loan servicing to avoid veteran foreclosures.

- In 2002, VA will be successful in intervening to help veterans avoid foreclosure 34 percent of the time. Over the past several years, VA has decreased foreclosures by approximately 10 percent.

**Ginnie Mae:** The Congress created Ginnie Mae in 1968 to support the secondary market for FHA, VA, and RHS mortgages through securitization. Ginnie Mae guarantees the timely payment of principal and interest on privately issued securities that are backed by pools of FHA, VA, and RHS mortgages. The

Ginnie Mae guarantee gives lenders access to the capital markets for funds to originate new loans. Together with the Government-sponsored enterprises that operate in the secondary market for mortgages, Ginnie Mae provides lenders with the liquidity to maintain a steady supply of credit available for housing.

- In 2002, Ginnie Mae will securitize 85 percent of eligible FHA and VA loans, enhancing mortgage market efficiency and lowering costs for home buyers.

### Rental Housing

The Government provides housing assistance through a number of HUD and USDA programs. These rental assistance programs provide subsidies for five million low-income households. In 1999, families with severe housing needs dropped by over 400,000 to 4.9 million. This is the first decrease in severe housing needs in 10 years. The budget provides \$197 million to fund 34,000 new HUD vouchers for low-income families. HUD will adopt program reforms to eliminate the accumulation of excess balances that have

resulted in the recapture of one to two billion dollars in unspent funds annually over the past few years.

Weak oversight of local housing providers has reduced the quality of housing services and increased costs, reducing the number of households that receive assistance. HUD will improve its management of these providers to encourage compliance and subject non-performers to remedial action. Currently, HUD overpays hundreds of millions of dollars in low-income rent subsidies because tenants' incomes are underreported and rents are improperly calculated or not fully collected. HUD will undertake a series of reforms to correct these errors.

The Administration will work to remove deteriorating, obsolete public housing units through the implementation of public housing reform legislation passed in 1998 and replace them with housing vouchers that families can use to obtain better housing available on the private market. Over time, removing the most costly-to-maintain, obsolete public housing developments is expected to reduce the need for capital spending.

The budget terminates the Public Housing Drug Elimination program for the following reasons: the same types of activities (e.g., security patrols and better lighting) are eligible under the Public Housing Operating and Capital programs; the program was found to have limited impact; current regulatory tools, such as eviction, are effective in reducing drug-related crime in public housing; and fighting crime and drugs is not directly related to HUD's core mission—it is the mission of Federal law enforcement and other agencies whose programs help combat illegal drugs and crime in public housing communities.

HUD's Supportive Housing for the Elderly program works with non-profits to create housing and supportive services tailored to the needs of the very low-income elderly. The Supportive Housing for the Disabled program provides housing and supportive services necessary to promote stability and self-sufficiency of very low-income disabled households. The budget provides for the construction of approximately 7,500 units for the elderly and over 1,500 units for the disabled.

USDA's RHS rental assistance grants to low-income rural households provided \$640 million to support 42,000 new and existing rental units in 2000. RHS's multifamily housing programs, which generally lend 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 \$257 million in direct and guaranteed loans, providing over 5,200 new units for very low-income tenants in rural America.

HUD and USDA intend to meet the following performance goals:

- For the period 2001–2002, reduce the number of households with severe housing needs by four percent among families with children, and elderly and disabled households.
- In 2002, demolish 13,000 more obsolete, deteriorated public housing units.
- In 2002, decrease the number of public housing units managed by troubled housing authorities by 15 percent.
- For 2002, increase the share of welfare families that move from welfare to work while assisted by tenant-based Section 8 by two percentage points over 2001.
- For 2002, make new and continued rental assistance commitments to fund 43,000 rural rental assistance units (a one-percent decrease from 2001).

### **Housing Tax Expenditures**

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 is estimated to cost the Government \$66 billion in 2002 and \$353 billion over five years) and the deductibility of State and local property tax on owner-occupied homes (costing \$26 billion in 2002 and \$146 billion over five years).

The Administration will propose an investor-based tax credit, designed to encourage investors to redevelop single-family housing or construct new single-family housing for low-income home buyers. The credit for investors

will amount to as much as 50 percent of project costs for eligible home rehabilitation or construction. The tax credit will increase by 100,000 the number of homes available to low-income families and those living in low-income areas. Credits will be distributed by State agencies that will have the flexibility to tailor the program to local needs. In addition, the Administration proposes to create one million new Individual Development Accounts (IDAs) through a tax incentive. Financial institutions will receive a federal tax credit for matching the contributions made to IDAs by low- to moderate-income individuals saving to buy a first home, start a business, or pay for education.

Other tax provisions also encourage investment in housing: (1) taxpayers can deduct capital gains of up to \$500,000 on home sales (costing \$104 billion from 2002 to 2006); (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. In addition, the low-income housing tax credit (LIHTC) provides incentives for constructing or renovating rental housing that help low-income tenants (costing approximately \$3.5 billion in 2002). The Community Renewal Act of 2000 expanded the LIHTC by increasing the per capita allocation to States from \$1.25 to \$1.50 in 2002, \$1.75 in 2003, and indexing the allocation to inflation thereafter. The LIHTC will support construction or rehabilitation of nearly 100,000 rental units annually.

### **Commerce, Technology, and International Trade**

***Technology and Intellectual Property Rights:*** The Department of Commerce undertakes a range of activities to promote technological innovation. In 1999, the Nation's intellectual property rights system was strengthened with the passage of the landmark American Inventors Protection Act, which reformed patent law and converted Commerce's Patent and Trademark Office (PTO) into a performance-based organization to better serve America's entrepreneurs and innovators. PTO also protects U.S. intellectual property rights around the world through international treat-

ties. The budget includes a 10-percent increase in PTO's budget so that it can continue to meet these crucial responsibilities. In 2002:

- PTO expects to issue approximately 167,000 patents with an average processing time for inventions of 26.7 months, despite a 12-percent increase in patent applications over the 2001 level.
- PTO expects to register approximately 127,000 trademarks and maintain an average processing time for trademarks of 20 months despite a 20.2-percent increase in trademark applications over the 2001 level.

***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 also assists industry through the Manufacturing Extension Partnership (MEP), which makes technological information and expertise available to smaller manufacturers, and the Advanced Technology Program (ATP) which supports businesses' development of pre-competitive technologies. In 2002:

- NIST laboratories will offer 1,350 standard reference materials and 68 standard reference data titles, a 2.7 percent and three percent increase, respectively, over the 2001 level.
- MEP will serve more than 37,000 clients, increase their sales by \$24 million, and generate \$134 million in additional capital investments.
- New ATP awards will be suspended. The program will be reevaluated to determine whether it is still warranted.

***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 2002, ITA will assist approximately 54,000 small to medium sized businesses in exporting to new markets, the same level as in 2001.

**Commerce's Bureau of Export Administration (BXA):** The BXA is a regulatory agency that enforces U.S. export controls and protects the proprietary commercial information of industry. The budget includes a six-percent increase in BXA's overall budget.

- In 2002, BXA will issue at least 12,000 licenses for dual use commodities (military or civilian use) and increase the number of investigations of export control violations by seven percent over the 2001 level.

**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. BEA prepares and interprets U.S. economic accounts, including the Gross Domestic Product (GDP).

- In 2002, the Census Bureau will deliver on time 100 percent of their scheduled releases, including over 12 major detailed demographic products from the decennial census. These products, which include socio-economic data such as income, occupation, education, disability, and ancestry, are necessary for the distribution of nearly \$200 billion in Federal funds annually to States, counties, and over 39,000 towns, cities, and other Governmental entities.
- In 2002, BEA will strive to maintain its number one international ranking in GDP timeliness, its high customer satisfaction rating of 4.3 (on a five-point scale), and accuracy and reliability of the GDP by incorporating data on new and rapidly growing economic activities, such as e-business.

**Commerce's Emergency Steel and Oil and Gas Loan Guarantee Programs:** The budget proposes to rescind \$125 million of unobligated balances from these two loan guarantee programs (\$10 million from the steel program and \$115 million from the oil and gas program). Sufficient funds remain to address pending 2001 applicants for both programs. The oil and gas program was created in 1999 when oil and gas prices were far below current levels, and applications for the program have been particularly limited.

**Small Business Administration (SBA):** SBA supports small businesses through Federal guarantees, which increase the availability of capital and credit, by promoting Federal procurement opportunities, and by providing management and other business training. SBA's largest business credit programs are: the general business loan guarantee (7(a)) program; the certified development company program; and the small business investment company equity capital program. The budget anticipates that SBA will guarantee more than \$17.5 billion in small business loans and equity investments in 2002.

The budget includes \$5 million and proposes \$25 million over the next five years for the Paul D. Coverdell Drug Free Workplace Program, which gives grants to organizations that help small businesses develop employee education programs and company drug policies. The New Freedom Initiative includes \$5 million in technical assistance to help small businesses comply with the Americans with Disabilities Act and hire more people with disabilities.

The objective of SBA's loan guarantee programs is to correct market imperfections. The 2002 Budget recognizes that some small businesses may have trouble accessing capital but by increasing fees, the budget does not require the Government to subsidize their cost of borrowing.

The budget supports \$20.5 million in loans (\$35,000 and under) targeted to entrepreneurs traditionally considered "unbankable," largely due to inexperience with credit, lack of assets, or the need for ongoing technical assistance. To also increase the borrower's probability of success, the loans are complimented with \$20 million in associated technical assistance.

- To further help people whose business needs for small loans (under \$150,000) are not met by traditional lenders, SBA will implement changes enacted in 2001 to increase the percentage of 7(a) loan volume made to small borrowers from less than 10 percent to 20 percent.
- In 1999, SBA initiated an ongoing \$10 billion loan asset sale program reflecting a recognition that the private sector can service these loans more effectively and

efficiently than the Government. SBA plans to conduct two asset sales during 2002. In addition, SBA will explore the feasibility of contracting out all loan servicing functions and closing unneeded loan servicing centers.

- In 2002, SBA will work with Federal agencies to achieve the Government-wide small business procurement goal of 23 percent of total Federal contracting dollars. Of the projected \$180 to 200 billion in total Federal procurement in 2002, the Government expects to award \$42 to 46 billion to small businesses.

**Federal Trade Commission (FTC):** 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 2002, FTC reports that it will protect consumers by stopping the sales of \$400 million worth of fraudulent products, and save the public an estimated \$1 billion by stopping anti-competitive business practices that lead to price increases, which are then passed on to consumers.

**Federal Communications Commission (FCC):** FCC works to encourage a fully competitive market place in communications and to promote affordable communications services for all Americans. Through introduction of more efficient licensing, FCC will ensure a more rapid introduction of new services and technologies. Through policy rulemakings and enforcement actions, FCC promotes competition in the public interest. 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. In 2002:

- FCC will achieve 90 percent of licensing activities within established timeframes; and
- eighty percent of all FCC applications will be filed electronically.

## Financial Regulation

**Federal Deposit Insurance:** Federal deposit insurance protects depositors against losses when insured commercial banks, thrifts (savings institutions), and credit unions fail. Currently, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration's (NCUA's) funds insure more than \$3 trillion in deposits at more than 20,000 institutions. 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; FDIC regulates other State-chartered banks; and, NCUA regulates credit unions.

- In calendar year 2001, FDIC will perform more than 2,600 safety and soundness examinations.
- In 2002, NCUA will reduce the percentage of federally-insured credit unions that are undercapitalized to two 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. In 2002:

- SEC will examine every investment company complex and every investment advisor at least once during each five-year and 5.7-year examination cycle, respectively.
- CFTC will review every contract market designation application and derivatives transaction execution facility registration application within 30 to 60 days and respond to applicant exchanges with a notification letter. CFTC will also review requests for approval of products and rule changes within 90 days and respond to

trading exchanges (e.g., Chicago Board of Trade).

### **Commerce Tax Expenditures**

The tax law provides expenditures to encourage business investment. The Government taxes capital gains at a lower rate than other income. The tax law provides more generous depreciation allowances for machinery, equipment, and buildings. This business expenditure is estimated to cost the Government \$35 billion in 2002. 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.

The Taxpayer Relief Act of 1997 significantly changed the tax treatment and lowered tax rates for long-term capital gains. Also, during the last few years, several capital gains provisions were enacted to limit certain perceived abuses related to capital gains taxes. The capital gains tax expenditure will cost the Government almost \$43 billion in 2002. In addition, the law does not tax gains on inherited capital assets that accrue during the lifetime of the original owner. Recent tax law changes also provided an increase in expensing for small businesses, and an increase in the top corporate tax rate.