March 17, 2015

The Honorable Tom Price
Chairman
U.S. House of Representatives
Committee on the Budget
100 Cannon House Office Building
Washington DC 20515

The Honorable Chris Van Hollen
Ranking Member
U.S. House of Representatives
Committee on the Budget
100 Cannon House Office Building
Washington DC 20515

Dear Chairman Price and Ranking Member Van Hollen:

This week the Budget Committees will markup the FY16 budget resolutions. One proposal being considered would shift the accounting methods for federal loan and guarantee programs to fair value accounting from the Federal Credit Reform Act of 1990 (FCRA). This change could add phantom costs onto these programs, and have a significant impact on the Appropriations process.

While fair value seems like a reasonable measure of the cost of a federal program – it does not reflect reality. Fair value accounting places a private market value on programs run by the federal government. Federal loan and loan guarantee programs are fundamentally different than their private sector counterparts. They were not created to be profit-making and are required to function under all market conditions unlike for-profit programs which tend to exit the market in adverse economic conditions. In many cases, these programs were actually created to fill market gaps in which the private sector did not operate. Using a private market discount rate would distort the actual costs of these programs to the federal taxpayer and add significantly to the federal deficit – even though these costs are not incurred.

Of the more than 100 credit programs in the federal budget, more than 44 of these programs are cost neutral or make money for the government as currently scored. But, under fair value accounting, more than 75% of these programs would appear to cost money – mandating policy changes or additional appropriations to offset these phantom costs. [1]

These programs fall across all areas of government: small business loans, veterans' housing loans, rural utility loans, FHA loan guarantees, transportation and infrastructure loans, student loans, and agriculture loans. These programs would now need to be made either significantly more expensive to borrowers, or given an increased appropriation - billions of dollars – to cover costs that only appear on paper.

The below signed organizations strongly urge you to oppose the inclusion of any language mandating fair value accounting in the FY16 budget resolution. Adding a placeholder for inapplicable and imaginary private sector costs that the government does not incur simply complicates the appropriations process and makes the budget a less accurate reflection of actual government spending.

Sincerely,

American Council on Education
Community Home Lenders Association
Council for Affordable and Rural Housing
Institute of Real Estate Management

---

[1] Derived from CBO, *Fair Value Estimates of the Cost of Federal Credit Programs in 2013,* June 27, 2012, Supplemental Spreadsheet at http:www.cbo.gov/publication/43352

National Affordable Housing Management Association
National Apartment Association
National Association of Home Builders
National Association of Independent Colleges and Universities
National Association of REALTORS®
National Council of State Housing Agencies
National Housing Trust
National Leased Housing Association
National Multifamily Housing Council
Stewards of Affordable Housing for the Future
Student Aid Alliance

cc: The Honorable Harold Rogers, Chairman, House Committee on Appropriations
The Honorable Nita Lowery, Ranking Member, House Committee on Appropriations