CREDIT REFORM

Transparency Needed for Evaluation of Potential Federal Involvement in Projects Seeking Loans

What GAO Found

The Federal Credit Reform Act of 1990 (FCRA) allows special budgetary treatment for federal loans made to non-federal borrowers. Specifically, the subsidy cost of the loan (cash outflows minus inflows) is reflected in the budget in the year the loan is made. Prior to FCRA, the total amount of a direct loan was recorded as a cost in the year it was made. Repayments were not recorded until the years they were received. Under the special budgetary treatment FCRA affords, federal agencies can issue an amount of loans that is larger than the related appropriations they receive. For example, in fiscal year 2021, $7 billion in appropriations supported roughly $236 billion in direct loans.

The concept of non-federal borrower is not defined in FCRA. According to Office of Management and Budget (OMB) staff, classification of a borrower as non-federal depends on not only if the recipient is a non-federal entity but also if a loan is sought for a non-federal activity. If a proposed project is a federal activity, it is ineligible for special budgetary treatment under FCRA.

GAO analyzed policy and program documents and interviewed officials from six direct loan programs for infrastructure projects with the most obligations in fiscal year 2020. GAO also reviewed OMB policies and processes and interviewed OMB staff.

Why GAO Did This Study

FCRA was enacted to improve the accuracy of the cost of federal credit programs reported in the federal budget, among other things. It requires agencies to measure the government’s cost of federal credit programs over the length of a loan. This facilitates better cost comparisons between credit and noncredit programs. FCRA applies only to loans and loan guarantees made to non-federal borrowers.

GAO was asked to review how the non-federal borrower concept is applied in practice. This report examines (1) OMB’s policies for evaluating whether federal loan programs would potentially fund a federal borrower or federal activities; and (2) processes that selected agencies—EPA and the U.S. Departments of Agriculture and Transportation—use to screen loan applications for potential federal activities.

What GAO Recommends

GAO recommends that OMB publish government-wide criteria agencies should consider when evaluating federal involvement in a potential project to help determine whether it is eligible for the special budgetary treatment under FCRA. OMB neither agreed nor disagreed with GAO’s recommendation. OMB provided technical comments, which GAO incorporated as appropriate.

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