

GAO Highlights

Highlights of [GAO-16-269](#), a report to the Ranking Member, Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

Why GAO Did This Study

Federal direct loans and loan guarantees outstanding have doubled from \$1.5 trillion as of September 30, 2008, to \$3.0 trillion as of September 30, 2015, as reported in the financial reports of the U.S. government. In light of the growing portfolio of outstanding direct loans and loan guarantees, questions have been raised about how agencies estimate the subsidy cost of credit programs.

GAO was asked to review the process federal agencies use to develop subsidy cost estimates for credit programs. This report examines (1) the key elements federal agencies should consider when developing subsidy cost estimates and (2) the extent to which certain agencies addressed these key elements when estimating the subsidy costs for selected federal credit programs. GAO analyzed budgeting and accounting guidance to identify a list of key elements agencies should consider when estimating subsidy costs and assessed the subsidy cost estimation processes used for three credit programs against these key elements. The three programs were selected based on average loan amounts and/or loan volume.

What GAO Recommends

GAO recommends that HUD and Education develop and document additional procedures related to the subsidy cost estimation process. HUD and Education concurred with GAO's recommendations and described ongoing and planned actions to address them.

View [GAO-16-269](#). For more information, contact Cheryl E. Clark at (202) 512-9377 or clarkce@gao.gov.

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CREDIT PROGRAMS

Key Agencies Should Better Document Procedures for Estimating Subsidy Costs

What GAO Found

The Federal Credit Reform Act of 1990 requires agencies to estimate the cost to the government of extending or guaranteeing credit. This cost, referred to as subsidy cost, equals the net present value of estimated cash flows from the government (e.g., loan disbursements and claim payments to lenders) minus estimated cash flows to the government (e.g., loan repayments, interest payments, fees, and recoveries on defaulted loans) over the life of the loan, excluding administrative costs. Agencies use established methods and data to estimate the future costs of a program based on what is known today. Based on budgeting and accounting guidance, GAO determined that agencies' estimation processes should include various key elements to help ensure that estimates are supported, reliable, and reasonable. For example, agency management should compare estimated and actual cash flows to identify potential trends. The figure below lists the key elements GAO identified based on relevance to creating credible cost estimates.

To assess how agencies addressed these key elements in their subsidy cost estimation processes, GAO assessed (1) the Department of Agriculture's (USDA) Export Credit Guarantee (GSM-102) Program, (2) the Department of Housing and Urban Development's (HUD) Mutual Mortgage Insurance Fund, and (3) the Department of Education's (Education) William D. Ford Federal Direct Loan Program (Direct Student Loan Program). GAO found that these agencies varied in their implementation of these key elements, as shown below.

Key Elements of the Subsidy Cost Estimation Process

Key elements	Export Credit Guarantee Program (Department of Agriculture)	Mutual Mortgage Insurance Fund (Department of Housing and Urban Development)	Direct Student Loan Program (Department of Education)
Historical data	✓	✓	✓
Informed opinion	✓	✓	✗
Cash flow assumption documentation	✓	✓	✓
Cash flow model documentation	✓	✓	✓
Program design	✓	✓	✗
Analysis of estimated cash flows	✓	✓	✓
Sensitivity analysis	✓	✗	✓
Policies and procedures for estimating subsidy costs	✓	✗	✗
	✓ Agency designed and documented procedures to consider this key element	✓ Agency considered this key element, but documentation was incomplete	✗ Agency was unable to provide documentation to address this key element

Source: GAO analysis of the agencies' consideration of key elements of the estimation process for the programs we reviewed. | GAO-16-269

While USDA documented the key elements of the estimation process for the GSM-102 program, HUD and Education lacked policies and procedures and adequate documentation for certain other key elements. Until these key elements are fully addressed, HUD and Education have increased the risk that institutional knowledge used in the estimation process may be lost and estimates may not be supported, reliable, and reasonable.