

DEPARTMENT OF ENERGY LOAN GUARANTEE PROGRAM OVERVIEW



What are federal loan guarantees?

Federal loan guarantees allow borrowers to receive a loan from an independent or federal lender with the U.S. Treasury's financial backing. When a loan guarantee is issued, all or part of the risk of issuing the loan is taken off the direct lender and placed on the guarantor of the loan, the federal government. By assuming the risk and supporting the loan, taxpayers are required to repay the debt if the borrower defaults. The Federal Credit Reform Act of 1990 (FCRA) requires the subsidy cost of the loan (the cost of default risk) "to be included in the computation of budget authority and outlays."¹ This cost must either be paid by the borrower or through annual appropriations, allowing Congress to limit or increase the volume of loan guarantees by controlling funding for the program.

Department of Energy Loan Guarantee Program

Title XVII of the Energy Policy Act of 2005 authorized the Department of Energy (DOE) Loan Guarantee Program to disperse loan guarantees for innovative technologies. While the program was intended for emerging energy technologies, mature energy industries like coal and nuclear that have received billions of dollars in subsidies for decades are eligible as well.

Currently the program has a \$51 billion loan volume limitation with \$47 billion earmarked for nuclear energy, coal gasification, coal power generation with carbon capture and storage, and renewable energy and transmission projects. Of the \$47 billion, \$20.5 billion is allocated for nuclear facilities and uranium enrichment projects.² The Congressional Budget Office considers the risk of default on nuclear loan guarantees to be very high—well above 50%.³ Since the loans are backed by the government, every project that fails is paid for by federal taxpayers.

**"...under the Act [Energy Policy Act of 2005], the Department may guarantee up to 80% of the total project costs. This will result in significant risk to the Government and, therefore, the American taxpayer."
Department of Energy
Inspector General**

In addition, although the loan guarantee program is designed to be self-financing, the Government Accountability Office stated that appropriations will likely be needed to cover the expenses of the program.⁴ And while the DOE is tasked with estimating the administrative and the subsidy cost of the loans, the Congressional Budget Office projects that the Department of Energy will likely underestimate these costs.

Past Failures

The Department of Energy has issued risky loan guarantees to the energy industry in the recent past. In the late 1970s and early 1980s the DOE offered billions in loan guarantees for the development of synthetic fuels. Administrative failures and market changes caused the loans to default causing taxpayers to lose the initial \$15 billion investment in the program.⁵

Congress Must Maintain Strict Oversight and Not Provide Authority for Risky Loan Guarantees

The federal government must learn from past mistakes and exercise caution with the program or risk jeopardizing billions in taxpayer dollars through the financing of risky projects.

For more information, please visit www.taxpayer.net or contact Autumn Hanna at (202) 546-8500 autumn@taxpayer.net

¹ U.S. House of Representatives Committee on Rules, "Glossary of Terms in the Federal Budget Process", http://www.rules.house.gov/archives/glossary_fbp.htm, accessed 3 December 2008.

² Department of Energy Loan Guarantee Program, "Title XVII 2008 Omnibus Report Language," <http://www.lgprogram.energy.gov/appro/rplLanguage.pdf>.

³ Congressional Budget Office, "S. 14 Energy Policy Act of 2003: Cost estimate", May 2003, <http://www.cbo.gov/doc.cfm?index=4206&type=0>.

⁴ Government Accountability Office, "The Department of Energy: Key Steps Needed to Help Ensure the Success of the New Loan Guarantee Program for Innovative Technologies by Better Managing its Financial Risk," February 2007.

⁵ "Shattered Hopes for Synfuels" – Time Magazine (4/18/05)

Quote from: Office of Inspector General "Loan Guarantees for Innovative Energy Technologies" DOE/IG 0-777, September 2007.