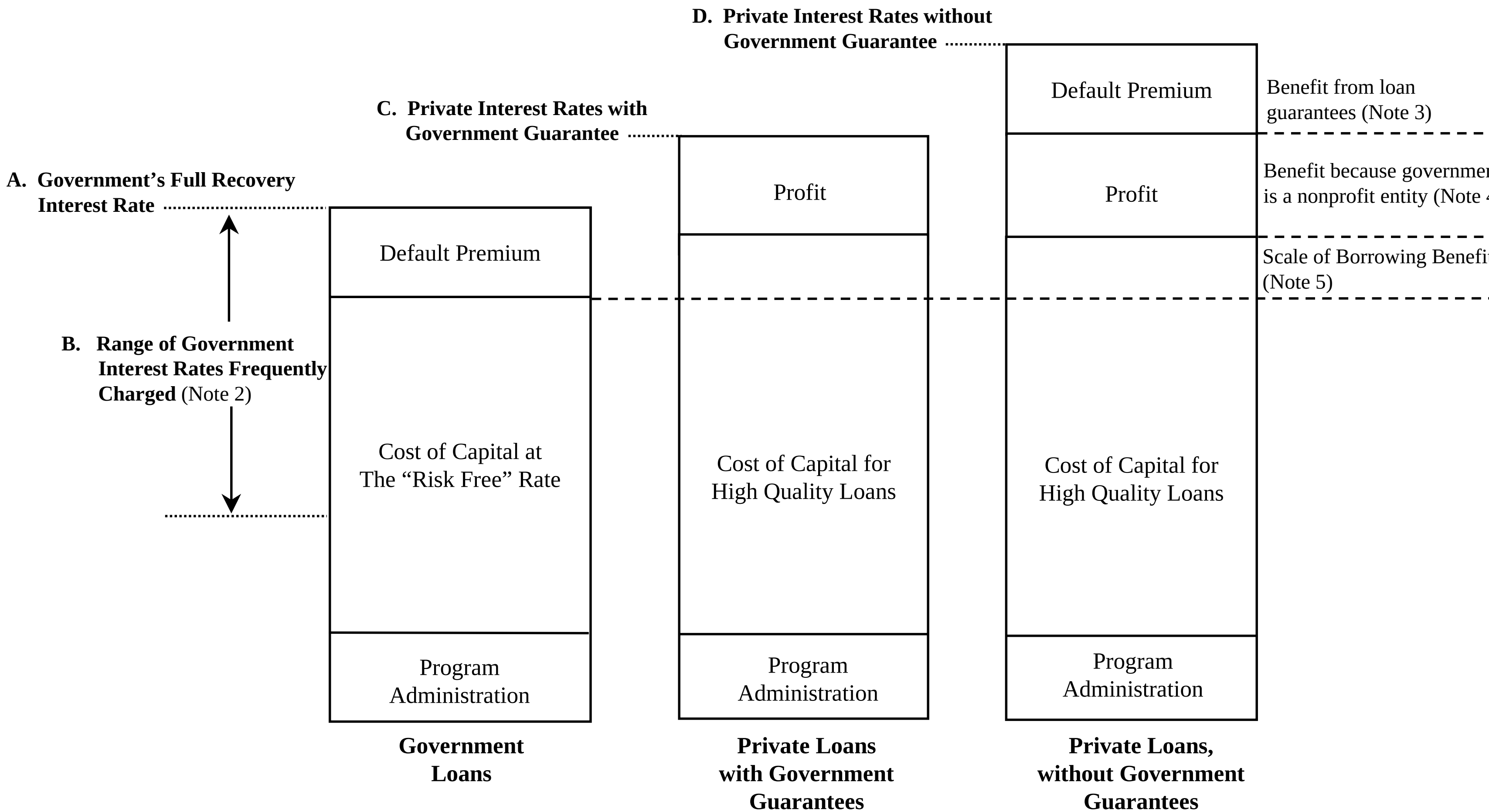
SUBSIDIES THROUGH GOVERNMENT LENDING PROGRAMS

(Note 1)



Notes

(1) Chart is illustrative. Absolute and relative size of components will vary by type of loan and type of lender. The subsidy cost to taxpayers equals the government's full recovery interest rate minus what it actually charges (A-B). The value of the lending subsidy to recipients equals the private interest rate minus what the government charged (D minus B or C minus B, depending on the program). This difference is also referred to as the value of government intermediation.

(2) Depending on program goals, interest rates charged to borrowers can fall anywhere within this range.

(3) Appropriate default premium varies by loan. Premiums that are too small yield uncovered losses, which are common in many government lending programs. Federal loan guarantees shift default risks (they are not eliminated) from the private sector to the government, allowing private lenders to charge lower interest rates to borrowers. Default premium subsidies are very difficult to estimate ahead of time; however, historical data on actual defaults can provide a good proxy value.

(4) Private lenders need to earn a minimum return in order to continue lending. Government programs do not.

(5) Federal government's large size often enables it to obtain a lower interest rate than private companies, even before default premium is taken into account.

Source: Doug Koplow and Aaron Martin, *Fueling Global Warming: Federal Subsidies to Oil in the United States*, (Washington, DC: Greenpeace), June 1998, p. 3-8.