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U.S. House of Representatives

COMMITTEE ON THE BUDGET
Washington, DC 20515

November 29, 2011

The Honorable Herbert Allison
1000 Independence Avenue, SW
Washington, DC 20585

Dear Mr. Allison:

As part of your independent review of the Department of Energy (DOE)'s loan portfolio, I request that you include in your public report a fair-value estimate of the cost to taxpayers of the DOE loan guarantee programs. Americans deserve the most honest, accurate assessment of how Washington spends their hard-earned tax dollars.

The costs of DOE's loan guarantees are currently calculated using the inadequate methodology prescribed in the Federal Credit Reform Act (FCRA). Under FCRA rules, government-backed loans are discounted at risk-free interest rates – the interest rates on U.S. Treasury securities. As the Congressional Budget Office has stated, by incorporating market-based risk premiums, fair-value estimates recognize the financial risks that the government assumes when issuing credit guarantees. Put simply, the FCRA methodology understates the true cost to taxpayers of providing these credit programs. The Administration and Congress have adopted fair-value methodology to provide a more accurate assessment of other federal financial commitments. Including an adjustment for market risk would show the full subsidy cost of DOE's loan guarantees and permit a better assessment of the costs of subsidizing these private sector activities.

In the midst of trillion-dollar deficits and debts, every effort is required to ensure a rigorous evaluation, full transparency, and good stewardship of federal financial commitments.

I look forward to your response to this request.

Sincerely,

Paul Ryan

Paul Ryan
Chairman

cc: Steven Chu, Secretary, Department of Energy
Jacob Lew, Director, Office of Management and Budget