

loan" amounts on the other. Such a separation can be done administratively—on a consistent basis for all loan programs and shown in the budget without requiring a new or more complicated structure of appropriations—with the understanding that, in this particular, the presentation would not coincide with the appropriated fund entities which have been established through the appropriation process.

PARTICIPATION CERTIFICATES

The Commission also has focused on another aspect of present budget treatment of loan programs—the handling of participation certificates. The device of selling certificates of participation in a pool of loans and treating them as a negative expenditure in budget accounting has been widely criticized. This is partly a reflection of the marketing difficulties encountered by the first of these securities issued under the Participation Sales Act of 1966 in reluctant acceptance by the financial markets during the tight money period in mid-1966—an area of inquiry beyond the scope of this Commission.

But there is substantial agreement among journalists, economists, investors, security analysts, Members of the Congress, and students of the budget generally that participation certificates are a means of financing very similar to direct borrowing by the Federal National Mortgage Association, for example, or by the Treasury itself. There has never been any question that receipts from the sales of assets—financial or physical—reduce the budget deficit, just as purchases of assets increase the deficit. When the transaction relates to a public enterprise fund, such receipts have properly been recorded as a negative expenditure. The present problem arose when assets were pooled, and shares in the pool were sold.

When the Reconstruction Finance Corporation went into liquidation in 1954—and again in 1962 for the Export-Import Bank and in 1964 for the Federal National Mortgage Association and the Veterans Administration—the sale of participation certificates in pools of loans was undertaken. This in turn led to the Participation Sales Act of 1966, which gave the Federal National Mortgage Association the responsibility for managing and coordinating the pooling of assets and sale of participation certificates in the capacity of trustee for a number of other agencies—the Farmers Home Administration, the Office of Education's academic facilities loan program, the college housing and other programs of the Department of Housing and Urban Development, and the Small Business Administration. Under these enlarged programs, the volume of participation certificates outstanding will have risen from \$1.3 billion in June 1965 to a projected total of \$11.1 billion by June 1968. As a result, net expenditures of Federal loan programs shown in the current budget have been correspondingly reduced by several billion dollars in each year and anyone looking at recent budget presentations could have been left with an erroneous impression as to the extent of increase in direct loans outstanding.

The Participation Sales Act permitted a somewhat more direct participation by investors in the financing of lending programs. It has also helped in