Thank you Chairman Coats for holding today’s hearing.

In this morning’s hearing, we will compare two systems for budgeting federal credit programs.

The first, the Federal Credit Reform Act of 1990 (FCRA), was signed into law by George H.W. Bush in 1990. It has proven a reliable tool for budgeting federal credit programs.

The second, so-called “fair value” accounting, is a program supported by some of my colleagues in the Republican Party that will make federal credit programs seem more expensive. If implemented, this system will necessitate cutting loan programs or raising interest rates.

In my mind, there is nothing fair about “fair value” accounting.

At its root, today’s hearing is about two vastly different philosophical approaches to government.

My Republican friends believe that the federal government – in this case federal lending programs – should operate just like the private sector.

But the federal government is not the private sector.

The principal motivation of the private sector is to maximize profit.

The principle goal of government is to provide services that the private sector cannot or will not provide.

These differences are especially clear in federal lending programs. Private institutions make loans that they think will be the most profitable.

But the United States government sees thing differently.

For example, it lends to a group of individuals with little or no income and no credit history. They are known as “college students” and there are more than 20 million of them in the United States today. The vast majority of student loans are issued by or guaranteed by the government.

Why does the government take on this risk? Because it helps millions of Americans go to college who might otherwise not be able to afford to go. It also benefits the rest of us by creating a more educated workforce. A better workforce will make our country more competitive and our economy stronger.

This is a social good not recognized by private lenders.

I want to turn to the specific question of how we measure the costs of federal government loan programs.

How these programs are accounted for – and how their budget impact is assessed – will affect the broader deficit outlook and choices we make as policymakers.

The current procedure under the Federal Credit Reform Act appropriately calculates the lifetime cost of federal credit programs reflecting both the risk of default and the government’s cost of borrowing.

FCRA has been very accurate. OMB found that in the more than twenty years FCRA has been in place, the initial cost estimates of all credit programs differed from their actual cost by less than one percent of their face value. As they say – if it ain’t broke, don’t fix it.

But today we’re apparently trying to “fix” a system that already works well.

It is part of a broader ideological initiative.

In tax policy, Republicans are trying to change the rules of the game by instituting so-called “dynamic scoring.” This would make tax cuts seem less expensive than they really are.

In federal credit policy, Republicans are trying to change the rules of the game using an accounting system that will make programs like student loans look more expensive.

The result of this so-called “fair value” accounting will be cuts in federal loans programs – for example, less money available for students at higher rates.

Under “fair value” accounting, the cost of federal credit programs, which are funded by the purchase of low-interest Treasury securities, would be evaluated as if these government were forced to borrow with an additional “risk premium” demanded by the private market.

As the Center on Budget and Policy Priorities put it, fair-value budgeting requires that the budget “reflect amounts that the Treasury would never actually pay anyone.”

It will make federal lending programs appear more costly than they really are.

Millions of Americans have something to lose if proponents of this accounting system have their way. I regret that we don’t have any of their representatives on this panel today.

However, Chairman Coats and I have received letters from a number of organizations strongly opposed to “fair value” accounting.

A letter from the National Education Association states that, quote: “NEA opposes the use of fair value accounting in federal credit programs, especially student loan programs, because it would artificially raise their costs and make them appear to be more expensive to the federal government than they really are.”

I ask unanimous consent to enter this letter into the record.

A letter from the National Association of Homebuilders states that “fair value accounting” would artificially raise the rates on home loans. I also would like to enter that letter into the record.

Other noted organizations also oppose using “fair value accounting” for budgeting purposes:

* The National Association of Realtors
* The National Association of Independent Colleges and Universities
* The Retired Enlisted Association
* The National Rural Electric Cooperative Association
* The Student Aid Alliance
* The National Multifamily Housing Council
* And many others….

I would like to place letters from several of these organizations into the record.

In conclusion, I ask that we listen to both sides of the debate today – but that ultimately, we not let ideology trump reality.

Fair value budgeting would distort the budget process, undercut federal credit programs and, ultimately, deprive millions of Americans of the financial support they need to get an education, buy a home or start or operate a small business.

I look forward to our discussion this morning and thank each of the witnesses for appearing before the Committee.