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REVIEW & OUTLOOK

Ending Federal Loan Fraud

Republicans don't need Obama's signature to retire this scam.

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“We’ll try and balance the budget in a 10-year period,” said Senate Budget Chairman Mike Enzi (R., Wyo.) in January. “And we hope to do it without gimmicks and bad accounting.” That last point is crucial. Avoiding behavior that would get a private citizen sent to prison seems a reasonable aspiration for elected officials, and Mr. Enzi has a perfect opportunity to start cleaning up the government’s books.

This year’s congressional budget outline can move Washington toward more honest accounting by creating new rules for the Congressional Budget Office. President Obama’s signature isn’t required, and since budget resolutions can’t be filibustered, reformers don’t need Democratic votes.

A great place to start is the accounting for federal lending programs which deliberately understates their risks. Readers may have noticed that every time federal student-loan subsidies expand, liberals like Senator Elizabeth Warren (D., Mass.) hail it as a taxpayer windfall. She gets away with this because administrative expenses and market risk aren’t included in the loan cost estimates.

“The government is exposed to market risk when the economy is weak because borrowers default on their debt obligations more frequently and recoveries from borrowers are lower,” explained the Congressional Budget Office in a report last year. “When the government extends credit, the associated market risk of those obligations is effectively passed along to taxpayers, who, as investors, would view that risk as

having a cost.”

They sure would. CBO reported that while the Department of Education’s four largest student-loan programs were expected to yield an official savings of roughly \$135 billion from fiscal 2015-2024, the programs would likely cost taxpayers \$88 billion under fair-value accounting practiced outside the



Senate Budget Chairman Mike Enzi (R., Wyo.) PHOTO: ASSOCIATED PRESS

Beltway.

An official \$14 billion projected taxpayer gain at the Export-Import Bank was revealed as a \$2 billion projected loss. And the official \$63 billion bonanza expected from the Federal Housing Administration’s single-family mortgage guarantee turned out to be a \$30 billion taxpayer shellacking.

Mr. Enzi’s office says he supports fair-value accounting for federal credit programs. His House counterpart, Rep. Tom Price (R., Ga.), has been shining a light on this government racket for years. Now they can do something about it by using the budget resolution to require that CBO practice honest accounting in official scores of legislation.

The list of taxpayer-friendly measures that President Obama will sign before he leaves office is short. The new Republican majority in Congress should seize the opportunity for reforms they can execute on their own.

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