



SUPPORT WYDEN-SUNUNU AMENDMENT TO S. 14

Federal Loan Guarantees to the Nuclear Industry Are Sure to Burn a \$14 to \$16 Billion Hole in the Taxpayer's Pocket.

The current Senate energy bill proposes to provide federal loan guarantees, which would finance half the cost of bringing on line an additional 8,400 megawatts of nuclear energy. The only guarantee of this proposal is a litany of taxpayer-subsidized loan defaults and failure.

The federal government backs tens of billions of dollars in loans for such industries as shipbuilding to low-income housing. In recent history, these deals have helped beleaguered industries such as the Emergency Steel Loan Guarantee Program, airline bailouts after 9/11, and the Small Business Administration disaster assistance loans. Providing guarantees to expand the nuclear industry provides very little, if any, similar justification.

Already, the Congressional Budget Office has concluded that the risk of default on proposed nuclear loan guarantees to be "well above 50 percent." The Congressional Research Service estimates that proposed federal financing of new nuclear reactors would result in a taxpayer liability of \$14-\$16 billion.

Taxpayers should not be required to finance the mature nuclear industry for an investment that private investors and congressional watchdogs consider too risky. The current energy legislation provides no specific financial guidelines for the loans, leaving an open door for waste and mismanagement. The loan guarantee programs listed below are an example of the money pit that this could become:

“CBO considers the risk of default on such a loan guarantee to be very high—well above 50 percent.”

- ◆ Legislation providing emergency assistance to the steel industry was enacted in 1999 to create a loan guarantee board to oversee the administering of federal loans to the industry. In its FY04 budget, the Bush administration slashed funding for the Emergency Steel Loan Guarantee Program. Citing low demand for the program and stating that “one of the two guarantees issued, a \$110 million loan to Geneva Steel, is already in default, **leaving taxpayers to pick up the loss.**” In an October 25, 2002 letter, the Steel Manufacturers Association urged the Emergency Steel Guarantee Loan Board to reject loan applications from domestic steel companies near financial collapse or in bankruptcy. The Steel Manufacturers Association stated, “The only way the US and other world steel producers will resolve the crisis of excess, uneconomic capacity overhanging world steel, is to **let market forces close down inefficient producers.**”
- ◆ Between August 1999 and January 2002, the Small Business Administration (SBA) sold almost 110,000 loans with an unpaid balance of about \$4.4 billion in five loan sales. The General Accounting Office (GAO) found errors in the loan sales

accounting and budgeting that could seriously affect the reported results in SBA's financial statements. In her May 2003 congressional testimony, Linda Calbom of the GAO, reported on serious accounting errors with the Small Business Administration's disaster assistance and business loans. These problems "point to **an overall lack of financial accountability at SBA.**" Accounting records associated with SBA's first five loan sales indicate a loss of \$1.5 billion.

- ◆ The Maritime Administration's (MARAD) Title XI Loan Guarantee Program assists private companies to obtain financing for the construction of ships, or the modernization of U.S. Shipyards. The program authorizes the federal government to guarantee payment of interest and principal on loans made by shipbuilders. The initial intent of this program was to assist a beleaguered industry to get back on its feet. However, in the last five years the program has been mired with loan default after default. Between 1998 and 2002, nine loans have defaulted at a total cost of \$402 million to U.S. taxpayers. Growing concern has led to an Office of Inspector General and GAO review of the program. In June 2003 congressional testimony, General Accounting Office's Thomas McCool testified "MARAD does not operate the Title XI loan guarantee program in a businesslike fashion." In fact, "MARAD

has significantly underestimated defaults and overestimated recoveries to date."

- ◆ Congress temporarily provided the airline industry with loan guarantees after 9/11. Congress required the Air Transportation Stabilization Board to find evidence of damage due to September 11 before granting loan guarantees. In December 2002, the board rejected United Airline's bid for a \$1.8 billion guarantee stating, "This plan does not support the conclusion that there is a reasonable assurance of repayment and would pose an unacceptably high risk to U.S. taxpayers." In contrast, the loan guarantees in the Senate energy bill provide no guidance for issuing loans, no repayment requirements or time limits, and interest rates.
- ◆ The Small Reclamation Projects Act was authorized in 1956 to provide loans to construct smaller irrigation projects of less than \$10 million. This loan program has been federally mismanaged. A 1991 Inspector General report on the program found that "the Bureau loans were sold or prepaid at prices substantially lower than the present value of the loans to the Government." The Inspector General recommended that the federal government "fund loan projects only to the extent that non-Federal financing is not available to the loan applicants." This program has largely been defunded.