Statement of Gary Grippo
Deputy Assistant Secretary for Government Financial Policy
U.S. Department of the Treasury
Before the
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
United States House of Representatives

October 14, 2011

Chairman Stearns, Ranking Member DeGette, Members of the Subcommittee,

Thank you for inviting me to testify today regarding the Treasury Department's role in the implementation of the Department of Energy's (DOE) Title XVII loan guarantee program.

My name is Gary Grippo, and I am the Deputy Assistant Secretary for Government Financial Policy at the Treasury. In this role, I have two primary responsibilities. First, I oversee a policy staff that conducts analysis and develops recommendations for senior Treasury officials on all Government borrowing, lending, and investment, including Federal agency programs that offer loans and loan guarantees to the public. Second, I oversee the Federal Financing Bank (FFB). The FFB is a government corporation, under the general supervision of the Treasury, created by Congress to provide for coordinated, less costly, and more efficient financing of Federal and federally assisted borrowings. I am joined today by Gary Burner, the Chief Financial Officer of the FFB.

The Treasury is involved in the DOE loan guarantee program in two very distinct ways: as a lender and as a consultant. Both roles fall under my portfolio at the Treasury.

As a lender, in accordance with long-standing Federal credit policy, the FFB makes loans to private sector borrowers in cases where a federal agency, such as DOE, provides a 100% guarantee of all principal and interest on the loan. From a public policy perspective, it is typically preferable to have the FFB, rather than a commercial bank, issue the loan in such cases because a 100% Federal guarantee represents a credit risk to the lender that is the equivalent of a Treasury security and obligates the general taxpayer to assume the entire risk of the underlying guaranteed loan in the event of default. If a commercial bank were to make the loan, it would assume no default risk but would still be able to charge a relatively high rate of interest — providing the bank excess returns, while exposing the taxpayer to higher losses in the event of default. Financing these instruments through the FFB avoids these inefficiencies. The FFB sets the interest rate on these loans at a rate that is based on Treasury's rate of interest, which is commensurate with the actual default risk of the guaranteed loan to a lender, and thereby reduces costs to taxpayers if the loan defaults. Additionally, any amount charged by FFB over the Treasury's rate of interest is captured for the benefit of the taxpayer, rather than accruing to the benefit of commercial lenders.

The Treasury's other role in the DOE loan guarantee program, the consultative role, derives from Section 1702 of the Energy Policy Act of 2005, which states that "the Secretary [of Energy] shall make guarantees under this or any other Act for projects on such terms and conditions as the Secretary determines, after consultation with the Secretary of the Treasury…."[1] This is codified in DOE regulations for the loan guarantee program. For example, 10 CFR Section 609.7(a) states that: "Concurrent with its review process [of completed loan guarantee applications], DOE will consult with the Secretary of the Treasury regarding the terms and conditions of the potential loan guarantee."[2] In addition, Section 609.9(d) states that, "Prior to, or on, the closing date [of a loan guarantee agreement], DOE will ensure that: … (4) The Department of the Treasury has been consulted as to the terms and conditions of the Loan Guarantee Agreement …."[3]

The Treasury's consultative role falls within a particular window of a larger process — a process that ultimately leads to the issuance of a DOE loan guarantee, which DOE has described in previous testimony. Prior to engaging the Treasury on a specific transaction, DOE receives and reviews applications, carries out an initial due diligence, conducts a credit analysis and review, and negotiates an initial term sheet.

DOE consults with the Treasury after DOE has prepared a draft term sheet, but before DOE finalizes that term sheet and enters into a conditional commitment with the borrower. DOE briefs the Treasury on the transaction and provides certain documents, such as a paper summarizing the transaction and the proposed term sheet.

After consulting with Treasury, DOE completes its deal approval process, which culminates with the issuance of a conditional commitment. DOE then follows with additional due diligence, final contractual negotiations, and closing of the loan guarantee agreement. Leading up to closing, DOE may consult with Treasury if substantive changes are made to a guarantee's terms or conditions following conditional commitment.

Thus, the Treasury's limited role of consulting with DOE on the terms and conditions of guarantees falls within the context of a broader undertaking by DOE. In addition, as you are aware, DOE also interfaces with the Office and Management and Budget (OMB) on elements of this process.

Recognizing this broader context, the Treasury's interaction with DOE supplements, rather than duplicates, DOE's efforts, and aims to provide independent insight and input for DOE to consider as it executes its responsibilities under the loan guarantee program. In particular, given Treasury's expertise, we have focused on providing input that may help DOE further align the terms and conditions of a guarantee with the broad objectives of Federal credit policies, which are common to all Federal credit programs and are reflected in OMB Circular A-129: "Policies for Federal Credit Programs and Non-Tax Receivables."[4]

While I have alluded to this above, it is worth clarifying that there are several aspects of the implementation of the loan guarantee program on which the Treasury does not consult. For

---

[1] Energy Policy Act of 2005 (Public Law 109-58).
[2] 10 CFR § 609.7 (2009).
[3] 10 CFR § 609.9 (2009).
[4] Available at: http://www.whitehouse.gov/omb/circulars_a129rev/.

example, the statute and underlying regulations require that, before issuing a guarantee, DOE must determine that there is a reasonable prospect of repayment, which involves detailed credit analysis to which DOE devotes substantial effort. DOE must also estimate the credit subsidy cost of the guarantee, which OMB must review and approve. The Treasury is not involved in, and does not consult on, these DOE activities.

Likewise, among a broad pool of applicants, DOE must select those that will receive loan guarantees, consistent with its programmatic objectives. Treasury is not expert with respect to the energy technologies that are the subject of the guaranteed transactions. Treasury's involvement is limited to consulting on the terms and conditions of guarantees after DOE has selected which applicants it will consider for a conditional commitment.

In closing, Treasury's consultative role reflects Treasury's experience with federal credit policies and with providing advice on aligning terms and conditions of guarantees with those policies.

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to testify today to share with you Treasury's limited role in the much larger DOE loan guarantee program. Gary Burner and I would be pleased to answer any questions that you may have.