WIFIA Loan Program Funding Losses

October 5, 2021

Current Unrealized Losses

- As of 9/30/21, WIFIA had a portfolio of $11.5bn. About $1.5bn is in drawn loans, and about $10bn is in undrawn loan commitments that may be drawn over time, up to about 10 years in some cases.

- The weighted average fixed interest rate on the portfolio is about 1.5%. That means that when the $10bn is drawn, the loans will earn about $150 million/year in interest.

- If all the loans were drawn at once, WIFIA would need to borrow $10bn from Treasury to fund them. Treasury charges an interest rate for this intragovernmental loan that's essentially equal to its cost to issue Treasury bonds with same term as the average life of WIFIA loans, or about 20 years. As of 9/30/21, the Treasury 20-year bond yield was 2.02%. Per some FCRA adjustments, the 'single effective rate' that Treasury would charge WIFIA was about 1.9%.

- If drawn on 9/30/21, the $10bn of WIFIA loans would earn $150m/year, but Treasury would have to pay bondholders $190m/year to finance them. That's a $40m loss/year for 20 years, or about a $800m loss in total. The present value of those future losses is about $675 million.

- Of course, the $675m is an 'unrealized' loss because the WIFIA loans weren't actually drawn on 9/30. But the number gives an indication of the potential for losses as the loans are actually drawn over the next years. It's a risk indicator like a 'mark-to-market' evaluation for an investment portfolio.

Likely Realized Losses

- It is almost universally expected that rates will rise over the next few years to more "normal" historical levels as the Fed tapers off and inflation heats up. If rate increases follow CBO's most recent projections, it's likely that the $10bn of WIFIA loan commitments will be on average drawn at Treasury rates of about 2.5%.

- That means that the WIFIA loans will earn $150m/year, but on average cost Treasury $250m/year to finance. That's $100m loss/year for 20 years, or $2bn in total -- about $1.5bn present value.

- It's entirely possible that the average Treasury rate on WIFIA draws is closer to an average of 3% -- i.e., $150m loss/year or $3bn in total, with present value in excess of $2bn.

Mandatory Appropriations for Realized Losses

- Per FCRA, when the loans are drawn, the present value of the expected funding loss is 'realized' and recorded as a 'mandatory appropriation' -- in effect, a budgeting estimate of the additional value that federal taxpayers are committed to pay in order to finance WIFIA's loan portfolio, over and above discretionary appropriations for Program administration and expected credit losses.

- Congress did not intend the Program to work like this. WIFIA's statutory language indicates that the interest rate on a WIFIA loan was meant to at least cover its Treasury cost. But Congress did not anticipate that highly rated WIFIA borrowers would use the fixed loan commitment as an interest rate option, delaying drawdown as long as possible and only drawing if their alternative tax-exempt rates had risen above their WIFIA original or reset loan rate. As such, the Program will never realize significant funding gains – only accumulating losses.