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# United States Senate

COMMITTEE ON THE BUDGET  
WASHINGTON, DC 20510-6100

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[www.budget.senate.gov](http://www.budget.senate.gov)

November 4, 2011

The Honorable Steven Chu  
Secretary of Energy  
Department of Energy  
1000 Independence Avenue, SW  
Washington, D.C. 20585

Dear Secretary Chu:

The recent bankruptcy of Solyndra LLC, a recipient of \$535 million DOE loan guarantee, has raised questions regarding the proper cost estimates of taxpayer-funded loans. Solyndra and other bankrupt companies obtained their loan guarantees through DOE's Section 1705 credit program. Title V of the Congressional Budget Act of 1974, also known as the Federal Credit Reform Act (FCRA), governs the budgetary treatment of federal credit programs, including the Section 1705 program. An important purpose of this statute is to accurately measure the cost of Federal credit programs.

FCRA requires that the subsidy cost of a loan guarantee be calculated based on the cash flows, default rate, and recovery amount of the underlying loan. The latest *Federal Credit Supplement* published by the Office of Management and Budget in February 2011 indicates that DOE has calculated that Section 1705 loan guarantees provide a 5.66 percent subsidy rate to beneficiaries. That is, the federal government loses, on average, \$5.66 on every \$100 guaranteed. This is based on the Department's assumptions of a 12.85 percent average default rate and 48.77 percent average recovery rate.

I am concerned that the calculated subsidy rate of the Section 1705 program may underestimate the actual subsidy and the actual cost to taxpayers that is provided to corporations receiving loan guarantees. In order to better understand the current subsidy estimate, I would therefore like answers to the following questions no later than November 18, 2011:

1. The original subsidy estimate for this program in February 2009 was 3.78 percent. The calculated rate rose 1.88 percentage points, an increase of 50 percent in two years.
  - a. What factors in the subsidy estimate calculation changed to produce this increase?
  - b. This increase suggests the program became significantly riskier over time. Did anyone at DOE express concern over this large change in the subsidy rate over such a short period of time?
  - c. Does the latest subsidy estimate, published in February 2011, take into account the December 2010 default of Solyndra LLC?

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2. In February 2010 the Department requested additional funding in FY2011 appropriations to cover credit subsidy costs for Section 1703 and Section 1705 programs. How much of this amount was intended to cover expected losses from the program?
3. DOE will be recalculating the subsidy estimate in the next few months. Based on the program's experience since early 2011, do you anticipate the estimate will increase again?

Given the responsibilities of the Committee on the Budget to oversee the budgetary treatment of federal credit programs, it is my wish that we make sure that the cost of credit programs within the federal government are accurately estimated and honestly presented to the American people. If you or your staff have any questions regarding this letter, please contact either Jason Knox or Dan Brandt on my staff at (202) 224-0642. Thank you for your assistance with this matter.

Sincerely,



Senator Jeff Sessions  
Ranking Member  
Committee on the Budget