Michael Grunwald writes: David Matsuda had never been a mariner or an administrator before he became the head of the U.S. Maritime Administration in 2009. He had been a government lawyer and a congressional staffer, focusing on railroad issues; the ringtone on his phone was the choo-choo of a train. Matsuda had never been a banker, either. This was relevant because MarAd, in addition to its basic duties involving vessels and ports, ran a perennially troubled $2 billion credit program that had propped up U.S. shipbuilding since the Great Depression. When Matsuda took the helm, the program was sinking again, heading for its worst defaults since a massive loan to help the billionaire investor Sam Zell build cruise ships had gone bust in 2001. Whatever Matsuda's Washington career had prepared him for, it hadn't prepared him to be Uncle Sam's repo man on the high seas.

"It was like walking into a nightmare," says Matsuda, 42, a former transportation adviser to the late Democratic Senator Frank Lautenberg. "I looked around and said, 'Guys, what's happening?'"

The Bush administration's last MarAd loan guarantee, a $140 million deal to help a politically connected firm build two "superferries" to shuttle passengers around Hawaii, imploded shortly after Matsuda arrived. MarAd got stuck with the ferries, which it eventually offloaded to the Navy. Then a marine services outfit with a MarAd loan went bankrupt, prompting panicky meetings about whether seizing its collateral—a supply boat at work in Nigeria's offshore oil industry—would spark an international incident. Then another dying shipping company missed a payment on a loan secured by four double-hulled oil tankers. After weeks of confusion, MarAd's lawyers informed Matsuda he needed to arrest the four football-field sized ships.

"Honestly, I didn't even know you could arrest ships," he recalls.

MarAd struggled just to locate the tankers, which were scattered around the Gulf of Mexico and the Eastern Seaboard. One captain apparently turned off his transponders to evade detection. "They were moving from port to port to avoid us," an official recalls. "We'd go looking for a ship, they'd be gone before we got there." The four ships were finally tracked down in three states; federal marshals had to board them, place them under arrest and claim them for the government. MarAd ended up selling them for scrap, recovering just $7 million of the $88 million it was owed.

This is what can happen, Matsuda says, when a little marine agency like MarAd is assigned to evaluate big-money credit deals. "It's never going to lure financial talent away from Wall Street," says Matsuda, who left the government in 2013 and is now a transportation consultant in Washington. "It's not a bank."

No, MarAd is not a bank. It's more accurate to say it runs the shipbuilding-loan division of a much larger bank—in fact, America's largest bank.

That bank currently has a portfolio of more than $3 trillion in loans, the bulk of them to about 8 million homeowners and 40 million students, the rest to a motley collection of

farmers and fishermen, small businesses and giant exporters, clean-energy firms and fuel-efficient automakers, managed-care networks and historically black colleges, even countries like Israel and Tunisia. It has about 120 different credit programs but no consistent credit policy, requiring some borrowers to demonstrate credit-worthiness and others to demonstrate need, while giving student loans to just about anyone who wants one. It runs a dozen unconnected mortgage programs, including separate ones targeting borrowers in need, Native Americans in need, veterans in need and, yes, Native American veteran borrowers in need. Its problems extend well beyond deadbeat shipbuilders.

That bank, of course, is the United States government—the real bank of America—and it's unlike any other bank.

For starters, its goal is not profit, although it is profitable on paper, and its loans are supposed to help its borrowers rather than its shareholders, better known as taxpayers. Its lending programs sprawl across 30 agencies at a dozen Cabinet departments, with no one responsible for managing its overall portfolio, evaluating its performance or worrying about its risks. The closest it gets to coordination is an overwhelmed group of four midlevel Office of Management and Budget employees known as "the credit crew." They're literally "non-essential" employees—they were sent home during the 2013 government shutdown—and they're now down to three, because their leader is on loan to the Department of Housing and Urban Development. When I suggested to OMB officials that the crew seemed understaffed to oversee a credit portfolio 25 percent larger than JPMorgan Chase's, someone pointed out that it's hiring an intern.

These unregulated and virtually unsupervised federal credit programs are now the fastest-growing chunk of the United States government, ballooning over the past decade from about $1.3 trillion in outstanding loans to nearly $3.2 trillion today. That's largely because the financial crisis sparked explosive growth of student loans and Federal Housing Administration mortgage guarantees, which together compose two-thirds of the bank of America. But even after the crisis, as a Washington austerity push has restrained direct spending, many credit programs have kept expanding, in part because they help politicians dole out money without looking like they're spending. In 2012, Congress boosted funding for a transportation loan program called TIFIA eightfold, while launching a similar initiative for water projects called WIFIA. There's now talk of a new credit program for public buildings—naturally, BIFIA.

Data: Office of Management and Budget (Housing includes FHA, Department of Veterans' Affairs, USDA Rural Housing Service); Illustration by Oliver Munday

One reason for the bank's explosive growth is old-fashioned special-interest politics, as beneficiaries of credit programs—the real estate industry, for-profit schools, the farm lobby, small-business groups, even shipbuilders—push aggressively to grow them. A Washington money spigot, once opened, is almost never turned off. Since fishermen in the Northwest Halibut/Sablefish and Alaska King Crab fisheries got their own $24 million loan program, it's a good bet that nobody's paid closer attention to it on Capitol

Hill than their lobbyists. But the federal credit boom has just as much to do with arcane budget politics. Critics believe the unorthodox government accounting system for credit programs dramatically understates their costs, encouraging Congress to spend hundreds of billions of dollars in expected savings that might never materialize. It's not just a theoretical risk: The FHA has already received a series of unpublicized quasi-bailouts since the financial crisis, amounting to more than the $45 billion government bailout the corporate Bank of America received in 2008. Some critics believe student loans, budgeted as a government moneymaker, could be heading for a far worse fiscal disaster.

But the financial and political risks associated with federal credit have not yet registered with most policymakers, much less the public, even after credit controversies like the solar manufacturer Solyndra's default on its clean-energy loan, the escalating student debt crisis and the high-profile effort by congressional Republicans to kill the low-profile Export-Import Bank. "The depth of ignorance is stunning," says Brookings Institution fellow Douglas Elliott, a former investment banker who wrote a book called Uncle Sam in Pinstripes about the government as a financial institution.

Some of the federal government's credit operations produce failure rates no private bank would tolerate. The Department of Agriculture's loan programs promoting biofuel refineries, rural broadband and renovations of rural apartment buildings have all performed even worse than MarAd's, recovering less than 40 cents per dollar, the kind of return you might expect lending to your brother-in-law. The average default rate for private bank loans is about 3 percent; by contrast, the State Department's "repatriation" loans to Americans who get stuck without cash abroad have a 95 percent default rate. USDA's main mortgage program for rural families retrieves just 3 cents on the dollar from borrowers who default, suggesting it barely tries to collect when loans go bad.

The riskiest programs often reek of politics, producing fiascos like the Bush-era super-ferries, which benefited a firm led by Republican ex-Navy Secretary John Lehman, or the similarly disastrous Clinton-era MarAd loan to modernize a shipyard near Boston, a pet project of the late Democratic Senator Ted Kennedy. Credit programs, especially the more obscure ones, tend to have well-positioned benefactors. South Dakota Republican John Thune, a former railroad lobbyist who is about to chair the Senate Commerce Committee, once pushed through a major expansion of a railroad loan program on behalf of his former employer, while Michigan Democrat Debbie Stabenow has protected those dicey loan guarantees for biorefineries as chair of the Senate Agriculture Committee.

But if too much risk can be a problem, not enough risk can also be a problem, as federal credit ends up subsidizing safe transactions, crowding out private lenders and helping people who don't need help. The Ex-Im Bank has defended itself by highlighting its 0.2 percent default rate, which only raises the question of why a government entity is needed to make such low-risk loans to corporate behemoths like Boeing and General Electric. The same question could apply to the Overseas Private Investment Corporation's reliably profitable financing for U.S. firms building fancy hotels and power plants abroad. If the deals are low-risk layups, why is Uncle Sam involved?

The Agriculture Department, in addition to those absurdly risky loans for biorefineries and broadband, makes absurdly safe loans to rural electric cooperatives and telecoms, so safe they're sometimes described internally as "profit centers." Those New Deal-era credit programs made sense before rural America had electricity and phone lines, but now they're essentially boondoggles that subsidize rural ratepayers—not to mention suburbanites around Waco, Atlanta and Washington, D.C., thanks to a "once rural, always rural" loophole. Meanwhile, a branch of the federally chartered and heavily subsidized Farm Credit System, created a century ago to extend affordable financing to small-scale agriculture, recently lent Verizon $725 million to buy a European cellphone company. Private lenders complain that Farm Credit takes advantage of its privileged status to cherry-pick the most creditworthy borrowers with remotely plausible links to rural America, although its loans to help a billionaire's ex-wife launch a winery in Virginia and an American Idol producer build an equestrian center in South Dakota have gone bust, too.

Data: Congressional Budget Office. Illustration by Oliver Munday.

Nobody set out to create the bank of America or make it this big. It's an outgrowth of the classic Washington instinct—arguably an American instinct—to max out the credit card now and worry about the risks later. Its $3.2 trillion in debt doesn't even include another $15 trillion worth of pension insurance, deposit insurance, Fannie Mae and Freddie Mac mortgage insurance, and other government exposures that aren't officially considered credit programs. I interviewed about 50 sources inside and outside government about the bank of America, and few of them think it is well-designed, well-managed or well-understood, even if much of what it does is well-intentioned.

Ultimately, loans and loan guarantees of the sort that have proliferated in recent years are merely tools in Washington's kit. They can address national priorities, like expanding access to homeownership and higher education, and finance major projects, like America's first new nuclear plant in decades and the widening of the Washington Beltway. But they're more complex tools than direct government grants or tax breaks, creating more risks and unintended consequences. Federal agencies, uniquely insulated from the market pressures faced by private lenders, aren't usually well-suited to underwrite, originate, service, monitor and foreclose on loans. Their employees don't get fired when their loans go bad, or rewarded for good decisions. They're not even bound by the federal regulations governing risk management at other financial institutions. And their credit programs, generally devoid of oversight or accountability, tend to fly under the radar.

"The government is a gigantic financial institution, operating in a black box," says Deborah Lucas, a former Congressional Budget Office official who now runs MIT's Center for Finance and Policy. "People should understand what it's doing. They really don't."

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In 2013, the Federal Housing Administration had to draw $1.7 billion from the U.S. Treasury, because a spike in defaults on mortgages it had guaranteed during the Great Recession had burned through its reserves. The move was widely reported as FHA's "first-ever taxpayer-funded bailout." But Douglas Criscitello, the former chief financial officer at HUD, told me that in fact the FHA had been receiving silent taxpayer-funded bailouts throughout President Obama's first term, bailouts that went unnoticed because of the odd process the government uses to calculate the budget costs of credit programs. It's actually a more sophisticated process than it used to be, but it still helps explain the bank of America—and the anxiety the bank's growth has inspired among green-eyeshade types like Criscitello.

"It's mind-boggling how the accounting obfuscates the costs," he says.

Illustration by Oliver Munday

When the U.S. government simply spends money to do stuff, it's usually clear how much the stuff will cost to do. But that's not true when the government lends money or guarantees loans by private lenders. It depends how much of the money gets paid back and when. It depends on interest rates, default rates and collection rates after defaults. It depends what value is placed on a dollar today compared to a dollar in the future, an almost metaphysical question for a government that can raise taxes or print money. And in Washington, how stuff gets "scored" in the budget often determines what stuff gets done.

The scoring process for credit used to be simple but stupid, a cash approach that made direct loans look insanely expensive while financially equivalent loan guarantees looked almost free. The Federal Credit Reform Act, tucked into the 1990 budget deal that broke the first President Bush's read-my-lips-no-new-taxes pledge, made the process more complex but also more sensible, requiring loans as well as guarantees to be budgeted according to their expected costs over time—and "re-estimated" every year according to their actual performance. This was a real victory for the congressional budget committees, which wanted costs to reflect reality, over the committees overseeing agriculture and other specific issues, which liked hiding the costs of their lending programs.

But federal credit skeptics still see two big problems. The first is that government expectations of future loan costs can be—and sometimes have been—wildly wrong.

Take the FHA. It tripled its loan portfolio to $1 trillion after the private mortgage market collapsed, exactly as it was created to do during the Depression, and its defenders have argued that its $1.7 billion Treasury bailout was a tiny price for taxpayers to pay to keep credit flowing during another epic housing crisis. But that well-publicized $1.7 billion figure ignored tens of billions of additional dollars in unpublicized budget re-estimates after FHA mortgage losses repeatedly turned out worse than expected. Re-estimates don't require a public announcement or a congressional appropriation; agencies just use what's known as their "permanent indefinite authority" to stick the shortfalls on the

government's tab. "That's real money!" Criscitello says. "They forecast bogus profits every year, and when it turns out they're way off they just say, 'Oh, well.'" Re-estimates of FHA losses have produced $73 billion worth of "oh, well" since credit reform, most of it since the housing bust. That still might be a reasonable price to pay, but it is certainly not a tiny price, amounting to nearly one-sixth of the current budget deficit.

"The government accounting is unfathomable. I never saw anything like it as a banker," says former Capitol One chief financial officer Gary Perlin, who served as an adviser to the Obama Treasury on risk management issues. "It's just: 'Gee, we thought it would cost X, but guess what, it cost more. Oh, well.'"

Reporting this story, I heard a lot of "oh, well."

Of course, budget costs can be re-estimated down as well as up. The $700 billion Wall Street bailout had such success reviving banks that almost all of the firms quickly repaid their money with interest—and ended up producing unexpected profits for taxpayers. OMB officials believe that across the government, overestimates and underestimates tend to cancel out over time; their internal review of two decades of credit costs found the original budget estimates were off by just 0.17 percent overall. Even after the spike in government credit and defaults during the financial meltdown and subsequent recession, U.S. finances rebounded quickly, and today the deficit is already back down to pre-crisis levels.

Buddy, Can You Spare a Loan?

Student loans and mortgage guarantees make up two-thirds of all federal credit, but there are 120 different loan programs serving a motley assortment of beneficiaries.

Fishing quotas The National Oceanic and Atmospheric Administration has a $100 million loan program to help fishermen buy or repair vessels, plus a similar $24 million program reserved for the Northwest Halibut/Sablefish and Alaskan King Crab fisheries.

Sugar farmers Sugar farmers already benefit from generous federal price supports, but they can also borrow money from the U.S. Department of Agriculture to store their harvest until prices get better. Sugar gets singled out for its own $20 million loan program, but there's a similar $300 million storage loan program for other farmers.

Boll weevil eradication The boll weevil is already mostly eradicated in the United States, but the feds still have $60 million in outstanding loans to help cotton farmers get rid of the beetles. USDA has more credit programs than any other Cabinet agency.

Photos: Associated Press; Alf Ribiero via Flickr; Getty Images

Washington is increasingly nervous about the explosion of student debt, which has tripled in a decade and now exceeds credit card or auto debt; the rising default rate, now 18 percent overall and nearly 50 percent for two-year for-profit programs; and the damaging effects on younger Americans, who often find themselves drowning in red ink without a

diploma or a job to show for it. The Obama administration has tried to give them a break, in part by allowing some overstretched borrowers to reduce their payments based on their income, even forgiving some loans after 10 or 20 years. But the credit hawks say the administration is hiding the fiscal costs of its generosity, continuing to project more than $15 billion in annual profits from student loans. A report by Barclays Capital analyst Cooper Howes concluded the program is more likely to incur well over $10 billion per year in costs. That's a major discrepancy, equivalent to almost the entire federal budget for fighting AIDS—and more than the budget for Pell Grants for low-income students, a program many experts consider more effective than loans at easing the soaring cost of college.

The problem, Howes says, is that the administration has forecast ludicrously tepid demand for its pay-as-you-earn relief and eventual forgiveness. It's true there hasn't been a swarm of early adopters, partly because the Department of Education—which, unlike a private bank, does not even collect income data from its borrowers—has had problems getting the word out to potential beneficiaries. But it has vowed to fix those problems. And borrowers tend to enjoy relief and forgiveness. "There's way too much wishful thinking," Howes says. "Even if the default rate was zero, the government could lose barrels of money forgiving these loans."

When you think about it, making unsecured loans to unemployed teenagers does not sound like a super-profitable business model, which is presumably why private lenders don't copy it. Behind the scenes, OMB's bare-bones credit crew has questioned the Department of Education's rosy models of loan losses. But it's the Department of Education that has the models, as well as a financial division with a $1 billion budget and a staff about 300 times larger than the four-person credit crew. Incredibly, the cost of that staff, and of other federal employees who administer credit programs, is excluded from the analysis of their profitability. For scoring purposes, the programs are effectively run for free.

The agencies have a natural inclination to make their credit programs look cheap, joining forces with the congressional committees that fund them and the special interests that love them to push generosity over fiscal responsibility. After all, the Department of Education is in the business of promoting access to education, just as the Department of Agriculture (which provides farmers with operating loans, marketing loans, storage loans, even boll weevil eradication loans) aims to promote agriculture and the Department of Veterans Affairs (which runs a $350 billion mortgage business) aims to help veterans. Conservative underwriting is not their top priority.

"The programs are run by advocates," says MIT's Lucas. "Some of them are worthy programs, but from a taxpayer perspective, the foxes guard the henhouse."

Brian Deese, Obama's deputy budget director, downplays the battles with departments like Education, saying OMB's goal is to get the costs right, not to cut costs. But he doesn't deny that battles happen: "There are constructive tensions, as there should be."

The reason that student loans can look profitable despite their high default rate is that they aren't dischargeable in bankruptcy. That means the government can still collect from borrowers who default by garnishing their wages, tax refunds or, eventually, Social Security benefits. Whatever government's shortcomings as an underwriter, originator or servicer of loans, it can be a very patient and resourceful collection agency. And since it can borrow at extraordinarily low interest rates, its loans can go delinquent for decades and still generate positive returns, at least according to its own budget rules.

Illustration by Oliver Munday

But this gets to the second big dispute over federal credit. Some experts, including the CBO, believe even if you ignore whether budget estimates are too optimistic about loans going bad, government accounting quirks still make credit programs look much cheaper than they really are. It boils down to a fight over the government's ultralow capital costs and whether they skew the "discount rate" used to calculate the costs of federal credit.

The stakes are huge; the CBO reported in May that if the U.S. budget used "fair-value" accounting that assessed the market value of federal credit the way a private bank would, student loans and FHA guarantees would be scored as costing $118 billion through 2024. Those two programs are currently scored as producing $198 billion in budget savings through 2024, money the committees overseeing education and housing are already spending elsewhere. That discrepancy amounts to the state of Louisiana's budget for the next decade, or more than a year of funding for the U.S. Army.

In 2012, the CBO reviewed 38 credit programs scored as moneymakers and found 33 of them would be money-losers under fair-value accounting. Overall, the government expects to earn $45 billion on the $635 billion in loans it backed in 2013; fair-value rules would estimate $11 billion in costs instead. The difference would add as much to the deficit as the hotly debated package of tax breaks that Congress passed in December.

"It's financial alchemy," Lucas scoffs.

Obama aides defend the current approach, arguing that both parties have used it since the 1990 reforms, that the Treasury's borrowing costs really are ultralow, that government doesn't need to account for market risks it doesn't face. They dismiss recent Republican efforts to mandate fair-value accounting—enshrined in a "transparency bill" the House passed in 2013—as thinly disguised efforts to shrink programs for families in need by making them look expensive. Still, it's worth noting that the head of Obama's Council of Economic Advisers, Jason Furman, once wrote an influential paper for the liberal Center on Budget and Policy Priorities that used fair-value accounting to attack Social Security privatization; the center has disavowed the politically inconvenient section of the paper, and Furman now says his budget analysis was wrong. Then again, Republicans never showed much interest in transparent accounting when they ran Washington during the Bush years.

Either way, the battle illustrates how budget incentives can skew policy. For example, the Department of Agriculture's mortgage guarantee program for moderate-income rural families—the one with the pathetic 3 percent recovery rate on defaults—has still eked out a narrowly profitable budget score, thanks to carefully designed fees. As a result, Congress and the department have expanded it eightfold in a decade, from a $3 billion business in 2005 to $24 billion today.

"Let's not say 'scam,'" says George Washington University lecturer Marvin Phaup, a former CBO economist. "Let's say people respond rationally to incentives."

When programs look cheap, and especially when they look free, policymakers tend to expand those programs, even if they're tightening belts elsewhere. They don't necessarily dwell on the potential dangers of backing a flurry of no-money-down mortgages in struggling rural towns. They might not question how much the availability of low-interest student loans for anyone who wants one fuels the skyrocketing tuition costs the loans are supposed to address. And policy concerns aside, politicians who want dollars to touch more people have a natural bias toward credit programs; $1 billion in transportation grants won't finance as many ribbon-cuttings as a $1 billion loss reserve that enables $10 billion in TIFIA loans. One of Obama's top priorities for his last two years is an "infrastructure bank," a kind of super-TIFIA that would stretch public works dollars even further.
Buddy, Can You Spare a Loan?

More federal loan recipients...

Repatriation The State Department makes emergency loans to Americans who get stuck abroad without cash; the default rate is about 95 percent. But the government eventually recovers about 37 cents on each dollar loaned; by contrast, the Federal Emergency Management Agency's disaster loans return only about 4 cents on the dollar.

Foreign nations and militaries The United States provides generous loan guarantees to allies including Israel, Jordan and Tunisia. It halted a similar loan guarantee to Egypt after a coup in 2013.

Native American veteran housing The government runs a dozen unconnected mortgage programs, including separate ones for borrowers in need, Native Americans in need, veterans in need and Native American veteran borrowers in need.

Photos: Associated Press; Alf Ribiero via Flickr; Getty Images

Favorable budget scores do tend to produce mission creep. The FHA, once a minor player in the reverse mortgage market, now backs almost all those age-in-place products Fred Thompson pitches to the elderly on TV as if they're financial miracle cures. In fact, the default rate for FHA-guaranteed reverse mortgages is nearly 50 percent. But they've been scored as a profit center, fueling their tremendous growth during the boom while protecting private lenders—though not taxpayers or seniors—from losses during the bust.

The omnibus budget Congress passed in December included a brazen new example of this funny-money phenomenon. In a classic austerity head fake, Congress cut $6.6 million in "clean coal" spending but also included language diverting up to $2 billion from USDA's reliably profitable credit program for electric cooperatives—the one that subsidizes rural (and occasionally suburban) ratepayers—into highly speculative clean-coal projects. If the projects go bust down the road, well, the Treasury will just cover the losses.

"These programs can feel like free money," says Johns Hopkins scholar Tom Stanton, the organizer of a federal credit policy discussion group for current and former budget officials that has met regularly in Washington for a decade, "but they're not."

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Credit involves risk. That's why Congress set aside $10 billion to cover expected losses for the energy loan program it created in 2005. But expecting something is not the same as seeing it happen, which is why the word "Solyndra" has become shorthand for big-government failure. Solyndra's default on its $535 million loan was one of the most traumatic events in the bank of America's history, sending a chill through the federal credit system.

The Solyndra loan, derided by Republican campaign ads in 2012 as a crazy handout that reflected Obama-era "crony capitalism," was nothing of the sort. The Bush administration originally selected Solyndra for the first federal clean-energy loan over 142 other applicants. It was an exciting solar startup that had raised $1 billion from savvy private investors like Richard Branson and the Walton family, and a slew of probes have failed to turn up any evidence of wrongdoing on its Energy Department loan. The firm's downfall was a free fall in solar prices, which sparked a solar buying frenzy but destroyed Solyndra's sell-high business model. Such is life in a free-enterprise economy. Government loans don't guarantee success.

Nevertheless, the political furor had a powerful impact on credit programs, because no bureaucrat wants to sign off on the next Solyndra. It also prompted the Obama administration to try to get a handle on credit, starting with a deep and unprecedented dive by the Treasury Department into the government's far-flung exposures.

Treasury's Financial Asset Investment Review—known as FAIR, because everything in government needs an acronym—culminated in 2012 with a never-released 130-page inventory of exposures that I was allowed to read. It's a dry document; its only hint of MarAd's repo antics is an observation that "historically, loss given default has been high." But the Treasury team unearthed a host of problems with the government's newfound reliance on loans—from lack of coordination to lack of oversight to lack of financial know-how.

Illustration by Oliver Munday

“You need financial experts involved in these complex transactions, or else you get your face ripped off,” explains a former Treasury official who worked on the report.

MarAd wasn’t the only agency thin on financial talent. William Taggart, a former Wachovia banker, recalls that when he became chief operating officer of the Department of Education’s financial aid division in 2009, it felt nothing like a financial services company. He hired several new senior bankers, created a new risk committee and tried to import financial culture to an education agency with a trillion-dollar book of credit.

“There were great people, but not people who had handled large loan portfolios,” says Taggart, now the CEO of Atlanta Life Financial Group. “The risk management was so perfunctory.”

The only government-wide oversight of agencies with loan programs comes from the budget office’s hopelessly outgunned credit crew, which was created to implement the 1990 reforms but mostly just double-checks agency credit-cost calculations. The leader of the crew is a well-respected budget analyst with a master’s degree in public policy, and her LinkedIn profile says she successfully managed a parking lot improvement for her Alexandria community association, but it seems unrealistic to expect her and three helpers to evaluate trillion-dollar loan portfolios. Once, when the crew tried to hire an additional analyst, the government personnel office sent over the résumé of a bank teller, who presumably seemed to have at least some financial experience.

“They work hard, but they’re not the A+ rock stars you’d expect to watch all that money,” says one former budget official. “Great country, isn’t it?”

The FAIR review led the Treasury to create its first risk office, followed by the November installation of Ken Phelan, a former head of risk management for JPMorgan, as the department’s first chief risk officer. He’ll try to protect taxpayer faces from getting ripped off. The administration has also revived the Federal Credit Policy Council, an interagency forum to talk about best practices and common problems with loan programs. And in 2013, OMB issued a sweeping policy memo, mellifluously named “A-129,” that directs agencies to beef up their risk management and perform frequent reviews of credit programs, including reviews of whether they’re necessary. A-129 also pushes for better collateral, shorter-term loans, and efforts to make sure private lenders with federal guarantees have skin-in-the-game incentives to limit government losses.

“It’s a great document. We’ll see if the agencies adhere to it,” says Criscitello, the former HUD official. “If they do, I might have nothing left to complain about.”

There are signs of a shift. The FHA has brought in a risk manager to ride herd on its troubled reverse mortgage program. MarAd has begun requiring loan applicants to pay for an independent financial analysis of their deals; so far, none of the Obama-era loans has blown up. Meanwhile, the Department of Education has tried to stop schools from

vacuuming up loan dollars without graduating their students or preparing them for the job market, although for-profits have blunted the push through lobbying and litigation.

Taggart, the former Wachovia banker who oversaw student loans, grew up in a working-class African-American family, and he wants all students to have access to the kind of loans that helped him attend Howard University and Harvard Business School. But when he started in government, he feared that many loans were failing taxpayers as well as borrowers. "As a businessman, I didn't think we were asking the hard questions about the schools that do a woeful job educating students," he says. "We're sending $150 billion out the door every year. We've got to ask: Are we optimizing our return on investment?"

There's a broad sense in government that the pendulum has swung toward credit conservatism, toward fears about the deficit and the next Solyndra, toward bean counters and bankers who talk about return on investment. For example, shortly after Solyndra collapsed, gun-shy OMB analysts scuttled a "Solar Strong" deal to finance 160,000 rooftop solar installations at military housing, the largest residential solar project ever. Jonathan Silver, the former head of the Energy Department's loan program, says the analysts made the creative argument that since Congress must approve the military budget every year, they could not assume that the Pentagon would keep paying the utility bills at its housing complexes. Solyndraphobia has become common at the bank of America, although in that case the actual Bank of America ended up financing a scaled-back version of Solar Strong.

The FHA has also gotten its finances in order, tightening its underwriting standards and imposing stiff fees on new borrowers to recoup some of its losses from the downturn. Its capital reserves are still 80 percent below its congressionally mandated minimum. But at least it has reserves again, and it's unlikely to require another formal bailout anytime soon. In fact, acting FHA Commissioner Biniam Gebre says he's starting to worry about the opposite problem: "Our risk profile might be too strong." The FHA's expected losses are down to 2.7 percent of its loan balances, about half its usual level, which suggests to Gebre that its current customers are excessively creditworthy.

"To us, that's a problem," he says. "We're not trying to find ways to lose money. But we expect to serve certain types of people, and we're not finding those people."

Credit programs tend to be judged less by their social goals than by their success recouping the government's money.

Normal banks don't worry about over-earning. But when credit programs are designed to help build the middle class or cut carbon emissions or achieve other nonfinancial goals, there's inevitably a balancing act. Even the White House budget office tries to think about the benefits of programs as well as their costs to taxpayers.

"Our goal isn't exclusively to mitigate risk," says Deese, the deputy director. "Sometimes we want things to be riskier. It's hard to hit the sweet spot."
Buddy, Can You Spare a Loan?

More federal loan recipients...

Rural suburbia USDA provides loans to rural electric cooperatives and telecoms, even when the areas they serve—including suburbs of Atlanta and Washington, D.C.—are no longer rural. These loans made sense when rural America lacked electricity and telephones, but now they're basically boondoggles that subsidize ratepayers.

Electric cars The Energy Department provided generous loans to Tesla Motors, which is revolutionizing electric vehicles, and Fisker Motors, which went bankrupt. It also helped Ford build new manufacturing facilities for fuel-efficient vehicles with internal-combustion engines.

Nuclear power plants The Energy Department is providing billions of dollars in loan guarantees for the Vogtle nuclear power plant in Georgia, America's first new nuclear plant in three decades. It's over budget and behind schedule, but the department's analysis concluded that the project poses no risk to federal taxpayers.

Fine wine The Farm Credit System, originally created to extend financing to small-scale agriculture, helped a billionaire's wife buy a winery in Charlottesville, Virginia. She defaulted. A Farm Credit branch also recently loaned Verizon $725 million to buy a European cellphone company.

Photos: Associated Press; Alf Ribiero via Flickr; Getty Images

Ironically, the loan program that produced the Solyndra debacle might be as close as government gets to the sweet spot. The Energy Department recently announced that the $30 billion in loans it made during Obama's first term are on track to earn $5 billion for taxpayers. Granted, they would look less lucrative under fair-value accounting. More importantly, though, at a time when private lenders wouldn't touch alternative energy, the program financed America's largest wind and solar farms, a factory for Tesla Motors to build electric cars and a host of other innovative projects that reduced dependence on fossil fuels. It proved that cutting-edge low-carbon technologies made economic sense; since it backed the first five utility-scale photovoltaic solar arrays in the United States, the private sector has backed 17 more. And Solyndra notwithstanding, the program clearly isn't breaking the bank.

In fact, if the bank of America functioned more like a traditional bank, the Tesla deal alone could have offset the losses from Solyndra. Jonathan Silver of the Energy Department had initially negotiated stock options for the government in that deal, but OMB was reluctant to let the department become a part- owner in a startup that it would have to oversee, so the final deal allowed Tesla to extinguish the options by paying back its loan early. "It was a disappointing decision," Silver says. "Obviously, those options would have been worth a great deal." At current prices, nearly $600 million.

Still, the department's portfolio is thriving, with just a 2 percent failure rate so far. Silver built the world's largest clean-energy project finance team on the department's fourth floor, hiring senior talent (suddenly available after the Wall Street meltdown) from Goldman Sachs, JPMorgan and other megabanks. He poached the Ex-Im Bank's head of monitoring and hired a GE Capital executive to run his credit division. His team created a standardized, automated, exhaustive application process with multiple independent and internal reviews of every deal by financial experts as well as technical experts from the national laboratories. That's in addition to oversight by OMB, whose risk-averse analysts seemed to see every deal as Solyndra-in-waiting, as well as Treasury, which often thought deals weren't risky enough. White House aides killed one loan to a fuel-cell firm because they had seen it profiled on 60 Minutes and assumed it didn't need help.

In other words, this was no government candy store. Every borrower had to put skin in the game, and every loan was negotiated for months. Silver's team rejected applications from Range Fuels, which later failed after receiving a big USDA biorefinery loan; A123 Systems, a battery firm that would collapse despite a major grant as part of the 2009 economic stimulus package; and KiOR, another doomed biofuels venture financed by Republican Governor Haley Barbour's administration in Mississippi. "We worked like dogs to make sure our deals didn't blow up," Silver says.

Some might blow up anyway. But credit programs tend to be judged less by their social goals than by their success recouping the government's money, in an arena where public tolerance of failures is practically zero. Venture capitalists expect multiple strikeouts along with their occasional home runs, but one more Solyndra could poison the entire concept of government risk-taking.

"It's hard for the government to play that game," says Mary Miller, an investment manager who served as Obama's Treasury undersecretary for domestic finance.

Over the past few years, the Obama administration has improved the government's play. But it hasn't pushed any larger credit reforms. One idea that floated around Treasury was creating a single government entity to manage credit—something Canada, France, Israel and other countries have implemented in varying degrees—or at least consolidating back-office credit functions that seem so bizarrely misplaced at agencies like MarAd. But no one relished the epic turf battles with congressional committees.

Today, the administration knows much more than it did about the confusing, sprawling, often confounding bank of America. But politics built the bank, and politics are still protecting it. Some officials I interviewed were candid about their reluctance to make a public fuss about problems with federal credit programs, because they don't want to give new ammunition to anti-government Republicans who have already taken aim at the energy loans and the Ex-Im Bank. As one senior official puts it, would-be reformers of risky student loans and low-income mortgages need to be careful what they wish for.

“We’re not sticking our heads in the sand, but if you go out and talk about the problems, it just gets used against you,” the official says. “It would become fodder to roll back programs that help people. So not much happens.”

Oh, well.