President Barack Obama
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500

January 29, 2010

Dear Mr. President:

Today we join together to urge you to not provide any additional loan guarantee authority to the Department of Energy (DOE) Loan Guarantee Program in the Fiscal Year 2011 budget. Recent press reports have indicated that this program could be massively increased. With hundreds of billions in bailouts already on the shoulders of US taxpayers, the country cannot afford to move forward with a program that could easily become the black hole for hundreds of billions more.

Originally authorized in the 2005 Energy Bill, the DOE loan guarantee program was established to distribute Treasury backed loan guarantees to innovative energy technologies. However, even capital intensive, mature technologies with high default rates like coal-to-liquids and nuclear power are eligible for loan guarantees under the program.

The DOE program currently has more than $50 billion in loan guarantee authority and no time restriction on its use. <u>Regardless of your opinion on the loan guarantee program, providing any additional authority while this funding is already available is fiscally irresponsible.</u>

A loan guarantee program of this size and structure already puts the federal government at significant economic risk. The DOE has minimal experience administering a loan guarantee program and its one test case ended with taxpayers paying a heavy price. In the late 1970s and early 1980s, the DOE offered billions in loan guarantees for the development of synthetic fuels. Due in large part to poor administration and market changes, the federal government was forced to pay billions to cover the losses. The current loan guarantees, much like the synthetic fuels loan guarantees, are slated to provide guarantees to financially risky industries, many of which have received billions of dollars in past subsidies.

In administering the current loan guarantee program the DOE has already failed to follow the OMB safeguards that ensure taxpayers are protected. OMB guidance suggests that loan guarantee programs should not guarantee more than 80% of the loan. This ensures that lenders and borrowers in the program have a substantial stake in repayment and that lenders perform due diligence before issuing loans. Despite this, the DOE issued a final rule that forces taxpayers to guarantee 100% of the loan.

It is clear the loan guarantee program could easily siphon billions of dollars from the Treasury. Because of the large risk this program places on taxpayers, we urge you to not include any additional budget authority for the program in the FY11 budget and ensure the DOE creates a clear and transparent system that fully assesses the cost of the loan guarantees to US taxpayers before the program moves forward.

Sincerely,

Ryan Alexander
President
Taxpayers for Common Sense

Henry Sokolski
President
Non-Proliferation Policy Education Center

Jeff Kueter
President
George Marshall Institute

Duane Parde
President
National Taxpayers Union

Cc Steven Chu, Secretary, Department of Energy
Timothy Geithner, Secretary, Department of Treasury
Peter Orszag, Director, Office of Management and Budget