

# Google Gemini 'Discussion' on 'Crony Loan Programism' in relation to US ExIm and EPA WIFIA

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InRecap questions and comments in red – Google Gemini responses in black

What would 'crony loan programism' mean in context of US federal loan programs? Consider US ExIm and EPA WIFIA

In the context of US federal loan programs in 2026, "**crony loan programism**" (an extension of "crony capitalism") refers to a system where the government uses lending authority to reward politically connected entities rather than allocating capital based on objective market merit or public need.

Critics argue this practice distorts the economy by "picking winners and losers," effectively privatizing profits for favored firms while socializing the risk for taxpayers.

## Analysis of Specific Programs

### 1. US Export-Import (Ex-Im) Bank

The Ex-Im Bank is frequently cited by critics as a primary example of federal cronyism.

- **Corporate Welfare:** Opponents argue it serves as a "trough for cronies," with a disproportionate share of its financing (roughly 66% of certain categories) benefiting massive, politically connected corporations like Boeing, which have ready access to private capital markets.
- **Market Distortion:** By subsidizing specific exports, the bank provides an artificial competitive advantage to favored firms, often at the expense of domestic competitors who do not receive such backing.
- **Political Influence:** Large beneficiaries reportedly spend millions on lobbying to ensure the bank's continued reauthorization, creating a self-reinforcing cycle of "big business and big government".

## 2. EPA WIFIA (Water Infrastructure Finance and Innovation Act)

While historically viewed as a technical tool for infrastructure, WIFIA has faced increased scrutiny in 2025 and 2026 for potential "cronyist" tendencies.

- **Ideological Alignment:** In late 2025, lawmakers raised concerns that the administration was slowing loan approvals to review project applications for their "ideological alignment" with executive orders, which critics view as a form of political gatekeeping rather than merit-based lending.
- **Questionable Recipients:** Recent 2025 reports highlighted instances where the EPA awarded massive grants or loans to organizations with little historical revenue or proven technical capacity, leading to formal referrals for "financial mismanagement" and "blatant conflicts of interest".
- **Shift in Focus:** Under current leadership in 2026, the EPA has shifted focus toward "economic pillars" like energy dominance and AI infrastructure, leading to concerns that WIFIA funds may be prioritized for projects that support specific industrial political agendas over traditional water quality improvements.

### Summary of Indicators

- **Risk Transfer:** Taxpayers bear the brunt of defaults while private entities collect subsidized interest and fees.
- **Red Tape as Gatekeeping:** The use of "unnecessary red tape" to slow down non-aligned projects while fast-tracking those with political favor.
- **Exclusion of Merit:** Decisions driven by campaign donors or political allies rather than the technical or financial viability of the borrower.

Be specific with respect to taxpayer cost (1) US ExIm claims to 'make money' for the US Treasury, (2) EPA WIFIA claims a 100:1 ratio per dollar of discretionary appropriations is required as credit reserve for these low-risk loans. What is the reality, in both cases?

In 2026, the specific taxpayer costs and "realities" of these federal loan programs are shaped by the difference between official accounting and private-sector risk assessment.

## 1. US Export-Import (Ex-Im) Bank

Ex-Im claims to be "self-financing" and frequently returns hundreds of millions in "negative subsidy" (profit) to the US Treasury.

- **Official Reality:** In FY 2024 and 2025, Ex-Im projected collecting revenue (fees and interest) in excess of program and operating costs, such as a **\$47.7 million** surplus slated for the Treasury in FY 2024.
- **The Accounting Conflict:** Critics and the Congressional Budget Office (CBO) argue these profits are based on **FCRA (Federal Credit Reform Act)** accounting, which uses low Treasury rates to discount future cash flows.
- **Market Reality:** When analyzed using "**fair-value**" accounting—the method private banks must use—Ex-Im often shows a net loss (e.g., a projected \$2 billion loss over 10 years in some CBO estimates) because it does not adequately price the "market risk" of borrower defaults during economic downturns. In 2026, as interest rates remain volatile, this gap between "budgetary profit" and "fair-value loss" represents a hidden taxpayer liability.

## 2. EPA WIFIA

The 100:1 leverage ratio (where **\$1 in appropriations** supports roughly **\$100 in loans**) is the core of WIFIA's claim to efficiency.

- **Official Reality:** In late 2025 and early 2026, the EPA requested approximately **\$59.6 million** in subsidy budget authority to support roughly **\$6.5 billion** in new financing, maintaining a ratio near 109:1.
- **Low-Risk Justification:** This high leverage is possible because WIFIA loans are typically "senior" debt for highly rated municipal water utilities with dedicated revenue streams (ratepayer fees), leading to historically near-zero default rates.
- **2026 Shift:** Under current leadership in 2026, the program is being "refocused" to "deconstruct wasteful spending" and prioritize projects that support American energy and economic growth. Critics argue that shifting from safe municipal utilities to "transformational" or industrial projects (like AI infrastructure or energy dominance) could increase the risk profile of the portfolio, potentially breaking the 100:1 model and requiring higher taxpayer-funded reserves.

## Comparative "Reality" Summary

Feature	US Ex-Im (2026)	EPA WIFIA (2026)
<b>Claimed Status</b>	Profit-generating for Treasury	100:1 leverage efficiency
<b>Budgetary Method</b>	FCRA (Uses Treasury rates)	FCRA (Low-risk municipal focus)
<b>Taxpayer Risk</b>	<b>High</b> ; fair-value accounting shows net losses	<b>Low</b> ; historically, but rising if focus shifts to industrial projects
<b>Cronyism Trigger</b>	Financing for huge firms (e.g., Boeing) with private access	"Ideological alignment" checks for project approvals

**Regarding WIFIA, include consideration of off budget mandatory spending.**

In 2026, the "reality" of EPA WIFIA's taxpayer cost is increasingly defined by **off-budget mandatory spending**, which has grown to significantly exceed the program's widely publicized discretionary appropriations.

### The Hidden Taxpayer Cost: Mandatory Spending

While the EPA highlights that only a small amount of **discretionary funding** (approx. \$64 million for credit reserves) is needed to support billions in loans, this figure ignores the "off budget" mandatory spending triggered by the program's design.

- **Mandatory Outlays for Re-estimates:** In the **FY 2026 Budget Technical Appendix**, WIFIA's mandatory spending for interest rate re-estimates is revealed to be over **\$2 billion**.
- **Scale of the Risk:** This mandatory spending represents about **9% of the program's \$22 billion portfolio**, a figure far higher than the initial discretionary "subsidy" appropriations meant to cover risk.

- **Interest Rate Management:** Much of this cost stems from borrowers utilizing WIFIA's **interest rate reset** feature. This feature allows borrowers to lock in lower rates years after their initial commitment, forcing the Treasury to effectively borrow at higher current market rates (e.g., 5%) to fund assets earning much less (e.g., 2%)—a direct, off-budget loss to taxpayers.

## Discretionary vs. Mandatory Reality (2026)

Funding Type	Official Claim / Request (2026)	Real-World Status / 2026 Impact
<b>Discretionary</b>	~\$8M for administration	Nearly zeroed out in 2026 budget proposals to "deconstruct wasteful spending".
<b>Mandatory</b>	Often omitted from public savings claims	Exceeds <b>\$2 billion</b> (historical total) with another <b>\$600M</b> expected in 2026 alone for interest re-estimates.
<b>Leverage Ratio</b>	<b>100:1</b> per discretionary dollar	The ratio is arguably an accounting fiction if mandatory "off-budget" costs are 25x higher than the discretionary reserves.

## "Cronyism" in the Mandatory Context

The 2026 critique of "crony loan programism" in WIFIA focuses on the **interest rate reset**. Critics argue this feature allows highly-rated, politically influential municipal agencies to bypass the private bond market and use the federal government as a free "interest rate hedge". By 2021, WIFIA had taken a **25% share** of the total water and sewer bond market, leading to accusations that it displaces private lending to favor large, established entities rather than communities with the most need.

For both programs, consider the lack of additionality with respect to policy outcomes, relative to what might have been intended or what is being claimed in official narratives.

The "additionality" of federal loan programs is a key point of criticism in 2026, centering on whether these programs fund projects that private markets could handle, or if they genuinely enable new outcomes as officially claimed.

## US Export-Import (Ex-Im) Bank

The official narrative claims that Ex-Im only provides financing when the private sector is unwilling or unable, ensuring American exporters can compete globally.

- **Claim vs. Reality:** Critics argue this "additionality" is minimal for large corporations. Economic studies and reports indicate that most Ex-Im activity has little effect on the *overall* level of U.S. exports; rather, it distorts capital markets by shifting financing to benefit its specific clients.
- **"Corporate Welfare" Indicator:** The core issue is that roughly **75% to 80%** of the bank's assistance historically benefits large corporations like Boeing, which have ready access to private capital markets.
- **Lack of Policy Outcomes:** The intended policy outcome is boosting *overall* U.S. exports, but the reality is that the bank primarily picks "winners and losers," providing a *marginal* source of financing that benefits specific, large, and politically connected firms at the expense of others. A 2019 report noted that only 16.4% of its financing was designated as necessary due to a lack of private capital, a figure opponents claim is likely even lower when "fair value" risk is considered.

## EPA WIFIA (Water Infrastructure Finance and Innovation Act)

The official narrative emphasizes WIFIA's role in accelerating water infrastructure investment that might otherwise be delayed, particularly for small communities.

- **Claim vs. Reality:** Data analysis suggests that the program's rapid growth has not significantly changed the overall trendline for U.S. water infrastructure capital

expenditures. WIFIA loans primarily displace traditional municipal bonds or State Revolving Fund (SRF) loans rather than funding entirely new projects.

- **"Cronyism" Indicator:** The lack of additionality is particularly relevant as the program shifts focus in 2026. Delays in loan approvals for technical projects, coupled with a push for "ideological alignment" with current administration priorities (e.g., energy dominance, AI infrastructure), are seen by some as using WIFIA as a political tool. This means that while WIFIA may still be funding needed infrastructure, the selection process may not be neutral and might favor projects aligned with political agendas, regardless of whether they genuinely require federal assistance to proceed.
- **Lack of Policy Outcomes:** The intended outcome of increasing total capital expenditure on water infrastructure is debatable, as WIFIA appears to mostly compete with other funding sources, leading to a "business-stealing" effect rather than true market expansion.