8. UNDERWRITING FEDERAL CREDIT AND INSURANCE

The Federal Government continues to be the largest financial institution in the United States, with a face value of $6.0 trillion outstanding at the end of 1996. Of this, $165 billion is direct loans, $805 billion is loan guarantees, and $5.0 trillion is insurance. Including Government-sponsored enterprises (GSEs), the total Federal and federally assisted credit and insurance outstanding is $7.7 trillion.

These diverse financial programs offer credit for education, housing, business, and exports, and offer insurance for deposits, pensions, and other risks. They are now facing two challenges. Like all other Federal programs, they are operating in a period of tight budgetary constraints. And they are seeking to redefine their purpose and improve their effectiveness in the context of rapidly evolving private financial markets, that are making some of their functions less necessary and generating both new risks and new opportunities.

The introduction to this chapter summarizes key changes in financial markets and their effects on Federal programs. Its first section is a cross-cutting analysis of the rationale for a continued Federal role in providing credit and insurance, performance measures for credit programs, and criteria for re-engineering credit programs so as to enhance their benefits in relation to costs. The second section reviews Federal credit programs and GSEs for four sectors: education, housing, business and community development, and exports, noting the rationale and goals of these programs, and analyzing the efforts to improve their effectiveness. The final section of the chapter assesses recent developments in Federal deposit insurance, pension guarantees, and disaster insurance.

Evolving Financial Markets

Financial markets have been evolving rapidly in recent years. Both intermediaries—banks and the many non-bank firms engaged in financial services—and capital markets have been reaching out to new clients that they did not serve a few years ago. Competition for business within and across industry lines has become more intense as legal and regulatory restrictions segmenting financial markets have eased. Massive databanks and increasingly sophisticated analytical methods are being used to find creditworthy borrowers among people and businesses previously thought ineligible for private credit. These systems are under development and may still screen out some creditworthy clients, but they are also a relatively inexpensive way of screening new potential borrowers.

Moreover, funds are flowing more readily to their most productive uses across the country and around the world. Interstate banking and branching are nationwide except for a few states that have opted out. Capital market financing is available to smaller companies and for a broader range of purposes than before. Secondary markets are the main source of financing for mortgages, and a rapidly growing source of financing for household durables, consumer credit, and small business loans. Nonbanks and nonfinancial firms that sell construction, equipment, and supplies are helping to funnel funds from capital markets to small clients in cities and in rural areas.

Fast and cheaper information and communications systems have revolutionized "back office" functions. These can be consolidated to achieve economies of scale and located anywhere in the world where capable help is available and economical. From these locations, communications can bring the "back office" to the front line on a computer terminal in the office of any realtor or supplier or in any storefront or kiosk. From a timely information base, credit servicing and workout have become much more efficient, driven by benefit/cost calculations.

Impact on Federal Programs

These changes are affecting the roles, the risks, and the operations of Federal credit and insurance programs.

- In some cases, private credit and insurance markets may evolve sufficiently to take over functions that were previously left to Federal programs. More likely, they may take away the best risks among those who have been borrowing from the Government or with its guarantee, leaving the Federal program facing a smaller pool of riskier clients. If the Government is aware of this in time, the result may be new benefit/cost calculations that might help to redesign—or to end—the program. If the Government is caught unaware, the result may be greater cost for the taxpayers.
- At the same time, Federal programs can take advantage of the growing private capability. They can leverage it to provide additional assistance to their clients. With careful attention to the incentives faced by the private sector, they can develop a variety of partnerships with private entities. And they can contract with the private sector wherever it can provide specific credit servicing, collection, or asset disposition services more efficiently.

Insurance programs, too, are affected by the evolution of the financial marketplace. That is most obvious for deposit insurance, which now backs a recovered, consolidating industry, but one that has assumed the risks inherent in providing a growing array of increasingly sophisticated services, including many off-balance sheet activities, often on a world-wide basis. It is also true for pensions, where the Government guarantees defined benefit plans, but defined contribution plans play an increasing role—attracting the support of younger workers in an aging workforce. And it is true for disaster insurance, where private firms are gaining a better understanding of their risks and exploring ways to diversify them in capital markets.

In this changing environment for Federal credit and insurance programs, this chapter asks three questions. First, what is our current understanding of the roles of these programs? Second, how well are they achieving their goals? And finally, could these programs be re-engineered to achieve greater benefits in relation to costs? The third question marks the beginning of a research project, cutting across all programs, which will continue over the next year.

I. A Cross-cutting Assessment

The Federal Role

In most lines of credit and insurance, the private market efficiently allocates resources to meet societal demands, and Federal intervention is unnecessary. However, there are situations where Federal intervention may improve on the market outcome. The following are six standard situations where this may be the case,[1] together with some examples of Federal programs that seek to address them.

- *Information failures* occur when there is an asymmetry in the information available to different agents in the marketplace. A common Federal intervention in such cases is to require the more knowledgeable agent, such as a financial institution, to provide certain information to the other, for example, the borrower or investor. A different sort of information failure occurs when the private market deems it too risky to develop a new financial instrument or market. This is rare nowadays, but it is worth remembering that the Federal Government developed the market for amortized, fixed-rate mortgages and started other innovations in housing finance.
- *Externalities* occur when people or entities either do not pay the full cost of their activities (e.g., pollution) or do not receive the full return. Federal credit assistance for students is justified in part because, although people with more education are likely to have higher income and even better health, they do not receive the full benefits of their education. Their colleagues at work, the residents of their community, and the citizens of the Nation also benefit from their greater knowledge and productivity.
- *Economic disequilibrium* is a third rationale for Federal intervention. This is one rationale for deposit insurance. If many banks and thrifts are hurt simultaneously by an economic shock, such as accelerating inflation, and depositors have a hard time knowing which ones may become insolvent, deposit insurance prevents a contagious rush to withdraw deposits that could harm the whole economy.
- *Failure of competition,* resulting from barriers to entry, economies of scale, or foreign government intervention, may also argue for Federal intervention—for example, by reducing barriers to entry, as has often been done recently, by negotiating to eliminate or reduce foreign government subsidies, or by providing countervailing Federal credit assistance to American exporters.
- *Incomplete markets* occur if producers do not provide credit or insurance even though customers might be willing to pay for it. One example would be catastrophic insurance, where there is a small risk of a very large loss; a disaster that occurred sooner rather than later could bankrupt the insurer even if premiums were set at an appropriate level. Another example is caused by "moral hazard" problems, where the borrower or insured could behave so as to take advantage of the lender or insurer. This is the case for pension guarantees, where sponsors might underfund plans, and for deposit insurance, where banks might take more risk to earn a higher return. In these cases, the Government's legal and regulatory powers provide an advantage in comparison with a private insurer.
- In addition to correcting market failures, Federal credit programs are often used to *redistribute resources* by providing subsidies from the general taxpayer to disadvantaged segments of the population or regions.

In reviewing its credit and insurance programs, the Federal Government must continually reassess whether the direct and indirect benefits to the economy exceed the direct and indirect costs. This assessment should include the costs associated with redirecting scarce resources away from other investments. In some situations, the market may have recently become capable of providing financial services, and older Federal programs may need to be modified or ended to allow private markets to develop. Private providers in similar circumstances might go bankrupt, merge, or change their line of business; for Federal programs, a policy decision and usually a change in law are needed to eliminate overcapacity. In other instances, Federal programs may be redesigned to encourage the development of private credit market institutions or to target Federal assistance more efficiently to groups still unable to obtain credit and insurance in the private market.

[1] Economics textbooks also list pure public goods, like national defense, where it is difficult or impossible to exclude people from sharing the full benefits of the goods or services once they have been produced. It is hard to imagine credit or insurance examples in this category.

What Are We Trying to Achieve?

If the main Federal role is to provide credit and insurance that private markets would not provide—to stretch the boundaries in providing credit and insurance—the Federal goal is to achieve a net impact that benefits society. Together, these objectives make the standard for success of a Federal credit or insurance program even more daunting than for a private credit or insurance firm.

For credit and insurance, as for all other programs, implementation of the Government Performance and Results Act (GPRA) will help to assess whether programs are achieving their intended results in practice—and will improve the odds for success. GPRA requires agencies to develop strategic plans in consultation with the Executive, the Congress, and interested parties; this process should refine and focus agency missions. The strategic plans set long-range goals, annual performance plans set milestones to be reached in the coming year, and annual performance reports will measure agency progress toward achieving their goals.

GPRA defines four kinds of measures for assessing programs: inputs (the resources used), outputs (the goods or services produced), outcomes (the gross effects on society achieved by the program), and net impacts (the effects net of those that would have occurred in the absence of the program, e.g., with private financing). For credit and insurance programs, interesting interrelationships among these measures provide the keys to program success.

Net impacts measure the net effect of the program on intended outcomes compared with what would have occurred in the absence of the program; they exclude, for example, effects that would have been achieved with private credit in the absence of the program. Among the net impacts toward which Federal credit programs strive are: a net increase in college graduates, a net increase in home ownership, a net increase in small businesses, a net increase in exports, and a net increase in jobs.

For credit programs, the first key to achieving any of these net impacts is outreach. In the spirit of the Federal role, programs need to identify borrowers who would not get private credit. They need to reach out to under-served populations (e.g., low-income or minority people) and neighborhoods (urban and rural). They need to encourage the start-up of new activities (e.g., beginning farmers, new businesses, new exporters). And they need to reach their legislatively targeted populations (students, veterans). Federal lending is often directed to higher risk borrowers, or for higher risk purposes. In order to assist certain target groups or encourage certain activities, credit may be extended for longer periods or at a lower cost to the borrower.

Achieving program objectives, however, also means finding ways to assist those borrowers at the boundary of private credit markets to repay their loans. This is not just a financial goal; it is necessary to achieve the program's social purpose. Education that enhances income is associated with repayment of student loans. Home ownership requires mortgage repayment. Remaining in business with a good credit rating requires repayment of small business, farm, and export loans. And loan repayment is inherent in program cost-effectiveness. Moreover, when the Federal Government bears risk for less creditworthy borrowers and does so in a way that fails to assist them to repay, they struggle with high debt burdens and are left with poor credit records.

With implementation of the Federal Credit Reform Act of 1990, Federal credit programs began to reconcile the tension between giving help to certain groups or for certain purposes and "business-like" financial management. With the implementation of GPRA, they may begin to see program success and financial success as two facets of the same goal. The challenge is usually to identify "boundary" borrowers and to structure the loan and its servicing (including technical assistance) so as to pull those borrowers toward financial and programmatic success. In some cases, savings from improved credit program management may be reinvested to pull more borrowers across that boundary.

Outputs and Outcomes, therefore, have an interrelationship which is crucial to the performance of credit programs. The most obvious output of Federal credit programs is the number and value of direct loans originated or loans guaranteed. But volume alone does not achieve the objectives of Federal credit programs; indeed, large volume or market share may be a sign of displacement of private lenders. Loans must have certain characteristics in order to achieve the desired outcomes and net impacts; these characteristics are therefore part of desired program output.

Because of the Federal role, output measures should include an estimate of the percent of loans or guarantees originated going to borrowers who would otherwise not have access to private credit, and the percent of loans or guarantees originated going to specific target groups (e.g., veterans) or for specific purposes. Because of the Federal goal, output measures should include the percent of loans or guarantees that are current. This should be compared with the percent that were expected to be current at this point in the repayment cycle.

To assess the latter, program data should be analyzed to determine whether repayment prospects are enhanced by particular characteristics of loan structure (such as higher initial borrower equity), of loan origination (such as verifying borrower financial status), of loan servicing (such as prompt counseling), or of guarantee conditions (such as lender risk-sharing). When such characteristics help to control the cost of credit programs and to achieve desired outcomes, then these characteristics should be measured as part of the program's output.

The linkage between such output characteristics and the outcomes of Federal credit programs is not always fully recognized. For example, one desired outcome is to reach under-served populations or neighborhoods; to achieve this outcome, it would be useful to monitor whether loans are going to borrowers who would not otherwise have access to credit or to specific target groups. Other desired outcomes include supporting investment important to the economy, encouraging start-up of new activities, or contributing to sustained economic development. To achieve these outcomes, it would be useful to monitor whether the program's loans and operating procedures have characteristics that would enhance borrower repayment.

Inputs. Program cost is also a performance measure. For credit and insurance programs, it is a continuing challenge to understand and control the risks that the Government assumes and to measure the inherent cost. This is especially true in view of the rapid changes in financial markets discussed above and the increasingly complex financial instruments.

The net present value subsidy cost of Federal credit programs, cumulated over time for each cohort of the program's loans or loan guarantees, is the main input. Another is the administrative cost of the program, including the cost of credit extension, direct loan servicing and guaranteed loan monitoring, collecting on delinquent loans and collateral, and other administrative costs such as policymaking or systems development.

The relationship between subsidy and administrative costs is another crucial one for the success of credit programs. Careful servicing of loans, for example, can reduce default costs, and perhaps total program costs. So good servicing is good financial management for the taxpayer. But good servicing is also an art, which can—by helping borrowers to repay—help to achieve the program's performance objectives. Private servicing of loans offers many examples of the gains from matching repayment to the borrower's flow of income, treating borrowers in different circumstances differently, and in other ways maximizing the borrower's chances to make good.

In sum, there are three relationships that seem to hold the key to excellence in credit program performance: the relationship between repayment and the achievement of program objectives, the relationship between the characteristics of credit program outputs and desired outcomes, and the relationship between subsidy cost and good servicing and program administration. Another important key to success is the speed with which the program adapts to market changes, including its ability to provoke or harness private markets to meet the Federal goals.

Principles for Re-engineering

In order to improve the effectiveness of Federal credit programs, OMB will be working with agencies over the next year to identify ways to re-engineer credit management. In particular, this effort will focus on improving servicing, will consider consolidation of functions such as data collection and asset disposition, will rely on the private sector when that would improve efficiency, will devise incentives to improve management and reduce cost, and will ensure the development of detailed data for program management and subsidy estimation.

The focus will be on managing the servicing, workout, and sale of any collateral as efficiently as possible. For example, why does the Federal Government pay claims on guaranteed loans and handle the workout, instead of leaving this to the originating lender? Why does the Government take over collateral? How do the timing and results of our asset disposition compare with private practice? Why do we make loans to finance purchases of collateral? What incentives and penalties would be useful for programs and program staff? For guaranteed loan originators? For contractors who service Federal loans or dispose of collateral?

A tentative set of principles for re-engineering credit programs has been developed that builds on OMB Circular A–129 and initial research. These will be circulated for agency comment and modified by lessons learned from additional research over the next year. The resulting principles are intended to improve the performance of Federal credit programs in the years ahead. Because private markets are extending credit where it was formerly unavailable, and because there is little purpose to re-engineering programs which are not justified, these principles start with basic questions of program justification. But their main focus is on how programs should be carried out.

Program Justification

1. *Credit assistance should be provided only when it has been demonstrated that private credit markets cannot achieve clearly defined Federal objectives.* What is the objective? Is access to private credit available? If not, why not? If so, why and to what extent should private terms and conditions be supplemented or subsidized?

2. *Credit assistance should be provided only when it is the best means to achieve Federal objectives.* Can private credit markets be developed? Can market imperfections be overcome by information, regulatory changes, or other means? Would small grants for downpayments, capitalization for State, local, or nonprofit revolving funds, or other approaches be more efficient?

3. *Credit assistance should be provided only when its benefits exceed its cost.* Analyze benefits and costs in accordance with OMB Circular A–94.

Program Design

4. *Credit programs should minimize substitution for private credit.* What features of program design minimize displacement? Encourage and supplement private lending? To what extent is credit for this objective expanded by this program compared with what would be available in the absence of the program? What is the economic cost of the lending bumped from the credit queue?

5. *Credit programs should stretch their resources and better meet their objectives by controlling the risk of default.* What features of program design minimize risk? Are there incentives and penalties for loan originators and servicers to minimize risk? What features of the loan contract, the process of origination, the quality of servicing, and the workout procedures minimize risk? Do borrowers have an equity interest? Is maturity shorter than the economic life of the asset financed? Are the timing and amount of payment matched with availability of resources? Is timely reminder and technical assistance provided? How well is risk understood, measured, and monitored?

6. *Credit programs should stretch their resources to better meet their objectives by minimizing cost; most should be self sustaining.* Do fees and interest cover the Government's cost, including administration? Are interest rates specified as a percent of market rates on comparable maturity Treasury securities? Are charges for riskier borrowers proportional to their higher cost?

Program Operations

7. *Credit programs should take advantage of the capacity, flexibility, and expertise available in competitive private markets unless the benefits of direct Federal operations can be shown to exceed the cost.* Private financial institutions may offer convenient access for borrowers, potential for graduation to private credit, economies of scale, ready adjustment to changing volume or location of loans, and knowledge of current credit conditions and techniques.

8. *The lender (in the case of a loan guarantee), the servicer, and the providers of workout and asset disposition services should have a stake in the successful and timely repayment of the loan or collections on claims and collateral.* Originators of guaranteed loans should bear a share of each dollar of default loss, and—unless other arrangements can be shown to be more cost-effective—should be responsible for handling workout. Each contract should include incentives for good performance, and penalties, including loss of business, for poor performance. The duration and scope of each contract or agreement should be limited so as to maximize specialization and competition, unless those are offset by economies of scale in operations and monitoring.

9. *Criteria should be established for lender participation in Federal loan guarantee programs, servicers, and providers of workout and asset disposition services.* These should include financial and capital requirements for lenders and servicers not regulated by a Federal financial institution regulatory agency, and may include fidelity/surety bonding and/or errors and omissions insurance, qualification requirements for officers and staff, and requirements of good standing and performance in relation to other contracts and debts. Lenders transferring and/or assigning servicing, and lenders or servicers transferring and/or assigning workout or asset disposition must use only entities which have qualified under the Federal participation criteria.

10. *When there are economies of scope or scale, the data gathering and analysis, servicing, debt collection, workout, asset disposition, or other functions of specific credit programs should be combined or coordinated.* The sequence of operations should be streamlined, and accountability for each step clearly defined.

Program Monitoring

11. *Each program should maintain or receive monthly loan-by-loan transaction data and a system whereby this information triggers servicing, workout, and follow-up actions.* These data shall be linked by loan number to an analytical database showing characteristics of loans, borrowers, projects financed, financial information, credit ratings, and other data in a form suitable for use in subsidy estimation and loan pricing.

12. *Each program should design and carry out steps to foresee problems, and to inspect, audit, and assess the program's operations.* Methods should be benchmarked against the best practices used elsewhere. The program and its lenders, servicers, and other contractors should experiment with and assess ways in which the effectiveness or efficiency of the program might be improved or costs reduced.

II. Credit in Four Sectors

Education Credit Programs and GSEs

Student Loans

The Federal Government helps to finance student loans through two major programs: the Federal Family Education Loan (FFEL) program and the Federal Direct Student Loan (FDSL) program. Eligible institutions of higher education include public and private 2-year and 4-year institutions as well as vocational training schools. Schools may choose to participate in either program. Loans are available to students and their parents regardless of income. Borrowers with lower family incomes are eligible for higher interest subsidies.

Overall student loan volume is expected to increase by almost 40 percent over the next five years. In 1997, lending (excluding amounts for promissory notes that never result in loans) is expected to be $34 billion, of which $7 billion is for consolidation of existing loans and the remainder is for new loans. By 2002, lending is expected to increase to $47 billion, of which $10 billion is for consolidations. The projected volume increase continues current trends, which have seen loan levels rise dramatically over the past 10 years. The principal causes of this increase—both to date and in the future—are steadily rising educational costs, higher loan limits, and a growing population of eligible borrowers.

The Federal Family Education Loan program provides loans to students and parents through a complex administrative structure involving over 7,000 lenders, 32 State and private guaranty agencies, 90 participants in the secondary markets, and 7,300 participating schools. Under FFEL, banks lend private capital to students and parents, guaranty agencies insure the loans, and the Federal Government reinsures the loans against borrower default. In addition to paying for defaults, the Federal Government provides interest and administrative subsidies to banks and guaranty agencies.

The Federal Direct Student Loan program was authorized by the Student Loan Reform Act of 1993 to enable students and parents more easily to obtain and repay loans than was possible under the FFEL program. Under FDSL, the Federal Government provides loans directly to borrowers, thus eliminating the reinsurance and subsidization of private lenders. The program has several key advantages over the FFEL program:

- Borrowers may choose from a variety of repayment options, including income contingent repayment. This gives them a wider range of options in pursuing public service careers and managing their finances.
- Application and repayment processes are streamlined for borrowers and schools, eliminating substantial paperwork and long lines at campus financial aid offices.
- Loan servicing and default collection is handled by contractors selected through competitive bidding processes. This ensures that the Federal Government obtains high quality administrative services at the lowest price possible. The FFEL program, by contrast, guarantees payments to all participating lenders and guaranty agencies based on fixed rates set by law, without regard to how well their services are performed.
- The simplified program structure is more manageable and significantly less vulnerable to fraud and abuse. In 1995, the Inspector General issued a clean audit opinion of the program, the first time a clean audit has ever been received by any of the Department's student loan programs.

Reform proposals. The Administration continues to support allowing individual institutions to choose whether to participate in FFEL or FDSL. To improve both programs for students and taxpayers, the 1998 Budget includes proposals for reducing borrower fees, matching subsidies more closely with lender costs, and restructuring the guaranty agency system. These proposed changes will achieve savings of $3.5 billion over five years.

The U.S. General Accounting Office and Federal courts have acknowledged that the Federal Government is the actual guarantor of loans made under FFEL. The State and non-profit intermediaries in FFEL act as agents of the Federal Government; there are no non-Federal funds at risk. Guaranty agencies are not independent guarantors, but are in fact administrators of the Federal guarantee. The Administration proposes to end a system in which the guaranty agencies hold Federal funds from which they pay default claims. Instead, direct Federal payments will cover default claims. Guaranty agencies therefore no longer need to hold Federal funds in reserve, making possible the return of $2.5 billion in reserve funds over five years.

To improve accountability for the Federal guarantee, the Secretary's agreements with guaranty agencies will be revised and will be subject to periodic recertification. They will include specific, publicly released performance information—confirmed by reliable audits—to ensure the submission of timely, accurate, and consistent data for management purposes. The Secretary will have authority to move to a system of performance-based contracts for the administration of the guarantee, rather than designation of intermediary agencies.

The Department of Education continues to work to reduce default costs and to eliminate excessive subsidies to financial intermediaries. In the "gatekeeping" operation—that is, the process for certifying schools for eligibility for Federal student aid—the Department is attempting to identify high-risk institutions and target its regulatory and enforcement efforts on these institutions. Through its legislative proposals, it attempts to reduce defaults through revised incentives to lenders and guaranty agencies, and increased lender risk-sharing—from 2 percent to 5 percent. To minimize unnecessary subsidies to lenders, the Administration proposes to continue the current policy of providing a lower interest rate when students are in school, reflecting lenders' lower servicing costs during that period. This also reduces interest payments by parents and some students.

Performance Measures and Management. The Department of Education has collected longitudinal data showing that student loans enable college students from low-income backgrounds to progress academically and attain college degrees at the same rate as middle-income students whose families have had sufficient financial resources to avoid borrowing. Work continues on performance indicators for a broad spectrum of policy objectives that are comparable for both the direct and guaranteed programs. These indicators will measure efficiency, Federal costs, and financial management, as well as borrower and institutional satisfaction. The Department is engaged in an extensive review of its information technology systems needed to manage the student loan programs, in accord with requirements of the Information Technology Management Reform Act of 1995, to ensure that investments in these systems are cost effective and provide high quality service to users.

Sallie Mae and Connie Lee

Sallie Mae. The Student Loan Marketing Association is a for-profit, shareholder-owned corporation chartered by Congress in 1972. Its purpose is to expand funds available for student loans by providing liquidity to lenders participating in the FFEL program. Sallie Mae purchases insured student loans from eligible lenders and makes warehousing advances (secured loans to lenders). It currently holds about one-third of all outstanding guaranteed student loans. Sallie Mae also has authority to finance academic facilities and equipment.

Connie Lee. The College Construction Loan Insurance Association was created by the Higher Education Amendments of 1986 to insure and reinsure the financing of postsecondary education facilities. In 1988, the Department of Education helped provide initial financing of the corporation by purchasing, with appropriated funds, $19 million of newly issued common stock. Subsequently, the corporation sold additional stock to institutional investors.

Privatization. Legislation has been enacted to privatize (or terminate) both education GSEs.

In response to an Administration proposal to privatize Sallie Mae, Congress passed and the President signed on September 30, 1996, legislation laying out a process for restructuring Sallie Mae and eventually cutting its ties to the Federal Government. Under the new law, the shareholders have a choice. If they vote within eighteen months to restructure Sallie Mae, a holding company would be established that would own the outstanding Sallie Mae common shares. There are no limits in the statute on the types of business in which this holding company could engage. Sallie Mae's funds and assets would be maintained separately from the funds and assets of the holding company, and could be used only for Sallie Mae's GSE activities. Sallie Mae could continue to buy student loans until September 30, 2007, and would cease to exist on September 30, 2008. If the shareholders vote not to authorize the restructuring, Sallie Mae is required to submit a plan by July 1, 2007, for winding up its GSE activities by July 1, 2013, on which day Sallie Mae would cease to exist.

In 1996, the Administration proposed and Congress approved legislation to privatize Connie Lee by repealing the corporation's enabling legislation and requiring the Federal Government to sell, and Connie Lee to purchase, the corporation's federally owned stock. This sale will occur during fiscal year 1997, and proceeds will be used to finance public elementary and secondary school facility construction and repair within the District of Columbia. The corporation will continue to insure debt of educational institutions, including Historically Black Colleges and Universities and academic institutions which have lower investment-grade credit ratings. Free from previous Federal restrictions, the corporation will be able to guarantee bonds in other market sectors and diversify into new products and services.

Housing Credit Programs and GSEs

The Government provides loans and loan guarantees to expand access to home ownership to people who would not qualify for a conventional mortgage. It also helps to finance rental housing for low-income persons. Housing credit programs run by the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs (VA) supported over $100 billion in loan and loan guarantee commitments in 1996, helping over 1.3 million households.

Federal Housing Administration

The Federal Housing Administration (FHA) provides mortgage insurance that expands access to homeownership to people who lack the savings, income, or credit history to qualify for a private mortgage. It also provides credit to finance the purchase, construction, and rehabilitation of rental housing for low-income persons.

FHA's Mutual Mortgage Insurance (MMI) Fund helps increase access to single-family mortgage credit. In 1996, the MMI Fund guaranteed over $59 billion in mortgages for over 739,000 households. Total MMI Fund insurance outstanding at the end of 1996 was $364 billion. Fees and premiums paid to the MMI Fund fully offset program costs; thus, the program is self-sustaining without an annual credit subsidy appropriation from Congress. FHA's General Insurance and Special Risk Insurance (GI/SRI) Fund provides for a number of specialized mortgage insurance programs, including the insurance of loans for property improvements, as well as for cooperatives, condominiums, housing for the elderly, rental housing, and hospitals. In 1996, the GI/SRI Fund guaranteed over $12 billion in mortgages for over 301,000 households. The GI/SRI fund requires a credit subsidy appropriation for the cost of multi-family insurance. In addition, the budget projects $5 billion of net insurance costs for multi-family projects will be recognized over the next three years. The Administration's Portfolio Reengineering proposal will help to reduce both these mandatory insurance costs and future discretionary rental assistance costs for these properties.

First-time homebuyers make up over two-thirds of FHA's insurance business each year. Very low-income and minority homebuyers, and buyers living in underserved areas are a growing proportion of FHA's single-family business. In 1995, 29 percent of FHA mortgage insurance was provided to African-American and Hispanic borrowers—an increase from 18 percent in 1992 and higher than the 14 percent in the entire conforming market. In 1995, 41 percent of FHA's insurance was provided in underserved areas—an increase from 36 percent in 1992 and higher than the 30 percent for the entire market's lending. In 1995, 18 percent of FHA's home purchase loans were made to very-low-income borrowers, while the comparable figure for the whole conforming market was 15 percent.

Reengineering FHA Programs. FHA is streamlining and reorganizing its single-family operation. At the beginning of 1996, the FHA single-family program was administered by a staff of about 2,200; over the next three years, staff levels are projected to decline dramatically, contributing significantly to achieving the Department's overall downsizing goals.

To ensure staff reductions are accomplished without diminishing performance, downsizing is being accomplished by prudent consolidation of functions much as private sector counterparts have undergone in the last decade, along with core business process reengineering, greater use of technology, and contracting out work more efficiently performed by the private sector. FHA has begun consolidating operations currently in 81 field offices into three Homeownership Centers. Two more are under consideration. New statutory authority to delegate endorsement responsibility to lenders is being implemented. Automated underwriting systems are being piloted. Three demonstrations using contractors to manage property disposition functions are also underway.

Sale of defaulted single-family and multifamily mortgages is another tool to reduce workload and allow a smaller staff to maintain focus. FHA has sold about 79,000 nonperforming mortgages over the past two years, for proceeds of $5.4 billion. These sales have allowed FHA to cut dramatically its backlog of troubled mortgages and focus its staff on such core functions as mortgage originations and prevention of future defaults. These sales have saved $1.6 billion for the Federal Government, compared to the estimated cost of holding the mortgages in FHA's portfolio. Proceeds above the estimated value to Government have been used to fund other initiatives and to reduce the deficit.

Starting in 1997, FHA intends to test the viability of sharing single-family mortgage risk between the Federal Government and other partners, including private mortgage insurers and State agencies. Pilot agreements are being negotiated. The Government's goal will be to pair the greater flexibility of the risk-sharing partner to innovate with new products and delivery systems to reach underserved markets with the Federal Government's capacity to assume risk. If an agreement offering the Government acceptable levels of risk, economic value, and public benefit is reached, the pilot will test the proposition that partners can provide greater efficiencies through counseling, underwriting, servicing and property disposition.

The Administration will continue to address long-standing problems in the properties which have FHA-insured mortgages and also receive rental subsidies for low-income tenants. Multi-family Portfolio Reengineering will generate $1.3 billion in discretionary savings over five years by reducing over-subsidized rents to market levels. However, this reduces project income and necessitates writing down the mortgages on these properties to the level that market rents will support—resulting in claims on the FHA fund. HUD will seek authority to use third-party partners to make this mortgage restructuring a proactive process that improves the quality of assisted housing and expands housing choices. Enacting this authority would produce $665 million in mandatory savings.

Current appropriations provisions support this objective by limiting, with some exceptions, renewal of assistance contracts to 120 percent of the applicable fair market rent. If these limitations continue, FHA will need enhanced authorities to manage mortgage restructurings for the large number of affected properties. Without such authority, FHA will not have the ability to realize potential savings from the restructuring.

Rural Housing Insurance Fund

While credit availability in rural communities has increased dramatically over the years, USDA's Rural Housing Service (RHS) credit programs are still needed. Many rural counties are served by only one or two banks, implying that credit may not be available on competitive terms. Moreover, many rural areas have substandard housing for low-income residents, and a lack of rental housing.

RHS provides subsidized single-family direct loans (502 direct) to very-low and low-income borrowers unable to get credit elsewhere to purchase, rehabilitate, or repair homes. Single-family loan guarantees (502 guarantee) cover up to 90 percent of an unsubsidized home loan. The multi-family direct loan program (515 direct) generally lends to private developers to construct and rehabilitate rental housing for low- and moderate-income households, elderly households, or handicapped individuals. RHS's direct loan programs offer interest rates below the Treasury rate; single-family direct loans can reach 100 percent of a home's appraised value. For 1998, the Administration estimates that the combined direct and guaranteed single-family housing loans of $4 billion (an increase of 22 percent over 1997) would allow for 64,000 new homeowners. The requested multi-family loan level of $150 million (unchanged from 1997 enacted) would provide 2,000 new rental units for rural Americans.

Improving Service and Reducing Costs. In 1997–98, RHS will install a new system that will centralize servicing for its 650,000 single-family direct loan borrowers, previously carried out in over 1,000 county offices. This should provide better servicing with 1,500 fewer employees. The National Performance Review anticipates this will save $250 million over five years.

Legislative proposals for 1998 would allow single-family direct loans to be refinanced using guarantees, thus helping borrowers to graduate to private credit. The refinanced loans would be relatively low-risk because the borrowers would have built up equity in their homes. Another proposal would require a "balloon payment" for the multi-family housing direct loan program. All new multi-family loans would have a 30-year term with payments based on a 50-year amortization. This would lower the subsidy rate, and match the loan term more closely to the asset's useful life, thus providing an incentive for the borrower to better maintain the property.

Department of Veterans Affairs

The Department of Veterans' Affairs (VA) assists veterans, members of the Selected Reserve, and active duty personnel to purchase and retain homes as a recognition of their service to the Nation. The main objective of VA's loan program is to facilitate mortgage lending by private lenders for the purchase, construction, or improvement of homes occupied by veterans and their families. More than 29 million veterans and service personnel are eligible for VA financing. The programs substitute the Federal guarantee for the borrower's downpayment. In 1996, VA will provide $2.9 billion in loan guarantees at a subsidy rate of 0.42 percent. For veterans unable to obtain private home financing with the guarantee, VA provides direct loans. In addition, through its "vendee loan" program, VA offers seller financing to purchasers of VA-owned properties acquired through defaults. In 1996, VA will provide $1.3 billion in direct loans at a subsidy of 1.76 percent.

The home loan program was originally created to assist service members returning from World War II in readjusting to civilian life. The program was designed to place veterans on equal terms with their civilian counterparts when they returned from the War. Since its creation, several legislative changes have modified the program. The amount of the entitlement has been increased, and the benefit extended to active-duty military and members of selective reserves. Approximately 20 percent of the population who use this benefit now are active-duty military, and the remaining 80 percent are veterans.

Improving Service and Efficiency. As the veterans population declines and technology improves, the quality of service should continue to improve. The program's goal is to provide veterans with complete and timely access to their loan guaranty benefit while minimizing the costs of the program. Ongoing studies will continue to assess the efficiency and effectiveness of the delivery of these programs.

VA's loan processing, loan servicing, and claims functions will continue to be consolidated from forty-five Regional offices across the United States to eight Regional Loan Centers (RLCs). This will improve responsiveness to customer needs and expectations, improve service delivery and benefit claims processing, and ensure the best value for the taxpayer's dollar. When completed in 2002, this consolidation is expected to save $26 million.

In 1998, VA plans to turn increasingly to automation to improve service delivery while decreasing operating costs in the home loan programs. Specifically, VA is developing Electronic Data Interchange (EDI) capability with lenders, servicers, and appraisers to automate loan processing and servicing.

Fannie Mae and Freddie Mac

Fannie Mac and Freddie Mac, the largest Government-sponsored enterprises (GSEs), are the dominant firms in the secondary market for conventional mortgages. As of September 1996, Fannie Mae and Freddie Mac had outstanding $1.4 trillion in mortgages purchased or guaranteed. These GSEs engage in two main lines of business: they issue and guarantee mortgage-backed securities (MBS), and they hold portfolios of mortgages, MBS, and other mortgage-related securities that they finance by borrowing.

The Federal Housing Enterprises Safety and Soundness Act of 1992 reformed Federal regulation of Fannie Mae and Freddie Mac. This Act created the Office of Federal Housing Enterprise Oversight (OFHEO) to manage the Government's exposure to risk by conducting examinations and setting risk-based capital requirements based on a stress test model. OFHEO has solicited public comment on a variety of issues related to a risk-based capital regulation and, in June 1996, published the first of two Notices of Proposed Rulemaking on risk-based capital.

As required by the 1992 Act, the Secretary of Housing and Urban Development issued a final regulation at the end of 1995 that established new goals for Fannie Mae and Freddie Mac to foster credit for lower-income families and under-served communities. The regulation requires each entity in 1997 through 1999 to devote 42 percent of its mortgage purchases to finance dwelling units that are affordable by low- and moderate-income families, 24 percent of its purchases to finance units in areas with low average incomes and high concentrations of minority residents, and 14 percent of its purchases to finance units that are special affordable housing for very-low-income families and low-income families living in low-income areas. During 1993–95, the GSEs were subject to transitional goals. As the final goals were substantially revised from the transitional goals, the level of the goals in 1996 was slightly lower than the level required during 1997–99 in order to provide an interim period for the GSEs to implement strategies to achieve them over time. Fannie Mae consistently achieved the required level of the three housing goals during the 1994–96 period. Freddie Mac achieved the low- and moderate-income goal and the special affordable housing goal in 1994 and 1995 but did not achieve the transitional geographically targeted goal, which was defined in terms of central cities. In 1996, Freddie Mac achieved the required level of performance for all three housing goals.

Fannie Mae and Freddie Mac have come under increasing scrutiny in recent years as they have increased their profits and size. This scrutiny was heightened in 1996 when the Department of the Treasury, the Department of Housing and Urban Development (HUD), the Congressional Budget Office, and the General Accounting Office each published studies of the desirability and feasibility of completely severing the ties between Fannie Mae and Freddie Mac and the Federal Government. Although none of the agencies recommended this, their studies identified the benefits and costs of Government sponsorship of these GSEs, assessed the relative magnitudes of those benefits and costs, attempted to reach an overall evaluation of current Federal policy, and analyzed the potential implications of various policy options. The reports agreed that regulation of Fannie Mae and Freddie Mac under the 1992 Act has been relatively brief, suggesting that it would be prudent to wait before reaching final judgments about the status quo.

The process used to adjust the ceilings on the size of the mortgages that Fannie Mae and Freddie Mac may purchase has also come under increasing scrutiny. Current law requires the GSEs to adjust the limits each year to reflect increases in average house prices. However, uncertainty has arisen over the proper adjustment to the loan limits. Legislation has been introduced to require Fannie Mae and Freddie Mac to limit increases in the ceiling to reflect any decreases that have occurred in house prices since the last increase. The GSEs recently adopted this policy voluntarily for 1997, choosing to increase the limit for 1–4 family mortgages by 3.7 percent to $214,600, rather than by the most recent increase in the index of 8.4 percent.

Federal Home Loan Bank System

The Federal Home Loan Bank System (FHLBS) was established in 1932 to provide liquidity to home mortgage lenders. The FHLBS carries out this mission by issuing debt and using the proceeds to make secured loans, called advances, to its members. Federally chartered thrifts are required to be FHLBS members, and membership is open to commercial banks, credit unions, and insurance companies on a voluntary basis. As of September 30, 1996, 6,023 financial institutions were FHLBS members, an increase of 319 over September 1995. About 65 percent of members are commercial banks, and 32 percent are thrifts; however, over 75 percent of outstanding FHLBS advances were held by thrifts as of September 30.

The FHLBS reported net income of $1.3 billion for the year ending September 30, 1996, up from $1.2 billion in the previous 12 months. Total System capital rose from $14.6 billion to $16.4 billion, and the ratio of capital to assets rose from 5.5 percent to 5.8 percent. Average return on equity was about 6.7 percent, after adjustment for payment of interest to the Resolution Funding Corporation (REFCorp). Outstanding advances to members reached $153 billion at September 30, 1996, up from $122 billion a year earlier. One reason for the large increase in advances may have been the use of FHLBS advances as a substitute for deposits. During most of 1996, a large disparity in deposit insurance premium rates existed for institutions insured by the Savings Association Insurance Fund and the Bank Insurance Fund; thrifts may have mitigated the high cost of deposit insurance by relying more heavily on FHLBS advances.

System investments other than advances stood at $124 billion, or about 44 percent of total assets, as of September 30, 1996; compared to a year earlier, investments have declined in both dollar terms and as a percentage of assets. The Federal Home Loan Banks are required by law to pay $300 million annually toward the cost of interest on bonds issued by the Resolution Funding Corporation. The need to generate income to meet this obligation and provide a competitive return on members' investment was a driving force behind the substantial increase in the System's investment activity in recent years. This need has thus encouraged the System to expose itself to new kinds of risk and resulted in a departure from the System's traditional focus of making advances to members.

In the past, the System's exposure to credit risk was virtually nonexistent. All advances to member institutions are collateralized, and the FHLBanks can call for additional or substitute collateral during the life of an advance. No FHLBank has ever experienced a loss on an advance. The System's expanding investment activities, however, have added new sources of risk. In addition, pilot programs to allow the FHLBanks to underwrite mortgages jointly with their members were approved this year by the Federal Housing Finance Board, the System's regulator. Through these programs, the FHLBS is taking on credit risk, which it has not previously assumed; this new source of risk could become significant if such programs expand. In addition, the pilot programs represent a departure from the FHLBanks' traditional role as a wholesale lender. Instead, the Banks are participating in retail lending for the first time and competing directly with non-GSEs.

The role and risks of the FHLBS must continue to be examined and monitored in the face of rapidly changing financial markets. Changes in housing finance markets, such as increasing securitization, have reduced the role of portfolio lenders. Of about $4 trillion in residential mortgage debt outstanding, only 14 percent is held directly by thrifts and 18 percent by commercial banks; about 47 percent is held or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. In addition, the Deposit Insurance Funds Act of 1996 calls for eliminating the Federal thrift charter by 1999; requirements that thrifts specialize in home mortgage lending are eased by the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The role of the FHLBS should be reexamined in light of changes in housing finance markets, the System's recent shift away from its core mission of providing advances to members, and potential changes in the structure and activities of the industry served by the FHLBS.

Business and Rural Development Credit Programs and GSEs

Small Business Administration

Over the past four years, SBA has successfully expanded small businesses' access to capital despite fewer resources to operate its programs. While increasing loan volume by 38 percent (from $7.4 billion in 1993 to $10.2 billion 1996), SBA has reduced its staffing by 23 percent.

In its principal program, Section 7(a) General Business loans, SBA has introduced several initiatives to provide access to capital for the Nation's most underserved small businesses. The Low Documentation (LowDoc) initiative reduces the application form for 7(a) loans under $100,000 to a single sheet. The FasTrack pilot allows lenders to use their own forms in exchange for a reduced Government guarantee. These initiatives—and aggressive lending goals—have increased 7(a) loan volume to minority- and women-owned businesses from $1.8 billion (27 percent of 7(a) loan volume) in 1993 to $3.0 billion (39 percent) in 1996.

Reliance on private sector partners. With its portfolio growing from $20.7 billion in 1993 to $35.3 billion in 1996, SBA has relied increasingly on its private sector partners for loan servicing and liquidation, especially in the 7(a) program, which accounts for 75 percent of SBA business lending.

SBA's most experienced lenders are given unilateral authority to approve, service, and liquidate SBA-guaranteed loans under the Preferred Lender Program (PLP). Prior to 1996, in exchange for this authority, PLPs received a lower SBA guaranty (80 percent versus 90 percent for other lenders). Beginning in 1996, Congress set the maximum guaranty for all 7(a) loans—including PLP—at 80 percent. This change in legislation and SBA's goal of increasing its use of PLP lenders have led to a large increase in such lending. Loans approved through PLP lenders grew from $1.3 billion in 1995 (16 percent of loan volume) to $3.0 billion in 1996 (39 percent) and are estimated at $3.9 billion in 1997 (50 percent).

SBA also delegates servicing and liquidation authority in its LowDoc program. For defaulted loans, SBA requires that lenders liquidate all business chattel before SBA honors its guarantee. LowDoc loans accounted for 15 percent of 1996 7(a) loan volume (down from 21 percent in 1995.)

Altogether, through PLPs, LowDoc, and other programs, SBA has moved from delegating approximately 30 percent of servicing and liquidation authority for loans approved in 1993 to over 60 percent in 1997.

Liquidation improvement efforts. SBA has also strengthened its management of agency-serviced loan assets. In March 1996, SBA launched its Liquidation Improvement Project (LIP), an initiative to improve recoveries on agency-serviced defaulted business loan guarantees. Prior to LIP, agency field office performance was measured through lending goals, with no complementary goals for portfolio management, such as default and recovery levels. LIP established goals for loan servicing and liquidation—challenging field offices to increase recoveries by 20 percent.

Need for better oversight tools. Over the past four years, SBA has significantly increased loan volume, reduced staffing, and delegated authority to its private sector partners. During this same period, commercial small business lenders have become increasingly more sophisticated in identifying credit risk. Recognizing the profitability in small business lending, several lending institutions have recently announced aggressive small business lending goals. While these initiatives further expand small businesses' access to capital, they may also result in lending institutions making only higher risk loans through SBA loan guarantee programs.

These trends reinforce SBA's need for improved portfolio oversight tools. SBA, like many Federal agencies, continues to struggle with antiquated financial systems. SBA managers also lack access to timely and accurate analysis of portfolio trends and information on the performance of its private sector partners.

Reform Proposals. Recognizing the above trends, the Budget includes an aggressive plan to complete the shift of the SBA from a loan servicing to a lender oversight financial institution. SBA's proposals include: (1) delegating remaining 7(a) servicing and liquidation to its lending partners, (2) selling all direct loans and defaulted guarantees, and (3) making strategic investments in improving portfolio oversight tools.

Given the stringency of budgetary resources, these initiatives will allow SBA to focus on its performance goals of increasing access to capital, while relying on private lenders to perform functions where the private sector has historically been more efficient.

7(a) loan servicing and liquidation. In 1998, SBA proposes completing this trend toward reliance on its 7(a) lending partners. For all lending approved after 1997, SBA will require its 7(a) lenders to service and liquidate all defaulted loans. In addition, SBA will defer making claim payments on defaulted loans until after lenders have liquidated business chattel, which will reduce the net present value cost of claim payments.

Portfolio oversight. SBA will also invest $18 million in improving portfolio oversight. SBA's reduced staffing, growing portfolio, antiquated systems, and greater delegation of authority make a significant investment in portfolio management tools essential to ensure that the agency continues to meet its portfolio management responsibilities. This funding will allow SBA to recruit expertise in lender oversight, develop the necessary in-house systems to support lender monitoring, and create a centralized corporate database. Drawing on the experience of financial institutions such as Fannie Mae and Freddie Mac, SBA will establish loan servicing performance goals for its field offices and private sector partners.

Loan asset sales. Completing its transition from loan servicing to lender oversight, SBA will sell its portfolio of defaulted guaranteed loans and direct loans in 1998 and 1999. The Disaster loan portfolio will be sold in 1999 and 2000, after an initial pilot sale of $100 million in 1998. Drawing on the experience of Federal agencies, such as the Resolution Trust Corporation, and SBA's analysis of its portfolio value resulting from its Liquidation Improvement Plan, the Administration estimates that SBA's business loan assets (face value of over $2 billion) can be sold at a net gain to the Government. The Administration estimates that SBA's disaster loans (face value of $7 billion) can also be sold to advantage.

Doing more with less. These proposals will allow SBA to continue to "do more with less". Through improved portfolio oversight, lender servicing of defaulted loans, and deferred claim payments, the Government's subsidy costs of SBA's 7(a) loan program is estimated to decline from 2.3 percent to 1.8 percent, reducing the Government's contribution to the cost of this program by $44 million. By investing $18 million in portfolio monitoring improvements in 1998, this proposal produces savings of $26 million in 1998 alone. Larger savings will be achieved in the following years as increasing reliance on lenders allows SBA to further reduce agency staffing. In a tight budgetary environment, these proposals ensure that SBA will continue to have the resources necessary to meet the agency's performance goals for expanding credit access.

USDA Rural Infrastructure and Business Development Programs

The Department of Agriculture (USDA) provides financial assistance to rural communities and businesses to provide safe drinking water and adequate wastewater treatment facilities, increase rural employment, and further diversify the rural economy. Grants, loans, and loan guarantees are available to communities for constructing facilities, such as health care clinics and day care centers, and water and wastewater systems. Direct loans to construct community facilities and water and wastewater facilities are available at lower interest rates for lower income communities. These programs are targeted to rural communities with fewer than 10,000 residents. Each program has low default rates.

USDA also provides grants, direct loans, and loan guarantees to assist small and large rural businesses in order to increase rural employment and further diversify the rural economy. Assistance amounts range from small grants up to $25 million loan guarantees. In December 1996, a regulation was published streamlining the application process for the Business and Industry loan guarantee program and shifting responsibility to private banks for the application process and credit analysis. A certified lender program was established to reduce the administrative burden for experienced lenders. In 1997, direct loans will be provided in areas where private lenders do not use the guarantee program, and to borrowers who do not qualify for guaranteed loans. USDA's assistance to rural businesses has grown significantly from $100 million in 1993 to over $700 million in 1996. At the lower program levels, the default rate for these programs was low; over the next year, a review of the current portfolio will be undertaken in order to verify whether that is continuing.

The delivery of these programs is proposed to be significantly changed in the Budget. The 1996 Farm Bill enacted the "Rural Community Assistance Program" (RCAP), which builds on the Administration's 1996 and 1997 budget proposals to modify the distribution of rural development funding in order to accommodate the diversity of rural America. Funding for 12 USDA rural development activities was consolidated into "performance partnerships" in order to target Federal assistance more flexibly to the highest-priority needs of the State. USDA State Directors will be authorized to allocate funding among programs, with advice from State Rural Development Councils, including representatives of Federal, State, local, and tribal governments, and the private sector. In addition to the flexible funding scheme proposed by the Administration, the RCAP includes authority for rural development block grants to the States.

Electric and Telecommunications Loans

USDA's rural electric and telephone borrowers range from multi-billion dollar cooperatives to local telephone companies with as little as one million dollars in assets. The intent of the program was to bring electric and telephone service to under-served rural areas. Today, over 99 percent of rural households have electricity, and 97 percent have telephones. The program makes new loans to maintain existing infrastructure and to modernize electric and telephone service.

The Federal risk associated with the over $40 billion loan portfolio in electric and telephone loans has been small historically. Several large defaults have occurred in the electric program, primarily as a result of nuclear power construction loans; a total of nearly $1 billion was written off by USDA in 1996. However, both the telephone and electric industries are moving into a more competitive environment. In the electric industry in particular, the Federal Government can expect to be faced with managing a loan portfolio where the security erodes as the industry deregulates. USDA intends to propose legislative changes to restructure its outstanding $30 billion loan portfolio of rural electric loans. USDA's principal concerns are the impact of deregulation on loan security, the ability of borrowers to repay as the industry changes, and the goal of "affordable, universal service". Many rural cooperatives are by their very nature high cost providers of electricity, since there are fewer subscribers per line-mile than in urban areas.

Loans to Farm Operators

Farm Service Agency (FSA) direct and guaranteed operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment. Direct and guaranteed farm ownership loans assist producers in acquiring their farming or ranching operations. As a condition of eligibility, direct loan borrowers must have been denied private credit at reasonable rates and terms, or they must be beginning or socially disadvantaged farmers. The program's goal is to serve those farmers who otherwise would not receive loans from the private sector at a reasonable cost. Loans are provided at Treasury rates or 5 percent. As a result, high defaults and delinquencies are inherent in the program.

FSA guaranteed farm loans are made to more creditworthy borrowers who have access to private credit markets. Because the private loan originators must retain 10 percent of the risk, care is exercised in examining borrower repayment ability. As a result, guaranteed farm loans have not experienced losses as high as those on direct loans.

The 1996 Farm Bill significantly changed many of the servicing requirements for delinquent borrowers. For example, the FSA no longer can make a new loan to a borrower who is delinquent on an existing loan. Borrowers who have previously received a FSA loan write-down or write-off are no longer eligible for additional loans. The 1998 Budget proposes to temper this requirement by allowing farmers to become eligible for assistance after 7 years. The 7-year reinstatement is consistent with commercial terms. Property acquired through foreclosure on direct loans must now be sold at auction within 105 days of acquisition and leasing of inventory property is no longer permitted except to beginning farmers. These changes will limit losses to the Federal Government. Prior to these changes, acquired property remained in inventory on average for five years before the FSA could dispose of it.

The Farm Credit System and Farmer Mac

The Farm Credit System (FCS) and the Federal Agricultural Mortgage Corporation (Farmer Mac) are GSEs that enhance credit availability for the agricultural sector. The FCS is a direct lender, financing its loans largely through bond sales in the national credit markets, while Farmer Mac facilitates a secondary market for agricultural loans. Both GSEs are exposed to agricultural commodity concentration risk, from which the FCS suffered in the 1980s. Direct lending institutions in the FCS are also geographically limited, often to areas dependent on one or a few commodities. In the 1980s, the downturn in the agricultural economy led the FCS to the brink of insolvency and precipitated legislation in 1987 to bailout the FCS—legislation that also created Farmer Mac.

The Nation's agricultural sector and its lenders are now on firmer ground: farm income and land prices have improved, increasing borrower repayment abilities and collateral values, and permitting lenders to augment their capital. Both interest rates and inflationary expectations are significantly lower. And management practices, especially with respect to credit usage by farmers and the credit standards used by lenders, are now applied more conservatively.

Another sign of the increasing health of agricultural finance is the greater share of farm credit now provided by the private sector, particularly commercial banks. From 1985 to 1995, commercial banks' share of all farm debt (real estate and non-real estate) increased from 23 percent to 39 percent, while the share for FCS declined from 29 percent to 24 percent and for USDA from 12 percent to 7 percent. However, FCS's non-real estate loan growth has recently been faster than that of commercial banks. By 1995, the System's market share had begun to creep upwards for the first time in over a decade.

The Farm Credit System

In 1995, FCS also had a record of annual income surpassing the $1 billion level for three years in a row. System loan volume has been gradually increasing in recent years, but the $60.9 billion at the end of September 1996 is still far below the high of over $80 billion in the early 1980s. Increases in accruing loan volume, declines in the cost of funds, and increases in capital have widened the FCS's net interest margin from less than one percent in 1987 to more than three percent for the 1993–95 period. Nonperforming assets declined from $14.3 billion in 1987 to $1.1 billion at the end of September 1996.

Improved asset conditions and income enabled FCS to post record capital levels; by September 30, 1996, capital stood at $10.6 billion. Two-thirds of this capital was surplus, rather than borrowed equity. Included in this capital are investments set aside to repay about $600 million of the $1.3 billion of 1987-authorized Federal assistance provided through the Financial Assistance Corporation (FAC), due beginning in 2003. The FCS has adopted an annual repayment mechanism to cover the remainder. It has retired all its high-coupon long-term debt, moved to marginal cost loan pricing, and adopted asset-liability management practices designed to reduce its interest rate risk.

Operating risk is also being reduced. Substantial wholesale and retail level consolidation has occurred in the structure of the FCS. In January 1988, there were 12 districts consisting of 36 banks plus 376 associations; by October 1996, there were only 6 districts, 8 banks and 227 associations. Due to restructuring implementation costs and the time required to make operating adjustments, the savings from this restructuring are just beginning to be realized. System staff levels declined by 14 percent over 1990–1995. With increasing loan volume and fewer problem assets, operating expenses as a percentage of loans outstanding have begun to decline.

The 1987 Act established the FCS Insurance Corporation (FCSIC) to ensure timely payment of interest and principal on FCS obligations. This supplemented the financial strength provided by the System's capital, the joint and several liability of all System banks for FCS obligations, and the Farm Credit Administration's enforcement authorities. The FCSIC collects insurance premiums from the FCS's banks and earns investment income, thereby providing funds to fulfill its mission. As of December 31, 1995, the assets in the Insurance Fund totaled $1.0 billion ($1.1 at September 30, 1996).

The Changing Role of the FCS. The System's original mission was to serve as a market force to ensure an adequate supply of competitively priced credit to the benefit of farmers. Loans to farmers and other eligible borrowers still comprise 72 percent of the System's portfolio. While the largest segment of the FCS's portfolio is still in farm real estate loans, the share has been gradually declining and is now about two-thirds of the farm lending portfolio.

Since its origination, FCS's authorities have been broadened, introducing 26 new types of lending such as expanded authorities for export and rural utilities financing, that have contributed to a growing volume of cooperative lending over the past 20 years. A surge in loans to finance processing, marketing, credit cooperatives, and rural utilities cooperatives increased the cooperatives' share of FCS's portfolio to almost 28 percent at year-end 1995.

The Farm Credit System is stronger now than it has been in years and its strength continues to grow. But primarily due to its concentration in agriculture, it continues to be exposed to structural changes in the agricultural and commercial banking sectors. In banking, consolidation is driven by adoption of computer/communications technology and by the breakup of statutory structures that have provided geographic and product line separations. In agriculture, vertical integration in the food system and the growth of input suppliers and other nontraditional creditor suppliers have tied farms to nonfarm businesses, increased the importance of nontraditional creditors in agricultural markets, and changed the way credit is provided.

Farmer Mac

Farmer Mac was established in 1987 to create and oversee a secondary market for, and to guarantee securities based on, farm real estate loans. The secondary market is intended to increase the availability of long-term credit for farmers and ranchers at stable interest rates, and improve the availability of credit for rural housing.

Since the 1987 Act, Farmer Mac has been authorized to issue its own debt securities, and to operate a secondary market in real estate and operating loans guaranteed by the Farm Service Agency ("Farmer Mac II"). The Farm Credit System Reform Act of 1996 further expanded its powers, transforming Farmer Mac from just a guarantor of securities formed from loan pools into a direct purchaser of mortgages in order to form pools to securitize.

The 1996 Act was passed in response to a steady erosion of Farmer Mac's capital base. Revenues from services as a guarantor, and a pooler under Farmer Mac II, did not meet expectations and showed no prospect of improvement. The new powers increase commercial banks' incentives to participate in Farmer Mac and allow Farmer Mac to serve as pooler.

However, these powers also subject the Corporation to more credit risk. Prior to the 1996 Act, Farmer Mac had little risk from defaults in the loan pools since a 10-percent subordinated interest in loans pooled was required to be held by originators or other entities outside the pool. As a direct purchaser of loans with no required subordination, Farmer Mac will be exposed to such losses, and must estimate them accurately for fee setting and for determining the appropriate level of capital reserves. The 1996 Act gave Farmer Mac three additional years to reach its minimum and critical capital requirements, and 2 years to raise capital to $25 million.

On December 20, 1996, Farmer Mac completed the public issuance and sale of approximately 1.4 million shares of non-voting common stock, generating new equity capital for the Corporation of about $32.4 million. Previously, in April 1996, a private sale of 320 thousand shares of Farmer Mac's non-voting common stock raised about $2.56 million. By year-end 1996, Farmer Mac's total capital was approximately $47.5 million, which exceeds the Corporation's regulatory minimum capital requirement ($6.4 million) and the 1996 statutory requirement ($25 million).

Additional steps have also been taken by Farmer Mac to minimize the potential for losses on securitized loans under the new authorities. These steps include: (1) establishment of a higher annual guarantee fee of 50 basis points on loans securitized, (2) maintenance of an adequate loan loss reserve to cover anticipated losses, and (3) applying loan underwriting standards that include a maximum loan-to-value ratio of 70 percent for loans up to $2.3 million and only 60 percent for loans between $2.3 million and $3.3 million.

International Credit Programs

Seven Federal agencies—the Departments of Agriculture, Defense, State, and Treasury and the Agency for International Development, the Export-Import Bank, and the Overseas Private Investment Corporation—provide direct loans, loan guarantees, and insurance to a variety of foreign private and sovereign borrowers. In 1996, the amount outstanding was over $80 billion.

Leveling the playing field. One important reason why the Federal Government provides credit in the international area is to help U.S. companies and organizations, large and small, win sales by matching the financial subsidies that foreign governments, largely in Europe and Japan, provide on behalf of their own national businesses in export and investment markets in the developing world. Export credit agencies (ECAs) have been established by many countries to provide official export credits; they often charge below market interest rates and fees to give their exporters a competitive advantage.

The Export-Import Bank of the U.S. (Eximbank) attempts to "level the playing field." Eximbank supports the sale of U.S. goods and services to foreign buyers to ensure that purchase decisions are based on market forces (i.e., price, quality, service, technology), and not on financial subsidies offered by other nations' ECAs or imperfections in private capital markets. Eximbank accounts for 30 percent of the $70 billion in medium- and long-term official export credits offered by G–7 ECAs in 1994 (latest OECD data)—far ahead of the next competitor at 18 percent (Germany). Eximbank is also first among major ECAs in providing the most unrestricted financing in almost twice as many markets as its nearest competitor.

Similarly, USDA's GSM–102 and 103 programs expand and maintain commercial agricultural exports by guaranteeing credit extended by private U.S. exporters or financial institutions. The GSM programs are targeted to countries where government guarantees are needed to help meet a "credit gap" between credit otherwise available from all sources and the desired level. The programs help to counter continuing competition from other countries that offer credit through ECAs or commodity marketing boards.

The increase in world trade and the globalization of capital markets has made ECAs somewhat less important in recent years. Although ECA financing of the G–7 increased from $230 billion in 1990 to $270 billion in 1994, official credits are a diminishing share of global capital flows; private flows now far outweigh government financing. OECD data for 1994 show that official credits represent only 2 percent of net resource flows to developing countries. IMF data show that total capital flows to developing countries hit a record $228 billion in 1995, but $211 billion (or 93 percent) were private capital flows.

Helping economies in transition. Another goal of the international credit programs is to provide financial assistance to foreign governments and private entities, largely in developing countries, where private financial organizations are reluctant to enter without government support.

In particular, the dramatic economic transformation that has been underway in Eastern and Central Europe since the early 1990s presents U.S. businesses with unprecedented opportunities matched by unprecedented risks. The U.S. Government operates several programs to mitigate these risks.

Since 1991, Eximbank has provided financing for exports to Russia and several Newly Independent States, as well as countries in Central Europe, to increase U.S. exports and assist the region's economic transformation. For example:

- In July 1993, Eximbank signed the Oil and Gas Framework Agreement under which Eximbank may provide $2 billion or more in financial assistance for purchases of U.S. equipment and services to revitalize Russia's energy sector.
- On November 8, 1994, Eximbank signed a Memorandum of Understanding with Gazprom, Russia's gas production and distribution company, which will open the way for Eximbank to support transactions involving at least $750 million in U.S. equipment and services for the rehabilitation of Russia's natural gas sector.
- On January 30, 1996, Eximbank signed a Memorandum of Understanding with the Russian state timber industry governmental entity, Roslesprom, which will open the way for the export of U.S. goods and services for the modernization of Russia's timber industry.

Eximbank provided over $2.7 billion in loans, guarantees, and insurance for deals in Russia/NIS between 1994 and 1996. Eximbank expects to provide more than $1 billion of additional credit in 1997 and 1998, primarily for oil, gas, timber, and various natural resource projects. In November 1996, Eximbank began considering applications from private Russian borrowers.

USDA's GSM export credit guarantee program is being used in transitional economies to aid development, while stimulating markets for US agricultural exports. New initiatives beginning in 1993 have sought to leverage private sector involvement in Russia, Poland, Latvia, Lithuania and Estonia, and stress high-value U.S. exports. Credit guaranteed to non-sovereign borrowers totaled $122 million from 1993 to the present, and its annual level has quadrupled during this period, with Russia's being the largest single initiative. Guarantees of $166 million are being offered in 1997, with a greater amount in 1998.

In addition, the GSM program guaranteed more than $750 million of public sector credit to transitional economies since 1993. Current levels of coverage will be made available in the future, commensurate with the shift to private sector activity in these economies.

Eximbank has also helped the U.S. Agency for International Development (USAID) administer a special one-time program for Ukraine that has provided U.S. exporters with trade credit insurance to finance approximately $150 million in exports of U.S. agricultural supplies and inputs to Ukraine.

Through its Urban and Environmental Credit Program (formerly entitled Housing Guaranty Program), USAID has also provided loan guarantees to Poland, the Czech Republic, and Hungary. These guarantees, which are accompanied by technical assistance, are designed to assist these countries in such areas as the development of mortgage instruments and lending procedures for the housing sector, in strengthening municipal finance through the development of new debt instruments, and in establishing market oriented systems for financing municipal infrastructure investments.

Re-engineering credit delivery. Through the Trade Promotion Coordinating Committee (TPCC), agencies providing export credit have developed a unified National Export Strategy, and they are working together to make the delivery of trade promotion support more effective and convenient for U.S. exporters.

U.S. Export Assistance Centers. A much stronger private-public partnership is being developed through the creation of the nationwide U.S. Export Assistance Centers (USEACs) Network. Eximbank teamed up with the Commerce Department and the Small Business Administration to establish these one-stop-shops. The USEACs have dramatically transformed the way Federal, state, and local international trade partners now work together and approach trade finance. By establishing a more rational, integrated network, leveraging resources and improving accessability to services, more small and medium-sized firms were able to obtain export financing through the USEACs in 1995–1996.

New Mechanisms. Small and medium-sized enterprises (SMEs) often cite access to trade finance as the key to export success, yet only 75 of the over 9,000 banks in the U.S. do substantial export financing and most smaller businesses do not have relationships with them. Even if the SMEs were willing to seek out relationships with these larger banks, the small size of their transactions can make it difficult for banks to provide them with the adequate trade financing assistance. The White House is studying the development of a program—modeled after the home mortgage market—which will address the availability of reasonably priced export (buyer) financing. It will entail small banks taking exporter performance risk, larger banks assessing the credit risk of foreign buyers, and private capital markets providing increased liquidity to the export finance sector. Eximbank, the Small Business Administration, and OMB will be working in 1997 with other Executive Branch agencies and private sector parties to refine this proposal.

Infrastructure Finance. The rapid privatization and deregulation of massive infrastructure projects—including power, telecommunications, and transportation systems—occurring in many developing countries has increased the demand for financing beyond what the private capital markets have been willing to provide. These project finance deals are complex transactions where the only source of debt repayment is the economic return generated by the project itself, rather than a sovereign nation or a private company. OPIC and Eximbank are often involved in the largest project financing transactions. In these cases, Eximbank and OPIC staff work to ensure that the project meets each agency's credit quality and other requirements. Eximbank and OPIC have been particularly successful at providing financial support for U.S. power generation suppliers in private power projects. Eximbank's and OPIC's support has provided several emerging markets with their initial success in private power. Since Eximbank's Project Finance Division was created in 1995, it has provided $2.3 billion of financing for nine private power projects with a total project cost of $8.3 billion and total generation capacity of 6,300 megawatts. Likewise in 1995, OPIC provided project finance or insurance support to ten power generation projects around the world.

Greater Emphasis on Private Buyers. As countries around the world have shifted from public to private buying in recent years, the GSM programs in USDA have been re-engineered to meet changing commercial needs and to increase US exports while minimizing the risk of default. The programs now provide greater flexibility by offering shorter maturities, broader commodity coverage, regional programming, and third-country banking. Two new credit programs have been developed to meet commercial credit gaps not met by GSM–102 and GSM–103: the supplier and the facility credit guarantee programs, which cover exports of consumer-ready products and construction of handling facilities (such as refrigeration at the dock). At the same time, creditworthiness criteria and program terms and conditions (e.g., amount of exposure per risk rating) have been tightened to minimize the risk of default. There has not been a major default in the GSM program in three years.

The U.S. Agency for International Development (USAID) is now exploring the possibility of using guarantees of private sector loans to finance up to $100 million of the approximately $280 million outstanding U.S. Government commitment to The U.S.-Russia Investment Fund (TUSRIF). Like other "enterprise funds" established by the U.S., TUSRIF is designed to assist the development of a market economy by providing financing and management support to businesses operating in Russia.

III. Insurance Programs

Deposit Insurance

Federal deposit insurance was instituted in the 1930s to provide coverage against depositor losses from failures of insured institutions. Deposit insurance also serves as a form of protection against widespread disruption in financial markets by reducing the probability that the failure of one financial institution will lead to a cascade of other failures. The Federal Deposit Insurance Corporation (FDIC) insures the deposits of banks and thrifts through two separate insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). Deposits of credit unions are insured through the National Credit Union Administration (NCUA). Deposits are currently insured up to a limit of $100,000 per account. The FDIC insures deposits at over 9,500 commercial banks and almost 2,000 savings institutions, for a total of about $2.7 trillion in insured deposits. The NCUA insures about 11,500 credit unions with about $260 billion in insured deposits.

Current Industry and Insurance Fund Conditions. The 1980s and early 1990s were a turbulent period for the bank and thrift industries, with over 1,400 bank failures and 1,100 thrift failures. The Federal Government responded with the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989 and the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991. These legislative reforms, combined with more favorable economic conditions, helped to restore the health of depository institutions and the deposit insurance system. The FDIC currently classifies only 125 institutions with $15 billion in assets as "problem" institutions, compared to over 1,400 institutions with $800 billion in assets just 5 years ago.

During 1996, only 5 commercial banks with a total of $187 million in assets failed, and only 1 thrift with $34 million in assets failed. Eighteen credit unions with $15 million in assets failed during 1996. Although depository institutions and their Federal insurance funds are currently in good financial condition, an economic downturn could put significant pressure on the deposit insurance funds.

Banks have achieved very strong levels of earnings in the last few years, which enabled the industry to recapitalize BIF. BIF reached its statutorily designated reserve ratio of 1.25 percent in mid-1995. As a result, the FDIC lowered deposit insurance premiums for banks to a range from zero for the healthiest banks to 27 cents per $100 of deposits for the riskiest banks. Currently, almost 95 percent of commercial banks pay nothing for deposit insurance.

The earnings of the thrift industry have also showed significant improvement in the last few years. The industry remains in strong financial condition despite the imposition in the Deposit Insurance Funds Act of 1996 (DIFA) of a $4.5 billion special assessment to capitalize the SAIF. Thrifts paid $3.5 billion of the assessment, and banks with SAIF-insured deposits contributed $1 billion.

During most of 1996, thrifts paid deposit insurance premiums of 23 cents per $100 in deposits while most banks paid only the statutory minimum of $2,000 per year (this minimum has since been repealed). The DIFA was enacted to mitigate this disparity in deposit insurance premiums. DIFA required a special assessment on SAIF-insured deposits to immediately bring SAIF up to the required 1.25 percent reserve ratio. In addition, the Act required that the cost of interest on the Financing Corporation (FICO) bonds, which were issued in the late 1980s to pay for the early stages of the thrift crisis, be shared by banks and thrifts instead of being paid by thrifts alone. A small premium disparity will continue for the next 3 years because thrifts must bear a larger share of the FICO cost than banks until January 1, 2000, when banks and thrifts will begin to share the interest cost on a pro rata basis.

The DIFA also merges the BIF and SAIF on January 1, 1999 provided that no savings associations exist at that time. In other words, the merger is conditional on subsequent legislation to combine the bank and thrift charters. As required by the DIFA, the Administration will present its recommendations on the development of a common depository institution charter to Congress by March 31, 1997.

The National Credit Union Share Insurance Fund (NCUSIF) also remains strong with assets of $3.6 billion. Each insured credit union is required to deposit and maintain in the fund 1 percent of its member share accounts. In 1996, the income generated from the 1 percent deposit eliminated the need to assess an additional insurance premium. As of September 30, 1996, the Fund's equity ratio reached 1.32 percent, and in October 1996, the NCUA Board approved a $102 million dividend to reduce the Fund's equity ratio to the statutory ceiling of 1.30 percent. This was the second consecutive year in which the NCUA Board paid such a dividend. In addition, the NCUA Board waived insurance premiums for 1997.

Other Legislative and Regulatory Developments. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) contained several provisions to ease the regulatory burden on depository institutions. For example, EGRPRA modified reporting requirements under the Real Estate Settlement Procedures Act and the Truth in Lending Act, provided for eventual repeal of civil liabilities under the Truth in Savings Act, expanded the exemption from Home Mortgage Disclosure Act reporting requirements, created expedited procedures for well-capitalized and well-managed bank holding companies to engage in non-banking activities, and expanded the number of small banks and thrifts that regulators are permitted to examine on an 18-month cycle instead of annually. The EGRPRA also expanded the definition of "qualified thrift investments" to include small business, credit card, and education lending; thrifts generally must hold at least 65 percent of their assets in these qualified thrift investments, which previously were largely limited to real estate-related assets.

In November 1996, the Office of the Comptroller of the Currency (OCC), which regulates national banks, finalized changes to its regulation on operating subsidiaries of national banks. The rule will allow national banks to conduct activities through operating subsidiaries that were formerly permissible only under a bank holding company structure. The extent of expanded powers that may be granted to national bank operating subsidiaries is still unclear, because the rule does not list specific activities that are approved; instead, the OCC will consider applications on a case-by-case basis.

The Federal Reserve has also proposed allowing bank holding companies and their non-banking subsidiaries to engage in a wider range of non-banking activities deemed "closely related to banking." In addition, the Federal Reserve Board in December 1996 increased the revenue limit from underwriting securities in "Section 20" subsidiaries of bank holding companies from 10 percent to 25 percent of total revenue.

Deposit Insurance in an Integrated Financial Services Market. Recent legislation and regulatory changes highlight the importance of financial modernization in a rapidly changing financial market. Depository institutions have faced increasing competition from non-bank providers of financial services in recent years. Legislative and regulatory changes that alter depository institution charters and/or expand the range of permissible activities for bank subsidiaries, holding companies, or affiliates will contribute toward the increasing integration and efficiency of the financial services industry.

Financial services modernization promotes competition and efficiency within the industry, which can foster the creation of new products and services and benefit consumers. However, expanded powers also could lead to greater risks, especially to the deposit insurance funds, which are supported by the full faith and credit of the Federal Government. Changes to the financial services industry must be consistent with safe and sound practices, provide protection for consumers, and, ultimately, preserve the Federal deposit insurance guarantee.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures most defined benefit pension plans sponsored by private employers. PBGC steps in to pay the benefits guaranteed by law when a company with an underfunded pension plan becomes insolvent. PBGC's exposure to claims relates to the underfunding of pension plans, that is, to any amount by which expected future benefits exceed plan assets. In the near term, its loss exposure results from financially distressed firms with such underfunded plans. In the longer term, additional loss exposure results from firms which are currently healthy but become distressed, and from changes in the funding of plans and their investment results.

The number of plans insured by PBGC has been declining as small companies with defined benefit plans terminate them and shift to defined contribution plans. At the same time, the number of workers whose pensions are insured by PBGC has increased. In particular, the number of defined benefit pension plans with 1,000 or more participants has increased consistently—to 4,600 compared to 3,600 in 1980.

During the past four years, PBGC been working to prevent and mitigate losses. Under the Early Warning Program, it has negotiated more than 40 major settlements providing more than $14 billion in new pension contributions from companies and improving pension security for nearly 1.2 million people. In 1995, the Early Warning Program was one of the first six Federal programs to receive an award from the Ford Foundation and Harvard's Kennedy School of Government. The program also received the National Performance Review's Hammer Award. In 1996, PBGC expanded the Early Warning Program to include certain companies with single-employer plans underfunded by at least $5 million, as opposed to $25 million—the previous threshold. For the first time in PBGC's 22-year history, the single-employer insurance program will post a positive financial position for 1996.

The Retirement Protection Act of 1994 (RPA) improved PBGC's early intervention capability and was an important factor in achieving a number of the settlements discussed above. The law is beginning to strengthen PBGC's financial condition in other ways and to improve its operations. The RPA:

- requires companies to increase their contributions to underfunded plans over 10 to 15 years;
- relates more fairly the premiums that companies pay to PBGC's exposure by increasing insurance premiums for those pension plans that are the most underfunded;
- requires privately-held companies with seriously underfunded plans to give PBGC advance notice of any transactions that potentially are harmful to their plans. When this "Early Warning Program" shows benefits to pensioners to be seriously at risk, PBGC begins negotiating funding and other arrangements in order to forestall its taking over the plan.
- standardizes both the interest rates and the mortality tables that companies use to calculate: (1) any underfunding, (2) the premiums to PBGC, and (3) the companies' legally required funding contributions to their plans.
- expands PBGC's "missing participants" program. Some workers about to retire simply forget about the pensions they have earned at a job many years past; some plans may have become insolvent; and some plans may be unable to locate retirees. When a company either has failed or cannot locate a previous employee entitled to a pension, PBGC

endeavors to locate the missing participant, and then pays the benefits owed.

Overall, PBGC fared well in 1996. There were no major plan terminations during the year, and investment performance was strong. As part of the phase-in of the RPA, the most underfunded plans paid higher premiums. These risk-related premiums and higher pension underfunding increased premiums by more than 35 percent.

The multi-employer program guarantees pension benefits of certain unionized plans offered by many employers in an industry. In May 1996, the Administration proposed to increase the maximum guarantee level on pension benefits paid to retirees with 30 years of service. This maximum, which has not changed since 1980, would be increased from $5,580 to $12,870 per year. Although it passed the Senate, this provision was not enacted and is being proposed again. PBGC also entered into an agreement with sponsors of a multi-employer plan to protect pensions of 70,000 workers and retirees in the men's clothing industry.

Pension underfunding as estimated by PBGC increased from $31 billion as of December 1994 to $64 billion for December 1995. The increase was due largely to a sharp decline in interest rates from 7.2 percent at the end of 1994 to 5.3 percent at the end of 1995. This was the lowest year-end interest rate in the agency's 22-year history and the largest percentage decline from a year earlier. To calculate its exposure (i.e., its liability), PBGC applies the same interest rate and mortality assumptions that would have been used to purchase annuities at year-end. It estimates the cost of annuities to provide guaranteed benefits if the underfunded plans all terminated.

Two-thirds of all plans are sufficiently funded, and much of the underfunding is in plans sponsored by financially healthy firms. Underfunding is spread across all industries, with a heavier concentration in the steel, automobile, and transportation equipment industries. Over the long run, the recent reforms will improve pension funding.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP) administered by the Federal Emergency Management Agency (FEMA). This insurance is available to property owners living in communities that have adopted and enforced appropriate floodplain management measures. Insurance policies for structures built before a community joined the flood insurance program are subsidized by law, while policies for structures built after a community joins the NFIP are actuarially rated.

The Federal flood insurance program was created in the early 1970s when flood damage was increasing, and private insurance companies, with little information on flood risks by geographic area, had deemed the risk uninsurable. To address this concern, the NFIP was created to provide insurance coverage, to require building standards and other mitigation efforts to reduce losses, and to begin a flood hazard mapping project to quantify the risk of flooding in each geographic area. The program has been relatively successful in meeting these goals.

Flood insurance premiums grew by nearly 30 percent from October 1994 to October 1996, exceeding the growth goal set two years ago of 20 percent. The NFIP's "Cover America" initiative, a major marketing and advertising campaign, should continue to increase awareness of flood insurance and educate people about the risks of floods. FEMA plans to increase significantly the number of policies in force using three strategies: lender compliance, program simplification, and marketing.

The NFIP's Community Rating System (CRS) now allows policyholders in 910 communities to receive discounts of at least 5 percent on their premiums as a result of undertaking activities beyond those required by the NFIP to reduce flood losses, facilitate accurate insurance rating, and promote public awareness of flood insurance.

In 1997, the NFIP is implementing expanded mitigation insurance authorized by the National Flood Insurance Reform Act of 1994. The mandatory Increased Cost of Construction (ICC) coverage, which will take effect May 1, 1997, will allow substantially-damaged structures to be rebuilt in accordance with existing floodplain management requirements. This will reduce future losses and allow the structure to be actuarially rated.

In 1998, FEMA will continue efforts to reduce flood damage by educating Federal regulators about mandatory flood insurance purchase requirements for federally backed home and business loans on property located in flood hazard areas; simplifying policy language; using mitigation insurance to enable flood victims to rebuild to code, thereby reducing the cost and amount of future flood damage; and using flood insurance premium adjustments to encourage community and State mitigation activities beyond those required by the NFIP.

Crop Insurance

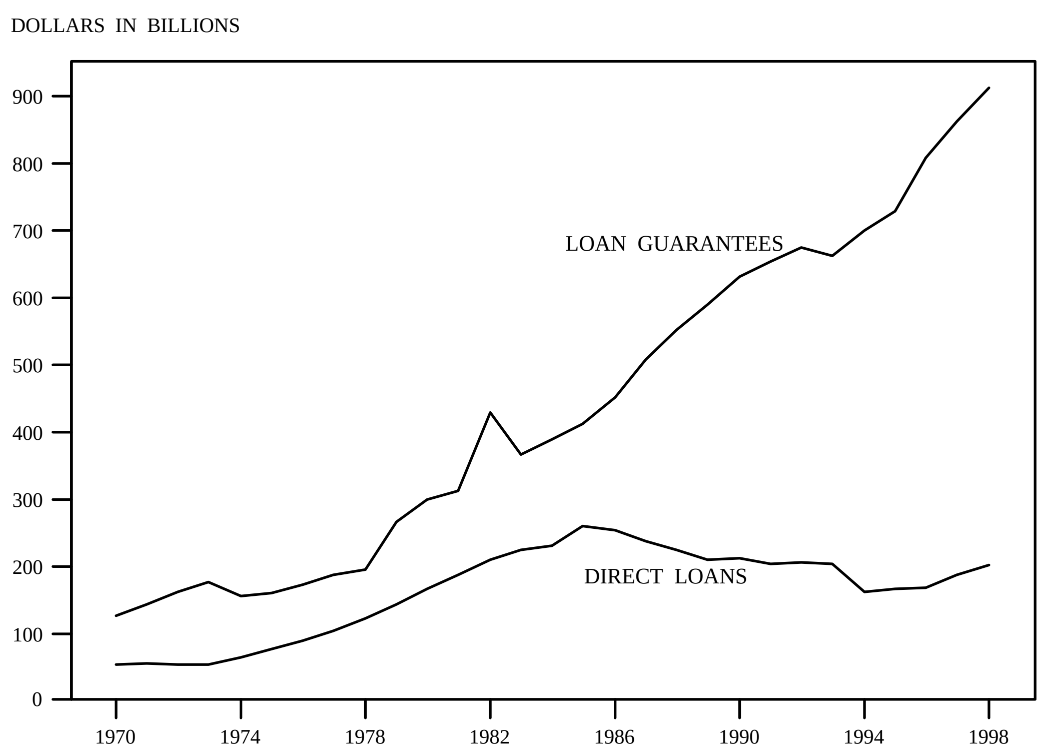
Subsidized Federal crop insurance administered by USDA assists farmers in managing catastrophic yield shortfalls due to adverse weather or other natural disasters. Private sector companies are unwilling to offer multi-peril crop insurance because losses tend to be correlated across geographic areas, and the companies are therefore exposed to large losses. For example, a drought will affect many farms at the same time. Damage from hail, on the other hand, tends to be more localized, and a private market for hail insurance has existed for over 100 years in the U.S..

The USDA crop insurance program is a cooperative effort between the Federal Government and the private insurance industry. The Federal Government reimburses private insurance companies for the administrative expenses associated with extending crop insurance and reinsures the private companies for excess insurance losses on all policies. Private companies sell and adjust crop insurance policies. The Federal Government also subsidizes premiums for farmers.

A major program reform was enacted in 1994 to address a growing problem caused by the repeated provision of Federal ad hoc agricultural disaster payments. Between 1980 and 1994, participation in the crop insurance program was kept low by the availability of post-event disaster aid to farmers from the Federal Government. Because disaster payments were no-cost grants, farmers had little incentive to purchase Federal crop insurance. As a result, the cost of ad hoc disaster payments rose over the past seven years, and the crop insurance program accumulated an $8 billion actuarial deficit. The 1994 reform repealed existing agricultural disaster payment authorities and authorized a new basic “catastrophic” insurance policy that indemnifies farmers at a rate roughly equal to the previous free disaster payments. The catastrophic policy is free to farmers except for an administrative fee. Private companies may sell and adjust the catastrophic portion of the crop insurance program, and also provide higher levels of coverage (which are also federally subsidized.) The reform was implemented in crop year 1995. and no ad hoc crop disaster assistance bill has been enacted since 1994. In 1995, 82 percent of eligible acres participated in the program (140 percent over 1994) with a face value of $27 billion.

The 1996 Farm Bill significantly changed the commodity programs and associated price and income support for farmers. The President’s signing statement for the Farm Bill stated: “The fixed payments in the bill do not adjust to changes in market conditions, which would leave farmers, and the rural communities in which they live, vulnerable to reductions in crop prices or yields. I am firmly committed to submitting legislation and working with the Congress next year to strengthen the farm safety net”. Accordingly, the 1998 Budget proposes to expand the crop insurance program to include “revenue insurance” coverage. Revenue insurance will protect farmers against lost revenue caused by low prices, low yields, or any combination of the two, thereby strengthening the farm income safety net. Currently, USDA is operating several pilot programs to test various revenue insurance products. These pilot products have been widely accepted by farmers in the areas where they are being tested, and the 1998 Budget would expand USDA’s authorities to operate a revenue insurance program on a nationwide basis.

Chart 8-1. FACE VALUE OF FEDERAL CREDIT OUTSTANDING



Improving Debt Collection

A critical element in the cost of credit programs is the timing and the amount of recoveries of defaulted loans. Recoveries are an important measure of program performance.

At the end of 1996, total credit and other receivables of the Federal Government were $248 billion. Of that amount, $51 billion were delinquent; $43 billion have been delinquent for more than a year and collectibility is considered doubtful. Total delinquencies and the amount of debt that is more than one year delinquent did not change significantly from 1995 to 1996.

At each stage in the Government's credit and debt management process, there are specific tools that can be used to prevent default, convert delinquent accounts into repayment, and, if appropriate, enforce a claim through the judicial process. In 1996, over $3 billion was collected through offset, private collection agencies, and litigation.

The enactment of the Debt Collection Improvement Act significantly improves Treasury, Justice and loan making agencies' ability to maximize collections of delinquent debt by ensuring quick action, such as referral to private collection agencies and sharing of payment and collection information within and among Federal agencies when an account is 180 days or more overdue.The Act also provides agencies incentives to consolidate and cross-service in order to improve account monitoring and customer servicing.

Chart 8-2. KEY DEBT COLLECTION TOOLS
(Cumulative collections)

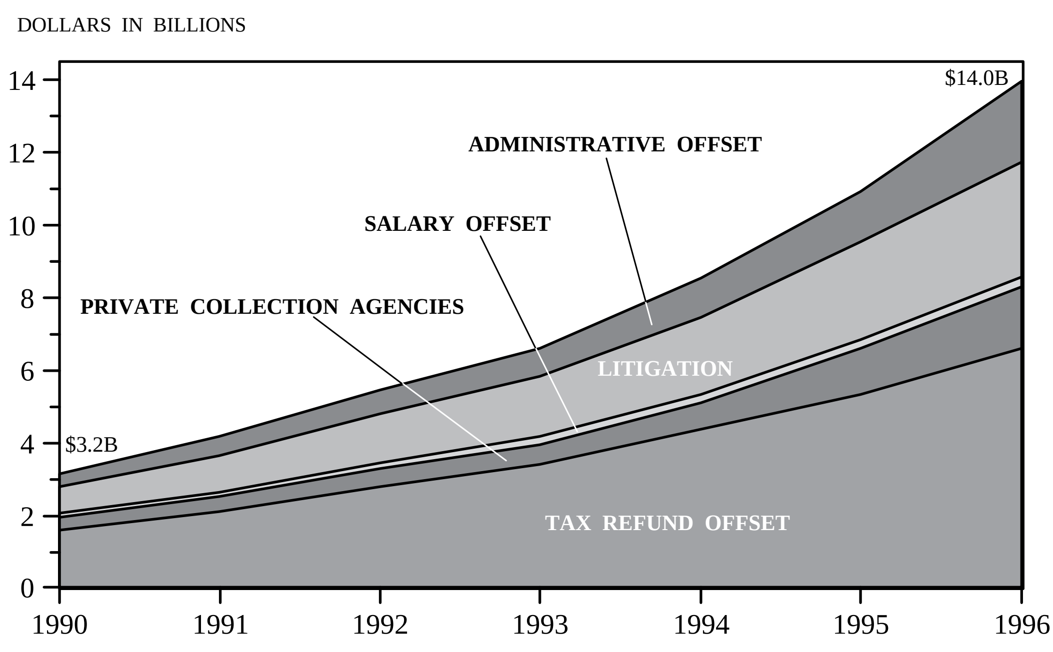


Table 8–1. FACE VALUE AND ESTIMATED COST OF FEDERAL AND FEDERALLY ASSISTED CREDIT PROGRAMS

(in billions of dollars)

Program	Face Value 1995	1997 Budget Estim. Present Value of Future Costs [1]	Face Value 1996	Current Estimates Present Value of Future Costs [1]
Direct Loans: [2]				
Farm Service Agency (excl.CCC), Rural Devlpmt., Rural Housing	48	13–19	47	10–16
Rural Electrification Admin. and Rural Telephone Bank	37	2–4	35	3–6
Agency for International Development	14	2–3	13	1–2
Public Law 480	12	2–4	12	2–4
Disaster Assistance	9	3–5	9	8–12
Foreign Military Financing	8	0–1	8	0–1
Export-Import Bank	8	1–3	8	2–4
Federal Direct Student Loan Program	3	6–9	12	6–9
Small Business	2	0–1	2	0–1
Other Direct	19	1–2	19	1–2
Total Direct Loans	161	30–51	165	33–57
Guaranteed Loans: [2]				
FHA MMI Fund	318	(12)–0	364	(12)–0
VA Mortgage	154	3–5	155	3–5
FHA GI/SRI Fund	83	11–14	91	7–10
Federal Family Education Loan Program	86	5–10	102	5–10
Small Business	26	2–3	31	2–4
Export-Import Bank	18	3–5	18	4–6
Farm Service Agency and Rural Housing	8	1–2	11	1–2
CCC Export Credits	5	2–3	5	0–1
Other Guaranteed	27	3–4	28	2–4
Total Guaranteed Loans	727	18–46	805	12–42
Total Federal Credit	888	48–97	970	45–99
GSEs: [3]				
Fannie Mae	787	....	929	....
Freddie Mac	552	....	601	....
Federal Home Loan Banks [4]	122	....	153	....
Sallie Mae [5]	....	....	....	....
Farm Credit System	53	0–1	56	....
Total GSEs	1,514	0–1	1,740	....
Total Federal and Federally Assisted Credit Programs	2,402	48–98	2,710	45–99

[1] Direct loan future costs are program account outlays projected over a period comparable to loan maturity plus the embedded loss from outstanding loans. Loan guarantee costs are program account outlays plus liquidating account outlays (and outlays from defaulted guaranteed loans that result in loans receivable) projected over a period comparable to loan maturity.
[2] Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as CCC farm supports. Defaulted guaranteed loans which become loans receivable are accounted for in guaranteed loans.
[3] Net of purchases of federally guaranteed loans.
[4] The lending by the Federal Home Loans Banks measures their advances to member thrift and other financial institutions. In addition, their investment in private financial instruments at the end of 1996 was $122.0 billion.
[5] The face value and Federal costs of Federal Family Education Loans in Sallie Mae's portfolio are included in the account of that program under guaranteed loans above.

TABLE 8–2. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED, 1992—1996 [1]

(In millions of dollars)

Program	1994	1995	1996	1997
Direct Loans:				
P.L. 480 Title I loan program	....	....	–37	....
Agriculture credit insurance fund	–72	28	2	....
Agricultural conservation	–1	....	....	....
Foreign military financing	....	....	....	23
Rural development loan program	....	1	....	....
Rural economic development loans	....	....	....	1
Rural electrification and telephone loans	*	61	–37	....
Rural telephone bank	1	....	....	....
Rural housing insurance fund	2	152	46	....
Federal direct student loans	....	....	3	–304
Veterans housing benefit program fund [2]	–39	30	76	–84
Export-Import Bank direct loans	–28	–16	37	....
Loan Guarantees:				
AID housing guaranty	–2	–1	–7	....
P.L. 480 Title I Food for Progress credits	....	84	–38	....
Agriculture credit insurance fund	5	14	12	....
Commodity Credit Corporation export guarantees	3	103	–426	....
Rural housing insurance fund	2	10	7	....
Rural development insurance fund	49	....	....	....
Rural community facility guarantees	....	....	....	9
Federal family education (formerly GSL):				
Technical reestimate	97	421	60	–2,410
Volume reestimate [3]	....	....	535	222
FHA-General and special risk	–175	....	–110	....
BIA-Indian guaranteed loans	....	....	....	18
SBA-Business loans	....	....	257	38
Veterans housing benefit fund guarantees [4]:				
Technical reestimate	1	343	–710	–715
Volume reestimate [3]	....	....	315	2
Export-Import Bank guarantees	–11	–59	13	....
Total	–168	1,171	35	–3,200

* $500 million or less.

[1] Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the budget for 1998.

[2] In FY 1998, Veterans Housing Direct Loan Program, Loan Guaranty Program and Guaranty and Indemnity fund direct loans are proposed to be consolidated.

[3] Volume reestimates in mandatory programs represent a change in volume of loans disbursed in the prior years. These estimates are the result of guarantee programs where data from loan issuers on actual disbursements of loans are not received until after the close of the fiscal year.

[4] In FY 1998, Veterans Housing Loan Guaranty Program and Guaranty and Indemnity Fund loan guarantees are proposed to be consolidated.

TABLE 8–3. ESTIMATED 1998 SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS FOR DIRECT LOANS [1]

(In millions of dollars)

Agency and Program	1998 Weighted average subsidy as a percent of disbursements	1998 Subsidy budget authority	1998 Estimated loan levels
Funds Appropriated to the President:			
Foreign military financing	9.44	66	700
Overseas Private Investment Corporation	3.00	4	133
Agriculture:			
Agricultural credit insurance program	8.08	43	532
Rural community advancement program	9.05	90	993
Rural electrification and telephone	2.18	31	1,285
Rural telephone bank	2.12	4	175
Distance learning and medical link program	0.02	*	150
Rural housing insurance fund	17.86	218	1,221
Rural development loan fund	48.25	17	35
Rural economic development loans	23.91	6	25
P.L. 480 direct loans	77.83	88	113
Commerce:			
Fisheries finance loans	1.00	*	24
Education:			
Federal direct student loans	4.44	751	16,929
Interior:			
Bureau of Reclamation loans	32.26	10	31
State Department:			
Repatriation loans	80.00	1	1
Transportation:			
Minority business resource center program	10.00	2	15
Transportation infrastructure loans	8.60	99	851
Treasury:			
Community development financial institutions fund	38.08	20	53
Veterans Affairs:			
Veterans housing benefit program fund [2]	1.00	21	2,144
Miscellaneous veterans programs fund [3]	6.99	1	17
Other Independent Agencies:			
Export-Import Bank	1.69	28	1,660
Federal Emergency Management Agency:			
Disaster assistance	5.98	2	25
Small Business Administration:			
Disaster loans	11.44	90	1,187
Business loans	10.28	2	19
Federal Communications Commission:			
Spectrum auction loans	11.98	386	3,220
Total	6.21	1,980	31,859

* $500 thousand or less.
[1] Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the budget for 1998.
[2] In FY 1998, Veterans Housing Direct Loan Program, Loan Guaranty Program and Guaranty and Indemnity fund direct loans are proposed to be consolidated.
[3] The FY 1998 budget presents the Education Loan Fund, Vocational Rehabilitation Fund, and Native American Housing Program as a consolidated Miscellaneous Veterans Program account.

TABLE 8–4. ESTIMATED 1998 SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS FOR LOAN GUARANTEES [1]

(In millions of dollars)

Agency and Program	1998 Weighted-average subsidy as a percent of disbursements	1998 Subsidy budget authority	1998 Estimated loan levels
Funds Appropriated to the President:			
Microenterprise and other development	3.18	2	48
Urban and environmental	6.52	3	46
Overseas Private Investment Corporation	3.00	56	1,800
Agriculture:			
Agricultural credit insurance fund	2.37	55	2,300
Commodity Credit Corporation export loans	9.26	528	5,700
Rural community advancement	0.08	7	894
Rural housing insurance fund	0.22	7	3,100
Defense:			
Export loan guarantees	....	....	250
Family housing improvement fund	15.00	....	....
Education:			
Federal family education loan program	9.03	2,078	22,995
Health and Human Services:			
Health professions graduate student loan program	1.09	1	85
Health resources and services	7.67	1	13
Housing and Urban Development:			
Indian housing guarantee	8.13	3	37
Community development loan guarantees (Sec. 108)	2.30	29	1,261
FHA mutual mortgage	–2.99	–1,893	110,000
FHA general and special risk	–0.22	81	17,400
GNMA secondary mortgage guarantees	–0.32	–9	130,000
Interior:			
Indian loan guaranty	13.00	5	35
Transportation:			
MARAD guaranteed loans (Title XI)	7.00	35	477
Veterans Affairs:			
Veterans housing benefit program fund [2]	0.49	142	28,945
Other Independent Agencies:			
Export-Import Bank	3.85	594	15,413
Small Business Administration:			
Business Loans	1.51	180	11,884
Total	5.29	1,905	359,777

[1] Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the budget for 1998.
[2] In FY 1998, Veterans Housing Loan Guaranty Program and Guaranty and Indemnity Fund loan guarantees are proposed to be consolidated.

TABLE 8–5. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES

(In billions of dollars)

	Actual				Estimate	
	1993	1994	1995	1996	1997	1998
Direct Loans:						
Obligations	22.1	22.7	30.9	23.4	36.8	37.4
Disbursements	27.1	19.3	22.0	23.6	37.6	37.5
Subsidy budget authority [1]	2.1	2.8	2.6	1.8	2.2	2.0
Loan Guarantees: [2]						
Commitments	169.9	204.1	138.5	175.4	208.1	196.2
Lender Disbursements	144.3	194.2	117.9	143.9	164.0	158.9
Subsidy budget authority [1]	4.1	2.4	4.6	4.0	2.3	1.9

[1] Excludes subsidy reestimates for loans made in prior years.
[2] GNMA secondary guarantees of loans that are guaranteed by FHA, VA and FmHA are excluded from the totals to avoid double-counting.

TABLE 8–6. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency or Program	In millions of dollars			As percentage of outstanding loans [1]		
	1996 actual	1997 estimate	1998 estimate	1996 actual	1997 estimate	1998 estimate
DIRECT LOAN WRITEOFFS						
Funds Appropriated to the President:						
Foreign military financing loans	....	47	....	....	0.71	....
Agriculture:						
Agricultural credit insurance fund	677	616	517	6.26	6.34	5.97
Rural development insurance fund	5	4	4	0.11	0.09	0.09
Rural housing insurance fund	115	113	109	0.38	0.38	0.37
P.L. 480	....	9	14	....	0.09	0.15
Commerce:						
Economic development revolving fund (EDA)	2	2	1	3.22	3.44	1.96
Education:						
Student financial assistance	5	8	8	2.41	3.72	3.46
Health and Human Services:						
Health Resources and Services	1	1	1	0.12	0.12	0.12
Housing and Urban Development:						
Revolving fund	9	1	....	2.74	0.32	....
FHA-Mutal mortgage insurance	....	....	3	....	....	1.50
Interior:						
Revolving fund	3	2	4	5.00	3.63	8.88
Indian loan guaranty	4	5	7	10.00	13.51	22.58
Bureau of Indian Affairs direct loans	....	....	5	....	....	50.00
State:						
Repatriation loans	1	1	1	25.00	25.00	25.00
Veterans Affairs:						
Veterans housing benefit program [2]	11	11	19	0.92	0.72	0.92
Other Independent Agencies:						
Small Business Administration	290	251	116	2.70	2.38	1.16
Tennesee Valley Authority	....	1	2	....	0.57	0.90
Total, direct loan writeoffs	**1,123**	**1,072**	**811**	....	....	....
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Funds Appropriated to the President:						
Foreign military financing	....	4	4	....	0.06	0.07
Housing and other credit guaranty programs	22	20	24	1.12	1.04	1.31
Assistance for the New Independent States of the Soviet Union	....	....	15	....	....	14.56
Agriculture:						
Agricultural credit insurance fund	52	12	5	0.76	0.15	0.06
CCC guaranteed loans	221	248	330	15.96	16.05	3.63
Rural development insurance fund	20	22	19	4.00	4.76	4.94
Rural housing insurance fund	4	14	23	0.11	0.30	0.32
Rural business and industry loans	1	1	2	0.13	0.10	0.14
Commerce:						
Federal ship financing fund	16	....	....	14.67	....	....
Education:						
Federal family education loans	3,143	3,140	3,322	3.08	2.99	3.03
Health and Human Services:						
Health professions graduate student loans	34	47	42	1.17	1.59	1.43
Health center guaranteed loans	....	....	1	....	....	1.42
Housing and Urban Development:						
FHA -General and special risk guaranteed loans	904	1,328	2,536	2.10	1.35	2.37
FHA -Mutual mortgage and cooperative housing loans	4,114	2,561	2,387	1.13	0.66	0.58
Interior:						
Indian loan guaranty	7	39	5	3.11	17.97	2.30
Transportation:						
MARAD ship financing fund	....	24	24	....	3.18	4.00
Veterans Affairs:						
Veterans housing benefit program [3]	1,859	2,221	728	1.20	1.42	0.46
Other Independent Agencies:						
Small Business Administration	600	546	513	2.70	2.38	1.98

TABLE 8–6. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued

Agency or Program	In millions of dollars			As percentage of outstanding loans [1]		
	1996 actual	1997 estimate	1998 estimate	1996 actual	1997 estimate	1998 estimate
Export-Import Bank	250	8	8	1.41	0.04	0.04
Total, guaranteed loan terminations for default	**11,247**	**10,235**	**9,988**	....	....	....
Total, direct loan writeoffs and guaranteed loan terminations	**12,370**	**11,307**	**10,799**	....	....	....
ADDENDUM: WRITEOFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Funds Appropriated to the President:						
Housing and other credit guaranty programs	5	49	28	1.07	10.81	6.10
Education:						
Federal family education loans	15	224	242	0.09	1.39	1.43
Health and Human Services:						
Health professions graduate student loans	9	9	9	2.10	1.82	1.65
Housing and Urban Development:						
FHA -General and special risk guaranteed loans	1,281	755	152	41.43	32.26	4.23
FHA -Mutual mortgage and cooperative housing loans	763	702	28	40.97	63.24	8.04
Veterans Affairs:						
Veterans housing benefit program [3]	547	608	494	38.76	45.07	37.79
Other Independent Agencies:						
Small Business Administration	102	105	107	5.28	4.96	4.83
Total, writeoffs of loans receivable	2,722	2,452	1,060	....	....	....

[1] Average of loans outstanding over year.
[2] In FY 1998, Veterans Housing Direct Loan Program, Loan Guaranty Program and Guaranty and Indemnity Fund direct loans are proposed to be consolidated.
[3] In FY 1998, Veterans Housing Loan Guaranty Program and Guaranty and Indemnity Fund loan guarantees are proposed to be consolidated.

TABLE 8–7. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]

(In millions of dollars)

Agency or Program	1996 Actual	Estimate	
		1997	1998
LIMITATIONS ON DIRECT LOAN OBLIGATIONS			
Funds Appropriated to the President:			
Foreign military financing	544	540	700
Housing and Urban Development:			
FHA-General and special risk loans	120	120	120
FHA-Mutual mortgage insurance loans	200	200	200
Interior:			
Bureau of Reclamation direct loans	37	37	31
State Department:			
Repatriation loans	1	1	1
Transportation:			
Minority business resource center loans	15	15	15
Orange County (CA) toll road demonstration	....	25	....
Direct loan financing (Alameda)	....	400	....
Treasury:			
Community development financial institutions fund	28	....	53
Veterans Affairs:			
Miscellaneous veterans programs loan fund	8	15	17
Federal Emergency Management Agency:			
Disaster assistance loans	153	25	25
Total, limitations on direct loan obligations	1,106	1,378	1,162
LIMITATIONS ON GUARANTEED LOAN COMMITMENTS			
Funds Appropriated to the President:			
Loan guarantees to Israel	2,000	2,000	....
Defense:			
Defense export loan guarantee	....	15,000	15,000
Health and Human Services:			
Health professions graduate student loan insurance	210	140	85
Health center guaranteed loans	....	160	....
Housing and Urban Development:			
Indian housing loan guarantee fund	37	37	37
Community development loan guarantees (Sec. 108)	1,500	1,380	1,261
FHA-General and special risk	17,400	17,400	17,400
FHA-Mutual mortgage insurance	110,000	110,000	110,000
FHA-Loan recovery fund	....	10	....
Interior:			
Indian guaranteed loans	35	35	35
Transportation:			
MARAD guaranteed loans (Title XI)	1,000	1,000	500
Total, limitations on guaranteed loan commitments	132,182	147,162	144,318
ADDENDUM			
Secondary guaranteed loan commitment limitations:			
GNMA, mortgage-backed securities	130,000	110,000	130,000

[1] Data represents loan level limitations enacted or proposed to be enacted in appropriations acts. For information on actual and estimated loan levels supportable by new subsidy budget authority requested, see Table 8-3 and Table 8-4.

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT

(in millions of dollars)

Agency or Program	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Funds Appropriated to the President							
International Security Assistance							
Foreign military loan liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	35	14	9	8	8	7	7
Change in outstandings	−890	−925	−767	−591	−497	−430	−379
Outstandings	7,021	6,096	5,329	4,738	4,241	3,811	3,432
Foreign military financing direct loan financing account:							
Obligations	544	540	700	700	700	700	700
Loan disbursements	559	568	560	903	785	690	700
Change in outstandings	559	545	400	640	470	317	267
Outstandings	1,098	1,643	2,043	2,683	3,153	3,470	3,737
Military debt reduction financing account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	20	....	....	....	....	....
Change in outstandings	....	20	....	....	....	....	....
Outstandings	....	20	20	20	20	20	20
Multilateral Assistance							
International organizations and programs:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	−2	−2	....	....	....	....	....
Outstandings	34	32	32	32	32	32	32
Agency for International Development							
Economic assistance loans—liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	3	4	....	....	....	....	....
Change in outstandings	−629	−672	−577	−532	−525	−529	−529
Outstandings	12,649	11,977	11,400	10,868	10,343	9,814	9,285
Debt reduction, financing account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	35	5	1	....	....	....
Change in outstandings	−57	−26	−48	−49	−50	−50	−50
Outstandings	396	370	322	273	223	173	123
Microenterprise and other development credit direct loan financing account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	1	....	1	....	....	....	....
Change in outstandings	1	....	1	....	....	....	....
Outstandings	2	2	3	3	3	3	3
Overseas Private Investment Corporation							
Overseas Private Investment Corporation liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	8	3	....	....	....	....	....
Change in outstandings	−31	−22	−15	−12	−4	....	....
Outstandings	53	31	16	4	....	....	....
Overseas private investment corporation direct loan financing account:							
Obligations	49	133	133	133	133	133	133
Loan disbursements	22	60	60	60	60	60	60
Change in outstandings	20	58	57	45	40	30	20
Outstandings	72	130	187	232	272	302	322
Department of Agriculture							
Farm Service Agency							
Agricultural credit insurance fund liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	5	5	5	5	4	4	4
Change in outstandings	−1,451	−1,285	−1,085	−1,086	−887	−898	−688
Outstandings	8,783	7,498	6,413	5,327	4,440	3,542	2,854

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Agricultural credit insurance fund direct loan financing account:							
Obligations	833	663	532	604	681	760	788
Loan disbursements	801	667	540	601	677	756	786
Change in outstandings	371	196	23	46	111	161	149
Outstandings	2,026	2,222	2,245	2,291	2,402	2,563	2,712
Commodity credit corporation fund:							
Obligations	5,137	6,174	7,922	7,844	7,500	6,797	6,256
Loan disbursements	5,137	6,174	7,922	7,844	7,500	6,797	6,256
Change in outstandings	−1,114	−236	229	−27	−92	−66	−43
Outstandings	1,672	1,436	1,665	1,638	1,546	1,480	1,437
Rural Utilities Service							
Rural communication development fund liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	−1	....	−1	....	−1	−1	....
Outstandings	9	9	8	8	7	6	6
Distance learning and medical link direct loan financing account:							
Obligations	....	150	150	150	150	150	150
Loan disbursements	....	45	120	150	150	150	150
Change in outstandings	....	42	107	124	111	98	82
Outstandings	....	42	149	273	384	482	564
Rural development insurance fund liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	12	35	3	....	....	....	....
Change in outstandings	−123	−165	−189	−184	−175	−168	−159
Outstandings	4,348	4,183	3,994	3,810	3,635	3,467	3,308
Rural electrification and telecommunications direct loan financing account:							
Obligations	865	1,319	1,235	1,335	1,431	1,495	1,511
Loan disbursements	861	1,479	1,379	1,305	1,369	1,380	1,451
Change in outstandings	766	1,415	1,297	1,195	1,234	1,275	1,262
Outstandings	3,506	4,921	6,218	7,413	8,647	9,922	11,184
Rural telephone bank direct loan financing account:							
Obligations	126	176	175	....	....	....	....
Loan disbursements	45	173	238	....	....	....	....
Change in outstandings	40	170	231	−592	....	....	....
Outstandings	191	361	592	....	....	....	....
Rural development insurance fund direct loan financing account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	−1,218	....	....	....	....	....	....
Outstandings	....	....	....	....	....	....	....
Rural water and waste disposal direct loans financing account:							
Obligations	605	755	734	754	775	796	820
Loan disbursements	650	759	706	656	695	761	648
Change in outstandings	1,615	747	690	634	668	726	605
Outstandings	1,615	2,362	3,052	3,686	4,354	5,080	5,685
Rural electrification and telecommunications liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	114	940	596	302	1,151	281	59
Change in outstandings	−2,642	−650	−523	−917	−984	−823	−1,036
Outstandings	30,459	29,809	29,286	28,369	27,385	26,562	25,526
Rural telephone bank liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	31	60	30	....	....	....	....
Change in outstandings	−86	−45	−95	−1,188	....	....	....
Outstandings	1,328	1,283	1,188	....	....	....	....

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Rural Housing Service							
Rural housing insurance fund liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	3	1	1	....	....	....	....
Change in outstandings	−1,490	−1,309	−1,258	−1,213	−1,169	−1,126	−1,083
Outstandings	22,185	20,876	19,618	18,405	17,236	16,110	15,027
Rural housing insurance fund direct loan financing account:							
Obligations	1,218	993	1,221	1,523	1,874	2,210	2,316
Loan disbursements	1,153	1,138	1,211	1,455	1,784	2,121	2,271
Change in outstandings	1,003	986	1,014	1,204	1,460	1,721	1,776
Outstandings	7,800	8,786	9,800	11,004	12,464	14,185	15,961
Rural community facility direct loans financing account:							
Obligations	208	137	209	209	208	208	208
Loan disbursements	118	161	180	177	206	196	183
Change in outstandings	348	153	170	164	189	175	158
Outstandings	348	501	671	835	1,024	1,199	1,357
Rural Business—Cooperative Service							
Rural economic development loans liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	1	....	....	....	....	....
Change in outstandings	−1	−1	−2	−2	−2	....	....
Outstandings	7	6	4	2	....	....	....
Rural economic development direct loan financing account:							
Obligations	9	12	25	25	25	25	25
Loan disbursements	7	13	14	23	23	24	23
Change in outstandings	4	9	8	16	13	11	8
Outstandings	35	44	52	68	81	92	100
Rural development loan fund direct loan financing account:							
Obligations	38	37	35	35	35	35	35
Loan disbursements	57	67	46	44	36	35	35
Change in outstandings	57	66	44	42	33	31	30
Outstandings	131	197	241	283	316	347	377
Rural business and industry direct loans financing account:							
Obligations	....	50	50	50	50	50	50
Loan disbursements	....	12	33	42	48	50	50
Change in outstandings	....	12	33	42	47	48	47
Outstandings	....	12	45	87	134	182	229
Rural development loan fund liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	3	2	1	....	....	....	....
Change in outstandings	−1	−2	−2	−3	−3	−3	−3
Outstandings	84	82	80	77	74	71	68
Foreign Agricultural Service							
Expenses, Public Law 480, foreign assistance programs, Agriculture liquidating account :							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	−310	−329	−559	−351	−301	−307	−309
Outstandings	9,767	9,438	8,879	8,528	8,227	7,920	7,611
P.L. 480 Direct credit financing account:							
Obligations	291	227	113	113	113	113	113
Loan disbursements	240	228	169	123	113	113	113
Change in outstandings	240	210	125	123	113	113	113
Outstandings	1,264	1,474	1,599	1,722	1,835	1,948	2,061
P.L. 480 Title I Food for Progress Credits, financing account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	....	....	....	....	....	....	....
Outstandings	508	508	508	508	508	508	508

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Debt reduction—financing account:							
Obligations							
Loan disbursements			34				
Change in outstandings			34				
Outstandings	66	66	100	100	100	100	100
Department of Commerce							
Economic Development Administration							
Economic development revolving fund liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	−6	−8	−6	−4	−5	−3	−3
Outstandings	62	54	48	44	39	36	33
National Oceanic and Atmospheric Administration							
Fisheries finance, financing account:							
Obligations			24	24	24	24	24
Loan disbursements				24	24	24	24
Change in outstandings				22	19	17	14
Outstandings				22	41	58	72
Department of Defense—Military							
Revolving and Management Funds							
Defense working capital funds:							
Obligations							
Loan disbursements							
Change in outstandings	−49	−75	−83	−86			
Outstandings	1,384	1,309	1,226	1,140	1,140	1,140	1,140
Department of Education							
Office of Postsecondary Education							
Student financial assistance:							
Obligations							
Loan disbursements							
Change in outstandings	20	16	17	16	17	16	15
Outstandings	207	223	240	256	273	289	304
College housing and academic facilities loans liquidating account:							
Obligations							
Loan disbursements	13						
Change in outstandings	−36	−41	−40	−38	−35	−34	−31
Outstandings	646	605	565	527	492	458	427
College housing and academic facilities loans financing account:							
Obligations							
Loan disbursements	7	6	3	1	6	6	
Change in outstandings	7	6	3	1	6	5	−1
Outstandings	13	19	22	23	29	34	33
Federal direct student loan program, financing account:							
Obligations	9,262	12,527	15,377	18,666	20,857	21,253	22,523
Loan disbursements	9,100	11,978	14,533	17,635	20,156	21,730	23,076
Change in outstandings	8,872	11,588	13,676	16,050	17,551	17,810	17,541
Outstandings	11,565	23,153	36,829	52,879	70,430	88,240	105,781
Historically Black College and University Capital financing—direct loan finance account:							
Obligations							
Loan disbursements							
Change in outstandings							
Outstandings							
Department of Energy							
Power Marketing Administration							
Bonneville Power Administration fund:							
Obligations							
Loan disbursements							
Change in outstandings							
Outstandings	3	3	3	3	3	3	3

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Department of Health and Human Services							
Health Resources and Services Administration							
Health Resources and Services:							
Obligations							
Loan disbursements	25	20					
Change in outstandings	2		−20	−19	−19	−19	−19
Outstandings	800	800	780	761	742	723	704
Health loan funds:							
Obligations							
Loan disbursements							
Change in outstandings	−11	−11	−7	−7	−5	−4	
Outstandings	34	23	16	9	4		
Department of Housing and Urban Development							
Public and Indian Housing Programs							
Low-rent public housing—loans and other expenses:							
Obligations							
Loan disbursements							
Change in outstandings	−62	−65	−65	−65	−65	−65	−65
Outstandings	1,627	1,562	1,497	1,432	1,367	1,302	1,237
Community Planning and Development							
Revolving fund (liquidating programs):							
Obligations							
Loan disbursements							
Change in outstandings	−60	−46	−40	−40	−35	−30	−30
Outstandings	328	282	242	202	167	137	107
Community development loan guarantees liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	−50	−4	−4	−4	−4	−4	−4
Outstandings	39	35	31	27	23	19	15
Housing Programs							
Nonprofit sponsor assistance liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings							
Outstandings	1	1	1	1	1	1	1
Flexible Subsidy Fund:							
Obligations							
Loan disbursements	93	95	73	8			
Change in outstandings	91	93	70	5	−3	−3	−3
Outstandings	675	768	838	843	840	837	834
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	−8	−2					
Outstandings	7	5	5	5	5	5	5
FHA-General and special risk insurance funds liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	−10	−12	−9	−10	−10	−8	−7
Outstandings	97	85	76	66	56	48	41
FHA-General and special risk direct loan financing account:							
Obligations		40	120	20	20	20	
Loan disbursements		40	120	20	20	20	20
Change in outstandings		40	100	−20	−40	−20	−20
Outstandings		40	140	120	80	60	40

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Housing for the elderly or handicapped fund liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	2	189	....	....	....	....	....
Change in outstandings	−25	118	−72	−71	−70	−70	−69
Outstandings	8,306	8,424	8,352	8,281	8,211	8,141	8,072
FHA-Mutual mortgage insurance direct loan financing account:							
Obligations	3	200	200	....	....	....	....
Loan disbursements	3	200	200	....	....	....	....
Change in outstandings	2	143	110	....	....	....	....
Outstandings	2	145	255	255	255	255	255
Government National Mortgage Association							
Guarantees of mortgage-backed securities liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	128	144	111	81	44	18	5
Change in outstandings	−12	6	2	4	4	2	1
Outstandings	321	327	329	333	337	339	340
Guarantees of mortgage-backed securities financing account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	5	18	42	60	70
Change in outstandings	....	....	....	1	3	7	9
Outstandings	....	....	....	1	4	11	20
Department of the Interior							
Bureau of Reclamation							
Bureau of reclamation loan liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	....	−3	−3	−3	−3	−4	−4
Outstandings	80	77	74	71	68	64	60
Bureau of Reclamation direct loan financing account:							
Obligations	27	37	31	31	31	31	31
Loan disbursements	24	37	35	36	37	39	40
Change in outstandings	24	37	35	36	37	39	40
Outstandings	55	92	127	163	200	239	279
National Park Service							
Construction:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	....	−1	....	....	−1	....	....
Outstandings	7	6	6	6	5	5	5
Bureau of Indian Affairs							
Revolving fund for loans liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	−7	−9	−11	−10	−8	−7	−7
Outstandings	60	51	40	30	22	15	8
Indian loan guaranty and insurance fund liquidating account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	4	....	....	....	....	....	....
Change in outstandings	....	−5	−7	−5	−3	−2	−2
Outstandings	40	35	28	23	20	18	16
Indian direct loan financing account:							
Obligations	....	....	....	....	....	....	....
Loan disbursements	....	....	....	....	....	....	....
Change in outstandings	−5	−3	−7	−2	−2	....	....
Outstandings	17	14	7	5	3	3	3

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Insular Affairs							
Assistance to territories:							
Obligations							
Loan disbursements							
Change in outstandings	−1	−1	−1	−1	−1	−1	−2
Outstandings	20	19	18	17	16	15	13
Department of State							
Administration of Foreign Affairs							
Repatriation loans financing account:							
Obligations	1	1	1	1	1	1	1
Loan disbursements	1	1	1	1	1	1	1
Change in outstandings							
Outstandings	4	4	4	4	4	4	4
Department of Transportation							
Office of the Secretary							
Minority business resource center direct loan financing account:							
Obligations	15	15	15	15	15	15	15
Loan disbursements	6	15	15	15	15	15	15
Change in outstandings							
Outstandings	9	9	9	9	9	9	9
Federal Highway Administration							
Orange County (CA) toll road demonstration project direct loan financing account:							
Obligations		25					
Loan disbursements		6	6	13	13	13	13
Change in outstandings		7	6	13	13	13	13
Outstandings		7	13	26	39	52	65
High priority corridors loan financing account:							
Obligations							
Loan disbursements							
Change in outstandings		−37					
Outstandings	37						
Transportation infrastructure credit direct loan financing account:							
Obligations							
Loan disbursements			425	638	851	851	851
Change in outstandings			425	638	851	851	851
Outstandings			425	1,063	1,914	2,765	3,616
Right-of-way revolving fund liquidating account:							
Obligations							
Loan disbursements	41	28	−20	−20	−16		
Change in outstandings	29	13	−38	−40	−40	−24	−24
Outstandings	183	196	158	118	78	54	30
Federal Railroad Administration							
Amtrak corridor improvement loans liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	−1	−1	−1				
Outstandings	6	5	4	4	4	4	4
Amtrak corridor improvement direct loan financing account:							
Obligations							
Loan disbursements		2					
Change in outstandings		2					
Outstandings	3	5	5	5	5	5	5
Direct loan financing account:							
Obligations		400					
Loan disbursements		140	140	120			
Change in outstandings		140	140	120			
Outstandings		140	280	400	400	400	400

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Railroad rehabilitation and improvement liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	−5	−5	−11	−4	−5	−4	−4
Outstandings	72	67	56	52	47	43	39
Railroad rehabilitation and improvement direct loan financing account:							
Obligations							
Loan disbursements							
Change in outstandings							
Outstandings	4	4	4	4	4	4	4
Maritime Administration							
Federal ship financing fund liquidating account:							
Obligations							
Loan disbursements		25	25	25			
Change in outstandings	−33	18	18	18			
Outstandings		18	36	54	54	54	54
Department of the Treasury							
Departmental Offices							
Community development financial institutions fund direct loan financing account:							
Obligations	7	33	53	55	69	98	152
Loan disbursements		7	23	45	57	67	93
Change in outstandings		7	23	45	57	67	93
Outstandings		7	30	75	132	199	292
Department of Veterans Affairs							
Veterans Benefits Administration							
Veterans Housing Benefit Program Fund Direct Loan Financing Account:							
Obligations	1,336	1,887	2,144	2,203	2,247	2,263	2,247
Loan disbursements	1,396	1,887	2,144	2,203	2,247	2,263	2,247
Change in outstandings	1	675	449	402	390	360	329
Outstandings	723	1,398	1,847	2,249	2,639	2,999	3,328
Veterans Housing Benefit Program Fund Liquidating Account:							
Obligations							
Loan disbursements	38	31	28	26	24	22	20
Change in outstandings	−106	−36	−33	−30	−28	−26	−24
Outstandings	449	413	380	350	322	296	272
Miscellaneous veterans programs loan fund direct loan financing account:							
Obligations	8	15	17	20	2	2	2
Loan disbursements	8	15	17	20	2	2	2
Change in outstandings	6	13	15	17	−1	−1	−1
Outstandings	13	26	41	58	57	56	55
Miscellaneous veterans programs loan fund liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings		−1			−1		
Outstandings	3	2	2	2	1	1	1
Environmental Protection Agency							
Environmental Protection Agency							
Abatement, control, and compliance direct loan liquidating account:							
Obligations							
Loan disbursements		2					
Change in outstandings	−9	−7	−9	−9	−9	−8	−8
Outstandings	87	80	71	62	53	45	37
Abatement, control, and compliance direct loan financing account:							
Obligations							
Loan disbursements	10	6	3	1			
Change in outstandings	5	1	−2	−4	−5	−5	−5
Outstandings	65	66	64	60	55	50	45

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Small Business Administration							
Small Business Administration							
Business direct loan financing account:							
Obligations	9	24	19	20	21	21	22
Loan disbursements	12	12	13	13	13	14	14
Change in outstandings	−6	−6	−23	−23	−6	−6	−6
Outstandings	161	155	132	109	103	97	91
Disaster direct loan financing account:							
Obligations	867	747	1,188				
Loan disbursements	946	874	1,041	746	878	902	936
Change in outstandings	479	164	264	−2,970	−3,124	46	51
Outstandings	7,227	7,391	7,655	4,685	1,561	1,607	1,658
Disaster loan fund liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	−242	−260	−320	−654	−442		
Outstandings	1,676	1,416	1,096	442			
Business loan fund liquidating account:							
Obligations							
Loan disbursements	152	117	90	69			
Change in outstandings	−366	−340	−565	−548	−25	−23	−20
Outstandings	1,671	1,331	766	218	193	170	150
Other Independent Agencies							
District of Columbia							
Loans to the District of Columbia for capital projects:							
Obligations							
Loan disbursements							
Change in outstandings	−12	−12	−12	−12	−12	−15	
Outstandings	63	51	39	27	15		
Repayable advances to the District of Columbia direct loan financing account:							
Obligations	379	461					
Loan disbursements	379	461					
Change in outstandings	232	82	−461				
Outstandings	379	461					
Export-Import Bank of the United States							
Export-Import Bank of the United States liquidating account:							
Obligations							
Loan disbursements	22	80	80				
Change in outstandings	−627	−906	−536	−352	−268	−247	−196
Outstandings	5,511	4,605	4,069	3,717	3,449	3,202	3,006
Debt reduction financing account:							
Obligations							
Loan disbursements		72	29				
Change in outstandings		72	29				
Outstandings		72	101	101	101	101	101
Export-Import Bank direct loan financing account:							
Obligations	1,236	1,900	1,660	1,660	1,660	1,660	1,660
Loan disbursements	1,023	1,293	1,155	1,218	1,308	1,255	1,255
Change in outstandings	886	789	636	714	845	820	872
Outstandings	2,376	3,165	3,801	4,515	5,360	6,180	7,052
Farm Credit System Financial Assistance Corporation							
Financial assistance corporation assistance fund, liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings							
Outstandings	1,261	1,261	1,261	1,261	1,261	1,261	1,261

Table 8–8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Federal Communications Commission							
Spectrum auction direct loan financing account:							
Obligations	115	6,980	3,220				
Loan disbursements	115	6,980	3,220				
Change in outstandings	115	6,858	2,759				
Outstandings	115	6,973	9,732	9,732	9,732	9,732	9,732
Bank Insurance							
Bank insurance fund:							
Obligations							
Loan disbursements							
Change in outstandings	−32						
Outstandings	100	100	100	100	100	100	100
FSLIC Resolution							
FSLIC resolution fund:							
Obligations							
Loan disbursements							
Change in outstandings	−32	−32	−94				
Outstandings	126	94					
Federal Emergency Management Agency							
Disaster assistance direct loan liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings		−1	−1				
Outstandings	59	58	57	57	57	57	57
Disaster assistance direct loan financing account:							
Obligations	138	25	25	25	25	25	25
Loan disbursements	90	105	25	25	25	25	25
Change in outstandings	41	60	17	9	−1	−7	−5
Outstandings	142	202	219	228	227	220	215
National Credit Union Administration							
Community development credit union revolving loan fund:							
Obligations							
Loan disbursements	2	3	2	2	1	1	1
Change in outstandings		1					
Outstandings	6	7	7	7	7	7	7
Tennessee Valley Authority							
Tennessee Valley Authority fund:							
Obligations	61	107	118	124	143	153	172
Loan disbursements	61	107	118	124	143	153	172
Change in outstandings	1	48	49	47	56	56	60
Outstandings	150	198	247	294	350	406	466
Total, Direct loan transactions:							
Obligations	23,387	36,790	37,446	36,339	38,790	39,038	39,979
Loan disbursements	23,566	37,642	37,523	36,806	40,500	40,906	41,676
Change in outstandings	3,978	18,027	15,704	10,655	15,372	19,774	19,567
Outstandings	166,534	184,561	200,265	210,920	226,292	246,066	265,633

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Funds Appropriated to the President							
International Security Assistance							
Foreign military loan liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	−481	−435	−389	−384	−377	−361	−355
Outstandings	6,129	5,694	5,305	4,921	4,544	4,183	3,828
Agency for International Development							
Loan guarantees to Israel financing account:							
Commitments	2,000	2,000					
New guaranteed loans	1,751	2,000					
Change in outstandings	1,751	2,000					
Outstandings	6,564	8,564	8,564	8,564	8,564	8,564	8,564
Housing and other credit guaranty programs liquidating account:							
Commitments							
New guaranteed loans	2	33	2				
Change in outstandings	−64	−75	−107	−104	−105	−108	−105
Outstandings	1,950	1,875	1,768	1,664	1,559	1,451	1,346
Private sector revolving fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	−3	−12					
Outstandings	16	4	4	4	4	4	4
Microenterprise and other development guaranteed loan financing account:							
Commitments							
New guaranteed loans	2	4					
Change in outstandings	2	4					
Outstandings	26	30	30	30	30	30	30
Urban and environmental credit guaranteed loan financing account:							
Commitments	82	42	46				
New guaranteed loans	60	75	50				
Change in outstandings	60	75	50				
Outstandings	239	314	364	364	364	364	364
Assistance for the New Independent States of the Former Soviet Union: Ukraine export credit insurance financing account:							
Commitments	81	63					
New guaranteed loans	81	63					
Change in outstandings	81	63	−81	−63			
Outstandings	81	144	63				
Overseas Private Investment Corporation							
Overseas Private Investment Corporation liquidating account:							
Commitments							
New guaranteed loans	8	20	5				
Change in outstandings	−71	−55	−70	−40	−30	−21	
Outstandings	216	161	91	51	21		
Overseas private investment corporation guaranteed loan financing account:							
Commitments	2,000	2,250	1,800	1,800	1,800	1,800	1,800
New guaranteed loans	847	1,500	1,900	2,400	2,700	2,400	2,400
Change in outstandings	820	1,446	1,400	1,400	1,200	700	400
Outstandings	1,335	2,781	4,181	5,581	6,781	7,481	7,881
Department of Agriculture							
Farm Service Agency							
Agricultural credit insurance fund liquidating account:							
Commitments							
New guaranteed loans	2	2					
Change in outstandings	−143	−210	−105	−55	−44	−32	−22
Outstandings	1,173	963	858	803	759	727	705

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Agricultural credit insurance fund guaranteed loan financing account:							
Commitments	1,851	2,547	2,300	2,277	2,273	2,269	2,268
New guaranteed loans	1,768	2,378	2,375	2,288	2,274	2,270	2,269
Change in outstandings	726	1,123	1,009	564	426	328	255
Outstandings	5,705	6,828	7,837	8,401	8,827	9,155	9,410
Commodity credit corporation export guarantee financing account:							
Commitments	5,700	5,500	5,700	5,700	5,700	5,700	5,700
New guaranteed loans	3,312	5,500	5,700	5,700	5,700	5,700	5,700
Change in outstandings	449	2,729	2,034	1,083	210	117	49
Outstandings	5,323	8,052	10,086	11,169	11,379	11,496	11,545
Commodity credit corporation guaranteed loans liquidating account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	−115	−85	−6	....	....	....	....
Outstandings	91	6	....	....	....	....	....
Natural Resources Conservation Service							
Agricultural resource conservation demonstration guaranteed loan financing account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	....	....	....	....	....	....	....
Outstandings	17	17	17	17	17	17	17
Rural Utilities Service							
Rural communication development fund liquidating account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	....	....	−1	....	....	....	....
Outstandings	5	5	4	4	4	4	4
Rural development insurance fund liquidating account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	1	18	....	....	....	....	....
Change in outstandings	−103	−74	−81	−64	−52	−42	−34
Outstandings	499	425	344	280	228	186	152
Rural water and waste water disposal guaranteed loans financing account:							
Commitments	59	75	75	75	75	75	75
New guaranteed loans	1	24	50	60	79	75	75
Change in outstandings	−486	23	49	57	74	67	64
Outstandings	8	31	80	137	211	278	342
Rural electrification and telecommunications liquidating account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	−14	−21	−24	....	....	....	....
Outstandings	691	670	646	646	646	646	646
Rural Housing Service							
Rural housing insurance fund liquidating account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	−4	−2	−3	−2	−2	−1	−2
Outstandings	32	30	27	25	23	22	20
Rural housing insurance fund guaranteed loan financing account:							
Commitments	1,713	2,713	3,100	3,050	2,800	2,589	2,497
New guaranteed loans	1,496	2,319	2,944	3,018	2,831	2,612	2,488
Change in outstandings	1,418	2,179	2,718	2,682	2,379	2,036	1,784
Outstandings	3,503	5,682	8,400	11,082	13,461	15,497	17,281
Rural community facility guaranteed loans financing account:							
Commitments	56	74	209	209	208	208	208
New guaranteed loans	45	54	77	129	153	184	208
Change in outstandings	94	49	69	118	135	159	174
Outstandings	94	143	212	330	465	624	798

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Rural Business—Cooperative Service							
Rural business and industry guaranteed loans financing account:							
Commitments	638	688	610	609	607	606	606
New guaranteed loans	339	543	609	621	616	610	454
Change in outstandings	290	462	476	436	384	336	143
Outstandings	723	1,185	1,661	2,097	2,481	2,817	2,960
Department of Commerce							
Economic Development Administration							
Economic development revolving fund liquidating account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	−4	−1	−1	−1	−2	−4	....
Outstandings	15	14	13	12	10	6	6
National Oceanic and Atmospheric Administration							
Fishing vessel obligations guarantees financing account:							
Commitments	36	25	....	....	....	....	....
New guaranteed loans	25	25	....	....	....	....	....
Change in outstandings	19	19	−6	−6	−6	−6	−6
Outstandings	73	92	86	80	74	68	62
Federal ship financing fund, fishing vessels liquidating account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	−33	−15	−13	−12	−10	−9	−8
Outstandings	109	94	81	69	59	50	42
Department of Defense—Military							
Procurement							
Defense export loan guarantee financing account:							
Commitments	....	125	250	250	250	250	250
New guaranteed loans	....	50	150	200	200	200	200
Change in outstandings	....	50	150	200	200	200	200
Outstandings	....	50	200	400	600	800	1,000
Family Housing							
Department of Defense, Family Housing Improvement, Guaranteed Loan Financing Account:							
Commitments	....	118	138	307	600	600	600
New guaranteed loans	....	....	100	300	600	600	600
Change in outstandings	....	....	100	287	574	548	496
Outstandings	....	....	100	387	961	1,509	2,005
Department of Education							
Office of Postsecondary Education							
Federal family education loan liquidating account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	753	−6,743	−6,847	−4,351	−4,062	−2,497	−1,806
Outstandings	30,326	23,583	16,736	12,385	8,323	5,826	4,020
Federal family education loan program, financing account:							
Commitments	22,311	23,038	22,995	11,995	12,260	13,119	14,031
New guaranteed loans	19,816	20,948	21,241	20,533	20,520	21,518	22,872
Change in outstandings	13,991	12,669	10,348	6,680	3,674	2,070	1,264
Outstandings	71,548	84,217	94,565	101,245	104,919	106,989	108,253
Historically Black College and University Capital financing—Financing account:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	10	15	15	20	20	....
Change in outstandings	....	10	15	15	19	19	−1
Outstandings	....	10	25	40	59	78	77

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Department of Health and Human Services							
Health Resources and Services Administration							
Health Resources and Services:							
Commitments		80					
New guaranteed loans		67	13				
Change in outstandings		66	13		−2	−2	−2
Outstandings	10	76	89	89	87	85	83
Health professions graduate student loan guaranteed loan financing account:							
Commitments	210	140	85				
New guaranteed loans	210	140	85				
Change in outstandings	203	132	73	−17	−23	−28	−33
Outstandings	1,366	1,498	1,571	1,554	1,531	1,503	1,470
Health professions graduate student loan insurance fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	−71	−95	−85	−90	−99	−103	−109
Outstandings	1,549	1,454	1,369	1,279	1,180	1,077	968
Health center guaranteed loan financing account:							
Commitments		80					
New guaranteed loans		67	7	6			
Change in outstandings		67	6	4	−2	−2	−2
Outstandings		67	73	77	75	73	71
Health loan funds :							
Commitments							
New guaranteed loans							
Change in outstandings	−73	−50	−40	−40	−30	−28	
Outstandings	188	138	98	58	28		
Department of Housing and Urban Development							
Public and Indian Housing Programs							
Low-rent public housing—loans and other expenses:							
Commitments							
New guaranteed loans							
Change in outstandings	−271	−354	−280	−280	−280	−280	−280
Outstandings	3,861	3,507	3,227	2,947	2,667	2,387	2,107
Indian housing loan guarantee fund financing account:							
Commitments	37	37	37	37	37	37	37
New guaranteed loans	5	5	17	34	40	40	37
Change in outstandings	5	5	17	34	40	40	37
Outstandings	6	11	28	62	102	142	179
Community Planning and Development							
Revolving fund (liquidating programs):							
Commitments							
New guaranteed loans							
Change in outstandings	−1	−1	−1	−1			
Outstandings	3	2	1				
Community development loan guarantees financing account:							
Commitments	434	1,380	1,261	1,261	1,261	1,261	1,261
New guaranteed loans	360	750	1,150	1,200	1,200	1,250	1,250
Change in outstandings	320	675	1,015	1,050	1,000	1,000	950
Outstandings	750	1,425	2,440	3,490	4,490	5,490	6,440
Community development loan guarantees liquidating account:							
Commitments							
New guaranteed loans	44	15	10	10	7	5	
Change in outstandings	−3	−40	−23	−20	−18	−20	−20
Outstandings	243	203	180	160	142	122	102

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Housing Programs							
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	25,442	−14,213	−12,510				
Outstandings	121,587	107,374	94,864	94,864	94,864	94,864	94,864
FHA-General and special risk insurance funds liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	−4,410	−3,099	−2,951	−3,659	−3,249	−3,172	−3,119
Outstandings	49,346	46,247	43,296	39,637	36,388	33,216	30,097
FHA-General and special risk guaranteed loan financing account:							
Commitments	12,751	17,400	17,400	17,400	17,400	17,400	17,400
New guaranteed loans	12,220	14,652	15,005	14,887	14,940	14,940	14,940
Change in outstandings	6,373	10,246	11,439	10,734	9,635	9,342	9,345
Outstandings	41,830	52,076	63,515	74,249	83,884	93,226	102,571
FHA-Loan guarantee recovery fund—financing account:							
Commitments		10					
New guaranteed loans		7	3				
Change in outstandings		7	3				
Outstandings		7	10	10	10	10	10
FHA-Mutual mortgage insurance guaranteed loan financing account:							
Commitments	74,324	93,173	83,450	88,563	88,701	90,553	91,856
New guaranteed loans	59,221	65,440	60,718	61,710	62,687	63,694	64,712
Change in outstandings	38,993	41,198	36,498	30,595	26,572	25,378	22,828
Outstandings	242,407	283,605	320,103	350,698	377,270	402,648	425,476
Government National Mortgage Association							
Guarantees of mortgage-backed securities liquidating account:							
Commitments							
New guaranteed loans	101,540	79,560					
Change in outstandings	33,585	35,900	−45,465	−73,832	−40,659	−65,283	−61,800
Outstandings	497,433	533,333	487,868	414,036	373,377	308,094	246,294
Guarantees of mortgage-backed securities financing account:							
Commitments	110,000	110,000	130,000				
New guaranteed loans			75,799	74,582	75,357	77,233	79,128
Change in outstandings			75,799	67,002	61,077	56,845	53,056
Outstandings			75,799	142,801	203,878	260,723	313,779
Department of the Interior							
Bureau of Indian Affairs							
Indian loan guaranty and insurance fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	−25	−19	−15	−10	−5	−2	−2
Outstandings	78	59	44	34	29	27	25
Indian guaranteed loan financing account:							
Commitments	35	35	35	35	35	35	35
New guaranteed loans	49	50	45	35	35	35	35
Change in outstandings	38	4	30	10		−10	−20
Outstandings	147	151	181	191	191	181	161
Department of Transportation							
Federal Aviation Administration							
Aircraft purchase loan guarantee program:							
Commitments							
New guaranteed loans							
Change in outstandings	−2						
Outstandings							

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Maritime Administration							
Federal ship financing fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	−150	−154	−154	−124	−104	−84	−84
Outstandings	831	677	523	399	295	211	127
Maritime guaranteed loan (Title XI) financing account:							
Commitments	1,000	1,000	500	500	500	500	500
New guaranteed loans	1,102	1,065	477	477	477	477	477
Change in outstandings	1,022	913	299	271	242	213	185
Outstandings	1,764	2,677	2,976	3,247	3,489	3,702	3,887
Department of Veterans Affairs							
Veterans Benefits Administration							
Veterans Housing Benefit Program Fund Guaranteed Loan Financing Account:							
Commitments	28,676	30,230	28,948	25,458	25,032	24,566	24,059
New guaranteed loans	28,676	30,230	28,948	25,458	25,032	24,566	24,059
Change in outstandings	8,721	8,013	6,998	699	121	−402	−868
Outstandings	130,031	138,044	145,042	145,741	145,862	145,460	144,592
Veterans Housing Benefit Program Fund Liquidating Account:							
Commitments							
New guaranteed loans							
Change in outstandings	−7,614	−6,072	−4,654	−3,561	−2,712	−2,056	−1,557
Outstandings	24,731	18,659	14,005	10,444	7,732	5,676	4,119
Small Business Administration							
Small Business Administration							
Pollution control equipment fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	−14	−13	−11				
Outstandings	86	73	62	62	62	62	62
Business guaranteed loan financing account:							
Commitments	10,154	10,641	11,887	11,660	11,660	11,660	11,660
New guaranteed loans	6,773	6,955	7,143	7,336	7,534	7,738	7,947
Change in outstandings	3,723	3,822	3,926	4,032	4,142	4,253	4,368
Outstandings	24,630	28,452	32,378	36,410	40,552	44,805	49,173
Business loan fund liquidating account:							
Commitments							
New guaranteed loans	1	1	1	1	1	1	1
Change in outstandings	−1,292	−1,042	−850	−698	−579	−484	−406
Outstandings	6,383	5,341	4,491	3,793	3,214	2,730	2,324
Other Independent Agencies							
Export-Import Bank of the United States							
Export-Import Bank of the United States liquidating account:							
Commitments							
New guaranteed loans	211	275					
Change in outstandings	−809	−283	−536	−534	−513	−478	−417
Outstandings	3,201	2,918	2,382	1,848	1,335	857	440
Export-Import Bank guaranteed loan financing account:							
Commitments	10,281	14,643	15,413	15,413	15,413	15,413	15,413
New guaranteed loans	5,456	8,722	10,102	10,693	11,036	11,302	11,600
Change in outstandings	848	497	329	23	−240	−711	−918
Outstandings	14,584	15,081	15,410	15,433	15,193	14,482	13,564
National Credit Union Administration							
Credit union share insurance fund:							
Commitments	1	1					
New guaranteed loans	1						
Change in outstandings	1						
Outstandings	1	1	1	1	1	1	1

Table 8–9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency or Program	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Tennessee Valley Authority							
Tennessee Valley Authority fund:							
Commitments	....	....	....	....	....	....	....
New guaranteed loans	....	....	....	....	....	....	....
Change in outstandings	....	....	....	....	....	....	....
Outstandings	....	....	....	....	....	....	....
Subtotal, Guaranteed loans (gross)							
Commitments	284,430	318,108	326,239	186,599	186,612	188,641	190,256
New guaranteed loans	245,425	243,567	234,741	231,693	234,039	237,470	241,452
Change in outstandings	123,472	91,283	79,554	40,028	58,899	27,425	23,622
Outstandings	1,303,537	1,394,820	1,474,374	1,514,402	1,573,301	1,600,726	1,624,348
Less, secondary guaranteed loans: [1]							
GNMA guarantees of FmHA/VA/FHA pools:							
Commitments	−110,000	−110,000	−130,000	....	....	....	....
New guaranteed loans	−101,540	−79,560	−75,799	−74,582	−75,357	−77,233	−79,128
Change in outstandings	−33,585	−35,900	−30,334	6,830	−20,418	8,438	....
Outstandings	−497,433	−533,333	−563,667	−556,837	−577,255	−568,817	−560,073
Total, primary guaranteed loans: [2]							
Commitments	174,430	208,108	196,239	186,599	186,612	188,641	190,256
New guaranteed loans	143,885	164,007	158,942	157,111	158,682	160,237	162,324
Change in outstandings	89,887	55,383	49,220	46,858	38,481	35,863	32,366
Outstandings	806,104	861,487	910,707	957,565	996,046	1,031,909	1,064,275

[1] Loans guaranteed by FHA, VA, or FmHA are included above. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double counting.
[2] When guaranteed loans result in loans receivable, they are shown in the direct loan table.

TABLE 8–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]

(In millions of dollars)

Enterprise		1996 actual	Estimate 1997	Estimate 1998
LENDING				
Student Loan Marketing Association	New transactions	9,984	9,845	9,190
	Net change	–4,245	–1,819	–2,040
	Outstandings	37,391	35,572	33,532
Federal National Mortgage Association:				
Corporation Accounts	New transactions	66,802	67,301	77,506
	Net change	9,173	37,563	39,999
	Outstandings	201,428	238,991	278,990
Mortgage-backed securities	New transactions	159,830	128,618	141,293
	Net change	76,777	59,205	66,453
	Outstandings	636,362	695,567	762,020
Federal Home Loan Mortgage Corporation:				
Corporation accounts	New transactions	46,267	57,253	70,848
	Net change	6,960	46,923	63,935
	Outstandings	55,129	102,052	165,987
Participation certificate pools	New transactions	123,808	127,522	131,348
	Net change	14,264	14,709	15,168
	Outstandings	471,310	486,019	501,187
Farm Credit System:				
Banks for cooperatives	New transactions	12,992	11,837	11,683
	Net change	–51	–258	84
	Outstandings	2,222	1,964	2,048
Farm Credit Banks	New transactions	29,077	28,967	30,201
	Net change	2,661	1,959	1,515
	Outstandings	39,197	41,156	42,671
Agricultural Credit Banks	New transactions	48,117	46,000	47,000
	Net change	683	669	634
	Outstandings	14,914	15,583	16,217
Federal home loan banks [2]	New transactions	796,853	800,000	800,000
	Net change	31,174	–302	....
	Outstandings	153,302	153,000	153,000
Subtotal, lending (gross)	New transactions	1,293,730	1,277,343	1,319,069
	Net change	137,396	158,649	185,748
	Outstandings	1,611,255	1,769,904	1,955,652
Less guaranteed loans purchased by:				
Student Loan Marketing Association [3]	Net change	–4,245	–1,819	–2,040
	Outstandings	37,391	35,572	33,532
Federal National Mortgage Association	Net change	2,420	....	....
	Outstandings	25,447	25,447	25,447
Other	Net change	3,376	....	....
	Outstandings	16,878	16,878	16,878
Total GSE lending (net)	New transactions	1,049,898	1,164,505	1,160,614
	Net change	135,845	160,468	187,788
	Outstandings	1,531,539	1,692,007	1,879,795
BORROWING				
Student Loan Marketing Association	Net change	–6,708	–1,516	–1,677
	Outstandings	44,964	43,448	41,771
Federal National Mortgage Association	Net change	85,248	100,038	112,726
	Outstandings	863,906	963,944	1,076,670
Federal Home Loan Mortgage Corporation	Net change	22,130	61,246	76,442
	Outstandings	543,966	605,212	681,654
Farm Credit System:				
Banks for cooperatives	Net change	–124	–300	58
	Outstandings	2,371	2,071	2,129
Farm credit banks	Net change	3,344	1,598	1,040
	Outstandings	41,936	43,534	44,574
Agricultural credit banks	Net change	806	152	572
	Outstandings	16,328	16,480	17,052
Federal home loan banks	Net change	17,127	11,467	....
	Outstandings	243,533	255,000	255,000
The Financing Corporation [3]	Net change	1	2	1
	Outstandings	8,142	8,144	8,145
Resolution Funding Corporation [3]	Net change	–2	–2	–3
	Outstandings	30,074	30,072	30,069
Subtotal, borrowing (gross)	Net change	125,285	176,782	184,396
	Outstandings	1,787,647	1,964,429	2,148,825
Less borrowing from other GSEs	Net change	6,632	....	....
	Outstandings	50,735	50,735	50,735
Less purchase of Federal debt securities:	Net change	–519	374	467
	Outstandings	6,969	7,343	7,810
Less borrowing to purchase guaranteed loans by:				
Student Loan Marketing Association [4]	Net change	–4,245	–1,819	–2,040
	Outstandings	37,391	35,572	33,532
Federal National Mortgage Association	Net change	2,420	....	....

TABLE 8–10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]—Continued

(In millions of dollars)

Enterprise		1996 actual	Estimate	
			1997	1998
Other	Outstandings	25,447	25,447	25,447
	Net change	3,376	....	....
	Outstandings	16,878	16,878	16,878
Total GSE borrowing (net)	Net change	117,621	178,227	185,969
	Outstandings	1,650,227	1,828,454	2,014,423

[1] The estimates of borrowing and lending were developed by the GSEs based on certain assumptions but are subject to periodic review and revision and do not represent official GSE forecasts of future activity. The data for all years include programs of mortgage-backed securities. In cases where a GSE owns securities issued by the same GSE, including mortgage-backed securities, the borrowing and lending data for that GSE are adjusted, with some degree of approximation, to remove double-counting.
[2] The lending by the Federal Home Loans Banks measures their advances to member thrift and other financial institutions. In addition, their investment in private financial instruments at the end of 1996 was $122.0 billion.
[3] The change in debt outstanding is due solely to the amortization of discounts and premiums. No sale or redemption of debt securities is estimated to occur in 1997 or 1998.
[4] All SLMA loans acquired are guaranteed by the Federal Government and therefore also counted as guaranteed loans.