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19. CREDIT AND INSURANCE

The Federal Government offers direct loans and loan guarantees to support a wide range of activities including home ownership, education, small business, farming, energy efficiency, infrastructure investment, and exports. Also, Government-sponsored enterprises (GSEs) operate under Federal charters for the purpose of enhancing credit availability for targeted sectors. Through its insurance programs, the Federal Government insures deposits at depository institutions, guarantees private-sector defined-benefit pensions, and insures against some other risks such as flood and terrorism.

This chapter discusses the roles of these diverse programs:

- The first section discusses individual credit programs and the GSEs. Credit programs are broadly classified into five categories: housing, education, small business and farming, energy and infrastructure, and international lending.
- The second section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.

I. CREDIT IN VARIOUS SECTORS

Housing Credit Programs and GSEs

Through housing credit programs, the Federal Government promotes homeownership among various target groups, including low- and moderate-income people, veterans, and rural residents. In times of crisis, the Federal Government's role and target market can expand dramatically.

Federal Housing Administration

The Federal Housing Administration (FHA) guarantees mortgage loans to provide access to homeownership for people who may have difficulty obtaining a conventional mortgage. FHA has been a primary facilitator of mortgage credit for first-time and minority buyers, a pioneer of products such as the 30-year self-amortizing mortgage, and a vehicle to enhance credit for many moderate and low-income households.

FHA also insures loans for the construction, rehabilitation, and refinancing of multifamily housing, hospitals and other health care facilities. The credit enhancement provided by FHA enables borrowers to obtain long-term, fixed-rate financing, which mitigates interest rate risk and facilitates lower monthly mortgage payments. This can improve the financial sustainability of multifamily housing and healthcare facilities and may also translate into more affordable rents/lower healthcare costs for consumers.

FHA and the Single-Family Mortgage Market

In the early 2000s, FHA's market presence diminished greatly as low interest rates increased the affordability of mortgage financing and more borrowers used emerging non-prime mortgage products, including subprime and Alt-A mortgages. Many of these products had risky and hard-to-understand features such as low "teaser rates" offered for periods as short as the first two years of the mortgage, high loan-to-value ratios (with some mortgages exceeding the value of the house), and interest-only loans with balloon payments that require full payoff at a set future date. The Alt-A mortgage made credit easily available by waiving documentation of income or assets. This competition eroded the market share of FHA's single-family purchase and re-finance loans, reducing it from 9 percent in 2000 to less than 2 percent in 2005.

Starting at the end of 2007, the availability of FHA and Government National Mortgage Association (which supports the secondary market for federally-insured housing loans by guaranteeing securities backed by mortgages guaranteed by FHA, VA, and USDA) credit guarantees has been an important factor countering the tightening of private-sector credit. The annual volume of FHA's single-family mortgages soared from $52 billion in 2006 to a high of $330 billion in 2009.

Although loan volume declined since its 2009 peak, FHA experienced strong demand in 2016 as mortgage rates remained low and the improving economy brought new home buyers into the market. FHA's single-family origination loan volume in 2016 was $245 billion, and FHA's market share of home financing by dollar volume was 13 percent. For 2018, the Budget projects FHA volume will be $214 billion.

FHA's Budget Costs

FHA's budget estimates exhibit volatility and are prone to forecast error, and default claim rates are sensitive to a variety of dynamics. FHA insurance premium revenues are spread thinly but universally over pools of policyholders. Mortgage insurance costs for FHA, however, are concentrated in only those borrowers who default and whose lender files a claim, with the average per claim cost being much larger than the average premium income. Therefore, if claims change by even a small fraction of borrowers (e.g., one percentage point), net FHA insurance costs will move by a multiple of that change. The history of FHA has been spotted with rapid, unanticipated changes in claim costs and recoveries. FHA is vulnerable to outlier events that are difficult to predict and have deep effect. For FHA, these include the collapse of house prices after market bubbles burst and the effects of lending practices with very high claim rates, such as the now illegal seller-financed down-payment mortgage.

One of the major benefits of an FHA-insured mortgage is that it provides a homeownership option for borrowers who can make only a modest down-payment, but show that they are creditworthy and have sufficient income to afford the house they want to buy. In 2016 over 72 percent of new FHA loans were financed with less than five percent down. The disadvantage to low down-payment mortgages is that they have little in the way of an equity cushion should house prices decline or events such as income loss or unexpected medical expenses make it difficult for households to remain current on their mortgage payment. When these occur, the net sales proceeds from home sales may not be sufficient to support exit strategies that allow borrowers to completely pay off the debt and relocate to more affordable housing.

According to its annual actuarial analysis, in 2016 FHA maintained its statutory minimum capital reserve ratio of 2 percent for a second consecutive year after six straight years of failing to meet the target. As the housing market has recovered and FHA has improved its risk management, the actuarial review found that FHA's capital reserve increased by almost $44 billion over the last four years.

In 2009, the FHA Mutual Mortgage Insurance (MMI) Fund capital reserve was broadened to include Home Equity Conversion Mortgages (HECMs), as well as amortizing loans for single-family purchases and refinancing (forward mortgages). This change has increased the volatility of FHA's capital reserves. The financial performance of HECMs is highly sensitive to changes in house prices and interest rates. While the trend in capital reserves of forward mortgages has been consistently upward over the last four years, the actuarial review found that the HECM portfolio has a negative capital valuation of almost $8 billion, acting as a drag on the positive performance of the forward mortgage portfolio. For 2016, the capital reserve ratio was 3.3 percent for forward mortgages and -6.9 percent for HECMs. Total mortgages outstanding in the FHA MMI Fund were $1,152 billion at the end of 2016.

Although the dollar volume of outstanding HECMs is about one tenth of the FHA forward mortgage volume, the scale of absolute dollar changes in the HECM capital reserve has been similar to that of forward mortgages. The 2016 actuarial review found that HECMs suffered a $14.5 billion loss in capital resources between 2015 and 2016. This offset much of the improvement in the forward capital resources, which was $18.2 billion.

A HECM may also be called a “reverse mortgage” because the change in home equity over time of a HECM is generally the opposite of a forward mortgage. While a forward mortgage starts with a small amount of equity and builds equity with amortization of the loan, a HECM starts with a large equity cushion that declines over time as the loan accrues interest. (There are no repayments on a HECM until the owner leaves the home or refinances). The risk of HECMs therefore is weighted toward the end of the mortgage, while forward mortgage risk is concentrated in the first 10 years. This weighting means that small deviations in house valuations from initial forecasts will compound for the entire life of a HECM. The 2016 actuarial review also concluded that homes with HECMs in general do not hold their value as well as homes do in the broader market. This loss of value is often borne by FHA when it disposes of a defaulted HECM home. To address the capital adequacy of the HECM portfolio, FHA has taken steps, including lowering the share of home equity a homeowner can borrow against (the “principal limit factors”). These reductions create more of an equity cushion in the event of a default.

In addition to the single-family mortgage insurance provided through the MMI program, FHA's General Insurance and Special Risk Insurance (GISRI) loan programs continue to facilitate the construction, rehabilitation, and refinancing of multifamily housing, hospitals and other health care facilities. GISRI's new origination loan volume in 2016 was $16.1 billion and the Budget projects $17.6 billion for 2018. Total mortgages outstanding in the FHA GISRI Fund were $140 billion at the end of 2016.

VA Housing Program

The Department of Veterans Affairs (VA) assists veterans, members of the Selected Reserve, and active duty personnel in purchasing homes in recognition of their service to the Nation. The housing program effectively substitutes the Federal guarantee for the borrower's down payment, making the lending terms more favorable than loans without a VA guarantee. VA does not guarantee the entire mortgage loan to veterans, but provides a 100 percent guarantee on the first 25 percent of losses upon default. The number of loans that VA guaranteed reached a new record level in 2016, as the tightened credit markets continued to make the VA housing program more attractive to eligible homebuyers. VA provided 231,678 zero down payment loans. The continued historically low interest rate environment of 2016 allowed 352,472 Veteran borrowers to lower interest rates on their home mortgages through refinancing. VA provided over $45 billion in guarantees to assist 705,474 borrowers in 2016, of which 251,431 were fee-exempt loans to Veterans with service-connected disabilities. This followed $38 billion and 631,142 borrowers in 2015.

VA, in cooperation with VA-guaranteed loan servicers, also assists borrowers through home retention options and alternatives to foreclosure. VA intervenes when needed to help veterans and service members avoid foreclosure through loan modifications, special forbearances, repayment plans, and acquired loans; as well as assistance to complete compromise sales or deeds-in-lieu of foreclosure. These joint efforts helped resolve over 83 percent of defaulted VA-guaranteed loans in 2016.

Rural Housing Service

The Rural Housing Service (RHS) at the U.S. Department of Agriculture (USDA) offers direct and guaranteed loans to help very-low- to moderate-income rural residents buy and maintain adequate, affordable housing. RHS housing loans and loan guarantees differ from other Federal housing loan programs in that they are means-tested, making them more accessible to low-income, rural residents. The single family housing guaranteed loan program is designed to provide home loan guarantees for moderate-income rural residents whose incomes are between 80 percent and 115 percent (maximum for the program) of area median income.

Historically, RHS has offered both direct and guaranteed homeownership loans. Beginning in 2018, the Budget proposes that RHS will only offer guaranteed loans. The Budget provides no funding for the direct single family housing loan program. The single family housing guaranteed loan program was newly authorized in 1990 at $100 million and has grown into a $24 billion loan program annually. Moreover, the private sector mortgage banking industry is offering historically low mortgage rates, resulting in instances where the average 30 year fixed commercial mortgage rate has been at or below the average borrower rate for the RHS single family direct loan. Given that graduating to private credit is a goal of the direct program, pointing borrowers to commercial credit with a Federal guarantee is a preferred way to achieve the RHS policy goal of providing homeownership opportunities to low-income rural residents.

Furthermore, financial markets have become more efficient and have increased the reach of mortgage credit to lower credit qualities and incomes. Rural areas that were once isolated from broad credit availability have shrunk as access to high speed broadband has increased and correspondent lending has grown. Therefore, utilizing the private banking industry to provide this service, with a guarantee from the Federal government, is a more efficient way to deliver that assistance.

For USDA's multifamily housing portfolio, the 2018 Budget also plans to offer only loan guarantees for multifamily housing, funding the multifamily housing loan guarantees at $250 million, an increase by $100 million. Rental assistance grants, which supplement tenant rental payments to the property owners and are vital to the proper underwriting of the multifamily housing direct loan portfolio, are fully funded at $1.345 billion, which is sufficient to renew outstanding agreements.

Government-Sponsored Enterprises in the Housing Market

The Federal National Mortgage Association, or Fannie Mae, created in 1938, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, created in 1970, were established to support the stability and liquidity of a secondary market for residential mortgage loans. Fannie Mae's and Freddie Mac's public missions were later broadened to promote affordable housing.

Growing stress and losses in the mortgage markets in 2007 and 2008 seriously eroded the capital of Fannie Mae and Freddie Mac. Legislation enacted in July 2008 strengthened regulation of the housing GSEs and provided the Treasury Department with authorities to purchase GSE securities. In September 2008, reacting to growing GSE losses and uncertainty that threatened to paralyze the mortgage markets, the GSEs' independent regulator, the Federal Housing Finance Agency (FHFA), placed Fannie Mae and Freddie Mac under Federal conservatorship, and Treasury began to exercise its purchase authorities to provide support to the GSEs. The Budget continues to reflect the GSEs as non-budgetary entities in keeping with their temporary status in conservatorship. However, all of the current Federal assistance being provided to Fannie Mae and Freddie Mac, including capital provided by Treasury through the Senior Preferred Stock Purchase Agreements (PSPA), is shown on-budget, and discussed below.

The Federal Home Loan Bank (FHLB) System, created in 1932, is comprised of eleven individual banks with shared liabilities. Together they lend money to financial institutions—mainly banks and thrifts—that are involved in mortgage financing to varying degrees, and they also finance some mortgages using their own funds.

Mission

The mission of the housing GSEs is to support certain aspects of the U.S. mortgage market. Fannie Mae and Freddie Mac's mission is to provide liquidity and stability to the secondary mortgage market and to promote affordable housing. Currently, they engage in two major lines of business.

1. Credit Guarantee Business—Fannie Mae and Freddie Mac guarantee the timely payment of principal and interest on mortgage-backed securities (MBS). They create MBS by pooling mortgages acquired through either purchase from or swap arrangements with mortgage originators. Over time these MBS held by the public have averaged about 40 percent of the U.S. mortgage market, and as of February 28, 2017, they totaled $4.6 trillion.

2. Mortgage Investment Business—Fannie Mae and Freddie Mac manage retained mortgage portfolios composed of their own MBS, MBS issued by others, and individual mortgages. The GSEs finance the purchase of these portfolio assets through debt issued in the credit markets. As of February 28, 2017, these retained mortgages, financed largely by GSE debt, totaled $564 billion. As a term of their PSPA contracts with Treasury, the combined investment portfolios of Fannie Mae and Freddie Mac were limited to no more than $1.8 trillion as of December 31, 2009, and this limitation was directed to decline by 10 percent each year. To accelerate the wind-down of the GSEs' retained mortgage portfolios, Treasury revised the PSPA terms in August 2012, setting the effective portfolio limitation at $1.1 trillion as

of December 31, 2013, and accelerating the reduction in this limitation to 15 percent each year until December 31, 2018, when the combined limitation will be fixed at $500 billion ($250 billion for each company).

As of February 28, 2017, the combined debt and guaranteed MBS of Fannie Mae and Freddie Mac totaled $5.3 trillion.

The mission of the FHLB System is broadly defined as promoting housing finance, and the System also has specific requirements to support affordable housing. Its principal business remains lending (secured by mortgages and financed by System debt issuances) to regulated depository institutions and insurance companies engaged in residential mortgage finance. Historically, investors in GSE debt have included thousands of banks, institutional investors such as insurance companies, pension funds, foreign governments and millions of individuals through mutual funds and 401k investments.

Together these three GSEs currently are involved, in one form or another, with approximately half of the $11 trillion residential mortgages outstanding in the U.S. today.

Regulatory Reform

The 2008 Housing and Economic Recovery Act (HERA) reformed and strengthened the GSEs' safety and soundness regulator by creating the Federal Housing Finance Agency (FHFA), a new independent regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The FHFA authorities consolidate and expand upon the regulatory and supervisory roles of what were previously three distinct regulatory bodies: the Federal Housing Finance Board as the FHLB's overseer; the Office of Federal Housing Enterprise Oversight as the safety and soundness regulator of the other GSEs; and HUD as their public mission overseer. FHFA was given substantial authority and discretion to influence the size and composition of Fannie Mae and Freddie Mac investment portfolios through the establishment of housing goals, monitoring GSE compliance with those goals, and capital requirements.

FHFA is required to issue housing goals, such as for purchases of single-family mortgages provided to low-income families, for each of the regulated enterprises, including the FHLBs, with respect to single family and multi-family mortgages and has the authority to require a corrective "housing plan" if an enterprise does not meet its goals and statutory reporting requirements, and in some instances impose civil money penalties.

The expanded authorities of FHFA also include the ability to place any of the regulated enterprises into conservatorship or receivership based on a finding of under-capitalization or a number of other factors.

Conservatorship

On September 6, 2008, FHFA placed Fannie Mae and Freddie Mac under Federal conservatorship. This action was taken in response to the GSEs' declining capital adequacy and to support the safety and soundness of the GSEs, given the role they played in the secondary mortgage market and the potential impact of their failure on broader financial markets. HERA provides that as conservator FHFA may take any action that is necessary to put Fannie Mae and Freddie Mac in a sound and solvent condition and to preserve and conserve the assets of each firm. As conservator, FHFA has assumed by operation of law the powers of the Board and shareholders at Fannie Mae and Freddie Mac. FHFA has appointed Directors and CEOs who are responsible for the day-to-day operations of the two firms. In its Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, released in 2014, FHFA outlined three key goals for conservatorship: 1) maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets; 2) reduce taxpayer risk through increasing the role of private capital in the mortgage market; and 3) build a new single-family securitization infrastructure for use by the GSEs and adaptable for use by other participants in the secondary market in the future.

Department of the Treasury GSE Support Programs under HERA

On September 7, 2008, the U.S. Treasury launched three programs to provide temporary financial support to the GSEs under the temporary authority provided in HERA to purchase GSE securities. These purchase authorities expired on December 31, 2009.

1. *PSPAs with Fannie Mae and Freddie Mac*

Treasury entered into agreements with Fannie Mae and Freddie Mac to make investments in senior preferred stock in each GSE in order to ensure that each company maintains a positive net worth. In exchange for the substantial funding commitment, the Treasury received $1 billion in senior preferred stock for each GSE and warrants to purchase up to a 79.9 percent share of common stock at a nominal price. The initial agreements established funding commitments for up to $100 billion in each of these GSEs. On February 18, 2009, Treasury announced that the funding commitments for these agreements would be increased to $200 billion for each GSE. On December 24, 2009, Treasury announced that the funding commitments in the purchase agreements would be modified to the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010-2012, less any positive net worth remaining as of December 31, 2012. Based on the financial results reported by each company as of December 31, 2012, the cumulative funding commitment for Fannie Mae and Freddie Mac was set at $445.5 billion. In total, as of March 31, 2017, $187.5 billion has been invested in the GSEs, and the liquidation preference of the senior preferred stock held by Treasury has increased accordingly. The PSPAs also require that Fannie Mae and Freddie Mac pay quarterly dividends to Treasury. Prior to calendar year 2013, the quarterly dividend amount was based on an annual rate of 10 percent of the liquidation preference of Treasury's senior preferred stock. Amendments to the PSPAs effected on August 17th, 2012, replaced the 10 percent dividend with an amount equivalent to the GSE's positive net worth above a capital reserve amount. The capital reserve amount for each company was set at $3.0 billion for calendar year 2013, and declines by $600 million at the beginning of each calendar year thereafter until it reaches zero. Through March 31, 2017, the GSEs have paid a total of $265.8 billion in dividend payments to Treasury on the senior preferred stock. The Budget estimates additional dividend receipts of $142.4 billion from April 1, 2017, through 2027. The cumulative budgetary impact of the PSPAs from the establishment of the PSPAs through 2027 is estimated to be a net deficit reduction of $220.7 billion.

2. *GSE MBS Purchase Programs*

Treasury initiated a temporary program during the financial crisis to purchase MBS issued by Fannie Mae and Freddie Mac, which carry the GSEs' standard guarantee against default. The purpose of the program was to promote liquidity in the mortgage market and, thereby, affordable homeownership by stabilizing the interest rate spreads between mortgage rates and corresponding rates on Treasury securities. Treasury purchased $226 billion in MBS from September 2008 to December 31, 2009, when the statutory purchase authority that Treasury used for this program expired, and sold the last of its MBS holdings in March 2012. The MBS purchase program generated $11.9 billion in net budgetary savings, calculated on a net present value basis as required by the Federal Credit Reform Act.

3. *GSE Credit Facility*

Treasury promulgated the terms of a temporary secured credit facility available to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The facility was intended to serve as an ultimate liquidity backstop to the GSEs if necessary. No loans were needed or issued through December 31, 2009, when Treasury's HERA purchase authority expired.

Other GSE Activities in the Budget

The Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law 112-78) required that the GSEs increase their credit guarantee fees on mortgage acquisitions between 2012 and 2021 by an average of at least 0.10 percentage points. Revenues generated by this fee increase are remitted directly to the Treasury for deficit reduction and are not included in the PSPA amounts. The Budget estimates resulting deficit reductions from this fee of $43.1 billion from 2012 through 2027.

In addition, in 2014 FHFA directed the GSEs to set aside 4.2 basis points for each dollar of the unpaid principal balance of new business purchases (including but not limited to mortgages purchased for securitization) in each year to fund several federal affordable housing programs created by HERA, including the Housing Trust Fund and the Capital Magnet Fund. These set-asides were suspended by FHFA in November 2008 and were reinstated effective January 1, 2015. The 2018 Budget proposes to eliminate the 4.2 basis point set-aside and discontinue funding for these Funds, resulting in an increase to the estimated PSPA dividends.

Future of the GSEs

The Administration has publicly expressed its desire to work with members of Congress to facilitate a more sustainable housing finance system. Any reform of the housing system likely will impact the cash flows attributable to the GSEs in the 2018 Budget projections in ways that cannot be estimated at this time.

Education Credit Programs

Historically, the Department of Education financed student loans through two programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Federal Direct Student Loan (Direct Loan) program. However, the Student Aid and Fiscal Responsibility Act (SAFRA) of 2010 (Public Law 111-152) ended the FFEL program. On July 1, 2010, ED became the sole originator of Federal student loans through the Direct Loan program.

The Direct Loan program was authorized by the Student Loan Reform Act of 1993 (Public Law 103-66). Under the program, the Federal Government provides loan capital directly to over 6,000 domestic and foreign schools, which then disburse loan funds to students. Loans are available to students and parents of students regardless of income, but the terms of the loans differ. There are three types of Direct Loans: Federal Direct Subsidized Stafford Loans, Federal Direct Unsubsidized Stafford Loans, and Federal Direct PLUS Loans. For Direct Subsidized Stafford loans, which are available to undergraduate borrowers from low and moderate income families, the Federal Government provides more benefits, including not charging interest while the borrowers are in school and during certain deferment periods.

The Bipartisan Student Loan Certainty Act of 2013 (Public Law 113-28) established interest rates for all types of new Direct Loans made on or after July 1, 2013. Interest rates on Direct Loans are set annually based on Treasury rates but once the rate is set, the rate is fixed for the life of the loan. Interest rates are set by: (1) indexing the interest rate to the rate of ten-year Treasury notes; and (2) adding the indexed rate to a specific base percent for each loan type with specific caps for each loan type. For Federal Direct Subsidized Stafford Loans and Federal Direct Unsubsidized Stafford Loans issued to undergraduate students, the rate is 2.05 percentage points above the Treasury 10-year note rate and capped at 8.25 percent. For Federal Direct Unsubsidized Stafford Loans issued to graduate and professional students, the rate is 3.6 percentage points above the Treasury rate and capped at 9.5 percent. For Federal Direct PLUS Loans issued to parents and graduate and professional students, the rate is 4.6 percentage points above the Treasury rate and capped at 10.5 percent. The Direct Loan program offers a variety of repayment plans including income-driven ones for all student borrowers, regardless of the type of loan. Depending on the plan, monthly payments are capped at no more than between 10 and 15 percent of borrower discretionary income and balances remaining after 20 to 25 years are forgiven. In addition, under current law, borrowers who work in public service professions while making 10 years of qualifying payments are eligible for Public Service Loan Forgiveness (PSLF).

The multitude of income-driven repayment plan choices are complicated to administer and confusing to borrowers. The 2018 Budget proposes to simplify the repayment process by creating a single income-driven plan. The new plan would cap borrower monthly payments at 12.5 percent of discretionary income. For borrowers with undergraduate student debt only, any balance remaining after 15 years of repayment would be forgiven. For borrowers with any graduate debt, any balance remaining after 30 years of repayment would be forgiven. To support this simplified repayment pathway to debt relief, and to generate savings that help put the Nation on a more sustainable fiscal path, the 2018 Budget proposes to eliminate PSLF, establish reforms to guarantee that all borrowers in IDR pay an equitable share of their income, and eliminate subsidized loans. All student loan proposals will apply to loans originated on or after July 1, 2018, with an exception for students who borrowed their first loans prior to July 1, 2018 and who are borrowing to complete their current course of study.

Small Business and Farm Credit Programs and GSEs

The Government offers direct loans and loan guarantees to small businesses and farmers, who may have difficulty obtaining credit elsewhere. It also provides guarantees of debt issued by certain investment funds that invest in small businesses. Two GSEs, the Farm Credit System and the Federal Agricultural Mortgage Corporation, increase liquidity in the agricultural lending market.

Loans to Small Businesses

The Small Business Administration (SBA) ensures that America's small businesses have the tools and resources needed to start and develop their operations, drive U.S. competitiveness, and help grow the economy. Whether offering financial assistance to veteran entrepreneurs, providing microloans to startups, or financing construction for a small business's expansion, SBA complements credit markets by guaranteeing access to affordable credit provided by private lenders for those that cannot attain it elsewhere. SBA also provides reassurance to American communities that have been hard-hit by disasters by providing inexpensive, accessible, and immediate disaster relief to businesses, homeowners, renters, and property owners. At year-end 2016, SBA's outstanding balance of guaranteed and direct loans totaled over $124 billion. For the 2018 Budget, SBA recorded a net downward reestimate of approximately $550 million in the expected costs of its outstanding loan portfolio, reflecting an improved forecast of future loan performance.

The 2018 Budget provides $29 billion in loan guarantees with no subsidy costs to assist small business owners with access to affordable capital through the 7(a) General Business Loan Guarantee program. This program provides access to financing for general business operations, such as operating and capital expenses. The 2018 Budget also includes a provision that would provide the SBA Administrator with flexibility to further increase the loan guarantee level by 15 percent under certain circumstances. Such flexibility could better equip SBA to meet peaks in demand uninterrupted while continuing to operate at zero subsidy. In 2018, SBA will provide fee waivers on 7(a) loans less than $125,000 and partial waivers on 7(a) loans less than $350,000 to veteran-owned businesses.

In 2018, SBA's 504 Certified Development Company (CDC) program will support $7.5 billion in guaranteed loans for fixed-asset financing, and $7.5 billion in 504 guarantees to allow small businesses to refinance to take advantage of current low interest rates and free up resources for expansion. These programs enable small businesses to secure financing for assets such as machinery and equipment, construction, and commercial real estate. The 2018 Budget enhances SBA's 504 CDC program by introducing a 25-year debenture to complement the existing 10-year and 20-year debentures. This new policy initiative will foster small business development by helping owners lower their operating expenses in a manner that is protective of taxpayer resources. The 25-year debenture will also be introduced for the 504 Refinance program beginning in 2018.

The Budget supports innovative financial instruments such as SBA's Small Business Investment Companies (SBICs) by providing up to $4 billion in long-term, guaranteed loans at zero subsidy to support venture capital investments in small businesses. The Budget also focuses on serving the smallest of small businesses and startups through the 7(m) Direct Microloan program, which supports low-interest financing for non-profit intermediaries who in turn provide loans of up to $50,000 to rising entrepreneurs. In addition to the $25 million in technical assistance grant funds requested for the Microloan program, the Budget requests $3.44 million in subsidy resources to support up to $36 million in direct lending.

SBA will continue to be a valuable source for Americans who need access to low-interest loans in the wake of disaster. The 2018 Budget estimates direct lending provided by SBA's Disaster Loan program at its 10-year average volume of $1.1 billion in lending. While the 2018 Budget does not request additional disaster subsidy as SBA continues to draw down its carryover balances, it does request $186 million to administer these funds as efficiently and effectively as possible. Additionally, the 2018 Budget cancels SBA's Immediate Disaster Loan Guarantee and Expedited Disaster Assistance programs by proposing to cancel $2.6 million in appropriated subsidy and administrative resources. The programs have not received any applications nor witnessed demand for the services since enactment in 2010.

Community Development

Since its creation in 1994, the Department of the Treasury's Community Development Financial Institutions (CDFI) Fund has, through different grant, loan, and tax credit programs, worked to expand the availability of credit, investment capital, and financial services for underserved people and communities by supporting the growth and capacity of a national network of CDFIs, investors, and financial service providers. Today, there are over 1,080 Certified CDFIs nationwide, including a variety of loan funds, community development banks, credit unions, and venture capital funds. The Budget proposes to eliminate funding for the CDFI Fund's grant and loan programs targeted at the now mature CDFI industry.

Unlike other CDFI Fund programs, the CDFI Bond Guarantee Program (BGP) — enacted through the Small Business Jobs Act of 2010 — does not offer grants, but is instead a zero-subsidy Federal credit program, designed to function at no cost to taxpayers. Under the BGP, the Secretary of the Treasury provides a 100 percent guarantee of long-term bonds issued to CDFIs, with a maximum maturity of 30 years. The BGP does not require discretionary budget authority for its credit subsidy, but the annual loan guarantee limitations are appropriated. Through September 30, 2016, Treasury had issued $1.1 billion in bond guarantee commitments to 17 CDFIs that have supported investments in low-income and underserved communities, including for the development of multi-family rental properties, charter schools, and healthcare facilities. The Budget proposes to extend and reform the BGP through 2018 with an annual commitment limitation of $500 million and a minimum individual bond size of $50 million, while maintaining strong protections against credit risk.

Loans to Farmers

The Farm Service Agency (FSA) assists low-income family farmers in starting and maintaining viable farming operations. Emphasis is placed on aiding beginning and socially disadvantaged farmers. FSA offers operating loans and ownership loans, both of which may be either direct or guaranteed loans. Operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment, while farm ownership loans assist producers in acquiring and developing their farming or ranching operations. As a condition of eligibility for direct loans, borrowers must be unable to obtain private credit at reasonable rates and terms. As FSA is the "lender of last resort," default rates on FSA direct loans are generally higher than those on private-sector loans. 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, they exercise care in examining the repayment ability of borrowers. The subsidy rates for the direct programs fluctuate largely because of changes in the interest component of the subsidy rate.

The number of loans provided by these programs has varied over the past several years. In 2016, FSA provided loans and loan guarantees to more than 39,000 family farmers totaling $6.4 billion. Direct and guaranteed loan programs provided assistance totaling $2.7 billion to beginning farmers during 2016. Loans for socially disadvantaged farmers totaled $842 million, of which $451 million was in the farm ownership program and $391 million in the farm operating program. The average size of farm ownership loans was consistent over the past two years, with new customers receiving the bulk of the direct loans. The majority of assistance provided in the operating loan program during 2016 was to beginning farmers as well. Overall, demand for FSA loans—both direct and guaranteed—continues to be high. More conservative credit standards in the private sector continue to drive applicants from commercial credit to FSA direct programs. Low grain prices and uncertainty over interest rates continue to cause lenders to force their marginal borrowers to FSA for credit. In the 2018 Budget, FSA proposes to make $7.0 billion in direct and guaranteed loans through discretionary programs, including guaranteed conservation loans. The overall loan level for conservation loans is unchanged from the 2017 requested level of $150 million.

Lending to beginning farmers was strong during 2016. FSA provided direct or guaranteed loans to more than 21,200 beginning farmers. Loans provided under the Beginning Farmer Down Payment Loan Program represented 19 percent of total direct ownership loans made during the year, comparable to the previous year. Sixty-two percent of direct operating loans were made to beginning farmers, an increase of 4 percent in dollar volume over 2015. Overall, as a percentage of funds available, lending to beginning farmers was 5 percentage points above the 2015 level, propelled by a 4 percent increase in ownership loans and 6 percent increase in operating loans made to beginning farmers. Lending to minority and women farmers was a significant portion of overall assistance provided, with $842 million in loans and loan guarantees provided to more than 9,000 farmers. This represents an increase of 2 percent in the overall number of direct loans to minority and women borrowers. Outreach efforts by FSA field offices to reach out to beginning and minority farmers and promote FSA funding have resulted in increased lending to these groups.

FSA continues to evaluate the farm loan programs in order to improve their effectiveness. FSA recently released a new Microloan program to increase lending to small niche producers and minorities. This program has been expanded to include guaranteed as well as direct loans. This program dramatically simplifies application procedures for small loans, and implements more flexible eligibility and experience requirements. The demand for the micro-loan program continues to grow while delinquencies and defaults remain at or below those of the regular FSA operating loan program. FSA has also developed a nationwide continuing education program for its loan officers to ensure that they remain experts in agricultural lending, and it has transitioned information technology applications for direct loan servicing into a single, web-based application that expands on existing capabilities including special servicing options. Its implementation allows FSA to better service its delinquent and financially distressed borrowers.

The Farm Credit System (Banks and Associations)

The Farm Credit System (FCS or System) is a Government-sponsored enterprise (GSE) composed of a nationwide network of borrower-owned cooperative lending institutions originally authorized by Congress in 1916. The FCS's mission continues to be providing sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. In addition, they serve rural America by providing financing for rural residential real estate, rural communication, energy and water infrastructure, and agricultural exports.

The financial condition of the System's banks and associations remains fundamentally sound. The ratio of capital to assets has remained stable at 16.7 percent on September 30, 2016, compared with 16.8 percent on September 30, 2015. Capital consisted of $48.0 billion in unrestricted capital and $4.3 billion in restricted capital in the Farm Credit Insurance Fund, which is held by the Farm Credit System Insurance Corporation (FCSIC). For the first nine months of calendar year 2016, net income equaled $3.6 billion compared with $3.5 billion for the same period of the previous year.

Over the 12-month period ending September 30, 2016, nonperforming loans as a percentage of total loans outstanding increased from 0.76 percent to 0.82 percent, which was still less than one third of the most recent peak of 2.65 percent in September 2009. System assets grew 7.9 percent during the year ending September 30, 2016, primarily due to increases in real estate mortgage loans and agribusiness loans. Real estate mortgage loans increased due to continued demand for financing cropland. The increase in agribusiness loans was due to growth in processing and marketing loans.

Over the 12-month period ending September 30, 2016, the System's loans outstanding grew by $15.3 billion, or 6.7 percent, while over the past three years they grew by $47.9 billion, or 24.7 percent. As required by law, borrowers are also stockholder-owners of System banks and associations. As of September 30, 2016, System institutions had 509,659 of these stockholders-borrowers.

The number of FCS institutions continues to decrease because of consolidation. As of September 30, 2016, the System consisted of four banks and 74 associations, compared with seven banks and 104 associations in September 2002. Of the 78 FCS banks and associations, 75 of them had one of the top two examination ratings (1 or 2 on a 1 to 5 scale) and accounted for 99 percent of gross Systems assets. Three FCS institutions had a rating of 3.

In 2015, the latest year with available data, new lending to young, beginning, and small farmers kept pace or exceeded the pace in overall farm lending by System institutions. The number of loans made in 2015 to young, beginning and small farmers increased by 5.1 percent, 7.5 percent and 6.7 percent respectively from 2014, while overall the number of farm loans made by the System grew by 3.7 percent. Loans to young, beginning, and small farmers and ranchers represented 17.2 percent, 22.0 percent, and 41.4 percent, respectively, of the total new farm loans made in 2015.

The dollar volume of new loans made to young, beginning and small categories rose in 2015 from 2014 by 8.0 percent, 12.2 percent, and 10.0 percent, respectively. The System's overall volume of new farm loans grew by 8.8 percent. As a result, the share of total System farm loan volume made to all three categories rose from that of 2014. Loans to young, beginning, and small farmers and ranchers represented 11.3 percent, 15.2 percent, and 14.1 percent, respectively, of the total dollar volume of all new farm loans made in 2015. Young, beginning, and small farmers are not mutually exclusive groups and, thus, cannot be added across categories. Maintaining special policies and programs for the extension of credit to young, beginning, and small farmers and ranchers is a legislative mandate for the System.

The System, while continuing to record strong earnings and capital growth, remains exposed to a variety of risks associated with its portfolio concentration in agriculture and rural America. In 2016, downward pressure on grain prices stemmed from large supplies relative to demand following bumper crops in recent years for the major grains. Low grain and oilseed prices have helped control feed costs for livestock, poultry, and dairy farmers, but margins for these subsectors have been squeezed by weaker output prices. The housing sector continues to improve, which should translate into improved credit conditions for the housing-related sectors such as timber and nurseries. Overall, the agricultural sector remains subject to risks such as a farmland price decline, which has been underway since 2015 in the Midwest and other parts of the country, a potential rise in interest rates, continued volatility in commodity prices, weather-related catastrophes, and long-term environmental risks related to climate change.

The FCSIC, an independent Government-controlled corporation, ensures the timely payment of principal and interest on FCS obligations on which the System banks are jointly and severally liable. On September 30, 2016, the assets in the Insurance Fund totaled $4.4 billion. As of September 30, 2016, the Insurance Fund as a percentage of adjusted insured debt was 1.97 percent. This was slightly below the statutory secure base amount of 2 percent. During the first nine months of calendar year 2016, outstanding insured System obligations grew by 3.6 percent.

Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac was established in 1988 as a federally chartered instrumentality of the United States and an institution of the FCS to facilitate a secondary market for farm real estate and rural housing loans. Farmer Mac is not liable for any debt or obligation of the other System institutions, and no other System institutions are liable for any debt or obligation of Farmer Mac. The Farm Credit System Reform Act of 1996 expanded Farmer Mac's role from a guarantor of securities backed by loan pools to a direct purchaser of mortgages, enabling it to form pools to securitize. In May 2008, the Food, Conservation and Energy Act of 2008 (2008 Farm Bill) expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac continues to meet core capital and regulatory risk-based capital requirements. As of September 30, 2016, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, standby loan purchase commitments, and AgVantage bonds purchased and guaranteed) amounted to $17.2 billion, which represents an increase of 10.4 percent from the level a year ago. Of total program activity, $12.4 billion were on-balance sheet loans and guaranteed securities, and $4.9 billion were off-balance-sheet obligations. Total assets were $16.0 billion, with non-program investments (including cash and cash equivalents) accounting for $3.3 billion of those assets. Farmer Mac's net income attributable to common stockholders ("net income") for the first three quarters of calendar year 2016 increased to $38.7 million from $32.3 million in the same period of 2015.

Farmer Mac's earnings can be influenced by unrealized fair-value gains and losses. For example, fair-value changes on financial derivatives resulted in an unrealized loss of $13.1 million for the first three quarters of 2016, compared with unrealized gain of $0.9 million for the same period in 2015 (both pre-tax). Although unrealized fair-value changes experienced on financial derivatives temporarily impact earnings and capital, those changes are not expected to have any permanent effect if the financial derivatives are held to maturity, as is expected.

Energy and Infrastructure Credit Programs

The Department of Energy (DOE) administers two credit programs: Title XVII (a loan guarantee program to support innovative energy technologies) and the Advanced Technology Vehicle Manufacturing loan program (a direct loan program to support advanced automotive technologies). The President's 2018 Budget proposes to eliminate both programs because the private sector is better positioned to finance innovative technologies.

Title XVII of the Energy Policy Act of 2005 (Public Law 109-58) authorizes DOE to issue loan guarantees for projects that employ innovative technologies to reduce air pollutants or man-made greenhouse gases. Congress provided DOE $4 billion in loan volume authority in 2007, and the 2009 Consolidated Appropriations Act provided an additional $47 billion in loan volume authority, allocated as follows: $18.5 billion for nuclear power facilities, $2 billion for "front-end" nuclear enrichment activities, $8 billion for advanced fossil energy technologies, and $18.5 billion for energy efficiency, renewable energy, and transmission and distribution projects. The 2011 appropriations reduced the available loan volume authority for energy efficiency, renewable energy, and transmission and distribution projects by $17 billion and provided $170 million in credit subsidy to support renewable energy or energy efficient end-use energy technologies. From 2014-2015, DOE closed on three loan guarantees totaling approximately $8 billion to support the construction of two new commercial nuclear power reactors.

The American Reinvestment and Recovery Act of 2009 (Public Law 111-5) amended the program's authorizing statute and provided $2.5 billion in credit subsidy to support loan guarantees on a temporary basis for commercial or advanced renewable energy systems, electric power transmission systems, and leading edge biofuel projects. Authority for the temporary program to extend new loans expired September 30, 2011. Prior to expiration, DOE provided loan guarantees to 28 projects totaling over $16 billion in loan volume. Four projects withdrew prior to any disbursement of funds.

Section 136 of the Energy Independence and Security Act of 2007 (Public Law 110-140) authorizes DOE to issue loans to support the development of advanced technology vehicles and qualifying components. In 2009, Congress appropriated $7.5 billion in credit subsidy to support a maximum of $25 billion in loans under ATVM.

Electric and Telecommunications Loans

Rural Utilities Service (RUS) programs of the United States Department of Agriculture (USDA) provide grants and loans to support the distribution of rural electrification, telecommunications, distance learning, and broadband infrastructure systems.

The Budget includes $5.5 billion in direct electrification loans, $690 million in direct telecommunications loans and $27 million in direct broadband loans.

USDA Rural Infrastructure and Business Development Programs

USDA, through a variety of Rural Development (RD) programs, provides grants, direct loans, and loan guarantees to communities for constructing facilities such as healthcare clinics, police stations, and water systems, as well as to assist rural businesses and cooperatives in creating new community infrastructure (e.g., educational and healthcare networks) and to diversify the rural economy and employment opportunities. The 2018 Budget reflects a realignment of RD's core operations and program delivery mechanisms to ensure that this type of Federal funding is optimized to create greater efficiency and eliminate potentially duplicative spending while still supporting investments in infrastructure.

The 2018 Budget provides a $3 billion loan level for Community Facility (CF) direct loans, which are for communities of 20,000 or less. The CF programs have the flexibility to finance more than 100 separate types of essential community infrastructure that ultimately improve access to healthcare, education, public safety and other critical facilities and services. These loans are enhanced by a new Rural Economic Infrastructure Grant Account that combines four RD grant programs into one account: the Distance Learning and Telemedicine grant program, designed to meet the educational and health care needs of rural America through the use of advanced telecommunications technologies; the Community Connect grant program, which provides community-oriented broadband service; Rural Housing Repair Grants, which funds home repairs for very low-income, elderly, rural homeowners; and the CF grant program, which offers competitive grants to help rural communities build or improve community infrastructure and essential community facilities for public use in rural communities of 20,000 or less. This proposal would also provide the Administration with the flexibility to target up to half of the requested $80 million in funding specifically to communities located in Appalachia.

Transportation Infrastructure

Federal credit programs offered through the Department of Transportation (DOT) fund critical transportation infrastructure projects, often using innovative financing methods. The two predominant programs are the program authorized by the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation and Improvement Financing (RRIF) program, both managed in DOT's Build America Bureau. The Bureau combines the TIFIA and RRIF loan programs, Private Activity Bonds (PABs), and the new Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies (FASTLANE) grant program all under one roof. The Bureau serves as the single point of contact and coordination for States, municipalities, and project sponsors looking to utilize federal transportation expertise, apply for Federal transportation credit and grant programs, and explore ways to access private capital in public private partnerships.

Established by the Transportation Equity Act of the 21st century (TEA-21) (Public Law 105-178) in 1998, the TIFIA program is designed to fill market gaps and leverage substantial private co-investment by providing supplemental and subordinate capital to projects of national or regional significance. Through TIFIA, DOT provides three types of Federal credit assistance to highway, transit, rail, and intermodal projects: direct loans, loan guarantees, and lines of credit. The 70 TIFIA loans account for over $95 billion of infrastructure investment in the United States. Government commitments in these partnerships constitute over $26 billion in Federal assistance with a budgetary cost of approximately $1.7 billion.

TIFIA can help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues at a relatively low budgetary cost. Each dollar of subsidy provided for TIFIA can provide approximately $14 in credit assistance, and leverage an additional $20 to $30 in non-Federal transportation infrastructure investment. The Fixing America's Surface Transportation (FAST) Act of 2015 (Public Law 114-94) authorizes TIFIA at $275 million in fiscal year 2016, escalating to $300 million by fiscal year 2020.

DOT has also provided direct loans and loan guarantees to railroads since 1976 for facilities maintenance, rehabilitation, acquisitions, and refinancing. Federal assistance was created to provide financial assistance to the financially-challenged portions of the rail industry. However, following railroad deregulation in 1980, the industry's financial condition began to improve, larger railroads were able to access private credit markets, and interest in Federal credit support began to decrease.

Also established by TEA-21 in 1998, the RRIF program may provide loans or loan guarantees with an interest rate equal to the Treasury rate for similar-term securities. TEA-21 also stipulates that non-Federal sources pay the subsidy cost of the loan, thereby allowing the program to operate without Federal subsidy appropriations. The RRIF program assists projects that improve rail safety, enhance the environment, promote economic development, or enhance the capacity of the national rail network. While refinancing existing debt is an eligible use of RRIF proceeds, capital investment projects that would not occur without a RRIF loan are prioritized. Since its inception, over $5.1 billion in direct loans have been made under the RRIF program.

The FAST Act included programmatic changes to enhance the RRIF program to mirror the qualities of TIFIA, including broader eligibility, a loan term that can be as long as 35 years from project completion, and a fully subordinated loan under certain conditions. Additionally, in 2016 Congress reprogrammed $1.96 million in unobligated balances to assist Class II and Class III Railroads in preparing and applying for direct loans and loan guarantees.

International Credit Programs

Currently, seven Federal agencies—the Department of Agriculture (USDA), the Department of Defense, the Department of State, the Department of the Treasury, the Agency for International Development (USAID), the Export-Import Bank (ExIm), and the Overseas Private Investment Corporation (OPIC)—provide direct loans, loan guarantees, and insurance to a variety of private and sovereign borrowers. These programs are intended to level the playing field for U.S. exporters, deliver robust support for U.S. goods and services, stabilize international financial markets, enhance security, and promote sustainable development. The 2018 President's Budget proposes the elimination of OPIC as part of a broader effort to streamline Government and reduce activities where Federal intervention may be unnecessary or distort the market.

Leveling the Playing Field

Federal export credit programs counter official financing that foreign governments around the world, largely in Europe and Japan, but also increasingly in emerging markets such as China and Brazil, provide their exporters, usually through export credit agencies (ECAs). The U.S. Government has worked since the 1970's to constrain official credit support through a multilateral agreement in the Organization for Economic Cooperation and

Development (OECD). This agreement has established standards for Government-backed financing of exports. In addition to ongoing work in keeping these OECD standards up-to-date, the U.S. Government established the International Working Group (IWG) on Export Credits to set up a new framework that will include China and other non-OECD countries, which until now have not been subject to export credit standards. The process of establishing these new standards, which is not yet complete, advances a Congressional mandate to reduce subsidized export financing programs.

When the private sector is unable or unwilling to provide financing, the Export-Import Bank, the U.S. ECA, fills the gap for American businesses by equipping them with the financing support necessary to level the playing field against foreign competitors. ExIm support includes direct loans and loan guarantees for creditworthy foreign buyers to help secure export sales from U.S. exporters, as well as working capital guarantees and export credit insurance to help U.S. exporters secure financing for overseas sales. USDA's Export Credit Guarantee Programs (also known as GSM programs) similarly help to level the playing field. Like programs of other agricultural exporting nations, GSM programs guarantee payment from countries and entities that want to import U.S. agricultural products but cannot easily obtain credit.

Stabilizing International Financial Markets

Consistent with U.S. obligations in the International Monetary Fund regarding global financial stability, the Exchange Stabilization Fund managed by the Department of the Treasury may provide loans or credits to a foreign entity or government of a foreign country. A loan or credit may not be made for more than six months in any 12-month period unless the President gives the Congress a written statement that unique or emergency circumstances require that the loan or credit be for more than six months.

Supporting the Nation's International Partners

The U.S. Government, through USAID, can extend short-to-medium-term loan guarantees that cover potential losses that might be incurred by lenders if a country defaults on its borrowings; for example, the U.S. may guarantee another country's sovereign bond issuance. The purpose of this tool is to provide the Nation's sovereign international partners access to necessary, urgent, and relatively affordable financing during temporary periods of strain when they cannot access such financing in international financial markets, and to support critical reforms that will enhance long term fiscal sustainability, often in concert with support from international financial institutions such as the International Monetary Fund. The long term goal of sovereign loan guarantees is to help lay the economic groundwork for the Nation's international partners to graduate to an unenhanced bond issuance in the international capital markets. For example, as part of the U.S. response to fiscal crises, the U.S. Government has extended sovereign loan guarantees to Tunisia, Jordan, Ukraine, and Iraq to enhance their access to capital markets, while promoting economic policy adjustment. In addition, the Budget proposes to expand the use of Department of State Foreign Military Financing (FMF) loans to potentially allow FMF recipients to purchase more U.S. defense articles and services, but on a repayable basis.

Using Credit to Promote Sustainable Development

Credit is an important tool in U.S. bilateral assistance to promote sustainable development. USAID's Development Credit Authority (DCA) allows USAID to use a variety of credit tools to support its development activities abroad. DCA provides non-sovereign loan guarantees in targeted cases where credit serves more effectively than traditional grant mechanisms to achieve sustainable development. DCA is intended to mobilize host country private capital to finance sustainable development in line with USAID's strategic objectives. Through the use of partial loan guarantees and risk sharing with the private sector, DCA stimulates private-sector lending for financially viable development projects, thereby leveraging host-country capital and strengthening sub-national capital markets in the developing world.

Ongoing Coordination

International credit programs are coordinated through two groups to ensure consistency in policy design and credit implementation. The Trade Promotion Coordinating Committee (TPCC) works within the Administration to develop a National Export Strategy to make the delivery of trade promotion support more effective and convenient for U.S. exporters.

The Interagency Country Risk Assessment System (ICRAS) standardizes the way in which agencies that lack sufficient historical experience budget for the cost associated with the risk of international lending. The cost of lending by these agencies is governed by proprietary U.S. Government ratings, which correspond to a set of default estimates over a given maturity. The methodology establishes assumptions about default risks in international lending using averages of international sovereign bond market data. The strength of this method is its link to observed defaults in the market and an annual update that adjusts the default estimates to reflect the most recent risks observed in the market.

II. INSURANCE PROGRAMS

Deposit Insurance

Federal deposit insurance promotes stability in the U.S. financial system. Prior to the establishment of Federal deposit insurance, depository institution failures often caused depositors to lose confidence in the banking system and rush to withdraw deposits. Such sudden withdrawals caused serious disruption to the economy. In 1933, in the midst of the Great Depression, a system of Federal deposit insurance was established to protect depositors and to prevent bank failures from causing widespread disruption in financial markets.

Today, the Federal Deposit Insurance Corporation (FDIC) insures deposits in banks and savings associations (thrifts) using the resources available in its Deposit Insurance Fund (DIF). The National Credit Union Administration (NCUA) insures deposits (shares) in most credit unions through the National Credit Union Share Insurance Fund (SIF). (Some credit unions are privately insured.) As of September 30, 2016, the FDIC insured $6.8 trillion of deposits at 5,989 commercial banks and thrifts, and the NCUA insured $1 trillion of shares at 5,844 credit unions.

Recent Reforms

Since its creation, the Federal deposit insurance system has undergone many reforms. As a result of the 2008 financial crisis, several reforms were enacted to protect both the immediate and longer-term integrity of the Federal deposit insurance system. The Helping Families Save Their Homes Act of 2009 (P.L. 111–22) provided NCUA with tools to protect the Share Insurance Fund and the financial stability of the credit union system. Notably, the Helping Families Save Their Homes Act:

- Established the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), allowing NCUA to segregate the losses of corporate credit unions and providing a mechanism for assessing those losses to federally-insured credit unions over an extended period of time;
- Provided flexibility to the NCUA Board by permitting use of a restoration plan to spread insurance premium assessments over a period of up to eight years, or longer in extraordinary circumstances, if the SIF equity ratio fell below 1.2 percent; and
- Permanently increased the Share Insurance Fund's borrowing authority to $6 billion.

The Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) Act of 2010 (Public Law 111-203) established new DIF reserve ratio requirements. The Act requires the FDIC to achieve a minimum DIF reserve ratio (ratio of the deposit insurance fund balance to total estimated insured deposits) of 1.35 percent by 2020, up from 1.15 percent in 2016. In addition to raising the minimum reserve ratio, the Dodd-Frank Act also:

- Eliminated the FDIC's requirement to rebate premiums when the DIF reserve ratio is between 1.35 and 1.5 percent;
- Gave the FDIC discretion to suspend or limit rebates when the DIF reserve ratio is 1.5 percent or higher, effectively removing the 1.5 percent cap on the DIF; and
- Required the FDIC to offset the effect on small insured depository institutions (defined as banks with assets less than $10 billion) when setting assessments to raise the reserve ratio from 1.15 to 1.35 percent.

In implementing the Dodd-Frank Act, the FDIC issued a final rule setting a long-term (i.e., beyond 2027) reserve ratio target of 2 percent, a goal that FDIC considers necessary to maintain a positive fund balance during economic crises while permitting steady long-term assessment rates that provide transparency and predictability to the banking sector.

The Dodd-Frank Act also permanently increased the insured deposit level to $250,000 per account at banks or credit unions insured by the FDIC or NCUA.

Recent Fund Performance

As of September 30, 2016, the FDIC DIF balance stood at $80.7 billion, a one-year increase of $10.6 billion. The growth in the DIF balance is a result of fewer bank failures and higher assessment revenue. The reserve ratio on September 30, 2016, was 1.18 percent.

As of September 30, 2016, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) totaled 132, which represented a decrease of more than 85 percent from December 2010, the peak year for bank failures during the financial crisis. Furthermore, the assets held by problem institutions decreased by nearly 93 percent.

The NCUA SIF ended September 2016 with assets of $13.3 billion and an equity ratio of 1.27 percent. If the equity ratio increases above the normal operating level of 1.30 percent, a distribution is normally paid to member credit unions to reduce the equity ratio to the normal operating level.

The health of the credit union industry has markedly improved since the financial crisis. Although the ratio of insured shares in problem institutions to total insured shares increased slightly from 0.81 percent in September 2015 to 0.86 percent in September 2016, this is still a significant reduction from a high of 5.7 percent in December 2009. As of September 30, 2016, the SIF had set aside $183 million in reserves to cover potential losses, a reduction of 25 percent from the $244 million set-aside as of September 30, 2013.

Restoring the Deposit Insurance Funds

Pursuant to the Dodd-Frank Act, the restoration period for the FDIC's DIF reserve ratio to reach 1.35 percent was extended to 2020. (Prior to the Act, the DIF reserve ratio was required to reach the minimum target of 1.15 percent by the end of 2016.) On March 25, 2016, the FDIC published a final rule to implement this requirement. The Act also placed the responsibility for the cost of increasing the reserve ratio to 1.35 percent on large banks (generally, those with $10 billion or more in assets). The final rule would lower overall regular assessment rates for all banks but also impose a 4.5 basis point surcharge on the assessment base (with certain adjustments) of large banks. The reduction in regular rates and large bank surcharges would begin the quarter after the DIF reserve ratio reaches 1.15 percent. The reserve ratio surpassed 1.15 percent on June 30, 2016, with lower regular assessment rates and large bank surcharges commencing in the July-September quarter. Surcharges on large banks will continue until the reserve ratio reaches 1.35 percent. The Budget estimates reflect these assessment rates.

Since 2009, NCUA has successfully restored the reserve ratio of the SIF to the normal operating level. Additionally, NCUA continues to seek compensation from the parties that created and sold troubled assets to the failed corporate credit unions. As of September 30, 2016, NCUA's gross recoveries from securities underwriters totaled more than $1.9 billion, helping to minimize losses and future assessments on federally-insured credit unions.

Budget Outlook

The Budget estimates DIF net outlays of -$77.4 billion over the current 10-year budget window (2018-2027). This $77.4 billion in net inflows to the DIF is $13.8 billion higher than estimated over the previous 10-year window (2016-2027) for the 2017 Mid-Session Review (MSR). The latest public data on the banking industry led to a reduction in projections of failed assets, reducing receivership proceeds, resolution outlays, and premiums necessary to reach the minimum Dodd-Frank Act DIF reserve ratio of 1.35 percent relative to MSR. The Budget estimates reflects a DIF reserve ratio of at least 1.35 percent in 2020. Although the FDIC has authority to borrow up to $100 billion from Treasury to maintain sufficient DIF balances, the Budget does not anticipate FDIC utilizing its borrowing authority because the DIF is projected to maintain positive operating cash flows over the entire 10-year budget horizon.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of workers and retirees in covered defined-benefit pension plans. PBGC operates two legally distinct insurance programs: single-employer plans and multiemployer plans.

Single-Employer Program. Under the single-employer program, PBGC pays benefits, up to a guaranteed level, when a company's plan closes without enough assets to pay future benefits. PBGC's claims exposure is the amount by which qualified benefits exceed assets in insured plans. In the near term, the risk of loss stems from financially distressed firms with underfunded plans. In the longer term, loss exposure results from the possibility that well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities, and that the healthy firms sponsoring those plans become distressed.

PBGC monitors companies with underfunded plans and acts to protect the interests of the pension insurance program's stakeholders where possible. Under its Early Warning Program, PBGC works with companies to strengthen plan funding or otherwise protect the insurance program from avoidable losses. However, PBGC's authority to manage risks to the insurance program is limited. Most private insurers can diversify or reinsure their catastrophic risks as well as flexibly price these risks. Unlike private insurers, federal law does not allow PBGC to deny insurance coverage to a defined-benefit plan or adjust premiums according to risk. Both types of PBGC premiums—the flat rate (a per person charge paid by all plans) and the variable rate (paid by some underfunded plans) are set in statute.

Claims against PBGC's insurance programs are highly variable. One large pension plan termination may result in a larger claim against PBGC than the termination of many smaller plans. The future financial health of the PBGC will continue to depend largely on the termination of a limited number of very large plans.

Single employer plans generally provide benefits to the employees of one employer. When an underfunded single employer plan terminates, usually through the bankruptcy process, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits. The amount of benefit paid is determined after taking into account (a) the benefit that a beneficiary had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, and (c) the legal maximum benefit level set in statute. In 2017, the maximum annual payment guaranteed under the single-employer program was $64,432 for a retiree aged 65. This limit is indexed for inflation.

Since 2000, PBGC's single-employer program has incurred substantial losses from underfunded plan terminations. Nine of the ten largest plan termination losses were concentrated between 2001 and 2009. The other occurred in the early 1990s.

Multiemployer Plans. Multiemployer plans are collectively bargained pension plans maintained by one or more labor unions and more than one unrelated employer, usually within the same or related industries. PBGC's role in the multiemployer program is more like that of a re-insurer; if a company sponsoring a multiemployer plan fails, its liabilities are assumed by the other employers in the collective bargaining agreement, not by PBGC, although employers can withdraw from a plan for an exit fee. PBGC becomes responsible for insurance coverage when the plan runs out of money to pay benefits at the statutorily guaranteed level, which usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income. PBGC provides insolvent multiemployer plans with financial assistance in the form of loans sufficient to pay guaranteed benefits and administrative expenses. Since multiemployer plans do not receive PBGC assistance until their assets are fully depleted, financial assistance is almost never repaid. Benefits under the multiemployer program are calculated based on the benefit that a participant would have received under the insolvent plan, subject to the legal multiemployer maximum set in statute. The maximum guaranteed amount depends on the participant's years of service and the rate at which benefits are accrued. For example, for a participant with 30 years of service, PBGC guarantees 100 percent of the pension benefit up to a yearly amount of $3,960. If the pension exceeds that amount, PBGC guarantees 75 percent of the rest of the pension benefit up to a total maximum guarantee of $12,870 per year. This limit has been in place since 2011 and is not adjusted for inflation or cost-of-living increases.

In recent years, many multiemployer pension plans have become severely underfunded as a result of unfavorable investment outcomes, employers withdrawing from plans, and demographic challenges. In 2001, only 15 plans covering about 80,000 participants were under 40 percent funded using estimated market rates. By 2011, this had grown to almost 200 plans covering almost 1.5 million participants. While many plans have benefited from an improving economy and will recover, a small number of plans are severely underfunded and, absent any changes, projected to become insolvent within ten years.

As of November 15, 2016, the single-employer and multiemployer programs reported deficits of $20.6 billion and $58.8 billion, respectively. While both programs have significant deficits, the challenges facing the multiemployer program are more immediate. In its 2016 Annual Report, PBGC reported that it had just $2 billion in accumulated assets from premium payments made by multiemployer plans, which it projected would be depleted by 2025. If the program runs out of cash, the only funds available to support benefits would be the premiums that continue to be paid by remaining plans; this could result in benefits being cut much more deeply, to a small fraction of current guarantee levels.

To address the problems facing the multiemployer program and the millions of Americans who rely on those plans for their retirement security, the Congress passed The Multiemployer Pension Reform Act, which was included in the Consolidated and Further Continuing Appropriations Act signed on December 16, 2014. The law includes significant reforms to the multiemployer pension plan system, including provisions that allow trustees of multiemployer plans facing insolvency to apply to the Department of Treasury to reduce benefits by temporarily or permanently suspending benefits. The law does not allow suspensions for individuals over age 80 or for those receiving a disability retirement benefit. A participant or beneficiary's monthly benefit cannot be reduced below 110 percent of the PBGC guarantee. It also increases PBGC premiums from the $12 per person to $26 beginning in 2015 and indexes premiums to inflation thereafter. While the legislation is an important first step, it will not be enough to improve PBGC's solvency for more than a very short period of time. PBGC projects that it is likely to become insolvent by 2025, extending its projected insolvency date by three years compared to the 2013 projection.

In addition, Congress enacted premium increases in the single-employer program as part of the Bipartisan Budget Act of 2015 (BBA). By increasing both the flat-rate and variable-rate premiums, the Act will raise as estimated $4 billion over the 10-year budget window. This additional revenue will improve the financial outlook for the single-employer program, which was already projected to see a large reduction in its deficit over the next 10 years.

Premiums. Both programs are underfunded, with combined liabilities exceeding assets by $79 billion at the end of 2016. While the single-employer program's financial position is projected to improve over the next 10 years, in part because Congress has raised premiums in that program several times in recent years, the multiemployer program is projected to run out of funds in 2025. Particularly in the multiemployer program, premium rates remain much lower than what a private financial institution would charge for insuring the same risk and well below what is needed to ensure PBGC's solvency.

To address these concerns, the 2018 Budget proposes changes to PBGC premiums that would raise $21 billion. The Budget proposes to create a new variable rate premium (VRP) and an exit premium in the multiemployer program, estimated to raise an additional $16 billion in premium revenue over the budget window. A multiemployer VRP would require plans to pay additional premiums based on their level of underfunding—as is done in the single-employer program. An exit premium assessed on employers that withdraw from a plan would compensate PBGC for the additional risk imposed on it when healthy employers exit. This level of additional multiemployer premium revenue would significantly reduce the risk of the multiemployer program becoming insolvent within 10 years.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency (FEMA) of the Department of Homeland Security (DHS). Flood insurance is available to homeowners and businesses in communities that have adopted and enforce appropriate floodplain management measures. Coverage is limited to buildings and their contents. At the end of fiscal year 2016, the program had over 5.1 million policies worth $1.25 trillion in force in 22,216 communities.

The NFIP was established in 1968 to make flood insurance coverage widely available, to combine a program of insurance with flood mitigation measures to reduce the nation's risk of loss from floods, and to reduce Federal disaster-assistance expenditures on flood losses. The NFIP requires participating communities to adopt certain building standards and take other mitigation efforts to reduce flood-related losses, and operates a flood hazard-mapping program to quantify geographic variation in the risk of flooding. These efforts have resulted in substantial reductions in the risk of flood-related losses nationwide. However, structures built prior to flood mapping and NFIP floodplain management requirements, which make up 20 percent of the total policies in force, currently pay less than fully actuarial rates while continuing to be at relatively high risk of flooding.

To complement flood insurance, FEMA has a multi-pronged strategy for reducing future flood damage. The NFIP offers flood mitigation assistance grants to assist flood disaster survivors to rebuild to current building codes, including higher base flood elevations, thereby reducing the likelihood of future flood damage. In particular, flood mitigation assistance grants targeted toward repetitive and severe repetitive loss properties not only help owners of high-risk property, but also reduce the disproportionate drain these properties cause on the National Flood Insurance Fund, through acquisition, relocation, or elevation of select structures. FEMA is working to ensure that the flood mitigation grant program is integrated closely with other FEMA mitigation grant programs, resulting in better coordination and communication with State and local governments. Further, through the Community Rating System, FEMA adjusts premium rates to encourage community and State mitigation activities beyond those required by the NFIP. These efforts, in addition to the minimum NFIP requirements for floodplain management, save over $1.9 billion annually in avoided flood damage claims.

A major goal of the NFIP is to expand flood insurance coverage in the United States in order to reduce risk for more homeowners. The agency's strategy aims to increase the number of Americans insured against flood losses and improve retention of policies among existing customers. The strategy includes:

1. Providing financial incentives to private insurers that sell and service flood policies for the Federal Government to expand the flood insurance business.

2. Conducting a national campaign, FloodSmart, which uses TV, radio, print and online advertising, direct mailings, and public relations activities, to inform the public about the NFIP and attract new policyholders.

3. Fostering lender compliance with flood insurance requirements through training, guidance materials, and regular communication with lending regulators and the lending community.

4. Conducting NFIP training for insurance agents via instructor-led seminars, online training modules, and other vehicles.

5. Seeking opportunities to simplify and clarify NFIP processes and products to make it easier for agents to sell and for consumers to buy flood insurance.

These strategies resulted in steady policy growth for many years, peaking in 2010 at 5.61 million policies. Subsequently, however, policy growth was hampered by the lingering effects of the Great Recession and by premium increases.

Due to the catastrophic nature of flooding, with hurricanes Katrina and Sandy as notable examples, insured flood damages can far exceed premium revenue and deplete the program's reserves. On those occasions, the NFIP exercises its borrowing authority through the Treasury to meet flood insurance claim obligations. While the program needed appropriations in the early 1980s to repay the funds borrowed during the 1970's, it was able to repay all borrowed funds with interest using only premium dollars between 1986 and 2004. In 2005, however, Hurricanes Katrina, Rita, and Wilma generated more flood insurance claims than the cumulative number of claims paid from 1968 to 2004. Hurricane Sandy in 2012 generated $8.5 billion in flood insurance claims. As a result, in 2013 Congress increased the borrowing authority for the fund to $30.425 billion. After the estimated $2.4 billion and $670 million in flood insurance claims generated by the Louisiana flooding of August 2016 and Hurricane Matthew in October 2016, respectively, the NFIP used its borrowing authority again, bringing the total outstanding debt to Treasury to $24.6 billion.

In July 2012, resulting largely from experiences during Hurricanes Katrina, Rita, and Wilma in 2005, the Biggert Waters Flood Insurance Reform Act of 2012 (Public Law 112-141; BW-12) was signed into law. In addition to reauthorizing the NFIP for five years, the bill required the NFIP generally to move to full risk-based premium rates and strengthened the NFIP financially and operationally. In 2013, the NFIP began phasing in risk-based premiums for certain properties, as required by the law. In fiscal year 2014, when policy premiums were increased in compliance with the Biggert-Waters legislation, policy counts dropped 4.3 percent to 5.3 million.

In March 2014, largely in reaction to premium increases initiated by BW-12, the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) was signed into law, further reforming the NFIP and revising many sections of BW-12. Notably, HFIAA repealed many of the major premium increases introduced by BW-12 and required retroactive refunds of collected BW-12 premium increases, introduced a phase-in to higher full-risk premiums for structures newly mapped into the Special Flood Hazard Area, and created an Office of the Flood Insurance Advocate. In fiscal year 2015, when a surcharge on all policyholders was introduced in compliance with HFIAA, policy counts dropped an additional 3.8 percent to 5.1

million. At the end of fiscal year 2016, policies in force totaled 5.1 million.

The Budget seeks to put the National Flood Insurance Program (NFIP) on a more sustainable financial footing moving forward, expand flood insurance coverage by encouraging private competition in the flood insurance market, and incentivize mitigation measures by signaling to homeowners the true cost associated with the risk of living in a floodplain. This would be accomplished through a combination of targeted premium increases for policyholders paying premiums that are less than full risk and surcharges levied across the entire NFIP policy base. The proposed changes are expected to result in savings of approximately $8.9 billion from 2018 through 2027. The estimates reflect the Administration's desire to work with Congress to make the program fiscally sustainable over time and begin paying down the NFIP's debt.

The current NFIP authorization expires on September 30, 2017.

Crop Insurance

Subsidized Federal crop insurance, administered by USDA's Risk Management Agency (RMA) on behalf of the Federal Crop Insurance Corporation (FCIC), assists farmers in managing yield and revenue shortfalls due to bad weather or other natural disasters, and is commonly known as "multi-peril crop insurance" (MPCI). The program is a cooperative partnership between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. The Federal Government, in turn, pays private companies an administrative and operating (A&O) expense subsidy to cover expenses associated with selling and servicing these policies. The Federal Government also provides reinsurance on MPCI policies through the Standard Reinsurance Agreement (SRA) and pays companies an "underwriting gain" if they have a profitable year. For the 2018 Budget, the payments to the companies are projected to be $3.9 billion in combined subsidies. The Federal Government also subsidizes premiums for farmers as a way to encourage farmers to participate in the program and purchase higher levels of coverage.

The 2018 Budget includes two proposals that are designed to optimize the current crop insurance program so that it will continue to provide a quality safety net at a lower cost, as well as introduce a measure of means testing to the beneficiaries of the crop insurance subsidies:

1. Limit Premium Subsidies for Crop Insurance: The 2018 Budget proposes to establish a limit of $40,000 for the premium subsidies an individual or entity may receive. It would reduce the generous subsidies that are arguably no longer necessary to encourage participation, as crop insurance is now an established part of the farm industry's business plans. The $40,000 limit in premium subsidy would apply to all levels of coverage, including catastrophic coverage.

2. Eliminate Subsidized Harvest Price Revenue Coverage: The 2018 Budget also proposes to eliminate the ability for producers to insure their crops at the higher of the price projected at planting or the harvest price. Crop insurance was not designed to reduce risk in forward selling, and the Government should not bear the risk of such losses. Harvest price coverage is far more generous than a mere safety net. Producers that want to hedge their risk can do so using futures and options on commodity exchanges as they did before this type of insurance coverage was available. Private sector insurance companies could offer harvest price protection as an addendum to the Federal crop insurance policy; however, the premium for such an addendum would not receive a premium subsidy nor would the premium be included in the A&O or underwriting gain/loss calculations for payments to the companies. This proposal maintains the crop insurance program as a tool for farmers to use as protection in times of low yields and low prices.

In addition to these proposals, the 2018 Budget proposes to target crop insurance subsidies to those producers that have an Adjusted Gross Income (AGI) of $500,000 or less. It is hard to justify providing assistance to farmers with incomes over half a million dollars. Doing so undermines the credibility and the purpose of farm programs. The current AGI limitation of $900,000 is overly generous and does not apply to crop insurance subsidies. Strengthening the income test for crop insurance will improve their integrity. Collectively, the changes are expected to save $29 billion over 10 years.

The most basic type of crop insurance is catastrophic coverage (CAT), which compensates the farmer for losses in excess of 50 percent of the individual's average yield at 55 percent of the expected market price. The CAT premium is entirely subsidized, and farmers pay only an administrative fee. Higher levels of coverage, called "buy-up," are also available. A portion of the premium for buy-up coverage is paid by FCIC on behalf of producers and varies by coverage level – generally, the higher the coverage level, the lower the percent of premium subsidized. The remaining (unsubsidized) premium amount is owed by the producer and represents an out-of-pocket expense.

For 2016, the 10 principal crops, (barley, corn, cotton, grain sorghum, peanuts, potatoes, rice, soybeans, tobacco, and wheat) accounted for over 77 percent of total liability, and approximately 86 percent of the total U.S. planted acres of the 10 crops were covered by crop insurance. Producers can purchase both yield and revenue-based insurance products which are underwritten on the basis of a producer's actual production history (APH). Revenue insurance programs protect against loss of revenue resulting from low prices, low yields, or a combination of both. Revenue insurance has enhanced traditional yield insurance by adding price as an insurable component. For the 2018 Budget, revenue insurance is assumed to protect only against a price decline based on the projected price at the time of planting.

In addition to price and revenue insurance, FCIC has made available other plans of insurance to provide protection for a variety of crops grown across the United States. For example, "area plans" of insurance offer protection based on a geographic area (most commonly, a county), and do not directly insure an individual farm. Often, the loss trigger is based on an index, such as a rainfall or vegetative index, which is established by a Government entity (for example, NOAA or USGS). One such plan is the pilot Rainfall and Vegetation Index plan, which insures against a decline in an index value covering Pasture, Rangeland, and Forage. These pilot programs meet the needs of livestock producers who purchase insurance for protection from losses of forage produced for grazing or harvested for hay. In 2016, there were 21,700 Rainfall and Vegetation Index policies earning premium, covering about 52 million acres of pasture, rangeland and forage. In 2016, there was about $1.4 billion in liability, with $183 million in indemnities paid to livestock producers who purchased coverage.

A crop insurance policy also contains coverage compensating farmers when they are prevented from planting their crops due to weather and other perils. When an insured farmer can't plant the planned crop within the planting time period because of excessive drought or moisture, the farmer may file a prevented planting claim, which pays the farmer a portion of the full coverage level. It is optional for the farmer to plant a second crop on the acreage. If the farmer does, the prevented planting claim on the first crop is reduced and the farmer's APH is recorded for that year. If the farmer does not plant a second crop, the farmer gets the full prevented planting claim, and the farmer's APH is held harmless for premium calculation purposes the following year. In November 2016, RMA published a final rule amending existing regulations pertaining to prevented planting coverage. Among the changes made by the final rule was to move the "payment factors" used to calculate a prevented planting payment from the regulatory text to the actuarial documents associated with the policy. This change provides USDA the ability to more quickly update the payment factors to reflect actual pre-plant costs incurred by producers ensuring that producers are not over- or under-compensated for their losses when confronted by a prevented plant situation. Subsequently, the actuarial documents were updated to decrease the payment factor for corn and increase the payment factor for rice. Going forward, crops having prevented plant coverage will be assessed on a regular basis to determine if additional changes to the payment factors are required.

RMA is continuously working to develop new products and to expand or improve existing products in order to cover more agricultural commodities. Under section 508(h) of the Federal Crop Insurance Act, RMA may advance payment of up to 50 percent of expected reasonable research and development costs for FCIC Board approved Concept Proposals prior to the complete submission of the policy or plan of insurance. Numerous private products have been approved through the 508(h) authority, including Downed Rice Endorsement, Machine Harvested Cucumbers, ARPI Popcorn, Clary Sage, Hybrid Seed Rice, Specialty Trait Soybean, and Malting Barley.

For more information and additional crop insurance program details, please reference RMA's web site (*www.rma.usda.gov*).

Insurance against Security-Related Risks

Terrorism Risk Insurance

The Terrorism Risk Insurance Program (TRIP) was authorized under P.L. 107-297 to help ensure the continued availability of property and casualty insurance following the terrorist attacks of September 11, 2001. TRIP's initial three-year authorization enabled the Federal Government to establish a system of shared public and private compensation for insured property and casualty losses arising from certified acts of foreign terrorism. In 2005, Congress passed a two-year extension (P.L. 109-144), which narrowed the Government's role by increasing the private sector's share of losses, reducing lines of insurance covered by the program, and adding a threshold event amount triggering Federal payments.

In 2007, Congress enacted a further seven-year extension of TRIP and expanded the program to include losses from domestic as well as foreign acts of terrorism (P.L. 110-318). For all seven extension years, TRIP maintained a private insurer deductible of 20 percent of the prior year's direct earned premiums, an insurer co-payment of 15 percent of insured losses of up to $100 billion above the deductible, and a $100 million minimum event cost triggering Federal coverage. The 2007 extension also required Treasury to recoup 133 percent of all Federal payments made under the program up to $27.5 billion, and accelerated deadlines for recoupment of any Federal payments made before September 30, 2017.

In January 2015, Congress passed the Terrorism Risk Insurance Extension Act of 2015 (P.L. 114–1), which extended TRIP for six more years, through December 31, 2020, and made several program changes to further reduce Federal liability. Over the first five extension years, the loss threshold that triggers Federal assistance is increased by $20 million each year to $200 million in 2019, and the Government's share of losses above the deductible decreases from 85 to 80 percent over the same period. The 2015 extension also requires Treasury to recoup 140 percent of all Federal payments made under the program up to a mandatory recoupment amount, which increases by $2 billion each year until 2019 when the threshold is set at $37.5 billion. Effective January 1, 2020, the mandatory recoupment amount will be indexed to a running three-year average of the aggregate insurer deductible of 20 percent of direct-earned premiums. These programmatic reforms will facilitate, over the longer term, full transition of the program to the private sector. The Budget baseline includes the estimated Federal cost of providing terrorism risk insurance, reflecting the 2015 extension. Using market data synthesized through a proprietary model, the Budget projects annual outlays and recoupment for TRIP. While the Budget does not forecast any specific triggering events, the Budget includes estimates representing the weighted average of TRIP payments over a full range of possible scenarios, most of which include no notional terrorist attacks (and therefore no TRIP payments), and some of which include notional terrorist attacks of varying magnitudes. On this basis, the Budget projects net spending of $446 million over the 2018–2022 period and $519 million over the 2018–2027 period.

Aviation War Risk Insurance

In December 2014, Congress sunset the premium aviation war risk insurance program, thereby sending U.S. air carriers back to the commercial aviation insurance market for all of their war risk insurance coverage. The non-premium program is authorized through December 31, 2018. It provides aviation insurance coverage for aircraft used in connection with certain Government contract operations by a Department or Agency that agrees to indemnify the Secretary of Transportation for any losses covered by the insurance.

Chart 19-1. Face Value of Federal Credit Outstanding

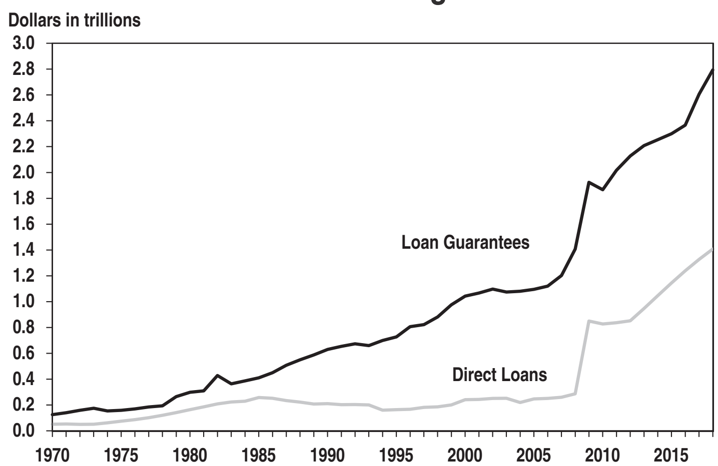

Table 19–1. ESTIMATED FUTURE COST OF OUTSTANDING DIRECT LOANS AND LOAN GUARANTEES

(In billions of dollars)

Program	Outstanding 2015	Estimated Future Costs of 2015 Outstanding[1]	Outstanding 2016	Estimated Future Costs of 2016 Outstanding
Direct Loans:[2]				
Federal Student Loans	839	–26	943	15
Education Temporary Student Loan Purchase Authority	77	–12	70	–7
Farm Service Agency, Rural Development, Rural Housing	55	6	55	4
Rural Utilities Service and Rural Telephone Bank	52	2	52	2
Export-Import Bank	23	2	24	1
Housing and Urban Development	19	11	24	12
Advance Technology Vehicle Manufacturing, Title 17 Loans	16	2	16	2
Transportation Infrastructure Finance and Innovation Act Loans	11	*	13	*
State Housing Finance Authority Direct Loans	8	1	7	1
Disaster Assistance	6	1	6	1
Public Law 480	3	2	3	1
International Assistance	2	*	3	1
Small Business Lending Fund (SBLF)[3]	2	*	*	*
Troubled Asset Relief Program (TARP)[3]	1	*	1	*
Other direct loan programs[3]	27	8	20	7
Total direct loans	1,145	–2	1,239	41
Guaranteed Loans:[2]				
FHA Mutual Mortgage Insurance Fund	1,123	10	1,153	–4
Department of Veterans Affairs (VA) Mortgages	462	10	525	10
Federal Student Loan Guarantees	220	*	197	1
FHA General and Special Risk Insurance Fund	149	6	140	3
Farm Service Agency, Rural Development, Rural Housing	134	6	140	2
Small Business Administration (SBA) Business Loan Guarantees[4]	106	2	113	2
Export-Import Bank	62	2	56	1
International Assistance	24	2	24	2
Title 17 Loan Guarantees	3	*	3	*
Commodity Credit Corporation Export Loan Guarantees	3	*	2	*
Government National Mortgage Association (GNMA)[4]	......	*	......	*
Other guaranteed loan programs[3]	13	2	14	2
Total guaranteed loans	2,300	39	2,366	20
Total Federal credit	**3,445**	**37**	**3,606**	**61**

* $500 million or less.

[1] Future costs represent balance sheet estimates of allowance for subsidy cost, liabilities for loan guarantees, and estimated uncollectible principal and interest.

[2] Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as Tennessee Valley Authority loan guarantees. Defaulted guaranteed loans that result in loans receivable are included in direct loan amounts.

[3] As authorized by the statute, table includes TARP and SBLF equity purchases, and International Monetary Fund (IMF) transactions resulting from the 2009 Supplemental Appropriations Act. Future costs for TARP and IMF transactions are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, as directed in legislation.

[4] To avoid double-counting, outstandings for GNMA and SBA secondary market guarantees, and TARP FHA Letter of Credit program are excluded from the totals.

Table 19–2. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2016-2018

(Dollar amounts in millions)

Agency and Program Account	2016 Actual			2017 Estimated			2018 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Agriculture:									
Agricultural Credit Insurance Fund Program Account	1.29	32	2,409	1.09	33	2,871	–0.25	–6	2,937
Farm Storage Facility Loans Program Account	–1.64	–2	159	–1.33	–4	309	–1.30	–5	309
Rural Electrification and Telecommunications Loans Program Account	–3.89	–160	4,110	–4.31	–220	5,101	–4.85	–166	3,417
Distance Learning, Telemedicine, and Broadband Program	22.80	1	4	16.64	5	31	16.75	7	41
Rural Water and Waste Disposal Program Account	2.61	31	1,204	4.34	32	732	....	....	....
Rural Community Facilities Program Account	–6.90	–152	2,210	–2.56	–56	2,200	–8.10	–146	1,798
Multifamily Housing Revitalization Program Account	53.22	37	70	53.44	17	32	....	....	....
Rural Housing Insurance Fund Program Account	8.10	85	1,044	8.24	80	979	–5.45	–*	2
Rural Microenterprise Investment Program Account	11.33	1	8	12.40	1	8	9.98	1	8
Intermediary Relending Program Fund Account	27.62	5	19	28.99	5	18	....	....	....
Rural Economic Development Loans Program Account	13.39	6	43	14.23	5	37	....	....	....
Commerce:									
Fisheries Finance Program Account	–3.10	–*	12	–0.33	–*	124	–10.37	–13	124
Education:									
College Housing and Academic Facilities Loans Program Account	6.67	9	128	7.14	20	282	6.42	20	314
TEACH Grant Program Account	13.05	14	105	14.97	15	100	22.60	25	109
Federal Direct Student Loan Program Account	–5.89	–9,164	155,640	–1.25	–1,960	156,536	–6.43	–10,662	166,020
Energy:									
Title 17 Innovative Technology Loan Guarantee Program	....	....	....	....	....	1,842	....	....	....
Homeland Security:									
Disaster Assistance Direct Loan Program Account	91.05	1	1	91.03	46	50	90.33	72	80
Housing and Urban Development:									
FHA-Mutual Mortgage Insurance Program Account	....	....	....	....	....	5	....	....	5
FHA-General and Special Risk Program Account	–10.94	–73	667	–11.19	–82	734	–8.18	–66	807
State:									
Repatriation Loans Program Account	53.18	1	2	53.42	1	2	53.26	1	2
Transportation:									
Federal-Aid Highways	4.98	109	2,180	[2] 6.85	273	3,982	[2] 6.64	248	3,736
Railroad Rehabilitation and Improvement Program	....	....	2,469	....	....	600	....	....	600
Treasury:									
Community Development Financial Institutions Fund Program Account	–2.39	–7	267	[2] 0.63	3	457	[2]	....	500
Veterans Housing Benefit Program Fund	1.71	*	8	–22.92	–89	388	–25.58	–116	454
Native American Veteran Housing Loan Program Account	–8.51	–1	4	–13.61	–2	12	–14.85	–2	12
Environmental Protection Agency:									
Water Infrastructure Finance And Innovation Program Account	....	....	....	....	....	....	[2] 1.55	29	1,871
International Assistance Programs:									
Foreign Military Financing Loan Program Account	8.99	243	2,700	5.23	141	2,700	18.08	150	830
Overseas Private Investment Corporation Program Account	–16.55	–236	1,416	–5.64	–34	600	....	....	....
Small Business Administration:									
Disaster Loans Program Account	12.10	143	1,181	14.42	231	1,600	12.54	138	1,100
Business Loans Program Account	8.87	3	35	9.08	3	34	8.91	3	36
Total	**N/A**	**–9,074**	**178,095**	**N/A**	**–1,536**	**182,366**	**N/A**	**–10,488**	**185,112**

N/A = Not applicable

* $500,000 or less

[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.

[2] Rate reflects notional estimate. Estimates will be determined at the time of execution and will reflect the terms of the contracts and other characteristics.

Table 19–3. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2016-2018
(Dollar amounts in millions)

Agency and Program Account	2016 Actual			2017 Estimated			2018 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels	Subsidy rate [1]	Subsidy budget authority	Loan levels
Agriculture:									
Agricultural Credit Insurance Fund Program Account	0.30	12	3,965	0.36	13	3,489	0.26	11	4,043
Commodity Credit Corporation Export Loans Program Account	–0.46	–10	2,150	–0.58	–32	5,500	–0.43	–23	5,500
Rural Water and Waste Disposal Program Account	0.55	*	7	0.48	*	16	....	....	....
Rural Community Facilities Program Account	2.36	6	237	2.24	4	157	....	....	....
Rural Housing Insurance Fund Program Account	–0.18	–31	16,544	–0.78	–168	21,388	–0.74	–123	16,544
Rural Business Program Account	3.88	50	1,293	3.84	42	1,099	....	....	....
Rural Energy for America Program	6.60	17	258	4.64	19	409	....	....	....
Biorefinery Assistance Program Account	....	....	....	[2] 20.81	19	90	....	....	....
Health and Human Services:									
Health Resources and Services	2.67	*	9	2.65	*	3	2.69	*	3
Housing and Urban Development:									
Indian Housing Loan Guarantee Fund Program Account	0.63	5	710	0.54	4	800	0.37	3	880
Native Hawaiian Housing Loan Guarantee Fund Program Account	0.51	*	16	–0.27	–*	23	–0.28	–*	23
Native American Housing Block Grant	11.46	2	15	11.20	2	22	11.50	2	17
Community Development Loan Guarantees Program Account	....	....	85	....	....	150	....	....	....
FHA-Mutual Mortgage Insurance Program Account	–3.53	–9,184	260,300	–4.14	–11,191	270,277	–3.11	–7,111	228,700
FHA-General and Special Risk Program Account	–3.22	–496	15,406	–3.42	–541	15,794	–3.54	–593	16,801
Interior:									
Indian Guaranteed Loan Program Account	5.88	7	114	6.32	7	106	6.50	7	106
Transportation:									
Minority Business Resource Center Program	....	....	....	2.36	*	14	....	....	....
Maritime Guaranteed Loan (Title XI) Program Account	....	....	....	[2] 9.90	42	424	....	....	....
Treasury:									
Troubled Asset Relief Program, Housing Programs [3]	....	....	....	0.80	2	200	....	....	....
Veterans Affairs:									
Veterans Housing Benefit Program Fund	0.25	454	181,786	0.51	802	157,226	0.27	383	141,929
International Assistance Programs:									
Loan Guarantees to Israel Program Account	....	....	....	....	....	1,000	....	....	1,000
Ukraine Loan Guarantees Program Account	29.00	290	1,000	....	....	....	....	....	....
MENA Loan Guarantee Program Account	5.81	29	500	25.53	255	1,000	....	....	....
Development Credit Authority Program Account	3.21	29	898	4.95	18	364	4.19	60	1,425
Overseas Private Investment Corporation Program Account	–10.42	–255	2,444	–4.97	–135	2,700	....	....	....
Small Business Administration:									
Business Loans Program Account	....	....	37,372	....	....	57,500	....	....	60,000
Export-Import Bank of the United States:									
Export-Import Bank Loans Program Account	–0.06	–3	5,036	–4.97	–744	14,979	–3.02	–604	20,024
Total	**N/A**	**–9,078**	**530,145**	**N/A**	**–11,582**	**554,730**	**N/A**	**–7,988**	**496,995**
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS									
Government National Mortgage Association:									
Guarantees of Mortgage-backed securities Loan Guarantee Program Account	–0.29	–1,415	487,872	–0.37	–1,328	359,000	–0.40	–1,623	405,700
Small Business Administration:									
Secondary Market Guarantee Program	....	....	7,410	....	....	12,000	....	....	12,000
Total, secondary guarantee loan commitments	**N/A**	**–1,415**	**495,282**	**N/A**	**–1,328**	**371,000**	**N/A**	**–1,623**	**417,700**

N/A = Not applicable.
* $500,000 or less
[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.
[2] Rate reflects notional estimate. Estimates will be determined at the time of execution and will reflect the terms of the contracts and other characteristics.
[3] Amounts reflect the Troubled Asset Relief Program, FHA Refinance Letter of Credit. Subsidy costs for the program are calculated using the discount rate under the Federal Credit Reform Act adjusted for market risks, consistent with the Emergency Economic Stabilization Act of 2008.

Table 19–4. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES[1]

(In billions of dollars)

	Actual								Estimate	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Direct Loans:										
Obligations	812.9	246.0	296.3	191.1	174.4	174.0	181.3	175.6	182.4	185.1
Disbursements	669.4	218.9	186.7	170.0	157.5	155.4	161.4	158.5	173.2	172.5
Budget authority:										
New subsidy budget authority[2]	140.1	–9.2	–15.7	–27.2	–29.8	–22.4	4.9	–9.0	–1.2	–10.5
Reestimated subsidy budget authority[2,3]	–0.1	–125.1	–66.8	16.8	–19.7	–0.8	10.1	8.0	32.5	....
Total subsidy budget authority	**140.0**	**–134.3**	**–82.5**	**–10.4**	**–49.4**	**–23.2**	**15.1**	**–1.1**	**31.4**	**–10.5**
Loan guarantees:										
Commitments[4]	879.2	507.3	446.7	479.7	536.6	350.8	478.3	537.6	566.9	509.0
Lender disbursements[4]	841.5	494.8	384.1	444.3	491.3	335.6	461.6	517.6	526.3	464.0
Budget authority:										
New subsidy budget authority[2]	–7.8	–4.9	–7.4	–6.9	–17.9	–13.7	–11.9	–7.5	–10.3	–6.4
Reestimated subsidy budget authority[2,3]	0.5	7.6	–4.0	–4.9	20.8	1.2	–1.1	–13.6	16.8	....
Total subsidy budget authority	**–7.3**	**2.7**	**–11.4**	**–11.8**	**2.8**	**–12.5**	**–13.1**	**–21.1**	**6.5**	**–6.4**

[1] As authorized by statute, table includes TARP and SBLF equity purchases, and International Monetary Fund (IMF) transactions resulting from the 2009 Supplemental Appropriations Act.

[2] Credit subsidy costs for TARP and IMF transactions are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, as directed in legislation.

[3] Includes interest on reestimate.

[4] To avoid double-counting, the face value of GNMA and SBA secondary market guarantees and the TARP FHA Letter of Credit program are excluded from the totals.