

8. UNDERWRITING FEDERAL CREDIT AND INSURANCE

The Federal Government continues to be the largest financial institution in the United States, with a face value of \$6.2 trillion outstanding at the end of 1997. Of this, \$181 billion is direct loans, \$822 billion is loan guarantees, and \$5.2 trillion is insurance. Including Government-sponsored enterprises (GSEs), the total Federal and federally assisted credit and insurance outstanding is \$7.9 trillion.

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

The introduction to this chapter summarizes key changes in financial markets and their effects on Federal programs.

- Its first section is a cross-cutting assessment of the rationale for a continued Federal role in providing credit and insurance, performance measures for credit programs, and criteria for re-engineering credit programs so as to enhance their benefits in relation to costs. This section also describes the recent simplification of credit reform and the intent to increase loan sales.
- The second section reviews Federal credit programs and GSEs in four sectors: housing, education, business and community development, and exports, noting the rationale and goals of these programs. It highlights a new housing consortium to help program managers integrate with evolving private sector practices, and efforts to improve the effectiveness of student, business, and international credit programs.
- The final section assesses recent developments in Federal deposit insurance, pension guarantees, and disaster insurance.

Evolving Financial Markets

Financial markets have been evolving rapidly in recent years. Both intermediaries—banks and the many non-bank firms engaged in financial services—and capital markets have been reaching out to new clients that they did not serve a few years ago. Competition for business within and across industry lines has become more intense as legal and regulatory restrictions segmenting financial markets have eased. Massive databanks and increasingly sophisticated analytical methods are being used to find creditworthy borrowers

among people and businesses previously thought ineligible for private credit.

Moreover, funds are flowing more readily to their most productive uses across the country and around the world. Interstate banking and branching are almost nationwide. Capital market financing is available to smaller companies and for a broader range of purposes than before. Secondary markets are the main source of financing for mortgages, and a rapidly growing source of financing for household durables, consumer credit, and small business loans. Nonbanks and non-financial firms are helping to funnel funds from capital markets to small clients in cities and in rural areas.

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

Impact on Federal Programs

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

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

Insurance programs, too, are affected by the evolution of the financial marketplace. That is most obvious for deposit insurance, which now backs a recovered, consolidating industry, but one that has assumed the risks inherent in providing a growing array of increasingly

sophisticated services, including many off-balance sheet activities, often on a world-wide basis. Depository institutions have become increasingly vulnerable to adverse shocks in foreign financial markets through loans, investments, foreign exchange transactions, and off-balance-sheet activities. In pensions, the Government guarantees defined benefit plans, but defined contribution plans play an increasing role—attracting the support of younger workers in an aging workforce. This trend may accelerate as the retirement of the baby boom generation nears. In disaster insurance, private firms are gaining a better understanding of their risks

and exploring ways to diversify them in capital markets.

In this changing environment for Federal credit and insurance programs, this chapter asks three questions. First, what is our current understanding of the roles of these programs? Second, how well they are achieving their goals? And finally, could they be re-engineered to achieve greater benefits in relation to costs? A new consortium of housing program managers, and managers of student, business, and international credit programs will be working intensively on this third question next year.

I. A CROSS-CUTTING ASSESSMENT

The Federal Role

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

- *Information failures* occur when there is an asymmetry in the information available to different agents in the marketplace. A common Federal intervention in such cases is to require the more knowledgeable agent, such as a financial institution, to provide certain information to the other party, for example, the borrower or investor. A different sort of information failure occurs when the private market deems it too risky to develop a new financial instrument or market. This is rare nowadays, but it is worth remembering that the Federal Government developed the market for amortized, fixed-rate mortgages and other innovations in housing finance.
- *Externalities* occur when people or entities either do not pay the full cost of their activities (e.g., pollution) or do not receive the full return. Federal credit assistance for students is justified in part because, although people with more education are likely to have higher income and even better health, they do not receive the full benefits of their education. Their colleagues at work, the residents of their community, and the citizens of the Nation also benefit from their greater knowledge and productivity.
- *Economic disequilibrium* is a third rationale for Federal intervention. This is one rationale for deposit insurance. If many banks and thrifts are hurt simultaneously by an economic shock, such as accelerating inflation in the 1970s, and depositors have a hard time knowing which ones may become insolvent, deposit insurance prevents a

contagious rush to withdraw deposits that could harm the whole economy.

- *Failure of competition*, resulting from barriers to entry, economies of scale, or foreign government intervention, may also argue for Federal intervention—for example, by reducing barriers to entry, as has often been done recently, by negotiating to eliminate or reduce foreign government subsidies, or by providing countervailing Federal credit assistance to American exporters.
- *Incomplete markets* occur if producers do not provide credit or insurance even though customers might be willing to pay for it. One example would be catastrophic insurance, where there is a small risk of a very large loss; a disaster that occurred sooner rather than later could bankrupt the insurer even if premiums were set at an appropriate level to cover long-term cost. Another example is caused by “moral hazard” problems, where the borrower or insured could behave so as to take advantage of the lender or insurer. This is the case for pension guarantees, where sponsors might underfund plans, and for deposit insurance, where banks might take more risk to earn a higher return. In these cases, the Government’s legal and regulatory powers provide an advantage in comparison with a private insurer.
- In addition to correcting market failures, Federal credit programs are often used to *redistribute resources* by providing subsidies from the general taxpayer to disadvantaged regions or segments of the population.

In reviewing its credit and insurance programs, the Federal Government must continually reassess whether the direct and indirect benefits to the economy exceed the direct and indirect costs. This assessment should include the costs associated with redirecting scarce resources away from other investments. In some situations, the market may have recently become capable of providing financial services, and older Federal programs may need to be modified or ended to make room for private markets to develop. Private providers in similar circumstances might go bankrupt, merge, or change their line of business; for Federal programs, a policy decision and usually a change in law are need-

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

ed to eliminate overcapacity. In other instances, Federal programs may be redesigned to encourage the development of private credit market institutions or to target Federal assistance more efficiently to groups still unable to obtain credit and insurance in the private market.

What Are We Trying to Achieve?

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

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

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

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

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

age certain activities, credit may be extended for longer periods or at a lower cost to the borrower.

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

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

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

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

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

programs and to achieve desired outcomes, then these characteristics should be measured as part of the program's output.

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

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

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

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

In sum, there are three relationships that seem to hold the key to excellence in credit program perform-

ance: the relationship between repayment and the achievement of program objectives, the relationship between the characteristics of credit program outputs and desired outcomes, and the relationship between subsidy cost and good servicing and program administration. Another important key to success is the speed with which the program adapts to market changes, including its ability to provoke or harness private markets into meeting Federal goals.

Principles for Re-engineering

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

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

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

Program Justification

1. *Credit assistance should be provided only when it has been demonstrated that private credit markets cannot achieve clearly defined Federal objectives.* What is the objective? Is access to private credit available? If not, why not? If so, why and to what extent should private terms and conditions be supplemented or subsidized?
2. *Credit assistance should be provided only when it is the best means to achieve Federal objectives.* Can private credit markets be developed? Can market imperfections be overcome by information, regulatory changes, or other means? Would small grants for downpayments, capitalization for State, local, or non-profit revolving funds, or other approaches be more efficient?

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

Program Design

4. *Credit programs should minimize substitution for private credit. What features of program design minimize displacement? Encourage and supplement private lending? To what extent is credit for this objective expanded by this program compared with what would be available in the absence of the program? What is the economic cost of the lending bumped from the credit queue?*
5. *Credit programs should stretch their resources and better meet their objectives by controlling the risk of default. What features of program design minimize risk? Are there incentives and penalties for loan originators and servicers to minimize risk? What features of the loan contract, the process of origination, the quality of servicing, and the workout procedures minimize risk? Do borrowers have an equity interest? Is maturity shorter than the economic life of the asset financed? Are the timing and amount of payment matched with availability of resources? Is timely reminder and technical assistance provided? How well is risk understood, measured, and monitored?*
6. *Credit programs should stretch their resources to better meet their objectives by minimizing cost; most should be self-sustaining. Do fees and interest cover the Government's cost, including administration? Are interest rates specified as a percent of market rates on comparable maturity Treasury securities? Are charges for riskier borrowers proportional to their higher cost?*

Program Operations

7. *Credit programs should take advantage of the capacity, flexibility, and expertise available in competitive private markets unless the benefits of direct Federal operations can be shown to exceed the cost. Private financial institutions may offer convenient access for borrowers, potential for graduation to private credit, economies of scale, ready adjustment to changing volume or location of loans, and knowledge of current credit conditions and techniques.*
8. *The lender (in the case of a loan guarantee), the servicer, and the providers of workout and asset disposition services should have a stake in the successful and timely repayment of the loan or collections on claims and collateral. Originators of guaranteed loans should bear a share of each dollar of default loss, and—unless other arrangements can be shown to be more cost-effective—should be responsible for handling workout. Each contract should include incentives for good performance, and penalties, including loss of business, for poor performance. The duration and scope of each contract or agreement should be limited so as to maximize specialization and competition, unless those are offset by economies of scale in operations and monitoring.*
9. *Criteria should be established for participation in Federal loan guarantee programs by lenders, servicers, and providers of workout and asset disposition services. These criteria should include financial and capital requirements for lenders and servicers not regulated by a Federal financial institution regulatory agency, and may include fidelity/surety bonding and/or errors and omissions insurance, qualification requirements for officers and staff, and requirements of good standing and performance in relation to other contracts and debts. Lenders transferring and/or assigning servicing, and lenders or servicers transferring and/or assigning workout or asset disposition, must use only entities which have qualified under the Federal participation criteria.*
10. *When there are economies of scope or scale, the data gathering and analysis, servicing, workout, asset disposition, or other functions of specific credit programs should be combined or coordinated. The sequence of operations should be streamlined, and accountability for each step clearly defined.*

Program Monitoring

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

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

Simplification of Credit Reform

The Balanced Budget Act of 1997 amended the Federal Credit Reform Act of 1990 (FCRA) to make several technical changes, some of which codified OMB guidance. Among the provisions were:

- Requiring agencies to use the same discount rate to calculate the subsidy when they obligate budget authority for direct loans and loan guarantees as when they prepare the President's Budget. Previously, agencies switched at obligation to interest rates during the preceding calendar quarter. Analysis showed that quarterly rates predicted actual annual average rates slightly better than the President's Budget assumptions from the previous year. However, the increased accuracy was not great enough to justify the additional complexity and the change in loan volume from what Congress had assumed when it appropriated subsidy budget authority for the program.
- Requiring agencies to use the same forecast assumptions (e.g., default and recovery rates) to calculate subsidy rates when they obligate for direct loans and loan guarantees as when they prepare the President's Budget. This provision also was enacted in response to the Budget and Appropriations Committees' desire for loan volumes consistent with Congressional intent in appropriations acts. While agencies must use the same forecast assumptions, they will continue to calculate subsidy estimates at obligation using cash flows that have been adjusted to reflect the actual terms and conditions (explicit technical assumptions) of the direct loan and loan guarantee contracts, rather than the estimated terms and conditions assumed in the President's Budget.
- Strengthening the requirement that agencies to transfer end-of-year unobligated balances in liquidating accounts (revolving funds for direct loans and loan guarantees made prior to the effective date of the FCRA) to the general fund as soon as practicable after the close of the fiscal year. Because permanent appropriations are available to pay claims in excess of the liquidating account balance, these unobligated balances do not need to be carried forward between fiscal years.
- Requiring the interest rate paid on financing account debt to Treasury, and earned on financing account balances, to be identical to the discount rate used to calculate subsidy costs. These interest rates must be equal in order for the financing accounts to have exactly enough resources to pay default claims or repay debt to Treasury.

OMB also has simplified the reestimate process by requiring only one reestimate for differences between

the interest rate assumptions in the President's Budget and the actual interest rate when the loan is disbursed. This reestimate is to be made when at least 90 percent of the dollar volume of loans in a cohort has been disbursed. Previously, agencies were required to perform interest rate reestimates after the close of each fiscal year in which disbursements occurred. For programs disbursing over multiple years, the true discount rate for a cohort is not known for several years; meanwhile, calculations using a combination of estimated and actual rates resulted in wide fluctuations in reestimates that provided no useful information.

Debt Collection and Loan Asset Sales

The Federal Government's inventory of delinquent loans and loan receivables was \$37 billion at the end of 1997. Usually, this debt is worked by the agency that made the direct loans or loan guarantees. Little progress has been made in reducing this debt, whereas the private sector has developed sophisticated tools for collecting delinquent debt and quickly disposing of assets acquired through default. A major theme of credit program re-engineering will be to work delinquent debt more aggressively and take advantage of private sector efficiencies by:

- *Fully implementing the Debt Collection Improvement Act of 1996.* Agencies must send debt that is over 180 days overdue to Treasury for offset against Federal payments to the delinquent borrower and to a debt collection center designated by the Secretary of the Treasury.
- *Requiring private lenders to liquidate collateralized defaulted loan assets.* The Rural Housing Service of USDA, and its farm and business loan guarantee programs, require lenders to dispose of defaulted assets. This better aligns private lenders' incentives with the Federal Government's interest in maximizing collections, and takes advantage of private sector efficiencies to maximize collections and reduce the net cost of credit programs. The Government avoids acquiring delinquent debt and having to dispose of the collateral.
- *Requiring agencies to sell delinquent debt over one year overdue.* Government policy will presume that sales of delinquent debt over one year overdue will be in the best financial interest of the Government unless demonstrated otherwise. Exemptions will be made for debt that is producing collections, owned by foreign Governments or entities, is in structured forbearance, or is in adjudication or bankruptcy. HUD's aggressive program of selling delinquent assets over the past three years has demonstrated that agencies can significantly reduce their delinquent debt in a way that furthers program objectives and increases the return to the

Government. SBA also will sell delinquent assets in 1998, 1999, and 2000.

The Federal Credit Policy Working Group, together with the General Services Administration, is developing a government-wide Financial Advisor Request for Proposal, which by June 1998 will make available to all agencies a list of financial advisors through a basic

ordering agreement. Each credit agency will be expected to contract with a financial advisor to conduct a valuation of their loan asset portfolio. For all agencies, the results of the asset valuation study will be used to adjust baseline subsidy rates in the FY 2000 Budget. These rates will also reflect estimated proceeds from the sale of delinquent assets.

II. CREDIT IN FOUR SECTORS

Housing Credit Programs and GSEs

The Federal Government provides loans and loan guarantees to expand access to home ownership to people who lack the savings, income, or credit history to qualify for a conventional home mortgage and to finance rental housing for low-income persons. The Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and Agriculture (USDA) made \$102 billion of loan and loan guarantee commitments in 1997, helping 1.3 million households.

Each Department has a program to guarantee single-family mortgages; together, they guaranteed [XX] percent of the single-family mortgages originated in the United States last year.

- HUD's Federal Housing Administration (FHA) runs a Mutual Mortgage Insurance Fund that guaranteed \$61 billion in mortgages for 740,000 households in 1997. Over three-fourths of these went to first-time homebuyers.
- The VA assists veterans, members of the Selected Reserve, and active duty personnel to purchase homes as a recognition of their service to the Nation. The program substitutes the Federal guarantee for the borrower's down payment. In 1997, VA provided \$24 billion in guarantees to 239,000 borrowers.
- USDA's Rural Housing Service (RHS) guarantees up to 90 percent of an unsubsidized home loan. The program's emphasis is on reducing the number of rural residents living in substandard housing. In 1997, nearly \$2 billion of guarantees went to 40,000 households.

In addition, RHS has direct loan programs for single-family and multi-family mortgages, and FHA guarantees mortgages for multi-family housing and other specialized properties. The VA makes vendee loans when it sells collateral from defaults.

The Housing Consortium

Private banks, thrifts, and mortgage bankers, which originate the mortgages that FHA, VA, and RHS guarantee, may deal with all three programs, as well as with the Government National Mortgage Association (Ginnie Mae), which guarantees timely payment on securities based on pools of these mortgages. In addition, the same private firms originate conventional mortgages, many of which are securitized by Government-sponsored enterprises—the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Many of these firms already use or are planning to use electronic loan origination and are moving toward electronic underwriting. Behind such underwriting are data warehouses showing default experience by type of loan, borrower characteristics, home location, originator, and servicer, and models relating these factors to default cost. "Web lending" is also on the horizon.

These changes offer both challenges and opportunities to the Federal mortgage guarantors and Ginnie Mae. They are challenged to make themselves electronically accessible to their clients and loan originators. They are challenged to assess and monitor their risks closely, now that private firms are reaching out to the better risks among their potential clients. They also have an opportunity to provide better service, and to improve the effectiveness and efficiency of their programs.

The FHA, VA, and RHS housing guarantee programs and Ginnie Mae are forming a Housing Consortium to adapt to the rapid shift to electronic underwriting in the private sector. This Consortium will become the focus of agency efforts to keep abreast of changes in the housing credit market, accelerate adoption of best practices, establish common standards where possible, and make government systems compatible with the private sector. The Consortium will become the "board of directors" for a common data warehouse and analysis center on housing loan performance—using it to monitor the changing risk and cost of guarantees and the performance of guaranteed loan originators and servicers. Learning from each other and from the private sector, the Housing Consortium will seek to improve loan origination, data systems, performance measurement, risk sharing and pricing, and asset disposition.

Loan Origination. Electronic underwriting provides convenient, faster service at a lower cost to both lenders and borrowers. Freddie Mac and Fannie Mae are among the leaders in developing such systems and encouraging their use.

The VA recently entered into a "memorandum of understanding" with Freddie Mac to use its "Loan Prospector" electronic underwriting system. VA customized the scoring for its applicants based upon the actual profile of its veteran borrowers. As a result, VA will improve its risk management capability by focusing servicing on its high-risk borrowers to reduce losses to the government, lenders, and borrowers. VA expects that less required lender documentation, faster processing, and fewer errors will improve efficiency of loan

origination. In 1999, VA will propose legislation to charge lenders a fee that will be used to develop Electronic Data Interchange (EDI) capability with lenders to automate loan processing and servicing.

The FHA is also collaborating with Freddie Mac to pilot Loan Prospector, adapting it to FHA's clients. The RHS is examining the potential benefits of electronic underwriting for its guaranteed loan program. Meanwhile, RHS will develop the ability to offer electronic origination using off-the-shelf software. Building on new systems for both its direct and guarantee programs, RHS will introduce electronic origination into its 502 Guarantee program by 1999.

Data Systems. Ginnie Mae guarantees timely payment of principal and interest on securities based on pools of mortgages guaranteed by FHA and VA. The issuers of these securities are almost always FHA and VA servicers. To track experience on these loans and issuers, Ginnie Mae created two data bases starting in 1990 that draw monthly input from issuers based on private standards.

The Issuer Portfolio Analysis Database System (IPADS) and the Correspondence Portfolio Analysis Database System (CPADS) monitor current performance by loan, originator, servicer, mortgage pool, security, and security issuer. Performance can be tracked and compared, taking account of differences between region, economic conditions, size and type of business, and age of portfolio.

The current analytical system is designed fill Ginnie Mae's needs. IPADS allows quick access to information, such as yearly changes in the size of business an issuer has with Ginnie Mae, delinquency ratio, twelve-month collection history, portfolio age, and average mortgage rate. IPADS will generate twenty-four month trend analyses of key performance indicators and compare an issuer's portfolio data against established Ginnie Mae norms.

But the same data and much the same system could be very useful to the loan guarantee programs. For example, CPADS is similar to IPADS but organizes the data by loan servicer and can compare performance by loan originator regardless of how often a loan is sold. Thus, CPADS could enable FHA and VA to monitor and assess how well the firms that originate and service the loans they guarantee are doing their jobs.

These systems can also report promptly on the payment status of individual loans, enabling quick follow-up to late payments. If federally guaranteed loans were originated electronically, useful data on the loan, borrower, and home characteristics could be "warehoused" in conjunction with information on the monthly payment history. This could be the basis for models that determine which loans are most likely to become delinquent or default. Servicer attention could focus on those borrowers.

FHA is currently a participant in Ginnie Mae's data monitoring systems. VA and RHS will soon become participants. RHS will require all of its lenders to file reports electronically in IPADS before FY 1999, and

will become a full user of that system to track its guaranteed loans.

Performance Measurement. Measuring loan servicing performance establishes a baseline for assessing changes to servicing practice. Monthly data will not only give housing programs a better understanding of how their guarantee portfolio behaves, but also how the federally guaranteed housing market as a whole performs. This information is critical for developing good performance standards.

HUD has begun to rank servicers based on a combination of loan default rates and the ratio of actual to potential losses on defaults. The rankings are adjusted for each state. Bonus points are given for servicers with portfolios emphasizing social objectives. Servicers are divided into categories based on their size. Those in the top 25 percent of their category receive higher reimbursement rates for certain servicing-related activities.

The rankings move FHA away from reviewing compliance with procedures and toward evaluating servicing performance. Ranking criteria can be refined as more experience is gained with the system. For example, the system could include the effects of proactive servicing techniques that would prevent delinquency. The most effective use of performance-based incentives to encourage better servicing could also be analyzed. Aggressive use of such measures would allow FHA to identify best practices of top servicers and to sanction poorly-performing servicers.

RHS reviews at least 10 percent of the loans serviced by a lender every two years. If deficiencies in loan servicing or underwriting are noted, the lender is requested to take corrective action; its eligibility will be terminated if it does not comply. RHS is now instituting an annual external audit of servicing at a representative sample of lenders for compliance with requirements and to pinpoint weaknesses contributing to loan delinquencies.

RHS is re-writing program regulation to enhance program delivery, and is considering a legislative proposal to augment the guarantee fee structure in order to reward or penalize lenders based on performance.

Risk Sharing and Pricing. Risk-based pricing is emerging in the conventional mortgage market as an important means by which lenders can take on more risk. Technology is giving lenders much more precise ability to assess the initial default risk associated with making a particular loan. This increasingly precise underwriting technology, in turn, allows lenders and insurers to adjust fees or loan rates and/or raise insurance premiums to reflect risk and loan cost accurately.

If, as expected, risk-based pricing becomes common in the private sector in the next few years, Federal loan guarantee programs will need to assess the impact on their loan portfolios. They may need to adopt a similar pricing structure or face adverse selection and larger losses. Currently, premiums are fixed in statute and vary only slightly with one dimension of risk, the

initial loan-to-value ratio. New risk-based pricing might help maintain the actuarial soundness of these programs in the context of adverse selection. On the other hand, risk-based pricing might reduce the effectiveness of these programs in serving the needs of lower-income, minority, and traditionally underserved borrowers. Further study of these competing concerns in light of actual market developments is required.

Under its current limited risk-sharing demonstration authority, FHA may assess risk-sharing proposals to test a scheme that partners a housing credit program with a private guarantor. The purpose is to lower the government's share of risk while, under a pre-arranged contract, the private guarantor picks up the remainder. The private guarantor, perhaps a large private mortgage insurer with experience and superior skills, would have an incentive to help loan programs push loan servicers to manage risks efficiently. FHA and a partner assume a large majority of the risk while holding the lender accountable for a small portion, so the lender's willingness to underwrite high-risk borrowers is not significantly reduced compared with current practice.

Asset Disposition. Common wisdom in the mortgage industry is to avoid foreclosure because that is when significant losses pile up, including costs for maintenance and marketing. Federal guarantee programs have found that the best practice is to avoid taking the property into possession, and instead make it the responsibility of the lender.

Of the three Federal mortgage guarantee programs, RHS is the only one that currently operates under the "best practice" for asset disposition. The lender is paid the loss claim, which includes costs incurred for up to six months from the time of the default. After the loss claim is paid, RHS has no involvement in the loan, and it becomes the sole responsibility of the lender. RHS will shorten the loss claim period from six months to three months through regulation changes to encourage lenders to dispose of properties as efficiently as possible.

VA and FHA will also be making improvements in asset disposition. VA will propose legislation to eliminate the vendee loan program, which provides public financing on foreclosed properties. In addition, VA will explore initiatives that outsource its asset disposition.

RHS Direct Housing Loans

RHS also provides subsidized single-family direct loans to very-low and low-income borrowers unable to get credit elsewhere to purchase, rehabilitate, or repair homes. In October 1997, RHS completed implementation of the Dedicated Loan Origination Service System (DLOS), which centralized servicing of the whole loan portfolio. Whereas all origination and servicing had been done in over 2,000 field offices, these now only handle origination and some specific liquidation duties. Everything else is handled at the centralized servicing center.

DLOS has been a major improvement. Along with two major regulations in 1996 and 1997, it reduced RHS' direct loan subsidy rate by 40 percent. RHS is also exploring what economies of scale could be realized in the area of asset disposition. Legislative proposals for 1999 would allow single-family direct loans to be refinanced using guarantees, thus helping borrowers to graduate to private credit. The refinanced loans would be relatively low-risk because the borrowers would have built up equity in their homes.

Fannie Mae and Freddie Mac

Because Fannie Mae and Freddie Mac, the largest Government-sponsored enterprises (GSEs), are the dominant firms in the secondary mortgage market, changes in their business practices can have a significant impact on the housing finance sector of the U.S. economy. As of September 1997, Fannie Mae and Freddie Mac had \$1.5 trillion outstanding in mortgages purchased or guaranteed. These GSEs engage in two main lines of business: they issue and guarantee mortgage-backed securities (MBS), and they hold portfolios of mortgages, MBS, and other mortgage-related securities that they finance by borrowing.

The Federal Housing Enterprises Safety and Soundness Act of 1992 reformed Federal regulation of Fannie Mae and Freddie Mac. This Act created the Office of Federal Housing Enterprise Oversight (OFHEO) to manage the Government's exposure to risk by conducting examinations and enforcing minimum and risk-based capital requirements. The risk-based capital requirements will be based on a stress-test model. OFHEO has solicited public comment on a variety of issues related to a risk-based capital regulation and, in June 1996, published the first of two Notices of Proposed Rulemaking (NPR) on risk-based capital. OFHEO expects to publish its second NPR in early 1999.

As required by the 1992 Act, the Secretary of Housing and Urban Development issued a final regulation at the end of 1995 that established new goals for Fannie Mae and Freddie Mac to foster housing credit for lower-income families and under-served communities. For 1997 through 1999, the regulation requires each GSE to devote:

- 42 percent of its mortgage purchases to finance dwelling units that are affordable by low- and moderate-income families;
- 24 percent of its purchases to finance units in central cities, rural areas, and other metropolitan areas with low and moderate median family income and high concentrations of minority residents; and
- 14 percent of its purchases to finance units that are special affordable housing for very-low-income families and low-income families living in low-income areas.

During 1993–95, the GSEs were subject to transitional goals, and in 1996, they were subject to interim goals that were slightly lower than the goals for

1997–99. Fannie Mae and Freddie Mac each achieved all three goals in 1996.

The growth of the GSEs' core mortgage businesses has slowed, but they have maintained the growth in their earnings by expanding the range of their activities and increasing their on-balance sheet holdings of mortgages and MBS. These changes may, however, increase their risk. The GSEs' exposure to changes in interest rates increases as their on-balance sheet holdings of mortgages and MBS grow.

By contrast, some of the GSEs' new business activities and innovations may improve their risk profiles. The GSEs' use of credit scores and automated underwriting may improve risk measurement and therefore mitigate the credit risks inherent in purchasing and securitizing mortgages. Similarly, the advent of risk-based pricing may mitigate risk by pricing more precisely for expected losses. For holders of mortgage credit risk, sophisticated risk measurement and pricing tools are leading to shifts in the distribution of risk among the GSEs, private mortgage insurers, lenders, and mortgage investors.

Federal Home Loan Bank System

The Federal Home Loan Bank System (FHLBS) was established in 1932 to provide liquidity to home mortgage lenders. The FHLBS carries out this mission by issuing debt and using the proceeds to make secured loans, called advances, to its members. Member institutions primarily use advances to finance residential mortgages and other housing related assets. Federally chartered thrifts are required to be FHLBS members, but membership is open to state-chartered thrifts, commercial banks, credit unions, and insurance companies on a voluntary basis. As of September 30, 1997, 6,418 financial institutions were FHLBS members, an increase of 395 over September 1996. About 69 percent of members are commercial banks, 28 percent are thrifts, and the remaining 3 percent are credit unions and insurance companies; however, almost 70 percent of outstanding FHLBS advances were held by thrifts as of September 30.

The FHLBS reported net income of \$1.5 billion for the year ending September 30, 1997, up from \$1.3 billion in the previous 12 months. Total System capital rose from \$16.5 billion to \$18.4 billion, and the ratio of capital to assets fell from 5.8 percent to 5.7 percent. Average return on equity was about 6.8 percent, after adjustment for payment of interest to the Resolution Funding Corporation (REFCorp). Outstanding advances to members reached \$182 billion at September 30, 1997, a 19 percent increase over the \$153 billion outstanding a year earlier. System investments other than advances stood at \$138 billion, or about 42 percent of total assets, as of September 30, 1997; compared to a year earlier, investments have increased in dollar terms but declined as a percentage of assets.

The Federal Home Loan Banks are required by law to pay \$300 million annually toward the cost of interest on bonds issued by the Resolution Funding Corporation

and the greater of 10 percent of net income or \$100 million to the Affordable Housing Program (AHP). In addition, the FHLBanks are required by law to provide discounted advances for targeted housing and community investment lending through a Community Investment Program (CIP). The need to generate income to meet the REFCorp and AHP obligations and still provide a competitive return on members' investment was a driving force behind the substantial increase in the System's investment activity in recent years. The System also needs to service a capital requirement which is based on members' asset size, mortgage holdings, and advances, rather than the amount of risk in the System.

In the past, the FHLBS' exposure to credit risk was virtually nonexistent. All advances to member institutions are collateralized, and the FHLBanks can call for additional or substitute collateral during the life of an advance. No FHLBank has ever experienced a loss on an advance. While the System's expanding investment activities have created new sources of risk, the FHLBanks have taken measures to manage these risks. Indeed, the FHLBS' investment activities also pose important public policy issues as to the degree to which the composition of assets on the FHLBS' balance sheet adequately reflects the mission of the System. New pilot programs allowing the FHLBanks to underwrite mortgages jointly with their members have been approved by the Federal Housing Finance Board, the System's regulator. Through these programs, the FHLBS is expanding its traditional role as a wholesale lender as a means of promoting housing finance and community investment.

Significant developments in housing finance markets over the past two decades, such as increasing securitization, have reduced the role of portfolio lenders. Of about \$4 trillion in residential mortgage debt outstanding, only about 14 percent of loans are held directly by thrifts and 18 percent are held by commercial banks. Together, Fannie Mae, Freddie Mac, and Ginnie Mae hold or guarantee an additional 47 percent. As a result of GSE and Federal agency sponsorship of secondary markets and the increasing presence of private securitizers, lenders have access to liquidity sources other than FHLBS advances. In addition, the Deposit Insurance Funds Act of 1996 called for merging the Bank Insurance Fund and the Savings Association Insurance Fund in 1999, contingent on legislation to abolish the Federal thrift charter, which requires a significant degree of specialization in housing finance. Like other GSEs, the role and risks of the FHLBS must continue to be examined and monitored in the face of rapidly changing financial markets and potential changes in the structure and activities of the industry served by the FHLBS.

Education Credit Programs and GSEs

Student Loans

The Department of Education helps to finance student loans through two major programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Federal Direct Student Loan (FDSL) program. Eligible institutions of higher education may choose to participate in either program. Loans are available to students and their parents regardless of income. Borrowers with low family incomes are eligible for higher interest subsidies.

In 1999, about 6 million borrowers will receive \$40 billion in loans, of which \$34 billion is for new loans and the remainder to consolidate existing loans. Loan levels have risen dramatically over the past 10 years as a result of rising educational costs, higher loan limits, and more eligible borrowers. The upward trend is expected to continue for the next five years.

The Federal Family Education Loan program provides loans through a complex administrative structure involving over 4,800 lenders, 36 State and private guaranty agencies, 50 participants in the secondary markets, and nearly 7,000 participating schools. Under FFEL, banks and other eligible lenders loan private capital to students and parents, guaranty agencies insure the loans, and the Federal Government reinsures the loans against borrower default. Lenders bear two percent of the default risk, and the government is responsible for the remainder. The Department also makes administrative payments to guaranty agencies and pays interest subsidies to lenders on need-based loans while a student is in school and during certain grace and deferment periods.

The Federal Direct Student Loan program was authorized by the Student Loan Reform Act of 1993 to enable students and parents to obtain and repay loans more easily than under the FFEL program. Under FDSL, the Federal Government provides loan capital directly to schools, which then disburse loan funds to students—greatly streamlining loan delivery for students, parents, and schools. The program offers a variety of flexible repayment plans including income-contingent repayment, under which annual repayment amounts vary based on the income of the borrower and payments can be made over 25 years.

Reform proposals. The Administration is proposing legislation to restructure and improve the efficiency of the guaranteed loan system and to reduce fees for students and parents. Proposed changes will save \$1.8 billion over five years.

The General Accounting Office and Federal courts have acknowledged that the Federal Government is the actual guarantor of the loans. The State and non-profit intermediaries in FFEL act as agents of the Federal Government. Guaranty agencies are not independent guarantors, but are in fact administrators of the Federal guarantee. The Administration proposes that direct Federal payments be used to pay default claims, eliminating the need for guaranty agencies to hold Federal funds in reserve from which to pay claims. This will make possible the return to the Treasury of over \$1 billion in reserve funds between 2000 and 2003.

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

The Department of Education continues to improve program integrity and reduce default costs. The Department will use newly automated systems to review and analyze institutional eligibility information, and will target its regulatory and enforcement efforts on high-risk institutions. Over the past several years, improvements in oversight and termination of schools with high default rates have led to the removal of approximately 1,000 schools, of which 203 were eliminated from the student loan programs. This has helped reduce the national student loan cohort default rate from 10.7 percent for 1994 to 10.4 percent for 1995, the fifth straight year of decline. This rate is the percentage of borrowers who enter repayment in a given year and for whom a default claim is paid before the end of the following year.

Modernizing student aid benefit delivery is one of the Department's key priorities. To improve the management of both loan programs, attention will be given to re-engineering information systems and expanding electronic data exchange to improve customer service, enhance data quality, and lower costs. The Department will support adoption of private sector best practices to improve servicing in both programs.

Sallie Mae

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

Pursuant to legislation enacted in 1996, Sallie Mae shareholders voted in July 1997 to approve a plan to reorganize the corporation as a fully private, state-chartered entity. Under the reorganization, which became effective in August, shares of Sallie Mae common stock were converted on a one-for-one basis into shares of a new holding company, the SLM Holding Corporation. Sallie Mae, which retains its status as a GSE, is now a wholly owned subsidiary of the holding corporation. According to the authorizing legislation, the GSE must wind down and be liquidated by September 30, 2008.

Connie Lee

The College Construction Loan Insurance Association was created by the Higher Education Amendments of

1986 to insure and reinsure the financing of postsecondary education facilities. In 1988, the Department of Education helped provide initial financing of the corporation by purchasing \$19 million of newly issued common stock. Subsequently, the corporation sold additional stock to institutional investors. By 1996, Connie Lee had insured over \$2 billion of debt service on bonds benefitting colleges, universities, and teaching hospitals. Legislation was enacted in 1996 that privatized Connie Lee by repealing its legislation and requiring the Government to sell, and Connie Lee to purchase, the corporation's federally owned stock. This sale was completed in February 1997.

Business and Rural Development Credit Programs and GSEs

Small Business Administration

SBA has successfully expanded small businesses' access to capital, increasing its annual loan volume 46 percent over the past five years (from \$7.4 billion in 1993 to \$10.9 billion in 1997), while also reducing agency staff by about 20 percent.

In its principal program, Section 7(a) General Business loans, SBA has improved access to capital for the Nation's most under-served small businesses in several ways. The Low Documentation (LowDoc) initiative reduced the application form for 7(a) loans under \$100,000 to a single sheet. The FASTRACK pilot allows lenders to use their own forms and processes in exchange for a reduced Government guarantee. These initiatives—and aggressive lending goals—have helped to increase 7(a) loan volume to minority- and women-owned businesses from \$1.8 billion (27 percent of 7(a) loan volume) in 1993 to \$3.8 billion (40 percent) in 1997.

Reliance on private sector partners. With its portfolio growing from \$20.7 billion in 1993 to \$35.0 billion in 1997, SBA has relied increasingly on its private sector partners for loan servicing and liquidation, especially in the 7(a) program, which accounts for 75 percent of SBA business lending.

Prior to 1996, SBA's most experienced lenders had authority to approve, service, and liquidate SBA-guaranteed loans under the Preferred Lender Program (PLP) in exchange for a lower SBA guaranty (70 percent compared to 80 or 90 percent for other lenders). In 1996, Congress set the maximum guaranty for all 7(a) loans at 80 percent for loans under \$100,000, and 75 percent for most others. Congress also authorized PLP lenders to service and liquidate their loans. In 1997, SBA issued a new policy requiring all lenders to service and liquidate loans approved on or after Oct. 1, 1997.

These changes in legislation, together with SBA's goal of increasing its use of PLP lenders, have led to a large increase in lending. Loans approved through PLP lenders grew from \$3.0 billion in 1996 (39 percent of all 7(a) loans approved) to \$4.9 billion in 1997 (52

percent of approvals) and are currently estimated at \$5.5 billion in 1998.

SBA also delegates servicing and liquidation authority in its LowDoc program. LowDoc loans accounted for 33 percent of all 7(a) loans in 1997 (down from 45 percent in 1996.)

Need for better oversight tools. Over the past four years, SBA has significantly increased loan volume, reduced staffing, and delegated additional authorities to its private sector partners. During this period, commercial small business lenders have become increasingly more sophisticated in identifying credit risk, and some of them now pursue aggressive small business lending goals. This expands small businesses' access to capital, but may also concentrate higher risk loans in SBA loan guarantee programs.

These trends reinforce SBA's need to improve oversight tools. SBA continues to struggle with antiquated financial systems. Its managers need improved access to timely and accurate analysis of portfolio trends and information on the performance of its private sector partners. SBA will begin a new initiative in 1998 to improve its lender monitoring and oversight tools.

Reform initiatives. In 1998, SBA will implement a plan to complete its shift from a loan servicing to a lender oversight financial institution. These initiatives include: (1) delegating remaining 7(a) servicing and liquidation to its lending partners, including requiring them to service and liquidate all defaulted loans, (2) selling all direct loans and defaulted guarantees, and (3) making strategic investments in better portfolio oversight tools. This will allow SBA to focus on its goals of increasing access to capital, while relying on private lenders to perform functions where they have historically been more efficient.

Portfolio oversight. To ensure that the agency meets its portfolio management responsibilities, SBA will invest \$8 million in 1998 to improve portfolio oversight. An additional \$12 million is requested for 1999. This funding will allow SBA to recruit expertise in lender oversight, develop the necessary in-house systems to support lender monitoring, and create a centralized corporate database. Drawing on the experience of financial institutions such as Fannie Mae and Freddie Mac, SBA will also establish loan servicing performance goals for its field offices and private sector partners.

Loan asset sales. Completing its transition from loan servicing to lender oversight, SBA will sell its portfolio of defaulted guaranteed loans and direct loans in 1998, 1999, and 2000. The Disaster loan portfolio will be sold in 1999 and 2000. Drawing on the experience of Federal agencies such as the Resolution Trust Corporation and the Department of Housing and Urban Development, and SBA's analysis of its portfolio value stemming from its Liquidation Improvement Project, the Administration estimates that SBA's business loan assets (face value of approximately \$2 billion) can be

sold at a gain to the government. It is estimated that disaster loans can be sold at their current value. These sales are also expected to yield future operational cost savings.

Criminal background checks. In 1999, \$1 million is requested for SBA to conduct criminal background checks of loan applicants prior to the disbursement of the loans. According to recent research conducted by SBA's Office of Inspector General (OIG), loans made to borrowers with an undisclosed criminal record are approximately 2.5 times more likely to become delinquent or to default. This proposal will likely result in future subsidy rate reductions for SBA's credit programs.

Doing more with less. These initiatives will allow SBA to continue to "do more with less". Through improved portfolio oversight and lender servicing of defaulted loans, the Government's subsidy cost of SBA's 7(a) loan program is estimated to decline from 2.14 percent in 1998 to 1.39 percent in 1999, reducing the Government's contribution to the cost of this program by nearly \$83 million. Additional savings may be achieved in the future if increasing reliance on lenders allows SBA to further reduce agency staffing.

USDA Rural Infrastructure and Business Development Programs

USDA provides grants, loans, and loan guarantees to communities for constructing facilities such as health-care clinics, day-care centers, and water and wastewater systems. Direct loans are available at lower interest rates for lower-income communities. These programs are targeted to rural communities with fewer than 10,000 residents. Each program has low default rates.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, including cooperatives, to increase employment and diversify the rural economy. In 1999, USDA proposes to provide \$1 billion in loan guarantees to rural businesses, and \$50 million in direct loans. USDA's assistance to rural businesses has grown from \$100 million in 1993 to almost \$800 million in 1998. The default rate for these programs is low.

The 1996 Farm Bill enacted the "Rural Community Assistance Program" (RCAP). Funding for 12 USDA rural development activities was consolidated into a "performance partnership" to provide more flexibility in targeting Federal assistance to the highest-priority needs of States. In FY 1997, Congress provided increased flexibility through three funding "streams," but blocked transfers among streams. In FY 1998, Congress consolidated the three streams into one RCAP account, but still did not allow transfers between funding streams. The budget proposes \$715 million for a fully flexible RCAP.

Electric and Telecommunications Loans

USDA's rural electric and telephone program makes new loans to maintain existing infrastructure and to modernize electric and telephone service. Historically, the Federal risk associated with the over \$40 billion loan portfolio in electric and telephone loans has been small, although several large defaults occurred in the electric program, primarily as a result of nuclear power construction loans, and \$400 million was written off in 1997. However, both the telephone and electric industries are moving into a more competitive environment.

In the electric industry, deregulation may erode loan security and the ability of borrowers to repay. Maintaining the goal of "affordable, universal service" is also of concern to USDA. Many rural cooperatives are by nature high cost providers of electricity, since there are fewer subscribers per line-mile than in urban areas. USDA will propose legislation to restructure its outstanding \$30 billion portfolio of rural electric loans. This Budget includes a legislative proposal for a new direct Electric Loan Program with a loan level of \$400 million. Borrowers would pay an interest rate tied to the Treasury rate. The demand for loans to rural electric co-ops will continue to rise as borrowers replace many of the 40-year-old electric plants.

The Rural Telephone Bank (RTB) provides financing for rural telecommunications systems. The FY 1998 Budget proposed, but did not achieve, privatization of the RTB. The 1999 Budget proposes legislation to charter the RTB as a Performance-Based Organization (PBO). As a PBO, the RTB would remain under the Secretary of Agriculture through majority Federal membership on the RTB Board of Directors. The RTB's managers would be required to set strategic and financial goals. A key goal would be to achieve privatization within 10 years; the RTB would be on-budget until fully privatized.

As a PBO, the RTB would have authority to hire its own personnel, and appoint its own CEO and CFO. It could seek waivers from government-wide regulations, policies, and procedures. Funding for both administrative expenses and subsidy budget authority would be provided from the RTB liquidating account balances beginning in 1999. It could establish its interest rates, charge administrative fees, and retain proceeds from any negative subsidies for RTB operations. It would also have authority to prepay its outstanding Treasury borrowing without penalty. This approach would allow the RTB to establish a private governance structure and demonstrate its ability to be financially self-sufficient, which should help prepare it for privatization. A privatization feasibility study would be required within 3 years.

Loans to Farm Operators

Farm Service Agency (FSA) direct and guaranteed operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment. Direct and guaranteed farm ownership loans assist producers in acquiring

their farming or ranching operations. These loans are proposed to increase as part of USDA's Civil Rights Initiative. As a condition of eligibility for direct loans, borrowers must have been denied private credit at reasonable rates and terms, or they must be beginning or socially disadvantaged farmers. Loans are provided at Treasury rates or 5 percent. High defaults and delinquencies are inherent in the direct loan program.

FSA guaranteed farm loans are made to more credit-worthy 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 borrower repayment ability. As a result, guaranteed farm loans have not experienced losses as high as those on direct loans.

The 1996 Farm Bill changed many of the servicing requirements for delinquent borrowers. The FSA no longer can make a new loan to a borrower who is delinquent on an existing loan. Borrowers who have previously received a FSA loan write-down or write-off are no longer eligible for additional loans. The 1999 Budget proposes to allow farmers to become eligible for assistance after 7 years, which is consistent with commercial terms. Property acquired through foreclosure on direct loans must now be sold at auction within 105 days of acquisition, and leasing of inventory property is no longer permitted except to beginning farmers. Prior to these changes, acquired property remained in inventory on average for five years before the FSA could dispose of it.

The Farm Credit System and Farmer Mac

The Farm Credit System (FCS) and the Federal Agricultural Mortgage Corporation (Farmer Mac) are GSEs that enhance credit availability for the agricultural sector. The FCS is a direct lender, financing its loans largely through bond sales in the national credit markets, while Farmer Mac facilitates a secondary market for agricultural loans. Both GSEs face the risk of concentration in certain agricultural commodities. The Farm Credit Banks are also geographically limited, often to areas dependent on one or a few commodities. The downturn in the agricultural economy in the 1980s led the FCS to the brink of insolvency. Legislation in 1987 bailed out the FCS and created Farmer Mac.

The Nation's agricultural sector and its lenders are now on much firmer ground. Strong farm income has enabled borrowers to repay debt, and lenders to augment their capital. Farmland prices have regained most of their previous levels and continue to increase. Interest rates and inflationary expectations are significantly lower. Credit usage by farmers and credit standards of lenders are more conservative.

Another sign of the increasing health of agricultural finance is the greater share of credit provided by commercial banks. From 1986 to 1996, commercial banks' share of all farm debt increased from 24 percent to 39 percent, while the share for FCS declined from 29 percent to 25 percent and for USDA from 12 percent to 6 percent. In 1995, however, FCS's share of farm

operating loans began to creep up—a trend that continued in 1996 and 1997.

The Farm Credit System

The Farm Credit System earned income every year in the past decade, including over \$1 billion in each of the last four years. Nonperforming loans have been reduced to 1.5 percent of the portfolio. Loan volume has been gradually increasing since 1992, although the \$63.0 billion in September 1997 is far below the high of over \$80 billion in the early 1980s. Increases in loan volume, declines in the cost of funds, and increases in capital have widened the FCS's net interest margin from less than one percent in 1987 to 2.99 for 1996.

Improved asset condition and income enabled FCS to post record capital levels; by September 30, 1997, capital stood at \$11.4 billion—half again larger than five years ago, primarily as a result of retained earnings. Included in this capital are investments set aside to repay about \$600 million of the \$1.3 billion of Federal assistance provided through the Financial Assistance Corporation (FAC) due beginning in 2003. The System has adopted an annual repayment mechanism to cover the remainder. The FCS has retired all of its high-coupon long-term debt, moved to marginal cost loan pricing, and adopted asset liability management practices designed to reduce its interest rate risk.

Operating risk is also being reduced. Substantial consolidation has occurred in the structure of the FCS. In January 1988, there were 12 districts with 36 banks plus 376 associations; by October 1997, there were only 6 districts, 8 banks and 206 associations. System staff declined by 14 percent over 1990–1995. Operating expenses as a percent of loans outstanding have begun to decline.

The 1987 Act established the FCS Insurance Corporation (FCSIC) to insure timely payment of interest and principal on FCS obligations. Insurance fund balances, largely comprised of premiums from FCS institutions, supplements the System's capital, the joint and several liability of all System banks for FCS obligations, and the Farm Credit Administration's enforcement authorities. On September 30, 1997, the Insurance Fund's assets were \$1.3 billion, and are estimated to attain the statutorily required level of two percent of outstanding debt in 1998.

Improvement in the FCS's financial condition is also reflected in the evaluations of the Farm Credit Administration (FCA), its Federal regulator. The FCA rates each of the System's institutions for capital, asset quality, management, earnings, and liquidity (CAMEL). At the end of 1990, 94 institutions carried the best "CAMEL" ratings of "1" or "2," and 40 were rated in the problem range of "4" or "5." By September 1997, in contrast, 203 institutions were given the top ratings, only 9 received the mid-range rating of "3," and one institution was rated "4." Enforcement actions to correct illegal or unsafe operations were applied to 77 institutions, with 80 percent of the FCS's assets, in 1991,

but only 5 institutions, with 3.9 percent of the FCS's assets, in 1997.

Loans to farmers and other eligible producers comprise 73 percent of the System's portfolio. Lending secured by farm land has been stagnant since 1990, but farm operating loans have increased by 41 percent since 1992, with most of the gain since 1994. Loans to finance processing, marketing, credit cooperatives, and rural utilities cooperatives increased the cooperatives' share of FCS's portfolio to almost 27 percent at year-end 1996.

During 1997, the FCA published regulations that expand the loan-making authority of Farm Credit System banks. Previously, System banks could only lend to businesses that provided custom services performed on the customer's farm. Under the revised rules, farm-related businesses are eligible for full-firm financing if more than 50 percent of their income is derived from farm-related services. Furthermore, if less than 50 percent of the firm's income is farm-service related, then at least the farm-related service portion of the firm's business is eligible for financing. The rule also permits Farm Credit banks to finance non-farm, single-family, moderately priced homes for residents of rural areas (population does not exceed 2,500 in a village or town).

The Farm Credit System is stronger now than it has been in years. But primarily due to its concentration in agriculture, it is exposed to risks arising from natural disasters, changes in Government policies toward agriculture, and to structural changes in the agricultural and commercial banking sectors. During 1995 and 1996, FCS's loan growth rate accelerated, in part due to more aggressive lending as its capital strengthened. This coincided with a surge in agricultural exports and a rise in crop prices, which have propelled land values upward in regions with export concentration. The volatility of these forces will be a risk factor for future repayment and collateral capacity.

Farmer Mac

Farmer Mac was established in 1987 to create and oversee a secondary market for, and to guarantee securities based on, farm real estate and rural housing loans. Since the 1987 Act, Farmer Mac has been authorized to issue its own debt securities, and to purchase and securitize the guaranteed portions of farm program, rural business, and community development loans guaranteed by the USDA ("Farmer Mac II"). The Farm Credit System Reform Act of 1996 transformed Farmer Mac from just a guarantor of securities formed from loan pools into a direct purchaser of mortgages in order to form pools to securitize.

The 1996 Act was passed in response to a steady erosion of Farmer Mac's capital base. Revenues had not met expectations and showed no prospect of improvement. The new powers increase commercial banks' incentives to participate in Farmer Mac. However, these powers also subject the Corporation to more credit risk. As a direct purchaser of loans with no required subordination, Farmer Mac will be exposed to losses,

and must estimate them accurately to set fees and decide the appropriate level of capital reserves.

The 1996 Act gave Farmer Mac three additional years to reach its capital requirements, and 2 years to raise capital to \$25 million. In December 1996, Farmer Mac sold 1.4 million shares of Class C common stock, generating \$32 million of new equity. In November 1997, Farmer Mac completed its second public offering, selling 400,000 shares of Class C common stock and raising \$23 million of new equity. Farmer Mac's year-end 1997 capital is estimated to be about \$75 million—three times greater than the 1996 statutory capital requirement well ahead of the deadline.

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

International Credit Programs

Seven Federal agencies, the Departments of Agriculture, Defense, State, and Treasury and the Agency for International Development, the Export-Import Bank, and the Overseas Private Investment Corporation, provide direct loans, loan guarantees, and insurance to a variety of foreign private and sovereign borrowers. At the end of 1997, the amount outstanding was about \$130 billion.

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

Leveling the playing field. The Federal Government provides credit to U.S. exporters to offset the subsidies that foreign governments, largely in Europe and Japan, provide their exporters usually through export credit agencies (ECAs). Although the Arrangement on Official Export Credits of the Organization for Economic Cooperation and Development (OECD) has significantly constrained direct interest rate subsidies and tied-aid grants, foreign ECAs continue to provide implicit subsidies (by charging interest rates or fees that do not fully compensate for risk).

The Export-Import Bank (Eximbank) attempts to "level the playing field" and to fill gaps in the availability of private export credit. Compared to the other major ECAs, Eximbank provides the most unrestricted financing, and provides this financing in almost twice as many markets as its nearest competitor.

USDA's GSM-102 and 103 programs guarantee credit extended by private U.S. exporters and U.S. or foreign financial institutions to expand agricultural exports. The GSM programs are targeted to countries where government guarantees are needed to counter competi-

tion from countries that offer credit through ECAs or commodity marketing boards.

The increase in world trade and the globalization of capital markets have made ECAs somewhat less important in recent years. During 1993–95, ECA credit from G-7 countries averaged \$70 billion annually. In comparison, private credit to developing countries was \$230 billion in 1996.

Stabilizing international financial markets. In today's global economy, the health and prosperity of the American economy depend importantly on the stability of the global financial system and the economic health of our major trading partners. The United States has several ways in which it can help to stabilize world financial markets. It can provide resources on a multi-lateral basis through the IMF (discussed in other sections of the President's Budget), or through a bilateral loan provided by the Exchange Stabilization Fund (ESF).

The ESF provides "bridge loans" to other countries in times of short-term liquidity problems and financial crises. In the past, "bridge loans" from ESF have usually provided dollars to a country over the short period before the first disbursement under an IMF loan. A \$12.5 billion "bridge loan" of ESF was provided to Mexico during its crisis in 1995. This loan was essential in helping to stabilize Mexico, as well as the global financial markets. Mexico paid back its loan ahead of schedule in 1997, and the loan didn't cost the taxpayers any money.

Use of the ESF is also being considered in response to the crises in some Asian economies. In particular, an ESF agreement with South Korea is near completion, as part of a broader undertaking by 13 countries to provide "second line" support to that country. This ESF facility will carry interest rates that will result in zero subsidy cost for the United States as defined under credit reform.

Helping economies in transition. The dramatic transformation that has been underway in Eastern and Central Europe in recent years presents U.S. businesses with unprecedented opportunities matched by unprecedented risks. Since 1991, Eximbank has provided financing for exports to Russia and other New Independent States, as well as countries in Central Europe, to increase U.S. exports and assist the region's economic transformation. Eximbank provided \$3.2 billion in financing from FY 1995 through 1997, and expects to provide \$1.5 billion in additional credits each year for exports to the region in FYs 1998 and 1999.

For example:

- In July 1993, Eximbank signed the Oil and Gas Framework Agreement (OGFA) under which it may provide \$2 billion or more in financial assistance for purchases of U.S. equipment and services to revitalize Russia's energy sector. Nine transactions for \$971 million have been authorized under this agreement.
 - In January 1996, Eximbank signed a Memorandum of Understanding with the Russian state timber industry governmental entity, helping to open the way for the export of U.S. goods and services to modernize Russia's timber and forest products industry.
 - In November 1996, Eximbank initiated a Russian commercial bank program to expand Eximbank financing for the private sector. Eximbank currently accepts commercial bank guarantees from Russia, Kazakhstan, Lithuania, Latvia, and Estonia, and expects to accept commercial bank guarantees from other NIS countries and most Central European countries as their banking sectors develop.
- Through its Urban and Environmental Credit Program, USAID has provided loan guarantees to Poland, the Czech Republic, and Hungary. These guarantees, accompanied by technical assistance, will assist in developing financial markets for mortgages, municipal finance, and infrastructure finance.
- Using credit to promote sustainable development.** Credit has become an increasingly important tool in U.S. bilateral assistance to promote sustainable development. USAID received funding through transfer authority in the FY 1998 budget for a new credit program, the Development Credit Authority (DCA). The DCA will provide loan guarantees in cases where credit is the most effective mechanism to achieve sustainable development, such as more effective financial markets or reductions in global climate change-causing emissions. Funding for this program has been doubled in the FY 1999 Budget. OPIC investment guarantees also support development by promoting U.S. direct investment in developing countries. This can transfer skills and technology, and create more efficient financial markets.
- International credit management initiative.** The Administration proposes as part of the Director's management agenda to improve credit management at USAID, Eximbank, OPIC, DSAA, DOD/DELG, and USDA. This will include improvements to loan servicing, portfolio tracking, and credit budgeting policies and procedures. More accurate financial records, using consistent accounting standards, will improve repayment practices and collections.
- International lending cost estimates.** Since 1992, the President's budget requests have used the same assumptions about default risk in international lending. These assumptions were obsolete given the changes in financial markets over the last six years. In addition, due to the scarcity of emerging market debt information in 1992, these assumptions were based on domestic corporate bond risk spreads, rather than international bond market data.
- The FY 1999 Budget makes new assumptions about default risk, as defined by the risk premia set for each country-risk category in the International Country Risk Assessment System (ICRAS). The new premia reflect

the risk spreads observed on international debt market instruments from 1992 to 1997 for a variety of risk categories. These new cost estimates will continue to be updated and refined over time, given agencies' default experience and additional observation of emerging market debt data.

The "subsidy cost" of international credit programs is the government's contribution to an agency's long-term expense from extending a foreign credit, excluding

administrative costs. Agency subsidy rates depend not only on the international lending risks measured by the ICRAS risk premia, but also on what fees or subsidies (such as below-market interest rates) the agencies offer with their credits. Most international credit agencies charge borrowers fees that substantially offset the cost due to credit risk. The FY 1999 Budget Credit Supplement shows lending terms and subsidy rates for each international credit agency.

III. INSURANCE PROGRAMS

Deposit Insurance

Federal deposit insurance was begun in the 1930s to provide coverage against depositor losses from failures of insured institutions. Deposit insurance also protects the Nation against widespread disruption in financial markets by reducing the probability that the failure of one financial institution will lead to a cascade of other failures. The Federal Deposit Insurance Corporation (FDIC) insures the deposits of banks and thrifts through separate insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). Deposits of credit unions are insured through the National Credit Union Administration (NCUA).

Deposits are currently insured up to \$100,000 per account. The FDIC insures about \$2.7 trillion at over 9,200 commercial banks and about 1,800 savings institutions. The NCUA insures about 11,300 credit unions with \$290 billion in insured deposits.

Current Industry and Insurance Fund Conditions. The 1980s and early 1990s were a turbulent period for the bank and thrift industries, with over 1,400 bank failures and 1,100 thrift failures. The Federal Government responded with the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989 and the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991. These reforms, combined with more favorable economic conditions, helped to restore the health of depository institutions and the deposit insurance system. The FDIC currently classifies only 98 institutions with \$7 billion in assets as "problem" institutions, compared to over 1,000 institutions with almost \$600 billion in assets just five years ago.

No commercial banks or thrifts failed during 1997—a record year for BIF and SAIF. Eight credit unions with \$19 million in assets failed during 1997. Although depository institutions and their Federal insurance funds are currently in good financial condition, an economic downturn could put pressure on the deposit insurance funds.

Banks have achieved very strong levels of earnings in the last few years, which enabled the industry to recapitalize BIF. BIF reached its statutorily designated reserve ratio of 1.25 percent in mid-1995. As a result, the FDIC continues to maintain deposit insurance premiums for banks in a range from zero for the healthiest

banks to 27 cents per \$100 of deposits for the riskiest banks. Currently, 95 percent of commercial banks pay no deposit insurance premiums.

The earnings of the thrift industry also have significantly improved in the last few years. The industry remains in strong financial condition despite enactment of the Deposit Insurance Funds Act of 1996 (DIFA) which imposed a \$4.5 billion special assessment to bring SAIF's reserves up to 1.25 percent of insured deposits. As a result, most thrifts paid no deposit insurance premiums in 1997.

In addition, the DIFA merges the BIF and SAIF on January 1, 1999, provided that no savings associations exist at that time. This makes the merger conditional on legislation this year to combine the bank and thrift charters.

The National Credit Union Share Insurance Fund (NCUSIF) also remains strong with assets of \$3.7 billion. Each insured credit union is required to deposit and maintain in the fund 1 percent of its member share accounts. In 1997, the income generated from the 1 percent deposit eliminated the need to assess an additional insurance premium, and after the end of the fiscal year, the NCUA Board approved a dividend to reduce the Fund's equity ratio to the statutory ceiling of 1.30 percent. This was the third consecutive year that the Fund paid a dividend to federally insured credit unions. The Board also waived premiums for 1998.

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

In May 1997, the Administration presented its recommendations for modernizing the financial services industry and developing a common depository institution charter to Congress. The Administration's proposal removes Depression-era barriers to competition, preserves the safety and soundness of our nation's depository institutions and protects consumer rights. The proposal promotes competition and efficiency within the indus-

try, which will foster the creation of new products and services and benefit consumers.

In October 1997 the Supreme Court heard arguments on two related cases: the National Credit Union Administration v. First National Bank and the AT&T Family Federal Credit Union v. First National Bank. At issue is the question of how broadly a credit union may interpret its field of membership. The Supreme Court decision in these cases, which is expected during the current term, could have a significant impact on the growth rate and total size of credit unions.

Pension Guarantees

The Pension Benefit Guaranty Corporation (PBGC) insures most defined-benefit pension plans sponsored by private employers. PBGC pays the benefits guaranteed by law when a company with an underfunded pension plan becomes insolvent. PBGC's exposure to claims relates to the underfunding of pension plans, that is, to any amount by which expected future benefits exceed plan assets. In the near term, its loss exposure results from financially distressed firms with underfunded plans. In the longer term, additional loss exposure results from firms which are currently healthy but become distressed, and from changes in the funding of plans and their investment results. Two-thirds of all plans are sufficiently funded, and much of the underfunding is in plans sponsored by financially healthy firms. Underfunding is spread across all industries, with a heavier concentration in the steel, automobile, and transportation equipment industries.

The number of plans insured by PBGC has been declining as small companies with defined benefit plans terminate them and shift to defined contribution plans. At the same time, the number of workers whose pensions are insured by PBGC has increased. In particular, the number of defined benefit pension plans with 1,000 or more participants has increased to 4,400 compared to 3,600 in 1980.

During the past five years, PBGC has been working to prevent and mitigate losses. Under the Early Warning Program, it has negotiated more than 50 major settlements providing more than \$15 billion in new pension contributions from companies and improving pension security for 1.6 million people. In 1995, the Early Warning Program was one of the first six Federal programs to receive an award from the Ford Foundation and Harvard's Kennedy School of Government. The program also received the National Performance Review's Hammer Award. In 1996, PBGC expanded the Early Warning Program to include more companies. In 1997, PBGC posted the second year with a positive financial position in its 23-year history.

The Retirement Protection Act of 1994 (RPA) improved PBGC's early intervention capability, was an important factor in achieving a number of the settlements, and is beginning to strengthen PBGC's financial condition. The RPA requires companies to increase their contributions to underfunded plans over 10 to 15 years, and relates companies' premiums more fairly to PBGC's

exposure by increasing the insurance premiums for those pension plans that are the most underfunded. RPA requires privately held companies with seriously underfunded plans to give PBGC advance notice of any transactions that potentially are harmful to their plans. When this "Early Warning Program" shows benefits to pensioners to be seriously at risk, PBGC begins negotiating funding and other arrangements in order to forestall its taking over the plan.

PBGC fared well in 1997. There were no major plan terminations, and investment performance was strong. Premium revenues dropped somewhat, largely reflecting lower underfunding-related premiums as pension funding improved. Premiums were also reduced by an RPA provision that became effective July 1, 1997 which increased the interest rate used to calculate underfunding-related premiums.

The multi-employer program guarantees pension benefits of certain unionized plans offered by several employers in an industry. The program continues to be financially strong. In May 1996, the Administration proposed to increase the maximum guarantee level on pension benefits paid to retirees for the first time since 1980. It would be increased from \$5,580 to \$12,870 per year for retirees with 30 years of service. Although it passed the Senate, this provision was not enacted and is being proposed again.

This Budget proposes a new and simplified defined-benefit pension plan for small businesses, featuring accounts for individual participants. Unlike defined-contribution plans, the new plan guarantees a known level of annual income throughout workers' retirement years. The new plan is designed to be fully funded virtually constantly, but would also be protected by PBGC.

Disaster Insurance

Flood Insurance

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

When the Federal flood insurance program was created in the early 1970s, private insurance companies, with little information on flood risks by geographic area, had deemed the risk of floods uninsurable. In response, the NFIP provided insurance coverage, required building standards and other mitigation efforts to reduce losses, and undertook flood hazard mapping to quantify the geographic risk of flooding. The program has substantially met these goals.

Flood insurance premium revenue grew by approximately 45 percent from 1994 to 1997, exceeding the

goal of 20 percent set three years ago. The NFIP's "Cover America" initiative, which is a major marketing and advertising campaign, should continue to increase awareness of flood insurance and educate people about the risks of floods. FEMA is using three strategies to increase the number of flood insurance policies in force: lender compliance, program simplification, and expanded marketing.

The NFIP's Community Rating System (CRS) now allows policyholders in over 900 communities to receive discounts of at least 5 percent on their premiums by undertaking activities which will reduce flood losses, facilitate accurate insurance rating, and promote public awareness of flood insurance and flood risk.

In 1997, the NFIP expanded mitigation insurance as authorized by the National Flood Insurance Reform Act of 1994. Mandatory Increased Cost of Construction (ICC) coverage, which took effect May 1, 1997, allows repetitively flooded or substantially damaged structures to be rebuilt in accordance with existing floodplain management requirements. This will reduce the amount and cost of future flood damage and allow those structures to be actuarially rated.

In 1998 and 1999, FEMA will continue efforts to reduce future flood damage by educating Federal regulators about mandatory flood insurance requirements for federally backed home and business loans on property located in flood hazard areas; simplifying policy language; using mitigation insurance to allow flood victims to rebuild to code, thereby reducing future flood damage costs; and using flood insurance premium adjustments to encourage community and State mitigation activities beyond those required by the NFIP.

Crop Insurance

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

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

A major program reform was enacted in 1994 to address a growing problem caused by the repeated provision of Federal ad hoc agricultural disaster payments. Participation in the crop insurance program had been kept low by the availability of post-event disaster aid to farmers from the Federal Government. Because disaster payments were no-cost grants, farmers had little incentive to purchase Federal crop insurance. The 1994 reform repealed agricultural disaster payment authorities and substituted a "catastrophic" insurance policy that indemnifies farmers at a rate roughly equal to the previous disaster payments. The catastrophic policy is free to farmers except for an administrative fee. Private companies sell and adjust the catastrophic portion of the crop insurance program, and also provide higher levels of coverage (which are also federally subsidized.) The reform was implemented in crop year 1995, and no ad hoc crop disaster assistance bill has been enacted since 1994. In 1995, 82 percent of eligible acres participated in the program—140 percent over 1994. However, the 1996 Farm Bill eliminated the requirement that farmers participating in USDA's commodity programs carry crop insurance, and participation dropped in 1997 to an estimated 61 percent of eligible acres.

The 1996 Farm Bill significantly changed the commodity programs and associated price and income support for farmers. The President's signing statement for the Farm Bill stated: "The fixed payments in the bill do not adjust to changes in market conditions, which would leave farmers, and the rural communities in which they live, vulnerable to reductions in crop prices or yields. I am firmly committed to submitting legislation and working with the Congress next year to strengthen the farm safety net." Accordingly, the 1998 Budget proposed to expand the crop insurance program to include "revenue insurance" coverage. Revenue insurance will protect farmers against lost revenue caused by low prices, low yields, or any combination of the two.

In order to ensure that sufficient funding is available to provide agent sales commissions, the budget proposes to shift funding for this activity from discretionary spending back to mandatory spending through the Federal Crop Insurance Corporation Fund. The Administration is developing a combination of program changes to reduce program cost that would take effect in 2000. These include placing a \$100,000 limit on the indemnity producers can receive from the premium-free catastrophic insurance policy; reducing the reimbursement rate paid to the private insurance companies from the current 27 percent of premium to 25 percent; slightly reducing the subsidy the Federal Government pays for insurance on changes from the expected market price; and lowering the loss ratio that premiums are based on to 1.060 from the current 1.075.

Improving Debt Collection

The timing and the amount of recoveries of defaulted loans are key elements in the cost of loan programs. Recoveries and rehabilitation of delinquent debt are important measures of overall program performance.

At the end of 1997, total receivables of the Federal Government were \$263 billion or an increase of 4 percent from 1996. Of that amount, \$52 billion were delinquent or an increase of 1 percent from 1996. Total delinquencies over 180 days delinquent increased by over \$1 billion from \$46 billion in 1996 to \$47 billion in 1997. The amount of non-performing accounts written-off increased from \$5 billion in 1996 to \$ 6 billion in 1997.

At each stage of the Government's credit and debt management process, there are specific tools that can be used to prevent default, convert delinquent accounts into repayment, and, if appropriate, enforce a claim through the judicial process. The chart below shows the historical growth in terms of collections through private collection agencies, salary offset, tax refund offset, administrative offset and litigation. In the last ten years, the use of these tools has resulted in the collection of over \$17 billion.

Total collections on outstanding receivables increased from \$95 billion to \$102 billion from 1996 to 1997. As Treasury and the agencies implement the Debt Collection Improvement Act of 1996, collections will increase through the use of such tools as administrative garnishment and loan asset sales. In addition, initiatives such as prescreening for prior delinquency will prevent unnecessary future defaults.

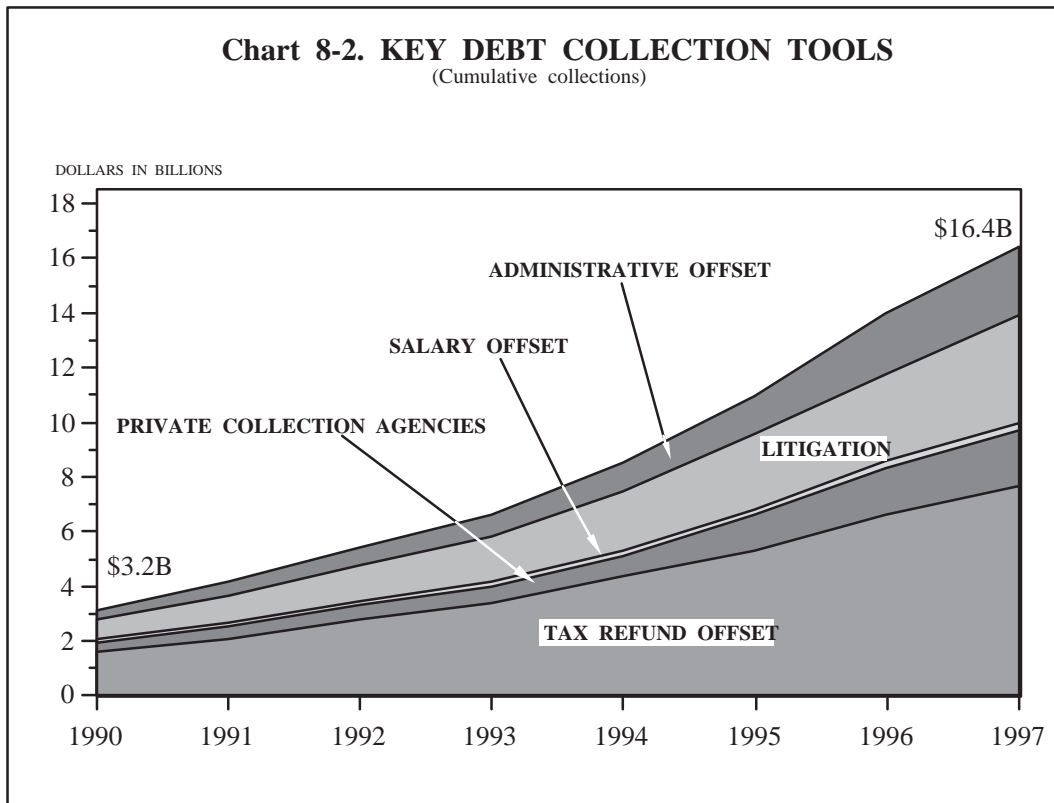
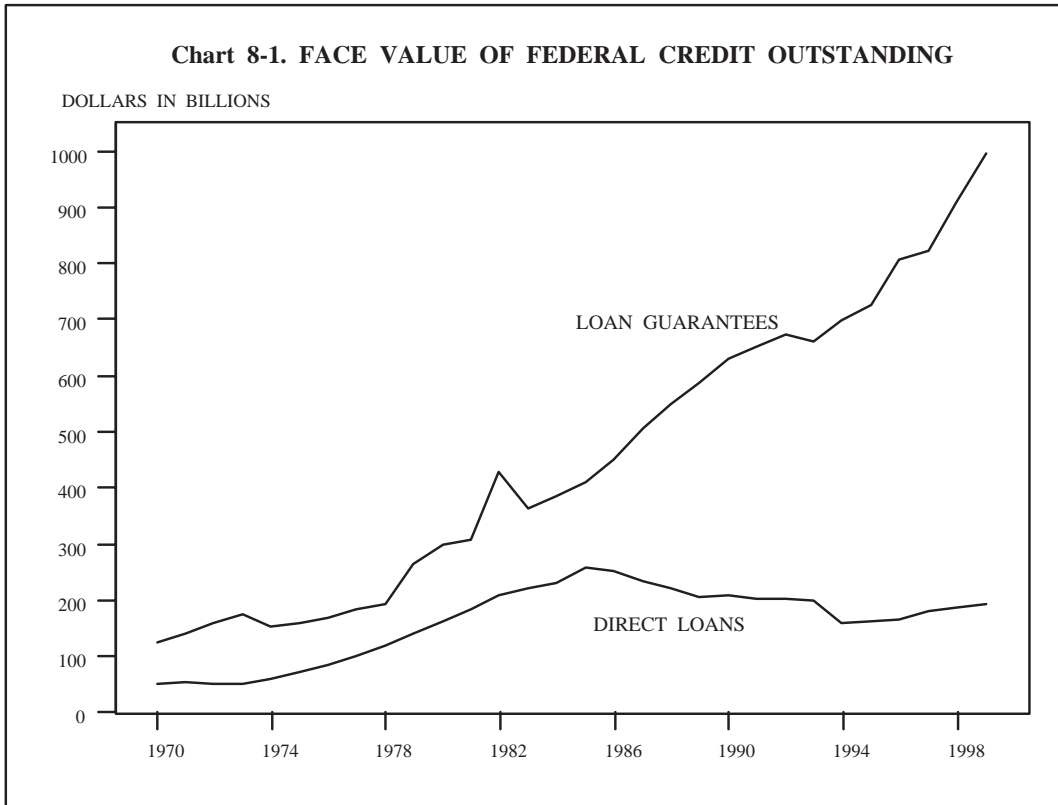


Table 8-1. FACE VALUE AND ESTIMATED COST OF FEDERAL AND FEDERALLY ASSISTED CREDIT PROGRAMS

(in billions of dollars)

Program	Face Value 1996	1998 Budget Estim. Present Value of Future Costs ¹	Face Value 1997	Current Estimates Present Value of Future Costs ¹
Direct Loans:²				
Farm Service Agency (excl.CCC), Rural Development, Rural Housing	47	10-16	47	10-16
Rural Electrification Admin. and Rural Telephone Bank	35	3-6	34	3-6
Agency for International Development	13	1-2	13	1-2
Public Law 480	12	0-1	11	0-1
Disaster Assistance	9	8-12	10	7-11
Foreign Military Financing	8	0-1	8	0-1
Export-Import Bank	8	2-4	10	3-4
Federal Direct Student Loan Program	12	6-9	21	8-12
Small Business	2	0-1	1	0-1
Other Direct	19	1-2	26	2-4
Total Direct Loans	165	31-54	181	34-58
Guaranteed Loans:²				
FHA Mutual Mortgage Insurance Fund	364	(12)-0	361	(10)-0
VA Mortgage	155	3-5	170	5-7
FHA General/Special Risk Insurance Fund	91	7-10	88	6-9
Federal Family Education Loan Program	102	5-10	99	5-10
Small Business	31	2-4	34	2-4
Export-Import Bank	18	4-6	22	4-7
Farm Service Agency and Rural Housing	11	1-2	12	1-2
CCC Export Credits	5	0-1	5	0-1
Other Guaranteed	28	2-4	31	2-5
Total Guaranteed Loans	805	12-42	822	15-45
Total Federal Credit	970	43-96	1,003	49-103
Government-Sponsored Enterprises:³				
Fannie Mae	812	.....	862	.....
Freddie Mac	601	.....	627	.....
Federal Home Loan Banks ⁴	153	.....	182	.....
Sallie Mae ⁵ .....	.....	.....	.....	.....
Farm Credit System	57	.....	59	.....
Total Government-Sponsored Enterprises	1,623	.....	1,730	.....
Total	2,593	43-96	2,733	49-103

¹ Direct loan future costs are program account outlays projected over a period comparable to loan maturity plus the embedded loss from outstanding loans. Loan guarantee costs are program account outlays plus liquidating account outlays (and outlays from defaulted guaranteed loans that result in loans receivable) projected over a period comparable to loan maturity.

² Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as CCC farm supports. Defaulted guaranteed loans which become loans receivable are accounted for in guaranteed loans.

³ Net of purchases of federally guaranteed loans.

⁴ The lending by the Federal Home Loan Banks measures their advances to member thrift and other financial institutions. In addition, their investment in private financial instruments at the end of 1997 was \$136 billion.

⁵ The face value and Federal costs of Federal Family Education Loans in Sallie Mae's portfolio are included in the account of that program under guaranteed loans above.

Table 8-2. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED, 1992—1997 ¹
(In millions of dollars)

Program	1994	1995	1996	1997	1998
Direct Loans:					
Agriculture credit insurance fund	-72	28	2	-31	.....
Agricultural conservation	-1	.....	.....	.....	.....
Rural electrification and telephone loans	*	61	-37	84	.....
Rural telephone bank	1	.....	.....	10	.....
Rural water and waste disposal .....	.....	.....	.....	-12	.....
Rural housing insurance fund	2	152	46	-73	.....
Rural community facility .....	.....	.....	.....	-2	.....
Rural economic development loans .....	.....	.....	.....	1	.....
Rural development loan program .....	.....	1	.....	.....	.....
Rural community advancement program .....	.....	.....	.....	22	.....
P.L. 480 Title I loan program .....	.....	.....	-37	-1	.....
Federal direct student loans .....	.....	.....	3	-83	123
Bureau of Reclamation direct loans .....	.....	.....	.....	.....	2
Veterans housing benefit program fund	-39	30	76	-72	465
Foreign military financing .....	.....	.....	.....	13	4
SBA—disaster loans .....	.....	.....	.....	.....	-354
Export-Import Bank direct loans	-28	-16	37	.....	.....
Loan Guarantees:					
Agriculture credit insurance fund	5	14	12	-51	.....
Commodity Credit Corporation export guarantees	3	103	-426	343	.....
Rural development insurance fund	49	.....	.....	-3	.....
Rural housing insurance fund	2	10	7	-10	.....
Rural business and industry .....	.....	.....	.....	-6	.....
Rural community facility guarantees .....	.....	.....	.....	-2	.....
Rural community advancement program .....	.....	.....	.....	-2	.....
P.L. 480 Title I Food for Progress credits .....	.....	84	-38	.....	.....
Federal family education (formerly GSL):					
Technical reestimate	97	421	60	.....	.....
Volume reestimate .....	.....	.....	535	99	.....
FHA-Mutual mortgage .....	.....	.....	.....	-340	.....
FHA-General and special risk	-175	.....	-110	-25	.....
BIA-Indian guaranteed loans .....	.....	.....	.....	31	.....
Veterans housing benefit fund guarantees:					
Technical reestimate	-447	167	334	-706	38
AID housing guaranty	-2	-1	-7	.....	.....
SBA-Business loans .....	.....	.....	257	-16	-176
Export-Import Bank guarantees	-11	-59	13	.....	.....
Total	-616	995	727	-832	102

* \$500 thousand or less.

¹ Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the budget for 1999.

² Volume reestimates in mandatory programs represent a change in volume of loans disbursed in the prior years. These estimates are the result of guarantee programs where data from loan issuers on actual disbursements of loans are not received until after the close of the fiscal year.

Table 8-3. ESTIMATED 1999 SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS FOR DIRECT LOANS¹

(In millions of dollars)

Agency and Program	1999 Weighted average subsidy as a percent of disbursements	1999 Subsidy budget authority	1999 Estimated loan levels
Agriculture:			
Agricultural credit insurance program	8.5	56	666
Rural community advancement program	14.43	153	1,014
Rural electrification and telephone	2.27	36	1,475
Rural telephone bank	2.65	10	175
Distance learning and medical link program	0.12	*	150
Rural housing insurance fund	16.45	197	1,197
Rural development loan fund	50.35	18	35
Rural economic development loans	25.22	4	15
P.L. 480 direct loans	86.79	89	102
Commerce:			
Fisheries finance loans	1	*	24
Defense:			
Family housing improvement fund	60		
Education:			
Federal direct student loans	3.42	525	13,857
Housing and Urban Development:			
FHA-mutual mortgage insurance program			50
FHA-general and special risk program			50
Interior:			
Bureau of Reclamation loan program	31.58	12	38
State Department:			
Repatriation loans	80	1	1
Transportation:			
Minority business resource center program	11	2	14
Treasury:			
Community development financial institutions fund	40.65	20	49
Veterans Affairs:			
Veterans housing benefit program fund	19.55	56	203
Miscellaneous veterans programs fund	6.73	1	11
International Assistance Programs:			
Foreign military financing loan program	11.97	20	167
Overseas Private Investment Corporation	2	4	200
Small Business Administration:			
Disaster loans	5.93	53	901
Business loans	9.54	6	60
Other Independent Agencies:			
Export-Import Bank	3.22	45	1,396
Federal Emergency Management Agency:			
Disaster assistance	5.42	2	25
Total	5.99	1,310	21,875

* \$500 thousand or less.

¹ Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the budget for 1999.

Table 8-4. ESTIMATED 1999 SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS FOR LOAN GUARANTEES ¹

(In millions of dollars)

Agency and Program	1999 Weighted average subsidy as a percent of disbursements	1999 Subsidy budget authority	1999 Estimated loan levels
Agriculture:			
Agricultural credit insurance fund	1.89	44	2,325
Commodity Credit Corporation export loans	5.48	253	4,615
Rural community advancement program	0.55	10	1,285
Rural housing insurance fund	0.18	6	3,250
Defense:			
Export loan guarantees			250
Family housing improvement fund	7		
Education:			
Federal family education loan program	6.15	1,763	28,671
Health and Human Services:			
Health resources and services	5.32	4	80
Housing and Urban Development:			
Indian housing guarantee fund	8.13	6	69
Title VI Indian Federal guarantees	11	5	44
Home loan guarantees	11	11	100
Community development loan guarantees (Sec. 108)	2.3	29	1,261
FHA-mutual mortgage	-2.62	-1,594	110,000
FHA-general and special risk	-0.27	81	18,100
Interior:			
Indian loan guarantees	7.54	5	60
Transportation:			
MARAD guaranteed loans (Title XI)	5.01	16	520
Veterans Affairs:			
Veterans housing benefit program fund	0.88	206	23,440
International Assistance Programs:			
Micro and small enterprise development	3.29	2	61
Urban and environmental credit	8.82	6	68
Development credit authority	8.39	13	155
Overseas Private Investment Corporation	2	46	2,600
Small Business Administration:			
Business Loans	1.51	176	15,235
Other Independent Agencies:			
Export-Import Bank	5.86	903	15,401
Total	N/A	1,991	227,590
ADDENDUM			
Secondary guaranteed loans:			
GNMA secondary mortgage guarantees	-0.42	-9	150,000

N/A = Not applicable.

¹ Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the budget for 1999.

Table 8-5. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES

(In billions of dollars)

	Actual				Estimate	
	1994	1995	1996	1997	1998	1999
Direct Loans:						
Obligations	22.7	30.9	23.4	33.6	28.1	26.3
Disbursements	19.3	22.0	23.6	32.2	32.0	29.8
Subsidy budget authority ¹	2.8	2.6	1.8	2.4	4.5	1.3
Loan Guarantees:						
Commitments	204.1	138.5	175.4	172.3	194.0	210.4
Lender Disbursements	194.2	117.9	143.9	144.7	155.5	163.0
Subsidy budget authority ¹	2.4	4.6	4.0	3.6	2.3	2.0

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

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

Agency or Program	In millions of dollars			As percentage of outstanding loans ¹		
	1997 actual	1998 estimate	1999 estimate	1997 actual	1998 estimate	1999 estimate
DIRECT LOAN WRITEOFFS						
Agriculture:						
Agricultural credit insurance fund	392	322	322	3.93	3.37	3.69
Rural development insurance fund	2	2	2	0.04	0.04	0.04
Rural housing insurance fund	97	96	92	0.33	0.36	0.33
Rural electrification and telecommunications loans	409	.....	.....	1.45	.....	.....
Commerce:						
Economic development revolving fund (EDA) .....	.....	1	1	.....	1.81	1.96
Education:						
Student financial assistance	5	8	8	3.54	5.36	4.81
Federal direct student loan program	15	.....	2	0.07	.....	.....
Health and Human Services:						
Health Resources and Services	2	2	2	0.25	0.25	0.25
Housing and Urban Development:						
Revolving fund	5	.....	.....	1.84	.....	.....
FHA-Mutal mortgage insurance .....	.....	.....	1	.....	.....	1.96
Interior:						
Revolving fund	2	14	4	3.77	31.11	11.76
State:						
Repatriation loans	1	1	1	25	25	25
Veterans Affairs:						
Veterans housing benefit program ²	9	11	16	0.04	0.04	0.07
Federal Emergency Management Administration:						
Disaster assistance	42	.....	.....	25.6	.....	.....
Small Business Administration						
Business and disaster loans	232	117	85	2.14	1.11	0.91
Other Independent Agencies:						
Federal Communications Commission	793	6,202	119	11.65	152.83	9.48
Tennessee Valley Authority	1	.....	.....	.....	0.57	0.9
Total, direct loan writeoffs	1,598	6,776	655	.....	.....	.....
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural credit insurance fund	78	13	12	1.11	0.17	0.15
CCC guaranteed loans	31	345	342	0.68	6.54	5.55
Rural development insurance fund	42	30	13	11.2	8.98	4.88

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

Agency or Program	In millions of dollars			As percentage of outstanding loans ¹		
	1997 actual	1998 estimate	1999 estimate	1997 actual	1998 estimate	1999 estimate
Rural housing insurance fund	10	26	33	0.14	0.14	0.13
Rural business and industry loans	6	17	16	.....	.....	.....
Commerce:						
Federal ship financing fund	1	.....	.....	1.17	.....	.....
Education:						
Federal family education loans	3,322	3,522	3,567	3.36	3.29	2.88
Health and Human Services:						
Health professions graduate student loans	44	42	49	1.48	1.42	1.69
Housing and Urban Development:						
FHA-General and special risk guaranteed loans	1,092	1,496	3,280	1.24	1.63	3.33
FHA-Mutual mortgage and cooperative housing loans	4,488	4,108	3,895	1.24	1.08	0.92
Interior:						
Indian loan guaranty	40	6	5	39.21	5.94	4.9
Veterans Affairs:						
Veterans housing benefit program ³	2,102	2,984	3,205	1.23	1.68	1.68
International Assistance Programs:						
Foreign military financing	6	1	1	0.1	0.01	0.01
Housing and other credit guaranty programs .....	.....	27	15	.....	1.47	0.86
Microenterprise and small enterprise development .....	.....	1	1	.....	2.12	1.42
Overseas Private Investment Corporation	7	.....	.....	0.35	.....	.....
Small Business Administration:						
Business loans	545	513	493	2.14	1.11	0.91
Other Independent Agencies:						
Export-Import Bank	74	8	12	0.37	0.04	0.05
Total, guaranteed loan terminations for default	11,888	13,139	14,939	.....	.....	.....
Total, direct loan writeoffs and guaranteed loan terminations	13,486	19,915	15,594	.....	.....	.....
ADDENDUM: WRITEOFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Commerce:						
Federal ship financing fund	1	.....	.....	0.51	.....	.....
Education:						
Federal family education loans	285	257	259	1.73	1.53	1.46
Health and Human Services:						
Health professions graduate student loans	10	10	10	2.12	2.08	2.01
Housing and Urban Development:						
FHA-General and special risk guaranteed loans	142	232	545	5.87	8.71	18.56
FHA-Mutual mortgage and cooperative housing loans	550	26	1	191.63	15.11	1.72
Veterans Affairs:						
Veterans housing benefit program ³	1,120	548	565	145.83	71.72	74.73
International Assistance Programs:						
Housing and other credit guaranty programs .....	.....	70	84	.....	16.43	25
Small Business Administration:						
Business loans	105	174	810	1.6	1.44	1.27
Total, writeoffs of loans receivable	2,213	1,317	2,274	.....	.....	.....

¹ Average of loans outstanding over year.² In FY 1998, Veterans Housing Direct Loan Program, Loan Guaranty Program and Guaranty and Indemnity Fund direct loans were consolidated.³ In FY 1998, Veterans Housing Loan Guaranty Program and Guaranty and Indemnity Fund loan guarantees were consolidated.

Table 8-7. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS ¹

(In millions of dollars)

Agency or Program	1997 Actual	Estimate	
		1998	1999
Housing and Urban Development:			
FHA-General and special risk loans	120	120	120
FHA-Mutual mortgage insurance loans	200	200	50
Interior:			
Bureau of Reclamation direct loans	37	31	38
State Department:			
Repatriation loans	1	1	1
Transportation:			
Minority business resource center loans	15	15	14
Orange County (CA) toll road demonstration	25	.....	.....
Direct loan financing (Alameda)	140	140	120
Treasury:			
Community development financial institutions fund .....	.....	32	49
Federal Emergency Management Agency:			
Disaster assistance loans	25	31	25
International Assistance Programs:			
Foreign military financing	543	218	171
Total, limitations on direct loan obligations	1,106	1,378	1,162
LIMITATIONS ON GUARANTEED LOAN COMMITMENTS			
Health and Human Services:			
Health professions graduate student loan insurance	140	85	.....
Health center guaranteed loans .....	.....	160	.....
Housing and Urban Development:			
Indian housing loan guarantee fund	53	62	69
Title VI Indian Federal guarantees .....	.....	45	44
Community development loan guarantees (Sec. 108)	1,389	1,261	1,261
Home loan guarantee .....	.....	.....	100
FHA-General and special risk	17,400	17,400	18,100
FHA-Mutual mortgage insurance	110,000	110,000	110,000
FHA-Loan recovery fund	10	10	.....
Interior:			
Indian guaranteed loans	35	35	56
Transportation:			
MARAD guaranteed loans (Title XI)	1,000	1,000	520
International Assistance Programs:			
Loan guarantees to Israel	2,000	.....	.....
Total, limitations on guaranteed loan commitments	132,027	130,058	130,150
ADDENDUM			
Secondary guaranteed loan commitment limitations:			
GNMA, mortgage-backed securities	110,000	130,000	150,000

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

Table 8-8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Department of Agriculture							
Farm Service Agency							
Agricultural credit insurance fund liquidating account:							
Obligations							
Loan disbursements	1	1	1	4	4	4	4
Change in outstandings	-1,074	-984	-981	-921	-760	-702	-552
Outstandings	7,709	6,725	5,744	4,823	4,063	3,361	2,809
Agricultural credit insurance fund direct loan financing account:							
Obligations	799	646	666	666	666	666	666
Loan disbursements	785	649	665	677	666	666	666
Change in outstandings	232	161	145	126	91	72	57
Outstandings	2,258	2,419	2,564	2,690	2,781	2,853	2,910
Commodity credit corporation fund:							
Obligations	5,333	6,408	7,451	7,525	6,849	6,288	5,970
Loan disbursements	5,333	6,408	7,451	7,525	6,849	6,288	5,970
Change in outstandings	97	-93	-127	-53	-112	-60	-38
Outstandings	1,769	1,676	1,549	1,496	1,384	1,324	1,286
Rural Utilities Service							
Rural communication development fund liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings		-1		-1	-1		
Outstandings	9	8	8	7	6	6	6
Distance learning and medical link direct loan financing account:							
Obligations		300	150	150	150	150	150
Loan disbursements		90	195	180	150	150	150
Change in outstandings		83	173	143	99	85	70
Outstandings		83	256	399	498	583	653
Rural development insurance fund liquidating account:							
Obligations							
Loan disbursements	17	10					
Change in outstandings	-214	-199	-199	-189	-179	-170	-162
Outstandings	4,135	3,936	3,737	3,548	3,369	3,199	3,037
Rural electrification and telecommunications direct loan financing account:							
Obligations	1,105	1,420	1,475	1,475	1,475	1,475	1,475
Loan disbursements	916	1,903	1,499	1,346	1,287	1,213	1,412
Change in outstandings	804	1,829	1,409	1,234	1,150	1,056	1,233
Outstandings	4,306	6,135	7,544	8,778	9,928	10,984	12,217
Rural telephone bank direct loan financing account:							
Obligations	100	175	175	175	175	175	175
Loan disbursements	34	248	197	223	208	180	175
Change in outstandings	12	240	185	205	184	149	137
Outstandings	203	443	628	833	1,017	1,166	1,303
Rural water and waste disposal direct loans financing account:							
Obligations	830	694	764	764	764	764	764
Loan disbursements	670	726	680	649	757	635	642
Change in outstandings	645	701	646	605	704	569	564
Outstandings	2,260	2,961	3,607	4,212	4,916	5,485	6,049
Rural electrification and telecommunications liquidating account:							
Obligations							
Loan disbursements	64	39	25	17	12	9	6
Change in outstandings	-2,213	-1,408	-1,668	-1,068	-969	-876	-790
Outstandings	28,246	26,838	25,170	24,102	23,133	22,257	21,467
Rural telephone bank liquidating account:							
Obligations							
Loan disbursements	32	30	27	24	21	18	15
Change in outstandings	-64	-70	-93	-96	-100	-100	-100
Outstandings	1,264	1,194	1,101	1,005	905	805	705

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

(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Rural Housing Service							
Rural housing insurance fund liquidating account:							
Obligations							
Loan disbursements	2						
Change in outstandings	-1,238	-1,209	-1,206	-1,215	-1,170	-1,124	-1,077
Outstandings	20,947	19,738	18,532	17,317	16,147	15,023	13,946
Rural housing insurance fund direct loan financing account:							
Obligations	928	1,230	1,197	1,197	1,197	1,197	1,197
Loan disbursements	950	1,196	1,196	1,196	1,186	1,180	1,180
Change in outstandings	767	1,024	928	857	768	690	619
Outstandings	8,567	9,591	10,519	11,376	12,144	12,834	13,453
Rural community facility direct loans financing account:							
Obligations	137	206	200	200	200	200	200
Loan disbursements	159	163	192	196	189	176	201
Change in outstandings	145	152	178	177	166	148	169
Outstandings	493	645	823	1,000	1,166	1,314	1,483
Rural Business—Cooperative Service							
Rural economic development loans liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-1	-2	-2	-2			
Outstandings	6	4	2				
Rural economic development direct loan financing account:							
Obligations	12	25	15	15	15	15	15
Loan disbursements	11	14	20	15	15	15	16
Change in outstandings	7	8	12	6	4	3	2
Outstandings	42	50	62	68	72	75	77
Rural development loan fund direct loan financing account:							
Obligations	37	35	35	35	35	35	35
Loan disbursements	45	61	50	38	31	36	35
Change in outstandings	42	58	47	32	26	30	29
Outstandings	173	231	278	310	336	366	395
Rural business and industry direct loans financing account:							
Obligations	12	50	50	50	50	50	50
Loan disbursements	3	17	35	44	48	50	50
Change in outstandings	3	17	35	43	46	47	46
Outstandings	3	20	55	98	144	191	237
Rural development loan fund liquidating account:							
Obligations							
Loan disbursements	1	1					
Change in outstandings	-2	-2	-3	-3	-3	-3	-3
Outstandings	82	80	77	74	71	68	65
Foreign Agricultural Service							
Expenses, Public Law 480, foreign assistance programs, Agriculture liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-321	-354	-406	-463	-330	-332	-333
Outstandings	9,446	9,092	8,686	8,223	7,893	7,561	7,228
P.L. 480 Direct credit financing account:							
Obligations	183	227	102	102	102	102	102
Loan disbursements	156	240	152	110	102	102	102
Change in outstandings	107	225	120	66	49	39	39
Outstandings	1,371	1,596	1,716	1,782	1,831	1,870	1,909
P.L. 480 Title I Food for Progress Credits, financing account:							
Obligations							
Loan disbursements							
Change in outstandings					-49	-49	-49
Outstandings	508	508	508	508	459	410	361

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

(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Debt reduction—financing account:							
Obligations		27	262	72			
Loan disbursements		27	262	72			
Change in outstandings	-3	26	261	71	-1	-1	-1
Outstandings	63	89	350	421	420	419	418
Department of Commerce							
Economic Development Administration							
Economic development revolving fund liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-4	-5	-4	-4	-4	-4	-4
Outstandings	58	53	49	45	41	37	33
National Oceanic and Atmospheric Administration							
Fisheries finance, financing account:							
Obligations	25	34	24	24	24	24	24
Loan disbursements		59	24	24	24	24	24
Change in outstandings		57	20	19	17	14	14
Outstandings		57	77	96	113	127	141
Department of Defense—Military							
Family Housing							
Department of Defense, Family Housing Improvement, Direct Loan Financing Account:							
Obligations		13		531	411	239	489
Loan disbursements		7		175	345	319	334
Change in outstandings		7		175	345	319	334
Outstandings		7	7	182	527	846	1,180
Revolving and Management Funds							
Working capital fund, Navy:							
Obligations							
Loan disbursements							
Change in outstandings	-62	-69	-69	-73	-78	-136	-133
Outstandings	1,164	1,095	1,026	953	875	739	606
Working capital fund, Air Force:							
Obligations							
Loan disbursements							
Change in outstandings	-13	-14	-17	-18	-29	-25	-27
Outstandings	144	130	113	95	66	41	14
Department of Education							
Office of Postsecondary Education							
Student financial assistance:							
Obligations							
Loan disbursements							
Change in outstandings	-66	17	17	17	16	16	16
Outstandings	141	158	175	192	208	224	240
College housing and academic facilities loans liquidating account:							
Obligations							
Loan disbursements	11						
Change in outstandings	-33	-59	-35	-32	-31	-28	-28
Outstandings	614	555	520	488	457	429	401
College housing and academic facilities loans financing account:							
Obligations							
Loan disbursements	4	5	1	6	6		
Change in outstandings	4	5	1	6	6		
Outstandings	18	23	24	30	36	36	36
Federal direct student loan program, financing account:							
Obligations	12,026	9,836	8,160	12,658	13,800	14,678	15,527
Loan disbursements	10,271	13,333	13,670	14,477	15,274	16,093	16,951
Change in outstandings	9,652	12,316	11,889	11,733	11,387	10,898	10,309
Outstandings	21,212	33,528	45,417	57,150	68,537	79,435	89,744

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

(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Department of Energy							
Power Marketing Administration							
Bonneville Power Administration fund:							
Obligations							
Loan disbursements							
Change in outstandings							
Outstandings	2	2	2	2	2	2	2
Department of Health and Human Services							
Health Resources and Services Administration							
Health Resources and Services:							
Obligations							
Loan disbursements	21						
Change in outstandings	-3	-24	-24	-24	-24	-24	-24
Outstandings	797	773	749	725	701	677	653
Medical facilities guarantee and loan fund:							
Obligations							
Loan disbursements							
Change in outstandings	-10	-7	-7	-5	-5		
Outstandings	24	17	10	5			
Department of Housing and Urban Development							
Public and Indian Housing Programs							
Low-rent public housing—loans and other expenses:							
Obligations							
Loan disbursements							
Change in outstandings	-65	-70	-71	-71	-71	-71	-74
Outstandings	1,562	1,492	1,421	1,350	1,279	1,208	1,134
Community Planning and Development							
Revolving fund (liquidating programs):							
Obligations							
Loan disbursements							
Change in outstandings	-57	-40	-40	-35	-30	-30	-30
Outstandings	271	231	191	156	126	96	66
Community development loan guarantees liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-3	-4	-4	-4	-4	-4	-4
Outstandings	36	32	28	24	20	16	12
Housing Programs							
Nonprofit sponsor assistance liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings							
Outstandings	1	1	1	1	1	1	1
Flexible Subsidy Fund:							
Obligations							
Loan disbursements	71	62	33	11			
Change in outstandings	68	58	29	7	-4	-4	-4
Outstandings	744	802	831	838	834	830	826
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-2	-2	-1				
Outstandings	5	3	2	2	2	2	2
FHA-General and special risk insurance funds liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-19	-13	-10	-10	-8	-7	-7
Outstandings	78	65	55	45	37	30	23

Table 8-8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
FHA-General and special risk direct loan financing account:							
Obligations	1	20	50	10	10	10	10
Loan disbursements	1	20	50	10	10	10	10
Change in outstandings	1	20	45	4	2		-10
Outstandings	1	21	66	70	72	72	62
Housing for the elderly or handicapped fund liquidating account:							
Obligations							
Loan disbursements	6	184					
Change in outstandings	-78	114	-71	-70	-70	-69	-69
Outstandings	8,228	8,342	8,271	8,201	8,131	8,062	7,993
FHA-Mutual mortgage insurance direct loan financing account:							
Obligations	3	25	50	10	10	10	10
Loan disbursements	1	27	50	10	10	10	10
Change in outstandings		26	47	3	-2	-13	-33
Outstandings	2	28	75	78	76	63	30
Government National Mortgage Association							
Guarantees of mortgage-backed securities liquidating account:							
Obligations							
Loan disbursements	98	19	8	44	18	5	5
Change in outstandings	11	-247	8	4	2	1	1
Outstandings	332	85	93	97	99	100	101
Guarantees of mortgage-backed securities financing account:							
Obligations							
Loan disbursements		339	71	65	61	62	54
Change in outstandings		255	13	1	2	3	1
Outstandings		255	268	269	271	274	275
Department of the Interior							
Bureau of Reclamation							
Bureau of reclamation loan liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings		-3	-3	-3	-4	-4	-4
Outstandings	77	74	71	68	64	60	56
Bureau of Reclamation direct loan financing account:							
Obligations	28	33	38	38	38	38	38
Loan disbursements	26	38	38	44	46	48	51
Change in outstandings	26	38	38	44	46	48	51
Outstandings	81	119	157	201	247	295	346
National Park Service							
Construction:							
Obligations							
Loan disbursements							
Change in outstandings		-1			-1		-1
Outstandings	7	6	6	6	5	5	4
Bureau of Indian Affairs							
Revolving fund for loans liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-5	-16	-6	-4	-4	-4	-4
Outstandings	53	37	31	27	23	19	15
Indian direct loan financing account:							
Obligations							
Loan disbursements							
Change in outstandings	-1	-1	-1	-2			
Outstandings	32	31	30	28	28	28	28

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

(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Insular Affairs							
Assistance to territories:							
Obligations							
Loan disbursements							
Change in outstandings	-1	-1	-1	-1	-1	-2	-2
Outstandings	19	18	17	16	15	13	11
Department of State							
Administration of Foreign Affairs							
Repatriation loans financing account:							
Obligations	1	1	1	1	1	1	1
Loan disbursements	1	1	1	1	1	1	1
Change in outstandings							
Outstandings	4	4	4	4	4	4	4
Department of Transportation							
Office of the Secretary							
Minority business resource center direct loan financing account:							
Obligations	7	15	14	14	14	14	14
Loan disbursements	6	15	14	14	14	14	14
Change in outstandings	-1		-1		-2	-2	-2
Outstandings	7	7	6	6	4	2	
Federal Highway Administration							
Orange County (CA) toll road demonstration project direct loan financing account:							
Obligations							
Loan disbursements		6	13	13	13	13	13
Change in outstandings		6	13	13	13	13	13
Outstandings		6	19	32	45	58	71
High priority corridors loan financing account:							
Obligations							
Loan disbursements							
Change in outstandings	-37						
Outstandings							
Right-of-way revolving fund liquidating account:							
Obligations							
Loan disbursements	18	20	20	20	3		
Change in outstandings	2		-2	-4	-21	-24	-24
Outstandings	184	184	182	178	157	133	109
Federal Railroad Administration							
Amtrak corridor improvement loans liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings		-1		-1	-1	-1	
Outstandings	6	5	5	4	3	2	2
Amtrak corridor improvement direct loan financing account:							
Obligations							
Loan disbursements							
Change in outstandings	-3						
Outstandings							
Direct loan financing account:							
Obligations							
Loan disbursements	140	140	120				
Change in outstandings	140	140	120				
Outstandings	140	280	400	400	400	400	400
Railroad rehabilitation and improvement liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-14	-4	-4	-4	-5	-4	-4
Outstandings	57	53	49	45	40	36	32

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

(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Railroad rehabilitation and improvement direct loan financing account:							
Obligations							
Loan disbursements							
Change in outstandings							
Outstandings	4	4	4	4	4	4	4
Department of the Treasury							
Departmental Offices							
Community development financial institutions fund direct loan financing account:							
Obligations	7	32	49	49	49	49	49
Loan disbursements	4	4	5	6	46	52	54
Change in outstandings	4	4	5	6	46	52	54
Outstandings	4	8	13	19	65	117	171
Department of Veterans Affairs							
Veterans Benefits Administration							
Veterans Housing Benefit Program Fund Liquidating Account:							
Obligations							
Loan disbursements	56	52	54	55	57	59	60
Change in outstandings	-29	12	13	13	14	14	15
Outstandings	420	432	445	458	472	486	501
Veterans Housing Benefit Program Fund Direct Loan Financing Account:							
Obligations	1,280	1,891	109	152	124	88	49
Loan disbursements	1,280	1,891	109	152	124	88	49
Change in outstandings	269	413	-712	-351	-173	-86	-42
Outstandings	992	1,405	693	342	169	83	41
Miscellaneous veterans programs loan fund direct loan financing account:							
Obligations	5	7	11	13	17	7	3
Loan disbursements	5	7	11	13	17	7	3
Change in outstandings	2	4	9	11	14	4	
Outstandings	15	19	28	39	53	57	57
Miscellaneous veterans programs loan fund liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-2		-1				
Outstandings	1	1					
Environmental Protection Agency							
Environmental Protection Agency							
Abatement, control, and compliance direct loan liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-4	-9	-9	-8	-8	-8	-8
Outstandings	85	76	67	59	51	43	35
Abatement, control, and compliance direct loan financing account:							
Obligations							
Loan disbursements	5	4	2				
Change in outstandings		-1	-3	-5	-5	-5	-5
Outstandings	65	64	61	56	51	46	41
Federal Emergency Management Agency							
Federal Emergency Management Agency							
Disaster assistance direct loan liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-22					-3	-4
Outstandings	37	37	37	37	37	34	30
Disaster assistance direct loan financing account:							
Obligations		31	25	25	25	25	25
Loan disbursements	48	45	50	25	25	25	25
Change in outstandings	-15	42	48	15	8	-2	-6
Outstandings	127	169	217	232	240	238	232

Table 8-8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
International Assistance Programs							
International Security Assistance							
Foreign military loan liquidating account:							
Obligations							
Loan disbursements	14	9	8	8	7	7	7
Change in outstandings	-867	-841	-626	-494	-432	-379	-296
Outstandings	6,154	5,313	4,687	4,193	3,761	3,382	3,086
Foreign military financing direct loan financing account:							
Obligations	298	200	167	167	167	167	167
Loan disbursements	376	471	543	592	615	263	167
Change in outstandings	353	251	221	217	182	-240	-367
Outstandings	1,451	1,702	1,923	2,140	2,322	2,082	1,715
Military debt reduction financing account:							
Obligations	3	18	4				
Loan disbursements	3	14	1				
Change in outstandings	3	14	1				
Outstandings	3	17	18	18	18	18	18
Multilateral Assistance							
International organizations and programs:							
Obligations							
Loan disbursements							
Change in outstandings	-2	-2	-2	-2	-2	-2	-2
Outstandings	32	30	28	26	24	22	20
Agency for International Development							
Economic assistance loans—liquidating account:							
Obligations							
Loan disbursements	10						
Change in outstandings	-485	-671	-637	-648	-556	-545	-519
Outstandings	12,164	11,493	10,856	10,208	9,652	9,107	8,588
Debt reduction, financing account:							
Obligations							
Loan disbursements		69	89	199			
Change in outstandings	-57	12	32	142	-57	-57	-15
Outstandings	339	351	383	525	468	411	396
Microenterprise and small enterprise development credit direct loan financing account:							
Obligations							
Loan disbursements		1					
Change in outstandings							
Outstandings	2	2	2	2	2	2	2
Overseas Private Investment Corporation							
Overseas Private Investment Corporation liquidating account:							
Obligations							
Loan disbursements	3						
Change in outstandings	-16	-13	-8	-7	-4	-3	
Outstandings	37	24	16	9	5	2	2
Overseas private investment corporation direct loan financing account:							
Obligations	133	133	133	133	133	133	133
Loan disbursements	15	41	61	70	80	80	80
Change in outstandings	11	36	55	60	65	60	50
Outstandings	83	119	174	234	299	359	409
Small Business Administration							
Small Business Administration							
Business direct loan financing account:							
Obligations	24	19	20	21	21	22	22
Loan disbursements	8	13	30	30	30	30	30
Change in outstandings	-10	-14	-54	-62	27	27	27
Outstandings	151	137	83	21	48	75	102

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

(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Disaster direct loan financing account:							
Obligations	961	785	1,516	985	951	1,010	1,035
Loan disbursements	1,168	744	533	878	902	936	936
Change in outstandings	664	136	-511	-7,168			
Outstandings	7,891	8,027	7,516	348	348	348	348
Disaster loan fund liquidating account:							
Obligations							
Loan disbursements							
Change in outstandings	-220	-227	-597	-633			
Outstandings	1,457	1,230	633				
Business loan fund liquidating account:							
Obligations							
Loan disbursements	117	90	69				
Change in outstandings	-345	-565	-648	-112			
Outstandings	1,325	760	112				
Other Independent Agencies							
District of Columbia							
Loans to the District of Columbia for capital projects:							
Obligations							
Loan disbursements							
Change in outstandings	-12	-12	-12	-12	-15		
Outstandings	51	39	27	15			
Repayable advances to the District of Columbia direct loan financing account:							
Obligations	223						
Loan disbursements	223						
Change in outstandings	-156	-223					
Outstandings	223						
Export-Import Bank of the United States							
Export-Import Bank of the United States liquidating account:							
Obligations							
Loan disbursements	2						
Change in outstandings	-770	-1,038	-738	-1,236	-331	-294	-220
Outstandings	6,388	5,350	4,612	3,376	3,045	2,751	2,531
Debt reduction financing account:							
Obligations							
Loan disbursements		500	234	838			
Change in outstandings		500	234	838			
Outstandings		500	734	1,572	1,572	1,572	1,572
Export-Import Bank direct loan financing account:							
Obligations	1,549	2,780	1,396	1,396	1,396	1,396	1,396
Loan disbursements	1,331	1,042	1,113	1,062	1,128	1,197	1,269
Change in outstandings	750	673	609	335	245	207	187
Outstandings	3,736	4,409	5,018	5,353	5,598	5,805	5,992
Farm Credit System Financial Assistance Corporation							
Financial assistance corporation assistance fund, liquidating account:							
Obligations							
Loan disbursements	127	125	120	117	117	117	114
Change in outstandings	-35	-77	-88	-97	-103	-110	-139
Outstandings	1,132	1,055	967	870	767	657	518
Federal Communications Commission							
Spectrum auction direct loan financing account:							
Obligations	7,481	713					
Loan disbursements	7,481	713					
Change in outstandings	6,688	-5,489	-119	-119	-10		
Outstandings	6,803	1,314	1,195	1,076	1,066	1,066	1,066

Table 8-8. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Bank Insurance							
Bank insurance fund:							
Obligations							
Loan disbursements							
<i>Change in outstandings</i>							
Outstandings	100	100	100	100	100	100	100
FSLIC Resolution							
FSLIC resolution fund:							
Obligations							
Loan disbursements							
<i>Change in outstandings</i>	-31	-95					
Outstandings	95						
National Credit Union Administration							
Community development credit union revolving loan fund:							
Obligations							
Loan disbursements	2	2	2	2	2	1	1
<i>Change in outstandings</i>		-1	-2				
Outstandings	6	5	3	3	3	3	3
Tennessee Valley Authority							
Tennessee Valley Authority fund:							
Obligations	49	50	38	38	153	172	172
Loan disbursements	49	50	38	38	38	33	33
<i>Change in outstandings</i>	-109	36	27	23	16	8	8
Outstandings	41	77	104	127	143	151	159
Total, Direct loan transactions:							
Obligations	33,580	28,079	24,347	28,691	29,022	29,200	29,963
Loan disbursements	32,181	31,985	29,832	31,315	30,538	30,216	30,919
<i>Change in outstandings</i>	12,715	5,535	7,810	1,921	9,971	8,965	8,829
Outstandings	181,375	186,910	194,720	196,641	206,612	215,577	224,406

Table 8-9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Department of Agriculture							
Farm Service Agency							
Agricultural credit insurance fund liquidating account:							
Commitments							
New guaranteed loans	1	1	1				
Change in outstandings	-181	-162	-161	-130	-109	-98	-86
Outstandings	992	830	669	539	430	332	246
Agricultural credit insurance fund guaranteed loan financing account:							
Commitments	1,575	2,331	2,325	2,325	2,325	2,325	2,325
New guaranteed loans	1,549	2,254	2,279	2,279	2,279	2,279	2,279
Change in outstandings	334	1,046	862	862	862	862	862
Outstandings	6,039	7,085	7,947	8,809	9,671	10,533	11,395
Commodity credit corporation export guarantee financing account:							
Commitments	3,500	5,000	4,615	4,615	4,615	4,615	4,615
New guaranteed loans	2,411	5,000	4,615	4,615	4,615	4,615	4,615
Change in outstandings	-775	1,439	349	-177	14	3	-1
Outstandings	4,548	5,987	6,336	6,159	6,173	6,176	6,175
Commodity credit corporation guaranteed loans liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-75	-16					
Outstandings	16						
Natural Resources Conservation Service							
Agricultural resource conservation demonstration guaranteed loan financing account:							
Commitments							
New guaranteed loans							
Change in outstandings							
Outstandings	17	17	17	17	17	17	17
Rural Utilities Service							
Rural communication development fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings		-1					
Outstandings	5	4	4	4	4	4	4
Rural development insurance fund liquidating account:							
Commitments							
New guaranteed loans	3						
Change in outstandings	-125	-82	-54	-44	-36	-31	-24
Outstandings	375	293	239	195	159	128	104
Rural water and waste water disposal guaranteed loans financing account:							
Commitments	3	75	75	75	75	75	75
New guaranteed loans		24	26	78	53	75	75
Change in outstandings	-1	23	25	76	48	68	66
Outstandings	7	30	55	131	179	247	313
Rural electrification and telecommunications liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-25	-20	-20	-20	-20	-20	-20
Outstandings	642	622	602	582	562	542	522
Rural Housing Service							
Rural housing insurance fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-2	-2	-1	-2	-1	-2	-1
Outstandings	30	28	27	25	24	22	21
Rural housing insurance fund guaranteed loan financing account:							
Commitments	2,028	3,020	3,250	3,150	3,150	3,150	3,150
New guaranteed loans	1,690	2,888	3,026	3,127	3,139	3,138	3,139
Change in outstandings	1,536	2,638	2,711	2,698	2,583	2,438	2,280
Outstandings	5,039	7,677	10,388	13,086	15,669	18,107	20,387

Table 8-9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Rural community facility guaranteed loans financing account:							
Commitments	83	153	210	210	210	210	210
New guaranteed loans	32	67	107	124	173	196	210
Change in outstandings	27	61	97	109	152	167	171
Outstandings	121	182	279	388	540	707	878
Rural Business—Cooperative Service							
Rural business and industry guaranteed loans financing account:							
Commitments	816	1,075	1,000	1,000	1,000	1,000	1,000
New guaranteed loans	666	711	813	771	763	766	750
Change in outstandings	578	550	593	489	434	392	334
Outstandings	1,306	1,856	2,449	2,938	3,372	3,764	4,098
Department of Commerce							
Economic Development Administration							
Economic development revolving fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-1	-1	-1	-1	-1	-1	-1
Outstandings	14	13	12	11	10	9	8
National Oceanic and Atmospheric Administration							
Fishing vessel obligations guarantees financing account:							
Commitments							
New guaranteed loans	23	20					
Change in outstandings	15	11	-9	-9	-9	-9	-9
Outstandings	94	105	96	87	78	69	60
Federal ship financing fund, fishing vessels liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-22	-13	-12	-10	-9	-8	-8
Outstandings	85	72	60	50	41	33	25
Department of Defense—Military							
Procurement							
Defense export loan guarantee financing account:							
Commitments	20	250	250	250	250	250	250
New guaranteed loans		20	75	150	250	250	250
Change in outstandings		20	71	146	246	218	190
Outstandings		20	91	237	483	701	891
Family Housing							
Department of Defense, Family Housing Improvement, Guaranteed Loan Financing Account:							
Commitments		186		200	1,175	682	1,396
New guaranteed loans			101	66	986	914	955
Change in outstandings			101	56	966	884	915
Outstandings			101	157	1,123	2,007	2,922
Department of Education							
Office of Postsecondary Education							
Federal family education loan liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-6,743	-5,888	-5,548	-4,073	-2,726	-1,654	-924
Outstandings	23,583	17,695	12,147	8,074	5,348	3,694	2,770
Federal family education loan program, financing account:							
Commitments	24,832	26,820	28,671	30,380	32,031	33,755	35,560
New guaranteed loans	19,542	25,051	25,686	27,293	28,829	30,387	32,019
Change in outstandings	16,715	22,276	22,112	22,412	22,055	21,157	19,834
Outstandings	75,387	97,663	119,775	142,187	164,242	185,399	205,233
Historically Black College and University Capital financing—Financing account:							
Commitments							
New guaranteed loans		1	4	8	12	15	16
Change in outstandings		1	4	8	12	15	16
Outstandings		1	5	13	25	40	56

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

(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Department of Health and Human Services							
Health Resources and Services Administration							
Health education assistance loans:							
Commitments	140	85					
New guaranteed loans	140	85					
Change in outstandings	128	74	-16	-21	-26	-31	-33
Outstandings	1,494	1,568	1,552	1,531	1,505	1,474	1,441
Health education assistance loans program:							
Commitments							
New guaranteed loans							
Change in outstandings	-84	-88	-99	-104	-108	-114	-119
Outstandings	1,475	1,387	1,288	1,184	1,076	962	843
Health center guaranteed loan financing account:							
Commitments		160					
New guaranteed loans		67	74	13	6		
Change in outstandings		67	71	9	1	-5	-6
Outstandings		67	138	147	148	143	137
Medical facilities guarantee and loan fund:							
Commitments							
New guaranteed loans							
Change in outstandings	-46	-44	-40	-30	-28		
Outstandings	142	98	58	28			
Department of Housing and Urban Development							
Public and Indian Housing Programs							
Low-rent public housing—loans and other expenses:							
Commitments							
New guaranteed loans							
Change in outstandings	-275	-280	-280	-280	-280	-280	-280
Outstandings	3,586	3,306	3,026	2,746	2,466	2,186	1,906
Indian housing loan guarantee fund financing account:							
Commitments	47	62	69	34	34	34	34
New guaranteed loans	11	20	34	40	40	40	40
Change in outstandings	11	20	34	40	40	40	40
Outstandings	17	37	71	111	151	191	231
Title VI Indian Federal guarantees financing account:							
Commitments		45	44				
New guaranteed loans		11	11	22	33	12	
Change in outstandings		11	11	22	33	12	
Outstandings		11	22	44	77	89	89
Community Planning and Development							
Revolving fund (liquidating programs):							
Commitments							
New guaranteed loans							
Change in outstandings	-1	-1	-1				
Outstandings	2	1					
Community development loan guarantees financing account:							
Commitments	278	1,261	1,261	1,217	1,217	1,217	1,261
New guaranteed loans	189	1,000	1,000	1,000	1,200	1,250	1,250
Change in outstandings	142	865	800	800	950	950	950
Outstandings	775	1,640	2,440	3,240	4,190	5,140	6,090
Community development loan guarantees liquidating account:							
Commitments							
New guaranteed loans		10	10	7	5		
Change in outstandings	-45	-23	-20	-18	-20	-20	-20
Outstandings	198	175	155	137	117	97	77
Home loan guarantee financing account:							
Commitments			100	100			
New guaranteed loans			27	82	72	19	
Change in outstandings			27	72	62	4	-15
Outstandings			27	99	161	165	150

Table 8-9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Housing Programs							
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-14,404	-6,362	-5,655	-5,607	-4,924	-4,486	-4,171
Outstandings	87,755	81,393	75,738	70,131	65,207	60,721	56,550
FHA-General and special risk insurance funds liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-6,018	-2,715	-4,088	-3,439	-2,769	-2,928	-2,638
Outstandings	42,405	39,690	35,602	32,163	29,394	26,466	23,828
FHA-General and special risk guaranteed loan financing account:							
Commitments	13,318	16,648	17,100	18,100	18,100	18,100	18,100
New guaranteed loans	12,677	14,323	14,416	14,073	13,805	12,331	13,480
Change in outstandings	5,344	9,999	10,495	8,768	8,207	6,576	7,578
Outstandings	45,663	55,662	66,157	74,925	83,132	89,708	97,286
FHA-Loan guarantee recovery fund—financing account:							
Commitments		10					
New guaranteed loans		3	3	3	1		
Change in outstandings		3	3	3	1		
Outstandings		3	6	9	10	10	10
FHA-Mutual mortgage insurance guaranteed loan financing account:							
Commitments	75,432	82,260	98,031	97,753	97,513	97,237	96,958
New guaranteed loans	61,175	58,613	67,222	68,315	69,369	70,473	71,590
Change in outstandings	37,459	46,068	47,746	43,227	39,485	38,358	54,163
Outstandings	272,750	318,818	366,564	409,791	449,276	487,634	541,797
Government National Mortgage Association							
Guarantees of mortgage-backed securities liquidating account:							
Commitments							
New guaranteed loans	97,569						
Change in outstandings	32,609	-439,725	-82,607	-7,373	-322	-14	
Outstandings	530,042	90,317	7,710	337	15	1	1
Guarantees of mortgage-backed securities financing account:							
Commitments	110,000	130,000	150,000	150,000	150,000	150,000	150,000
New guaranteed loans		107,472	108,658	110,772	111,853	112,522	114,285
Change in outstandings		468,737	108,369	31,308	62,387	27,840	31,525
Outstandings		468,737	577,106	608,414	670,801	698,641	730,166
Department of the Interior							
Bureau of Indian Affairs							
Indian loan guaranty and insurance fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-31	-20	-13	-8	-6	-4	-2
Outstandings	57	37	24	16	10	6	4
Indian guaranteed loan financing account:							
Commitments	35	35	56	35	35	35	35
New guaranteed loans	6	16	20	25	35	35	35
Change in outstandings	-44	-1	2	2	10		-5
Outstandings	102	101	103	105	115	115	110
Department of Transportation							
Maritime Administration							
Federal ship financing fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-154	-154	-124	-104	-84	-84	-84
Outstandings	677	523	399	295	211	127	43

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

(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Maritime guaranteed loan (Title XI) financing account:							
Commitments	330	477	520	320	320	320	320
New guaranteed loans	319	477	477	477	477	477	477
Change in outstandings	242	299	271	242	213	185	185
Outstandings	2,006	2,305	2,576	2,818	3,031	3,216	3,401
Department of Veterans Affairs							
Veterans Benefits Administration							
Veterans Housing Benefit Program Fund Liquidating Account:							
Commitments							
New guaranteed loans							
Change in outstandings	-835	-838	-741	-657	-584	-528	-478
Outstandings	23,896	23,058	22,317	21,660	21,076	20,548	20,070
Veterans Housing Benefit Program Fund Guaranteed Loan Financing Account:							
Commitments	24,287	24,844	23,440	22,895	23,399	22,786	23,287
New guaranteed loans	24,287	24,844	23,440	22,895	23,399	22,786	23,287
Change in outstandings	16,543	14,928	12,627	11,308	11,215	10,035	10,000
Outstandings	146,574	161,502	174,129	185,437	196,652	206,687	216,687
International Assistance Programs							
International Security Assistance							
Foreign military loan liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-438	-388	-380	-373	-357	-350	-349
Outstandings	5,691	5,303	4,923	4,550	4,193	3,843	3,494
Agency for International Development							
Loan guarantees to Israel financing account:							
Commitments	2,000						
New guaranteed loans	1,250	1,412					
Change in outstandings	1,250	1,412					
Outstandings	7,814	9,226	9,226	9,226	9,226	9,226	9,226
Development credit authority guaranteed loan financing account:							
Commitments		36	214	155	155	155	155
New guaranteed loans			94	130	155	155	155
Change in outstandings			94	130	154	154	153
Outstandings			94	224	378	532	685
Housing and other credit guaranty programs liquidating account:							
Commitments							
New guaranteed loans	41	29					
Change in outstandings	-66	-98	-116	-121	-108	-105	-105
Outstandings	1,884	1,786	1,670	1,549	1,441	1,336	1,231
Private sector revolving fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-8	-8					
Outstandings	8						
Microenterprise and small enterprise development guaranteed loan financing account:							
Commitments	96	69	46	47	48	49	50
New guaranteed loans	6	33	36	46	46	47	48
Change in outstandings	6	31	15	40	29	32	1
Outstandings	32	63	78	118	147	179	180
Urban and environmental credit guaranteed loan financing account:							
Commitments	43	31	68	71	91	102	114
New guaranteed loans	104	150	65	35	54	65	81
Change in outstandings	104	150	65	35	54	65	81
Outstandings	343	493	558	593	647	712	793
Assistance for the New Independent States of the Former Soviet Union: Ukraine export credit insurance financing account:							
Commitments							
New guaranteed loans	61						
Change in outstandings	61	-81	-61				
Outstandings	142	61					

Table 8-9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Overseas Private Investment Corporation							
Overseas Private Investment Corporation liquidating account:							
Commitments							
New guaranteed loans	20						
Change in outstandings	-75	-75	-56	-10			
Outstandings	141	66	10				
Overseas private investment corporation guaranteed loan financing account:							
Commitments	2,143	1,800	2,000	2,000	2,000	2,000	2,000
New guaranteed loans	857	1,100	1,300	1,500	1,800	2,000	2,000
Change in outstandings	646	700	800	800	1,000	1,000	800
Outstandings	1,981	2,681	3,481	4,281	5,281	6,281	7,081
Small Business Administration							
Small Business Administration							
Pollution control equipment fund liquidating account:							
Commitments							
New guaranteed loans							
Change in outstandings	-10	-11	-11	-11	-11	-10	-10
Outstandings	76	65	54	43	32	22	12
Business guaranteed loan financing account:							
Commitments	10,641	11,887	11,660	11,660	11,660	11,660	11,660
New guaranteed loans	6,955	7,143	7,336	7,534	7,738	7,947	7,947
Change in outstandings	3,822	3,926	4,032	4,142	4,253	4,368	4,368
Outstandings	28,452	32,378	36,410	40,552	44,805	49,173	53,541
Business loan fund liquidating account:							
Commitments							
New guaranteed loans	1	1	1	1	1	1	1
Change in outstandings	-1,042	-850	-698	-579	-33	-23	-23
Outstandings	5,341	4,491	3,793	3,214	3,181	3,158	3,135
Other Independent Agencies							
Export-Import Bank of the United States							
Export-Import Bank of the United States liquidating account:							
Commitments							
New guaranteed loans	13						
Change in outstandings	-833	-616	-445	-375	-315	-246	-177
Outstandings	2,368	1,752	1,307	932	617	371	194
Export-Import Bank guaranteed loan financing account:							
Commitments	10,610	15,413	15,413	15,413	15,413	15,413	15,413
New guaranteed loans	10,670	10,102	10,693	11,036	11,302	11,600	11,600
Change in outstandings	5,159	329	23	-240	-711	-918	-918
Outstandings	19,743	20,072	20,095	19,855	19,144	18,226	17,308
National Credit Union Administration							
Credit union share insurance fund:							
Commitments	1						
New guaranteed loans							
Change in outstandings		-1					
Outstandings	1						
Subtotal, Guaranteed loans (gross)							
Commitments	282,258	324,033	360,418	362,005	364,816	365,170	367,968
New guaranteed loans	242,268	262,948	271,650	276,517	282,490	284,395	290,584
Change in outstandings	90,372	117,120	111,153	103,988	141,869	103,854	124,005
Outstandings	1,351,933	1,469,053	1,580,206	1,684,194	1,826,063	1,929,917	2,053,922
Less, secondary guaranteed loans:¹							
GNMA guarantees of RHS/VA/FHA pools:							
Commitments	-110,000	-130,000	-150,000	-150,000	-150,000	-150,000	-150,000
New guaranteed loans	-97,569	-107,472	-108,658	-110,772	-111,853	-112,522	-114,285
Change in outstandings	-32,609	-29,012	-25,762	-23,935	-62,065	-27,826	
Outstandings	-530,042	-559,054	-584,816	-608,751	-670,816	-698,642	-730,167

Table 8-9. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued
(in millions of dollars)

Agency or Program	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Total, primary guaranteed loans:²							
Commitments	172,258	194,033	210,418	212,005	214,816	215,170	217,968
New guaranteed loans	144,699	155,476	162,992	165,745	170,637	171,873	176,299
Change in outstandings	57,763	88,108	85,391	80,053	79,804	76,028	92,480
Outstandings	821,891	909,999	995,390	1,075,443	1,155,247	1,231,275	1,323,755

¹ Loans guaranteed by FHA, VA, or RHS are included above. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double counting.

² When guaranteed loans result in loans receivable, they are shown in the direct loan table.

Table 8-10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) ¹

(In millions of dollars)

Enterprise		1997 actual	Estimate	
			1998	1999
Student Loan Marketing Association	New transactions	10,019	8,224	8,106
	Net change	-3,132	-5,402	-4,442
	Outstandings	34,259	28,857	24,415
Federal National Mortgage Association:				
Portfolio Programs	New transactions	60,290	79,623	87,093
	Net change	28,674	44,319	42,238
	Outstandings	321,711	366,030	408,268
Mortgage-backed securities	New transactions	133,703	207,272	156,883
	Net change	22,189	110,611	59,420
	Outstandings	566,942	677,553	736,973
Federal Home Loan Mortgage Corporation:				
Portfolio Programs	New transactions	36,040	39,644	43,608
	Net change	27,738	33,683	40,902
	Outstandings	157,165	190,848	231,750
Mortgage-backed securities	New transactions	103,600	106,708	109,909
	Net change	-1,295	-1,291	-1,287
	Outstandings	470,015	468,724	467,437
Farm Credit System:				
Banks for cooperatives	New transactions	14,941	15,523	16,026
	Net change	-196	39	74
	Outstandings	2,026	2,065	2,139
Farm Credit Banks	New transactions	43,441	38,985	40,492
	Net change	1,809	1,396	1,510
	Outstandings	41,025	42,421	43,931
Agricultural Credit Banks	New transactions	40,668	48,000	49,000
	Net change	47	749	898
	Outstandings	14,961	15,710	16,608
Federal Agricultural Mortgage Corporation	New transactions	302	528	924
	Net change	216	394	711
	Outstandings	814	1,208	1,919
Federal home loan banks ²	New transactions	980	1,039	1,107
	Net change	28,698	11,000	11,000
	Outstandings	182,000	193,000	204,000
Subtotal, lending (gross)	New transactions	443,984	545,546	513,148
	Net change	104,748	195,498	151,024
	Outstandings	1,790,918	1,986,416	2,137,440
Less guaranteed loans purchased by:				
Student Loan Marketing Association ³	Net change	-3,132	-5,402	-4,442
	Outstandings	34,259	28,857	24,415
Federal National Mortgage Association	Net change	1,168		
	Outstandings	26,614	26,614	26,614
Other	Net change	-1,219		
	Outstandings	15,659	15,659	15,659
Total GSE lending (net)	New transactions	443,984	545,546	513,148
	Net change	107,931	200,900	155,466
	Outstandings	1,714,386	1,915,286	2,070,752
BORROWING				
Student Loan Marketing Association	Net change	-5,022	-7,588	-6,060
	Outstandings	40,230	32,642	26,582
Federal National Mortgage Association	Net change	61,039	153,824	105,088
	Outstandings	924,945	1,078,769	1,183,857
Federal Home Loan Mortgage Corporation	Net change	11,802	29,506	51,203
	Outstandings	630,066	659,572	710,775
Farm Credit System:				
Banks for cooperatives	Net change	-269	13	77
	Outstandings	2,067	2,080	2,157
Farm credit banks	Net change	1,647	1,354	1,300
	Outstandings	43,588	44,942	46,242
Agricultural credit banks	Net change	523	494	890
	Outstandings	16,469	16,963	17,853
Federal Agricultural Mortgage Corporation	Net change	967	409	662
	Outstandings	1,699	2,108	2,770
Federal home loan banks	Net change	41,012	15,165	15,247
	Outstandings	284,545	299,710	314,957
The Financing Corporation ³	Net change	2	1	1
	Outstandings	8,144	8,145	8,146
Resolution Funding Corporation ³	Net change	-2	-3	-2
	Outstandings	30,072	30,069	30,067
Subtotal, borrowing (gross)	Net change	111,699	193,175	168,406
	Outstandings	1,981,825	2,175,000	2,343,406
Less borrowing from other GSEs	Net change	354		
	Outstandings	51,159	51,159	51,159
Less purchase of Federal debt securities:	Net change	800	451	627
	Outstandings	9,008	9,459	10,086
Less borrowing to purchase guaranteed loans by:				
Student Loan Marketing Association ⁴	Net change	-3,132	-5,402	-4,442

Table 8-10. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs)¹—Continued
(In millions of dollars)

Enterprise		1997 actual	Estimate	
			1998	1999
Federal National Mortgage Association	Outstandings	34,259	28,857	24,415
	Net change	1,168	.....	.....
Other	Outstandings	26,614	26,614	26,614
	Net change	-1,219	.....	.....
Total GSE borrowing (net)	Outstandings	15,659	15,659	15,659
	Net change	113,728	198,126	172,221
	Outstandings	1,845,126	2,043,252	2,215,473

¹The estimates of borrowing and lending were developed by the GSEs based on certain assumptions but are subject to periodic review and revision and do not represent official GSE forecasts of future activity. The data for all years include programs of mortgage-backed securities. In cases where a GSE owns securities issued by the same GSE, including mortgage-backed securities, the borrowing and lending data for that GSE are adjusted to remove double-counting.

²The lending by the Federal Home Loans Banks measures their advances to member thrift and other financial institutions. In addition, their investment in private financial instruments at the end of 1997 was \$136 billion.

³The change in debt outstanding is due solely to the amortization of discounts and premiums. No sale or redemption of debt securities is estimated to occur in 1998 or 1999.

⁴All SLMA loans acquired are guaranteed by the Federal Government and therefore also counted as guaranteed loans.

