8. CREDIT AND INSURANCE

Federal programs offer direct loans and/or loan guarantees for a wide range of activities, primarily housing, education, business, and exports. At the end of 1999, there were $234 billion in Federal direct loans outstanding and $976 billion in guaranteed loans. The Federal Government also insures bank, thrift, and credit union deposits up to $100,000, guarantees private vested defined-benefit pensions, and insures against disasters, specified international investment risks, and various other risks.

In addition, the net loans outstanding of Government-sponsored enterprises (GSEs)—privately owned companies and cooperatives that operate under Federal charters—totaled $2.4 trillion, including asset-backed securities guaranteed by the GSEs. GSEs are chartered to carry out specified public purposes through financing activities in the housing, education, and agriculture sectors. GSEs are not part of the Federal Government, however, and their securities are not federally guaranteed. By law, the GSEs' securities carry a disclaimer of any U.S. obligation. Congress has authorized the Secretary of the Treasury, at his discretion, to purchase up to $2.25 billion of obligations issued by Fannie Mae and Freddie Mac, up to $4 billion by the Federal Home Loan Bank System, and up to $1 billion by Sallie Mae. Farmer Mac may sell up to $1.5 billion of its obligations to Treasury under specified, limited conditions.

These diverse programs and GSEs are operating in the context of an accelerating evolution of financial markets that is generating many new risks, as well as new opportunities. Federal program managers will need to reassess their roles and improve their effectiveness to adapt to dynamic market conditions.

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

- The first section is a crosscutting 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.
- The second section reviews Federal credit programs and GSEs in four sectors: housing, education, business and community development, and exports. It notes the rationale and goals of these programs and the related activities of the GSEs.
- The final section assesses recent developments in Federal deposit insurance, pension guarantees, and disaster insurance.

Evolving Financial Markets

The Financial Services Modernization Act, signed November 12, 1999, replaces a legal structure created in the Great Depression with one that is more appropriate to the rapidly changing and integrated financial markets of today. The Act repeals restrictions on bank affiliation with securities firms and removes the remaining statutory limitations on the financial activities allowable in banking organizations for qualified bank holding companies. It permits securities and insurance agency activities to be conducted in bank and financial holding company subsidiaries, municipal securities underwriting to be conducted in a national bank or in bank subsidiaries, and merchant banking and insurance underwriting to be conducted in financial holding company subsidiaries.

The financial sector has already undergone substantial change. The number of banking organizations has shrunk by a quarter in the last decade and is roughly half the level 20 years ago. Consolidation has raised the share of industry assets at the 100 largest banks to 70 percent in 1998 from about 50 percent in the mid-1980s. With easing restrictions over the years, interstate banking and branching have become nationwide, and 51 securities affiliates are operating in bank holding companies. International lending by U.S. commercial banks resumed growth in the early 1990s following large losses on developing country loans in the 1980s, but has become increasingly concentrated in large banks. Meanwhile, U.S. banking assets of foreign banks have grown from 12 percent of all U.S. commercial banking assets in 1980 to a 23–25 percent share during the 1990s.

Financial innovation and integration have enabled funds to flow more readily to their most productive uses across the country and around the world. Capital market financing is available to smaller companies and for a broader range of purposes than before. Specialized financial firms and nonfinancial firms, particularly suppliers, are helping to funnel funds from capital markets to small clients in cities and in rural areas. Venture capital providers and sub-prime lenders are fueling the growth of new businesses. Data on small business lending show that institutions outside the local community have become an important source of credit for many businesses.

The 1990s have been a time of robust growth in mortgage markets; the net change in home mortgages rose from $180 billion in 1995 to $424 billion in the second quarter of 1999. Federal Reserve staff estimate that about 40 percent of the growth in outstanding home mortgage debt during the past five years financed the extraction of home equity. 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.

Both intermediaries—banks and the many nonbank firms engaged in financial services—and capital markets have been reaching out to new clients that they did not serve a few years ago. Massive data bases and increasingly sophisticated analytical methods are finding creditworthy borrowers among people and businesses previously unlikely to receive private credit. Faster and cheaper information and communications systems also have revolutionized "back office" functions. These have been consolidated to achieve economies of scale and located anywhere in the world where capable workers are available. From these locations, satellite communications can bring the "back office" to any desktop computer. From a timely information base, credit servicing and workout have become much more efficient.

While the increased globalization of financial institutions and capital markets provides extensive benefits, it also makes domestic market conditions more sensitive to events abroad. In 1997 and 1998, the Asian crisis and further events in Russia and Brazil resulted in a flight to liquidity and safety. Market conditions also worsened in 1998 when a heavily exposed hedge fund required a capital contribution from major lenders to avoid bankruptcy and further market disruption. These events drove down U.S. Treasury bond yields dramatically, and raised rates on all but the highest quality corporate bonds. Some credit markets were temporarily disrupted; related to this was an increase in business borrowing from banks, rather than directly from capital markets. Less-creditworthy borrowers faced higher rates or were temporarily unable to find funds.

Conditions returned to near normal liquidity during 1999, but rate spreads between most private loans and securities and Treasury debt remained abnormally high. Problem loans at banks have increased about 70 percent compared with 1998, and banks have tightened underwriting standards. As a result of these experiences, awareness of the potential for discontinuities in financial markets has increased.

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 Federal programs 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—a particular program. If the Government is caught unaware, the result may be greater cost for taxpayers.
- At the same time, managers of Federal programs can take advantage of the growing private capability. 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. It now backs a recovered industry, but one with an increasing concentration of "large complex banking organizations" that have assumed the risks inherent in providing a growing array of increasingly sophisticated services, including many off-balance sheet activities, often on a worldwide basis. Regulators face challenges ranging from the complexity of assessing the risks of evolving financial services firms to the continuing need to monitor for fraud. In pensions, the Government guarantees defined benefit plans, but their role is diminishing as defined contribution plans attract 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 are they achieving their goals? And finally, could they be re-engineered to achieve greater benefits in relation to costs?

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

[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.

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

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 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, program managers need to identify borrowers who would not get private credit. They need to reach out to underserved 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 encourage certain activities, credit may be extended for longer periods or at a lower cost to the borrower.

Achieving program objectives, however, also means finding ways to assist those borrowers at the boundary of private credit markets to repay their loans. This is not just a financial goal; it is necessary to achieve the program's social purpose. 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.

Implementation of the Federal Credit Reform Act of 1990 gave Federal credit program managers the incentive to reconcile the tension between helping certain groups or purposes and "businesslike" 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, a 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.

The narrow Federal role means 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 underserved 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. The true cost of credit and insurance guarantees may also be considered 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 performance: the relationship between repayment and the achievement of program objectives, the relationship between the characteristics of credit program outputs and desired outcomes, and the relationship between subsidy cost and good servicing and program administration. Another important key to success is the speed with which the program adapts to market changes, including its ability to provoke or harness private markets 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, is there a reason why private terms and conditions should be supplemented or subsidized? To what extent?

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 down payments, capitalization for State, local, or nonprofit revolving funds, or other approaches be more efficient?

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

Program Design

4. *Credit programs should minimize substitution of public 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. *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 workouts. 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.

The Federal Credit Policy Working Group

A Federal Credit Policy Working Group Task Force, led by OMB and the Department of the Treasury's Financial Management Service, last year made recommendations for revising OMB Circular A–129, "Policies for Federal Credit Programs and Non-Tax Receivables," which elucidates the above principles. OMB Circular A–129 provides guidance to agencies on budget and legislative policies to ensure effective credit programs, and prescribes agencies' responsibilities in managing all non-tax receivables so that debts owed to the Federal Government are collected efficiently. The major credit agencies reviewed Government-wide policy guidance on credit extension, receivables management, and delinquent debt collection. The revision of A–129 will be issued by OMB in 2000. Significant changes clarify credit budgeting guidance, reflect the requirements of the Debt Collection Improvement Act of 1996, require sale of seriously delinquent debt that is not referred to Treasury or to Justice for collection, and revise write-off procedures for seriously delinquent accounts.

To help implement this guidance, GSA created a Financial Asset Services Multiple Award Schedule with 52 contracts from which agencies can readily acquire help in portfolio management. Available services include overall management for an asset sale, account servicing, post-sale analyses, and review of credit reform analyses. Agencies using private sector advisors have included Treasury, Education, Navy, Housing and Urban Development, and the Small Business Administration.

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) supported $177 billion of loan and loan guarantee commitments in 1999, helping nearly two million households. Roughly one out of six single-family mortgages originated in the United States receives assistance from one of these programs.

- HUD's Federal Housing Administration (FHA) operates the Mutual Mortgage Insurance Fund which insured $113 billion in mortgages for 1.2 million households in 1999. Over 80 percent of FHA's home purchase mortgages 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 1999, VA provided $44 billion in guarantees to 396,399 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 moderate income rural residents living in substandard housing. In 1999, $3 billion of guarantees went to 39,752 households (2.8 percent of which went to low income borrowers). The Budget includes a legislative proposal to increase the premium charged on the RHS single family guaranteed loans from one to 2 percent, which would allow RHS to provide more loans at less cost to the taxpayers.

In addition, RHS offers a single-family direct loan program and both direct and guaranteed multi-family mortgages, along with supporting rural housing assistance grants. FHA insures mortgages for multi-family housing and other specialized properties. The VA provides financing to the public ("vendee" or direct loans) when it sells property acquired from defaults. These direct loans are, in turn, pooled and sold as securities.

Housing Finance Challenges and Opportunities

Private banks, thrifts, and mortgage bankers, which originate the mortgages that FHA insures and VA and RHS guarantee, may deal with all three programs, as well as with the Government National Mortgage Association (Ginnie Mae, an agency of the Department of Housing and Urban Development), 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 moving toward electronic loan origination and automated underwriting. Behind such underwriting are data warehouses that show default experience by type of loan, borrower characteristics, home location, originator, and servicer, and models relating these factors to default cost. These technological developments offer challenges and opportunities to the Federal mortgage guarantors and Ginnie Mae. Federal credit program managers are challenged to make programs electronically accessible to their clients and loan originators. They are motivated to assess and monitor their risks more closely as private firms are reaching out to the better risks among their potential clients. They also have an opportunity to provide better service at a lower cost, to target their efforts to help borrowers retain their homes, and to reach further to bring affordable housing and home ownership opportunities to those who are not currently served.

The Housing Credit Consortium. In 1998, the FHA, VA, and RHS housing credit programs and Ginnie Mae formed The Federal Housing Credit Consortium to adapt to the rapid development of electronic underwriting and other technological developments in the private mortgage market. The Consortium's role is to keep abreast of changes in the housing credit market, accelerate adoption of best practices, and establish common standards where possible.

The Consortium members are currently working to create a prototype data-sharing capability through which all members will have access to integrated data on program and borrower characteristics, lender and loan performance. It will provide timely, easily retrievable information, giving managers the ability to monitor the changing risk and cost of guarantees and the performance of guaranteed loan originators and servicers. By analyzing information from the data warehouse and by sharing information with each other and the private sector, the Consortium will seek to improve loan origination, performance measurement, risk sharing and pricing, and asset disposition.

The Consortium is working with Ginnie Mae to integrate and enhance Ginnie's two databases for use by all Consortium members. Ginnie's databases, the Issuer Portfolio Analysis Database System (IPADS) and the Correspondence Portfolio Analysis Database System (CPADS), receive monthly data from issuers of mortgage-backed securities, and monitor current performance by loan, originator, servicer, mortgage pool, security, and security issuer. Performance can be tracked and compared, taking account of differences by region, economic conditions, size and type of business, and age of portfolio. The vast majority of the FHA and VA loans are placed in Ginnie Mae's Mortgage-Backed Securities program. About 65 percent of RHS's single-family loans is also placed in Ginnie Mae pools. Thus, although the current analytical system is designed to fill Ginnie Mae's needs, the same data produced by the system is useful to all three Federal programs. For example, CPADS enables FHA and VA to monitor and assess how well the firms that originate and service the loans they guarantee are performing. Ginnie Mae has shared CPADS with FHA and VA for many years. RHS continued its partnership with Ginnie Mae in 1999, and now has access to loan and lender performance data to analyze RHS loan guarantees.

Ginnie Mae has committed to making enhancements to IPADS/CPADS that will provide additional benefits to all three loan guarantee programs. IPADS and CPADS were integrated last year and an initial round of enhancements will be implemented this year. Further enhancements are planned in the future to enable the agencies to monitor and respond effectively to technological, institutional, and financial developments in the residential mortgage market.

Loan Origination. Electronic underwriting provides convenient, faster service at a lower cost to both lenders and borrowers. Both FHA and VA now permit mortgage lenders to use approved automated underwriting systems, including Freddie Mac's "Loan Prospector" and Fannie Mae's "Desktop Underwriter," to originate these loans. FHA also has approved the pmiAURA^{sm} system and is developing its own "universal" mortgage scorecard to be used on all FHA approved automated underwriting systems.

In 1999, RHS developed an Internet-based system that will, with future planned enhancements, provide the capacity to accept electronic loan originations from their participating lenders. Using electronic loan origination will significantly improve loan processing efficiency and timeliness for both RHS and the lenders. RHS is also exploring using automated underwriting and credit scoring. These improvements will be implemented as soon as possible, but complete adoption is several years away.

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 portfolios behave, but also how the federally guaranteed housing market as a whole performs. This information is critical for developing effective performance standards.

FHA has created a loss mitigation program that scores lender performance on loss mitigation annually and provides financial incentives to lenders to hold down mortgage defaults and minimize FHA claim and property disposition costs relative to other lenders in each FHA insuring district. FHA processed over 20,000 new loss mitigation claims (partial claims, special lender forbearance, and loan recashing) in 1999. These options allowed families to stay in their homes, rather than have the properties go to pre-foreclosure sale or foreclosure, and provided significant savings to FHA.

VA plans aggressive intervention to reduce the likelihood of foreclosure when loans are referred to VA after missing three payments, in order to help veterans retain their homes and avoid the expense and damage to their credit from foreclosure. VA was successful in 37 percent of their 1998 interventions, and their goal is to increase that to 40 percent in 2001.

RHS reviews at least 10 percent of the loans serviced by state-based lenders 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. Since 1998, RHS has commissioned external audits of its largest nationally based loan servicers. The audits focus on both loan origination and loan servicing requirements. These audits have helped to pinpoint program weaknesses contributing to loan delinquencies. In addition, they serve to alert and train servicers on RHS guidelines and reporting requirements.

Managing Risk. 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. Federal loan guarantee programs will need to assess the impact of private sector customization on their loan portfolios, and 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. FHA has mitigated some of the risk on its adjustable-rate mortgages by tightening the underwriting standards to require borrowers to qualify at one percent above the initial rate and to prohibit interest rate buy downs.

Asset Disposition. Common wisdom in the mortgage industry is to avoid foreclosure because that process involves significant losses, including costs for maintenance and marketing. Managers of Federal guarantee programs have found that the best practice is to allow the more experienced private sector to foreclose on, manage, and dispose of properties.

RHS already operates under the "best practice" for asset disposition. The lender is paid the loss claim, including costs incurred for up to six months after the default. After the loss claim is paid, RHS has no involvement in the loan, and it becomes the sole responsibility of the lender. In 2001, RHS will shorten the loss claim period from six months to three months through regulatory changes to encourage lenders to dispose of properties as efficiently as possible.

In 1999 Congress passed legislation giving new authority to FHA to pay claims prior to foreclosure, thereby allowing FHA to pass along defaulted notes to the private sector for servicing and/or disposition. When fully implemented, this new authority will reduce foreclosures and, for properties that do go into foreclosure, this new authority will greatly reduce the time such properties remain on the market. In the meantime FHA has turned over management and marketing of most of its single family properties to contractors, who, within the first six months of the contracts, are providing encouraging levels of returns on claims and timely turnaround on these properties.

VA is continuing its efforts to reduce administrative costs through restructuring, consolidations, and a study of its property management function. The study, which will be completed at the end of fiscal year 2000, will determine whether it would be cost effective to contract property management activities.

RHS Direct Loans

RHS provides subsidized single-family direct loans to very-low- and low-income borrowers unable to get credit elsewhere to purchase, rehabilitate, or repair homes. The most recent and on-going servicing improvement effort is the implementation of the Dedicated Loan Origination Service System (DLOS), which centralizes the servicing of the 502 Direct Loan program. DLOS, along with two regulations implemented between 1996 and 1997, reduced RHS's direct loan subsidy rate by 40 percent.

RHS also offers direct loans to private developers to construct and rehabilitate multi-family rental housing for very-low- to low-income residents, elderly households, or handicapped individuals. It provided $114 million in direct loans in 1999, which will finance 2,100 units for very-low-income tenants. RHS committed $75 million in loan guarantees for multi-family housing in 1999. The loan level is proposed to increase to $200 million for 2001, financing 3,200 new units for low- to moderate- income tenants. The cost of this program is primarily due to the subsidized interest component because expected default rates are low. The Budget includes a legislative proposal to remove the requirement to provide subsidized interest on these loans; this would result in a negative subsidy. The Budget also provides $45 million, a 20 percent increase over 2000, for the farm labor housing program ($30 million in loans; $15 million in grants) as part of USDA's civil rights initiative, which will provide an estimated 925 units for minority farm workers and their families.

Fannie Mae and Freddie Mac

Fannie Mae and Freddie Mac, the largest Government-sponsored enterprises (GSEs), are required by their charters to increase the liquidity of mortgage funds. They carry out this function by purchasing residential mortgages in the secondary market and funding these purchases by issuing mortgage-backed securities (MBS) and debt. As of September 1999, Fannie Mae and Freddie Mac had $2.0 trillion outstanding in mortgages that they had purchased or guaranteed. Of this, $835 billion was retained in the GSEs' portfolios, and $1.2 trillion was issued as MBSs (excluding MBSs held in portfolio).

As the dominant firms in the secondary mortgage market, the GSEs tend to set the standards for the entire mortgage industry. Their business activities also have a significant impact on the primary mortgage market; together, the two firms purchased 43 percent of all single-family mortgages originated in 1998.

The Federal Housing Enterprises Safety and Soundness Act of 1992 reformed Federal regulation of Fannie Mae and Freddie Mac. The Act created the Office of Federal Housing Enterprise Oversight (OFHEO) to conduct safety and soundness examinations and enforce minimum and risk-based capital requirements on Fannie Mae and Freddie Mac. OFHEO has solicited public comment on an extensive range of issues related to a risk-based capital regulation in two Notices of Proposed Rulemaking (NPRs). The comment period for the second risk-based capital NPR closes on March 10, 2000. After OFHEO has reviewed the comments on both NPRs, it will publish the final risk-based capital regulation or revise its proposal. The risk-based capital regulation will become enforceable one year after the final regulation is published.

In recent years, the GSEs' rapid growth in earnings has been accompanied by even more rapid growth of their debt-financed holdings of mortgage assets. From September 1997 to September 1999, outstanding retained GSE holdings grew 76 percent in dollar volume. Increased retained portfolios may imply increased interest rate exposure. In recent years, both Fannie Mae and Freddie Mac have tried to limit the interest rate risk on their portfolios. However, hedges do not eliminate all risk of funding long-term, mostly fixed-rate assets with uncertain payment streams. Implementation of an appropriate risk-based capital regulation should help ensure that potential losses associated with these risks are manageable.

The average credit quality of loans owned or guaranteed by the GSEs has remained steady in recent years. The performance of existing loans has benefitted from strong housing markets that have improved collateral values, and the credit risk to the GSEs from new or outstanding loans is limited by their extensive use of mortgage insurance and other credit enhancements. Although both GSEs are increasingly active purchasers of subprime loans (A-minus and Alt-A), outstanding volumes remain very small relative to their overall size. Risks on such loans are mitigated somewhat by higher fees and credit enhancements.

Under the 1992 Act and their Federal charters, Fannie Mae and Freddie Mac have an affirmative obligation to promote access to mortgage credit for low- and moderate-income families and in underserved areas. Accordingly, the Secretary of Housing and Urban Development (HUD) establishes affordable housing goals for the GSEs. The current goals, which have been in effect since 1997, require each GSE to devote:

- 42 percent of its mortgage purchases to finance dwelling units that are affordable by low- and moderate-income families (Low- and Moderate-Income Housing Goal);
- 24 percent of its purchases to finance units in central cities, rural areas, and other metropolitan areas with low and moderate median income and high concentrations of minority residents (Geographically Targeted Goal); 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 (Special Affordable Housing Goal).

Fannie Mae and Freddie Mac have met or exceeded these goals in each year. New affordable housing goals for the GSEs for the years 2000 through 2003 would be set by a proposed rule that HUD is publishing for public comment. In this proposed rule, after a transition period, the level of the Low- and Moderate-Income

Housing Goal would be 50 percent; the level of the Geographically Targeted Goal would be 31 percent; and the level of the Special Affordable Housing Goal would be 20 percent.

If the trend toward bank consolidation continues, the resulting fewer, larger banks may have somewhat more market power than they have today in negotiating with the GSEs over guarantee fees and fees for automated underwriting services. Fannie Mae and Freddie Mac may also see increased competition from the Federal Home Loan Bank System. However, the GSEs' advantages in financing a retained mortgage portfolio were not affected by the financial modernization legislation enacted in 1999. Thus, the GSEs likely will remain each other's main competition.

Another set of challenges is posed by the firms' own growth and earnings targets, which create significant market expectations for future performance, including continued record earnings. Once implemented, OFHEO's risk-based capital requirements may also affect the GSEs.

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 secure advances with residential mortgages and other housing related assets.

The Financial Services Modernization Act of 1999 repealed the requirement that federally chartered thrifts be members of the FHLBS. Membership will be open to federally chartered and state-chartered thrifts, commercial banks, credit unions, and insurance companies on a voluntary basis. As of September 30, 1999, 7,226 financial institutions were FHLBS members, an increase of 420 over September 1998. About 72 percent of members are commercial banks, 22 percent are thrifts, and the remaining 6 percent are credit unions and insurance companies. However, nearly 47 percent of outstanding FHLBS advances were held by federally chartered thrifts as of September 30, 1999.

The FHLBS reported net income of $2.0 billion for the year ending September 30, 1999, up from $1.6 billion in the previous 12 months. System capital rose from $21 billion to $27 billion, but the ratio of capital to assets fell from 5.4 percent to 5.1 percent. Average return on equity was about 7.3 percent, after adjustment for payment of interest to the Resolution Funding Corporation (REFCORP). Outstanding advances to members reached $367 billion at September 30, 1999, a 48 percent increase over the $246 billion outstanding a year earlier.

The Financial Services Modernization Act requires the System to adopt a risk-based capital structure, and it changed the FHLBanks' annual payment toward the interest payments on bonds issued by the REFCORP from $300 million annually to 20 percent of net earnings. The FHLBanks are also required by law to pay the greater of 10 percent of net income or $100 million to the Affordable Housing Program (AHP) and to provide discounted advances for targeted housing and community investment lending through a Community Investment Program (CIP). The need to generate income to meet these obligations and provide a return to members was behind the substantial increase in the System's investment activity in recent years.

The FHLBS' exposure to credit risk on advances has traditionally been 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.

Unlike the System's advance activities, its investment activities, including certain "pilots," do create certain risks. To control the System's risk exposure, the Federal Housing Finance Board (FHFB), the System's regulator, has established regulations and policies that the FHLBanks must follow to evaluate and manage their credit and interest rate risk. FHLBanks must file periodic compliance reports, and the FHFB conducts an annual on-site examination of each FHLBank. Each FHLBank's board of directors must establish risk management policies that comport with FHFB guidelines.

The FHLBanks hold $1.8 billion in assets in pilot projects, approximately one-half of one percent of total System assets. The pilots offer members an alternative way of granting credit, which will be evaluated by the FHFB in 2000. In one pilot, the FHLBanks finance the loans and assume the interest-rate and prepayment risks, while the members originate and service the loans and assume most of the credit risk. All assets held by a FHLBank under this pilot are required, pursuant to the terms of the program, to be credit enhanced to at least the level of an investment grade security.

The FHLBanks' investment activities pose an important public policy issue regarding the degree to which their asset composition adequately reflects the mission of the System. However, over the last year, outstanding advances increased by six percentage points in relation to the System's outstanding debt. As of September 30, 1999, about 56 percent of advances outstanding had a remaining maturity of greater than one year; that is down slightly from last year's level of 61 percent, but up from the 40 percent level two years ago. Although System investments other than advances rose to $155 billion, as a percentage of total assets, they fell to 29 percent on September 30, 1999. A year earlier, investments stood at $136 billion, or 35 percent of total assets. Non-advance investments are used to conduct extensive arbitrage; like other GSEs, the System issues debt securities at close to U.S. Treasury rates and invests the proceeds in higher yielding securities. In fact, in 1999 the FHLBS issued $3.1 trillion in debt securities. However, the majority of debt issued by the System is overnight or short-term, and total debt outstanding was about $477 billion at the end of 1999.

An enormous, liquid, and efficient capital market exists for conventional home mortgages today. As a result of increasing Government Sponsored Enterprise (GSE) and Federal agency sponsorship of secondary markets and the increasing presence of private securitizers, lenders have access to substantial liquidity sources, in addition to FHLBS advances, for financing home mortgages. However, the Financial Services Modernization Act increases access to the FHLBS for community financial institutions with $500 million or less in assets and permits advance borrowing that provides funds for small businesses, farms, and agri-businesses.

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 (Direct Loan) 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 2001, more than 6 million borrowers will receive 9.4 million loans totaling nearly $42 billion. Of this amount, $33 billion is for new loans, and the remainder is 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 Federal Family Education Loan program provides loans through a complex administrative structure involving over 4,100 lenders, 36 State and private guaranty agencies, 50 participants in the secondary market, and over 4,000 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. In 2001, FFEL lenders will disburse more than 6 million loans exceeding $26 billion in principal. Lenders bear two percent of the default risk, and the Government and guaranty agencies are responsible for the remainder. The Department also makes administrative payments to guaranty agencies and pays interest subsidies to lenders.

The William D. Ford 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 Direct Loans, the Federal Government provides loan capital directly to nearly 1,300 schools, which then disburse loan funds to students—greatly streamlining loan delivery for students, parents, and schools. In 2001, the Direct Loan program will generate more than 3.2 million loans with a total value in excess of $15 billion. 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 a number of reforms to the guaranteed loan system that will ensure that financial returns to program participants are both reasonable and equitably distributed, improve the efficiency of loan default collection efforts, and return unneeded funds to the Federal Treasury. Proposed changes are estimated to save $3.8 billion over five years.

As part of the Ticket to Work and Work Incentive Improvement Act of 1999, the basis for interest subsidies to FFEL lenders was changed from the 91-day Treasury bill—the instrument upon which student interest rates are based—to 3-month commercial paper rates. This change, opposed by the Administration and a number of higher education organizations, was portrayed by both its congressional sponsors and advocates in the lending community as not increasing lender returns. In fact, the change increases lender yields in two ways. Under current economic forecasts, Federal interest subsidies to lenders are actually 11 basis points higher than they would have been under the previous formula. In addition, the move to commercial paper also reduces lender costs by 20 basis points by eliminating the need for hedging—insurance against future interest rate changes. In order to reestablish the cost-neutrality of the change to commercial paper, the Administration is therefore proposing to reduce lender subsidies by a total of 31 basis points.

In addition, the Administration is proposing to eliminate interest subsidy payments on FFEL loans funded through tax-exempt securities that are currently subject to a 9.5 percent interest rate floor. Lenders with access to tax-exempt financing have a lower cost of funds than their private competitors; the proposed elimination of Federal interest subsidies on loans subject to this unnecessary floor provision will bring the return on tax-exempt-funded loans roughly in line with those realized on loans funded with private capital.

The Administration is proposing to improve the management and collection of defaulted loans through two new initiatives. First, the amount guaranty agencies may retain on default collections will be reduced from 24 percent to 18.5 percent—approximately the rate paid on loans collected by the Department of Education through competitively awarded contracts. This will provide the guaranty agencies greater incentive to increase collections on defaulted loans in order to bolster revenues. Second, the Administration proposes to further reduce guaranty agency retention to 12 percent for collections stemming from the consolidation of defaulted loans, the Department's cost for similar loans, reflecting the lower cost associated with this type of collection.

Beginning in 2001, all guaranty agencies will be able to participate in voluntary agreements created by the

Higher Education Amendments of 1998 (HEA) to create a more flexible regulatory framework that recognizes the unique circumstances of individual agencies. For example, agencies could use these agreements to pilot streamlined or targeted default collection strategies that are not allowed under current regulations. (A small number of agencies are currently working with the Department of Education to establish pilot agreements that would go into effect during 2000.) The broad availability of these voluntary flexible agreements will reduce the need for agencies to hold Federal reserve funds; accordingly, the Administration is proposing to bring forward to 2001 recalls of $359 million in future reserves enacted in the HEA and the Balanced Budget Act of 1997. The Administration is also proposing to recall $950 million in surplus reserves during fiscal year 2001.

The Department of Education continues to improve program integrity and reduce default costs. The Department is taking advantage of new automated systems to review and analyze institutional eligibility information, and 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 more than 1,700 schools. This enhanced scrutiny has helped reduced the national student loan cohort default rate from 9.6 percent for 1996 to 8.8 percent for 1997, the sixth 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.

As one of Education's Performance Management Objectives, modernizing student aid benefit delivery is a key priority. Accordingly, the Department has converted the Office of Student Financial Assistance into the Government's first Federal performance-based organization (PBO). The PBO is designed to improve the management of all student aid programs, using its expanded procurement and contracting flexibilities. This new organization is focusing on re-engineering information systems and expanding electronic data exchange to improve customer service, enhance data quality, and lower costs. The PBO is working with students, lenders, guaranty agencies, and others to develop a strategic performance plan to address customer needs, enabling more students to gain information on Federal aid on the Internet, apply for it electronically, and have their eligibility determined quickly.

Sallie Mae

The Student Loan Marketing Association (Sallie Mae) was charted by Congress in 1972 as a for-profit, shareholder-owned, Government-sponsored enterprise (GSE). Sallie Mae was privatized in 1997 pursuant to the authority granted by the Student Loan Marketing Association Reorganization Act of 1996. The GSE is a wholly owned subsidiary of SLM Holding Corporation and must wind-down and be liquidated by September 30, 2008. The Omnibus Consolidated and Emergency Supplemental Appropriations for 1999 allows the SLM Holding Corporation to affiliate with a financial institution upon the approval of the Secretary of the Treasury. Any affiliation will require the holding company to dissolve the GSE within two years of the affiliation date (unless such period is extended by the Department of the Treasury).

Sallie Mae makes 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). Generally, under the privatization legislation, the GSE cannot engage in any new business activities or acquire any additional program assets other than purchasing student loans. The GSE can continue to make warehousing advances under contractual commitments existing on August 7, 1997. Sallie Mae currently holds about one-third of all outstanding guaranteed student loans.

Business and Rural Development Credit Programs and GSEs

Small Business Administration

Over the past six years, SBA has expanded small businesses' access to credit, increasing its annual loan volume by 62 percent, from $7.4 billion in 1993 to $12.1 billion in 1999. This increase, across all of SBA's business credit programs, has occurred while staffing has been reduced by about 20 percent.

SBA's principal program, Section 7(a) General Business Loans, has improved access to credit for the Nation's most under-served small businesses over the last three years through several successful initiatives. The Low Documentation (LowDoc) initiative reduced the application form for 7(a) loans under $150,000 to a single page, allowing both lenders and SBA to process loans in less than two days. The SBAExpress program (the former FA$TRACK pilot, now permanent) allows lenders to use their own forms and procedures in exchange for a reduced Government guarantee. These initiatives and aggressive lending goals have helped to increase loan approvals to minority- and women-owned businesses from $1.8 billion in 1993 to $4.6 billion in 1999.

Increasing Access to Credit

SBA is proposing several new initiatives to further expand access to credit by qualified borrowers who are unable to secure financing without Government participation.

Targeting "new markets." With the $16.5 million appropriated in FY 2000 (contingent upon authorization), SBA proposes to target "new markets"—regions where small business growth has been very limited. The proposed initiatives will provide patient capital and technical assistance to private-sector lenders and nonfinancial intermediaries in underserved inner cities and rural areas. SBA will also expand the number of participating intermediaries in the microloan program, which to date has experienced no defaults as a result of strict agency oversight, rigorous reserve requirements, and a companion technical assistance program to increase the borrower's probability of success.

Financing smaller loans. Commercial lenders frequently avoid making smaller loans due to high fixed costs per dollar lent, resulting in an access barrier for many startup firms or established firms whose financing needs do not meet the lenders' minimum thresholds. To close this access gap, SBA's 2001 request proposes to standardize the guarantee fee and to increase the guarantee percentage on loans up to $150,000 in order to provide an incentive to lenders to make these loans. These changes would result in higher subsidy costs due to reduced fee revenue and higher claim payments in the event of default. However, SBA is also proposing a fee simplification plan which will make the combined impact of all changes subsidy rate neutral.

Integrating Private Sector Practices

Reliance on private sector partners. With its portfolio growing from $20.7 billion in 1993 to more than $32.5 billion in 1999, SBA has relied increasingly on private sector partners for loan servicing and liquidation. The 7(a) program, which accounted for more than 70 percent of SBA's business lending in 1999, has experienced the greatest shift to private partnership. Under the Preferred Lender Program (PLP), SBA's most experienced lenders have authority to approve, service, and liquidate SBA-guaranteed loans in exchange for a reduced guarantee. Loans approved through PLP lenders comprised 58 percent of all 7(a) loan approval dollars in 1999. SBA also requires all non-PLP lenders to service and liquidate their SBA-guaranteed loans. These policies have shifted SBA's principal role from origination and servicing to one of oversight and monitoring of private sector partners.

Need for better oversight tools. Over the past six years, SBA has significantly increased its loan portfolio, reduced staffing, and delegated its servicing and liquidating authorities to its private sector partners. During this period, commercial small business lenders have become increasingly more sophisticated in identifying credit risk, and many 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. To ensure that the agency meets its portfolio management responsibilities, SBA will invest $8 million in 2000 to modernize the Agency's information systems. An additional $13 million is requested for 2001. This funding will allow SBA to improve internal accounting systems, recruit expertise in lender oversight, develop the necessary in-house systems to support lender monitoring, and create a centralized corporate database.

Reform initiatives. In 2000, SBA will continue to shift from loan servicing to lender oversight. Initiatives already in progress include: (1) selling all direct loans and defaulted guaranteed loans, and (2) making strategic investments in better portfolio oversight tools. This will allow SBA to focus on its goals of increasing access to credit, while relying on private lenders to perform functions where they have historically been more efficient. In conjunction with this shift in agency focus, SBA is proposing to implement a multi-year workforce transition strategy, beginning in 2000, to retrain workers in the skills needed in the SBA of the 21st Century, move employees to those functions where their skills will be most utilized, and provide retirement incentives for those employees who do not wish to participate in the transition effort.

Loan asset sales. One of the most significant events in completing the transition from loan servicing to lender oversight is SBA's sale of its current portfolio of defaulted guaranteed loans and direct loans in 1999, 2000, and 2001. In its first asset sale in 1999, SBA sold more than 4,000 loans for $195 million—a $90 million premium over the $105 million that the agency estimated it would have collected if it held these loans to maturity. The portfolio included performing and non-performing 7(a) and Certified Development Companies (CDC) loans. Two sales of approximately $1 billion each are currently scheduled for 2000; these will include 7(a), CDC and disaster assistance business and home loans. Drawing on experience of other Federal agencies, the SBA's analysis of its portfolio value stemming from its Liquidation Improvement Project, and the results of the initial asset sale, the Administration estimates that SBA's business loan assets can be sold at a gain to the Government. It is anticipated that the planned sales will also yield future operational cost savings.

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. The community facility programs are targeted to rural communities with fewer than 20,000 residents (fewer than 10,000 for the water and wastewater programs).

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, including cooperatives, to increase employment and diversify the rural economy. In 2001, USDA proposes to provide $1.3 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

$1.2 billion in 1999. The default rate for these programs is currently low.

The 1996 Farm Bill created 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 and localities. In 1997, Congress provided increased flexibility through three funding "streams," but blocked transfers among streams. In 1998, Congress consolidated the three streams into one RCAP account, but the 1998 through 2000 appropriation bills still did not allow transfers between funding streams. The Budget proposes $763 million for a fully flexible RCAP.

Electric and Telecommunications Loans

USDA's rural electric and telecommunications program makes new loans to maintain existing infrastructure and to modernize electric and telephone service. Historically, the Federal risk associated with the $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 $667 million was written off in 1997. As we move into the 21st century both the telephone and electric industries are moving into a more competitive environment.

In the electric industry, increased deregulation may erode loan security and the ability of some 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's Rural Utilities Service (RUS) proposes to make $1.6 billion in direct and guaranteed loans in 2001 to rural electric cooperatives, public bodies, nonprofit associations, and other utilities in rural areas for generating, transmitting, and distributing electricity. Included in this funding request is $400 million for private sector guarantees. The demand for loans to rural electric co-operatives is expected to continue to rise as borrowers replace many of the 40-year-old electric plants.

The Distance Learning and Telemedicine program provides grants ($25 million in 2001) and loans ($300 million in 2001) to encourage and improve telemedicine and distance learning services in rural areas through the use of telecommunications, computer networks, and related advanced technologies by students, teachers, medical professionals, and rural residents. As part of the Digital Divide Initiative, RUS will create a pilot program to fund $2 million in grants and $100 million in Treasury rate loans in 2001 to be used in a grant/loan combination to finance installation of broadband transmission capacity (i.e. the fiber optic cable capacity needed to provide enhanced services such as the Internet or high speed modems) to and through rural communities. The other purpose for which RUS would provide a loan and grant combination would be local dial-up Internet service to underserved areas. These funds could be targeted to communities that currently lack Internet access via a local call. Recipients of these loans and grants would be current RUS telecommunication co-ops and businesses serving rural areas and rural communities.

The Rural Telephone Bank (RTB) provides financing for rural telecommunications systems. The 2001 Budget re-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 full 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 certain Government-wide regulations, policies, and procedures. Funding for both administrative expenses and subsidy budget authority would be provided from the RTB's retained earnings beginning in 2001. The RTB would be free to establish its interest rates or charge administrative fees and institute an essentially private governance structure, which would allow the RTB to demonstrate its ability to be financially self-sufficient. This would be the necessary stepping stone to full privatization.

Loans to Farm Operators

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

As a condition of eligibility 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. As FSA is the "lender of last resort," high defaults and delinquencies are inherent in the direct loan program; over $15 billion in direct farm loans have been written off since 1988, compared to just over $40 billion in loans disbursed and guaranteed.

FSA-guaranteed farm loans are made to more creditworthy borrowers who have access to private credit markets. Because the private loan originators must retain 10 percent of the risk, they exercise care in examining borrower repayment ability despite the Federal guarantee. As a result of this incentive and the difference in borrower characteristics, guaranteed farm loans have not experienced losses as high as those on direct loans.

The Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 1999 changed portions of the servicing requirements for delinquent borrowers. A borrower who has received an FSA loan write-down or write-off may now be eligible for an additional farm operating loan when the borrower is current under a debt reorganization plan or in certain emergency circumstances. 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 the 1996 Farm Bill, acquired property remained in inventory on average for five years before the FSA could dispose of it.

As part of USDA's Civil Rights Initiative, a reserve of loan funding is established each year for targeted lending to socially disadvantaged farmers and ranchers. In 1999, over $290 million in loans to socially disadvantaged producers were made, and that number is expected to more than double in 2000.

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 a business risk exceeding that of other GSEs because their borrowers are generally dependent on a single economic sector; agriculture. 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 provided Federal assistance to bail out the FCS and created Farmer Mac.

The Nation's agricultural sector and its lenders continue to exhibit stability in their incomes and balance sheets, thanks in part to record Government emergency assistance payments in 1999. Commodity prices remained low in 1999, and long term forecasts are for very gradual recovery. Farm income levels, including Government payments, have enabled most borrowers to maintain strong debt-to-asset ratios, and lenders to keep loan delinquencies well below problem thresholds. Farmland values gained modestly in 1999 as interest rates and inflationary expectations remain low. However, such aggregate facts mask the problems of a significant number of individual small farmers. Further, regulators have voiced concern over the extent to which credit card financing may be in use among farmers and ranchers, a statistic they are unable to monitor.

Another sign of the generally stable condition of agricultural finance is the greater share of credit provided by commercial banks. From 1986 to 1998, commercial banks' share of all farm debt increased from 24 percent to 41 percent, while the share for FCS declined from 29 percent to 26 percent. USDA direct farm loan programs went from a market share of 12 percent to 5 percent though, if adjusted for its guaranteed loans issued through private banks, that percentage would more than double. FCS is expected to maintain 1998 market share levels in 1999.

The Farm Credit System

The financial condition of the Farm Credit System banks and associations during 1999 continues an 11-year trend of improving financial health and performance. Nonperforming loans decreased to 1.5 percent of the portfolio, down from 1.6 percent in 1998. Loan volume has gradually increased since 1992, although the $69.7 billion in September, 1999 is well below the high of over $80 billion in the early 1980s. Increases in loan volume and declines in the cost of funds have widened the FCS's net margin between interest received and interest paid from less than one percent in 1987 to 2.75 percent in 1999.

Improved asset quality and income enabled FCS to post record capital levels: by September 30, 1999, capital stood at $13.2 billion—an increase of 6 percent for the year, 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 required of FCS institutions to cover the remainder. The FCS has further reduced its risk exposure by retiring all of its high-coupon long-term debt, using marginal cost loan pricing, and adopting 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 FCS districts with 36 banks plus 376 associations; by October 1999, there were only 6 FCS districts, 7 banks, and 178 associations.

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 paid by FCS institutions, supplement 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, 1999, the Insurance Fund's net assets were $1.3 billion, and are estimated to maintain the legally required level of at least two percent of outstanding debt in 2000.

Improvement in the FCS' financial condition is also reflected in the evaluations of FCS member institutions by 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 1999, in contrast, 180 institutions were given the top ratings, only 5 received the mid-range rating of "3," and none 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 none were in effect on September 30, 1999.

FCS loans outstanding as of September 1999 were $66 billion, up 6 percent over 1998, and representing a 34 percent increase since 1990. Loans to farmers and other eligible producers comprise 74 percent of the System's portfolio. The volume of lending secured by farm land has been generally stagnant since 1990, but farm operating loans have increased over 40 percent since 1992. Loans to finance processing, marketing, credit cooperatives, and rural utilities cooperatives accounted for 21 percent of FCS's portfolio at fiscal year-end 1999. The remaining 3 percent of the portfolio is made up of non-farm rural home loans (2 percent) and international loans (3 percent).

The System expects 1999 farm earnings to be a near-record $48 billion, up from $44 billion in 1998. These strong reported earnings, and farm income generally, have relied heavily on Government assistance payments in recent years. Federal payments of $12 billion in 1998 and $22 billion in 1999 to farmers and ranchers compensated for depressed commodity prices and declining exports. The Farm Credit System, while continuing to record strong earnings and capital growth, remains exposed to numerous risks, including concentration risk, changes in Government assistance payments, and the volatility of exports and crop prices.

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's authorities have been legislatively expanded to permit it 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 (known as the "Farmer Mac II" program). 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 and interest rate risk. As a direct purchaser of loans with no required subordination other than a maximum 75 percent loan-to-value ratio for loans to qualify for purchase, Farmer Mac is exposed to greater risk and must set appropriate fees and level of capital reserves. Loan purchases and guarantees have both increased since the passage of the 1996 Act. Both trends indicate positive progress in the slowly developing agricultural secondary markets.

The 1996 Act gave Farmer Mac three additional years to reach its capital requirements, and two 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 1999 capital is estimated to be about $87 million—three times greater than the 1996 statutory capital requirement and fully compliant with the revised regulatory capital requirements.

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.

Overall, globalization of private capital markets has led private lending to dominate officially supported direct and guaranteed credit. Aggregate net resource flows to all developing countries grew from $152 billion in 1992 to $275 billion in 1998. In comparison, resource flows from official direct or guaranteed credit were about the same in 1998 ($24 billion) as in 1992 ($25 billion).

Federal international lending agencies coordinate for consistent policy design and credit implementation to level the playing field for U.S. exporters, deliver robust support for U.S. manufactured goods, stabilize international financial markets, and promote sustainable development.

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

The Interagency Country Risk Assessment System (ICRAS) standardizes the way in which agencies budget for the risk of international lending. The cost of lending by the agencies is governed by ratings and premia established by the ICRAS. These premia use assumptions about default risk in international lending based on international bond market data. The premia for 2001 have been updated to reflect more recent data. Because the eighteen months of additional bond market data captured many bonds issued or traded during the height of the global financial crisis, the risk premia increased on average by 25 percent. All else being equal, the impact of the change in premia will constrain the level of lending an agency may be able to implement. However, the practical impact of the premia change will depend on a host of other factors such as maturity, risk mix, and fees.

For the purpose of significantly improving the U.S. Government's reporting and analysis of foreign credits, including loans, guarantees, and insurance, the Treasury Department is coordinating the development, with interagency support, of the Foreign Credit Reporting System (FCRS). The system will provide government officials with desktop internet access to cross-cutting foreign credit information for policymaking and analytical purposes. While the system is currently under development, a prototype is expected during 2000, followed by a fully operational system in 2001.

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 strategically "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.

Supporting more manufacturing exports. In 1999, Eximbank supported exports totaling $13 billion with a budget of $676.5 million. Eximbank's role is important in developing markets where the international financial crisis has rolled back private finance, or in markets where there is officially supported ECA competition. The 2001 Budget proposes $963 million in credit resources for Eximbank, an increase of $207 million or 27 percent above its 2000 budget of $756 million—so that Eximbank can:

- *Partially offset the higher risks and costs, of international lending.* The revised ICRAS premia recognize the risk in the marketplace, and so significantly increases the cost of lending for Eximbank, especially at the maturities and in the markets in which Eximbank is most needed.
- *Help meet the demand for financing aircraft and capital equipment exports in developing markets.* One of every four U.S. commercial aircraft is sold to an Asian airline, but commercial credit has decreased drastically because of Asia's economic problems. Eximbank currently finances 10 percent of all U.S. capital equipment exports to the developing world. More funding will allow Eximbank to provide significantly more long-term financing for exports of U.S. manufactured capital goods and aircraft.
- *Finance exports to riskier markets.* U.S. exporters increasingly seek Eximbank financing to meet the demand in riskier markets, but the higher cost of providing such financing uses a greater proportion of Eximbank's budgetary resources. Eximbank support is critical in these markets because bank financing often is unavailable, and U.S. exporters compete with government-financed foreign firms.

USDA's GSM-102 and 103 programs guarantee credit extended by private U.S. exporters and U.S. financial institutions to facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales of agricultural products. The GSM programs are targeted to countries where government guarantees are needed to counter competition from countries that offer credit through ECAs or commodity marketing boards.

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 multilateral basis through the IMF (discussed in other sections of the Budget), or through a loan provided by the Exchange Stabilization Fund (ESF).

The ESF may provide "bridge loans" to other countries in times of short-term liquidity problems and financial crises. In the past, "bridge loans" from ESF provided dollars to a country over a short period before the disbursement under an IMF loan. A package of up to $20 billion of ESF financial support was made available to Mexico during its crisis in 1995. Such support was essential in helping to stabilize Mexican and global financial markets. Mexico paid back its borrowings under this package ahead of schedule in 1997, and the United States earned almost $600 million in interest. There was zero subsidy cost for the United States as defined under credit reform, as the medium-term credit carried interest rates with an appropriate country risk premium built in.

The United States was also willing to provide ESF support in response to the financial crises affecting some countries such as South Korea in 1997 or Brazil in 1998. It did not prove necessary to develop an actual ESF credit facility for Korea, but the United States agreed to use up to $5 billion from the ESF as part of a multilateral guarantee of a Bank for International Settlements credit facility for Brazil. Such support helped to provide the international confidence needed by these countries to begin the stabilization process.

Using credit to promote sustainable development. Credit has become an increasingly important tool in U.S. bilateral assistance to promote sustainable development. In 1999, OMB certified that USAID could adequately manage its credit programs as required in the 1998 Foreign Operations Appropriations Act. USAID's newest credit tool is the Development Credit Authority (DCA) that provides non-sovereign loans and loan guarantees in cases where credit is more effective than grants to achieve sustainable development, such as more effective financial markets or reductions in global climate change-causing emissions. A consolidation of all of USAID's credit programs is requested in the 2001 Budget to create a unified Office of Development Credit. This office will encompass DCA activities as well as USAID's traditional microenterprise and urban environmental credit programs.

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. OPIC has implemented investment funds, on-lending facilities, and bond insurance—building onto its traditional political risk insurance, lending, and guarantee products.

III. INSURANCE PROGRAMS

Deposit Insurance

Federal deposit insurance was begun in the 1930s to protect depositors against 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 savings associations (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 over $2.8 trillion of deposits at over 8,600 commercial banks and almost 1,700 savings institutions. The NCUA insures 10,841 credit unions with $323 billion in insured shares.

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 of 1989 and the Federal Deposit Insurance Corporation Improvement Act of 1991. These reforms, combined with more favorable economic conditions, helped to restore the health of depository institutions and the deposit insurance system. Only one thrift failed in 1999, becoming the first SAIF-member to fail since 1996. Five commercial banks failed during 1999. Eighteen credit unions with $67 million in assets failed during 1999. The FDIC currently classifies only 80 institutions with $8 billion in assets as "problem" institutions, compared to nearly 318 institutions with $73 billion in assets just five years ago.

Banks have achieved record levels of earnings in recent years. As of September 30, 1999, BIF had estimated reserves of $29 billion, 1.38 percent of insured deposits.

The earnings of the thrift industry also have improved significantly in recent years. As of September 30, 1999, SAIF's reserves reached an estimated $10.2 billion or 1.44 percent of insured deposits. This total includes the $978 million SAIF Special Reserve that was established on January 1, 1999, in accordance with the Deposit Insurance Funds Act (DIFA) of 1996. The Special Reserve has now been eliminated by the Financial Services Modernization Act of 1999.

The FDIC continues to maintain deposit insurance premiums in a range from zero for the healthiest institutions to 27 cents per $100 of deposits for the riskiest institutions. Due to the strong financial condition of the industry and the insurance funds, 94 percent of commercial banks and 91 percent of thrifts did not pay insurance premiums in 1999.

The National Credit Union Share Insurance Fund (NCUSIF) also remains strong with assets of $4.2 billion. Each insured credit union is required to deposit and maintain in the fund an amount equal to 1 percent of its member share accounts. In 1999, 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 fifth consecutive year that the Fund paid a dividend to federally insured credit unions. The Board also waived premiums for 2000.

Although depository institutions and their Federal insurance funds currently are in good financial condition, the U. S. economy has experienced strong growth in recent years. This trend is unlikely to continue indefinitely. An economic downturn, international events, or other changes in the industry could put pressure on industry profits and ultimately on the deposit insurance funds. For example, the spate of mergers among large banks in the last several years has increased the probability that a failure of one of America's 25 largest banks would bankrupt the deposit insurance funds. Even in good economic times, occurrences of substantial fraud—such as the failure of First National Bank in Keystone, West Virginia, which is expected to cost the FDIC up to $850 million to resolve—can significantly reduce the deposit funds' balances. On the other hand, the President's signature of the Financial Services Modernization Act may make future failures less likely by allowing banks to diversify their activities, though this remains to be seen.

Legislative, Judicial and Regulatory Developments

On November 12, 1999, the President signed the Financial Services Modernization Act of 1999 (P.L. 106–102), thereby making the most important legislative changes to the structure of the U.S. financial system since the 1930s. This historic Act will stimulate greater innovation and competition in the financial services industry. Specifically, the Act repeals provisions of the Glass-Steagall Act that, since the Great Depression, have restricted affiliations between banks and securities firms. It also amends the Bank Holding Company Act to remove restrictions on affiliations between banks and insurance companies. Furthermore, it grants banks significant new authority to conduct many newly authorized activities through operating subsidiaries.

The Act also ensures that the needs of all communities are met and consumer rights are protected. It preserves the significance of the Community Reinvestment Act (CRA), by requiring that financial institutions that take advantage of the new opportunities created by the Act, have a satisfactory record of meeting the needs of all the communities that they serve. Also under the Act, financial institutions must clearly disclose their privacy policies to customers up front and annually, allowing consumers to make informed choices about protecting their financial privacy. For the first time, consumers will have a right to know if their financial institution intends to share or sell their personal financial data, within the corporate family or with an unaffiliated third-party. Consumers will have the right to "opt out" of such information sharing with unaffiliated third parties.

In 1999 the National Credit Union Administration promulgated rules to implement the historic Credit Union Membership Access Act, which was signed into law in 1998. These rules will allow credit unions to accept members from multiple employers with fewer than 3,000 employees; implement prompt corrective action; and implement changes to the National Credit Union Share Insurance Fund's equity ratio calculation and dividend policies.

The Federal regulators of depository institutions (FDIC, the Federal Reserve Board, the Comptroller of the Currency, the Office of Thrift Supervision, and the NCUA) assisted banks, thrifts, and credit unions throughout the Nation in making a smooth transition to the Year 2000. During the Year 2000 transition, the Nation's payment systems functioned well, and currency supplies were adequate to meet demand. Credit cards, debit cards, checks and automated teller machines worked normally. The successful transition marks the end of three years of preparation for the century date change.

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 vested guaranteed 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 that are currently healthy but become distressed, and from changes in the funding of plans and their investment results.

The number of plans insured by PBGC has been declining as small companies with defined benefit plans terminate them and shift to defined contribution pension arrangements such as 401(k) accounts. The number of plans with 1,000 or more participants has increased slightly since 1980. However, the number of active workers in defined benefit plans declined from 29 million in 1985 to fewer than 24 million in 1995. If the trend continues, by 2003 fewer than half of the participants in defined benefit plans will be active workers; the rest will be retirees.

In 1999, PBGC posted a positive financial position for the fourth straight year after 21 years of being in a deficit position. This was due to good economic conditions and favorable investment returns. But risk remains. That risk has been reduced somewhat by steps taken by PBGC and the Congress. Since 1990, PBGC has been working more actively to prevent and mitigate losses. Under its Early Warning Program, PBGC has negotiated 90 major settlements with companies, providing nearly $17.5 billion in extra contributions and other protections that improved pension security for over 2 million people and reduced PBGC's future exposure. 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.

PBGC's single-employer program fared well in 1999, with no major terminations. Overall investment returns were positive. Strong performance in its trust funds, which are invested in equities, offset losses in its revolving funds, which are invested in U.S. Government securities. Premium revenues dropped for the third year in a row, partly reflecting a previously enacted increase in the statutory interest rate for calculating underfunding.

PBGC's multiemployer program, which guarantees pension benefits of certain unionized plans offered by several employers in an industry, remained financially strong despite a large loss from one plan. The Administration proposes to increase the maximum guarantee level on pension benefits paid to retirees in multiemployer plans 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.

This Budget proposes a new and simplified defined benefit pension plan for small businesses, featuring accounts for individual participants. The new plan guarantees a known level of annual income throughout a worker's retirement years. The new plan is designed to be fully funded virtually constantly, but also would be protected by PBGC at a reduced premium. The Budget also proposes to phase-in the PBGC's variable rate premium for new plans, a lower flat-rate premium and no variable rate premium for the first five years of new plans of small employers. In addition, the Budget proposes expanding the PBGC's missing participant program to terminating multiemployer and terminating defined contribution plans, and simplifying the guarantee rules for business owners.

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.

The flood insurance policy base increased by nearly 70,000 policies in 1999. The NFIP's "Cover America" initiative, which is a major marketing and advertising campaign, continues 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 now allows policyholders in nearly 900 communities to receive discounts of at least 5 percent on their premiums by undertaking activities which will reduce flood losses, facilitate more accurate insurance rating, and promote public awareness of flood insurance and flood risk.

In 1997, the NFIP offered expanded insurance to cover increased costs of compliance, as authorized by the National Flood Insurance Reform Act of 1994. This separate 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.

FEMA will continue efforts to reduce future flood damage by educating Federal financial regulators about mandatory flood insurance requirements for federally related home and business loans on properties 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.

The 2001 Budget proposes two additional reforms of this program. First, the Administration seeks authorization to use up to $50 million from FEMA's Disaster Relief Fund to begin the process of purchasing and/or elevating insured properties that have flooded repeatedly over the last 10 years. This effort will ultimately result in lower claims payments. Second, the Budget includes a proposal to charge a $12 license fee for the use of FEMA's flood hazard maps to support a multi-year program to update and modernize FEMA's inventory of floodplain maps. These maps are essential in developing appropriate risk-based flood insurance premium charges, will ensure that property owners have appropriate levels of insurance, and will result in a more actuarially sound program.

Crop Insurance

Subsidized Federal crop insurance administered by USDA assists farmers in managing yield shortfalls due to bad weather or other natural disasters. Private companies are unwilling to offer multi-peril crop insurance without Government reinsurance 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 service crop insurance policies. The Federal Government reimburses private companies for part of the administrative expenses associated with providing 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.) In 1995, 82 percent of eligible acres participated in the program—140 percent more than in 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. That number increased to 67 percent in 1999 due to the crop insurance purchase requirement attached to disaster benefits provided in 1999. That requirement is in place for just two years and 61 percent is considered the average expected participation level absent such requirements.

The 1996 Farm Bill significantly changed USDA's commodity programs and associated price and income support for farmers. When the President signed the Farm Bill, he 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." To begin to address the safety net problem, the 1998 Budget proposed to expand the crop insurance program to include "revenue insurance" coverage. Revenue insurance protects farmers against lost revenue caused by low prices, low yields, or any combination of the two. Revenue insurance programs are now available in 36 states and further expansion is being studied.

In 1999, USDA unveiled a pilot "whole farm" revenue insurance plan to cover diversified farming and ranching operations with a single revenue insurance policy. The Adjusted Gross Revenue (AGR) policy insures the five-year average revenue of a farming or ranching operation on the basis of the producer's Schedule F for Farm Income on Federal tax returns. In addition to being USDA's first insurance policy to cover livestock, AGR marks a departure from the expensive, labor-intensive approach to crop insurance which currently requires considerable information collection, and farm visits for loss adjustment and compliance verification.

Emergency funding in 1999 and 2000 added more crop insurance premium subsidies for those years and raised program participation to record levels. In the 1999 crop year, gross liability insured reached over $30 billion in crop production value compared to $26 billion in 1998. The program is expected to sustain or increase these participation levels if the Administration's proposal to strengthen the farm safety net is enacted by Congress. The proposal, discussed in the main Budget volume, includes increased subsidies for producers purchasing crop insurance in order to provide incentives for greater coverage, as well as a pilot livestock insurance program, multi-year loss policies, increased risk management education, and outreach to producers.

Chart 8-1. Face Value of Federal Credit Outstanding

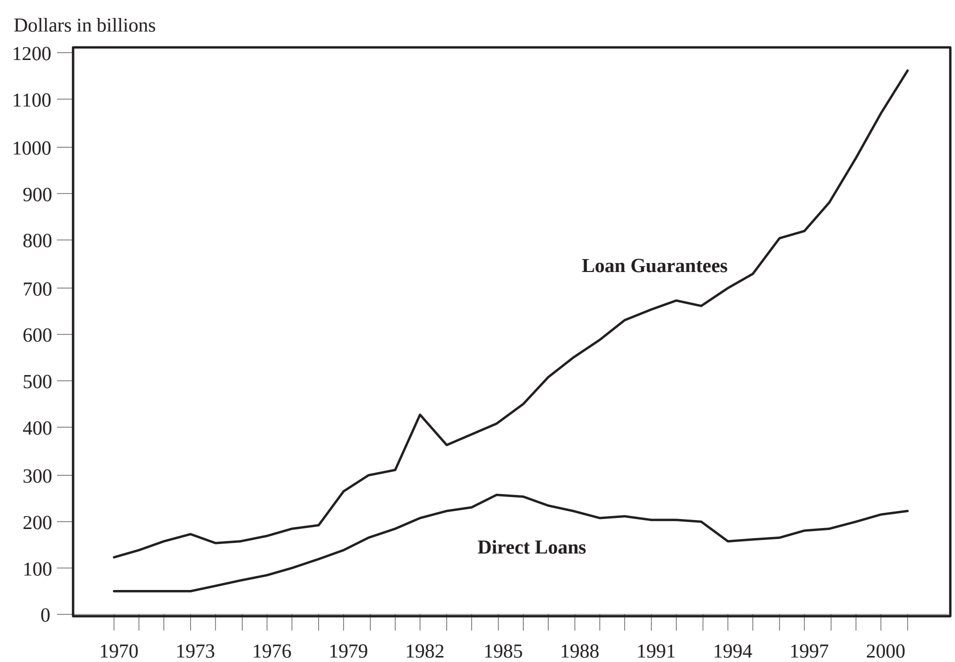

Table 8–1. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS

(in billions of dollars)

Program	Outstanding 1998	Estimated Future Costs of 1998 Outstanding [1]	Outstanding 1999	Estimated Future Costs of 1999 Outstanding [1]
Direct Loans [2]:				
Federal Student Loan Programs	47	2	65	2
Farm Service Agency (excl.CCC), Rural Development, Rural Housing	46	14	45	12
Rural Electrification Admin. and Rural Telephone Bank	34	4	29	3
Housing and Urban Development	14	2	14	3
Agency for International Development	12	6	11	6
Public Law 480	11	7	11	8
Export-Import Bank	11	3	12	6
Commodity Credit Corporation	8	2	7	3
Federal Communications Commission	7	2	8	5
Disaster Assistance	7	1	7	2
Other Direct Loan Programs	20	3	22	2
Total Direct Loans	217	45	234	50
Guaranteed Loans [2]:				
FHA Mutual Mortgage Insurance Fund	380	-2	411	-3
VA Mortgage	211	5	221	6
Federal Family Education Loan Program	118	12	127	12
FHA General/Special Risk Insurance Fund	89	7	93	7
Small Business	37	2	39	2
Export-Import Bank	22	1	25	1
International Assistance	19	2	19	2
Farm Service Agency and Rural Housing	14	0	17	0
Commodity Credit Corporation	4	2	7	1
Other Loan Guarantee Programs	20	0	16	0
Total Guaranteed Loans	916	29	976	29
Total Federal Credit	**1,133**	**74**	**1,210**	**80**

Note: Detail may not add to total due to rounding.

[1] Direct loan future costs are the financing account allowance for subsidy cost and the liquidating account allowance for estimated uncollectible principal and interest. Loan guarantee future costs are estimated liabilities for loan guarantees.

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

Table 8–2. FACE VALUE OF GOVERNMENT-SPONSORED ENTERPRISE LENDING

(in billions of dollars)

	Outstanding	
	1998	1999
Government Sponsored Enterprises: [1]		
Fannie Mae	989	1,141
Freddie Mac	702	843
Federal Home Loan Banks [2]	246	367
Sallie Mae [3]	0	0
Farm Credit System	60	66
Total	**1,997**	**2,417**

[1] Net of purchases of federally guaranteed loans.

[2] 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 1999 was $155 billion, including federally guaranteed securities, GSE securities and money market instruments.

[3] The face value of Federal Family Education Loans in the Student Loan Marketing Association's portfolio is included in the totals for that program under guaranteed loans in table 8-1.

Table 8–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992—1999[1]

(In millions of dollars)

Program	1994	1995	1996	1997	1998	1999	2000
Direct Loans:							
Agriculture credit insurance fund	–72	28	2	–31	23	....	321
Agricultural conservation	–1	....	....	....	....	....	....
Rural electrification and telephone loans	*	61	–37	84	....	–39	....
Rural telephone bank	1	....	....	10	....	–9	–1
Rural housing insurance fund	2	152	46	–73	....	71	....
Rural economic development loans	....	....	....	1	....	–1	*
Rural development loan program	....	1	....	....	....	–6	....
Rural community advancement program[2]	....	....	....	8	....	5	....
P.L. 480 Title I loan program	....	....	–37	–1	....	....	–253
Federal direct student loans:	....	....	....	....	....	....	....
Technical reestimate[3]	....	....	3	–83	172	–361	–2,442
Volume reestimate	....	....	....	....	....	....	....
Bureau of Reclamation direct loans	....	....	....	....	....	....	3
BIA-Indian direct loans	....	....	....	....	....	1	4
DoT-High priority corridor loans	....	....	....	....	–3	....	....
DoT-Alameda corridor loan	....	....	....	....	....	....	–55
Community Development Financial Institutions fund	....	....	....	....	....	....	*
Veterans housing benefit program fund	–39	30	76	–72	465	–111	–13
FEMA-Disaster assistance	....	....	....	....	....	....	47
Foreign military financing	....	....	....	13	4	1	152
Debt restructuring	....	....	....	....	....	....	5
SBA-Disaster loans	....	....	....	....	–193	246	....
Export-Import Bank direct loans	–28	–16	37	....	....	....	–177
Spectrum auction program	....	....	....	....	4,592	980	–1,501
Loan Guarantees:							
Agriculture credit insurance fund	5	14	12	–51	96	....	–130
Commodity Credit Corporation export guarantees	3	103	–426	343	....	....	–253
Rural development insurance fund	49	....	....	–3	....	....	....
Rural housing insurance fund	2	10	7	–10	....	109	....
Rural community advancement program[2]	....	....	....	–10	....	41	....
P.L. 480 Title I Food for Progress credits	....	84	–38	....	....	....	....
Fisheries finance, guaranteed loans	....	....	....	....	–2	....	....
Federal family education:[4]							
Technical reestimate[3]	97	421	60	....	....	63	415
Volume reestimate	....	....	535	99	....	–216	362
FHA-Mutual mortgage	....	....	....	–340	....	3,789	....
FHA-General and special risk[5]	–175	....	–110	–25	743	79	....
BIA-Indian guaranteed loans	....	....	....	31	....	....	–18
Maritime guaranteed loans (Title XI)	....	....	....	....	....	–71	27
Veterans housing benefit fund guarantees	–447	167	334	–706	38	492	242
AID housing guaranty	–2	–1	–7	....	–14	....	....
Assistance to the New Independent States of the former Soviet Union	....	....	....	....	....	....	–30
SBA-Business loans	....	....	257	–16	–279	–545	–239
Export-Import Bank guarantees	–11	–59	13	....	....	....	–185
Total	–616	995	727	–832	5,642	4,518	–3,720

* $500 thousand or less.

[1] Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the budget for 2001.

[2] Includes rural water and waste disposal, rural community facilities, and rural business and industry programs.

[3] 2000 figure includes interest on reestimate.

[4] Volume reestimates in mandatory loan guarantee 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.

[5] 1999 figure includes interest on reestimate.

Table 8–4. ESTIMATED 2001 SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS FOR DIRECT LOANS [1]

(in millions of dollars)

Agency and Program	Weighted average subsidy as a percentage of disbursements	Subsidy budget authority	Estimated loan levels
Agriculture:			
Agricultural credit insurance fund	10.26	114	1,080
Farm storage facility loans	2.85	4	150
Watershed and flood prevention operations	6.95	4	60
Rural community advancement program	12.91	172	1,332
Rural electrification and telecommunications loans	0.24	4	1,645
Rural telephone bank	1.48	3	175
Distance learning and telemedicine program	–0.61	–2	400
Farm labor	52.59	16	30
Rural housing insurance fund	19.15	284	1,485
Rural development loan fund	50.91	33	64
Rural economic development loans	26.07	4	15
P.L. 480	71.51	114	160
Commerce:			
Fisheries finance	1.00	5	324
Defense—Military:			
Family housing improvement fund	38.80	38	99
Education:			
School renovation	17.20	1,125	6,541
Federal direct student loan program	–3.04	–517	16,972
Housing and Urban Development:			
FHA-Mutual mortgage insurance	....	....	250
FHA-General and special risk	....	....	50
Interior:			
Bureau of Reclamation loans	52.99	9	27
State:			
Repatriation loans	80.00	1	1
Transportation:			
Transportation infrastructure finance and innovation (TIFIA) program	5.74	75	1,320
Treasury:			
Community development financial institutions fund	43.41	4	10
Veterans Affairs:			
Veterans housing benefit program	1.82	12	649
Miscellaneous veterans housing program	7.72	....	2
Miscellaneous veterans programs	35.02	....	3
Federal Emergency Management Agency:			
Disaster assistance direct loans	6.71	2	25
International Assistance Programs:			
Overseas Private Investment Corporation	11.00	14	127
Small Business Administration:			
Disaster loans	17.46	142	871
Business loans	8.95	5	60
Other Independent Agencies:			
Export-Import Bank loans	7.50	72	960
Total	N/A	1,737	34,887

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

Table 8–5. ESTIMATED 2001 SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS FOR LOAN GUARANTEES [1]

(in millions of dollars)

Agency and Program	Weighted average subsidy as a percentage of disbursements	Subsidy budget authority	Estimated loan levels
Agriculture:			
Agricultural credit insurance fund	2.06	71	3,478
Commodity Credit Corporation export loans	8.52	323	3,792
Rural community advancement program	0.52	8	1,535
Rural electrification and telecommunications loans	0.01	....	400
Rural housing insurance fund	0.18	7	3,900
Defense—Military:			
Family housing improvement fund	8.86	45	507
Education:			
Federal family education loan	11.22	2,760	29,853
Health and Human Services:			
Health resources and services	2.11	1	51
Housing and Urban Development:			
Indian housing loan guarantee fund	8.13	6	72
Title VI Indian loan guarantees	11.07	5	43
Community development loan guarantees	2.30	28	1,217
America's private investment companies	3.60	36	1,000
FHA-Mutual mortgage insurance	–2.57	–3,675	160,000
FHA-General and special risk	–0.12	–21	21,000
Interior:			
Indian guaranteed loans	6.73	5	82
Transportation:			
Minority business resource center	11.00	2	14
Transportation infrastructure finance and innovation (TIFIA) program	2.00	18	880
Maritime guaranteed loans (Title XI)	4.97	2	40
Veterans Affairs:			
Veterans housing benefit program	0.51	154	30,334
Miscellaneous veterans housing program	48.25	6	13
International Assistance Programs:			
Development credit authority	7.04	15	213
Overseas Private Investment Corporation	1.00	10	1,000
Small Business Administration:			
Business loans	1.08	194	17,955
Other Independent Agencies:			
Export-Import Bank loans	6.70	1,007	15,040
Presidio Trust	0.46	1	200
Total	**N/A**	**1,008**	**292,619**
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
GNMA:			
Guarantees of mortgage-backed securities	–0.36	–356	200,000

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

Table 8–6. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES

(In billions of dollars)

	Actual					Estimate	
	1995	1996	1997	1998	1999	2000	2001
Direct Loans:							
Obligations	30.9	23.4	33.6	28.8	38.4	38.5	44.2
Disbursements	22.0	23.6	32.2	28.7	37.7	37.3	35.8
Subsidy budget authority [1]	2.6	1.8	2.4	6.5	2.6	–4.3	1.7
Loan Guarantees: [2]							
Commitments	138.5	175.4	172.3	218.4	252.4	255.1	289.0
Lender Disbursements	117.9	143.9	144.7	199.5	224.7	234.0	257.9
Subsidy budget authority [1]	4.6	4.0	3.6	2.6	4.3	3.2	0.8

[1] Excludes subsidy reestimates made prior to 1998.
[2] GNMA secondary guarantees of loans that are guaranteed by FHA, VA and RHS are excluded from the totals to avoid double-counting.

Table 8–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	1999 actual	2000 estimate	2001 estimate	1999 actual	2000 estimate	2001 estimate
DIRECT LOAN WRITEOFFS						
Agriculture:						
Agricultural credit insurance fund	278	284	344	3.00	3.06	3.87
Rural community advancement program	....	6	10	....	0.12	0.17
Rural development insurance fund	2	3	3	0.05	0.09	0.09
Rural housing insurance fund	95	92	91	0.33	0.32	0.32
Rural development loans	1	1	1	0.31	0.29	0.27
Commerce:						
Economic development loans	3	1	1	6.97	2.50	2.85
Education:						
Student financial assistance	15	9	10	23.43	14.75	17.54
Federal direct student loan program	41	86	118	0.08	0.16	0.18
Housing and Urban Development:						
Revolving fund (liquidating programs)	6	....	....	3.42	....	....
FHA—Mutual mortgage insurance	....	....	2	....	....	1.07
Interior:						
BIA—Indian direct loans	1	7	2	1.40	10.60	3.41
State:						
Repatriation loans	1	1	1	25.00	25.00	25.00
Veterans Affairs:						
Veterans housing benefit program	74	82	87	3.88	4.48	5.46
Federal Emergency Management Agency:						
FEMA—disaster assistance	1	....	....	0.54	....	....
International Assistance Programs:						
Military debt reduction	....	11	8	....	110.00	133.33
Overseas Private Investment Corporation	1	1	1	1.28	1.27	1.23
Small Business Administration:						
Disaster loans	21	10	....	0.31	0.15	....
Business loans	26	26	10	3.09	3.30	1.43
Other Independent Agencies:						
Bank insurance fund	38	....	....	38.00	....	....
Tennessee Valley Authority fund	1	1	1	2.12	1.96	1.69
Total, direct loan writeoffs	605	621	690	0.30	0.29	0.31
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural credit insurance fund	61	94	104	0.80	1.17	1.19
CCC export guarantee programs	248	425	390	3.68	6.83	7.23
Rural community advancement program	33	33	33	1.10	0.93	0.71
Rural electrification and telecommunications	107	....	....	25.17	....	....
Rural development insurance fund	1	18	11	0.76	17.06	17.05
Rural housing insurance fund	40	62	79	0.40	0.56	0.58
Commerce:						
NOAA—Federal ship financing	....	2	2	....	1.85	2.68
Defense—Military:						
Defense export loan guarantee program	....	....	1	....	....	10.52
Education:						
Federal family education	2,555	3,824	4,014	2.01	2.95	2.97
Health and Human Services:						
Health education assistance loan program	22	37	42	0.76	1.30	1.53
Housing and Urban Development:						
FHA—Mutual mortgage insurance	5,876	3,779	4,538	1.42	0.85	0.87
FHA—General and special risk	1,070	1,536	2,292	1.15	1.59	2.19
Interior:						
BIA—Indian loan guarantee	1	1	1	0.65	0.60	0.49
Transportation:						
Federal ship financing fund	4	....	....	1.24	....	....

Table 8–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	1999 actual	2000 estimate	2001 estimate	1999 actual	2000 estimate	2001 estimate
Veterans Affairs:						
Veterans housing benefit program	2,381	3,030	3,370	1.07	1.37	1.55
International Assistance Programs:						
Foreign military financing	1	5	8	0.02	0.10	0.18
Microenterprise and other development	2	1	1	4.76	1.88	1.44
AID—Housing and other credit guaranty programs	56	32	40	2.44	1.41	1.83
Overseas Private Investment Corporation	6	64	50	0.20	2.12	1.58
Small Business Administration:						
Business loans	699	684	684	1.77	1.66	1.52
Pollution control equipment	11	11	11	23.91	27.16	37.28
Other Independent Agencies:						
Export-Import Bank	1,000	284	425	3.94	1.00	1.38
Total, guaranteed loan terminations for default	14,174	13,922	16,096	0.91	0.86	0.93
Total, direct loan writeoffs and guaranteed loan terminations	14,779	14,543	16,786	0.84	0.80	0.86
ADDENDUM: WRITEOFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Education:						
Federal family education	587	459	473	2.68	2.03	1.98
Health and Human Services:						
Health education assistance loan program	29	29	29	5.43	5.44	5.46
Housing and Urban Development:						
FHA—Mutual mortgage insurance	17	85	1	2.66	25.07	1.96
FHA—General and special risk	172	229	652	7.22	9.80	31.27
Interior:						
BIA—Indian loan guarantee	2	....	....	2.85	....	....
Veterans Affairs:						
Veterans housing benefit program	113	83	79	14.65	10.29	8.98
Small Business Administration:						
Business loans	320	173	71	15.01	8.48	3.67
Total, writeoffs of loans receivable	1,240	1,058	1,305	3.69	3.10	3.72

[1] Average of loans outstanding for the year.

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

(In millions of dollars)

Agency and Program	1999 Actual	Estimate	
		2000	2001
DIRECT LOAN OBLIGATIONS			
Agriculture:			
Agricultural credit insurance fund	872	1,797	1,080
Distance learning and telemedicine	55	200	400
Rural electrification and telecommunications	1,911	2,610	1,645
Rural telephone bank	158	175	175
Rural water and waste disposal direct loans	707	679	1,032
Rural housing insurance fund	1,167	1,360	1,515
Rural community facility direct loans	162	167	250
Rural economic development	15	15	15
Rural development loan fund	33	38	64
Rural business and industry direct loans	50	50	50
P.L. 480 direct credit	282	907	160
Commerce:			
Fisheries finance	229	28	324
Education:			
Historically black college and university capital financing	375	364	339
Housing and Urban Development:			
FHA-General and special risk	50	50	50
FHA-Mutual mortgage insurance	100	100	250
Interior:			
Bureau of Reclamation	38	43	27
Assistance to American Samoa	....	19	....
State:			
Repatriation loans	1	1	1
Transportation:			
Minority business resource center	14	14	....
Transportation infrastructure finance and innovation (TIFIA) program	893	1080	1,320
Treasury:			
Community development financial institutions fund	32	53	53
Federal Emergency Management Agency:			
Disaster assistance	30	25	25
General Services Administration:			
Columbia Hospital for Women	....	14	....
International Assistance Programs:			
Military debt reduction	1	11	....
Total, limitations on direct loan obligations	7,175	9,800	8,775
LOAN GUARANTEE COMMITMENTS			
Agriculture:			
Agricultural credit insurance fund	2,551	4,042	3,478
Rural electrification and telecommunications guaranteed loans	150	500	400
Rural water and waste water disposal guaranteed loans	75	75	75
Rural housing insurance fund	3,075	3,300	3,900
Rural community facility guaranteed loans	210	210	210
Rural business and industry guaranteed loans	1,000	850	1,250
Commerce:			
Emergency oil and gas guaranteed loans	....	500	....
Emergency steel guaranteed loans	....	1,000	....
Defense—Military:			
Defense export loan guarantee	14,980	14,980	14,980
Health and Human Services:			
Health centers	....	100	51

Table 8–8. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]—Continued

(In millions of dollars)

Agency and Program	1999 Actual	Estimate	
		2000	2001
Housing and Urban Development:			
Indian housing loan guarantee fund	81	72	72
Title VI Indian federal guarantees	55	55	43
Community development loan guarantees	1,261	1,261	1,217
America's private investment companies	....	541	1,000
FHA-General and special risk	18,100	18,100	21,000
FHA-Loan guarantee recovery fund	8	7	....
FHA-Mutual mortgage insurance	140,000	140,000	160,000
Interior:			
Indian	60	60	82
Transportation:			
Minority business resource center	....	....	14
Transportation infrastructure finance and innovation program loan guarantees	600	720	880
Maritime guaranteed loan (Title XI)	1,767	1,505	40
International Assistance Programs:			
Overseas private investment corporation	2,333	2,333	1,000
Small Business Administration:			
Business loan guarantees	13,500	16,500	18,213
Other Independent Agencies:			
Presidio Trust	....	200	200
Total, limitations on loan guarantee commitments	199,806	206,911	228,105
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
Housing and Urban Development:			
Guarantees of mortgage-backed securities	200,000	200,000	200,000
Total, limitations on secondary guaranteed loan commitments	200,000	200,000	200,000

[1] Data represents loan level limitations enacted or proposed to be enacted in appropriation acts. For information on actual and estimated loan levels supportable by new subsidy budget authority requested, see Tables 8–4 and 8–5.

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	1	2	2
Change in outstandings	–882	–967	–985
Outstandings	5,817	4,850	3,865
Farm storage facility direct loan financing account:			
Obligations	....	350	150
Loan disbursements	....	350	150
Change in outstandings	....	350	66
Outstandings	....	350	416
Agricultural credit insurance fund direct loan financing account:			
Obligations	999	1,723	1,080
Loan disbursements	1,278	1,637	1,026
Change in outstandings	728	949	267
Outstandings	3,443	4,392	4,659
Commodity Credit Corporation fund:			
Obligations	8,358	9,399	9,257
Loan disbursements	8,358	9,399	9,257
Change in outstandings	213	–79	–312
Outstandings	2,846	2,767	2,455
Natural Resources Conservation Service			
Watershed and flood prevention operations direct loan financing account:			
Obligations	....	....	60
Loan disbursements	....	....	7
Change in outstandings	....	....	7
Outstandings	....	....	7
Rural Utilities Service			
Rural communication development fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	....
Outstandings	7	6	6
Distance learning and telemedicine direct loan financing account:			
Obligations	55	200	400
Loan disbursements	1	101	232
Change in outstandings	1	93	206
Outstandings	1	94	300
Rural development insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	2	....	....
Change in outstandings	–338	–281	–258
Outstandings	3,470	3,189	2,931
Rural electrification and telecommunications direct loan financing account:			
Obligations	1,763	2,610	1,645
Loan disbursements	1,093	1,689	1,582
Change in outstandings	760	1,547	1,412
Outstandings	5,949	7,496	8,908
Rural telephone bank direct loan financing account:			
Obligations	114	175	175
Loan disbursements	58	117	145
Change in outstandings	49	107	134
Outstandings	246	353	487
Rural water and waste disposal direct loans financing account:			
Obligations	721	679	1,032
Loan disbursements	619	835	862
Change in outstandings	535	786	803
Outstandings	3,345	4,131	4,934

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Rural electrification and telecommunications liquidating account:			
Obligations	.....	.....	.....
Loan disbursements	19	8	19
Change in outstandings	–1,209	–1,030	–1,189
Outstandings	25,867	24,837	23,648
Rural telephone bank liquidating account:			
Obligations	.....	.....	.....
Loan disbursements	17	15	13
Change in outstandings	–186	–110	–106
Outstandings	986	876	770
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Obligations	.....	.....	.....
Loan disbursements	.....	.....	.....
Change in outstandings	–1,331	–1,127	–1,052
Outstandings	18,373	17,246	16,194
Rural housing insurance fund direct loan financing account:			
Obligations	1,169	1,371	1,515
Loan disbursements	1,137	1,332	1,448
Change in outstandings	769	993	1,046
Outstandings	10,180	11,173	12,219
Rural community facility direct loans financing account:			
Obligations	163	185	250
Loan disbursements	168	226	178
Change in outstandings	141	204	153
Outstandings	747	951	1,104
Rural Business—Cooperative Service			
Rural economic development loans liquidating account:			
Obligations	.....	.....	.....
Loan disbursements	.....	.....	.....
Change in outstandings	–1	–1	–1
Outstandings	2	1	.....
Rural economic development direct loan financing account:			
Obligations	15	15	15
Loan disbursements	23	16	15
Change in outstandings	16	6	5
Outstandings	66	72	77
Rural development loan fund direct loan financing account:			
Obligations	33	38	64
Loan disbursements	44	42	41
Change in outstandings	40	36	33
Outstandings	249	285	318
Rural business and industry direct loans financing account:			
Obligations	26	50	50
Loan disbursements	20	31	51
Change in outstandings	19	23	37
Outstandings	38	61	98
Rural development loan fund liquidating account:			
Obligations	.....	.....	.....
Loan disbursements	.....	1	1
Change in outstandings	–5	–4	–4
Outstandings	72	68	64
Foreign Agricultural Service			
Expenses, P.L. 480, foreign assistance programs, Agriculture liquidating account:			
Obligations	.....	.....	.....
Loan disbursements	.....	.....	.....
Change in outstandings	–336	–275	–539
Outstandings	8,810	8,535	7,996

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
P.L. 480 direct credit financing account:			
Obligations	282	907	160
Loan disbursements	401	777	195
Change in outstandings	398	772	187
Outstandings	1,927	2,699	2,886
P.L. 480 Title I food for progress credits, financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	508	508	508
Debt reduction—financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–2	–2
Outstandings	63	61	59
Department of Commerce			
Economic Development Administration			
Economic development revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–11	–6	–4
Outstandings	43	37	33
National Oceanic and Atmospheric Administration			
Fisheries finance, direct loan financing account:			
Obligations	229	28	324
Loan disbursements	98	159	160
Change in outstandings	96	155	153
Outstandings	122	277	430
Department of Defense—Military			
Family Housing			
Family housing improvement, direct loan financing account:			
Obligations	....	74	99
Loan disbursements	....	11	....
Change in outstandings	....	11	....
Outstandings	....	11	11
Department of Education			
Office of Elementary and Secondary Education			
School renovation, direct loan financing account:			
Obligations	....	....	6,541
Loan disbursements	....	....	327
Change in outstandings	....	....	281
Outstandings	....	....	281
Office of Postsecondary Education			
College housing and academic facilities loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–47	–43	–43
Outstandings	519	476	433
College housing and academic facilities loans financing account:			
Obligations	....	....	....
Loan disbursements	4	1	4
Change in outstandings	4	1	4
Outstandings	25	26	30
Historically black college and university capital financing, direct loan financing account:			
Obligations	11	25	25
Loan disbursements	6	25	25
Change in outstandings	6	25	25
Outstandings	11	36	61

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate 2000	Estimate 2001
Office of Student Financial Assistance			
Student financial assistance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–73	–6	–2
Outstandings	64	58	56
Federal direct student loan program, financing account:			
Obligations	19,243	16,135	16,971
Loan disbursements	18,070	14,636	15,429
Change in outstandings	12,465	12,646	12,535
Outstandings	45,830	58,476	71,011
Department of Energy			
Power Marketing Administration			
Bonneville Power Administration fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	2	2	2
Department of Health and Human Services			
Health Resources and Services Administration			
Medical facilities guarantee and loan fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–2	–7	–8
Outstandings	15	8	....
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	–71	–71	–71
Outstandings	1,421	1,350	1,279
Community Planning and Development			
Revolving fund (liquidating programs):			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–45	–35	–30
Outstandings	175	140	110
Community development loan guarantees liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–17	–4	–4
Outstandings	13	9	5
Housing Programs			
Nonprofit sponsor assistance liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Flexible subsidy fund:			
Obligations	....	....	....
Loan disbursements	17	14	20
Change in outstandings	17	10	16
Outstandings	786	796	812
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–4	....
Outstandings	4	....	....

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
FHA-General and special risk insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–4	–4
Outstandings	68	64	60
FHA-General and special risk direct loan financing account:			
Obligations	....	17	17
Loan disbursements	1	17	17
Change in outstandings	1	16	16
Outstandings	1	17	33
Housing for the elderly or handicapped fund liquidating account:			
Obligations	....	....	....
Loan disbursements	3	....	....
Change in outstandings	–98	–87	–86
Outstandings	8,045	7,958	7,872
FHA-Mutual mortgage insurance direct loan financing account:			
Obligations	1	100	250
Loan disbursements	1	90	227
Change in outstandings	–2	84	197
Outstandings	3	87	284
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Obligations	....	....	....
Loan disbursements	101	112	101
Change in outstandings	2	–18	–17
Outstandings	360	342	325
Department of the Interior			
Bureau of Reclamation			
Bureau of reclamation loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–3	–3	–4
Outstandings	66	63	59
Water and related resources:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	–1
Outstandings	3	3	2
Bureau of Reclamation direct loan financing account:			
Obligations	25	43	27
Loan disbursements	26	30	27
Change in outstandings	26	29	24
Outstandings	146	175	199
National Park Service			
Construction and major maintenance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–1	....
Outstandings	6	5	5
Bureau of Indian Affairs			
Revolving fund for loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–3	–3
Outstandings	43	40	37
Indian direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–7	–2
Outstandings	28	21	19

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Insular Affairs			
Assistance to territories:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	–1
Outstandings	16	15	14
Assistance to American Samoa direct loan financing account:			
Obligations	....	19	....
Loan disbursements	....	14	5
Change in outstandings	....	13	4
Outstandings	....	13	17
Department of State			
Administration of Foreign Affairs			
Repatriation loans financing account:			
Obligations	1	1	1
Loan disbursements	1	1	1
Change in outstandings	....	....	....
Outstandings	4	4	4
Department of Transportation			
Office of the Secretary			
Minority business resource center direct loan financing account:			
Obligations	6	14	....
Loan disbursements	3	7	7
Change in outstandings	1	–2	–3
Outstandings	8	6	3
Federal Highway Administration			
Transportation infrastructure finance and innovation (TIFIA) program direct loan financing account:			
Obligations	873	990	1,210
Loan disbursements	....	992	858
Change in outstandings	....	992	858
Outstandings	....	992	1,850
Transportation infrastructure finance and innovation (TIFIA) program line of credit financing account:			
Obligations	20	90	110
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	....	....	....
Right-of-way revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	36	3	3
Change in outstandings	12	–21	–21
Outstandings	194	173	152
Federal Railroad Administration			
Amtrak corridor improvement loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	–1
Outstandings	5	4	3
Alameda corridor direct loan financing account:			
Obligations	....	....	....
Loan disbursements	120	....	....
Change in outstandings	120	....	–400
Outstandings	400	400	....
Railroad rehabilitation and improvement liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–3	–5	–4
Outstandings	53	48	44

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate 2000	Estimate 2001
Railroad rehabilitation and improvement direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	4	4	4
Department of the Treasury			
Departmental Offices			
Community development financial institutions fund direct loan financing account:			
Obligations	8	10	10
Loan disbursements	5	5	7
Change in outstandings	5	5	6
Outstandings	10	15	21
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Obligations	....	....	....
Loan disbursements	10	9	9
Change in outstandings	–10	–28	–25
Outstandings	317	289	264
Veterans housing benefit program fund direct loan financing account:			
Obligations	1,648	1,992	649
Loan disbursements	1,648	1,992	649
Change in outstandings	484	–129	–290
Outstandings	1,588	1,459	1,169
Miscellaneous veterans housing loans direct loan financing account:			
Obligations	2	2	2
Loan disbursements	2	2	1
Change in outstandings	1	2	1
Outstandings	17	19	20
Miscellaneous veterans programs loan fund direct loan financing account:			
Obligations	2	3	3
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Environmental Protection Agency			
Abatement, control, and compliance direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–5	–5	–5
Outstandings	51	46	41
Federal Emergency Management Agency			
Disaster assistance direct loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	37	37	37
Disaster assistance direct loan financing account:			
Obligations	3	25	25
Loan disbursements	3	25	25
Change in outstandings	1	19	9
Outstandings	148	167	176
General Services Administration			
Real Property Activities			
Columbia hospital for women direct loan financing account:			
Obligations	....	14	....
Loan disbursements	....	14	....
Change in outstandings	....	14	....
Outstandings	....	14	14

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate 2000	Estimate 2001
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Obligations	....	....	....
Loan disbursements	7	7	7
Change in outstandings	–582	–535	–444
Outstandings	4,805	4,270	3,826
Foreign military financing direct loan financing account:			
Obligations	....	....	....
Loan disbursements	345	466	594
Change in outstandings	83	153	221
Outstandings	1,665	1,818	2,039
Military debt reduction financing account:			
Obligations	1	11	....
Loan disbursements	1	11	....
Change in outstandings	1	....	–8
Outstandings	10	10	2
Agency for International Development			
Economic assistance loans—liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–775	–596	–530
Outstandings	10,660	10,064	9,534
Debt reduction, financing account:			
Obligations	....	....	....
Loan disbursements	....	72	3
Change in outstandings	–65	15	–54
Outstandings	217	232	178
Microenterprise and small enterprise development credit direct loan financing account:			
Obligations	2	....	....
Loan disbursements	1	1	1
Change in outstandings	....	....	....
Outstandings	3	3	3
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–10	–5	–6
Outstandings	14	9	3
Overseas Private Investment Corporation direct loan financing account:			
Obligations	136	136	127
Loan disbursements	7	20	23
Change in outstandings	1	6	10
Outstandings	64	70	80
Small Business Administration			
Business direct loan financing account:			
Obligations	15	30	60
Loan disbursements	15	30	60
Change in outstandings	–6	16	45
Outstandings	93	109	154
Disaster direct loan financing account:			
Obligations	814	221	951
Loan disbursements	755	650	1,192
Change in outstandings	53	169	–1,375
Outstandings	5,658	5,827	4,452
Disaster loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–187	–580	–487
Outstandings	1,067	487	....

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Business loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	34	32	22
Change in outstandings	–242	–127	–107
Outstandings	748	621	514
Other Independent Agencies			
Export-Import Bank of the United States			
Export-Import Bank liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–552	–349	–353
Outstandings	5,169	4,820	4,467
Debt reduction financing account:			
Obligations	....	....	....
Loan disbursements	44	118	....
Change in outstandings	44	118	....
Outstandings	108	226	226
Export-Import Bank direct loan financing account:			
Obligations	903	836	960
Loan disbursements	2,375	1,117	790
Change in outstandings	2,027	424	–27
Outstandings	7,054	7,478	7,451
Farm Credit System Financial Assistance Corporation			
Financial Assistance Corporation assistance fund, liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–33	–17	–15
Outstandings	900	883	868
Federal Communications Commission			
Spectrum auction direct loan financing account:			
Obligations	733	2	2
Loan disbursements	733	2	2
Change in outstandings	1,498	–8	–36
Outstandings	8,287	8,279	8,243
Bank Insurance			
Bank insurance fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–44	–100	....
Outstandings	100	....	....
FSLIC Resolution			
FSLIC resolution fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–34	–11	....
Outstandings	75	64	64
National Credit Union Administration			
Community development credit union revolving loan fund:			
Obligations	2	6	4
Loan disbursements	2	6	4
Change in outstandings	....	3	1
Outstandings	7	10	11
Tennessee Valley Authority			
Tennessee Valley Authority fund:			
Obligations	16	22	22
Loan disbursements	16	22	22
Change in outstandings	4	8	8
Outstandings	47	55	63

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate 2000	Estimate 2001
Subtotal, direct loan transactions:			
Obligations	38,392	38,548	44,243
Loan disbursements	37,729	37,291	35,846
Change in outstandings	13,403	14,104	9,851
Outstandings	200,416	214,520	224,371
ADDENDUM: DEFAULTED GUARANTEED LOANS THAT RESULT IN A LOAN RECEIVABLE			
Department of Agriculture			
Farm Service Agency			
Commodity Credit Corporation export guarantee financing account:			
Claim payments	248	425	390
Change in outstandings	240	418	381
Outstandings	336	754	1,135
Commodity Credit Corporation guaranteed loans liquidating account:			
Claim payments	....	....	....
Change in outstandings	–82	–114	–158
Outstandings	4,210	4,096	3,938
Department of Commerce			
National Oceanic and Atmospheric Administration			
Federal ship financing fund, fishing vessels liquidating account:			
Claim payments	....	....	....
Change in outstandings	....	....	....
Outstandings	24	24	24
Department of Education			
Office of Student Financial Assistance			
Federal family education loan liquidating account:			
Claim payments	314	190	109
Change in outstandings	–2,122	–795	–724
Outstandings	13,187	12,392	11,668
Federal family education loan program, financing account:			
Claim payments	2,045	3,352	3,604
Change in outstandings	255	2,111	1,998
Outstandings	8,701	10,812	12,810
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Claim payments	9	22	28
Change in outstandings	6	19	24
Outstandings	38	57	81
Health education assistance loans liquidating account:			
Claim payments	20	23	18
Change in outstandings	2	–21	–26
Outstandings	496	475	449
Department of Housing and Urban Development			
Housing Programs			
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:			
Claim payments	11	5	3
Change in outstandings	–24	–266	2
Outstandings	270	4	6
FHA-General and special risk insurance funds liquidating account:			
Claim payments	172	136	170
Change in outstandings	–99	–393	–776
Outstandings	1,890	1,497	721
FHA-General and special risk guaranteed loan financing account:			
Claim payments	243	407	510
Change in outstandings	110	302	365
Outstandings	491	793	1,158

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
FHA-Mutual mortgage insurance guaranteed loan financing account:			
Claim payments	35	14	26
Change in outstandings	21	–334	22
Outstandings	369	35	57
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Claim payments	....	....	....
Change in outstandings	–3	–2	–2
Outstandings	29	27	25
Indian guaranteed loan financing account:			
Claim payments	3	1	1
Change in outstandings	–3	....	....
Outstandings	41	41	41
Department of Transportation			
Maritime Administration			
Federal ship financing fund liquidating account:			
Claim payments	4	....	....
Change in outstandings	–26	–5	–5
Outstandings	20	15	10
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Claim payments	103	87	75
Change in outstandings	–46	–19	–14
Outstandings	574	555	541
Veterans housing benefit program fund guaranteed loan financing account:			
Claim payments	114	121	136
Change in outstandings	94	89	91
Outstandings	197	286	377
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Claim payments	24	14	21
Change in outstandings	13	11	21
Outstandings	14	25	46
Agency for International Development			
Housing and other credit guaranty programs liquidating account:			
Claim payments	56	32	40
Change in outstandings	15	8	14
Outstandings	500	508	522
Microenterprise and small enterprise development guaranteed loan financing account:			
Claim payments	2	1	1
Change in outstandings	2	1	1
Outstandings	3	4	5
Overseas Private Investment Corporation			
Overseas Private Investment Corporation guaranteed loan financing account:			
Claim payments	5	50	50
Change in outstandings	2	45	33
Outstandings	17	62	95
Small Business Administration			
Pollution control equipment fund liquidating account:			
Claim payments	3	....	....
Change in outstandings	2	–1	–1
Outstandings	47	46	45

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

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Business guaranteed loan financing account:			
Claim payments	630	643	656
Change in outstandings	–81	–15	241
Outstandings	753	738	979
Business loan fund liquidating account:			
Claim payments	69	41	28
Change in outstandings	–88	–168	–278
Outstandings	1,378	1,210	932
Subtotal, defaulted guaranteed loans that result in a loan receivable:			
Claim payments	4,110	5,564	5,866
Change in outstandings	–1,812	871	1,209
Outstandings	33,585	34,456	35,665
Total:			
Obligations	38,392	38,548	44,243
Loan disbursements	41,839	42,855	41,712
Change in outstandings	11,591	14,975	11,060
Outstandings	234,001	248,976	260,036

Table 8–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–182	–205	–112
Outstandings	594	389	277
Agricultural credit insurance fund guaranteed loan financing account:			
Commitments	2,551	4,042	3,478
New guaranteed loans	2,349	3,083	3,130
Change in outstandings	731	959	724
Outstandings	7,023	7,982	8,706
Commodity Credit Corporation export guarantee financing account:			
Commitments	3,045	3,787	3,792
New guaranteed loans	244	3,501	3,501
Change in outstandings	–87	–1,050	–590
Outstandings	6,739	5,689	5,099
Commodity Credit Corporation guaranteed loans liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–214		
Outstandings			
Natural Resources Conservation Service			
Agricultural resource conservation demonstration guaranteed loan financing account:			
Commitments			
New guaranteed loans			
Change in outstandings			
Outstandings	24	24	24
Rural Utilities Service			
Rural communication development fund liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–1		
Outstandings	4	4	4
Rural development insurance fund liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–96	–51	–31
Outstandings	131	80	49
Rural electrification and telecommunications guaranteed loans financing account:			
Commitments	150	500	400
New guaranteed loans	16	133	176
Change in outstandings	16	131	173
Outstandings	16	147	320
Rural water and waste water disposal guaranteed loans financing account:			
Commitments	6	75	75
New guaranteed loans	20	69	44
Change in outstandings	19	67	41
Outstandings	20	87	128
Rural electrification and telecommunications liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–152	–20	–20
Outstandings	409	389	369
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–4	–2	–3
Outstandings	23	21	18

Table 8–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Rural housing insurance fund guaranteed loan financing account:			
Commitments	3,052	3,300	3,900
New guaranteed loans	3,085	2,966	3,497
Change in outstandings	2,566	2,287	2,661
Outstandings	9,772	12,059	14,720
Rural community facility guaranteed loans financing account:			
Commitments	107	210	210
New guaranteed loans	59	131	165
Change in outstandings	39	119	147
Outstandings	194	313	460
Rural Business—Cooperative Service			
Rural business and industry guaranteed loans financing account:			
Commitments	1,281	869	1,250
New guaranteed loans	1,027	1,134	1,059
Change in outstandings	887	956	838
Outstandings	2,763	3,719	4,557
Department of Commerce			
Departmental Management			
Emergency oil and gas guaranteed loan financing account:			
Commitments	....	500	....
New guaranteed loans	....	500	....
Change in outstandings	....	500	–50
Outstandings	....	500	450
Emergency steel guaranteed loan financing account:			
Commitments	....	1,000	....
New guaranteed loans	....	1,000	....
Change in outstandings	....	1,000	–100
Outstandings	....	1,000	900
Economic Development Administration			
Economic development revolving fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–10	–2	....
Outstandings	3	1	1
National Oceanic and Atmospheric Administration			
Fisheries finance, guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–9	–24	–24
Outstandings	71	47	23
Federal ship financing fund, fishing vessels liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–14	–10	–9
Outstandings	54	44	35
Department of Defense—Military			
Operation and Maintenance			
Defense export loan guarantee financing account:			
Commitments	....	....	....
New guaranteed loans	5	....	....
Change in outstandings	1	–4	–5
Outstandings	16	12	7
Procurement			
Arms initiative guaranteed loan financing account:			
Commitments	....	8	....
New guaranteed loans	....	8	....
Change in outstandings	....	7	–2
Outstandings	10	17	15

Table 8–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Family Housing			
Family housing improvement guaranteed loan financing account:			
Commitments	......	563	507
New guaranteed loans	......	29	......
Change in outstandings	......	29	......
Outstandings	......	29	29
Department of Education			
Office of Student Financial Assistance			
Federal family education loan liquidating account:			
Commitments	......	......	......
New guaranteed loans	......	......	......
Change in outstandings	–4,387	–4,084	–2,781
Outstandings	13,910	9,826	7,045
Federal family education loan program financing account:			
Commitments	27,497	28,326	29,853
New guaranteed loans	21,914	25,261	26,472
Change in outstandings	13,260	9,524	7,958
Outstandings	112,768	122,292	130,250
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Commitments	......	......	......
New guaranteed loans	......	......	......
Change in outstandings	–11	–23	–30
Outstandings	1,551	1,528	1,498
Health education assistance loans liquidating account:			
Commitments	......	......	......
New guaranteed loans	......	......	......
Change in outstandings	–69	–83	–87
Outstandings	1,343	1,260	1,173
Health center guaranteed loan financing account:			
Commitments	......	100	51
New guaranteed loans	......	100	51
Change in outstandings	......	100	51
Outstandings	9	109	160
Medical facilities guarantee and loan fund:			
Commitments	......	......	......
New guaranteed loans	......	......	......
Change in outstandings	–37	–30	–15
Outstandings	45	15	......
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	–281	–281	–281
Outstandings	3,026	2,745	2,464
Indian housing loan guarantee fund financing account:			
Commitments	12	72	72
New guaranteed loans	17	40	40
Change in outstandings	9	37	37
Outstandings	47	84	121
Title VI Indian federal guarantees financing account:			
Commitments	......	55	43
New guaranteed loans	......	55	43
Change in outstandings	......	52	40
Outstandings	......	52	92

Table 8–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Community Planning and Development			
Revolving fund (liquidating programs):			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–1	–1	....
Outstandings	1	....	....
Community development loan guarantees financing account:			
Commitments	432	1,261	1,217
New guaranteed loans	468	650	825
Change in outstandings	320	450	575
Outstandings	1,509	1,959	2,534
Community development loan guarantees liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–31	–25	–25
Outstandings	134	109	84
America's private investment companies financing account:			
Commitments	....	541	1,000
New guaranteed loans	....	395	771
Change in outstandings	....	395	771
Outstandings	....	395	1,166
Housing Programs			
FHA-Mutual mortgage and cooperative housing insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–15,164	–8,482	–6,897
Outstandings	55,866	47,384	40,487
FHA-General and special risk insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–3,685	–2,852	–2,151
Outstandings	32,905	30,053	27,902
FHA-General and special risk guaranteed loan financing account:			
Commitments	16,924	15,905	16,677
New guaranteed loans	16,074	15,330	16,551
Change in outstandings	6,995	9,974	11,146
Outstandings	59,692	69,666	80,812
FHA-Loan guarantee recovery fund—financing account:			
Commitments	1	7	....
New guaranteed loans	1	4	4
Change in outstandings	1	4	4
Outstandings	2	6	10
FHA-Mutual mortgage insurance guaranteed loan financing account:			
Commitments	123,546	122,658	158,993
New guaranteed loans	113,174	122,341	149,883
Change in outstandings	46,299	74,358	85,830
Outstandings	355,608	429,966	515,796
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–95,853	....	–2
Outstandings	156	156	154
Guarantees of mortgage-backed securities financing account:			
Commitments	163,508	114,311	96,262
New guaranteed loans	163,508	114,311	96,262
Change in outstandings	123,697	30,255	7,437
Outstandings	569,312	599,567	607,004

Table 8–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–8	–7	–6
Outstandings	32	25	19
Indian guaranteed loan financing account:			
Commitments	32	60	82
New guaranteed loans	32	60	82
Change in outstandings	7	33	53
Outstandings	120	153	206
Department of Transportation			
Office of the Secretary			
Minority business resource center guaranteed loan financing account:			
Commitments	....	....	14
New guaranteed loans	....	....	7
Change in outstandings	....	....	5
Outstandings	....	....	5
Federal Highway Administration			
Transportation infrastructure finance and innovation (TIFIA) program loan guarantee financing account:			
Commitments	600	720	880
New guaranteed loans	....	1,320	880
Change in outstandings	....	1,320	880
Outstandings	....	1,320	2,200
Maritime Administration			
Federal ship financing fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–76	–52	–57
Outstandings	321	269	212
Maritime guaranteed loan (Title XI) financing account:			
Commitments	1,767	1,505	40
New guaranteed loans	1,767	1,505	40
Change in outstandings	954	1,334	–192
Outstandings	3,411	4,745	4,553
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	38	....	....
Change in outstandings	–5,770	–4,425	–3,372
Outstandings	17,638	13,213	9,841
Veterans housing benefit program fund guaranteed loan financing account:			
Commitments	44,061	34,104	30,334
New guaranteed loans	44,061	34,104	30,334
Change in outstandings	16,263	2,647	–3,085
Outstandings	203,651	206,298	203,213
Miscellaneous veterans housing loans guaranteed loan financing account:			
Commitments	....	20	13
New guaranteed loans	....	20	13
Change in outstandings	....	20	11
Outstandings	....	20	31

Table 8–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–380	–371	–357
Outstandings	4,924	4,553	4,196
Agency for International Development			
Loan guarantees to Israel financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	....	....
Outstandings	9,226	9,226	9,226
Development credit authority guaranteed loan financing account:			
Commitments	93	69	213
New guaranteed loans	....	75	114
Change in outstandings	....	75	114
Outstandings	....	75	189
Housing and other credit guaranty programs liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–74	–76	–84
Outstandings	1,760	1,684	1,600
Private sector revolving fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Microenterprise and small enterprise development guaranteed loan financing account:			
Commitments	50	56	....
New guaranteed loans	39	44	30
Change in outstandings	11	22	10
Outstandings	42	64	74
Urban and environmental credit guaranteed loan financing account:			
Commitments	12	11	....
New guaranteed loans	147	37	11
Change in outstandings	127	11	–16
Outstandings	534	545	529
Assistance for the independent states of the former Soviet Union: Ukraine export credit insurance financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–61	....	....
Outstandings	....	....	....
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–12	–14	–55
Outstandings	69	55	....
Overseas Private Investment Corporation guaranteed loan financing account:			
Commitments	2,333	2,333	1,000
New guaranteed loans	426	600	800
Change in outstandings	291	100	250
Outstandings	2,904	3,004	3,254
Small Business Administration			
Pollution control equipment fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–11	–11	–11
Outstandings	46	35	24

Table 8–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(in millions of dollars)

Agency and Account	1999 Actual	Estimate	
		2000	2001
Business guaranteed loan financing account:			
Commitments	12,652	17,760	19,784
New guaranteed loans	10,785	7,534	7,738
Change in outstandings	3,072	4,150	4,261
Outstandings	36,767	40,917	45,178
Business loan fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	2	1	1
Change in outstandings	–1,152	–579	–432
Outstandings	2,652	2,073	1,641
Other Independent Agencies			
Export-Import Bank of the United States			
Export-Import Bank liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–493	–350	–317
Outstandings	1,214	864	547
Export-Import Bank guaranteed loan financing account:			
Commitments	12,165	14,664	15,040
New guaranteed loans	8,901	11,998	11,512
Change in outstandings	1,437	6,015	–554
Outstandings	24,151	30,166	29,612
National Credit Union Administration			
Credit union share insurance fund:			
Commitments	1	1	1
New guaranteed loans	1	1	1
Change in outstandings	....	....	....
Outstandings	1	1	1
Presidio Trust			
Presidio Trust guaranteed loan financing account:			
Commitments	....	....	100
New guaranteed loans	....	....	100
Change in outstandings	....	....	100
Outstandings	....	....	100
Subtotal, guaranteed loans (gross)			
Commitments	415,878	369,393	385,281
New guaranteed loans	388,160	348,340	354,137
Change in outstandings	88,677	123,817	102,364
Outstandings	1,545,214	1,669,031	1,771,395
Less, secondary guaranteed loans: [1]			
GNMA guarantees of FmHA/VA/FHA pools:			
Commitments	–163,508	–114,311	–96,262
New guaranteed loans	–163,508	–114,311	–96,262
Change in outstandings	–27,844	–30,255	–7,435
Outstandings	–569,468	–599,723	–607,158
Total, primary guaranteed loans: [2]			
Commitments	252,370	255,082	289,019
New guaranteed loans	224,652	234,029	257,875
Change in outstandings	60,833	93,562	94,929
Outstandings	975,746	1,069,308	1,164,237

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

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

Table 8–11. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]

(in millions of dollars)

Enterprise	1999 Actual	Estimate 2000	Estimate 2001
LENDING			
Student Loan Marketing Association:			
Net change	8,329	–3,927	–6,030
Outstandings	37,797	33,870	27,840
Federal National Mortgage Association:			
Portfolio programs:			
Net change	125,419	81,090	92,389
Outstandings	518,629	599,719	692,108
Mortgage-backed securities:			
Net change	46,936	20,023	29,285
Outstandings	674,297	694,320	723,605
Federal Home Loan Mortgage Corporation:			
Portfolio programs:			
Net change	99,446	39,843	40,008
Outstandings	315,968	355,811	395,819
Mortgage-backed securities:			
Net change	38,526	87,619	101,540
Outstandings	529,213	616,832	718,372
Farm Credit System:			
Agricultural credit bank: [2]			
Net change	1,481	452	1,176
Outstandings	18,093	18,545	19,721
Farm credit banks:			
Net change	1,762	1,143	1,973
Outstandings	45,823	46,966	48,939
Federal Agricultural Mortgage Corporation:			
Net change	1,009	1,261	1,576
Outstandings	2,057	3,318	4,894
Federal Home Loan Banks:			
Net change	121,375	2,043	2,043
Outstandings	366,842	368,885	370,928
Subtotal GSE lending (gross):			
Net change	444,283	229,547	263,960
Outstandings	2,508,719	2,738,266	3,002,226
Less guaranteed loans purchased by:			
Student Loan Marketing Association:			
Net change	8,329	–3,927	–6,030
Outstandings	37,797	33,870	27,840
Federal National Mortgage Association:			
Net change	20,484	–254	1,220
Outstandings	52,110	51,856	53,076
Other:			
Net change	6,269	....	....
Outstandings	20,794	20,794	20,794
Total GSE lending (net):			
Net change	409,201	181,872	268,770
Outstandings	2,398,018	2,652,540	2,900,516
BORROWING			
Student Loan Marketing Association:			
Net Change	8,074	–4,466	–6,910
Outstandings	41,591	37,125	30,215
Federal National Mortgage Association:			
Portfolio programs:			
Net Change	94,297	84,687	92,494
Outstandings	524,879	609,566	702,060
Mortgage-backed securities:			
Net Change	46,936	20,023	29,285
Outstandings	674,297	694,320	723,605

Table 8–11. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs)[1]—Continued

(in millions of dollars)

Enterprise	1999 Actual	Estimate	
		2000	2001
Federal Home Loan Mortgage Corporation:			
Portfolio programs:			
Net Change	104,627	62,427	39,088
Outstandings	341,014	403,441	442,529
Mortgage-backed securities:			
Net Change	38,526	87,619	101,540
Outstandings	529,213	616,832	718,372
Farm Credit System:			
Agricultural credit bank:[2]			
Net Change	1,389	486	1,266
Outstandings	19,468	19,954	21,220
Farm credit banks:			
Net Change	2,373	1,818	2,169
Outstandings	50,087	51,905	54,074
Federal Agricultural Mortgage Corporation:			
Net Change	975	288	9
Outstandings	2,573	2,861	2,870
Federal Home Loan Banks:			
Net Change	141,210	....	....
Outstandings	477,472	477,472	477,472
Subtotal GSE borrowing (gross):			
Net change	349,182	142,934	124,681
Outstandings	1,425,742	1,568,676	1,693,357
Less borrowing from other GSEs:			
Net Change	30,390	....	....
Outstandings	96,387	96,387	96,387
Less purchase of Federal debt securities:			
Net Change	–292	14	9
Outstandings	1,668	1,682	1,691
Less borrowing to purchase loans guaranteed by:			
Student Loan Marketing Association:			
Net Change	8,329	–3,927	–6,030
Outstandings	37,797	33,870	27,840
Federal National Mortgage Association:			
Net Change	20,484	–254	1,220
Outstandings	52,110	51,856	53,076
Other:			
Net Change	6,269	....	....
Outstandings	20,794	20,794	20,794
Total GSE borrowing (net):			
Net change	284,002	147,101	129,482
Outstandings	1,216,986	1,364,087	1,493,569

[1] The estimates of borrowing and lending were developed by the GSEs based on certain assumptions but are subject to periodic review and revision and do not represent offficial GSE forecasts of future activity, nor are they reviewed by the President. 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.

[2] The remaining Bank for Cooperatives was combined with the Agricultural credit bank as of July 1, 1999. Agricultural credit bank data for 1999 include data for Bank for Cooperatives.

Table 8–12. GOVERNMENT-SPONSORED ENTERPRISE PARTICIPATION IN THE CREDIT MARKET[1]

(dollar amounts in billions)

	Actual										
	1965	1970	1975	1980	1985	1990	1995	1996	1997	1998	1999
Total net lending in credit market[2]	66.8	88.2	169.6	336.9	829.3	704.1	720.4	727.1	713.5	975.3	1,091.4
Government-sponsored enterprise loans	1.2	4.9	5.3	21.4	57.9	115.4	125.7	141.5	112.8	293.1	284.0
GSE lending participation rate (percent)	1.8	5.6	3.1	6.4	7.0	16.4	17.4	19.5	15.8	30.1	26.0
Total net borrowing in credit market[2]	66.8	88.2	169.6	336.9	829.3	704.1	720.4	727.1	713.5	975.3	1,091.4
Government-sponsored enterprise borrowing ..	1.4	5.2	5.5	24.1	60.7	90.0	68.2	161.2	107.9	276.2	346.8
GSE borrowing participation rate (percent)	2.1	5.9	3.2	7.2	7.3	12.8	9.5	35.7	15.1	36.6	31.8

[1] Government-sponsored enterprises (GSEs) are financial intermediaries. GSE borrowing (lending) is nevertheless compared with total credit market borrowing (lending) by nonfinancial sectors, because GSE borrowing (lending) is a proxy for the borrowing (lending) by nonfinancial sectors that the GSEs assist through intermediation. The GSEs assist the ultimate nonfinancial borrower by purchasing its loans from the initial, direct lender or by other methods, which they finance by issuing securities themselves in the credit market. Borrowing and lending include mortgage-backed securities, because the GSEs assist nonfinancial borrowers through this type of intermediation as well as by types of intermediation that involve financial instruments recognized on the GSEs' balance sheets. The data for this table are adjusted, with some degree of approximation, to remove double counting in making a comparison with other Federal and federally guaranteed transactions. GSE borrowing and lending are calculated net of transactions between components of GSEs and transactions in guaranteed loans; GSE borrowing is also calculated net of borrowing from other GSEs and purchases of Federal debt securities.

[2] Total net borrowing (or lending) in credit market by domestic nonfinancial sectors, excluding equities. Credit market borrowing (lending) is the acquisition (loan) of funds other than equities through formal credit channels. Financial sectors are omitted from the series used in this table to avoid double counting, since financial intermediaries borrow in the credit market primarily in order to finance lending in the credit market. Equities, trade credit, security credit, and other sources of funds are also excluded from this series. Source: Federal Reserve Board flow of funds accounts. Estimates for 2000 and 2001 are not available.

Table 8–13. BORROWING BY FINANCING VEHICLES [1]

(in millions of dollars)

Financing Vehicle	1999 Actual	Estimate	
		2000	2001
Financing Corporation (FICO):			
Net change	1	1	2
Outstandings	8,146	8,147	8,149
Resolution Funding Corporation (REFCORP):			
Net change	–2	–3	–2
Outstandings	30,067	30,064	30,062
Subtotal, gross borrowing:			
Net change	–1	–2	0
Outstandings	38,213	38,211	38,211
Less purchases of Federal debt securities:			
Net change	7	551	595
Outstandings	6,617	7,168	7,763
Total, net borrowing:			
Net change	–8	–549	–595
Outstandings	31,596	31,047	30,452

[1] Financing vehicles are Government corporations established pursuant to law in order to provide financing for a Federal program but excluded from the on-budget and off-budget totals. FICO and REFCORP borrowed from the public in the past but have not loaned to the public. During the period covered by this table, the change in debt outstanding is due solely to the amortization of discounts and premiums. No sale or redemption of debt securities occurred in 1999 or is estimated to occur in 2000 or 2001.