8. CREDIT AND INSURANCE

Federal credit programs offer direct loans and loan guarantees for a wide range of activities, primarily housing, education, business and rural development, and exports. At the end of 2000, there were $241 billion in Federal direct loans outstanding and $1,043 billion in loan guarantees. Through its insurance programs, the Federal Government insures bank, thrift, and credit union deposits up to $100,000, guarantees private defined-benefit pensions, and insures against other risks such as natural disasters.

The Federal Government also enhances credit availability for targeted sectors indirectly through Government-sponsored enterprises (GSEs)—privately owned companies and cooperatives that operate under Federal charters. GSEs provide direct loans and increase liquidity by guaranteeing and securitizing loans. Some GSEs have become major players in the financial market. In 2000, the face value of GSE lending totaled $2.6 trillion. The size of two housing GSEs, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), is particularly notable; they had $2.1 trillion in combined lending. In return for fulfilling social roles, GSEs enjoy some privileges, which include eligibility of their securities to collateralize public deposits and be held in unlimited amounts by most banks and thrifts, exemption of their securities from SEC registration, exemption of their earnings from State and local income taxation, and ability to borrow from Treasury, at Treasury's discretion, in amounts ranging up to $4 billion. These privileges leave many people with the impression that their securities are risk-free. GSEs, however, are not part of the Federal Government, and their securities are not federally guaranteed. By law, the GSEs' securities carry a disclaimer of any U.S. obligation.

The role and risk of these diverse programs critically depend on the state of financial markets. In recent years, financial markets have been changing faster because of rapid technological advances and active deregulation. The Federal Government, therefore, needs to reassess the extent and nature of credit and insurance programs more carefully in order to adapt those programs to rapidly changing financial markets.

The rest of this chapter is organized as follows.

- The first section concerns the role of Federal credit and insurance programs. Federal programs play useful roles when market imperfections prevent the private market from efficiently providing credit and insurance. Financial evolution has partly corrected many imperfections and generally weakened the justification for Federal intervention.
- The second section identifies four key criteria for evaluating Federal programs: objectives, economic justification, availability of alternative means, and efficiency. It also discusses how Federal agencies may improve program efficiency.
- The third section reviews Federal credit programs and GSEs in four sectors: housing, education, business and community development, and exports. This section focuses on program objectives, recent developments, and future plans.
- The final section describes Federal deposit insurance, pension guarantees, and disaster insurance in a context similar to that for credit programs.

I. FEDERAL PROGRAMS IN CHANGING FINANCIAL MARKETS

The Federal Role

The roles of Federal credit and insurance programs can be broadly classified into two: helping disadvantaged groups and correcting market failures. Subsidized Federal credit programs redistribute resources from the general taxpayer to disadvantaged regions or segments of the population. Since disadvantaged groups can be assisted through other means, such as direct subsidies, the value of a credit or insurance program critically depends on the extent to which it corrects market failures.

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 the market outcome in some situations. The market imperfections that justify some Federal involvement can be broadly classified as follows.

- ***Information opaqueness*** interferes with the optimal allocation of capital. For example, information about some borrowers can be opaque. In most cases, financial intermediaries efficiently gather and process information needed to evaluate the creditworthiness of borrowers. However, there may be little objective information about some groups of borrowers such as start-up businesses, start-up farmers, and students, who have very limited current income and credit history. Because it is difficult for those borrowers to prove their creditworthiness to a large number of lenders, they need to rely on the subjective judgements of a few lenders, which can be wrong. In this situation, many creditworthy borrowers may fail to obtain credit. Even for borrowers who are approved for credit, insufficient competition among a small number of lenders can result in higher interest rates. Lacking adequate information, private lenders may also require risk premiums, in the form of higher borrowing costs, to compensate for uncertainty about borrowers' creditworthiness. With government intervention, such as loan guarantees, creditworthy borrowers may be more likely to obtain credit at a lower cost.

- ***Externalities*** cause either underinvestment or overinvestment in some sectors. Individuals and private entities do not make socially optimal decisions when they do not capture the full benefit (positive externalities) or bear the full cost (negative externalities) of their activities. Examples of positive and negative externalities are education and pollution. Other people benefit from high productivity and good citizenship of a well-educated person and suffer from pollution. Without Government intervention, people would invest less than the socially optimal amount in activities that generate positive externalities and more in activities that generate negative externalities. The Federal Government can encourage activities involving positive externalities by offering subsidized credit or other rewards and discourage activities involving negative externalities by imposing taxes or other penalties. Alternatively, the Government may offer credit or direct subsidies to encourage activities reducing negative externalities (e.g., pollution control).
- ***Resource constraints*** sometimes limit the private sector's ability to offer certain products. Deposit insurance is one example. Since the performance of banks is often affected by common factors such as macroeconomic conditions, bank failures tend to be clustered in bad times. Furthermore, if depositors become doubtful about the soundness of the banking system as a whole upon observing a large number of failures, they may rush to withdraw deposits, forcing even sound banks into liquidation. To prevent these undesirable withdrawals, which would harm the whole economy, deposit insurance needs to be backed by a sufficient fund to resolve a very large number of failures. It may be difficult for private insurers to secure such a large fund. Another example is catastrophic insurance, which also faces a small risk of a very large loss. Knowing that the insurer can run out of funds, people may be reluctant to purchase insurance because their claims might not be honored. Moreover, the insurer may not want to offer a reasonable policy because early occurrence of a disaster could bankrupt the company. In this situation, Government insurance is more effective than private insurance because the broad taxing authority of the Federal Government makes the insurance policy more credible. Another form of resource constraint is liquidity constraint. It is usually difficult for a private entity to raise a large fund in a short time. The funding difficulty can limit the private market's ability to extend credit and disrupt economic activity. The Federal Government can prevent economic disruption by providing liquidity in illiquid sectors or during illiquid periods.
- ***Imperfect competition*** justifies some Government intervention. Competition is imperfect in some markets because of barriers to entry, economies of scale, and foreign government intervention. If an entry barrier raised the cost of credit in some markets, the Federal Government might intervene. Foreign countries often subsidize their exporters and import-substituting industries. In these cases, the Federal Government may intervene to level the playing field for domestic exporters. Legal barriers to entry and geographic isolation can cause imperfect competition in some rural areas. If the lack of competition forces some rural residents to pay excessively high interest on loans, Government intervention can increase the availability of credit and lower the borrowing cost.

Changing Financial Markets

Financial markets have undergone many changes. The most fundamental developments are financial services deregulation and technological advances, which have promoted economic efficiency and competition. Technological advances have also enhanced liquidity, produced sophisticated risk management tools, and spurred globalization. Deregulation has promoted consolidation.

Financial services deregulation has promoted competition by removing geographic and industry barriers. Historically, geographic restrictions were a major legal barrier that limited competition in the banking sector. Until the late 1970s, all states prohibited out-of-state bank holding companies from acquiring in-state banks, and many states restricted intrastate branching. Deregulation of interstate banking and intrastate branching actively took place at the state level in the 1980s and early 1990s. In 1994, the Congress enacted the Riegle-Neal Interstate Banking and Branching Act, which permits banks to establish interstate branches through mergers with other banks. Geographic restrictions were essentially removed in 1997, when the Act took full effect. The Financial Services Modernization Act of 1999 has repealed the provisions of the Glass-Steagall Act and the Bank Holding Company Act that restricted the affiliation between banks, securities firms, and insurance companies. The Act allows financial holding companies to engage in various financial activities, including traditional banking, securities underwriting, insurance underwriting, asset securitization, and financial advising. As a result, competition has become nationwide and across all financial products.

Advances in communication and information processing technology have made the evaluation of borrowers' creditworthiness more accurate and lowered the cost of financial transactions. Lenders now have easy access to large databases, powerful computing devices, and sophisticated analytical models. Thus, many lenders use credit scoring models that evaluate creditworthiness based on various borrower characteristics derived from extensive credit bureau data. As a result, lending decisions have become more accurate and objective. Powerful computing and communication devices have also lowered the cost of financial transactions by producing new transaction methods such as electronic fund transfers, Internet banking, and Internet brokerage.

The development of reliable screening methods and efficient transaction methods have resulted in intense competition for creditworthy borrowers and narrowed lending margins. Financial institutions are more willing to compete for customers with diverse characteristics, customers in distant areas, and small profit opportunities. A notable example of increased competition is the credit card business, where offering lower rates to the best customers became much more common in recent years.

Wider availability of information and lower transaction costs have led to many developments that increase competition, enhance liquidity, and improve efficiency in financial markets.

Direct capital market access by borrowers has become more common. Advances in communication and information processing technology enabled many companies (less-established medium-sized companies, as well as large reputable ones) to validate their financial information at low costs and to borrow directly in capital markets, instead of relying on banks. The growth of the commercial paper (short-term financing instruments issued by corporations) market has been particularly notable. Between 1990 and 2000, the outstanding amount of commercial paper issued by nonfinancial firms increased by 132 percent (to $343 billion), while the commercial and industrial loans at commercial banks increased by 70 percent (to $885 billion). This development has reduced the importance and the pricing power of financial intermediaries.

Nonbank financial institutions such as finance companies and venture capital firms increased their market share, partly thanks to advanced communications and information processing technology that helped to level the playing field. Between 1990 and 2000, consumer loans and business loans at finance companies increased by 136 percent (to $439 billion) and 92 percent (to $518 billion) respectively. During the same period, those at commercial banks grew by 42 percent (to $538 billion) and 70 percent (to $885 billion). The growth of venture capital firms was rather phenomenal. Between 1990 and 1999, their new investments, which were mostly in small firms' equity, jumped from $3.2 billion to $40.6 billion (1,169 percent).

Internet-based financial intermediaries provide financial services more cheaply and widely. The Internet lowers the cost of financial transactions and reduces the importance of physical location. Internet brokers slashed the commission on stock trading. Internet-only banks, which started appearing recently, bid up deposit interest rates. Furthermore, their services are nationwide.

Over the last two decades, technological advances have produced many new financial instruments that help to enhance liquidity and manage risk. In particular, asset-backed securities and derivative securities have gained much popularity.

Securitization (pooling a certain type of asset and selling shares of the asset pool to investors) has enhanced liquidity in financial markets by enabling lenders to raise funds without borrowing or issuing equity. For example, mortgage bankers with little capital can originate a large amount of real estate loans and keep selling those loans. It also helps financial institutions to reduce risk exposure to a particular line of business. A bank with a large proportion of real estate loans can reduce its exposure to collapse of the real estate market by selling some of those loans to third parties. Commonly securitized assets include credit card loans, automobile loans, and residential mortgages, whose quality can be more objectively analyzed. In recent years, financial institutions began securitizing many other assets such as commercial mortgages and small-business loans, the riskiness of which is more difficult to evaluate.

Financial derivatives, such as options and swaps, have improved investors' ability to manage risk (either increase or decrease risk exposure). Financial institutions are increasingly using financial derivatives, which are effective tools to manage various types of risk such as interest rate risk, credit risk, price risk, and even weather-related risk. In an interest rate swap, for example, a firm with a floating-rate (interest rate tied to a benchmark rate such as the one-year Treasury rate) asset periodically pays its counter-party the floating-rate return in exchange for a fixed interest rate. This firm's exposure to interest rate movements will decrease if it mostly has fixed-rate debts and increase if it mostly has floating-rate debt. Weather derivatives offer a hedge on weather by tying the securities returns to weather conditions.

Globalization has been accelerating as a result of the reduced importance of geographic proximity and knowledge of local markets. Both commercial and investment banking institutions headquartered in Europe and Japan are actively competing in the U.S. market, and many U.S. financial institutions have branches worldwide. In 2000, foreign banks controlled about 11 percent of U.S. banking assets. On the other hand, deposits at foreign branches of U.S. banks accounted for about 16 percent of their total deposits.

Consolidation among financial institutions, especially banks, has been very active due to deregulation and increased competition. Many financial mega-mergers have taken place in recent years. The acquisition of Paine Webber by Union Bank of Switzerland exemplifies the merger between large investment firms. The merger between BankAmerica and NationsBank created the largest bank in the Nation with assets of $585 billion only to be surpassed soon by the merger between Chase Manhattan and J.P. Morgan forming a bank with assets of $660 billion. Because of active consolidation, the number of banks has sharply decreased, and the size of banks has increased. Between 1990 and 2000, the number of banks decreased by almost 4,000 or over 30 percent. The increased concentration of assets among the largest few banks is notable. The percentage of banking assets controlled by the largest 100 banks increased from 51 to 71 percent. The 20-percentage-point gain belongs largely to the largest 10 banks (16 percentage points). Consolidation across traditional industry boundaries has also been fairly active. The merger between Citicorp and Travelers Group in 1998 formed Citigroup encompassing the commercial banking (Citibank), insurance (Travelers), and securities (Salomon Smith Barney) businesses. Many inter-industry mergers were announced in 2000. Chase Manhattan (commercial bank) is acquiring Beacon Group (merger advisory firm), and Charles Schwab (brokerage giant) is taking over U.S. Trust (commercial bank). MetLife (insurance firm) plans to acquire Grand Bank (commercial bank).

Implications for Federal Programs

In general, financial evolution has increased the private market's capacity to serve the populations targeted by Federal programs and hence weakened the role of Federal credit and insurance programs. Thus, it may be desirable to focus on narrower target populations that still have difficulty in obtaining credit from private lenders and more specific objectives that have been less affected by financial evolution.

Information about borrowers is more widely available and easier to process, thanks to technological advances. Credit scoring models, for example, enable lenders to make more accurate lending decisions. As a result, creditworthy borrowers are less likely to be turned down, while borrowers that are not creditworthy are less likely to be approved for credit. The Federal role of improving credit allocation, therefore, is generally not as strong as before. The benefit from financial evolution, however, may have been uneven across groups. Large financial institutions with global operation, which are products of consolidation and globalization, may want to focus more on large customers and business lines that utilize economies of scale and scope more fully. Thus, some small and distinct borrowers, who used to rely heavily on the private information of small institutions, can be underserved. The Federal Government may need to better target those groups, while reducing general involvement.

Externalities have not been significantly affected by financial evolution. The private market fundamentally relies on decisions at the individual level. Thus, it is inherently difficult for the private market to correct problems related to externalities.

Resource constraints have been alleviated. Securitization and financial derivatives facilitate fund raising and risk sharing. By securitizing loans and writing derivatives contracts, a lender can make a large amount of risky loans, while limiting its risk exposure. An insurer can distribute the risk of a natural disaster among a large number of investors through disaster-related derivatives.

Imperfect competition is much less likely in general. Developments that contributed to increasing competition are financial deregulation, direct capital market access by borrowers, stronger presence of nonbank financial institutions, emergence of Internet-based financial institutions, and globalization. Consolidation has a potential negative effect on competition, especially in markets that were traditionally served by small institutions. Given that the Nation still has many banks and other financial institutions, the negative effect, if any, should be insignificant overall. It is possible, however, that some communities in remote rural areas and inner city areas have been adversely affected by consolidation.

Uncertainties about the Federal Government's liability have increased in some areas. Consolidation has increased bank size, and deregulation has allowed banks to engage in many risky activities. Thus, the loss to the deposit insurance funds can turn out to be unusually large in some bad years. The potential loss needs to be limited by large insurance reserves and effective regulation. The large size of some GSEs is also a potential problem. Financial trouble of a large GSE could cause strong repercussions in financial markets, affecting Federally insured entities and economic activity.

II. A CROSS-CUTTING ASSESSMENT

To systematically assess Federal programs, policymakers and program managers need to consider the following questions. (1) Are the programs' objectives still worthwhile? (2) Is the program economically justified? (3) Is the credit or insurance program the best way to achieve the goals? (4) Is the program operating efficiently and effectively? If the answer is "No" to any of the first three questions, the program should be eliminated or phased out. For programs that pass the three tests, the focus should be on improving efficiency and effectiveness.

Objectives

The first step in reassessing Federal credit and insurance programs is to identify clearly the objective of each program, such as an increase in homeownership, an increase in college graduates, an increase in jobs, or an increase in exports. The objective must be worthwhile to justify a program. For some programs, the objective might be unclear or of low importance. In some other cases, an initially worthwhile objective might have become obsolete. For example, the main objective of the Rural Telephone Bank is to increase telephone service in rural areas. This was a worthwhile objective when many rural residents had limited or costly access to telephone service. In the current environment with ample supply of telephone lines and intense competition among telephone companies, however, the objective is obsolete.

Economic Justifications

For a credit or insurance program to be economically justified, the program's benefits must exceed its costs. The benefits are the net effects of the program on intended outcomes compared with what would have occurred in the absence of the program. They exclude, for example, gains that would have been obtained with private credit in the absence of the program. Financial evolution may have significantly affected the net benefit from some programs. Suppose, for example, that financial evolution made information about borrowers transparent in some sectors where information opaqueness had been a major problem. Then the net benefit would be substantially smaller for the Federal programs that mainly intended to solve the information problem in those sectors.

Many Federal credit and insurance programs involve subsidy costs, and all of them incur administrative costs. A subsidy cost occurs when the beneficiaries of a program do not pay enough to cover the cost to the Federal Government (e.g., they pay below-cost interest rates and below-cost fees). The administrative costs include the costs of loan origination, direct loan servicing, guaranteed loan monitoring, and collecting on delinquent loans. The net benefit of a program can be smaller than the combined cost of subsidy and administration either because it is inherently costly to pursue the program's goal or because the program is inefficiently managed (failure to maximize the benefit and minimize the cost). The program should be discontinued in the first case and restructured in the second case.

Alternatives

Even a program that is economically justified should be discontinued if there is a better way to achieve the same goals. The Federal Government has other means to achieve social and economic goals, such as providing direct subsidies, offering tax benefits, and encouraging private institutions to provide the intended services.

In general, direct subsidies are more efficient than credit programs for the purpose of fulfilling social objectives such as helping low-income people, as opposed to economic objectives such as improving credit allocation. Direct subsidies are less likely to interfere with the efficient allocation of resources. Suppose that the Government makes a subsidized loan to be used for a specific project. Then the borrower will undertake the project if its return is greater than the subsidized rate. Thus, the subsidized loan can induce the borrower to undertake a normally unprofitable project and hence result in a social loss. On the other hand, a direct subsidy is a simple income transfer, which is less likely to cause a social loss.

To a certain extent, the Federal Government can also correct market failures by improving the efficiency of the private market, instead of directly offering credit or insurance. For example, policies encouraging the standardization of information (e.g., standardization of loan origination documents) may improve the private lenders' ability to serve those sectors where information is opaque. Standardization helps to reduce opaqueness by facilitating information processing. With reduced opaqueness, loan sales should be easier, and the secondary market should develop more quickly. Then the lending market would be more liquid and competitive. A more specific example is the development of floodplain maps by the National Flood Insurance Program. Before the development of the maps, private insurance companies had little information on flood risks by geographic area. The lack of information was a main reason why private companies were unwilling to insure against flood risk. The availability of floodplain maps may have increased private companies' willingness to provide flood insurance.

Improving Efficiency

Some programs may be well-justified based on the three criteria above. However, few programs may be perfectly designed. It is almost impossible to take all relevant factors into consideration at the beginning. In addition, financial evolution can lower the efficiency of initially well-designed programs. Thus, improving efficiency is an everlasting concern. Although the ways to improve efficiency vary across programs, some general principles may apply to many programs.

A critical part of credit programs is to set appropriate lending terms. The Government makes many loans at a subsidized rate, which could attract borrowers who would be able to obtain credit elsewhere at reasonable rates. For example, the Farm Service Agency offers agricultural loans at Treasury rates to borrowers who have been denied credit by private lenders. The disaster loan program of the Small Business Administration applies a lower rate to applicants without credit available elsewhere. Some creditworthy borrowers can be denied credit by chance. It is also possible that some borrowers might even be willfully denied credit by an unusually tough lender or due to inaccurately reported credit information. One solution to this problem is to make loans at the rate that private lenders offer to an average borrower and supplement the loans with direct subsidies to the disadvantaged. Proper lending terms requiring less subsidy should improve the efficiency of Federal programs by reducing the possibility of encouraging uneconomic projects and increasing the Federal agencies' ability to serve a larger population within their budget limits.

The Federal Government can manage credit and insurance programs more efficiently by utilizing the private market's expertise. In the areas where the private market has expertise that the Government does not, it is important to utilize the private market's expertise to effectively implement Federal programs. For example, if private lenders more accurately evaluate the creditworthiness of a certain group of borrowers using private information and special knowledge, the Government needs to have private lenders involved in credit programs and, with appropriate risk-sharing incentives, delegate credit evaluation for the group to them.

If the expertise of the private market is not critical, however, the Government should streamline delivery systems. A good example is the guaranteed student loan program. Neither lending institutions nor guaranteeing agencies are involved in credit evaluation. Schools make lending decisions based on eligibility. In this case, involvement of multiple layers of institutions can unnecessarily increase administrative costs. In addition, if the Government fails to set the loan criteria and lending margin optimally, private institutions may make excessive profits at the expense of taxpayers.

Outreach is very important to improve the efficiency of Federal programs. The net benefit will increase if program managers more successfully identify borrowers who would not get private credit. They need to reach out to underserved populations (e.g., low-income, minority) and neighborhoods (e.g., rural, inner city). They need to encourage 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 credit programs can also play a more useful role when there is temporary inefficiency in the private market. The financial market can occasionally face a liquidity crisis or become overly pessimistic (e.g., at the time of the Asian financial crisis and the near collapse of Long-Term Capital, a hedge fund). On those occasions, Federal agencies can promote the extension of credit to creditworthy borrowers.

Federal programs will become more cost effective if program managers more successfully identify the most creditworthy borrowers among those who would be denied credit by private lenders. More accurate screening would lower the default rate and hence the subsidy cost. Achieving this goal may require well-developed analytical tools.

To efficiently run Federal programs in a rapidly changing financial market, Federal agencies need to catch up with new technology. Federal agencies and private financial institutions compete for some borrowers and make financial transactions such as loan sales. Private institutions are using increasingly sophisticated tools to screen borrowers and price financial assets. If Federal agencies do not use advanced tools, they can be left with riskier loan pools or inadvertently sell loans at below-market prices. To catch up with new technology, it is critical to have a staff with advanced analytical training. Sometimes, it may be more cost effective to contract out analytical work than to maintain a large analytical staff. Even when contracting out is more cost effective, Federal agencies need some analysts with enough training to competently evaluate the performance of contractors. Inability to effectively evaluate the performance of contractors may result in serious waste.

Federal agencies also need to monitor other developments that may affect program efficiency. For example, many loans guaranteed by the Government are securitized. Securitization may reduce the lenders' incentives to screen and monitor borrowers if they believe that guaranteeing agencies do not properly track the performance of securitized loans. To prevent this adverse effect, the Government needs well-organized databases and modern monitoring systems.

III. CREDIT IN FOUR SECTORS

Housing Credit Programs and GSEs

The Federal Government makes direct loans, provides loan guarantees, and enhances liquidity in the housing market to promote homeownership among low- and moderate-income people and to help finance rental housing for low-income people. While direct loans are largely limited to low-income borrowers, loan guarantees are offered to a much larger segment of the population, including moderate-income borrowers. Increased liquidity achieved through GSEs benefits virtually all borrowers in the housing market, although it helps low- and moderate-income borrowers more.

The main government agencies and GSEs involved in housing finance are the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), the Department of Agriculture (USDA), Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. In 2000, HUD, VA, and USDA supported $123 billion of direct loans and loan guarantees, helping 1.3 million households and contributing to a record high homeownership rate of 67.7 percent. Roughly one out of six single-family mortgages originated in the United States receives assistance from one of these programs.

Federal Housing Administration

HUD's Federal Housing Administration (FHA) operates the Mutual Mortgage Insurance Fund. FHA mortgage insurance is directed to expanding access to homeownership for people who lack the savings, income, or credit history to qualify for a conventional home mortgage. In 2000, FHA insured $86 billion in mortgages for almost 900 thousand households. The volume was lower than in 1999, when low interest rates spurred mortgage originations and refinancing. FHA also faces increased competition from private lenders who are now more willing to offer loans to borrowers with weaker credit standing at competitive terms. Over 80 percent of FHA's home purchase mortgages went to first-time home buyers, and 42 percent went to minority households. These percentages have doubled over the past decade.

FHA recently reduced its upfront insurance premiums by one-third, and brought its annual premium structure in line with the private mortgage insurance industry by authorizing annual premium cancellation at 78 percent loan-to-value ratio. In addition, the Budget proposes to allow FHA to insure a new financial product that has gained popularity in the conventional market—hybrid adjustable-rate mortgages.

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 also has authority to assess financial penalties on lenders who fail to engage in loss mitigation. FHA increased loss mitigation activity by over 50 percent in 2000, processing over 30,000 new loss mitigation claims (partial claims, special lender forbearance, and loan recasting). 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 because management and marketing of real property are very costly.

In 1999, Congress passed legislation giving new authority to FHA to pay claims prior to foreclosure. This accelerated claims process, when fully implemented in 2002–2003, will allow FHA to pass along defaulted notes to the private sector for servicing and/or disposition, thereby reducing foreclosures and eliminating most of the real property that FHA must acquire and dispose. Currently, FHA contracts with private companies for the management and marketing of most of its single-family properties.

There is some evidence that the mortgage industry has seen an increase in the number of predatory loans. Predatory loans, which carry excessive fees or other unfair pricing structure, harm unsuspecting buyers. Predatory loans are more prevalent in the subprime market where conventional loans are made to higher-risk borrowers. The Government can improve mortgage-market efficiency by squeezing out predatory practices through increased regulation and disclosure. In addition to predatory lending, the mortgage industry also has seen increased incidences of fraud. For example, FHA recently had to implement emergency foreclosure moratoria in several cities to protect consumers from a scam known as "property flipping," in which a lender and an appraiser conspire to sell a home at a falsely inflated price. Government credit programs are more susceptible to property flipping because of the opportunity created by the Government guarantee. Improved program controls and better information systems would reduce the Government's risk in this area.

VA Housing Program

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 2000, VA provided $20 billion in guarantees to assist 176,000 borrowers. Both the volume of guarantees and the number of borrowers were lower than those in 1999 as higher interest rates decreased loan originations and refinancing in the housing market.

Since the main purpose of this program is to help veterans, lending terms are more favorable than market rates. In particular, VA guarantees zero down payment loans. As a result, the default rate is relatively high. The subsidy rate, however, declined slightly in 2000, thanks to efforts to reduce foreclosure rates and the strong housing market.

In order to help veterans retain their homes and avoid the expense and damage to their credit resulting from foreclosure, VA plans aggressive intervention to reduce the likelihood of foreclosures when loans are referred to VA after missing three payments. VA was successful in 30 percent of their 2000 interventions, and their goal is to increase that to 34 percent in 2002. Future military base closures, however, may negatively affect the default rate in the VA guaranteed housing program. Guaranteed loans issued to active duty military and military reservists are vulnerable to the impact of base closures on the neighboring community.

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 in 2001, will determine whether it would be cost effective to contract property management activities. The Administration will also propose eliminating the "vendee" home loan program, which allows the general public to receive direct loan financing from VA when purchasing a defaulted VA home and which is not mission related.

Rural Housing Service

USDA's Rural Housing Service (RHS) offers direct and guaranteed loans and grants to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. The single family guaranteed loan program guarantees up to 90 percent of a private loan for moderate-income rural residents. The program's emphasis is on reducing the number of moderate-income rural residents living in substandard housing. In 2000, $2.02 billion of guarantees went to 27,408 households, of which 29.4 percent went to low-income borrowers (income is 80 percent or less than median area income). For 2001, Congress statutorily increased the premium charged on the RHS single-family guarantees from 1 to 2 percent, which should allow RHS to provide more loans at less cost to the taxpayers.

In the single family housing guaranteed loan program, lender monitoring and external audits have helped to identify program weaknesses, train servicers, and identify troubled lenders. RHS's guaranteed loan program is also moving toward automated underwriting. In 2000, RHS continued to enhance an Internet based system that will, with future planned improvements, provide the capacity to accept electronic loan originations from their participating lenders. Utilizing electronic loan origination technology will add significant benefits to loan processing efficiency and timeliness for both RHS and the lenders.

RHS continues to operate under the "best practice" for asset disposition for its guaranteed loan program. For single family guarantees, the lender is paid the loss claim, including costs incurred for up to three 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.

RHS programs differ from other Federal housing loan guarantee programs, which generally either are out of reach for the income levels of RHS loan recipients or do not reach rural areas due to their outreach structure. For instance, HUD's FHA guarantee program is not means-tested, but there is an individual loan limit. RHS is means-tested, and there is a loan limit. FHA loans are available in any area, but often RHS borrowers are unable to afford an FHA loan. In addition, the RHS direct loan program offers deeper assistance to very-low-income homeowners by subsiding the interest rate down to 1 percent for such borrowers. RHS offers the Federal Government's only direct single family housing loan program. The program helps the "on the cusp" borrower obtain a mortgage, and encourages graduation to private credit as the borrower's income increases over time.

RHS single family direct loans have a fluctuating interest rate depending on the borrower's income. It can be anywhere from 1 percent up to the note rate. Each loan is reviewed annually to determine the interest rate that should be charged on the loan in that year. The determination is based on the borrower's actual annual income that year. The program cost is balanced between interest subsidy and defaults. For 2002, RHS expects to provide $1.1 billion in loans with a subsidy cost of 13.16 percent. Its most recent and ongoing servicing improvement effort has been the implementation of the Dedicated Loan Origination Service System (DLOS), which centralized the servicing of the direct loan program. DLOS, in conjunction with 2 major regulations implemented between 1996 and 1997, reduced RHS's direct loan subsidy rate by 40 percent.

RHS also offers multifamily housing loans. Direct loans are offered to private developers to construct and rehabilitate multi-family rental housing for very-low- to low-income residents, elderly households, or handicapped individuals. These loans to developers are very heavily subsidized; the interest rate is between 1 and 2 percent. The Farm Labor Housing direct loans, which are similarly priced, help developers to provide rental units for minority farm workers and their families. RHS rental assistance grants supplement both of these loan programs in the form of project based rents for very low-income rural households. RHS also started offering guaranteed multifamily housing loans beginning in 1996. The cost of this guarantee program is relatively low because default rates are expected to be low. In total, the Budget provides $257 million in direct and guaranteed loans for rural multi-family rental housing, helping to construct over 8,600 new units for very-low- to moderate-income tenants in rural America.

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—Fannie Mae and 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. Automated valuation models relate these factors to default cost, and provide comparative analysis of home sales data to estimate property collateral values without relying on a human appraiser. After loan origination, software programs grade delinquent loans in terms of their credit and collateral risk and allow servicers to devote resources to the highest-risk loans.

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 challenged 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 homeownership opportunities to those who are not currently served.

Data Sharing. Federal credit program managers are benefitting and would benefit more from additional data-sharing capability across the Government, which provides access to integrated information on program designs, borrower characteristics, and lender and loan performance.

Loan Origination. Electronic underwriting provides convenient, faster service at a lower cost to both lenders and borrowers. Currently, both FHA and VA 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, however, will soon deploy its "Total Scorecard." By transitioning FHA's third party lenders to its own automated scorecard, FHA will improve its program controls and credit management.

Performance Measurement. As in underwriting, private firms are heavily involved in servicing Government-backed mortgages. Measurement of the private sector's servicing capacity is thus critical. The Government needs to improve its systems to measure this performance. For example, monthly data would not only give housing programs a better understanding of how their guarantee portfolios behave, but also serve as an early warning system and feedback mechanism. The Government could adjust underwriting standards in quick response to changing market conditions.

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 to avoid adverse selection and larger losses. Currently, premiums vary only slightly with one dimension of risk, the initial loan-to-value ratio.

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 manage delinquent loans and dispose of properties.

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 and to promote access to mortgage credit for households that historically have been underserved by private markets. They carry out this function by guaranteeing or purchasing residential mortgages. The guaranteed loans are packaged as mortgage-backed securities (MBS), which lenders hold or sell to investors, including Fannie Mae and Freddie Mac. The two GSEs finance their acquisitions of loan and MBS assets by issuing debt. As of September 2000, Fannie Mae and Freddie Mac had $2.2 trillion outstanding in mortgages that they had purchased or guaranteed. Of this, $936 billion was held in the GSEs' asset portfolios, and $1.3 trillion served as collateral for outstanding MBSs not 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' purchases and securitizations of single-family mortgages equaled 43 percent of originations of such loans in calendar year 1999.

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 (leverage) and risk-based capital requirements on Fannie Mae and Freddie Mac. Examinations of the GSEs and enforcement of leverage capital ratios have proceeded since OFHEO's inception, while risk-based capital requirements have undergone an extensive rulemaking process. OFHEO expects to publish a final risk-based capital rule this year. The rule would become enforceable one year later. In October 2000, Fannie Mae and Freddie Mac announced that they would voluntarily issue subordinated debt on a regular basis and expand their public disclosures relating to risk exposures.

Fannie Mae and Freddie Mac have achieved strong growth in profits in recent years, in large part by rapidly growing their debt-financed holdings of mortgage assets. From September 1997 to September 2000, their mortgage asset portfolios more than doubled 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 by issuing long-term callable debt and by entering into interest rate swaps and other hedging transactions. Hedges, however, do not eliminate all the risk associated with funding long-term, mostly fixed-rate assets that have uncertain payment streams. Implementation of an appropriate risk-based capital regulation should help limit the potential losses associated with interest rate risk.

To fund their rapidly growing asset portfolios, Fannie Mae and Freddie Mac have increased sharply their outstanding debt. The GSEs' combined debt outstanding rose from $196 billion at the end of calendar year 1992 to $1.07 trillion at the end of calendar year 2000, an average growth rate of nearly 24 percent a year.

The GSEs' management of counterparty default risk is of increasing importance because their risk management techniques transform exposure to credit or interest rate risk into counterparty default risk. Such risk management techniques include the use of credit enhancements and derivatives; supplementing primary mortgage insurance with supplementary insurance at the pool level; and the use of interest rate and currency swaps.

The average credit quality of mortgages owned or guaranteed by Fannie Mae and Freddie Mac 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 the firms' overall size. In 2000, Fannie Mae and Freddie Mac began purchasing mortgages with loan-to-value (LTV) ratios greater than 97 percent. As the subprime and high-LTV shares of mortgages financed by the GSEs expand, increasing attention must be paid to their practices for pricing and managing the associated risks.

The above risk assessments must be considered in the context of the GSEs' public purpose to promote access to mortgage credit for low- and moderate-income families in underserved areas, as specified in the 1992 act and their Federal charters. The Secretary of Housing and Urban Development (HUD) establishes affordable housing goals for the GSEs. A final rule published October 31, 2000 established goals for the GSEs for calendar years 2001–2003. The rule requires each GSE to devote:

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

The 1997–2000 goals were 42 percent, 24 percent, and 14 percent of each GSE's purchases, respectively. As of 1999, Fannie Mae and Freddie Mac have met or exceeded the affordable housing goals in each year.

Fannie Mae and Freddie Mac face challenges to sustaining their high rates of profit growth. A small number of large originators account for a large proportion of the single-family mortgages that the GSEs buy and securitize. Larger firms may have somewhat greater market power in negotiating with the GSEs over guarantee fees. Further, total mortgage debt financed by Fannie Mae and Freddie Mac has been increasing more quickly than residential mortgage debt outstanding, which suggests that their charters could eventually limit the GSEs' ability to expand their mortgage asset portfolios. There also may be limits to the amount of mortgage securities the GSEs can finance with debt at attractive margins and the amount of counterparty risk exposure to Fannie Mae and Freddie Mac that other market participants are willing to absorb. The benefit of government sponsorship, however, is one factor that may help Fannie Mae and Freddie Mac to maintain relatively high profitability.

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 advances (secured loans) 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 is open to federally chartered and state-chartered thrifts, commercial banks, credit unions, and insurance companies on a voluntary basis. As of September 30, 2000, 7,720 financial institutions were FHLBS members, an increase of 494 over September 1999. About 73 percent of members are commercial banks, 20 percent are thrifts, and the remaining 7 percent are credit unions and insurance companies. However, 57.8 percent of outstanding FHLBS advances were held by thrifts as of September 30, 2000.

The FHLBS reported net income after adjustment for payment of interest to the Resolution Funding Corporation (REFCorp) of $2.1 billion for the year ending September 30, 2000, up from $1.7 billion in the previous 12 months. System capital rose from $26.9 billion to $30.6 billion, while the ratio of capital to assets fell from 5.1 percent to 4.9 percent. Average return on equity was about 7.5 percent (after REFCorp). Outstanding advances to members reached $430 billion at September 30, 2000, an 18 percent increase over the $365 billion outstanding a year earlier.

The Financial Services Modernization Act requires the System to adopt a risk-based capital structure, and the Federal Housing Finance Board (Finance Board) approved a final capital rule on December 20, 2000, to implement this requirement. The Financial Services Modernization Act changed the FHLBanks' annual payment towards the interest payments on bonds issued by the REFCorp from $300 million annually to 20 percent of net earnings. The FHLBanks are required 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. The need to generate income to meet the REFCorp and AHP obligations and still provide a competitive return on members' investment was a driving force behind the substantial increase in the System's investment activity in recent years.

The 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 to a member.

The System's investment activities, including mortgage purchase programs, create more risks. To control the System's risk exposure on advances and other assets, the Finance Board 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 Finance Board conducts an annual on-site examination of each FHLBank. Each FHLBank's board of directors must establish risk-management policies that comport with Finance Board guidelines.

The FHLBanks held $14.7 billion in mortgage loans at September 30, 2000, approximately 2.3 percent of total assets. The mortgage purchase programs offer members alternative ways of granting credit. In one of these programs, the FHLBanks finance mortgage 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 an FHLBank under these mortgage purchase programs are required, pursuant to the terms of the program, to be credit enhanced to at least the level of an investment-grade security. In addition, an FHLBank must hold risk-based capital against mortgage assets that have credit risk equivalent to an instrument rated lower than double A.

The FHLBanks' investment activities also pose important public policy issues about the degree to which their asset composition adequately reflects the mission of the System. Advances and mortgage loans were equivalent to about 77 percent of the System's outstanding debt, unchanged from one year earlier. As of September 30, 2000, about 52 percent of advances had a remaining maturity of greater than one year—down from 56 percent one year earlier. Although System investments other than advances rose to $178 billion as of September 30, 2000, compared with $156 billion one year earlier, as a percentage of total assets, they fell to 28 percent on September 30, 2000, from 29 percent one year earlier. Like other GSEs, the System issues debt securities at close to U.S. Treasury rates and invests the proceeds in higher-yielding securities. In 2000, the FHLBS issued $3.9 trillion in debt securities. However, the majority of the debt issued by the System is overnight or short-term, and total debt outstanding was about $577 billion at the end of 2000.

An enormous, liquid, and efficient capital market exists for conventional home mortgages today. As a result of Government Sponsored Enterprises (GSEs), Ginnie Mae, and the increasing presence of private securitizers, lenders have access to substantial liquidity sources, in addition to FHLBS advances, for financing home mortgages. The Financial Services Modernization Act further increases access to the FHLBS for community financial institutions with $517 million or less in assets by permitting advance borrowings that provide funds for small businesses, small farms, and small agribusinesses.

Education Credit Programs and GSEs

The Federal Government guarantees loans through intermediary agencies and makes direct loans to students to encourage post-secondary education. The Student Loan Marketing Association (Sallie Mae), a GSE, securitizes guaranteed student loans.

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 participate in either or both programs. Loans are available to students and their parents regardless of income. Borrowers with low family incomes are eligible for higher interest subsidies. For need-based Stafford Loans, the Federal Government subsidizes interest costs while borrowers are in school, during a six-month grace period, and during certain deferment periods.

In 2002, more than 6 million borrowers will receive nearly 10 million loans totaling almost $48 billion. Of this amount, $37 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 an 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 2002, FFEL lenders will disburse more than 6 million loans exceeding $31 billion in principal. Lenders bear two percent of the default risk, and the Federal Government is 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, originally included in the 1992 Budget as a demonstration project, was authorized by the Student Loan Reform Act of 1993. Under Direct Loans, the Federal Government provides loan capital directly to over 1,200 schools, which then disburse loan funds to students. In 2002, the Direct Loan program will generate more than 3 million loans with a total value in excess of $17 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.

While projected loan volumes continue to increase under both the FFEL and FDSL programs, lifetime subsidy costs are projected to decrease in both programs. For 2002, the weighted average subsidy rate for FFEL program is estimated at 12.18 percent and the rate for FDSL is estimated at –8.73 percent. These subsidy rates are lower than previous projections as a result of changes in interest rates, as well as decreased lifetime default rates and improved collections on defaults. The difference in subsidy rates is primarily a result of net interest income on FDSL; the interest income exceeds the Government's cost of funds under current economic assumptions. FFEL does not provide the Government with interest income because it is a guaranteed loan program.

Consolidation Loans, which allow borrowers to combine one or more FFEL, Direct Loan, or other Federal student loan into a single loan with a fixed interest rate, have grown dramatically in recent years. In 1995, Consolidation Loans totaled $3.6 billion, accounting for roughly 13 percent of overall student loan volume. In 2000, the program had grown to over $11 billion, making up a quarter of all student loan volume. This trend, which reflects an over 200 percent increase from 1995 to 2000, is expected to peak in 2001, when projected Consolidation Loans will total more than $14 billion, or nearly 30 percent of overall loan volume. With temporary Direct Loan interest rate discounts ending on September 30, 2001, consolidation volume is projected to drop back to $11 billion in 2002, after which it is expected to grow at approximately 4 percent annually.

As one of Education's performance management objectives, modernizing student aid benefit delivery is a key priority. Accordingly, in 1998 Congress created Student Financial Assistance (SFA) as the Government's first Federal performance-based organization. SFA is working to improve the management of all student aid programs, using its expanded procurement and contracting flexibility, with a focus on re-engineering information systems and expanding electronic data exchange to improve customer service, enhance data quality, and lower costs. SFA is working with students, lenders, guaranty agencies, and others to implement 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.

For Fiscal Year 2002, the Administration is proposing to address the shortage of qualified, skilled math and science teachers in elementary and secondary schools by increasing the amount of forgivable guaranteed and direct student loans from $5,000 to $17,500 for teachers who majored or minored in science, math, technology, or engineering and who commit to teach for five years in high-need schools. This proposal builds upon the teacher loan forgiveness program authorized in the 1998 Higher Education Amendments. High-need schools would include those with a high concentration of low-income students and those in which there is a large proportion of out-of-field math and science teachers.

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 USA Education, Inc. and must wind down and be liquidated by September 30, 2008. The Omnibus Consolidated and Emergency Supplemental Appropriations for 1999 allows the USA Education, Inc. 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 guaranteed 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 nearly 40 percent of all outstanding guaranteed student loans.

Business and Rural Development Credit Programs and GSEs

The Federal Government guarantees small business loans to promote entrepreneurship. The Government also offers direct loans and loan guarantees to farmers who may have difficulty obtaining credit elsewhere and to rural communities that need to develop and maintain infrastructure. Two GSEs, the Farm Credit System (FCS) and the Federal Agricultural Mortgage Corporation (Farmer Mac), increase liquidity in the agricultural lending market.

Small Business Administration

The Small Business Administration (SBA), created in 1953, provides financial assistance to the small business sector. Traditionally, small firms have faced difficulty obtaining long-term loans in the private marketplace because they tend to have limited credit history and cash flows. SBA's role as a "gap" lender is to correct these market imperfections and provide credit access during economic downturns.

The Administration's 2002 Budget anticipates that the SBA will make available in excess of $17.5 billion through its lending programs. The 7(a) General Business Loan program, SBA's primary lending vehicle, will support approximately $10.7 billion in loans. SBA will supplement the capital of Small Business Investment Companies (SBICs), which provide equity capital and long-term loans to small businesses, with $3.1 billion in participating securities and guaranteed debentures.

Just as SBA's Section 504 Certified Development Company program has operated with a zero subsidy rate for several years, the 2002 Budget proposes to make the 7(a) and SBIC programs self-financing through fee increases, saving $141 million in government subsidies. The budget proposes a program level of $3.75 billion for the 504 program. The Administration's fee proposal acknowledges that some small businesses may have trouble accessing capital but do not require the government to subsidize their cost of borrowing.

While the Administration continues to support government guaranteed lending for small businesses, the advent of interstate banking combined with passage of the Gramm-Leach-Bliley Financial Modernization Act of 1999, have also significantly expanded small businesses' access to capital. In addition, the venture capital market has matured over the last twenty years and may no longer need the same level of government intervention. The venture capital market has grown from approximately $800 million in capitalized funds in the late 1960s, to $35 billion in the late 1980s, and to over $124 billion in 1998.

More Emphasis on Small Loans. The budget also supports $20.5 million in Microloans ($35,000 and under) with $20 million in associated technical assistance to increase borrowers' probability of success. In recent years, the amount of 7(a) support for small loans (under $150,000) has decreased from $2.1 billion in 1995 to less than $1 billion in 1999. To further help people whose business needs for small loans are not met by private lenders, the SBA has implemented changes enacted in 2001 intended to expand the number of small 7(a) loans, by making these loans more cost effective for borrowers and lenders.

Reliance on Private Sector Partners. 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 2000, has experienced the greatest shift to private sector partnership. Under the Preferred Lender Program (PLP), SBA's most experienced lenders have authority to approve, service, and liquidate SBA-guaranteed loans without a credit review by SBA. Loans approved through PLP lenders comprised 7 percent of all 7(a) loan approval dollars in 2000. SBA also requires all PLP and non-PLP lenders to service and liquidate their SBA-guaranteed loans.

Management Reform Initiative. Because the loan servicing function is performed more efficiently and effectively in the private sector, Federal agencies are using a variety of debt collection tools to transform their functions from loan servicing to portfolio management and oversight. In SBA's case, the asset sales program is allowing the agency to redirect loan servicing resources to more effectively monitor the performance of its loan portfolio and mitigate the government's risk. SBA is now at a point where further efficiencies can be achieved by consolidating or contracting out the loan servicing function and closing redundant operations. To accomplish this, the budget requests $2 million to provide training and relocation assistance to SBA employees to assist with this agency-wide transformation.

Improving Lender Oversight. Over the past several years, SBA has substantially increased the size of its loan portfolio, delegated eligibility and credit approval authority for a majority of SBA loans through the Preferred Lender Program (PLP), and assigned responsibility for servicing and liquidating SBA loans to its private sector partners. At the same time, SBA has reduced the level of staff devoted to performing these functions within the Agency. These trends require SBA to (1) improve its oversight of lenders involved in the various SBA loan programs to ensure that SBA lenders exercise adequate fiduciary responsibility in their management of the loans guaranteed by the SBA; and (2) adopt risk management techniques to better identify and understand the performance characteristics of the SBA portfolio in order to make informed policy decisions about SBA loan programs. Lender Oversight will evaluate individual SBA lenders through analysis of a variety of factors including overall financial performance and related trends and ratio analysis, industry concentrations analysis, peer lending performance comparisons, SBA portfolio performance analysis, and selected credit reviews. The oversight program also encompasses on-site safety and soundness examinations and off-site monitoring of the Small Business Lending Companies (SBLCs), and compliance reviews of SBA lenders. Lender Oversight will also evaluate the various SBA loan programs to identify performance trends, identify predictors of risk, compare lender performance, and promote best practices.

Systems Modernization Initiative. To improve its data collection and program and portfolio management responsibilities, SBA will continue its Systems Modernization initiative, requesting $8 million in 2002 to invest in the Agency's information systems. This funding will allow SBA to continue improving internal accounting systems, develop the necessary in-house systems to support lender monitoring, and enhance SBA's centralized corporate database to allow better program management and improve loan processing efficiency for lenders and SBA staff.

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 its first asset sale in 1999, SBA sold more than 4,000 loans for $195 million—a substantial premium over what the Agency's outside expert 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. SBA conducted two sales of approximately $1 billion each in 2000, which included 7(a), CDC, and disaster assistance business and home loans. Drawing on the 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 sales, the Administration estimates that SBA's business loan assets can be sold at a gain to the Government.

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 residents for the water and wastewater programs). These community programs have very low default rates. The cost associated with them is due primarily to subsidized interest rates that are below the prevailing Treasury rates.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, including cooperatives, to increase employment and diversify the rural economy. In 2002, USDA proposes to provide $1 billion in loan guarantees to rural businesses. The 2002 Budget includes an increase in the premium charged on the Business and Industry (B&I) guaranteed loans. The fee will be raised to 3.25 percent (2.25 percent for targeted areas), which is reflected in the 2.74 percent subsidy rate. This allows more loans to be made at less cost to the taxpayers.

The Budget does not include funding for the Direct B&I program. The B&I direct program has had authority to provide $50 million in loans since 1997 (the first year of the program) , but has yet to utilize the full amount. Further, the subsidy rate has gone from being negative in 1997 through 2000 to 6 percent in 2001, and to 28 percent for 2002, indicating a much higher default rate than originally anticipated (the rate rose dramatically, even though lower discount rates between 2001 and 2002 make direct loans less expensive). Direct B&I borrowers must have been rejected from a private bank in order to qualify. The high default rate indicates that the program is not providing long-term, stable jobs to rural America. The borrowers are defaulting, and the businesses are failing.

These community programs are all part of the Rural Community Advancement Program (RCAP). Under RCAP, States have increased flexibility within the three funding streams for Water and Wastewater, Community Facilities, and Business and Industry. USDA State Directors have the authority to transfer up to 25 percent of the funding between any of the programs contained within a stream in order to tailor RCAP assistance to the specific rural economic development needs of individual States. USDA also provides loans through the Intermediary Relending Program (IRP), which provides loan funds at a 1 percent interest rate to an intermediary such as a State or local government agency that, in turn, provides funds for economic and community development projects in rural areas. In 2002, USDA expects to retain or create 58,000 new jobs through the B&I guarantee and the IRP loan programs.

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 in rural America. 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. In 1997, $667 million, largely nuclear power construction loans, was written off, but this case was an exception.

The subsidy rates for the electric and telecommunication programs are lower than previous years mainly due to the lower Treasury rate in the economic assumptions. The default rates for both programs are very low. With the increase of deregulation, however, there is the possibility of increased defaults in the electric program since deregulation may erode loan security and the ability of some borrowers to repay. As information on the impact of deregulation increases, this risk will be factored into the default rates.

Maintaining the goal of "affordable, universal service" is of concern to USDA. Many rural cooperatives are by nature high cost providers of electricity because there are fewer subscribers per line-mile than in urban areas. USDA's Rural Utilities Service (RUS) proposes to make $2.6 billion in direct and guaranteed loans in 2002 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 $100 million for private sector guarantees. The demand for loans to rural electric cooperatives is expected to continue to rise as borrowers replace many of the 40-year-old electric plants. With the $2.6 billion in loans, RUS borrowers are expected to upgrade 187 rural electric systems, which will benefit over 2.8 million customers and create or preserve approximately 60,200 jobs.

USDA's RUS proposes to make $495 million in direct loans in 2002 to companies providing telecommunications in rural areas. The uses of the telecommunication loans are changing from bringing service to new customers to upgrading existing service with new technology. With the $495 million in loans, RUS borrowers are expected to provide over 50 telecommunication systems with funding for advanced telecommunications services benefiting over 300 thousand rural customers and providing broadband and high-speed Internet access.

The Rural Telephone Bank (RTB) provides financing for rural telecommunications systems. The 2002 Budget proposes the elimination of funding to support new loans. This is expected to generate increased member and borrower support for statutorily authorized privatization. The RTB is financially able to privatize by the end of 2002, and this provides enough time to perform a privatization study and prepare for privatization. The

RTB is provided full salaries and expenses to service existing loans, to perform a privatization study, and prepare for privatization by the end of 2002.

The Distance Learning and Telemedicine program provides grants and loans 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. With the $25 million in grants and $300 million in loans, RUS borrowers are expected to provide distance learning facilities to 300 schools, libraries, and rural education centers and telemedicine equipment to 150 rural health care providers, benefitting millions of residents in rural America.

RUS is proposing the creation of a new program to fund $2 million in grants and $100 million in Treasury rate loans in 2002 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 cooperatives and businesses serving rural areas and rural communities.

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 1990.

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. As a result, guaranteed farm loans have not experienced losses as high as those on direct loans.

The 1999 Appropriations Bill 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.

The Farm Credit System and Farmer Mac

The Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (Farmer Mac) are GSEs that enhance credit availability for the agricultural sector. The FCS raises its loan funds by selling securities in national and international markets, while Farmer Mac provides a secondary market for agricultural real estate and rural housing mortgages. 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, although new regulations permitting national charters for System could loosen those restrictions in 2001. The downturn in the agricultural economy in the 1980s led the FCS to the brink of insolvency. Legislation in 1987 provided temporary 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 income and balance sheets, thanks in part to record Government emergency assistance payments in 1999 and 2000. Commodity prices remained low in 2000, and long term forecasts are for very gradual recovery. Farm income levels, including Government payments, have enabled most borrowers to maintain low debt-to-asset ratios, and lenders to keep loan delinquencies well below problem thresholds. Farmland values gained modestly in 2000, as inflationary expectations remain low. However, such aggregate facts may mask the problems of certain sectors within the farm economy.

Another sign of the generally stable condition of agricultural finance is the greater share of credit provided by commercial banks. From 1986 to 1999, commercial banks' share of all farm debt increased from 26 percent to 41 percent, while the share for FCS declined from 29 percent to 26 percent. The United States Department of Agriculture (USDA) direct farm loan programs went from a market share of 15 percent to 5 percent though, if adjusted for its guaranteed loans issued through private banks, that percentage would more than double. USDA expects that both commercial banks and the FCS have maintained their market share in 2000.

The Farm Credit System

The financial condition of the Farm Credit System banks and associations during 2000 continued a 12-year trend of improving financial health and performance. Non-performing loans decreased to 1.5 percent of the portfolio in September 2000, down from 1.6 percent in 1999. Loan volume has gradually increased since 1995, although the $73.0 billion in September 2000 was still below the high of over $80 billion in the early 1980s. Competitive pressures have narrowed the FCS's net interest margin from 3.03 percent in 1995 to 2.74 percent in 2000.

Improved asset quality and income enabled FCS to post record capital levels: by September 30, 2000, capital stood at $14 billion—an increase of 7 percent for the year. Not 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). 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 using marginal cost loan pricing and asset/liability management practices designed to reduce its interest rate risk. Substantial consolidation continues in the structure of the FCS. In January 1995 there were 9 banks plus 232 associations; by October 2000, there were 7 banks and 158 associations.

The 1987 legislation established the FCS Insurance Corporation 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 and the joint and several liability of all System banks for FCS obligations. On September 30, 2000, the Insurance Fund's net assets were $1.4 billion and are estimated to maintain the legally required level of at least two percent of outstanding debt in 2001.

Improvement in the FCS's financial condition is also reflected in the evaluations of FCS member institutions by the Farm Credit Administration (FCA), its Federal regulator. The FCA Financial Institution Rating System (FIRS) rates each of the System's institutions for capital, asset quality, management, earnings, liquidity, and sensitivity (CAMELS). At the beginning of 1995, 197 institutions carried the best CAMELS ratings of "1" or "2," 36 were rated "3," 1 institution was rated "4" and no institutions received the lowest rating of "5." By September 2000, in contrast, 165 institutions were given the top ratings, only 1 was rated "3," and none was rated "4" or "5." As of September 30, 2000, there were no FCS institutions under an enforcement action.

FCS loans outstanding as of September 2000 were $73 billion, up 4 percent over 1999, and representing a 28 percent increase since 1995. Loans to farmers and other eligible producers comprise 72 percent of the System's portfolio. The volume of lending secured by farmland has increased about 25 percent while farm-operating loans have increased over 37 percent since 1995. Loans to finance processing, marketing, credit cooperatives, and rural utilities cooperatives accounted for 22 percent of FCS's portfolio at fiscal year-end 1999. The remaining 6 percent of the portfolio is made up of nonfarm rural home loans (2.5 percent) and international loans (3.5 percent).

The USDA expects 2000 net farm income to be $45 billion, up slightly from 1999. These strong reported earnings and farm income generally have relied heavily on Government assistance payments in recent years. Federal payments of $22 billion in 2000 (and totaling nearly $70 billion since 1996) 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 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 powers increase commercial banks' incentives to participate in Farmer Mac authorities, which has increased Farmer Mac's ability to achieve its statutory mission. However, these authorities also subject Farmer Mac to additional risk. As a direct purchaser of loans, it must rely wholly on its own underwriting standards. Because Farmer Mac is now exposed to greater risk, it must set appropriate fees and ensure adequate capital reserves.

Both loan purchases and guarantees have increased since the passage of the 1996 Act. Both trends indicate positive progress in developing an agricultural secondary market. The 1996 Act also gave Farmer Mac three additional years to reach its capital requirements. At year-end 2000, Farmer Mac's core capital reached $101 million—and was fully compliant with the revised regulatory capital requirements.

International Credit Programs

International Credit Programs

Seven Federal agencies, the Department of Agriculture (USDA), the Department of Defense, the Department of State, the Department of the Treasury, the Agency for International Development (AID), the Export-Import Bank, and the Overseas Private Investment Corporation (OPIC), provide direct loans, loan guarantees, and insurance to a variety of foreign private and sovereign borrowers. These programs are intended 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.

Leveling the playing field. Federal lending counters subsidies that foreign governments, largely in Europe and Japan, provide their exporters usually through export credit agencies (ECAs). The U.S. government has worked since the 1970's to constrain official credit support through a multilateral agreement in the Organization for Economic Cooperation and Development (OECD). This agreement has significantly constrained direct interest rate subsidies and tied-aid grants. Further negotiations resulted in a multilateral agreement which standardized the fees for sovereign lending across all ECA's beginning in April 1999. Fees for non-sovereign lending, however, continue to vary widely across ECAs and markets, thereby providing implicit subsidies.

The Export-Import Bank attempts to strategically "level the playing field" and to fill gaps in the availability of private export credit. The Export-Import Bank provides export credits, in the form of direct loans or loan guarantees, to U.S. exporters who meet basic eligibility criteria and who request the Bank's assistance. USDA's "GSM" programs similarly help to level the playing field. Like programs of other agricultural exporting nations, they guarantee payment from countries and entities that want to import U.S. agricultural products but cannot easily obtain credit. The U.S. has been negotiating in the OECD the terms of agricultural export financing, the outcome of which could affect the GSM programs.

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 can contribute to orderly exchange arrangements and a stable system of exchange rates by providing resources on a multilateral basis through the IMF (discussed in other sections of the Budget), and through financial support 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 to that country under an IMF loan. Also, a package of up to $20 billion of medium-term 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 reflecting an appropriate country risk premium.

The United States also expressed a willingness to provide ESF support in response to the financial crises affecting some countries such as South Korea in 1997 and Brazil in 1998. It did not prove necessary to provide an ESF credit facility for Korea, but the United States agreed to guarantee through the ESF up to $5 billion of a $13.2 billion 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. Development Credit Authority (DCA) is a legislative authority allowing the use of credit by USAID to support its development activities abroad. DCA provides non-sovereign loans and loan guarantees in targeted cases where credit serves more effectively than traditional grant mechanisms to achieve sustainable development. DCA is intended to mobilize host-country private capital to finance sustainable development in line with USAID's strategic objectives. Through the use of partial loan guarantees and risk sharing with the private sector, DCA stimulates private-sector lending for financially viable development projects, thereby leveraging host-country capital and strengthening sub-national capital markets in the developing world.

A consolidation of all of USAID's credit programs is requested in the 2002 Budget to create the unified Development Credit Authority. This unit will encompass DCA activities as well as USAID's traditional micro-enterprise and urban environmental credit programs.

OPIC also supports a mix of development, employment, and export goals by promoting U.S. direct investment in developing countries. OPIC pursues these goals through political risk insurance, direct loans, and guarantee products, which provide finance, as well as associated skills and technology transfers. These programs are intended to create more efficient financial markets, eventually encouraging the private sector to supplant OPIC finance in developing countries. OPIC has also created a number of investment funds that provide equity to local companies with strong development potential.

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

The Interagency Country Risk Assessment System (ICRAS) standardizes the way in which agencies 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 2002 have been updated to reflect more recent data. The risk premia decreased in most risk categories. All else being equal, this change will expand the level of lending an agency may be able to implement. The reduction in premia, for example, will reduce the lending costs of the Export-Import Bank in 2002. However, the impact of the change will depend on a host of other factors such as risk mix, maturity, and fees.

For the purpose of significantly improving the U.S. Government's reporting, analysis, and management 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). When complete, the system will provide government officials with desktop Internet access to cross-cutting foreign credit information for policymaking and analytical purposes.

Increased Role of the Private Sector. Globalization has facilitated international capital flows and reduced the risk of international transactions. As a result, international capital flows through private entities dwarf officially supported direct and guaranteed credit. For example, net foreign direct investment in emerging markets grew from $35 billion in 1992 to $149 billion in 1999 or 2.1 percent of emerging market GDP in 1999. In comparison, net official capital flows to emerging markets accounted for less than 0.1 percent of their GDP in 1999.

Because the private sector is rapidly expanding its size and role in emerging markets, the Administration is redirecting resources from some international credit programs to other needs. The President's Budget includes savings in credit subsidy funding for the Export-Import Bank and the Overseas Private Investment Corporation (OPIC). The Budget proposes savings of approximately 25 percent in Export-Import Bank's credit subsidy requirements through policy changes that focus the Bank on U.S. exporters who truly cannot access private financing, as well as through lower estimates of international risk for 2002. Compared to the other major ECAs, the U.S. provides the most unrestricted financing in more markets. Export-Import Bank could adapt to reduced resources, while remaining competitive, by increasing fees in countries where the U.S. fees are lower, or in countries where foreign export support is not present.

These changes could include a combination of increased risk sharing with the private sector, higher user fees, and more stringent value-added tests. The Budget also eliminates OPIC credit subsidy for 2002. OPIC has been unable to spend all of its existing subsidy budget authority in either of the past two fiscal years and will carry enough subsidy into 2002 to fully fund its current level of credit programs.

This redirection effort anticipates that the role of the Export-Import Bank and OPIC will become more focused on correcting market imperfections as the private sector's ability to bear emerging market risks becomes larger, more sophisticated, and more efficient.

IV. INSURANCE PROGRAMS

Deposit Insurance

Federal deposit insurance was established in the depression of the 1930s, which prompted the need to protect small depositors and prevent bank failures from causing widespread disruption in financial markets. Before the establishment of Federal deposit insurance, failures of some depository institutions often caused depositors to lose confidence in the banking system as a whole and rush to withdraw deposits from other institutions. Such sudden withdrawals would seriously disrupt the economy.

The Federal Deposit Insurance Corporation (FDIC) insures the deposits in 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 nearly $3.0 trillion of deposits at over 8,600 commercial banks and almost 1,400 savings institutions. The NCUA insures 10,527 credit unions with $348 billion in insured shares.

Current Industry and Insurance Fund Conditions

The 1980s and early 1990s were a turbulent period for the banking industry, 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, which were largely designed to improve the safety and soundness of the banking system. 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 2000, becoming only the second SAIF-member to fail since 1996. Four BIF members failed during 2000; since 1996, BIF failed assets have averaged approximately $600 million per year. During 2000, 33 Federally insured credit unions with $126 million in assets failed (including assisted mergers). The FDIC currently classifies only 90 institutions with $19 billion in assets as "problem institutions," compared to nearly 194 institutions with $31 billion in assets five years ago.

Banks have achieved record levels of earnings in recent years, with industry net income totaling $19.3 billion in the third quarter of 2000, the third highest quarter ever. As of September 30, 2000, BIF had estimated reserves of $31 billion, 1.36 percent of insured deposits. The earnings of the thrift industry also have improved significantly in recent years. As of September 30, 2000, SAIF's reserves reached an estimated $10.7 billion or 1.45 percent of insured deposits.

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, 93 percent of commercial banks and 89 percent of thrifts did not pay insurance premiums in 2000. The National Credit Union Share Insurance Fund (NCUSIF) also remains strong with assets of $4.5 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. Premiums were waved in advance for 2000 because the income generated from the 1 percent deposit eliminated the need for an assessment. 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. It is anticipated that the fund will pay a dividend for 2001.

Due to strong growth in the U.S. economy in recent years, depository institutions and their Federal insurance funds are in good financial condition. However, this trend may not 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. In addition to the uncertainty surrounding future economic conditions, industry consolidation, banks' increased reliance on sophisticated financial instruments, and legislative changes also make it increasingly difficult to predict future deposit insurance losses. As a result of consolidation, for example, a few large banks control a substantial share of banking assets. The failure of even one of these large institutions could seriously strain an insurance fund.

In addition to consolidation, industry trends indicate that banks are increasingly using sophisticated financial instruments such as asset-backed securities and financial derivatives, which may either mitigate or exacerbate risk level. Whether or not these sophisticated financial instruments add to risk, they complicate the work of regulators who must gauge an institution's financial health—and the potential for deposit insurance losses that a troubled institution may represent. The landmark Financial Services Modernization Act of 1999 (P.L. 106–102) allows new business combinations in the financial sector, enabling banks to expand into other financial businesses such as insurance and securities. Over time, such expansions could either make depository institutions safer by improving asset diversification or make them less safe by increasing their exposure to riskier lines of business. A recent development related to inter-industry mergers is that securities firms are indirectly offering insured accounts to their customers through their banking affiliates (sweeping accounts). Regulators need to pay attention to this development because sweeping accounts increase insured deposits. Finally, regulators must always guard against fraud, which can also significantly impact insurance fund balances. The failure of First National Bank in Keystone, West Virginia, for instance, is expected to cost the FDIC up to $850 million to resolve.

On-going Issues

The deposit insurance system is in good condition and continues to play a critical role in ensuring confidence in our financial system. During a period of economic health, it may be appropriate to question whether the system works in the most consistent and efficient matter. Are depositors adequately protected? Are industries over or underpaying for deposit insurance coverage? Does the system encourage economically efficient outcomes? To this end, in 2000 the FDIC initiated a public discussion of deposit insurance issues. Options such as merging the BIF and SAIF, refining premium structures, and indexing premiums are being considered. The Administration and Congress will continue to contemplate these issues in the context of a rapidly evolving financial sector.

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 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 2000, PBGC posted a positive financial position for the fifth straight year after 21 years of being in a deficit position. This was due to good economic conditions and favorable investment returns. Risk remains, however, because good economic conditions and favorable investment returns may not continue indefinitely.

The risk has been reduced somewhat by steps taken by the Congress and PBGC. Congress enacted legislation to make insurance premiums more reflective of risk. Under its Early Warning Program, PBGC has negotiated 90 major settlements with companies, which have provided 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.

PBGC's single-employer program fared well in 2000, with no major terminations. (However, PBGC took over three large pension plans in the last few months: Grand Union, Outboard Marine, and TWA, the last under an agreement negotiated beforehand. Most of these plans' liability had been accounted for previously and so these takeovers make no substantial change in PBGC's financial position.) In 2000, overall investment returns were positive, in both PBGC's revolving funds, which are invested in U.S. Government securities, and in its trust funds, which hold mostly equities. Returns on PBGC's equity portfolio, however, were lower than those in 1999. Premium revenues dropped for the fourth year in a row, partly reflecting a previously enacted increase in the statutory interest rate for calculating underfunding.

PBGC's multi-employer program, which guarantees pension benefits of certain unionized plans offered by several employers in an industry, remained financially strong. Legislation enacted in December, 2000 raised the maximum guarantee level on pension benefits paid to retirees in multi-employer plans for the first time since 1980. The maximum was increased from $5,580 to $12,870 per year for retirees with 30 years of service.

PBGC is working to speed its setting of the dollar levels of benefits in the pension plans it takes over. The time taken for final calculation is expected to drop to three years in 2002, down from an average of 4.9 years in 2000. PBGC also is working to send first benefit checks more speedily. In 1999, only 83 percent of pensioners got their first benefit checks within three months of completing their applications.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency (FEMA). Flood insurance is available to homeowners and businesses in communities that have adopted and enforced appropriate floodplain management measures. Coverage is limited to buildings and their contents. By 2002, the program is projected to have approximately 4.5 million policies from more than 19,000 communities with $610 billion of insurance in force.

Prior to the creation of the program in 1968, many factors made it cost prohibitive for private insurance companies alone to make affordable flood insurance available. In response, the NFIP was established to make insurance coverage widely available. The NFIP also requires building standards and other mitigation efforts to reduce losses, and operates a flood hazard mapping program to quantify the geographic risk of flooding. The NFIP has substantially met these goals.

The number of policies in the program has grown significantly over time. The number of enrolled policies grew from 2.4 to 4.3 million between 1990 and 2000, and by nearly 82,000 policies in 2000. FEMA is using three strategies to increase the number of flood insurance policies in force: lender compliance, program simplification, and expanded marketing. The NFIP also has a multi-pronged strategy for reducing future flood damage. FEMA is educating financial regulators about the mandatory flood insurance requirement for properties with mortgages from federally regulated lenders. Further, the NFIP offers mitigation insurance to allow flood victims to rebuild to code, thereby reducing future flood damage costs. Last, FEMA adjusts premium rates to encourage community and State mitigation activities beyond those required by the NFIP.

Despite these efforts, the program faces major financial challenges. In some years, the program's financing account, which is a cash fund, has expenses greater than its revenue, preventing it from building sufficient long-term reserves. This is because a large portion of the policy-holders pay subsidized premiums. FEMA charges subsidized premiums for properties built before a community adopts the NFIP building standards. Properties built subsequently are charged true actuarial rates. The creators of the NFIP assumed that eventually the NFIP would become self-sustaining as older properties left the program. The share of subsidized properties in the program has fallen from 70 percent in 1978, but it is still substantial—30 percent today.

Until the mid-1980s, Congress appropriated funds periodically to support subsidized premiums. However, the program has not received appropriations since 1986. During the 1990s, FEMA increasingly relied on Treasury borrowing to finance its expenses (the NFIP may borrow up to $1.5 billion). At the end of year 2000, FEMA had outstanding borrowing from Treasury of $345 million.

The 2002 Budget proposes two cost-saving reforms that should improve the financial condition of the NFIP. First, flood insurance coverage would no longer be available for several thousand "repetitive loss" properties. These properties are located in the flood plain and are flooded regularly, but are not required to pay risk-based premiums. As a result, they have been rebuilt multiple times with the subsidized support of other flood insurance policy holders and U.S. taxpayers. The Budget seeks to begin removing the worst offending repetitive loss properties from the program in 2002. Policyholders whom FEMA has identified as repetitive loss claimants will be allowed to make one more claim before having their policies terminated. Second, subsidized premium rates for vacation homes, rental properties, and other non-primary residences and businesses would be phased out over five years. FEMA charges many of these policyholders less than actuarial rates, which undermines the financial stability of the insurance program. Structures that are removed or that drop out of the program because of these two reforms would be ineligible for future Federal disaster assistance, including FEMA Individual and Family Grants and Small Business Administration disaster loans. Savings from these proposals are estimated at $12 million in 2002 and are expected to grow significantly in the future.

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 reluctant to offer multi-peril crop insurance without Government reinsurance because of the difficulty of limiting risk exposure; insurance companies are exposed to large losses because losses tend to occur across a wide geographic area. For example, a drought usually affects 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 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—a 140 percent increase over 1994. However, the 1996 Farm Bill eliminated the requirement that farmers participating in USDA’s commodity programs carry crop insurance, and participation dropped in 1997 to an estimated 61 percent of eligible acres. That proportion increased to 72 percent in 2000 and is expected to reach 80 percent in 2001, boosted by the reforms of the 2000 Agriculture Risk Protection Act (ARPA).

ARPA strengthened the program by increasing premium subsidies for higher coverage policies, equalizing the subsidy rates for all plans of insurance, expanding the list of insurable commodities to include livestock, and increasing flexibility of crop insurance companies’ marketing methods. ARPA also includes significant changes to improve program integrity through increased compliance oversight. Further, ARPA shifts USDA’s role toward that of a regulator, while stimulating new product development within the private sector and ensuring a research and development emphasis on specialty and underserved crops.

USDA continues to expand revenue coverage. Revenue insurance programs are now available in 36 states and further expansion is being studied. Moreover, the concept of covering all crop and livestock operations of a farm under a single policy, the so-called “whole farm coverage” approach, is being evaluated through a pilot program. 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” Farm Income on Federal tax returns, instead of its yield history.

Chart 8-1. Face Value of Federal Credit Outstanding

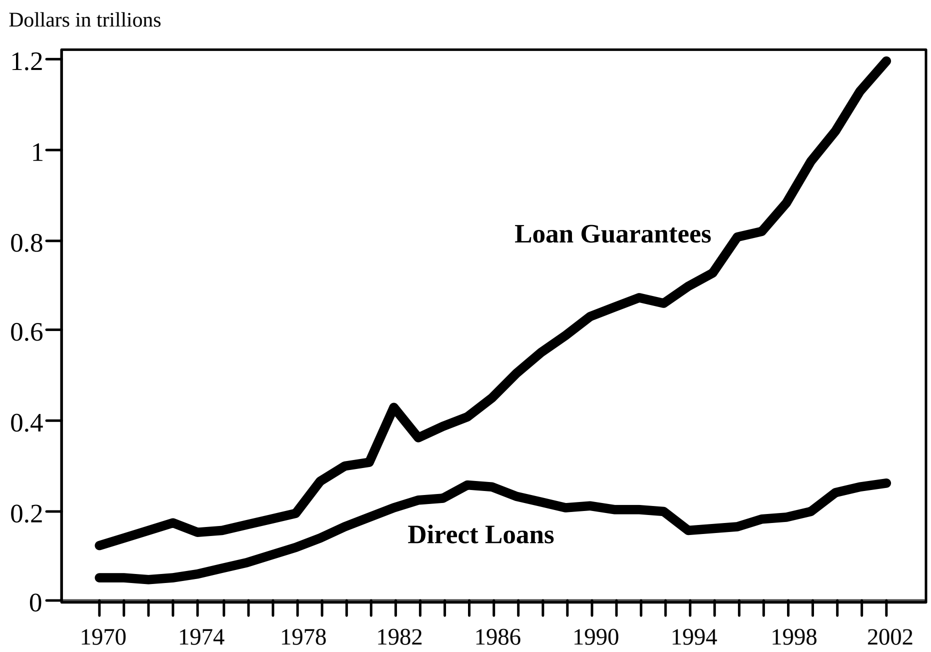

Table 8–1. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS

(in billions of dollars)

Program	Outstanding 1999	Estimated Future Costs of 1999 Outstanding[1]	Outstanding 2000	Estimated Future Costs of 2000 Outstanding[1]
Direct Loans:[2]				
Federal student loan programs	65	2	80	–3
Farm Service Agency (excl. CCC), Rural development, Rural housing	45	12	42	11
Rural Utilities Service and Rural telephone bank	29	3	33	2
Housing and Urban Development	14	3	13	2
Agency for International Development	11	6	11	5
P. L. 480	11	8	11	8
Export-Import Bank	12	6	11	5
Commodity Credit Corporation	7	3	8	5
Federal Communications Commission	8	5	8	–1
Disaster assistance	7	2	6	1
Other direct loan programs	22	2	18	3
Total Direct Loans	234	50	241	37
Guaranteed Loans:[2]				
FHA-mutual mortgage insurance	411	–3	450	–1
Veterans housing	221	6	224	5
Federal family education loan	127	12	144	12
FHA-general and special risk	93	7	99	8
Small business	39	2	34	2
Export-Import Bank	25	6	30	5
International assistance	19	2	19	1
Farm Service Agency and Rural housing	17	....	20	....
Commodity Credit Corporation	7	1	6	1
Other guaranteed loan programs	16	....	16	3
Total Guaranteed Loans	976	34	1,043	37
Total Federal Credit	**1,210**	**84**	**1,284**	**75**

[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[1]

(in billions of dollars)

	Outstanding	
	1999	2000
Government Sponsored Enterprises:		
Fannie Mae	1,141	1,231
Freddie Mac	838	913
Federal Home Loan Banks[2]	357	435
Sallie Mae[3]	....	....
Farm Credit System	66	67
Total	**2,402**	**2,646**

[1] Net of purchases of federally guaranteed loans.

[2] The lending by the Federal Home Loans Banks measures their advances to member thrift and other financial institutions. In addition, their investment in private financial instruments at the end of 2000 was $178 billion, including federally guaranteed securities, GSE securities, and money market instruments.

[3] The face value and Federal costs of Federal Family Education Loans in the Student Loan Marketing Association's portfolio are 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 1992–2000 [1]

(In millions of dollars)

Program	1994	1995	1996	1997	1998	1999	2000	2001
Direct Loans:								
Agriculture:								
Agriculture credit insurance fund	–72	28	2	–31	23	....	331	–22
Agricultural conservation	–1	....	....	....	....	....	....	....
Rural electrification and telecommunications loans	*	61	–37	84	....	–39	....	–117
Rural telephone bank	1	....	....	10	....	–9	....	–2
Rural housing insurance fund	2	152	46	–73	....	71	....	78
Rural economic development loans	....	....	....	1	....	–1	*	–2
Rural development loan program	....	1	....	....	....	–6	....	–1
Rural community advancement program [2]	....	....	....	8	....	5	....	105
P.L. 480	....	....	–37	–1	....	....	....	....
Commerce:								
Fisheries finance	....	....	....	....	....	....	....	–19
Education:								
Federal direct student loans:								
Technical reestimate	....	....	3	–83	172	–383	–2,158	559
Volume reestimate	....	....	....	....	....	22	....	–5
College housing and academic facilities loans	....	....	....	....	....	....	....	–1
Interior:								
Bureau of Reclamation loans	....	....	....	....	....	....	3	1
Bureau of Indian Affairs direct loans	....	....	....	....	....	1	5	*
Transportation:								
High priority corridor loans	....	....	....	....	–3	....	....	....
Alameda corridor loan	....	....	....	....	....	....	–58	....
Transportation infrastructure finance and innovation	....	....	....	....	....	....	....	18
Treasury:								
Community development financial institutions fund	....	....	....	....	....	....	1	....
Veterans Affairs:								
Veterans housing benefit program fund	–39	30	76	–72	465	–111	–52	–108
Environmental Protection Agency:								
Abatement, control and compliance	....	....	....	....	....	....	....	3
Federal Emergency Management Agency:								
Disaster assistance	....	....	....	....	....	....	47	35
International Assistance Programs:								
Foreign military financing	....	....	....	13	4	1	152	–165
Debt reduction	....	....	....	....	....	....	36	*
Small Business Administration:								
Business loans	....	....	....	....	....	....	....	1
Disaster loans	....	....	....	....	–193	246	–398	–282
Other Independent Agencies:								
Export-Import Bank direct loans	–28	–16	37	....	....	....	–177	158
Federal Communications Commission spectrum auction	....	....	....	....	4,592	980	–1,501	–9,618
Loan Guarantees:								
Agriculture:								
Agriculture credit insurance fund	5	14	12	–51	96	....	–31	205
Commodity Credit Corporation export guarantees	3	103	–426	343	....	....	....	....
Rural development insurance fund	49	....	....	–3	....	....	....	....
Rural housing insurance fund	2	10	7	–10	....	109	....	152
Rural community advancement program [2]	....	....	....	–10	....	41	....	61
P.L. 480 title I food for progress credits	....	84	–38	....	....	....	....	....
Commerce:								
Fisheries finance	....	....	....	....	–2	....	....	–3
Education:								
Federal family education loan: [3]								
Technical reestimate	97	421	60	....	....	–140	667	–3,482
Volume reestimate	....	....	535	99	....	–13	–60	–44
Health and Human Services:								
Heath center loan guarantees	....	....	....	....	....	....	3	....
Health education assistance loans	....	....	....	....	....	....	....	–72
Housing and Urban Development:								
Indian housing loan guarantee	....	....	....	....	....	....	....	–5
FHA-mutual mortgage insurance	....	....	....	–340	....	3,789	....	2,413
FHA-general and special risk [4]	–175	....	–110	–25	743	79	....	–228

Table 8–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2000 [1]—Continued

(In millions of dollars)

Program	1994	1995	1996	1997	1998	1999	2000	2001
Interior:								
Bureau of Indian Affairs guaranteed loans	....	....	....	31	....	....	....	–14
Transportation:								
Maritime guaranteed loans (title XI)	....	....	....	....	....	–71	30	–1
Veterans Affairs:								
Veterans housing benefit fund program	–447	167	334	–706	38	492	229	–770
International Assistance Programs:								
U.S. Agency for International Development:								
Housing guaranty	–2	–1	–7	....	–14	....	....	....
Micro and small enterprise development	....	....	....	....	....	....	....	1
Urban and environmental credit	....	....	....	....	....	....	....	–12
Assistance to the new independent states of the former Soviet Union	....	....	....	....	....	....	....	–26
Small Business Administration:								
Business loans	....	....	257	–16	–279	–545	–235	–527
Other Independent Agencies:								
Export-Import Bank guarantees	–11	–59	13	....	....	....	–191	–1,520
Total	**–616**	**995**	**727**	**–832**	**5,642**	**4,518**	**–3,641**	**–13,256**

* $500 thousand or less.

[1] Excludes interest on reestimates. Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement to the Budget for 2002.

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

[3] 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.

[4] 1999 figure includes interest on reestimate.

Table 8–4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2000–2002

(in millions of dollars)

Agency and Program	2000 Actual			2001 Enacted			2002 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan level	Subsidy rate [1]	Subsidy budget authority	Loan level	Subsidy rate [1]	Subsidy budget authority	Loan level
Agriculture:									
Agricultural credit insurance fund	5.92	68	1,149	8.47	66	779	6.78	58	855
Farm storage facility loans	2.85	2	80	2.14	4	175	2.42	3	125
Apple loans	N/A	....	....	5.01	5	100	N/A	....	....
Emergency boll weevil program	N/A	....	....	60.00	6	10	N/A	....	....
Rural community advancement program	8.42	80	950	12.76	172	1,348	6.62	70	1,058
Rural electrification and telecommunications loans	–0.19	–5	2,559	–0.47	–14	3,010	–0.43	–13	3,010
Rural telephone bank	1.88	3	175	1.48	3	175	....	....	....
Distance learning and telemedicine loans	0.35	1	200	–0.61	–3	400	–0.07	....	400
Farm labor housing	N/A	....	....	52.59	17	33	47.31	13	28
Rural housing insurance fund	13.44	189	1,399	19.35	239	1,235	16.23	200	1,233
Rural development loan program	43.43	17	38	50.91	22	44	43.21	16	38
Rural economic development loans	23.02	3	15	26.07	6	23	24.16	4	15
P.L. 480	82.46	120	145	71.51	113	159	81.73	114	139
Commerce:									
Fisheries finance	1.00	....	28	0.80	1	74	–12.45	–3	24
Defense—Military:									
Defense vessel transfer program	....	....	....	18.12	4	21	17.49	4	21
Family housing improvement fund	51.27	32	62	58.59	79	136	22.33	52	233
Education:									
Federal direct student loans	–9.09	–1,442	15,854	–8.82	–1,796	20,363	–8.73	–1,564	17,948
Housing and Urban Development:									
FHA-mutual mortgage insurance	....	....	3	....	....	250	....	....	250
FHA-general and special risk	....	....	50	....	....	50	....	....	50
Interior:									
Bureau of Reclamation loans	27.91	11	43	44.44	9	27	26.92	7	26
Assistance to American Samoa	....	....	....	15.58	3	19	N/A	....	....
State:									
Repatriation loans	80.00	1	1	80.00	1	1	80.00	1	1
Transportation:									
Minority business resource center	10.00	2	14	N/A	....	....	N/A	....	....
Transportation infrastructure finance and innovation	5.74	52	765	5.69	84	1,475	4.97	109	2,200
Railroad rehabilitation and improvement	....	....	....	....	....	150	....	....	100
Treasury:									
Community development financial institutions fund	39.99	6	15	43.41	9	20	38.60	6	15
Veterans Affairs:									
Veterans housing benefit program	1.81	40	1,435	2.16	37	1,697	24.69	30	119
Miscellaneous veterans housing loans	7.72	....	2	7.72	....	3	7.72	....	3
Miscellaneous veterans programs	2.23	....	2	1.88	....	3	2.18	....	3
Federal Emergency Management Agency:									
Disaster assistance loans	3.27	1	25	6.71	2	25	....	....	25
General Services Administration:									
Columbia Hospital for Women	42.85	6	14	N/A	....	....	N/A	....	....
International Assistance Programs:									
Overseas Private Investment Corporation	11.00	5	45	11.00	5	45	11.00	....	45
Small Business Administration:									
Disaster assistance	22.20	174	783	17.46	76	827	10.95	....	150
Business loans	8.54	2	27	8.95	2	34	6.78	2	21
Other Independent Agencies:									
Export-Import Bank direct loans	1.39	49	1,084	21.77	30	135	25.66	39	152
Federal Communications Commission spectrum auction	8.25	....	1	N/A	....	....	N/A	....	....
Total	**N/A**	**–583**	**26,963**	**N/A**	**–818**	**32,846**	**N/A**	**–852**	**28,287**

N/A = Not applicable.

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

Table 8–5. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2000–2002

(in millions of dollars)

Agency and Program	2000 Actual			2001 Enacted			2002 Proposed		
	Subsidy rate [1]	Subsidy budget authority	Loan level	Subsidy rate [1]	Subsidy budget authority	Loan level	Subsidy rate [1]	Subsidy budget authority	Loan level
Agriculture:									
Agricultural credit insurance fund	3.37	90	2,674	2.12	49	2,313	4.20	126	3,000
Commodity Credit Corporation export guarantees	6.80	209	3,081	8.04	305	3,792	6.80	266	3,904
Rural community advancement program	2.21	27	1,219	0.77	21	2,985	1.95	25	1,285
Rural electrification and telecommunications loans	0.01	....	53	0.01	....	100	0.08	....	100
Rural housing insurance fund	0.61	20	3,300	0.31	9	3,236	1.36	44	3,238
Commerce:									
Emergency steel guarantee	14.00	....	....	12.54	....	516	N/A	....	....
Emergency oil and gas guarantee	24.50	....	....	34.79	....	5	N/A	....	....
Defense:									
Arms initiative	2.36	....	18	0.05	....	12	N/A	....	....
Family housing improvement fund	6.72	13	202	5.72	28	492	5.96	32	537
Education:									
Federal family education loan	14.20	3,763	26,503	11.62	3,853	33,160	12.18	4,226	34,675
Health and Human Services:									
Health center loan guarantees	5.20	....	5	2.11	1	32	4.88	1	21
Housing and Urban Development:									
Indian housing loan guarantee	8.13	1	15	8.13	6	72	2.47	6	234
Title VI Indian Federal guarantees	11.07	....	2	11.07	6	55	11.07	6	53
Community development loan guarantees	2.30	29	1,261	2.30	29	1,258	2.30	14	609
FHA-mutual mortgage insurance	–1.99	–1,864	140,000	–2.15	–2,246	160,000	–2.07	–2,501	160,000
FHA-general and special risk	1.31	–62	18,100	–0.12	38	21,000	–1.45	–230	21,000
Interior:									
Indian guaranteed loans	7.54	4	60	6.73	4	60	6.00	4	75
Transportation:									
Minority business resource center	N/A	....	....	2.69	2	14	2.70	....	18
Transportation infrastructure finance and innovation	....	....	....	3.78	8	200	3.76	8	200
Maritime guaranteed loans (title XI)	6.36	56	886	4.94	20	413	4.97	....	....
Veterans Affairs:									
Veterans housing benefit program	0.70	216	21,616	0.47	144	30,643	0.54	157	29,317
Miscellaneous veterans housing loans	48.25	45	93	48.25	....	13	48.25	....	20
International Assistance Programs:									
USAID-micro and small enterprise development	4.76	2	50	4.94	....	55	....	....	....
USAID-urban and environmental credit	13.80	2	11	12.10	....	16	....	....	....
USAID-development credit authority	6.40	4	....	7.04	8	133	7.04	25	355
Overseas Private Investment Corporation	1.65	19	1,152	1.50	19	1,267	1.65	....	1,152
Small Business Administration:									
Business loans	1.20	142	13,152	1.08	163	16,187	....	....	17,575
Other Independent Agencies:									
Export-Import Bank guarantees	7.90	925	11,705	7.45	983	13,181	6.32	716	11,335
Presidio Trust	0.52	....	200	0.46	....	200	0.12	....	200
Total	**N/A**	**3,641**	**245,358**	**N/A**	**3,450**	**291,410**	**N/A**	**2,925**	**288,903**
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS									
GNMA:									
Guarantees of mortgage-backed securities	–0.29	–312	200,000	–0.36	–356	200,000	–0.33	–354	200,000

N/A = Not applicable.

[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	2002
Direct Loans:								
Obligations	30.9	23.4	33.6	28.8	38.4	37.1	42.4	39.3
Disbursements	22.0	23.6	32.2	28.7	37.7	35.5	39.6	37.3
New subsidy budget authority	....	....	....	–0.8	1.6	–0.4	–0.8	–0.8
Reestimated subsidy budget authority	....	....	....	7.3	1.0	–4.4	–12.4	....
Total subsidy budget authority [1]	2.6	1.8	2.4	6.5	2.6	–4.8	–13.2	–0.8
Loan Guarantees: [2]								
Commitments	138.5	175.4	172.3	218.4	252.4	192.6	255.5	259.2
Lender disbursements	117.9	143.9	144.7	199.5	224.7	180.8	216.4	230.3
New subsidy budget authority	....	....	....	3.3	....	3.3	3.2	2.6
Reestimated subsidy budget authority	....	....	....	–0.7	4.3	0.3	–5.3	....
Total subsidy budget authority [1]	4.6	4.0	3.6	2.6	4.3	3.6	–2.1	2.6

[1] Prior to 1998 new and reestimated subsidy budget authority were not separated.
[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]		
	2000 actual	2001 estimate	2002 estimate	2000 actual	2001 estimate	2002 estimate
DIRECT LOAN WRITEOFFS						
Agriculture:						
Agricultural credit insurance fund	249	247	230	2.73	2.85	2.86
Rural community advancement program	2	....	....	0.04	....	....
Rural electrification and telecommunications loans	159	33	....	0.50	0.10	....
Rural development insurance fund	4	4	3	0.11	0.12	0.10
Rural housing insurance fund	76	80	79	0.26	0.28	0.28
Commerce:						
Economic development revolving fund	....	1	1	....	2.85	3.22
Housing and Urban Development:						
Revolving fund (liquidating programs)	5	3	2	3.16	2.40	2.10
FHA—Mutual mortgage insurance	....	2	3	....	2.24	1.31
Guarantees of mortgage-backed securities	212	45	16	90.59	51.72	28.07
Interior:						
Indian direct loan	1	2	1	1.47	3.22	1.78
State:						
Repatriation loans	1	1	1	25.00	25.00	25.00
Veterans Affairs:						
Veterans housing benefit program	6	6	8	0.33	0.30	0.35
International Assistance Programs:						
Overseas Private Investment Corporation	2	1	1	3.22	1.85	1.85
Small Business Administration:						
Disaster loans	90	99	41	1.42	1.93	1.10
Business loans	50	48	18	7.22	10.41	5.27
Other Independent Agencies:						
Tennessee Valley Authority	1	1	1	1.96	1.78	1.58
Total, direct loan writeoffs	858	573	405	0.42	0.26	0.17
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural credit insurance fund	124	118	121	1.48	1.19	1.05
Commodity Credit Corporation export loans	208	380	334	3.48	5.99	5.43
Rural community advancement program	84	73	50	2.66	1.66	0.80
Rural electrification and telecommunications loans	27	....	....	5.54	....	....
Rural development insurance fund	–1	....	....	–0.83	....	....
Rural housing insurance fund	68	90	106	0.64	0.72	0.73
Commerce:						
Emergency oil and gas guaranteed loan program	....	....	2	....	....	50.00
Emergency steel guaranteed loan program	....	....	103	....	....	22.19
Fisheries Finance	2	2	1	1.90	2.19	1.23
Defense—Military:						
Family housing improvement fund	....	2	2	....	4.76	1.75
Education:						
Federal family education loan	2,677	3,570	4,131	1.94	2.40	2.64
Health and Human Services:						
Health education assistance loans	23	40	44	0.80	1.45	1.68
Health center loan guarantees	4	....	....	100.00	....	....
Housing and Urban Development:						
Indian housing loan guarantee	....	....	1	....	....	1.21
FHA—Mutual mortgage insurance	5,667	6,176	5,734	1.31	1.28	1.07
FHA—General and special risk	1,341	1,510	1,585	1.40	1.51	1.55
Interior:						
Indian guaranteed loan	....	1	2	....	0.47	0.80
Transportation:						
Maritime guaranteed loan (Title XI)	59	68	....	1.57	1.59	....
Veterans Affairs:						
Veterans housing benefit program	2,256	2,542	2,927	1.01	1.10	1.22

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]		
	2000 actual	2001 estimate	2002 estimate	2000 actual	2001 estimate	2002 estimate
International Assistance Programs:						
Foreign military financing	1	3	5	0.02	0.06	0.12
Micro and small enterprise development	1	1	1	1.88	1.40	1.16
Urban and environmental credit program	32	42	48	1.41	1.98	2.48
Development credit authority	....	1	1	....	1.85	0.63
Overseas Private Investment Corporation	92	58	50	3.00	1.78	1.43
Small Business Administration:						
Business loans	707	684	692	1.93	2.17	2.26
Pollution control equipment	7	8	6	16.66	22.85	21.42
Other Independent Agencies:						
Export-Import Bank	454	364	464	1.64	1.14	1.38
Total, guaranteed loan terminations for default	13,833	15,733	16,410	0.86	0.92	0.91
Total, direct loan writeoffs and guaranteed loan terminations	14,691	16,306	16,815	0.81	0.85	0.83
ADDENDUM: WRITEOFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Education:						
Federal family education loan	604	579	592	2.64	2.66	2.75
Health and Human Services:						
Health education assistance loans	16	16	16	2.94	2.85	2.75
Housing and Urban Development:						
FHA—Mutual mortgage insurance	42	19	43	10.79	20.43	119.44
FHA—General and special risk	149	323	687	6.09	15.10	54.30
Interior:						
Indian guaranteed loan	1	1	2	1.49	1.58	3.27
Transportation:						
Federal ship financing fund	....	17	....	....	212.50	....
Veterans Affairs:						
Veterans housing benefit program	182	52	72	34.14	14.81	15.89
Small Business Administration:						
Business loans	245	124	61	11.48	5.64	2.54
Total, writeoffs of loans receivable	1,239	1,131	1,473	3.62	3.47	4.59

[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	2000 Actual	Estimate 2001	Estimate 2002
DIRECT LOAN OBLIGATIONS			
Agriculture:			
Apple loans	....	100	....
Agricultural credit insurance fund	1,770	780	855
Emergency boll weevil	....	10	....
Distance learning and telemedicine	200	400	300
Rural electrification and telecommunications	2,559	3,010	3,010
Rural telephone bank	175	175	....
Rural water and waste disposal direct loans	739	879	809
Rural housing insurance fund	1,399	1,265	1,261
Rural community facility direct loans	161	419	249
Rural economic development	15	15	15
Rural development loan fund	38	38	38
Rural business and industry direct loans	50	50	....
P.L. 480 direct credit	145	159	139
Commerce:			
Fisheries finance	28	74	24
Education:			
Historically black college and university capital financing	346	311	281
Housing and Urban Development:			
FHA-general and special risk	50	50	50
FHA-mutual mortgage insurance	100	250	250
Interior:			
Bureau of Reclamation	43	27	26
Assistance to American Samoa	....	19	....
State:			
Repatriation loans	1	1	1
Transportation:			
Minority business resource center	14	....	....
Transportation infrastructure finance and innovation program	1,600	1,800	2,000
Transportation infrastructure finance and innovation program line of credit	200	200	200
Treasury:			
Community development financial institutions fund	53	53	15
Veterans Affairs:			
Miscellaneous veterans programs loan fund	2	3	3
Federal Emergency Management Agency:			
Disaster assistance	25	25	25
General Services Administration:			
Columbia Hospital for Women	14	....	....
International Assistance Programs:			
Military debt reduction	10	....	....
Total, limitations on direct loan obligations	9,737	10,113	9,551
LOAN GUARANTEE COMMITMENTS			
Agriculture:			
Agricultural credit insurance fund	3,778	2,318	3,000
Rural electrification and telecommunications guaranteed loans	53	100	100
Rural water and waste water disposal guaranteed loans	75	75	75
Rural housing insurance fund	3,300	3,236	3,238
Rural community facility guaranteed loans	210	210	210
Rural business and industry guaranteed loans	892	2,700	1,000
Commerce:			
Emergency oil and gas	500	500	495
Emergency steel	1,000	1,000	484
Defense—Military:			
Defense export loan guarantee	14,980	14,980	14,980
Arms initiative	18	12	....
Health and Human Services:			
Health center	5	32	21

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

(In millions of dollars)

Agency and Program	2000 Actual	Estimate	
		2001	2002
Housing and Urban Development:			
Indian housing loan guarantee fund	135	72	234
Title VI Indian Federal guarantees	55	55	53
Community development loan guarantees	1,261	1,258	609
America's private investment companies	541	....	....
FHA-general and special risk	18,100	21,000	21,000
FHA-loan guarantee recovery fund	7	4	....
FHA-mutual mortgage insurance	140,000	160,000	160,000
Interior:			
Indian guaranteed loan program	60	60	75
Transportation:			
Minority business resource center	....	14	18
Transportation infrastructure finance and innovation program loan guarantee	....	200	200
Maritime guaranteed loan (title XI)	1,000	....	....
Small Business Administration:			
Business	14,874	16,187	17,575
Other Independent Agencies:			
Presidio Trust	200	200	200
Total, limitations on loan guarantee commitments	201,044	224,213	223,567
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	2000 Actual	Estimate	
		2001	2002
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–750	–710	–638
Outstandings	5,067	4,357	3,719
Farm storage facility direct loan financing account:			
Obligations	80	175	125
Loan disbursements	32	174	126
Change in outstandings	32	163	90
Outstandings	32	195	285
Apple loans direct loan financing account:			
Obligations	....	100	....
Loan disbursements	....	100	....
Change in outstandings	....	100	–33
Outstandings	....	100	67
Agricultural credit insurance fund direct loan financing account:			
Obligations	1,770	780	855
Loan disbursements	1,149	780	855
Change in outstandings	466	49	39
Outstandings	3,909	3,958	3,997
Emergency boll weevil direct loan financing account:			
Obligations	....	10	....
Loan disbursements	....	10	....
Change in outstandings	....	10	–1
Outstandings	....	10	9
Commodity Credit Corporation fund:			
Obligations	9,691	8,689	9,171
Loan disbursements	9,691	8,689	9,171
Change in outstandings	618	–1,226	–443
Outstandings	3,464	2,238	1,795
Rural Utilities Service			
Rural communication development fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	–1
Outstandings	6	5	4
Distance learning and telemedicine direct loan financing account:			
Obligations	6	400	300
Loan disbursements	1	32	113
Change in outstandings	1	29	102
Outstandings	2	31	133
Rural development insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	1	....	....
Change in outstandings	–201	–191	–179
Outstandings	3,269	3,078	2,899
Rural electrification and telecommunications direct loan financing account:			
Obligations	2,559	3,010	3,010
Loan disbursements	1,390	1,856	2,207
Change in outstandings	1,182	1,673	1,985
Outstandings	7,131	8,804	10,789
Rural telephone bank direct loan financing account:			
Obligations	175	175	....
Loan disbursements	31	116	129
Change in outstandings	22	105	115
Outstandings	268	373	488

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Rural water and waste disposal direct loans financing account:			
Obligations	765	885	809
Loan disbursements	668	740	800
Change in outstandings	597	684	734
Outstandings	3,942	4,626	5,360
Rural electrification and telecommunications liquidating account:			
Obligations	....	....	....
Loan disbursements	18	19	18
Change in outstandings	–2,134	–1,996	–1,786
Outstandings	23,733	21,737	19,951
Rural telephone bank liquidating account:			
Obligations	....	....	....
Loan disbursements	12	8	7
Change in outstandings	–62	–114	–71
Outstandings	924	810	739
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1,007	–954	–897
Outstandings	17,366	16,412	15,515
Rural housing insurance fund direct loan financing account:			
Obligations	1,321	1,326	1,261
Loan disbursements	1,241	1,283	1,283
Change in outstandings	873	795	717
Outstandings	11,053	11,848	12,565
Rural community facility direct loans financing account:			
Obligations	199	422	249
Loan disbursements	154	209	264
Change in outstandings	117	184	232
Outstandings	864	1,048	1,280
Rural Business—Cooperative Service			
Rural economic development loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	....
Outstandings	1	....	....
Rural economic development direct loan financing account:			
Obligations	15	23	15
Loan disbursements	12	15	19
Change in outstandings	3	4	6
Outstandings	69	73	79
Rural development loan fund direct loan financing account:			
Obligations	38	44	38
Loan disbursements	42	42	43
Change in outstandings	35	34	34
Outstandings	282	316	350
Rural business and industry direct loans financing account:			
Obligations	30	50	....
Loan disbursements	24	38	30
Change in outstandings	21	35	26
Outstandings	59	94	120
Rural development loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	1	....
Change in outstandings	–3	–2	–3
Outstandings	70	68	65

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Foreign Agricultural Service			
Expenses, Public Law 480, foreign assistance programs, Agriculture liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–268	–954	–235
Outstandings	8,542	7,588	7,353
P.L. 480 direct credit financing account:			
Obligations	145	159	139
Loan disbursements	133	443	180
Change in outstandings	128	431	169
Outstandings	2,055	2,486	2,655
P.L. 480 title I food for progress credits, financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–57	–57
Outstandings	504	447	390
Debt reduction—financing account:			
Obligations	....	....	....
Loan disbursements	....	84	60
Change in outstandings	–6	79	52
Outstandings	57	136	188
Department of Commerce			
Economic Development Administration			
Economic development revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–6	–4	–4
Outstandings	37	33	29
National Oceanic and Atmospheric Administration			
Fisheries finance direct loan financing account:			
Obligations	28	74	24
Loan disbursements	19	74	24
Change in outstandings	8	59	7
Outstandings	137	196	203
Department of Defense—Military			
Operation and Maintenance			
Defense vessel transfer program financing account:			
Obligations	....	21	21
Loan disbursements	....	21	21
Change in outstandings	....	19	15
Outstandings	....	19	34
Family Housing			
Family housing improvement direct loan financing account:			
Obligations	32	143	233
Loan disbursements	....	11	51
Change in outstandings	....	11	51
Outstandings	....	11	62
Department of Education			
Office of Postsecondary Education			
College housing and academic facilities loans liquidating account:			
Obligations	....	....	....
Loan disbursements	4	....	....
Change in outstandings	–39	–39	–34
Outstandings	484	445	411
College housing and academic facilities loans financing account:			
Obligations	....	....	....
Loan disbursements	3	....	....
Change in outstandings	3	–1	–1
Outstandings	26	25	24

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Historically black college and university capital financing direct loan financing account:			
Obligations	35	30	30
Loan disbursements	10	9	15
Change in outstandings	10	9	14
Outstandings	21	30	44
Office of Student Financial Assistance			
Student financial assistance:			
Obligations	....	....	....
Loan disbursements	25	25	25
Change in outstandings	–6	–17	–13
Outstandings	394	377	364
Federal direct student loan program financing account:			
Obligations	15,854	20,363	17,948
Loan disbursements	16,383	19,027	16,539
Change in outstandings	12,738	16,364	12,776
Outstandings	57,713	74,077	86,853
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	–4	–8	–3
Outstandings	11	3	....
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	1,350	1,279	1,208
Community Planning and Development			
Revolving fund (liquidating programs):			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–33	–33	–27
Outstandings	142	109	82
Community development loan guarantees liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	13	13	13
Housing Programs			
Nonprofit sponsor assistance liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Flexible subsidy fund:			
Obligations	....	....	....
Loan disbursements	17	20	12
Change in outstandings	–58	–55	–63
Outstandings	703	648	585

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–3	....
Outstandings	3	....	....
FHA-general and special risk insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–24	–24	–10
Outstandings	44	20	10
FHA-general and special risk direct loan financing account:			
Obligations	....	4	4
Loan disbursements	....	4	4
Change in outstandings	....	3	....
Outstandings	1	4	4
Housing for the elderly or handicapped fund liquidating account:			
Obligations	....	....	....
Loan disbursements	6	5	5
Change in outstandings	–120	–146	–182
Outstandings	7,923	7,777	7,595
FHA-mutual mortgage insurance direct loan financing account:			
Obligations	3	250	250
Loan disbursements	3	248	245
Change in outstandings	–3	177	105
Outstandings	....	177	282
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Obligations	....	....	....
Loan disbursements	42	38	2
Change in outstandings	–251	–44	–16
Outstandings	109	65	49
Department of the Interior			
Bureau of Reclamation			
Bureau of Reclamation loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–3	–4	–4
Outstandings	63	59	55
Water and related resources:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–1	....
Outstandings	3	2	2
Bureau of Reclamation direct loan financing account:			
Obligations	26	22	26
Loan disbursements	21	33	29
Change in outstandings	20	31	27
Outstandings	166	197	224
National Park Service			
Construction and major maintenance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	....	....
Outstandings	5	5	5
Bureau of Indian Affairs			
Revolving fund for loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–5	–3	–4
Outstandings	39	36	32

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Indian direct loan financing account:			
Obligations			
Loan disbursements			
Change in outstandings	–1	–3	–3
Outstandings	27	24	21
Insular Affairs			
Payments to the United States territories, fiscal assistance:			
Obligations			
Loan disbursements			
Change in outstandings	–1	–2	–2
Outstandings	15	13	11
Assistance to American Samoa direct loan financing account:			
Obligations		19	
Loan disbursements		16	3
Change in outstandings		15	2
Outstandings		15	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	3		
Loan disbursements	3	4	
Change in outstandings			–4
Outstandings	7	7	3
Federal Highway Administration			
Transportation infrastructure finance and innovation program direct loan financing account:			
Obligations	1,496	1,800	2,000
Loan disbursements	300	239	599
Change in outstandings	300	239	599
Outstandings	300	539	1,138
Transportation infrastructure finance and innovation program line of credit financing account:			
Obligations	30	200	200
Loan disbursements			
Change in outstandings			
Outstandings			
Right-of-way revolving fund liquidating account:			
Obligations			
Loan disbursements	20	10	10
Change in outstandings	–26	–14	–14
Outstandings	129	115	101
Federal Railroad Administration			
Amtrak corridor improvement loans liquidating account:			
Obligations			
Loan disbursements			
Change in outstandings		–1	–1
Outstandings	5	4	3
Alameda corridor direct loan financing account:			
Obligations			
Loan disbursements			
Change in outstandings	88	–488	
Outstandings	488		

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate 2001	Estimate 2002
Railroad rehabilitation and improvement liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–4	–4
Outstandings	49	45	41
Railroad rehabilitation and improvement direct loan financing account:			
Obligations	4	150	100
Loan disbursements	....	150	100
Change in outstandings	....	150	92
Outstandings	4	154	246
Department of the Treasury			
Departmental Offices			
Community development financial institutions fund direct loan financing account:			
Obligations	15	20	15
Loan disbursements	4	7	3
Change in outstandings	4	6	1
Outstandings	15	21	22
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Obligations	....	....	....
Loan disbursements	12	9	8
Change in outstandings	–153	–16	–14
Outstandings	164	148	134
Veterans housing benefit program fund direct loan financing account:			
Obligations	1,435	1,697	1,710
Loan disbursements	1,435	1,697	1,710
Change in outstandings	–44	504	98
Outstandings	1,556	2,060	2,158
Miscellaneous veterans housing loans direct loan financing account:			
Obligations	2	3	3
Loan disbursements	2	3	3
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	2	3	3
Change in outstandings	....	....	....
Outstandings	1	1	1
Environmental Protection Agency			
Environmental Protection Agency			
Abatement, control, and compliance direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–5	–5	–4
Outstandings	46	41	37
Federal Emergency Management Agency			
Federal Emergency Management Agency			
Disaster assistance direct loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	–29	....
Change in outstandings	–8	–29	....
Outstandings	29	....	....
Disaster assistance direct loan financing account:			
Obligations	....	25	25
Loan disbursements	....	54	25
Change in outstandings	–12	52	13
Outstandings	136	188	201

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
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	14
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Obligations	....	....	....
Loan disbursements	8	10	12
Change in outstandings	–582	–456	–394
Outstandings	4,223	3,767	3,373
Foreign military financing direct loan financing account:			
Obligations	....	....	....
Loan disbursements	418	579	326
Change in outstandings	105	206	–127
Outstandings	1,770	1,976	1,849
Military debt reduction financing account:			
Obligations	10	....	....
Loan disbursements	10	....	....
Change in outstandings	9	....	....
Outstandings	19	19	19
Agency for International Development			
Economic assistance loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–700	–1,003	–786
Outstandings	9,960	8,957	8,171
Debt reduction financing account:			
Obligations	....	....	....
Loan disbursements	....	155	133
Change in outstandings	–52	94	76
Outstandings	165	259	335
Private sector revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Microenterprise and small enterprise development credit direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–1	....
Outstandings	2	1	1
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	....
Outstandings	1	....	....
Overseas Private Investment Corporation direct loan financing account:			
Obligations	104	127	180
Loan disbursements	4	23	38
Change in outstandings	–8	–5	4
Outstandings	57	52	56

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate 2001	Estimate 2002
Small Business Administration			
Small Business Administration			
Business direct loan financing account:			
Obligations	30	60	25
Loan disbursements	–15	48	18
Change in outstandings	–33	33	3
Outstandings	60	93	96
Disaster direct loan financing account:			
Obligations	221	951	300
Loan disbursements	942	947	485
Change in outstandings	–446	–1,022	–1,100
Outstandings	5,212	4,190	3,090
Disaster loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–382	–554	–103
Outstandings	685	131	28
Business loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	20	22	18
Change in outstandings	–263	–199	–78
Outstandings	485	286	208
Other Independent Agencies			
Export-Import Bank of the United States			
Export-Import Bank of the United States liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–709	–906	–373
Outstandings	4,460	3,554	3,181
Debt reduction financing account:			
Obligations	....	....	....
Loan disbursements	7	26	24
Change in outstandings	–6	25	23
Outstandings	102	127	150
Export-Import Bank direct loan financing account:			
Obligations	933	135	152
Loan disbursements	1,123	1,458	1,513
Change in outstandings	413	720	697
Outstandings	6,666	7,386	8,083
Farm Credit System Financial Assistance Corporation			
Financial Assistance Corporation assistance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–17	–15	–15
Outstandings	883	868	853
Federal Communications Commission			
Spectrum auction direct loan financing account:			
Obligations	1	....	....
Loan disbursements	1	....	....
Change in outstandings	–66	–38	–38
Outstandings	8,177	8,139	8,101
Bank Insurance FSLIC Resolution			
FSLIC resolution fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–7	–4	....
Outstandings	4	....	....

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate 2001	Estimate 2002
National Credit Union Administration			
Community development credit union revolving loan fund:			
Obligations	11	11	11
Loan disbursements	5	3	3
Change in outstandings	3	....	....
Outstandings	11	11	11
Tennessee Valley Authority			
Tennessee Valley Authority fund:			
Obligations	15	21	21
Loan disbursements	15	21	21
Change in outstandings	4	7	6
Outstandings	53	60	66
Subtotal, direct loan transactions:			
Obligations	37,099	42,378	39,254
Loan disbursements	35,463	39,610	37,333
Change in outstandings	9,227	11,676	11,075
Outstandings	208,061	219,737	230,812
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	208	380	334
Change in outstandings	128	355	290
Outstandings	464	819	1,109
Commodity Credit Corporation guaranteed loans liquidating account:			
Claim payments	....	....	....
Change in outstandings	–79	–152	–164
Outstandings	4,131	3,979	3,815
Rural Business—Cooperative Service			
Rural business and industry guaranteed loans financing account:			
Claim payments	57	40	....
Change in outstandings	57	40	....
Outstandings	57	97	97
Department of Commerce			
National Oceanic and Atmospheric Administration			
Federal ship financing fund fishing vessels liquidating account:			
Claim payments	....	....	....
Change in outstandings	....	–2	–2
Outstandings	14	12	10
Department of Education			
Office of Student Financial Assistance			
Federal family education loan liquidating account:			
Claim payments	284	116	73
Change in outstandings	–1,351	–956	–798
Outstandings	16,558	15,602	14,804
Federal family education loan program financing account:			
Claim payments	2,082	3,027	3,589
Change in outstandings	–440	572	819
Outstandings	5,343	5,915	6,734
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Claim payments	15	27	31
Change in outstandings	15	23	26
Outstandings	53	76	102

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate 2001	Estimate 2002
Health education assistance loans liquidating account:			
Claim payments	24	25	24
Change in outstandings	4	–5	–6
Outstandings	500	495	489
Department of Housing and Urban Development			
Housing Programs			
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Claim payments	20	50	148
Change in outstandings	–224	–7	–6
Outstandings	46	39	33
FHA-general and special risk insurance funds liquidating account:			
Claim payments	457	208	211
Change in outstandings	70	–698	–950
Outstandings	1,960	1,262	312
FHA-general and special risk guaranteed loan financing account:			
Claim payments	226	462	526
Change in outstandings	61	–48	–51
Outstandings	552	504	453
FHA-mutual mortgage insurance guaranteed loan financing account:			
Claim payments	55	360	588
Change in outstandings	–258	–102	....
Outstandings	102	....	....
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Claim payments	....	1	1
Change in outstandings	–2	–1	–3
Outstandings	27	26	23
Indian guaranteed loan financing account:			
Claim payments	....	1	2
Change in outstandings	–4	....	1
Outstandings	37	37	38
Department of Transportation			
Maritime Administration			
Federal ship financing fund liquidating account:			
Claim payments	....	....	....
Change in outstandings	–3	–17	....
Outstandings	17	....	....
Maritime guaranteed loan (title XI) financing account:			
Claim payments	32	30	....
Change in outstandings	32	30	....
Outstandings	32	62	62
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Claim payments	27	36	35
Change in outstandings	–288	....	....
Outstandings	286	286	286
Veterans housing benefit program fund guaranteed loan financing account:			
Claim payments	177	140	145
Change in outstandings	–188	113	90
Outstandings	9	122	212
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Claim payments	27	8	31
Change in outstandings	1	–14	28
Outstandings	14	....	28

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Agency for International Development			
Housing and other credit guaranty programs liquidating account:			
Claim payments	32	38	44
Change in outstandings	8	–1	38
Outstandings	508	507	545
Microenterprise and small enterprise development guaranteed loan financing account:			
Claim payments	1	1	1
Change in outstandings	1	1	1
Outstandings	4	5	6
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Claim payments	13	8	5
Change in outstandings	12	3	....
Outstandings	24	27	27
Overseas Private Investment Corporation guaranteed loan financing account:			
Claim payments	79	50	45
Change in outstandings	13	20	31
Outstandings	30	50	81
Small Business Administration			
Small Business Administration			
Pollution control equipment fund liquidating account:			
Claim payments	1	1	1
Change in outstandings	1	1	1
Outstandings	49	50	51
Business guaranteed loan financing account:			
Claim payments	681	656	670
Change in outstandings	64	194	258
Outstandings	817	1,011	1,269
Business loan fund liquidating account:			
Claim payments	26	28	22
Change in outstandings	–58	–78	22
Outstandings	1,320	1,242	1,264
Subtotal, defaulted guaranteed loans that result in a loan receivable:			
Claim payments	4,524	5,693	6,526
Change in outstandings	–2,428	–729	–375
Outstandings	32,954	32,225	31,850
Total:			
Obligations	37,099	42,378	39,254
Loan disbursements	39,987	45,303	43,859
Change in outstandings	6,799	10,947	10,700
Outstandings	241,015	251,962	262,662

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate 2001	Estimate 2002
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–123	–102	–67
Outstandings	471	369	302
Agricultural credit insurance fund guaranteed loan financing account:			
Commitments	3,778	2,318	3,000
New guaranteed loans	2,591	2,700	2,879
Change in outstandings	1,578	1,647	1,786
Outstandings	8,601	10,248	12,034
Commodity Credit Corporation export guarantee financing account:			
Commitments	3,081	3,792	3,904
New guaranteed loans	2,844	3,792	3,904
Change in outstandings	1,011	–297	–74
Outstandings	6,483	6,186	6,112
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	....	....	....
Outstandings	4	4	4
Rural development insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	1	....	....
Change in outstandings	–22	–24	–18
Outstandings	109	85	67
Rural electrification and telecommunications guaranteed loans financing account:			
Commitments	53	100	100
New guaranteed loans	152	52	105
Change in outstandings	152	50	102
Outstandings	168	218	320
Rural water and waste water disposal guaranteed loans financing account:			
Commitments	11	75	75
New guaranteed loans	13	12	43
Change in outstandings	6	4	41
Outstandings	19	23	64
Rural electrification and telecommunications liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–27	–25	–24
Outstandings	382	357	333
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–3	–2	–2
Outstandings	20	18	16
Rural housing insurance fund guaranteed loan financing account:			
Commitments	2,250	3,267	3,238
New guaranteed loans	2,243	2,870	3,004
Change in outstandings	1,527	2,023	2,017
Outstandings	11,299	13,322	15,339

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Rural community facility guaranteed loans financing account:			
Commitments	87	210	210
New guaranteed loans	63	135	155
Change in outstandings	31	122	137
Outstandings	225	347	484
Rural Business—Cooperative Service			
Rural business and industry guaranteed loans financing account:			
Commitments	1,008	2,793	1,000
New guaranteed loans	967	2,091	1,777
Change in outstandings	516	1,811	1,453
Outstandings	3,180	4,991	6,444
Department of Commerce			
Departmental Management			
Emergency oil and gas guaranteed loan financing account:			
Commitments	....	5	....
New guaranteed loans	....	5	....
Change in outstandings	....	5	–2
Outstandings	....	5	3
Emergency steel guaranteed loan financing account:			
Commitments	....	516	....
New guaranteed loans	....	516	....
Change in outstandings	....	516	–103
Outstandings	....	516	413
Economic Development Administration			
Economic development revolving fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–2	–1	....
Outstandings	1	....	....
National Oceanic and Atmospheric Administration			
Fisheries finance guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–8	–7	–6
Outstandings	54	47	41
Federal ship financing fund fishing vessels liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–8	–4	–4
Outstandings	43	39	35
Department of Defense—Military			
Operation and Maintenance			
Defense export loan guarantee financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–4	–4	–4
Outstandings	12	8	4
Procurement			
Arms initiative guaranteed loan financing account:			
Commitments	18	12	....
New guaranteed loans	18	10	2
Change in outstandings	18	10	1
Outstandings	28	38	39
Family Housing			
Family housing improvement guaranteed loan financing account:			
Commitments	202	492	537
New guaranteed loans	29	29	118
Change in outstandings	29	27	116
Outstandings	29	56	172

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Department of Education			
Office of Student Financial Assistance			
Federal family education loan liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–3,211	–3,049	–1,936
Outstandings	10,114	7,065	5,129
Federal family education loan program financing account:			
Commitments	29,427	33,160	34,675
New guaranteed loans	26,602	29,501	30,742
Change in outstandings	16,105	11,504	9,298
Outstandings	134,111	145,615	154,913
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–16	–28	–33
Outstandings	1,535	1,507	1,474
Health education assistance loans liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–71	–91	–97
Outstandings	1,267	1,176	1,079
Health center guaranteed loan financing account:			
Commitments	5	32	21
New guaranteed loans	5	32	21
Change in outstandings	1	32	21
Outstandings	5	37	58
Medical facilities guarantee and loan fund:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–21	–21	–3
Outstandings	24	3	....
Health Care Financing Administration			
Health maintenance organization loan and loan guarantee fund:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–2	–1	....
Outstandings	1	....	....
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	–284	–284	–284
Outstandings	2,742	2,458	2,174
Indian housing loan guarantee fund financing account:			
Commitments	15	23	234
New guaranteed loans	18	18	18
Change in outstandings	13	15	14
Outstandings	60	75	89
Title VI Indian Federal guarantees financing account:			
Commitments	2	55	53
New guaranteed loans	1	15	41
Change in outstandings	1	14	38
Outstandings	1	15	53

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Community Planning and Development			
Revolving fund (liquidating programs):			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–1	....	....
Outstandings	....	....	....
Community development loan guarantees financing account:			
Commitments	412	1,258	609
New guaranteed loans	322	500	400
Change in outstandings	183	250	200
Outstandings	1,692	1,942	2,142
Community development loan guarantees liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–27	–25	–23
Outstandings	107	82	59
Housing Programs			
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–8,247	–6,707	–5,407
Outstandings	47,619	40,912	35,505
FHA-general and special risk insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–3,144	–1,978	–2,710
Outstandings	29,761	27,783	25,073
FHA-general and special risk guaranteed loan financing account:			
Commitments	9,308	17,381	15,522
New guaranteed loans	12,507	15,175	15,732
Change in outstandings	9,436	3,717	5,604
Outstandings	69,128	72,845	78,449
FHA-loan guarantee recovery fund financing account:			
Commitments	3	4	....
New guaranteed loans	1	4	3
Change in outstandings	1	4	3
Outstandings	3	7	10
FHA-mutual mortgage insurance guaranteed loan financing account:			
Commitments	94,161	127,609	134,736
New guaranteed loans	86,274	106,016	119,712
Change in outstandings	46,352	66,970	47,674
Outstandings	401,960	468,930	516,604
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–10	–11	–12
Outstandings	146	135	123
Guarantees of mortgage-backed securities financing account:			
Commitments	105,518	96,262	103,199
New guaranteed loans	105,518	96,262	103,199
Change in outstandings	33,429	17,518	11,580
Outstandings	602,741	620,259	631,839
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–3	–5	–8
Outstandings	29	24	16

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
Indian guaranteed loan financing account:			
Commitments	60	60	75
New guaranteed loans	52	60	75
Change in outstandings	42	44	48
Outstandings	162	206	254
Department of Transportation			
Office of the Secretary			
Minority business resource center guaranteed loan financing account:			
Commitments	....	14	18
New guaranteed loans	....	14	18
Change in outstandings	....	14	11
Outstandings	....	14	25
Federal Highway Administration			
Transportation infrastructure finance and innovation program loan guarantee financing account:			
Commitments	....	200	200
New guaranteed loans	....	....	200
Change in outstandings	....	....	200
Outstandings	....	....	200
Maritime Administration			
Federal ship financing fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–73	–65	–60
Outstandings	248	183	123
Maritime guaranteed loan (title XI) financing account:			
Commitments	886	620	200
New guaranteed loans	886	620	200
Change in outstandings	666	391	10
Outstandings	4,077	4,468	4,478
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	1	....	....
Change in outstandings	–4,898	–3,608	–2,632
Outstandings	12,740	9,132	6,500
Veterans housing benefit program fund guaranteed loan financing account:			
Commitments	21,616	30,643	30,447
New guaranteed loans	21,616	30,643	30,448
Change in outstandings	7,917	14,076	12,293
Outstandings	211,568	225,644	237,937
Miscellaneous veterans housing loans guaranteed loan financing account:			
Commitments	....	13	20
New guaranteed loans	....	13	20
Change in outstandings	....	13	18
Outstandings	....	13	31
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–374	–357	–350
Outstandings	4,551	4,194	3,844
Agency for International Development			
Loan guarantees to Israel financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	....	....
Outstandings	9,226	9,226	9,226

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate 2001	Estimate 2002
Development credit authority guaranteed loan financing account:			
Commitments	141	119	200
New guaranteed loans	6	110	125
Change in outstandings	6	96	111
Outstandings	6	102	213
Housing and other credit guaranty programs liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–76	–208	–116
Outstandings	1,684	1,476	1,360
Microenterprise and small enterprise development guaranteed loan financing account:			
Commitments	56	72	
New guaranteed loans	44	36	36
Change in outstandings	22	15	15
Outstandings	64	79	94
Urban and environmental credit guaranteed loan financing account:			
Commitments	11	16	
New guaranteed loans	37	16	
Change in outstandings	11	–15	–34
Outstandings	545	530	496
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–25	–39	–5
Outstandings	44	5	
Overseas Private Investment Corporation guaranteed loan financing account:			
Commitments	1,152	1,267	1,152
New guaranteed loans	426	500	525
Change in outstandings	194	250	280
Outstandings	3,098	3,348	3,628
Small Business Administration			
Small Business Administration			
Pollution control equipment fund liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–7	–8	–6
Outstandings	39	31	25
Business guaranteed loan financing account:			
Commitments	13,152	16,187	17,575
New guaranteed loans	12,149	10,488	9,111
Change in outstandings	–5,028	–4,167	3,068
Outstandings	31,739	27,572	30,640
Business loan fund liquidating account:			
Commitments			
New guaranteed loans	1	1	
Change in outstandings	–642	–432	–340
Outstandings	2,010	1,578	1,238
Other Independent Agencies			
Export-Import Bank of the United States			
Export-Import Bank of the United States liquidating account:			
Commitments			
New guaranteed loans			
Change in outstandings	–110	–291	–240
Outstandings	1,104	813	573
Export-Import Bank guaranteed loan financing account:			
Commitments	11,705	13,181	11,335
New guaranteed loans	10,930	10,448	10,858
Change in outstandings	4,527	4,251	–282
Outstandings	28,678	32,929	32,647

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

(in millions of dollars)

Agency and Account	2000 Actual	Estimate	
		2001	2002
National Credit Union Administration			
Credit union share insurance fund:			
Commitments	4	6	4
New guaranteed loans	4	3	4
Change in outstandings	3	2	–2
Outstandings	4	6	4
Presidio Trust			
Presidio Trust guaranteed loan financing account:			
Commitments	....	....	100
New guaranteed loans	....	....	50
Change in outstandings	....	....	49
Outstandings	....	....	49
Subtotal, Guaranteed loans (gross)			
Commitments	298,122	351,762	362,439
New guaranteed loans	286,321	312,687	333,525
Change in outstandings	97,310	103,535	81,304
Outstandings	1,645,785	1,749,320	1,830,624
Less, secondary guaranteed loans: [1]			
GNMA guarantees of FmHA/VA/FHA pools:			
Commitments	–105,518	–96,262	–103,199
New guaranteed loans	–105,518	–96,262	–103,199
Change in outstandings	–33,419	–17,507	–11,568
Outstandings	–602,887	–620,394	–631,962
Total, primary guaranteed loans: [2]			
Commitments	192,604	255,500	259,240
New guaranteed loans	180,803	216,425	230,326
Change in outstandings	63,891	86,028	69,736
Outstandings	1,042,898	1,128,926	1,198,662

[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	2000 Actual	Estimate 2001	Estimate 2002
LENDING			
Student Loan Marketing Association:			
Net change	–584	–5,380	–2,759
Outstandings	37,213	31,833	29,074
Federal National Mortgage Association:			
Portfolio programs:			
Net change	68,971	105,638	99,358
Outstandings	587,600	693,238	792,596
Mortgage-backed securities:			
Net change	31,807	106,111	92,254
Outstandings	706,104	812,215	904,469
Federal Home Loan Mortgage Corporation:			
Portfolio programs:			
Net change	45,656	50,627	60,637
Outstandings	361,624	412,251	472,888
Mortgage-backed securities:			
Net change	30,029	51,773	76,056
Outstandings	559,242	611,015	687,071
Farm Credit System:			
Agricultural credit bank:			
Net change	1,178	482	674
Outstandings	19,270	19,752	20,426
Farm credit banks:			
Net change	870	1,548	1,919
Outstandings	46,693	48,241	50,160
Federal Agricultural Mortgage Corporation:			
Net change	1,261	1,576	1,106
Outstandings	3,318	4,894	6,000
Federal Home Loan Banks:			
Net change	77,663	2,222	2,222
Outstandings	444,505	446,727	448,949
Subtotal GSE lending (gross):			
Net change	256,851	314,597	331,467
Outstandings	2,765,569	3,080,166	3,411,633
Less guaranteed loans purchased by:			
Student Loan Marketing Association:			
Net change	–584	–5,380	–2,759
Outstandings	37,213	31,833	29,074
Federal National Mortgage Association:			
Net change	10,825	....	....
Outstandings	62,935	62,935	62,935
Other:			
Net change	1,037	....	....
Outstandings	21,831	21,831	21,831
Total GSE lending (net):			
Net change	245,573	319,977	334,226
Outstandings	2,643,590	2,963,567	3,297,793
BORROWING			
Student Loan Marketing Association:			
Net Change	–90	–5,418	–2,600
Outstandings	41,501	36,083	33,483
Federal National Mortgage Association:			
Portfolio programs:			
Net Change	82,159	103,992	101,399
Outstandings	607,039	711,031	812,430
Mortgage-backed securities:			
Net Change	31,807	106,111	92,250
Outstandings	706,104	812,215	904,465

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

(in millions of dollars)

Enterprise	2000 Actual	Estimate 2001	Estimate 2002
Federal Home Loan Mortgage Corporation:			
Portfolio programs:			
Net Change	65,780	54,831	60,022
Outstandings	406,794	461,625	521,647
Mortgage-backed securities:			
Net Change	30,029	51,773	76,056
Outstandings	559,242	611,015	687,071
Farm Credit System:			
Agricultural credit bank:			
Net Change	1,503	524	734
Outstandings	20,971	21,495	22,229
Farm credit banks:			
Net Change	2,032	1,453	1,865
Outstandings	52,115	53,568	55,433
Federal Agricultural Mortgage Corporation:			
Net Change	288	9	204
Outstandings	2,861	2,870	3,074
Federal Home Loan Banks:			
Net Change	99,585	....	....
Outstandings	577,057	577,057	577,057
Subtotal GSE borrowing (gross):			
Net change	313,093	313,275	329,930
Outstandings	2,973,684	3,286,959	3,616,889
Less borrowing from other GSEs:			
Net Change	23,957	....	....
Outstandings	120,344	120,344	120,344
Less purchase of Federal debt securities:			
Net Change	–43	28	28
Outstandings	1,620	1,648	1,676
Less borrowing to purchase loans guaranteed by:			
Student Loan Marketing Association:			
Net Change	–584	–5,380	–2,759
Outstandings	37,213	31,833	29,074
Federal National Mortgage Association:			
Net Change	10,825	....	....
Outstandings	62,935	62,935	62,935
Other:			
Net Change	1,037	....	....
Outstandings	21,831	21,831	21,831
Total GSE borrowing (net):			
Net change	277,901	318,627	332,661
Outstandings	2,729,741	3,048,368	3,381,029

[1] The estimates of borrowing and lending were developed by the GSEs based on certain assumptions but are subject to periodic review and revision and do not represent official GSE forecasts of future activity, 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.

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	2000
Total net lending in credit market	66.8	88.2	169.6	336.9	829.3	705.2	705.6	716.1	722.1	993.4	1,111.8	937.9
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	245.6
GSE lending participation rate (percent)	1.8	5.6	3.1	6.4	7.0	16.4	17.8	19.8	15.6	29.5	25.5	26.2
Total net borrowing in credit market	66.8	88.2	169.6	336.9	829.3	705.2	705.6	716.1	722.1	993.4	1,111.8	937.9
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	277.9
GSE borrowing participation rate (percent)	2.1	5.9	3.2	7.2	7.3	12.8	9.7	35.7	14.9	36.6	31.2	29.6

[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 2001 and 2002 are not available.

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

(in millions of dollars)

Financing Vehicle	2000 Actual	Estimate 2001	Estimate 2002
Financing Corporation (FICO):			
Net change	1	2	1
Outstandings	8,147	8,149	8,150
Resolution Funding Corporation (REFCORP):			
Net change	–2	–2	–2
Outstandings	30,064	30,062	30,060
Subtotal, gross borrowing:			
Net change	–1	....	–1
Outstandings	38,211	38,211	38,210
Less purchases of Federal debt securities:			
Net change	552	594	644
Outstandings	7,169	7,763	8,407
Total, net borrowing:			
Net change	–553	–594	–645
Outstandings	31,042	30,448	29,803

[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 2000 or is estimated to occur in 2001 or 2002.