9. 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 2001, there were $242 billion in Federal direct loans outstanding and $1,084 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 2001, the face value of GSE lending totaled $3.1 trillion. In return for serving social purposes, 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 fast 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 analyzes 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. Recognizing that improving efficiency is an everlasting concern, this section pays particular attention to the issue, and also discusses Federal loan sales as a special issue in improving efficiency.
- The third section reviews Federal credit programs and GSEs in four sectors: housing, education, business and community development, and exports. This section discusses program objectives, recent developments, and future plans for each program.
- 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 areas: 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 cases, private lending and insurance business efficiently meets societal demands by allocating resources to the most productive uses, and Federal intervention is unnecessary or can even be distortionary. 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. 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 limited incomes and credit histories. Because it is difficult for those borrowers to prove their creditworthiness to a large number of lenders, they must rely on the subjective judgements of a few lenders. In this situation, many creditworthy borrowers may fail to obtain credit. Even for borrowers who are approved for credit, insufficient competition can result in higher interest rates. Government intervention, such as loan guarantees, enable these groups of borrowers to obtain credit more easily and cheaply and provides an opportunity for the lender to become more comfortable with that group of borrowers. Similarly, the private sector efficiently insures against various risks. Insurance companies estimate the expected loss based on probabilities of loss-generating events and charge adequate premiums. Private insurers, however, are reluctant to insure against an event for which they cannot reasonably estimate the probability and the magnitude of loss. Without these estimates, they cannot adequately set the premium. Terrorism emerged as one of these cases after the September 11 attacks. In these cases, Government intervention limiting uncertainties for the private sector may be necessary to ensure the provision of insurance.

- ***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. The general public benefits from high productivity and good citizenship of a well-educated person and suffers from pollution. Without Government intervention, people will 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 such as tax benefits 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 economic 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. Some catastrophic events can also threaten the solvency of private insurers. For some events involving a small risk of a very large loss, therefore, Government insurance commanding more resources can be more credible and effective. Another form of resource constraint is a liquidity constraint. It is usually difficult for a private entity to raise a large amount in a short time. The funding difficulty can limit the private market's ability to extend credit and thereby 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. For example, legal barriers to entry or 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 lending programs aiming to increase the availability of credit and lower the borrowing cost for those rural residents may improve economic efficiency.

Changing Financial Markets

Financial markets have undergone many changes in recent years. The most fundamental developments are financial services deregulation and technological advances, which have promoted competition and economic efficiency. Deregulation and technological advances have led to many important developments. Deregulation has promoted consolidation by removing legal barriers to business combinations. By increasing the availability of information and lowering transaction costs, technological advances have significantly contributed to enhancing liquidity, refining risk management tools, and spurring globalization. The current economic downturn, however, can temporarily interrupt these trends.

Financial services deregulation has promoted competition by removing geographic and industry barriers. Active deregulation at the state level substantially removed restrictions on interstate banking and intrastate branching in the 1980s and early 1990s. At the Federal level, the full implementation of the Riegle-Neal Interstate Banking and Branching Act in 1997 essentially removed geographic barriers. 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 computers, 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 lower-risk customers has become much more common in recent years.

Consolidation among financial institutions, especially banks, has been very active due to deregulation and increased competition. Because of active consolidation, the number of banks has sharply decreased, and the concentration of assets has increased. At the end of calendar 2000, there were about 8,300 commercial banks, which represented a decrease by over 4,000 or 33 percent from the end of calendar 1990. The top 10 banks controlled 37 percent of banking assets at the end of calendar 2000, compared with 21 percent at the end of calendar 1990. Consolidation across traditional industry boundaries has produced financial holding companies that control multiple types of financial institutions. The leading example is Citigroup encompassing the commercial banking (Citibank), insurance (Travelers), and securities (Salomon Smith Barney) businesses.

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 well-known ones) to validate their financial information at low costs and to borrow directly in capital markets, instead of relying on banks. In particular, commercial paper (short-term financing instruments issued by corporations) has been very popular. In the 1990s, growth of commercial paper substantially outpaced growth of bank business loans. The current economic slowdown, however, has had a much larger negative effect on growth of commercial paper than on growth of bank business loans.

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. Over the last decade, both consumer loans and business loans have been growing at finance companies faster than at commercial banks. The growth of venture capital firms was rather phenomenal. Between calendar 1995 and calendar 2000, their new investments, which were mostly in small firms' equity, increased more than 17-fold (from \$6 billion to \$104 billion). Due to the economic downturn and the slumping stock market, venture capital investments in calendar 2001 decreased to less than half of the calendar 2000 level, but were still several times as much as those in the mid-1990s.

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. The Electronic Signatures in Global and National Commerce Act of 2000, which eliminates legal barriers to the use of electronic technology to sign contracts, should accelerate the growth of transactions over the Internet.

Securitization (pooling a certain type of asset and selling shares of the asset pool to investors) is a financial instrument produced by technological advances. Increased transparency of asset quality created demand for securitized assets. Securitization has enhanced liquidity in financial markets by enabling lenders to raise funds without borrowing or issuing equity. It also helps financial institutions to reduce risk exposure to a particular line of business. 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 to a very limited extent 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, swaps, and futures, have improved investors' ability to manage risk (either increase or decrease risk exposure). Financial institutions and some other types of companies are increasingly using these relatively new instruments to manage various types of risk such as interest rate risk, credit risk, price risk, and even catastrophe-related risk. The interest rate swap, for example, is an effective tool to reduce a firm's exposure to interest rate movements. However, a firm can also use an interest rate swap to take interest risk. Interest rate swaps are widely used now. After the September 11 attacks, catastrophe bonds drew some attention as a potential means to manage a large risk. This derivative offers yields higher than market interest rates. If a specified catastrophe occurs, however, the bondholders lose a part or all of the principal, depending on the size of the damage. In this contract, the higher yield and the loss of principal respectively are equivalent to the insurance premium and the insurance payout. In this way, the potential large loss can be spread among a large number of investors, instead of a few insurance companies. The size of the catastrophe bond market, however, is still very small.

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.

The current economic downturn has increased loan delinquency rates and bankruptcies. The delinquency rate of business loans at banks averaged 2.9 percent during the first three quarters of calendar 2001, compared with 2.2 percent in calendar 2000. The increases in delinquency rates were modest for consumer loans (from 3.6 to 3.7 percent) and real estate loans (from 1.9 to 2.1 percent). Between 2000 and 2001, however, personal bankruptcy filings increased 14.1 percent, which was much faster than the 6.6 percent increase in business bankruptcy filings. Jitters about credit quality reduced the supply of business credit in the private market, especially from nonbank sources such as commercial paper. The stock market bust also increased the cost of equity financing, especially for start-ups that relied on venture capital. For households, credit conditions remained relatively easy, partly thanks to the continued strength of the housing market.

Implications for Federal Programs

In general, financial evolution has increased the private market's capacity to serve the populations traditionally 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 on 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 screen many borrowers at low cost and 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, can be uneven across groups and over time. Large financial institutions with global operations, which are products of consolidation, may want to focus more on large customers and business lines that utilize economies of scale and scope more fully. Thus, some small borrowers, who used to rely heavily on the private information of small institutions, can be underserved. In an economic downturn, lenders can be overly cautious, leaving out some creditworthy borrowers. The Federal Government may need to better target those underserved 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 or man-made catastrophe among a large number of investors through catastrophe-related derivatives, although the extent of risk sharing in this way is limited due to the small size of the catastrophe bond market.

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. The current economic downturn also makes it more difficult to estimate the costs of credit and insurance programs because they can change abruptly.

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 may be 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 were 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, and guaranteed loan monitoring. 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 helping the private market to improve efficiency, 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.

Improving Efficiency

Some programs may be well-justified based on the three criteria above. However, few programs may be perfectly designed or managed. 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 and well managed programs. Thus, improving efficiency is an everlasting concern. Although the ways to improve efficiency vary across programs, there are some general categories and principles that apply to most programs.

Pricing (setting appropriate lending terms or insurance premiums) is a critical part of credit and insurance programs. If program managers fail to accurately estimate the default and prepayment probabilities for a credit program and the loss probability for an insurance program, the program may be mispriced, and the actual subsidy may substantially deviate from the intended subsidy. To improve the estimation accuracy, using advanced analytical tools is important, especially for some programs, for which pricing involves many complications. An inappropriate intended subsidy rate can also impair program efficiency. If a program's subsidy is too small, the intended population may be discouraged from using the program. On the other hand, an excessive subsidy may attract unintended customers.

Some programs are inherently difficult to price. To price deposit insurance, for example, the Federal Deposit Insurance Corporation (FDIC) needs to estimate bank failure probabilities, which are highly changeable. An unexpected event can cause many failures, and the banking business changes over time, introducing new risks. FDIC recently made a constructive proposal to improve deposit insurance pricing. Agencies dealing with complicated pricing need to continuously endeavor to refine pricing. In many cases, utilizing both historical experience and sophisticated analytical tools may be necessary. Private sector participation may also help the pricing of complicated programs. Federal agencies can make risk-sharing arrangements with private firms that may have better pricing expertise and derive information from the private firms' pricing.

The subsidy rate and the manner in which subsidies are provided can also affect program efficiency. The Farm Service Agency (FSA) offers agricultural loans at Treasury rates to borrowers who have been denied credit by private lenders. Since Treasury rates are lower than market rates for creditworthy borrowers, this pricing strategy can attract borrowers who can obtain credit elsewhere. It is possible that some creditworthy borrowers are denied credit by chance or by misrepresentation. One solution to this problem is to make loans at the market rate for average borrowers, which would still subsidize the intended population with low credit ratings. When further subsidies to the disadvantaged are desirable, the Government may supplement the loans with direct subsidies.

Another pricing issue arises when the Government relies on private intermediaries. The student loan guarantee program sets the interest rate that participating lenders receive, which differs from the rate that students pay. While an unattractively low lender rate set by the Government would reduce participation, an excessively high rate would unnecessarily increase the cost of the program. A similar problem exists for the crop insurance program. Private insurance companies sell and service crop insurance policies, and the Federal Government reimburses the private companies for the administrative expenses and reinsures them for excess insurance losses. Excessive profits of private companies are also possible in this case. One way to deal with this problem is to carefully examine the profit of participating intermediaries. An alternative is to set the price through competitive bidding.

Targeting the right population is also an important element of program efficiency. The net benefit will increase if program managers more successfully identify the populations that would benefit more from credit and insurance programs and reach out to them. Right populations include borrowers who have worthwhile projects but have difficulty in obtaining private credit (e.g., beginning farmers, new businesses, new exporters), populations underserved by the private market (e.g., low-income, minority), underserved neighborhoods (e.g., rural, inner city), and legislatively targeted populations (e.g., students, veterans). In addition to making credit available, program managers need to actively inform potential borrowers of the credit availability and provide high-quality customer services, so that ignorance or inconvenience does not deter the targeted populations from accessing the program. 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 Management, a hedge fund). Economic downturns can also reduce the credit available from private sources, as evidenced by declines in commercial paper and venture capital investment in 2001. On those occasions, Federal agencies can promote the extension of credit to creditworthy borrowers. While outreaching, program managers should avoid overreaching, which would waste taxpayers' money.

While targeting may not be a problem for some well-defined programs, such as deposit insurance and student loan programs, it can be a major concern for many programs that serve broader purposes, such as housing, business, and international programs. Given that private lenders have been reaching out to more traditionally underserved homebuyers, for example, there are ever increasing needs for Federal housing agencies to improve their focus on the populations that may still be underserved by the private market, such as minorities and inner city residents. In the agricultural sector, FSA provides loan guarantees to many borrowers who have access to private credit. To improve program efficiency, FSA needs to focus on borrowers who would benefit most from the government program (for example, helping more small, beginning farmers and fewer large, established farmers). The Small Business Administration (SBA) faces a similar problem. Given that the definition of small business is not really tight, access to private credit may differ widely across small businesses. It is an ongoing challenge for SBA to focus more narrowly on start-ups and very small businesses, which may have more difficulty in obtaining credit without Government assistance.

Even when the target population is fairly well defined, a program can extend its role beyond the original mission. The housing program of the Department of Veterans Affairs (VA), of which the main purpose is to help veterans, offers direct loans to the purchasers of foreclosed VA homes, who are not veterans. The loans do not necessarily increase the cost to the government if the favorable lending terms positively influence sale prices. Nevertheless, the loans to the general public can be considered as overreaching. The program also allows veterans to obtain the subsidized loans more than once. Provided that the primary goal of the program is to help disadvantaged veterans right out of the military, repeated offers of subsidized loans may be unnecessary in many cases. Rural Utilities Service (RUS) offers credit to utility providers serving rural areas. Once the eligibility is determined, however, requalification is not required for new loans. This lax rule enables some borrowers, where rural areas have become urban after the first loan, to obtain new loans to support both rural and urban areas.

Targeting too narrowly can also be a problem. Export credit provided by the Export-Import Bank is highly concentrated to a few large exporters. Overseas Private Investment Corporation (OPIC) has been primarily assisting large U.S. companies investing abroad. In these cases, reaching out to smaller exporters and investors might improve program efficiency.

Risk management needs to be effective to limit the cost of credit and insurance programs. Careful screening of borrowers would reduce the default risk. Although the goal of most credit programs is not to lend to the most creditworthy borrowers, it is important to identify relatively more creditworthy borrowers even among those who might be denied credit by private lenders. Other key elements of risk management include monitoring existing borrowers and collecting defaulted loans. One way to improve screening, monitoring, and collecting is to use advanced analytical tools such as credit scoring and to maintain useful data bases. In some cases, the private sector may perform those tasks more efficiently. Then delegation would be an effective strategy. For example, if banks are better at screening some opaque borrowers because of their extensive experience with those borrowers, Federal agencies may delegate the screening of those borrowers to banks with appropriate risk-sharing arrangements.

Technological advances have significantly improved the screening of borrowers, especially in the housing market, where standardizing information is relatively easy. Private lenders process loans efficiently using automated and sophisticated tools. Federal agencies targeting the populations that are largely served by the private sector need to be alert to catch up with rapid technological advances. Falling behind, they could be left with riskier borrowers. Analytical models also play an important role in monitoring borrowers and insurance policyholders. Pension Benefit Guarantee Corporation (PBGC) has an Early Warning Program designed to identify weak industries and companies. The program, which facilitates early intervention and negotiations, has been fairly successful in reducing insurance losses.

Since standardizing information is still difficult for small business, banks with extensive business relationships may have advantages in screening borrowers. The Small Business Administatin (SBA), which guarantees small business loans, delegates credit evaluation with some risk-sharing arrangements. SBA has been strengthening the delegation through its Preferred Lender Program, which has shown some success in reducing default rates. However, since designing optimal risk-sharing arrangements is a challenging task, SBA and other Federal agencies delegating credit evaluation to private lenders should keep trying to develop finer risk-sharing arrangements.

Delegation of loan servicing is generally desirable, but it should be accompanied by close monitoring of contractors. VA lets private servicers track the performance of VA loans. VA, however, is not notified of delinquencies until loans are 60 to 90 days overdue. Closer monitoring might help to reduce the default rate of VA loans. The performance of private contractors may also be improved through performance-based contracting. The Department of Education (ED) relies on private contractors for collecting defaulted student loans. ED lets multiple debt collectors compete for the loan volume by assigning more loans to the best performers. This performance-based contracting has helped to increase the collection of defaulted loans.

Cost control is a concern for all types of organizations. For Federal credit and insurance programs, key elements include delivery and servicing costs, in addition to the general administration cost. There are many ways for Federal agencies to save costs. They may streamline the delivery system, computerize loan servicing, and eliminate redundant servicing facilities. In cases where the private sector is more efficient in some specific functions such as loan servicing, it may be best to contract out those functions. When several Federal agencies serve similar purposes, inter-agency cooperation can result in a substantial cost saving.

The student loan guarantee program involves multiple layers of private and public institutions. There may be an opportunity to streamline the delivery system and save on administrative cost. SBA operates multiple loan servicing centers throughout the Nation. Given that advances in communication technology have reduced the importance of physical presence for loan servicing, consolidating some of those facilities might reduce costs without sacrificing customer service.

ED contracts out the servicing of direct student loans. Since many private institutions are more experienced with loan servicing than the Government, contracting out can be more cost-effective in many cases. To realized the potential cost savings, however, Federal agencies need to use well-designed competitive bidding and incentive arrangements, as well as to monitor the quality of service. Without these appropriate steps, contracting out could represent more of a private opportunity for a windfall gain than of the Government's opportunity for a cost saving. The Federal Housing Administration and SBA have been selling loans to private financial institutions. Provided that private institutions are more efficient in loan servicing, loan sales should help to save servicing and administrative costs. Well-designed competitive bidding is important in this case, as well.

There are several Federal agencies that are involved in home-purchase financing and several agencies that provide export-related credit. In these cases, substantial cost saving can be achieved through sharing data bases, exchanging expertise, and consolidating redundant operations. Housing agencies have been sharing data, but to a limited extent. International credit agencies use a common risk assessment system. There may remain many cost-saving opportunities that can be realized through fuller cooperation.

Initiative plays an important role in a rapidly changing environment. Information technology and financial markets have been changing rapidly. To achieve the maximum efficiency, program managers need to closely watch and quickly adapt their programs to new developments. Tardy responses to changes in information technology may mean missed opportunities for improving risk management and reducing costs. Financial market developments also have important implications. 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. Private lenders are more willing to serve many customers to whom they did not want to lend in the past. Thus, some Federal credit programs may need to focus more narrowly on customers who are still underserved by private lenders. Without agencies' initiative, needed adjustments might be substantially delayed.

Federal agencies have been active in initiating automation and Internet-based services. PBGC has a pilot project that enables participants in certain PBGC-trusteed plans to calculate their approximate benefits online. VA recently developed web-based application that allows lenders to obtain appraiser assignments and loan numbers for VA loan applications. ED has undertaken an automation and modernization initiative to streamline the management of student financial assistance programs. Rural Utilities Service has made many forms available for download at its website.

Many agencies have proposed to develop analytical models to improve risk management. SBA has been developing a loan monitoring system and an advanced subsidy-estimation model. Rural Housing Service have been working on models to evaluate the creditworthiness of borrowers. However, the progress has been slow in many cases.

There have also been proposals for regulatory changes. FDIC recently made reform proposals ranging from merging bank and thrift insurance funds to refining risk-based premiums. FHA recently proposed a rule that would help to reduce fraudulent practices in the housing market. In general, however, credit and insurance agencies have not been very active in proposing regulatory changes. Given that individual agencies are on the frontiers of detecting changes in market conditions, they may need to take a more active role in bringing about regulatory changes that would improve the effectiveness and efficiency of their programs.

Federal Loan Asset Sales: A Current Issue in Improving Efficiency

Federal loan asset sales provide an opportunity for agencies to achieve many of the efficiency gains already discussed. For programs where loan asset sales are appropriate, sales can free up existing agency resources to better serve their target population, lower the risk exposure of the Federal government, and create better overall management of Federal loan assets. In addition, while outsourcing specific functions, such as loan servicing, to the private sector has shown cost savings to the Government, outsourcing requires careful monitoring of the contractor. By selling the asset outright to the private sector, Federal agencies can further reduce administrative costs.

At the end of 2000, the Federal Government held loan assets valued at $241 billion. Of the $241 billion, $208 billion were direct loans, and $33 billion were guaranteed loans acquired by the Federal Government after default. Both types of loans are eligible to be sold. Sale of Federal loan assets can provide several benefits to the Federal Government: revenues from sales, administrative cost savings, and management improvements. In a time of tight budgetary resources, it makes good sense to free up agency resources for redirection to core Governmental functions and outsource activities that are more efficiently done by the private sector. Agencies can use the freed-up financial and human resources to better target new lending to the right population, better manage the remaining portfolio, and improve technological areas where they are lagging, such as loan servicing and credit screening.

The Debt Collection Improvement Act of 1996 (DCIA), which authorizes agencies to sell debt that is over 90 days delinquent, grew out of an increased recognition of the Government's inefficiency at managing poorly performing assets. For example, some agencies did not have a policy in place to take action when borrowers were delinquent or in default. The lack of an adequate policy resulted in unnecessarily large losses to the Government. In implementing the DCIA, OMB Circular A–129 imposes a more stringent rule requiring agencies to sell loans that are over one year delinquent and loans for which collection action has been terminated. Circular A–129 also recommends that agencies develop plans for selling performing loans, thereby using asset sales as a portfolio management tool.

To effectively conduct loan sales, agencies need to establish policies and procedures for tracking both performing and non-performing loans. These efforts will also help to improve overall portfolio management, resulting in reduced default rates and better cost estimates for future loans. Agencies may also acquire knowledge that helps to decide outsourcing of some functions such as loan servicing and liquidation.

The bulk of Federal loan assets are held by five Federal credit agencies: Department of Veterans Affairs, Department of Agriculture, Department of Education, the Federal Housing Administration (FHA), and the Small Business Administration (SBA). To date, two agencies, FHA and SBA, have conducted loan asset sales, selling non-performing loans, which satisfies the DCIA provisions of selling delinquent loans, and selling performing loans as well. Successful sales to date by these two agencies have shown that loan assets can be priced advantageously to both the Government and the private sector due to the private sector's expertise and scale economies in loan servicing. Both agencies are currently planning future sales. The sales to date have generated revenue for the Government, while reducing the costs of maintaining and liquidating those assets. Other benefits of asset sales include the transfer of resources from certain credit program functions that are not inherently Governmental to core Governmental functions that are essential in carrying out the mission and overall improvements in asset management.

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 2001, HUD, VA, and USDA supported $219 billion of direct loans and loan guarantees, contributing to a record high homeownership rate of 68.1 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 several insurance funds, the largest of which is the Mutual Mortgage Insurance Fund. FHA mortgage insurance is directed to expanding access to homeownership for people who lack the financial resources or credit history to qualify for a conventional home mortgage. In 2001, FHA insured $107 billion in mortgages for almost 1 million households, 10 percent more households than in 2000. The dollar volume of mortgages exceeded 2000 by 24 percent, partially driven by the rapid increase in house prices and low interest rates.

FHA has contributed significantly to the recent homeownership gains, but its target population of first-time home buyers is most at risk of surrendering these gains. After increasing significantly since 1994, the share of FHA's home purchase mortgages going to first-time home buyers and minority households dropped slightly in 2001. FHA helped its borrowers retain their homes by increasing use of loss mitigation tools (such as lender forbearance, loan modification, and partial claims) by 62 percent over the previous year. The Budget will further protect home buyers from losing their homes by expanding HUD homeownership counseling to nearly twice as many families. HUD delivers both pre- and post-purchase counseling services through a network of counseling agencies.

Congress enacted a 2002 Budget proposal to allow FHA to insure a financial product that has gained popularity in the conventional market—hybrid adjustable-rate mortgages. Congress also clarified HUD's legal authority to operate FHA Credit Watch—a lender monitoring program that rates lenders by the performance of the loans they underwrite and allows FHA to sever relationships with those showing poor performance. Credit Watch is critical to protect the FHA Mutual Mortgage Insurance Fund from unexpected losses due to mismanagement and fraud.

FHA combats fraud on many fronts, including predatory lending. The President's Management Agenda sets out several critical tasks for FHA to improve its risk management. FHA issued a proposed rule in 2001 that would prevent the predatory practice of property flipping, in which a lender and an appraiser conspire to sell a home at a falsely inflated price, thereby victimizing the borrower and exposing FHA to excessive losses. The Department is considering other regulatory changes to help prevent predatory lending.

FHA Neighborhood Watch helps home buyers help themselves by providing an internet-accessible lender monitoring system. The system tracks each lender's defaults, by neighborhood, enabling a mortgage shopper to identify lenders with good records of mortgage performance in the shopper's local area. Lenders with high rates of defaulted loans are flagged as potential problems. The system also helps the industry self-police; other financial institutions are unlikely to purchase FHA loans from a lender identified by Neighborhood Watch as high risk.

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 2001, VA provided $31 billion in guarantees to assist 252,700 borrowers. Both the volume of guarantees and the number of borrowers increased substantially from 2000 as lower interest rates increased loan originations and refinancings 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 2001, 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 40 percent of their 2001 interventions, and its goal is to maintain the 40 percent level in 2003. 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 and consolidations.

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 low to moderate-income rural residents. The program's emphasis is on reducing the number of rural residents living in substandard housing. In 2001, $2.4 billion of guarantees went to 31,000 households, of which 30 percent went to low-income borrowers (with income 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 allowed RHS to provide more guarantees 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 2001, 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 RHS, the lenders, and customers. 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 to dispose of the property.

RHS programs differ from other Federal housing loan guarantee programs. RHS programs are means-tested and more accessible to low-income, rural residents. In addition, the RHS direct loan program offers deeper assistance to very-low-income homeowners by reducing the interest rate down to 1 percent for such borrowers. The program helps the "on the cusp" borrower obtain a mortgage, and requires graduation to private credit as the borrower's income increases over time. The interest rate depends on the borrower's income. Each loan is reviewed annually to determine the interest rate that should be charged on the loan in that year based on the borrower's actual annual income.

The program cost is balanced between interest subsidy and defaults. For 2003, RHS expects to provide $1 billion in loans with a subsidy cost of 19.37 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 and monitoring 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 has reduced default rates and losses. RHS also has less than 1,200 Real Estate Owned (REO) properties, which is less than 0.02 percent of the portfolio.

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 (for renewals and new construction, the cost will be $712 million in 2003). RHS also offers guaranteed multifamily housing loans. RHS will address management issues in its multifamily housing portfolio in 2003 by restricting the $60 million loan level to repair and rehabilitation of it's existing portfolio (17,800 projects, 459,000 units). They will also conduct a study on how to fund new construction in a more cost efficient manner with the expectation that new construction will be a priority for the funds in future budgets. Farm labor housing will have a program level of $53 million and will provide for new construction.

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. RHS is currently developing its own system and scorecard.

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 or loan servicing requirements 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 to reflect risk accurately. Federal loan guarantee programs are assessing the impact of private sector customization on their loan portfolios, and adopting a similar pricing structure to avoid riskier customer composition and larger losses. FHA recently authorized annual premium cancellation at 78 percent loan-to-value ratio. Proceeding cautiously, FHA will next explore varied pricing for its mortgage insurance based on risk factors such as impaired credit or limited resources, for borrowers who currently do not qualify for FHA insurance, to help achieve the President's goal of increasing homeownership. More flexible pricing would let FHA extend its reach and thereby enable more borrowers to purchase a first home at a reasonable mortgage cost.

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. By 2003, FHA will move out of the property management business for the majority of its defaulted loans by implementing its statutory authority to accelerate the mortgage insurance claim process. The accelerated claim process will enable FHA to sell defaulted notes to the private sector for servicing and/or disposition, thereby reducing foreclosures and eliminating much of the acquisition of real property and increasing net recoveries by FHA.

Fannie Mae and Freddie Mac

Fannie Mae and Freddie Mac were chartered by Congress to increase the liquidity of mortgages and to promote access to mortgage credit for households that historically have been underserved by private markets. They carry out this mission by purchasing and/or guaranteeing residential mortgages. The guaranteed loans are packaged for sale as mortgage-backed securities (MBS), which are held by general investors, mortgage lenders, and Fannie Mae and Freddie Mac themselves. The two GSEs finance their acquisitions of loans and MBS assets by issuing debt. In September 2001, Fannie Mae and Freddie Mac had $2.6 trillion outstanding in mortgages that they had purchased or guaranteed. Of this, $1.2 trillion was held in the GSEs' asset portfolios, and $1.4 trillion served as collateral for outstanding MBS not held in portfolio. Together, the two firms' purchases of single-family mortgages averaged 63 percent of all conventional conforming mortgages originated in calendar years 1998–2000 measured by dollar value.

Fannie Mae and Freddie Mac have grown faster than the mortgage market in recent years. From September 1997 to September 2001, their combined mortgage asset portfolios increased 150 percent in dollar volume, and their guarantees of MBS increased 40 percent. To fund their rapidly growing asset portfolios, Fannie Mae and Freddie Mac have increased their outstanding debt. The GSEs' combined debt outstanding rose from $518 billion at September 1997 to $1.26 trillion at the end of September 2001, an annualized growth rate of nearly 25 percent a year.

Increased guarantee volume and retained portfolios imply increased credit and interest rate exposure. In recent years, both Fannie Mae and Freddie Mac have tried to limit their credit and interest rate risk using various risk management techniques such as credit enhancements, additional pool-level insurance supplementing primary mortgage insurance, long-term callable debt, interest rate swaps, and other hedging transactions. These risk management tools, however, do not eliminate all the risk associated with funding long-term, mostly fixed-rate assets that have uncertain payment streams. Furthermore, the hedging transactions transform credit or interest rate risk into counterparty risk (the risk that the counterparty of a hedging transaction fails to honor the contract). Thus, the GSEs' management of counterparty risk is of increasing importance.

The credit quality of mortgages owned or guaranteed by Fannie Mae and Freddie Mac has benefited in recent years from strong housing markets that have improved collateral values. More typical growth in house prices and a weaker economy might raise credit costs from the very low levels of recent years. The credit risk to the GSEs from new or outstanding loans is limited by their required use of mortgage insurance and other credit enhancements for loans with high loan-to-value (LTV) ratios. Both GSEs are increasingly active purchasers of subprime loans, and mortgages with very high LTV ratios, which now range up to 100 percent. These loans tend to have more credit risk than the GSEs' traditional mortgage purchases.

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. Risk-based capital requirements were published in September 2001 and become fully enforceable in September 2002.

Fannie Mae and Freddie Mac took steps in 2001 to help the market identify any future change in their riskiness. The GSEs have committed to issue subordinated debt on a regular basis. Following a three-year phase-in period, subordinated debt will equal about 1.5 percent of their on-balance-sheet assets. Because holders of subordinated debt have a junior claim on the assets of the GSEs, subordinated debt prices tend to be more sensitive to marginal changes in risk. The price of the GSEs' subordinated debt, therefore, could provide a market signal of an increase in their riskiness.

Because of the benefits derived from their unique Federal charters, Fannie Mae and Freddie Mac have lower costs of senior debt and obtain better pricing on securities' issuance. The Congressional Budget Office (CBO) estimates that, in 2000, these implicit subsidies combined with the GSEs' tax and regulatory exemptions were worth \$10.7 billion. According to the study ("Federal Subsidies and the Housing GSEs," May 2001), the GSEs passed along 64 percent of the \$10.7 billion in implicit subsidy and tax and regulatory benefits to mortgage borrowers, while 36 percent accrued to the benefit of the shareholders and other stakeholders of Fannie Mae and Freddie Mac.

One of the GSEs' public purposes is to promote access to mortgage credit for low- and moderate-income families in underserved areas. Accordingly, the Secretary of Housing and Urban Development (HUD) establishes affordable housing goals for the GSEs. The goals effective for calendar years 2001–2003 require the following:

- 50 percent of the total number of dwelling units financed by each GSE's mortgage purchases are affordable by low- and moderate-income families (Low- and Moderate-Income Housing Goal);
- 31 percent of the total number of dwelling units financed by each GSE's mortgage purchases are in central cities, rural areas, and other metorpolitan areas with low and moderate income and high concentrations of minority residents (Geographically Targeted Goal); and
- 20 percent of the total number of dwelling units financed by each GSE's mortgage purchases are special affordable housing for very-low-income families and low-income families living in low-income areas (Special Affordable Goal).

Fannie Mae and Freddie Mac have met or exceeded the affordable housing goals since they were established in 1996. The GSEs' achievements, however, do not surpass the level of affordable lending in the conventional market. By the most recent estimate available, the conventional market's loans to low- and moderate-income families and families in underserved areas exceed the purchases of such mortgages by Fannie Mae and Freddie Mac. (See the table "Mortgages to Target Populations.")

Mortgages to Target Populations

(Percent)

	Low- and Moderate-Income	Geographically Targeted	Special Affordable Housing
Private market average*	56	33	28
Freddie Mac in 2000	50	29	21
Fannie Mae in 2000	49	31	19
HUD Goal for GSEs in 2000	42	24	14

Source: Department of Housing and Urban Development (HUD).

* Private market average 1995–98, the most recent market average available from HUD for the conventional conforming market. "HUD's Regulation of Fannie Mae and Freddie Mac; Final Rule," *Federal Register,* October 31, 2000, page 65055.

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 Gramm-Leach-Bliley (GLB) 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, 2001, 7,897 financial institutions were FHLBS members, an increase of 177 over September 2000. About 73 percent of members are commercial banks, 19 percent are thrifts, and the remaining 8 percent are credit unions and insurance companies. However, 53.2 percent of outstanding FHLBS advances were held by thrifts as of September 30, 2001.

The FHLBS reported net income of $2.1 billion for the year ending September 30, 2001, down from $2.2 billion in the previous 12 months. System capital rose from $30.6 billion to $33.1 billion, while the ratio of capital to assets remained unchanged at 4.8 percent. Average return on equity was about 6.6 percent. Outstanding advances reached $466.8 billion in September 2001, an 8.6 percent increase over the $429.8 billion outstanding a year earlier. As of September 30, 2001, about 64 percent of advances had a remaining maturity of greater than one year—up from 52 percent one year earlier.

The GLB Act requires the System to adopt a risk-based capital structure. On October 26, 2001, the Federal Housing Finance Board (Finance Board) approved a revised final capital standards rule. The rule covers System governance, stock issuance, and risk-based and leverage capital requirements. These new capital standards, when fully implemented, will replace the current "subscription" capital structure for the Federal Home Loan Banks (FHLBanks) with one that includes both risk-based and minimum leverage requirements. Each Bank will also be required to adopt and implement a capital plan consistent with provisions of the GLB Act and Finance Board regulations.

The GLB Act changed the FHLBanks' annual payment towards the interest payments on bonds issued by the Resolution Funding Corporation (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 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, 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 $22.6 billion in mortgage loans on September 30, 2001, approximately 3.3 percent of total assets. The mortgage purchase programs offer members alternative ways of doing mortgage business. 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. Although System investments other than advances rose to $194 billion through September 2001, compared to $178 billion a year earlier, as a percentage of total assets, those investments remained at 28 percent. Like other Government Sponsored Enterprises (GSEs), the System issues debt securities at close to U.S. Treasury rates and invests the proceeds in higher-yielding securities. In 2001, the FHLBS issued $4.9 trillion in debt securities. However, the majority of the debt issued by the System is overnight or short-term, but 73 percent of debt outstanding had an original maturity of one year or longer, and total debt outstanding was about $611 billion at the end of 2001.

An enormous, liquid, and efficient capital market exists for conventional home mortgages today. As a result of 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 GLB Act further increases access to the FHLBS for community financial institutions with $527 million or less in assets by permitting advance borrowings that provide funds for small businesses, small farms, and small agri-businesses.

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 one or both programs. Loans are available to students 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 after graduation, and during certain deferment periods.

In 2003, more than 6 million borrowers will receive nearly 11 million loans totaling $53 billion. Of this amount, nearly $41 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 3,500 lenders, 36 State and private guaranty agencies, roughly 50 participants in the secondary market, and approximately 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 2003, FFEL lenders will disburse more than 7 million loans exceeding $35 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 was authorized by the Student Loan Reform Act of 1993. Under Direct Loans, the Federal Government provides loan capital directly to roughly 1,200 schools, which then disburse loan funds to students. In 2003, the Direct Loan program will generate more than 3 million loans with a total value of over $18 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 with any residual balances forgiven.

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 2001, the program had grown to more than $17 billion, making up approximately 33 percent of all student loan volume. This trend, which reflects a nearly five fold increase from 1995 to 2001, is expected to stabilize. Consolidation Loans are projected to be $17 billion in 2002 and decrease to $12 billion in 2003. The 2001 spike in Consolidation Loan volume resulted from lower interest rates and a special discount offered to Direct Loan consolidators.

For Fiscal Year 2003, the Administration is proposing to address the shortage of qualified, skilled math, science, and special education teachers in elementary and secondary schools by increasing the amount of forgivable guaranteed and direct student loans from $5,000 to $17,500 for highly qualified teachers who teach math, science, or special education 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, science, and special education 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 approximately 42 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, helps entrepreneurs start, sustain, and grow small businesses. As a "gap lender" SBA works to correct market imperfections and provide access to credit where private lenders are reluctant to do so without a government guarantee.

The Administration's 2003 Budget anticipates that SBA's lending programs will make available capital resources of over $16 billion. The 7(a) General Business Loan program will support approximately $4.85 billion in guaranteed loans, while the 504 Certified Development Company program will support $4.5 billion in guaranteed loans. SBA will supplement the capital of Small Business Investment Companies (SBICs), which provide equity capital and long-term loans to small businesses, with $7 billion in participating securities and guaranteed debentures. In addition, SBA expects to provide $26 million in microloans, along with $17 million in technical assistance to increase the probability of borrower success.

To continue to meet the needs of small businesses, SBA will focus program management in three areas: 1) providing economic relief to small businesses, 2) improving risk management, and 3) operating more efficiently.

In the aftermath of the September 11th attacks, legislation was enacted to temporarily reduce fees for borrowers and lenders participating in the 7(a) General Business Loan program. As a result, the annual fee in the 7(a) program is reduced in half from 0.50 percent to 0.25 percent and up-front fees in the 7(a) program have been reduced in half to one percent for loans below $150,000. For loans between $150,000 and $700,000, the up-front fee was reduced to 2.5 percent (a reduction of one percentage point), and for loans above 700,000, the up-front fee remains at 3.5 percent.

As a result of the fee reductions, the subsidy rate for the 7(a) program has increased to 1.76 percent in 2003 from 1.07 percent in 2002. This increase in cost translates into a reduced program level of $4.85 billion in 2003 from $9.3 billion in 2002. Given the additional cost and limited resources, the Administration will target funds to creditworthy small businesses most likely to be underserved by the commercial markets. While SBA can guaranty loans up to $1 million, the greatest need for government assistance is for loans below $150,000. Loans below $150,000 are usually for very small or start-up businesses. Lenders, however, are generally reluctant to make these loans due to high administrative costs and low financial returns. The SBA guarantee, along with the reduction in fees, will encourage banks to increase the number of loans they make that are below $150,000.

Measuring and mitigating risks in SBA's $50 billion business loan portfolio is one of the agency's greatest challenges. As SBA delegates more authority to the private sector to administer SBA guaranteed loans, oversight functions become increasingly important. SBA has taken steps to improve oversight with the establishment of the Office of Lender Oversight, which will be responsible for evaluating individual SBA lenders. This office will employ a variety of analytical techniques to ensure strong performance, including overall financial performance analysis, industry concentration analysis, peer lending performance comparisons, SBA portfolio performance analysis, and selected credit reviews. The oversight program will also encompass on-site safety and soundness examinations and off-site monitoring of the Small Business Lending Companies (SBLCs) and compliance reviews of SBA lenders. This office will develop incentives for lenders to minimize defaults and performance measures to monitor results.

SBA has been developing a Loan Monitoring System (LMS) which will support lender oversight functions by improving SBA's data collection and processing capabilities, providing a better interface with lenders, and helping to increase lender accountability. However, after five years and more than $30 million, the LMS project is behind schedule, over cost, and under performing. SBA will attempt to refocus the project to ensure successful implementation. The agency will refocus the project and by March 2002, develop a detailed plan for effective implementation.

Improving risk management also means improving SBA's ability to more accurately estimate the cost of subsidizing small business loans. This will enable the agency to allocate resources more effectively, determine program risk more precisely, and increase the ability to target programs to the neediest populations. The Administration has made significant progress in improving the accuracy of the subsidy estimate in the 7(a) program. Reflecting long-term changes in the program, the 2003 budget uses an improved estimation method, resulting in a reduced program cost. To refine the estimation in future years, SBA is developing an econometric model, which integrates a variety of programmatic and economic changes that affect loan performance. SBA is also reviewing the cost estimation method for the 504 Certified Development Company Program.

To operate more efficiently, SBA will automate loan origination activities in the disaster loan program with a paperless loan application. As a result, loan-processing costs, times, and errors will decrease, while government responsiveness to the needs of disaster victims will increase. While still in the design stage, SBA expects to begin full implementation of the paperless disaster loan application in 2003. Additionally, because loan-servicing functions can be better performed by the private sector, SBA is privatizing these activities. The agency will therefore, focus its resources on core programs such as providing access to capital, technical assistance, and federal contracting opportunities. SBA is selling its current portfolio of defaulted guaranteed loans and direct loans. The agency has already sold more than $4 billion in such loans and will begin to reflect human resource and cost efficiencies that result from these sales.

Still, with all of these management improvements, Government should only foster, not replace private-sector investment. As such, the Administration continues to seek alternative and innovative ways to support small business development. For instance, the advent of interstate banking and the Gramm-Leach-Bliley Financial Modernization Act of 1999 have expanded small businesses' access to capital. Banks have greater liberties to engage in merchant banking activities, including venture capital investments, allowing them to support small businesses in a variety of ways. While the Small Business Investment Company program has been effective in providing patient capital to small businesses, the venture capital market has matured over the last twenty years and may no longer need the same level of government intervention.

Another way to support small business development is to provide financing opportunities beyond the limited 7(a) loan program, which historically has served less than one-tenth of one percent of the Nation's small businesses annually and provided less than one percent of annual small business lending. The Administration will work with the Congress, the lending community, and the small business communities to explore new approaches to insure that a greater number of the Nation's small businesses have adequate access to capital. One possible model is Capital Access Programs (CAPs). Many States participate in CAPs, but the programs are managed largely by private parties. Under a CAP program, the bank and the borrower pay an up-front insurance premium typically between three and seven percent of the loan amount into a reserve account, which is matched by the participating state government. CAPs or other innovative state programs that place greater emphasis on market solutions may point the way toward modernizing and complementing SBA's lending programs.

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 the poorest communities. These 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. The program level for the Water and Waste (W&W) loan and grant program in the 2003 President's Budget is $1.5 billion. These funds are available to communities of 10,000 or less residents. The program finances drinking water, sewer, solid waste disposal, and storm drainage facilities through direct or guaranteed loans and grants. In order to qualify, applicant communities must be unable to finance their needs through their own resources or with credit from commercial lenders. Priority is given to loans serving smaller communities that have greater financial need, based on their median household income, poverty levels, and size of service population as determined by the USDA's field office staff. The community typically receives a combination of loans and grants depending on how much they can afford. The grant is usually for 35–45 percent of the project cost (it can be up to 75 percent). Loans are for 40 years with interest rates based on a three-tiered structure (poverty, intermediate, and market) depending on community income. The community facility programs are targeted to rural communities with fewer than 20,000 residents and have a program level of $477 million in 2003. USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, including cooperatives, to increase employment and diversify the rural economy. In 2003, USDA proposes to provide $700 million in loan guarantees to rural businesses (these loans serve communities of 50,000 or less).

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 (B&I). 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 44,000 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 remain low mainly due to low interest rates projected in the Budget. The default rates for both programs are very low. With increased deregulation, however, there is the possibility of increased defaults in the electric program because competition resulting from deregulation may erode the ability of some borrowers to repay. As information on the impact of deregulation increases, this risk will be factored into the default rates. The number of electric loans has been increasing due to large increases in loan level appropriated over the last several years. The average size for electric loans has also been increasing. The number and the size of telecommunications loans have remained steady.

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 2003 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 225 rural electric systems, which will benefit over 3.4 million customers and create or preserve approximately 50,000 jobs.

USDA's RUS proposes to make $495 million in direct loans in 2003 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 fund over 50 telecommunication systems for advanced telecommunications services. This funding will provide broadband and high-speed Internet access and benefit over 300 thousand rural customers.

The Rural Telephone Bank (RTB) provides financing for rural telecommunications systems. The 2003 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 2003, 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 2003.

The Distance Learning and Telemedicine program provides grants and loans to improve telemedicine and distance learning services in rural areas and encourage students, teachers, medical professionals, and rural residents to use telecommunications, computer networks, and related advanced technologies. With the $25 million in grants and $50 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, benefiting millions of residents in rural America. The loan level has been reduced to $50 million from $300 million due to low demand (average loan total per year is less than $20 million).

There are various legislative actions that are impacting or will impact RUS. This includes the Local TV Act that provides authorization for RUS to provide loans to bring local television to rural customers. Funding was provided in the 2002 appropriations. The various Farm Bills being debated by Congress include changes to existing programs and authorization and/or funding for new programs.

Loans to Farm Operators

Farm Service Agency (FSA) assists low-income family farmers in starting and maintaining viable farming operations. Emphasis is placed upon aiding beginning and socially disadvantaged farmers. FSA offers operating loans and ownership loans, both of which may be either direct or guaranteed loans. Operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment. 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 some 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 subsidy rates for these programs have been fluctuating over the past several years. These fluctuations are mainly due to the interest component of the subsidy rate. The default rates for these programs tend to be below ten percent. Guaranteed farm ownership loans have experienced a decreasing default rate. Though some direct loan programs have experienced an increase in the default rate in the last few years, the overall default rate for direct loan programs, which was as high as 20 percent in 1996, has been reduced to 11 percent as of October 2001. In 2001, FSA provided loans and loan guarantees to over 29,000 family farmers totaling $3.2 billion. The number of loans provided by these programs have fluctuated over the past several years. The average size for farm loans has been increasing. The majority of assistance provided in the operating loan program is to existing FSA farm borrowers. In the farm ownership program, new customers receive the bulk of the benefits furnished.

In the last few year, the demand for FSA direct and guaranteed loans have been high due to crop/livestock price decreases and some regional production problems. In 2003, USDA's FSA proposes to make $3.8 billion in direct and guaranteed loans through discretionary programs and $3.6 billion in guaranteed loans through mandatory programs.

The Farm Credit System and Farmer Mac

The Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (Farmer Mac) are Government-sponsored Enterprises (GSEs) that enhance credit availability for the agricultural sector. The FCS provides production, equipment, and mortgage lending to farmers and ranchers, aquatic producers, their cooperatives, and related businesses, while Farmer Mac provides a secondary market for agricultural real estate and rural housing mortgages. Both GSEs face a business risk because their borrowers are generally dependent on a single economic sector, agriculture. The downturn in the agricultural sector in the 1980s caused severe financial difficulties within the FCS. Legislation in 1987 provided temporary Federal assistance to 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 significant Government emergency assistance payments from 1998 through 2001. The current economic downturn may not have a significant effect on the agricultural economy because the farm economic cycle doesn't quite coincide with the general economic cycle. Commodity prices remained low in 2001, 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 (up 4.6 percent) due to a combination of government payments and urban influences. However, such aggregate facts may mask the problems of certain sectors within the farm economy.

From 1986 to 2000, commercial banks' share of all farm debt increased from 26.5 percent to 41.6 percent, while the share for the FCS declined from 29.2 percent to 26.4 percent. The United States Department of Agriculture (USDA) direct farm loan programs went from a market share of 15.4 percent to 4.0 percent, though that percentage would more than double if adjusted for its guaranteed loans issued through private institutional lenders. USDA expects that both commercial banks and the FCS have maintained their market share in 2001.

The Farm Credit System

The financial condition of the Farm Credit System banks and associations during 2001 continued a 13-year trend of improving financial health and performance. Non-performing assets were 1.22 percent of the portfolio in September 2001, unchanged from December 2000, and down from 1.62 percent in 1999. Loan volume has increased since 1995 to $80.1 billion in September 2001, which is close to the high of $81.9 billion in the early 1980s. Competitive pressures have narrowed the FCS's net interest margin from 3.03 percent in 1995 to 2.79 percent in 2000. The net interest margin has remained relatively stable about at the 2000 level in 2001. However, the net interest margin is expected to increase in the near-term, given that the Federal Reserve has significantly lowered short-term interest rates.

Improved asset quality and income enabled FCS to post record capital levels: on September 30, 2001, capital stood at $15.7 billion—an increase of 9.2 percent for the year. Not included in this capital are investments set aside to repay the remaining amount ($1.3 billion) of Federal assistance provided through the Farm Credit System Financial Assistance Corporation. The System has adopted an annual repayment mechanism requiring FCS institutions to pre-fund its interest and principal repayment obligations for the Federal assistance. 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 nine banks and 232 associations; by October 2001, the numbers reduced to seven banks and 115 associations. From October 2000 to October 2001, the number of associations fell by 43 because of mergers and acquisitions.

The 1987 legislation established the Farm Credit System Insurance Corporation to insure timely payment of interest and principal on FCS obligations. The Insurance Fund's 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, 2001, the Insurance Fund's net assets were $1.5 billion, and were slightly below the statutory minimum of two percent of outstanding debt. The Insurance Corporation will resume premium collection from System institutions in 2002 to ensure that the Insurance Fund grows in concert with the growth in the System's outstanding debt caused by continued growth in its loan portfolio.

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. Each of the System institutions are rated under the FCA Financial Institution Rating System 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, one institution was rated 4, and no institutions received the lowest rating of 5. In September 2001, in contrast, 121 institutions were given the top ratings, only one small association was rated 3, and none were rated 4 or 5. As of September 30, 2001, there were no FCS institutions under an enforcement action.

The System had $80.1 billion in gross loans outstanding as of September 30, 2001. Total loans outstanding have grown by $7.1 billion, or 9.8 percent, over the year ended September 30, 2001, and by $19.2 billion, or 31.5 percent, over the past five years. The volume of lending secured by farmland has increased 34.2 percent, while farm-operating loans have increased 40.8 percent since 1996. Total members served increased about 3 percent during the past year.

Agricultural producers represented by far the largest borrower group, with $61.1 billion including loans to rural homeowners and leases, or more than three-quarters of the total dollar amount of loans outstanding. As required by law, all borrowers are also stockholder-owners of System institutions. The System has more than 430,000 stockholders; about 84 percent of these are farmers with voting stock. About half of the System's total loan volume outstanding (49.6 percent) is in long-term real estate loans, one-quarter (26.7 percent) in short- and intermediate-term loans to agricultural producers, and 20.4 percent to cooperatives. International loans (export financing) represent 3.3 percent of the System's loan portfolio. Rural home loans make up about 2.5 percent of total loans (included in long-term real estate loans). Loans to finance rural utilities (included in cooperative loans) comprise more than $6.5 billion, or 8.1 percent of overall loan volume; this segment has roughly doubled over the past five years. Lease receivables (included in both the long-term real estate loans and the short- and intermediate-term loan categories) account for about 3.6 percent of the overall System portfolio.

The USDA expects 2001 net farm income to be $49.4 billion, up 4.3 billion, or 6.5 percent, from 2000. These strong expected earnings generally have relied heavily on government assistance payments in recent years. Federal payments averaging over $20 billion from 1999 to 2001 (totaling over $90 billion from 1996 to 2001) to farmers and ranchers compensated for depressed commodity prices and declining exports. The System, while continuing to record strong earnings and capital growth, remains exposed to numerous risks, including concentration risk, changes in government assistance payments, the volatility of exports and crop prices, and lower non-farm earnings of farm households associated with weakness in the general economy.

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 Agricultural Credit Act of 1987, there have been several amendments to Farmer Mac's chartering statute. Perhaps the most significant amending legislation for Farmer Mac was the Farm Credit System Reform Act of 1996 that transformed Farmer Mac from a guarantor of securities backed by loan pools into a direct purchaser of mortgages, enabling it to form pools to securitize. The 1996 Act increased Farmer Mac's ability to achieve its statutory mission. Since the passage of the 1996 Act, loan purchases and guarantees have steadily increased, indicating positive progress in the development of a viable secondary market for agricultural mortgages.

Farmer Mac continues to meet statutory minimum core capital requirements. Additionally, the FCA implemented in 2001 a risk-based capital regulation that determines the minimum level of regulatory capital necessary to enable Farmer Mac to maintain positive capital during the most stressful credit and interest rate risk conditions.

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 that 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, GSM programs 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 an IMF loan to the country. 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 is an important tool in U.S. bilateral assistance to promote sustainable development. In 2002, all of USAID's credit programs were consolidated to create the unified Development Credit Authority. Development Credit Authority (DCA) is a legislative authority allowing the use of credit by USAID to support its development activities abroad. This unit encompasses DCA activities as well as USAID's traditional microenterprise and urban environmental credit programs. 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 subnational capital markets in the developing world. The demand for DCA's facilities is prevalent in these emerging economies, but the utilization rate for these facilities is still very low. In 2003, DCA will be working towards strengthening their institutional capacity to conduct project oversight, risk analysis, and credit budgeting.

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 ICRAS default estimates. The methodology establishes assumptions about default risks in international lending using averages of international bond market data. The strength of this method is its link to the market.

For 2003, OMB has updated the methodology using more sophisticated financial analyses and comprehensive market data. In particular, the new method better isolates the expected cost of default implicit in interest rates charged by private investors to sovereign borrowers. All else equal, this change will expand the level of international lending an agency can support with a given appropriation. For example, the Export-Import Bank will be able to generally provide higher lending levels using lower appropriations in 2003.

Adapting to Changing Market Conditions

Overall, officially supported finance and transfers account for a tiny fraction of international capital flows. Furthermore, the private sector is continuously adapting its size and role in emerging markets finance to changing market conditions. In response, the Administration is working to adapt international lending at Export-Import Bank and OPIC to dynamic private sector finance. The Export-Import Bank for example is developing a sharper focus on lending that would otherwise not occur without Federal assistance. Measures under development include reducing risks, collecting fees from program users, and improving the focus on exporters who truly cannot access private export finance.

OPIC in the past has focused too narrowly on providing financing and insurance services to large U.S. companies investing abroad. As a result, OPIC did not pay adequate attention to its mission of promoting development through mobilizing private capital. OPIC is developing and will implement policy changes that reflect the Administration's mandate to return to its development mission.

These changes at the Export-Import Bank and at OPIC will place more emphasis on correcting market imperfections as the private sector's ability to bear emerging market risks becomes larger, more sophisticated, and more efficient.

The Budget requests a lower level for the Export-Import Bank than in prior years, but this level supports a projected increase over the Bank's level of lending in 2002. The Budget also restores OPIC credit subsidy for 2003.

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 a combined $3.2 trillion of deposits at almost 8,200 commercial banks and over 1,500 savings institutions. The NCUA insures 10,145 credit unions with $387 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.

Despite the sluggish economic growth in the past year, depository institutions and their Federal insurance funds are in good financial condition overall. One thrift failed in 2001, becoming only the fourth SAIF-member to fail since 1996, but it was the largest failure of an FDIC-insured institution since June 1993. Three BIF members failed during 2001. Since 1997, assets associated with BIF failures have averaged $100 million per year. During 2001, 25 Federally insured credit unions with $22 million in assets failed (including assisted mergers). The FDIC currently classifies 94 institutions with $18 billion in assets as "problem institutions," compared to 90 institutions with $19 billion in assets a year ago.

Bank earnings declined, but remained strong in 2001. The industry net income totaled $17.4 billion in the third quarter of 2001, a decline of 9.9 percent from the third quarter of 2000. The largest factor in the earnings decline was a $4.8 billion (71.7 percent) increase in provisions for loan losses. Thrift earnings, on the other hand, continued to increase in 2001. Net income during fiscal year 2001 was $800 million higher than a year ago. These favorable conditions, however, may not last indefinitely. Many economic and institutional developments indicate that the industry currently faces numerous challenges. The current economic slowdown could put pressure on industry profits and, ultimately, on the deposit insurance funds.

For both BIF and SAIF, the reserve ratio (ratio of insurance reserves to insured deposits) declined in 2001, but remained comfortably higher than the 1.25-percent statutory target. As of September 30, 2001, BIF had estimated reserves of $32 billion, or 1.32 percent of insured deposits. During the same period, SAIF had reserves of $10.8 billion, or 1.39 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 assessable deposits for the riskiest institutions. Due to the strong financial condition of the industry and the insurance funds, 92 percent of commercial banks and 90 percent of thrifts did not pay insurance premiums in 2001.

The National Credit Union Share Insurance Fund (NCUSIF) also remains strong with assets of $4.9 billion. Each insured credit union is required to deposit and maintain an amount equal to 1 percent of its member share accounts in the fund. Premiums were waved during 2001 because sufficient investment income was generated. After the end of the fiscal year, the NCUA Board approved a dividend to reduce the Fund's equity ratio to 1.30 percent. This was the sixth consecutive year that the Fund paid a dividend to federally insured credit unions.

As a result of consolidation, a few large banks control a substantial share of banking assets. Thus, the failure of even one of these large institutions could strain the insurance fund. Banks are increasingly using sophisticated financial instruments such as asset-backed securities and financial derivatives, which could have unforeseen effects on risk levels. Whether or not these new instruments add to risk, they do complicate the work of regulators who must gauge each institution's financial health and the potential for deposit insurance losses that a troubled institution may represent.

The Gramm-Leach-Bliley Act of 1999 allows new affiliations in the financial sector, enabling banks, security firms and insurance companies to be commonly owned. Over time, such expanded affiliations may make depository institutions safer by improving asset diversification. A recent development related to inter-industry mergers is that securities firms are indirectly offering insured accounts to their customers through their banking affiliates. Regulators will need to pay attention to this development because these account conversions increase insured deposits. For instance, since the end of March 2000, these types of conversions have added an estimated $73.3 billion to BIF-insured deposits and $4.4 billion to SAIF-insured deposits, accounting for almost 30 percent of the growth in all insured deposits.

On-going Issues

While the deposit insurance system is in good condition, the Administration is developing proposals to strengthen the system further. The FDIC has been prohibited from charging premiums to "well capitalized" institutions since 1996. Therefore, under the current pricing structure, only eight percent of banks and 10 percent of thrifts pay regular insurance premiums. A stronger system might require all institutions pay at least a nominal amount for federal deposit insurance and would assess new deposits.

Under the current system, the FDIC is required to maintain a designated reserve ratio (DRR, the ratio of insurance fund reserves to total insured deposits) of 1.25 percent. If the DRR falls below 1.25 percent and cannot be restored to 1.25 percent within a year, all institutions could be required to pay premiums averaging 23 basis points. This current structure requires institutions to face a cliff of high premium payments when they are weakest. Again, a stronger system might replace the current fixed reserve ratio with a flexible range. Merging the funds would also make them stronger and better diversified than either fund standing alone. Additionally, given that many institutions currently hold both bank- and thrift-insured deposits, merging the funds would eliminate the need to track bank and thrift deposits separately and would help streamline mergers and acquisitions. The Administration, however, is not considering any proposals to raise the current deposit limit above $100,000.

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, which include both retired workers (inactive members) and active workers, has increased slightly since 1980. However, the number of active workers in defined-benefit plans declined from 27 million in 1988 to an estimated 22 million in 1999, a decrease of 18 percent. If the trend continues, by 2003 the number of inactive participants will exceed the number of active workers.

The financial position of the PBGC, while still strong, weakened in 2001 for the first time in eight years, largely due to losses from plan terminations and equity investments. Risk remains because of economic uncertainties. 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 experienced its largest loss in fifteen years, reflecting losses on equity investments, termination of Northwestern Steel and Wire's plans, and new probable terminations. Other large terminations during the year, booked previously, included some of the largest plans that PBGC has trusteed: TWA, Grand Union, Bradlees, and Laclede Steel. (In early 2002, Outboard Marine, also booked previously, terminated its plans.) In 2001, overall investment returns in the single-employer program were slightly negative, with negative returns in its trust funds, which hold mostly equities, and positive returns in PBGC's revolving funds, which are invested in U.S. Government securities. Premium revenues increased slightly. PBGC's multi-employer program, which guarantees pension benefits of certain unionized plans offered by several employers in an industry, remained financially strong, but experienced a loss for the year attributable to future financial assistance.

PBGC continues to speed up issuance of benefit determinations so that when a participant retires, PBGC can put him or her into pay status with a final rather than estimated benefit amount, thereby providing the participant certainty and avoiding the processing complexities and costs associated with benefit adjustments. The average calculation time for benefit determinations issued in 2001 was 3.6 years, down from 4.9 years in 2000. Improved automated benefit calculation programs are reducing the cost of putting participants into pay status and helping to speed the process. This automation will help PBGC administer benefits for the 89,000 participants taken in trusteeship in 2001, the largest increase in new participants in PBGC's history. PBGC is working to send first benefit checks more speedily. In 2001, 94 percent of pensioners got their first benefit checks within three months of completing their applications. PBGC also has established a pilot project that enables participants in certain plans to estimate their benefits online at PBGC's website.

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 flood plain management measures. Coverage is limited to buildings and their contents. By 2003, the program is projected to have approximately 4.6 million policies from more than 19,000 communities with $656 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 2001, and by about 78,000 policies in 2001. FEMA is using three strategies to increase the number of flood insurance policies in force: lender compliance, program simplification, and expanded marketing. FEMA is educating financial regulators about the mandatory flood insurance requirement for properties with mortgages from federally regulated lenders. The NFIP also has a multi-pronged strategy for reducing future flood damage. The NFIP offers mitigation insurance to allow flood victims to rebuild to code, thereby reducing future flood damage costs. Further, 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 mostly because a large portion of the policyholders pay subsidized premiums. FEMA charges subsidized premiums for properties built before a community adopts the NFIP building standards. Properties built subsequently are charged actuarially fair 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, but remains substantial; it was 70 percent in 1978 and is 29 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 relied on Treasury borrowing to help finance its loss expenses (the NFIP may borrow up to $1.5 billion). By February 2001, FEMA had repaid all of its accumulated debt to Treasury, but as of the end of 2001, outstanding borrowing stood at $600 million mainly due to Tropical Storm Allison.

The 2003 Budget proposes several reforms to the program intended to improve its financial condition and to increase individual accountability for building in flood prone areas. Reforms include phasing out premium subsidies for vacation properties, including erosion as a risk factor in determining flood premiums, ending state taxation of flood insurance, and requiring that properties with Federally backed mortgages be insured to value.

Crop Insurance

Subsidized Federal crop insurance administered by USDA's Risk Management Agency (RMA) 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. 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. In crop year 2001, 207.6 million acres were insured, with an estimated $2,884 million in total premium income, including $1,723 million in premium subsidy.

The dollar volume of total gains for the insurance companies went from $201 million to $378 million (a 88 percent increase) between 1999 and 2001. While the companies should have an incentive to participate in the crop insurance program, there should be some constraints on windfall profits. With that in mind, the 2003 Budget includes a legislative proposal that would cap the underwriting gains to 12.5 percent of each company's premiums for the year. This is expected to save $115 million in 2003.

There are various types of insurance programs. The most basic type of coverage is Catastrophic Crop Insurance (CAT), which compensates the farmer for losses up to 50 percent of the individual's average yield at 55 percent of the expected market price. The CAT premium is entirely subsidized, and farmers pay only a small administrative fee. Commercial insurance companies deliver the product to the producer in all states. Additional coverage is available to producers who wish to insure crops above the basic coverage. Premium rates for additional coverage depend on the level of coverage selected and vary from crop to crop and county to county. The additional levels of insurance coverage are more attractive to farmers due to availability of optional units, other policy provisions not available with CAT coverage, and the ability to obtain a level of protection that permits them to use crop insurance as loan collateral and to achieve greater financial security. 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. Approximately 73 percent of eligible acres participated in one or more crop insurance programs in 2001.

Revenue insurance programs protect against loss of revenue stemming from low prices, poor yields, or a combination of both. The plans available are Revenue Coverage (CRC), Revenue Assurance (RA), and the Income Protection (IP) plan. These three plans have many similar features and some very distinctive features. All provide a guaranteed revenue by combining coverage on both yield and price variability. CRC and RA also provide protection against crop price changes. Indemnities are due when any combination of yield and price result in revenue that is less than the revenue guarantee. Revenue protection for all products is provided by extending traditional multi-peril crop insurance protection, based on actual production history, to include price variability. The price component common to CRC, RA, and IP uses the commodity futures market for price discovery. These programs all seek to help ensure a certain level of annual income and are offered through private insurance companies. For 1999, a Group Risk Income Protection plan was developed by the private sector to provide protection against decline in county revenue, based on futures market prices and NASS county average yields, as adjusted by FCIC. FCIC is also piloting an Adjusted Gross Revenue (AGR) program, which is designed to insure a portion of producers' gross revenue based on their Schedule F Farm and Income Tax reports.

USDA continues to expand revenue coverage. RMA plans to roll out Round IV of the Dairy Options Pilot Program (DOPP) during 2002, which includes reaching producers in a total of 300 counties in 40 states. RMA's partners in the program are registered commodities brokers who are authorized by the Commodity Futures Trading Commission to buy put options on behalf of DOPP participants on the Chicago Mercantile Exchange. In September 2001, RMA published an interim rule that allows RMA to reimburse developers of private crop insurance products for their research and development costs and maintenance costs. In November 2001, two livestock pilot programs were approved—the Livestock Gross Margin and Livestock Risk Protection. The pilot livestock programs will cover swine in the State of Iowa and will be made available beginning in 2002.

Chart 9-1. Face Value of Federal Credit Outstanding

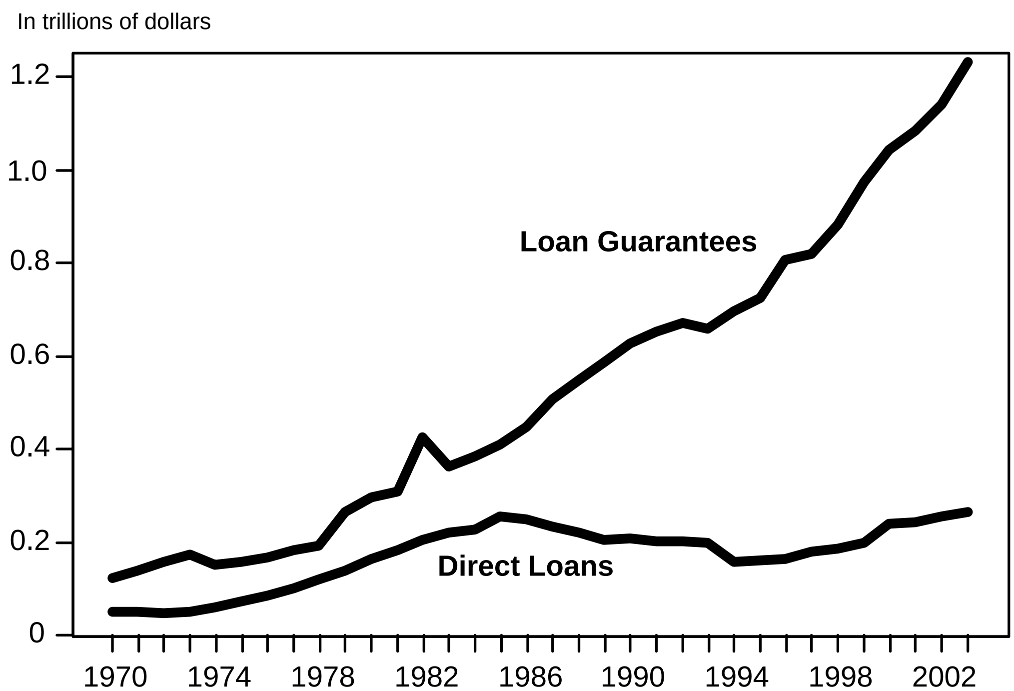

Table 9–1. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS

(In billions of dollars)

Program	Outstanding 2000	Estimated Future Costs of 2000 Outstanding [1]	Outstanding 2001	Estimated Future Costs of 2001 Outstanding [1]
Direct Loans:[2]				
Federal student loan programs	80	10	90	11
Farm Service Agency (excl. CCC), Rural development, Rural housing	46	11	46	10
Rural Utilities Service and Rural telephone bank	33	2	31	2
Housing and Urban Development	13	2	12	2
Agency for International Development	11	5	10	4
P. L. 480	11	8	11	2
Export-Import Bank	11	5	12	4
Commodity Credit Corporation	8	5	7	3
Federal Communications Commission spectrum auction	8	–1	6	....
Disaster assistance	6	1	4	....
Other direct loan programs	13	3	13	....
Total Direct Loans	241	50	242	38
Guaranteed Loans:[2]				
FHA-mutual mortgage insurance	450	–1	459	1
Veterans housing	224	5	237	5
Federal family education loan	144	12	159	14
FHA-general and special risk	99	8	99	8
Small business	34	2	37	3
Export-Import Bank	30	5	31	4
International assistance	19	1	19	2
Farm Service Agency and Rural housing	20	....	22	....
Commodity Credit Corporation	6	1	5	....
Other guaranteed loan programs	16	3	16	2
Total Guaranteed Loans	1,043	37	1,084	39
Total Federal Credit	**1,284**	**75**	**1,326**	**77**

[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 9–2. FACE VALUE OF GOVERNMENT-SPONSORED ENTERPRISE LENDING[1]

(In billions of dollars)

	Outstanding	
	2000	2001
Government Sponsored Enterprises:		
Fannie Mae	1,231	1,460
Freddie Mac	913	1,101
Federal Home Loan Banks[2]	433	477
Sallie Mae[3]	....	....
Farm Credit System	68	75
Total	**2,645**	**3,113**

[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 2001 was $194 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 9-1.

Table 9–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2001 [1]

(Budget authority and outlays, in millions of dollars)

Program	1994	1995	1996	1997	1998	1999	2000	2001	2002
Direct Loans:									
Agriculture:									
Agriculture credit insurance fund	–72	28	2	–31	23		331	–656	921
Farm storage facility loans									–2
Apple loans									–1
Agricultural conservation	–1								
Rural electrification and telecommunications loans	*	61	–37	84		–39		–17	
Rural telephone bank	1			10		–9		–1	
Rural housing insurance fund	2	152	46	–73		71		19	
Rural economic development loans				1		–1	*		
Rural development loan program		1				–6			
Rural community advancement program [2]				8		5		37	
P.L. 480			–37	–1				–23	110
P.L. 480 title I food for progress credits									28
Commerce:									
Fisheries finance								–19	–1
Education:									
Federal direct student loans: [3]									
Technical reestimate			3	–83	172	–383	–2,158	560	
Volume reestimate						22		–6	
College housing and academic facilities loans								–1	*
Interior:									
Bureau of Reclamation loans							3	3	–7
Bureau of Indian Affairs direct loans						1	5	–1	2
Transportation:									
High priority corridor loans					–3				
Alameda corridor loan							–58		–50
Transportation infrastructure finance and innovation								18	
Treasury:									
Community development financial institutions fund							1		1
Veterans Affairs:									
Veterans housing benefit program fund	–39	30	76	–72	465	–111	–52	–107	–697
Native American veteran housing									–2
Environmental Protection Agency:									
Abatement, control and compliance								3	–1
Federal Emergency Management Agency:									
Disaster assistance							47	36	
General Services Administration:									
Columbia hospital for women									–6
International Assistance Programs:									
Foreign military financing				13	4	1	152	–166	119
U.S. Agency for International Development:									
Micro and small enterprise development									*
Overseas Private Investment Corporation:									
OPIC direct loans									–9
Debt reduction							36	–4	
Small Business Administration:									
Business loans								1	–2
Disaster loans					–193	246	–398	–282	347
Other Independent Agencies:									
Export-Import Bank direct loans	–28	–16	37				–177	157	117
Federal Communications Commission spectrum auction					4,592	980	–1,501	–804	92
Loan Guarantees:									
Agriculture:									
Agriculture credit insurance fund	5	14	12	–51	96		–31	205	46
Agriculture resource conservation demonstration project								2	2
Commodity Credit Corporation export guarantees	3	103	–426	343				–1,410	2
Rural development insurance fund	49			–3					
Rural housing insurance fund	2	10	7	–10		109		152	
Rural community advancement program [2]				–10		41		63	
P.L. 480 title I food for progress credits		84	–38						
Commerce:									
Fisheries finance					–2			–3	–1

Table 9–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2001[1]—Continued

(Budget authority and outlays, in millions of dollars)

Program	1994	1995	1996	1997	1998	1999	2000	2001	2002
Education:									
Federal family education loan:[3]									
Technical reestimate	97	421	60	....	....	–140	667	–3,484	....
Volume reestimate	....	....	535	99	....	–13	–60	–42	....
Health and Human Services:									
Heath center loan guarantees	....	....	....	....	....	....	3	....	*
Health education assistance loans	....	....	....	....	....	....	....	....	....
Housing and Urban Development:									
Indian housing loan guarantee	....	....	....	....	....	....	....	–6	*
FHA-mutual mortgage insurance	....	....	....	–340	....	3,789	....	2,413	–1,386
FHA-general and special risk[4]	–175	....	–110	–25	743	79	....	–217	–403
Interior:									
Bureau of Indian Affairs guaranteed loans	....	....	....	31	....	....	....	–14	–1
Transportation:									
Maritime guaranteed loans (title XI)	....	....	....	....	....	–71	30	–15	184
Veterans Affairs:									
Veterans housing benefit fund program	–447	167	334	–706	38	492	229	–770	–163
International Assistance Programs:									
U.S. Agency for International Development:									
Housing guaranty	–2	–1	–7	....	–14	....	....	....	....
Development credit authority	....	....	....	....	....	....	....	....	–1
Micro and small enterprise development	....	....	....	....	....	....	....	....	–1
Urban and environmental credit	....	....	....	....	....	....	....	....	–13
Assistance to the new independent states of the former Soviet Union	....	....	....	....	....	....	....	....	–25
Overseas Private Investment Corporation:									
OPIC guaranteed loans	....	....	....	....	....	....	....	....	46
Small Business Administration:									
Business loans	....	....	257	–16	–279	–545	–235	–528	–183
Other Independent Agencies:									
Export-Import Bank guarantees	–11	–59	13	....	....	....	–191	–1,520	–417
Total	**–616**	**995**	**727**	**–832**	**5,642**	**4,518**	**–3,641**	**–6,427**	**–1,355**

* $500 thousand or less.
[1] Excludes interest on reestimates. Additional information on credit reform subsidy rates is contained in the Federal Credit Supplement.
[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 9–4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2001-2003

(dollar amounts in millions)

Agency and Program	2001 Actual			2002 Enacted			2003 Proposed		
	Subsidy rate [1]	Subsidy budget authority	New loan levels	Subsidy rate [1]	Subsidy budget authority	New loan levels	Subsidy rate [1]	Subsidy budget authority	New loan levels
Agriculture:									
Agricultural credit insurance fund	15.36	164	1,068	6.78	60	885	14.09	113	802
Farm storage facility loans	2.18	2	86	2.42	3	125	1.28	2	125
Apple loans	–4.80	–1	12	....	....	....	....	....	....
Emergency boll weevil loan	60.00	6	10	....	....	....	....	....	....
Rural community advancement program	12.64	155	1,226	6.56	74	1,128	10.15	108	1,064
Rural electrification and telecommunications loans	–0.52	–16	3,051	–0.54	–24	4,466	–0.66	–20	3,016
Rural telephone bank	1.48	3	175	2.14	4	175	....	....	....
Distance learning and telemedicine program	–0.75	–3	400	....	....	380	2.31	3	130
Farm labor	52.59	15	28	47.31	13	28	49.02	18	36
Rural housing insurance fund	19.35	239	1,235	16.11	201	1,248	20.86	224	1,074
Rural development loan fund	50.91	19	38	43.21	16	38	48.26	19	40
Rural economic development loans	26.07	4	15	24.16	4	15	21.36	3	15
Public law 480 title I	71.51	114	159	81.73	127	155	75.11	99	132
Commerce:									
Fisheries finance	....	....	74	–12.50	–3	24	–12.50	–3	24
Defense—Military:									
Family housing improvement fund	38.18	42	110	66.19	24	36	45.10	....	....
Education:									
Federal direct student loan program	–4.47	–891	19,914	–4.02	–855	21,266	–3.50	–648	18,843
Housing and Urban Development:									
FHA-mutual mortgage insurance	....	....	1	....	....	250	....	....	50
FHA-general and special risk	....	....	50	....	....	50	....	....	50
Interior:									
Bureau of Reclamation loan	33.33	9	27	26.92	7	26	....	....	....
Assistance to territories	15.58	3	19	....	....	....	....	....	....
State:									
Repatriation loans	80.00	1	1	80.00	1	1	80.00	1	1
Transportation:									
Federal-aid highways	10.99	96	874	5.36	118	2,200	4.42	89	2,014
Railroad rehabilitation and improvement program	....	....	....	....	....	150	....	....	100
Treasury:									
Community development financial institutions fund	41.67	5	12	36.36	4	11	36.94	4	11
Veterans Affairs:									
Veterans housing benefit program fund	2.16	32	1,463	0.86	16	1,809	–5.09	–98	1,917
Miscellaneous veterans housing loans	7.72	....	1	7.72	....	....	43.48	10	23
Miscellaneous veterans programs loan fund	1.88	....	2	2.18	....	3	1.50	....	3
Federal Emergency Management Agency:									
Disaster assistance direct loan	8.00	2	25	91.92	....	25	–4.00	–1	25
International Assistance:									
Debt restructuring	....	88	....	....	5	....	....	....	....
Overseas Private Investment Corporation	7.11	15	204	11.00	....	....	11.00	11	100
Small Business Administration:									
Disaster loans	17.47	153	876	17.67	162	917	13.94	76	545
Business loan	8.95	3	30	6.78	2	26	13.05	3	27
Other Independent Agencies:									
Export-Import Bank loans	10.91	95	871	21.74	35	161	17.32	31	179
Total	**N/A**	**354**	**32,057**	**N/A**	**–6**	**35,598**	**N/A**	**44**	**30,346**

[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.
N/A = Not applicable.

Table 9–5. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2001-2003

(dollar amounts in millions)

Agency and Program	2001 Actual			2002 Enacted			2003 Proposed		
	Subsidy rate [1]	Subsidy budget authority	New loan levels	Subsidy rate [1]	Subsidy budget authority	New loan levels	Subsidy rate [1]	Subsidy budget authority	New loan levels
Agriculture:									
Agricultural credit insurance fund	4.41	102	2,314	3.98	128	3,220	3.23	97	3,000
Commodity Credit Corporation export loans	6.01	194	3,227	6.80	267	3,926	6.96	294	4,225
Rural community advancement program	0.67	18	2,668	2.46	25	1,018	2.65	27	1,018
Rural electrification and telecommunications loans	0.01	....	59	0.08	....	100	0.08	....	100
Local television loan guarantee	....	....	....	7.75	20	258	....	....	....
Rural housing insurance fund	0.28	9	3,236	1.36	44	3,238	0.84	24	2,850
Commerce:									
Emergency oil and gas guaranteed loan	32.91	1	3	42.03	....	....	....	....	....
Emergency steel guaranteed loan	11.68	13	110	14.00	31	221	....	....	....
Defense—Military:									
Family housing improvement fund	6.25	3	48	6.25	12	221	5.66	....	....
Education:									
Federal family education loan	8.84	3,069	34,705	9.76	3,782	38,750	10.37	4,101	39,559
Health and Human Services:									
Health resources and services	3.01	....	7	4.76	1	21	5.88	1	17
Housing and Urban Development:									
Indian housing loan guarantee fund	8.13	1	12	2.47	6	234	2.43	5	194
Native Hawaiian housing loan guarantee fund	....	....	....	2.47	1	40	2.43	1	40
Native American housing block grant	11.07	1	9	11.07	6	53	11.07	2	17
Community development loan guarantees	2.30	29	1,258	2.30	14	609	2.30	6	275
FHA-mutual mortgage insurance	–2.15	–2,246	160,000	–2.07	–2,791	160,000	–2.53	–2,938	160,000
FHA-general and special risk	–0.14	36	21,000	–1.46	–242	21,000	–0.85	–158	21,000
Interior:									
Indian guaranteed loan	6.73	4	60	6.00	4	75	6.91	5	72
Transportation:									
Minority business resource center program	2.69	2	14	2.70	1	18	2.69	1	18
Federal-aid highways	....	....	....	3.97	8	200	4.35	5	100
Maritime guaranteed loan (title XI)	4.66	34	729	5.00	33	660	....	....	....
Treasury:									
Air transportation stabilization	....	....	....	28.52	1,426	5,000	29.26	1,463	5,000
Veterans Affairs:									
Veterans housing benefit program fund	0.41	132	31,948	0.56	187	33,286	1.27	437	34,364
Miscellaneous veterans housing loans	48.25	....	....	48.25	....	....	....	....	....
International Assistance:									
Microenterprise and small enterprise development	5.51	2	36	3.93	....	....	....	....	....
Development credit authority	2.72	1	35	6.42	13	202	6.44	....	....
Overseas Private Investment Corporation	1.37	14	1,024	1.65	....	....	1.70	13	765
Small Business Administration:									
Business loan	0.96	135	13,990	0.68	153	22,458	0.52	85	16,350
Other Independent Agencies:									
Export-Import Bank loans	8.81	737	8,370	9.68	991	10,239	5.52	625	11,321
Presidio Trust	0.46	....	....	0.12	....	200	0.13	....	....
Total	**N/A**	**2,291**	**284,862**	**N/A**	**4,120**	**305,247**	**N/A**	**4,096**	**300,285**
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS									
GNMA:									
Guarantees of mortgage-backed securities loan guarantee	–0.36	–356	200,000	–0.33	–398	200,000	–0.33	–398	200,000

[1] Additional information on credit subsidy rates is contained in the Federal Credit Supplement.
N/A = Not applicable.

Table 9–6. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES

(In billions of dollars)

	Actual							Estimate	
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Direct Loans:									
Obligations	30.9	23.4	33.6	28.8	38.4	37.1	39.1	47.3	39.9
Disbursements	22.0	23.6	32.2	28.7	37.7	35.5	37.1	43.3	37.3
New subsidy budget authority	....	....	....	–0.8	1.6	–0.4	0.3	....	....
Reestimated subsidy budget authority [1]	....	....	....	7.3	1.0	–4.4	–1.8	1.2	....
Total subsidy budget authority [2]	2.6	1.8	2.4	6.5	2.6	–4.8	–1.5	1.2	....
Loan Guarantees: [3]									
Commitments	138.5	175.4	172.3	218.4	252.4	192.6	256.4	293.5	282.8
Lender disbursements	117.9	143.9	144.7	199.5	224.7	180.8	212.9	253.6	247.5
New subsidy budget authority	....	....	....	3.3	....	3.3	1.9	3.7	3.7
Reestimated subsidy budget authority [1]	....	....	....	–0.7	4.3	0.3	–7.1	–3.0	....
Total subsidy budget authority [2]	4.6	4.0	3.6	2.6	4.3	3.6	–5.2	0.7	3.7

[1] Includes interest on reestimate.
[2] Prior to 1998 new and reestimated subsidy budget authority were not reported separately.
[3] GNMA secondary guarantees of loans that are guaranteed by FHA, VA and RHS are excluded from the totals to avoid double-counting.

Table 9–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS

Agency and Program	(Dollar amounts in millions)			As a percentage of outstanding loans [1]		
	2001 actual	2002 estimate	2003 estimate	2001 actual	2002 estimate	2003 estimate
DIRECT LOAN WRITEOFFS						
Agriculture:						
Agricultural credit insurance fund	176	247	242	1.98	2.87	2.97
Rural community advancement program	1	....	....	0.01	....	....
Rural electrification and telecommunications loans	2,953	142	130	9.69	0.46	0.41
Rural development insurance fund	1	1	1	0.03	0.03	0.03
Rural housing insurance fund	214	139	134	0.76	0.50	0.48
Rural development loan fund	1	....	....	0.27	....	....
Commerce:						
Economic development revolving fund	1	1	1	2.85	3.22	3.70
Education:						
Student financial assistance	9	9	9	1.47	1.49	1.53
Housing and Urban Development:						
Revolving fund (liquidating programs)	47	2	2	58.75	11.76	14.28
FHA—Mutual mortgage insurance	....	1	9	....	3.70	19.14
Flexible subsidy fund	71	71	71	10.51	11.52	12.97
Guarantees of mortgage-backed securities	4	27	25	3.66	27.00	30.48
Interior:						
Indian direct loan	2	2	2	3.22	3.70	4.25
State:						
Repatriation loans	1	1	1	25.00	25.00	25.00
Veterans Affairs:						
Veterans housing benefit program	21	24	25	1.15	1.23	1.37
Federal Emergency Management Agency:						
Disaster assistance	....	29	....	....	18.01	....
International Assistance Programs:						
Military debt reduction	....	16	....	....	84.21	....
Overseas Private Investment Corporation	2	1	1	2.98	1.25	1.16
Small Business Administration:						
Disaster loans	350	40	41	7.42	1.19	1.69
Business loans	63	18	16	12.75	4.50	4.80
Other Independent Agencies:						
Spectrum auction program	2,231	....	....	32.40	....	....
Tennessee Valley Authority fund	1	....	1	1.92	....	1.72
Total, direct loan writeoffs	6,149	771	711	2.91	0.35	0.31
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural credit insurance fund	116	121	125	1.24	1.19	1.09
Commodity Credit Corporation export loans	52	334	325	0.91	6.90	6.88
Rural community advancement program	34	50	50	0.94	1.09	0.84
Rural electrification and telecommunications loans	24	23	21	4.32	3.95	3.25
Rural housing insurance fund	64	85	99	0.53	0.62	0.64
Commerce:						
Emergency oil and gas guaranteed loan program	....	2	....	....	66.66	....
Emergency steel guaranteed loan program	....	45	....	....	25.86	....
Fisheries finance	1	1	1	1.03	1.21	1.49
Education:						
Federal family education loan	3,503	3,677	4,209	2.29	2.23	2.43
Health and Human Services:						
Health education assistance loans	30	40	42	1.35	1.87	2.04
Housing and Urban Development:						
Indian housing loan guarantee	....	1	2	....	1.40	2.40
Title VI Indian Federal guarantees program	....	....	1	....	....	2.17
FHA—Mutual mortgage insurance	4,987	3,785	3,699	1.09	0.80	0.71
FHA—General and special risk	1,426	2,107	2,409	1.44	2.12	2.30
Interior:						
Indian guaranteed loan	....	2	1	....	0.92	0.41

Table 9–7. DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS—Continued

Agency and Program	(Dollar amounts in millions)			As a percentage of outstanding loans [1]		
	2001 actual	2002 estimate	2003 estimate	2001 actual	2002 estimate	2003 estimate
Transportation:						
Maritime guaranteed loan (title XI)	76	367	94	1.70	7.78	2.05
Treasury:						
Air transportation stabilization guaranteed loan	....	608	1,006	....	31.09	18.51
Veterans Affairs:						
Veterans housing benefit program	1,760	2,431	2,619	0.76	1.00	1.04
International Assistance Programs:						
Foreign military financing	....	2	5	....	0.04	0.13
Micro and small enterprise development	....	1	1	....	2.63	2.22
Urban and environmental credit program	44	44	47	2.00	2.14	2.41
Development credit authority	....	1	1	....	1.03	0.46
Overseas Private Investment Corporation	34	164	46	1.04	4.74	1.25
Small Business Administration:						
Business loans	661	682	695	1.87	1.79	1.72
Other Independent Agencies:						
Export-Import Bank	569	373	455	1.88	1.20	1.51
Total, guaranteed loan terminations for default	13,381	14,946	15,953	0.80	0.86	0.86
Total, direct loan writeoffs and guaranteed loan terminations	19,530	15,717	16,664	1.03	0.80	0.80
ADDENDUM: WRITEOFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Education:						
Federal family education loan	296	301	318	1.48	1.51	1.54
Health and Human Services:						
Health education assistance loans	24	24	24	4.31	4.33	4.41
Housing and Urban Development:						
FHA—Mutual mortgage insurance	39	18	....	50.00	100.00	....
FHA—General and special risk	477	95	388	18.60	3.32	11.84
Transportation:						
Federal ship financing fund	17	....	....	100.00	....	....
Veterans Affairs:						
Veterans housing benefit program	48	54	57	10.52	8.19	7.75
Small Business Administration:						
Business loans	188	80	85	14.00	5.55	5.16
Total, writeoffs of loans receivable	1,089	572	872	3.61	1.85	2.62

[1] Average of loans outstanding for the year.

Table 9–8. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]

(Dollar amounts in millions)

Agency and Program	Enacted		Proposed
	2001	2002	2003
DIRECT LOAN OBLIGATIONS			
Agriculture:			
Apple loans	12	....	....
Agricultural credit insurance fund	848	885	802
Emergency boll weevil	10	....	....
Distance learning and telemedicine	400	380	130
Rural electrification and telecommunications	3,051	4,466	3,016
Rural telephone bank	175	175	....
Rural water and waste disposal direct loans	767	879	814
Rural housing insurance fund	1,263	1,277	1,110
Rural community facility direct loans	409	249	250
Rural economic development	15	15	15
Rural development loan fund	38	38	40
Rural business and industry direct loans	50	....	....
P.L. 480 direct credit	160	155	132
Commerce:			
Fisheries finance	74	24	24
Education:			
Historically black college and university capital financing	311	295	254
Housing and Urban Development:			
FHA-general and special risk	50	50	50
FHA-mutual mortgage insurance	250	250	50
Interior:			
Bureau of Reclamation	27	26	....
Assistance to American Samoa	19	....	....
State:			
Repatriation loans	1	1	1
Transportation:			
Transportation infrastructure finance and innovation program direct loan	1,800	2,000	2,400
Transportation infrastructure finance and innovation program line of credit	200	200	100
Treasury:			
Community development financial institutions fund	12	11	11
Veterans Affairs:			
Miscellaneous veterans housing loans	....	....	5
Miscellaneous veterans programs loan fund	3	3	3
Federal Emergency Management Agency:			
Disaster assistance	25	25	25
Small Business Administration:			
Business loans	30	25	26
Total, limitations on direct loan obligations	10,000	11,429	9,258
LOAN GUARANTEE COMMITMENTS			
Agriculture:			
Agricultural credit insurance fund	2,053	3,006	3,000
Rural electrification and telecommunications guaranteed loans	59	100	100
Rural water and waste water disposal guaranteed loans	75	75	75
Local television loan guarantee	....	258	....
Rural housing insurance fund	3,236	3,238	2,850
Rural community facility guaranteed loans	210	210	210
Rural business and industry guaranteed loans	2,383	733	733
Defense—Military:			
Defense export loan guarantee	14,980	14,980	14,980
Housing and Urban Development:			
Indian housing loan guarantee fund	72	234	234
Title VI Indian Federal guarantees	53	53	17
Native Hawaiian housing loan guarantee fund	....	40	40
Community development loan guarantees	1,258	609	275
FHA-general and special risk	21,000	21,000	21,000
FHA-mutual mortgage insurance	160,000	160,000	160,000

Table 9–8. APPROPRIATIONS ACTS LIMITATIONS ON CREDIT LOAN LEVELS [1]—Continued

(Dollar amounts in millions)

Agency and Program	Enacted 2001	Enacted 2002	Proposed 2003
Interior:			
Indian guaranteed loan	60	75	72
Transportation:			
Minority business resource center	14	18	18
Transportation infrastructure finance and innovation program loan guarantee	200	200	100
Treasury:			
Air transportation stabilization	....	10,000	....
Small Business Administration:			
Business loans	13,990	22,458	16,350
Total, limitations on loan guarantee commitments	219,643	237,287	220,054
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 represent 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 9–4 and 9–5.

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–604	–638	–608
Outstandings	4,463	3,825	3,217
Farm storage facility direct loan financing account:			
Obligations	81	125	125
Loan disbursements	48	156	125
Change in outstandings	46	120	89
Outstandings	78	198	287
Apple loans direct loan financing account:			
Obligations	12	....	....
Loan disbursements	11	1	....
Change in outstandings	11	–3	–4
Outstandings	11	8	4
Agricultural credit insurance fund direct loan financing account:			
Obligations	1,066	1,003	902
Loan disbursements	1,072	1,011	917
Change in outstandings	404	296	8
Outstandings	4,313	4,609	4,617
Emergency boll weevil direct loan financing account:			
Obligations	10	....	....
Loan disbursements	10	....	....
Change in outstandings	10	–1	–1
Outstandings	10	9	8
Commodity Credit Corporation fund:			
Obligations	8,267	10,624	8,844
Loan disbursements	8,267	10,624	8,844
Change in outstandings	–1,188	689	–489
Outstandings	2,276	2,965	2,476
Rural Utilities Service			
Rural communication development fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	....
Outstandings	5	4	4
Distance learning and telemedicine direct loan financing account:			
Obligations	100	380	130
Loan disbursements	15	12	24
Change in outstandings	14	11	22
Outstandings	16	27	49
Rural development insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–201	–188	–177
Outstandings	3,068	2,880	2,703
Rural electrification and telecommunications direct loan financing account:			
Obligations	3,051	4,466	3,016
Loan disbursements	2,151	2,416	2,618
Change in outstandings	1,941	2,210	2,351
Outstandings	9,072	11,282	13,633
Rural telephone bank direct loan financing account:			
Obligations	175	175	....
Loan disbursements	81	129	127
Change in outstandings	70	115	111
Outstandings	338	453	564

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Rural water and waste disposal direct loans financing account:			
Obligations	743	893	814
Loan disbursements	694	800	779
Change in outstandings	606	734	703
Outstandings	4,548	5,282	5,985
Rural electrification and telecommunications liquidating account:			
Obligations	....	....	....
Loan disbursements	9	13	13
Change in outstandings	–2,724	–1,676	–1,540
Outstandings	21,009	19,333	17,793
Rural telephone bank liquidating account:			
Obligations	....	....	....
Loan disbursements	7	7	6
Change in outstandings	–129	–71	–72
Outstandings	795	724	652
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1,183	–989	–912
Outstandings	16,183	15,194	14,282
Rural housing insurance fund direct loan financing account:			
Obligations	1,276	1,328	1,110
Loan disbursements	1,212	1,290	1,160
Change in outstandings	644	724	527
Outstandings	11,697	12,421	12,948
Rural community facility direct loans financing account:			
Obligations	325	403	250
Loan disbursements	163	264	275
Change in outstandings	124	232	238
Outstandings	988	1,220	1,458
Rural Business—Cooperative Service			
Rural economic development loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	....	....
Outstandings	....	....	....
Rural economic development direct loan financing account:			
Obligations	23	15	15
Loan disbursements	16	22	14
Change in outstandings	4	9	–1
Outstandings	73	82	81
Rural development loan fund direct loan financing account:			
Obligations	44	38	40
Loan disbursements	40	42	44
Change in outstandings	31	33	33
Outstandings	313	346	379
Rural business and industry direct loans financing account:			
Obligations	50	....	....
Loan disbursements	27	30	6
Change in outstandings	23	24	....
Outstandings	82	106	106
Rural development loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–3	–3
Outstandings	66	63	60

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Foreign Agricultural Service			
Expenses, Public Law 480, foreign assistance programs, Agriculture liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–323	–294	–278
Outstandings	8,219	7,925	7,647
P.L. 480 direct credit financing account:			
Obligations	60	514	132
Loan disbursements	180	119	107
Change in outstandings	121	60	34
Outstandings	2,176	2,236	2,270
P.L. 480 title I food for progress credits, financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–39	–56	–56
Outstandings	465	409	353
Debt reduction—financing account:			
Obligations	....	....	....
Loan disbursements	82	....	....
Change in outstandings	75	–7	–7
Outstandings	132	125	118
Department of Commerce			
Economic Development Administration			
Economic development revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–4	–4
Outstandings	33	29	25
National Oceanic and Atmospheric Administration			
Fisheries finance direct loan financing account:			
Obligations	74	24	24
Loan disbursements	24	24	74
Change in outstandings	24	14	66
Outstandings	161	175	241
Department of Defense—Military			
Family Housing			
Family housing improvement direct loan financing account:			
Obligations	....	36	....
Loan disbursements	....	33	110
Change in outstandings	....	33	110
Outstandings	....	33	143
Department of Education			
Office of Postsecondary Education			
College housing and academic facilities loans liquidating account:			
Obligations	....	....	....
Loan disbursements	1	....	....
Change in outstandings	–34	–34	–29
Outstandings	424	390	361
College housing and academic facilities loans financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	....	–1
Outstandings	25	25	24
Historically black college and university capital financing direct loan financing account:			
Obligations	16	42	40
Loan disbursements	11	39	35
Change in outstandings	10	39	34
Outstandings	31	70	104

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate 2002	Estimate 2003
Office of Student Financial Assistance			
Student financial assistance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–9	–10	–18
Outstandings	606	596	578
Federal direct student loan program financing account:			
Obligations	19,219	21,266	19,123
Loan disbursements	18,166	19,805	17,279
Change in outstandings	11,962	14,848	10,479
Outstandings	70,484	85,332	95,811
Department of Energy			
Power Marketing Administration			
Bonneville Power Administration fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	2	2	2
Department of Health and Human Services			
Health Resources and Services Administration			
Medical facilities guarantee and loan fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–2	–4	–5
Outstandings	9	5	....
Department of Housing and Urban Development			
Public and Indian Housing Programs			
Low-rent public housing—loans and other expenses:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–70	–70	–70
Outstandings	1,280	1,210	1,140
Community Planning and Development			
Revolving fund (liquidating programs):			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–123	–3	–3
Outstandings	19	16	13
Community development loan guarantees liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–3	–2	–2
Outstandings	8	6	4
Housing Programs			
Nonprofit sponsor assistance liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Flexible subsidy fund:			
Obligations	....	....	....
Loan disbursements	20	12	....
Change in outstandings	–55	–63	–75
Outstandings	648	585	510
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–3	....
Outstandings	3	....	....

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
FHA-general and special risk insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–6	–5	–10
Outstandings	38	33	23
FHA-general and special risk direct loan financing account:			
Obligations	....	4	4
Loan disbursements	1	4	4
Change in outstandings	1	....	....
Outstandings	2	2	2
Housing for the elderly or handicapped fund liquidating account:			
Obligations	....	....	....
Loan disbursements	4	5	1
Change in outstandings	–118	–182	–220
Outstandings	7,805	7,623	7,403
FHA-mutual mortgage insurance direct loan financing account:			
Obligations	1	125	50
Loan disbursements	1	125	50
Change in outstandings	1	51	–9
Outstandings	1	52	43
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Obligations	....	....	....
Loan disbursements	47	46	45
Change in outstandings	1	–20	–15
Outstandings	110	90	75
Department of the Interior			
Bureau of Reclamation			
Bureau of Reclamation loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–13	–4	–3
Outstandings	50	46	43
Water and related resources:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	....	....
Outstandings	2	2	2
Bureau of Reclamation direct loan financing account:			
Obligations	27	16	....
Loan disbursements	25	48	9
Change in outstandings	–6	47	6
Outstandings	160	207	213
National Park Service			
Construction and major maintenance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	–1
Outstandings	5	5	4
Bureau of Indian Affairs			
Revolving fund for loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–4	–4
Outstandings	35	31	27
Indian direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–3	–3
Outstandings	23	20	17

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Insular Affairs			
Payments to the United States territories, fiscal assistance:			
Obligations	………	………	………
Loan disbursements	………	………	………
Change in outstandings	–2	–2	–1
Outstandings	13	11	10
Assistance to American Samoa direct loan financing account:			
Obligations	19	………	………
Loan disbursements	13	6	………
Change in outstandings	12	5	–1
Outstandings	12	17	16
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	………	………	………
Loan disbursements	………	………	………
Change in outstandings	–2	–5	………
Outstandings	5	………	………
Federal Highway Administration			
Transportation infrastructure finance and innovation program direct loan financing account:			
Obligations	874	2,000	1,914
Loan disbursements	………	430	830
Change in outstandings	………	430	830
Outstandings	300	730	1,560
Transportation infrastructure finance and innovation program line of credit financing account:			
Obligations	………	200	100
Loan disbursements	………	………	………
Change in outstandings	………	………	………
Outstandings	………	………	………
Right-of-way revolving fund liquidating account:			
Obligations	………	………	………
Loan disbursements	11	10	10
Change in outstandings	–20	–14	–14
Outstandings	109	95	81
Federal Railroad Administration			
Amtrak corridor improvement loans liquidating account:			
Obligations	………	………	………
Loan disbursements	………	………	………
Change in outstandings	–1	–1	–1
Outstandings	4	3	2
Alameda corridor direct loan financing account:			
Obligations	………	………	………
Loan disbursements	………	………	………
Change in outstandings	15	31	33
Outstandings	503	534	567
Railroad rehabilitation and improvement liquidating account:			
Obligations	………	………	………
Loan disbursements	………	………	………
Change in outstandings	………	–9	–4
Outstandings	49	40	36

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Railroad rehabilitation and improvement direct loan financing account:			
Obligations	....	210	197
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	12	11	11
Loan disbursements	9	10	10
Change in outstandings	9	9	9
Outstandings	24	33	42
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Obligations	....	....	....
Loan disbursements	7	6	5
Change in outstandings	–36	–34	–26
Outstandings	128	94	68
Veterans housing benefit program fund direct loan financing account:			
Obligations	1,463	1,809	1,917
Loan disbursements	1,463	1,809	1,917
Change in outstandings	226	101	–298
Outstandings	1,782	1,883	1,585
Miscellaneous veterans housing loans direct loan financing account:			
Obligations	2	3	15
Loan disbursements	2	3	15
Change in outstandings	2	2	14
Outstandings	19	21	35
Miscellaneous veterans programs loan fund direct loan financing account:			
Obligations	3	3	3
Loan disbursements	2	3	3
Change in outstandings	....	....	....
Outstandings	1	1	1
Environmental Protection Agency			
Abatement, control, and compliance direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–5	–5
Outstandings	42	37	32
Federal Emergency Management Agency			
Disaster assistance direct loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–29	....	....
Outstandings	....	....	....
Disaster assistance direct loan financing account:			
Obligations	....	25	25
Loan disbursements	31	25	25
Change in outstandings	29	–8	17
Outstandings	165	157	174
General Services Administration			
Real Property Activities			
Columbia Hospital for Women direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–13	....
Outstandings	13	....	....

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Obligations	....	....	....
Loan disbursements	7	7	7
Change in outstandings	–456	–397	–339
Outstandings	3,767	3,370	3,031
Foreign military financing direct loan financing account:			
Obligations	....	....	....
Loan disbursements	546	339	54
Change in outstandings	173	–114	–402
Outstandings	1,943	1,829	1,427
Military debt reduction financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–16	....
Outstandings	19	3	3
Agency for International Development			
Economic assistance loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–613	–526	–487
Outstandings	9,373	8,847	8,360
Debt reduction financing account:			
Obligations	....	....	....
Loan disbursements	68	1	....
Change in outstandings	10	–56	–15
Outstandings	175	119	104
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	–1	....
Outstandings	1	....	....
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	–1
Outstandings	1	1	....
Overseas Private Investment Corporation direct loan financing account:			
Obligations	204	73	100
Loan disbursements	44	42	40
Change in outstandings	18	8	6
Outstandings	75	83	89
Small Business Administration			
Business direct loan financing account:			
Obligations	30	25	26
Loan disbursements	53	29	18
Change in outstandings	47	14	3
Outstandings	107	121	124
Disaster direct loan financing account:			
Obligations	951	1,272	795
Loan disbursements	683	1,334	976
Change in outstandings	–1,924	–231	–1,393
Outstandings	3,288	3,057	1,664

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Disaster loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–437	–132	–116
Outstandings	248	116	....
Business loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	14	12	11
Change in outstandings	–148	–101	–50
Outstandings	337	236	186
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	–308	–268	–232
Outstandings	4,152	3,884	3,652
Debt reduction financing account:			
Obligations	....	....	....
Loan disbursements	50	545	10
Change in outstandings	44	261	–1
Outstandings	146	407	406
Export-Import Bank direct loan financing account:			
Obligations	871	161	179
Loan disbursements	1,738	1,452	560
Change in outstandings	924	721	–248
Outstandings	7,590	8,311	8,063
Farm Credit System Financial Assistance Corporation			
Financial Assistance Corporation assistance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–15	–16	–40
Outstandings	868	852	812
Federal Communications Commission			
Spectrum auction direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–2,584	–4,395	–97
Outstandings	5,593	1,198	1,101
Federal Deposit Insurance Corporation			
FSLIC resolution fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–3	....
Outstandings	3	....	....
National Credit Union Administration			
Community development credit union revolving loan fund:			
Obligations	10	14	15
Loan disbursements	2	7	5
Change in outstandings	–1	4	1
Outstandings	10	14	15
Tennessee Valley Authority			
Tennessee Valley Authority fund:			
Obligations	13	18	19
Loan disbursements	12	18	19
Change in outstandings	–2	6	2
Outstandings	51	57	59

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Subtotal, direct loan transactions:			
Obligations	39,073	47,302	39,936
Loan disbursements	37,141	43,316	37,282
Change in outstandings	4,197	11,346	7,427
Outstandings	213,286	224,632	232,059
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	52	334	325
Change in outstandings	21	286	259
Outstandings	485	771	1,030
Commodity Credit Corporation guaranteed loans liquidating account:			
Claim payments	....	....	....
Change in outstandings	–162	–184	–201
Outstandings	3,969	3,785	3,584
Department of Commerce			
National Oceanic and Atmospheric Administration			
Fisheries finance guaranteed loan financing account:			
Claim payments	1	1	1
Change in outstandings	1	–3	–3
Outstandings	13	10	7
Federal ship financing fund fishing vessels liquidating account:			
Claim payments	....	....	....
Change in outstandings	–2	–2	–2
Outstandings	12	10	8
Department of Education			
Office of Student Financial Assistance			
Federal family education loan liquidating account:			
Claim payments	377	58	17
Change in outstandings	–866	–706	–632
Outstandings	14,120	13,414	12,782
Federal family education loan program financing account:			
Claim payments	2,692	3,133	3,655
Change in outstandings	–3	1,479	1,398
Outstandings	5,339	6,818	8,216
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Claim payments	14	27	30
Change in outstandings	10	22	24
Outstandings	63	85	109
Health education assistance loans liquidating account:			
Claim payments	12	8	7
Change in outstandings	–3	–33	–34
Outstandings	497	464	430
Department of Housing and Urban Development			
Housing Programs			
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Claim payments	....	35	34
Change in outstandings	–42	–4	....
Outstandings	4	....	....
FHA-general and special risk insurance funds liquidating account:			
Claim payments	618	981	1,235
Change in outstandings	39	447	337
Outstandings	1,999	2,446	2,783

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate 2002	Estimate 2003
FHA-general and special risk guaranteed loan financing account:			
Claim payments	295	418	460
Change in outstandings	66	32	25
Outstandings	618	650	675
FHA-mutual mortgage insurance guaranteed loan financing account:			
Claim payments	1	377	671
Change in outstandings	–98	–4	....
Outstandings	4	....	....
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Claim payments	....	....	....
Change in outstandings	–1	–4	–4
Outstandings	26	22	18
Indian guaranteed loan financing account:			
Claim payments	....	2	1
Change in outstandings	–13	1	....
Outstandings	24	25	25
Department of Transportation			
Maritime Administration			
Federal ship financing fund liquidating account:			
Claim payments	....	....	....
Change in outstandings	–17	....	....
Outstandings	....	....	....
Department of the Treasury			
Departmental Offices			
Air transportation stabilization guaranteed loan financing account:			
Claim payments	....	577	957
Change in outstandings	....	577	842
Outstandings	....	577	1,419
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Claim payments	30	29	27
Change in outstandings	–12	8	8
Outstandings	274	282	290
Veterans housing benefit program fund guaranteed loan financing account:			
Claim payments	362	129	126
Change in outstandings	335	74	62
Outstandings	344	418	480
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Claim payments	24	23	31
Change in outstandings	24	–13	31
Outstandings	39	26	57
Agency for International Development			
Housing and other credit guaranty programs liquidating account:			
Claim payments	40	40	42
Change in outstandings	–73	15	24
Outstandings	435	450	474
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Claim payments	13	2	1
Change in outstandings	6	....	....
Outstandings	19	19	19

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

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Overseas Private Investment Corporation guaranteed loan financing account:			
Claim payments	21	162	45
Change in outstandings	18	148	31
Outstandings	49	197	228
Small Business Administration			
Pollution control equipment fund liquidating account:			
Claim payments	....	....	....
Change in outstandings	....	....	....
Outstandings	49	49	49
Business guaranteed loan financing account:			
Claim payments	645	670	684
Change in outstandings	149	258	252
Outstandings	966	1,224	1,476
Business loan fund liquidating account:			
Claim payments	16	12	11
Change in outstandings	–141	–70	–29
Outstandings	381	311	282
Subtotal, defaulted guaranteed loans that result in a loan receivable:			
Claim payments	5,213	7,018	8,360
Change in outstandings	–764	2,324	2,388
Outstandings	29,729	32,053	34,441
Total:			
Obligations	39,073	47,302	39,936
Loan disbursements	42,354	50,334	45,642
Change in outstandings	3,433	13,670	9,815
Outstandings	243,015	256,685	266,500

Table 9–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–60	–67	–52
Outstandings	411	344	292
Agricultural credit insurance fund guaranteed loan financing account:			
Commitments	2,315	3,220	3,000
New guaranteed loans	2,200	2,988	3,025
Change in outstandings	510	1,312	1,302
Outstandings	9,111	10,423	11,725
Commodity Credit Corporation export guarantee financing account:			
Commitments	3,227	3,926	4,225
New guaranteed loans	2,183	3,926	4,225
Change in outstandings	–1,568	–153	–80
Outstandings	4,915	4,762	4,682
Natural Resources Conservation Service			
Agricultural resource conservation demonstration guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	....	–10
Outstandings	24	24	14
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	....	....	....
Change in outstandings	–13	–12	–10
Outstandings	99	87	77
Rural electrification and telecommunications guaranteed loans financing account:			
Commitments	59	100	100
New guaranteed loans	35	68	113
Change in outstandings	35	65	109
Outstandings	203	268	377
Rural water and waste water disposal guaranteed loans financing account:			
Commitments	5	75	75
New guaranteed loans	....	43	72
Change in outstandings	–8	41	69
Outstandings	11	52	121
Local television loan guarantee financing account:			
Commitments	....	258	....
New guaranteed loans	....	52	116
Change in outstandings	....	52	114
Outstandings	....	52	166
Rural electrification and telecommunications liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–24	–23	–21
Outstandings	358	335	314
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–2	–2	–1
Outstandings	18	16	15

Table 9–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(In millions of dollars)

Agency and Account	2001 Actual	Estimate 2002	Estimate 2003
Rural housing insurance fund guaranteed loan financing account:			
Commitments	2,342	3,250	2,850
New guaranteed loans	2,171	2,817	2,751
Change in outstandings	1,374	1,915	1,698
Outstandings	12,673	14,588	16,286
Rural community facility guaranteed loans financing account:			
Commitments	139	210	210
New guaranteed loans	15	155	179
Change in outstandings	2	137	155
Outstandings	227	364	519
Rural Business—Cooperative Service			
Rural business and industry guaranteed loans financing account:			
Commitments	1,076	1,152	733
New guaranteed loans	809	1,777	1,294
Change in outstandings	324	1,453	908
Outstandings	3,504	4,957	5,865
Department of Commerce			
Departmental Management			
Emergency oil and gas guaranteed loan financing account:			
Commitments	3	2	....
New guaranteed loans	3	2	....
Change in outstandings	3	....	....
Outstandings	3	3	3
Emergency steel guaranteed loan financing account:			
Commitments	110	236	....
New guaranteed loans	110	236	....
Change in outstandings	109	131	–62
Outstandings	109	240	178
Economic Development Administration			
Economic development revolving fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–1	....	....
Outstandings	....	....	....
National Oceanic and Atmospheric Administration			
Fisheries finance guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–11	–11	–11
Outstandings	51	40	29
Federal ship financing fund fishing vessels liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–4	–4	–3
Outstandings	39	35	32
Department of Defense—Military			
Operation and Maintenance			
Defense export loan guarantee financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–4	–4	–4
Outstandings	8	4	....
Procurement			
Arms initiative guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	–1	–1
Outstandings	28	27	26

Table 9–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Family Housing			
Family housing improvement guaranteed loan financing account:			
Commitments	48	221	....
New guaranteed loans	41	70	88
Change in outstandings	41	69	86
Outstandings	70	139	225
Department of Education			
Office of Student Financial Assistance			
Federal family education loan liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–2,030	–1,921	–1,135
Outstandings	4,493	2,572	1,437
Federal family education loan program financing account:			
Commitments	34,705	38,750	39,559
New guaranteed loans	30,537	34,255	34,732
Change in outstandings	15,873	11,981	8,651
Outstandings	154,807	166,788	175,439
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–22	–35	–39
Outstandings	1,513	1,478	1,439
Health education assistance loans liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–54	–50	–50
Outstandings	668	618	568
Health center guaranteed loan financing account:			
Commitments	7	21	17
New guaranteed loans	7	21	17
Change in outstandings	7	21	17
Outstandings	12	33	50
Medical facilities guarantee and loan fund:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–5	–6	–6
Outstandings	19	13	7
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	–278	–278	–278
Outstandings	2,464	2,186	1,908
Indian housing loan guarantee fund financing account:			
Commitments	13	20	20
New guaranteed loans	10	20	23
Change in outstandings	6	11	12
Outstandings	66	77	89
Title VI Indian Federal guarantees financing account:			
Commitments	10	26	40
New guaranteed loans	9	23	36
Change in outstandings	9	20	33
Outstandings	10	30	63

Table 9–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Native Hawaiian housing loan guarantee fund financing account:			
Commitments	....	....	10
New guaranteed loans	....	....	1
Change in outstandings	....	....	1
Outstandings	....	....	1
Community Planning and Development			
Community development loan guarantees financing account:			
Commitments	244	609	275
New guaranteed loans	335	400	400
Change in outstandings	195	200	200
Outstandings	1,887	2,087	2,287
Community development loan guarantees liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–26	–29	–6
Outstandings	81	52	46
Housing Programs			
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–7,656	–6,624	–3,272
Outstandings	39,963	33,339	30,067
FHA-general and special risk insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–4,391	–1,989	–2,174
Outstandings	25,370	23,381	21,207
FHA-general and special risk guaranteed loan financing account:			
Commitments	21,000	21,000	21,000
New guaranteed loans	15,238	17,027	19,892
Change in outstandings	4,248	2,622	12,601
Outstandings	73,376	75,998	88,599
FHA-loan guarantee recovery fund financing account:			
Commitments	2	4	....
New guaranteed loans	2	4	....
Change in outstandings	1	1	–3
Outstandings	4	5	2
FHA-mutual mortgage insurance guaranteed loan financing account:			
Commitments	134,841	147,339	142,441
New guaranteed loans	107,449	133,557	121,674
Change in outstandings	17,353	33,174	60,342
Outstandings	419,313	452,487	512,829
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–12	–12	–12
Outstandings	134	122	110
Guarantees of mortgage-backed securities financing account:			
Commitments	161,657	238,343	200,000
New guaranteed loans	153,798	120,000	120,000
Change in outstandings	1,568	23,310	47,832
Outstandings	604,309	627,619	675,451
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–12	–8	–6
Outstandings	17	9	3

Table 9–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Indian guaranteed loan financing account:			
Commitments	60	75	72
New guaranteed loans	52	65	55
Change in outstandings	22	38	29
Outstandings	184	222	251
Department of Transportation			
Office of the Secretary			
Minority business resource center guaranteed loan financing account:			
Commitments	14	18	18
New guaranteed loans	7	18	18
Change in outstandings	7	17	11
Outstandings	7	24	35
Federal Highway Administration			
Transportation infrastructure finance and innovation program loan guarantee financing account:			
Commitments	....	200	100
New guaranteed loans	....	160	183
Change in outstandings	....	160	183
Outstandings	....	160	343
Maritime Administration			
Federal ship financing fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–66	–60	–55
Outstandings	182	122	67
Maritime guaranteed loan (title XI) financing account:			
Commitments	729	800	....
New guaranteed loans	729	800	....
Change in outstandings	543	–42	–224
Outstandings	4,738	4,696	4,472
Department of the Treasury			
Departmental Offices			
Air transportation stabilization guaranteed loan financing account:			
Commitments	....	5,000	5,000
New guaranteed loans	....	5,000	5,000
Change in outstandings	....	3,910	3,046
Outstandings	....	3,910	6,956
Department of Veterans Affairs			
Veterans Benefits Administration			
Veterans housing benefit program fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–3,558	–2,571	–1,876
Outstandings	9,182	6,611	4,735
Veterans housing benefit program fund guaranteed loan financing account:			
Commitments	31,948	33,286	34,364
New guaranteed loans	31,948	33,286	34,364
Change in outstandings	16,137	11,138	11,963
Outstandings	227,705	238,843	250,806
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–357	–350	–348
Outstandings	4,194	3,844	3,496

Table 9–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Agency for International Development			
Loan guarantees to Israel financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	–20	–157
Outstandings	9,226	9,206	9,049
Development credit authority guaranteed loan financing account:			
Commitments	35	265	109
New guaranteed loans	33	136	142
Change in outstandings	33	116	121
Outstandings	39	155	276
Housing and other credit guaranty programs liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–140	–96	–96
Outstandings	1,596	1,500	1,404
Microenterprise and small enterprise development guaranteed loan financing account:			
Commitments	36	31	....
New guaranteed loans	5	24	22
Change in outstandings	–28	4	10
Outstandings	36	40	50
Urban and environmental credit guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	22	17
Change in outstandings	–31	–12	–18
Outstandings	514	502	484
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–18	–7	–9
Outstandings	26	19	10
Overseas Private Investment Corporation guaranteed loan financing account:			
Commitments	1,024	666	765
New guaranteed loans	470	525	525
Change in outstandings	252	163	280
Outstandings	3,350	3,513	3,793
Small Business Administration			
Pollution control equipment fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–23	–7	–4
Outstandings	16	9	5
Business guaranteed loan financing account:			
Commitments	13,990	22,458	16,350
New guaranteed loans	10,963	9,111	10,111
Change in outstandings	3,368	3,068	1,910
Outstandings	35,107	38,175	40,085
Business loan fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–509	–325	–255
Outstandings	1,501	1,176	921
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	–163	–351	–229
Outstandings	941	590	361

Table 9–10. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT—Continued

(In millions of dollars)

Agency and Account	2001 Actual	Estimate	
		2002	2003
Export-Import Bank guaranteed loan financing account:			
Commitments	8,370	10,239	11,321
New guaranteed loans	7,504	6,965	8,384
Change in outstandings	906	990	–1,934
Outstandings	29,584	30,574	28,640
National Credit Union Administration			
Credit union share insurance fund:			
Commitments	4	3	4
New guaranteed loans	4	3	4
Change in outstandings	3	2	–2
Outstandings	7	9	7
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	418,013	531,803	482,758
New guaranteed loans	366,667	373,556	367,513
Change in outstandings	41,855	81,051	139,289
Outstandings	1,688,507	1,769,558	1,908,847
Less, secondary guaranteed loans: [1]			
GNMA guarantees of FmHA/VA/FHA pools:			
Commitments	–161,657	–238,343	–200,000
New guaranteed loans	–153,798	–120,000	–120,000
Change in outstandings	–1,556	–23,298	–47,820
Outstandings	–604,443	–627,741	–675,561
Total, primary guaranteed loans: [2]			
Commitments	256,356	293,460	282,758
New guaranteed loans	212,869	253,556	247,513
Change in outstandings	40,299	57,753	91,469
Outstandings	1,084,064	1,141,817	1,233,286

[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 9–11. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]

(In millions of dollars)

Enterprise	2001 Actual	Estimate 2002	Estimate 2003
LENDING			
Student Loan Marketing Association:			
Net change	3,819	–373	–3,644
Outstandings	41,032	40,659	37,015
Federal National Mortgage Association:			
Portfolio programs:			
Net change	112,884	117,677	125,227
Outstandings	700,484	818,161	943,388
Mortgage-backed securities:			
Net change	116,278	141,037	139,874
Outstandings	822,382	963,419	1,103,293
Federal Home Loan Mortgage Corporation:			
Portfolio programs:			
Net change	109,226	71,370	77,117
Outstandings	470,850	542,220	619,337
Mortgage-backed securities:			
Net change	76,602	38,787	56,656
Outstandings	635,844	674,631	731,287
Farm Credit System:			
Agricultural credit bank:			
Net change	318	745	823
Outstandings	19,588	20,333	21,156
Farm credit banks:			
Net change	5,752	2,566	2,477
Outstandings	52,445	55,011	57,488
Federal Agricultural Mortgage Corporation:			
Net change	1,576	1,106	....
Outstandings	4,894	6,000	6,000
Federal Home Loan Banks:			
Net change	44,908	....	....
Outstandings	489,413	489,413	489,413
Subtotal GSE lending (gross):			
Net change	471,363	372,915	398,530
Outstandings	3,236,932	3,609,847	4,008,377
Less guaranteed loans purchased by:			
Student Loan Marketing Association:			
Net change	3,819	–373	–3,644
Outstandings	41,032	40,659	37,015
Federal National Mortgage Association:			
Net change	–336	....	....
Outstandings	62,599	62,599	62,599
Other:			
Net change	1,784	....	....
Outstandings	23,615	23,615	23,615
Total GSE lending (net):			
Net change	466,096	373,288	402,174
Outstandings	3,109,686	3,482,974	3,885,148
BORROWING			
Student Loan Marketing Association:			
Net Change	5,820	–2,640	–4,776
Outstandings	47,321	44,681	39,905
Federal National Mortgage Association:			
Portfolio programs:			
Net Change	119,953	122,184	133,147
Outstandings	726,992	849,176	982,323
Mortgage-backed securities:			
Net Change	116,278	141,037	139,874
Outstandings	822,382	963,419	1,103,293

Table 9–11. LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES (GSEs) [1]—Continued

(In millions of dollars)

Enterprise	2001 Actual	Estimate 2002	Estimate 2003
Federal Home Loan Mortgage Corporation:			
Portfolio programs:			
Net Change	124,518	74,072	71,836
Outstandings	531,312	605,384	677,220
Mortgage-backed securities:			
Net Change	76,602	38,787	56,656
Outstandings	635,844	674,631	731,287
Farm Credit System:			
Agricultural credit bank:			
Net Change	304	808	894
Outstandings	21,275	22,083	22,977
Farm credit banks:			
Net Change	5,895	3,232	3,168
Outstandings	58,010	61,242	64,410
Federal Agricultural Mortgage Corporation:			
Net Change	9	204	–10
Outstandings	2,870	3,074	3,064
Federal Home Loan Banks:			
Net Change	34,281	....	....
Outstandings	611,338	611,338	611,338
Subtotal GSE borrowing (gross):			
Net change	483,660	377,684	400,789
Outstandings	3,457,344	3,835,028	4,235,817
Less borrowing from other GSEs:			
Net Change	61,565	....	....
Outstandings	181,909	181,909	181,909
Less purchase of Federal debt securities:			
Net Change	1,506	–32	–141
Outstandings	3,126	3,094	2,953
Less borrowing to purchase loans guaranteed by:			
Student Loan Marketing Association:			
Net Change	3,819	–373	–3,644
Outstandings	41,032	40,659	37,015
Federal National Mortgage Association:			
Net Change	–336	....	....
Outstandings	62,599	62,599	62,599
Other:			
Net Change	1,784	....	....
Outstandings	23,615	23,615	23,615
Total GSE borrowing (net):			
Net change	415,322	378,089	404,574
Outstandings	3,145,063	3,523,152	3,927,726

[1] The estimates of borrowing and lending were developed by the GSEs based on certain assumptions but are subject to periodic review and revision and do not represent offficial GSE forecasts of future activity, nor are they reviewed by the President. The data for all years include programs of mortgage-backed securities. In cases where a GSE owns securities issued by the same GSE, including mortgage-backed securities, the borrowing and lending data for that GSE are adjusted to remove double-counting.

Table 9–12. 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	2001
Total net lending in credit market	66.8	88.2	169.6	336.9	829.3	705.2	702.5	716.4	724.1	985.2	1,110.4	933.4	1,008.0
Government-sponsored enterprise loans [2]	1.2	4.9	5.3	21.4	57.9	115.4	125.7	141.5	112.8	293.1	284.0	245.6	466.1
GSE lending participation rate (percent)	1.8	5.6	3.1	6.4	7.0	16.4	17.9	19.8	15.6	29.8	25.6	26.3	46.2
Total net borrowing in credit market	66.8	88.2	169.6	336.9	829.3	705.2	702.5	716.4	724.1	985.2	1,110.4	933.4	1,008.0
Government-sponsored enterprise borrowing [2]	1.4	5.2	5.5	24.1	60.7	90.0	68.2	161.2	107.9	276.2	346.8	277.9	415.3
GSE borrowing participation rate (percent)	2.1	5.9	3.2	7.2	7.3	12.8	9.7	22.5	14.9	28.0	31.2	29.8	41.2

[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 2002 and 2003 are not available.

Table 9–13. BORROWING BY FINANCING VEHICLES [1]

(In millions of dollars)

Financing Vehicle	2001 Actual	Estimate	
		2002	2003
Financing Corporation (FICO):			
Net change	1	2	1
Outstandings	8,148	8,150	8,151
Resolution Funding Corporation (REFCORP):			
Net change	–2	–2	–2
Outstandings	30,062	30,060	30,058
Subtotal, gross borrowing:			
Net change	–1	....	–1
Outstandings	38,210	38,210	38,209
Less purchases of Federal debt securities:			
Net change	594	644	698
Outstandings	7,763	8,407	9,105
Total, net borrowing:			
Net change	–595	–644	–699
Outstandings	30,447	29,803	29,104

[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 2001 or is estimated to occur in 2002 or 2003.