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 2002, there were $251 billion in Federal direct loans outstanding and $1,145 billion in loan guarantees. Through its insurance programs, the Federal Government insures bank, thrift, and credit union deposits, guarantees private defined-benefit pensions, and insures against other risks such as natural disasters, all up to certain limits.

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 2002, the face value of GSE lending totaled $3.6 trillion. In return for serving social purposes, GSEs enjoy many privileges, which differ across GSEs. In general, GSEs can borrow from Treasury in amounts ranging up to $4 billion at Treasury's discretion, GSEs' corporate earnings are exempt from state and local income taxation, GSE securities are exempt from SEC registration, and banks and thrifts are allowed to hold GSE securities in unlimited amounts and use them to collateralize public deposits. 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 monitor financial market developments closely and to adapt the extent and nature of credit and insurance programs to changing environments.

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 role of Federal programs, however, may still be critical in some areas.
- 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 a continual concern, this section pays particular attention to it, including discussion of asset management.
- 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, disaster insurance, and insurance against terrorism and other security-related risks 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 categories: 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 businesses efficiently meet 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 are the following.

- ***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, enables 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 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 properly set the premium. Terrorism emerged as one of these cases after the September 11 attacks. The loss from terrorism is highly unpredictable and can turn out to be enormous. In this case, Government intervention limiting uncertainties for the private sector is necessary to ensure the provision of insurance, until the private sector understands the particular risk better.

- ***Externalities*** cause either underinvestment or overinvestment in some sectors. Decisions at the individual level are not socially optimal when individuals 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 those activities that produce positive externalities or reduce negative externalities by offering subsidized credit or other rewards such as tax benefits, while discouraging activities producing negative externalities by imposing taxes or other penalties.
- ***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 come to doubt 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 very large loss concentrated in a short time period, therefore, Government insurance commanding more resources can be more credible and effective.
- 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 fundamental changes that continue to alter their long-term trend. The main forces behind these changes are financial services deregulation and technological advances, which promoted competition and economic efficiency. 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. Interacting with these developments, however, have been some unsettling events, such as the ballooning and then plunging stock market, recession, and accounting scandals.

Financial services deregulation has promoted competition by removing geographic and industry barriers. The Riegle-Neal Interstate Banking and Branching Act of 1997 completed the demolition of geographic barriers in banking that had been going on at the state level for two decades. The Financial Services Modernization Act of 1999 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 generally 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 unique characteristics, customers in distant areas, and customers offering small business volume. 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 market share of large banks has increased. At the end of calendar 2001, there were about 8,100 commercial banks, which represented a decrease by about 4,300 or 35 percent from the end of calendar 1990. The top 10 and 100 banks respectively controlled 40 and 73 percent of banking assets at the end of calendar 2001, compared with 21 and 51 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 pace of consolidation, however, slowed in recent years due to slumping stock markets.

Direct capital market access by borrowers has become easier. 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, growth of commercial paper (short-term financing instruments issued by corporations) substantially outpaced growth of bank business loans in the 1990s. This long-term trend, however, has been seriously interrupted by the last recession and recent accounting scandals that caused some instability in financial markets. In recent periods, the volume of commercial paper issued by nonfinancial companies dropped below $160 billion, which was less than one half of the peak level reached in 2000. Some borrowers with relatively low credit ratings were denied access, and even borrowers with higher credit ratings had to reduce their reliance on commercial paper because of investors' increased concern about the riskiness of short-term financing. Heavy reliance on short-term financing can quickly worsen financial distress by causing refinancing difficulty.

Nonbank financial institutions have increased their market share, partly thanks to advanced communications and information processing technology that helped to level the playing field. Finance companies are a major nonbank lender. Over the last decade, both consumer loans and business loans have been growing at finance companies faster than at commercial banks. In the 1990s, venture capital firms emerged as a major financing source for small, start-up firms that had relied heavily on banks. During the last stock-market boom, 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, jumped 18-fold, to over $100 billion. Venture capital investments, however, plunged, as the stock market slumped. During the first three quarters of calendar 2002, venture capital firms invested only about $17 billion.

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, facilitating small investors' participation in the stock market. Internet-only banks, which emerged 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 process accelarated 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 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. Financial institutions and many nonfinancial companies are increasingly using these relatively new instruments to manage various types of risk such as price risk, interest rate risk, credit risk, and even catastrophe-related risk. Price risk can be easily managed through standard derivative contracts such as options and futures. The interest rate swap is an effective tool to reduce a firm's exposure to interest rate movements. Interest rate swaps are widely used by financial institutions that have many fixed-interest rate assets, such as mortgage lenders. Credit derivatives, which can be used as insurance against loan default, gained more popularity in recent periods, as default by some large corporations such as Enron and WorldCom heightened investors' concern about default risk. After the September 11 attacks, catastrophe bonds drew considerable attention as a potential means to manage a large risk. Through the bonds, the potential large loss from a catastrophe 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 is another important consequence 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. With international competition, even very large financial institutions have little ability to influence the market.

Slumping stock markets, the last recession, and recent accounting scandals caused financing difficulties for some businesses. Stock market declines raised the cost of equity financing for most corporations and substantially reduced the supply of venture capital for small, start-up businesses. The last recession increased the delinquency rate of business loans. The delinquency rate kept increasing because, as usual, loan delinquencies followed the economic downturn with a lag. The increased delinquency rate made it more difficult for some businesses to obtain loans by making banks more cautious. Recent accounting scandals involving large companies such as Enron and WorldCom caused investors to become unusually jittery about the reliability of financial reports and default risk. The stock market reacted negatively, further increasing the cost of equity financing. Bond financing also became more difficult and expensive for companies with low credit ratings, despite low interest rates in other sectors of the economy. The financing difficulties, however, were largely confined to risky or less-established businesses. Well-established companies with high credit ratings benefitted from the lowest interest rates in decades, which could offset the effect of a high equity-financing cost. Consumers and home buyers kept having easy access to credit, partly thanks to the continued strength of the housing market. The delinquency rates of consumer and real estate loans remained at low levels, suggesting that credit conditions in those sectors may continue to be favorable in the foreseeable future.

Implications for Federal Programs

Financial evolution has been increasing the private market's capacity to serve the populations traditionally targeted by Federal programs. This long-term trend will continue in the future, but can be interrupted temporarily. In general, financial evolution has weakened the role of Federal credit and insurance programs. To improve the effectiveness of credit and insurance programs, therefore, the Federal Government may 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. The Federal Government, however, may take more active roles during the periods in which financial instability temporarily interrupts the smooth functioning of the private market.

Information about borrowers is more widely available and easier to process, thanks to technological advances. 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. Credit scoring, for example, is still difficult to apply to some groups with unique characteristics that are difficult to standardize. In times of economic downturn or financial instability, lenders can be overly cautious, turning away some creditworthy borrowers. The Federal Government may need to target those underserved groups better, 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 still limited because of the small size of the market for those products.

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. Large financial institutions with global operations may want to focus more on large customers and business lines that utilize economies of scale and scope more fully. 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. Thus, the failure of even a single large bank can seriously drain the federal deposit insurance fund. As a result of deregulation, banks engage in more activities. While diversification across business lines may generally improve the safety of banks, new businesses introduce new risks. For example, one concern raised recently is that the motive to obtain underwriting business from borrowing firms may have been affecting lending decisions, undermining loan quality at some large banking organizations. Globalization also has both an upside and a downside. A financial institution with a worldwide operation may overcome difficulties in the U.S. market more easily, but it is more heavily exposed to economic turmoil in other countries, especially those that are less-developed or politically unstable. 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. Overall, the financial market evolves to be more efficient and safer. Financial evolution, however, is often accompanied by new risks. Thus, Federal agencies need to be vigilant to identify and manage new risks.

The stock market plunge and the slow economic recovery have increased the risk and uncertainty for the pension benefit guaranty program by impairing the financial health of many pension funds and firms offering pension benefits. New and amended insurance programs for security-related risks also make the Federal Government's liability more uncertain. Security-related events such as terrorism and war are highly uncertain in terms of both the frequency of occurrence and the magnitude of potential loss.

II. A CROSS-CUTTING ASSESSMENT

To assess Federal programs systematically 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 to any of the first three questions is "No," 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 clear and 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. Programs lacking a clear, worthwhile objective should be either refocused or discontinued.

Economic Justifications

For a credit or insurance program to be economically justified, the program's benefits must exceed its costs. The main benefit measure should be the improvement in intended outcomes (for example, an increase in homeownership) net of what would have occurred in the absence of the program (for example, the portion of the increase owing to economic growth and financial evolution). 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 benefit would be substantially smaller for the Federal programs that were mainly intended to increase credit availability in those sectors by alleviating the information problem. Only a small portion of the increased credit availability may be attributable to those Federal programs.

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, servicing, and monitoring. The 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 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, resulting 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 inadequate. Standardization helps to improve the quality of information 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 are perfectly designed or managed. It is almost impossible to take all relevant factors into consideration when a program is created. In addition, financial evolution can lower the efficiency of initially well-designed and well managed programs. Thus, improving efficiency is a continual 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. To maximize efficiency, program managers need to set the subsidy rate at an optimal level and calculate the subsidy rate accurately. If a program's subsidy is too small, the intended population may benefit little and may even be discouraged from using the program. On the other hand, an excessive subsidy will transfer too much resources to a small group of the population. In either case, program efficiency can be seriously undermined. Miscalculation of the subsidy rate would also result in resource misallocation. 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 actual subsidy may substantially deviate from the intended subsidy. For a given amount of the budget, the program size (total amount of loans or number of beneficiaries) is determined by the estimated subsidy rate. Thus, an estimated subsidy smaller than the actual subsidy would increase the program size beyond the level intended by policymakers, while an estimated subsidy larger than the actual subsidy would unduly prevent the program from helping more people.

To set the subsidy rate at the optimal level, policymakers and program managers should carefully weigh the benefit of improving economic efficiency in the targeted sector against the risk of misallocating resources. To improve the accuracy of subsidy estimation, program managers need to utilize fully both historical experience and advanced analytical tools. 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.

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 most benefit from credit and insurance programs. The ideal target 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 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.

In conducting outreach, program managers may also consider the state of the financial market. The target population can expand when the private market fails to function smoothly due to temporary interruptions, such as economic downturns and asset-price declines. Interruptions can reduce credit availability in the private market, as evidenced by declines in commercial paper and venture capital investment in recent periods. Reduced credit availability can mean that more creditworthy borrowers have difficulty in obtaining credit in the private market. On those occasions, Federal credit programs can also play a more useful role.

While conducting outreach, program managers should avoid overreaching (assisting those who have easy access to private credit or insurance). Excessive government intervention wastes taxpayers' money and distorts economic outcomes. To avoid overreaching, program managers need to define eligibility clearly and carefully screen applicants based on eligibility. The eligibility screening is especially important for programs offering a large subsidy because the large subsidy can attract many customers who can easily obtain credit or insurance in the private sector. In addition, plans to expand the scale or the scope of a program should be carried out cautiously; they should be convincingly supported by careful cost-benefit analyses.

Risk management needs to be effective to limit the cost of credit and insurance programs. Careful screening of borrowers' creditworthiness 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. Using state-of-the-art tools is especially important for programs that compete with the private sector for the same group of customers. Private financial institutions are quick to adopt new technology. Falling behind, Federal programs could be left with riskier customers. In cases where the private sector has a clear advantage in performing some risk management functions, delegating those functions is an effective strategy. For example, if banks are better at screening some groups of borrowers because of their extensive experience with those borrowers, Federal agencies may delegate the screening of those borrowers to banks. To realize the potential benefit from delegation, Federal agencies need to monitor the performance of private partners closely. More importantly, the partnership should be structured such that the profit motives of private-sector partners are preserved. Risk-sharing arrangements and performance-based contracts would help to preserve the profit motive.

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 minimize costs. They may streamline the delivery system, computerize loan servicing, and eliminate redundant servicing facilities. Inter-agency cooperation can also result in a substantial cost saving. When several Federal agencies serve similar purposes, those agencies may share databases, facilities, and expertise. Outsourcing some functions to the private sector is always a possibility because the private sector is generally more efficient.

For Federal programs involving private-sector partners, cost efficiency critically depends on whether contract terms with private-sector partners are adequate. To utilize the private sector's expertise, it is necessary to offer reasonable profit opportunities to private-sector partners. However, contract terms allowing excessive profits would result in serious inefficiency. Profit margins for private-sector partners should be carefully examined and set at an appropriate level. Preferably, Federal agencies may use competitive bidding when it is practical.

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 watch closely and adapt their programs quickly 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 the agencies' initiative, needed adjustments might be substantially delayed because individual agencies conducting daily businesses are best positioned to detect changes in market conditions.

Federal Loan Portfolio Management: Improving Performance and Efficiency

At the end of 2002, the Federal Government held loan assets valued at $251 billion. Of this figure, $220 billion were direct loans, and $31 billion were guaranteed loans acquired by the Federal Government after default. In addition, the Federal government holds liabilities on a $1,145 billion loan guarantee portfolio. While the Government sets aside resources for the future costs of these activities, better management of the portfolio can allow more accurate estimates of credit program subsidy costs, lower the risk exposure of the Federal government, and produce more reliable financial reporting. More efficient management can also free up existing agency resources to better serve program target populations and work more effectively with borrowers and lenders. The size of the Government's portfolio means that even small changes in management practices can have substantial qualitative and quantitative effects in a time of scarce resources.

Over the next year, OMB will work with agencies to identify ways of improving loan portfolio management across the four basic credit functions: program development, loan origination, servicing or lender monitoring during repayment, and liquidation. These improvements will build on principles from:

- the President's Management Agenda, which includes improved asset management (including physical assets) as a component of successful financial management,
- OMB Circular A-129, which outlines policies governing the four basic credit functions, and
- the Debt Collection Improvement Act of 1996, which authorized a variety of techniques, including loan asset sales and Treasury tax refund offset and cross-servicing, to improve management of loans in default by increasing the chance of recovery.

While some agencies have adopted techniques to improve efficiency and performance, such as competitive servicing contracts and lender monitoring, the evolution of private-sector best practices has far outpaced the Government's. In many cases, agencies perform one of the basic credit functions well—usually loan origination—but have poor systems in place for tracking loan performance. Other agencies may track borrowers reasonably well during repayment, but have no risk management system in place to identify and closely monitor borrowers in danger of defaulting.

Implementing changes cannot happen in isolation, however; changes made in one function can significantly affect performance in another. Analyzing these effects may inform agencies' resource decisions through the basic functions, such as whether or not to improve internal accounting systems or to outsource loan servicing and liquidation. Equally important is the fact that this analysis may improve program performance by reducing the default rate, allowing the agency to stretch its subsidy dollars over more borrowers.

Any changes to program management will be made in light of the programs' justifications to ensure that the Government neither crowds out the private sector nor expands the target population beyond that intended. However, the main focus of OMB efforts will be on efficient stewardship of taxpayer dollars and more effective credit assistance to those borrowers who need it.

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.

Federal Housing Administration

In June 2002, the President issued America's Homeownership Challenge to increase first-time minority homeowners by 5.5 million through 2010. HUD's Federal Housing Administration (FHA) will help to achieve this goal through its insurance funds, mainly the Mutual Mortgage Insurance Fund. FHA mortgage insurance provides access to homeownership for people who lack the financial resources or credit history to qualify for a conventional home mortgage. In 2002, FHA insured $136 billion in mortgages for over 1.2 million households, 21 percent more households than in 2001. Most of these were people buying their first homes many of whom were minorities. The dollar volume of mortgages exceeded the 2001 volume by 27 percent, partially driven by the rapid increase in house prices and low interest rates.

For fiscal year 2004, FHA is proposing a new mortgage product. This product will be geared toward families with poor credit records who are currently being served at a higher cost in the subprime market or not served at all. Borrowers could reduce their annual mortgage insurance premiums once they have established a history of regular payments thereby demonstrating their creditworthiness. This innovative product is consistent with FHA's traditional pioneering role in reducing the cost of homeownership and protecting buyers from predatory practices.

To better manage its risks, FHA requires its lenders to evaluate each potential foreclosure and use loss mitigation tools where appropriate. Last year, incentive payments for over 68 thousand loss mitigation actions were made, up from 53 thousand in fiscal year 2001. Loss mitigation helps to avoid costly foreclosures, enables many distressed borrowers to retain their homes, and reduces FHA's claim expenses. FHA also is reducing its losses through more aggressive management of its property oversight and disposition program and is testing a new joint venture approach to this task.

The Budget expands HUD's support for new homeowners by increasing funds for pre- and post-purchase counseling services through a network of counseling agencies. With this increase, over 950 thousand homeowners will receive counseling in 2004.

The President's Management Agenda sets out several critical tasks for FHA to combat fraud and improve risk management. In 2003, FHA will issue a final rule that will 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. HUD also will strengthen its Credit Watch initiative—a lender monitoring program that rates lenders and underwriters by the performance of their loans 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.

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 2002, VA provided $37 billion in guarantees to assist 294,800 borrowers. Both the volume of guarantees and the number of borrowers increased substantially from 2001 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 loans without a VA guarantee. In particular, VA guarantees zero down payment loans. As a result, the default rate is somewhat higher than the national average. The subsidy rate has remained relatively stable during the past couple of years and continues to be less than one percent.

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 43 percent of its 2002 interventions, and its goal is to maintain at least a 41 percent success rate in 2004. 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

The U.S. Department of Agriculture's (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 2002, $2.4 billion of guarantees went to 29,218 households, of which 33 percent went to low-income borrowers (with income 80 percent or less than median area income).

In 2002, RHS approved separate risk categories for the guarantee refinancing (refis) and guarantees of new loans. As part of that change, RHS also reduced the guarantee fee to 0.5 percent for the refis. This change reflected the lower risk on refis as compared to an unseasoned borrower receiving a new loan. It is also consistent with the rate HUD and VA charge on their refis of similar loans. For 2003, RHS will also lower the guarantee fee on new loans to 1.5 percent from 2 percent, partly undoing the 1-percentage-point increase that was implemented in 2001. Recent data revealed that the full 1-percentage-point increase was inconsistent with the housing market condition and too costly for the target borrower, low and moderate income families. The high fee resulted in less assistance going to rural areas for guaranteed single family housing loans than what had been authorized. The new rate is more in line with the housing industry, including HUD and VA, and will result in more rural Americans realizing the dream of homeownership.

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 2003, 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, consistency and timeliness for RHS, the lenders, and customers. RHS is currently working with HUD to determine if RHS can utilize or modify the TOTAL scorecard being developed by HUD. 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 is currently in the process of centralizing and automating the loss claim process to improve consistency and efficiency.

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 2004, RHS expects to provide $1.4 billion in loans with a subsidy cost of 9.27 percent.

RHS also offers multifamily housing loans. Direct loans are offered to private developers to construct and rehabilitate multi-family rental housing for very-low to low-income residents, elderly households, or handicapped individuals. These loans to developers are very heavily subsidized; the interest rate is between 1 and 2 percent. A subset of these loans is the farm labor housing direct loans, which are similarly subsidized and provide rental units for farm workers, the majority of whom are minorities. RHS rental assistance grants supplement both of these loan programs in the form of project based rent subsidies for very low-income rural households (for continuation of this assistance plus new commitments, the cost will be $740 million in 2004). RHS will address management issues in its multifamily housing portfolio in 2004 by restricting the $71 million loan level to repair and rehabilitation of its existing portfolio (17,400 projects, 446,000 units). They will also conduct a study on how to fund new construction in a more cost efficient manner with a continued emphasis on the preservation of existing units. Farm labor housing will have a program level of $59 million and will provide for new construction as well as repair/rehabilitation. RHS also offers guaranteed multifamily housing loans with a loan level of $100 million a year.

Fannie Mae and Freddie Mac

Fannie Mae and Freddie Mac (the "Enterprises") are Federally-chartered, shareholder owned corporations that were created by Congress to achieve public purposes. Specifically, the Enterprises are required to establish a secondary market for residential mortgages below a certain size and to assist the secondary mortgage market by increasing the liquidity of mortgage investments. The Enterprises also are required to purchase mortgages that serve low-and moderate-income families and families living in communities undeserved by the mortgage markets. To assist the Enterprises in achieving their public purpose, Congress granted Fannie Mae and Freddie Mac certain benefits that are not available to fully private corporations, including an exemption from State and local taxes. The Secretary of the Treasury also has authority to purchase up to $2.25 billion of each Enterprises' debt securities.

The Enterprises carry out their public mission by providing financing for mortgages. The Enterprises create mortgage-backed securities (MBS) from pools of loans provided by lenders. The lenders can then choose to hold these securities themselves or to sell them into the market. The Enterprises earn profits for their stockholders by charging fees for their guarantees against potential credit losses on these securities.

The Enterprises also earn profits by purchasing mortgages and other mortgage-backed assets (including MBS that they have issued) and funding the purchases through the issuance of debt. The mortgage asset portfolios of the two Enterprises have grown in the past year by 11 percent. Each Enterprise also markets technology and services to support the mortgage lending process, another source of earnings.

The bulk of the Enterprises' profits reflect the rewards they earn for taking and managing risks. These risks mainly fall into two categories: Credit risk and Interest rate risk.

Credit risk arises from the Enterprises' guarantee against losses when mortgages they have purchased default, whether the mortgages support investor-owned MBS or whether they are held in the Enterprises' portfolios as individual loans or as MBS. The Enterprises manage credit risk by establishing underwriting guidelines for the mortgages they purchase, using automated underwriting tools, and manage loan performance through servicing and loss mitigation activities. The Enterprises also share credit risk with private mortgage insurers on pools of mortgages and on individual mortgages with low down payments. They also share risk with other third-party guarantors and, in some cases, with lenders.

Interest rate risk arises from the mortgages and other assets that the Enterprises hold in their portfolios. This risk results from changes in market interest rates that might reduce the spread between the return that the Enterprises earn on their holdings and the interest they pay on borrowings used to finance them. Mismatches between the duration of assets and liabilities and the potential for changes in prepayment speeds give rise to interest rate risk. The Enterprises limit interest rate risk by various means, including matching the projected duration of their assets and liabilities, and purchasing options that effectively allow them to alter the speed with which they retire their fixed-rate liabilities.

- The Enterprises must manage the interest rate risk on MBS they hold in portfolio just as they manage the risks on individual loans. As of September 2002, the two Enterprises held a combined $797 billion of their own previously issued MBS, accounting for 62 percent of their combined mortgage asset portfolios.
- Although holding substantially more securities rather than individual loans could facilitate the sale of portfolio assets should the Enterprises choose to liquidate these assets, some have proposed limiting the size of the Enterprises' retained portfolios for both MBS and individual loans. These proposals are based partly on a desire to minimize the Enterprises' exposure to possible losses that could result from substantial interest rate risk.

The inherent risks of the Enterprises' business are constantly monitored by the market and by their Federal safety and soundness regulator, established in October 1992, the Office of Federal Housing Enterprise Oversight (OFHEO).

Increased voluntary disclosures, which the Enterprises initiated in the first quarter of 2001, have helped investors better assess the level of each Enterprise's risk exposure. Both Enterprises now disclose measures of their interest rate risk on a monthly basis and issue credit risk disclosures on a quarterly basis. They also obtain and disclose an annual rating of their financial condition from a nationally recognized agency. In July 2002, Fannie Mae and Freddie Mac announced that they would voluntarily register their common stock with the SEC under provisions of Section 12(g) of the Exchange Act, 15 U.S.C. 781 (g). As part of this voluntary step, OFHEO will promulgate a regulation that will require the Enterprises to comply with SEC requirements. Taken together, these steps will subject the Enterprises to the same periodic disclosures that the SEC requires of other publicly traded companies.

OFHEO's new capital requirements will enhance its regulatory oversight and reinforce market discipline. OFHEO began quarterly publication of a risk-based capital requirement for the Enterprises in the second quarter of FY 2002, and this requirement became fully enforceable in the fourth quarter. Both Enterprises held more than the required capital in that quarter. Fannie Mae's capital was $27.278 billion while its risk based requirement was $21.440 billion. Freddie Mac's capital was $23.101 billion while its risk based requirement was $4.919 billion. Besides ensuring that the Enterprises maintain a level of capital commensurate with their risk, the risk-based capital requirement also can enhance market discipline. The Enterprises and the marketplace may use the quarterly changes in this measure as another indication of their overall risk exposure and their ability to manage it.

Who benefits from Enterprise risk-taking? Because they receive substantial advantages from the Federal Government, such as conditional access to up to $2.25 billion of US Treasury borrowing and exemption from State and local income taxes, some perceive the Enterprises as having Government support—despite the fact that the Government explicitly does not guarantee their securities. As a result, they are able to fund their operations at lower cost than would other private firms with similar financial characteristics. In a report published in May 2001, the Congressional

Budget Office (CBO) estimated this funding advantage for the year 2000 to be a $10.6 billion annual subsidy. Of this amount, CBO estimated that borrowers received $6.7 billion of the subsidy, while the Enterprises retained about $3.9 billion, or 37 percent of the subsidy, for their shareholders or other stakeholders. Subsequently, through September 2002, the Enterprises have increased their combined debt-funded retained portfolios by 29 percent and their off-balance sheet MBS by 34 percent.

To help ensure that the Enterprises' subsidy contributes to the maximum extent possible to underserved housing needs, the Congress in 1992 mandated that the Department of Housing and Urban Development (HUD) establish annual "housing goals." The housing goals define percentages of the Enterprises' annual purchases that must serve very-low, low-, and moderate-income borrowers and borrowers living in communities that are underserved by the private market. Underserved communities include high-minority and low-income census tracts, which traditionally have had more difficulty than other areas in obtaining mortgage credit. Congress has directed that, in setting the level of the housing goals, HUD must consider, among other factors, the extent to which the Enterprises "lead the mortgage finance industry" in service to these categories of potential borrowers.

The President has set a goal for the Nation of adding 5.5 million new minority homebuyers by 2010. To help meet this goal, together the Enterprises have pledged to purchase $1 trillion in mortgages made to minority families, and both Enterprises are implementing initiatives designed to remove barries to and increase opportunities for homeownership by minorities. Numerous studies by HUD and other researchers have shown that Fannie Mae and Freddie Mac generally have trailed the rest of the private mortgage market in funding mortgage loans for low-income and minority families. For example, during the 1997–1999 period, HUD estimates that while the home loans acquired by these Enterprises represented 36 percent of all new home buyer purchases, they represented only 15 percent of homes purchased by first-time minority families. On the other hand, FHA loans, the traditional entry point to the home finance market for many minority homebuyers and first-time homebuyers, were only 16 percent of the overall market, but totaled 37 percent of the first-time minority market.

In 2001, both Fannie Mae and Freddie Mac achieved all of their HUD-established housing goals. Fannie Mae financed over $87 billion in loans to nearly 680,000 minority families. Fannie Mae also financed over $132 billion in loans to over 1,500,000 low- and moderate-income families. Freddie Mac purchased $132 billion in single-family mortgages funding homes for 1.5 million low- and moderate-income families. Additionally, Freddie Mac's purchases of almost $12 billion in multifamily mortgages financed 300,000 units of rental housing affordable to low- and moderate-income families. Freddie Mac also financed $54 billion in mortgages funding homes for more than 400,000 minority families.

HUD is also looking at new ways to encourage improved performance from the Enterprises. HUD's current rule established the Enterprises' housing goals for 2001–2003. In accordance with its rulemaking responsibilities, HUD is re-examining these housing goals to determine appropriate performance levels for the years 2004–2006. At the same time, HUD is looking at ways to create new housing goals incentives that will have the effect of increasing minority homeownership, thereby further ensuring that the benefits each Enterprise derives from its Congressional charter are used to increase minority homeownership opportunities.

Federal Home Loan Bank System

The Federal Home Loan Bank System, consisting of 12 banks (FHLBs) serving their districts, was established in 1932 to provide liquidity to home mortgage lenders. The FHLBs carry out this mission by issuing debt and using the proceeds to make advances (secured loans) to their members. Member institutions, which include thrifts, commercial banks, and credit unions, secure advances primarily with residential mortgages and other housing-related assets. To assist the FHLBs in achieving their public purpose, Congress granted certain benefits that are not available to fully private corporations, including a $4 billion conditional line of credit with the U.S. Treasury and exemption from State and local taxes.

The FHLBs experienced moderate growth in the past year, while their profitability declined slightly. Outstanding advances reached $490.7 billion in September 2002, a 5.1 percent increase over the $466.8 billion outstanding a year earlier. As of September 30, 2002, about 69 percent of advances had a remaining maturity of greater than one year—up from 64 percent one year earlier. Mortgage loans outstanding were $47.1 billion, up from $22.6 billion one year earlier. Mortgage loans accounted for approximately 6.2 percent of total FHLBs' assets. In 2002, the FHLBs issued $4.6 trillion in debt securities, most of which represented the rollover of overnight or short-term debt. While the majority of the debt issued by the System is overnight or short-term, 79 percent of debt outstanding had an original maturity of one year or longer. Total debt outstanding was about $688 billion at the end of 2002. The FHLBs reported net income of $1.9 billion for the year ending September 30, 2002, down from $2.1 billion in the previous 12 months.

Traditionally, the FHLBs have been exposed to little credit risk. All advances to member institutions are collateralized, and the FHLBs can call for additional or substitute collateral during the life of an advance. As long as FHLBs adhere to conservative collateral policies (high-quality collaterals and a high ratio of collateral value to the loan amount), their exposure to credit risk will continue to be minimal in the future. The benefit of using collateral, however, comes at the cost of increasing the potential liability of the Federal Deposit Insurance Corporation (FDIC). Since the FHLBs' collateralized claim is senior to the FDIC's claim, the FDIC has less to recover in cases where a member institution with large FHLB advances fails. Thus, FHLB advances, like secured loans from other creditors, could indirectly increase the Federal Government's exposure to credit risk. As is the case with other financial intermediaries, FHLBs are potentially exposed to interest rate risk, which should be carefully managed.

The System's new investment activities, including mortgage purchase programs, involve more risk while offering new alternative ways of doing mortgage business. In one of these programs, the Mortgage Partnership Finance Program, the FHLBs finance mortgage loans and assume the interest-rate and prepayment risk, while the member banks and thrifts originate and service the loans and assume a portion of the credit risk. All assets held by an FHLB 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 FHLB must hold risk-based capital against mortgage assets that have credit risk equivalent to an instrument rated lower than double A.

To control the System's risk exposure, the Federal Housing Finance Board (the FHLBs' regulator) has established regulations and policies that the FHLBs must follow to evaluate and manage their credit and interest-rate risk. FHLBs must file periodic compliance reports, and the Finance Board conducts an annual on-site examination of each FHLB. Each FHLB's board of directors must establish risk-management policies that comport with Finance Board guidelines. Each FHLB is also required to adopt and implement a capital plan consistent with provisions of the Gramm Leach Bliley Act and Finance Board regulations. In 2002, the Finance Board approved the capital plan of each FHLB. These plans call for implementation over the next several years.

In 2002, the Administration encouraged all Government Sponsored Enterprises, including the FHLBs, to voluntarily register their equity securities with the Securities and Exchange Commission (SEC). This voluntary registration is part of the Administration's efforts to have GSEs undergo the same scrutiny process as other corporate enterprises. Unlike Fannie Mae and Freddie Mac, which have committed to participating in the disclosure process, the FHLBs have not yet decided to register their stock with the SEC.

The FHLBs' evolving member composition and investment activities raise questions about the degree to which the System continues to promote the public policy objective of providing liquidity to home mortgage lenders. As a result of opening membership to commercial banks and credit unions, for example, many member institutions now have very limited involvement in mortgage lending. In addition, like other GSEs, the FHLBs issue debt securities at close to U.S. Treasury rates and invest the proceeds in higher-yielding securities. Through September 2002, the FHLBs' investments other than advances rose to $215 billion, compared with $194 billion a year earlier. As a percentage of total assets, those investments remained at 28 percent. While these investments may enable the FHLBs to provide benefits to member institutions, they do not necessarily result in lower costs to home buyers. According to a report by the Congressional Budget Office (CBO), member advances can be used to fund other loans besides mortgages. While the CBO report found, through competitive pressures, that "members may be forced to pass most of the benefit through to their own customers," the report concluded that of the $3 billion annual subsidy that the FHLBs received from their funding advantage and other benefits in 2000, only $0.3 billion was passed on to mortgage borrowers in the form of lower interest rates.

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. However, borrowers with low family incomes are eligible for additional interest subsidies. For these 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 2004, more than 6 million borrowers will receive over 12 million loans totaling $67 billion. Of this amount, nearly $48 billion is for new loans, and the remainder reflects the consolidation of existing loans. Loan levels have risen dramatically over the past 10 years as a result of rising educational costs, higher loan limits, and an increase in eligible borrowers.

The FFEL 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 6,000 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 2004, FFEL lenders will disburse nearly 9 million loans totaling almost $47 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 the Direct Loans program, the Federal Government provides loan capital directly to roughly 1200 schools, which then disburse loan funds to students. In 2004, the Direct Loan program will generate more than 3.5 million loans with a total value of nearly $20 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.

Recently, historically low interest rates have significantly affected the Federal costs and receipts associated with these programs, as well as borrowers' decisions to consolidate their student loans. In FFEL, for example, low interest rates have decreased the Federal interest subsidies paid to lenders on behalf of low-income borrowers while they are in school or during grace or deferment periods. In Direct Loans, the steep decline in short-term interest rates has decreased borrowers loan repayments, resulting in lower Federal receipts.

In recent years, low interest rates have also contributed to a dramatic increase in fixed-rate Consolidation Loans, which allow borrowers to combine one or more FFEL, Direct Loan, or other Federal student loans. When interest rates are low, borrowers have a strong incentive to consolidate their existing loans to lock in at a low fixed rate. In 1995, Consolidation Loans totaled $3.6 billion, accounting for roughly 13 percent of overall student loan volume. By 2002, these loans grew more than six fold to nearly $22.7 billion, making up approximately 56 percent of total student loan volume. This high rate of growth should slow if, as projected, interest rates increase from current levels. Consolidation Loans are projected to be $24.4 billion in 2003 and to decrease to $19.1 billion in 2004.

For Fiscal Year 2004, the Administration is once again proposing to address the shortage of qualified, skilled math, science, and special education teachers in elementary and secondary schools by expanding loan forgiveness. This proposal builds upon the teacher loan forgiveness program authorized in the 1998 Higher Education Amendments, which provided up to $5,000 of loan forgiveness to teachers of any subject who teach for five consecutive years in schools serving low-income populations. The Administration is proposing to increase loan forgiveness to $17,500 for highly qualified teachers who teach math, science, or special education for five years in high-need schools. Such 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 chartered by Congress in 1972 as a for-profit, shareholder-owned, Government-sponsored enterprise (GSE). Sallie Mae was privatized in 1997 pursuant to the authority granted by the Student Loan Marketing Association Reorganization Act of 1996. The GSE is a wholly owned subsidiary of SLM Corporation and must wind down and be liquidated by September 30, 2008. In January 2002, the GSE's board of directors announced that it expects to complete dissolution of the GSE by September 30, 2006. The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 allows the SLM Corporation to affiliate with a financial institution upon the approval of the Secretary of the Treasury. Any affiliation will require the holding company to dissolve the GSE within two years of the affiliation date (unless such period is extended by the Department of the Treasury).

Sallie Mae makes funds available for student loans by providing liquidity to lenders participating in the FFEL program. Sallie Mae purchases 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 and the Federal Agricultural Mortgage Corporation, 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 supplement market lending and provide access to credit where private lenders are reluctant to do so without a Government guarantee.

The 2004 Budget requests $226 million for SBA to leverage more than $20 billion in financing for small businesses. The 7(a) General Business Loan program will support $9.3 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 $20 million in microloans, along with $15 million in technical assistance to increase the likelihood of success of these very small business borrowers.

To continue to serve the needs of small businesses, SBA will focus program management in three areas: (1) targeting economic assistance to the neediest small businesses, (2) improving risk management, and (3) operating more efficiently.

While SBA can guarantee 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 will encourage banks to increase the number of loans they make that are below $150,000.

To more effectively target economic assistance to small businesses, SBA will address the findings of a Program Assessment Rating Tool (PART), which was used to evaluate the 504 loan program. The PART found that the 504 program duplicates the 7(a) program in that both provide long-term financing for fixed assets (land, buildings, and large equipment). Additionally, the PART revealed that the 504 program does not have long-term, measurable public policy objectives that flow from an agency strategic plan. Finally, the PART found that the 504 program needs to increase the availability of intermediaries so that borrowers can more readily determine which of SBA's programs (7(a) or 504) better meets their needs.

To address these findings, the 2004 Budget proposes to increase program evaluations to determine the factors that affect both demand and performance in the 504 and 7(a) programs. The proposed evaluations would also compare the cost of 504, 7(a), and private sector loans. Further, SBA will solicit the public's views as it prepares to develop a regulation regarding long-term programmatic goals and increasing borrower choice for 504 and 7(a) loans.

Improving management by measuring and mitigating risks in SBA's $50 billion business loan portfolio is one of the agency's greatest challenges. As the agency delegates more responsibility to the private sector to administer SBA guaranteed loans, oversight functions become increasingly important. SBA established the Office of Lender Oversight, which is responsible for evaluating individual SBA lenders. This office will employ a variety of analytical techniques to ensure sound financial management by SBA and its lending partners, including overall financial performance analysis, industry concentration analysis, peer lending performance comparisons, portfolio performance analysis, and selected credit reviews. The oversight program will also encompass on-site safety and soundness examinations and off-site monitoring of Small Business Lending Companies (SBLCs) and compliance reviews of SBA lenders. In addition, the office will develop incentives for lenders to minimize defaults and to adopt measurable performance measures.

SBA has also been developing a Loan Monitoring System (LMS), which will further support lender oversight by improving SBA's data collection and processing capabilities, providing a direct and better interface with lenders, and helping to increase lender accountability.

Improving risk management also means improving SBA's ability to more accurately estimate the cost of subsidizing small business loans. This has been a source of some controversy for the Section 7(a) program in recent years. During the period of strong economic growth over the last few years, initial subsidy estimates appeared to significantly overstate actual experience for various loan cohorts. However, during the recent economic downturn, actual defaults have increased and are now more closely aligned with original projections. For the Section 7(a) program, SBA projected an estimate of $757 million in defaults for loans made in fiscal year 2002, which was only 2.3 percent higher than the actual amount of defaults, which was $740 million. For the Section 504 program, SBA underestimated fiscal year 2002 defaults by 8 percent. Although the agency projected $100 million in defaults for loans made in fiscal year 2002, actual defaults reached $108 million. Such swings in subsidy estimates are not surprising as statistical forecasts are not precise but rather represent the best estimates that can be made with available data.

The Administration has also made two technical improvements that enhance the Section 7(a) credit subsidy estimate. First, SBA has improved the quality of the data. Second, SBA has made significant progress in improving the accuracy of the subsidy estimate in the 7(a) program through the development of an econometric model. This new model incorporates predictive economic variables. As a result, the new model is more accurate in capturing yearly fluctuations in program performance than the straight averaging method applied in prior years. The difference can be substantial. Applying the econometric model to fiscal year 2003 produces a subsidy rate of 1.04 percent, rather than the 1.76 percent included in the fiscal year 2003 Budget that was delivered using the previous model.

Further, SBA is improving oversight and accounting practices in the ongoing sale of more than $5 billion in direct loans from SBA's portfolio. The agency is reassessing the accounting of prior sales to more accurately reflect the impact of asset sales on the overall cost of SBA's direct loans. SBA is committed to resolving accounting discrepancies prior to conducting any further asset sales. SBA also sells 7(a) guaranteed loans through a master reserve fund (MRF), which serves as the agency's vehicle for managing loans sold in the secondary market. To properly manage any risk associated with this fund, SBA will budget and account for the Government's liability in accordance with the Federal Credit Reform Act. Specifically, SBA will reflect in the 2004 Budget the estimated liability of MRF financial activity. In the future SBA will refine these estimates and develop financial reports to measure portfolio risk.

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 2004. Additionally, because loan-servicing functions can often be better performed by the private sector, SBA is subjecting performance of these activities to competition. The agency will, therefore, focus its resources on core programs such as providing access to capital, technical assistance, and Federal contracting opportunities.

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 2004 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% of the project cost (it can be up to 75%). 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 2004. USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, including cooperatives, to increase employment and diversify the rural economy. In 2004, USDA proposes to provide $602 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 2003, USDA expects to retain or create 53,494 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 have occurred in the electric program. In 1997, $667 million worth of largely nuclear power construction loans was written off, but this case was unusual. The large nuclear generation loans have proven to be the most risky electric loans. USDA has not approved a nuclear power generation loan for over 20 years.

The subsidy rates for most of the electric and telecommunication programs are negative. The subsidy rates have decreased largely due to the low interest rates that are projected in the Budget and used to discount future loan repayments. The default rates for both programs are very low, less than one percent. 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. So far there has not been any significant effect on rural cooperatives due to deregulation. As information on the impact of deregulation increases, this risk will be factored into the default rates. In addition, recent problems in the telecommunications industry have not had a significant impact on rural telecommunications cooperatives. 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.

Providing funding and services to needy areas is of concern to USDA. Many rural cooperatives provide service to areas where there are high poverty rates. Based on findings of the PART analysis, the 2004 Budget proposes to increase funding (increases of $120 million for electric loans and $70 million for telecommunications loans) to those electric and telecommunications loans which are targeted to severely depressed areas. USDA will target electric loan funds to areas of high poverty. These changes will increase the availability of utility service in needy areas, improving the quality of life and helping to retain and attract businesses. In addition, to ensure the program's focus on rural areas, the Budget proposes to require recertification of rural status for each electric and telecommunications borrower on the first loan request received in or after FY 2004 and on the first loan request received after each subsequent Census.

USDA's Rural Utilities Service (RUS) proposes to make $2.6 billion in direct and guaranteed loans in 2004 to rural electric cooperatives, public bodies, nonprofit associations, and other utilities in rural areas for generating, transmitting, and distributing electricity. This funding request includes provision for guaranteeing $100 million in electric loans made by private banks. The demand for loans to rural electric cooperatives has been increasing and is expected to increase further 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 2004 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), which provides financing for rural telecommunications systems, is in the process of privatization. The 2004 Budget does not propose funding to support new loans. There is significant member and borrower support for statutorily authorized privatization. The RTB is financially able to privatize by the end of 2004, and this provides enough time to finish a privatization study and prepare for privatization. The RTB is provided full salaries and expenses to service existing loans, to finish a privatization study, and prepare for privatization by the end of 2004.

The Distance Learning and Telemedicine program provides grants and loans to improve distance learning and telemedicine 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 also provide telemedicine equipment to 150 rural health care providers, benefiting millions of residents in rural America.

There were various legislative actions that impacted 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 and in the 2002 Farm Bill. The 2002 Farm Bill also authorized a broadband loan program and provided funding through 2007. This program will help bring high speed Internet access to rural areas. The 2004 Budget proposes converting the mandatory broadband funding into discretionary funding.

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 and developing their farming or ranching operations. As a condition of eligibility for direct loans, borrowers must be unable to obtain private credit at reasonable rates and terms. As FSA is the "lender of last resort,"default rates on FSA direct loans are generally higher than those on private-sector loans. However, in recent years the loss rate has decreased to 4.8 percent in 2002, compared with 5.4 percent in 1999.

FSA guaranteed farm loans are made to more creditworthy borrowers who have access to private credit markets. Because the private loan originators must retain 10 percent of the risk, they exercise care in examining the repayment ability of borrowers. As a result, losses on guaranteed farm loans have been low. As for direct loans, the default rate on guaranteed loans declined in recent years; it was percent 0.6 percent in 2002, as compared with 0.9 percent in 1999.

The 2002 Farm Bill changed some of the requirements for managing inventory property. Property acquired through foreclosure on direct loans must now be sold at auction within 165, rather than 105 days of acquisition. The new rule allows more time to advertise and encourage participation from beginning farmers.

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. As shown above, both the direct and guaranteed loans have experienced a decreasing default rate.

In fiscal year 2002, FSA provided loans and loan guarantees to approximately 30,000 family farmers totaling $3.5 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 years, the demand for FSA direct and guaranteed loans have been high due to crop/livestock price decreases and some regional production problems. In 2004, USDA's FSA proposes to make $3.5

billion in direct and guaranteed loans through discretionary programs.

USDA's Loan Sale Initiative

In 2004, USDA's Rural Development along with the Farm Service Agency will conduct a review and develop a pilot loan asset sale. The sale should include both performing and non-performing loans with a loan mix that results in the greatest budgetary savings for the Federal government. Although the exact mix of loans has not been determined a placeholder has been included in the 2004 Budget to reflect the sale.

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, in turn, its lenders continue to exhibit stability in their income and balance sheets. Unfortunately, this is due,in part, to ad-hoc Government emergency assistance payments that have been provided from 1998 through 2001. The current economic malaise that began in 2001 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 relatively low in 2002, and drought conditions were widespread. Long-term forecasts are for gradual recovery in commodity prices. 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. However, such aggregate facts may mask the problems of certain sectors within the farm economy as is evident in the rice and cotton sectors where prices are down 50 and 44 percent, respectively, this year when compared to their respective ten year price averages. Farmland values increased moderately in 2001 (up 4.5 percent) due to a combination of Government payments and urban influences. Projections for 2002 see a minimal rise of 1.0 percent in farmland values.

Commercial banks continued their long standing hold on the predominant market share of all farm debt registering a 40.5 percent share in 2001. The FCS trailed with a significant share of 28.3 percent. The United States Department of Agriculture (USDA) direct farm loan programs market share was 3.8 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 2002.

The Farm Credit System

The financial condition of the System's banks and associations during 2002 continued a 14-year trend of improving financial health and performance. Improved asset quality and strong income generation enabled FCS to post record capital levels: on September 30, 2002, capital stood at $15.2 billion—an increase of 8.9 percent for the year. Not included in the $15.2 billion is restricted capital totaling $1.8 billion held by the Farm Credit System Insurance Corporation (FCSIC). Loan volume has increased since 1995 to $87.9 billion in September 2002, which easily surpasses the high of $81.9 billion in the early 1980s. The rate of asset growth seen in the years 2001 and 2000 has been significant, 7.2 percent and 6.0 percent respectively. The rate of capital accumulation, however, has been greater, resulting in total capital equaling 15.3 percent of total assets at yearend 2000 and 15.8 percent at yearend 2001. Non-performing assets increased slightly to 1.4 percent of the portfolio in September 2002 after remaining steadfast at 1.2 percent in both December 2001 and December 2000. Competitive pressures have narrowed the FCS's net interest margin from 3.03 percent in 1995 to 2.82 percent in 2001. The net interest margin has remained relatively stable at about the 2001 level during 2002. However, the net interest margin is expected to increase in the near-term, given the lower interest rate environment seen through 2002. Substantial consolidation continues in the structure of the FCS. In January 1995, there were nine banks and 232 associations; by October 2002, the numbers reduced to seven banks and 103 associations. From October 2001 to October 2002, the number of associations fell by 12 because of mergers and acquisitions.

The 1987 legislation established FCSIC to ensure timely payment of interest and principal on FCS obligations. FCSIC's net assets, largely comprised of premiums paid by FCS institutions, supplements the System's capital and supports the joint and several liability of all System banks for FCS obligations. On September 30, 2002, FCSIC's net assets totaling $1.6 billion were slightly below (1.94 percent) the statutory minimum of 2.0 percent of outstanding debt. The Insurance Corporation resumed premium collection from System institutions in 2002 and will quadruple its premium rate in 2003 to ensure the Insurance Fund grows in concert with the expansion in the System's outstanding debt necessitated by strong growth in its loan portfolio.

Improvement in the FCS's financial condition is also reflected in the examinations of FCS member institutions by the Farm Credit Administration (FCA), its Federal regulator. Each of the System institutions is rated under the FCA Financial Institution Rating System (FIRS) for capital, asset quality, management, earnings, liquidity, and sensitivity. At the beginning of 1995, 197 institutions carried the best FIRS 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 2002, in contrast, all but one of the 111 institutions were given ratings of 1 or 2, the remaining one, a relatively small association, was rated 3. As of September 30, 2002, there were no FCS institutions under an enforcement action.

The System had $87.9 billion in gross loans outstanding as of September 30, 2002. Total loans outstanding have grown by $7.8 billion, or 9.8 percent, over the year ended September 30, 2002, and by $24.9 billion, or 39.5 percent, over the past five years. The volume of lending secured by farmland increased 47.6 percent, while farm-operating loans have increased 41.6 percent since 1997. Total members served increased about 3 percent during the past year. Agricultural producers represented by far the largest borrower group, with $68.1 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 of System institutions. The System has more than 444,000 stockholders; about 84 percent of these are farmers with voting stock. Over half of the System's total loan volume outstanding (51.0 percent) is in long-term real estate loans, over one-quarter (26.5 percent) is in short- and intermediate-term loans to agricultural producers, and 19.1 percent is to cooperatives. International loans (export financing) represent 3.4 percent of the System's loan portfolio.

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 facilitate 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, Farmer Mac's program activities and business have steadily increased.

Farmer Mac continues to meet statutory minimum core capital requirements. Additionally, Farmer Mac was first required to be in compliance with FCA's risk-based capital rule and stress test on May 23, 2002. This rule and stress test determine the minimum level of regulatory capital necessary to enable Farmer Mac to maintain positive capital during stressful credit and interest rate risk conditions. Farmer Mac is in compliance with the regulatory capital requirements of the risk-based capital rule and stress test.

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 (USAID), 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 export credit programs counter 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 ECAs 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 of 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 (DCA), which allows USAID to use a variety of credit tools to support its development activities abroad. This unit encompasses newer DCA activities, such as municipal bond guarantees for local governments in developing countries, 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. While there is clear demand for DCA's facilities in some emerging economies, the utilization rate for these facilities is still very low.

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 2004, OMB used the 2003 methodology, updated for current market data. The 2003 methodology was a significant revision which uses more sophisticated financial analyses and comprehensive market data, and better isolates the expected cost of default implicit in interest rates charged by private investors to sovereign borrowers. All else equal, this change expands 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 2004.

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 relatively narrowly on providing financing and insurance services to large U.S. companies investing abroad. As a result, OPIC did not devote significant resources to its mission of promoting development through mobilizing private capital. OPIC is developing and implementing policy changes that reflect the mandate to revitalize its core 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.

Due to sufficient carry-over resources, the Budget does not request subsidy appropriations for the Export-Import Bank. The carry-over balance will support a projected increase over the Bank's level of lending in 2003. The Budget provides $24 million for OPIC credit subsidy in 2004.

Performance Assessment

For FY 2004, The Administration used the Performance Assessment Rating Tool (PART) to rate Export-Import Bank's long term guarantee program and OPIC's finance program. The PART revealed that both of these programs were well-managed, but need to strengthen their performance measures. The Administration will work with these Agencies to develop and implement more effective performance measures.

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 $3.3 trillion of deposits at almost 8,000 commercial banks and 1,500 savings institutions. The NCUA insures almost 10,000 credit unions with $432 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.

One SAIF member and 8 BIF members with a combined $2.5 billion dollars in assets failed during 2002. Since 1997, assets associated with BIF failures have averaged $778 million per year. During 2002, 14 Federally insured credit unions with $57 million in assets failed (including assisted mergers). The FDIC currently classifies 148 institutions with $42 billion in assets as "problem institutions," compared to 94 institutions with $18 billion in assets a year ago. By comparison, at the height of the banking crisis in 1989, failed assets rose to over $150 billion.

Bank earnings increased in fiscal year 2002. The industry net income totaled $87 billion, an increase of 19 percent from fiscal year 2001. The largest factor in the earnings increase is higher net interest income, which has more than offset a rise in loan loss provisions. Thrift earnings also increased in fiscal year 2002. Net income was $3 billion higher than a year ago. Despite these favorable conditions, the banking industry faces numerous challenges ahead. Specific areas of concern for FDIC-insured institutions include (1) continuing credit losses at large banks on loans to large, corporate borrowers, (2) concentrations of credit risk among smaller institutions headquartered in formerly fast-growing metro areas, and (3) subprime lenders, which continue to figure prominently among failed and troubled institutions.

In the first calendar year quarter of 2002, the reserve ratio (ratio of insurance reserves to insured deposits) of BIF fell to 1.23-percent, below the 1.25-percent statutory target. The ratio, however, recovered in subsequent quarters. As of September 30, 2002, BIF had estimated reserves of $31 billion, or 1.25 percent of insured deposits. The SAIF reserve ratio, by contrast, remained comfortably above 1.25-percent throughout the year. As of September 30, 2002, SAIF had reserves of $12 billion, or 1.39 percent of insured deposits. Through June 30, 2003, the FDIC will continue 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. In May, the FDIC will set assessment rates for July through December of this year. Due to the strong financial condition of the industry and the insurance funds, 91 percent of commercial banks and 90 percent of thrifts did not pay insurance premiums in 2002.

The National Credit Union Share Insurance Fund (NCUSIF) also remains strong with assets of nearly $6 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 waived during 2002 because sufficient investment income was generated. For the first time in six years, the NCUA Board did not approve a dividend for calendar year 2001, as the Fund's equity ratio did not exceed 1.30 percent. As the equity ratio did not exceed

1.30 percent in 2002, the Fund will not restore dividends this year.

As a result of consolidation, fewer large banks control an increasingly 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.

Federal Deposit Insurance Reform

While the deposit insurance system is in good condition, the Administration proposes to make improvements in the operation and fairness of the deposit insurance system for banks and thrifts. The 2004 Budget proposes to merge the BIF and the SAIF, which offer an identical product. A single merged fund would be stronger and better diversified than either fund alone. A merged fund would prevent the possibility that institutions posing similar risks would again pay significantly different premiums for the same product. 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 insurance fund reserves falls below the DRR, the FDIC must charge either sufficient premiums to restore the reserve ratio to 1.25 percent within one year, or no less than 23 basis points if the reserve ratio remains below 1.25 percent for more than one year. The Administration's proposal would give the FDIC authority to adjust the DRR periodically within prescribed upper and lower bounds and greater discretion in determining how quickly it restores the DRR to target levels. This flexibility would help reduce potential pro-cyclical effects by stabilizing industry costs over time and avoiding sharp premium increases when the economy may be under stress. Finally, the FDIC has been prohibited since 1996 from charging premiums to "well-capitalized" and well-run institutions as long as insurance fund reserves equal or exceed 1.25 percent of insured deposits. Therefore, only nine percent of banks and ten percent of thrifts pay insurance premiums, allowing a large number of financial institutions to rapidly increase their insured deposits without any contribution to the insurance fund. The Administration proposal would repeal this prohibition to ensure that institutions with rapidly increasing insured deposits or greater risks appropriately compensate the insurance fund.

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 the possibilities that currently healthy firms become distressed in the future and that currently well-funded plans become underfunded due to inadequate contributions or poor 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 increased slightly during the 1980's but started to decline in the 1990's. The increase in the number of participants in PBGC-insured plans—from 38 million in 1985 to almost 44 million in calendar 2002—is attributable to aging of the participant population, which includes retirees, separated vested workers, and beneficiaries of deceased workers and retirees, in addition to active workers. The number of active workers in PBGC-covered plans fell from almost 27 million in calendar 1985 to fewer than 23 million in calendar 2000, a decrease of 15 percent. If the trend continues, active workers may constitute less than half of PBGC-insured participants in calendar 2003.

PBGC's single-employer program returned to a deficit position in 2002 for the first time in seven years, as a result of record losses on plan terminations in 2001 and 2002. LTV, a steel company, terminated its plan with underfunding of nearly $2 billion, which then was PBGC's largest claim ever. Other large underfunded terminations during the fiscal year included Reliance Insurance Company, RTI, Anchor Glass Container Corporation, and Polaroid Corporation. Additionally, in December 2002, an even larger pension plan than LTV terminated. Bethlehem Steel's plan covers 95,000 workers and retirees and is underfunded by about $4.3 billion, of which PBGC is liable for about $3.7 billion.

PBGC's "snapshot" current measure of financial position (deficit or surplus) includes the financial effects only of pension plans that have already terminated and of seriously underfunded large plans for which termination is considered "probable." Additional risk and exposure may remain for the future because of economic uncertainties and significant underfunding in pension plans. Some of the companies with the most underfunded plans are in troubled industries (like airlines or the old-line steel companies), or already are in Chapter 11 bankruptcy proceedings. Because pension underfunding and risk are concentrated in a relatively small number of plans and industries, the number and size of claims is often volatile from year to year. As a result of this volatility, budget estimates are based on an average of recent claims experience.

PBGC monitors troubled companies with underfunded plans and acts, in bankruptcies, to protect its beneficiaries and the future of the program. Such protections include, where necessary, initiating plan termination. Under its Early Warning Program, PBGC negotiates settlements with companies that improve pension security and reduce PBGC's future exposure to risk. Working with the rest of the Administration, PBGC is identifying options to address structural weaknesses that exacerbate pension underfunding and potential losses to PBGC, workers and retirees, in the event of plan termination.

In 2002, overall investment returns in PBGC's single-employer program were 2.1 percent, with negative returns in its trust funds, which hold mostly equities, and positive returns in the revolving funds, which are invested in U.S. Government securities. Single-employer premium revenues decreased slightly from $821 million to $787 million.

PBGC's multiemployer program, which guarantees pension benefits of certain unionized plans offered by several employers in an industry, remained financially strong, however. The program had a gain in 2002 as a result of reduced liability for future loans to such plans.

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 complexities and costs associated with benefit adjustments. The average calculation time for benefit determinations issued in 2002 was 3.3 years, down from 4.9 years in 2000. Improved automated benefit calculation programs are reducing the cost of determining the final benefits and helping to speed the process. This automation will help PBGC administer benefits for the 89,000 participants taken into trusteeship in 2001 and the 187,000 new participants in 2002, the largest increase in PBGC's history. PBGC is working to send first benefit checks more speedily. In 2002, 95 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 Department of Homeland Security (DHS) (the program was formerly administered by the Federal Emergency Management Agency). 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 2004, the program is projected to have approximately 4.7 million policies from more than 19,000 communities with $699 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 requires building standards and other mitigation efforts to reduce losses, and operates a flood hazard mapping program to quantify the geographic risk of flooding. These efforts have made substantial progress.

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 42,000 policies in 2002. DHS is using three strategies to increase the number of flood insurance policies in force: lender compliance, program simplification, and expanded marketing. DHS 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, DHS adjusts premium rates to encourage community and State mitigation activities beyond those required by the NFIP.

Despite these efforts, the program faces financial challenges. The program's financing account, which is a cash fund, has sometimes had 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. DHS charges subsidized premiums for properties built before a community adopted 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). As of October 31, 2002, the NFIP had repaid all of its outstanding debt.

The NFIP was evaluated on its effectiveness and efficiency this year using the Program Assessment Rating Tool (PART). The PART revealed that the program has clear purpose and is well designed, with the exception of the fact that it is not actuarially sound. The program also received high marks for strategic planning, demonstrating that it has both well-defined long-term and annual goals.

Although the program is generally well run, it receives some criticism about the low participation rate and the inclusion of subsidized properties, especially those that are repetitively flooded. Currently, less than half of the eligible properties in identified flood plains participate in this program. In comparison, the participation rate for private wind and hurricane insurance is nearly 90 percent in at-risk areas. Given that flood damage causes roughly $6 billion in property damage annually, DHS will have to evaluate its incentive structure to attract more participation in the program, while not encouraging misuse of the program. The Budget also proposes a $300 million predisaster mitigation grant program to be funded within DHS, some of which will be targeted to buyouts of repetitively flooded properties.

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. In 2002, much of the agriculture region across the US suffered from severe drought conditions. As a result, the amount of claim payments made under the crop insurance program increased significantly. This suggests that the Federal Government plays an important role in mitigating the risks faced by the agricultural community. RMA continues to create new products for commodities that are not offered coverage under the current crop insurance program so that the Government can reduce the need for ad-hoc disaster assistance payments to the agriculture community in bad years.

The USDA crop insurance program is a cooperative effort between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. The Federal Government reimburses private companies for the administrative expenses associated with providing crop insurance and reinsures the private companies for excess insurance losses on all policies. The Federal Government also subsidizes premiums for farmers. In crop year 2002, 216 million acres were insured, with an estimated $2.9 billion in total premium income, including $1.7 billion in premium subsidy.

Included in the 2004 Budget is a proposal to amend the Federal Crop Insurance Act by limiting the reimbursement rate the private insurance companies receive for administrative costs to 20 percent of the premiums sold. This rate has not changed since set at 24.5 percent in 1998, even though the 2000 Agriculture Risk Protection Act significantly increased the level and volume of insurance coverage by farmers. While, the total premiums received by each company grew correspondingly, the costs of selling and servicing these policies have grown much less (due to economies of scale). This would argue that the current rate exceeds a reasonable amount for the companies' costs related to selling and servicing these policies. A reimbursement rate of 20 percent would be more reasonable and is expected to save $68 million in 2004.

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 XX percent of eligible acres participated in one or more crop insurance programs in 2002.

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. These programs extend traditional multi-peril crop insurance protection by adding price variability to production history. 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. 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 National Agricultural Statistics Service county average yields, as adjusted by Federal Crop Insurance Corporation (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.

Insurance Against Security-Related Risks

The Federal Government newly offers terrorism risk insurance and Airline War Risk Insurance on a temporary basis, and has expanded the vaccine compensation program. After the September 11 attacks, private insurers became reluctant to insure against security-related risks such as terrorism and war. Those events are so uncertain in terms of both the frequency of occurrence and the magnitude of potential loss that private insurers can hardly estimate the expected loss. Furthermore, terrorism can produce a really large loss that can wipe out private insurers' capital. These uncertainties make the private sector reluctant to provide security-related insurance. Thus, it is necessary for the Federal Government to insure against security-related risks, at least until the private sector learns enough to be comfortable about estimating those risks, to ensure the smooth functioning of the economy.

Terrorism Risk Insurance

On November 26, 2002, President Bush signed into law the Terrorism Risk Insurance Act of 2002. Since the September 11, 2001 terrorist attacks, the economy has been harmed by the withdrawal of many insurance companies from the marketplace for terrorism risk insurance. Their withdrawal in the face of great uncertainty as to their risk exposure to future terrorist attacks led to the cancellation of construction projects, increased business costs for the insurance that was available, and substantial shifting of risk from reinsurers to primary insurers, and from insurers to policyholders (e.g., investors, businesses, and property owners). Ultimately, these costs are borne by American workers and communities through fewer construction projects and lower economic activity.

The new law establishes a temporary Federal program that provides for a system of shared public and private compensation for insured commercial property and casualty losses arising from acts of terrorism. The program is administered by the Treasury Department and will sunset on December 31, 2005.

Under the new law, insurance companies included under the program must make available to their policyholders coverage for losses from acts of terrorism under the program. The law also requires insurance companies to disclose to policyholders the premium charged for terrorism risk insurance and the Federal share of compensation provided under the law.

In the event of a future terrorist attack on private businesses and others covered by this program, insurance companies will cover insured losses up to each company's deductible as specified in the law. Insured losses above that amount in a given year would be shared between the insurance company and the Treasury, with Treasury covering 90 percent of the losses above the company's deductible. However, neither the Treasury nor any insurer would be liable for any amount exceeding the statutory annual cap of $100 billion in aggregate insured losses. The law also provides authority for the Treasury to recoup Federal payments via surcharges on policyholders.

Airline War Risk Insurance

After the September 11 attacks, private insurers cancelled third party liability war risk coverage for airlines and dramatically increased the cost of other war risk insurance. In response, the Department of Transportation (DOT) provided a short-term reimbursement to airlines for the increased cost of aviation hull and passenger liability war risk insurance under the authority provided in P.L. 107–42. Under Presidential Determination No. 01–29, the President delegated the authority to extend aviation insurance to the Secretary of Transportation. Due to the extended disruption in the marketplace, DOT also offered airlines third-party liability war risk insurance coverage at subsidized rates to replace coverage initially withdrawn by private insurers. For the last year, DOT has continued to provide this insurance coverage in 60-day increments.

On November 26, the President signed the Homeland Security Act of 2002 which included the Airline War Risk Insurance Legislation. This law extends the term of third party war risk coverage and expands the scope of coverage to include war risk hull, passenger, crew, and property liability insurance. Under the law, the Secretary of Transportation shall extend insurance policies until August 31, 2003, but may extend until December 31, 2003. At this time DOT is preparing policies that extend insurance coverage until August 31st 2003. In addition, the law states that the total premium for the three types of insurance shall not exceed twice the premium rate charged for the third party liability insurance as of June 19, 2002.

Currently 73 air carriers are insured by DOT. Coverage for individual carriers ranges from $80 million to $4 billion per carrier with the median insurance coverage at approximately $1.8 billion per occurrence. Premiums collected by the Government are deposited into the Aviation Insurance Revolving Fund. In 2002, the fund collected approximately $75 million in premiums for insurance provided by DOT and paid out $56 million in one time premium assistance reimbursements for coverage purchased from private insurers. In 2003, it is anticipated that up to $123 million in premiums may be collected by DOT for the provision of insurance. In 2004, the authorization for the war risk insurance program expires. Any claims by the airlines that exceed the balance in the aviation insurance revolving fund would be paid by the Federal Government.

Vaccine Injury Compensation

The National Vaccine Injury Compensation Program began in 1988 to encourage childhood vaccination by providing streamlined compensation for injuries resulting from vaccination. This program is jointly administered by the Department of Health and Human Services (HHS), the U.S. Court of Federal Claims, and the Department of Justice (DOJ). Vaccine-related victims file claims against HHS in the U.S. Court of Federal Claims. Then DOJ represents HHS in the court to ensure fair compensation. Compensation is paid out of the Vaccine Trust Fund, financed through per-dose assessments on vaccines.

To better prepare the Nation for potential biological attacks, the Homeland Security Act of 2002 expands the coverage of the National Vaccine Injury Compensation Program by broadening the interpretation of key terms, such as "vaccine" and "vaccine-related injury or death." The Act also provides medical liability protection to some private parties, such as doctors, drug manufacturers, and hospitals, when those entities, acting on behalf of the U.S. Public Health Service, are liable for the administration of the smallpox vaccine and other countermeasures. This protection is effective only during such period as declared by the Secretary of HHS.

Chart 9-1. Face Value of Federal Credit Outstanding

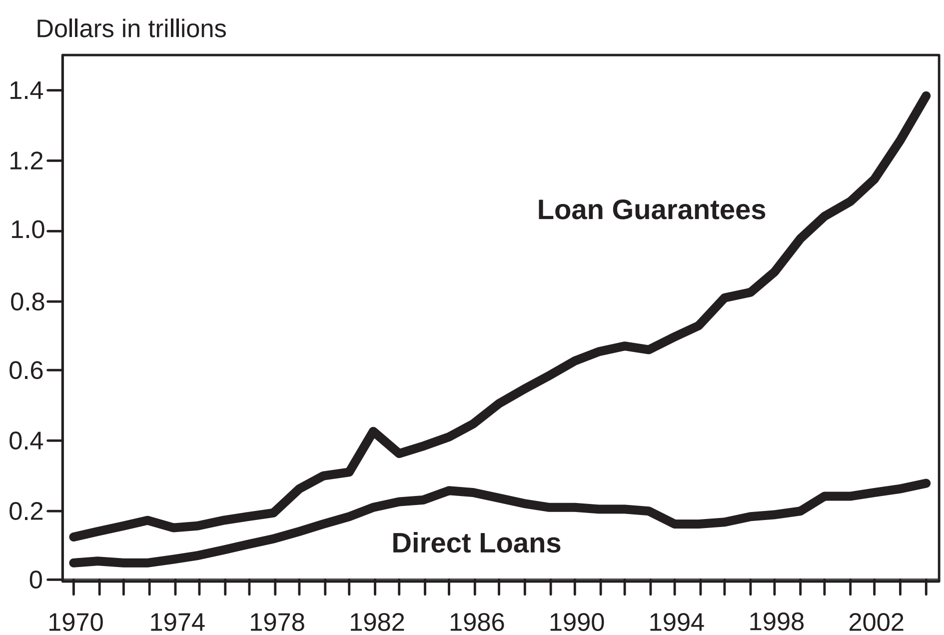

Table 9–1. ESTIMATED FUTURE COST OF OUTSTANDING FEDERAL CREDIT PROGRAMS

(In billions of dollars)

Program	Outstanding 2001	Estimated Future Costs of 2001 Outstanding [1]	Outstanding 2002	Estimated Future Costs of 2002 Outstanding [1]
Direct Loans:[2]				
Federal student loan programs	90	11	99	14
Farm Service Agency (excl. CCC), Rural development, Rural housing	46	10	45	11
Rural Utilities Service and Rural telephone bank	31	2	32	2
Housing and Urban Development	12	2	12	2
Agency for International Development	10	4	9	7
P. L. 480	11	2	11	2
Export-Import Bank	12	4	12	4
Commodity Credit Corporation	4	3	5	3
Federal Communications Commission spectrum auction	6	......	5	......
Disaster assistance	4	1	4	......
Other direct loan programs	13	......	14	......
Total Direct Loans	239	39	248	45
Guaranteed Loans:[2]				
FHA-mutual mortgage insurance	459	1	467	3
Veterans housing	237	5	265	6
Federal family education loan program	159	14	182	12
FHA-general and special risk	99	8	96	7
Small business	37	3	41	1
Export-Import Bank	31	4	31	5
International assistance	19	2	19	2
Farm Service Agency and Rural housing	22	......	23	......
Commodity Credit Corporation	5	......	5	1
Other guaranteed loan programs	16	2	16	2
Total Guaranteed Loans	1,084	39	1,145	39
Total Federal Credit	**1,323**	**78**	**1,393**	**84**

[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	
	2001	2002
Government Sponsored Enterprises:		
Fannie Mae	1,460	1,689
Freddie Mac	1,101	1,254
Federal Home Loan Banks [2]	477	524
Sallie Mae [3]	....	....
Farm Credit System	75	83
Total	**3,113**	**3,550**

[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 2002 was $215 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 1992–2002 [1]

(Budget authority and outlays, in millions of dollars)

Program	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Direct Loans:										
Agriculture:										
Agriculture credit insurance fund	–72	28	2	–31	23	....	331	–656	921	10
Farm storage facility loans	....	....	....	....	....	....	....	....	–1	–7
Apple loans	....	....	....	....	....	....	....	....	–2	1
Emergency boll weevil loan	....	....	....	....	....	....	....	....	....	1
Agricultural conservation	–1	....	....	....	....	....	....	....	....	....
Distance learning and telemedicine	....	....	....	....	....	....	....	....	1	....
Rural electrification and telecommunications loans	*	61	–37	84	....	–39	....	–17	–42	....
Rural telephone bank	1	....	....	10	....	–9	....	–1	....	–3
Rural housing insurance fund	2	152	46	–73	....	71	....	19	–29	–440
Rural economic development loans	....	....	....	1	....	–1	*	....	–1	....
Rural development loan program	....	1	....	....	....	–6	....	....	–1	....
Rural community advancement program [2]	....	....	....	8	....	5	....	37	3	....
P.L. 480	....	....	–37	–1	....	....	....	–23	65	–348
P.L. 480 Title I food for progress credits	....	84	–38	....	....	....	....	....	....	–112
Commerce:										
Fisheries finance	....	....	....	....	....	....	....	–19	–1	–3
Defense:										
Military housing improvement fund	....	....	....	....	....	....	....	....	....	1
Education:										
Federal direct student loan program: [3]										
Volume reestimate	....	....	....	....	....	22	....	–6	....	43
Other technical reestimate	....	....	3	–83	172	–383	–2,158	560	....	3,678
College housing and academic facilities loans	....	....	....	....	....	....	....	–1	....	....
Homeland Security:										
Disaster assistance	....	....	....	....	....	....	47	36	–7	–6
Interior:										
Bureau of Reclamation loans	....	....	....	....	....	....	3	3	–9	–14
Bureau of Indian Affairs direct loans	....	....	....	....	....	1	5	–1	–1	1
Transportation:										
High priority corridor loans	....	....	....	....	–3	....	....	....	....	....
Alameda corridor loan	....	....	....	....	....	....	–58	....	....	–50
Transportation infrastructure finance and innovation	....	....	....	....	....	....	....	18	....	18
Railroad rehabilitation and improvement program	....	....	....	....	....	....	....	....	....	–5
Treasury:										
Community development financial institutions fund	....	....	....	....	....	....	1	....	....	....
Veterans Affairs:										
Veterans housing benefit program fund	–39	30	76	–72	465	–111	–52	–107	–697	17
Native American veteran housing	....	....	....	....	....	....	....	....	....	–4
Vocational Rehabilitation Loans	....	....	....	....	....	....	....	....	....	*
Environmental Protection Agency:										
Abatement, control and compliance	....	....	....	....	....	....	....	3	–1	1
General Services Administration:										
Columbia hospital for women [5]	....	....	....	....	....	....	....	....	–6	....
International Assistance Programs:										
Foreign military financing	....	....	....	13	4	1	152	–166	119	–397
U.S. Agency for International Development:										
Micro and small enterprise development	....	....	....	....	....	....	....	....	*	....
Overseas Private Investment Corporation:										
OPIC direct loans	....	....	....	....	....	....	....	....	....	–4
Debt reduction	....	....	....	....	....	....	36	–4	....	....
Small Business Administration:										
Business loans	....	....	....	....	....	....	....	1	–2	1
Disaster loans	....	....	....	....	–193	246	–398	–282	–14	266
Other Independent Agencies:										
Export-Import Bank direct loans	–28	–16	37	....	....	....	–177	157	117	–640
Federal Communications Commission spectrum auction	....	....	....	....	4,592	980	–1,501	–804	92	346
Loan Guarantees:										
Agriculture:										
Agriculture credit insurance fund	5	14	12	–51	96	....	–31	205	40	–36
Agriculture resource conservation demonstration project	....	....	....	....	....	....	....	2	....	1
Commodity Credit Corporation export guarantees	3	103	–426	343	....	....	....	–1,410	....	–13

Table 9–3. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992–2002 [1]—Continued

(Budget authority and outlays, in millions of dollars)

Program	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Rural development insurance fund	49	....	....	–3	....	....	....	....	....	....
Rural housing insurance fund	2	10	7	–10	....	109	....	152	–56	....
Rural community advancement program [2]	....	....	....	–10	....	41	....	63	17	....
Commerce:										
Fisheries finance	....	....	....	....	–2	....	....	–3	–1	3
Emergency steel guaranteed loans	....	....	....	....	....	....	....	....	....	50
Emergency oil and gas guaranteed loans	....	....	....	....	....	....	....	*	*	*
Defense:										
Military housing improvement fund	....	....	....	....	....	....	....	....	....	–1
Education:										
Federal family education loan program: [3]										
Volume reestimate	....	....	535	99	....	–13	–60	–42	....	277
Other technical reestimate	97	421	60	....	....	–140	667	–3,484	....	–2,483
Health and Human Services:										
Heath center loan guarantees	....	....	....	....	....	....	3	....	*	*
Health education assistance loans	....	....	....	....	....	....	....	....	....	....
Housing and Urban Development:										
Indian housing loan guarantee	....	....	....	....	....	....	....	–6	*	–1
Title VI Indian guarantees	....	....	....	....	....	....	....	....	....	–1
FHA-mutual mortgage insurance	....	....	....	–340	....	3,789	....	2,413	–1,308	1,100
FHA-general and special risk	–175	....	–110	–25	743	79	....	–217	–403	77
Interior:										
Bureau of Indian Affairs guaranteed loans	....	....	....	31	....	....	....	–14	–1	–3
Transportation:										
Maritime guaranteed loans (title XI)	....	....	....	....	....	–71	30	–15	187	27
Minority business resource center	....	....	....	....	....	....	....	....	1	....
Treasury:										
Air transportation stabilization program [4]	....	....	....	....	....	....	....	....	....	113
Veterans Affairs:										
Veterans housing benefit fund program	–447	167	334	–706	38	492	229	–770	–163	–183
International Assistance Programs:										
U.S. Agency for International Development:										
Development credit authority	....	....	....	....	....	....	....	....	–1	....
Micro and small enterprise development	....	....	....	....	....	....	....	....	....	....
Urban and environmental credit	–2	–1	–7	....	–14	....	....	....	–4	–16
Assistance to the new independent states of the former Soviet Union [5]	....	....	....	....	....	....	....	....	–34	....
Overseas Private Investment Corporation:										
OPIC guaranteed loans	....	....	....	....	....	....	....	....	5	78
Small Business Administration:										
Business loans	....	....	257	–16	–279	–545	–235	–528	–226	304
Other Independent Agencies:										
Export-Import Bank guarantees	–11	–59	13	....	....	....	–191	–1,520	–417	–2,042
Total	**–616**	**995**	**727**	**–832**	**5,642**	**4,518**	**–3,641**	**–6,427**	**–1,860**	**–398**

* Less than $500 thousand.

[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] Numbers shown for 2003 include estimates for loan guarantees that have received either conditional or final approval. This presentation should not be construed as prejudging the outcome of the Air Transportation Stabilization Board's deliberations. The Board does not anticipate making any new loan guarantees in 2004.

[5] Closing reestimate executed in fiscal year 2002.

Table 9–4. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2002-2004

(In millions of dollars)

Agency and Program	2002 Actual			2003 Proposed			2004 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	6.78	60	885	13.97	112	802	14.20	121	852
Farm storage facility loans	2.40	3	125	1.36	2	147	....	....	117
Rural community advancement program	6.60	98	1,485	10.08	110	1,091	2.53	33	1,305
Rural electrification and telecommunications loans	–0.57	–26	4,569	–0.66	–20	3,016	–1.58	–48	3,035
Rural telephone bank	2.14	4	175	1.38	....	....	–4.32	....	....
Distance learning, telemedicine, and broadband program	–0.07	....	95	4.73	39	825	3.66	9	246
Farm labor	47.31	22	47	49.02	18	36	42.73	18	42
Rural housing insurance fund	16.48	204	1,238	20.86	224	1,074	11.11	166	1,494
Rural development loan fund	43.21	13	31	48.26	20	40	43.27	17	40
Rural economic development loans	24.16	4	15	21.36	3	15	18.61	3	15
Public law 480 title I	81.73	126	155	75.11	99	132	78.90	104	132
Commerce:									
Fisheries finance	–6.45	–8	124	–2.86	–3	105	–3.33	–1	30
Defense—Military:									
Family housing improvement fund	....	....	....	21.36	44	206	39.95	88	221
Education:									
College housing and academic facilities loans	....	....	44	....	....	268	....	....	227
Federal direct student loan program	–3.95	–835	21,164	–3.23	–690	21,339	–5.22	–1,049	20,954
Homeland Security:									
Disaster assistance loans	1.62	....	25	–4.10	–1	25	–2.02	–1	25
Housing and Urban Development:									
FHA-mutual mortgage insurance	....	....	250	....	....	50	....	....	50
FHA-general and special risk	....	....	50	....	....	50	....	....	50
Interior:									
Bureau of Reclamation loans	26.92	7	26	....	....	....	....	....	....
State:									
Repatriation loans	80.00	1	1	80.00	1	1	70.75	1	1
Transportation:									
Federal-aid highways	2.79	16	573	4.40	104	2,362	5.58	127	2,277
Railroad rehabilitation and improvement program	....	....	102	....	....	....	....	....	....
Treasury:									
Community development financial institutions fund	38.44	3	8	36.94	2	5	34.37	2	5
Veterans Affairs:									
Vocational rehabilitation and education loans	....	....	3	....	....	3	....	....	4
Housing	0.85	9	1,056	1.80	6	334	10.80	31	287
International Assistance Programs:									
Foreign military financing loans	....	....	....	....	....	3,800	....	....	....
Debt restructuring	....	66	....	....	73	....	....	292	....
Overseas Private Investment Corporation	10.60	5	47	11.00	8	73	11.00	4	40
Small Business Administration:									
Disaster loans	17.19	217	1,262	16.14	118	731	11.72	79	760
Business loans	6.78	1	16	13.05	4	27	9.55	2	20
Export-Import Bank of the United States:									
Export-Import Bank loans	16.22	48	296	17.32	31	179	5.90	19	322
Federal Communications Commission:									
Spectrum auction	15.00	....	1	....	....	....	....	....	....
Total	**N/A**	**38**	**33,868**	**N/A**	**304**	**36,736**	**N/A**	**17**	**32,551**

[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, 2002-2004

(In millions of dollars)

Agency and Program	2002 Actual			2003 Proposed			2004 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	3.98	128	3,220	3.23	97	3,000	3.23	86	2,666
Commodity Credit Corporation export loans	6.80	222	3,266	6.96	294	4,225	7.14	297	4,155
Rural community advancement program	2.90	31	1,070	2.95	39	1,321	3.04	27	887
Rural electrification and telecommunications loans	....	....	....	0.08	....	100	0.06	....	100
Local television loan guarantees	7.75	....	....	8.25	88	1,067	8.46	....	....
Rural housing insurance fund	1.43	36	2,519	1.25	23	1,915	1.63	46	2,825
Rural business investment	....	....	....	20.00	56	280	....	....	....
Commerce:									
Emergency oil and gas guaranteed loans	42.03	1	2	....	....	....	....	....	....
Emergency steel guaranteed loans	12.36	5	42	....	....	....	....	....	....
Defense—Military:									
Procurement of ammunition, Army	....	....	....	3.34	1	39	....	....	....
Family housing improvement fund	....	....	....	5.07	7	138	5.40	14	259
Education:									
Federal family education loan program	8.96	4,312	48,102	12.00	6,401	53,327	11.85	6,272	52,064
Health and Human Services:									
Health education assistance loans	12.43	21	165	12.43	20	160	12.19	18	150
Health resources and services	8.71	....	1	5.88	1	17	5.88	1	17
Housing and Urban Development:									
Indian housing loan guarantee fund	2.47	6	234	2.43	5	197	2.73	1	27
Native Hawaiian housing loan guarantee fund	2.47	1	40	2.43	1	40	2.73	1	35
Public housing capital fund	....	....	....	....	....	....	7.66	131	1,715
Native American housing	11.07	6	53	11.07	2	17	10.56	1	8
Community development loan guarantees	2.30	14	609	2.30	6	275	....	....	....
FHA-mutual mortgage insurance	–2.07	–2,880	165,000	–2.53	–3,226	165,000	–2.39	–3,378	185,000
FHA-general and special risk	–1.53	–352	23,000	–1.05	–249	24,000	–1.05	–262	25,000
Interior:									
Indian guaranteed loans	6.00	4	75	6.91	5	72	6.13	5	84
Transportation:									
Minority business resource center program	2.70	....	18	2.69	1	18	2.53	1	18
Federal-aid highways	....	....	....	4.35	9	200	4.77	10	200
Maritime guaranteed loans (title XI)	6.22	14	225	6.21	....	338	....	....	....
Treasury:									
Air transportation stabilization [2]	40.11	172	429	26.94	386	1,433	....	....	....
Veterans Affairs:									
Housing	0.51	194	38,038	0.87	306	35,271	0.78	275	35,248
International Assistance Programs:									
Microenterprise and small enterprise development	3.93	1	25	....	....	....	....	....	....
Development credit authority	6.42	19	289	6.44	18	280	3.11	21	675
Overseas Private Investment Corporation	2.60	21	809	1.71	11	645	2.61	20	765
Small Business Administration:									
Business loans	0.86	132	15,266	0.45	85	18,983	0.46	95	20,802
Export-Import Bank of the United States:									
Export-Import Bank loans	7.05	693	9,824	5.52	625	11,321	3.08	441	14,320
Presidio Trust:									
Presidio Trust	....	....	....	0.14	....	200	0.14	....	....
Total	**N/A**	**2,801**	**312,321**	**N/A**	**5,012**	**323,879**	**N/A**	**4,123**	**347,020**
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS									
GNMA:									
Guarantees of mortgage-backed securities	–0.33	–363	200,000	–0.33	–396	200,000	–0.27	–405	200,000

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

[2] Numbers shown for 2003 include estimates for loan guarantees that have received either conditional or final approval. This presentation should not be construed as prejudging the outcome of the Air Transportation Stabilization Board's deliberations. The Board does not anticipate making any new loan guarantees in 2004.

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	2004
Direct Loans:										
Obligations	30.9	23.4	33.6	28.8	38.4	37.1	39.1	43.7	46.2	42.0
Disbursements	22.0	23.6	32.2	28.7	37.7	35.5	37.1	39.6	38.4	38.0
New subsidy budget authority	*	*	*	–0.8	1.6	–0.4	0.3	*	0.3	*
Reestimated subsidy budget authority [1]	....	....	....	7.3	1.0	–4.4	–1.8	0.5	2.4	....
Total subsidy budget authority [2]	2.6	1.8	2.4	6.5	2.6	–4.8	–1.5	0.5	2.7	*
Loan Guarantees: [3]										
Commitments	138.5	175.4	172.3	218.4	252.4	192.6	256.4	303.7	322.9	339.7
Lender disbursements	117.9	143.9	144.7	199.5	224.7	180.8	212.9	271.4	271.5	278.0
New subsidy budget authority	*	*	*	3.3	*	3.6	2.3	2.9	4.9	4.1
Reestimated subsidy budget authority [1]	....	....	....	–0.7	4.3	0.3	–7.1	–2.4	–2.7	....
Total subsidy budget authority [2]	4.6	4.0	3.6	2.6	4.3	3.9	–4.8	0.5	2.2	4.1

* Less than $50 million.
[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	In millions of dollars			As a percentage of outstanding loans [1]		
	2002 actual	2003 estimate	2004 estimate	2002 actual	2003 estimate	2004 estimate
DIRECT LOAN WRITEOFFS						
Agriculture:						
Agricultural credit insurance fund	174	242	238	2.03	3.00	3.22
Farm storage facility loans program	....	1	1	....	0.64	0.46
Rural electrification and telecommunications loans	....	119	109	....	0.38	0.33
Rural development insurance fund	....	1	1	....	0.03	0.03
Rural housing insurance fund	223	205	186	0.81	0.76	0.70
Rural development loan fund	2	1	1	0.51	0.24	0.22
P.L.480	8	34	....	0.07	0.33	....
Commerce:						
Economic development revolving fund	1	1	1	3.33	3.84	4.54
Education:						
Student financial assistance	20	22	23	5.68	7.28	8.74
Homeland Security:						
Disaster assistance	27	....	....	17.53	....	....
Housing and Urban Development:						
Revolving fund (liquidating programs)	1	1	1	5.55	5.88	6.25
FHA—Mutual mortgage insurance	....	4	9	....	33.33	52.94
Guarantees of mortgage-backed securities	1	1	2	0.94	1.00	2.08
Interior:						
Indian direct loans	2	2	2	3.63	3.92	4.25
Assistance to American Samoa	....	....	1	....	....	7.69
Payments to the United States territories	....	....	1	....	....	12.50
Labor:						
Pension benefit guaranty corporation	5	6	14	....	....	....
State:						
Repatriation loans	1	1	....	25.00	25.00	....
Transportation:						
Minority business resource center	1	....	....	50.00	....	....
Railroad rehabilitation and improvement	....	....	2	....	....	0.59
Veterans Affairs:						
Veterans housing benefit program	5	1	1	0.27	0.06	0.07
International Assistance Programs:						
Foreign military financing	....	177	....	....	3.75	....
Military debt reduction	17	2	31	170.00	12.50	206.66
Debt reduction (AID)	6	20	....	4.08	19.04	....
Economic assistance loans	14	8	....	0.15	0.09	....
Overseas Private Investment Corporation	1	1	1	0.93	0.64	0.53
Small Business Administration:						
Disaster loans	101	44	42	2.77	1.26	1.34
Business loans	13	16	15	3.19	4.62	4.95
Other Independent Agencies:						
Export-Import Bank	94	675	49	0.81	6.23	0.49
Debt reduction (ExIm Bank)	11	....	237	7.85	....	117.91
Tennessee Valley Authority fund	1	1	1	2.08	2.08	1.88
Total, direct loan writeoffs	729	1,586	969	0.33	0.70	0.40
GUARANTEED LOAN TERMINATIONS FOR DEFAULT						
Agriculture:						
Agricultural credit insurance fund	70	71	77	0.72	0.71	0.73
Commodity Credit Corporation export loans	334	325	318	6.90	6.88	6.86
Rural community advancement program	51	55	60	1.28	1.23	1.16
Rural electrification and telecommunications loans	41	20	19	7.24	3.49	3.11
Rural development insurance fund	7	6	5	7.86	8.33	8.77
Rural housing insurance fund	81	99	102	0.61	0.71	0.71
Rural business investment program	....	....	1	....	....	0.96

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

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	2002 actual	2003 estimate	2004 estimate	2002 actual	2003 estimate	2004 estimate
Commerce:						
Emergency oil and gas guaranteed loans	....	1	1	....	25.00	50.00
Emergency steel guaranteed loans	92	11	1	112.19	23.91	2.94
Fisheries finance	....	....	1	....	....	2.22
Education:						
Federal family education loan program	3,415	4,554	5,462	2.00	2.38	2.63
Health and Human Services:						
Health education assistance loans	37	51	52	1.66	2.22	2.20
Housing and Urban Development:						
Indian housing loan guarantees	1	2	2	1.61	3.50	3.33
Title VI Indian Federal guarantees program	....	1	1	....	1.42	1.28
FHA—Mutual mortgage insurance	5,529	3,640	3,793	1.19	0.73	0.68
FHA—General and special risk	1,485	2,055	1,990	1.52	2.00	1.71
Interior:						
Indian guaranteed loans	2	1	1	0.92	0.40	0.35
Transportation:						
Maritime guaranteed loans (Title XI)	365	35	35	8.18	0.81	0.80
Treasury:						
Air transportation stabilization guaranteed loans [2]	....	495	105	....	55.12	8.52
Veterans Affairs:						
Veterans housing benefit program	1,557	2,922	2,982	0.62	1.05	0.98
International Assistance Programs:						
Foreign military financing	....	3	10	....	0.08	0.30
Micro and small enterprise development	....	2	1	....	5.26	2.08
Urban and environmental credit program	47	21	37	2.24	1.03	1.93
Development credit authority	....	1	1	....	0.90	0.43
Overseas Private Investment Corporation	162	46	45	4.69	1.25	1.14
Small Business Administration:						
Business loans	933	695	708	2.40	1.65	1.62
Pollution control equipment	....	1	1	....	10.00	16.66
Other Independent Agencies:						
Export-Import Bank	432	351	395	1.40	1.11	1.19
Total, guaranteed loan terminations for default	14,641	15,464	16,206	0.86	0.86	0.83
Total, direct loan writeoffs and guaranteed loan terminations	15,370	17,050	17,175	0.80	0.84	0.78
ADDENDUM: WRITEOFFS OF DEFAULTED GUARANTEED LOANS THAT RESULT IN LOANS RECEIVABLE						
Agriculture:						
Agricultural credit insurance fund	2	1	1	18.18	10.00	10.00
Education:						
Federal family education loan program	513	487	479	2.66	2.49	2.31
Health and Human Services:						
Health education assistance loans	24	24	24	2.74	2.72	2.72
Housing and Urban Development:						
FHA—Mutual mortgage insurance	5	....	....	55.55	....	....
FHA—General and special risk	339	357	263	12.45	12.13	8.07
Interior:						
Indian guaranteed loans	....	....	2	....	....	5.00
Treasury:						
Air transportation stabilization guaranteed loans [2]	....	....	462	....	....	154.00
Veterans Affairs:						
Veterans housing benefit program	49	96	112	5.53	7.60	7.53

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

Agency and Program	In millions of dollars			As a percentage of outstanding loans [1]		
	2002 actual	2003 estimate	2004 estimate	2002 actual	2003 estimate	2004 estimate
International Assistance Programs:						
Urban and environmental credit program	....	40	....	....	9.54	....
Small Business Administration:						
Business loans	111	85	83	7.39	4.79	4.14
Total, writeoffs of loans receivable	1,043	1,090	1,426	3.41	3.40	4.18

[1] Average of loans outstanding for the year.
[2] Numbers shown for 2003 and 2004 include estimates for loan guarantees that have received either conditional or final approval. This presentation should not be construed as prejudging the outcome of the Air Transportation Stabilization Board's deliberations. The Board does not anticipate making any new loan guarantees in 2004.

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

(In millions of dollars)

Agency and Program	2002 Actual	Proposed 2003	Proposed 2004
DIRECT LOAN OBLIGATIONS			
Agriculture:			
Agricultural credit insurance fund	885	802	852
Distance learning, telemedicine, and broadband	380	825	246
Rural electrification and telecommunications	4,569	3,016	3,035
Rural telephone bank	175	....	....
Rural water and waste disposal direct loans	817	814	1,055
Rural housing insurance fund	1,295	1,110	1,536
Rural community facility direct loans	234	250	250
Rural economic development	15	15	15
Rural development loan fund	31	40	40
P.L. 480 direct credit	168	132	132
Commerce:			
Fisheries finance	124	105	30
Education:			
Historically black college and university capital financing	296	268	227
Homeland Security:			
Disaster assistance	25	25	25
Housing and Urban Development:			
FHA-general and special risk	50	50	50
FHA-mutual mortgage insurance	250	50	50
Interior:			
Bureau of Reclamation	26	....	....
State:			
Repatriation loans	1	1	1
Transportation:			
Transportation infrastructure finance and innovation program direct loans	2,200	2,200	2,200
Transportation infrastructure finance and innovation program lines of credit	100	200	200
Treasury:			
Community development financial institutions fund	11	11	11
Veterans Affairs:			
Vocational rehabilitation and education	3	3	4
International Assistance Programs:			
Foreign military financing	....	3,800	....
Small Business Administration:			
Business	16	27	20
Total, limitations on direct loan obligations	11,671	13,744	9,979
LOAN GUARANTEE COMMITMENTS			
Agriculture:			
Agricultural credit insurance fund	2,755	3,000	2,666
Rural electrification and telecommunications guaranteed loans	....	100	100
Rural water and waste water disposal guaranteed loans	75	75	75
Rural housing insurance fund	2,724	2,850	2,825
Rural community facility guaranteed loans	210	210	210
Rural business investment program	....	280	....
Rural business and industry guaranteed loans	704	733	602
Defense—Military:			
Arms initiative	....	45	....
Health and Human Services:			
Health education assistance loans	165	160	150
Housing and Urban Development:			
Indian housing loan guarantee fund	234	197	27
Title VI Indian Federal guarantees	53	17	8
Native Hawaiian housing loan guarantee fund	40	40	35
Public housing reform initiative	....	....	1,715
Community development loan guarantees	609	275	....
FHA-general and special risk	23,000	24,000	25,000
FHA-mutual mortgage insurance	165,000	165,000	185,000

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

(In millions of dollars)

Agency and Program	2002 Actual	Proposed 2003	Proposed 2004
Interior:			
Indian loan guarantees	75	72	84
Transportation:			
Minority business resource center	18	18	18
Transportation infrastructure finance and innovation program loan guarantees	100	200	200
Maritime guaranteed loans (title XI)	563	....	....
Treasury:			
Air transportation stabilization	10,000	....	....
International Assistance Programs:			
Development credit authority	536	....	700
Small Business Administration:			
Business	15,266	18,983	20,802
Total, limitations on loan guarantee commitments	222,127	216,255	240,217
ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS			
Housing and Urban Development:			
Guarantees of mortgage-backed securities	200,000	200,000	200,000
Total, limitations on secondary guaranteed loan commitments	200,000	200,000	200,000

[1] Data represents loan level limitations enacted or proposed to be enacted in appropriation acts. For information on actual and estimated loan levels supportable by new subsidy budget authority requested, see Tables 9–4 and 9–5.

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–680	–608	–577
Outstandings	3,783	3,175	2,598
Farm storage facility direct loan financing account:			
Obligations	65	147	118
Loan disbursements	66	95	95
Change in outstandings	44	65	53
Outstandings	122	187	240
Apple loans direct loan financing account:			
Obligations	....	....	....
Loan disbursements	1	....	....
Change in outstandings	–2	–3	–3
Outstandings	9	6	3
Agricultural credit insurance fund direct loan financing account:			
Obligations	1,008	977	902
Loan disbursements	962	928	857
Change in outstandings	247	19	–158
Outstandings	4,560	4,579	4,421
Emergency boll weevil direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–1	–1
Outstandings	10	9	8
Commodity Credit Corporation fund:			
Obligations	10,131	8,652	8,934
Loan disbursements	10,131	8,652	8,934
Change in outstandings	1,934	390	–306
Outstandings	1,934	2,324	2,018
Rural Utilities Service			
Rural communication development fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	–1
Outstandings	5	5	4
Distance learning, telemedicine, and broadband direct loan financing account:			
Obligations	95	825	246
Loan disbursements	45	24	25
Change in outstandings	33	22	22
Outstandings	49	71	93
Rural development insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–260	–172	–162
Outstandings	2,808	2,636	2,474
Rural electrification and telecommunications direct loan financing account:			
Obligations	4,569	3,016	3,035
Loan disbursements	2,409	2,971	2,724
Change in outstandings	2,140	2,719	2,394
Outstandings	11,212	13,931	16,325
Rural telephone bank direct loan financing account:			
Obligations	175	....	....
Loan disbursements	71	157	136
Change in outstandings	57	141	117
Outstandings	395	536	653

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Rural water and waste disposal direct loans financing account:			
Obligations	1,158	829	1,055
Loan disbursements	643	864	889
Change in outstandings	513	712	707
Outstandings	5,061	5,773	6,480
Rural electrification and telecommunications liquidating account:			
Obligations	....	....	....
Loan disbursements	5	12	12
Change in outstandings	–1,597	–1,575	–1,446
Outstandings	19,412	17,837	16,391
Rural telephone bank liquidating account:			
Obligations	....	....	....
Loan disbursements	1	6	5
Change in outstandings	–115	–84	–73
Outstandings	680	596	523
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1,188	–1,002	–866
Outstandings	14,995	13,993	13,127
Rural housing insurance fund direct loan financing account:			
Obligations	1,289	1,150	1,536
Loan disbursements	1,175	1,203	1,408
Change in outstandings	391	381	548
Outstandings	12,088	12,469	13,017
Rural community facility direct loans financing account:			
Obligations	399	261	250
Loan disbursements	202	293	267
Change in outstandings	149	258	226
Outstandings	1,137	1,395	1,621
Rural Business—Cooperative Service			
Rural economic development direct loan financing account:			
Obligations	15	15	15
Loan disbursements	17	15	15
Change in outstandings	9	1	1
Outstandings	82	83	84
Rural development loan fund direct loan financing account:			
Obligations	31	40	40
Loan disbursements	34	43	43
Change in outstandings	25	32	31
Outstandings	338	370	401
Rural business and industry direct loans financing account:			
Obligations	....	....	....
Loan disbursements	44	4	2
Change in outstandings	39	–2	–2
Outstandings	121	119	117
Rural development loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–5	–4	–4
Outstandings	61	57	53
Foreign Agricultural Service			
Expenses, Public Law 480, foreign assistance programs, Agriculture liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–311	–368	–287
Outstandings	7,908	7,540	7,253

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
P.L. 480 direct credit financing account:			
Obligations	98	132	132
Loan disbursements	122	127	132
Change in outstandings	158	49	51
Outstandings	2,334	2,383	2,434
P.L. 480 title I food for progress credits, financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–56	–56	–56
Outstandings	409	353	297
Debt reduction—financing account:			
Obligations	8	3	....
Loan disbursements	8	3	....
Change in outstandings	104	–5	–10
Outstandings	236	231	221
Department of Commerce			
Economic Development Administration			
Economic development revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–5	–4	–4
Outstandings	28	24	20
National Oceanic and Atmospheric Administration			
Fisheries finance direct loan financing account:			
Obligations	124	105	30
Loan disbursements	13	117	87
Change in outstandings	–22	105	77
Outstandings	139	244	321
Department of Defense—Military			
Family Housing			
Family housing improvement direct loan financing account:			
Obligations	....	206	221
Loan disbursements	92	17	32
Change in outstandings	92	17	32
Outstandings	92	109	141
Department of Education			
Office of Postsecondary Education			
College housing and academic facilities loans liquidating account:			
Obligations	....	....	....
Loan disbursements	1	....	....
Change in outstandings	–40	–28	–27
Outstandings	385	357	330
College housing and academic facilities loans financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–1	....
Outstandings	25	24	24
Historically black college and university capital financing direct loan financing account:			
Obligations	44	40	227
Loan disbursements	40	21	41
Change in outstandings	38	20	40
Outstandings	69	89	129
Federal Student Aid			
Student financial assistance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–63	–37	–41
Outstandings	321	284	243

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Federal direct student loan program financing account:			
Obligations	20,918	21,339	20,954
Loan disbursements	19,463	19,871	19,499
Change in outstandings	9,526	13,771	11,895
Outstandings	80,071	93,842	105,737
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	–1	–1	–1
Outstandings	8	7	6
Department of Homeland Security			
Emergency Preparedness and Response			
Disaster assistance direct loan financing account:			
Obligations	25	25	25
Loan disbursements	11	19	25
Change in outstandings	–22	16	16
Outstandings	143	159	175
Department of Housing and Urban Development			
Public and Indian Housing Programs			
Low-rent public housing—loans and other expenses:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–71	–75	–84
Outstandings	1,209	1,134	1,050
Community Planning and Development			
Revolving fund (liquidating programs):			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	–2
Outstandings	18	17	15
Community development loan guarantees liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–2	....	....
Outstandings	6	6	6
Housing Programs			
Flexible subsidy fund:			
Obligations	....	....	....
Loan disbursements	9	....	....
Change in outstandings	10	–4	–4
Outstandings	658	654	650
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–2	....
Outstandings	2	....	....

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
FHA-general and special risk insurance funds liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–12	–10	–7
Outstandings	26	16	9
FHA-general and special risk direct loan financing account:			
Obligations	1	1	50
Loan disbursements	....	1	4
Change in outstandings	....	....	....
Outstandings	2	2	2
Housing for the elderly or handicapped fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–158	–221	–221
Outstandings	7,647	7,426	7,205
FHA-mutual mortgage insurance direct loan financing account:			
Obligations	....	50	50
Loan disbursements	....	50	50
Change in outstandings	–1	22	–9
Outstandings	....	22	13
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Obligations	....	....	....
Loan disbursements	38	37	35
Change in outstandings	–8	–4	–4
Outstandings	102	98	94
Department of the Interior			
Bureau of Reclamation			
Bureau of Reclamation loan liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–2	–2	–3
Outstandings	48	46	43
Water and related resources:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	–1
Outstandings	2	2	1
Bureau of Reclamation direct loan financing account:			
Obligations	26	....	....
Loan disbursements	24	25	....
Change in outstandings	23	22	–4
Outstandings	183	205	201
National Park Service			
Construction and major maintenance:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–1	....
Outstandings	5	4	4
Bureau of Indian Affairs			
Revolving fund for loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	–1	–1
Outstandings	34	33	32
Indian direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–3	–3	–4
Outstandings	20	17	13

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate 2003	Estimate 2004
Insular Affairs			
Payments to the United States territories, fiscal assistance:			
Obligations	......	......	......
Loan disbursements	......	......	......
Change in outstandings	–2	–1	–3
Outstandings	11	10	7
Assistance to American Samoa direct loan financing account:			
Obligations	......	......	......
Loan disbursements	3	1	1
Change in outstandings	2	......	–1
Outstandings	14	14	13
Department of Labor			
Pension Benefit Guaranty Corporation			
Pension benefit guaranty corporation fund:			
Obligations	......	......	......
Loan disbursements	5	6	14
Change in outstandings	......	......	......
Outstandings	......	......	......
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	–5	......	......
Outstandings	......	......	......
Federal Highway Administration			
Transportation infrastructure finance and innovation program direct loan financing account:			
Obligations	573	2,162	2,200
Loan disbursements	51	495	928
Change in outstandings	51	495	928
Outstandings	351	846	1,774
Transportation infrastructure finance and innovation program line of credit financing account:			
Obligations	......	200	200
Loan disbursements	......	5	25
Change in outstandings	......	5	25
Outstandings	......	5	30
Right-of-way revolving fund liquidating account:			
Obligations	......	......	......
Loan disbursements	3	7	7
Change in outstandings	–11	–3	–3
Outstandings	98	95	92
Federal Railroad Administration			
Amtrak corridor improvement loans liquidating account:			
Obligations	......	......	......
Loan disbursements	......	......	......
Change in outstandings	–1	–3	......
Outstandings	3	......	......
Alameda corridor direct loan financing account:			
Obligations	......	......	......
Loan disbursements	......	......	......
Change in outstandings	–1	33	34
Outstandings	502	535	569

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate 2003	Estimate 2004
Railroad rehabilitation and improvement liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–9	–4	–4
Outstandings	40	36	32
Railroad rehabilitation and improvement direct loan financing account:			
Obligations	102	204	198
Loan disbursements	101	205	198
Change in outstandings	101	105	188
Outstandings	105	210	398
Department of the Treasury			
Departmental Offices			
Community development financial institutions fund direct loan financing account:			
Obligations	11	11	11
Loan disbursements	18	10	10
Change in outstandings	17	9	9
Outstandings	41	50	59
Department of Veterans Affairs			
Benefits Programs			
Housing liquidating account:			
Obligations	....	....	....
Loan disbursements	7	....	....
Change in outstandings	21	–30	–27
Outstandings	149	119	92
Housing direct loan financing account:			
Obligations	1,051	311	284
Loan disbursements	1,051	311	284
Change in outstandings	–181	–384	79
Outstandings	1,601	1,217	1,296
Native American and transitional housing direct loan financing account:			
Obligations	6	13	13
Loan disbursements	6	13	13
Change in outstandings	–1	12	11
Outstandings	18	30	41
Vocational rehabilitation and education direct loan financing account:			
Obligations	3	3	4
Loan disbursements	3	3	4
Change in outstandings	....	....	....
Outstandings	1	1	1
Environmental Protection Agency			
Environmental Protection Agency			
Abatement, control, and compliance direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–4	–5	–5
Outstandings	38	33	28
General Services Administration			
Real Property Activities			
Columbia Hospital for Women direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–13	....	....
Outstandings	....	....	....

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Obligations	....	....	....
Loan disbursements	21	7	7
Change in outstandings	–412	–550	–279
Outstandings	3,355	2,805	2,526
Foreign military financing direct loan financing account:			
Obligations	....	3,800	....
Loan disbursements	337	56	....
Change in outstandings	–96	–419	–462
Outstandings	1,847	1,428	966
Military debt reduction financing account:			
Obligations	....	31	....
Loan disbursements	....	31	....
Change in outstandings	–17	29	–31
Outstandings	2	31	....
Agency for International Development			
Economic assistance loans liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–605	–581	–493
Outstandings	8,768	8,187	7,694
Debt reduction financing account:			
Obligations	7	8	....
Loan disbursements	7	8	....
Change in outstandings	–56	–27	–15
Outstandings	119	92	77
Private sector revolving fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	–1	....
Outstandings	1	....	....
Microenterprise and small enterprise development credit direct loan financing account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–1	....	....
Outstandings	....	....	....
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	1	1	1
Overseas Private Investment Corporation direct loan financing account:			
Obligations	47	73	40
Loan disbursements	73	40	40
Change in outstandings	63	33	31
Outstandings	138	171	202
Small Business Administration			
Small Business Administration			
Business direct loan financing account:			
Obligations	16	27	20
Loan disbursements	25	18	19
Change in outstandings	12	3	2
Outstandings	119	122	124

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Disaster direct loan financing account:			
Obligations	1,272	795	760
Loan disbursements	1,306	829	691
Change in outstandings	356	–433	–184
Outstandings	3,644	3,211	3,027
Disaster loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–148	–89	–10
Outstandings	100	11	1
Business loan fund liquidating account:			
Obligations	....	....	....
Loan disbursements	7	11	10
Change in outstandings	–86	–50	–42
Outstandings	251	201	159
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	–331	–962	–212
Outstandings	3,821	2,859	2,647
Debt reduction financing account:			
Obligations	....	186	....
Loan disbursements	....	186	....
Change in outstandings	–11	185	–238
Outstandings	135	320	82
Export-Import Bank direct loan financing account:			
Obligations	296	447	322
Loan disbursements	920	627	395
Change in outstandings	–16	–175	–501
Outstandings	7,574	7,399	6,898
Farm Credit System Financial Assistance Corporation			
Financial Assistance Corporation assistance fund liquidating account:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–86	–112	–29
Outstandings	782	670	641
Federal Communications Commission			
Spectrum auction direct loan financing account:			
Obligations	1	....	....
Loan disbursements	1	....	....
Change in outstandings	–300	–67	–92
Outstandings	5,293	5,226	5,134
FSLIC Resolution			
FSLIC resolution fund:			
Obligations	....	....	....
Loan disbursements	....	....	....
Change in outstandings	–3	....	....
Outstandings	....	....	....
National Credit Union Administration			
Central liquidity facility:			
Obligations	101	105	109
Loan disbursements	....	....	....
Change in outstandings	....	....	....
Outstandings	....	....	....

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Community development credit union revolving loan fund:			
Obligations	12	13	14
Loan disbursements	3	4	5
Change in outstandings	–2	1	1
Outstandings	8	9	10
Tennessee Valley Authority			
Tennessee Valley Authority fund:			
Obligations	10	19	20
Loan disbursements	10	19	20
Change in outstandings	–5	5	4
Outstandings	46	51	55
Subtotal, direct loan transactions:			
Obligations	43,688	46,222	42,016
Loan disbursements	39,586	38,448	37,989
Change in outstandings	9,125	11,506	10,522
Outstandings	219,974	231,480	242,002
ADDENDUM: DEFAULTED GUARANTEED LOANS THAT RESULT IN A LOAN RECEIVABLE			
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund guaranteed loan financing account:			
Claim payments	1	2	2
Change in outstandings	–2	....	....
Outstandings	10	10	10
Commodity Credit Corporation export guarantee financing account:			
Claim payments	334	325	318
Change in outstandings	294	259	237
Outstandings	779	1,038	1,275
Commodity Credit Corporation guaranteed loans liquidating account:			
Claim payments	....	....	....
Change in outstandings	–184	–201	–198
Outstandings	3,785	3,584	3,386
Department of Commerce			
National Oceanic and Atmospheric Administration			
Fisheries finance guaranteed loan financing account:			
Claim payments	....	....	1
Change in outstandings	....	....	1
Outstandings	13	13	14
Federal ship financing fund fishing vessels liquidating account:			
Claim payments	....	....	....
Change in outstandings	–2	–2	–2
Outstandings	40	38	36
Department of Education			
Federal Student Aid			
Federal family education loan liquidating account:			
Claim payments	148	33	8
Change in outstandings	–1,193	–820	–712
Outstandings	12,928	12,108	11,396
Federal family education loan program financing account:			
Claim payments	2,819	3,925	4,772
Change in outstandings	760	1,744	2,127
Outstandings	6,098	7,842	9,969
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Claim payments	23	38	41
Change in outstandings	18	32	35
Outstandings	391	423	458

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Health education assistance loans liquidating account:			
Claim payments	8	9	7
Change in outstandings	–9	–30	–32
Outstandings	488	458	426
Department of Housing and Urban Development			
Housing Programs			
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Claim payments	....	....	....
Change in outstandings	3	–7	....
Outstandings	7	....	....
FHA-general and special risk insurance funds liquidating account:			
Claim payments	614	768	704
Change in outstandings	227	–112	67
Outstandings	2,226	2,114	2,181
FHA-general and special risk guaranteed loan financing account:			
Claim payments	458	530	633
Change in outstandings	–17	341	335
Outstandings	601	942	1,277
FHA-mutual mortgage insurance guaranteed loan financing account:			
Claim payments	....	491	804
Change in outstandings	....	–4	....
Outstandings	4	....	....
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Claim payments	....	....	....
Change in outstandings	–4	–4	–4
Outstandings	22	18	14
Indian guaranteed loan financing account:			
Claim payments	2	1	1
Change in outstandings	1	....	–1
Outstandings	25	25	24
Department of the Treasury			
Departmental Offices			
Air transportation stabilization guaranteed loan financing account: [1]			
Claim payments	....	495	105
Change in outstandings	....	495	–390
Outstandings	....	495	105
Department of Veterans Affairs			
Benefits Programs			
Housing liquidating account:			
Claim payments	12	14	11
Change in outstandings	8	4	3
Outstandings	282	286	289
Housing guaranteed loan financing account:			
Claim payments	296	355	396
Change in outstandings	528	215	225
Outstandings	872	1,087	1,312
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Claim payments	19	8	54
Change in outstandings	–29	8	54
Outstandings	10	18	72

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Agency for International Development			
Housing and other credit guaranty programs liquidating account:			
Claim payments	41	16	31
Change in outstandings	15	–61	11
Outstandings	450	389	400
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Claim payments	....	1	....
Change in outstandings	–3	–3	–5
Outstandings	17	14	9
Overseas Private Investment Corporation guaranteed loan financing account:			
Claim payments	162	45	45
Change in outstandings	155	38	42
Outstandings	204	242	284
Small Business Administration			
Small Business Administration			
Pollution control equipment fund liquidating account:			
Claim payments	....	1	1
Change in outstandings	....	1	1
Outstandings	49	50	51
Business guaranteed loan financing account:			
Claim payments	922	684	698
Change in outstandings	338	252	257
Outstandings	1,304	1,556	1,813
Business loan fund liquidating account:			
Claim payments	11	11	10
Change in outstandings	–21	–29	–21
Outstandings	357	328	307
Subtotal, defaulted guaranteed loans that result in a loan receivable:			
Claim payments	5,870	7,752	8,642
Change in outstandings	883	2,116	2,030
Outstandings	30,962	33,078	35,108
Total:			
Obligations	43,688	46,222	42,016
Loan disbursements	45,456	46,200	46,631
Change in outstandings	10,008	13,622	12,552
Outstandings	250,936	264,558	277,110

[1] Numbers shown for 2003 and 2004 include estimates for loan guarantees that have received either conditional or final approval. This presentation should not be construed as prejudging the outcome of the Air Transportation Stabilization Board's deliberations. The Board does not anticipate making any new loan guarantees in 2004.

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Department of Agriculture			
Farm Service Agency			
Agricultural credit insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–114	–50	–35
Outstandings	297	247	212
Agricultural credit insurance fund guaranteed loan financing account:			
Commitments	2,551	3,063	2,666
New guaranteed loans	2,553	3,000	2,666
Change in outstandings	267	679	339
Outstandings	9,378	10,057	10,396
Commodity Credit Corporation export guarantee financing account:			
Commitments	3,926	4,225	4,155
New guaranteed loans	3,926	4,225	4,155
Change in outstandings	–153	–80	–97
Outstandings	4,762	4,682	4,585
Natural Resources Conservation Service			
Agricultural resource conservation demonstration guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–2	–10	–7
Outstandings	22	12	5
Rural Utilities Service			
Rural communication development fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	....	....	–1
Outstandings	4	4	3
Rural development insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–18	–16	–13
Outstandings	80	64	51
Rural electrification and telecommunications guaranteed loans financing account:			
Commitments	....	100	100
New guaranteed loans	55	22	100
Change in outstandings	53	19	97
Outstandings	256	275	372
Rural water and waste water disposal guaranteed loans financing account:			
Commitments	75	75	75
New guaranteed loans	9	11	37
Change in outstandings	19	7	31
Outstandings	30	37	68
Local television loan guarantee financing account:			
Commitments	....	1,067	....
New guaranteed loans	....	213	480
Change in outstandings	....	205	455
Outstandings	....	205	660
Rural electrification and telecommunications liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–41	–20	–19
Outstandings	317	297	278
Rural Housing Service			
Rural housing insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–2	–2	–2
Outstandings	16	14	12

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Rural housing insurance fund guaranteed loan financing account:			
Commitments	2,528	1,918	2,825
New guaranteed loans	2,444	2,016	2,516
Change in outstandings	929	363	746
Outstandings	13,602	13,965	14,711
Rural community facility guaranteed loans financing account:			
Commitments	210	210	210
New guaranteed loans	59	155	164
Change in outstandings	74	121	124
Outstandings	301	422	546
Rural Business—Cooperative Service			
Rural business investment program guarantee financing account:			
Commitments	....	280	....
New guaranteed loans	....	56	98
Change in outstandings	....	56	96
Outstandings	....	56	152
Rural business and industry guaranteed loans financing account:			
Commitments	844	1,078	602
New guaranteed loans	839	817	1,206
Change in outstandings	380	382	731
Outstandings	3,884	4,266	4,997
Department of Commerce			
Departmental Management			
Emergency oil and gas guaranteed loan financing account:			
Commitments	2	....	....
New guaranteed loans	2	....	....
Change in outstandings	2	–2	–2
Outstandings	5	3	1
Emergency steel guaranteed loan financing account:			
Commitments	42	....	....
New guaranteed loans	42	....	....
Change in outstandings	–54	–17	–8
Outstandings	55	38	30
National Oceanic and Atmospheric Administration			
Fisheries finance guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–14	–10	–8
Outstandings	37	27	19
Federal ship financing fund fishing vessels liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–8	–6	–5
Outstandings	31	25	20
Department of Defense—Military			
Operation and Maintenance			
Defense export loan guarantee financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–4	–4	....
Outstandings	4	....	....
Procurement			
Arms initiative guaranteed loan financing account:			
Commitments	....	45	....
New guaranteed loans	....	45	....
Change in outstandings	–1	44	–2
Outstandings	27	71	69

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Family Housing			
Family housing improvement guaranteed loan financing account:			
Commitments	....	138	259
New guaranteed loans	131	16	7
Change in outstandings	130	13	4
Outstandings	200	213	217
Department of Education			
Federal Student Aid			
Federal family education loan liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–1,769	–1,149	–708
Outstandings	2,724	1,575	867
Federal family education loan program financing account:			
Commitments	48,102	53,327	52,064
New guaranteed loans	44,273	47,583	46,248
Change in outstandings	24,386	19,577	14,319
Outstandings	179,191	198,768	213,087
Department of Health and Human Services			
Health Resources and Services Administration			
Health education assistance loans financing account:			
Commitments	165	160	150
New guaranteed loans	165	160	150
Change in outstandings	133	114	101
Outstandings	1,646	1,760	1,861
Health education assistance loans liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–49	–53	–44
Outstandings	619	566	522
Health center guaranteed loan financing account:			
Commitments	1	17	22
New guaranteed loans	1	17	22
Change in outstandings	1	17	22
Outstandings	13	30	52
Medical facilities guarantee and loan fund:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–3	–3	–3
Outstandings	16	13	10
Department of Housing and Urban Development			
Public and Indian Housing Programs			
Low-rent public housing—loans and other expenses:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–275	–280	–280
Outstandings	2,189	1,909	1,629
Indian housing loan guarantee fund financing account:			
Commitments	1	20	23
New guaranteed loans	1	10	19
Change in outstandings	–8	–1	6
Outstandings	58	57	63
Title VI Indian Federal guarantees financing account:			
Commitments	55	17	12
New guaranteed loans	55	14	10
Change in outstandings	55	11	4
Outstandings	65	76	80

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Native Hawaiian housing loan guarantee fund financing account:			
Commitments	....	1	2
New guaranteed loans	....	1	2
Change in outstandings	....	1	1
Outstandings	....	1	2
Public housing reform initiative guaranteed loan financing account:			
Commitments	....	....	1,715
New guaranteed loans	....	....	86
Change in outstandings	....	....	84
Outstandings	....	....	84
Community Planning and Development			
Community development loan guarantees financing account:			
Commitments	311	390	183
New guaranteed loans	309	261	304
Change in outstandings	153	11	4
Outstandings	2,040	2,051	2,055
Community development loan guarantees liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–34	–20	–15
Outstandings	47	27	12
Housing Programs			
FHA-mutual mortgage and cooperative housing insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–7,995	–4,777	–3,665
Outstandings	31,968	27,191	23,526
FHA-general and special risk insurance funds liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–4,051	–2,773	–2,456
Outstandings	21,319	18,546	16,090
FHA-general and special risk guaranteed loan financing account:			
Commitments	23,000	24,000	25,000
New guaranteed loans	20,600	23,644	24,753
Change in outstandings	1,362	16,151	15,780
Outstandings	74,738	90,889	106,669
FHA-loan guarantee recovery fund financing account:			
Commitments	....	4	....
New guaranteed loans	1	4	....
Change in outstandings	1	1	–3
Outstandings	5	6	3
FHA-mutual mortgage insurance guaranteed loan financing account:			
Commitments	157,031	163,008	177,500
New guaranteed loans	136,382	133,582	139,289
Change in outstandings	16,040	57,863	71,486
Outstandings	435,353	493,216	564,702
Government National Mortgage Association			
Guarantees of mortgage-backed securities liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–12	–12	–14
Outstandings	122	110	96
Guarantees of mortgage-backed securities financing account:			
Commitments	178,924	259,419	200,000
New guaranteed loans	174,853	120,000	150,000
Change in outstandings	–36,080	29,492	43,267
Outstandings	568,229	597,721	640,988

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
Department of the Interior			
Bureau of Indian Affairs			
Indian loan guaranty and insurance fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–8	–6	–3
Outstandings	9	3	....
Indian guaranteed loan financing account:			
Commitments	75	72	84
New guaranteed loans	65	65	66
Change in outstandings	38	39	40
Outstandings	222	261	301
Department of Transportation			
Office of the Secretary			
Minority business resource center guaranteed loan financing account:			
Commitments	5	18	18
New guaranteed loans	5	18	18
Change in outstandings	–1	12	....
Outstandings	6	18	18
Federal Highway Administration			
Transportation infrastructure finance and innovation program loan guarantee financing account:			
Commitments	....	200	200
New guaranteed loans	....	120	160
Change in outstandings	....	120	160
Outstandings	....	120	280
Maritime Administration			
Federal ship financing fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–74	–30	–30
Outstandings	108	78	48
Maritime guaranteed loan (title XI) financing account:			
Commitments	225	338	....
New guaranteed loans	225	338	....
Change in outstandings	–562	228	–110
Outstandings	4,176	4,404	4,294
Department of the Treasury			
Departmental Offices			
Air transportation stabilization guaranteed loan financing account: [3]			
Commitments	429	1,433	....
New guaranteed loans	429	1,433	....
Change in outstandings	429	938	–270
Outstandings	429	1,367	1,097
Department of Veterans Affairs			
Benefits Programs			
Housing liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–2,478	–1,845	–1,350
Outstandings	6,704	4,859	3,509
Housing guaranteed loan financing account:			
Commitments	38,041	35,271	35,248
New guaranteed loans	38,041	35,271	35,247
Change in outstandings	30,123	26,836	26,186
Outstandings	257,828	284,664	310,850

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
International Assistance Programs			
International Security Assistance			
Foreign military loan liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–357	–349	–374
Outstandings	3,837	3,488	3,114
Agency for International Development			
Loan guarantees to Israel financing account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–20	–157	–49
Outstandings	9,206	9,049	9,000
Development credit authority guaranteed loan financing account:			
Commitments	201	280	675
New guaranteed loans	4	142	125
Change in outstandings	2	138	106
Outstandings	41	179	285
Housing and other credit guaranty programs liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–97	–93	–98
Outstandings	1,499	1,406	1,308
Microenterprise and small enterprise development guaranteed loan financing account:			
Commitments	13	....	....
New guaranteed loans	11	20	26
Change in outstandings	–2	8	13
Outstandings	34	42	55
Urban and environmental credit guaranteed loan financing account:			
Commitments	....	....	....
New guaranteed loans	22	17	....
Change in outstandings	70	–8	–31
Outstandings	584	576	545
Overseas Private Investment Corporation			
Overseas Private Investment Corporation liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–9	–10	–7
Outstandings	17	7	....
Overseas Private Investment Corporation guaranteed loan financing account:			
Commitments	809	715	765
New guaranteed loans	525	525	525
Change in outstandings	163	280	280
Outstandings	3,513	3,793	4,073
Small Business Administration			
Small Business Administration			
Pollution control equipment fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–4	–4	–3
Outstandings	12	8	5
Business guaranteed loan financing account:			
Commitments	15,266	18,983	20,802
New guaranteed loans	12,342	10,111	10,741
Change in outstandings	4,916	1,910	1,868
Outstandings	40,023	41,933	43,801
Business loan fund liquidating account:			
Commitments	....	....	....
New guaranteed loans	....	....	....
Change in outstandings	–434	–255	–201
Outstandings	1,067	812	611

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

(In millions of dollars)

Agency and Account	2002 Actual	Estimate	
		2003	2004
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	–217	–215	–149
Outstandings	724	509	360
Export-Import Bank guaranteed loan financing account:			
Commitments	9,824	12,335	14,320
New guaranteed loans	7,859	7,543	8,662
Change in outstandings	690	1,316	2,117
Outstandings	30,274	31,590	33,707
National Credit Union Administration			
Credit union share insurance fund:			
Commitments	3	6	4
New guaranteed loans	4	3	4
Change in outstandings	3	2	–2
Outstandings	4	6	4
Presidio Trust			
Presidio Trust guaranteed loan financing account:			
Commitments	....	100	50
New guaranteed loans	....	50	75
Change in outstandings	....	49	69
Outstandings	....	49	118
Subtotal, Guaranteed loans (gross)			
Commitments	482,659	582,313	539,729
New guaranteed loans	446,232	391,508	427,961
Change in outstandings	25,469	144,746	168,472
Outstandings	1,713,967	1,858,713	2,027,185
Less, secondary guaranteed loans: [1]			
GNMA guarantees of FmHA/VA/FHA pools:			
Commitments	–178,924	–259,419	–200,000
New guaranteed loans	–174,853	–120,000	–150,000
Change in outstandings	36,092	–29,480	–43,253
Outstandings	–568,351	–597,831	–641,084
Total, primary guaranteed loans: [2]			
Commitments	303,735	322,894	339,729
New guaranteed loans	271,379	271,508	277,961
Change in outstandings	61,561	115,266	125,219
Outstandings	1,145,616	1,260,882	1,386,101

[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.

[3] Numbers shown for 2003 and 2004 include estimates for loan guarantees that have received either conditional or final approval. This presentation should not be construed as prejudging the outcome of the Air Transportation Stabilization Board's deliberations. The Board does not anticipate making any new loan guarantees in 2004.

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

(In millions of dollars)

Enterprise	2002 Actual	Estimate 2003	Estimate 2004
LENDING			
Student Loan Marketing Association:			
Net change	900	–13,967	–9,426
Outstandings	41,932	27,965	18,539
Federal National Mortgage Association:			
Portfolio programs:			
Net change	59,249	126,081	103,879
Outstandings	759,733	885,814	989,693
Mortgage-backed securities:			
Net change	166,892	178,693	129,169
Outstandings	989,274	1,167,967	1,297,136
Federal Home Loan Mortgage Corporation:			
Portfolio programs:			
Net change	59,844	56,106	60,900
Outstandings	530,694	586,800	647,700
Mortgage-backed securities:			
Net change	94,497	122,868	64,823
Outstandings	730,341	853,209	918,032
Farm Credit System:			
Agricultural credit bank:			
Net change	878	3,412	955
Outstandings	20,466	23,878	24,833
Farm credit banks:			
Net change	5,720	2,525	2,167
Outstandings	58,165	60,690	62,857
Federal Agricultural Mortgage Corporation:			
Net change	1,106	....	....
Outstandings	6,000	6,000	6,000
Federal Home Loan Banks:			
Net change	48,399	....	....
Outstandings	537,812	537,812	537,812
Subtotal GSE lending (gross):			
Net change	437,485	475,718	352,467
Outstandings	3,674,417	4,150,135	4,502,602
Less guaranteed loans purchased by:			
Student Loan Marketing Association:			
Net change	900	–13,967	–9,426
Outstandings	41,932	27,965	18,539
Federal National Mortgage Association:			
Net change	–2,456	....	....
Outstandings	60,143	60,143	60,143
Other:			
Net change	4,148	....	....
Outstandings	25,979	25,979	25,979
Total GSE lending (net):			
Net change	434,893	489,685	361,893
Outstandings	3,546,363	4,036,048	4,397,941
BORROWING			
Student Loan Marketing Association:			
Net Change	–1,601	–13,620	–9,136
Outstandings	45,720	32,100	22,964
Federal National Mortgage Association:			
Portfolio programs:			
Net Change	73,263	109,431	113,861
Outstandings	800,255	909,686	1,023,547
Mortgage-backed securities:			
Net Change	166,892	178,693	129,169
Outstandings	989,274	1,167,967	1,297,136

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

(In millions of dollars)

Enterprise	2002 Actual	Estimate 2003	Estimate 2004
Federal Home Loan Mortgage Corporation:			
Portfolio programs:			
Net Change	87,339	18,910	61,565
Outstandings	618,651	637,561	699,126
Mortgage-backed securities:			
Net Change	94,497	122,868	64,823
Outstandings	730,341	853,209	918,032
Farm Credit System:			
Agricultural credit bank:			
Net Change	1,238	3,686	1,048
Outstandings	22,513	26,199	27,247
Farm credit banks:			
Net Change	5,784	4,644	3,765
Outstandings	63,794	68,438	72,203
Federal Agricultural Mortgage Corporation:			
Net Change	204	–10	321
Outstandings	3,074	3,064	3,385
Federal Home Loan Banks:			
Net Change	56,223	....	....
Outstandings	667,561	667,561	667,561
Subtotal GSE borrowing (gross):			
Net change	483,839	424,602	365,416
Outstandings	3,941,183	4,365,785	4,731,201
Less borrowing from other GSEs:			
Net Change	1,535	....	....
Outstandings	183,444	183,444	183,444
Less purchase of Federal debt securities:			
Net Change	404	–103	–81
Outstandings	3,530	3,427	3,346
Less borrowing to purchase loans guaranteed by:			
Student Loan Marketing Association:			
Net Change	900	–13,967	–9,426
Outstandings	41,932	27,965	18,539
Federal National Mortgage Association:			
Net Change	–2,456	....	....
Outstandings	60,143	60,143	60,143
Other:			
Net Change	4,148	....	....
Outstandings	25,979	25,979	25,979
Total GSE borrowing (net):			
Net change	479,307	438,672	374,923
Outstandings	3,626,154	4,064,826	4,439,749

[1] The estimates of borrowing and lending were developed by the GSEs based on certain assumptions that 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]

(In billions of dollars)

	Actual													
	1965	1970	1975	1980	1985	1990	1995	1996	1997	1998	1999	2000	2001	2002
Total net lending in credit market	66.8	88.1	169.6	336.9	829.3	705.2	702.4	716.0	723.0	981.3	1,076.2	902.8	1,012.5	1,268.3
Government-sponsored enterprise loans	1.2	4.9	5.3	21.4	57.9	115.4	125.7	141.5	112.8	293.1	284.0	245.6	466.1	434.9
GSE lending participation rate (percent)	1.8	5.6	3.1	6.4	7.0	16.4	17.9	19.8	15.6	29.9	26.4	27.2	46.0	34.3
Total net borrowing in credit market	66.8	88.1	169.6	336.9	829.3	705.2	702.4	716.0	723.0	981.3	1,076.2	902.8	1,012.5	1,268.3
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	479.3
GSE borrowing participation rate (percent)	2.1	5.9	3.2	7.2	7.3	12.8	9.7	22.5	14.9	28.1	32.2	30.8	41.0	37.8

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

[2] Total net borrowing (or lending) in credit market by domestic nonfinancial sectors, excluding equities. Credit market borrowing (lending) is the acquisition (loan) of funds other than equities through formal credit channels. Financial sectors are omitted from the series used in this table to avoid double counting, since financial intermediaries borrow in the credit market primarily in order to finance lending in the credit market. Equities, trade credit, security credit, and other sources of funds are also excluded from this series. Source: Federal Reserve Board flow of funds accounts. Estimates for 2003 and 2004 are not available.

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

(In millions of dollars)

Financing Vehicle	2002 Actual	Estimate	
		2003	2004
Financing Corporation (FICO):			
Net change	1	1	1
Outstandings	8,150	8,151	8,152
Resolution Funding Corporation (REFCORP):			
Net change	1	–3	–3
Outstandings	30,061	30,058	30,055
Subtotal, gross borrowing:			
Net change	2	–2	–2
Outstandings	38,211	38,209	38,207
Less purchases of Federal debt securities:			
Net change	487	698	757
Outstandings	8,407	9,105	9,862
Total, net borrowing:			
Net change	–485	–700	–759
Outstandings	29,804	29,104	28,345

[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 2002 or is estimated to occur in 2003 or 2004.