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Report to the Chairman, Subcommittee on Financial Services and Technology, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

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FINANCIAL SERVICES INSTITUTIONS

Information for Assessing the Government's Potential Financial Exposure

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The Honorable Robert F. Bennett
Chairman, Subcommittee on Financial
Services and Technology
Committee on Banking, Housing, and
Urban Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your October 15, 1997, request for information on selected financial services institutions. Specifically, you were interested in the potential financial exposure faced by the federal government as a result of financial services institutions sponsored, in whole or in part, by the federal government. As agreed with your office, this report does not cover all the financial services activities undertaken by the federal government. Instead, we limited our efforts to entities established as corporations by the federal government. These entities could be independent corporations, wholly or partially sponsored by the federal government, or corporations located within the executive branch. Specifically, we are reporting on (1) the institutions sponsored, in whole or in part, by the federal government or corporations within the executive branch that engage in financial services activities; (2) the extent to which these institutions are subject to oversight mechanisms and controls, such as a safety and soundness regulator and coverage by various statutes that promote accountability and control; (3) the independence and authorities of any safety and soundness regulators for these financial services institutions; (4) general indicators of potential exposure that these financial services institutions pose to the federal government, such as the maximum amount of theoretical losses associated with an institution's credit or insurance activities; and (5) the self-reported readiness of these institutions and regulatory efforts to achieve Year 2000 compliance.[1]

As discussed with your office, the principal sources of data for the financial services institutions identified in this report were the audited

[1]The Year 2000 compliance problem involves an inherent flaw in computer programs and database files—the absence of century designators—that unless corrected by the end of 1999 could render entire computer systems inoperative starting on January 1, 2000.

annual financial statements prepared by the institutions,[2] relevant federal laws and regulations, and prior GAO reports. We recorded information from these sources in a standardized data collection instrument that we then sent to the financial services institutions for validation and to obtain missing data. The information related to Year 2000 readiness is largely unverified, self-reported data obtained directly from the institutions and regulators, except for instances where we have already assessed an institution's Year 2000 readiness efforts in other reports.[3]

Background

The federal government provides, or assists in providing, a number of diverse financial services programs to help meet identified goals. For example, some of these programs provide credit or loan guarantees for housing, education, business, and the export of various products, as well as insurance for pension plans and deposits in financial institutions. Federal departments or agencies directly operate some of these financial programs. For example, the Department of Veterans Affairs provides direct and guaranteed loans to help veterans purchase homes. Similarly, the Small Business Administration provides credit to small businesses that may be unable to secure financing elsewhere. Other programs are operated by special entities created by the federal government, and they use appropriated and/or private funds. These entities, called financial services institutions for the purposes of this report, are predominately government corporations and government-sponsored enterprises.

There are no uniform and clear criteria to define a government corporation.[4] However, the following characteristics are referred to by public administration experts as appropriate for government corporations.

[2]The audited financial statements used for this report were for 1996 because this was the most current data that was typically available at the time of our study. Of the 21 institutions that had audited financial statements for 1996, all but 1 received an unqualified opinion from their independent auditors. An unqualified opinion means that in the opinion of the auditors the financial statements presented fairly the financial position, results of operations, and cash flows for the period covered. The independent auditor did not express an opinion on the Commodity Credit Corporation's 1996 financial statements due to an inability to obtain sufficient, competent evidential matter to evaluate whether certain irregularities that had occurred were material to the financial statements.

[3]See Year 2000 Computing Crisis: Federal Deposit Insurance Corporation's Efforts to Ensure Bank Systems Are Year 2000 Compliant (GAO/T-AIMD-98-73, Feb. 10, 1998); and Year 2000 Computing Crisis: Actions Needed to Address Credit Union Systems' Year 2000 Problem (GAO/AIMD-98-48, Jan. 7, 1998).

[4]The Office of Management and Budget (OMB) issued a memorandum (M-96-05) on December 8, 1995, containing "Specifications for Creating Government Corporations." In response to the concept of a government corporation being applied inconsistently in the past, OMB intended the specifications to provide a set of issues and presumptions to be considered when analyzing whether programs would benefit from the operating and financial flexibility and other normal attributes of a government corporation.

- They are predominantly of a business nature.
- They produce revenue and are potentially self-sustaining.
- They involve a large number of businesslike transactions with the public.
- They require greater flexibility than the customary type of appropriations budget ordinarily permits.

These corporations can have assets wholly owned by the federal government or have both government and private equity. Government corporations typically have boards of directors or advisory boards that are to provide oversight over operations and help ensure that the corporations comply with their government charters.[5] Collectively, federal agencies and government corporations operated financial programs that had a face value of $6.0 trillion outstanding in on- and off-balance sheet obligations and assets at the end of 1996, according to budget documents. This amount included $165 billion in direct loans, $805 billion in loan guarantees, and $5.0 trillion in insurance.

Government-sponsored enterprises provided an additional $1.7 trillion to this total for the same period. Government-sponsored enterprises are federally established, privately owned and operated corporations that were created to increase the flow of credit to specific economic sectors. Congress limited government-sponsored enterprises' activities to specified economic sectors and gave them benefits, such as exemption from Securities and Exchange Commission (SEC) registration requirements and limited access to federal funds under specific conditions, to help them accomplish their public missions. They typically receive their financing from private investment sources.

Government-sponsored enterprises engage in financial services activities, such as issuing capital stock and short- and long-term debt instruments, guaranteeing mortgage-backed securities, purchasing loans and holding them in portfolio, funding designated activities, and collecting fees for guarantees and other services. Government-sponsored enterprises generally do not receive government appropriations. Although the enterprises' charters state that their obligations must include a statement that they are not guaranteed by the United States, the enterprises' federal ties cause their securities to receive preferential treatment in financial markets. For example, the enterprises generally can borrow at rates that are only slightly above Treasury borrowing rates.

[5]For additional information on government corporations, see Government Corporations: Profiles of Existing Government Corporations (GAO/GGD-96-14, Dec. 13, 1995).

Results in Brief

We identified a total of 22 institutions that met the criteria of being independent corporations, sponsored in whole and in part by the federal government, or corporations within the executive branch and authorized to engage in activities of a financial nature (see app. I). The types of financial activities in which these institutions were authorized to engage fell into one or more of three basic categories: lending, insurance, and secondary markets.[6] Of the 22 financial services institutions covered in this report, 12 were government corporations, 6 were government-sponsored enterprises, and 4 were other types of governmental entities.[7]

The oversight mechanisms and controls that financial services institutions were subject to were related to their status as government-sponsored-enterprises or government corporations. The six government-sponsored enterprises and one of the government corporations had federal safety and soundness regulators and were subject to external audits of their annual financial statements. The other 11 government corporations reported coverage by at least 3 of the following set of interrelated oversight mechanisms and controls: Offices of Inspectors General reviews, external audits of their financial statements, the Government Performance and Results Act of 1993, and the Chief Financial Officers Act of 1990. Of the other four financial services institutions, two had safety and soundness regulators, and the other two reported coverage by at least three of the interrelated oversight mechanisms and controls.

The independence of, regulatory authorities of, and fees charged by the six safety and soundness regulators of the nine institutions varied. Two of the regulators (Federal Housing Finance Board and Risk Management Agency) had responsibilities for certain management or corporate governance activities of the institutions they regulated or supervised that could potentially impair their independence. The safety and soundness regulators for the six government-sponsored enterprises generally had more regulatory authorities, such as enforcement and examination powers, than the regulators of the one government corporation and two other institutions. All but two of the regulators (Risk Management Agency

[6]The secondary market is where securities are bought and sold after original issuance in the primary market. The secondary mortgage market involves the buying, selling, and trading of existing mortgage loans and mortgage-backed securities. Original lenders thus are able to sell loans in their portfolios to build liquidity to support additional lending.

[7]The financial services institutions categorized in this report as government corporations were identified as such in the Government Corporation Control Act (31 U.S.C. 9101, et seq.) or in enabling legislation.

and SEC) had the authority to levy assessments or fees to recoup their examination and oversight costs. These two regulators relied wholly or partially on appropriated funds to pay for their oversight costs.[8]

The primary indicators that we obtained on the potential exposure posed by each of these financial services institutions to the federal government included total assets and liabilities, total commitments and contingencies,[9] and explicit backing of the institution's liabilities, commitments, and contingencies by the federal government. Twenty-one of the institutions reported commitments and contingencies with a face amount ranging from $5 million to $2.7 trillion in their 1996 financial statements.[10] The face amount of exposure generally represents the maximum exposure rather than the amount of loss considered probable or reasonably possible. The actual loss, even under fairly extreme economic conditions, is likely to be significantly lower and could even be zero. Ten of the 22 institutions reported that all or a portion of their liabilities, commitments, and contingencies were explicitly backed by the federal government.

The institutions reported their state of readiness in achieving Year 2000 compliance using five phases we described in our Year 2000 Assessment Guide.[11] Most of the institutions reported that they had completed the awareness and assessment phases, which, according to our assessment guide, should have been completed by the end of August 1997. Work in the other phases (renovation, validation, and implementation) was either in process or not yet begun. In addition, the regulators reported various efforts under way to ensure that the regulated institutions would be ready for the Year 2000 conversion.

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[8]SEC funds its operations almost entirely through fees levied on the securities industry. In fiscal year 1997, SEC received $38 million in appropriations, and the remainder of its new budget authority ($262 million) came from fee collections.

[9]Contingencies are defined as an existing condition, situation, or set of circumstances that involves uncertainty as to a possible loss that will be resolved when one or more future events occur (or fail to occur). Contingencies are generally categorized as probable, reasonably possible, or remote. Contingencies categorized as probable and for which the amount of loss can be reasonably estimated are required to be recorded in the financial statements. If no accrual is made, disclosure of the contingency is required in the notes to the financial statements when there is a reasonable possibility that a loss may have been incurred, or when the loss is probable but the amount is not measurable. Commitments are long-term contracts, such as leases and undelivered orders, that represent obligations. These obligations become liabilities when all actions required under the contracts have been fulfilled.

[10]One of the financial services institutions covered by this report, the Alternative Agricultural Research and Commercialization Corporation, did not complete its first full year in operation as a wholly-owned government corporation until fiscal year 1997.

[11]Year 2000 Computing Crisis: An Assessment Guide (GAO/AIMD-10.1.14, Sept. 1997).

Characteristics of Financial Services Institutions

We identified a total of 22 financial services institutions as being appropriate for this study; the type of financial services the institutions were authorized to engage in; and whether the institution was a government corporation, a government-sponsored enterprise, or another type of government entity (see table 1).[12] Of the 22 financial services institutions, 11 were authorized to engage in lending activities, such as direct loans and loan guarantees; 9 were authorized to provide insurance protection, such as deposit or crop insurance; and 7 were authorized to perform secondary market activities, such as purchasing and assembling existing loans into pools for investors or for their portfolios. (As shown in table 1, a number of financial services institutions were authorized to engage in more than one category of financial services activity.)

Of the 22 financial services institutions we identified, 12 were government corporations. All but two of the government corporations—the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA)—were categorized by statute as being wholly owned corporations. FDIC was categorized as a mixed-ownership government corporation as was the National Credit Union Central Liquidity Facility, which is administered by NCUA. Six of the 22 financial services institutions were privately owned government-sponsored enterprises.[13] Four institutions were included in the "other" category: a federally chartered private financial institution (National Consumer Cooperative Bank); an independent government-controlled corporation (Farm Credit System Insurance Corporation); a nonprofit, membership corporation (Securities Investor Protection Corporation); and a nonprofit, public corporation (Neighborhood Reinvestment Corporation). See appendix I for additional information on the purposes and funding sources of the financial services institutions covered in this report.

[12]We identified three additional institutions (African Development Foundation, Presidio Trust, and National Sheep Industry Improvement Center) as having the authority to provide financial services. However, they are not covered in this report, because they were not actively engaged in such activities at the time of our study.

[13]One of the government-sponsored enterprises, the Student Loan Marketing Association, is in the process of converting into a fully private entity. Pursuant to authority of the Student Loan and Marketing Association Act of 1996, the Association's shareholders approved a reorganization plan that resulted in the shares of the government-sponsored enterprise being converted on a one-for-one basis to shares of the SLM Holding Corporation, a Delaware corporation, on August 7, 1997. The Student Loan Marketing Association must wind down its operations as a government-sponsored enterprise by September 20, 2008.

Table 1: Financial Services Institutions

Institution name	Financial services authorized
Government corporations	
Alternative Agricultural Research and Commercialization Corporation	direct loans, other (equity investments)
Commodity Credit Corporation	direct loans, guaranteed loans
Community Development Financial Institutions Fund	grants, direct loans, other (equity investments)
Export-Import Bank of the United States	direct loans, insurance, guaranteed loans
Federal Crop Insurance Corporation	insurance, other (reinsurance)
Federal Deposit Insurance Corporation	insurance
Federal Housing Administration	direct loans, guaranteed loans
Government National Mortgage Association	guaranteed mortgage-backed securities, secondary market
National Credit Union Administration[a]	direct loans, insurance
Overseas Private Investment Corporation	direct loans, guaranteed loans, insurance
Pension Benefit Guaranty Corporation	insurance
Rural Telephone Bank	direct loans
Government-sponsored enterprises	
Farm Credit System	direct loans, insurance
Federal Agricultural Mortgage Corporation	guaranteed mortgage-backed securities, secondary market
Federal Home Loan Banks	direct loans
Federal Home Loan Mortgage Corporation	guaranteed mortgage-backed securities, secondary market
Federal National Mortgage Association	guaranteed mortgage-backed securities, secondary market
Student Loan Marketing Association	secondary market
Other institutions	
Farm Credit System Insurance Corporation	insurance
National Consumer Cooperative Bank	direct loans, guaranteed loans, secondary market
Neighborhood Reinvestment Corporation	secondary market, other (grants, operating subsidies)
Securities Investor Protection Corporation	insurance

[a]The National Credit Union Administration, a federal agency, administers the National Credit Union Central Liquidity Facility (government corporation) and a deposit insurance fund (other).

Source: Financial services institutions listed above.

Oversight Mechanisms and Controls

To determine the extent of oversight that these financial services institutions were subject to, we obtained from the institutions information on their coverage by, or their voluntary adherence to, selected oversight mechanisms and controls. Specifically, the financial institutions reported whether there was a federal safety and soundness regulator, independent annual financial audits, Office of Inspector General (OIG) authority to perform reviews,[14] and/or coverage by selected federal laws that address management and financial accountability and performance issues (see table 2). All of the institutions reported full or partial coverage by at least two of the five selected oversight mechanisms and controls. Government-sponsored enterprises all had a safety and soundness regulator, but the government corporations tended to be subject to other oversight mechanisms and controls.

All six of the government-sponsored enterprises had federal safety and soundness regulators. Five of these six institutions reported not being covered by OIG authority, and all six reported not being subject to or voluntarily adhering to the Government Performance and Results Act of 1993 (GPRA) and the Chief Financial Officers (CFO) Act of 1990.[15] As agreed with your office, we did not independently determine the applicability of the federal statutes to the institutions.

In contrast to the government-sponsored enterprises, most of the government corporations reported coverage by OIG audits and full or partial adherence to GPRA and the CFO Act, which were intended to promote accountability and control. Only one of the government corporations, the Federal Crop Insurance Corporation, reported having a safety and soundness regulator.

Of the four other financial services institutions, two (the National Consumer Cooperative Bank and the Securities Investor Protection

[14]The Inspectors General Act of 1978 (P.L. 95-452) established Offices of Inspector General to create independent and objective units to (1) conduct and supervise audits and investigations relating to programs and operations; (2) recommend policies and procedures to promote economy, efficiency, and effectiveness; (3) prevent and detect fraud and abuse in such programs and operations; and (4) provide a means for keeping the head of the establishment and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

[15]GPRA was intended to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. Specifically, GPRA requires the preparation of multiyear strategic plans, annual performance plans, and annual performance reports. The CFO Act, as amended, requires the preparation and audit of annual financial statements. Additionally, the CFO Act set expectations for (1) the deployment of modern systems to replace existing antiquated, often manual processes; (2) the development of better performance and cost measures; and (3) the design of results-oriented reports on the government's financial condition and operating performance by integrating budget, accounting, and program information.

Corporation) reported having federal safety and soundness regulators. The remaining two institutions (the Farm Credit System Insurance Corporation and Neighborhood Reinvestment Corporation) reported coverage by at least three of the four other oversight mechanisms and controls.

All of the financial services institutions had independent audits of their annual financial statements by either certified public accounting firms, Offices of Inspectors General, or GAO. See appendixes II and III for additional information on the 22 financial services institutions' coverage by, or voluntary adherence to, various oversight mechanisms and controls, including their adherence to selected federal statutes.

Table 2: Reported Coverage or Adherence of Financial Services Institutions to Selected Oversight Mechanisms and Controls

Institution name	Federal regulator	External audit	OIG review	GPRA adherence	CFO Act adherence
Government corporations					
Alternative Agricultural Research and Commercialization Corporation	No	Yes	Yes	Yes	Yes
Commodity Credit Corporation	No	Yes	Yes	Yes	Partial[a]
Community Development Financial Institutions Fund	No	Yes	Yes	Yes	Yes
Export-Import Bank of the United States	No	Yes	No	Yes	Yes
Federal Crop Insurance Corporation	Yes	Yes	Yes	Yes	Yes
Federal Deposit Insurance Corporation	No	Yes	Yes	Yes[b]	Yes[c]
Federal Housing Administration	No	Yes	Yes	Yes	Yes
Government National Mortgage Association	No	Yes	Yes	Yes	Yes
National Credit Union Administration	No	Yes	Yes	Yes	Yes
Overseas Private Investment Corporation	No	Yes	Yes	Yes	Partial[a,c]
Pension Benefit Guaranty Corporation	No	Yes	Yes	Yes	Partial[a]
Rural Telephone Bank	No	Yes	Yes	Yes	Yes
Government-sponsored enterprises					
Farm Credit System	Yes	Yes	No	No	No
Federal Agricultural Mortgage Corporation	Yes	Yes	No	No	No

(continued)

Institution name	Federal regulator	External audit	OIG review	GPRA adherence	CFO Act adherence
Federal Home Loan Banks	Yes	Yes	No	No	No
Federal Home Loan Mortgage Corporation	Yes	Yes	No	No	No
Federal National Mortgage Association	Yes	Yes	No	No	No
Student Loan Marketing Association	Yes	Yes	No	No	No
Other institutions					
Farm Credit System Insurance Corporation	No	Yes	No	Yes	Yes[c]
National Consumer Cooperative Bank	Yes	Yes	No	No	No
Neighborhood Reinvestment Corporation	No	Yes	No	Yes[c]	Yes[c]
Securities Investor Protection Corporation	Yes	Yes	No	No	No

[a]The term partial was used to describe institutions that indicated they were covered by or voluntarily adhered to only selected requirements of a federal statute.

[b]FDIC is required under GPRA to submit a strategic plan for program activities to OMB, but certain provisions of the act do not apply to FDIC.

[c]Institution indicated that it voluntarily adhered to the statute.

Source: Financial services institutions listed above.

Regulatory Independence, Authority, and Fees

For the nine institutions with federal safety and soundness regulators, we obtained information on the regulators' independence, regulatory authorities, and fees.[16] There were six safety and soundness regulators for the nine institutions (two of the regulators had responsibility for two or more of the financial services institutions), and their independence and regulatory authorities varied. With respect to regulatory authorities, the government-sponsored enterprises' regulators (Department of the Treasury, Farm Credit Administration for the Farm Credit System and the Federal Agricultural Mortgage Corporation, Federal Housing Finance Board, and Office of Federal Housing Enterprise Oversight) tended to have more authority than the government corporation regulator (Risk Management Agency) and the other entities' regulators (Farm Credit

[16]Two of the financial services institutions covered by this report (FDIC and NCUA) are themselves regulators of banks and credit unions, respectively. Our analysis did not address FDIC's and NCUA's regulatory independence, authority, and fees but focused on the safety and soundness regulators of the 22 financial services institutions specifically identified in this report.

Administration for the National Consumer Cooperative Bank and SEC). All of the government-sponsored enterprises' regulators and one of the other entity regulators were able to levy fees on the regulated financial services institution, but the other two regulators relied wholly or partially on appropriated funds to pay for their oversight expenses.

Two of the six safety and soundness regulators (Federal Housing Finance Board and Risk Management Agency) had responsibilities for corporate and management governance activities that could potentially impair their independence. In prior reports, we identified independence and objectivity as key criteria for effective regulatory oversight.[17] Specifically, we reported that regulators should have an arm's-length relationship with the regulated institution to ensure objectivity in assessing and controlling an institution's risk-taking activities. As we noted in our 1997 report, the Federal Housing Finance Board cannot be considered to be an arm's-length regulator, because it is involved in the corporate governance or management of the Federal Home Loan Banks. For example, the Federal Housing Finance Board is responsible for appointing six directors to each Federal Home Loan Bank's board and preparing the Federal Home Loan Bank System's annual financial statements. Likewise, the Risk Management Agency lacked an arm's-length relationship with the Federal Crop Insurance Corporation. The Federal Agricultural Improvement and Reform Act of 1996[18] established the functions of the Office of Risk Management (now the Risk Management Agency) as supervising the Federal Crop Insurance Corporation and administering and overseeing all aspects of the programs authorized by the Federal Crop Insurance Act. Thus, the Risk Management Agency is responsible for the day-to-day operations of the Federal Crop Insurance Corporation.

As a group, the government-sponsored enterprises' regulators tended to have more authority than the other regulators (see table 3). The greatest variation in the powers of these regulators related to enforcement powers and the authority to establish rules and regulations governing the regulated institutions' operations. For example, only the Farm Credit Administration and Office of Federal Housing Enterprise Oversight had the specific authority to take formal enforcement actions, such as issuing cease and desist orders or assessing civil money penalties. See appendix

[17]See Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks (GAO/GGD-91-90, May 22, 1991); and Government-Sponsored Enterprises: Advantages and Disadvantages of Creating a Single Housing GSE Regulator (GAO/GGD-97-139, July 9, 1997).

[18]Public Law 104-127, Apr. 4, 1996.

IV for additional detail regarding the enforcement authorities of the six regulators.

Table 3: Regulatory and Supervisory Authority of the Six Financial Services Institutions' Regulators

Regulator: regulated financial services institution	Rules and regulation authority	Exam authority	Minimum capital standards	Enforcement authority	Assessment authority
Department of the Treasury					
Student Loan Marketing Association	*No*	*Yes*	*Not applicable*[b]	*Limited*[c]	*Yes*
Farm Credit Administration					
Farm Credit System	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*
Federal Agricultural Mortgage Corporation	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*
National Consumer Cooperative Bank	No	Yes	No	No	Yes
Federal Housing Finance Board	*Yes*	*Yes*	*Yes*	*Limited*[c]	*Yes*
Federal Home Loan Banks					
Office of Federal Housing Enterprise Oversight					
Federal Home Loan Mortgage Corporation	*Yes*	*Yes*	*Yes*	*Limited*[c]	*Yes*
Federal National Mortgage Association	*Yes*	*Yes*	*Yes*	*Limited*[c]	*Yes*
Risk Management Agency					
Federal Crop Insurance Corporation	Yes	Not applicable[a]	No	Not applicable[a]	No
Securities and Exchange Commission					
Securities Investor Protection Corporation	Yes	Yes	Yes	No	No

Note: Italics used to identify government-sponsored enterprises.

[a]In addition to its supervision and oversight responsibilities, the Risk Management Agency is responsible for administering the Federal Crop Insurance Corporation's programs.

[b]Minimum capital standards were established in legislation.

[c]Regulator did not have all six formal enforcement authorities (see app. IV).

Source: Federal regulators listed above.

Four of the six regulators had the authority to levy assessments or fees on the financial services institution to recoup the costs associated with performing safety and soundness oversight of the institution (see table 4). The other two regulators (Risk Management Agency and SEC) relied wholly or partially on appropriated funds to pay for their oversight costs and activities.

Table 4: Federal Regulators' Assessments and Fee Authority

Regulator: regulated financial services institution	Assessments and/or fee authority	Basis (formula) used	Amount collected (FY 1997)
Department of the Treasury			
Student Loan Marketing Association	*Yes*	*Assessments cover reasonable costs and expenses not to exceed $800,000 as adjusted by the Consumer Price Index.*	*$0.8 million*
Farm Credit Administration			
Farm Credit System	*Yes*	*Assessments of banks, associations, and Farm Credit Services Leasing Corporation cover administrative costs and maintain a reserve and are levied on the basis of average risk-adjusted asset size subject to an adjustment for supervisory rating. Other system entities are assessed for direct expenses, an allocated portion of indirect expenses, and amounts necessary to maintain a reserve.*	*$37.1 million*
Federal Agricultural Mortgage Corporation	*Yes*	*Assessments cover estimated cost of regulation, supervision, and examination.*	*$0.3 million*
National Consumer Cooperative Bank	Yes	Reimbursement for the costs of conducting any examination or audit.	$0.1 million
Federal Housing Finance Board			
Federal Home Loan Banks	*Yes*	*Assessments cover expenses and are levied on the basis of each bank's total paid-in value of its capital stock relative to the total paid-in value of the system's capital stock.*	*$15.7*
Office of Federal Housing Enterprise Oversight			
Federal National Mortgage Corporation	*Yes*	*Assessments cover reasonable costs and expenses, including examination, and are levied on the basis of the ratio of each enterprise's total assets to total combined assets of both enterprises.*	*$9.2 million*
Federal Home Loan Corporation	*Yes*		*$6.3 million*
Risk Management Agency			
Federal Crop Insurance Corporation	No	Not applicable	Not applicable
Securities and Exchange Commission			
Securities Investor Protection Corporation	No[a]	Not applicable	Not applicable

Note: Italics used to identify government-sponsored enterprises.

[a]SEC levies fees on the securities industry and not directly on the Securities Investor Protection Corporation.

Source: Federal regulators listed above.

Indicators of Potential Exposure

Congress created the government corporations, government-sponsored enterprises, and other financial services institutions discussed in this report to provide direct and indirect benefits to society, such as increased home ownership and insurance against certain losses. Meeting these societal goals often means that the institutions' programs and activities create potential exposure to losses that a private sector financial services institution would not assume. In some credit programs, the federal government bears the risk for less creditworthy borrowers, often giving credit for longer periods or at a lower cost to the borrower than would the private market. Many federal insurance programs cover complex, case-specific, or catastrophic risks that the private sector has historically been unwilling or unable to cover. For example, in some insurance programs, the federal government provides coverage against depositor losses up to a specified amount from failures of insured institutions or insures most defined-benefit pension plans sponsored by private employers in accordance with certain prescribed coverage and payment limits and restrictions.[19]

To obtain a general indication of the potential exposure these financial services institutions pose to the federal government, we asked the institutions to provide information on (1) assets and liabilities from their audited 1996 financial statements; (2) commitments and contingencies reported in the notes to the 1996 financial statements; (3) explicit government backing of the institution's liabilities, commitments, and contingencies; and (4) other financial information, such as borrowing authority (see table 5 and app. V). It is important to note that the figures reported as commitments and contingencies, and any federal backing thereof, generally represent the broadest possible measure of the potential exposure these financial services institutions could pose to the federal government not the loss considered probable or reasonably possible.

The issue of explicit versus perceived federal government responsibility must also be considered. Of the 12 government corporations, 9 reported that their liabilities, commitments, and contingencies were in whole or in part explicitly guaranteed or backed by the federal government. The federally guaranteed portion of the government corporations' liabilities, commitments, and contingencies ranged from 100 percent (five corporations), specific portions (three corporations), to a specific

[19]Defined-benefit plans are pension plans set up by an employer or several employers to pay a determinable pension benefit, usually based on factors such as age, years of service, and salary. In contrast, defined contribution plans—which the Pension Benefit Guaranty Corporation does not insure—specify the amount of contribution to be made to the plan for each employee. Benefits at retirement are those contributions plus whatever has been earned on them.

maximum amount (one corporation). Of the institutions categorized as other, only the Farm Credit System Insurance Corporation reported a federal guarantee for a portion of its liabilities, commitments, and contingencies.[20] None of the government-sponsored enterprises, which are privately owned, reported an explicit federal government liability for their obligations. However, although an institution's charter may state that its obligations are not guaranteed by the United States government, the institution's federal ties may cause creditors to believe that the federal government would not allow the institution to default on its obligations. As we noted in past work, government-sponsored enterprises can generally borrow at rates that are only slightly above Treasury borrowing rates, largely due to the market's perception of an implicit federal guarantee.[21] And, the government has intervened in the past to strengthen the position of some troubled government-sponsored enterprises absent any formal obligation to do so.[22] Whether the federal government would intervene if such an institution were to become financially troubled would depend on a variety of complicated and specific circumstances.

Twenty-one of the financial services institutions reported commitments and contingencies with a face amount ranging from $5 million to $2.7 trillion in their 1996 financial statements (see table 5).[23] The commitments and contingent liability amounts shown reflect the maximum theoretical exposure to the federal government. The actual loss, even under fairly extreme economic conditions, is likely to be significantly lower and could even be zero. For example, FDIC reported $2.7 trillion in total commitments and contingencies. This number primarily represents the total amount of FDIC-insured deposits and would be the accounting loss that would occur if all depository institutions failed and the assets acquired as a result of the

[20]The Farm Credit System Insurance Corporation's liabilities include $1.26 billion in U.S. Treasury guaranteed bonds outstanding that were issued by the Financial Assistance Corporation during 1988 to 1990 to carry out a program of assistance to Farm Credit System banks. These obligations are categorized in the President's Budget as federal loans to the Farm Credit System. As of December 31, 1997, the System had provided for the repayment of approximately $0.7 billion of the assistance bonds outstanding. In addition, the System is making annual annuity-type payments going forward that should eventually accumulate funds to repay all bonds.

[21]Housing Enterprises: Potential Impacts of Severing Government Sponsorship (GAO/GGD-96-120, May 13, 1996).

[22]For example, the federal government intervened when the Farm Credit System faced severe financial stress in the 1980s. Congress authorized up to $4 billion in federal assistance despite the fact that the system's enabling legislation clearly states that its obligations are not guaranteed by the U.S. government as to principal or interest. The federal government provided less direct support to the Federal National Mortgage Association in 1982 in the form of changes to its income tax treatment and regulatory forbearance of its troubled condition. See Farm Credit System: Repayment of Federal Assistance and Competitive Position (GAO/GGD-94-39, March 10, 1994); and Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks (GAO/GGD-91-90, May 22, 1991).

[23]The remaining institution did not begin operation as a government corporation until fiscal year 1997.

resolution process provided no recoveries. As of December 31, 1996, the assets of all FDIC-insured institutions totaled $5.6 trillion, and the combined equity capital of these institutions was $461 billion. Moreover, the deposit insurance fund held $35.7 billion that would be available to cover losses to the insurance fund. Of the $2.7 trillion of maximum loss exposure, FDIC estimated $180 million as the amount of losses "for which the risk was less than certain but still considered reasonably possible," and an additional $79 million as the amount of loss deemed probable.

Another illustration of the need to use caution in interpreting and using the total commitments and contingencies data presented in table 5 is the Overseas Private Investment Corporation. Of the $37.6 billion in total commitments and contingencies reported by the Overseas Private Investment Corporation, $31.4 billion represented the total face value of the three types of political risk investment insurance it provides (inconvertibility of currency, expropriation, and political violence). Investors may obtain all three coverages, but claim payments may not exceed the single highest coverage amount. In addition, claim payments are limited or reduced for other factors, such as stop-loss agreements and recoveries from other sources. Taking these and other factors into consideration, the Overseas Private Investment Corporation estimated that its "current exposure to claims" or reasonably possible loss for its political risk insurance program was $6.4 billion, and an additional $103 million as the amount of loss deemed probable.

Table 5: Financial Services Institutions' Indicators of Potential Exposure Based on the 1996 Financial Statements

Dollars in millions

Institution name	Assets	Liabilities	Explicit federal backing	Commitments and contingencies
Government corporations				
Alternative Agricultural Research and Commercialization Corporation	N.A.[a]	N.A.[a]	Yes	N.A.[a]
Commodity Credit Corporation	$17,874	$15,810	Yes	$36,954
Community Development Financial Institutions Fund	93	10	Yes	39
Export-Import Bank of the United States	11,958	9,985	Yes	55,809
Federal Crop Insurance Corporation	2,756	1,827	No	26,800
Federal Deposit Insurance Corporation	48,130	5,579	Yes	2,691,951
Federal Housing Administration	20,521	24,364	Yes	434,833
Government National Mortgage Association	5,042	509	Yes	529,600[b]
National Credit Union Administration	4,326	179	Yes	275,543

(continued)

Dollars in millions

Institution name	Assets	Liabilities	Explicit federal backing	Commitments and contingencies
Overseas Private Investment Corporation	3,081	391	Yes	37,622[c]
Pension Benefit Guaranty Corporation	12,548	11,555	No	1,093,151[d]
Rural Telephone Bank	1,916	552	Yes	880
Government-sponsored enterprises				
Farm Credit System	$73,254	$62,664	No	$41,958
Federal Agricultural Mortgage Corporation	603	556	No	254
Federal Home Loan Banks	292,035	275,159	No	333,909
Federal Home Loan Mortgage Corporation	173,866	167,135	No	597,765
Federal National Mortgage Association	351,041	338,268	No	782,000
Student Loan Marketing Association	47,630	46,582	No	60,237
Other institutions				
Farm Credit System Insurance Corporation	$1,169	$130	No[e]	$62,092
National Consumer Cooperative Bank	839	714	No	107
Neighborhood Reinvestment Corporation	6	4	No	10
Securities Investor Protection Corporation	1,053	31	No	5

[a]Not applicable. The Corporation did not begin operation as a wholly owned government corporation until fiscal year 1997.

[b]The figure shown for the Government National Mortgage Association consists primarily of $497 billion in guaranteed mortgage-backed securities it had outstanding as of September 30, 1996. However, the Government National Mortgage Association's potential loss exposure is considerably less because the underlying mortgages serve as primary collateral, and the required Federal Housing Administration, Rural Housing Service, and Department of Veterans Affairs insurance or guarantee of the individual mortgage loans serves to indemnify the Government National Mortgage Association for most losses. The Government National Mortgage Association estimated the amount of loss deemed probable for its mortgage-backed securities program as $472 million.

[c]The amount shown for the Overseas Private Investment Corporation is based on a total face value of $31.4 billion for the three types of political risk investment insurance coverages it offers. Investors may obtain all three coverages, but claim payments may not exceed the single highest coverage. Assuming that claim payments would not exceed the single highest coverage, the Overseas Private Investment Corporation estimated that its maximum exposure to insurance claims was $13.4 billion. The $13.4 billion is the amount that is governed by the statutory limitation on its issuance of insurance.

[d]Data on the face value of insurance exposure was obtained from the Office of Management and Budget. The Pension Benefit Guaranty Corporation reported that the total unfunded vested benefits on single-employer plans that represent reasonably possible exposure ranged from $22 billion to $26 billion. In addition, it estimated that it was reasonably possible that multiemployer plans may require an additional $243 million in future financial assistance.

[e]The only portion of the Farm Credit System Insurance Corporation's liabilities with explicit federal backing was $1.26 billion in Financial Assistance Corporation bonds. As of December 31, 1997, the System had provided for the repayment of approximately $0.7 billion of the assistance bonds outstanding. In addition, the System is making annual annuity-type payments going forward that will eventually accumulate funds to repay all bonds.

Source: Financial services institutions listed above unless otherwise indicated.

Readiness in Achieving Year 2000 Compliance

We surveyed both the financial services institutions and the relevant regulators on Year 2000 compliance efforts. The 22 financial services institutions provided information regarding their status in achieving Year 2000 compliance using the 5 readiness phases and the corresponding recommended schedule for completing each phase that we described in our recent Year 2000 Assessment Guide (see table 6). There were no significant differences among the types of financial services institutions and their reported readiness. A number of the institutions reported that they had their Year 2000 readiness assessed by external auditors or other independent outside entities.

The awareness phase includes such activities as defining the Year 2000 problem, gaining executive level support and sponsorship, establishing a team, and developing an overall strategy. The recommended completion date for the awareness phase was December 1996.[24] All 22 institutions reported completing this phase.

The assessment phase includes assessing the Year 2000 impact on the institution, identifying core business areas and processes, analyzing systems supporting the core business areas, and setting priorities for their conversion or replacement. The recommended completion date for the assessment phase was August 1997. Sixteen of the 22 institutions reported they had completed this phase. The remaining six institutions reported that this phase was in progress.

The majority of the institutions were in the process of completing the renovation, validation, and implementation phases. The renovation phase includes such activities as converting, replacing, or eliminating selected platforms, applications, databases, and utilities. The recommended completion date for the renovation phase is August 1998. The validation phase includes testing, verifying, and validating converted or replaced platforms, applications, databases, and utilities and testing them in an operational environment. The implementation phase includes implementing the converted or replaced platforms, applications, databases, utilities, and interfaces. According to our recommended schedule, both the validation and implementation phase activities are to be performed on or by December 1999.

[24]GAO and the OMB developed a schedule for federal agencies to follow in completing each of the five readiness phases by working back from January 1, 2000. See GAO/AIMD-10.1.14, page 6.

Table 6: Year 2000 Readiness Phase of the 22 Financial Services Institutions

	Readiness phase				
Institution name	**Aware**	**Assess**	**Renovate**	**Validate**	**Implement**
Government corporations					
Alternative Agricultural Research and Commercialization Corporation[a]	Completed	Completed	Completed	Completed	In progress
Commodity Credit Corporation	Completed	In progress	In progress	In progress	In progress
Community Development Financial Institutions Fund	Completed	In progress	Not begun	Not begun	Not begun
Export-Import Bank	Completed	Completed	In progress	In progress	In progress
Federal Crop Insurance Corporation	Completed	Completed	In progress	Not begun	In progress
Federal Deposit Insurance Corporation[a]	Completed	In progress	In progress	In progress	In progress
Federal Housing Administration	Completed	Completed	In progress	In progress	In progress
Government National Mortgage Association	Completed	In progress	In progress	In progress	In progress
National Credit Union Administration[a]	Completed	Completed	In progress	In progress	In progress
Overseas Private Investment Corporation[a]	Completed	In progress	Not begun	Not begun	Not begun
Pension Benefit Guaranty Corporation[a]	Completed	Completed	In progress	In progress	In progress
Rural Telephone Bank	Completed	Completed	Completed	In progress	Not begun
Government-sponsored enterprises					
Farm Credit System	Completed[b]	Completed[b]	In progress[b]	In progress[b]	In progress[b]
Federal Agricultural Mortgage Corporation	Completed	Completed	In progress	Not begun	Not begun
Federal Home Loan Banks	Completed	Completed	In progress	In progress	In progress
Federal Home Loan Mortgage Corporation	Completed	In progress	In progress	In progress	In progress
Federal National Mortgage Association	Completed	Completed	In progress	In progress	In progress
Student Loan Marketing Association	Completed	Completed	In progress	In progress	In progress
Other institutions					
Farm Credit System Insurance Corporation[a]	Completed	Completed	Completed	In progress	In progress
National Consumer Cooperative Bank	Completed	Completed	In progress	In progress	Not begun

(continued)

Institution name	Readiness phase				
	Aware	Assess	Renovate	Validate	Implement
Neighborhood Reinvestment Corporation[a]	Completed	Completed	In progress	Not begun	In progress
Securities Investor Protection Corporation	Completed	Completed	In progress	In progress	In progress

[a]Institution either had or planned an external assessment of its Year 2000 status.

[b]Data provided by the Farm Credit System's regulator, the Farm Credit Administration.

Source: Financial services institutions listed above except as otherwise noted.

We asked each of the six regulators what actions they had taken to ensure that their regulated financial services institutions would be in compliance with the Year 2000 computer conversion (see table 7). The reported data indicated that the regulators had extensive efforts under way to monitor the Year 2000 conversion efforts of regulated institutions. These efforts range from issuing guidance to requiring external auditor reviews or performing examinations on the institution's Year 2000 compliance status.

Table 7: Regulators' Actions to Address Year 2000 Readiness of Entities

	Year 2000 conversion efforts					
Regulator	**Issued guidance**	**Developed examination procedures**	**Required external auditor reviews**	**Conducted examinations**	**Required reports**	**Other**
Department of the Treasury						
Student Loan Marketing Association	No	No	No	No	Yes	Meetings held with Year 2000 project team
Farm Credit Administration						
Farm Credit System	Yes	Yes	Yes	Yes	Yes	Task force and database established
Federal Agricultural Mortgage Corporation	Yes	Yes	Yes	Yes	Yes	No
National Consumer Cooperative Bank	Yes	Yes	Yes	Planned for 1998	Yes	No
Federal Housing Finance Board						
Federal Home Loan Banks	Yes	Yes	Yes	Yes	Yes	Newsletters, meetings with internal auditors and information technology directors
Office of Federal Housing Enterprise Oversight						
Federal Home Loan Mortgage Corporation	Yes	Yes	No	Yes	Yes	Quarterly briefings
Federal National Mortgage Association	Yes	Yes	No	Yes	Yes	Quarterly briefings
Risk Management Agency						
Federal Crop Insurance	Yes	No	Yes	No	Under consideration	No
Securities and Exchange Commission						
Securities Investor Protection Corporation	No	No	No	No	Yes	Informal discussions on efforts

Sources: Federal regulators listed above.

Scope and Methodology

To determine which financial services institutions are independent corporations, sponsored in whole or in part by the federal government, or corporations within the executive branch, we defined financial services institutions as entities whose enabling legislation authorized them to provide direct loans or credit, guarantee loans or mortgage-backed securities; insurance (deposits, pension funds, crops, etc.); or secondary market activities related to loans (mortgages, student loans, etc). We then used prior GAO reports, the President's 1998 Budget Appendix, reference documents, and studies/articles identified during our literature/Internet search to develop a list of institutions. This list was then shared with the Congressional Research Service, Congressional Budget Office, Department of the Treasury, and Office of Management and Budget and refined to reflect their comments.

To identify the extent to which these institutions were subject to selected oversight mechanisms and controls, we used prior GAO reports, the President's Budget, and the institution's enabling legislation to determine if the institution had a federal safety and soundness regulator. We did not determine for this report if the regulators were effectively using these authorities to supervise the financial services institutions. However, we have addressed the oversight activities of some regulators in other reports.[25]

To determine if other internal and external oversight mechanisms and controls existed that might serve to alert Congress to potential problems, promote market discipline, or lead to correction of a problem, we completed a data collection instrument (DCI) for each institution that focused on control mechanisms that could be used regardless of the presence or absence of a safety and soundness regulator. Specifically, we focused on (1) adherence to selected federal statutes (Government Corporation Control Act of 1945, Government Performance and Results Act of 1993, Chief Financial Officers Act of 1990, Federal Managers' Financial Integrity Act of 1982, and Federal Credit Reform Act of 1990); (2) independent OIG personnel; (3) externally audited financial statements; and (4) independent credit rating reports. We sent the completed DCI to the financial services institutions for validation and to obtain missing data items.

[25]For example, see Federal Housing Enterprises: OFHEO Faces Challenges In Implementing a Comprehensive Oversight Program (GAO/GGD-98-6, Oct. 22, 1997); Farm Credit System: Farm Credit Administration Effectively Addresses Identified Problems (GAO/GGD-94-14, Jan. 7, 1994); and Government-Sponsored Enterprises: Advantages and Disadvantages of Creating a Single Housing GSE Regulator (GAO/GGD-97-139, July 9, 1997).

To provide information on the independence and authorities of any safety and soundness regulators for these financial services institutions, we used legal statutes, published regulations, and prior GAO reports to complete a DCI for each identified regulator. The DCI focused on the regulator's standard-setting authorities; enforcement powers; and ability to levy direct fees or assessments (examination fees, user fees, general assessments, and other mechanisms). In addition, the regulator DCI obtained information on the total costs incurred by the regulator for its examination and oversight activities and the funding sources used to offset any costs that were not charged to the institution. The DCIs were sent to the regulators for validation and to obtain missing data items.

To address the objective of potential exposure, we first determined whether or not the federal government had an explicit liability for the activities of the financial services institution on our listing. We made this determination on the basis of an analysis of the institution's enabling legislation and prior GAO reports. We obtained information on the extent of potential exposure for each financial services institution using the most recent available audited financial statements and/or the President's Budget. Specifically, we obtained information on the institutions' total assets and liabilities and their commitments and contingencies. These data were recorded in a DCI that was subsequently sent to each institution for validation and to obtain missing data items.

To provide information on the state of readiness of these institutions to achieve Year 2000 compliance and the regulators' efforts in this area, we used both the institution and regulator DCIs. The institution DCI was keyed to the five broad phases of readiness that we developed and used in previous Year 2000 compliance assessments. The regulator DCI focused on efforts taken by the regulator to ensure the institution's readiness, including issuance of guidance, examination of progress, coverage by external or internal auditors, and submission of reports. For this particular objective, we relied almost entirely on the institutions and regulators to provide the needed data. The information on FDIC's Year 2000 readiness was based on our prior work on this subject, which was validated by FDIC.[26]

[26]GAO/T-AIMD-98-73, Feb. 10, 1998.

We did our work between November 1997 and April 1998 in accordance with generally accepted government auditing standards.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Secretary of the Department of the Treasury and the Director of the Office of Management and Budget (OMB) or their designees. On May 5, 1998, we met with the Department of the Treasury's Director of the Office of Government-Sponsored Enterprise Policy, who said that Treasury would not be providing written comments on the draft. However, he provided technical comments, which we incorporated where appropriate.

We received written comments from OMB, which are reprinted in appendix VI. OMB had two primary concerns with the scope of this report. Its first concern was with the exclusion of numerous government entities that engage in financial services activities that result in potential liabilities. OMB stated that the report did not address government agencies and departments, such as the Small Business Administration, that directly engage in credit and insurance activities similar to those undertaken by the financial services institutions covered in the report. We agree that the U.S. Treasury has a potential liability from financial services institutions within the federal government regardless of whether the credit or insurance program is conducted under a corporate entity or directly by an executive branch department. However, we feel that it is useful for this report to focus on financial services institutions that are independent corporations, sponsored in whole or in part by the federal government, or corporations within the executive branch because the oversight, issues, and concerns can be affected by an institution's status as a corporation. We revised and added information early in this report to recognize that some of the financial institutions are in fact parts of executive branch departments and agencies or constitute entire agencies themselves.

Second, OMB expressed concern that in presenting data on potential liability we did not ultimately identify which were the most appropriate indicators of the potential liabilities of these financial services institutions. We agree. Due to the wide range of financial activities undertaken by the institutions and the unique nature of the associated potential liabilities, identifying a set of indicators that would be most appropriate for measuring the government's exposure for all 22 of the institutions would require analyses beyond the agreed-upon scope of this report. For example, the unique purposes of each institution and various economic and other circumstances that might affect its condition would have to be considered. However, we believe that the information contained in this report can be useful for Congress and the executive branch in identifying specific institutions for more focused and in-depth analysis. OMB also provided technical comments, which we incorporated where appropriate.

As agreed with your office, unless you announce the contents of this report earlier, we plan no further distribution until 30 days after the date of this report. At that time, we will send copies of the report to the Ranking Minority Member of your Subcommittee; the Chairmen and Ranking Minority Members of the Subcommittee on Financial Institutions and Consumer Credit and the Subcommittee on Capital Markets, Securities and Government Sponsored Enterprises, House Banking Committee; the financial services institutions and federal regulators covered in this report; the Department of the Treasury, and the Office of Management and Budget. We will also make copies available to others on request.

This report was prepared under the direction of M. Kay Harris, Assistant Director, Financial Institutions and Markets Issues. Other major contributors are listed in appendix VII. Please contact me or Ms. Harris on (202) 512-8678 if you have any questions on this report.

Sincerely yours,

Thomas J. McCool

Thomas J. McCool
Director, Financial Institutions
and Markets Issues

Contents

Abbreviations

CFO Act	Chief Financial Officers Act
DCI	data collection instrument
FCR Act	The Federal Credit Reform Act of 1990
FDIC	Federal Deposit Insurance Corporation
FMFIA	Federal Managers Financial Integrity Act of 1982
GCCA	Government Corporation Control Act of 1945
GPRA	Government Performance and Results Act
NCUA	National Credit Union Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
SEC	Securities and Exchange Commission

Financial Services Institutions Purposes and Funding Sources

Institution name	Purpose	Funding sources
Government corporations		
Alternative Agricultural Research and Commercialization Corporation	Foster development and commercialization of new nonfood, nonfeed products derived from agricultural and forestry materials and animal by-products	Receives annual appropriations from Congress and operates under a revolving fund from which repayments are used to fund other projects.
Commodity Credit Corporation	Stabilize, support, and protect farm income and prices; assist in maintaining balanced and adequate suppliers of agricultural commodities and their products; and facilitate the orderly distribution of commodities. It also carries out assigned foreign assistance activities, such as guaranteeing the credit sale of U.S. agricultural products abroad.	Corporation has capital stock of $100 million held by the U.S. Treasury and has authority to borrow up to $30 billion collectively from the U.S. Treasury, private lending agencies, and other sources. The corporation receives annual appropriations for its past losses. In addition, the corporation receives appropriations for the subsidy portion of its export credit activities as required by the Federal Credit Reform Act.
Community Development Financial Institutions Fund	Provide financial assistance through equity investments, deposits, grants, loans, and technical assistance to new and existing community development financial institutions, such as community development banks, credit unions, loan funds, venture capital funds, and micro-loan funds. Its aim is to expand the availability of credit, investment capital, financial, and other services in distressed urban, rural, and Native American communities.	Funding is provided through congressional appropriations. Funds could be generated from returns on equity investments in community development financial institutions.
Export-Import Bank of the United States	Aid in the financing and promotion of U.S. exports by providing export credit support through direct loan, loan guarantee, and insurance programs.	Has capital stock of $1 billion purchased by the U.S. Treasury; the bank receives annual appropriations and can issue up to $6 billion in debt obligations for purchase by the U.S. Treasury.

(continued)

Institution name	Purpose	Funding sources
Federal Crop Insurance Corporation	Improve the economic stability of U.S. agriculture through a sound system of crop insurance and provide the means for the research and experience helpful in devising and establishing such insurance. Offers catastrophic crop insurance to cover unavoidable losses due to factors, such as insect infestation, adverse weather conditions, fires, and earthquakes. It also offers additional coverage to supplement the minimal level of protection provided under the catastrophic program.	Crop insurance program is financed primarily through general fund appropriations and farmer-paid premiums. It is authorized to use funds from the issuance of capital stock, subscribed to by the United States for working capital purposes.
Federal Deposit Insurance Corporation	Promote stability of and public confidence in the nation's banking system by providing deposit insurance to banks and thrifts and supervise and examine state-chartered banks that are not members of the Federal Reserve System.	Primarily funded from (1) interest earned on investments in U.S. Treasury obligations, (2) bank and thrift assessment premiums, and (3) income earned on and funds received from the management and disposition of assets acquired from failed banks and thrifts. FDIC also has authority to borrow up to $30 billion outstanding at any one time from the U.S. Treasury and limited amounts from the Federal Financing Bank.
Federal Housing Administration	Provide mortgage insurance to borrowers that the conventional market does not adequately service: first-time home buyers, minorities, lower income families, and residents of underserved areas. It underwrites single-family, multifamily, property improvement, and manufacturing home loans.	Receives appropriations and generates additional income from investments in U.S. government securities funded by insurance premiums.

(continued)

Institution name	Purpose	Funding sources
Government National Mortgage Association	Support the government's housing objectives by establishing secondary market facilities for residential mortgages, guaranteeing mortgage-backed securities composed of Federal Housing Administration-insured or Veterans Affairs-guaranteed mortgage loans that are issued by private lenders .	Uses assessments of commitment, guarantee, and other fees of Government National Mortgage Association mortgage-backed securities issuers to cover costs and to fund a reserve against possible future payments under the guarantee.
National Credit Union Administration	Charter new federal credit unions, supervise established federal credit unions, make periodic examinations of the credit unions' financial condition and operating practices, and provide administrative services. In addition, it administers (1) a fund that insures member share deposits in all federal credit unions and in qualifying state credit unions that request insurance, (2) a Central Liquidity Facility fund that provides seasonal and emergency loans to member federal and state credit unions, and (3) a revolving loan program that is intended to stimulate community development.	The deposit insurance fund is funded by premiums paid by member credit unions, a 1-percent deposit from insured credit unions, and income generated by their investment. The Central Liquidity Facility is funded primarily by stock subscriptions from credit unions and borrowings (up to $600 million) from the Federal Financing Bank. NCUA also has the authority to borrow up to $100 million from the U.S. Treasury for the deposit insurance fund.
Overseas Private Investment Corporation	Promote economic growth in developing countries by encouraging U.S. private investment in those countries. It encourages U.S. investors by financing businesses through loans and loan guarantees, supporting private investment funds that provide equity for U.S. companies investing in overseas projects, insuring investments against a broad range of political risks, and engaging in outreach activities.	Income is derived primarily from (1) interest earnings on invested assets, (2) premiums, (3) recoveries, and (4) fees. In addition, it has the authority to borrow up to $100 million from the U.S. Treasury. It also receives annual appropriations for the subsidy portion of its credit activities.

(continued)

Institution name	Purpose	Funding sources
Pension Benefit Guaranty Corporation	Protect the retirement income of participants and beneficiaries covered by private sector defined-benefit pension plans if single-employer plans terminate or if multiemployer plans are unable to pay benefits.	Receives funds from premiums collected from ongoing pension plans, investment income, terminated plan assets, and recoveries from sponsors of terminated plans. In addition, it has the authority to borrow up to $100 million from the U.S. Treasury.
Rural Telephone Bank	Provide a supplemental source of financing for telecommunications borrowers under the Rural Utilities Service's telecommunications loan program. The Rural Telephone Bank assists rural electric and telecommunications organizations in obtaining financing to provide services in rural areas. The Bank lends to rural telecommunications organizations.	Equity capital consisting of class A stock purchased by the United States and classes B and C stock purchased by bank borrowers, organizations eligible to become borrowers, and organizations controlled by borrowers. In addition, income is generated from interest charged on its loans. The Rural Telephone Bank also receives annual appropriations for the subsidy portion of its credit activities.
Government-sponsored enterprises		
Farm Credit System	Provide privately financed credit to agricultural and rural communities. Its services include long-term real estate loans, short- and intermediate-term loans to agricultural producers, credit and mortgage life or disability insurance, various types of crop insurance, estate planning, recordkeeping services, tax planning and preparation, and consulting.	Proceeds from sale of systemwide debt securities and assessments of system institutions. In addition to revenues from its lending activities, system banks and associations receive investment income from investments held for the purposes of maintaining a liquidity reserve, managing surplus funds, and managing interest rate risk.

(continued)

Institution name	Purpose	Funding sources
Federal Agricultural Mortgage Corporation	Foster the development of a secondary market for mortgage loans secured by first liens on agricultural real estate or rural housing by guaranteeing the timely payment of principal and interest on securities representing interest in, or obligations backed by, such loans. It also guarantees the timely payment of principal and interest on securities backed by portions of farm ownership and farm operating loans, rural business and community development loans, and certain other loans guaranteed by the Department of Agriculture.	Derives financial support and funding from sale of common and preferred stock, issuance of debt obligations, gain on sale of guaranteed loan-backed securities, guarantee fees, and income from investments. The Secretary of the U.S. Treasury is authorized to purchase obligations of this entity in cumulative amounts not to exceed $1.5 billion for the purpose of fulfilling the entity's guarantee obligations.
Federal Home Loan Banks	Help provide access to housing by making loans, called advances, and providing other credit products and services to over 6,400 member commercial banks, savings associations, insurance companies, and credit unions. The Federal Home Loan Bank System consists of 12 Federal Home Loan Banks and the Office of Finance.	Derives funding from the sale of consolidated obligations to the public; other sources of lendable funds include members' deposits and capital. The Secretary of the U.S. Treasury is authorized, at the Secretary's discretion, to purchase up to $4 billion in the Federal Home Loan Bank System's obligations.
Federal Home Loan Mortgage Corporation	Provide stability in the secondary market for residential mortgages, provide ongoing assistance to the secondary market for residential mortgages, and promote access to mortgage credit throughout the nation by increasing the liquidity of mortgage investments and improving the distribution of investment capital for residential mortgage financing.	Sale of capital stock and mortgage-backed securities, the issuance of debt obligations, interest, and fee income. The Secretary of the U.S. Treasury is authorized to purchase, at the Secretary's discretion, up to $2.25 billion of the Federal Home Loan Mortgage Corporation's obligations.

(continued)

Institution name	Purpose	Funding sources
Federal National Mortgage Association	Provide stability in the secondary market for residential mortgages, provide ongoing assistance to the secondary market for residential mortgages, and promote access to mortgage credit throughout the nation by increasing the liquidity of mortgage investments and improving the distribution of investment capital for residential mortgage financing.	Sale of capital stock and mortgage-backed securities, the issuance of debt obligations, interest, and fee income. The Secretary of the U.S. Treasury is authorized, at the Secretary's discretion, to buy up to $2.25 billion of the Federal National Mortgage Association's obligations.
Student Loan Marketing Association	Expand funds available for student loans by promoting liquidity in the student loan marketplace through secondary market purchases. Its products and services include student loan purchases, commitments to purchase student loans, and secured advances to originators of student loans. It also offers operational support to originators of student loans and to postsecondary education institutions. Pursuant to authority enacted in the Student Loan Marketing Association Act of 1996, the Association's shareholders approved a plan on July 31, 1997, to reorganize as a fully private, state-chartered entity. Under the reorganization, which became effective on August 8, 1997, the Association became a wholly owned subsidiary of SLM Holding Corporation.	Issuance of debt securities to the public and domestic and overseas capital markets is the primary means of financing. Other sources of financing include the sale of common and preferred stock, the securitization of its student loans, and interest income. The Secretary of the U.S. Treasury is authorized to purchase up to $1 billion in the Student Loan Marketing Association's obligations.
Other institutions		
Farm Credit System Insurance Corporation	Ensure the timely payment of principal and interest on Farm Credit System debt obligations purchased by investors.	Collects insurance premiums from Farm Credit System member banks to pay administrative expenses and fund insurance reserves.

(continued)

Institution name	Purpose	Funding sources
National Consumer Cooperative Bank	Support eligible cooperatives with credit and technical assistance and encourage broad-based ownership, control, and participation in the Bank. In general, cooperatives eligible for Bank loans and services are organizations operating on a cooperative, not-for-profit basis to produce or furnish goods, services, or facilities primarily for the benefit of their member-stockholders who are the ultimate consumers.	Primary source of funding is from private lenders. Its major creditors are banks and insurance companies. Initial funding was provided through Treasury purchases of its class A stock. The Treasury-held stock was subsequently exchanged for class A notes that must be repaid by October 31, 2020.
Neighborhood Reinvestment Corporation	Conduct programs to stimulate the development of local public/private resident partnerships committed to reversing neighborhood decline. It works with financial institutions and local governments to stimulate reinvestment in locally selected neighborhoods by offering rehabilitation and financial services to community residents.	Federal appropriations and nonfederal funding, such as contributions from local government agencies and private foundations, and other revenue sources.

(continued)

Institution name	Purpose	Funding sources
Securities Investor Protection Corporation	Afford certain protections for customers who experience loss as a result of broker-dealer failure and promote investor confidence in the nation's securities markets. Members of the Corporation are generally registered broker-dealers and all persons who are members of a national securities exchange.	Assessments collected from its members and interest earned from investments in U.S. government securities. It is authorized to maintain confirmed lines of credit with banks and other financial institutions. Additionally, the Securities and Exchange Commission is authorized to make up to $1 billion in loans to the corporation in the event that its funds appear to be insufficient for its intended purposes.
Not included in full survey		
African Development Foundation	Authorized to makes grants, loans, and loan guarantees to any African private group, association, or other entity engaged in peaceful activities that enable the people of Africa to develop more fully. The Foundation also develops strategic partnerships, funds development research and dissemination, and provides technical assistance.	Congressional appropriations.
National Sheep Industry Improvement Center	Promote activities to strengthen and enhance production or marketing of sheep and goats and their products in the United States. It may provide loans or grants to eligible entities to provide assistance to the industry for infrastructure development, business development, production and resource development, and market and environmental research.	Has funding through appropriations placed in a revolving fund.

(continued)

Institution name	Purpose	Funding sources
Presidio Trust	Maintain and lease property in the Presidio of San Francisco consistent with the surrounding National Park Service lands.	Congressional appropriations; also authorized to borrow up to $50 million from the U.S. Treasury, but only if the Secretary agrees to purchase such obligations, to rehabilitate and prepare facilities for leasing.

Source: Financial services institutions listed above, their annual reports, financial statements, and other published sources.

Selected Oversight Mechanisms and Controls by Financial Services Institution

Institution name	External audit	OIG authority	Credit rating	Internal audit
Government corporations				
Alternative Agricultural Research and Commercialization Corporation	Yes	Yes	No	No
Commodity Credit Corporation	Yes	Yes	No	No
Community Development Financial Institutions Fund	Yes	Yes	No	No
Export-Import Bank of the United States	Yes	No	No	No
Federal Crop Insurance Corporation	Yes	Yes	No	No
Federal Deposit Insurance Corporation	Yes	Yes	No	Yes
Federal Housing Administration[a]	Yes	Yes	No	No
Government National Mortgage Association	Yes	Yes	No	No
National Credit Union Administration	Yes	Yes	No	No
Overseas Private Investment Corporation	Yes	Yes	No	No
Pension Benefit Guaranty Corporation[a]	Yes	Yes	No	No
Rural Telephone Bank	Yes	Yes	No	No
Government-sponsored enterprises				
Farm Credit System	Yes	No	Yes	Yes[b]
Federal Agricultural Mortgage Corporation	Yes	Yes	No	No
Federal Home Loan Banks	Yes	No	Yes	Yes
Federal Home Loan Mortgage Corporation	Yes	No	Yes	Yes
Federal National Mortgage Association	Yes	No	Yes	Yes
Student Loan Marketing Association	Yes	No	Yes	Yes
Other institutions				
Farm Credit System Insurance Corporation	Yes	Yes	No	No
National Consumer Cooperative Bank	Yes	No	Yes	Yes
Neighborhood Reinvestment Corporation	Yes	No	Yes	Yes
Securities Investor Protection Corporation	Yes	No	No	No

[a]Institution required to have annual reports generated on its actuarial soundness.

[b]All of the Farm Credit System banks, which hold the majority of the system's assets, have an internal audit function. The status of an internal audit function in the other system components was not readily available.

Source: Financial services institutions listed above.

Self-Reported Adherence to Selected Federal Statutes That Promote Accountability and Control

As agreed with your office, we obtained information on coverage by or voluntary adherence to five selected federal statutes that promote accountability and control for those institutions without a federal regulator (see table III.1). The Government Corporation Control Act of 1945 (GCCA) mandates audit, accounting, and budget requirements for mixed-ownership and wholly owned government corporations. The Government Performance and Results Act of 1993 (GPRA) was intended to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. Specifically, GPRA requires the preparation of multiyear strategic plans, annual performance plans, and annual performance reports.

The Chief Financial Officers Act of 1990 (CFO Act), as subsequently expanded through the Government Management Reform Act of 1994, requires the preparation and audit of annual financial statements. Additionally, the CFO Act set expectations for (1) the deployment of modern systems to replace existing antiquated, often manual processes; (2) the development of better performance and cost measures; and (3) the design of results-oriented reports on the government's financial condition and operating performance by integrating budget, accounting, and program information.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires that heads of executive agencies evaluate and report on their internal control and accounting systems. The Federal Credit Reform Act of 1990 (FCR Act) requires that the full estimated cost to the government (on a net present value basis) over the life of a loan or loan guarantee be reflected in the budget before the credit is extended. Federal accounting standards were subsequently developed that are consistent with the intent of this act.

The majority of government corporations reported that they fully or partially adhered to these five statutes. All of the government corporations said that they fully or partially adhered to GCCA and GPRA. All but one of the government corporations reported full or partial adherence to the CFO Act and FMFIA. The two government corporations that provided deposit insurance reported that they were exempt from the requirements of the FCR Act. As agreed with your office, we did not independently determine the applicability of these statutes to the institutions.

Table III.1: Self-Reported Adherence to Selected Federal Statutes

Institution name	GCCA	GPRA	CFO Act	FMFIA	FCR Act
Government corporations					
Alternative Agricultural Research and Commercialization Corporation	Yes	Yes	Yes	Yes	Yes
Commodity Credit Corporation	Yes	Yes	Partial[a]	Partial[a]	Partial[a]
Community Development Financial Institutions Fund	Partial	Yes	Yes	Yes	Yes
Export-Import Bank of the United States	Yes	Yes	Yes	Yes[b]	Yes
Federal Crop Insurance Corporation	Yes	Yes	Yes	Yes	Yes
Federal Deposit Insurance Corporation	Yes	Yes[c]	Yes[b]	Yes[b]	No
Federal Housing Administration	Yes	Yes	Yes	Yes	Yes
Government National Mortgage Association	Yes	Yes	Yes	Yes	Yes
National Credit Union Administration	Yes	Yes	Yes	Partial[a,b]	No
Overseas Private Investment Corporation	Yes	Yes	No	Partial[a,b]	Partial[a,b]
Pension Benefit Guaranty Corporation	Yes	Yes	Partial[a]	Yes[b]	Yes[b]
Rural Telephone Bank	Yes	Yes	Yes	Yes	Yes
Government-sponsored enterprises					
Farm Credit System	No	No	No	No	No
Federal Agricultural Mortgage Corporation	No	No	No	No	No
Federal Home Loan Banks	Yes	No	No	Yes	No
Federal Home Loan Mortgage Corporation	No	No	No	No	No
Federal National Mortgage Association	No	No	No	No	No
Student Loan Marketing Association	No	No	No	No	No

(continued)

Institution name	GCCA	GPRA	CFO Act	FMFIA	FCR Act
Other institutions					
Farm Credit System Insurance Corporation	No	Yes	Partial[a,b]	Partial[a,b]	Yes
National Consumer Cooperative Bank	No	No	No	No	No
Neighborhood Reinvestment Corporation	Yes	Yes[b]	Yes[b]	Yes[b]	No
Securities Investor Protection Corporation	No	No	No	No	No

[a]The term partial was used to describe institutions that indicated they were covered by or voluntarily adhered to only selected requirements of a federal statute.

[b]Institution indicated that it voluntarily adhered to the statute.

[c]Under GPRA, FDIC is required to submit a strategic plan for program activities to OMB, but certain provisions of the act apply to procedures that do not apply to FDIC.

Source: Financial services institutions listed above.

Financial Services Institution Regulators' Enforcement Authority

As agreed with your office, we obtained information on the enforcement authorities of the regulators covered in this report (see table IV.1). Our work with banks and thrifts shows that to be effective, the regulator needs to be able to take prompt enforcement actions when safety and soundness problems are identified. Enforcement actions available to bank and thrift regulators include informal actions, such as requiring plans to rectify identified problems; and range to more serious or formal actions, such as those identified in table IV.1. Some of the regulators reported having formal enforcement authorities in addition to those captured in table IV.1. For example, the Department of the Treasury and the Securities and Exchange Commission had the authority to bring action in district court for enforcement purposes against the Student Loan Marketing Association and Securities Investor Protection Corporation, respectively. In addition, the Department of the Treasury had various capital-based enforcement authorities, such as requiring the Student Loan Marketing Association to obtain additional capital or requiring the submission of a capital restoration plan. The Farm Credit Administration had similar capital-based enforcement authorities over the Farm Credit System and Federal Agricultural Mortgage Corporation.

Table IV.1: Selected Enforcement Authorities of Financial Services Institutions' Regulators

Regulator (regulated institution)	Written agreement	Cease and desist order	Suspension, prohibition, or removal action	Civil money penalty	Conservatorship	Termination of participation or coverage
Department of the Treasury						
Student Loan Marketing Association	No	No	No	No	No	No
Farm Credit Administration						
Farm Credit System	Yes	Yes	Yes	Yes	Yes	No
Federal Agricultural Mortgage Corporation	No	Yes	Yes	Yes	Yes	No
National Consumer Cooperative Bank	No	No	No	No	No	No
Federal Housing Finance Board						
Federal Home Loan Banks	Yes	No	Yes	No	Yes	No
Office of Federal Housing Enterprise Oversight						
Federal Home Loan Mortgage Corporation	Yes	Yes	No	Yes	Yes	No
Federal National Mortgage Corporation	Yes	Yes	No	Yes	Yes	No
Risk Management Agency						
Federal Crop Insurance Corporation	No	No	No	No	No	No
Securities and Exchange Commission						
Securities Investor Protection Corporation	No	No	No	No	No	No

Source: Federal regulators listed in the table above.

Additional Financial Information for Institutions

Dollars in millions

Institution name	Net income (loss) in fiscal year 1996	Treasury borrowing authority [a]	Total commitments/contingencies (FY 1996)	Items included in total commitments/contingencies
Government corporations				
Alternative Agricultural Research and Commercialization Corporation	N/A[b]	none	N/A[b]	N/A[b]
Commodity Credit Corporation	($3,675)	$30,000	$36,954	Production flexibility contracts, letters of commitment, purchasing commitments, export credit guarantees, ground waste contamination, market access program
Community Development Financial Institutions Fund	0	none	39	Capital leases, grants
Export-Import Bank of the United States	1,241	6,000	55,809	Off-balance sheet financial instruments, outstanding loans receivable, outstanding subrogated claims
Federal Crop Insurance Corporation	(1,621)	none	26,800	Insurance-in-force
Federal Deposit Insurance Corporation	9,307	30,000[c]	2,691,951	Capital leases, letters of credit, pledged securities, receivables from bank/thrift resolutions, insured deposits, asset securitization guarantees, anticipated failures of insured institutions, litigation losses
Federal Housing Administration	(3,843)	82	434,833	Mortgage insurance in force, section 221(g)(4) program debentures
Government National Mortgage Association	516	none	529,600	Total guaranteed mortgage-backed securities, commitments to guarantee mortgage-backed securities
National Credit Union Administration	178	700[d]	275,543	Capital leases, unsecured term notes, insured deposits
Overseas Private Investment Corporation	209	100	37,622[e]	Operating leases, insurance coverage exposure, pending insurance claims, investment guarantees, outstanding claims settlement guarantees, undisbursed commitments on investment guarantees
Pension Benefit Guaranty Corporation	1,116	100	1,093,151[f]	Insured pension plans, operating leases

(continued)

Dollars in millions

Institution name	Net income (loss) in fiscal year 1996	Treasury borrowing authority [a]	Total commitments/contingencies (FY 1996)	Items included in total commitments/contingencies
Rural Telephone Bank	880	none	880	Capital leases, off-balance sheet financial instruments
Government-sponsored enterprises				
Farm Credit System	1,055	none	41,958	Commitments to extend credit, standby letters of credit, interest rate swaps, forwards and futures contracts, interest rate caps, floors, and other options contracts
Federal Agricultural Mortgage Corporation	1	1,500	254	Capital leases, loan purchase commitments, outstanding principal balance of securities guaranteed and not held in portfolio, forward sales contracts
Federal Home Loan Banks	1,330	4,000	333,909	Commitments for additional advances, standby letters of credit, pledged collateral for interest rate exchange agreements, capital leases, required Resolution Funding Corporation annual payment commitment, Affordable Housing Program commitment, interest-rate exchange agreements
Federal Home Loan Mortgage Corporation	1,243	2,250	597,765	Outstanding commitments to purchase mortgages, off-balance sheet financial instruments (mortgage participation certificates, derivative financial instruments)
Federal National Mortgage Association	2,725	2,250	782,000	Guaranteed mortgage-backed securities not held in portfolio (outstanding and commitments), off-balance sheet financial instruments (interest rate swaps, asset swaps, credit enhancements, options, and other guarantees)
Student Loan Marketing Association	419	1,000	60,237	Capital leases, commitments to purchase loans and lend funds, letters of credit guaranteeing repayment of state student loan revenue bonds, pending litigation, interest rate swaps, foreign currency agreements
Other institutions				

(continued)

Dollars in millions

Institution name	Net income (loss) in fiscal year 1996	Treasury borrowing authority [a]	Total commitments/contingencies (FY 1996)	Items included in total commitments/contingencies
Farm Credit System Insurance Corporation	137	none	62,092	Financial Assistance Corporation bonds, insured Farm Credit System debt obligations
National Consumer Cooperative Bank	11	none	107	Capital leases, standby letters of credit
Neighborhood Reinvestment Corporation	(>1)	none	10	Capital leases, mortgage guarantees
Securities Investor Protection Corporation	38	1,000	5	Capital leases, line of credit with bank consortium

[a]This column provides information on the authority of financial services institutions to borrow funds from the U.S. Treasury outside of the borrowing authority granted by the Federal Credit Reform Act to finance federal credit programs.

[b]Not applicable. The Corporation did not begin operation as a wholly owned government corporation until fiscal year 1997.

[c]FDIC has authority to borrow up to $30 billion for insurance losses from the U.S. Treasury, on behalf of the Savings Association Insurance Fund and Bank Insurance Fund. In addition, FDIC has authority to borrow working capital from the Federal Financing Bank.

[d]The NCUA-administered Central Liquidity Fund's authorizing legislation provided it with the authority to borrow up to 12 times its subscribed capital stock (required plus on-call subscriptions). As of March 1998, that amount would have been approximately $17.8 billion. However, Congress placed an appropriations limit of $600 million in 1981 on the amount that the fund could borrow for the purpose of making new loans. This appropriation limit has been carried forward since 1981. The National Credit Union Share Insurance Fund is authorized to borrow $100 million from the Treasury for unforeseen emergencies.

[e]The amount shown for the Overseas Private Investment Corporation is based on a total face value of $31.4 billion for the three types of political risk investment insurance coverages it offers. Investors may obtain all three coverages, but claim payments may not exceed the single highest coverage. Assuming that claims payments would not exceed the single highest coverage, the Overseas Private Investment Corporation estimated that its maximum exposure to insurance claims was $13.4 billion. The $13.4 billion is the amount that is governed by the statutory limitation on its issuance of insurance.

[f]Data on the face value of insurance exposure obtained from the Office of Management and Budget. The Pension Benefit Guaranty Corporation reported that the total unfunded vested benefits on single-employer plans that represent reasonably possible exposure ranged from $22 billion to $26 billion. In addition, it estimated that it was reasonably possible that multiemployer plans may require an additional $243 million in future financial assistance.

Source: Financial services institutions listed above.

Comments From the Office of Management and Budget

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 11, 1998

Mr. Thomas J. McCool
Director, Financial Institutions
and Markets Issues
General Accounting Office
Washington, DC 20548

Dear Mr. McCool:

We appreciate the opportunity to review and comment on the General Accounting Office's draft report, Financial Services Institutions: Information for Assessing the Government's Potential Financial Exposure. This letter highlights a significant issue to consider in your report. Enclosed are additional comments for your consideration.

The report attempts to address the potential financial exposure faced by the Federal Government as a result of financial services institutions sponsored, in whole or in part, by the Federal Government. The report does not cover financial services activities directly undertaken by executive branch departments and agencies or the potential financial exposure associated with these direct activities. However, many government corporations are in fact parts of executive branch departments and agencies or constitute entire agencies themselves.

Although OMB understands that GAO is constrained by its charge from Congress, we are particularly concerned about the definition of "financial services activities" and "financial services institutions" used in the context of the report. The report focuses on government corporations as the principal category of financial services institutions, notwithstanding that direct loans, loan guarantees, and insurance programs also are conducted by non-corporations within the Federal Government. The U.S. Treasury has a potential liability from financial services institutions within the Federal Government regardless of whether the credit or insurance program is conducted by a government corporation.

Moreover, the introduction to the report indicates it will discuss general indicators of potential financial exposure that financial services institutions pose to the Federal Government. Ultimately, however, the report is unclear about which indicators you regard as most appropriate for measuring the Government's exposure.

Thank you again for providing OMB with the opportunity to comment on the draft report.

Sincerely,

Joseph J. Minarik
Associate Director for
Economic Policy

Enclosure

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Related GAO Products

Year 2000 Computing Crisis: Federal Deposit Insurance Corporation's Efforts to Ensure Bank Systems Are Year 2000 Compliant (GAO/T-AIMD-98-73, Feb. 10, 1998).

Year 2000 Computing Crisis: Actions Needed to Address Credit Union Systems' Year 2000 Problem (GAO/AIMD-98-48, Jan. 7, 1998).

Budget Issues: Budgeting for Federal Insurance Programs (GAO/AIMD-97-16, Sept. 30, 1997).

Year 2000 Computing Crisis: An Assessment Guide (GAO/AIMD-10.1.14, Sept. 1997).

GSEs: Recent Trends and Policy (GAO/T-OCE/GGD-97-76, July 16, 1997).

Government-Sponsored Enterprises: Advantages and Disadvantages of Creating a Single Housing GSE Regulator (GAO/GGD-97-139, July 9, 1997).

Housing Enterprises: Potential Impacts of Severing Government Sponsorship (GAO/GGD-96-120, May 13, 1996).

Government Corporations: Profiles of Existing Government Corporations (GAO/GGD-96-14, Dec. 13, 1995).

Government Corporations: Profiles of Recent Proposals (GAO/GGD-95-57FS, Mar. 30, 1995).

Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks (GAO/GGD-91-90, May 22, 1991).

Budget Issues: Profiles of Government-Sponsored Enterprises (GAO/AFMD-91-17, Feb. 1991).

Government-Sponsored Enterprises: The Government's Exposure to Risks (GAO/GGD-90-97, Aug. 15, 1990).

Federal Credit and Insurance: Programs May Require Increased Federal Assistance in the Future (GAO/AFMD-90-11, Nov. 16, 1989).

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