SPECIAL ANALYSIS F

FEDERAL CREDIT PROGRAMS

INTRODUCTION

In the past decade, Federal credit activity—direct loans, guaranteed loans, and Government-sponsored enterprise loans—has expanded rapidly. In absolute terms, annual Federal and federally assisted net lending (disbursements of new loans less repayments) increased 239%, from $25.5 billion in 1974 to $86.5 billion in 1983. In relative terms, the ratio of Federal and federally assisted lending to all funds advanced by non-financial sectors in the U.S. credit market increased from 14% to 17%.

Federal and federally assisted lending is directed much more to some sectors of the economy, such as housing or agriculture, than to other sectors. The Government offers credit assistance for a variety of reasons. In some cases, it is intended to correct perceived capital market imperfections that would otherwise inhibit the flow of capital to certain sectors. In other cases, it provides benefits to favored borrowers, even where no capital market imperfections may exist. Regardless of the reason, the Government makes financing available on more favorable terms than private lenders would otherwise offer. The degree of the subsidy, however, varies greatly across programs.

Since Federal credit is subsidized, it can alter resource allocation relative to the market and, therefore, may result in a loss of economic efficiency. To the extent feasible, the administration and the Congress must weigh the costs of subsidized credit against the economic and social benefits of subsidized credit. Although this special analysis does not measure the benefits of subsidized credit, it does estimate the discounted present value of the costs of the subsidies on direct loan obligations, which was $8.4 billion in 1983.

The other side of the ledger from Federal and federally assisted lending is Federal and federally assisted borrowing. This borrowing relates directly to the Government's effect on credit markets but only indirectly to Federal credit policy. Federal borrowing finances the Federal budget deficit, most of which is incurred for outlays other than those relating to direct loans, whether on- or off-budget. Federally assisted borrowing is approximately equal in volume to federally guaranteed lending and Government-sponsored lending. In 1983, Federal and federally assisted borrowing totaled $281 bil-

lion, up from an average of $32 billion a year during the first half of the 1970's. The ratio of Federal and federally assisted borrowing to all funds raised by non-financial sectors in U.S. credit markets was 56% in 1983.

To help control the volume of Federal direct loans and guaranteed loans, the unified budget since January 1980 has been supplemented by a Federal credit control system composed of the Federal credit budget and credit limitations proposed in individual appropriations bills. The Federal credit budget is the aggregate of the direct loan obligations and guaranteed loan commitments in the fiscal year. By presenting the total volume of Federal credit, it facilitates administrative and legislative control over individual credit programs through limitations set in appropriations acts.

In 1983, direct loan obligations were $41.4 billion and guaranteed loan commitments were $97.2 billion, with a credit budget total of $138.6 billion. This is an increase of more than 42% over 1982, when the credit budget was $97.1 billion.[1] In 1984, the credit budget is estimated to be $135.3 billion, and in 1985 the administration is proposing a credit budget of $130.5 billion.

By itself, the credit budget and appropriation act limitations are inadequate tools to control all Federal credit activity. The credit budget does not establish binding ceilings on all new direct loan obligations and guaranteed loan commitments. Nor does it control, or even measure, the degree of subsidy provided by direct or guaranteed loans. In recognition of these and other problems in controlling Federal credit activity, the Cabinet Council on Economic Affairs, chaired by the Secretary of the Treasury, has recommended to the President: (1) a strengthened budgetary process for credit activities; and (2) specific measures to improve credit program administration and management.

A strengthened budgetary process requires improvements to both the unified budget and the credit budget. The unified budget should be made more inclusive of Federal credit activity by including the off-budget outlays of the lending programs financed through the Federal Financing Bank (FFB), with appropriate safeguards to prevent agencies from financing outside the FFB to avoid being included in the budget. Congressional action on credit should be subject to the same Congressional budget procedures and controls as outlays. This would significantly improve control over Federal credit beyond the current process of setting limitations on direct loan obligations and guaranteed loan commitments in appropriations bills. The Federal credit control system would be improved by having the Congress establish binding aggregate limits on new direct loan obligations and guaranteed loan commitments

[1] The credit buget total published in last year's budget, $101.3 billion, has been adjusted for an accounting change explained in Appendix B of this special analysis.

in the budget resolution and incorporating these limitations into the reconciliation process. The budget reconciliation process would require that credit totals be allocated by committee, analogous to the process for the unified budget.

As part of improved credit program administration, OMB Circular No. A-70, "Federal Credit Policy", will be re-issued in 1984. Circular No. A-70 will provide policy guidance for Federal agencies on the administration of credit programs. It will also set policy for shaping proposed legislation for new credit programs and amendments to legislation in existing programs. For example, Circular A-70 will state the principles regarding the minimum level of interest rates on direct loan obligations, the minimum level of fees to be charged for guarantees and will state that Federal guarantees of tax exempt obligations are to be avoided.

This special analysis presents basic information on the broad spectrum of Government credit programs and plans from 1982 to 1989. It describes the credit budget and its relationship to appropriation act limitations on direct loan obligations and guaranteed loan commitments. It discusses trends in Federal credit, presents in some detail the direct loans and guaranteed loans of the Federal Government, and describes the credit activity of Government-sponsored enterprises. It also discusses Federal credit subsidies, the Federal Financing Bank (FFB), loan asset sales, loan defaults and write-offs, and tax-exempt credit. This special analysis supplements the credit data and discussions found elsewhere in the budget (see Appendix A). Detailed tables on direct and guaranteed loan programs, Government-sponsored enterprises and the FFB appear at the end of this special analysis.

Trends in Federal Credit Activity

The flow-of-funds accounts estimated by the Federal Reserve Board provide a useful context in which to analyze aggregate Federal credit activity. The flow-of-funds accounts provide a measure of total lending to the non-financial sectors in U.S. credit markets. Total lending (total funds advanced), of course, is identical to total borrowing (total funds raised). Borrowing by financial sectors in the credit markets is excluded in this measure in order to avoid double-counting of transactions.

With this measure, Federal and federally assisted lending can be compared to total lending in the U.S. credit markets. This allows a rough estimate to be made of the total amount of lending directly influenced by Federal programs and allows a rough comparison to be made of changes in the degree of Federal influence. Table F-1 summarizes Federal credit data and their relationship to domestic credit markets during the last decade. Federal and federally assisted lending in a given year is the difference between the amount of

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loans outstanding at the beginning and at the end of that year, or new disbursements less repayments. The total amount of Federal and federally assisted lending has risen 239% since 1974, reaching $86.5 billion in 1983. The participation ratio of Federal and federally assisted lending to total funds advanced in U.S. credit markets in 1983 is 17.4%. This is below the high for this decade of 22.4% in 1980 and lower than the corresponding 1982 ratio of 22.2%. During the past year, total funds advanced in the U.S. credit markets increased even more rapidly than the two major components of federally assisted lending, guaranteed loans for housing and loans by Government-sponsored enterprises.

The ratio of Federal and federally assisted borrowing to total funds raised in U.S. credit markets is more volatile than the lending participation ratio, ranging from 13% to 51% of total borrowing between 1974 and 1982. The volatility is due primarily to swings in the budget deficit. The borrowing participation ratio rose to 56% in 1983 due to both increased Federal borrowing from the public to finance the total budget deficit and increased borrowing for guaranteed loans.

Table F–1. **FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS**

(Dollar amounts in billions)

	Actual											Estimates	
	1974	1975	1976	TQ	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total funds advanced in U.S. credit markets [1]	187.5	178.0	243.3	64.9	309.8	385.7	423.5	356.4	414.3	394.2	497.5	(3)	(3)
Direct loans:													
On-budget	3.3	5.8	4.2	1.1	2.6	8.6	6.0	9.5	5.2	9.1	4.8	−3.9	2.5
Off-budget	0.8	7.0	6.7	2.6	9.0	11.2	13.6	14.7	20.9	14.3	10.5	13.2	10.5
Guaranteed loans	10.3	8.6	11.1	−0.1	13.5	13.4	25.2	31.6	28.0	20.9	34.1	39.4	38.9
Government-sponsored enterprise loans [2]	11.2	5.6	4.9	3.1	11.7	25.2	28.1	24.1	32.4	43.3	37.1	39.8	42.9
Federal and federally assisted lending	25.5	27.0	26.9	6.7	36.7	58.4	72.9	79.9	86.5	87.6	86.5	88.5	94.8
Federal lending participation ratio (percent)	13.6	15.2	11.1	10.3	11.8	15.1	17.2	22.4	20.9	22.2	17.4	(3)	(3)
Total funds raised in U.S. credit markets [1]	187.5	178.0	243.3	64.9	309.8	385.7	423.5	356.4	414.3	394.2	497.5	(3)	(3)
Federal borrowing from public	3.0	50.9	82.9	18.0	53.5	59.1	33.6	70.5	79.3	135.0	212.3	183.0	193.0
Borrowing for guaranteed loans	10.3	8.6	11.1	−0.1	13.5	13.4	25.2	31.6	28.0	20.9	34.1	39.4	38.9
Government-sponsored enterprise borrowing [2]	10.9	5.3	4.1	1.4	12.0	21.4	21.9	21.4	34.8	43.8	34.6	39.8	42.4
Federal and federally assisted borrowing	24.2	64.8	98.1	19.3	79.0	93.9	80.7	123.5	142.1	199.7	281.0	262.2	274.3
Federal borrowing participation ratio (percent)	12.9	36.4	40.3	29.7	25.5	24.4	19.1	34.7	34.3	50.7	56.5	(3)	(3)

[1] Funds advanced to and raised by nonfinancial sectors, excluding equities.

[2] The data in Table F–1 for total funds advanced are defined as excluding financial sectors. Nonetheless, the Government-sponsored enterprises, as well as Federal assisted lending, are properly compared with total funds advanced. Government-sponsored enterprises lending is a proxy for the lending by non-financial sectors that is intermediated by the sponsored enterprises. It assists the ultimate non-financial borrowers whose loans are purchased or otherwise financed by the sponsored enterprise.

[3] Not estimated.

Note: The insurance coverage offered to financial institutions by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration has not been included in this table, although direct loans made by these institutions have been included.

Source: Federal Reserve Board Flow of Funds Accounts.

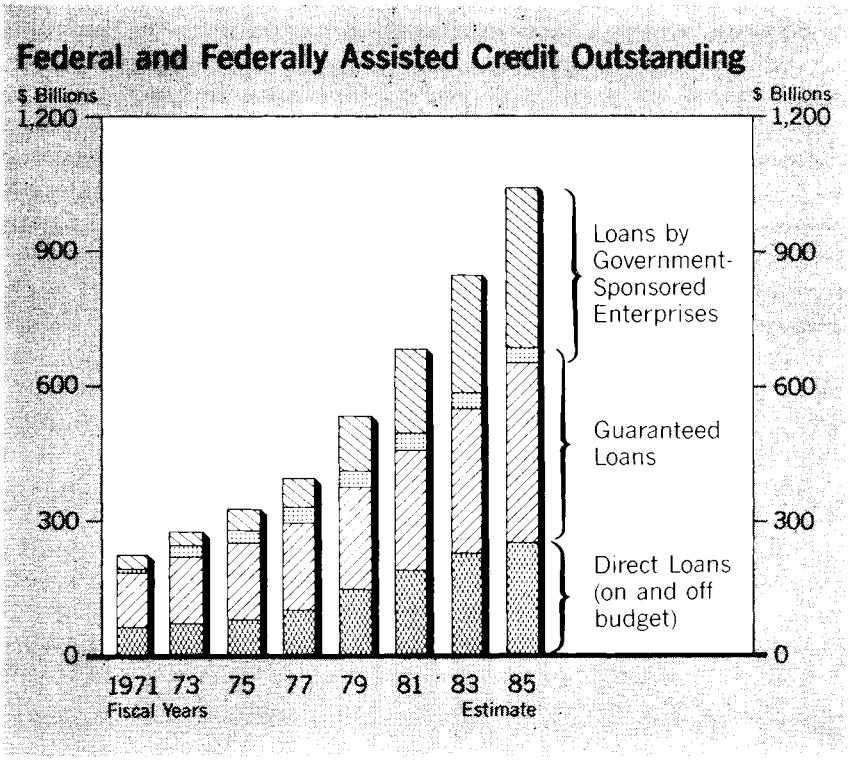
Table F-2 summarizes outstanding Federal and federally assisted loans from 1981 to 1985. In 1983, Federal and federally assisted loans outstanding increased by 10.9% over 1982. In 1984, an increase of 10.4% over 1983 is expected. In 1985, an increase of 10.2% over 1984 is projected.

Table F-2. **SUMMARY OF OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT**

(In billions of dollars)

	Actual			Estimate	
	1981	1982	1983	1984	1985
Direct loans:					
On-budget agencies	91.3	100.2	105.0	101.1	103.7
Off-budget entities	93.7	107.6	118.0	131.1	141.6
Primary guaranteed loans	309.1	331.2	363.8	403.2	442.2
Loans by Government-sponsored enterprises	182.3	225.6	261.2	301.0	343.9
Total, Federal and federally assisted loans	**676.4**	**764.6**	**848.0**	**936.4**	**1,031.4**
Federal borrowing from the public	79.3	135.0	212.3	183.0	193.0
Primary guaranteed borrowing (same as guaranteed loans above)	309.1	331.2	363.8	403.2	442.2
Borrowing by Government-sponsored enterprises	161.8	205.5	239.9	279.7	322.1
Total, Federal and federally assisted debt	**550.2**	**671.7**	**816.0**	**865.9**	**957.3**

The growth in Federal and federally assisted lending is reflected in Federal and federally assisted credit outstanding. The following chart shows the growth of Federal and federally assisted credit outstanding in the last decade. The total amount of credit outstanding has risen by $585 billion, from $264 billion in 1972 to $848 billion in 1983, a compounded average annual increase of 11%.



The Credit Budget

The unified budget is an inadequate means of controlling Federal credit. It is primarily a cash-flow budget concerned with reflecting the claim of Federal programs on taxes and other governmental receipts. In order to reflect the cash-flow impact of direct loans, the unified budget generally accounts for direct loan programs through revolving funds on a net basis, in which repayments are subtracted from new loan disbursements. Congressional action on new appropriations for these funds is generally only necessary when disbursements exceed repayments. Loan guarantees, which are contingent liabilities and thus represent a claim on Federal resources only if there is a default, are largely excluded from the unified budget. Except in the case of default, they neither require budget authority nor result in outlays. Due to these characteristics, the gross levels of new direct loans and loan guarantees cannot be directly controlled by the unified budget.

In January 1980, budgeting for Federal credit programs was improved significantly through the initiation of a Federal credit control system composed of the Federal credit budget and credit limitations proposed in individual appropriation bills. The credit budget provides a framework that allows decisions on individual programs to be made in the context of all Federal credit activity. It is intended to present the total volume of new credit activity rather than simply the net cash out-flow from that activity. It complements the unified budget during the executive formulation of the President's program, and during subsequent congressional action.

Credit budget concepts.—The credit budget is based on four concepts.

First, it reflects gross levels of new credit activity, without offsets for repayments. This is because subsidies are provided to all new recipients of direct loans and loan guarantees, regardless of the extent to which borrowers are repaying other loans previously made.

Second, it measures the total volume of direct loan obligations and guaranteed loan commitments. Direct loan obligations are recorded when the Government contracts to disburse a loan. Guaranteed loan commitments are agreements in which the Government guarantees the repayment of a loan offered by a lender in the event of default. Both obligations and commitments define the point at which the Government becomes legally bound to extend credit assistance, which is the point most amenable to executive and legislative control.

Third, the credit budget includes both the unified budget programs and the off-budget Federal programs. All direct loan and

guaranteed loan programs of the Government, whether on- or off-budget, are included in the credit budget. Where applicable, the credit activities of on- and off-budget entities are separately identified in this special analysis. The credit budget does not include the lending of Government-sponsored enterprises. They are excluded from the credit budget as well as the unified budget because of their private ownership, although they are discussed both in this special analysis (e.g., Tables F-1 and F-16) and elsewhere in the budget documents.

Fourth, guaranteed loan commitments are calculated for the full principal of the loan, even if the Government's contingent liability is less than the full loan principal. The entire loan, even if only partially guaranteed, is assisted by the guarantee. Moreover, in some programs that offer partial guarantees, the private lender is at risk only when the value of the collateral and the guarantee combined are less than the full loan principal. For these reasons, the administration proposes appropriations bill language to control the amount of guaranteed loan commitments on the basis of full loan principal.

There are a number of programs in which less than the full principal of the loan is guaranteed. The major agency that offers guarantees that are significantly below full loan principal is the Veterans Administration. In the aggregate, of the $626.5 billion of gross outstanding guaranteed loans in 1983, the Government's contingent liability was $554.2 billion or 88.5%.

The contingent liability and full principal of all guaranteed loan programs are shown in Table F-3:

Table F-3. **CONTINGENT LIABILITY FOR OUTSTANDING GUARANTEED LOANS**

(In millions of dollars)

	1983 actual	1984 estimate	1985 estimate
Veterans Administration mortgage guarantees:			
Contingent liability	53,850	58,346	63,432
Full principal	119,933	129,947	141,274
All other loan guarantee programs:			
Contingent liability	500,322	576,045	646,050
Full principal	506,522	582,589	652,995
Total outstanding: [1]			
Contingent liability	554,172	634,391	709,482
Full principal	626,455	712,535	794,269

[1] This table reflects total gross outstanding guaranteed loans, including secondary guarantees and guaranteed loans of one Federal agency held as direct loans by another Federal agency.

Appropriation act limitations.—The Federal credit control system is composed of both the credit budget and the appropriations process. The appropriations process provides the enforcement mechanism for the system. The administration proposes limitations annually in appropriations bills on the amount of direct loan obligations

or guaranteed loan commitments for most credit programs. The limitation is specified in the appropriation language for individual budget accounts that include credit programs.

For direct loans, appropriation act limitations are statutory restrictions that provide greater control over the use of budgetary resources. About 90% of direct loan obligations in 1983 were financed by revolving funds. As indicated above, congressional appropriation of budget authority cannot effectively control lending by these funds, as new appropriations are generally required only when new disbursements exceed repayments.

In the case of guaranteed loans, appropriation act limitations generally provide the major point of control in the appropriation process. The enacted limitations are statutory restrictions on the ability of agencies to enter into commitments to guarantee loans.

Appropriation bill limitations are proposed for programs amounting to about 49% of the credit budget totals in 1985. Approximately 58% of direct loan obligations are limited by appropriations bills, and 46% of guaranteed loan commitments are limited. The remainder are programs, shown in Table F-4, for which a limitation on annual activity is deemed unsuitable for any of several reasons.

First, limitations are not proposed for some programs in which the authorizing legislation provides a clear entitlement to qualified applicants, such as mortgage guarantees for veterans. These programs are similar to those expenditure programs considered relatively uncontrollable, most of which also are not acted on in annual appropriations bills.

Second, some programs are exempt from limitation when additional control through appropriation act limitation would inhibit the effective operation of a program. For example, no limitation is placed on direct loans that the National Credit Union Administration makes to pay insurance claims for its members because the advances often avoid more costly claims later by insured institutions.

Third, intragovernmental financing transactions, such as Federal Financing Bank loans and the guarantees of certificates of beneficial ownership issued by the Farmers Home Administration, are not subject to limitation. Since the original loans by the agency are controlled through annual appropriation act limitations, they need not be limited a second time at the intra-governmental financing stage.

Fourth, direct loans that arise from payment of claims on defaulted guaranteed loans are exempt from limitation. Payment of these default claims is mandatory, and the level of required payments is unknown. Therefore, the effective point of control is earlier, at the time of the original guaranteed loan commitment.

Table F-4 lists major programs proposed for exemption from appropriation bill limitations in the 1985 credit budget.

Table F-4. **CREDIT BUDGET PROGRAMS EXEMPT FROM APPROPRIATION ACT LIMITATIONS**

(In millions of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1983 actual	1984 estimate	1985 estimate	1983 actual	1984 estimate	1985 estimate
Programs exempt from appropriations control:						
Entitlement and mandatory programs:						
CCC price support and related programs	13,710	6,147	6,124	.....	.....	.....
Agricultural disaster lending	586	2,005	959	.....	.....	.....
Public housing	247	250	250	14,261	15,159	14,919
Rural housing and development	77	26	106	.....	.....	.....
Veterans mortgage guarantees	.....	.....	.....	14,670	13,408	14,988
Other veterans programs	133	270	140	.....	.....	.....
Guaranteed student loans	.....	.....	.....	7,262	7,593	7,907
Policy exemptions:						
Economic support fund	418	326	378	.....	.....	.....
Functional development	428	409	395	.....	.....	.....
Synthetic Fuels Corporation	.....	.....	.....	.....	4,098	2,400
National Credit Union Administration	220	312	19	34	28	10
Public Law 480 export sales	810	774	867	.....	.....	.....
CCC export credit	.....	.....	.....	4,669	4,000	3,000
Tennessee Valley Authority	41	85	89	161	165	88
NASA satellite leases [1]	.....	.....	.....	189	131	.....
Small Business Administration [2]	.....	.....	.....	3,040	3,900	.....
Financing transactions:						
Repurchases of loan assets and guarantees of CBO's	6,677	10,306	6,863	9,966	15,085	9,946
Federal Financing Bank	10,696	15,976	10,033	.....	.....	.....
Defaulting guaranteed loans: [3]						
International assistance	440	480	510	.....	.....	.....
FHA mortgage insurance	1,488	1,698	1,581	.....	.....	.....
Small Business Administration	853	750	495	.....	.....	.....
Guaranteed student loans	502	713	795	.....	.....	.....
VA mortgage insurance	1,056	628	394	.....	.....	.....
Health programs	25	15	2	.....	.....	.....
Amtrak	.....	880	.....	.....	.....	.....
Aircraft purchases	153	.....	.....	.....	.....	.....
Maritime Administration	125	85	20	.....	.....	.....
AID housing and other credit	20	24	19	.....	.....	.....
Other	731	760	8	734	879	90
Subtotal, exempt from limitation	39,436	42,919	30,047	54,986	64,446	53,348
Total subject to limitation [4]	18,565	20,333	18,455	125,254	125,137	125,564
Less: Deductions to eliminate double counting	−16,643	−25,391	−16,808	−83,020	−92,212	−80,123
Total, credit budget	41,358	37,861	31,694	97,221	97,371	98,789

*$500,000 or less.

[1] No new guaranteed loans are proposed in 1985.

[2] The administration proposes a limit on this program in 1985. Previously proposed limitations were not enacted by Congress.

[3] The data below are primarily for defaults. They may include small amounts of other obligations for some programs.

[4] Percentage of total guaranteed loan commitments subject to appropriation bill limitation (46% in 1985) is only for primary guaranteed loans.

The credit budget totals.—Table F-5 provides detail on the credit budget totals for 1982 through 1987. It also shows the five largest direct loan programs and the five largest guaranteed loan programs.

For 1985, the administration is proposing that the credit budget decrease by $4.9 billion, or 4% below the 1984 totals. The programmatic reasons for the changes in the credit budget totals since 1982 are discussed below in the sections on direct loans and guaranteed loans.

An important influence on the annual changes in the credit budget totals shown above is the prevailing economic conditions in a few sectors. In 1982, a recessionary year, the credit budget totals contracted sharply. Virtually every major credit program, with the exception of the Commodity Credit Corporation, shrank. With the economic upswing of 1983, Federal credit, especially guaranteed loans, rebounded sharply. The fact that 80% of this increase in the credit budget is accounted for by one of the sectors leading the economic recovery, housing, highlights the pro-cyclical relationship between federally assisted credit and the U.S. economy.

Table F-5. **THE CREDIT BUDGET TOTALS**

(In billions of dollars)

	1982 actual	1983 actual	1984 estimate	1985 estimate	1986 estimate	1987 estimate
Direct loan obligations:						
Commodity Credit Corporation	11.5	13.9	6.1	6.1	6.7	6.4
Farmers Home Administration	8.2	6.7	8.3	6.3	6.2	6.1
Rural Electrification Administration	5.8	4.5	4.5	1.9	1.9	1.9
Foreign military sales	3.9	5.1	5.7	5.1	5.2	5.3
Export-Import Bank	3.5	0.8	2.6	3.8	3.8	3.8
All other	10.5	10.4	10.7	8.5	8.5	8.5
Total obligations [1]	43.4	41.4	37.9	31.7	32.3	32.0
Guaranteed loan commitments:						
Federal Housing Administration	18.6	44.6	38.1	40.9	42.6	45.8
Low rent public housing	13.3	14,3	15.2	14.9	14.6	14.3
Guaranteed student loans	6.2	7.3	7.6	7.9	8.4	8.8
Veterans Administration housing	6.0	14.7	13.4	15.0	15.1	15.5
Export-Import Bank	5.8	8.5	10.0	10.0	10.0	10.0
All other	3.8	7.8	13.1	10.1	6.2	5.3
Total commitments [2]	53.7	97.2	97.4	98.8	96.9	99.7
Total credit budget	97.1	138.6	135.3	130.5	129.2	131.7
MEMORANDUM						
Secondary guaranteed loan commitments	36.4	64.2	68.2	68.2	68.2	68.2

[1] Includes loans with an agency guarantee that are disbursed by the Federal Financing Bank. Data for 1982 have been adjusted to exclude rollovers of existing TVA direct loans financed by the Federal Financing Bank.

[2] Excludes commitments for guarantees of loans previously guaranteed (secondary guarantees) and for guarantees by one Government account of direct loans made by another Government account. Totals for the former are shown in the memorandum. Totals for the latter are included as direct loans.

Direct Loans

Direct loans are made by both on-budget and off-budget Federal entities. They are financed from a variety of sources including taxation, borrowing, and repayments of previous loans.

Direct loan programs are designed to redirect economic resources to particular uses by providing credit on more favorable terms than would otherwise be available from private sources. A direct loan is best justified when the Federal objective could not be met with financing from private sources, even with a Government guarantee. The objectives of a direct loan program, for example, may require financing at interest rates that are lower than those available from private lenders, or loan maturities that are longer than otherwise available. Direct loans are made available to individuals, businesses, and State, local, and foreign governments.

As shown in Table F-5, direct loan obligations are expected to decline between 1982 and 1985 from $43.4 billion to $31.7 billion. However, the composition of the direct loan portion of the credit budget is expected to remain relatively constant: the agricultural and business sectors continue to be the major beneficiaries of new direct loans, with each receiving about one-third of all new loan obligations estimated for 1982 through 1985. The major changes from 1982 to 1985 in direct loan obligations are discussed below.

The Commodity Credit Corporation (CCC) increased its price support loans by $2.4 billion between 1982 and 1983. Large harvests resulted in oversupply in many commodities and necessitated substantial price support loans. However, the combined effect of the payment-in-kind (PIK) program, which withdrew farmland from production, and a severe drought, which significantly reduced crop yields for most major farm commodities, is expected to lead to an increase in commodity prices. This in turn is expected to result in a decrease in CCC price support loans to $6.1 billion in 1984. The same level is projected for 1985, as well.

The Farmers Home Administration (FmHA) decreased its direct loan obligations by $1.5 billion from 1982 to 1983 largely because of a decrease in agricultural credit insurance fund activity. This was due in part to significantly fewer disasters in 1983 than expected, although 1984 direct loan obligations are expected to rise as a result of the recent drought.

Rural Electrification Administration (REA) direct loan obligations declined by $1.3 billion between 1982 and 1983. This reflects a drop in power plant construction that would have been supported by the portion of this program that provides funds at Treasury interest rates. The most important influence driving down this program's activity was lower demand for electricity. The portion of the REA program that provides loans at highly subsidized rates (5%) maintained stable levels of direct loan obligations in both

years. While 1984 REA activity is expected to remain almost unchanged from 1983 levels, 1985 loans are projected to decline to $1.9 billion as a result of a continued drop in electric power plant construction.

Foreign Military Sales (FMS) direct loan obligations increased by $1.2 billion from 1982 to 1983. This reflects the significant U.S. commitment to the Middle East, with the growth further influenced by the generally difficult economic conditions in the primary recipient countries, Israel and Egypt. These adverse economic conditions also influenced the structure of the increase, as an unusually high portion of the assistance was in the form of forgiven loans. FMS direct loan obligations are expected to rise to $5.7 billion in 1984. The decline to $5.1 billion in 1985 does not reflect reduced support for beneficiaries of the FMS program, but rather the substitution of grants for a portion of the FMS loans now offered at interest rates slightly above the cost of money to the Treasury Department. The FMS program has been financed largely through the off-budget Federal Financing Bank. Beginning in 1985, the administration proposes that FMS activity be shown as on-budget direct lending.

Export-Import Bank (Eximbank) direct loan obligations declined from $3.5 billion in 1982 to $845 million in 1983 due to the worldwide economic recession and its effect on U.S. exports of commercial aircraft, nuclear plants, and other large capital equipment. Over the last decade, aircraft and power projects have accounted for almost half of Eximbank's direct loans. Therefore, the evaporation of the market for new aircraft and a stagnation in electric power demand meant that Eximbank direct loans declined substantially. Moreover, several major projects in less developed countries were cancelled or postponed as a result of foreign debt problems. Eximbank direct loan activity is expected to return to more stable levels of $2.6 billion in 1984 and $3.8 billion in 1985.

Table F-6 summarizes direct loan activity by "obligations," "loan disbursements," "net outlays," and "outstandings" for 1982 through 1989. Table F-14 at the end of this special analysis presents direct loan activity by program in greater detail for 1983 through 1989.

Direct loan obligations in a given year will not always result in an equal volume of new direct loan disbursements in that year for several reasons. First, the conversion of direct loan obligations to loans is not instantaneous. For example, prospective borrowers may seek financing for a project when it is in the design stage, and so the financing will not be needed for several years. As a result, some agencies, such as the Eximbank and the Rural Electrification Administration, may disburse loans 2 years or more after the time of the direct loan obligation. Second, some prospective borrowers

Table F-6. **NET DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT**

(In billions of dollars)

	Actual		Estimate					
	1982	1983	1984	1985	1986	1987	1988	1989
Obligations [1]	43.4	41.4	37.9	31.7	32.3	32.0	32.4	31.9
Loan disbursements [1]	37.1	43.8	43.4	38.0	36.1	34.2	33.1	32.4
Net outlays	23.5	15.3	9.3	13.0	9.8	9.2	8.3	7.7
Outstandings	207.8	223.0	232.3	245.3	255.1	264.3	272.6	280.4

[1] 1982 actuals have been adjusted to exclude rollovers of existing TVA direct loans financed by the Federal Financing Bank. Loan disbursements include figures for loan assets previously deducted.

will not convert the direct loan obligations into borrowing when projects for which financing had been sought are cancelled or postponed.

Loan disbursements are payments of loans to the public that actually take place in the specified year. They include disbursements both to make new loans and to pay guarantee claims. Upon default of a guaranteed loan, the lender is reimbursed for the amount of the guarantee, while the borrower directly owes the Federal Government rather than the original lender. The amounts owed are considered to be direct loans until the acquired loans are paid off or the collateral is liquidated.

Net loan outlays equal new loan disbursements less repayments of loans, liquidation of collateral, loan write-offs, and sales of loan assets. In this special analysis, direct loan tables attribute loans made by the FFB to the agencies responsible for guaranteeing the loans. Guaranteed loan tables exclude these loans. The principal credit activity between the Federal Government and the public in these transactions is a direct loan, rather than a guarantee. This presentational change is discussed in Appendix B.

Loan Guarantees

Guaranteed loan commitments are agreements in which the Government guarantees the payment of the loan in whole or in part in the event of default. The loan guarantee is the Federal Government's contingent liability, which in a few programs is less than the value of the loan principal. Insurance is a type of guarantee in which a Government agency operates a program of pooled risks, pledging the use of accumulated insurance premiums to secure a lender against default on the part of a borrower. For the purposes of the credit budget, an insured loan is synonymous with a guaranteed loan.

A loan guarantee transfers some or all of the risk of default from the lender to the Government. In cases where the Government guarantees the timely payment of 100% of the loan principal and interest against all risk, it effectively transforms a private loan into a near-Government direct loan financed by a near-Government security. The guaranteed loan will have essentially the same economic effects of a Government direct loan, but it will not have all the attributes of a Government direct loan as private lenders will negotiate different financial terms and conditions (e.g., fees) than would a Government agency. Nor will the guaranteed loan have all the attributes of a U.S. Treasury security as it will be less liquid and may involve higher transaction costs. The Government guarantee, for example, may not be transferred from one lender to another as readily as a U.S. Treasury security may be traded. The guarantee may require legal counsel to determine the extent to which a lender is assured of repayment and under what circumstances, which is a transaction cost not associated with a U.S. Treasury security. For these and other reasons, guaranteed loans bear interest rates above the yields on otherwise comparable U.S. Treasury securities.

Loan guarantees, like direct loans, redirect economic resources by providing credit to borrowers at more favorable terms than would otherwise be available in the private market. The degree to which the guarantee reallocates credit will depend on the degree of the subsidy.[2] At one extreme, the potential transaction being financed may be considered so risky that no financing would be available without the guarantee. In this case, the subsidy will be quite large and will have a dramatic effect on the reallocation of credit.

At the other extreme, the guarantee may result in only a small subsidy and, other conditions being equal, may not significantly

[2] The degree of credit reallocation will also depend on the price elasticity of demand of the good being financed. A small change in the price (i.e., the subsidy) of the good being financed may result in a considerable change in the amount of the good actually bought and sold. For discussion purposes, this special analysis does not consider demand and supply elasticity effects.

change the allocation of credit. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately—without Government support—albeit at a higher cost. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased in the absence of a Federal guarantee. In such a case, the borrower benefits from a small subsidy and the guarantee does not directly alter the allocation of credit resources. In both cases, although to different degrees, the guarantee reallocates credit toward federally selected uses, increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit available to those potential borrowers who do not receive assistance, and increases the interest rates on financing available to these borrowers.

Loan guarantees are used in widely varying programs. Guaranteed loans may be made to individuals and businesses, as well as to State, local, and foreign governments. The guaranteed loan commitment may be used for: (1) a loan made by a bank or other institutional lender; (2) an investment security sold in the capital market; or (3) a security sold to the FFB. Guaranteed loans, for the purposes of the credit budget, do not include contractual agreements, such as guarantees of private leases, contracts to make subsidy payments over extended periods, or debt service grants that the recipients may use as collateral for borrowing.

As shown above in Table F-5, primary guaranteed loan commitments are expected to increase significantly, from $53.7 billion in 1982, a recession year, to $98.8 billion in 1985. The composition of the guaranteed loan portion of the credit budget, however, has remained fairly stable. In 1982, housing programs accounted for 70% of guaranteed loan commitments. This rose to 76% in 1983, and is expected to decline to 72% by 1985. The major programmatic changes from 1982 through 1985 are discussed below.

As a result of last year's economic recovery, lower mortgage interest rates and slower increases in home prices led to increased housing starts and completions, and sales of homes and multifamily projects. As a result, commitments for mortgage insurance and guarantees from the Federal Housing Administration (FHA) and the Veterans Administration (VA) increased from $24.6 billion in 1982 to $59.3 billion in 1983, an increase of 141%. For 1984, guaranteed loan commitments by FHA and VA are estimated to decline to $51.5 billion. The 1985 credit budget proposes an increase in these commitments to $55.9 billion, as the housing industry continues to recover.

At least two-thirds of all single-family mortgages insured by FHA or VA are sold subsequently in the secondary mortgage market using the Government National Mortgage Association's (GNMA) mortgage-backed securities program. This program pro-

vides guarantees for securities issued by private mortgage originators and backed by pools of FHA-insured and VA-guaranteed mortgages. The GNMA guarantees enhance the liquidity of these securities. GNMA's issuance of new securities is closely tied to the amount of FHA guarantees and VA mortgage insurance. Commitments for GNMA mortgage-backed securities therefore increased from $36.4 billion in 1982 to $64.2 billion in 1983, with a further estimated increase to $68.2 billion in both 1984 and 1985.

Commodity Credit Corporation (CCC) guaranteed loan commitments for U.S. export promotion rose from $1.6 billion in 1982 to $4.7 billion in 1983. Due to deteriorating world economic conditions in 1983, the use of this program for foreign balance-of-payments support and extraordinary debt financing increased. This type of assistance is expected to continue through 1984, when guaranteed loan commitments of $4.0 billion are estimated. However, the $3.0 billion of commitments estimated for 1985 are expected to be used exclusively for export promotion.

Commitments for the guaranteed student loan program increased from $6.2 billion in 1982 to $7.3 billion in 1983 because students nationwide generally took out larger loans. As education costs increase and more students and their families rely on these loans to finance a larger proportion of the costs, it is expected that this trend will continue, with estimated guaranteed loan commitments of $7.6 billion in 1984 and $7.9 billion in 1985.

Eximbank guaranteed loan commitments increased by $2.7 billion between 1982 and 1983, from $5.8 billion to $8.5 billion. Overall demand for risk protection by U.S. exporters increased due to the international debt crisis affecting less-developed countries in 1983. In addition, Eximbank used a significant part of its guarantees to provide special lines of support for purchase of U.S. exports, particularly in Mexico and Brazil. This assistance will help maintain the flow of trade between the U.S. and these nations. In 1984 and 1985, it is estimated that Eximbank commitments will be $10 billion annually, as risk protection continues to be of critical importance to U.S. exporters.

An increase of $1.0 billion in low-rent public housing guaranteed loan commitments between 1982 and 1983, from $13.3 billion to $14.3 billion, reflects additional spending for modernization of public and Indian housing units and for new housing construction for American Indians living on reservation lands. In 1984, new loan guarantee commitments are being provided for modernization and new construction costs of public and Indian housing, increasing total loan guarantee commitments to an estimated $15.2 billion. In 1985, the administration proposes to continue assistance for the modernization of public and Indian housing and for Indian housing

development, but proposes no additional public housing development.

The Synthetic Fuels Corporation (SFC) is authorized to issue loan guarantees and other forms of financial assistance, alone or in combination, to those synthetic fuel production projects it chooses to support. Moreover, where loan guarantees are negotiated as the financing vehicle, they may be converted into price guarantees prior to a project's commercial operation. Thus, the uncertainties inherent in the selection of an ultimate financing vehicle make it difficult to predict the level of loan guarantee commitments. The commitments presented in Table 15, $4.1 billion in 1984 and $2.4 billion in 1985, are for SFC loan guarantees only and should be considered approximations. As of the end of 1983, SFC had committed none of its total $15 billion of authority as loan guarantees.

Other significant changes in guaranteed loan commitments occurred between 1982 and 1983 for Small Business Administration (SBA) business loans, Rural Electrification Administration (REA) guarantees, and Maritime Administration (MarAd) Federal ship financing assistance. SBA guarantees for small business increased from $1.8 billion in 1982 to $2.6 billion in 1983 as the economic recovery led to higher demand for SBA credit assistance. In the REA program, rural electric and telephone system officials and rural electric cooperatives continued to shift their borrowing from private lenders to the FFB, which provides more favorable lending terms. This caused a decrease of $400 million in REA guaranteed loan commitments for loans made by private lenders. Finally, given the worldwide depression in the shipping industry in 1983, the deep-sea carrier and barge industries had less need for MarAd guarantees, which support construction of new cargo ships. Guaranteed loan commitments for this program decreased $315 million, from $637 million in 1982 to $322 million in 1983. Annual commitments are estimated at $600 million in 1984 and 1985.

Data for guaranteed loans for 1982 through 1989 are summarized in table F-7. The guaranteed loan commitments in a given year do not always result in new guaranteed loans in that year, for the same reasons that direct loan obligations in a given year do not necessarily lead to disbursements in that year. Net loans guaranteed are the change in guaranteed loans outstanding over the year and are equal to the amount of new guaranteed loans less repayments and other adjustments. Guaranteed loans outstanding are the cumulative volume of guaranteed loans, less repayments and adjustments. Table F-15 provides detailed data for guaranteed loan programs for 1983 to 1989.

As noted in the previous section, table F-7 excludes direct loans disbursed by the Federal Financing Bank (FFB) that are guaranteed by a Federal agency. Since the principal credit activity be-

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Table F–7. **PRIMARY GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT**

(In billions of dollars)

	Actual		Estimate					
	1982	1983	1984	1985	1986	1987	1988	1989
Commitments	53.7	97.2	97.4	98.8	96.9	99.7	103.1	103.6
New guaranteed loans [1]	59.6	78.0	87.6	95.3	96.4	97.9	100.7	100.6
Net loans guaranteed	20.9	34.1	39.4	38.9	38.3	36.8	39.0	36.7
Outstandings	331.2	363.8	403.2	442.2	480.4	517.2	556.2	592.9

[1] Adjusted in 1982 to exclude guaranteed loans held as direct loans by the FFB.

tween the Federal Government and the public in these transactions is a direct loan, such loans are included in tables F-6 and F-14.

Government-Sponsored Enterprises

Government-sponsored enterprises (GSE's) are financial intermediaries, established and chartered by the Federal Government to facilitate the financing of home mortgages, student loans, and agricultural credit. They are:

- the Federal Home Loan Banks;
- the Federal Home Loan Mortgage Corporation;
- the Federal National Mortgage Association;
- the Farm Credit System, consisting of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks; and
- the Student Loan Marketing Association.

These enterprises are privately owned and are included neither in the Federal budget nor in the credit budget. However, since they are established by the Government to carry out federally designed programs and benefit from substantial forms of Government assistance, their financial statements are included in the Budget Appendix (Part V) and their operations are described in this and other budget documents. Table F-8 shows the lending and borrowing of these enterprises for 1983 to 1985. Table F-16 at the end of this special analysis presents additional details on Government-sponsored enterprises.

Table F–8. **TOTAL LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In billions of dollars)

	Actual 1983	Estimate	
		1984	1985
Total lending:			
Obligations	169.4	160.8	168.8
New transactions	164.5	155.8	163.4
Net change	37.1	39.8	42.9
Outstandings	261.2	301.0	343.9
Total borrowing:			
Net change	34.6	39.8	42.4
Outstandings	239.9	279.7	322.1

Government-sponsored enterprises redirect credit by acting as financial intermediaries to stimulate greater amounts of lending to certain sectors. This is accomplished in two ways: by increasing the liquidity of other direct lenders in the housing and education sectors and by direct lending in the agricultural sector. In both cases, GSE's make more capital available to favored borrowers in these sectors. Sectors that do not benefit from the presence of a GSE will have less capital available to them; capital that is available will be more expensive.

Securities offered by GSE's in the financial market are not guaranteed by the U.S. Government. Nonetheless, these securities usually bear only slight premiums above the yields on U.S. Treasury securities. In the past year, these premiums have ranged from roughly 10 to 30 basis points (0.1 to 0.3 percentage points) above Treasury yields. The reason for these relatively slight premiums above Treasury securities is the perceived "special relationship" between the enterprises and the Government. This relationship is manifest in the types of benefits that they enjoy, which generally include:[3]

- GSE securities can be held as investments of federally regulated institutions under circumstances where other private securities or State and local government securities are not eligible;
- lines of credit at the U.S. Treasury that range up to $4 billion;
- exemption from Securities and Exchange Commission registration requirements;
- exemption from Federal income tax; and
- exemption from State and local taxes, except taxes on real property.

The enterprises are described in more detail below.

Federal Home Loan Banks.—The Federal Home Loan Bank System was established in 1932 to promote home ownership through the extension of credit to savings banks and other home financing institutions. The Federal Home Loan Bank Board is a part of the Federal Government and supervises the Federal Home Loan Banks. All savings and loan associations and savings banks are eligible to become members; federally chartered savings and loan institutions and savings banks and all institutions insured by the Federal Savings and Loan Insurance Company are required to do so. The major function of the banks is to lend funds in the form of advances to member institutions.

Federal Home Loan Mortgage Corporation (FHLMC).—FHLMC ("Freddie Mac") was created in 1970 to increase the availability of mortgage credit and liquidity in the conventional residential mortgage market. It is a wholly-owned subsidiary of the Federal Home Loan Banks described above.

Federal National Mortgage Association (FNMA).—FNMA ("Fannie Mae") was originally chartered as a part of the Federal Government. In 1968, FNMA was made a privately-owned corporation.

[3] Not all GSE's share these benefits equally. The farm credit system does not, for example, have a line of credit at the U.S. Treasury Department.

Both FNMA and FHLMC operate in a similar manner. They purchase mortgages originated by mortgage bankers, savings institutions, commercial banks and other primary lenders. These mortgage purchases are financed through the issue of debt or through the sale of securities backed by mortgages. FNMA and FHLMC, along with the Government National Mortgage Association,[4] have long dominated the secondary market for mortgages, particularly the mortgage-backed security portion of the market. Recently, however, totally private institutions have begun to issue mortgage-backed securities, in part because of regulatory and administrative changes implemented by the administration. Many of these privately-issued securities have been backed by mortgages whose values exceed the statutorily-established "conforming" amount ($114,000) that restricts the mortgages FNMA and FHLMC may purchase. The administration has supported legislation currently being considered by Congress that, if enacted, should enable private firms to compete more directly with FNMA and FHLMC.

Despite the possibility of increased competition from private firms, and the continued existence of restrictions that limit the mortgages eligible for FNMA and FHLMC purchase, the total of FNMA and FHLMC mortgages purchased and securities issued that are backed by mortgages are expected to increase from $47.4 billion in 1984 to $53.2 billion in 1985. Although the 1983 total of $58.7 billion is higher than the 1984 and 1985 estimates, the 1983 total resulted from economic conditions that are unlikely to be repeated. In particular, FNMA and FHLMC developed programs that offered primary mortgage lenders the opportunity to "swap" seasoned mortgages held in their portfolios for FNMA mortgage-backed securities or FHLMC participation certificates. These "swap" programs, an unprecedented demand for mortgage refinancing, and other factors resulted in an extraordinarily high level of FNMA and FHLMC activity in 1983.

Student Loan Marketing Association (SLMA).—SLMA primarily provides liquidity for primary lenders (financial and educational institutions) of student loans. It purchases these loans or lends against either a portfolio of insured loans or Government-issued or -backed securities held by these lenders.

In 1981, Congress also authorized the Association to (1) purchase or lend against uninsured loans, (2) make loans directly, (3) consolidate and refinance loans, (4) advance funds to State agencies that provide loans to students, (5) purchase and underwrite student loan revenue bonds, and (6) provide any additional services determined by the SLMA Board to be supportive of student credit needs.

[4] The Government National Mortgage Association (GNMA) is part of the Department of Housing and Urban Development and so is not a Government-sponsored enterprise.

The capital stock of the SLMA is owned by the financial and educational institutions that lend to post-secondary students. From 1974 to 1980, SLMA operations were financed completely through borrowing from the FFB. This privilege had been granted through 1984. In 1981, the SLMA returned to the private capital market for financial support 3 years early, but still has $5 billion of debt outstanding to the FFB.

Farm Credit System (FCS).—The FCS is a member-owned cooperative providing credit to farmers, ranchers, and related businesses. The FCS is supervised by the Farm Credit Administration (FCA), an independent Government agency.

Federal Intermediate Credit Banks, through Production Credit Associations, provide short- and intermediate-term loans to farm and ranch operators, persons furnishing farm-related services, and rural residents. Federal Land Bank Associations originate and service long-term first mortgage loans to farm and ranch operators. Each borrower must purchase stock in his/her local association in the amount of 15% of the loan. The stock is held by the association as collateral. The FCS finances its activity by borrowing directly from financial markets through consolidated obligations.

Special Topics

Federal credit subsidies.—Federal credit programs are intended to provide credit to selected borrowers on more favorable terms than would otherwise be available in private credit markets. These more favorable terms, by definition, result in a subsidy to the borrower. The subsidy may be most obvious when the Government makes a direct loan with a relatively low interest rate. In some cases, a large interest rate subsidy may be by design, as when a direct loan program is established with an objective that explicitly requires a below-market interest rate. The Economic Support Fund, for example, extends loans at interest rates of about 3% per annum in order to meet its objective of aiding foreign countries.

In other cases, the extent of the subsidy may be greatly increased, as when a direct loan program's interest rate is initially set at a level comparable to a market interest rate but is never changed to keep pace with changes in market interest rates over time. For example, Congress in 1944 set the interest rate on some loans of the Rural Electrification Administration at 2%, slightly higher than the then-prevailing cost of Treasury borrowing. In recent years the cost of long term Treasury borrowing has been over 10%, but REA's lending rate is still 2% for certain borrowers.

For guaranteed loans, the interest rate subsidy occurs because the Government guarantee removes some or all risk of default facing the lender. The lender is therefore willing to lend to the borrower at rates lower than the market rate, since no premium for default risk is required.

In addition to providing interest rates that are lower than private market interest rates, Government direct or guaranteed loan programs frequently carry other conditions that result in subsidies. For instance, direct or guaranteed loans sometimes carry longer maturities than loans extended by private lenders. In addition, the Government loan amount may be higher in relation to the value of the underlying enterprise than would be offered by a private lender. Even if the ostensible loan value and maturity are not generous, repayment subsidies may exist. Deferral of interest, allowance of grace periods, and waiver or reduction of loan fees increase the value of the loan to the borrower. Default clauses in Government loans may offer the borrower greater protection from foreclosure actions by the Government than would default clauses available from private lenders. Finally, direct loan and guaranteed loan programs may make credit available to borrowers for purposes for which the private sector would not lend—at virtually any interest rate, under virtually any repayment terms.

This section presents estimates of the subsidies provided by Federal direct loan programs. It does not present estimates of the subsidies provided by guaranteed loans because these require more

data on the level of fees and premiums than are currently available. Nonetheless, the calculation of guaranteed loan subsidies is conceptually the same as discussed below for direct loan subsidies.

The direct loan subsidy is the additional payments that would have been required on the loan if it had been a purely private loan. As these additional payments take place over the life of the loan, they must be discounted, i.e., converted to their present values. The present value of the additional payments represent the subsidy provided by the Government loan to the borrower.

This method requires a calculation of the interest rate and other costs a representative borrower would have had to pay to a private lender absent the Government loan. It is not possible to determine this rate of return with precision since the terms of a loan depend on such conditions as the purpose of the loan, the creditworthiness of the borrower, the competition among lenders, and specific circumstances facing the borrower at the time the loan agreement is negotiated. These conditions differ greatly among loans. Therefore, hypothetical representative private loans have been used for comparison.

To derive the rate of return on a representative private loan, estimates have been made of the private loan terms according to the purpose of the loan (e.g., to purchase real estate or to provide a small business with working capital) and the type of borrower (e.g., a high-risk company versus a low-risk company) associated with the particular direct loan program. The estimates take into account not only the differences in interest rates, but also the differences in loan fees, maturities, and repayment schedules that would normally be expected for the type of loan being compared. A simplifying assumption used in these calculations is that all loans in a given program bear a similar degree of risk. This is not usually true. Several programs (e.g., the Export-Import Bank or the Small Business Administration) make loans to a variety of borrowers with widely dissimilar risk characteristics.

The discount rate used to evaluate the present values of the Government and private loans is the rate of return on the private loans. This is a more appropriate discount rate than merely the interest rate on the private loan, because that interest rate does not reflect the return that lenders receive from commitment commissions and other loan fees, nor does it reflect the maturities and repayment schedules.

The method used to calculate direct loan subsidy costs this year differs from that used in previous years in several respects. Previous years' calculations assumed that loan maturities were identical for both private and Federal loans. In fact, private lenders generally lend with significantly shorter maturities than do Federal programs. As a longer loan term is one form of subsidy, it must be

taken into account when calculating loan subsidies. Previous years' calculations did not incorporate fees charged by either private or Federal lenders. By including such fees in the subsidy calculations, the subsidies are more accurately reflected. In general, private lenders charge greater fees than do Federal loan programs.

Table F-9 shows estimates of subsidy values for all direct loan programs on direct loans obligated in 1983. The present value of the calculated subsidies is $8.4 billion. The comparable amounts for 1984 and 1985 are $8.3 billion and $7.8 billion, respectively.

Table F-9 also shows the degree of subsidy per loan value. The higher the degree of subsidy, the greater the difference between the Government loan terms and private loan terms. The programs that accounted for the largest degree of estimated subsidy are the Bonneville Power Administration, Federal highway programs and the P.L. 480 program. The relative ranking is approximately the same as that estimated last year.

The calculation method used in table F-9 measures the value of the subsidy to the borrower. Another common approach measures the cost of the subsidy to the Government. Under this approach, the Treasury borrowing rate is used instead of a comparable private market interest rate. This method shows a lower subsidy because of the Government's ability to raise funds more cheaply than the private sector. Under this approach, the calculated present value of the Government's cost of the subsidies is $3.5 billion in 1983. This approach does not accurately measure the true cost of the loan subsidy to the economy. The Treasury borrowing rate is a risk-free rate, while all of the loans made by the Government to the public bear some risk. Using the Treasury rate as a proxy for private market interest rates may lead to startling results. Government loans with interest rates slightly above the Treasury rate will appear to have negative subsidies when in fact the loans, if properly evaluated at a risk-adjusted rate, will offer borrowers a considerable subsidy. A case in point is the Foreign Military Sales program, which normally charges foreign government borrowers an interest rate one-eighth percentage point above the U.S. Treasury borrowing rate. Under the Treasury cost-of-money assumptions, it would appear to be virtually unsubsidized. However, the assumed private lending rate shown in Table F-9 is 13% and the calculated present value of the subsidy of this program is $567 million.

Several points should be kept in mind when reviewing direct loan subsidies.

First, the subsidy calculation measures the economic cost of a given direct loan program, but it does not compare the cost to the benefit. This special analysis does not attempt to measure the

Table F-9. **SUBSIDY COSTS FOR 1983 DIRECT LOAN OBLIGATIONS**

Agency and programs	Interest rate (in percent)		Loan maturity (in years)		Present value of subsidy	
	Average Government loan	Assumed private loan	Average Government loan	Assumed private loan	Percent of direct loan obligations	Millions of dollars
Funds Appropriated to the President:						
Economic support fund	3.0	13.0	40.0	6.0	71.0	299
Foreign military sales credit	11.8	13.0	10.0	6.0	10.0	567
Functional development assistance	2.8	13.0	13.0	6.0	71.0	320
Agriculture:						
CCC price support and related programs [1]	9.4	12.0	0.7	0.5	5.0	672
FmHA agricultural credit	9.2	13.2	10.0	15.0	14.0	410
FmHA rural housing	3.0	13.4	33.0	30.0	57.0	1,688
FmHA rural development	7.4	12.9	40.0	15.0	34.0	254
Farm export credits—Public Law 480	3.0	13.0	30.0	3.0	74.0	595
REA rural telephone bank	10.0	13.9	35.0	10.0	24.0	42
REA rural electric and telephone	5.0	13.9	35.0	10.0	50.0	2,260
Education:						
Student financial assistance	5.0	18.5	9.5	5.0	68.0	123
Guaranteed student loans [2]	8.0	18.5	10.5	5.0	38.0	191
College housing	3.0	13.6	50.0	30.0	63.0	25
Energy:						
Bonneville Power Administration	0.1	13.0	20.0	20.0	85.0	3
Health and Human Services:						
Health maintenance organizations	10.1	12.9	22.5	20.0	14.0	4
Housing and Urban Development:						
Federal Housing Administration	13.3	13.5	40.0	30.0	1.0	21
Government National Mortgage Association	7.5	13.8	40.0	30.0	30.0	150
Housing for elderly and handicapped	9.0	13.1	40.0	30.0	23.0	143
Housing rehabilitation loans	9.0	13.5	40.0	40.0	23.0	10
Low rent public housing [3]	6.6	14.0	0.5	2.0	3.0	8
Transportation:						
Highway programs	0.0	12.9	40.0	15.0	77.0	70
Rail programs	5.8	13.0	15.0	6.0	50.0	26
MarAd Federal ship financing fund [4]	11.8	13.6	15.0	5.0	10.0	13
Aircraft purchase loan guarantees [4]	11.8	13.1	10.0	5.0	7.0	11
Veterans Administration:						
Housing programs	12.5	13.5	30.0	30.0	4.0	45
Insurance policy loans	11.0	18.5	40.0	5.0	38.0	49
District of Columbia	9.2	12.9	30.0	30.0	21.0	63
Export-Import Bank	10.7	13.0	10.0	6.0	14.0	118
NCUA	9.5	13.0	0.3	0.3	2.0	4
Small Business Administration:						
Business loans	11.8	14.0	7.0	2.0	8.0	103
Disaster loans	10.0	14.0	3.0	1.0	11.0	21
Tennessee Valley Authority	11.0	12.3	30.0	30.0	8.0	16
NASA	10.8	13.1	10.0	10.0	7.0	14
Other agencies and programs	8.6	13.1	5.0	5.0	9.0	27
Total—Direct loan subsidies						**8,366**

[1] The subsidy calculations for CCC price support loans take into account only the difference between the Federal and private loan terms. The calculations do not measure the additional subsidy received by farmers in the form of target price deficiency payments. Further, the calculations do not take into account the effect of these commodity price loans on ultimate commodity market prices (i.e., that the loan prices set a floor for the commodity market prices).

[2] In addition to guaranteeing the private lender against default, the guaranteed student loan program provides the lender with a guaranteed interest rate. For example, although a student borrower may pay only 8%, the lender is guaranteed a return of 3½% above the 90-day Treasury bill rate by the Federal Government. This makes these guaranteed loans the equivalent of direct loans. For that reason, the guaranteed loan commitments of the guaranteed student loan program could be treated as direct loans for the purpose of calculating a subsidy. If this were done, the total subsidy for this program would be $2,953 million.

[3] In several programs, a borrower's alternative to the Federal loan might be the issuance of a tax-exempt bond. Using a tax-exempt rate as an alternative borrowing rate for the purposes of these calculations, however, would understate the economic subsidy since part of the subsidy would be the loss of tax revenue. In these cases, therefore, the private market interest rate used is the tax-exempt bond rate adjusted for taxes. The tax-exempt rate is assumed to equal 80% of the taxable rate.

[4] These subsidy calculations are based on direct loan obligations. In several programs, new direct loans also include payments on defaulted loan guarantees. In many programs, some of these loans will not be repaid. In other cases, the collateral securing the loan will be less than the face value of the loan. In either case, the amount calculated in this table will understate the true subsidy, sometimes significantly. As an example of the former point, the guaranteed student loans subsidies reflected in this table assume that $503 million in defaulted guaranteed loans will be repaid. As an example of the latter point, MarAd's new direct loans in 1983 are $125 million of which $93 million represent payments for defaulted guarantees. No assessment is made in this calculation of the value of the collateral underlying the $93 million in payments.

benefits of direct loan programs. Despite the absence of such measurements, it should be clear that the value of a particular direct loan program cannot be determined without comparing the program's benefits to its costs.

Second, the subsidy estimates in table F-9 are sensitive to changes in assumptions. As an example, if the private interest rate for rural housing is 15.0% rather than 13.4%, as shown in Table F-9, the present value of the subsidy will increase by $82 million.

The Federal Financing Bank.—The Federal Financing Bank (FFB) began operation in May 1974 and has been a significant factor in financing Federal credit activities. The Bank is administered by the Treasury Department. By law, its transactions are excluded from the budget totals. Hence, its lending transactions are not counted as budget outlays, although it is part of the Federal Government and finances its operations by borrowing from the Treasury Department.

The FFB was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold, or guaranteed by Federal agencies. Use of the FFB by Federal agencies leads to lower debt financing costs than if the agencies were to borrow individually in the credit market. Agency obligations trade at premiums above Treasury securities due to their relative illiquidity, smaller size of issue, and unique financial terms that distinguish them from Treasury securities and each other.

The FFB performs three functions: (1) it purchases guaranteed loan assets from Federal agencies; (2) it disburses loans directly to borrowers when the loans are guaranteed by a Federal agency; and (3) it lends to Federal agencies that are otherwise authorized to borrow from the public. In all cases, the servicing of the loans and the operations of the programs remain with the agencies that the FFB finances.

(1) Loan asset sales.—Most loan assets are sold to the FFB rather than to the public. This converts the loans from outlays of the responsible agencies to off-budget FFB outlays. This subject is discussed in more detail in the next section.

(2) Guaranteed loan originations.—The FFB disburses loans directly to borrowers when the loan is guaranteed by a Federal agency. The agency's guarantee program thus becomes a program that effectively makes direct loans. Major programs that use the FFB in this manner are the Foreign Military Sales Credit program, the Rural Electrification Administration, and the Tennessee Valley Authority's Seven States Energy Corporation. As noted earlier, the administration has proposed that new direct loan obligations by the FMS program be on-budget in 1985.

(3) Agency borrowing.—Agencies authorized to borrow from the public such as Eximbank, almost always borrow from the FFB instead, as it is less expensive than issuing their own securities and borrowing directly from financial markets.

Table F-10 summarizes the activities of the FFB for 1983 through 1989. Table F-17 at the end of this special analysis shows the activities of the FFB over the same period by agency and account.

Table F-10. **SUMMARY OF FEDERAL FINANCING BANK ACTIVITY**

(In billions of dollars)

	Actual 1983	Estimate					
		1984	1985	1986	1987	1988	1989
Purchases of loan assets from Federal agencies:							
New acquisitions	10.0	15.1	9.9	3.0	1.9	2.2	1.7
Net outlays	3.3	4.8	3.1	1.7	1.3	1.8	1.7
Outstandings	60.5	65.3	68.3	70.0	71.3	73.1	74.8
Guaranteed loan originations:							
New acquisitions	8.3	8.9	1.9	2.0	1.9	1.9	1.9
Net outlays	7.1	8.0	7.1	5.2	3.1	2.0	1.7
Outstandings	46.3	54.3	61.4	66.6	69.7	71.6	73.4
Subtotal:							
New acquisitions	18.3	24.0	11.9	5.0	3.7	4.0	3.6
Net outlays	10.4	12.7	10.2	6.9	4.4	3.7	3.4
Outstandings	106.8	119.5	129.7	136.6	141.0	144.7	148.2
ADDENDUM							
Agency borrowing:							
Net change	1.3	2.2	2.8	1.0	1.4	0.8	0.3
Outstandings	29.1	31.3	34.1	35.1	36.4	37.3	37.6

The proper treatment of FFB transactions is a major accounting issue with respect to the unified budget. In principle, all cash outlays of the Federal Government should be reported in the unified budget. The past use of the FFB is the greatest exception to the cash flow principles of the unified budget. From 1978 to 1983, FFB outlays averaged 96% of all off-budget outlays.

This problem occurs in two of the three types of transactions described above, loan asset sales and guaranteed loan originations. FFB purchases of agency debt securities, however, do not increase FFB outlays. An agency incurs outlays when it spends the proceeds of the borrowing from the FFB, so FFB outlays must exclude this borrowing transaction in order to prevent double counting. In the other types of transactions, the agencies do not report their outlays from the FFB-financed transactions. Hence, the unified budget underreports outlays.

The administration supports the basic intent of proposed legislation that would attribute the transactions of the FFB to the originating agency in the Federal budget. Attribution of the FFB's

outlays to the appropriate agencies and programs is the key improvement that could be made to the unified budget. The unified budget totals would then measure the true size of Government outlays and the Federal deficit more accurately. Attribution of the FFB's outlays to each responsible agency would also improve control over the allocation of credit resources among different uses. Programs cannot be compared with each other unless they are consistently and fully measured. For that reason, Table F-14 ("Direct Loan Transactions of the Federal Government") at the end of this special analysis attributes FFB direct loans to the responsible agencies. For the same reason, FFB outlays are attributed in an addendum to the appropriate functional national needs tables in Part 5 of the Budget.

Loan asset sales.—Loan assets are direct loans that an agency has made to the public and on which repayments are still owed. Loan asset sales, shown in Table F-11, are sales of these direct loans to the public or the FFB. In most cases, the agency selling the loan assets also guarantees them.

Originally, selling loan assets meant selling title to the individual loans to the public. Later, various types of certificates representing pools of loans were sold to the public. However, with the creation of the FFB, most loan assets have been sold by on-budget agencies to the off-budget FFB. Since the sale of a loan asset is an offset to the outlays of the account that sells it, this effectively converts the outlays from on-budget direct loans to outlays from off-budget direct loans and allows the agency to make more loans than it would have if all outlays were on-budget. In 1983, 74% of total loan asset sales were to the FFB.

The largest volume of loan assets are certificates of beneficial ownership (CBO's) sold to the FFB by the Farmers Home Administration (FmHA) and Rural Electrification Administration (REA) to support their direct loan programs. CBO's are not loans themselves but are instead certificates backed by groups or pools of direct loans. When a CBO is sold, the ownership of the specific loans is retained by the originating agency, and the agency continues to incur the servicing costs and to assume the full risk of default on the loans. The President's Commission on Budget Concepts recommended in 1967 that the sale of such securities be treated as borrowing. It concluded that, as a means of financing outlays, there is little difference in substance between an agency selling securities labeled "certificates of beneficial ownership," the same agency selling securities labeled "debt," and the Treasury selling securities labeled "debt." While this treatment generally has been applied, legislation requires that CBO's of FmHA and REA be treated instead as loan assets rather than debt.

Table F-11. **LOAN ASSETS SALES TO THE PUBLIC AND THE FFB**

(In millions of dollars)

Agency or program	Loan asset sales to:	Actual 1983	Estimates 1984	Estimates 1985
Agriculture:				
Agriculture credit insurance fund	the public			
	the FFB	4,160	6,934	4,394
Rural housing insurance fund	the public	21	16	13
	the FFB	4,440	6,112	3,963
Rural development insurance fund	the public			
	the FFB	1,010	1,626	1,125
Commerce:				
Economic development revolving fund	the public	1	5	5
	the FFB			
Health and Human Services:				
Health programs	the public			
	the FFB	12	10	3
Housing and Urban Development:				
Federal Housing Administration fund	the public	907	994	1,067
	the FFB			
Veterans' Administration:				
Direct loan revolving fund	the public	101		
	the FFB			
Loan guarantee revolving fund	the public	684	420	200
	the FFB			
Subtotal, on-budget agencies excluding tandem plans.[1]	the public	1,715	1,434	1,285
	the FFB	9,622	14,681	9,485
Housing and Urban Development (GNMA):				
Tandem Plan Sales—FHA/VA mortgages	the public	1,793	1,402	1,376
	the FFB			
Subtotal, on-budget agencies with tandem plan	the public	3,508	2,837	2,661
	the FFB	9,622	14,681	9,485
OFF-BUDGET FEDERAL ENTITIES				
Rural electrification and telephone revolving fund	the public			
	the FFB	344	403	459
Subtotal, off-budget Federal entities	the public			
	the FFB	344	403	459
Grand total	the public [2]	3,508	2,837	2,661
	the FFB [3]	9,966	15,085	9,945

[1] All loans sold, except conventional tandem plan sales, are guaranteed upon sale and reflected in the guaranteed loan totals in Table F-15.
[2] The "public" includes Government-sponsored enterprises such as FNMA and FHLMC, which are among the principal purchasers of HUD and VA mortgages.
[3] See Table F-17 for detail of FFB purchases.
Note: Amounts shown are net receipts, not necessarily face value of loans sold.

Another form of loan asset sale occurs as a result of default on guaranteed loans. Upon default, the borrower owes the Government rather than the original lender. This amount is considered to be a direct loan until the loan is paid off or the collateral behind the loan is liquidated. The loan assets acquired in this manner and

sold to the public have, in the past, usually had a guarantee attached.

Selling loan assets to the public with a Government guarantee is a form of federally assisted borrowing from the public. The Government incurs a contingent liability in the amount of the loan guarantee. Guaranteed loan asset sales are, however, an inefficient means of borrowing for the Government, since purchasers of these guaranteed loan assets frequently will offer prices well below the face value of the loans, despite the Government guarantee. It is more efficient for the Government to meet its borrowing needs by issuing Treasury securities. For this reason, recent administration policy has been to sell loan assets to the public without a Government guarantee.

Defaults.—Federal credit programs have markedly different objectives than private lending institutions, which seek to maximize profits. Several Government credit programs, such as the Small Business Administration, are designed to play the role of "lender of last resort." Federal loans, therefore, often bear more risk than private lenders are willing to bear. As a result, some Government loan programs have high rates of defaults. The diverse characteristics of Federal credit programs, each with its own legislative mandate, and the variety of different borrowers (individuals, businesses, and foreign countries) make it difficult to compare default rates among programs.

Losses from direct loan write-offs appear to have been less than 1% of loans outstanding over the last two years according to the present system of Government reporting. In great part, however, this low rate reflects the absence of Government-wide standards for writing off direct loans held in the Government's portfolio. Due to this absence, direct loans are frequently carried in the Government's portfolio at their nominal value regardless of their true value. The Eximbank, for example, still holds in its portfolio $81 million in loans made to Cuba between 1951 and 1958.

In the past, losses from loan guarantee programs were considered relatively small for two reasons. First, many of the guaranteed loans involved liens on marketable property, particularly houses. Second, due to the absence of Government-wide standards, many loans acquired as a result of defaults on guaranteed loans were never written off. This makes the losses due to Government guarantee programs look smaller than they are. As illustrated in the section on appropriation act limitations, Table F-4 shows that $4.7 billion in 1983 new direct loan obligations reflect payments for defaults on previously guaranteed loans.

There has been a growing recognition that losses in both direct and guaranteed loan programs are higher than reported. In recognition of this problem, the Treasury Department and the Office of

Management and Budget are studying means to improve the Government's reporting of and control over defaults.

Table F-12 below illustrates the problem of defaults. The table shows the amount of direct loans written off and the amount of guaranteed loans terminated for defaults.

Table F-12. **DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS**

(In millions of dollars)

	Actual		Estimate	
	1982	1983	1984	1985
Direct loans:				
Student financial assistance	(*)	172	55	61
FmHA agriculture credit insurance fund	20	31	35	40
Federal Housing Administration	132	632	553	552
Small Business Administration:				
Disaster loan fund	67	98	90	80
Business loan and investment fund	241	280	300	300
Other	147	191	55	79
Total direct loan write-offs	607	1,404	1,088	1,112
Guaranteed loans:				
Foreign military sales [1]	217	440	480	510
Guaranteed student loans	286	486	703	795
Veterans Administration loan guaranty revolving fund	709	1,056	628	394
Federal Housing Administration	890	1,484	1,695	1,581
SBA business loan and investment fund [1]	845	790	577	562
Export-Import Bank	25	14	40	52
Grants to Amtrak [1]	.....	.....	880	.....
Other	98	409	253	127
Total, guaranteed loan terminations	3,070	4,679	5,256	4,021

* Less than $1 million.
[1] Reflects loans guaranteed by this account and disbursed by the Federal Financing Bank.

The Federal Housing Administration (FHA) and the Small Business Administration (SBA) report the largest write-offs for direct loans in absolute terms. In 1983, FHA wrote-off $632 million, or 45%, of all Federal loans written off in that year. The FHA also has the largest dollar amount of guaranteed loan terminations for default. In 1983, FHA terminated $1.5 billion or 32% of the total amount of guaranteed loan terminations.

Tax exempt credit.—Interest on State and local government obligations generally has been exempted from the Federal income tax since its adoption in 1913.[5] Federal tax exemption increases the pressure to issue these obligations, since it results in lower interest rates for the borrowers. Tax-exempt interest rates have normally ranged between 65% and 75% of taxable interest rates on long-term obligations with similar credit risk.

[5] Tax-exemption is a tax expenditure. (See Special Analysis G, "Tax Expenditures.") Special Analysis G includes a discussion of revenue losses attributable to special provisions of the tax code, including various types of tax-exempt bonds

Tax exemption reallocates scarce credit resources, just as do Federal direct loans and loan guarantees. Borrowers aided by Federal tax-exempt status have access to credit resources at preferential interest rates over competing borrowers without the tax-exempt status. Borrowers who benefit both from tax-exemption and Federal guarantees have an advantage over all other borrowers, including the Federal Government, since the Federal Government debt is taxable.

Although tax-exempt financing alters the allocation of credit and has costs similar to other Government financing programs, it is not directly included on the credit budget for several reasons. First, tax-exempt credit is not controlled by the budget process in the same manner as direct loans or guaranteed loans; effective control of tax-exempt financing can only be achieved through legislated changes to the tax code. Second, unlike other credit assistance, the statutory authority for tax-exempt credit generally allows unlimited access that is unilaterally elected by eligible borrowers. However, a relatively small portion of tax-exempt financing is guaranteed by the Federal Government and so is included in the credit budget as guaranteed loan commitments. It is discussed further below.

During the first half century of the income tax, tax-exempt borrowing was confined mainly to State and local borrowing for public purposes such as financing roads and schools. From the 1960's on, however, the benefits of tax-exempt financing have increasingly been made available to private businesses. State or local governments typically establish authorities that function as financial institutions in providing tax-exempt financing to private borrowers. They transfer their tax-exempt status to the private borrower's debt obligations or lend the proceeds of an issue to a private borrower. In general, the private borrower is solely responsible for the payment of interest and principal even in the event of default. The State or local government, in some cases, can benefit from investment earnings on funds held for temporary periods and from fees paid by borrowers.

Industrial development bonds (IDBs) issued for use by private business were made taxable in the 1968 and 1969 tax acts, but a number of major exceptions were permitted. Tax-exempt IDBs are permitted for pollution control, sewage and waste facilities, multifamily rental housing, facilities financed with "small issues" of under $10 million in face amount, and certain other private business projects. In recent years, tax-exempt bonds have also become a common means of financing owner-occupied housing, student loans, and private non-profit hospitals and educational facilities.

Concerned by the rapid growth of private purpose tax-exempt bonds, Congress recently placed further restrictions on their use. The Omnibus Reconciliation Act of 1980 imposed a number of

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restrictions on tax-exempt mortgage subsidy bonds (MSBs) for owner-occupied housing, including limitations on the volume issued in each State, and denied tax-exempt status for MSBs issued after December 31, 1983. The Tax Equity and Fiscal Responsibility Act of 1982 required that IDBs be approved by an elected public official after a public hearing, and that assets of certain IDB-financed projects placed in service after 1982 be depreciated using the straight-line method rather than accelerated depreciation. The 1982 tax act also eliminated the tax exemption for "small issue" IDBs issued after 1986.

Even with these restrictions, the volume of private purpose tax-exempt bonds has continued to increase. Table F-13 shows the growth of the volume of new issues of long-term tax-exempt bonds. Total new issues grew from $55 billion in calendar year 1981 to $85 billion in 1982 and an estimated $90 billion in 1983. Private purpose tax-exempt bonds reached an estimated $50 billion in 1983. Private purpose tax exempt bonds, as a percentage of total tax-exempt new long-term issues, rose steadily from 29% in 1975 to a peak of 60% in 1980 and have subsequently declined to an estimated 56% in 1983.

A number of proposals will limit the growth in private purpose tax-exempt bonds, including industrial development bonds. Key features of the proposals would impose State-by-State volume limits on certain private purpose bonds; limit the volume of obligations that could benefit any one user; strengthen the arbitrage bond limitations; limit the tax exemption for federally guaranteed obligations; and apply all statutory limitations, including the arbitrage bond limitations currently applicable to State and local governments, to obligations issued by Puerto Rico and other U.S. possessions.

The record supply of new tax-exempt bond issues, combined with reduced demand for tax-exempt bonds by financial institutions and lower marginal tax rates of individual investors, has contributed to the reduction in the relative advantage of tax-exempt financing to the borrower. Tax-exempt yields have had to increase relative to yields on alternative investments in order to attract additional funds. Consequently, the interest saving to the borrower from the tax-exemption on securities with 20-year maturities has dropped to between 15% and 20% of taxable interest rates. A smaller cost advantage increases the financing costs for all State and local government borrowing, including the borrowing costs for traditional public projects such as roads, schools, and sewers.

Tax exemption also causes significant losses of Federal receipts, resulting in increases to the Federal deficit. The total cost of the revenue loss associated with tax exemption is the discounted sum of future revenue losses over the life of the bonds. For example, the present value of only that portion of the revenue loss associated

with the tax exemption of interest on bonds issued in 1983 is roughly $36 billion. Special Analysis G, "Tax Expenditures," shows the annual revenue loss from outstanding tax-exempt bonds issued for various purposes.

The credit budget does not measure tax-exempt credit except in those limited number of cases when tax-exempt financing also benefits from a direct or indirect Federal guarantee. This occurs when the Federal Government guarantees the financial assets that underlie the tax-exempt obligation. Examples include State and local government issuance of bonds to finance home mortgages guaranteed by the Federal Housing Administration or the Veterans Administration, to finance student loans guaranteed by the Department of Education, or to finance pollution control equipment guaranteed by the Small Business Administration. No complete data exist on the extent to which the Federal Government is directly or indirectly guaranteeing tax-exempt financing.

This administration and previous ones have believed that Federal agencies should not offer direct or indirect guarantees for securities that benefit from tax-exempt status for several reasons. First, tax-exempt financing is an inefficient means of financing, since the tax loss to the Treasury is greater than the savings from the lower financing costs available to the borrower. Therefore, it should not be stimulated by benefitting from a Government guarantee. Second, the guarantee of tax-exempt financing confers double benefits on investors in those securities: they pay no Federal tax and they bear no risk. This class of debt obligation is therefore superior to Treasury securities.

Table F-13. **TAX EXEMPT FINANCING (in billions of dollars)**

	Calendar years[1]										
	Actual								Estimated		
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total new issues, long-term tax exempts	30.5	35.0	46.9	49.1	48.4	54.5	55.1	84.9	89.5	92.6	104.6
Private purpose tax-exempts	8.9	11.4	17.4	19.7	28.1	32.5	30.9	49.6	50.1	47.7	55.3
Housing bonds	1.4	2.7	4.4	6.9	12.1	14.0	4.8	14.6	16.9	9.0	10.2
Single-family mortgage subsidy bonds	*	0.7	1.0	3.4	7.8	10.5	2.8	9.0	11.5	(1)	(1)
Multi-family rental housing bonds	0.9	1.4	2.9	2.5	2.7	2.2	1.1	5.1	4.5	7.0	7.7
Veterans general obligation bonds	0.6	0.6	0.6	1.2	1.6	1.3	0.9	0.5	0.9	2.0	2.5
Private exempt entity bonds [2]	1.8	2.5	4.3	2.9	3.2	3.3	4.7	8.5	8.9	9.8	10.8
Student loan bonds	*	0.1	0.1	0.3	0.6	0.5	1.1	1.8	3.2	4.4	5.9
Pollution control industrial development bonds	2.1	2.1	3.0	2.8	2.5	2.5	4.3	5.9	4.5	5.0	5.5
Small-issue industrial development bonds	1.3	1.5	2.4	3.6	7.5	9.7	13.3	14.7	12.0	14.4	17.3
Other industrial development bonds [3]	2.3	2.5	3.2	3.2	2.2	2.5	2.7	4.1	4.6	5.1	5.6
Public purpose tax-exempts	21.6	23.6	29.5	29.3	20.3	22.0	24.2	35.3	39.4	44.9	49.3

* $50 million or less.

[1] Authority for tax-exempt single family MSB's expires at the end of 1983.

[2] Private exempt entity bonds are obligations of Internal Revenue Code Section 501 (c)(3) organizations, such as private non-profit hospitals and educational facilities.

[3] Other IDB's include obligations for private businesses that qualify for tax exemption under other exempt activites, such as sewage disposal, airports and docks. Estimates assume that the volume of other IDB's are roughly 10 percent of total tax-exempt volume, excluding all other private purpose bonds.

Source: Office of Tax Analysis, Department of Treasury.

Summary

The need for better control over Federal credit is widely recognized within the executive branch and the Congress. With $223.0 billion in direct loans outstanding and $363.8 billion in guaranteed loans outstanding in 1983, the Federal Government is the single largest financial intermediary in the United States. Its credit policies and practices affect all major segments of the economy.

To gain better control over Federal credit, the President's budget since January 1980 has included a Federal credit control system, composed of the credit budget and credit limitations proposed in individual appropriations bills. This system needs to be strengthened. Congress should establish binding aggregate limits on new direct loan obligations and guaranteed loan commitments in the budget resolution process. It should also require that credit totals be included in the budget reconciliation process. The unified budget should be made more reflective of Federal lending by attributing the off-budget outlays of the Federal Financing Bank to the agencies responsible for them. The management of Federal credit programs should be improved through consistent application of Government-wide standards on loan defaults and write-offs.

These steps, though critical, are only part of the improvements necessary for better control. The subsidy element in Federal credit programs needs to be measured more accurately and targeted more effectively. A key improvement in Federal credit programs would be to state their objectives and the means of achieving those objectives in a straightforward manner. The subsidy costs of operating these programs could then be compared to the economic and social benefits realized in achieving the programs' objectives. In the coming year, OMB plans to re-issue Circular No. A-70, *Federal Credit Policy*, to help meet some of the requirements for improved control described above.

Appendix A

Additional Discussions of Federal Credit Programs and Related Issues in the 1985 Budget Documents

- Special Analysis E ("Borrowing and Debt") contains additional information on Federal borrowing, borrowing by Government-sponsored enterprises, and the Federal Financing Bank.
- Special Analysis G ("Tax Expenditures") contains additional information on tax-exempt borrowing.
- Special Analysis H ("Federal Aid to State and Local Governments") contains additional information on Federal loans to State and local governments.
- Part 5 of the Budget ("Meeting National Needs: The Federal Program by Function") contains a discussion of major credit

programs by budget function (e.g., Agriculture, Commerce and Housing, International Affairs).

- Part 6 of the Budget ("Perspectives on the Budget") contains an additional discussion of off-budget Federal credit programs, Government-sponsored enterprises, and loan guarantees.
- Part 7 of the Budget ("The Budget System and Concepts") contains a summary description of the credit budget principles.
- Part 8 of the Budget ("The Federal Program by Agency and Account") contains budget authority and outlay data in accounts that contain credit programs.
- Part 9 of the Budget ("Summary Tables") contains summary tables of the credit budget totals (Table 1) and summaries by agency of direct loan obligations (Table 18) and guaranteed loan commitments (Table 19).
- The Budget Appendix contains additional information for each credit program by budget account. Part I of the Appendix ("Detailed Budget Estimates") provides credit program information by major departments and agencies. Part III ("Off-Budget Federal Entities") and Part V ("Government-Sponsored Enterprises") provide additional information on programs outside the budget.

Appendix B

Credit Accounting

For the 1984 budget, several accounting changes were made to simplify the credit budget and to reflect more accurately the true volume of Federal and federally guaranteed lending. For the 1985 budget, two major changes for direct loans and guaranteed loans have been made:

- *Accounting change.* The accounting change concerns direct loan obligations that were essentially rollovers of existing direct loans.
- *Presentational change.* The presentational change attributes direct lending of the FFB, with an agency guarantee, to the agency responsible for those FFB loans and does not count the associated guarantees of those loans.

The accounting change to exclude rollovers of existing loans is intended to avoid double-counting of transactions where the same borrower uses the same funds for essentially the same purpose, and where the extension of loans on similar maturities is routine. In the past, when a loan was rolled over, it was included in the credit budget as a new direct loan obligation, as a disbursement, and as a repayment of the original loan. When loans were rolled over several times in the year, an inflated level of direct loan obligations resulted.

This change primarily affects the Tennessee Valley Authority loan guarantees issued to the Seven States Energy Corporation, whose borrowings in turn are financed through the FFB. The direct loan obligations and disbursements appear approximately $4 billion lower relative to last year as a result of this accounting change. Credit budget totals for 1982 in this special analysis have been restated to reflect the accounting change.

The presentational change is intended to attribute FFB activity more accurately. As explained above, when an agency sells its direct loan assets to the FFB, or arranges for the FFB to disburse direct loans to borrowers on the agency's behalf, the original loans are also guaranteed by the agency. In previous budgets, these transactions required several deductions to be made from gross credit budget totals to avoid double-counting the original guaranteed loan and the resulting FFB direct loan. However, the guarantee does not increase the volume of Federal credit outstanding, nor does it represent the type of lending that actually occurs when the FFB finances agency loans. Therefore, these guaranteed loans have always been netted out in calculating the primary guaranteed loans in this special analysis. The FFB activity was included in the direct loan totals.

This year, table F-14, "Direct Loan Transactions of the Federal Government", reflects the attribution of FFB direct loans (loan asset purchases and direct loans made to the public) to each agency responsible for those loans. Consistent with this presentational change, table F-15, "Guaranteed Loan Transactions of the Federal Government", excludes agency guarantees of FFB direct loans. In the past, guarantees of FFB direct loans were first included in accounts and then netted out. The new presentation of these tables is consistent with the credit program tables in Part 5 of the Budget, which were changed last year to attribute the FFB activity.

Table F–14. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
ON-BUDGET AGENCIES								
Funds Appropriated to the President:								
Economic Support Fund	Obligations	418	326	378	392	401	409	416
	Loan disbursements	524	326	378	392	401	409	416
	Net outlays	*471*	*270*	*313*	*392*	*401*	*409*	*416*
	Outstandings	**5,676**	**5,946**	**6,260**	**6,652**	**7,053**	**7,461**	**7,878**
Foreign Military Sales Credit	Obligations	1,175	1,315	5,115	5,233	5,345	5,452	5,553
	Loan disbursements	609	1,616	2,976	4,455	5,120	5,390	5,510
	Net outlays	*−84*	*−75*	*554*	*2,055*	*2,790*	*2,890*	*2,710*
	Outstandings	**226**	**152**	**706**	**2,761**	**5,551**	**8,441**	**11,151**
Foreign Military Sales Credit (loans made by FFB) [1]	Obligations	3,932	4,401	.....	.....	.....	.....	.....
	Loan disbursements	3,553	4,313	2,770	700	194	2	.....
	Net outlays	*2,858*	*3,631*	*1,964*	*−329*	*−1,024*	*−1,259*	*−1,218*
	Outstandings	**14,293**	**17,924**	**19,888**	**19,559**	**18,535**	**17,275**	**16,057**
Guarantee Reserve Fund	Obligations	440	480	510	535	550	565	565
	Loan disbursements	440	480	510	535	550	565	565
	Net outlays	*119*	*179*	*235*	*262*	*277*	*278*	*270*
	Outstandings	**527**	**706**	**941**	**1,203**	**1,480**	**1,758**	**2,028**
Overseas Private Investment Corporation	Obligations	10	10	15	15	15	15	15
	Loan disbursements	5	13	15	10	12	13	15
	Net outlays	*−1*	*7*	*9*	*2*	*3*	*4*	*5*
	Outstandings	**33**	**40**	**49**	**51**	**54**	**58**	**63**
Overseas Private Investment Corporation (loans held by FFB) [2]	*Net outlays*	*−5*	*−6*	*−5*	*−5*	*−1*	*−1*	.....
	Outstandings	**18**	**12**	**7**	**2**	**1**	*	*

Table F-14. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate 1984	1985	1986	1987	1988	1989
AID functional development assistance	Obligations	428	409	395	395	395	395	395
	Loan disbursements	368	386	420	395	395	395	395
	Net outlays	*367*	*385*	*413*	*380*	*367*	*360*	*348*
	Outstandings	**2,509**	**2,894**	**3,307**	**3,686**	**4,053**	**4,413**	**4,761**
AID development loans revolving fund	Obligations							
	Loan disbursements	1						
	Net outlays	*−289*	*−356*	*−378*	*−342*	*−347*	*−363*	*−345*
	Outstandings	**9,331**	**8,975**	**8,597**	**8,255**	**7,908**	**7,545**	**7,199**
AID private sector revolving fund	Obligations		10	20	20	20	20	20
	Loan disbursements		1	10	21	21	21	21
	Net outlays		*1*	*10*	*15*	*13*	*10*	*7*
	Outstandings		**1**	**11**	**26**	**39**	**49**	**56**
AID housing and other credit guarantees	Obligations	20	24	19	10	2	2	2
	Loan disbursements	20	24	19	10	2	2	2
	Net outlays	*6*	*5*	*9*	*8*		*−5*	*−5*
	Outstandings	**20**	**25**	**34**	**42**	**42**	**37**	**32**
Miscellaneous appropriations	Obligations							
	Loan disbursements							
	Net outlays	*−8*	*−7*	*−7*	*−7*	*−7*	*−7*	*−8*
	Outstandings	**140**	**133**	**126**	**119**	**112**	**104**	**97**
Agriculture:								
Farmers Home Administration:								
Agricultural credit insurance fund	Obligations	3,022	4,557	3,503	3,451	3,432	3,509	3,679
	Loan disbursements	3,009	4,544	3,609	3,424	3,424	3,424	3,424

	Net outlays	*−517*	*−14*	.....	.....	.....	.....	.....
	Outstandings	**278**	**264**	**264**	**264**	**264**	**264**	**264**
Agricultural credit insurance fund (repurchases of loan assets)	Obligations	3,465	5,395	4,157	1,250	385	385	.....
	Loan disbursements	3,465	5,395	4,157	1,250	385	385	.....
Agricultural credit insurance fund (loans held by FFB) [2]	*Net outlays*	*695*	*1,539*	*237*	*64*	*74*	*187*	*390*
	Outstandings	**24,107**	**25,646**	**25,884**	**25,948**	**26,022**	**26,209**	**26,599**
Rural housing insurance fund	Obligations	2,952	3,301	2,370	2,403	2,332	2,607	2,504
	Loan disbursements	2,871	3,408	2,931	2,450	2,394	2,320	2,320
	Net outlays	*−101*	.....	*−80*	.....	.....	.....	.....
	Outstandings	**346**	**346**	**266**	**266**	**266**	**266**	**266**
Rural housing insurance fund (repurchases of loan assets)	Obligations	2,685	3,930	2,110	.....	150	.....	.....
	Loan disbursements	2,685	3,930	2,110	.....	150	.....	.....
Rural housing insurance fund (loans held by FFB) [2]	*Net outlays*	*1,755*	*2,182*	*1,853*	*1,187*	*992*	*1,188*	*1,073*
	Outstandings	**25,676**	**27,858**	**29,711**	**30,897**	**31,889**	**33,078**	**34,151**
Rural development insurance fund	Obligations	744	410	406	362	355	596	440
	Loan disbursements	576	737	688	480	382	377	372
	Net outlays	*−48*	*−44*	*2*	*	*	*	*
	Outstandings	**105**	**61**	**63**	**63**	**63**	**63**	**63**
Rural development insurance fund (repurchases of loan assets)	Obligations	505	980	595	30	.....	.....	.....
	Loan disbursements	505	980	595	30	.....	.....	.....
Rural development insurance fund (loans held by FFB) [2]	*Net outlays*	*505*	*646*	*530*	*231*	*152*	*383*	*236*
	Outstandings	**6,908**	**7,554**	**8,084**	**8,314**	**8,466**	**8,849**	**9,084**
Commodity Credit Corporation price support and related loans	Obligations	13,915	6,147	6,124	6,700	6,400	6,100	5,500
	Loan disbursements	13,861	6,215	6,124	6,700	6,400	6,100	5,500
	Net outlays	*3,522*	*−7,323*	*589*	*−322*	*−250*	*−350*	*−50*
	Outstandings	**16,007**	**8,684**	**9,272**	**8,950**	**8,700**	**8,350**	**8,300**

Table F-14. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
Public Law 480 long-term export credits	Obligations	810	774	867	892	925	957	985
	Loan disbursements	766	774	867	892	925	957	985
	Net outlays	*494*	*480*	*628*	*542*	*525*	*517*	*489*
	Outstandings	**8,801**	**9,281**	**9,909**	**10,451**	**10,976**	**11,493**	**11,982**
Commerce:								
Economic development revolving fund	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	72	68	62	57	57	57	57
	Net outlays	*−72*	*−11*	*−33*	*−57*	*−57*	*−57*	*−57*
	Outstandings	**710**	**700**	**666**	**609**	**552**	**495**	**438**
Miscellaneous appropriations	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	*	.....	.....	.....	.....	.....	.....
	Net outlays	*−6*	*−3*	*−3*	*−11*	*−11*	*−11*	*−11*
	Outstandings	**103**	**100**	**97**	**85**	**74**	**63**	**52**
ITA operations and administration	Obligations	12	8	.....	.....	.....	.....	.....
	Loan disbursements	2	16	.....	.....	.....	.....	.....
	Net outlays	*2*	*13*	*−2*	*−2*	*−2*	*−3*	*−3*
	Outstandings	**3**	**15**	**13**	**11**	**9**	**6**	**3**
NOAA coastal energy impact fund	Obligations	*	*	.....	.....	.....	.....	.....
	Loan disbursements	10	3	3	3	3	3	3
	Net outlays	*	*2*	*1*	*1*	*1*	*1*	*1*
	Outstandings	**95**	**97**	**98**	**99**	**100**	**101**	**101**

Education:								
Guarantees of SLMA obligations (loans made by FFB) [1]	Obligations	...	...	...	...	...	...	...
	Loan disbursements	...	...	...	...	...	...	...
	Net outlays	...	...	...	...	...	...	...
	Outstandings	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**
Guaranteed student loans	Obligations	502	713	795	788	768	755	717
	Loan disbursements	487	713	795	788	768	755	717
	Net outlays	*387*	*567*	*480*	*558*	*542*	*537*	*512*
	Outstandings	**1,912**	**2,479**	**2,959**	**3,517**	**4,059**	**4,596**	**5,108**
Student financial assistance	Obligations	181	161	...	...	...	...	...
	Loan disbursements	178	185	161	...	...	...	...
	Net outlays	*114*	*149*	*77*	*−66*	*−61*	*−62*	*−64*
	Outstandings	**4,904**	**5,054**	**5,131**	**5,065**	**5,005**	**4,943**	**4,879**
College housing loans	Obligations	40	...	...	...	...	...	...
	Loan disbursements	69	67	50	31	...	...	...
	Net outlays	*−20*	*−32*	*−51*	*−67*	*−96*	*−93*	*−90*
	Outstandings	**3,025**	**2,994**	**2,943**	**2,876**	**2,780**	**2,687**	**2,597**
Higher education	Obligations	...	...	...	...	...	...	...
	Loan disbursements	...	...	...	...	...	...	...
	Net outlays	*20*	*−29*	*−65*	*−3*	*−3*	*−3*	*−3*
	Outstandings	**111**	**82**	**16**	**13**	**10**	**7**	**4**
Higher education facilities loans and insurance	Obligations	...	...	...	...	...	...	...
	Loan disbursements	10	...	...	...	...	...	...
	Net outlays	*−7*	*−18*	*−21*	*−20*	*−20*	*−20*	*−20*
	Outstandings	**400**	**382**	**361**	**341**	**321**	**301**	**281**
Energy:								
Alternative fuels (loans made by FFB) [1]	Obligations	...	...	...	...	...	...	...
	Loan disbursements	546	470	196	...	...	...	...
	Net outlays	*546*	*470*	*196*	...	...	*−104*	*−104*

Table F-14. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
	Outstandings	**886**	**1,356**	**1,552**	**1,552**	**1,552**	**1,448**	**1,344**
Bonneville Power Administration	Obligations	4	10	40	40	40	40	40
	Loan disbursements	4	10	40	40	40	40	40
	Net outlays	*3*	*9*	*37*	*37*	*34*	*31*	*28*
	Outstandings	**10**	**19**	**56**	**93**	**127**	**158**	**186**
Health and Human Services:								
HMO's and medical facilities	Obligations	12	10	3	1	*	*	*
	Loan disbursements	12	10	3	1	*	*	*
	Net outlays	*−175*	*	*	*−1*	*−1*	*−1*	*−1*
	Outstandings	**29**	**28**	**28**	**27**	**27**	**26**	**25**
HMO's and medical facilities (repurchases of loan assets)	Obligations	20	.....	.....	.....	.....	.....	.....
	Loan disbursements	20	.....	.....	.....	.....	.....	.....
HMO's and medical facilities (loans held by FFB) [2]	*Net outlays*	*−14*	*	*−7*	*−10*	*−11*	*−11*	*12*
	Outstandings	**272**	**273**	**265**	**256**	**245**	**234**	**222**
Health resources and services	Obligations	2	1	1	1	1	1	1
	Loan disbursements	8	2	1	1	1	1	1
	Net outlays	*−47*	*−3*	*−4*	*−14*	*−4*	*−4*	*−4*
	Outstandings	**609**	**607**	**603**	**589**	**585**	**581**	**577**
Rural development loan fund	Obligations	.....	10	.....	.....	.....	.....	.....
	Loan disbursements	.....	10	.....	.....	.....	.....	.....
	Net outlays	*7*	*7*	*−1*	*−1*	*−1*	*−1*	*−1*
	Outstandings	**24**	**31**	**30**	**29**	**28**	**27**	**26**

Housing and Urban Development:								
Low-rent public housing	Obligations	247	250	250	200	150	100	75
	Loan disbursements	247	250	250	200	150	100	75
	Net outlays	*41*			*−28*	*−25*	*−25*	*−25*
	Outstandings	**203**	**203**	**203**	**175**	**150**	**125**	**100**
Low rent public housing (loans made by FFB) [1]	Obligations							
	Loan disbursements	474	202	1,200	1,200	1,200	1,200	1,200
	Net outlays	*443*	*160*	*1,169*	*1,133*	*1,117*	*1,101*	*1,083*
	Outstandings	**2,067**	**2,227**	**3,396**	**4,529**	**5,647**	**6,747**	**7,831**
Housing for the elderly or handicapped	Obligations	633	666	500	525	551	579	608
	Loan disbursements	850	849	786	689	667	700	735
	Net outlays	*829*	*827*	*76[illegible]*	*663*	*639*	*670*	*703*
	Outstandings	**4,470**	**5,297**	**6,059**	**6,722**	**7,361**	**8,031**	**8,734**
GNMA special assistance functions	Obligations	500						
	Loan disbursements	2,059	1,800	466				
	Net outlays	*−296*	*−130*	*−1,520*	*−1,352*			
	Outstandings	**3,002**	**2,872**	**1,352**				
GNMA emergency mortgage purchases	Obligations							
	Loan disbursements	11	3					
	Net outlays	*−291*	*−168*	*−106*	*−98*			
	Outstandings	**373**	**204**	**98**				
Community development grants (loans made by FFB) [1]	Obligations	61	225					
	Loan disbursements	117	182	120				
	Net outlays	*60*	*134*	*47*	*−105*	*−129*	*−123*	*−1*
	Outstandings	**177**	**311**	**358**	**253**	**124**	**1**	
Federal Housing Administration Fund	Obligations	1,488	1,716	1,647	1,742	1,873	1,979	2,106
	Loan disbursements	1,486	1,706	1,626	1,760	1,873	1,979	2,106
	Net outlays	*894*	*104*	*−96*	*−77*	*1*	*64*	*46*
	Outstandings	**5,044**	**5,148**	**5,052**	**4,975**	**4,976**	**5,040**	**5,086**

Table F-14. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
Rehabilitation loan fund	Obligations	45	132					
	Loan disbursements	34	85	95				
	Net outlays	*−19*	*30*	*39*	*−50*	*−50*	*−50*	*−50*
	Outstandings	**723**	**753**	**792**	**742**	**692**	**642**	**592**
Interior:								
Bureau of Reclamation loan program	Obligations	54	46	66	28	9	3	2
	Loan disbursements	30	58	64	28	10	3	2
	Net outlays	*23*	*49*	*54*	*15*	*−3*	*−11*	*−12*
	Outstandings	**354**	**403**	**457**	**472**	**469**	**458**	**446**
BIA revolving fund	Obligations	8	13	16	20	15	12	12
	Loan disbursements	9	14	16	20	15	12	12
	Net outlays	*	*6*	*8*	*18*	*−2*	*−2*	*−2*
	Outstandings	**86**	**91**	**100**	**118**	**115**	**113**	**110**
Transportation:								
Right of way revolving fund	Obligations	71	30	50	50	50	50	50
	Loan disbursements	41	30	50	50	50	50	50
	Net outlays	*−47*						
	Outstandings	**148**	**148**	**148**	**148**	**148**	**148**	**148**
Railroad rehabilitation and improvement financing	Obligations	31	66					
	Loan disbursements	52	68	16				
	Net outlays	*45*	*68*	*16*	*	*	*−1*	*−9*
	Outstandings	**513**	**581**	**597**	**596**	**596**	**595**	**586**
Railroad rehabilitation and improvement financing (loans made by FFB) [1]	Obligations	15	20					
	Loan disbursements	19	12	10				

420-700 O - 84 - 14 QL : 3

	Net outlays	*8*	*−10*	*	*−14*	*−15*	*−18*	*−19*
	Outstandings	**184**	**173**	**173**	**159**	**144**	**126**	**107**
Grants to Amtrak	Obligations		880					
	Loan disbursements		880					
	Net outlays							
	Outstandings							
Grants to Amtrak (loans made by FFB) [1]	Obligations							
	Loan disbursements	25						
	Net outlays	*25*	*−880*					
	Outstandings	**880**						
Rail service assistance	Obligations		64					
	Loan disbursements		64					
	Net outlays	*−3*	*−10*					
	Outstandings	**65**	**55**	**55**	**55**	**55**	**55**	**55**
Federal-aid highways trust fund	Obligations	1	*					
	Loan disbursements	27	8	5	3			
	Net outlays	*27*	*8*	*5*	*3*		*−39*	*−39*
	Outstandings	**63**	**71**	**75**	**78**	**78**	**39**	
Aircraft purchase loan guarantees	Obligations	153						
	Loan disbursements	130	23					
	Net outlays	*130*	*−45*					
	Outstandings	**130**	**85**	**85**	**85**	**85**	**85**	**85**
MarAd Federal ship financing fund	Obligations	125	85	20	15	10	10	10
	Loan disbursements	125	85	20	15	10	10	10
	Net outlays	*64*	*82*	*16*	*12*	*6*	*6*	*6*
	Outstandings	**222**	**303**	**320**	**331**	**338**	**344**	**351**
NASA:								
Research and development (loans made by FFB) [1]	Obligations	189						

Table F-14. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate 1984	1985	1986	1987	1988	1989
	Loan disbursements	189						
	Net outlays	*189*	*−947*					
	Outstandings	**947**						
Space flight, control, and data communications (loans made by FFB) [1]	Obligations		131					
	Loan disbursements		1,079					
	Net outlays		*1,079*		*−7*	*−86*	*−95*	*−106*
	Outstandings		**1,079**	**1,079**	**1,072**	**986**	**891**	**785**
Veterans Administration:								
Loan guaranty revolving fund (default claims)	Obligations	1,056	628	394	303	321	310	296
	Loan disbursements	1,056	628	394	303	321	310	296
	Net outlays	*−65*	*67*	*114*	*268*	*283*	*269*	*252*
	Outstandings	**1,496**	**1,564**	**1,677**	**1,945**	**2,228**	**2,498**	**2,750**
Direct loan revolving fund	Obligations	2	2	2	2	2	2	2
	Loan disbursements	2	2	2	2	2	2	2
	Net outlays	*−143*	*−4*	*−4*	*−3*	*−3*	*−3*	*−3*
	Outstandings	**201**	**198**	**194**	**191**	**187**	**184**	**181**
Service-disabled veterans insurance fund	Obligations	6	7	7	8	8	8	8
	Loan disbursements	6	7	7	8	8	8	8
	Net outlays	*1*	*2*	*2*	*2*	*2*	*2*	*1*
	Outstandings	**36**	**37**	**39**	**40**	**42**	**44**	**45**
National service life insurance fund	Obligations	104	106	107	107	104	104	101
	Loan disbursements	104	106	107	107	104	104	101
	Net outlays	*−46*	*−42*	*−38*	*−35*	*−34*	*−30*	*−30*
	Outstandings	**1,152**	**1,110**	**1,072**	**1,037**	**1,003**	**973**	**943**

U.S. Government life insurance fund	Obligations	2	2	2	2	2	1	1
	Loan disbursements	2	2	2	2	2	1	1
	Net outlays	*−4*	*−4*	*−3*	*−3*	*−3*	*−2*	*−2*
	Outstandings	**35**	**31**	**28**	**25**	**22**	**20**	**17**
Veterans' special life insurance fund	Obligations	11	12	13	14	14	15	15
	Loan disbursements	11	12	13	14	14	15	15
	Net outlays	*	*1*	*1*	*1*	*2*	*2*	*2*
	Outstandings	**82**	**82**	**83**	**85**	**86**	**88**	**90**
Veterans' reopened insurance fund	Obligations	7	7	7	7	7	7	6
	Loan disbursements	7	7	7	7	7	7	6
	Net outlays	*−1*	*	*	*	*−1*	*	*−1*
	Outstandings	**44**	**44**	**44**	**43**	**43**	**42**	**42**
District of Columbia:								
Loans to the District of Columbia	Obligations	145	115	...	...	...	...	...
	Loan disbursements	145	115	...	...	...	...	...
	Net outlays	*116*	*84*	*−34*	*−37*	*−40*	*−43*	*−45*
	Outstandings	**1,799**	**1,883**	**1,849**	**1,813**	**1,773**	**1,730**	**1,685**
Repayable advances to the District of Columbia	Obligations	150	...	...	...	...	...	...
	Loan disbursements	150	...	...	...	...	...	...
	Net outlays	...	...	...	...	...	...	...
	Outstandings	...	...	...	...	...	...	...
Export-Import Bank	Obligations	845	2,580	3,830	3,830	3,830	3,830	3,830
	Loan disbursements	2,508	3,175	3,300	2,975	2,829	2,736	2,659
	Net outlays	*317*	*1,388*	*1,264*	*499*	*213*	*−87*	*−384*
	Outstandings	**16,883**	**18,271**	**19,535**	**20,034**	**20,247**	**20,160**	**19,776**
Federal Deposit Insurance Corporation	Obligations	...	...	...	...	...	...	...
	Loan disbursements	64	...	...	...	...	...	...
	Net outlays	*−110*	*−28*	*−231*	*−3*	*−53*	*−1*	*−216*
	Outstandings	**595**	**567**	**336**	**333**	**280**	**279**	**63**

Table F-14. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
Federal Savings and Loan Insurance Corporation	Obligations	19	2	3	3	3	3	3
	Loan disbursements	19	2	3	3	3	3	3
	Net outlays	*−189*	*−75*	*−97*	*−55*	*−8*	*−7*	*−9*
	Outstandings	**569**	**494**	**397**	**342**	**333**	**326**	**318**
General Services Administration federal buildings fund (loans made by FFB) [1]	Obligations							
	Loan disbursements							
	Net outlays	*−3*	*−10*	*−11*	*−33*	*−35*	*−38*	*−41*
	Outstandings	**417**	**408**	**397**	**364**	**329**	**290**	**249**
National Credit Union Administration:								
Share insurance fund	Obligations	26	22	19	16	14	12	10
	Loan disbursements	26	22	19	16	14	12	10
	Net outlays	*16*	*14*	*11*	*3*	*5*	*2*	*−2*
	Outstandings	**34**	**49**	**60**	**63**	**68**	**70**	**68**
Central liquidity facility	Obligations	194	290	437	437	437	437	437
	Loan disbursements	194	290	437	400	380	360	320
	Net outlays	*−86*	*55*	*50*	*−25*	*−25*	*−25*	*−10*
	Outstandings	**45**	**100**	**150**	**125**	**100**	**75**	**65**
Small Business Administration:								
Business and investment loans	Obligations	851	749	535	547	480	361	337
	Loan disbursements	824	725	618	548	481	362	338
	Net outlays	*224*	*77*	*−66*	*−104*	*−160*	*−266*	*−277*
	Outstandings	**3,320**	**3,397**	**3,331**	**3,227**	**3,067**	**2,801**	**2,524**
Business and investment loans (loans held by FFB) [2]	*Net outlays*	*−10*	*−10*	*−10*	*−10*	*−10*	*−10*	*−7*
	Outstandings	**57**	**47**	**37**	**27**	**17**	**7**	

Business and investment loans (loans made by FFB) [1]	Obligations	430	575	515	515	515	515	515
	Loan disbursements	261	730	525	515	515	515	515
	Net outlays	*192*	*646*	*419*	*400*	*394*	*388*	*382*
	Outstandings	**951**	**1,597**	**2,016**	**2,416**	**2,810**	**3,198**	**3,580**
Disaster loans	Obligations	198	440	440	440	440	440	440
	Loan disbursements	126	310	380	385	390	390	390
	Net outlays	*−577*	*−436*	*−311*	*−311*	*−280*	*−265*	*−240*
	Outstandings	**5,496**	**5,060**	**4,749**	**4,438**	**4,158**	**3,893**	**3,653**
Tennessee Valley Authority	Obligations	41	85	89	77	76	77	79
	Loan disbursements	41	85	89	77	76	77	79
	Net outlays	*−6*	*34*	*27*	*12*	*6*	*2*	*4*
	Outstandings	**261**	**295**	**322**	**334**	**341**	**343**	**347**
Tennessee Valley Authority (loans made by FFB) [1]	Obligations	161	165	88	117	31	17	69
	Loan disbursements	161	165	88	117	31	17	69
	Net outlays	*161*	*165*	*88*	*117*	*31*	*17*	*69*
	Outstandings	**1,418**	**1,583**	**1,672**	**1,788**	**1,819**	**1,836**	**1,906**
Payments for Conrail securities	Obligations	...	...	...	...	...	...	...
	Loan disbursements	...	...	...	...	...	...	...
	Net outlays	*−61*	...	...	...	...	...	...
	Outstandings	**854**	**854**	**854**	**854**	**854**	**854**	**854**
Other agencies and programs	Obligations	58	28	14	15	15	15	16
	Loan disbursements	59	90	39	19	14	14	15
	Net outlays	*−107*	*9*	*−29*	*−42*	*−46*	*−59*	*−47*
	Outstandings	**794**	**803**	**774**	**690**	**644**	**585**	**538**
Other agencies and programs (loans made by FFB) [1]	Obligations	100	...	...	...	...	...	...
	Loan disbursements	9	46	80	20	4	2	1
	Net outlays	*−8*	*−32*	*79*	*18*	*2*	*−1*	*−2*
	Outstandings	**145**	**112**	**191**	**210**	**211**	**211**	**209**

Table F-14. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate 1984	1985	1986	1987	1988	1989
Subtotal, on-budget agencies	Obligations	43,320	43,523	36,472	31,535	30,473	30,696	29,862
	Loan disbursements	46,374	48,614	40,323	32,146	30,792	30,206	29,364
	Net outlays	*12,208*	*4,878*	*9,096*	*5,245*	*5,967*	*5,758*	*5,460*
	Outstandings	**189,429**	**194,307**	**203,403**	**208,607**	**214,575**	**220,333**	**225,793**
OFF-BUDGET FEDERAL ENTITIES								
Rural electrification and telephone revolving fund	Obligations	1,101	1,100	575	575	575	575	575
	Loan disbursements	856	1,100	980	825	735	700	880
	Net outlays	*104*	*277*	*92*	*130*	*178*	*226*	*406*
	Outstandings	**9,878**	**10,155**	**10,247**	**10,378**	**10,556**	**10,783**	**11,189**
Rural electrification and telephone revolving fund (loans made by FFB) [1]	Obligations	3,442	3,360	1,325	1,325	1,325	1,326	1,326
	Loan disbursements	3,154	3,765	3,395	4,225	3,035	2,365	1,940
	Net outlays	*2,657*	*3,565*	*3,185*	*4,005*	*2,805*	*2,125*	*1,690*
	Outstandings	**18,939**	**22,504**	**25,689**	**29,694**	**32,499**	**34,624**	**36,314**
Rural electrification and telephone revolving fund (loans held by FFB) [2]	*Net outlays*	*344*	*403*	*459*	*262*	*113*	*17*	.....
	Outstandings	**3,468**	**3,871**	**4,330**	**4,592**	**4,705**	**4,722**	**4,722**
Rural Telephone Bank	Obligations	172	185	185	185	185	185	185
	Loan disbursements	93	200	200	200	200	200	200
	Net outlays	*81*	*186*	*184*	*184*	*184*	*184*	*184*
	Outstandings	**1,254**	**1,439**	**1,624**	**1,808**	**1,992**	**2,176**	**2,360**
United States Railway Association	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Net outlays	*−85*	*−38*	.....	.....	.....	.....	.....
	Outstandings	**38**	.....	.....	.....	.....	.....	.....

Subtotal, off-budget Federal entities	Obligations	4,715	4,645	2,085	2,085	2,085	2,086	2,086
	Loan disbursements	4,103	5,065	4,575	5,250	3,970	3,265	3,020
	Net outlays	*3,102*	*4,393*	*3,921*	*4,581*	*3,280*	*2,552*	*2,280*
	Outstandings	**33,576**	**37,969**	**41,890**	**46,471**	**49,752**	**52,304**	**54,584**
Less repurchases of loan assets from the Federal Financing Bank [3]	Obligations	−6,677	−10,306	−6,863	−1,280	−535	−385	.....
	Loan disbursements	−6,677	−10,306	−6,863	−1,280	−535	−385	.....
	Net outlays	.....	.....	.....	.....	.....	.....	.....
	Outstandings	.....	.....	.....	.....	.....	.....	.....
Grand total, net direct loans	Obligations	41,358	37,862	31,694	32,340	32,023	32,396	31,948
	Loan disbursements	43,799	43,373	38,035	36,116	34,227	33,086	32,384
	Net outlays	*15,310*	*9,271*	*13,017*	*9,826*	*9,248*	*8,310*	*7,740*
	Outstandings	**223,005**	**232,277**	**245,294**	**255,079**	**264,327**	**272,637**	**280,377**

*$500,000 or less.

[1] Loans made by FFB are agency-guaranteed loans that are disbursed by the FFB as direct loans.

[2] Loans held by FFB represent the outlays and outstandings of loan assets sold by Federal agencies to the FFB. Since these are sales of prior year loans, they are not attributed as new obligations or disbursements.

[3] At scheduled intervals, agencies repurchase loan assets that they previously sold to the FFB. Since this transaction represents prior year direct loan obligations, repurchases are deducted from gross direct loans. This deduction affects obligations and disbursements only.

Table F-15. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
Funds Appropriated to the President:								
Foreign Military Sales	Commitments							
	New guaranteed loans							
	Net loans guaranteed	*−30*	*−68*	*40*	*244*	*420*	*452*	*408*
	Outstandings	**227**	**159**	**199**	**443**	**864**	**1,315**	**1,724**
Overseas Private Investment Corporation	Commitments	100	100	150	150	150	150	150
	New guaranteed loans	33	50	100	50	75	75	100
	Net loans guaranteed	*22*	*31*	*75*	*55*	*26*	*26*	*50*
	Outstandings	**159**	**190**	**265**	**320**	**346**	**371**	**421**
Housing and other credit guarantees	Commitments	132	150	150	155	155	160	160
	New guaranteed loans	142	200	200	150	155	155	160
	Net loans guaranteed	*106*	*157*	*162*	*110*	*110*	*110*	*115*
	Outstandings	**1,073**	**1,231**	**1,392**	**1,502**	**1,612**	**1,722**	**1,837**
Agriculture:								
Farmers Home Administration:								
Agricultural credit insurance fund	Commitments	71	156	206	206	206	206	206
	New guaranteed loans	141	344	543				
	Net loans guaranteed	*−107*	*−56*	*−130*	*−52*	*−62*	*−175*	*−378*
	Outstandings	**1,025**	**969**	**839**	**787**	**724**	**549**	**171**
Rural housing insurance fund	Commitments	21	16	13	4	4	4	4
	New guaranteed loans	2	1	1				
	Net loans guaranteed	*−70*	*−41*	*−180*	*−169*	*−39*	*−317*	*190*
	Outstandings	**998**	**957**	**777**	**608**	**569**	**252**	**442**
Rural development insurance fund	Commitments	82	300					
	New guaranteed loans	566	285	866				

	Net loans guaranteed	*2*	*−136*	*122*	*20*	*−130*	*−403*	*−235*
	Outstandings	**3,389**	**3,253**	**3,375**	**3,395**	**3,266**	**2,863**	**2,627**
Commodity Credit Corporation export credit	Commitments	4,669	4,000	3,000	3,000	3,000	3,000	3,000
	New guaranteed loans	2,643	4,000	3,000	3,000	3,000	3,000	3,000
	Net loans guaranteed	*1,708*	*2,242*	*546*	*−45*	*−350*	...	...
	Outstandings	**4,357**	**6,599**	**7,145**	**7,100**	**6,750**	**6,750**	**6,750**
Rural Electrification Administration	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	120	10	20	...	...	...	...
	Net loans guaranteed	*142*	*5*	*10*	*20*	*29*	*1,040*	*50*
	Outstandings	**862**	**867**	**877**	**897**	**926**	**1,966**	**2,016**
Commerce:								
Economic development revolving fund	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	...	...	...	...	...	...	...
	Net loans guaranteed	*−86*	*−53*	*−78*	*−50*	*−50*	*−50*	*−50*
	Outstandings	**544**	**491**	**413**	**363**	**314**	**264**	**215**
ITA operations and administration	Commitments	12	17	...	...	...	...	...
	New guaranteed loans	12	26	...	...	...	...	...
	Net loans guaranteed	*2*	*21*	*−4*	*−5*	*−5*	*−6*	*−7*
	Outstandings	**14**	**36**	**31**	**27**	**21**	**15**	**8**
National Oceanic and Atmospheric Administration	Commitments	12	10	...	...	...	...	...
	New guaranteed loans	12	10	...	...	...	...	...
	Net loans guaranteed	*	*−2*	*−12*	*−10*	*−10*	*−10*	*−10*
	Outstandings	**174**	**172**	**160**	**150**	**140**	**130**	**120**
Education activities	Commitments	7,262	7,593	7,907	8,353	8,836	9,362	9,937
	New guaranteed loans	6,838	7,269	7,544	7,974	8,440	8,948	9,503
	Net loans guaranteed	*3,790*	*3,347*	*2,780*	*2,433*	*2,182*	*1,996*	*2,028*
	Outstandings	**26,490**	**29,837**	**32,617**	**35,050**	**37,232**	**39,229**	**41,257**

Table F–15. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
Energy:								
Geothermal resources development fund	Commitments	45		78	26	41		
	New guaranteed loans	9	15	123	41	35	49	22
	Net loans guaranteed	*−68*	*2*	*42*	*22*	*33*	*46*	*16*
	Outstandings	**31**	**33**	**75**	**98**	**131**	**177**	**193**
Health and Human Services:								
Health maintenance organization loan fund	Commitments	5						
	New guaranteed loans	5						
	Net loans guaranteed	*4*						
	Outstandings	**20**	**20**	**20**	**20**	**20**	**20**	**20**
Medical facilities guarantees and loan fund	Commitments							
	New guaranteed loans							
	Net loans guaranteed	*128*	*−22*	*−21*	*−21*	*−21*	*−21*	*−21*
	Outstandings	**1,016**	**993**	**973**	**952**	**931**	**910**	**889**
Health professions graduate student insurance fund	Commitments	225	250	175	175	175	175	175
	New guaranteed loans	225	250	175	175	175	175	175
	Net loans guaranteed	*202*	*220*	*140*	*145*	*145*	*145*	*145*
	Outstandings	**480**	**700**	**840**	**985**	**1,130**	**1,275**	**1,420**
Housing and Urban Development:								
Low-rent public housing	Commitments	14,261	15,159	14,919	14,598	14,305	13,913	13,522
	New guaranteed loans	22,632	23,417	25,200	24,200	23,200	22,200	21,200
	Net loans guaranteed	*790*	*875*	*−300*	*−525*	*−650*	*−775*	*−800*
	Outstandings	**19,935**	**20,810**	**20,510**	**19,985**	**19,335**	**18,560**	**17,760**
Revolving fund (liquidating)	Commitments							

	New guaranteed loans	...	...	...	...	...	...	...
	Net loans guaranteed	...	*62*	*−2*	*−3*	*−4*	*−4*	*−11*
	Outstandings	...	**62**	**60**	**57**	**53**	**49**	**38**
Federal Housing Administration	Commitments	44,611	38,100	40,900	42,600	45,800	49,000	49,000
	New guaranteed loans	27,564	31,280	33,619	36,842	39,655	42,522	42,533
	Net loans guaranteed	*18,733*	*21,220*	*21,261*	*23,065*	*24,483*	*25,818*	*24,090*
	Outstandings	**160,985**	**182,205**	**203,467**	**226,531**	**251,014**	**276,832**	**300,922**
GNMA: Mortgage-backed securities	Commitments	64,225	68,250	68,250	68,250	68,250	68,250	68,250
	New guaranteed loans	45,624	40,000	42,000	44,000	45,000	48,000	48,000
	Net loans guaranteed	*36,801*	*34,282*	*34,240*	*33,344*	*31,508*	*32,742*	*31,135*
	Outstandings	**152,339**	**186,621**	**220,861**	**254,205**	**285,713**	**318,455**	**349,590**
Indian loan guaranty and insurance fund (Interior)	Commitments	14	19	...	...	...	...	...
	New guaranteed loans	14	19	...	...	...	...	...
	Net loans guaranteed	*2*	*13*	*−7*	*−7*	*−7*	*−6*	*−6*
	Outstandings	**79**	**93**	**85**	**79**	**72**	**66**	**60**
Transportation:								
Maritime Administration Federal ship financing fund	Commitments	322	600	600	600	600	600	600
	New guaranteed loans	575	450	450	450	450	450	450
	Net loans guaranteed	*144*	*10*	*10*	*10*	*10*	*10*	*10*
	Outstandings	**7,320**	**7,330**	**7,340**	**7,350**	**7,360**	**7,370**	**7,380**
Rail service assistance	Commitments	14	13	2	...	...	...	...
	New guaranteed loans	14	13	2	...	...	...	...
	Net loans guaranteed	*−58*	*−104*	*−41*	...	...	...	...
	Outstandings	**145**	**41**	...	...	...	...	...
Urban Mass Transportation fund	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	...	...	...	...	...	...	...
	Net loans guaranteed	...	...	...	...	...	...	...
	Outstandings	**997**	**997**	**997**	**997**	**997**	**997**	**997**

Table F-15. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
Aircraft purchase loan guarantees	Commitments	9						
	New guaranteed loans	9						
	Net loans guaranteed	*−171*	*−52*	*−44*	*−56*	*−55*	*−55*	*−45*
	Outstandings	**562**	**510**	**466**	**410**	**355**	**300**	**255**
Treasury:								
Guarantees of New York City notes	Commitments							
	New guaranteed loans							
	Net loans guaranteed	*−243*	*−273*	*−367*	*−380*	*−182*		
	Outstandings	**1,201**	**928**	**561**	**182**			
Chrysler Corporation loan guarantee program	Commitments							
	New guaranteed loans							
	Net loans guaranteed	*−1,200*						
	Outstandings							
Biomass energy development	Commitments							
	New guaranteed loans	45	166	181	63			
	Net loans guaranteed	*45*	*166*	*181*	*54*	*−26*	*−32*	*−32*
	Outstandings	**45**	**211**	**392**	**445**	**419**	**387**	**355**
Veterans Administration:								
Direct loan revolving fund	Commitments	4						
	New guaranteed loans							
	Net loans guaranteed	*4*	*−1*	*−1*	*−1*	*−1*	*−1*	*−1*
	Outstandings	**8**	**7**	**6**	**6**	**5**	**4**	**4**
Loan guaranty revolving fund	Commitments	14,670	13,408	14,988	15,086	15,498	15,913	16,277
	New guaranteed loans	13,643	12,470	13,939	14,030	14,413	14,799	15,138
	Net loans guaranteed	11,154	10,014	11,327	10,902	11,049	11,225	11,353
	Outstandings	**119,933**	**129,947**	**141,274**	**152,175**	**163,224**	**174,449**	**185,802**

Export-Import Bank	Commitments	8,524	10,000	10,000	10,000	10,000	10,000	10,000
	New guaranteed loans	2,714	5,536	5,492	5,655	5,844	6,028	6,000
	Net loans guaranteed	*−631*	*1,123*	*440*	*267*	*262*	*323*	*211*
	Outstandings	**5,439**	**6,562**	**7,001**	**7,268**	**7,530**	**7,853**	**8,064**
National Credit Union Administration	Commitments	34	28	10	10	12	14	16
	New guaranteed loans	34	28	10	10	12	14	16
	Net loans guaranteed	*−38*	*−10*	*−8*	*−2*	*−2*	*−4*	*−4*
	Outstandings	**67**	**57**	**49**	**47**	**45**	**41**	**37**
Small Business Administration:								
Business loan guarantees	Commitments	2,611	3,075	3,140	1,800	780	440	440
	New guaranteed loans	2,088	3,000	3,300	2,500	1,200	1,000	1,000
	Net loans guaranteed	*−665*	*7*	*449*	*−396*	*−1,614*	*−1,573*	*−1,493*
	Outstandings	**8,457**	**8,464**	**8,913**	**8,517**	**6,903**	**5,330**	**3,837**
Pollution control bond guarantees	Commitments	8	250	150	150	150	150	150
	New guaranteed loans	8	250	150	150	150	150	150
	Net loans guaranteed	*8*	*250*	*150*	*150*	*150*	*150*	*150*
	Outstandings	**314**	**564**	**714**	**864**	**1,014**	**1,164**	**1,314**
Synthetic Fuels Corporation	Commitments	.....	4,098	2,400	.....	.....	.....	.....
	New guaranteed loans	.....	247	786	1,056	1,112	1,168	1,115
	Net loans guaranteed	.....	*247*	*786*	*1,055*	*1,099*	*1,053*	*944*
	Outstandings	.....	**247**	**1,033**	**2,088**	**3,187**	**4,240**	**5,184**
Other agencies and programs	Commitments	3	30	.....	.....	.....	.....	.....
	New guaranteed loans	25	55	25	5	4	2	1
	Net loans guaranteed	*−118*	*−122*	*−25*	*−17*	*−6*	*−7*	*−6*
	Outstandings	**958**	**836**	**811**	**795**	**788**	**782**	**776**
Subtotal, guaranteed loans (gross)	Commitments	161,945	165,621	167,039	165,162	167,962	171,337	171,887
	New guaranteed loans	125,736	129,392	137,726	140,351	142,921	148,735	148,563
	Net loans guaranteed	*70,298*	*73,355*	*71,540*	*70,157*	*68,294*	*71,698*	*67,796*
	Outstandings	**519,646**	**593,001**	**664,541**	**734,698**	**802,992**	**874,690**	**942,486**

Table F-15. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1983	Estimate					
			1984	1985	1986	1987	1988	1989
Less secondary guaranteed loans: [1]								
GNMA guarantees of FHA/VA/FmHA pools	Commitments	64,225	68,250	68,250	68,250	68,250	68,250	68,250
	New guaranteed loans	45,624	40,000	42,000	44,000	45,000	48,000	48,000
	Net loans guaranteed	*36,801*	*34,282*	*34,240*	*33,344*	*31,508*	*32,742*	*31,135*
	Outstandings	**152,339**	**186,621**	**220,861**	**254,205**	**285,713**	**318,455**	**349,590**
Subtotal, guaranteed loans (net)	Commitments	97,721	97,371	98,789	96,912	99,712	103,087	103,637
	New guaranteed loans	80,112	89,392	95,726	96,351	97,921	100,735	100,563
	Net loans guaranteed	*33,497*	*39,073*	*37,300*	*36,813*	*36,786*	*38,956*	*36,661*
	Outstandings	**367,307**	**406,380**	**443,680**	**480,493**	**517,279**	**556,235**	**592,896**
Less guaranteed loans held as direct loans: [2]								
By GNMA	Commitments	500	...	...	...	...	...	...
	New guaranteed loans	2,069	1,803	466	...	...	...	...
	Net loans guaranteed	*−603*	*−312*	*−1,638*	*−1,460*	*−9*	*−7*	*−6*
	Outstandings	**3,465**	**3,153**	**1,515**	**55**	**46**	**39**	**33**
Total, primary guaranteed loans	Commitments	97,221	97,371	98,789	96,912	99,712	103,087	103,637
	New guaranteed loans	78,043	87,589	95,260	96,351	97,921	100,735	100,563
	Net loans guaranteed	*34,100*	*39,385*	*38,938*	*38,274*	*36,795*	*38,964*	*36,667*
	Outstandings	**363,842**	**403,227**	**442,165**	**480,438**	**517,233**	**556,197**	**592,864**
Memorandum:								
Callable capital contributions to international financial organizations [3]	Commitments	2,415	2,890	2,890	2,890	2,889	2,890	2,890
	New guaranteed loans	2,415	2,890	2,890	2,890	2,889	2,890	2,890
	Net loans guaranteed	*2,415*	*2,890*	*2,890*	*2,890*	*2,889*	*2,890*	*2,890*
	Outstandings	**18,494**	**21,383**	**24,273**	**27,162**	**30,051**	**32,941**	**35,830**
ADDENDUM								
Guaranteed loans held as direct loans by Government sponsored enterprises: [4]								
Federal National Mortgage Association	Commitments	276	45	45	(NA)	(NA)	(NA)	(NA)

	New guaranteed loans	276	45	45	(NA)	(NA)	(NA)	(NA)
	Net loans guaranteed	*−3,006*	*−2,791*	*−2,262*	(NA)	(NA)	(NA)	(NA)
	Outstandings	**35,761**	**32,970**	**30,708**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Federal home loan banks	Commitments				(NA)	(NA)	(NA)	(NA)
	New guaranteed loans				(NA)	(NA)	(NA)	(NA)
	Net loans guaranteed	*−5*	*−2*	*−2*	(NA)	(NA)	(NA)	(NA)
	Outstandings	**80**	**78**	**77**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Federal Home Loan Mortgage Corporation	Commitments				(NA)	(NA)	(NA)	(NA)
	New guaranteed loans				(NA)	(NA)	(NA)	(NA)
	Net loans guaranteed	*−69*	*−67*	*−63*	(NA)	(NA)	(NA)	(NA)
	Outstandings	**961**	**894**	**831**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Farm Credit Administration	Commitments				(NA)	(NA)	(NA)	(NA)
	New guaranteed loans				(NA)	(NA)	(NA)	(NA)
	New loans guaranteed	*−55*			*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**61**	**61**	**61**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Student Loan Marketing Association	Commitments	2,463	2,373	2,359	(NA)	(NA)	(NA)	(NA)
	New guaranteed loans	2,463	2,373	2,359	(NA)	(NA)	(NA)	(NA)
	Net loans guaranteed	*1,581*	*1,154*	*1,046*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**2,601**	**3,755**	**4,801**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Total Enterprise holdings	Commitments	2,739	2,418	2,404	(NA)	(NA)	(NA)	(NA)
	New guaranteed loans	2,739	2,418	2,404	(NA)	(NA)	(NA)	(NA)
	Net loans guaranteed	*−1,554*	*−1,706*	*−1,281*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**39,464**	**37,758**	**36,478**	**(NA)**	**(NA)**	**(NA)**	**(NA)**

[1] Secondary guarantees by the Export-Import Bank of the debt of the Private Export Finance Corporation have not been estimated and are excluded from the table.
[2] When guaranteed loans are acquired by a budget account, they become direct loans and are counted as such in Tables F–6 and F-14. They are therefore deducted from totals in this table.
[3] Callable capital subscriptions by the United States and other member countries provide backing for borrowings in U.S. and overseas capital markets. These subscriptions would be called only to meet the obligations of the Bank when other resources were exhausted. To date, there has never been a need to call upon these resources.
[4] Data for 1986–1989 not estimated.

Table F-16. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In millions of dollars)

Enterprise		Actual 1983	Estimate 1984	Estimate 1985
LENDING				
Student Loan Marketing Association	Obligations	2,463	2,373	2,359
	New transactions	2,463	2,373	2,359
	Net Change	*1,581*	*1,154*	*1,046*
	Outstandings	**7,601**	**8,755**	**9,801**
Federal National Mortgage Association:				
Corporation accounts	Obligations	21,342	16,926	18,113
	New transactions	18,149	13,523	14,955
	Net Change	*6,333*	*4,113*	*312*
	Outstandings	**75,174**	**79,287**	**79,599**
Mortgage-backed securities	Obligations	19,216	14,695	19,575
	New transactions	17,549	13,030	17,375
	Net Change	*15,686*	*9,782*	*13,126*
	Outstandings	**23,819**	**33,601**	**46,727**
Farm Credit Administration:				
Banks for cooperatives	Obligations	26,372	25,564	27,648
	New transactions	26,372	25,564	27,648
	Net Change	*960*	*483*	*925*
	Outstandings	**9,037**	**9,519**	**10,445**
Federal intermediate credit banks	Obligations	19,237	20,875	22,466
	New transactions	19,237	20,875	22,466
	Net Change	*−1,777*	*386*	*1,345*
	Outstandings	**19,769**	**20,155**	**21,499**
Federal land banks	Obligations	4,690	5,965	7,502
	New transactions	4,690	5,965	7,502
	Net Change	*1,495*	*2,633*	*3,987*
	Outstandings	**51,789**	**54,423**	**58,409**
Federal Home Loan Bank system:				
Federal home loan banks	Obligations	53,817	55,850	52,500
	New transactions	53,817	55,850	52,500
	Net Change	*−10,285*	*2,837*	*5,398*
	Outstandings	**60,432**	**63,268**	**68,667**
Federal Home Loan Mortgage Corporation:				
Corporation accounts	Obligations	2,142	3,000	5,000
	New transactions	2,142	3,000	5,000
	Net Change	*1,691*	*2,422*	*4,175*
	Outstandings	**6,857**	**9,279**	**13,454**
Participation certificate pools [1]	Obligations	22,856	18,000	16,000
	New transactions	22,856	18,000	16,000
	Net Change	*19,057*	*13,576*	*10,696*
	Outstandings	**54,203**	**67,779**	**78,474**
Subtotal, lending (gross)	Obligations	172,134	163,248	171,164
	New transactions	167,274	158,180	165,806
	Net Change	*34,740*	*37,386*	*41,010*
	Outstandings	**308,680**	**346,066**	**387,075**
Less loans between sponsored enterprises	Obligations			
	New transactions			
	Net Change	*−765*	*−700*	*−600*
	Outstandings	**2,916**	**2,216**	**1,616**
Less secondary funds advanced from Federal sources:				
SLMA from FFB [2]	Obligations			

Table F-16. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1983	Estimate 1984	Estimate 1985
	New transactions			
	Net Change			
	Outstandings	**5,000**	**5,000**	**5,000**
TVA to FNMA	Obligations			
	New transactions			
	Net Change			
	Outstandings	**80**	**80**	**80**
Less guaranteed loans held as direct loans by:				
Federal National Mortgage Association	Obligations	276	45	45
	New transactions	276	45	45
	Net Change	*−3,006*	*−2,791*	*−2,262*
	Outstandings	**35,761**	**32,970**	**30,708**
Federal home loan banks	Obligations			
	New transactions			
	Net Change	*−5*	*−2*	*−2*
	Outstandings	**80**	**78**	**77**
Federal Home Loan Mortgage Corporation	Obligations			
	New transactions			
	Net Change	*−69*	*−67*	*−63*
	Outstandings	**961**	**894**	**831**
Farm Credit Administration	Obligations			
	New transactions			
	Net Change	*−55*		
	Outstandings	**61**	**61**	**61**
Student Loan Marketing Association [2]	Obligations	2,463	2.373	2,359
	New transactions	2,463	2,373	2,359
	Net Change	*1,581*	*1,154*	*1,046*
	Outstandings	**2,601**	**3,755**	**4,801**
Total lending	Obligations	169,395	160,830	168,760
	New transactions	164,535	155,762	163,402
	Net Change	*37,059*	*39,791*	*42,890*
	Outstandings	**261,220**	**301,012**	**343,901**
BORROWING (Funds Raised)				
Student Loan Marketing Association	*Net Change*	*1,332*	*1,467*	*1,517*
	Outstandings	**8,225**	**9,692**	**11,209**
Federal National Mortgage Association [3]	*Net Change*	*19,105*	*13,609*	*13,260*
	Outstandings	**95,077**	**108,686**	**121,946**
Farm Credit Administration:				
Banks for cooperatives	*Net Change*	*548*	*499*	*941*
	Outstandings	**8,399**	**8,898**	**9,840**
Federal intermediate credit banks	*Net Change*	*−1,861*	*141*	*1,243*
	Outstandings	**19,003**	**19,144**	**20,387**
Federal land banks	*Net Change*	*624*	*2,332*	*3,472*
	Outstandings	**47,066**	**49,398**	**52,870**
Federal Home Loan Bank system:				
Federal home loan banks	*Net Change*	*−9,071*	*3,227*	*5,300*
	Outstandings	**51,773**	**55,000**	**60,300**
Federal Home Loan Mortgage Corporation	*Net Change*	*20,193*	*15,775*	*14,737*
	Outstandings	**60,963**	**76,739**	**91,476**

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Table F-16. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1983	Estimate 1984	Estimate 1985
Subtotal, borrowing (gross)	*Net Change*	*30,870*	*37,050*	*40,470*
	Outstandings	**290,506**	**327,557**	**368,028**
Less borrowing from other sponsored enterprises	*Net Change*	*−765*	*−700*	*−600*
	Outstandings	**2,916**	**2,216**	**1,616**
Less borrowing from Federal sources: SLMA from FFB [2]	*Net Change*	.....	.....	.....
	Outstandings	**5,000**	**5,000**	**5,000**
FNMA from TVA	*Net Change*	.....	.....	.....
	Outstandings	**80**	**80**	**80**
Total borrowing from the public and Government	*Net Change*	*31,635*	*37,750*	*41,070*
	Outstandings	**282,510**	**320,261**	**361,332**
Less investments in Federal securities	*Net Change*	*−1,442*	*−334*	*−89*
	Outstandings	**3,136**	**2,802**	**2,713**
Less borrowings for guaranteed loans held as direct loans by: Federal National Mortgage Association	*Net Change*	*−3,006*	*−2,791*	*−2,262*
	Outstandings	**35,761**	**32,970**	**30,708**
Federal home loan banks	*Net Change*	*−5*	*−2*	*−2*
	Outstandings	**80**	**78**	**77**
Federal Home Loan Mortgage Corporation	*Net Change*	*−69*	*−67*	*−63*
	Outstandings	**961**	**894**	**831**
Farm Credit Administration	*Net Change*	*−55*	.....	.....
	Outstandings	**61**	**61**	**61**
Student Loan Marketing Association [2]	*Net Change*	*1,581*	*1,154*	*1,046*
	Outstandings	**2,601**	**3,755**	**4,801**
Total borrowed	*Net Change*	*34,631*	*39,790*	*42,440*
	Outstandings	**239,910**	**279,701**	**322,141**

[1] All new transactions are loans purchased from FHLMC corporation accounts.

[2] Until recently, all SLMA lending has been financed through the FFB, and therefore has been counted in Table F-13 as direct loans. All SLMA loans are student loans guaranteed by the Federal Government. They have, therefore been counted in Table F-14 as guaranteed loans. The first deduction eliminates the overlap of this table with the direct loan table. The second deduction removes the non-FFB financed remainder of SLMA, to eliminate overlap with the guaranteed loan table.

[3] Loans purchased at discount are recorded at their acquisition cost.

Table F-17. **FFB ACQUISITIONS (in millions of dollars)**

Agency or program	Actual 1983	Estimate 1984	1985	1986	1987	1988	1989
Purchase of loan assets from:							
Overseas Private Investment Corporation:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net outlays	*−5*	*−6*	*−5*	*−5*	*−1*	*−1*	.....
Outstandings	**18**	**12**	**7**	**2**	**1**	*	*
Farmers Home Administration (USDA):							
Agricultural credit insurance fund:							
New acquisitions	4,160	6,934	4,394	1,314	459	572	390
Net outlays	*695*	*1,539*	*237*	*64*	*74*	*187*	*390*
Outstandings	**24,107**	**25,646**	**25,884**	**25,948**	**26,022**	**26,209**	**26,599**
Rural housing insurance fund:							
New acquisitions	4,440	6,112	3,963	1,187	1,142	1,188	1,073
Net outlays	*1,755*	*2,182*	*1,853*	*1,187*	*992*	*1,188*	*1,073*
Outstandings	**25,676**	**27,858**	**29,711**	**30,897**	**31,889**	**33,078**	**34,151**
Rural development insurance fund:							
New acquisitions	1,010	1,626	1,125	261	152	383	236
Net outlays	*505*	*646*	*530*	*231*	*152*	*383*	*236*
Outstandings	**6,908**	**7,554**	**8,084**	**8,314**	**8,466**	**8,849**	**9,084**
Rural Electrification Administration (USDA):							
New acquisitions	344	403	459	262	112	17	.....
Net outlays	*344*	*403*	*459*	*262*	*113*	*17*	.....
Outstandings	**3,468**	**3,871**	**4,330**	**4,592**	**4,705**	**4,722**	**4,722**
Medical facilities guarantees (HHS):							
New acquisitions	3	.....	.....	.....	.....	.....	.....
Net outlays	*−2*	*−7*	*−7*	*−8*	*−8*	*−9*	*−9*
Outstandings	**152**	**145**	**137**	**130**	**121**	**112**	**103**
Health Maintenance Organizations (HHS):							
New acquisitions	9	10	3	1	.....	.....	.....
Net outlays	*−12*	*7*	*	*−2*	*−2*	*−2*	*−2*
Outstandings	**121**	**128**	**128**	**126**	**124**	**121**	**119**
Small business development loans (SBA):							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net outlays	*−10*	*−10*	*−10*	*−10*	*−10*	*−10*	*−7*
Outstandings	**57**	**47**	**37**	**27**	**17**	**7**	.....
Subtotal, purchase of loan assets:							
New acquisitions	9,966	15,085	9,945	3,024	1,865	2,160	1,699
Net outlays	*3,270*	*4,754*	*3,057*	*1,718*	*1,310*	*1,753*	*1,680*
Outstandings	**60,506**	**65,260**	**68,317**	**70,036**	**71,345**	**73,098**	**74,779**
Direct loans (purchases of loans guaranteed by agencies):							
Foreign military sales credit (FAP): [1]							
New acquisitions	3,932	4,401	.....	.....	.....	.....	.....
Net outlays	*2,858*	*3,631*	*1,964*	*−329*	*−1,024*	*−1,259*	*−1,218*
Outstandings	**14,293**	**17,924**	**19,888**	**19,559**	**18,535**	**17,275**	**16,057**

Table F-17. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1983	Estimate					
		1984	1985	1986	1987	1988	1989
Defense production guarantees (DOD):							
New acquisitions	...	...	...	...	...	...	...
Net outlays	*1*	*3*	*5*	*5*	*4*	*2*	*1*
Outstandings	**1**	**4**	**9**	**14**	**18**	**20**	**21**
Rural Electrification Administration (USDA): [1]							
New acquisitions	3,442	3,360	1,325	1,325	1,325	1,326	1,326
Net outlays	*2,657*	*3,565*	*3,185*	*4,005*	*2,805*	*2,125*	*1,690*
Outstandings	**18,939**	**22,504**	**25,689**	**29,694**	**32,499**	**34,624**	**36,314**
Guarantees of SLMA obligations (Education):							
New acquisitions	...	...	...	...	...	...	...
Net outlays	...	...	...	...	...	...	...
Outstandings	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**	**5,000**
Alternative fuels production (Energy):							
New acquisitions	...	...	...	...	...	...	...
Net outlays	*546*	*470*	*196*	...	...	*−104*	*−104*
Outstandings	**886**	**1,356**	**1,552**	**1,552**	**1,552**	**1,448**	**1,344**
Geothermal resources development fund: (Energy):							
New acquisitions	100	...	...	...	...	...	...
Net outlays	*8*	*−35*	*75*	*15*	...	*−1*	*−1*
Outstandings	**45**	**10**	**85**	**100**	**100**	**99**	**98**
Low-rent public housing (HUD): [1]							
New acquisitions	...	...	...	...	...	...	...
Net outlays	*443*	*160*	*1,169*	*1,133*	*1,117*	*1,101*	*1,083*
Outstandings	**2,067**	**2,227**	**3,396**	**4,529**	**5,647**	**6,747**	**7,831**
Community development grants (HUD): [1]							
New acquisitions	61	225	...	...	...	...	...
Net outlays	*60*	*134*	*47*	*−105*	*−129*	*−123*	*−1*
Outstandings	**177**	**311**	**358**	**253**	**124**	**1**	...
New communities and revolving fund (HUD):							
New acquisitions	...	...	...	...	...	...	...
Net outlays	...	...	...	*−1*	*−2*	*−2*	*−2*
Outstandings	**34**	**34**	**34**	**32**	**31**	**29**	**27**
Loans to territories (Interior):							
New acquisitions	...	...	...	...	...	...	...
Net outlays	*	*	*	*−1*	*−1*	*−1*	*−1*
Outstandings	**65**	**65**	**64**	**64**	**63**	**63**	**62**
Railroad programs (DOT): [1]							
New acquisitions	15	20	...	...	...	...	...
Net outlays	*15*	*−890*	*	*−14*	*−15*	*−18*	*−19*
Outstandings	**1,064**	**173**	**173**	**159**	**144**	**126**	**107**

Table F-17. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1983	Estimate 1984	1985	1986	1987	1988	1989
Federal Buildings Fund CBI's (GSA):							
New acquisitions							
Net outlays	*−3*	*−10*	*−11*	*−33*	*−35*	*−38*	*−41*
Outstandings	**417**	**408**	**397**	**364**	**329**	**290**	**249**
Satellite leases (NASA):							
New acquisitions	189						
Net outlays	*189*	*−947*					
Outstandings	**947**						
Space flight, control and data communications (NASA):							
New acquisitions		131					
Net outlays		*1,079*		*−7*	*−86*	*−95*	*−106*
Outstandings		**1,079**	**1,079**	**1,072**	**986**	**891**	**785**
Small business investment companies and other SBA: [1]							
New acquisitions	430	575	515	515	515	515	515
Net outlays	*192*	*646*	*419*	*400*	*394*	*388*	*382*
Outstandings	**951**	**1,597**	**2,016**	**2,416**	**2,810**	**3,198**	**3,580**
Seven States Energy Corporation (TVA):							
New acquisitions	161	165	88	117	31	17	69
Net outlays	*161*	*165*	*88*	*117*	*31*	*17*	*69*
Outstandings	**1,418**	**1,583**	**1,672**	**1,788**	**1,819**	**1,836**	**1,906**
Subtotal, direct loans (purchase of loans guaranteed by agencies):							
New acquisitions	8,329	8,877	1,928	1,957	1,871	1,858	1,910
Net outlays	*7,126*	*7,971*	*7,136*	*5,185*	*3,060*	*1,992*	*1,733*
Outstandings	**46,304**	**54,274**	**61,411**	**66,596**	**69,655**	**71,648**	**73,381**
Subtotal, all direct loans and purchases of agency loan assets:							
New acquisitions	18,295	23,962	11,873	4,981	3,736	4,017	3,609
Net outlays	*10,396*	*12,725*	*10,194*	*6,903*	*4,369*	*3,745*	*3,413*
Outstandings	**106,809**	**119,535**	**129,728**	**136,631**	**141,001**	**144,746**	**148,159**
ADDENDUM							
AGENCY BORROWING							
By on-budget agencies:							
Export-Import Bank:							
Net change	*722*	*1,612*	*1,650*	*825*	*472*	*84*	*−255*
Outstandings	**14,676**	**16,288**	**17,938**	**18,763**	**19,235**	**19,319**	**19,064**
Tennessee Valley Authority:							
Net change	*830*	*700*	*500*	*243*	*−23*	*−158*	*−232*
Outstandings	**13,115**	**13,815**	**14,315**	**14,558**	**14,435**	**14,377**	**14,145**
National Credit Union Administration:							
Net change	*−86*	*56*	*50*				
Outstandings	**44**	**100**	**150**	**150**	**150**	**150**	**150**

Table F–17. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1983	Estimate					
		1984	1985	1986	1987	1988	1989
By off-budget Federal entities:							
U.S. Railway Association:							
Net change	*–70*	*–109*	*–16*	.....	.....	.....	.....
Outstandings	**125**	**16**	.....	.....	.....	.....	.....
Postal Service:							
Net change	*–67*	*–67*	*633*	*–87*	*913*	*873*	*833*
Outstandings	**1,154**	**1,087**	**1,720**	**1,633**	**2,546**	**3,419**	**4,252**
Total, agency borrowing:							
Net change	*1,329*	*2,191*	*2,818*	*981*	*1,362*	*799*	*346*
Outstandings	**29,114**	**31,305**	**34,123**	**35,104**	**36,366**	**37,265**	**37,611**

*$500.000 or less.

[1] FFB activity for this account may not be identical to the entries in Part 8 of the Budget, "Budget Accounts Listing", due to timing differences between recognition of FFB budget authority and commitments to guarantee loans that are financed through the FFB (shown here as FFB new acquisitions.).

SPECIAL ANALYSIS F
TABLE OF CONTENTS

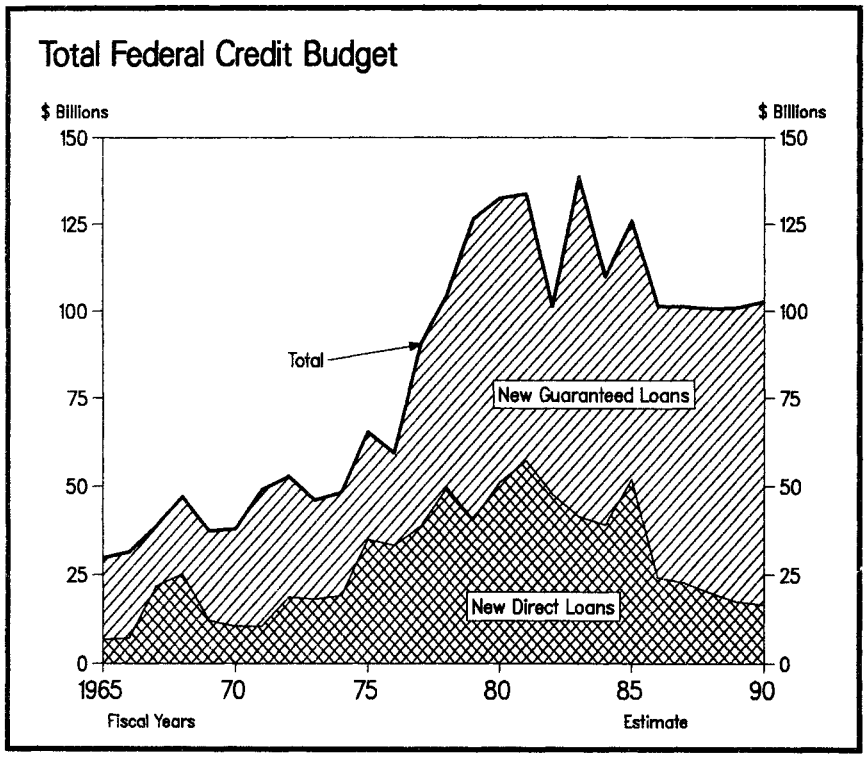
Charts and Tables

SPECIAL ANALYSIS F

FEDERAL CREDIT PROGRAMS

I. Introduction

The Federal Government is the Nation's largest financial intermediary. At the end of 1984, it held $229 billion in its loan portfolio, which was about 29% larger than the loan assets of the two largest U.S. commercial banks combined. The Federal Government also had guaranteed loans with an outstanding balance of $387 billion at the end of 1984. Through direct loans and loan guarantees, the Federal Government allocates credit to farmers, homeowners, small businesses, exporters, utilities, shipbuilders, and State, local, and foreign governments. Until this administration, the volume of new credit offered by the Government had grown substantially for 15 years. The following chart shows the pattern of growth over that period:



Federal credit is designed to meet various social or economic goals that, for whatever reason, the private sector does not meet. Meeting these goals may entail the correction of a perceived capital market imperfection or the provision of a subsidy to a favored borrower. The problems in directing or controlling Federal credit are enormous and systemic. The discipline that the private market would impose on private financial intermediaries is absent. The discipline that the budget process imposes on most Federal agencies is not fully effective in controlling Federal credit programs. The Federal credit budget, while an improvement over sole reliance on the unified budget for credit programs, does not capture explicitly the most important aspect of Federal credit—the economic subsidy offered to favored borrowers.

This special analysis presents basic information on the broad spectrum of Government credit programs and policies from 1984 to 1990. It describes recent credit policy, and explains the credit budget and its relationship to appropriation act limitations on direct loan obligations and guaranteed loan commitments. It describes the credit activity of Government-sponsored enterprises (GSE's), and presents in detail the direct loans and guaranteed loans of the Federal Government. It also discusses trends in Federal credit, Federal credit subsidies, loan defaults and write-offs, the Federal Financing Bank (FFB), loan asset sales, Federal deposit insurance, and tax-exempt credit. This special analysis supplements the credit data and discussions found elsewhere in the budget documents (see Section XIII of this analysis).

II. Controlling Federal Credit Programs

Comparisons with private financial intermediaries.—The objectives of Federal credit programs are far different from those of private financial institutions. The purpose is to offer terms and conditions to selected borrowers that are more favorable than those otherwise available from private lenders. Compared to fully private loans, these terms and conditions may include lower interest rates or loan guarantee fees, less stringent credit risk thresholds in making credit available, or more generous grace periods or repayment schedules. Legislation frequently defines the eligible pool of applicants, specifies the lending terms that an agency or program may offer, and otherwise restricts the discretion of Federal program managers in a manner that never occurs for private lenders.

In addition to these differences in purpose, there are also differences in procedures between public and private financial intermediaries. Unlike a private financial intermediary, a Federal direct loan or loan guarantee program has no standard measure of per-

formance, such as profit, for assessing its success. Federal credit programs were created to subsidize favored borrowers to varying degrees. Therefore, income does not measure success. In many cases, income is not even measured correctly since there is no well-defined cost of capital for credit programs. The lack of a measurement tool creates large difficulties in efficiently allocating resources to Federal credit (and noncredit) programs.

Moreover, the norms of the marketplace that restrict the growth and size of private lenders do not apply to Federal credit programs. Unlike commercial banks, Federal agencies need not worry about constraints on the volume or quality of new lending imposed by the inadequacy of primary capital. Federal lending agencies need not be concerned with the standards imposed on private banks by Federal regulatory agencies for assessing and reporting on the quality of loan portfolios. This makes alternative forms of discipline all the more important.

The unified budget.—The unified budget, with its focus on budget authority, outlays, and receipts, is an incomplete mechanism for controlling Federal credit programs. First, it was not designed to measure the full volume of new credit extended for direct loans. The largest direct loan programs are financed by revolving funds in which repayments on existing loans offset disbursements for new direct loans. Congressional appropriations of budget authority for these revolving funds are generally only necessary when new disbursements exceed repayments. Thus, the unified budget cannot directly control the amount of new direct loans extended.

Second, guaranteed loan commitments were excluded when the unified budget was established in 1967 and are specifically excluded from the definition of budget authority by the Congressional Budget Act of 1974. The reason for the exclusion is that the guaranteed loan commitment, by itself, does not affect budget outlays and the deficit. The loan guarantee is only a contingent liability of the Government. However, by assuming that contingent liability, the Government induces lenders to invest in loans, and thereby allocates capital for federally determined purposes. In this manner, a guaranteed loan commitment may provide as large a subsidy and redirect capital as effectively as a direct loan obligation.

A third important deficiency of the unified budget is that it neither reflects nor controls the most salient aspect of Federal credit—the size of the subsidy offered the borrower. Since a primary purpose of Federal credit programs is to provide borrowers with a subsidy, this is a serious omission in effective budgetary control. Without some means of measuring and controlling this subsidy, neither the executive branch nor the Congress can make informed decisions about Federal credit programs, either in comparing one with the other, or in comparing them with noncredit expenditure programs.

The Federal credit budget.—In January 1980, a significant step in redressing some of the inadequacies of the unified budget was made with the introduction of the Federal credit budget. The Federal credit budget includes direct loan obligations and guaranteed loan commitments, and, through the use of language in appropriation acts, limits these credit activities. Although it is a step forward, the credit budget does not restrain the total volume of Federal credit effectively because many loans are, in effect, mandatory under law or existing contracts. Only about 38% of the credit budget totals for 1984 were capped by appropriation act limitations, and the credit budget does not place any direct restriction on the level of subsidy that a program offers the borrower.

This analysis provides estimates of the subsidies provided by direct loan and loan guarantee programs in Tables F-11 and F-12. These estimates compare the interest rates, loan fees, maturities, and repayment schedules of Federal direct and guaranteed loans to the terms of an alternative private loan in order to estimate the Federal subsidy. This information will allow the Congress and Federal agencies to make better decisions about credit programs. These estimates, which are conservative, show that direct loan subsidies for selected loans obligated in 1984 were $8.3 billion and subsidies for selected guaranteed loan commitments in 1984 were $7.4 billion.

OMB Circular No. A-70.—One means of controlling Federal credit more effectively is to control the price at which it is offered to the public. As a step toward this goal, the Office of Management and Budget (OMB) reissued Circular No. A-70, "Policies and Guidelines for Federal Credit Programs" on August 24, 1984. OMB circulars are directives issued under Presidential authority delegated to the Director of OMB and addressed to the heads of Federal departments and agencies. OMB circulars are binding upon the executive agencies as a matter of Presidential policy and are generally enforceable through administrative procedures. Circular A-70 was approved by the President prior to its release.

The A-70 guidelines apply to proposed and existing Federal direct loan and loan guarantee programs. The guidelines place two sets of requirements on agencies. The first is to provide information on the costs and benefits of Federal credit programs. This includes, for example, estimates of the credit available from relevant private financial institutions, subsidies, and net default costs.

The second is to require agencies to propose new legislation or policies for credit programs that are consistent with sound credit policies. These policy norms include changing interest rates and loan guarantee fees to reflect movements in private market rates;

risk-sharing between Federal guarantee programs and private lenders (coinsurance); and avoiding subordination of Federal and federally guaranteed loans to private claims. Should current legislation not permit this, agencies are generally required to prepare proposals to change that legislation so the programs will conform to A-70 guidelines. When an agency believes that full conformity is undesirable, it must provide a justification for retaining the nonconforming legislation.

III. The Credit Budget

A. Credit Budget Concepts

The credit budget is based on four concepts.

First, it measures the total volume of direct loan obligations and guaranteed loan commitments. Direct loan obligations are Government contracts to provide a loan. Guaranteed loan commitments result from agreements in which the Government guarantees the repayment of a loan offered by a lender in the event of default. Both obligations and commitments define the point at which the Government becomes legally bound to extend credit assistance.

Second, it reflects gross levels of credit activity, without offsets for repayments. This is because subsidies are provided to all new recipients of direct loans and loan guarantees, regardless of the extent to which borrowers are repaying other loans previously made.

Third, the credit budget includes all direct loan and guaranteed loan programs of the Federal Government. This includes both the programs that are on-budget under current law and those that are off-budget under current law, which the administration is proposing to be on-budget. The credit budget does not include the lending of Government-sponsored enterprises. They are excluded from the credit budget as well as the unified budget because of their private ownership, although they are discussed both in this special analysis and elsewhere in the budget documents.

Fourth, guaranteed loan commitments are measured as the full principal of the loan, even if the Government's contingent liability is less than the full loan principal. This is because the entire loan, even if only partially guaranteed, is assisted by the guarantee. Moreover, in some programs that offer partial guarantees, the private lender is at risk only when the value of the collateral and the guarantee combined are less than the full loan principal. For these reasons, the administration proposes appropriations bill limitations to control the amount of guaranteed loan commitments based on the full loan principal.

There are a number of programs in which less than the full principal of the loan is guaranteed. The major agency that offers guarantees significantly—and nominally—below full loan principal is the Veterans Administration.[1] In the aggregate, of the $566 billion of gross guaranteed loans outstanding in 1984, the Government's contingent liability was $491 billion or 87%.

The contingent liability and full principal of all guaranteed loan programs are shown in Table F-1:

Table F-1. **CONTINGENT LIABILITY FOR GUARANTEED LOANS OUTSTANDING**

(In millions of dollars)

	1984 actual	1985 estimate	1986 estimate
Veterans Administration mortgage guarantees:			
Contingent liability	57,502	61,604	65,718
Full principal	125,383	134,934	144,338
All other loan guarantee programs:			
Contingent liability	433,977	473,378	523,338
Full principal	440,144	479,640	529,236
Total outstanding: [1]			
Contingent liability	491,479	534,982	589,056
Full principal	565,528	614,574	673,574

[1] This table reflects total gross outstanding guaranteed loans, including secondary guarantees and guaranteed loans of one Federal agency held as direct loans by another Federal agency.

The credit budget totals.—Table F-2 provides the credit budget totals for 1983 through 1988. It also shows the six largest direct loan programs and guaranteed loan programs.

The 1985 credit budget was greater than the 1984 credit budget by $16 billion, primarily because of an increase in Federal Housing Administration (FHA) mortgage insurance, from $17.1 billion to $30.3 billion in guaranteed loan commitments. The reason for this increase is described in Section III D below. For 1986, the administration is proposing that the credit budget decrease by $25 billion, or 20% below the 1985 totals. In many cases, the proposed program levels are significantly below the levels that would have been expected on a current services basis. For example, the 1986 current services level of direct loan obligations of discretionary loan programs is estimated to be $20.4 billion. The 1986 budget instead proposes a level of $2.4 billion for these programs, or a decrease of $18.0 billion. The outlay savings associated with the proposed lower level of direct loan obligations are $6.2 billion in 1986. The programmatic reasons for the changes in the credit budget totals since 1985 are discussed below in the sections on direct loans and guaranteed loans.

[1] The contingent liability for VA guarantees is 60% of the mortgage amount, to a maximum of $27,500. However, the manner in which legislation requires the agency to handle foreclosures on houses with guaranteed mortgages, in effect, turns the guarantee into a 100% guarantee in most cases.

Table F-2. **THE CREDIT BUDGET TOTALS**

(In billions of dollars)

	1983 actual	1984 actual	1985 estimate	1986 estimate	1987 estimate	1988 estimate
Direct loan obligations:						
Commodity Credit Corporation	13.9	5.5	9.2	8.5	7.9	5.3
Farmers Home Administration	6.7	7.2	7.7	0.7	0.4	0.7
Rural Electrification Administration	4.5	2.1	2.4	0.9	0.7	0.4
Foreign military sales credit	5.1	5.7	4.9	5.7	5.8	5.9
Export-Import Bank	0.8	1.5	3.9	.....	.....	.....
Low-rent public housing	0.2	1.4	14.3	1.8	1.4	0.6
All other	10.2	15.7	9.5	6.6	6.5	7.0
Total obligations [1]	41.4	39.1	51.9	24.2	22.7	19.9
Guaranteed loan commitments:						
Federal Housing Administration	44.6	17.1	30.3	32.7	34.8	36.7
Low-rent public housing	14.3	13.7	.....	.....	.....	.....
Guaranteed student loans	7.3	7.6	7.9	7.5	7.0	7.7
Veterans Administration housing	14.7	16.5	15.2	15.4	15.4	15.4
Export-Import Bank	8.5	7.1	10.0	12.0	12.0	12.0
Commodity Credit Corporation	4.7	4.2	5.0	5.0	5.0	5.0
All other	3.1	4.6	5.6	4.6	4.3	4.1
Total commitments [2]	97.2	70.8	74.0	77.2	78.5	80.9
Total credit budget	138.6	109.9	125.9	101.4	101.3	100.8
ADDENDUM						
Secondary guaranteed loan commitments	64.2	39.7	53.5	51.1	51.8	52.1

[1] Includes loans with an agency guarantee that are disbursed by the Federal Financing Bank.

[2] Excludes commitments for guarantees of loans previously guaranteed (secondary guarantees) and for guarantees by one Government account of direct loans made by another Government account. Totals for the former are shown in the addendum. Totals for the latter are included as direct loans.

B. Appropriation Act Limitations

One of the key features of the credit budget is the enforcement mechanism provided through the enactment of limitations on credit activity in annual appropriation acts. The administration proposes limitations annually on direct loan obligations and guaranteed loan commitments for most credit programs. The limitation is specified in the appropriation language for individual budget accounts that include credit activity.

The President's 1986 budget proposes limitations for programs amounting to 56% of the credit budget totals. Approximately 33% of direct loan obligations and 63% of guaranteed loans are proposed for limitation. The remainder are programs controlled through other mechanisms. Table F-3 indicates the breakdown of loans subject to and exempt from limitation.

Table F-3. **CREDIT BUDGET PROGRAMS SUBJECT TO AND EXEMPT FROM APPROPRIATION ACT LIMITATION**

(In billions of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1984 actual	1985 estimate	1986 estimate	1984 actual	1985 estimate	1986 estimate
Limitations enacted	23.2	20.8	8.1	62.1	62.1	67.1
Less: Unused balance of limitation, expiring	−6.7	−1.5	−0.1	−37.0	−20.6	−18.8
Loans subject to limitation	16.5	19.3	8.0	25.1	41.5	48.4
Loans exempt from limitation	22.6	32.6	16.2	45.7	32.5	28.9
Total	39.1	51.9	24.2	70.8	74.0	77.2
ADDENDUM						
Secondary guarantees subject to limitation	.....	.....	.....	39.7	53.5	51.1

The first stage of congressional action on the credit budget is the budget resolution. Although it is not required by the Congressional Budget Act, recent budget resolutions have generally included guideline levels for credit programs. The budget resolution for 1985 included credit targets by function for 1984 through 1987. The functional allocations specified direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments. At present, these targets are not binding in any way. The administration continues to support reform in the congressional budget process that will place increased emphasis on binding allocations and that will establish meaningful enforcement mechanisms for credit.

After the budget is submitted to the Congress, the House and Senate Appropriations Committees begin working on the 13 appropriation bills. Four bills contain 20 of the 28 requested limitations: Agriculture, Commerce/Justice/State, Foreign Assistance, and Housing and Urban Development/Independent Agencies. Over the past several years, Congress has enacted limitations in most of the programs for which limitations were requested. The major programs for which the Congress has failed to enact a limitation, where it was requested, have been the Small Business Administration and the Maritime Administration.

In general, limitation language in appropriation acts:

- is a *one-year* limitation;
- sets a *ceiling* on direct loan obligations and/or guaranteed loan commitments; and
- applies to an individual account, although limitations on specific programs within an account may also be provided.

Table F-4 identifies the enacted and proposed limitations for credit programs between 1984 and 1986.

Table F-4. **CREDIT LIMITATIONS**

(In millions of dollars)

	1984 actual	1985 [1] estimate	1986 estimate
Direct loan obligations:			
Foreign military sales credit	1,315	4,940	5,655
FFB direct loans [2]	4,401	.....	.....
AID, Private sector revolving fund	.....	20	20
Overseas Private Investment Corporation	10	15	15
Agricultural credit insurance fund	2,987	2,612	400
Rural housing insurance fund	3,135	3,238	30
Rural development insurance fund	400	455	50
Rural electrification and telephone revolving fund	1,425	1,425	575
FFB direct loans [2]	4,145	2,345	300
Rural telephone bank	220	220	185
Self-help housing land development fund	.....	3	0
International Trade Administration, Operations and administration	8	*	0
College housing loans	40	0	0
Bonneville Power Administration fund	40	40	20
Health resources and services	1	1	1
HMO loan and guarantee fund	12	3	1
Nonprofit sponsor assistance	3	2	*
Federal Housing Administration fund	56	65	89
Housing for the elderly or handicapped fund	666	600	50
Community development grants: FFB direct loans [2]	225	225	0
Bureau of Reclamation, Loan program	52	68	40
Bureau of Indian Affairs, Revolving fund for loans	13	19	16
Federal Highway Administration, Right-of-way revolving fund	30	50	50
Railroad rehabilitation and improvement financing funds: FFB direct loans [2]	20	2	0
VA, Direct loan revolving fund	1	1	.....
Loans to the District of Columbia	115	.....	.....
Export-Import Bank	3,865	3,865	0
National Credit Union Administration, Central liquidity fund	.....	600	600
Total, direct loan obligations	23,185	20,814	8,098
Guaranteed loan commitments:			
AID, Housing and other credit guaranty programs	150	160	45
Overseas Private Investment Corporation	100	150	150
Agricultural credit insurance fund	546	706	3,000
Rural development insurance fund	200	150	0
Economic development assistance [3]	167	0	0
International Trade Administration, Operations and administration [3]	17	7	0
Health professions graduate student loan insurance fund	.....	.....	100
Federal Housing Administration fund	50,900	50,900	50,900
Bureau of Indian Affairs, Indian loan guaranty and insurance fund	19	.....	20
Maritime Administration, Federal ship financing fund	.....	.....	900
Export-Import Bank	10,000	10,000	12,000
Total, guaranteed loan commitments	62,098	62,073	67,115
ADDENDUM			
Secondary guaranteed loan commitments:			
GNMA, Guarantees of mortgage-backed securities	68,250	68,250	68,250

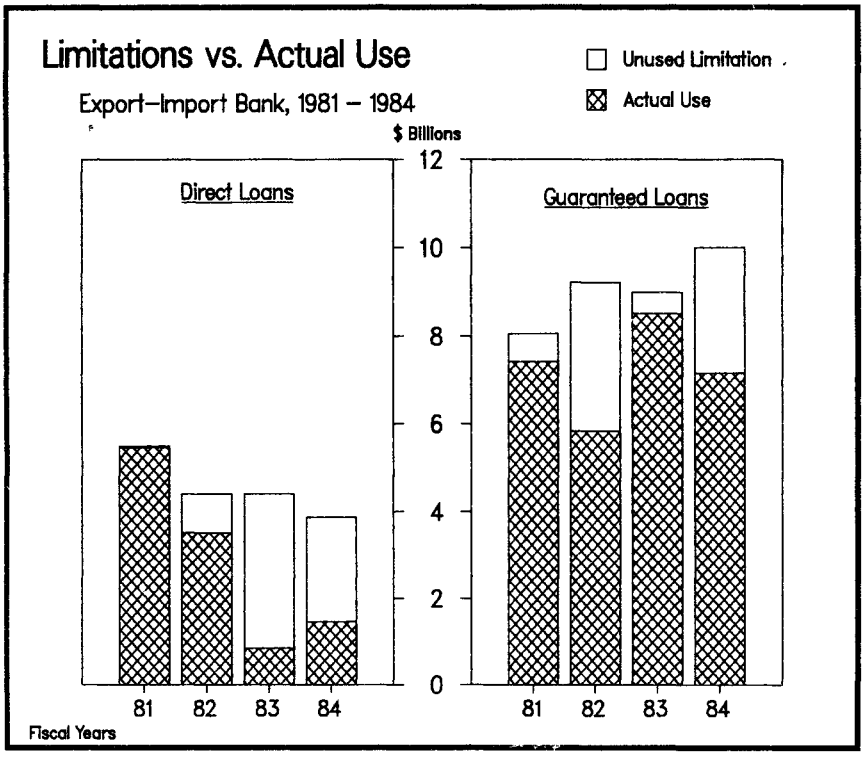
*$500,000 or less.

[1] Includes President's budget proposals for changes in enacted limitations.

[2] In this table, loans disbursed by the FFB are shown as direct loans. The limitation applies to the guaranteed loan commitments of the originating agency.

[3] These limitations were enacted on the basis of contingent liability. The full principal amount is reflected here.

While the appropriation act limitation is an effective control mechanism for new lending by some programs, there are many programs in which the actual demand for Federal credit assistance has been consistently less than the level enacted in annual appropriation bills. For example, the enacted limitations on direct and guaranteed loans for the Export-Import Bank (Eximbank) have consistently exceeded the actual demand for loans since 1982. Figure F-2 illustrates the used and unused portions of the enacted limitations for 1981-1984.



There are a variety of programs, in addition to Eximbank, for which demand is often below the enacted limitation. Table F-5 compares the proposed and enacted limitations to the actual level of direct loan obligations and guaranteed loan commitments in 1984 for the largest credit programs with shortfalls from limitations.

After enactment of appropriation bills, direct and guaranteed loan activity subject to limitation is controlled through the apportionment process. This is the mechanism by which the executive branch controls the rate at which new loans are obligated or guaranteed. While limitations are generally apportioned quarterly, a few are apportioned on an annual or project basis.

Table F-5. **COMPARISON OF REQUESTED AND ENACTED LIMITATIONS WITH ACTUAL LOAN LEVELS FOR SELECTED PROGRAMS IN 1984**

(In millions of dollars)

	Proposed limitation	Enacted limitation	Actual loan level	Unused balance of limitation
Direct loan obligations:				
Rural housing insurance fund	300	3,135	2,747	388
Rural electrification and telephone revolving fund	575	1,425	1,079	347
Rural telephone bank	185	220	143	77
Export-Import Bank	3,830	3,865	1,467	2,398
Guaranteed loan commitments:				
Agricultural credit insurance fund	106	546	443	103
Rural electrification and telephone revolving fund	3,360	4,145	1,002	3,143
Economic development assistance	.....	167	11	156
Federal Housing Administration fund	39,800	50,900	17,071	33,829
GNMA, Guarantees of mortgage-backed securities	58,650	68,250	39,665	28,585
Export-Import Bank	10,000	10,000	7,149	2,851

For some programs, a limitation on annual activity is deemed unsuitable for any of several reasons, and control is provided through other mechanisms. First, limitations are not proposed for programs in which the authorizing legislation provides a clear entitlement to qualified applicants, such as farm price support loans and credit assistance to veterans. These programs are similar to those expenditure programs considered relatively uncontrollable and are determined solely by substantive law.

Second, direct loans that arise from payment of claims on defaulted guaranteed loans are exempt from limitation. Payment of these default claims is mandatory, as in the FHA mortgage insurance and the guaranteed student loan program. Therefore, the effective point of control is earlier, at the time of the original guaranteed loan commitment.

Third, limitations are not useful for intragovernmental financing transactions such as Federal Financing Bank loans and the guarantees of certificates of beneficial ownership issued by the Farmers Home Administration. Since the original loans by the agency are controlled through annual appropriation act limitations, they need not be limited a second time at the intragovernmental financing stage.

Fourth, some programs are exempt from limitation when additional control through appropriation act limitations would inhibit the effective operation of a program. For example, in several foreign assistance programs, such as the economic support fund, AID development assistance, and Public Law 480 food assistance, appropriated budget authority governs both the loan and the grant activity. A specific direct loan limitation is therefore an unnecessary duplication of existing congressional controls.

C. Direct Loans

Direct loans are financed from a variety of sources including taxation, borrowing, and repayments of previous loans.

Direct loan programs are designed to redirect economic resources to particular uses by providing credit on more favorable terms than would otherwise be available from private sources. A direct loan is best justified when the Federal objective could not be met with financing from private sources, even with a Government guarantee. The objectives of a direct loan program, for example, may require financing at interest rates that are lower than those available from private lenders, or loan maturities that are longer than otherwise available. Direct loans are made available to individuals, businesses, and State, local, and foreign governments. In this special analysis, direct loan tables attribute loans that are made by the FFB and guaranteed by an agency, to the agency responsible for guaranteeing the loans. The credit activity between the Federal Government and the public in these transactions is a direct loan, not a guarantee.

Table F-6. **SUMMARY OF DIRECT LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimate					
	1983	1984	1985	1986	1987	1988	1989	1990
Obligations	41.4	39.1	51.9	24.2	22.7	19.9	17.3	16.6
Loan disbursements	43.8	41.4	54.7	33.5	28.0	22.8	19.3	18.4
Change in outstandings	15.3	6.3	15.2	−0.3	−3.7	−5.5	−5.0	−4.1
Outstandings	223.0	229.3	244.5	244.3	240.5	235.0	230.1	226.0

Direct loan obligations in a given year will not always result in an equal volume of new direct loan disbursements in the same year for several reasons. First, there is often a lag between the time of obligation and the actual disbursement of the loan. For example, prospective borrowers may seek financing for a project when it is in the design stage, but the financing will not be needed until the next year or even several years. As a result, some agencies, such as the Export-Import Bank and the Rural Electrification Administration, disburse loans two years or more after the time of the direct loan obligation. Second, some prospective borrowers will never convert the direct loan obligations into borrowing when projects for which financing had been sought are subsequently cancelled or postponed.

Loan disbursements are payments of loans to the public. They are mostly to make new loans, but they also include some loan guarantee claims. The change in loans outstanding equals new loan disbursements less repayments of loans, loan write-offs, and other adjustments.

As shown in Table F-6, direct loan obligations are proposed to decline between 1984 and 1986 from $39.1 billion to $24.2 billion. The composition of the direct loan portion of the credit budget is proposed to change as well: the agricultural and business sectors will receive 41% and 15% of the 1986 credit budget, respectively, compared with the one-third apiece they received from 1982 through 1985. The major changes from 1984 to 1986 in direct loan obligations are discussed below.

The Commodity Credit Corporation (CCC) provides price supports to producers of agricultural commodies. Demand for CCC price support loans dropped by $8.5 billion to $5.1 billion between 1983 and 1984, mainly due to a drop in agricultural production that resulted in higher crop prices, which in turn led to reduced need for Government price supports.

The administration proposes to restructure the price support system so that commodity prices will more closely reflect market prices and be more competitive on world markets. This will reduce the need for Government price supports in the future; however, continued Federal credit support for farmers will be needed as they adjust to a market-based system. CCC price support loans are expected to rise to an estimated $8.9 billion in 1985, fall to $8.5 billion in 1986, and then continue to decline throughout the remainder of the 1980's.

The Farmers Home Administration (FmHA) makes loans for purchasing and operating farms, improving rural housing, and developing rural community facilities. Its direct lending rose by $0.5 billion from 1983 to 1984, due mainly to increases in agricultural lending ($1.0 billion), largely disaster loans, partially offset by reductions in housing and rural development loans.

Total FmHA direct loan obligations are estimated to decline significantly in 1986, to a level of $0.7 billion. This drop reflects a shift in Federal loan activity from direct loans to guarantees of private loans in the Agricultural Credit Insurance Fund, and the administration's proposals to terminate FmHA housing programs in favor of providing such assistance through the Department of Housing and Urban Development. It also reflects the termination of most rural development lending.

The Rural Electrification Administration (REA) was designed to be a lending agency responsible for rural electrification and for furnishing electricity and telephone service to rural areas not receiving central station service. REA decreased its direct loan obligations by $2.5 billion between 1983 and 1984. This reflects a continuing fall in lending for power plant construction that would have been supported by the part of this program that provides loans at Treasury interest rates. The decline in construction was caused by lower demand for electricity and the related surplus of

electric generating capacity. The part of the REA program that makes loans at interest rates of 5% maintained stable levels of direct loan obligations of $1.1 billion in both years.

REA direct loan activity is estimated to drop to $0.9 billion in 1986. This decrease is due to the continued fall in demand for electricity and generating capacity, and the administration's plan to encourage rural electric systems to rely more on private financing for needed credit. Over the next 5 years, as the private share of rural electric and telephone financing increases, the Federal share is proposed to be phased out.

Foreign Military Sales (FMS) Credit makes loans to foreign governments and international organizations so that they can procure U.S. military equipment and services. The decline from $5.7 billion in 1984 to $4.9 billion in 1985 does not reflect reduced U.S. military support to friendly and allied countries, but, rather, the substitution of concessional loans and more grants for Treasury interest rate loans. FMS Credit direct loan obligations will increase by $0.7 billion in 1986. This 14% increase will permit the Government to finance the procurement of additional military equipment and services by countries whose security is threatened by military forces hostile to U.S. interests. The bulk of the requested increase will be provided to Egypt and Israel. Turkey, Greece and Spain will also continue receiving large amounts of credit. In order to reduce the debt service burden of these countries, 52% of the program is requested as loans that will be forgiven and 12% is requested on concessional terms.

Export-Import Bank (Eximbank) direct loan obligations were $1.5 billion in 1984. While higher than the $845 million level of 1983, they are still far below the level of most recent years because of the slow recovery of demand and the high value of the U.S. dollar relative to other currencies. The administration is proposing the elimination of new Eximbank loans in 1986 and their replacement by $100 million in explicit interest rate subsidies and an increase to $12 billion in guarantees. For that reason, no direct loan obligations are shown after 1985. New disbursements that occur after 1985 are the result of loans obligated before 1986.

The Small Business Administration credit programs are proposed to be terminated in 1986. Under the budget proposal, most new direct loan obligations offered by SBA after 1985 would be the result of previously guaranteed loans that are expected to default. The existing loan portfolio would be transferred to the Treasury Department for servicing and liquidation. The Treasury Department would also sell the existing loan assets to investors, without Federal guarantee or recourse, beginning in 1986. Some of the

issues involved in loan asset sales are discussed in Section IX of this analysis.

Direct loan obligations of the low-rent public housing program increased from $0.2 billion in 1983 to $1.4 billion in 1984, and will increase to an estimated $14.3 billion in 1985. Prior to the enactment of the Deficit Reduction Act of 1984 (DEFRA), housing construction was financed with tax-exempt obligations issued by the Public and Indian Housing Authorities (PHAs and IHAs) and secured by 20- to 30-year Federal commitments to repay the full principal amount. The increased direct loan activity is the result of a suspension of tax-exempt financing for these construction activities, which was necessary because of questions about the tax-exempt status of PHA and IHA obligations after the enactment of DEFRA. The major portion of the direct loans to PHAs and IHAs, $1 billion in 1984 and $13 billion in 1985, is needed to repay their maturing obligations. An estimated $1.2 billion annually from 1985 through 1987 is needed to finance ongoing construction activity.

The budget proposes to reform the unnecessarily complicated method of financing public and Indian housing construction, which has created what are effectively federally guaranteed tax-exempt securities. Legislation is being proposed to complete the transition from tax-exempt financing to direct Federal payments for capital expenditures. The direct loans (which replaced tax-exempt financing) extended by HUD to PHAs and IHAs for projects committed in 1985 and prior years would be forgiven. As a consequence, the Federal Government would be relieved of associated long-term commitments to amortize the forgiven loans. Beginning in 1986, new PHA and IHA capital expenditures would be funded annually.

These reforms would simplify the financing of public and Indian housing and reduce the related administrative burden to HUD, PHAs, and IHAs. The proposal would have no impact on the existing inventory of public and Indian housing or projects currently under construction. The proposal would not affect program levels, but it would change the way in which the Federal Government pays for public and Indian housing capital costs.

Table F-19 shows detailed data for Federal direct loan programs from 1984 to 1990.

D. Loan Guarantees

Guaranteed loan commitments are agreements in which the Government guarantees the payment of the principal and interest of the loan in whole or in part in the event of default. Insurance is a type of guarantee in which a Government agency operates a program of pooled risks, pledging the use of accumulated insurance premiums to secure a lender against default on the part of a borrower. For

the purposes of the credit budget, the term "guaranteed loan" includes insured loans.

A loan guarantee transfers some or all of the risk of default from the lender to the Government. In cases where the Government guarantees the timely payment of 100% of the loan principal and interest against all risk, it transforms a private loan into a near-Government direct loan financed by a near-Government security. The guaranteed loan will have essentially the same economic effects as a Government direct loan offered at moderate premiums above Treasury yields, but it will not have all the attributes of a Government direct loan because private lenders will negotiate different financial terms and conditions (e.g., fees) than would a Government agency.

The guaranteed loan will not have all of the attributes of a U.S. Treasury security either, since it will be less liquid and will involve higher transaction costs. The great volume of Treasury securities, their regular issuance in a range of maturities, and the specialized institutions and trading facilities that deal in those securities, all constitute an efficient market that cannot be matched by the market for guaranteed loans. The Government guarantee, for example, may not be transferred from one lender to another as readily as a U.S. Treasury security may be traded. Legal counsel may be required to determine the extent to which a lender is assured of repayment and under what circumstances, which is a transaction cost not associated with a U.S. Treasury security. For these and other reasons, guaranteed loans bear interest rates above the yields on otherwise comparable U.S. Treasury securities.

Loan guarantees, like direct loans, redirect economic resources by providing credit to borrowers at more favorable terms than would otherwise be available in the private market. The degree to which the guarantee reallocates credit will depend on the degree of the subsidy.[2] At one extreme, the potential transaction being financed may be considered so risky that no financing would be available without the guarantee. In this case, the subsidy will be quite large and will have a dramatic effect on the reallocation of credit.

At the other extreme, the guarantee may result in only a small subsidy and, other conditions being equal, may not significantly change the allocation of credit. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately—without Government support—albeit at a higher cost. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased even in the absence

[2] The degree of credit reallocation will also depend on the price elasticity of demand of the good being financed. A small change in the price (i.e., the subsidy) of the good being financed may result in a considerable change in the amount of the good actually bought and sold. This special analysis does not consider demand and supply elasticity effects.

of a Federal guarantee. In such a case, the borrower benefits from a small subsidy and the guarantee does not directly alter the allocation of credit resources. In both cases, although to different degrees, the guarantee reallocates credit toward federally selected uses, increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit available to those potential borrowers who do not receive assistance, and increases the interest rates on financing available to these borrowers.

Loan guarantees are used in a wide variety of programs. Guaranteed loans may be made to individuals, to businesses, and to State, local, and foreign governments. The guaranteed loan commitment may be used for: (1) a loan made by a bank or other institutional lender; (2) an investment security sold in the capital market; or (3) a security sold to the Federal Financing Bank. Guaranteed loans, for the purposes of the credit budget, do not include contractual agreements, such as guarantees of private leases, contracts to make subsidy payments over extended periods, or debt service grants that the recipients may use as collateral for borrowing.

Data for guaranteed loans for 1983 through 1990 are summarized in Table F-7. The guaranteed loan commitments in a given year do not always result in new guaranteed loans in that year, for the same reasons that direct loan obligations in a given year do not necessarily lead to disbursements in that year. The change in outstandings is equal to the amount of new guaranteed loans less repayments and other adjustments. Guaranteed loans outstanding are the cumulative volume of new guaranteed loans, less repayments and adjustments. Table F-20 provides detailed data for guaranteed loan programs for 1984 to 1990.

Table F-7. **SUMMARY OF PRIMARY GUARANTEED LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimate					
	1983	1984	1985	1986	1987	1988	1989	1990
Commitments	97.2	70.8	74.0	77.2	78.5	80.9	83.7	86.3
New guaranteed loans	78.0	73.3	62.7	64.7	68.0	71.0	72.6	74.0
Change in outstandings	34.1	20.1	20.2	31.9	32.6	32.1	32.1	32.4
Outstandings	363.8	386.7	406.9	438.8	471.4	503.5	535.6	568.0

As noted in the previous section, direct loans disbursed by the Federal Financing Bank (FFB) that are guaranteed by a Federal agency are excluded from guaranteed loans and included in Table F-6. As shown above in Table F-7, primary guaranteed loan commitments are expected to decrease from $97.2 billion in 1983, to $77.2 billion in 1986. The composition of the guaranteed loan portion of the credit budget has also changed. Housing programs accounted for 76% of guaranteed loan commitments in 1983, and are

expected to decline to 62% by 1986. The major programmatic changes from 1983 through 1986 are discussed below.

Although housing activity in the U.S. remained at high levels in 1984, new Federal Housing Administration (FHA) guaranteed loan commitments dropped by 62% from the 1983 level of $44.6 billion, to $17 billion. This was largely due to the greater attractiveness of adjustable-rate mortgages (ARMs) relative to the traditional fixed-rate mortgages insured by FHA. The FHA began insuring ARMs in 1985, and FHA commitments are expected to return to levels of over $30 billion in 1985 and beyond. The Veterans Administration (VA) offers a mortgage guarantee that is similar in effect to the FHA mortgage insurance program, but does not require veterans to make downpayments on their housing purchases. For 1985, guaranteed loan commitments by VA are estimated to be $15.2 billion, remaining fairly constant in 1986 and beyond.

The Commodity Credit Corporation provides loan guarantees for export sales that would not otherwise occur without Federal credit assistance. CCC guaranteed loan commitments for U.S. exports fell by $0.5 billion from 1983 to 1984. This decline is attributable to a drop in demand from foreign buyers for U.S. Government-subsidized credit. While recognizing that most U.S. exports occur in the open market, annual guaranteed loan commitments of $5.0 billion are estimated in 1985 and beyond for sales that require Federal support.

The guaranteed student loan program (GSL) provides guarantees of education loans to graduate and undergraduate students. New guaranteed loans for the program increased by $0.8 billion from 1983 to 1984 as participation surged by 13%; the average loan amount increased only 2%. The level of GSL commitments is estimated at $7.5 billion in 1986, a decrease of $0.4 billion from 1985, reflecting the administration's plan to slow the growing cost of the program by limiting the use of such financial assistance to needy students and capping the total amount of directly subsidized student aid under Title IV of the Higher Education Act at $4,000.

The Export-Import Bank provides guarantees to facilitate U.S. exports. Guaranteed loan commitments decreased from $8.5 billion to $7.1 billion between 1983 and 1984. In 1985, it is estimated that Eximbank commitments will be $10 billion, as risk protection continues to be important to U.S. exporters. The proposed level in 1986 and beyond is $12 billion, $1.8 billion of which will be available for the interest rate subsidy program.

Guaranteed loan commitments for public and Indian housing decreased by $0.5 billion from 1983 to 1984. No new loan guarantees are estimated for 1985 and beyond, resulting in a decrease of $13.7 billion in guaranteed loan commitments. These decreases

coincide with the extension of direct loans to PHAs and IHAs that are necessary since the enactment of DEFRA and the suspension of private market financing. The direct loans thereby eliminate the need for new guarantee commitments. (The proposal to reform the financing of public and Indian housing is described in the previous section.)

The Small Business Administration credit programs, as noted in the section on direct loans, are proposed to be terminated in 1986. For that reason, no new guaranteed loan commitments are proposed after 1985. Outstanding guaranteed loans (with a balance of $9.3 billion in 1985) will be serviced by the Treasury Department.

At least two-thirds of all single-family mortgages insured by FHA or VA are sold subsequently in the secondary mortgage market using the Government National Mortgage Association (GNMA) mortgage-backed securities program. This program provides guarantees for securities issued by private mortgage originators and backed by pools of FHA-insured and VA-guaranteed mortgages. The GNMA guarantees enhance the liquidity of trading these securities. GNMA's issuance of new securities is closely tied to the amount of FHA insurance and VA mortgage guarantees. Commitments for GNMA mortgage-backed securities therefore decreased from $64.2 billion in 1983 to $39.7 billion in 1984. An increase to $51.1 billion is estimated in 1986. The 1986 budget proposes to increase the fee that GNMA charges for its guarantee, from 6 basis points (a basis point is 1/100 of a percent), to 15 basis points. This is estimated to raise $19 million in new revenue in 1986, and $439 million over the period 1986 to 1990.

IV. Government-Sponsored Enterprises

Government-sponsored enterprises (GSE's) are financial intermediaries, established and chartered by the Federal Government to facilitate the financing of home mortgages, student loans, and agricultural credit. They are:

- the Federal Home Loan Banks;
- the Federal Home Loan Mortgage Corporation;
- the Federal National Mortgage Association;
- the Farm Credit System, consisting of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks; and
- the Student Loan Marketing Association.

These enterprises are privately owned and are included neither in the unified budget nor in the credit budget. However, since they are established by the Government to carry out federally designed programs and benefit from substantial forms of Government assistance, their financial statements and a description of their operations are included in the Budget Appendix (Part V). Table F-8

shows summary lending and borrowing of these enterprises for 1984 to 1986. Table F-21 at the end of this special analysis presents additional details on their lending and borrowing.

Table F-8. **SUMMARY OF LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In billions of dollars)

	Actual 1984	Estimate	
		1985	1986
Total net lending:			
Obligations	200.6	187.9	197.1
New transactions	170.6	185.5	191.4
Net change	53.1	46.0	45.8
Outstandings	314.1	360.1	405.9
Total borrowing:			
Net change	55.5	42.2	46.4
Outstandings	294.8	337.0	383.4

Government-sponsored enterprises redirect credit by acting as financial intermediaries to stimulate greater amounts of lending to certain sectors. This is accomplished in two ways: by increasing the liquidity of other direct lenders in the housing and education sectors, and by direct lending in the agricultural sector. In both cases, GSE's make more capital available to favored borrowers in these sectors. Over the last 5 years, GSE debt outstanding (gross) grew by 150%, from $142.1 billion in 1979 to $355.7 billion in 1984. By comparison, lending to private businesses and corporations over the same period only grew by 62%. This suggests that sectors that do not benefit from the presence of a GSE will have less capital available to them; capital that is available will be more expensive since there is less of it.

Securities offered by GSE's in the financial market are not guaranteed by the U.S. Government. Nonetheless, these securities usually enjoy yields of between 50 and 300 basis points below highly rated corporate debt. In fact, GSE instruments bear only slight premiums above the yields on U.S. Treasury securities. In the past year, these premiums have ranged from roughly 20 to 40 basis points above Treasury yields. The reason for these relatively slight premiums above Treasury securities is the perceived "special relationship" between the enterprises and the Government. GSE debt instruments compete directly with U.S. Treasury securities, thus raising the Government's cost of borrowing.

The "special relationship" arises in part from the general Government sponsorship itself, but it is also manifest in the types of benefits that GSE's enjoy, which generally include:

- the eligibility of GSE securities to be held as investments of federally regulated institutions under circumstances where

other private securities or State and local government securities are not eligible;

- lines of credit at the U.S. Treasury that range up to $4 billion;
- exemption from Securities and Exchange Commission registration requirements and regulation of trading; and
- exemption from State and local taxes, except taxes on real property.

As a means of reimbursing the Federal Government for some of these privileges, an annual user fee on new borrowings and new issuances of mortgage-backed securities and participation certificates will be charged the various GSE's beginning in 1986. The fees will be phased in, with an initial level of 5 basis points on newly issued securities. The fees are analogous to the fees that commercial banks would charge for standby letters of credit to support the issuance of private debt. These fees will reduce Federal outlays by $41 million in 1986, and $957 million during 1986–1990.

Federal Home Loan Banks.—The Federal Home Loan Bank System was established in 1932 to promote home ownership through the extension of credit to savings and other home financing institutions. The Federal Home Loan Bank Board is a part of the Federal Government and supervises the Federal Home Loan Banks. All savings and loan associations and savings banks are eligible to become members; federally chartered savings and loan institutions and savings banks and all institutions insured by the Federal Savings and Loan Insurance Corporation are required to do so. The major function of the banks is to lend funds to member institutions.

Federal Home Loan Mortgage Corporation (FHLMC).—FHLMC ("Freddie Mac") was created in 1970 to increase the availability of mortgage credit and liquidity in the conventional residential mortgage market. It is a wholly owned subsidiary of the Federal Home Loan Banks described above.

Federal National Mortgage Association (FNMA).—FNMA ("Fannie Mae") was originally chartered as a part of the Federal Government. In 1968, FNMA was made a privately owned corporation.

Both FNMA and FHLMC operate in a similar manner. They generally purchase conventional and privately insured mortgages originated by mortgage bankers, savings institutions, commercial banks, and other primary lenders. These institutions sell mortgages to enhance the liquidity of their assets. The mortgage purchases are financed through the issuance of debt or through the sale of securities backed by mortgages. FNMA and FHLMC, along with

the Government National Mortgage Association,[3] have long dominated the secondary market for mortgages, particularly the mortgage-backed security portion of the market. Recently, however, totally private institutions have begun to issue mortgage-backed securities, in part because of regulatory and administrative changes implemented by the administration. Many of these privately issued securities have been backed by single-family home mortgages whose values exceed the statutorily established "conforming" amount ($115,300) that restricts the mortgages FNMA and FHLMC may purchase. The administration worked to gain passage of the 1984 Secondary Mortgage Market Enhancement Act, which will enable private firms to compete more directly with FNMA and FHLMC in the "conforming" market.

Despite the possibility of increased competition from private firms, and the continued existence of restrictions that limit the mortgages eligible for FNMA and FHLMC purchase, the total of FNMA and FHLMC mortgages purchased and securities issued that are backed by mortgages, and borrowing for portfolio purchases, are expected to increase from $219.9 billion in 1985 to $253.7 billion in 1986. In addition to purchasing newly originated mortgages, FNMA and FHLMC offer primary mortgage lenders the opportunity to "swap" seasoned mortgages held in their portfolios for FNMA mortgage-backed securities or FHLMC participation certificates.

Student Loan Marketing Association (SLMA).—SLMA ("Sallie Mae") was created in 1972 to expand the amount of funds available for insured student loans. It does so by providing liquidity to lenders, which include savings and loan associations, commercial banks, mutual savings banks, educational institutions, and State and nonprofit agencies.

SLMA provides liquidity by operating a secondary market for student loans and by its "warehousing" advances. SLMA's secondary market involves the purchase of existing insured student loans from lenders. When this occurs, SLMA gets title to the loans and is repaid directly by the borrowers. Warehousing advances are SLMA loans to lenders that are secured by student loans or certain types of obligations guaranteed by the Government. In such cases, the lenders continue to hold title to the loans and pay SLMA interest on the funds borrowed. Advances are also available to State student loan agencies as a taxable source of funds for their operations. In 1986, SLMA will purchase student loans estimated at $1.8 billion, and will make warehousing advances estimated at $1.2 billion.

[3] The Government National Mortgage Association (GNMA) is part of the Department of Housing and Urban Development, and so is not a Government-sponsored enterprise.

Starting in 1974, SLMA operations were financed entirely through borrowing from the FFB. SLMA stopped borrowing from the FFB in January 1982; since then, it has done all its borrowing in private credit markets. It will borrow an estimated $1.4 billion in 1986. SLMA obligations sold to the public are not federally insured or guaranteed. However, since most of the student loans that SLMA holds as assets are federally insured, it is able to borrow at rates only slightly higher than Treasury bills. SLMA's overall cost of funds in 1984 was 35 basis points over 91-day Treasury bills. Student loans are guaranteed to yield the holder of the loan 3.5 percentage points over the Treasury bill rate, so SLMA has maintained a profitable interest rate spread on its student loan portfolio even after its expenses in servicing student loans are taken into account. SLMA's profit margin on its warehousing advances are considerably lower.

In 1981, the Congress gave SLMA powers that go beyond its original purpose of providing liquidity to lenders. SLMA was authorized to: (1) purchase or lend against uninsured loans; (2) make loans directly in specified circumstances; (3) consolidate and refinance loans; (4) advance funds to State agencies that provide loans to students; (5) purchase and underwrite student loan revenue bonds; and (6) provide any additional services determined by the SLMA Board of Directors to support student credit needs generally. Notwithstanding these additional authorities granted to SLMA, the provision of liquidity to lenders continues to be the main focus of its activities.

Farm Credit System (FCS).—The FCS is a cooperative that provides credit to farmers and ranchers, their cooperatives, farm-related businesses, commercial fishermen, and rural homeowners. The FCS is supervised by the Farm Credit Administration (FCA), an independent Federal agency. The FCS obtains its funds through the sale of securities to investors in the private credit market.

The goals of the FCS are accomplished through its component parts: Federal Land Banks (FLBs) and Federal Land Bank Associations (FLBAs); Federal Intermediate Credit Banks (FICBs) and Production Credit Associations (PCAs); and the Banks for Cooperatives (BCs).

The 12 FLBs make loans, secured by mortgages on farms or rural real estate, to borrowers who apply at one of the 469 local FLBAs. The loans are for periods that range from 5 to 40 years. Loans are made to farmers and ranchers, corporations producing agricultural products, farm-related businesses, and rural homeowners. Loans can be used to acquire farms, farmland, equipment, and livestock, as well as to refinance existing debt. FLBs will make loans valued at an estimated $5.9 billion in 1986.

The 12 FICBs provide loan funds to 414 PCAs, and can participate with the associations in making loans. In addition, FICBs can discount the notes of farmers, ranchers and commercial fishermen that are held by other financial institutions making agricultural loans. The Federal Intermediate Credit Banks will make an estimated $18.7 billion in loans in 1986. PCAs make loans of up to 7 years to farmers and ranchers, rural homeowners, and farm-related businesses, and loans of up to 15 years to commercial fishermen. Loans can be used for the production of agricultural products; the harvesting and production of aquatic products; and the purchase, repair, and maintenance of rural homes.

The 12 BCs make long- and short-term loans directly to cooperatives of farmers, ranchers, or commercial fishermen. Long-term loans are used for constructing, remodeling or expanding the cooperative's facilities, or for purchasing land, buildings, or equipment. Short-term loans that mature within 18 months are made to finance seasonal assets. In 1986, the Banks for Cooperatives will make an estimated $31.1 billion in loans.

V. Trends in Federal Credit Activity

This section discusses some of the trends and policy initiatives in Federal credit activity that cut across programs. The first part of this section discusses the general quantity of new Federal and federally assisted credit, including that of GSE's. The second part of this section discusses an administration proposal to raise the price of Federal and federally assisted credit by charging higher interest rates and fees.

Changes in quantity.—The flow-of-funds accounts measure total net lending and borrowing between various sectors of the U.S. economy. These accounts are estimated by the Federal Reserve Board, and provide one context in which to analyze the flow of Federal credit. A comparison of net Federal and federally assisted lending to total net lending in the U.S. economy allows an estimate to be made of the total amount of net lending influenced by Federal programs. It also allows a comparison to be made of changes in the degree of Federal influence over time.

Table F-9 summarizes these relationships during the last decade. Federal and federally assisted lending in a given year is the difference between the amount of direct, guaranteed and GSE loans outstanding at the beginning and at the end of that year. The net annual increase in Federal and federally assisted lending was $79.6 billion in 1984. The supply of credit is the net annual increase in the holdings of various investor groups. In 1984, this was $672.6 billion. The participation ratio of Federal and federally assisted lending to total lending, therefore, was 11.8% in 1984. This is below

the peak for this decade of 22.3% in 1980 and lower than the 1983 ratio of 17.2%. By this measure, the Federal Government's role as a supplier of credit was at the lowest point since 1977.

These ratios should be used with caution for several reasons. First, and most importantly, the participation ratios do not indicate the full extent of Federal influence in allocating credit to favored borrowers. That influence is reflected in a more meaningful way by the degree of subsidy. A loan guarantee with a small degree of subsidy does not allocate capital to the same degree as a direct loan with a high degree of subsidy. Yet the lending participation ratios do not distinguish between a dollar of guaranteed loans and a dollar of direct loans; they weigh both dollars equally.

Second, the participation ratios are shown on an aggregate basis for the entire economy and so do not reveal changes in the debt owed by particular borrowing sectors, such as households, corporate businesses, or farms. This means that some sectors may be more affected by changes in Federal credit program levels than others, even when the overall lending participation ratios remain the same.

The Federal Government not only lends to various sectors of the economy, but it also borrows. The net annual increase in Federal and federally assisted borrowing in 1984 was $246.5 billion. The borrowing participation ratio, therefore, was 37% in 1984. As shown in Table F-9, the borrowing participation ratio is more volatile than the lending participation ratio, ranging from 19% to 56% of total borrowing between 1975 and 1983. The volatility is due primarily to swings in the budget deficit. As with the lending participation ratios, a cautionary note is in order. The full impact of Federal borrowing on the U.S. economy and the credit markets depends on competing demands from other borrowing sectors, as well as changes in the supply of credit available for borrowing.

Table F-10 summarizes outstanding Federal and federally assisted loans from 1983 to 1986. Total direct loans outstanding at the end of 1984 were $229.3 billion and total guaranteed loans outstanding were $386.7 billion. In 1984, Federal and federally assisted loans outstanding increased by 9.8% over 1983. Increases of 8.8% in 1985 and 7.6% in 1986 are estimated.

Table F–9. **FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS**

(Dollar amounts in billions)

	Actual											Estimates	
	1975	1976	TQ	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total funds loaned in U.S. credit markets [1]	**178.0**	**243.3**	**64.9**	**309.8**	**385.7**	**423.5**	**357.6**	**417.2**	**401.8**	**501.8**	**672.6**	(3)	(3)
Direct loans	12.8	10.9	3.7	11.6	19.8	19.6	24.2	26.1	23.4	15.3	6.3	15.2	−0.3
Guaranteed loans	8.6	11.1	−0.1	13.5	13.4	25.2	31.6	28.0	20.9	34.1	20.1	20.2	31.9
Government-sponsored enterprise loans [2]	5.6	4.9	3.1	11.7	25.2	28.1	24.1	32.4	43.3	37.1	53.1	46.0	45.8
Federal and federally assisted lending	**27.0**	**26.9**	**6.7**	**36.7**	**58.4**	**72.9**	**79.9**	**86.5**	**87.6**	**86.5**	**79.6**	**81.4**	**77.4**
Federal lending participation ratio (percent)	**15.2**	**11.1**	**10.3**	**11.8**	**15.1**	**17.2**	**22.3**	**20.7**	**21.8**	**17.2**	**11.8**	(3)	(3)
Total funds borrowed in U.S. credit markets [1]	**178.0**	**243.3**	**64.9**	**309.8**	**385.7**	**423.5**	**357.6**	**417.2**	**401.8**	**501.8**	**672.6**	(3)	(3)
Federal borrowing from public	50.9	82.9	18.0	53.5	59.1	33.6	70.5	79.3	135.0	212.3	170.8	201.4	172.6
Borrowing for guaranteed loans	8.6	11.1	−0.1	13.5	13.4	25.2	31.6	28.0	20.9	34.1	20.1	20.2	31.9
Government-sponsored enterprise borrowing [2]	5.3	4.1	1.4	12.0	21.4	21.9	21.4	34.8	43.8	34.6	55.5	42.2	46.4
Federal and federally assisted borrowing	**64.8**	**98.1**	**19.3**	**79.0**	**93.9**	**80.7**	**123.5**	**142.1**	**199.7**	**281.0**	**246.5**	**263.8**	**250.9**
Federal borrowing participation ratio (percent)	**36.4**	**40.3**	**29.7**	**25.5**	**24.4**	**19.1**	**34.5**	**34.1**	**49.7**	**56.0**	**36.6**	(3)	(3)

[1] Funds loaned to and borrowed by nonfinancial sectors, excluding equities.

[2] The data in Table F–9 for total funds loaned are defined as excluding financial sectors. Nonetheless, the Government-sponsored enterprises, as well as Federal assisted lending, are properly compared with total funds loaned. Government-sponsored enterprises lending is a proxy for the lending by non-financial sectors that is intermediated by the sponsored enterprises. It assists the ultimate non-financial borrowers whose loans are purchased or otherwise financed by the sponsored enterprise.

[3] Not estimated.

Source: Federal Reserve Board Flow of Funds Accounts for total funds loaned and borrowed.

Table F-10. **SUMMARY OF OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT**

(In billions of dollars)

	Actual		Estimate	
	1983	1984	1985	1986
Direct loans	223.0	229.3	244.5	244.3
Primary guaranteed loans	363.8	386.7	406.9	438.8
Loans by Government-sponsored enterprises	308.1	314.1	360.1	405.9
Total, Federal and federally assisted loans	**894.9**	**931.0**	**1,011.5**	**1,089.0**
Federal debt held by the public	1,141.8	1,312.6	1,514.0	1,686.6
Primary guaranteed debt (same as guaranteed loans above)	363.8	386.7	406.9	438.8
Debt of Government-sponsored enterprises	239.3	294.8	337.0	383.4
Total, Federal and federally assisted debt	**1,744.9**	**1,994.1**	**2,257.9**	**2,508.8**

Changes in price.—The second trend in Federal credit policy is to increase interest rates and fees. Loan guarantee fees are frequently set in legislation. Neither the interest rates nor the loan guarantee fees cover all the costs to the Federal Government of many credit programs. These costs include default risks for both direct and guaranteed loans, as well as servicing and administrative costs. The 1986 budget proposes to charge borrowers from several loan programs an interest rate equal to the yield of newly issued Treasury securities of equivalent maturity to the loan, plus 1⅛%. Some direct loan programs will be charged an upfront fee of 5% of the loan amount. It is also proposed to charge guaranteed loan borrowers an upfront fee of 5% of the guaranteed loan amount, plus an annual fee of 1% of the amount of new credit outstanding.

These higher interest rates and fees are proposed to help offset the cost to the Federal Government of defaults and delayed repayments, as well as the servicing and administrative costs for Federal credit programs. The proposed higher price of Federal credit assistance will reduce the Federal deficits by an estimated $6.7 billion during 1986–1990.

These higher interest rates and fees will also reduce the subsidies provided by the affected programs. In most cases, the remaining subsidy will still be substantial. The effects of this proposal on Federal credit subsidies is discussed in Section VI of this special analysis.

In addition, as discussed in Section IV, it is proposed that Government-sponsored enterprises pay an annual fee on the gross amount of their securities issued after 1985. This fee will raise an estimated $1.0 billion over the period 1986–1990.

VI. Federal Credit Subsidies

The more favorable terms provided by Federal credit programs result in a subsidy to the borrower. The subsidy may be most obvious when the Government makes a direct loan with a relatively low interest rate. In some cases, a large interest rate subsidy may be intended, as when a direct loan program is established with an objective that explicitly requires a below-market interest rate. The Economic Support Fund, for example, extends loans at interest rates of about 3% per annum in order to meet its objective of aiding foreign countries.

In other cases, the extent of the subsidy may be unintentional, as when a direct loan program's interest rate is initially set at a level comparable to a market interest rate but is never changed to keep pace with changes in market interest rates over time. For example, Congress in 1944 set the interest rate on some loans of the Rural Electrification Administration at 2%, which was slightly higher than the cost of Treasury borrowing at that time. Last year, the cost of long-term Treasury borrowing was over 12%, but REA's lending rate had been increased to only 5%.

For guaranteed loans, the interest rate subsidy occurs because the Government guarantee removes some or all risk of default or loss facing the lender. The lender is therefore willing to lend to the guaranteed borrower at rates lower than the market rate, since no premium for default risk is required.

The terms of the direct loans or guaranteed loans result in subsidies other than below market interest rates. First, direct or guaranteed loans sometimes carry longer maturities than fully private loans. Second, the direct or guaranteed loan amount may be higher in relation to the value of the underlying enterprise than would a fully private loan. Third, Federal loans may provide deferral of interest, allowance of grace periods, and the waiver or reduction of loan fees, all of which increase the value of the loan to the borrower. Fourth, default clauses in Government loans may offer the borrower greater protection from foreclosure actions than private loans. Finally, direct loan and loan guarantee programs may make credit available to borrowers for purposes for which the private sector would not lend—at virtually any interest rate, under virtually any repayment terms.

This section presents estimates of the subsidies provided by Federal direct loan and loan guarantee programs in 1984. It also presents estimates of the degree to which the administration's proposal to increase interest rates and fees charged to borrowers in 1986 will reduce the subsidy.

The direct loan subsidy is the additional payments that would have been required on the loan if it had been a purely private loan. As these additional payments take place over the life of the loan,

they must be discounted, i.e., converted to their present values. The present value of the additional payments represent the subsidy provided by the Government loan to the borrower.

This method requires a calculation of the interest rate and other costs a representative borrower would have had to pay to a private lender absent the Government loan. It is not possible to determine this rate of return with precision, since the terms of a loan depend on such conditions as the purpose of the loan, the creditworthiness of the borrower, the competition among lenders, and specific circumstances facing the borrower and lender at the time the loan agreement is negotiated. These conditions differ greatly among loans. Therefore, hypothetical representative private loans have been used for comparison.

To derive the rate of return on a representative private loan, estimates have been made of the private loan terms according to the purpose of the loan (e.g., to buy a house or to provide a small business with working capital) and the type of borrower (e.g., a high-risk company versus a low-risk company) typically associated with the particular direct loan program. The estimates take into account not only the differences in interest rates, but also the differences in loan fees, maturities, and repayment schedules that would normally be expected for the type of loan being compared. A simplifying assumption used in these calculations is that all loans in a given program bear a similar degree of risk. This is not usually true. Several programs (e.g., the Export-Import Bank or the Small Business Administration) make loans to a variety of borrowers with widely dissimilar risk characteristics.

The discount rate used to evaluate the present values of the Government and private loan is the rate of return on the private loan. This is a more appropriate discount rate than merely the interest rate on the private loan, because that interest rate does not reflect the return that lenders receive from commitment commissions and other loan fees, nor does it reflect the maturity and repayment schedule.

Table F-11 shows subsidy values for selected direct loans obligated in 1984. The present value of the total subsidy is $8.3 billion.

Table F-11. **SUBSIDY VALUES OF SELECTED 1984 DIRECT LOAN OBLIGATIONS**

Agency and programs	Interest rate (in percent)		Loan maturity (in years)		Present value of subsidy	
	Average Government loan	Estimated private loan	Average Government loan	Estimated private loan	Percent of direct loan obligations	Millions of dollars
Funds Appropriated to the President:						
AID functional development assistance	2.8	15.3	34.0	10.0	61.6	250
Economic support fund	3.0	14.6	15.0	15.0	63.4	183
Foreign military sales credit:						
Forgiven	0.0	14.7	(NA)	1.0	100.0	1,315
Treasury rate (FFB)	12.5	14.6	20.0	20.0	9.6	422
Agriculture:						
ACIF:						
Economic emergency	10.0	14.5	7.0	7.0	12.7	39
Emergency disaster	5.0	15.3	40.0	7.0	52.5	552
Farm operating	10.0	15.3	7.0	7.0	14.4	282
Farm ownership	10.4	14.5	40.0	25.0	27.7	183
Other	10.4	14.5	40.0	25.0	22.2	3
RHIF:						
Farm labor housing	1.0	14.0	33.0	25.0	69.9	14
Home ownership	3.0	14.0	33.0	25.0	61.8	1,141
Rental housing	1.0	14.5	50.0	5.0	77.7	688
Other	1.0	16.2	20.0	15.0	62.4	16
RDIF:						
Community facilities [1]	8.8	12.0	40.0	20.0	20.1	26
Water and waste [1]	8.8	12.0	40.0	20.0	20.1	54
CCC:						
Commodity loans [2]	10.6	13.8	1.0	1.0	1.3	65
Export loans	11.5	14.9	3.0	1.0	4.8	7
Rescheduled loans	13.5	14.9	5.0	5.0	6.8	12
Storage facility loans	10.6	14.5	4.0	1.0	6.5	*
Public Law 480	3.0	14.7	30.0	1.0	75.8	611
REA:						
Electric	11.6	14.6	35.0	15.0	39.6	614
Telephone	5.0	14.6	35.0	15.0	41.7	140
Rural Telephone Bank	9.5	14.6	35.0	15.0	28.3	40
Education:						
Guaranteed student loan defaults	4.0	20.0	14.5	10.0	77.4	580
National direct student loans	5.0	18.5	13.0	5.0	68.1	115
College housing	3.0	12.8	30.0	30.0	60.7	24
Housing and Urban Development:						
Community development grants (FFB)	12.2	12.5	6.0	6.0	1.6	1
FHA fund	12.9	13.2	30.0	30.0	1.1	5
Housing for the elderly and handicapped	9.0	13.1	40.0	30.0	25.4	172
Low-rent public housing	10.7	16.9	1.0	2.0	3.0	43
Rehabilitation loan fund	4.7	15.2	15.0	15.0	38.5	33
Interior:						
Bureau of Reclamation	2.0	15.1	33.0	30.0	66.2	29
Transportation:						
MarAd Federal ship financing fund defaults	13.1	17.4	10.0	3.0	9.0	11
Highway right-of-way loans	0.0	12.9	10.0	20.0	42.8	11

Table F-11. **SUBSIDY VALUES OF SELECTED 1984 DIRECT LOAN OBLIGATIONS—Continued**

Agency and programs	Interest rate (in percent)		Loan maturity (in years)		Present value of subsidy	
	Average Government loan	Estimated private loan	Average Government loan	Estimated private loan	Percent of direct loan obligations	Millions of dollars
NASA	12.7	14.2	8.0	5.0	4.2	6
Veterans Administration:						
Loan guaranty revolving fund:						
Vendee loans and loans acquired	13.0	14.0	30.0	30.0	9.7	92
National service life insurance	11.0	13.2	4.0	4.0	4.1	4
Loans to District of Columbia[1]	12.2	13.5	30.0	27.0	8.6	10
Export-Import Bank	11.2	15.2	9.0	9.0	16.1	237
NCUA	9.9	11.0	0.3	0.3	0.2	1
Small business assistance:						
Disaster	4.0	17.8	3.0	1.0	25.5	80
General business	13.5	17.8	7.0	2.0	20.9	157
503 debentures and SBICs (FFB)	13.7	14.0	20.0	30.0	5.5	26
Tennessee Valley Authority (Seven States)	10.1	13.6	5.0	5.0	7.2	18
Total—Selected direct loan subsidies						**8,312**

* $500 thousand or less.

[1] The borrower's alternative to the Federal loan could be a federally tax-exempt instrument. Using a tax-exempt rate as an alternative borrowing rate for the purposes of these calculations, however, would understate the economic subsidy since part of the subsidy would be the loss of tax revenue. In these cases, therefore, the private market interest rate is the tax-exempt rate adjusted for taxes. The tax-exempt rate is assumed to be 75% of the taxable rate.

[2] The subsidy calculations for CCC commodity loans take into account only the difference between the Federal and private loan terms. The calculations do not measure the additional subsidy received by farmers in the form of target price deficiency payments. Further, the calculations do not take into account the effect of these commodity price loans on ultimate commodity market prices (i.e., that the loans help set a floor for the commodity market prices.)

NA: Not applicable.

Note: The comparative loan terms shown above are for illustrative purposes. The present value of the subsidies shown in the right hand columns take into account fees, grace periods, and amortization schedules, which are not shown.

Table F-11 also shows the degree of subsidy relative to loan value. The greater the difference between the Government loan terms and private loan terms, the higher the degree of subsidy. The programs that had the largest degree of subsidy are the FMS credit forgiven loans, and the RHIF rental housing program.

The calculation method used in Table F-11 measures the value of the subsidy to the borrower. Another common approach measures the cost of the subsidy to the Government. Under this approach, the Treasury borrowing rate is used instead of a comparable private market interest rate. This method shows a lower subsidy because the Government can raise funds more cheaply than the private sector.

This approach does not accurately measure the true cost of the loan subsidy to the economy. The Treasury borrowing rate is a risk-free rate, while all of the loans made by the Government to the public bear some risk. Using the Treasury rate as a proxy for private market interest rates may lead to startling results. Government loans with interest rates slightly above the Treasury rate will appear to have negative subsidies although the loans will offer borrowers a considerable subsidy benefit compared to the credit terms they could obtain in the private market. A case in point is the FFB loans of the Foreign Military Sales Credit program, which normally charges foreign government borrowers an interest rate one-eighth percentage point above the U.S. Treasury borrowing rate.

Under the Treasury cost-of-money assumptions, these loans would appear to be virtually unsubsidized. However, the assumed private lending rate shown in Table F-11 is 14.6%, and the calculated present value of the subsidy of this program is $422 million. Clearly, foreign governments would not borrow under this program if they could obtain better terms elsewhere.

The same method applies to the calculation of guaranteed loan subsidies. The guaranteed loan subsidy is the present value of the additional payments that borrowers would have paid if the loan had not been guaranteed by a Federal agency. In some cases, private insurance or guarantee coverage of a type offered by Federal programs is available from private insurors. An example is private mortgage insurance, which is comparable to the mortgage insurance or guarantees offered by the FHA and VA. (FHA and VA guaranteed loan commitments in 1984 comprise 62% of total commitments.) In these cases, one means of estimating the subsidy is to calculate the present value of the difference in fees charged by Federal and private insurors. In other cases, private insurors simply do not offer insurance or guarantee coverage that is similar to that offered by Federal programs. This may be because the credit risks of the guaranteed loans are so large or so immeasurable that private insurors will not undertake to offer guarantees or it may be because potential private insurance has been preempted by a Federal guarantee program, which inherently has an immensely larger capacity to bear risk and to charge guarantee fees below what the private insuror would charge. In these cases, the subsidy is calculated in terms of what a private lender might have charged the borrower in the absence of a Federal guarantee.

Table F-12 presents these subsidy calculations by major loan guarantee program for selected 1984 guaranteed loan commitments. The present value of the total estimated subsidies is $7.4 billion.

Table F-12. **SUBSIDY VALUES OF SELECTED 1984 GUARANTEED LOAN COMMITMENTS**

Agency and programs	Interest rate (in percent) [1]		Loan maturity (in years)		Guarantee fees (in percent) [2]		Present value of subsidy	
	Average Government guaranteed loan	Estimated private loan	Average Government guaranteed loan	Estimated private loan	Average Government guaranteed loan	Estimated private loan	Percent of guaranteed loan commitments	Millions of dollars
Funds Appropriated to the President:								
AID housing and other credit	11.1	14.7	30.0	20.0	2.0	...	19.6	29
Overseas Private Investment Corporation	14.0	14.7	10.0	7.0	...	...	4.3	4
Agriculture:								
ACIF:								
Economic emergency	13.8	15.2	7.0	7.0	...	...	3.7	11
Farm operating	13.2	14.5	7.0	7.0	...	...	3.2	4
Farm ownership	12.5	14.5	40.0	25.0	...	...	10.7	4
RDIF:								
Industrial development	12.5	14.8	15.0	7.0	1.0	...	7.8	16
CCC export credits	11.8	14.0	3.0	1.0	...	...	2.9	120
Education:								
Guaranteed student loans	8.0	15.0	14.0	10.0	7.5	13.5	52.0	3,948
Health:								
Health professions graduate student insurance	13.2	15.0	16.3	10.0	2.0	13.5	48.0	120
Housing and Urban Development:								
FHA:								
Single-family	12.9	13.1	30.0	30.0	3.8	1.0	1.1	145
Multi-family	13.5	13.9	40.0	15.0	...	...	3.5	86
Low-rent public housing	6.0	16.9	25.0	25.0	...	...	3.0	417
Transportation:								
MarAd Federal ship financing fund	13.9	15.9	20.0	10.0	0.6	...	7.9	14
Veterans Administration:								
Loan guaranty revolving fund	13.0	14.5	30.0	30.0	2.0	2.0	9.0	1,487
Export-Import Bank:								
Financial guarantees	12.5	14.0	5.0	5.0	...	...	4.2	38
Other guarantees and insurance	12.0	14.9	3.0	3.0	...	...	4.1	256
Small business assistance:								
General business	13.0	17.8	9.0	2.0	1.0	1.0	23.0	686
Pollution control bonds	12.5	14.0	20.0	30.0	3.5	4.0	8.4	1
Total—Selected guaranteed loan subsidies	...	...	...	...	...	...	...	**7,386**

[1] Includes annual fees.
[2] Flat fees only.
Note.—The comparative guaranteed loan terms shown above are for the most frequent type of loan guaranteed by the program, and are shown for illustrative purposes. The present value of the subsidies shown in the right hand columns take into account all of the types of loans guaranteed by the program, and include grace periods and amortization schedules, which are not shown.

Table F-12 measures the value of the subsidy to the borrower, not the cost of the subsidy to the Government, which would be the difference between the loan guarantee fee revenue and the net costs of default payments for each loan. A subsidy calculated on this basis would be much lower than the $7.4 billion "value of the subsidy to the borrower." It would be inappropriate to use such a "cost to Government" basis for calculating economic subsidies, since it would not measure the cost of the loan guarantee to the economy. This could lead to the mistaken perception that a program was economically self-sustaining when in fact, it was not. The Government need not worry, for example, that it will be forced out of business should it miscalculate the credit risk of guaranteeing a large loan.

Several qualifications should be kept in mind when reviewing Federal credit subsidies.

First, the subsidy calculation measures the economic cost of a given program, but it does not compare the cost to the benefit. This special analysis does not attempt to measure the benefits of credit programs and therefore cannot judge their justifications. Despite the absence of such measurements, it should be clear that the value of a particular credit program cannot be determined without making such a comparison.

Second, the subsidy estimates in Tables F-11 and F-12 are sensitive to changes in assumptions. As an example, if the appropriate private interest rate for RHIF home ownership loans were 16%, rather than 14% as shown in Table F-11, the present value of the subsidy would increase from $1,141 million to $1,200 million.

Third, the theoretical difficulties of calculating Federal credit subsidies are enormous, and the subsidy values shown in Tables F-11 and F-12 do not overcome all of them. For example, private investors might wish to have more detailed financial information about the borrower than the Federal Government might possess. The private sector would therefore reflect these higher transaction costs in its charges for loans and loan guarantees. The OMB subsidy estimates do not take account of such transaction costs.

Although economic subsidy values are important in evaluating the relative merits of Federal credit programs, it is equally important to know the actual cost of loan and loan guarantee programs to the Government, since this will affect Government outlays and the deficit. For direct loans, these costs will be the difference between the interest income on the loans, and the interest expense, the default costs and the servicing costs. For loan guarantees it will be the difference between the revenue from guarantee fees and the net costs of default and administration. Most loan guarantee programs in 1984 paid default claims that were higher than the fee

revenue they received. As mentioned in Section V, in order to place loan and loan guarantee programs on a sounder actuarial basis, the administration proposes to raise the level of the interest rates and fees several credit programs charge borrowers. Nonetheless, raising interest rates and fees does reduce the subsidy to favored borrowers. In all cases, the programs, even with higher user fees, still provide subsidies to favored borrowers. Table F-13 illustrates the degree to which these higher fees are estimated to reduce the subsidies offered by several major credit programs in 1986.

The amount of revenue that these higher interest rates and fees will raise is estimated at $6.7 billion in 1986-90.

Table F-13. **COMPARATIVE SUBSIDY VALUES FOR SELECTED CREDIT PROGRAMS IN 1986**

Type of loan and programs	Present value of subsidy			
	Average current Government loan		Proposed loan terms	
	Percent of loan value	Millions of dollars	Percent of loan value	Millions of dollars
Guaranteed loans:				
ACIF	4.0	120.9	0.8	22.8
CCC export credit	4.2	210.0	0.6	32.0
FHA mortgage insurance	3.1	663.6	2.1	448.1
Health professions graduate student loans	28.6	28.6	27.4	27.4
MarAd	9.8	29.2	5.0	14.9
VA loan guaranty fund	9.9	1,521.3	*	3.1
Total, guaranteed loans		2,573.6		548.3
Direct loans:				
MarAd advances	9.5	1.4	5.7	0.8
REA	45.7	262.6	2.4	13.9
VA vendee loans	10.8	69.3	1.0	6.1
Total, direct loans		333.3		20.8
Grand total, guaranteed and direct loans		2,906.9		569.1

* 0.05 percent or less.

VII. Defaults

Federal credit programs have markedly different objectives than private-lending institutions, which seek profits. Several Government credit programs, such as the Small Business Administration, are designed to play the role of "lender of last resort". Federal loans, therefore, often bear more risk than private lenders are willing to bear. As a result, some Government loan programs have high default rates. The diverse characteristics of Federal credit programs, each with its own legislative mandate, and the variety of

different borrowers make it difficult to compare default rates among programs.

Losses from direct loan write-offs appear to have been a miniscule amount of loans outstanding over the last two years according to the present system of Government reporting. In great part, however, this reflects the absence of Government-wide standards for writing off direct loans held in the Government's portfolio. As a result, direct loans are frequently carried in the Government's portfolio at their nominal value regardless of their true value. The Eximbank, for example, still holds in its portfolio $81 million in loans made to Cuba between 1951 and 1958. The FmHA holds in its portfolio, at their full nominal value, several billion dollars of loans that are delinquent by more than a year.

In the past, losses from loan guarantee programs were considered relatively small for two reasons. First, many of the guaranteed loans involved liens on marketable property, particularly houses. Second, due to the absence of Government-wide standards, many loans acquired as a result of defaults on guaranteed loans were never written off. This makes the losses due to Government guarantee programs look smaller than they are.

There has been a growing recognition that losses in both direct and loan guarantee programs are higher than reported. In recognition of this problem, the Treasury Department and the Office of Management and Budget are studying means to improve the Government's reporting of and control over defaults. Table F-14 shows the amount of direct loans written off and the amount of guaranteed loans terminated for defaults. Of all direct loans outstanding, only 0.5% are recorded as write-offs in 1984. Of total guaranteed loans outstanding, 1.0% are reported to be terminated in 1984. These percentages decline over 1985–1986.

Table F-14. **DIRECT LOAN WRITE-OFFS, GUARANTEED LOAN TERMINATIONS FOR DEFAULTS, AND PERCENT OF TOTAL OUTSTANDING LOANS**

(In millions of dollars)

	Actual 1984	Estimate		As Percent of Outstanding Loans		
		1985	1986	1984	1985	1986
Direct loans:						
AID Development loans	308	259	261	3.41	2.95	3.07
National direct student loans	65	38	21	1.31	0.75	0.40
FmHA agriculture credit insurance fund	46	55	60	0.18	0.19	0.23
Federal Housing Administration	152	42	46	3.65	1.00	1.13
Small business assistance:						
Disaster loan fund	102	99	96	2.06	2.06	2.86
Business loans	327	300	300	7.12	5.79	12.25
Other	213	114	112	0.11	0.06	0.06
Total write-offs	1,213	977	896	0.53	0.40	0.37
Guaranteed loans:						
Foreign military sales [1]	613	683	793	3.54	3.48	3.99
Guaranteed student loans	749	870	877	2.34	2.39	2.21
Veterans Administration	1,121	1,164	1,248	0.89	0.86	0.86
Federal Housing Administration	1,756	1,882	1,846	1.03	1.02	0.92
Small business loans [1]	613	550	535	6.26	5.17	6.98
Maritime Administration	93	183	92	1.32	2.73	1.43
Export-Import Bank	461	408	294	8.11	6.19	4.05
Grants to Amtrak [1]	880	.....	.....	100.00	.....	.....
Other	344	113	96	0.11	0.03	0.03
Total terminations	6,630	5,853	5,781	0.98	0.79	0.72

[1] Includes loans guaranteed by this account that are disbursed by the Federal Financing Bank.

The Agency for International Development (AID) and the Small Business Administration (SBA) report the largest write-offs for direct loans in 1984. AID wrote off $308 million, or 3.4%, of its outstanding loans in that year. SBA wrote off $429 million, or 4.5% of its outstanding loans. The FHA has the largest dollar amount of guaranteed loan terminations for default. In 1984, FHA terminated $1.8 billion or 26% of the total amount of guaranteed loan terminations.

VIII. The Federal Financing Bank

The Federal Financing Bank (FFB) began operation in May 1974 and has been a significant factor in financing Federal credit activities. The Bank is administered by the Treasury Department. By law, its transactions have been excluded from the budget totals. Hence, its lending transactions have not been counted as budget outlays, although it is part of the Federal Government and finances its operations by borrowing from the Treasury Department. The administration is proposing legislation to place these transac-

tions in the unified budget, and they are included on-budget in the actual and projected totals in the 1986 budget documents.

The FFB was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold, or guaranteed by Federal agencies. Use of the FFB by Federal agencies leads to lower debt financing costs than if the agencies were to borrow individually in the credit market. Agency obligations trade at premiums above Treasury securities due to their relative illiquidity, smaller size of issue, and unique financial terms that distinguish them from Treasury securities and each other.

The FFB performs three functions: (1) it purchases guaranteed loan assets from Federal agencies; (2) it disburses loans directly to borrowers when the loans are guaranteed by a Federal agency; and (3) it lends to Federal agencies that are otherwise authorized to borrow from the public. In all cases, the servicing of the loans and the operation of the programs remain with the agencies that use the FFB.

(1) Loan asset sales.—Most loan asset sales are made to the FFB rather than to the public. This converts the loans from outlays of the responsible agencies to FFB outlays. This subject is discussed in more detail in the next section.

(2) Guaranteed loan originations.—The FFB disburses loans directly to borrowers when the loan is guaranteed by a Federal agency. The agency's guarantee program thus becomes a program that effectively makes direct loans. The only programs that are proposed to use the FFB in this manner in 1986 are the Rural Electrification Administration and the Tennessee Valley Authority's Seven States Energy Corporation.

(3) Agency borrowing.—Agencies authorized to borrow from the public, such as Eximbank, almost always borrow from the FFB (or the Treasury) instead, since it is less expensive than issuing their own securities and borrowing directly from financial markets. This borrowing has no effect on outlays, since outlays are recorded when the proceeds of borrowing are spent by the agencies.

Table F-15 summarizes the activities of the FFB for 1984 through 1990. Table F-22 at the end of this special analysis shows the activities of the FFB over the same period by agency and account.

The proper treatment of FFB transactions is a major accounting issue with respect to the unified budget. In principle, all outlays of the Federal Government should be reported in the unified budget. The past use of the FFB was the greatest exception to the comprehensive principles of the unified budget. From 1978 to 1983, FFB outlays averaged 96% of all off-budget outlays.

Table F-15. **SUMMARY OF FEDERAL FINANCING BANK ACTIVITY**

(In billions of dollars)

	Actual 1984	Estimate					
		1985	1986	1987	1988	1989	1990
Purchases of loan assets from Federal agencies:							
New acquisitions	13.2	11.4	0.8	0.2	0.2	0.4	0.3
Net outlays	2.9	4.5	−0.7	−4.2	−4.2	−4.4	−5.3
Outstandings	63.3	67.9	67.2	63.0	58.8	54.4	49.2
Guaranteed loan originations:							
New acquisitions	6.3	2.3	0.4	0.3	0.2	0.1	.....
Net outlays	4.5	5.9	0.8	0.9	0.1	−0.4	−0.8
Outstandings	50.8	56.7	57.4	58.4	58.5	58.0	57.2
Total:							
New acquisitions	19.4	13.7	1.2	0.5	0.4	0.5	0.3
Net outlays	7.3	10.4	0.1	−3.3	−4.1	−4.8	−6.1
Outstandings	114.1	124.6	124.6	121.3	117.3	112.5	106.4
ADDENDUM							
Agency Borrowing:							
Net change	1.5	1.6	1.0	−0.4	−1.5	−2.2	−2.4
Outstandings	30.6	32.2	33.1	32.8	31.3	29.1	26.6

The key improvement that could be made to the unified budget would be to charge the FFB outlays on-budget to the agencies that use the FFB to finance their programs. Last year, the credit budget attributed FFB outlays in this manner. Table F-19 ("Direct Loan Transactions of the Federal Government") at the end of this special analysis attributes FFB direct loans to the responsible agencies. FFB outlays are also attributed to the appropriate function, subfunction and program in Part 5 of the budget.

IX. Loan Asset Sales and Repurchases

Loan assets are direct loans that an agency has made to the public and on which repayments are still owed. Table F-16 shows data for two types of transactions. The first is loan asset sales to the public and the FFB. In the case of loan asset sales to the FFB, the agency selling the loan assets also guarantees the repayment of the loan to the FFB. In the case of sales to the public, the agencies do not normally guarantee the repayment.

The second type of transaction, the repurchase of loan assets, occurs when the agency buys back from the FFB or the public the loan assets it previously sold. Although the repurchase agreement requires an agency to incur a direct loan obligation, repurchases are intragovernmental transactions and do not comprise new credit transactions with the public.

Originally, selling loan assets meant selling title to the individual loans to the public. Later, various types of certificates repre-

senting pools of loans were sold to the public. However, with the creation of the FFB, most loan assets have been sold by agencies to the FFB as a means of financing the program. In 1984, 84% of total loan asset sales were to the FFB.

The largest volume of loan assets sold are certificates of beneficial ownership (CBO's) sold to the FFB by the Farmers Home Administration (FmHA) and Rural Electrification Administration (REA) to support their direct loan programs. CBO's are not loans themselves but are instead certificates backed by groups or pools of direct loans. When a CBO is sold, the ownership of the specific loans is retained by the originating agency, and the agency continues to incur the servicing costs and to assume the full risk of default on the loans. The President's Commission on Budget Concepts recommended in 1967 that the sale of such securities be treated as borrowing because there is little difference in substance between an agency selling securities labeled "certificates of beneficial ownership," or the same agency or the Treasury Department selling securities labeled "debt." While this treatment generally has been applied, legislation requires that the CBO's of FmHA and REA be treated as loan assets rather than debt.

At scheduled intervals, the agency will repurchase loan assets from the FFB. At present, the FmHA is the only agency that repurchases its loan assets. REA plans to begin repurchasing loan assets in 2006.

Selling loan assets to the public with a Government guarantee is a form of federally assisted borrowing from the public. The Government incurs a contingent liability in the amount of the loan guarantee. Guaranteed loan asset sales are, however, a more costly means of borrowing for the Government than issuing new Treasury securities since purchasers frequently will offer prices well below the face value of the loans, despite the Government guarantee. The lower price is offered because the loan assets may be relatively illiquid or have unique characteristics that reduce their value to the purchaser. Yet, because of the Government guarantee, such sales do reduce the demand for the alternative investment of a Treasury security. It is more efficient for the Government to meet its borrowing needs by issuing Treasury securities. For this reason, administration policy has been to sell loan assets to the public without a Government guarantee.

Sales of unguaranteed loans may be attractive to the Government. First, the private purchaser may be more efficient in administering the loan than the Federal agency. Selling the loans allows the Government to reduce its administrative expenses. Second, the discount from the face value of the loans provides an unambiguous measure of the subsidy of the loan. This subsidy can then be compared with the benefits of the loan, and thereby provide the

Table F-16. **LOAN ASSETS SALES AND REPURCHASES**

(In millions of dollars)

Agency or program	Loan asset sales and repurchases:	Actual 1984	Estimates 1985	Estimates 1986
Agriculture:				
Agriculture credit insurance fund	sales to the FFB	6,805	5,332	166
	repurchases from FFB	5,395	4,157	1,250
Rural housing insurance fund	sales to the public	30	25	20
	sales to the FFB	5,020	4,445	26
	repurchases from FFB	3,930	2,110	206
Rural development insurance fund	sales to the FFB	1,300	1,184	360
	repurchases from FFB	980	595	.....
Rural electrification and telephone revolving fund	sales to the FFB	69	447	253
Commerce:				
Economic development revolving fund	sales to the public	1	5	5
Health and Human Services:				
Health programs	sales to the FFB	1	8	1
Housing and Urban Development:				
Federal Housing Administration fund	sales to the public	159	21	33
Veterans' Administration:				
Loan guarantee revolving fund	sales to the public	866	665	496
Small business assistance	sales to the public	.....	.....	2,000
	repurchases from FFB	1	1	1
Subtotal, excluding tandem plans [1]	sales to the public	1,057	716	2,554
	sales to the FFB	13,195	11,415	806
	repurchases from FFB	10,306	6,863	1,457
Housing and Urban Development (GNMA):				
Tandem Plan Sales—FHA/VA mortgages	sales to the public	1,461	1,040	628
Grand total	sales to the public [2]	2,518	1,756	3,183
	sales to the FFB [3]	13,195	11,415	806
	repurchases from FFB	10,306	6,863	1,457

[1] All loans sold, except conventional tandem plan sales, are guaranteed upon sale and reflected in the guaranteed loan totals in Table F-20.
[2] The "public" includes Government-sponsored enterprises such as FNMA and FHLMC, which are among the principal purchasers of HUD and VA mortgages.
[3] See Table F-22 for detail of FFB purchases.

Note: Amounts shown are net receipts, not necessarily face value of loans sold.

executive branch and Congress with the information necessary to evaluate the relative benefits and costs of such subsidized loans.

X. Federal Deposit Insurance

One borderline area in Federal credit programs is the budgetary treatment accorded the deposit insurance programs of the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration (NCUA). Some credit activities of these programs have been reflected in past credit budgets, while other activities have not.

Deposit insurance offered by these programs serves two purposes: (1) it is intended to help stabilize the Nation's monetary and finan-

cial system and thereby the economy as a whole; and (2) it protects depositors who use the insured financial intermediaries. Table F-17 below shows that the value of insured deposits at the end of 1984 was over $2 trillion.

Table F-17. **FEDERAL DEPOSIT INSURANCE**

(In billions of dollars)

	1983	1984
Federal Deposit Insurance Corporation	1,210	1,322
Federal Savings and Loan Insurance Corporation	608	695
National Credit Union Administration	78	88
Total	1,896	2,105

Federal deposit insurance is not included in the guaranteed loan portion of the credit budget, principally because it does not directly allocate credit to the ultimate borrowers of that credit. Deposit insurance directly affects the liabilities (the deposits) of financial intermediaries but only indirectly their assets (loans). All other Federal guarantee programs are structured to influence the assets or loans of financial intermediaries directly. Nonetheless, as the 1984 *Economic Report of the President* states, Federal deposit insurance does give insured institutions "an incentive to take on more risk than they would otherwise, either by making riskier loans or by increasing leverage" (page 165). To this degree, deposit insurance does indirectly affect the allocation of credit. It also indirectly affects the allocation and amount of credit by changing depositor behavior as a result of its protection, and by insuring the stability of the financial system and the economy.

Federal deposit insurance programs may assist insured depositors in a variety of ways. When an insured financial institution becomes troubled, deposit insurance programs may: (1) liquidate the institution and pay depositors directly; (2) merge the troubled institution with a healthier institution, perhaps providing financial assistance to the acquiring partner in the merger; or (3) provide financial assistance directly to the troubled institution in the expectation that it will recover. Financial assistance to private financial intermediaries has consisted of equity purchases, purchases of physical assets, and direct loans and loan guarantees.

Direct loans involving disbursements of cash are included in the credit budget. These amounts have typically been small for the FDIC ($64 million in 1983) and the FSLIC ($19 million) because the preferred means of helping troubled financial intermediaries was to arrange a merger with a healthy institution. This did not normally involve the disbursement of cash and the creation of a loan asset held by the FDIC or FSLIC.

The recent increase in bank failures, particularly of some larger banks, has increased the amount of FDIC and FSLIC loans to private financial intermediaries and brought about a reexamination of how these transactions have been treated in the budget. While many of these transactions do not involve the disbursement of cash by a Federal agency to the troubled financial institution, they do involve the acquisition by the Federal agency of both loan assets and liabilities of the troubled institution. Because no cash has been disbursed, these transactions are not reflected in increased Federal outlays. On the other hand, the dollar amount of loan assets held by the Federal Government has increased. For that reason, transactions of this type are scored in the 1986 credit budget as direct loan obligations and increases in direct loans outstanding. Direct loan obligations made by deposit insurance programs amounted to $6.3 billion in 1984.

In addition to deposit insurance and direct loans, Federal deposit insurance programs also offer loan guarantees to private financial intermediaries. These loan guarantees have not been counted in past credit budgets. The exclusion of these guaranteed loans—as distinct from deposit insurance—is inconsistent with the principle of comprehensive coverage, which has always been one of the foundations of the credit budget. It is also inconsistent with the inclusion of direct loans made by these Federal agencies to private financial intermediaries. Beginning with the 1986 budget, therefore, these guaranteed loan commitments and guaranteed loans are included in the credit budget. Guaranteed loan commitments made by deposit insurance programs amounted to $232 million in 1984.

XI. Tax Exempt Credit

Interest on State and local government obligations generally has been exempted from the Federal income tax since its adoption in 1913.[4] Federal tax exemption increases the demand for these obligations, since it results in higher interest rates net of taxes for the lenders and investors. This increase in demand reduces the interest rates of these obligations relative to the pre-tax interest rates of taxable securities. Consequently, tax-exempt interest rates in 1984 have normally been about 75% of taxable interest rates on long-term obligations with similar credit risk.

Tax exemption reallocates scarce credit resources, just as do Federal direct loans and loan guarantees. Borrowers aided by Federal tax-exempt status have access to credit resources at preferential interest rates over competing borrowers without the tax-exempt status. Borrowers who benefit both from tax exemption and

[4] Tax exemption is a tax expenditure. (See Special Analysis G, "Tax Expenditures.") Special Analysis G includes a discussion of revenue losses attributable to special provisions of the tax code, including various types of tax-exempt bonds.

Federal guarantees have an advantage over all other borrowers, including the Federal Government, since the interest on Federal Government debt is taxable.

Although tax-exempt financing alters the allocation of credit and has costs similar to other Government financing programs, it is not included in the credit budget for two reasons. First, unlike other credit assistance, the statutory authority for tax-exempt credit generally allows unlimited access that is unilaterally elected by eligible borrowers. Second, tax-exempt credit is not controlled by the budget process in the same manner as direct loans or guaranteed loans; effective control of tax-exempt financing can only be achieved through legislated changes to the tax code.

A relatively small portion of tax-exempt financing is guaranteed by the Federal Government and so is included in the credit budget as guaranteed loan commitments. This occurs when the Federal Government guarantees the financial assets that underlie the tax-exempt obligation. Examples include State and local government bonds that finance home mortgages guaranteed by the Federal Housing Administration or the Veterans Administration, or bonds that finance student loans guaranteed by the Department of Education. No complete data exist on the amount of guaranteed loans that are directly or indirectly linked to tax-exempt financing.

This administration and previous ones have believed for several reasons that Federal agencies should not offer direct or indirect guarantees for securities that benefit from tax-exempt status. First, tax-exempt financing is an inefficient means of financing, since the tax loss to the Treasury is greater than the savings from the lower financing costs available to the borrower. Therefore, it should not be stimulated by benefitting from a Government guarantee. Second, the guarantee of tax-exempt financing confers double benefits on investors in those securities: they pay no Federal income tax and they bear no risk. This class of debt obligation is therefore superior to Treasury securities.

OMB's revised Circular A-70 states explicit prohibitions against the linkage of Federal guarantees with tax-exempt instruments. Congress has generally agreed with this policy. The Deficit Reduction Act of 1984 includes provisions that deny tax-exempt status to obligations that are guaranteed directly or indirectly by the Federal Government, including obligations issued by institutions insured by Federal deposit insurance programs. The Act does allow several exceptions to the rule, including certain bonds to finance mortgages insured by FHA or guaranteed by VA, and student loans guaranteed by the Department of Education.

During the first half century of the income tax, tax-exempt borrowing was confined mainly to State and local borrowing for public purposes such as financing roads and schools. From the 1960s on,

however, the benefits of tax-exempt financing increasingly have been made available to private businesses. State or local governments typically establish authorities that function as financial institutions in providing tax-exempt financing to private borrowers. They use their tax-exempt financing to purchase an asset, which in turn is purchased from them by the borrower, or they lend the proceeds of an issue to a private borrower. In general, the private borrower is solely responsible for the payment of interest and principal even in the event of default. The State or local government, in some cases, can benefit from investment earnings on funds held for temporary periods and from fees paid by borrowers.

Industrial development bonds (IDBs) issued for use by private business were made taxable in the 1968 and 1969 tax acts, but a number of major exceptions were permitted. Tax-exempt IDBs are permitted for pollution control, sewage and waste facilities, multifamily rental housing, facilities financed with "small-issues" of under $10 million in face amount, and certain other private business projects. In recent years, tax-exempt bonds have also become a common means of financing owner-occupied housing, student loans, and private nonprofit hospitals and educational facilities.

Concerned by the rapid growth of private purpose tax-exempt bonds, Congress recently placed further restrictions on their use. The Omnibus Reconciliation Act of 1980 imposed a number of restrictions on tax-exempt mortgage subsidy bonds for owner-occupied housing, including limitations on the volume issued in each State. The Tax Equity and Fiscal Responsibility Act of 1982 required that IDBs be approved by an elected public official after a public hearing, and that assets of certain IDB-financed projects placed in service after 1982 be depreciated using the straight-line method rather than accelerated depreciation. The 1982 tax act also eliminated the tax exemption for "small issue" IDBs issued after 1986.

The Deficit Reduction Act of 1984 (DEFRA) restricted the annual volume of student loan bonds and most IDBs issued in each State to the greater of $150 per capita or $200 million, a total volume of approximately $36 billion in 1984. The per capita limitation will be reduced to $100 in 1987 to reflect the termination of the small-issue exception for nonmanufacturing facilities; authority for small-issue IDBs for manufacturing facilities was extended through 1988. DEFRA also required IDB issuers to rebate any excess arbitrage earnings to the Federal Government, and prohibited the use of consumer loan bonds. Although the Act extended the use of mortgage subsidy bonds for 4 years, an optional program for issuers to provide mortgage credits to eligible homebuyers in lieu of tax-exempt bonds was enacted. Finally, volume limits on the use of veterans' housing bonds restricted their use to five States.

Even with these restrictions, the volume of private purpose tax-exempt bonds has continued to increase. Table F-18 shows the growth of the volume of new issues of long-term tax-exempt bonds. Total new issues grew from $55 billion in calendar year 1981 to $85 billion in 1982 and $93 billion in 1984. Private purpose tax-exempt bonds rose from $31 billion in 1981 to an estimated $67 billion in 1984. Private purpose tax exempt bonds, as a percentage of total tax-exempt new long-term issues, rose steadily from 29% in 1975 to 60% in 1980, remaining a fairly constant percentage in later years.

The record supply of new tax-exempt bond issues, combined with reduced demand for tax-exempt bonds by financial institutions and lower marginal tax rates of individual investors, has contributed to the reduction in the relative advantage of tax-exempt financing to the borrower. Tax-exempt yields have had to increase relative to yields on alternative investments in order to attract additional funds. Consequently, the interest saving to the borrower from the tax exemption on securities with 20-year maturities has dropped to between 15% and 20% of taxable interest rates. A smaller cost advantage increases the financing costs for State and local government borrowing for traditional public projects such as roads, schools, and sewers.

Special Analysis G, "Tax Expenditures," shows the annual revenue loss from outstanding tax-exempt bonds issued for various purposes.

Table F-18. **TAX EXEMPT FINANCING (in billions of dollars)**

	Calendar years										
	Actual [1]								Estimates		
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Private purpose tax-exempts	11.4	17.4	19.7	28.1	32.5	30.9	49.6	57.1	67.0	66.5	75.8
Housing bonds	2.7	4.4	6.9	12.1	14.0	4.8	14.6	17.0	18.5	22.3	24.7
Single-family mortgage subsidy bonds	0.7	1.0	3.4	7.8	10.5	2.8	9.0	11.0	11.5	14.8	16.6
Multi-family rental housing bonds	1.4	2.9	2.5	2.7	2.2	1.1	5.1	5.3	5.5	6.0	6.6
Veterans general obligation bonds	0.6	0.6	1.2	1.6	1.3	0.9	0.5	0.7	1.5	1.5	1.5
Private exempt entity bonds [2]	2.5	4.3	2.9	3.2	3.3	4.7	8.5	11.7	11.0	12.1	13.2
Student loan bonds	0.1	0.1	0.3	0.6	0.5	1.1	1.8	3.3	1.5	0.9	0.9
Pollution control industrial development bonds	2.1	3.0	2.8	2.5	2.5	4.3	5.9	4.5	11.0	9.0	10.4
Small-issue industrial development bonds	1.5	2.4	3.6	7.5	9.7	13.3	14.7	14.6	15.0	13.0	16.0
Other industrial development bonds [3]	2.5	3.2	3.2	2.2	2.5	2.7	4.1	6.0	10.0	9.2	10.6
Public purpose tax-exempts	23.6	29.5	29.3	20.3	22.0	24.2	35.3	36.2	39.6	43.6	48.0
Total new issues, long-term tax exempts	35.0	46.9	49.1	48.4	54.5	55.1	84.9	93.3	106.6	110.1	123.8

[1] Includes some estimates.
[2] Private exempt entity bonds are obligations of Internal Revenue Code Section 501 (c)(3) organizations, such as private non-profit hospitals and educational facilities.
[3] Other IDB's include obligations for private businesses that qualify for tax exempt activites, such as sewage disposal, airports and docks.

Source: Office of Tax Analysis, Department of Treasury.

XII. Summary

The need for better control over Federal credit is widely recognized within the executive branch and the Congress. With $229 billion in direct loans outstanding and $387 billion in primary guaranteed loans outstanding in 1984, the Federal Government is the single largest financial intermediary in the United States. Its credit policies and practices affect all major segments of the economy.

To gain better control over Federal credit, the President's budget since January 1980 has included a Federal credit control system, composed of the credit budget and credit limitations proposed in individual appropriations bills. This system needs to be strengthened. Congress should establish aggregate limits on new direct loan obligations and guaranteed loan commitments in the budget resolution process. It should also require that credit totals be included in the budget reconciliation process. The unified budget should be made more reflective of Federal lending by including the currently off-budget outlays of the Federal Financing Bank and other entities, as proposed in the 1986 budget. The management of Federal credit programs should be improved through consistent application of Government-wide standards on loan defaults and write-offs.

These steps, though critical, are only part of the improvements necessary for better control. The subsidy element in Federal credit programs needs to be measured more accurately and targeted more effectively. A key improvement in Federal credit programs would be to state their objectives and the means of achieving those objectives in a straightforward manner. The subsidy costs of operating these programs could then be compared to the economic and social benefits realized in achieving the programs' objectives.

XIII. Appendices

Additional Discussions of Federal Credit Programs and Related Issues in the 1986 Budget Documents

- Special Analysis E ("Borrowing and Debt") contains information on Federal borrowing, borrowing by Government-sponsored enterprises, and the Federal Financing Bank.
- Special Analysis G ("Tax Expenditures") contains information on tax-exempt borrowing.
- Special Analysis H ("Federal Aid to State and Local Governments") contains information on Federal loans to State and local governments.
- Part 5 of the Budget ("Meeting National Needs: The Federal Program by Function") contains a discussion of major credit programs by budget function (e.g., Agriculture, Commerce and Housing, International Affairs).
- Part 6 of the Budget ("Perspectives on the Budget") discusses the proposal to shift the entities (such as the FFB) that are off-budget under current law into the budget, and discusses the activities of these entities, Government-sponsored enterprises, loan guarantees, and tax expenditures.
- Part 7 of the Budget ("The Budget System and Concepts") contains a summary description of the credit budget principles.
- Part 8 of the Budget ("The Federal Program by Agency Account") presents budget authority and outlay data in accounts that contain credit programs.
- Part 9 of the Budget ("Summary Tables") contains summary tables of the credit budget totals (Table 1) and summaries by agency of direct loan obligations and guaranteed loan commitments (Table 17).
- The Budget Appendix contains additional information for each credit program by budget account. Part I of the Appendix ("Detailed Budget Estimates") provides credit program information by major departments and agencies. Part V ("Government-Sponsored Enterprises") provides information on these enterprises.

Credit Accounting

For the 1986 budget, two accounting changes and two presentational changes have been introduced in this document. The accounting changes involve a reclassification of defaulted guaranteed loans, and a change in the accounting for noncash lending. The presentational changes involve the on-budget treatment of entities formerly displayed as off-budget entities, and the removal of

agency repurchases of loan assets previously sold to FFB from the direct loan tables.

- *Accounting changes.* For several years, when a borrower defaulted on an agency-guaranteed loan, the Government would reimburse the lender for his losses, and the defaulted guaranteed loan would be simultaneously scored as a direct loan regardless of whether the borrower retained liability to repay the Government. The new treatment is to classify each default as to whether it results in the Government: acquiring a note, loan or other promise to repay; acquiring property or other collateral in satisfaction of the default; or suffering a nonretrievable loss. Only the first type of defaulted guaranteed loan will now be considered a direct loan in the credit budget for 1985 and onward.

  A second accounting change involves loans that are not created by a Federal agency's disbursement of cash. Such loans take place when the Government sells physical assets on credit terms or when it otherwise increases its holdings of loan assets. An example of the first type is the VA vendee loan program, in which the VA resells houses acquired through foreclosure on credit terms. The resulting VA mortgage from resale of the property, although not a cash transaction, is considered a direct loan.

  An example of the second type of noncash loan is the FDIC's assumption of $3.5 billion in loans from the Continental Illinois bank. The FDIC increased its holdings of loan assets by assuming an equivalent amount of Continental's liabilities to the Federal Reserve Bank of Chicago.
- *Presentational change.* Consistent with the administration's 1986 proposal to place all off-budget entities on-budget, off-budget Federal lending of the Rural Electrification Administration, the Rural Telephone Bank, and the U.S. Railway Association is shown as on-budget lending. These loans have always been included in the credit budget totals, so the aggregate credit budget is not affected by this change.

  Beginning this year, a change to further simplify the credit budget presentation has been implemented. Agency repurchases of loan assets from the FFB are no longer presented in the direct loan table (F-19), but are presented in Table F-15, "Loan Asset Sales and Repurchases." Since these repurchases are to buy back previous loans, they do not involve new Federal lending to the public.

Table F-19, "Direct Loan Transactions of the Federal Government," reflects the attribution of FFB direct loans (loan asset purchases and direct loans made to the public) to each agency responsible for those loans. Consistent with this presentation, Table F-20,

"Guaranteed Loan Transactions of the Federal Government", excludes agency guarantees of FFB direct loans. The presentation of these tables is consistent with the credit program tables in Part 5 of the Budget, which were changed last year to attribute the FFB activity.

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Funds Appropriated to the President:								
Economic Support Fund	Obligations	288	240	396	463	503	545	592
	Loan disbursements	382	240	396	463	503	545	592
	Change in outstandings	*335*	*192*	*337*	*303*	*493*	*545*	*506*
	Outstandings	**6,011**	**6,203**	**6,540**	**6,844**	**7,336**	**7,882**	**8,387**
Foreign Military Sales Credit	Obligations	1,315	4,940	5,655	5,779	5,901	6,019	6,130
	Loan disbursements	1,060	2,802	4,863	5,646	6,059	6,248	6,514
	Change in outstandings	*−86*	*421*	*1,874*	*2,314*	*2,494*	*2,406*	*2,277*
	Outstandings	**140**	**562**	**2,435**	**4,750**	**7,244**	**9,650**	**11,927**
Foreign Military Sales Credit (loans made by FFB) [1]	Obligations	4,401	...	...	...	...	...	...
	Loan disbursements	3,503	3,147	1,311	524	262	...	...
	Change in outstandings	*2,818*	*2,340*	*282*	*−693*	*−1,001*	*−1,218*	*−1,029*
	Outstandings	**17,111**	**19,451**	**19,733**	**19,040**	**18,040**	**16,821**	**15,792**
Guarantee Reserve Fund (Foreign military sales defaults)	Obligations	613	683	793	824	793	793	785
	Loan disbursements	613	683	793	824	793	793	785
	Change in outstandings	*248*	*239*	*278*	*288*	*278*	*277*	*275*
	Outstandings	**775**	**1,014**	**1,292**	**1,580**	**1,857**	**2,135**	**2,410**
Overseas Private Investment Corporation	Obligations	10	15	15	15	15	15	15
	Loan disbursements	4	10	10	10	12	13	13
	Change in outstandings	*−**	*4*	*4*	*4*	*6*	*7*	*6*
	Outstandings	**33**	**37**	**41**	**45**	**51**	**58**	**64**
Overseas Private Investment Corporation (loans held by FFB) [2]	*Change in outstandings*	*−5*	*−5*	*−5*	*−1*	*−**	...	...
	Outstandings	**11**	**6**	**1**	*****	...	...	...
AID functional development assistance	Obligations	406	342	315	358	358	358	358
	Loan disbursements	330	345	342	342	344	346	347
	Change in outstandings	*332*	*337*	*334*	*333*	*334*	*335*	*335*
	Outstandings	**2,840**	**3,178**	**3,511**	**3,844**	**4,178**	**4,513**	**4,848**
AID development loans revolving fund	Obligations	...	...	...	...	...	...	...
	Loan disbursements	*	...	...	...	...	...	...
	Change in outstandings	*−304*	*−259*	*−261*	...	...	...	...

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
	Outstandings	**9,026**	**8,767**	**8,506**	**8,506**	**8,506**	**8,506**	**8,506**
AID private sector revolving fund	Obligations	12	18	20				
	Loan disbursements		8	16	14	7	2	
	Change in outstandings		*8*	*16*	*14*	*7*	*2*	
	Outstandings		**8**	**24**	**39**	**46**	**48**	**48**
AID housing and other credit guarantees	Obligations	27	29	29	22	22	19	19
	Loan disbursements	27	29	29	22	22	19	19
	Change in outstandings	*12*	*24*	*24*	*14*	*14*	*9*	*9*
	Outstandings	**32**	**56**	**81**	**94**	**108**	**117**	**127**
AID miscellaneous appropriations	Obligations							
	Loan disbursements	48						
	Change in outstandings	*42*	*−8*	*−8*	*−9*	*−10*	*−11*	*−12*
	Outstandings	**181**	**173**	**165**	**156**	**146**	**135**	**123**
Agriculture:								
Farmers Home Administration:								
Agricultural credit insurance fund	Obligations	4,005	3,770	435	318	294	365	19
	Loan disbursements	3,976	3,786	643	318	209	108	8
	Change in outstandings	*131*	*1,392*	*−1,065*	*800*			
	Outstandings	**410**	**1,802**	**737**	**1,537**	**1,537**	**1,537**	**1,537**
Agricultural credit insurance fund (loans held by FFB) [2]	*Change in outstandings*	*1,410*	*1,175*	*−1,084*	*−3,177*	*−3,088*	*−2,876*	*−3,305*
	Outstandings	**25,517**	**26,692**	**25,608**	**22,431**	**19,343**	**16,467**	**13,162**
Rural housing insurance fund	Obligations	2,776	3,445	168	42	170	192	34
	Loan disbursements	2,562	3,451	1,621	450	94	30	30
	Change in outstandings	*90*	*−292*	*312*				
	Outstandings	**435**	**143**	**455**	**455**	**455**	**455**	**455**
Rural housing insurance fund (loans held by FFB) [2]	*Change in outstandings*	*1,090*	*2,335*	*−180*	*−1,192*	*−1,236*	*−1,446*	*−1,675*
	Outstandings	**26,766**	**29,101**	**28,921**	**27,729**	**26,493**	**25,047**	**23,372**
Rural development insurance fund	Obligations	412	511	62	5	243	90	301
	Loan disbursements	457	739	507	438	239	77	27

	Change in outstandings	*—**	*—5*	*—25*	*15*	*—10*	*—10*	*—10*
	Outstandings	**105**	**100**	**75**	**90**	**80**	**70**	**60**
Rural development insurance fund (loans held by FFB) [2]	*Change in outstandings*	*320*	*589*	*360*	*121*	*183*	*—45*	*—276*
	Outstandings	**7,228**	**7,817**	**8,177**	**8,299**	**8,482**	**8,437**	**8,160**
Commodity Credit Corporation:								
Short and medium term export loans	Obligations	147	325	...	...	...	...	...
	Loan disbursements	142	325	...	...	...	...	...
	Change in outstandings	*83*	*—95*	*—267*	*—211*	*—172*	*—63*	*—6*
	Outstandings	**823**	**728**	**460**	**250**	**78**	**15**	**9**
Commodity loans	Obligations	5,130	8,891	8,507	7,928	5,345	3,367	3,123
	Loan disbursements	5,130	8,891	8,507	7,928	5,345	3,367	3,123
	Change in outstandings	*—6,220*	*1,984*	*—591*	*—2,579*	*—2,257*	*—1,523*	*—329*
	Outstandings	**7,856**	**9,839**	**9,249**	**6,670**	**4,413**	**2,890**	**2,561**
Storage facility loans	Obligations	1	*	...	...	...	...	...
	Loan disbursements	1	*	...	...	...	...	...
	Change in outstandings	*—293*	*—294*	*—264*	*—130*	*—29*	...	...
	Outstandings	**716**	**422**	**159**	**29**	*	...	...
Rescheduled guaranteed loans	Obligations	183	...	...	...	...	...	...
	Loan disbursements	183	...	...	...	...	...	...
	Change in outstandings	*181*	*—13*	*—45*	*—52*	*—70*	*—78*	*—39*
	Outstandings	**364**	**350**	**306**	**254**	**184**	**106**	**67**
Public Law 480 long-term export credits	Obligations	806	1,012	922	940	958	975	964
	Loan disbursements	748	1,012	922	940	958	975	964
	Change in outstandings	*468*	*761*	*647*	*640*	*638*	*635*	*604*
	Outstandings	**9,269**	**10,030**	**10,677**	**11,317**	**11,955**	**12,590**	**13,194**
Rural electrification and telephone revolving fund	Obligations	1,079	1,122	575	435	290	145	...
	Loan disbursements	780	1,200	800	700	600	500	400
	Change in outstandings	*285*	*314*	*98*	*119*	*104*	*88*	*71*
	Outstandings	**10,163**	**10,477**	**10,575**	**10,694**	**10,798**	**10,886**	**10,957**
Rural electrification and telephone revolving fund (loans made by FFB) [1]	Obligations	1,002	1,325	300	225	150	75	...
	Loan disbursements	2,395	2,885	2,432	1,950	1,750	1,500	1,000
	Change in outstandings	*1,648*	*2,685*	*2,222*	*1,700*	*1,490*	*1,230*	*700*
	Outstandings	**20,587**	**23,272**	**25,494**	**27,194**	**28,684**	**29,914**	**30,614**
Rural electrification and telephone revolving fund (loans held by FFB) [2]	*Change in outstandings*	*69*	*447*	*253*	*53*	...	...	...
	Outstandings	**3,537**	**3,984**	**4,237**	**4,290**	**4,290**	**4,290**	**4,290**

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Rural Telephone Bank	Obligations	143	185	185	139	92	46	
	Loan disbursements	90	150	150	150	125	115	105
	Change in outstandings	*74*	*134*	*133*	*149*	*104*	*89*	*75*
	Outstandings	**1,327**	**1,461**	**1,594**	**1,743**	**1,847**	**1,936**	**2,011**
Commerce:								
Economic development revolving fund	Obligations	13	12	10	15	15	15	15
	Loan disbursements	22	26	10	15	15	15	15
	Change in outstandings	*−87*	*−41*	*−72*	*−15*	*−15*	*−15*	*−15*
	Outstandings	**624**	**582**	**511**	**496**	**481**	**466**	**451**
EDA Miscellaneous appropriations	Obligations							
	Loan disbursements			7				
	Change in outstandings	*−2*	*−2*	*12*	*−25*	*−13*	*−14*	*−14*
	Outstandings	**101**	**99**	**111**	**86**	**72**	**59**	**44**
ITA operations and administration	Obligations	8	*					
	Loan disbursements	3	8					
	Change in outstandings	*2*	*3*	*−8*				
	Outstandings	**5**	**8**					
NOAA coastal energy impact fund	Obligations							
	Loan disbursements	3	1	2	2	2	2	2
	Change in outstandings	*2*	*−1*	*−**	*−**	*−**	*−**	*−**
	Outstandings	**96**	**95**	**95**	**94**	**94**	**93**	**93**
NOAA Federal Ship Financing (fishing)	Obligations	14	10	2				
	Loan disbursements	14	10	2				
	Change in outstandings	*3*	*1*	*−2*				
	Outstandings	**18**	**19**	**17**				
Education:								
Guarantees of SLMA obligations (loans made by FFB) [1]	Obligations							
	Loan disbursements							
	Change in outstandings				*−30*	*−30*	*−30*	*−30*
	Outstandings	**5,000**	**5,000**	**5,000**	**4,970**	**4,940**	**4,910**	**4,880**

Guaranteed student loans	Obligations	769	937	877	885	815	781	744
	Loan disbursements	749	937	877	885	815	781	744
	Change in outstandings	*552*	*552*	*344*	*425*	*292*	*75*	*41*
	Outstandings	**2,465**	**3,017**	**3,361**	**3,786**	**4,078**	**4,153**	**4,194**
National Direct Student Loans	Obligations	169	192					
	Loan disbursements	157	169	192				
	Change in outstandings	*70*	*102*	*118*	*−45*	*−40*	*−35*	*−30*
	Outstandings	**4,974**	**5,076**	**5,194**	**5,149**	**5,109**	**5,074**	**5,044**
College housing loans	Obligations	40						
	Loan disbursements	43	70	63	36	12		
	Change in outstandings	*−350*	*−361*	*−18*	*−74*	*−89*	*−89*	*−90*
	Outstandings	**2,676**	**2,314**	**2,296**	**2,222**	**2,134**	**2,044**	**1,954**
Higher education	Obligations							
	Loan disbursements							
	Change in outstandings	*−25*	*−22*	*−21*	*−16*	*−7*	*−6*	*−4*
	Outstandings	**86**	**64**	**43**	**27**	**20**	**14**	**10**
Higher education facilities loans and insurance	Obligations							
	Loan disbursements							
	Change in outstandings	*−25*	*−15*	*−15*	*−15*	*−15*	*−15*	*−15*
	Outstandings	**375**	**360**	**345**	**330**	**315**	**301**	**286**
Energy:								
Geothermal Resources	Obligations		16					
	Loan disbursements		16					
	Change in outstandings		*14*	*−**				
	Outstandings		**14**	**14**	**14**	**14**	**14**	**14**
Alternative fuels (loans made by FFB) [1]	Obligations							
	Loan disbursements	404	274					
	Change in outstandings	*404*	*274*			*−105*	*−105*	*−105*
	Outstandings	**1,290**	**1,564**	**1,564**	**1,564**	**1,459**	**1,354**	**1,250**
Bonneville Power Administration	Obligations	1	20	20	20	20	20	20
	Loan disbursements	1	20	20	20	20	20	20
	Change in outstandings	***	*18*	*15*	*16*	*16*	*15*	*14*
	Outstandings	**10**	**28**	**44**	**60**	**76**	**91**	**105**
Health and Human Services:								
HMO's and medical facilities	Obligations	4	5	3	2	2	2	2
	Loan disbursements	3	5	3	2	2	2	2

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
	Change in outstandings	*2*	*1*	*1*	*1*	*1*	*1*	*
	Outstandings	**31**	**32**	**32**	**33**	**34**	**34**	**35**
HMO's and medical facilities (loans held by FFB) [2]	*Change in outstandings*	*−14*	*−4*	*−10*	*−11*	*−12*	*−13*	*−14*
	Outstandings	**248**	**244**	**234**	**223**	**211**	**198**	**184**
Health resources and services	Obligations	1	1	1	1	1	1	1
	Loan disbursements	2	2	1	1	1	1	1
	Change in outstandings	*−71*	*−4*	*−4*	*−3*	*−3*	*−3*	*−3*
	Outstandings	**538**	**535**	**531**	**528**	**525**	**522**	**519**
Rural development loan fund	Obligations	10						
	Loan disbursements	7	1					
	Change in outstandings	*14*	*	*−2*	*−2*	*−3*	*−4*	*−5*
	Outstandings	**38**	**39**	**37**	**35**	**32**	**28**	**23**
Housing and Urban Development:								
Low-rent public housing	Obligations	1,413	14,303	1,822	1,395	634	400	251
	Loan disbursements	1,413	14,303	1,822	1,395	634	400	251
	Change in outstandings	*1,013*	*−1,216*					
	Outstandings	**1,216**						
Low-rent public housing (loans made by FFB) [1]	Obligations							
	Loan disbursements	153						
	Change in outstandings	*112*	*−32*	*−35*	*−37*	*−39*	*−42*	*−44*
	Outstandings	**2,178**	**2,146**	**2,112**	**2,075**	**2,035**	**1,993**	**1,949**
Housing for the elderly or handicapped	Obligations	666	600	50	20	567	588	608
	Loan disbursements	709	592	606	667	700	735	770
	Change in outstandings	*685*	*567*	*578*	*1,060*	*670*	*703*	*770*
	Outstandings	**5,155**	**5,722**	**6,300**	**7,361**	**8,031**	**8,734**	**9,505**
GNMA special assistance functions	Obligations							
	Loan disbursements	1,268						
	Change in outstandings	*−837*	*−2,165*					
	Outstandings	**2,165**						

GNMA emergency mortgage purchases	Obligations							
	Loan disbursements		792	342				
	Change in outstandings	*−246*	*1,298*	*−667*	*−360*	*−150*	*−150*	*−100*
	Outstandings	**218**	**1,515**	**849**	**489**	**339**	**189**	**89**
Community development grants (loans made by FFB) [1]	Obligations	87	225					
	Loan disbursements	71	113	116	137	69		
	Change in outstandings	*31*	*42*	*25*	*23*	*−59*	*−104*	*−95*
	Outstandings	**208**	**250**	**275**	**298**	**239**	**135**	**40**
Federal Housing Administration Fund	Obligations	456	373	311	368	476	507	643
	Loan disbursements	455	351	288	334	459	491	643
	Change in outstandings	*−878*	*21*	*−112*	*−57*	*−28*	*−22*	*−11*
	Outstandings	**4,166**	**4,187**	**4,075**	**4,018**	**3,990**	**3,968**	**3,957**
Rehabilitation loan fund	Obligations	86	132					
	Loan disbursements	49	136	84				
	Change in outstandings	*−8*	*73*	*22*	*−62*	*−62*	*−62*	*−62*
	Outstandings	**714**	**787**	**809**	**747**	**684**	**622**	**559**
Interior:								
Bureau of Reclamation loan program	Obligations	44	68	40	51	12	6	1
	Loan disbursements	44	59	47	51	12	6	1
	Change in outstandings	*37*	*52*	*38*	*42*	*2*	*−5*	*−10*
	Outstandings	**390**	**442**	**480**	**522**	**524**	**519**	**509**
BIA revolving fund	Obligations	12	19	16	13	13	13	13
	Loan disbursements	12	19	17	13	13	13	13
	Change in outstandings	*7*	*11*	*8*	*4*	*4*	*4*	*4*
	Outstandings	**93**	**104**	**112**	**116**	**120**	**124**	**129**
Transportation:								
Railroad rehabilitation and improvement financing	Obligations	42	16					
	Loan disbursements	45	40	11				
	Change in outstandings	*45*	*40*	*10*	*−14*	*−1*	*−9*	*−16*
	Outstandings	**558**	**598**	**608**	**595**	**593**	**585**	**569**
Railroad rehabilitation and improvement financing (loans made by FFB) [1]	Obligations	6	2					
	Loan disbursements	1	5	2	2	1		
	Change in outstandings	*−24*	*−5*	*−9*	*−10*	*−12*	*−14*	*−12*
	Outstandings	**160**	**154**	**145**	**135**	**124**	**110**	**97**
Grants to Amtrak	Obligations	880						
	Loan disbursements	880						

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate					
			1985	1986	1987	1988	1989	1990
	Change in outstandings							
	Outstandings							
Grants to Amtrak (loans made by FFB) [1]	Obligations							
	Loan disbursements							
	Change in outstandings	*−880*						
	Outstandings							
Rail service assistance	Obligations	60						
	Loan disbursements	60						
	Change in outstandings	*−65*						
	Outstandings							
Federal-aid highways trust fund	Obligations	27	*					
	Loan disbursements	6	10	11				
	Change in outstandings	*6*	*10*	*11*	*−45*	*−27*	*−18*	
	Outstandings	**69**	**79**	**90**	**45**	**18**		
Right-of-way revolving fund	Obligations	26	50	50	50	50	50	50
	Loan disbursements	20	50	50	50	50	50	50
	Change in outstandings	*−18*						
	Outstandings	**131**	**131**	**131**	**131**	**131**	**131**	**131**
Miscellaneous expired accounts	Obligations							
	Loan disbursements							
	Change in outstandings	*−30*	*−11*	*−1*				
	Outstandings	**12**	**1**					
Aircraft purchase loan guarantees	Obligations	22						
	Loan disbursements	22						
	Change in outstandings	*−41*	*−41*					
	Outstandings	**89**	**48**	**48**	**48**	**48**	**48**	**48**
MarAd Federal ship financing fund	Obligations	127	228	115	85	60	60	60
	Loan disbursements	127	228	115	85	60	60	60
	Change in outstandings	*48*	*173*	*60*	*30*	*5*	*5*	*5*
	Outstandings	**270**	**443**	**503**	**533**	**538**	**543**	**548**

Environmental Protection Agency:								
Abatement, control, and compliance	Obligations		6	11				
	Loan disbursements		6	11	6			
	Change in outstandings		*6*	*10*	*6*	*−1*	*−1*	*−1*
	Outstandings		**6**	**16**	**21**	**20**	**19**	**18**
NASA:								
Space flight, control and data communications (loans made by FFB) [1]	Obligations	142						
	Loan disbursements	142						
	Change in outstandings	*7*	*−67*	*−107*	*−112*	*−98*	*−113*	*−129*
	Outstandings	**955**	**888**	**780**	**668**	**570**	**457**	**328**
Veterans Administration:								
Vendee loans and loans repurchased from the public	Obligations	944	857	642	572	518	462	433
	Loan disbursements	944	857	642	489	444	399	380
	Change in outstandings	*−430*	*−42*	*−80*	*−28*	*−35*	*−45*	*−48*
	Outstandings	**1,066**	**1,024**	**945**	**917**	**882**	**836**	**789**
Direct loan revolving fund	Obligations	1	1	1	1	1	1	*
	Loan disbursements	1	1	1	1	1	1	*
	Change in outstandings	*−33*	*−33*	*−32*	*−19*	*−20*	*−20*	*−20*
	Outstandings	**168**	**135**	**103**	**84**	**64**	**44**	**24**
National service life insurance fund	Obligations	103	117	121	126	130	135	140
	Loan disbursements	103	117	121	126	130	135	140
	Change in outstandings	*−39*	*−26*	*−28*	*−14*	*−10*	*−5*	*−**
	Outstandings	**1,113**	**1,087**	**1,059**	**1,045**	**1,035**	**1,031**	**1,030**
Other veterans insurance funds	Obligations	29	35	36	38	39	40	42
	Loan disbursements	29	35	36	38	39	40	42
	Change in outstandings	*−9*	*−6*	*−5*	*−5*	*−5*	*−6*	*−6*
	Outstandings	**250**	**244**	**239**	**234**	**229**	**223**	**217**
District of Columbia:								
Loans to the District of Columbia	Obligations	115						
	Loan disbursements	115						
	Change in outstandings	*84*	*−107*	*−36*	*−39*	*−42*	*−45*	*−48*
	Outstandings	**1,883**	**1,776**	**1,740**	**1,700**	**1,658**	**1,614**	**1,566**
Export-Import Bank	Obligations	1,467	3,865					
	Loan disbursements	2,341	2,863	2,412	1,331	599	227	104
	Change in outstandings	*621*	*993*	*195*	*−1,032*	*−1,787*	*−2,325*	*−2,374*
	Outstandings	**17,504**	**18,497**	**18,692**	**17,659**	**15,872**	**13,548**	**11,174**

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Federal Deposit Insurance Corporation [3]	Obligations	5,658	180	150	300	300	300	300
	Loan disbursements	5,658	180	150	300	300	300	300
	Change in outstandings	*3,327*	*152*	*111*	*300*	*300*	*300*	*300*
	Outstandings	**3,923**	**4,074**	**4,185**	**4,485**	**4,785**	**5,085**	**5,385**
Federal Savings and Loan Insurance Corporation [3]	Obligations	656	90	148	140	140	140	140
	Loan disbursements	856	90	148	140	140	140	140
	Change in outstandings	*587*	*14*	*117*	.....	.....	.....	.....
	Outstandings	**1,156**	**1,170**	**1,287**	**1,287**	**1,287**	**1,287**	**1,287**
National Credit Union Administration:								
Share insurance fund	Obligations	14	3	13	13	13	13	13
	Loan disbursements	14	3	13	13	13	13	13
	Change in outstandings	*10*	*3*	*7*	*1*	.....	.....	*−27*
	Outstandings	**20**	**23**	**29**	**30**	**30**	**30**	**3**
Central liquidity facility	Obligations	449	500	550	550	550	550	550
	Loan disbursements	449	500	550	550	550	550	550
	Change in outstandings	*225*	*30*	*20*	.....	.....	.....	.....
	Outstandings	**270**	**300**	**320**	**320**	**320**	**320**	**320**
General Services Administration Federal buildings fund (loans made by FFB) [1]	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−4*	*−4*	*−5*	*−5*	*−6*	*−6*	*−7*
	Outstandings	**413**	**409**	**404**	**399**	**393**	**387**	**380**
Small Business Assistance: [4]								
Business and investment loans	Obligations	751	726	517	424	236	115	51
	Loan disbursements	728	710	531	424	236	115	51
	Change in outstandings	*20*	*88*	*−999*	*−924*	*−941*	*−564*	.....
	Outstandings	**3,340**	**3,428**	**2,429**	**1,505**	**564**	.....	.....
Business and investment loans (loans held by FFB) [2]	*Change in outstandings*	*−8*	*−10*	*−10*	*−10*	*−10*	*−**	.....
	Outstandings	**40**	**30**	**20**	**10**	*****	.....	.....
Business and investment loans (loans made by FFB) [1]	Obligations	478	680	.....	.....	.....	.....	.....
	Loan disbursements	373	625	375	.....	.....	.....	.....

	Change in outstandings	*263*	*510*	*−1,725*				
	Outstandings	**1,215**	**1,725**					
Disaster loans	Obligations	314	600	168				
	Loan disbursements	160	487	261				
	Change in outstandings	*−536*	*−157*	*−1,452*	*−1,518*	*−1,329*	*−504*	
	Outstandings	**4,960**	**4,803**	**3,351**	**1,833**	**504**		
Tennessee Valley Authority	Obligations	60	58	66	74	83	92	100
	Loan disbursements	60	58	66	74	83	92	100
	Change in outstandings	*3*	*2*	*3*	*2*	*8*	*16*	*22*
	Outstandings	**264**	**266**	**269**	**271**	**279**	**295**	**317**
Tennessee Valley Authority (loans made by FFB) [1]	Obligations	137	90	87	73			
	Loan disbursements	137	90	87	73			
	Change in outstandings	*137*	*90*	*87*	*73*	*−40*	*−40*	*−70*
	Outstandings	**1,556**	**1,646**	**1,733**	**1,806**	**1,766**	**1,726**	**1,655**
Payments for Conrail securities	Obligations							
	Loan disbursements							
	Change in outstandings	*−4*						
	Outstandings	**851**	**851**	**851**	**851**	**851**	**851**	**851**
United States Railway Association	Obligations							
	Loan disbursements							
	Change in outstandings	*−37*						
	Outstandings	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Other agencies and programs	Obligations	37	35	36	38	45	50	51
	Loan disbursements	71	61	42	43	49	54	55
	Change in outstandings	*18*	*−26*	*−11*	*−11*	*−5*	*−8*	*3*
	Outstandings	**618**	**592**	**580**	**570**	**565**	**557**	**561**

Table F-19. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate					
			1985	1986	1987	1988	1989	1990
Other agencies and programs (loans made by FFB) [1]	Obligations							
	Loan disbursements	8	84	19	4	3		
	Change in outstandings	*−37*	*84*	*17*	*1*	*− **	*−3*	*−3*
	Outstandings	**108**	**191**	**208**	**209**	**209**	**207**	**203**
Grand total, net direct loans	Obligations	39,093	51,904	24,240	22,745	19,856	17,345	16,568
	Loan disbursements	41,367	54,703	33,496	28,024	22,773	19,280	18,375
	Change in outstandings	*6,323*	*15,234*	*−276*	*−3,730*	*−5,470*	*−4,964*	*−4,073*
	Outstandings	**229,301**	**244,535**	**244,259**	**240,512**	**235,042**	**230,079**	**226,006**

[1] Loans made by the FFB are agency-guaranteed loans that are disbursed by the FFB as direct loans.
[2] Loans held by the FFB represent the change in outstandings and outstandings of loan assets sold by Federal agencies to the FFB. Since these are sales of prior year loans, they are not attributed as new obligations or disbursements.
[3] Direct loan obligations and disbursements for these programs represent increases in their holdings of loan assets rather than cash disbursements.
[4] Credit programs of the Small Business Administration are proposed to be terminated in 1986, and the loan portfolio transferred to the Treasury Department for administration. These data reflect the combined SBA/Treasury activity.

Table F-20. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Funds Appropriated to the President:								
Foreign Military Sales	Commitments							
	New guaranteed loans	–*						
	Change in outstandings	*–27*	*–20*	*–20*	*40*	*1*	*–1*	
	Outstandings	**200**	**180**	**160**	**200**	**200**	**200**	**200**
Overseas Private Investment Corporation	Commitments	92	150	150	150	150	150	150
	New guaranteed loans	43	50	100	75	75	100	100
	Change in outstandings	*28*	*30*	*80*	*76*	*75*	*100*	*100*
	Outstandings	**188**	**218**	**299**	**374**	**449**	**549**	**649**
AID Housing and other credit guarantees	Commitments	150	160	45				
	New guaranteed loans	52	150	150	150	150	60	
	Change in outstandings	*32*	*128*	*126*	*123*	*121*	*30*	*–33*
	Outstandings	**1,105**	**1,233**	**1,358**	**1,482**	**1,603**	**1,632**	**1,599**
Agriculture:								
Rural Electrification Administration	Commitments							
	New guaranteed loans	48	10	68	50	50		
	Change in outstandings	*48*	*–10*	*38*	*30*	*–10*	*–90*	*–90*
	Outstandings	**910**	**900**	**938**	**968**	**958**	**868**	**778**
Farmers Home Administration:								
Agricultural credit insurance fund	Commitments	443	706	3,000	3,000	3,000	3,000	3,000
	New guaranteed loans	202	204	1,544	3,000	3,000	3,000	3,000
	Change in outstandings	*103*	*6*	*1,378*	*3,000*	*3,000*	*3,000*	*3,000*
	Outstandings	**1,128**	**1,134**	**2,512**	**5,512**	**8,512**	**11,512**	**14,512**
Rural housing insurance fund	Commitments	30	25	20	6	4	2	2
	New guaranteed loans	*	*					
	Change in outstandings	*–5*	*–206*	*69*	*6*	*4*	*2*	*2*
	Outstandings	**993**	**787**	**857**	**863**	**867**	**869**	**871**
Rural development insurance fund	Commitments	124	150					
	New guaranteed loans	81	347	93	64	36	8	
	Change in outstandings	*–183*	*27*	*–210*	*–34*	*–323*	*8*	

Table F-20. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate					
			1985	1986	1987	1988	1989	1990
	Outstandings	**3,206**	**3,233**	**3,023**	**2,989**	**2,667**	**2,674**	**2,674**
Commodity Credit Corporation export credit	Commitments	4,179	5,000	5,000	5,000	5,000	5,000	5,000
	New guaranteed loans	3,282	5,000	5,000	5,000	5,000	5,000	5,000
	Change in outstandings	*332*	*2,741*	*1,615*	*954*	.....	.....	.....
	Outstandings	**4,690**	**7,431**	**9,046**	**10,000**	**10,000**	**10,000**	**10,000**
Commerce:								
Economic development revolving fund	Commitments	.....	.....	.....	.....	.....	.....	.....
	New guaranteed loans	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−137*	*−54*	*−45*	*−34*	*−34*	*−34*	*−34*
	Outstandings	**407**	**353**	**308**	**273**	**239**	**204**	**170**
ITA operations and administration	Commitments	16	7	.....	.....	.....	.....	.....
	New guaranteed loans	15	21	.....	.....	.....	.....	.....
	Change in outstandings	*8*	*12*	*−34*	.....	.....	.....	.....
	Outstandings	**22**	**34**	.....	.....	.....	.....	.....
National Oceanic and Atmospheric Administration	Commitments	51	40	.....	.....	.....	.....	.....
	New guaranteed loans	51	40	.....	.....	.....	.....	.....
	Change in outstandings	*−19*	*−25*	*−65*	*−66*	.....	.....	.....
	Outstandings	**156**	**131**	**66**	.....	.....	.....	.....
Education : Guaranteed student loans	Commitments	7,597	7,941	7,547	7,006	7,695	8,486	9,063
	New guaranteed loans	7,597	7,941	7,547	7,006	7,695	8,486	9,063
	Change in outstandings	*4,456*	*4,421*	*3,362*	*1,910*	*1,700*	*1,950*	*2,078*
	Outstandings	**31,962**	**36,383**	**39,745**	**41,655**	**43,355**	**45,305**	**47,383**
Energy:								
Geothermal resources development fund	Commitments	6	85	80	.....	.....	.....	.....
	New guaranteed loans	10	164	51	76	.....	.....	.....
	Change in outstandings	*4*	*69*	*36*	*77*	*−3*	*−4*	*−4*
	Outstandings	**34**	**104**	**140**	**216**	**213**	**209**	**205**
Health and Human Services:								
Health maintenance organization loan fund	Commitments	.....	.....	.....	.....	.....	.....	.....
	New guaranteed loans	.....	.....	.....	.....	.....	.....	.....

	Change in outstandings	*−9*	*−1*	*−1*	*−1*	*−**	*−6*	***
	Outstandings	**5**	**4**	**3**	**2**	**2**	**−4**	**−4**
Medical facilities guarantees and loan fund	Commitments							
	New guaranteed loans							
	Change in outstandings	*−61*	*−52*	*−57*	*−60*	*−65*	*−70*	*−75*
	Outstandings	**958**	**906**	**849**	**789**	**724**	**654**	**579**
Health professions graduate student insurance fund	Commitments	250	250	100	100	100	100	100
	New guaranteed loans	250	250	100	100	100	100	100
	Change in outstandings	*239*	*233*	*79*	*77*	*74*	*69*	*69*
	Outstandings	**720**	**953**	**1,031**	**1,108**	**1,182**	**1,250**	**1,319**
Housing and Urban Development:								
Low rent public housing	Commitments	13,723						
	New guaranteed loans	17,698						
	Change in outstandings	*51*	*−13,311*	*−325*	*−350*	*−375*	*−400*	*−425*
	Outstandings	**19,985**	**6,673**	**6,348**	**5,998**	**5,623**	**5,223**	**4,798**
Revolving fund (liquidating)	Commitments							
	New guaranteed loans							
	Change in outstandings	*−2*	*−2*	*7*	*−14*	*−4*	*−11*	*−11*
	Outstandings	**62**	**60**	**67**	**53**	**49**	**38**	**27**
Federal Housing Administration	Commitments	17,071	30,342	32,737	34,839	36,696	38,596	40,543
	New guaranteed loans	21,870	25,342	27,377	30,333	32,895	33,735	34,539
	Change in outstandings	*9,047*	*14,768*	*16,207*	*18,425*	*20,032*	*19,872*	*19,543*
	Outstandings	**170,032**	**184,800**	**201,007**	**219,433**	**239,464**	**259,337**	**278,880**
GNMA: Mortgage-backed securities	Commitments	39,665	53,460	51,110	51,820	52,110	53,815	54,365
	New guaranteed loans	32,090	38,190	36,500	37,000	37,220	38,440	38,830
	Change in outstandings	*24,146*	*29,690*	*27,765*	*25,382*	*24,748*	*25,058*	*24,655*
	Outstandings	**176,485**	**206,175**	**233,939**	**259,321**	**284,069**	**309,127**	**333,782**
Interior:								
Indian loan guaranty and insurance fund	Commitments	19	45	20	10	5	5	5
	New guaranteed loans	11	53	20	10	5	5	5
	Change in outstandings	*5*	*46*	*10*	*1*	*−4*	*−4*	*−4*
	Outstandings	**85**	**131**	**141**	**142**	**138**	**134**	**130**
Transportation:								
Maritime Administration Federal ship financing fund	Commitments	177	300	300	300	300	300	300
	New guaranteed loans	292	250	225	225	225	225	225
	Change in outstandings	*−274*	*−333*	*−266*	*−243*	*−220*	*−670*	*−220*

Table F-20. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
	Outstandings	**7,046**	**6,713**	**6,446**	**6,203**	**5,983**	**5,313**	**5,093**
Rail service assistance	Commitments	12	9	10				
	New guaranteed loans	12	9	10	7			
	Change in outstandings	*−70*	*5*	*10*	*−91*			
	Outstandings	**76**	**81**	**91**				
Aircraft purchase loan guarantees	Commitments							
	New guaranteed loans							
	Change in outstandings	*−69*	*−45*	*−43*	*−43*	*−43*	*−43*	*−43*
	Outstandings	**493**	**448**	**405**	**362**	**319**	**276**	**233**
Miscellaneous expired accounts	Commitments							
	New guaranteed loans							
	Change in outstandings							
	Outstandings	**997**	**997**	**997**	**997**	**997**	**997**	**997**
Treasury:								
Guarantees of New York City notes	Commitments							
	New guaranteed loans							
	Change in outstandings	*−373*	*−390*	*−233*	*−205*			
	Outstandings	**828**	**438**	**205**				
Biomass energy development	Commitments							
	New guaranteed loans	*72*	263					
	Change in outstandings	*168*	*262*	*−7*	*−21*	*−31*	*−36*	*−42*
	Outstandings	**213**	**475**	**468**	**446**	**415**	**379**	**337**
Veterans Administration:								
Direct loan revolving fund	Commitments							
	New guaranteed loans							
	Change in outstandings	*−1*	*−1*	*−1*	*−1*	*−**	*−**	*−**
	Outstandings	**7**	**6**	**6**	**5**	**4**	**4**	**3**
Loan guaranty revolving fund	Commitments	16,465	15,174	15,429	15,373	15,360	15,689	16,037
	New guaranteed loans	15,599	14,510	14,933	14,986	15,011	15,377	15,743
	Change in outstandings	*5,450*	*9,551*	*9,404*	*9,168*	*8,960*	*9,080*	*9,204*

	Outstandings	**125,383**	**134,934**	**144,338**	**153,506**	**162,465**	**171,545**	**180,749**
Export-Import Bank	Commitments	7,149	10,000	12,000	12,000	12,000	12,000	12,000
	New guaranteed loans	4,145	4,945	5,140	6,068	6,115	6,148	6,171
	Change in outstandings	*245*	*902*	*678*	*1,268*	*510*	*410*	*339*
	Outstandings	**5,684**	**6,586**	**7,264**	**8,532**	**9,042**	**9,452**	**9,791**
Federal Savings and Loan Insurance Corporation	Commitments	223	246	351	276	209	150	75
	New guaranteed loans	223	246	351	276	209	150	75
	Change in outstandings	*74*	*176*	*265*	*206*	*149*	*100*	*40*
	Outstandings	**1,763**	**1,940**	**2,204**	**2,410**	**2,559**	**2,659**	**2,699**
National Credit Union Administration	Commitments	9	1	...	...	...	...	...
	New guaranteed loans	9	1	...	...	...	...	...
	Change in outstandings	*−43*	*−24*	...	...	...	...	...
	Outstandings	**24**	...	...	...	...	...	...
Small Business Assistance: [1]								
Business loan guarantees	Commitments	2,987	3,240	...	...	...	...	...
	New guaranteed loans	2,925	3,425	1,791	...	...	...	...
	Change in outstandings	*69*	*340*	*−1,229*	*−2,410*	*−1,885*	*−1,455*	*−980*
	Outstandings	**8,534**	**8,874**	**7,645**	**5,235**	**3,350**	**1,895**	**915**
Pollution control equipment guarantees	Commitments	11	70	...	...	...	...	...
	New guaranteed loans	11	70	...	...	...	...	...
	Change in outstandings	*11*	*70*	...	...	...	...	...
	Outstandings	**325**	**395**	**395**	**395**	**395**	**395**	**395**
Disaster Loans	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	...	...	...	...	...	...	...
	Change in outstandings	*−5*	*−3*	*−1*	...	...	...	...
	Outstandings	**4**	**1**	...	...	...	...	...
Tennessee Valley Authority	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	...	...	...	...	...	...	...
	Change in outstandings	*1*	...	...	...	...	...	...
	Outstandings	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Synthetic Fuels Corporation	Commitments	...	78	419	478	389	192	11
	New guaranteed loans	...	78	419	478	389	192	11
	Change in outstandings	...	*78*	*419*	*476*	*381*	*182*	*−21*
	Outstandings	...	**78**	**497**	**973**	**1,354**	**1,536**	**1,515**
Other agencies and programs	Commitments	11	...	...	...	...	...	...

Table F-20. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
	New guaranteed loans	86	129	129	143	73	.....	.....
	Change in outstandings	*−67*	*−31*	*−10*	*−40*	*−43*	*−48*	*−49*
	Outstandings	**818**	**787**	**776**	**736**	**693**	**644**	**597**
Subtotal, guaranteed loans (gross)	Commitments	110,463	127,478	128,318	130,358	133,018	137,485	140,651
	New guaranteed loans	106,675	101,687	101,549	105,046	108,248	111,026	112,863
	Change in outstandings	*43,174*	*49,047*	*59,000*	*57,605*	*56,712*	*56,988*	*56,999*
	Outstandings	**565,528**	**614,574**	**673,574**	**731,179**	**787,891**	**844,878**	**901,878**
Less secondary guaranteed loans: [2]								
GNMA guarantees of FHA/VA/FmHA pools	Commitments	39,665	53,460	51,110	51,820	52,110	53,815	54,365
	New guaranteed loans	32,090	38,190	36,500	37,000	37,220	38,440	38,830
	Change in outstandings	*24,146*	*29,690*	*27,765*	*25,382*	*24,748*	*25,058*	*24,655*
	Outstandings	**176,485**	**206,175**	**233,939**	**259,321**	**284,069**	**309,127**	**333,782**
Subtotal, Guaranteed loans (net)	Commitments	70,798	74,018	77,208	78,538	80,908	83,670	86,286
	New guaranteed loans	74,585	63,497	65,049	68,046	71,028	72,586	74,033
	Change in outstandings	*19,028*	*19,357*	*31,235*	*32,223*	*31,964*	*31,930*	*32,344*
	Outstandings	**389,043**	**408,400**	**439,635**	**471,858**	**503,822**	**535,750**	**568,096**
Less guaranteed loans held as direct loans: [3]								
By GNMA	Commitments	.....	.....	.....	.....	.....	.....	.....
	New guaranteed loans	1,268	792	342	.....	.....	.....	.....
	Change in outstandings	*−1,083*	*−867*	*−667*	*−360*	*−150*	*−150*	*−100*
	Outstandings	**2,382**	**1,515**	**849**	**489**	**339**	**189**	**89**

Total, primary guaranteed loans	Commitments	70,798	74,018	77,208	78,538	80,908	83,670	86,286
	New guaranteed loans	73,316	62,705	64,707	68,046	71,028	72,586	74,033
	Change in outstandings	*20,110*	*20,224*	*31,902*	*32,583*	*32,114*	*32,080*	*32,444*
	Outstandings	**386,661**	**406,884**	**438,786**	**471,369**	**503,483**	**535,562**	**568,007**
Memorandum:								
Callable capital contributions to international financial organizations [4]	Commitments	2,095	3,684	3,642	3,641	2,836	2,836	2,836
	New guaranteed loans	2,095	3,684	3,642	3,641	2,836	2,836	2,836
	Change in outstandings	*2,095*	*3,684*	*3,642*	*3,641*	*2,836*	*2,836*	*2,836*
	Outstandings	**20,589**	**24,273**	**27,914**	**31,556**	**34,391**	**37,227**	**40,063**
ADDENDUM								
Guaranteed loans held as direct loans by Government-sponsored enterprises: [5]								
Federal National Mortgage Association	*Change in outstandings*	*−6,523*	*339*	*−2,945*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**29,238**	**29,577**	**26,632**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Federal Home Loan Banks	*Change in outstandings*	*−1*	*−1*	*−2*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**81**	**80**	**78**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Federal Home Loan Mortgage Corporation	*Change in outstandings*	*−67*	*−63*	*−61*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**894**	**831**	**770**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Farm Credit Administration	*Change in outstandings*	*12*	.....	.....	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**73**	**73**	**73**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Student Loan Marketing Association	*Change in outstandings*	*1,834*	*1,304*	*1,074*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**4,435**	**5,739**	**6,813**	**(NA)**	**(NA)**	**(NA)**	**(NA)**
Subtotal, Enterprise holdings	*Change in outstandings*	*−4,745*	*1,579*	*−1,934*	*(NA)*	*(NA)*	*(NA)*	*(NA)*
	Outstandings	**34,721**	**36,300**	**34,366**	**(NA)**	**(NA)**	**(NA)**	**(NA)**

[1] Credit activities of the Small Business Administration are proposed to be terminated and the loan portfolio transferred to the Treasury Department. These data reflect the SBA/Treasury activities.
[2] Guarantees of loans that were previously guaranteed by the Federal Housing Administration, the Veterans Administration, or the Farmers Home Administration, are counted above as guaranteed loans. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double-counting.
[3] When guaranteed loans are acquired by a budget account, they become direct loans and are counted as such in the direct loan tables. They are therefore deducted from totals in this table.
[4] Callable capital subscriptions by the United States and other member countries provide backing for borrowings in U.S. and overseas capital markets. These subscriptions would be called only to meet the obligations of the banks if other resources were exhausted. To date, there has never been a need to call upon these resources.
[5] Data for 1987–1990 not estimated.

Table F-21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In millions of dollars)

Enterprise		Actual 1984	Estimate 1985	Estimate 1986
LENDING				
Student Loan Marketing Association	Obligations	2,515	2,736	3,010
	New transactions	2,515	2,736	3,010
	Net Change	1,834	1,304	1,074
	Outstandings	9,435	10,739	11,813
Federal National Mortgage Association:				
Corporation accounts	Obligations	18,759	18,241	17,786
	New transactions	17,002	15,370	15,020
	Net Change	9,676	8,946	10,353
	Outstandings	84,850	93,796	104,149
Mortgage-backed securities	Obligations	40,121	15,155	17,115
	New transactions	11,874	15,691	14,225
	Net Change	9,069	12,935	11,668
	Outstandings	32,888	45,823	57,491
Farm Credit Banks:				
Banks for cooperatives	Obligations	27,140	29,295	31,110
	New transactions	27,140	29,295	31,110
	Net Change	189	1,200	1,150
	Outstandings	8,911	10,110	11,261
Federal intermediate credit banks	Obligations	16,694	17,515	18,703
	New transactions	16,694	17,515	18,703
	Net Change	−742	597	1,130
	Outstandings	18,925	19,522	20,652
Federal land banks	Obligations	4,285	5,156	5,887
	New transactions	4,285	5,156	5,887
	Net Change	748	1,479	2,338
	Outstandings	52,362	53,841	56,179
Federal Home Loan Bank system:				
Federal home loan banks	Obligations	75,130	84,500	86,500
	New transactions	75,130	84,500	86,500
	Net Change	14,444	9,394	3,758
	Outstandings	74,876	84,270	88,028
Federal Home Loan Mortgage Corporation:				
Corporation accounts	Obligations	3,143	2,500	2,500
	New transactions	3,143	2,500	2,500
	Net Change	2,591	1,609	1,474
	Outstandings	9,447	11,056	12,530
Participation certificate pools [1]	Obligations	15,358	15,500	17,500
	New transactions	15,358	15,500	17,500
	Net Change	9,829	9,517	10,641
	Outstandings	64,032	73,549	84,190
Subtotal, lending (gross)	Obligations	203,145	190,598	200,111
	New transactions	173,141	188,263	194,455
	Net Change	47,638	46,981	43,586
	Outstandings	355,726	402,706	446,293
Less loans between sponsored enterprises	Obligations	.....	.....	.....
	New transactions	.....	.....	.....
	Net Change	−700	−600	−240
	Outstandings	1,790	1,190	950

Table F-21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1984	Estimate 1985	Estimate 1986
Less secondary funds advanced from Federal sources:				
SLMA from FFB [2]	Obligations			
	New transactions			
	Net Change			
	Outstandings	5,000	5,000	5,000
TVA to FNMA	Obligations			
	New transactions			
	Net Change			
	Outstandings	80	80	80
Less guaranteed loans held as direct loans by:				
Federal National Mortgage Association	Obligations			
	New transactions			
	Net Change	−6,523	339	−2,945
	Outstandings	29,238	29,577	26,632
Federal home loan banks	Obligations			
	New transactions			
	Net Change	−1	−1	−2
	Outstandings	81	80	78
Federal Home Loan Mortgage Corporation	Obligations			
	New transactions			
	Net Change	−67	−63	−61
	Outstandings	894	831	770
Farm Credit Banks	Obligations			
	New transactions			
	Net Change	12		
	Outstandings	73	73	73
Student Loan Marketing Association [2]	Obligations	2,515	2,736	3,010
	New transactions	2,515	2,736	3,010
	Net Change	1,834	1,304	1,074
	Outstandings	4,435	5,739	6,813
Total lending	Obligations	200,630	187,862	197,101
	New transactions	170,626	185,527	191,445
	Net Change	53,083	46,002	45,760
	Outstandings	314,135	360,136	405,897
BORROWING (Funds Raised)				
Student Loan Marketing Association	*Net Change*	1,774	1,211	1,377
	Outstandings	9,998	11,209	12,586
Federal National Mortgage Association [3]	*Net Change*	17,934	20,566	20,967
	Outstandings	113,011	133,577	154,544
Farm Credit Administration:				
Banks for cooperatives	*Net Change*	263	1,147	1,150
	Outstandings	8,429	9,577	10,726
Federal intermediate credit banks	*Net Change*	−761	455	938
	Outstandings	18,194	18,649	19,588
Federal land banks	*Net Change*	733	1,232	1,827
	Outstandings	47,625	48,857	50,684
Federal Home Loan Bank system:				
Federal home loan banks	*Net Change*	15,633	8,594	6,000
	Outstandings	67,406	76,000	82,000

Table F-21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1984	Estimate 1985	Estimate 1986
Federal Home Loan Mortgage Corporation	*Net Change*	13,269	10,291	11,848
	Outstandings	74,234	84,525	96,373
Subtotal, borrowing (gross)	*Net Change*	48,845	43,496	44,107
	Outstandings	338,897	382,394	426,501
Less borrowing from other sponsored enterprises	*Net Change*	−700	−600	−240
	Outstandings	1,790	1,190	950
Less borrowing from Federal sources:				
SLMA from FFB [2]	*Net Change*	.....	.....	.....
	Outstandings	5,000	5,000	5,000
FNMA from TVA	*Net Change*	.....	.....	.....
	Outstandings	80	80	80
Total borrowing from the public	*Net Change*	49,690	44,096	44,347
	Outstandings	331,735	375,832	420,179
Less investments in Federal securities	*Net Change*	−1,073	311	−98
	Outstandings	2,197	2,508	2,410
Less borrowings for guaranteed loans held as direct loans by:				
Federal National Mortgage Association	*Net Change*	−6,523	339	−2,945
	Outstandings	29,238	29,577	26,632
Federal home loan banks	*Net Change*	−1	−1	−2
	Outstandings	81	80	78
Federal Home Loan Mortgage Corporation	*Net Change*	−67	−63	−61
	Outstandings	894	831	770
Farm Credit Administration	*Net Change*	12	.....	.....
	Outstandings	73	73	73
Student Loan Marketing Association [2]	*Net Change*	1,834	1,304	1,074
	Outstandings	4,435	5,739	6,813
Total borrowed	*Net Change*	55,512	42,205	46,379
	Outstandings	294,820	337,026	383,405

[1] All new transactions are loans purchased from FHLMC corporation accounts.

[2] Until recently, all SLMA lending has been financed through the FFB, and therefore has been counted in Table F-19 as direct loans. All SLMA loans are student loans guaranteed by the Federal Government. They have, therefore been counted in Table F-20 as guaranteed loans. The first deduction eliminates the overlap of this table with the direct loan table. The second deduction removes the non-FFB financed remainder of SLMA, to eliminate overlap with the guaranteed loan table.

[3] Loans purchased at discount are recorded at their acquisition cost.

Table F-22. **FFB ACQUISITIONS (in millions of dollars)**

Agency or program	Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Purchase of loan assets from:							
Overseas Private Investment Corporation:							
Net outlays	−5	−5	−5	−1	−*	.....	.....
Outstandings	11	6	1	*	.....	.....	.....
Farmers Home Administration (USDA):							
Agricultural credit insurance fund:							
New acquisitions	6,805	5,332	166	.....	.....	366	.....
Net outlays	1,410	1,175	−1,084	−3,177	−3,088	−2,876	−3,305
Outstandings	25,517	26,692	25,608	22,431	19,343	16,467	13,162
Rural housing insurance fund:							
New acquisitions	5,020	4,445	26	30	30	30	315
Net outlays	1,090	2,335	−180	−1,192	−1,236	−1,446	−1,675
Outstandings	26,766	29,101	28,921	27,729	26,493	25,047	23,372
Rural development insurance fund:							
New acquisitions	1,300	1,184	360	121	183	8	19
Net outlays	320	589	360	121	183	−45	−276
Outstandings	7,228	7,817	8,177	8,299	8,482	8,437	8,160
Rural Electrification Administration (USDA):							
New acquisitions	69	447	253	53	.....	.....	.....
Net outlays	69	447	253	53	.....	.....	.....
Outstandings	3,537	3,984	4,237	4,290	4,290	4,290	4,290
Medical facilities guarantees (HHS):							
New acquisitions	.....	5	.....	.....	.....	.....	.....
Net outlays	−12	−*	−6	−6	−7	−7	−7
Outstandings	132	131	126	120	113	106	99
Health Maintenance Organizations (HHS):							
New acquisitions	1	3	1	.....	.....	.....	.....
Net outlays	−3	−4	−4	−5	−6	−6	−6
Outstandings	116	112	109	104	98	92	86
Small business assistance:							
Net outlays	−8	−10	−10	−10	−10	−*	.....
Outstandings	40	30	20	10	*	.....	.....
Subtotal, purchase of loan assets:							
New acquisitions	13,195	11,415	806	205	213	404	334
Net outlays	2,861	4,527	−675	−4,216	−4,163	−4,380	−5,270
Outstandings	63,347	67,873	67,198	62,982	58,819	54,439	49,169
Direct loans (purchases of loans guaranteed by agencies):							
Foreign military sales credit (FAP): [1]							
New acquisitions	4,401	.....	.....	.....	.....	.....	.....
Net outlays	2,818	2,340	282	−693	−1,001	−1,218	−1,029
Outstandings	17,111	19,451	19,733	19,040	18,040	16,821	15,792

Table F-22. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1984	Estimate					
		1985	1986	1987	1988	1989	1990
Defense production guarantees (DOD):							
Net outlays	2	5	5	4	3	.....	.....
Outstandings	3	8	13	17	20	21	20
Rural Electrification Administration (USDA): [1]							
New acquisitions	1,002	1,325	300	225	150	75	.....
Net outlays	1,648	2,685	2,222	1,700	1,490	1,230	700
Outstandings	20,587	23,272	25,494	27,194	28,684	29,914	30,614
Guarantees of SLMA obligations (Education):							
Net outlays	.....	.....	.....	−30	−30	−30	−30
Outstandings	5,000	5,000	5,000	4,970	4,940	4,910	4,880
Alternative fuels production (Energy):							
Net outlays	404	274	.....	.....	−105	−105	−105
Outstandings	1,290	1,564	1,564	1,564	1,459	1,354	1,250
Geothermal resources development fund: (Energy):							
Net outlays	−39	79	14	−1	−1	−1	−1
Outstandings	6	85	99	99	98	97	96
Low-rent public housing (HUD): [1]							
Net outlays	112	−32	−35	−37	−39	−42	−44
Outstandings	2,178	2,146	2,112	2,075	2,035	1,993	1,949
Community development grants (HUD): [1]							
New acquisitions	87	225	.....	.....	.....	.....	.....
Net outlays	31	42	25	23	−59	−104	−95
Outstandings	208	250	275	298	239	135	40
Loans to territories (Interior):							
Net outlays	−*	−*	−1	−1	−1	−1	−1
Outstandings	65	64	64	63	63	62	61
Railroad programs (DOT): [1]							
New acquisitions	6	2	.....	.....	.....	.....	.....
Net outlays	−904	−5	−9	−10	−12	−14	−12
Outstandings	160	154	145	135	124	110	97
Federal Buildings Fund CBI's (GSA):							
Net outlays	−4	−4	−5	−5	−6	−6	−7
Outstandings	413	409	404	399	393	387	380
Space flight, control and data communications (NASA):							
New acquisitions	142	.....	.....	.....	.....	.....	.....
Net outlays	7	−67	−107	−112	−98	−113	−129
Outstandings	955	888	780	668	570	457	328
Small business investment companies and other small business assistance: [1]							
New acquisitions	478	680	.....	.....	.....	.....	.....

Table F-22. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1984	Estimate 1985	1986	1987	1988	1989	1990
Net outlays	263	510	−1,725	.....	.....	.....	.....
Outstandings	1,215	1,725	.....	.....	.....	.....	.....
Seven States Energy Corporation (TVA):							
New acquisitions	137	90	87	73	.....	.....	.....
Net outlays	137	90	87	73	−40	−40	−70
Outstandings	1,556	1,646	1,733	1,806	1,766	1,726	1,655
Subtotal, direct loans (purchase of loans guaranteed by agencies):							
New acquisitions	6,253	2,323	387	298	150	75	.....
Net outlays	4,475	5,916	753	910	100	−444	−825
Outstandings	50,780	56,696	57,448	58,358	58,459	58,015	57,189
Total, direct loans and purchases of agency loan assets:							
New acquisitions	19,448	13,738	1,193	503	363	479	334
Net outlays	7,336	10,442	77	−3,306	−4,063	−4,825	−6,095
Outstandings	114,127	124,569	124,646	121,340	117,278	112,454	106,353
ADDENDUM							
AGENCY BORROWING							
By on-budget agencies:							
Export-Import Bank:							
Net change	1,014	1,277	618	−578	−1,483	−2,129	−2,191
Outstandings	15,690	16,967	17,584	17,006	15,523	13,395	11,203
Tennessee Valley Authority:							
Net change	370	650	375	237	58	−23	−198
Outstandings	13,485	14,135	14,510	14,747	14,805	14,782	14,584
National Credit Union Administration:							
Net change	225	31	20	10	.....	.....	.....
Outstandings	269	300	320	330	330	330	330
By off-budget Federal entities:							
U.S. Railway Association:							
Net change	−73	−4	.....	.....	.....	.....	.....
Outstandings	51	48	48	48	48	48	48
Postal Service:							
Net change	−67	−367	−47	−47	−47	−47	−47
Outstandings	1,087	720	673	626	579	532	485
Total, agency borrowing:							
Net change	1,468	1,587	996	−378	−1,472	2,199	−2,436
Outstandings	30,582	32,169	33,135	32,757	31,285	29,086	26,650

*$500.000 or less.

[1] FFB activity for this account may not be identical to the entries in Part 8 of the Budget, "Budget Accounts Listing", due to timing differences between recognition of FFB budget authority and commitments to guarantee loans that are financed through the FFB (shown here as FFB new acquisitions.).

SPECIAL ANALYSIS F
TABLE OF CONTENTS

TABLES AND CHARTS

SPECIAL ANALYSIS F

FEDERAL CREDIT PROGRAMS

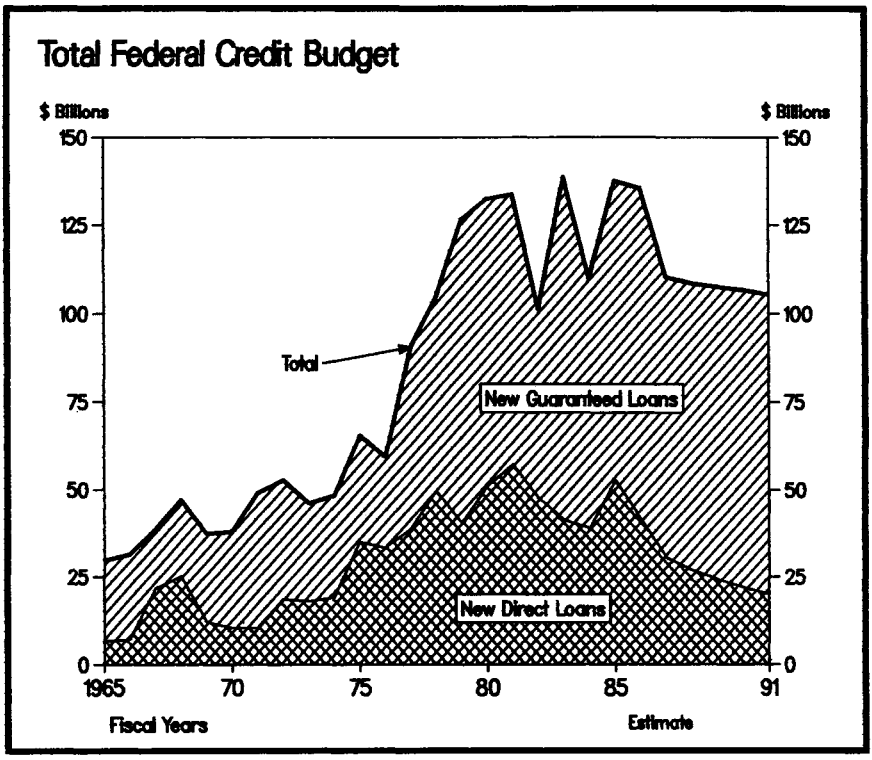
I. Introduction

The Federal Government is the Nation's largest financial intermediary. At the end of 1985, it held $257 billion in its loan portfolio, which was about 30% larger than the loan assets of the two largest U.S. commercial banks combined. The Federal Government also had guaranteed loans with an outstanding balance of $410 billion at the end of 1985. Through direct loans and loan guarantees, the Federal Government allocates credit and credit subsidies to farmers, homeowners, small businesses, exporters, utilities, shipbuilders, and State, local, and foreign governments. Until this administration, the volume of new credit offered by the Government had grown substantially for 15 years. The following chart compares the pattern of growth over that period with the most recent patterns and the estimates of future growth through 1991.[1]

Federal credit is designed to meet various social or economic goals that, for whatever reason, the private sector does not meet. Meeting these goals may entail the provision of a subsidy to a favored borrower or the correction of a perceived capital market imperfection. The problems in directing or controlling Federal credit are enormous and systemic.

The discipline that the private market would impose on private financial intermediaries is absent. The discipline that the budget process imposes on most Federal agencies is not fully effective in controlling Federal credit programs. The Federal credit budget, while an improvement over sole reliance on the unified budget for credit programs, does not capture explicitly the most important aspect of Federal credit—the economic subsidy offered to favored borrowers. Moreover, Federal credit programs are not immune from the credit quality problems suffered by private intermediaries in lending to homeowners, farmers and some foreign governments. The Federal Government's disproportionately high share of the loans owed by these groups, and its role as lender of last resort to poor credit risks, means that it endures losses that would bankrupt a private financial institution of the same size. These losses are ultimately borne by taxpayers.

[1] See also the *Economic Report of the President*, Chapter 6 "Credit Markets."



This analysis provides estimates of the subsidies provided by direct loan and loan guarantee programs in Tables F-11 and F-12. These estimates compare the interest rates, loan fees, maturities, and repayment schedules of Federal direct and guaranteed loans to the terms of an alternative private loan in order to estimate the Federal subsidy. This information will allow the Congress and Federal agencies to make better decisions about credit programs. These estimates, which are conservative, show that subsidies for direct loans obligated in 1985 were $9.8 billion and subsidies for guaranteed loan commitments in 1985 were $6.1 billion. Comparable estimates for 1986 are $9.2 billion and $6.2 billion; for 1987, they are $7.1 billion and $5.1 billion. The economic costs of these subsidies should be compared to the benefits of Federal credit programs to evaluate the worth of the programs.

This special analysis presents basic information on the broad spectrum of Government credit programs and policies from 1985 through 1991. It describes recent credit policy, and explains the credit budget and its relationship to appropriation act limitations on direct loan obligations and guaranteed loan commitments and discusses the impact of the Balanced Budget and Emergency Defi-

cit Control Act of 1985, commonly known as Gramm-Rudman-Hollings (GRH). It describes the credit activity of Government-sponsored enterprises (GSEs), and presents in detail the direct loans and guaranteed loans of the Federal Government. It also discusses trends in Federal credit, Federal credit subsidies, and other special topics. This special analysis supplements the credit data and discussions found elsewhere in the budget documents (see Appendix A of this analysis).

II. Controlling Federal Credit Programs

Comparisons with private financial intermediaries.—The objectives of Federal credit programs are different from those of private financial institutions. The purpose is to offer terms and conditions to selected borrowers that are more favorable than those otherwise available from private lenders. Compared to fully private loans, these terms and conditions may include lower interest rates or loan guarantee fees, less stringent credit risk thresholds in making credit available, or more generous grace periods or repayment schedules. Legislation frequently defines the eligible pool of applicants, specifies the lending terms that an agency or program may offer, and otherwise restricts the discretion of Federal program managers in a manner that never occurs for private lenders.

In addition to these differences in purpose, there are also differences in procedures between public and private financial intermediaries. Unlike a private financial intermediary, a Federal direct loan or loan guarantee program has no standard measure of performance, such as profit, for assessing its success. Federal credit programs were created to subsidize favored borrowers to varying degrees. Therefore, net income does not measure success. In many cases, income is not even measured correctly since there is no well-defined cost of capital for credit programs. The lack of a measurement tool creates large difficulties in efficiently allocating resources to Federal credit (and noncredit) programs.

Moreover, the norms of the marketplace that restrict the growth and size of private lenders do not apply to Federal credit programs. Unlike commercial banks, Federal agencies need not worry about constraints on the volume or quality of new lending imposed by the inadequacy of primary capital. Federal agencies can continue to lend even if they have little or no equity. Federal lending agencies need not be concerned with the standards imposed on private banks by Federal regulatory agencies for assessing and reporting on the quality of loan portfolios. This makes alternative forms of discipline all the more important if Federal credit is to be directed in the most efficient manner.

The unified budget.—The unified budget, with its focus on budget authority, outlays, and receipts, is an incomplete mechanism for controlling Federal credit programs. First, it was not designed to measure the full volume of new credit extended for direct loans. The largest direct loan programs are financed by revolving funds in which repayments on existing loans offset disbursements for new direct loans. Congressional appropriations of budget authority for these revolving funds are generally only necessary when new disbursements exceed repayments. Thus, the unified budget cannot directly control the amount of new direct loans extended.

Second, guaranteed loan commitments [2] were excluded when the unified budget was established in 1967 and are specifically excluded from the definition of budget authority by the Congressional Budget Act of 1974. The reason for the exclusion is that the loan guarantee, by itself, does not affect budget outlays and the deficit. The loan guarantee is only a contingent liability of the Government. However, by assuming that contingent liability, the Government induces lenders to invest in particular loans, and thereby allocates capital for federally determined purposes. In this manner, a guaranteed loan commitment may provide as large a subsidy and redirect capital as effectively as a direct loan obligation.

A third important shortcoming of the unified budget for credit programs is that it neither measures nor controls the most salient aspect of Federal credit—the size of the subsidy offered the borrower. Since a primary purpose of Federal credit programs is to provide borrowers with a subsidy, this is a serious omission in effective budgetary control. Without some means of measuring and controlling this subsidy, neither the executive branch nor the Congress can make informed decisions about Federal credit programs, either in comparing one with the other, or in comparing them with noncredit expenditure programs.

The Federal credit budget.—In January 1980, a significant step in redressing some of the inadequacies of the unified budget was made with the introduction of the Federal credit budget. The Federal credit budget measures the direct loan obligations and guaranteed loan commitments, and, through the use of language in appropriation acts, limits these credit activities. Although it is a step forward, the credit budget does not restrain the total volume of Federal credit effectively. Only about 55% of the credit budget totals for 1985 were capped by appropriation act limitations. Moreover, the credit budget does not measure the subsidy costs, nor does it place any direct restriction on the level of subsidy that a program offers the borrower.

[2] Guaranteed loan commitments are synonymous with loan guarantee commitments, the term used by Congress.

OMB Circular No. A-70.—One means of controlling Federal credit more effectively is to control the price at which it is offered to the public. As a step toward this goal, the Office of Management and Budget (OMB) reissued Circular No. A-70, "Policies and Guidelines for Federal Credit Programs," on August 24, 1984. OMB circulars are directives that are binding upon the executive agencies as a matter of Presidential policy and are generally enforceable through administrative procedures. Circular A-70 was approved by the President prior to its release.

The A-70 guidelines apply to proposed and existing Federal direct loan and loan guarantee programs. The guidelines place two sets of requirements on agencies. The first is to provide information on the costs and benefits of Federal credit programs. This includes, for example, estimates of the credit available from relevant private financial institutions, subsidies, and net default costs.

The second is to require agencies to propose new legislation or policies for credit programs that are consistent with sound credit policies. Should current legislation not permit this, agencies are generally required to prepare proposals to change that legislation so the programs will conform to A-70 guidelines.

A second OMB circular, No. A-129, "Managing Federal Credit Programs," expands on many of A-70's principles. It contains comprehensive guidance on servicing and collecting all Government receivables, including those arising from direct and guaranteed loans, grants and contracts. It also prescribes policies and standards encompassing credit extension, write-off and close-out of accounts, as well as overall credit program management, accounting and reporting.

The administration has focused on directing agency implementation of the requirements of the Debt Collection Act and OMB credit policies. This focus helps ensure that all financial assistance programs are administered according to consistent credit and management policy standards, which will result in improved collections and reduced delinquencies.

III. The Credit Budget

A. Credit Budget Concepts

The credit budget is the annual measure of direct loan obligations and guaranteed loan commitments. It is the sum of the credit authority offered by the Federal Government. The credit budget is based on three concepts. First, it is intended to measure new credit at the point that the Government legally contracts to provide a loan or a loan guarantee. Usually, this is when a loan agreement or loan guarantee agreement is signed. The credit budget does not measure the tentative or preliminary offers of credit assistance

that Government agencies may make prior to the loan or loan guarantee contract, nor does it measure the subsequent acts of loan disbursements, either by the Federal agency or by the guaranteed private lender.

Second, the credit budget reflects all new offers of credit. Credit authority is measured on a gross basis and does not reflect repayments of loans. This concept differs from the unified budget where budget authority is required only when collections are insufficient to finance new budgetary obligations. The concept of credit authority is necessary because subsidies are provided to all new recipients of direct loans and loan guarantees, regardless of the extent to which borrowers are repaying other loans previously made.

Third, guaranteed loan commitments are measured as the full principal of the loan, even if the Government's contingent liability is less than the full loan principal. The full principal is included in the commitment because the entire loan, even if only partially guaranteed, is assisted by the guarantee. Moreover, in some programs that offer partial guarantees, the private lender is at risk only when the value of the collateral and the guarantee combined are less than the full loan principal.

There are a number of programs in which less than the full principal of the loan is guaranteed. The major agency that nominally offers guarantees significantly below full loan principal is the Veterans Administration.[3] In the aggregate, of the $410 billion of guaranteed loans outstanding in 1985, the Government's contingent liability was $333 billion or 81%. Excluding the VA, the contingent liability was $273 billion for $280 billion of guaranteed loans outstanding, or 97%.

The contingent liability and full principal of all guaranteed loans outstanding are shown in Table F-1.

Table F-1. **CONTINGENT LIABILITY FOR GUARANTEED LOANS OUTSTANDING**

(In millions of dollars)

	1985 actual	1986 estimate	1987 estimate
Veterans Administration mortgage guarantees:			
Contingent liability	60,080	62,772	66,425
Full principal	130,591	136,392	144,325
All other loan guarantee programs:			
Contingent liability	272,680	306,440	328,434
Full principal	279,851	314,224	337,087
Total outstanding:			
Contingent liability	332,760	369,212	394,859
Full principal	410,442	450,616	481,412

[3] The contingent liability for VA guarantees is the first 60% of the mortgage amount, to a maximum of $27,500. The legislation providing the guarantee effectively turns the guarantee into a 100% guarantee in most cases because the lender's loss on foreclosure seldom exceeds 60% of the mortgage amount.

The credit budget totals.—Table F-2 provides the credit budget totals for 1983 through 1988. It also shows the six largest direct loan programs and loan guarantee programs.

Table F-2. **THE CREDIT BUDGET TOTALS**

(In billions of dollars)

	1983 actual	1984 actual	1985 actual	1986 estimate	1987 estimate	1988 estimate
Direct loan obligations:						
Commodity Credit Corporation	13.9	5.5	10.4	16.6	11.5	10.9
Farmers Home Administration	6.7	7.2	7.9	5.0	1.5	1.0
Rural Electrification Administration	4.5	2.1	4.0	3.4	2.4	1.9
Foreign military sales	5.1	5.7	4.9	5.0	5.7	5.8
Export-Import Bank	0.8	1.5	0.7	1.1	.....	.....
Low-rent public housing	0.2	1.4	14.1	1.5	1.7	1.1
All other	10.2	15.7	10.8	9.0	7.8	7.3
Total obligations [1]	41.4	39.1	52.8	41.6	30.6	28.0
Guaranteed loan commitments:						
Federal Housing Administration	44.6	17.1	47.4	49.3	37.2	37.2
Low rent public housing	14.3	13.7	.....	.....	.....	.....
Guaranteed student loans	7.3	7.6	8.9	9.3	9.8	11.4
Veterans Administration housing	14.7	16.5	12.1	12.3	14.7	14.6
Export-Import Bank	8.5	7.1	7.8	11.5	12.0	12.0
Commodity Credit Corporation	4.7	4.2	2.7	5.3	3.0	3.0
All other	3.1	4.6	5.8	6.1	3.1	3.5
Total commitments [2]	97.2	70.8	84.7	93.8	79.8	81.7
Total credit budget	138.6	109.9	137.6	135.5	110.3	109.7
ADDENDUM						
Secondary guaranteed loan commitments	64.2	39.7	54.6	60.5	55.4	51.9

[1] Includes loans with an agency guarantee that are disbursed by the Federal Financing Bank.
[2] Excludes commitments for guarantees of loans previously guaranteed (secondary guarantees) and for guarantees by one Government account of direct loans made by another Government account. Totals for the former are shown in the addendum. Totals for the latter are included as direct loans.

The 1986 credit budget is below the 1985 credit budget because of a one-time increase in public housing direct loans during 1985, from $1.4 billion in 1984 to $14.1 billion in 1985 and down to $1.5 billion in 1986. For 1987, the administration is proposing that the credit budget decrease by $25 billion, or 19% below the 1986 totals. The programmatic reasons for the changes in the credit budget totals since 1985 are discussed below in the sections on direct loans and guaranteed loans.

B. Appropriation Act Limitations

One of the key features of the credit budget is the enforcement mechanism provided through the enactment of limitations on credit activity in annual appropriation acts. The administration proposes limitations annually on direct loan obligations and guaranteed loan commitments for most credit programs. The limitations act as ceilings on the volume of new credit that may be offered by the account. The limitation is specified in the appropria-

tion language for individual budget accounts that include credit activity.

The President's 1987 Budget proposes limitations for programs amounting to 55% of the credit budget totals. Approximately 27% of direct loan obligations and 65% of guaranteed loans are proposed for limitation. The remainder are programs controlled through other mechanisms. Table F-3 indicates the breakdown of loans subject to, and exempt from, appropriations act limitation.

Table F-3. **CREDIT BUDGET PROGRAMS SUBJECT TO AND EXEMPT FROM APPROPRIATION ACT LIMITATION**

(In billons of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1985 actual	1986 estimate	1987 estimate	1985 actual	1986 estimate	1987 estimate
Limitations enacted/proposed	21.1	13.9	8.8	62.8	71.5	65.7
Less: Unused balance of limitation, expiring	−4.9	−0.5	−0.5	−5.9	−8.1	−13.7
Loans subject to appropriation act limitation	16.3	13.4	8.3	56.9	63.4	51.9
Loans subject to limitation under P.L. 99-177	.....	18.7	.....	.....	19.9	.....
Loans exempt from limitation	36.6	9.6	22.2	27.9	10.5	27.8
Total	52.8	41.6	30.6	84.7	93.8	79.8
ADDENDUM						
Secondary guarantees subject to limitation	.....	.....	.....	54.6	60.5	55.4

The first stage of congressional action on the credit budget is the budget resolution. Although not required by the Congressional Budget Act, recent budget resolutions have generally included guideline levels for credit programs. The budget resolution for 1986 included credit targets by function for 1985 through 1988. The functional allocations specified direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments.

Gramm-Rudman-Hollings incorporates credit authority more fully into the congressional budget process. It requires allocations to the Appropriations Committee and its subcommittees to include new direct loan obligations and new loan guarantee commitments.

After the budget is submitted to the Congress, the House and Senate Appropriations Committees begin working on the 13 appropriation bills. Four bills contain 15 of the 22 requested limitations: Agriculture, Commerce/Justice/State, Foreign Assistance, and Housing and Urban Development/Independent Agencies. Over the past several years, Congress has enacted limitations in most of the programs for which limitations were requested. The administration continues to urge the Congress to enact limitations on guaranteed loans on the basis of the full principal amount of the loan rather than the contingent liability.

In general, limitation language in appropriation acts:

- is a *one-year* limitation;
- sets a *ceiling* on direct loan obligations and/or guaranteed loan commitments; and
- applies to an individual account, although limitations on specific programs within an account may also be provided.

Table F-4 identifies the enacted and proposed limitations for credit programs between 1985 and 1987.

While the appropriation act limitation is an effective control mechanism for new lending by some programs, there are many programs in which the actual demand for Federal credit assistance has been consistently less than the level enacted in annual appropriation bills. For example, the enacted limitations on direct and guaranteed loans of the Export-Import Bank (Eximbank) have consistently exceeded the actual demand for loans since 1982. Chart F-2 illustrates the used and unused portions of the enacted limitations for 1982-1985.

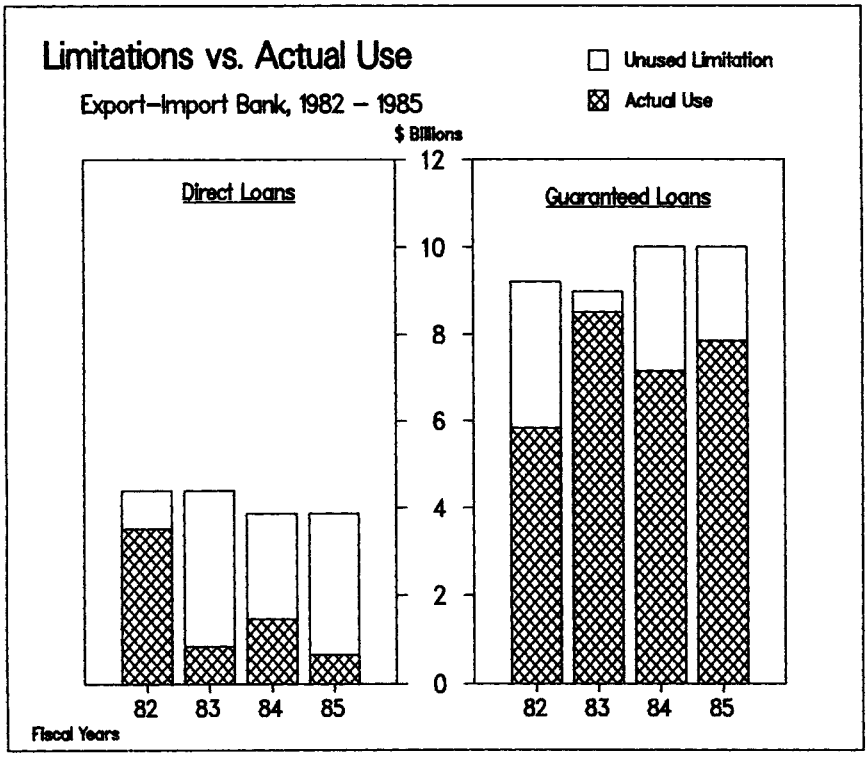


Table F-4. **CREDIT APPROPRIATION ACT LIMITATIONS**

(In millions of dollars)

	1985 actual	1986 [1] estimate	1987 estimate
Limitations on direct loan obligations:			
Foreign military sales credit	4,940	4,967	5,661
AID, Private sector revolving fund	0	17	15
Overseas Private Investment Corporation	15	14	15
Agricultural credit insurance fund	4,292	3,198	1,500
Rural housing insurance fund	3,238	1,336	0
Rural development insurance fund	455	421	0
Rural electrification and telephone revolving fund [3]	1,100	861	435
REA, FFB direct loans [3]	1,325	933	225
Rural telephone bank [3]	185	177	139
Self-help housing land development fund	3	0	0
International Trade Administration, Operations and administration	6	1	0
College housing loans	40	0	0
Bonneville Power Administration fund	40	20	20
Health resources and services	1	1	1
Nonprofit sponsor assistance	2	*	0
Federal Housing Administration fund	65	84	74
Housing for the elderly or handicapped fund	600	55	30
Community development grants: FFB direct loans [2]	225	50	0
Bureau of Reclamation, Loan program	68	46	46
National Park Service, Construction	0	2	0
Bureau of Indian Affairs, Revolving fund for loans	19	16	16
Federal Highway Administration, Right-of-way revolving fund	50	48	50
Railroad rehabilitation and improvement financing funds: FFB direct loans [2]	6	4	0
VA, Direct loan revolving fund	1	1	0
Export-Import Bank	3,865	1,062	0
National Credit Union Administration, Central liquidity fund	600	568	600
Total, limitations on direct loan obligations	21,141	13,882	8,827
Limitations on guaranteed loan commitments:			
AID, Housing and other credit guaranty programs	160	145	0
Overseas Private Investment Corporation	150	136	150
Agricultural credit insurance fund	1,246	1,872	2,500
Rural development insurance fund	150	96	0
Economic development assistance programs [4]	167	30	0
International Trade Administration, Operations and administration [4]	17	0	0
Health professions graduate student loan insurance fund	0	275	100
Federal Housing Administration fund	50,900	57,420	50,900
Bureau of Indian Affairs, Indian loan guaranty and insurance fund	0	0	30
Export-Import Bank	10,000	11,484	12,000
Total, limitations on guaranteed loan commitments	62,790	71,459	65,680
ADDENDUM			
Secondary guaranteed loan commitments:			
GNMA, Guarantees of mortgage-backed securities	68,250	65,315	68,250

*$500,000 or less.

Note.—This table excludes de facto limitations imposed in 1986 by Public Law 99-177.

[1] Includes President's budget proposals for changes in enacted limitations and reductions pursuant to Public Law 99-177.

[2] In this table, loans disbursed by the FFB are shown as direct loans. The limitation applies to the guaranteed loan commitments of the originating agency.

[3] Enacted limitations reflect the loan floor.

[4] These limitations were enacted on the basis of contingent liability. The full principal amount is reflected here.

There are a variety of programs, in addition to Eximbank, for which demand is often below the enacted limitation. Table F-5

compares the proposed and enacted limitations to the actual level of direct loan obligations and guaranteed loan commitments in 1985 for the largest credit programs with shortfalls from limitations.

Table F-5. **COMPARISON OF REQUESTED AND ENACTED LIMITATIONS WITH ACTUAL LOAN LEVELS FOR SELECTED PROGRAMS IN 1985**

(In millions of dollars)

	Proposed limitation	Enacted limitation	Actual loan level	Unused balance of limitation
Direct loan obligations:				
Rural housing insurance fund	2,320	3,238	2,718	520
Rural electrification and telephone revolving fund	575	1,100	765	335
Rural telephone bank	185	185	168	17
Bureau of Reclamation, loan program	66	68	55	13
Export-Import Bank	3,830	3,865	660	3,205
Guaranteed loan commitments:				
Rural development insurance fund	.....	150	61	89
Federal Housing Administration fund	50,900	50,900	47,441	3,459
GNMA, Guarantees of mortgage-backed securities	68,250	68,250	54,597	13,653
Export-Import Bank	10,000	10,000	7,849	2,151

After enactment of appropriation bills, direct and guaranteed loan activity subject to limitation is controlled through the apportionment process. This is the mechanism by which the executive branch controls the rate at which new loans are obligated or guaranteed. While limitations are generally apportioned quarterly, a few are apportioned on an annual or project basis.

For some programs, an appropriation act limitation on annual activity is deemed unsuitable for any of several reasons, and control is provided through other mechanisms. First, limitations are not proposed for programs in which the authorizing legislation provides a clear entitlement to qualified applicants, such as farm price support loans and credit assistance to veterans. These programs are similar to those expenditure programs considered relatively uncontrollable, and the levels of new credit are determined by substantive law.

Second, direct loans that arise from payment of claims on defaulted guaranteed loans are exempt from appropriation act limitation. Payment of these default claims is mandatory, as in the FHA mortgage insurance and the guaranteed student loan program. Therefore, the effective point of control is earlier, at the time of the original guaranteed loan commitment.

Third, some programs are exempt from appropriation act limitation when additional control through limitations would inhibit the effective operation of a program. For example, in several foreign assistance programs, such as the economic support fund, AID development assistance, and P.L. 480 food assistance, appropriated budget

authority governs both the loan and the grant activity. A specific direct loan limitation is therefore an unnecessary duplication of existing congressional controls.

C. Impact of Gramm-Rudman-Hollings

Gramm-Rudman-Hollings establishes ceilings on the deficit for the next 6 years with a balanced budget required by 1991. Parts 2 and 6 of the Budget provide a discussion of this law.

Gramm-Rudman-Hollings contains several provisions that affect credit programs. It defines direct loan obligations and loan guarantee commitments as "credit authority," and it subjects credit authority to the same restrictions as budget authority and other budgetary resources. When sequestration of budgetary resources is required to meet deficit ceilings, credit authority will also be sequestered. In 1986, new direct loan obligations and guaranteed loan commitments have been reduced by the general non-defense sequestration percentage of 4.3%. For those programs with enacted limitations in appropriations acts, the limitation has been lowered by this percentage. For direct loan obligations and guaranteed loan commitments not previously subject to limitation, the estimated level has served as a ceiling which will also be lowered. The lower level constitutes a de facto limitation.

Several loan programs are granted special treatment by GRH. Three programs, Bonneville Power Administration fund, health professions graduate student loan insurance fund, and power programs of the Tennessee Valley Authority, are totally exempt from reductions. Others are exempt to the extent they have prior legal obligations, including the Pension Benefit Guaranty Corporation fund, the Federal Deposit Insurance Corporation, and the Federal Savings and Loan Insurance Corporation fund. In addition, direct loans that result from defaults on guaranteed loans are generally exempt. The Commodity Credit Corporation and guaranteed student loans are the subject of specific provisions in the law.

Except for some programs with special rules, the only immediate source of outlay reductions due to the GRH effect on credit programs results from the sequestration of direct loan obligations. The immediate outlay impact of reduced direct loan obligations differs from program to program, because of lags between obligation and actual loan disbursement, just as the immediate outlay effect of reduced budget authority differs among other spending programs.

D. Direct Loans

Direct loans are financed from a variety of sources including appropriations, borrowing, and repayments of previous loans. Direct loan programs are designed to redirect economic resources to particular uses by providing credit on more favorable terms than

would otherwise be available from private sources. A direct loan is best justified when the Federal objective could not be met with financing from private sources, even with a Government guarantee. The objectives of a direct loan program, for example, may require financing at interest rates that are lower than those available from private lenders, or loan maturities that are longer than otherwise available. Direct loans are made available to individuals, businesses, and State, local, and foreign governments. Direct loan tables attribute loans that are made by the FFB and guaranteed by an agency to the agency responsible for guaranteeing the loans. The credit activity between the Federal Government and the public in these transactions is a direct loan, not a guarantee.

Direct loan obligations in a given year do not result in an equal volume of new direct loan disbursements in the same year for several reasons. First, there is often a lag between the time of obligation and the actual disbursement of the loan. For example, prospective borrowers may seek financing for a project when it is in the design stage, but the financing will not be needed until the next year or even the next several years. As a result, some agencies, such as the Export-Import Bank and the Rural Electrification Administration, disburse loans 2 years or more after the time of the direct loan obligation. Second, some prospective borrowers will never convert the direct loan obligations into borrowing because the projects for which financing had been sought are subsequently cancelled or postponed.

Loan disbursements are payments of loans to the public. They are mostly to make new loans, but they also include some loan guarantee claims. The change in loans outstanding equals new loan disbursements less repayments of loans, loan write-offs, and other adjustments.

As shown in Table F-6, direct loan obligations are proposed to decline between 1985 and 1987 from $52.8 billion to $30.6 billion. The agricultural and business sectors will receive 48.5% and 35.2%, respectively, of the 1987 credit budget. The major changes from 1985 to 1987 in direct loan obligations are discussed below.

Table F-6. **SUMMARY OF DIRECT LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimate					
	1984	1985	1986	1987	1988	1989	1990	1991
Obligations	39.1	52.8	41.6	30.6	28.0	24.8	22.3	20.1
Loan disbursements	41.4	64.4	47.3	34.4	31.0	26.3	23.4	21.1
Change in outstandings	*6.3*	*28.0*	*−4.1*	*−4.4*	*−3.2*	*−5.7*	*−7.1*	*−4.6*
Outstandings	**229.3**	**257.4**	**253.3**	**248.9**	**245.7**	**239 9**	**232.9**	**228.3**

The Commodity Credit Corporation (CCC) provides short-term non-recourse loans to producers of agricultural commodities. The loans provide subsidized financing for production costs and set a minimum price for individual commodities, since the farmer may turn his crop over to the Government rather than repay the loan. The demand for CCC price support loans, therefore, depends on the market price of the crop compared to the price in the loan rate. When market prices are below the threshold price in the loan rate, farmers borrow large amounts from the CCC, forfeiting the crop as repayment to the Government if market prices have not risen by harvest time. Demand for CCC price support loans rose from $10.2 billion in 1985 to an estimated $16 billion in 1986, mainly due to an increase in agricultural production that resulted in lower crop prices, which in turn led to increased need for Government price supports.

The Food Security Act of 1985 (known as the farm bill) gives the Secretary of Agriculture the discretion to set commodity prices implicit in CCC loans more closely to market prices. This will help make U.S. agricultural exports more competitive on world markets. This should eventually reduce the need for Government price supports; however, continued Federal credit support for farmers may be necessary as they adjust to a market-based system.

The Farmers Home Administration (FmHA) makes loans for purchasing and operating farms, improving rural housing, and developing rural community facilities. Total FmHA direct loan obligations are proposed to decline significantly in 1987, to a level of $1.5 billion. This level reflects a shift in Federal loan activity from direct loans to guarantees of private loans in the Agricultural Credit Insurance Fund, and the administration's proposals to terminate both FmHA housing and rural development programs in favor of providing such assistance through the Department of Housing and Urban Development (HUD).

The Rural Electrification Administration (REA) was designed to be a lending agency responsible for rural electrification and for furnishing electricity and telephone service to rural areas not receiving central station service. REA direct loan obligations declined from $4.0 billion in 1985 to $3.4 billion in 1986. This reflects a decline in construction created by lower demand for electricity and the related surplus of electric generating capacity.

REA direct loan activity is proposed to decline to $2.4 billion in 1987. This decrease is due to the administration's plan to encourage rural electric systems to rely more on private financing for needed credit. Over the next 5 years, the Federal share is proposed to be phased out and replaced by private financing.

Foreign Military Sales (FMS) credit provides financing to foreign governments and international organizations so that they can pro-

cure U.S. military equipment and services. The increase from $4.9 billion in 1985 to $5.0 billion in 1986 reflects a slight increase in U.S. exports. FMS credit direct loan obligations will increase by $0.7 billion in 1987. This 14% increase will permit the Government to finance the procurement of additional military equipment and services by countries whose security is threatened by military forces hostile to U.S. interests. The bulk of the requested increase will be provided to Egypt and Israel, with Turkey, Greece and Spain continuing to receive large amounts of credit. In order to reduce the debt service burden of these countries, 55% of the program is requested as loans that will be forgiven and 14% is requested on concessional terms.

Export-Import Bank (Eximbank) direct loan obligations were $0.7 billion in 1985. This is significantly below past levels because of the high value of the U.S. dollar relative to other currencies, the worldwide economic recession and its effect on U.S. exports of commercial aircraft, nuclear plants, and other large capital equipment. The administration is proposing the elimination of new Eximbank loans in 1987 and their replacement by a $100 million interest rate subsidy program and an increase to $12 billion in guarantees. For that reason, no direct loan obligations are shown after 1986. New disbursements that occur after 1986 are the result of loans obligated before 1987.

The Small Business Administration credit programs are proposed to be terminated in 1987. Under the budget proposal, new direct loan obligations offered by SBA after 1986 would be the result of commitments made in prior years or previously guaranteed loans that are expected to default. The existing loan portfolio would be transferred to the Treasury Department for servicing and liquidation. The Treasury Department would also sell the existing loan assets to investors, without Federal guarantee or recourse, beginning in 1987. Some of the issues involved in loan asset sales are discussed in Section IX of this analysis.

Direct loan obligations of the low-rent public housing program increased from $1.4 billion in 1984 to $14.1 billion in 1985 and are expected to decrease to $1.5 billion in 1986. Prior to the enactment of the Deficit Reduction Act of 1984, housing construction was financed with tax-exempt obligations issued by the Public and Indian Housing Authorities (PHAs and IHAs) and secured by 20- to 30-year Federal commitments to repay the full principal amount. DEFRA however, raised questions about the tax-exempt status of PHA and IHA obligations. Consequently, tax-exempt financing for these construction activities was suspended. It was replaced by direct loans extended by HUD to PHAs and IHAs. These loans in turn will be forgiven. As a consequence, the Federal Government would be relieved of associated long-term commitments to amortize

the forgiven loans. Beginning in 1986, new PHA and IHA capital expenditures are funded annually.

Table F-19 shows detailed data for Federal direct loan programs from 1985 through 1991.

E. Loan Guarantees

Guaranteed loan commitments are agreements in which the Government guarantees the payment of the principal and interest of the loan in whole or in part in the event of default. Insurance is a type of guarantee in which a Government agency operates a program of pooled risks, pledging the use of accumulated insurance premiums to secure a lender against default on the part of a borrower. For the purposes of the credit budget, the term "guaranteed loan" includes insured loans.

A loan guarantee transfers some or all of the risk of default from the lender to the Government. In cases where the Government guarantees the timely payment of 100% of the loan principal and interest against all risk, it transforms a private loan into a near-Government direct loan financed by a near-Government security. The guaranteed loan will have essentially the same economic effects as a Government direct loan offered at moderate premiums above Treasury yields, but it will not have all the attributes of a Government direct loan because private lenders will negotiate different financial terms and conditions (e.g., fees) than would a Government agency.

The guaranteed loan will not have all of the attributes of a U.S. Treasury security either, since it will be less liquid and will involve higher transaction costs. The great volume of Treasury securities, their regular issuance in a range of maturities, and the specialized institutions and trading facilities that deal in those securities, all produce an efficient market that cannot be matched by the market for guaranteed loans. The Government guarantee, for example, may not be transferred from one lender to another as readily as a U.S. Treasury security may be traded. Legal counsel may be required to determine the extent to which a lender is assured of repayment and under what circumstances. This requirement is a transaction cost not associated with a U.S. Treasury security. For these and other reasons, guaranteed loans bear interest rates above the yields on otherwise comparable U.S. Treasury securities.

Loan guarantees, like direct loans, redirect economic resources by providing credit to borrowers at more favorable terms than would otherwise be available in the private market. The degree to which the guarantee reallocates credit will depend on the degree of

the subsidy.[4] At one extreme, the potential transaction being financed may be considered so risky that no financing would be available without the guarantee. For example, it is unlikely that private lenders would make student loans generally available without guarantees because of the inherent, and significant, uncertainty about any particular borrower's future income stream. In this case, the subsidy will be quite large and will have a dramatic effect on the reallocation of credit.

At the other extreme, the guarantee may result in only a small subsidy and, other conditions being equal, may not significantly change the allocation of credit. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately—without Government support—albeit at a higher cost. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased even in the absence of a Federal guarantee. In such a case, the borrower benefits from a small subsidy and the guarantee does not significantly alter the allocation of credit resources.

In both cases, although to different degrees, the guarantee reallocates credit toward federally selected uses, increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit available to those potential borrowers who do not receive assistance, and increases the interest rates on financing available to these borrowers.

Loan guarantees are used in a wide variety of programs. Guaranteed loans may be made to individuals, to businesses, and to State, local, and foreign governments. The guaranteed loan commitment may be used for a loan made by a bank or other institutional lender or an investment security sold in the capital market. Guaranteed loans, for the purposes of the credit budget, do not include other contractual agreements, such as guarantees of private leases, contracts to make subsidy payments over extended periods, or debt service grants that the recipients may use as collateral for borrowing.

Data for guaranteed loans for 1985 through 1991 are summarized in Table F-7. The guaranteed loan commitments in a given year do not always result in new guaranteed loans in that year, for the same reasons that direct loan obligations in a given year do not necessarily lead to disbursements in that year. The change in outstandings is equal to the amount of new guaranteed loans less repayments and other adjustments. Table F-20 provides detailed data for guaranteed loan programs for 1985 through 1991.

[4] The degree of credit reallocation will also depend on the price elasticity of demand of the good being financed. A small change in the price (i.e., the subsidy) of the good being financed may result in a considerable change in the amount of the good actually bought and sold. This special analysis does not consider demand and supply elasticity effects.

Table F-7. **SUMMARY OF PRIMARY GUARANTEED LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimate					
	1984	1985	1986	1987	1988	1989	1990	1991
Commitments	70.8	84.7	93.8	79.8	81.7	83.3	84.8	85.4
New guaranteed loans	73.3	55.5	73.6	68.2	67.7	70.9	73.6	75.6
Change in outstandings	*20.1*	*21.6*	*40.2*	*30.8*	*25.9*	*24.0*	*24.7*	*24.7*
Outstandings	**386.7**	**410.4**	**450.6**	**481.4**	**507.3**	**531.3**	**556.0**	**580.7**

As noted in the previous section, direct loans disbursed by the Federal Financing Bank (FFB), which are guaranteed by a Federal agency are excluded from guaranteed loans and included in Table F-6. As shown above in Table F-7, primary guaranteed loan commitments are expected to decrease from $84.7 billion in 1985, to $79.8 billion in 1987. Housing programs accounted for 67% of guaranteed loan commitments in 1985, and are expected to remain at that level through 1987. The major programmatic changes from 1984 through 1987 are discussed below.

Guaranteed loan commitments in 1985 for the Federal Housing Administration (FHA) rose by 175% over 1984, the result of falling interest rates and a healthy housing environment. Commitments, which equaled $47.4 billion in 1985 compared to $17.1 billion in 1984, are expected to peak in 1986 at $49.3 billion and decline to $37.2 billion thereafter. The Veterans Administration (VA) offers a mortgage guarantee that is similar in effect to the FHA mortgage insurance program, but does not require veterans to make downpayments on their housing purchases. For 1986, guaranteed loan commitments by VA are estimated to be $12.3 billion, rising to $14.7 billion in 1987.

The Commodity Credit Corporation (CCC) provides loan guarantees for export sales that would not otherwise occur without Federal credit assistance. CCC guaranteed loan commitments for U.S. exports fell by $1.5 billion from 1984 to 1985. This decline is attributable to a strong U.S. dollar compared to foreign currencies and a subsequent drop in demand from foreign buyers for U.S. Government-subsidized credit. Annual guaranteed loan commitments of $3.0 billion are requested for 1987 reflecting the proposed legislation which reduces CCC's export credit program to levels reflecting free market needs.

The guaranteed student loan program (GSL) provides guarantees of education loans to graduate and undergraduate students. Commitments for the program increased by $1.3 billion from 1984 to 1985 as participation increased by 17%. The level of GSL commitments is estimated at $9.3 billion in 1986, an increase of $400 million, or 4%, from 1985.

The Export-Import Bank provides guarantees to facilitate U.S. exports. Guaranteed loan commitments increased from $7.1 billion to $7.8 billion between 1984 and 1985. In 1986, it is estimated that Eximbank commitments will be $11.5 billion, as risk protection continues to be important to U.S. exporters. The proposed level in 1987 and beyond is $12 billion, $1.8 billion of which will be available for the interest rate subsidy program.

Public and Indian housing programs had no new guaranteed loan commitments in 1985. The absence of guaranteed loans is the result of the extension of direct loans to PHAs and IHAs that are necessary since the enactment of DEFRA and the suspension of private market financing. The direct loans thereby eliminate the need for new guarantee commitments. (The proposal to reform the financing of public and Indian housing is described under Chapter III C: Direct Loans.)

The Small Business Administration credit programs, as noted in the section on direct loans, are proposed to be terminated in 1987. For that reason, no new guaranteed loan commitments are proposed after 1986. Outstanding guaranteed loans with a balance of $9.5 billion in 1986 will be serviced by the Treasury Department.

About 90% of all single-family mortgages insured by FHA or VA are sold subsequently in the secondary mortgage market using the Government National Mortgage Association (GNMA) mortgage-backed securities program. This program provides guarantees for securities issued by private mortgage originators and backed by pools of FHA-insured and VA-guaranteed mortgages. The GNMA guarantees enhance the liquidity of trading these securities. GNMA's issuance of new securities is closely tied to the amount of FHA insurance and VA mortgage guarantees. Commitments for GNMA mortgage-backed securities therefore rose from $39.7 billion in 1984 to $54.6 billion in 1985. An increase to $55.4 billion is estimated in 1987. The 1987 budget proposes to increase the fee that GNMA charges for its guarantee, from 6 basis points (a basis point is 1/100 of a percent), to 15 basis points in 1987 and to 20 basis points thereafter. This increase is estimated to raise $15 million in new revenue in 1987, and $547 million over the period 1987 to 1991.

IV. Government-Sponsored Enterprises

Over the last 70 years, the Federal Government established five financial intermediaries, whose purpose is to direct funds to particular sectors of the economy. These entities, generically known as Government-sponsored enterprises (GSEs), are:

- Federal Home Loan Banks;
- Federal Home Loan Mortgage Corporation;
- Federal National Mortgage Association;

- Student Loan Marketing Association;
- Farm Credit System, composed of Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks.

While most of the GSEs were created as Government institutions, all have been privately owned since 1969 and are not included in either the unified budget or the credit budget. However, since they were designed for the furtherance of Government objectives and since they continue to enjoy special benefits not received by other private financial intermediaries, their financial statements are shown in the Budget Appendix (Part IV). Table F-8 summarizes the lending and borrowing of the GSEs for 1985-1987; Table F-21 in the back of this special analysis presents details of their activity.

Table F-8. **SUMMARY OF LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

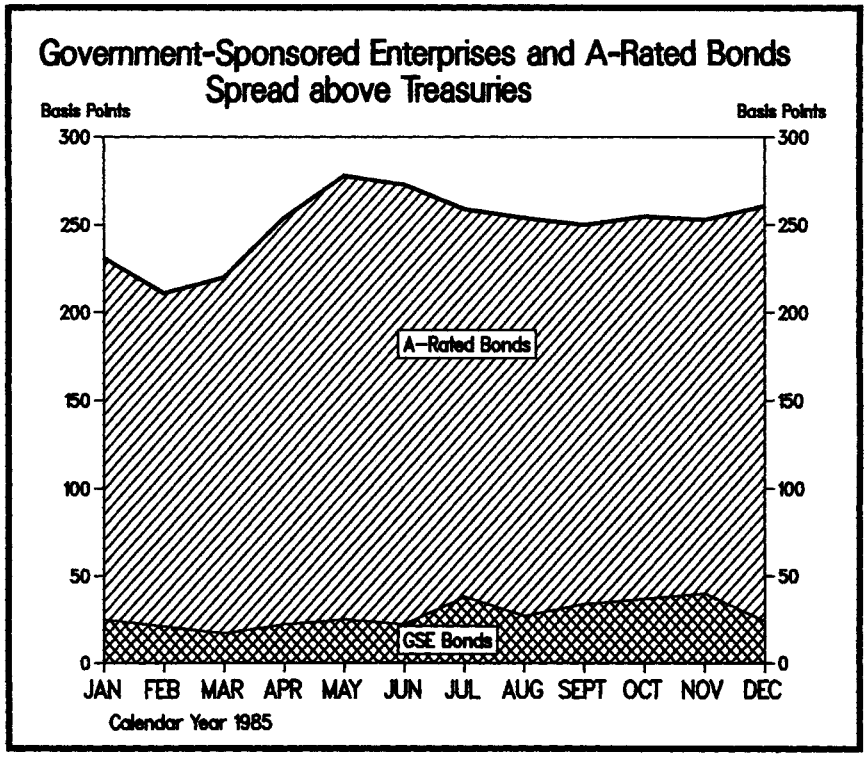
(In billions of dollars)

	Actual 1985	Estimate	
		1986	1987
Total net lending:			
Obligations	259,984	233,505	238,822
New transactions	251,958	228,517	237,201
Net change	*60,741*	*62,416*	*64,098*
Outstandings	**369,940**	**432,358**	**496,456**
Total borrowing:			
Net change	*57,884*	*67,871*	*65,325*
Outstandings	**351,612**	**418,885**	**484,208**

GSEs make capital available for housing, agriculture, and education. They seek to direct credit to these favored sectors of the economy by acting as financial intermediaries that stimulate greater amounts of lending to these sectors. Their goals are accomplished by creating a secondary market that increases the liquidity of direct lenders in housing and education, and by direct lending in agriculture. Over the last 5 years, outstanding GSE debt grew by 142%, from $153 billion in 1980 to $370 billion in 1985. By comparison, loans outstanding to private businesses and corporations grew 45% over the same period. In general, sectors that do not benefit from the presence of a GSE will have less financing allocated to them, and the financing that is available will be more expensive because there is less of it.

Securities offered by GSEs in the financial market are not guaranteed by the U.S. Government. Nonetheless, these securities usually have yields of 50 to 300 basis points below medium-rated corporate debt. In fact, as seen in Chart F-3, GSE instruments historically carried only slight premiums above the yields of Treasury securities of comparable maturity; these premiums have ranged from 10 to 50 basis points during 1985, with the notable

exception of Farm Credit System debt instruments, which are discussed below.



The relatively small premiums above Treasuries are explained by the perception of a "special relationship" between the GSEs and the Federal Government. While the specialness of this relationship arises in part from the intangible nature of Government sponsorship, it also reflects real benefits enjoyed by these enterprises. Table F-9 lists some of the benefits available to GSEs.

Table F-9. **BENEFITS ENJOYED BY GOVERNMENT-SPONSORED ENTERPRISES**

Type of Benefit	FHLB	FHLMC	FNMA	FCS	SLMA
Line of credit at Treasury	Yes	Yes [1]	Yes	Yes	Yes
Exemption of corporate earnings from Federal income	Yes	No	No	Yes [2]	No
Exemption of interest income of investors from State and local income taxes	Yes	No	No	Yes	Yes
Eligibility for Federal Reserve open market purchases	Yes	Yes	Yes	Yes	Yes
Equal standing with Treasury debt as investments for most banks	Yes	Yes	Yes	Yes	Yes
Exemption from SEC registration and various State banking laws	Yes	Yes	Yes	Yes	Yes
Eligibility as collateral for public deposits	Yes	Yes	Yes	Yes	Yes

[1] Indirect line of credit through the FHLBs.
[2] Federal Land Banks, Federal Intermediate Credit Banks, and Federal Land Bank Associations.

As a means of reimbursing the Federal Government for some of these benefits, and to place these GSEs on a more equal plane with private financial intermediaries, the administration has proposed an annual user fee on new borrowings, including the issuances of mortgage-backed securities and participation certificates. The fees are proposed for the various GSEs starting in 1987. The fees will differ by GSE to reflect the borrowing advantage each enjoys in its respective market, and would be phased in over the next few years. For example, the Federal Home Loan Mortgage Corporation would be charged a fee on its new debt issues of 10 basis points in 1987, 12.5 basis points in 1988, and 15 basis points in 1989; the Federal National Mortgage Association would be assessed a fee on its new debt issues of 10 basis points in 1987, 30 basis points in 1988, and 50 basis points in 1989.

The operations of the five GSEs are discussed individually below.[5]

Federal Home Loan Bank System.—The Federal Home Loan Bank System was established in 1932 as the first permanent Government-sponsored intermediary for housing. Its original charter was to supervise federally chartered savings and loans associations and to promote home ownership through the extension of credit to savings and other home financing institutions. The Federal Home Loan Bank Board (FHLBB), which serves primarily as a regulatory agency, and twelve regional Federal Home Loan Banks (FHLBs) comprised the original system. Subsequently, the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Mortgage Corporation (Freddie Mac) were added to the system in 1934 and 1970, respectively.

The Federal Home Loan Banks support the residential mortgage market by providing a central source of housing credit to thrift institutions through loans or "advances" to members. The FHL banks provide member thrifts with access to national capital markets and eliminate regional barriers to the flow of mortgage funds. Advances are an attractive source of funds for members largely because they are the cheapest funds available after savings deposits. Each of the 12 FHL banks is regulated by the FHLBB but establishes its own policies with FHLBB guidelines. FHL banks finance their advances primarily by selling debt securities in the money and capital markets and, to a lesser extent, by accepting both demand and time deposits from member institutions.

Federal Home Loan Mortgage Corporation.—FHLMC (Freddie Mac) is a subsidiary of the FHL banks and their member thrifts. It

[5] For additional information on GSEs, see also: Michael J. Moran, "The Federally Sponsored Credit Agencies: An Overview," Federal Reserve Bulletin, June 1985; and Congressional Budget Office, "Government-Sponsored Enterprises and Their Implicit Federal Subsidy: The Case of Sallie Mae," December 1985.

was created in 1970 to increase the availability of mortgage credit and liquidity in the residential mortgage market. Performing a different function from that of its parent, Freddie Mac provides a secondary market for conventional mortgage loans, which are not insured by the Federal Housing Administration or guaranteed by the Veterans Administration. Typically, Freddie Mac purchases mortgages originating from mortgage bankers, savings institutions, commercial banks, and other primary lenders. These institutions sell mortgages to enhance the liquidity of their assets.

Freddie Mac finances its purchases of mortgage loans by issuing debt, pooling the mortgages together, and issuing pass-through certificates backed by these loans. By issuing pass-through certificates, the ownership of the underlying mortgage pool is transferred to a trustee thereby removing the loans from Freddie Mac's balance sheet. Thus, generally accepted accounting principles for private businesses greatly understate Freddie Mac's participation in the secondary market.

As a financial intermediary, Freddie Mac is vulnerable to interest rate fluctuations but has developed innovative financing transactions in an effort to guard against unforeseen interest rate swings. The company's most recent financing innovation is the collateralized mortgage obligation (CMO). This financing method is a debt instrument backed with mortgages or mortgage-backed securities, designed to reduce the major disadvantage of uncertainty about maturity that is associated with mortgage pass-through certificates.

Federal National Mortgage Association.—FNMA (Fannie Mae) was established by Congress in 1938 to provide a secondary market for federally underwritten mortgages. In 1968, it became a privately-owned corporation, and its stock is now traded on the New York Stock Exchange.

Fannie Mae is the largest single investor in home loans in the United States. The company increases the liquidity of mortgage bankers, savings institutions and commercial banks by purchasing from them both conventional loans and loans insured by the Federal Housing Administration and guaranteed by the Veterans Administration. Fannie Mae finances its purchases by issuing debt and mortgage-backed pass-through securities similar to those issued by Freddie Mac. As a financial intermediary, Fannie Mae's profitability is sensitive to movements in interest rates. In recent years, the company has attempted to decrease its sensitivity to interest rate fluctuations by increasing fee income, issuing zero-coupon bonds and other debt in the Eurobond market, issuing yen-denominated securities abroad, and by participating in currency swaps.

Fannie Mae, Freddie Mac, and the Government National Mortgage Association (Ginnie Mae) have long dominated the secondary market for mortgages, particularly the mortgage-backed security portion of the market. Recently, however, totally private institutions have begun to issue mortgage-backed securities, in part because of regulatory and administrative changes implemented by the administration. Recent legislation has enabled private firms to compete more effectively with Fannie Mae and Freddie Mac.

Beginning in 1986, however, both Fannie Mae and Freddie Mac will expand their markets to single-family home mortgages with a ceiling level of $133,250 compared to the current "conforming rate" of $115,300. This 15.6% increase is much larger than the 1.1% increase in the ceiling level achieved last year. This new market is expected to translate into an estimated $16 billion in new loans available for purchase and pooling into agency pass-throughs in 1986, and another estimated $30 billion in existing loans.

Student Loan Marketing Association.—SLMA (Sallie Mae) was created in 1972 to expand the amount of funds available for insured student loans. It does so by providing liquidity to lenders, which include savings and loan associations, commercial banks, mutual savings banks, educational institutions, and State and nonprofit agencies.

Sallie Mae provides liquidity by operating a secondary market for student loans and by providing "warehousing" advances. Sallie Mae's secondary market involves the purchase of existing insured student loans from lenders. When this occurs, Sallie Mae gets title to the loans and is repaid directly by the borrowers. Warehousing advances are Sallie Mae loans to lenders that are secured by student loans or certain types of obligations guaranteed by the Government. In such cases, the lenders continue to hold title to the loans and pay Sallie Mae interest on the funds borrowed. Advances are also available to State student loan agencies as a taxable source of funds for their operations. In 1987, Sallie Mae will purchase student loans estimated at $2.0 billion, and will make warehousing advances estimated at $1.8 billion.

Starting in 1974, Sallie Mae operations were financed entirely through borrowing from the FFB. Sallie Mae stopped new borrowing from the FFB in January 1982; since then, it has done all its new borrowing in private credit markets. It will borrow an estimated $2.5 billion in 1986. Sallie Mae is able to borrow at rates only slightly higher than Treasury bills, and virtually all of the student loans that it holds as assets are federally insured. Sallie Mae's overall cost of funds in 1985 was about 35 basis points over 91-day Treasury bills, while student loans are guaranteed to yield the holder of the loan 350 basis points over the Treasury bill rate. As a result, Sallie Mae has maintained a profitable interest rate spread

on its student loan portfolio even after its expenses in servicing student loans are taken into account. Sallie Mae's profit margins on its warehousing advances are considerably lower.

The continued profitability of Sallie Mae's operations ought to attract competitors to Sallie Mae's market and eventually drive down the yield associated with guaranteed student loans. However, such competition has not developed, as is well discussed in the Congressional Budget Office study of Sallie Mae referenced above. The dominance of Sallie Mae in the secondary market for guaranteed student loans can be attributed mainly to the low-cost source of funds it enjoys as a GSE.

Farm Credit System.—The FCS is a system of cooperatives that provide credit to farmers and ranchers, their cooperatives, farm-related businesses, commercial fishermen, and rural homeowners. The FCS is supervised by the Farm Credit Administration (FCA), an independent Federal agency. The FCS obtains funds through the sale of securities to investors in the private credit markets. These securities are "joint and several," which means that default by one FCS institution requires all others to honor the obligations of the security.

The goals of the FCS are accomplished through its component parts: Federal Land Banks (FLBs) and Federal Land Bank Associations (FLBAs); Federal Intermediate Credit Banks (FICBs) and Production Credit Associations (PCAs); and the Banks for Cooperatives (BCs) .

The year 1985 was difficult for farmers and all financial institutions that serve them. The cash flow of many farmers was reduced due to depressed commodity prices, and large numbers of borrowers defaulted on their loans. Land prices continued to decline in many areas of the country, reducing the value of collateral pledged for bank loans. These factors combined to make 1985 the worst year in the history of the FCS since the Great Depression.

The 37 banks that make up the FCS anticipated an estimated net loss of $2.5 billion for calendar year 1985, compared to net income of $442 million for 1984. Total capital of FCS banks at year-end stood at an estimated $6.5 billion, a drop of $2.7 billion from the level of a year earlier. The provision for loan losses for 1985 was an estimated $2.7 billion while net loan write-offs during the year amounted to an estimated $1.5 billion. Comparable figures for 1984 were $121 million and $127 million.

Published accounts of FCS woes inevitably affected the yields of FCS bonds. Prior to 1985, system securities were priced at only 5 to 10 basis points above Treasury instruments of comparable maturity; that spread grew to 17 to 31 basis points by April 1985, and 35 to 114 basis points by September 1985. The spread fell back to 30 to

50 basis points by December 1985 mainly because of changes made in FCS that are discussed below.

The financial crisis of the Nation's farmers and its impact on FCS led the administration and the Congress to seek changes in the structure and operations of the system. The Farm Credit Amendments Act of 1985 was signed into law by the President on December 23, 1985. The new law provides the basis for reestablishing FCS as a reliable source of financing for American agriculture.

There are three main parts to the Act: it creates the FCS Capital Corporation; it reorganizes the FCA into a stronger, arms-length financial regulator of FCS institutions; and it gives the Secretary of the Treasury the discretion to provide financial assistance to the FCS under limited circumstances and with proper appropriation of funds.

The FCS Capital Corporation has the power to mobilize the earned surplus of all FCS entities, purchase bad loans at market value and restructure those loans, and assess FCS members to cover the corporation's service costs and losses. The administration believes this ability to draw on system-wide reserves will provide adequate support for the FCS as a whole.

Granting FCA stronger regulatory powers, similar to those already held by other Federal regulators of financial institutions, will help to ensure the long-term health of FCS. The Act creates a new three-member board to administer the FCA, which will be authorized to establish and enforce capital requirements and fiduciary regulations on member units. The FCS will also adopt generally accepted accounting principles and have member banks publicly audited.

Finally, the Secretary of the Treasury will have the discretion to purchase the obligations of the corporation, subject to the availability of appropriations provided specially for this purpose by the Congress, under circumstances specified in the Act. The administration does not expect that any such public funds will be needed.

V. Changes in the Quantity and Price of Federal Credit

This section discusses some of the trends and policy initiatives in Federal credit activity that cut across programs. The first part of this section discusses the general quantity of new Federal and federally assisted credit, including that of GSEs. The second part of this section discusses an administration proposal to raise the price of Federal and federally assisted credit by charging higher interest rates and fees.

Changes in the quantity.—The flow-of-funds accounts measure total net lending and borrowing between various sectors of the U.S. economy. These accounts are estimated by the Federal Reserve

Board, and provide one context in which to analyze the flow of Federal credit. A comparison of net Federal and federally assisted lending to total net lending in the U.S. economy allows an estimate to be made of the total amount of net lending directly influenced by Federal programs. It also allows a comparison to be made of changes in the degree of Federal influence over time.

Chart F-4 summarizes these relationships during the last decade. Federal and federally assisted lending in a given year is the difference between the amount of direct, guaranteed and GSE loans outstanding at the beginning and end of year. The net amount of Federal and federally assisted lending was $110.3 billion in 1985. The supply of credit is the net increase in the holdings of various investor groups. In 1985, this was $768.6 billion. The participation ratio of Federal and federally assisted lending to total lending, therefore, was 14.4% in 1985. This is below the peak for this decade of 22.5% in 1980 and higher than the 1984 ratio of 11.6%. Table F-23 provides additional details on the participation ratios.

These ratios should be used with caution for two reasons. First, and most importantly, the participation ratios do not indicate the full extent of Federal influence in allocating credit to favored borrowers. That influence is reflected in a more meaningful way by the degree of subsidy. A loan guarantee with a small degree of subsidy does not allocate capital to the same degree as a direct loan with a high degree of subsidy. Yet the lending participation ratios do not distinguish between a dollar of guaranteed loans and a dollar of direct loans; they weigh both dollars equally.

Second, the participation ratios are shown on an aggregate basis for the entire economy and so do not reveal the Federal influence on borrowing by particular sectors, such as households, corporate businesses, or farms. This means that some sectors may be more affected by changes in Federal credit program levels than others, even when the overall lending participation ratio remains the same.

The Federal Government not only lends to various sectors of the economy, but it also borrows. The scope and details of Federal borrowing are discussed in Special Analysis E ("Borrowing and Debt"). The net annual amount of Federal and federally assisted borrowing in 1985 was $276.8 billion. The borrowing participation ratio, therefore, was 36.2% in 1985. As shown in Chart F-4, the borrowing participation ratio is more volatile than the lending participation ratio, ranging from 19% to 56% of total borrowing between 1975 and 1983. The volatility is due primarily to swings in the budget deficit. Again, a cautionary note is in order. The full impact of Federal borrowing on the U.S. economy and the credit markets depends on competing demands from other borrowing sectors, as well as changes in the supply of credit available for borrow-

ing. Table F-23 at the back of this special analysis provides additional details on participation ratios.

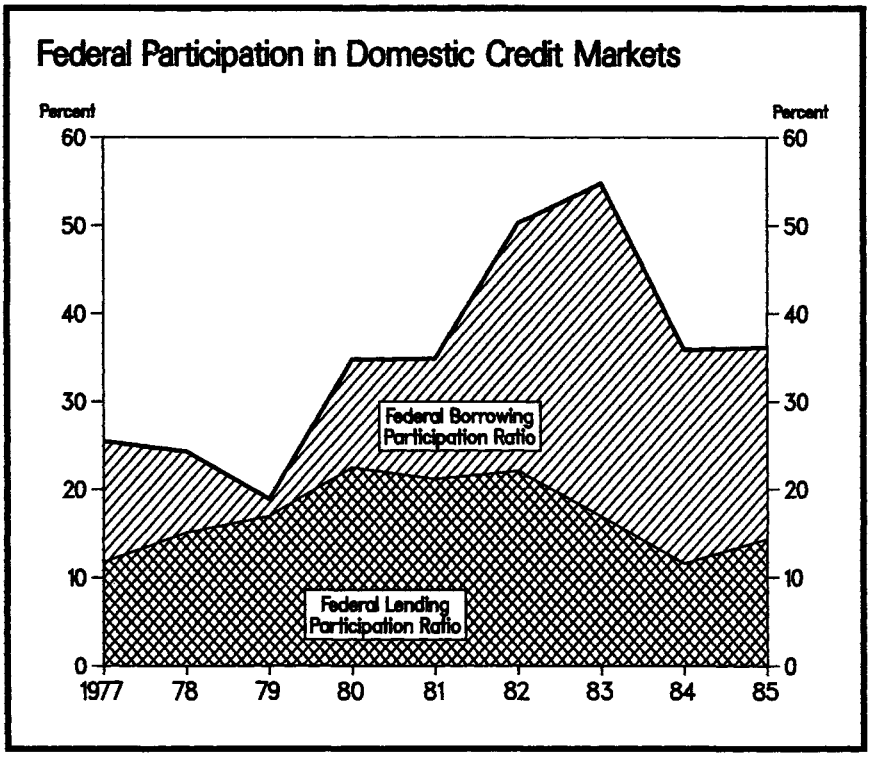


Table F-10 summarizes outstanding Federal and federally assisted loans from 1984 to 1987. Total direct loans outstanding at the end of 1985 were $257.4 billion and total guaranteed loans outstanding were $410.4 billion. In 1985, Federal and federally assisted loans outstanding increased by 11.6% over 1984. Increases of 9.5% in 1986 and 8.0% in 1987 are estimated.

Changes in the price.—The second trend in Federal credit policy has been to increase interest rates and fees. Interest rates and guarantee fees are frequently set in legislation. Neither the interest rates nor the loan guarantee fees cover all the costs to the Federal Government of many credit programs. These costs include default risks for both direct and guaranteed loans, as well as servicing and administrative costs.

The 1987 budget proposes to charge borrowers from several loan programs interest rates and loan guarantee fees that more ade-

Table F-10. **SUMMARY OF OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT**

(In billions of dollars)

	Actual		Estimate	
	1984	1985	1986	1987
Direct loans	229.3	257.4	253.3	248.9
Primary guaranteed loans	386.7	410.4	450.6	481.4
Loans by Government-sponsored enterprises	314.1	370.0	432.4	496.5
Total, Federal and federally assisted loans	**930.1**	**1,037.8**	**1,136.3**	**1,226.8**
Federal debt held by the public	1,312.6	1,509.9	1,714.0	1,855.7
Primary guaranteed debt (same as guaranteed loans above)	386.7	410.4	450.6	481.4
Debt of Government-sponsored enterprises	294.8	351.6	418.9	484.2
Total, Federal and federally assisted debt	**1,994.1**	**2,271.9**	**2,583.5**	**2,821.3**

quately compensate the Government for the risks it bears. These higher interest rates and fees are proposed to help offset the cost to the Federal Government of defaults and delayed repayments, as well as the servicing and administrative costs. The higher interest rates and fees will differ by program depending on the credit risks specific to that program. These higher interest rates and fees will also reduce the subsidies provided by the affected programs. In most cases, the remaining subsidy will still be substantial.

In addition, as discussed in Section IV, it is proposed that Government-sponsored enterprises pay an annual fee on the gross amount of their securities issued after 1986. This fee will raise an estimated $2.5 billion over the period 1987–1991.

VI. Federal Credit Subsidies

Federal credit programs provide more favorable terms than those otherwise obtained in the private market and thus result in a subsidy, often of significant magnitude, to the borrower. For direct loans, a subsidy results when one or all of the following terms of Federal credit are in place:

- Interest rates below commercial levels.
- Longer maturities than fully private loans.
- Deferral of interest.
- Allowance of grace periods.
- Waiver or reduction of loan fees.
- Higher loan amount in relation to the value of the underlying enterprise than a fully private loan.
- Availability of funds to borrowers for purposes for which the private sector would not lend—at virtually any interest rate under virtually any repayment terms.

For guaranteed loans, an interest rate subsidy occurs because the Government guarantee removes some or all risk of default or loss facing the lender and because the Government does not charge

what a private insuror would charge for the same degree of guarantee. The lender is therefore willing to lend to the guaranteed borrower at rates lower than the market rate since no premium for default risk is required.

In many cases, large interest rate subsidies may be intended, for a direct loan program may be established with an objective that explicitly requires a below-market interest rate. The Economic Support Fund, for example, extends loans at interest rates of about 3% per annum in order to meet its objective of aiding foreign countries. In other cases, the extent of the subsidy may be unintentional, as when a direct loan program's interest rate is initially set at a level comparable to a market interest rate but is never changed to keep pace with changes in market interest rates over time. For example, Congress in 1944 set the interest rate on some loans of the Rural Electrification Administration at 2%, which was slightly higher than the cost of Treasury borrowing at that time. Last year, the cost of long-term Treasury borrowing was over 11%, but REA's lending rate had been increased only to 5%.

Neither the unified budget nor the credit budget captures the subsidy that result from interest rate spreads and other loan terms characteristic of Government credit. However, the cash outlays of the direct loan or loan guarantee program are reflected in the unified budget, while the new levels of annual loan activity (both direct loan obligations and guaranteed loan commitments) are summarized in the credit budget. A full evaluation of the cost of any direct or guaranteed loan program to the Government must include an analysis of both the economic cost via estimated subsidy values and the actual cash outlay.

This section presents estimates of the subsidies provided by Federal direct loan and loan guarantee programs in 1985. The direct loan subsidy is calculated as the discounted value (or present value) of the additional payments, that the borrower would have been required to pay for the loan if it had been a purely private loan. This method requires an estimation of the interest rate and other costs a representative borrower would have had to pay to a private lender absent the Government loan. It is not possible to determine this rate of return with precision, since the terms of a loan depend on such conditions as the purpose of the loan, the creditworthiness of the borrower, the competition among lenders, and specific circumstances facing the borrower and lender at the time the loan agreement is negotiated. These conditions differ greatly among loans. Therefore, hypothetical representative private loans have been used for comparison.

To derive the rate of return on a representative private loan, estimates have been made of the private loan terms according to the purpose of the loan (e.g., to buy a house or to provide a small

business with working capital) and the type of borrower (e.g., a high-risk company versus a low-risk company) typically associated with the particular direct loan programs. The estimates take into account not only the differences in interest rates, but also the differences in loan fees, maturities, and repayment schedules that would normally be expected for the type of loan being compared.

The subsidy estimates do not take into account several nonquantifiable variables such as different legal covenants in loan contracts. A simplifying assumption used in these calculations is that all loans in a given program bear a similar degree of risk. This assumption is not always true. Several programs (e.g., the Export-Import Bank or the Small Business Adminstration) make loans to a variety of borrowers with widely dissimilar risk characteristics.

The discount rate used to evaluate the present values of the Government and private loan is the rate of return on the private loan. This rate is a more appropriate discount rate than the interest rate on the private loan, because that interest rate does not reflect the return that lenders receive from commitment commissions and other loan fees, nor does it reflect the maturity and repayment schedule.

Table F-11 shows subsidy values for 99% of the direct loans obligated in 1985. The present value of the total subsidy is $9.8 billion.

Table F-11. **SUBSIDY VALUES OF 1985 DIRECT LOAN OBLIGATIONS**

Agency and programs	Interest rate (in percent)		Loan maturity (in years)		Present value of subsidy	
	Average Government loan	Assumed private loan	Average Government loan	Assumed private loan	Percent of direct loan obligations	Millions of dollars
Funds Appropriated to the President:						
AID functional development assistance	3.0	14.6	30.0	20.0	65.4	206
Economic support fund	5.0	13.6	15.0	15.0	62.0	156
Foreign military sales credit:						
Forgiven	0.0	14.7	NA	1.0	100.0	2,717
Concessional	5.0	13.2	7.0	7.0	37.7	261
Treasury rate (FFB)	11.6	13.6	20.0	20.0	10.3	157
Agriculture:						
ACIF:						
Emergency disaster	5.0	13.5	40.0	7.0	48.2	237
Farm operating	8.4	14.0	7.0	5.0	14.0	511
Farm ownership	8.9	14.0	40.0	25.0	28.0	183
Other	10.8	14.0	40.0	25.0	20.4	3
RHIF:						
Farm labor housing	1.0	12.1	50.0	5.0	75.9	13
Home ownership	3.0	12.1	33.0	25.0	54.4	968
Rental housing	1.0	12.1	50.0	5.0	13.4	610
Other	1.0	12.1	20.0	15.0	76.0	12
RDIF:						
Community facilities [1]	8.0	12.2	40.0	20.0	27.8	32
Water and waste [1]	8.0	12.2	40.0	20.0	32.5	110
CCC:						
Commodity loans [2]	9.5	14.0	.75	.75	1.6	164
Export loans	10.2	11.5	3.0	1.0	2.8	2

Table F-11. **SUBSIDY VALUES OF 1985 DIRECT LOAN OBLIGATIONS—Continued**

Agency and programs	Interest rate (in percent)		Loan maturity (in years)		Present value of subsidy	
	Average Government loan	Assumed private loan	Average Government loan	Assumed private loan	Percent of direct loan obligations	Millions of dollars
Rescheduled loans	10.7	11.8	5.0	5.0	3.0	6
Public Law 480	3.0	14.6	30.0	20.0	68.6	668
REA:						
Electric	5.0	13.5	35.0	15.0	49.6	279
Electric (FFB)	10.5	13.5	35.0	15.0	17.2	355
Telephone	5.0	12.7	35.0	15.0	44.9	101
Rural Telephone Bank	9.0	12.7	35.0	15.0	42.2	71
Education:						
Guaranteed student loan defaults	4.0	20.0	14.5	10.0	80.8	821
National direct student loans	5.0	15.0	10.0	10.0	66.1	132
College housing	3.0	15.5	10.0	10.0	36.5	15
Housing and Urban Development:						
Community development grants (FFB)	11.2	11.5	6.0	6.0	1.6	3
FHA fund	11.8	12.1	30.0	30.0	0.9	1
Housing for the elderly and handicapped	9.0	13.0	40.0	10.0	24.8	138
Low-rent public housing	8.3	13.0	1.0	2.0	2.8	399
Rehabilitation loan fund	4.5	14.1	20.0	15.0	42.6	32
Interior:						
Bureau of Reclamation	2.0	14.4	33.0	30.0	65.5	36
Transportation:						
MarAd Federal ship financing fund defaults	10.8	14.5	5.0	3.0	9.5	32
Highway right-of-way loans	.....	12.9	10.0	20.0	60.6	30
Veterans Administration:						
Vendee loans and loans acquired	11.0	11.5	30.0	30.0	5.6	45
National service life insurance	9.3	11.1	4.0	4.0	3.0	3
Export-Import Bank	11.0	13.1	7.5	7.5	6.4	42
NCUA	8.2	10.5	.5	.5	1.4	1
Small business assistance:						
Business assistance	11.3	13.8	14.0	10.0	14.2	74
Business loan and investment fund	12.3	16.5	7.0	2.0	16.9	118
Disaster	6.6	16.5	.....	.....	22.0	70
Tennessee Valley Authority (Seven States)	10.8	13.7	5.0	5.0	5.4	11
Total—Selected direct loan subsidies	.....	.....	.....	.....	.....	**9,827**

[1] The borrower's alternative to the Federal loan could be a federally tax-exempt instrument. Using a tax-exempt rate as an alternative borrowing rate for the purposes of these calculations, however, would understate the economic subsidy since part of the subsidy would be the loss of tax revenue. In these cases, therefore, the private market interest rate is the tax-exempt rate adjusted for taxes. The tax-exempt rate is assumed to be 75% of the taxable rate.

[2] The subsidy calculations for CCC commodity loans take into account only the difference between the Federal and private loan terms. The calculations do not measure the additional subsidy received by farmers in the form of target price deficiency payments. Further, the calculations do not take into account the effect of these commodity price loans on ultimate commodity market prices (i.e., that the loans help set a floor for the commodity market prices.)

Note: The comparative loan terms shown above are for illustrative purposes. The present value of the subsidies shown in the right hand columns take into account fees, grace periods, and amortization schedules, which are not shown.

Table F-11 also shows the degree of subsidy measured as the amount of subsidy compared to the amount of direct loan obligations. The greater the difference between the Government loan terms and private loan terms, the higher the degree of subsidy. In 1985, the programs that had the largest degree of subsidy were the FMS credit forgiven loans, and the RHIF rental housing program.

The calculation method used in Table F-11 measures the value of the subsidy to the borrower. Another common approach meas-

ures the cost of the subsidy to the Government. Under this approach, the Treasury borrowing rate is used instead of a comparable private market interest rate. This method shows a lower subsidy because the Government can raise funds more cheaply than the private sector.

The latter approach does not accurately measure the true cost of the loan subsidy to the economy, nor does it measure the full benefit of the subsidy to the borrower. The Treasury borrowing rate is a risk-free rate on extremely liquid securities, while all of the loans made by the Government to the public bear some risk and incur greater transaction costs. Using the Treasury rate as a proxy for private market interest rates may lead to startling results. Government loans with interest rates slightly above the Treasury rate will appear to have negative subsidies, although the loans will offer borrowers a considerable subsidy benefit compared to the credit terms they could obtain in the private market. A case in point is the Foreign Military Sales Credit program, which normally charges foreign government borrowers an interest rate one-eighth percentage point above the U.S. Treasury borrowing rate. Under the Treasury cost-of-money assumption, the program and its borrowers would appear to involve no subsidies—indeed the foreign borrower would appear to be subsidizing the U.S. Government. However, the assumed private lending rate shown in Table F-11 is 13.6%, and the calculated present value of the subsidy of this program is $157 million. Clearly, foreign governments would not borrow under this program if they could obtain better terms elsewhere.

Guaranteed loan subsidies are calculated by the same method as direct loan subsidies. The guaranteed loan subsidy is the present value of the additional payments that borrowers would have paid if the loan had not been guaranteed by a Federal agency. In some cases, private insurance or guarantee coverage of a type offered by Federal programs is available from private insurors. An example is private mortgage insurance, which is comparable to the mortgage insurance or guarantees offered by the FHA and VA. In these cases, one means of estimating the subsidy is to calculate the present value of the difference in fees charged by Federal and private insurors. In other cases, private insurors simply do not offer insurance or guarantee coverage that is similar to that offered by Federal programs. The absence of private insurance may be because the credit risks of the guaranteed loans are so large or so immeasurable that private insurors will not undertake to offer guarantees or it may be because potential private insurance has been preempted by a Federal guarantee program, which inherently has an immensely larger capacity to bear risk and to charge guarantee fees below what the private insuror would charge. In these

cases, the subsidy is calculated in terms of the interest rate and fees a private lender might have charged the borrower in the absence of a Federal guarantee.

Table F-12 presents these subsidy calculations by major loan guarantee program for 1985 guaranteed loan commitments. The present value of the total estimated subsidies is $6.1 billion.

Table F-12. **SUBSIDY VALUES OF 1985 GUARANTEED LOAN COMMITMENTS**

Agency and programs	Interest rate (in percent) [1]		Loan maturity (in years)		Guarantee fees (in percent) [2]		Present value of subsidy	
	Average Government guaranteed loan	Assumed private loan	Average Government guaranteed loan	Assumed private loan	Average Government guaranteed loan	Assumed private loan	Percent of guaranteed loan commitments	Millions of dollars
Funds Appropriated to the President:								
AID housing and other credit	10.9	14.6	30.0	20.0	2.0	.....	20.1	32
Overseas Private Investment Corporation	10.4	14.6	10.0	7.0	2.0	.....	13.6	20
Agriculture:								
ACIF:								
Farm operating	12.8	14.0	7.0	5.0	.....	.....	6.0	67
Farm ownership	12.1	14.0	40.0	25.0	1.0	.....	15.0	10
RDIF:								
Industrial development	10.5	12.2	30.0	15.0	1.0	.....	12.1	7
CCC export credits	10.2	13.5	3.0	1.0	.33	.....	4.5	112
Education:								
Guaranteed student loans	8.0	15.0	10.0	10.0	7.5	13.5	47.6	4,232
Health:								
Health professions graduate student insurance	11.4	15.0	16.5	10.0	2.0	13.5	37.6	102
Housing and Urban Development:								
FHA:								
Single-family	11.8	12.4	30.0	30.0	3.8	.....	0.4	196
Multi-family	12.5	12.4	40.0	10.0	.....	2	3.3	133
Transportation:								
MarAd Federal ship financing fund	11.2	13.5	20.0	10.0	.6	.....	12.0	5
Veterans Administration:								
Loan guaranty revolving fund	10.5	11.0	30.0	30.0	1	3	5.6	642
Export-Import Bank:								
Financial guarantees	10.4	12.4	5.0	5.0	.....	.....	3.8	38
Other guarantees and insurance	10.4	12.4	1.5	1.5	.....	.....	1.3	91
Small business assistance:								
General business	12.5	15.5	9.0	2.0	1.0	1.0	16.4	460
Total—Selected guaranteed loan subsidies	.....	.....	.....	.....	.....	.....	.....	**6,147**

[1] Includes annual fees.
[2] Flat fees only.
Note.—The comparative guaranteed loan terms shown above are for the most frequent type of loan guaranteed by the program, and are shown for illustrative purposes. The present value of the subsidies shown in the right hand columns take into account all of the types of loans guaranteed by the program, and include grace periods and amortization schedules, which are not shown.

Table F-12, like Table F-11, measures the value of the subsidy to the borrower, not the cost of the subsidy to the Government. This

cost would be the difference between the loan guarantee fee revenue and the net costs of default payments for each loan. A subsidy calculated on this basis would be much lower than the $6.1 billion "value of the subsidy to the borrower." It would be inappropriate to use such a "cost to Government" basis for calculating economic subsidies, since it would not measure the cost of the loan guarantee to the economy. This could lead to the mistaken perception that a program was economically self-sustaining when, in fact, it was not. The Government need not worry, for example, that it will be forced out of business should it miscalculate the credit risk of guaranteeing a large loan.

Several qualifications should be kept in mind when reviewing the estimates of Federal credit subsidies.

First, the subsidy calculation measures the economic cost of a given direct loan program, but it does not compare the cost to the benefit. This special analysis does not attempt to measure the benefits of credit programs and therefore cannot judge their justifications. Despite the absence of such measurements, it should be clear that the value of a particular credit program cannot be determined without making such a comparison. For the same reasons, of course, the outlays for a regular expenditure program provide a measure of the costs but not of the benefits.

Second, the subsidy estimates in Tables F-11 and F-12 are sensitive to changes in assumptions. As an example, if the appropriate private interest rate for rural housing is 20.0%, rather than 12.1% as shown in Table F-11, the present value of the subsidy will increase from $968 million to $1,182 million.

Third, the theoretical difficulties of calculating Federal credit subsidies are enormous, and the subsidy values shown in Tables F-11 and F-12 do not overcome all of them. For example, private investors might wish to have more detailed financial information about the borrower than the Federal Government might possess. The private sector would therefore reflect these higher transaction costs in its charges for loans and loan guarantees. The OMB subsidy estimates do not take account of such transaction costs.

Finally, the subsidies shown are almost certainly underestimated because they are calculated on a marginal price basis. The implicit assumption is that the Federal program is not large enough to affect the price of the unguaranteed loans. This is not true for some programs. The large size and pervasive nature of some Federal programs, especially in the housing sector, means that the Federal supply of credit is so large that the market clearing price of that credit is probably lower than it would otherwise be. This means that the private lenders in that sector may charge less than they otherwise would, thereby lowering the subsidy estimate.

Naturally, lenders in other economic sectors are charging more than they otherwise would—since credit has been directed away to other sectors—thereby raising the subsidy estimate for other programs. Since all sectors of the economy are not equally represented by Federal credit programs, the total estimates of credit subsidies are probably understated. For large credit programs in housing and agriculture, the marginal credit subsidies shown in Tables F-11 and F-12 are almost certainly lower than the subsidies that would be calculated if these programs were smaller.

Although economic subsidy values are important in evaluating the merits of Federal credit programs, it is equally important to know the actual cash cost of loan and loan guarantee programs to the Government, since this will affect Government outlays and the deficit. For direct loans, these costs will be the difference between the interest income on the loans compared to interest expense, the default costs and the servicing costs. For loan guarantees it will be the difference between the revenue from guarantee fees and the net costs of default. Most loan guarantee programs in 1985 paid default claims that were higher than the fee revenue they received. As mentioned in Section V, in order to place loan and loan guarantee programs on a sounder actuarial basis, the administration proposes to raise the level of the interest rates and fees they charge borrowers. Raising interest rates and fees does reduce the subsidy to favored borrowers, but in all cases, the programs still provide subsidies to favored borrowers.

VII. Defaults

Federal credit programs have markedly different objectives than private lending institutions, which seek profits. Several Government credit programs, such as the Small Business Administration, are designed to play the role of "lender of last resort." Federal loans, therefore, often bear more risk than private lenders are willing to bear. Partially as a result, some Government loan programs have high default rates. The diverse characteristics of Federal credit programs, each with its own legislative mandate, and the variety of different borrowers make it difficult to compare default rates among Federal programs.

Losses from direct loan write-offs appear to have been a miniscule amount of loans outstanding over the last 2 years according to the present system of Government reporting. In great part, however, this reflects the absence of Government-wide standards for writing off direct loans held in the Government's portfolio. As a result, direct loans are frequently carried in the Government's portfolio at their nominal value regardless of their true value. The Eximbank, for example, still holds in its portfolio $81 million in loans made to Cuba between 1951 and 1958. The FmHA holds in its portfolio, at

their full nominal value, several billion dollars of loans that are delinquent by more than a year.

In the past, losses from loan guarantee programs were considered relatively small for two reasons. First, many of the guaranteed loans involved liens on marketable property, particularly houses. Second, due to the absence of Government-wide standards, many loans acquired as a result of defaults on guaranteed loans were never written off. This makes the losses due to Government guarantee programs look smaller than they are.

Table F-13 shows the amount of direct loans written off and the amount of guaranteed loans terminated for defaults. Of all direct loans outstanding, only 0.3% are recorded as write-offs in 1985. Of total guaranteed loans outstanding, 1.5% are reported to be terminated in 1985.

Table F-13. **DIRECT LOAN WRITE-OFFS, GUARANTEED LOAN TERMINATIONS FOR DEFAULTS, AND PERCENT OF TOTAL OUTSTANDING LOANS**

(In millions of dollars)

	Actual 1985	Estimate		As Percent of Outstanding Loans [1]		
		1986	1987	1985	1986	1987
Direct loans:						
Guaranteed student loans	6	11	230	0.21	0.30	5.45
FmHA agricultural credit insurance fund	114	150	50	0.42	0.52	0.17
Federal Housing Administration	55	79	168	1.31	1.86	4.11
Small business assistance:						
Disaster loan fund	139	122	114	2.92	2.76	3.22
Business loans	360	346	338	7.60	6.89	7.31
Other	98	72	91	0.05	0.03	0.04
Total write-offs	772	780	991	0.32	0.31	0.39
Guaranteed loans:						
Guaranteed student loans	1,018	1,300	1,423	3.00	3.48	3.54
Veterans Administration	1,353	1,410	1,479	1.06	1.06	1.05
Federal Housing Administration	2,234	2,334	2,349	1.22	1.12	1.02
Small business loans	476	540	557	5.30	5.80	6.14
Maritime Administration	321	500	100	4.76	8.28	1.85
Export-Import Bank	258	113	175	4.77	1.95	2.54
Commodity Credit Corporation	185	539	599	3.78	8.63	8.22
Economic development revolving fund	103	23	18	32.09	10.22	9.47
FmHA agricultural insurance fund	26	48	123	2.07	2.35	3.66
Other	103	98	74	0.39	0.45	0.33
Total terminations	6,077	6,905	6,897	1.52	1.60	1.48

[1] Average of loans outstanding over year.

There has been a growing recognition that losses in both direct and loan guarantee programs are higher than reported. In recognition of this problem, the Treasury Department and the Office of Management and Budget are studying means to improve the Government's reporting of and control over defaults.

In addition, the Government is taking tangible steps by:

- automating debt servicing and collections systems to improve the efficiency and effectiveness of these basic operations;
- referring information on severely delinquent accounts to private consumer or commercial credit reporting agencies;
- using private collection agencies to collect severely delinquent debt which may be uncollectable otherwise;
- offsetting delinquent debtors' income tax refunds through the IRS, and Federal employees' salaries for the amounts owed;
- reporting written-off accounts to the IRS as unreported income towards the debtors' tax return, and
- considering creation of a central Federal credit agency.

The Small Business Administration (SBA) and the FmHA agriculture credit insurance fund report the largest write-offs for direct loans in 1985. SBA wrote off $499 million, or 5.3% of its average outstanding loans in that year. The FHA had the largest dollar amount of guaranteed loan terminations for default. In 1985, FHA terminated $2.2 billion or 37% of the total amount of guaranteed loan terminations.

VIII. The Federal Financing Bank

The Federal Financing Bank (FFB) began operation in May 1974 and has been a significant factor in financing Federal credit activities. The Bank is administered by the Treasury Department.

The FFB was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold, or guaranteed by Federal agencies. Use of the FFB by Federal agencies leads to lower debt financing costs than if the agencies or the guaranteed borrowers were to sell their obligations individually in the credit market. Agency obligations trade at premiums above Treasury securities due to their relative illiquidity, smaller size of issue, and unique financial terms that distinguish them from Treasury securities and each other. This budget proposes to allow the Secretary of the Treasury to recapture for the U.S. Government these avoided costs by charging borrowers a special premium.

The FFB performs three functions: (1) it purchases guaranteed loan assets from Federal agencies; (2) it disburses loans directly to borrowers when the loans are guaranteed by a Federal agency; and (3) it buys debt of Federal agencies that are otherwise authorized to borrow from the public. In all cases, the servicing of the loans and the operation of the programs remain with the agencies that use the FFB. Prior to Gramm-Rudman-Hollings, the outlays of the first two types of transactions were "off-budget." Gramm-Rudman-Hollings attributes FFB outlays to the agencies that use the FFB. The third type of FFB transaction does not involve outlays since it is an intragovernmental financing transaction.

(1) Loan asset sales.—Most loan asset sales are made to the FFB rather than to the public.

(2) Guaranteed loan originations.—The FFB disburses loans directly to borrowers when the loan is guaranteed by a Federal agency. The agency's guarantee program thus becomes a program that effectively makes direct loans. The only programs that are proposed to use the FFB in this manner in 1987 are the Rural Electrification Administration and the Tennessee Valley Authority's Seven States Energy Corporation.

(3) Agency debt.—Agencies authorized to borrow from the public, such as Eximbank, almost always borrow from the FFB (or the Treasury) instead, since it is less expensive than issuing their own securities and borrowing directly from financial markets. This borrowing has no effect on outlays, since outlays are recorded when the proceeds of borrowing are spent by the agencies.

Legislation will be reproposed to require that, at the discretion of the Secretary of the Treasury, all 100% federally guaranteed loans of a type ordinarily traded in the investment securities market be processed through the FFB.

Table F-14 summarizes the activities of the FFB for 1985 through 1991. Table F-22 at the end of this special analysis shows the activities of the FFB over the same period by agency and account.

Table F-14. **SUMMARY OF FEDERAL FINANCING BANK ACTIVITY**

(In billions of dollars)

	Actual 1985	Estimate					
		1986	1987	1988	1989	1990	1991
Purchases of loan assets from Federal agencies:							
New acquisitions	11.9	3.2	.....	0.4	0.5	0.1	.....
Net outlays	4.8	1.9	−0.6	−*	−4.4	−4.8	−3.6
Outstandings	68.2	70.1	69.5	69.5	65.0	60.2	56.7
Guaranteed loan originations:							
New acquisitions	6.4	4.3	2.8	2.0	1.6	1.4	1.2
Net outlays	2.6	1.8	−1.4	0.1	−0.3	−0.6	−0.7
Outstandings	53.4	55.2	53.8	53.9	53.6	53.0	52.3
Total:							
New acquisitions	18.3	7.6	2.8	2.4	2.1	1.5	1.2
Net outlays	7.4	3.7	−1.9	0.1	−4.7	−5.4	−4.3
Outstandings	121.6	125.3	123.3	123.4	118.7	113.3	109.0
ADDENDUM							
Agency Borrowing:							
Net change	1.2	1.3	0.9	1.3	0.9	0.4	0.3
Outstandings	31.8	33.1	34.0	35.3	36.2	36.6	36.8

* Less than $50 million.

The proper treatment of FFB transactions has been a major accounting issue with respect to the unified budget. In principle, all outlays of the Federal Government should be reported in the unified budget. The past use of the FFB was the greatest exception to the comprehensive principles of the unified budget. From 1978 to 1985, FFB outlays averaged 96% of all off-budget outlays. The Gramm-Rudman-Hollings Act attributes the budget authority and the outlays that the FFB incurs back to the agency responsible for the transaction.

IX. Loan Asset Sales and Repurchases

Loan assets are direct loans that an agency has made to the public and on which repayments are still owed. These loan assets are often sold to either the public or the FFB. In the case of loan asset sales to the FFB, the agency selling the loan assets also guarantees the repayment of the loan of the FFB. In the case of sales to the public, the agencies do not normally guarantee the repayment.

The repurchase of loan assets, occurs when the agency buys back from the FFB or the public the loan assets it previously sold. Although the repurchase agreement requires an agency to incur a budgetary obligation, repurchases of loan assets from the FFB are intragovernmental transactions and do not comprise new credit transactions with the public.

The original method of selling loan assets was to sell the title of the individual loans to the public. Later, various types of certificates representing pools of loans were sold to the public. However, with the creation of the FFB, most loan assets have been sold by agencies to the FFB as a means of financing the program. In 1985, 89% of total loan asset sales were to the FFB. Table F-15 shows data for loan asset sales and repurchases.

Prior to this budget, the largest volume of loan assets sold were certificates of beneficial ownership (CBOs) sold to the FFB by the Farmers Home Administration (FmHA) and Rural Electrification Administration (REA) to support their direct loan programs. The President's Commission on Budget Concepts recommended in 1967 that the sale of such securities be treated as borrowing because there is little difference in substance between (1) an agency selling securities labeled "certificates of beneficial ownership," (2) the same agency selling securities labeled "debt," or (3) the Treasury Department selling securities labeled "debt." While this treatment generally has been applied, legislation requires that the CBO's of FmHA and REA be treated as loan assets rather than debt.

Loan assets sold to the FFB are repurchased by the agency at scheduled intervals. At present, the FmHA is the only agency that

repurchases its loan assets, but REA plans to begin repurchasing loan assets in 1990.

With this budget, the Federal Government is embarking on a pilot program to sell off a portion of its loan portfolio to the public. The pilot program will sell loans with a nominal value of $4.4 billion and an estimated market value of $2.0 billion in 1987. Including interest expense, the overall budget deficit will be reduced by $1.8 billion in 1987. Budget deficits in later years will *increase,* however, because a sale in 1987 means that the Government loses the expected stream of principal repayments and interest income in later years.

Sales of loans without a Federal guarantee to the public are attractive to the Government for several reasons. First, the private purchaser may be more efficient in administering the loan than the Federal agency. Selling the loans allows the Government to reduce its administrative expenses. Second, the discount from the face value of the loans provides an unambiguous measure of the subsidy of the loan. This subsidy can then be compared with the benefits of the loan, and thereby provide the executive branch and Congress with the information necessary to evaluate the relative benefits and costs of such subsidized loans. The table below shows the nominal amount of loans sold to the FFB or the public.

Selling loan assets to the public with a Government guarantee is a form of federally assisted borrowing from the public. The Government incurs a contingent liability in the amount of the loan guarantee. Guaranteed loan asset sales are, however, a more costly means of borrowing for the Government than selling Treasury securities, since purchasers of the guaranteed loan assets frequently will offer prices well below the face value of the loans, despite the Government guarantee. The lower price is offered because the loan assets may be relatively illiquid or have unique characteristics that reduce their value to the purchaser. Yet, because of the Government guarantee, such sales do reduce the demand for the alternative investment of a Treasury security. It is more efficient for the Government to meet its borrowing needs by issuing Treasury securities. For this reason, administration policy is to sell loan assets to the public without a Government guarantee.

X. Contingent Liabilities

The Federal Government provides guarantees and insurance against several types of risk for many sectors of the economy. Under certain specified contingencies, such as borrower default or natural disaster, these programs require that the Government assume a liability and so make payments. These contingencies expose the Government to the possibility of loss sometime in the future.

Table F-15. **LOAN ASSET SALES AND REPURCHASES**

(In millions of dollars)

Agency or program	Transaction	Actual 1985	Estimate 1986	Estimate 1987
FFB loan assets:[1]				
Overseas Private Investment Corporation	repurchases from FFB	5	5	1
Agriculture:				
Rural Electrification Administration	sales to FFB	379	327	.....
	repurchases from FFB	191	.....	.....
Agriculture credit insurance fund	sales to FFB	6,815	2,172	.....
	repurchases from FFB	4,157	1,250	382
Rural housing insurance fund	sales to FFB	3,695	391	.....
	repurchases from FFB	2,110	.....	150
Rural development insurance fund	sales to FFB	1,010	343	.....
	repurchases from FFB	595	30	.....
Health and Human Services:				
Medical facilities	repurchases from FFB	9	6	6
Health maintenance organizations	sales to FFB	3	1	.....
	repurchases from FFB	10	5	5
Small business development companies	repurchases from FFB	7	10	10
Total, FFB loan assets	sales to FFB	11,902	3,234	.....
	repurchases from FFB	7,084	1,305	554
Other loan assets:[2]				
Agriculture:				
Rural Electrification Administration	sales to the public	.....	.....	70
Rural telephone bank	sales to the public	.....	.....	48
Rural development insurance fund	sales to the public	.....	.....	63
Rural housing insurance fund	sales to the public	25	20	106
Commerce:				
Economic development	sales to the public	.....	19	.....
Education:				
Student financial assistance	sales to the public	.....	.....	7
Guaranteed student loans	sales to the public	.....	.....	30
Higher education facilities	sales to the public	.....	.....	.....
College housing loans	sales to the public	.....	.....	579
Housing and Urban Development:				
Federal Housing Administration	sales to the public	.....	15	232
Rehabilitation loans	sales to the public	.....	.....	1
Veterans' Administration:				
Loan guarantees	sales to the public	688	730	767
Small business assistance:				
Disaster loans	sales to the public	.....	.....	1,100
Business loans	sales to the public	.....	.....	1,153
Subtotal, other assets	sales to the public	713	784	4,156
Housing and Urban Development:				
GNMA tandem plan (FHA/VA mortgages).	sales to the public	764	635	470
Total, other assets	sales to the public	1,477	1,419	4,626

[1] See table F-22 for details of FFB purchases.
[2] "Sales to the public" include sales to government-sponsored enterprises such as FNMA and FHLMC, which are among the principal purchasers of HUD and VA mortgages.

A contingency has been defined by the Financial Accounting Standards Board (FASB) as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain ("gain contingency") or loss ("loss contingency") to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.[6] Examples of loss contingencies, the only category applicable to this discussion, include actual or possible claims and assessments and guarantees of indebtedness of others.

Federal accounting practices are not governed by FASB; however, the definition provides a basis for exploring the Government's exposure due to insurance and loan guarantee programs. The data presented in Table F-16 do not represent the Government's expected loss contingency for 1987 alone, as would be presented in an annual corporate financial statement, but rather the overall contingent liability or exposure of the Government resulting from all potential insurance claims and guaranteed loan defaults. As can be seen in the accompanying table, the Government bears risk from a variety of sources, including deposit insurance, loan guarantee programs, flood and crop insurance, and pension insurance.

Table F-16. **CONTINGENT LIABILITY OF THE FEDERAL GOVERNMENT**

(In millions of dollars)

Program or activity	1984	1985
Federal deposit insurance	2,105,000	2,305,000
Loan guarantee programs [1]	565,528	613,101
National flood insurance	116,000	133,841
Federal crop insurance	4,366	6,656
Pension Benefit Guaranty Corporation	1,376	2,005
Total	2,792,270	3,060,603

[1] Gross basis.

The credit budget encompasses all loan guarantee programs, but only a small part of the transactions of Federal deposit insurance programs (see the section on these programs for a more complete discussion), and only the lending activity of the Pension Benefit Guaranty Corporation. Table F-16 also shows other programs that expose the Government to significant risk that are outside the ambit of the credit budget; furthermore, there are other, smaller insurance programs not in the table that increase Federal contingent liability.

The administration is studying the creation of a pilot program to reinsure its guaranteed loans. Such a program would involve purchasing reinsurance policies from private insurance companies that would cover the Federal Government's contingent liability due to the loan guarantees. The cost of reinsurance policies would show up in the budget as an outlay and would reflect in real terms the cost to the Government of its guaranteed loans.

[6] Financial Accounting Standards Board, "Statement of Financial Accounting Standards No. 5," Stamford, CT.

XI. Federal Deposit Insurance

The Federal Government insures depositors through the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Corporation (FSLIC), and the National Credit Union Administration. Some credit activities of these programs have been reflected in past credit budgets, while other activities have not.

Deposit insurance offered by these programs serves two purposes: (1) it helps stabilize the Nation's monetary and financial system and thereby the economy as a whole; and (2) it protects depositors in the insured financial intermediaries. Table F-17 below shows that the value of insured deposits at the end of 1985 was over $2.3 trillion.

Table F-17. **FEDERAL DEPOSIT INSURANCE**

(In billions of dollars)

	1983	1984	1985
Federal Deposit Insurance Corporation	1,210	1,322	1,432
Federal Savings and Loan Insurance Corporation	608	695	769
National Credit Union Administration	78	88	104
Total	1,896	2,105	2,305

Federal deposit insurance is not included in the guaranteed loan portion of the credit budget, principally because it does not directly allocate credit to the ultimate borrowers of that credit. Deposit insurance directly affects the liabilities (the deposits) of financial intermediaries but only indirectly their assets (loans). All other Federal guarantee programs are structured to influence the assets or loans of financial intermediaries directly. Nonetheless, as the 1984 *Economic Report of the President* states, Federal deposit insurance does give insured institutions "an incentive to take on more risk than they would otherwise, either by making riskier loans or by increasing leverage" (page 165). To this degree, deposit insurance indirectly allocates credit. It also indirectly affects the allocation and amount of credit by changing depositor behavior as a result of its protection, and by insuring the stability of the financial system and the economy.

Federal deposit insurance programs may assist insured depositors in a variety of ways. When an insured financial institution becomes troubled, deposit insurance programs may (1) liquidate the institution and pay depositors directly; (2) merge the troubled institution with a healthier institution, in some cases providing financial assistance to the acquiring partner in the merger; or (3) provide financial assistance directly to the troubled institution in the expectation that it will recover. Financial assistance to private

financial intermediaries has consisted of equity purchases, purchases of physical assets, and direct loans and loan guarantees.

Direct loans involving disbursements of cash are included in the credit budget. These amounts have typically been small for the FDIC and the FSLIC because the preferred means of helping troubled financial intermediaries was to arrange a merger with a healthy institution. This type of transaction did not normally involve the disbursement of cash and the creation of a loan asset held by the FDIC or FSLIC.

The increase in bank failures, particularly of some larger banks, has increased the amount of FDIC and FSLIC loans to private financial intermediaries. While many of these transactions do not involve the disbursement of cash by a Federal agency to the troubled financial institution, they do involve the acquisition by the Federal agency of both loan assets and liabilities of the troubled institution. The dollar amount of loan assets held by the Federal Government has increased. For that reason, transactions of this type are scored in the 1987 credit budget as direct loan obligations and increases in direct loans outstanding. Direct loan obligations made by deposit insurance programs amounted to $833 million in 1985.

XII. Leasing

A lease, according to the Financial Accounting Standards Board (FASB), is "an agreement conveying the right to use property, plant or equipment (land and/or depreciable assets) usually for a stated period of time." The Federal Government is both a lessor and a lessee in hundreds of leases involving billions of dollars every year. As a lessor, the Government leases to private entities on-shore and off-shore acreage for oil and gas exploration and lands for grazing and timber harvesting. Total acreage leased is 308 million, which raises $8 billion in proprietary receipts annually.

As a lessee, the Federal Government leases from private entities office facilities, computers, telecommunications equipment, satellites, ships, cars, planes and other equipment. Federal agencies sign both operating and capital leases. An operating lease is a short-term transaction that does not involve a change in "material ownership interest" in an asset. The lessor holds title to, performs maintenance on, and regains use of the asset after the lease period.

A capital lease (or a financial lease) involves a basic change in the "material ownership interest" in the asset. The lease agreement usually transfers ownership of the asset to the lessee at the end of the lease period. The lease period covers at least 75% of the economic life of the asset, and the present value of the minimum lease payments is at least 90% of the market value of the asset.

Capital leases, in essence, are a means by which lessees can purchase the asset by borrowing from the lessor.

Government-wide guidelines on leasing are set forth in Office of Management and Budget Circular No. A-104 ("Comparable Cost Analysis for Decisions to Lease or Purchase General Purpose Real Property"), which was issued in 1972. This circular is currently undergoing revision in an effort by the administration to refine the decision-making process agencies use in signing operating or capital leases. A capital lease typically results in the purchase of the asset by the lessee at the end of the lease term. This relationship narrows the true financing analysis to a trade-off between purchasing an asset through lease payments or through Treasury securities. In almost every case, it costs the Government less to purchase the asset rather than sign a capital lease for the same asset.

XIII. Tax Exempt Credit

Interest on State and local government obligations generally has been exempted from the Federal income tax since its adoption in 1913.[7] Federal tax exemption increases the demand for these obligations, since it results in higher interest rates net of taxes for the lenders and investors. This increase in demand reduces the interest rates of these obligations relative to the pre-tax interest rates of taxable securities. Consequently, tax-exempt interest rates in 1984 have normally been about 75% of taxable interest rates on long-term obligations with similar credit risk.

Tax exemption reallocates scarce credit resources, just as do Federal direct loans and loan guarantees. Borrowers aided by Federal tax-exempt status have access to credit resources at preferential interest rates over competing borrowers without the tax-exempt status. Borrowers who benefit both from tax exemption and Federal guarantees have an advantage over all other borrowers, including the Federal Government, since the interest on Federal Government debt is taxable.

Although tax-exempt financing alters the allocation of credit and has costs similar to other Government financing programs, it is not included in the credit budget for several reasons. First, unlike other credit assistance, the statutory authority for tax-exempt credit generally allows unlimited access that is unilaterally elected by eligible borrowers. Second, tax-exempt credit is not controlled by

[7] Tax exemption is a tax expenditure. (See Special Analysis G, "Tax Expenditures.") Special Analysis G includes a discussion of revenue losses attributable to special provisions of the tax code, including various types of tax-exempt bonds.

the budget process in the same manner as direct loans or guaranteed loans; effective control of tax-exempt financing can only be achieved through legislated changes to the tax code.

A relatively small portion of tax-exempt financing is guaranteed by the Federal Government and so is included in the credit budget as guaranteed loan commitments. This occurs when the Federal Government guarantees the financial assets that underlie the tax-exempt obligation. Examples include State and local government bonds that finance home mortgages guaranteed by the Federal Housing Administration or the Veterans Administration, or bonds that finance student loans guaranteed by the Department of Education. No complete data exist on the amount of guaranteed loans that are directly or indirectly linked to tax-exempt financing.

This administration and previous ones have believed for several reasons that Federal agencies should not offer direct or indirect guarantees for securities that benefit from tax-exempt status. First, tax-exempt financing is an inefficient means of financing, since the tax loss to the Treasury is greater than the savings from the lower financing costs available to the borrower. Therefore, it should not be stimulated by benefiting from a Government guarantee. Second, the guarantee of tax-exempt financing confers double benefits on investors in those securities: they pay no Federal income tax and they bear no risk. This class of debt obligation is therefore superior to Treasury securities.

OMB's Circular A-70 states explicit prohibitions against the linkage of Federal guarantees with tax-exempt instruments. Congress has generally agreed with this policy. The Deficit Reduction Act of 1984 includes provisions that deny tax-exempt status to obligations that are guaranteed directly or indirectly by the Federal Government, including obligations issued by institutions insured by Federal deposit insurance programs. The Act does allow several exceptions to the rule, including certain bonds to finance mortgages insured by FHA and guaranteed by VA, and student loans guaranteed by the Department of Education. In separate legislation, the Congress has explicitly prevented the SBA from refusing to guarantee tax-exempt bonds under its pollution control bond guarantee program, which the administration again proposes to terminate in 1987.

During the first half century of the income tax, tax-exempt borrowing was mainly for public purposes such as financing roads and schools. From the 1960s on, however, the benefits of tax-exempt financing have increasingly been made available to private businesses. State or local governments typically establish authorities that function as financial institutions in providing tax-exempt fi-

nancing to private borrowers. They use their tax-exempt financing to purchase an asset, which in turn, is purchased from them by the borrower, or lend the proceeds of an issue to a private borrower. In general, the private borrower is solely responsible for the payment of interest and principal even in the event of default. The State or local government, in some cases, can benefit from investment earnings on funds held for temporary periods and from fees paid by borrowers.

Industrial development bonds (IDBs) issued for use by private business were made taxable in the 1968 and 1969 tax acts, but a number of major exceptions were permitted. Tax-exempt IDBs are permitted for pollution control, sewage and waste facilities, multifamily rental housing, facilities financed with "small-issues" of under $10 million in face amount, and certain other private business projects. In recent years, tax-exempt bonds have also become a common means of financing owner-occupied housing, student loans, and private nonprofit hospitals and educational facilities.

Concerned by the rapid growth of private purpose tax-exempt bonds, Congress recently placed further restrictions on their use. The Omnibus Reconciliation Act of 1980 imposed a number of restrictions on tax-exempt mortgage subsidy bonds for owner-occupied housing, including limitations on the volume issued in each State. The Tax Equity and Fiscal Responsibility Act of 1982 required that IDBs be approved by an elected public official after a public hearing, and that assets of certain IDB-financed projects placed in service after 1982 be depreciated using the straight-line method rather than accelerated depreciation. The 1982 tax act also eliminated the tax exemption for "small issue" IDBs issued after 1986.

The Deficit Reduction Act of 1984 (DEFRA) restricted the annual volume of student loan bonds and most IDBs issued in each State to the greater of $150 per capita or $200 million, approximately $37 billion in 1984. The per capita limitation will be reduced to $100 in 1987 to reflect the termination of the small-issue exception for nonmanufacturing facilities; authority for small-issue IDBs for manufacturing facilities was extended through 1988. DEFRA also required IDB issuers to rebate any excess arbitrage earnings to the Federal Government, and prohibited the use of consumer loan bonds. Although the Act extended the use of mortgage subsidy bonds for 4 years, an optional program for issuers to provide mortgage credits to eligible homebuyers in lieu of tax-exempt bonds was enacted. Finally, volume limits on the use of veterans' housing bonds restricted their use to five States.

Even with these restrictions, the volume of private purpose tax-exempt bonds has continued to increase. Table F-18 shows the growth in the volume of long-term, tax-exempt bonds. Total issues

more than doubled from 1981 to 1984, increasing from $55 billion to $116 billion. Over the same time period, the volume of private purpose tax-exempt bonds rose at a somewhat faster rate, increasing from $31 billion in 1981 to $74 billion in 1984. In 1976, private purpose tax-exempt bonds accounted for one-third of total tax-exempt, long-term issues. This percentage rose to 60% by 1980, and has remained fairly constant since then.

The President's tax reform proposal of May 1985 would have eliminated tax exemption for nongovernmental bonds, defined as bonds for which more than 1% of the proceeds are used by a nongovernmental person. The Tax Reform Act of 1985 (H.R. 3838), passed by the House in December 1985, also restricts the use of private purpose bonds relative to current law, but by considerably less than the president's proposal. Bonds are defined as nongovernmental if the lesser of 10% or $10 million of the proceeds are used by nongovernmental persons or if the lesser of 5% or $5 million are loaned to a nongovernmental person. Nongovernmental bonds that are not specifically exempted are taxable; those that are tax-exempt are generally subject to a volume cap. In the House bill a single volume cap of $175 per capita or $200 million would replace the three separate volume caps under current law. The cap would cover all nongovernmental bonds other than airport bonds and in addition cover the nongovernmental part of governmental bonds. The bill also tightens arbitrage profit limitations and restricts advance refunding.

The effective January 1, 1986, date in the House bill, and the consequent rush to market, mainly to avoid the proposed restrictions on arbitrage and advance refunding, helps account for the record $178 billion in long-term, tax-exempt issuances in 1985. Tax-exempt issuers also took advantage of lower interest rates in order to refinance existing debt. An estimated $50 billion of long-term tax exempts were issued in 1985 for refunding. A return to the pre-1985 rate of growth in tax-exempt financing is assumed for the 1986 and 1987 volume projections.

Special Analysis G, "Tax Expenditures," shows the annual revenue loss from outstanding tax-exempt bonds issued for various purposes.

Table F-18. **TAX EXEMPT FINANCING** [1]

(In billions of dollars)

	Calendar years										
	Actual [2]									Estimates	
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Private purpose tax-exempts	17.4	19.7	28.1	32.5	30.9	49.6	57.3	74.0	88.4	79.2	71.3
Housing bonds	4.4	6.9	12.1	14.0	4.8	14.6	17.0	20.5	26.7	22.8	24.3
Single-family mortgage subsidy bonds	1.0	3.4	7.8	10.5	2.8	9.0	11.0	12.8	15.3	15.9	17.9
Multi-family rental housing bonds	2.9	2.5	2.7	2.2	1.1	5.1	5.3	5.5	10.3	5.8	5.3
Veterans general obligation bonds	0.6	1.2	1.6	1.3	0.9	0.5	0.7	2.2	1.1	1.1	1.1
Private exempt entity bonds [3]	4.3	2.9	3.2	3.3	4.7	8.5	11.8	11.7	19.4	15.4	17.4
Student loan bonds	0.1	0.3	0.6	0.5	1.1	1.8	3.3	1.2	1.1	0.8	0.8
Pollution control industrial development bonds	3.0	2.8	2.5	2.5	4.3	5.9	4.5	8.1	7.1	7.1	7.4
Small-issue industrial development bonds	2.4	3.6	7.5	9.7	13.3	14.7	14.7	18.3	19.3	18.9	6.0
Other industrial development bonds [4]	3.2	3.2	2.2	2.5	2.7	4.1	6.0	14.1	14.8	14.2	15.4
Public purpose tax-exempts	29.5	29.3	20.3	22.0	24.2	35.3	36.2	41.7	89.8	52.2	57.0
Total new issues, long-term tax exempts	46.9	49.1	48.4	54.5	55.1	84.9	93.5	115.7	178.2	131.4	128.3

[1] Includes long-term refunding bonds.
[2] Includes some estimates.
[3] Private exempt entity bonds are obligations of Internal Revenue Code Section 501(c)(3) organizations, such as private non-profit hospitals and educational facilities.
[4] Other IDB's include obligations for private businesses that qualify for tax exempt activites, such as sewage disposal, airports and docks.

Source: Office of Tax Analysis, Department of Treasury.

XIV. Summary

The need for better control over Federal credit is widely recognized within the executive branch and the Congress. With $257 billion in direct loans outstanding and $410 billion in primary guaranteed loans outstanding in 1985, the Federal Government is the single largest financial intermediary in the United States. Its credit policies and practices affect all major segments of the economy.

To gain better control over Federal credit, the President's budget since January 1980 has included a Federal credit control system, composed of the credit budget and credit limitations proposed in individual appropriations bills. This system has been strengthened by Gramm-Rudman-Hollings. The Act requires Congress to establish aggregate limits on new direct loan obligations and guaranteed loan commitments in the budget resolution process and requires that credit authority totals be included in the budget reconciliation process. The management of Federal credit programs should be improved through consistent application of Government-wide standards on loan defaults and write-offs.

These steps, though critical, are only part of the improvements necessary for better control. The subsidy element in Federal credit programs needs to be measured more accurately and targeted more effectively. A key improvement in Federal credit programs would be to state their objectives and the means of achieving those objectives in a straightforward manner. The subsidy costs of operating these programs could then be compared to the economic and social benefits realized in achieving the programs' objectives.

XV. Appendix

Additional Discussions of Federal Credit Programs and Related Issues in the 1987 Budget Documents

- Special Analysis E ("Borrowing and Debt") contains information on Federal borrowing, borrowing by Government-sponsored enterprises, and the Federal Financing Bank.
- Special Analysis G ("Tax Expenditures") contains information on tax-exempt borrowing.
- Special Analysis H ("Federal Aid to State and Local Governments") contains information on Federal loans to State and local governments.
- Part 5 of the Budget ("Meeting National Needs: The Federal Program by Function") contains a discussion of major credit programs by budget function (e.g., Agriculture, Commerce and Housing, International Affairs).
- Part 6c of the Budget ("The Federal Credit Budget") presents a summary of much of the material in this special analysis.

- Part 6e of the Budget ("Summary Tables") contains summary tables of the credit budget totals (Table 1) and summaries by agency of direct loan obligations and guaranteed loan commitments (Table 5).
- The Budget Appendix contains additional information for each credit program by budget account. Part I of the Appendix ("Detailed Budget Estimates") provides credit program information by major departments and agencies. Part IV ("Government-Sponsored Enterprises") provides information on these enterprises.

Table F-19. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)

Agency or Program		Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
Funds Appropriated to the President:								
Economic support fund	Obligations	252	379	404	411	417	422	427
	Loan disbursements	271	379	404	411	417	422	427
	Change in outstandings	*210*	*309*	*308*	*313*	*317*	*320*	*324*
	Outstandings	**6,222**	**6,531**	**6,839**	**7,151**	**7,468**	**7,788**	**8,112**
Foreign military sales	Obligations	4,940	4,967	5,661	5,771	5,870	5,955	6,023
	Loan disbursements	2,275	3,770	6,121	5,916	5,935	5,889	5,969
	Change in outstandings	*916*	*135*	*3,012*	*2,666*	*2,587*	*1,370*	*2,225*
	Outstandings	**1,056**	**1,191**	**4,203**	**6,869**	**9,455**	**10,825**	**13,051**
Foreign military sales (loans made by FFB) [1]	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	1,683	950	473	303	173	147	187
	Change in outstandings	*978*	*187*	*−306*	*−440*	*−613*	*−720*	*−728*
	Outstandings	**18,089**	**18,275**	**17,969**	**17,529**	**16,916**	**16,197**	**15,469**
Guarantee reserve fund (foreign military sales defaults)	Obligations	762	808	801	800	800	800	800
	Loan disbursements	762	808	801	800	800	800	800
	Change in outstandings	*390*	*130*	*36*	*35*	*35*	*35*	*35*
	Outstandings	**1,165**	**1,295**	**1,332**	**1,367**	**1,402**	**1,437**	**1,472**
Overseas Private Investment Corporation	Obligations	15	14	15	15	.....	.....	.....
	Loan disbursements	6	6	6	6	6	6	.....
	Change in outstandings	*3*	*2*	*1*	*1*	*1*	*1*	*−5*
	Outstandings	**36**	**38**	**39**	**40**	**42**	**43**	**38**
Overseas Private Investment Corporation (FFB loan assets) [2]	*Change in outstandings*	*−5*	*−5*	*−1*	*	.....	.....	.....
	Outstandings	**6**	**1**	*	.....	.....	.....	.....
AID functional development assistance	Obligations	315	301	315	315	315	315	315
	Loan disbursements	292	274	223	339	339	340	342
	Change in outstandings	*277*	*258*	*200*	*331*	*331*	*332*	*334*
	Outstandings	**3,117**	**3,375**	**3,576**	**3,906**	**4,237**	**4,569**	**4,903**

Table F-19. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
AID development loans revolving fund	Obligations							
	Loan disbursements							
	Change in outstandings	*−288*	*−300*	*−295*	*−276*	*−276*	*−282*	*−279*
	Outstandings	**8,738**	**8,438**	**8,143**	**7,867**	**7,591**	**7,309**	**7,030**
AID private sector revolving fund	Obligations	18	17	15	15	15	15	15
	Loan disbursements	3	8	12	10	10	10	10
	Change in outstandings	*3*	*8*	*10*	*4*	*	*−4*	*−6*
	Outstandings	**3**	**11**	**21**	**25**	**25**	**20**	**14**
AID housing and other credit guarantees	Obligations	37	45	49	51	59	51	51
	Loan disbursements	37	45	49	51	59	51	51
	Change in outstandings	*16*	*9*	*9*	*32*	*16*	*7*	*8*
	Outstandings	**48**	**56**	**65**	**98**	**114**	**121**	**129**
AID miscellaneous appropriations	Obligations							
	Loan disbursements							
	Change in outstandings	*−8*	*−8*	*−9*	*−9*	*−6*	*−6*	*−135*
	Outstandings	**173**	**165**	**156**	**147**	**141**	**135**	
Agriculture:								
Farmers Home Administration:								
Agricultural credit insurance fund	Obligations	4,757	3,198	1,500	1,000	500		
	Loan disbursements	4,735	3,557	1,635	1,061	−19	26	36
	Change in outstandings	*−22*	*−11*	*−364*	*32*	*1,334*	*−46*	*−541*
	Outstandings	**388**	**377**	**12**	**44**	**1,378**	**1,332**	**791**
Agricultural credit insurance fund (FFB loan assets) [2]	*Change in outstandings*	*2,658*	*922*	*−382*	*−385*	*−3,434*	*−2,620*	*−2,150*
	Outstandings	**28,175**	**29,097**	**28,715**	**28,330**	**24,896**	**22,276**	**20,126**
Rural housing insurance fund	Obligations	2,718	1,336					
	Loan disbursements	2,935	2,292	1,040	598	231	*	*
	Change in outstandings	*−106*	*448*	*−382*	*−415*	*23*	*518*	*−14*
	Outstandings	**329**	**777**	**395**	**−19**	**4**	**521**	**507**

Rural housing insurance fund (FFB loan assets)[2]	*Change in outstandings*	*1,585*	*391*	*−150*	.....	*−1,000*	*−1,990*	*−1,415*
	Outstandings	**28,351**	**28,742**	**28,592**	**28,592**	**27,592**	**25,602**	**24,187**
Rural development insurance fund	Obligations	455	421	.....	.....	.....	.....	.....
	Loan disbursements	531	478	415	567	294	148	58
	Change in outstandings	*−40*	*−4*	*141*	*−80*	*−2*	*21*	*−141*
	Outstandings	**65**	**60**	**202**	**122**	**120**	**141**	*
Rural development insurance fund (FFB loan assets)[2]	*Change in outstandings*	*415*	*313*	.....	*362*	.....	*−180*	.....
	Outstandings	**7,643**	**7,956**	**7,956**	**8,318**	**8,318**	**8,138**	**8,138**
Commodity Credit Corporation:								
Short and medium term export loans	Obligations	72	.....	.....	.....	.....	.....	.....
	Loan disbursements	72	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−20*	*−15*	*−41*	*−18*	*	*−38*	*−46*
	Outstandings	**803**	**788**	**748**	**730**	**730**	**692**	**646**
Commodity loans	Obligations	10,186	15,956	10,840	10,356	8,738	7,289	5,526
	Loan disbursements	10,186	16,116	10,680	10,356	8,738	7,289	5,526
	Change in outstandings	*4,378*	*4,553*	*−3,662*	*−2,276*	*−2,627*	*−2,413*	*−1,576*
	Outstandings	**12,233**	**16,786**	**13,125**	**10,849**	**8,222**	**5,809**	**4,232**
Storage facility loans	Obligations	1	*	.....	.....	.....	.....	.....
	Loan disbursements	1	*	.....	.....	.....	.....	.....
	Change in outstandings	*−318*	*−264*	*−105*	*−29*	*	.....	.....
	Outstandings	**398**	**134**	**29**	*	.....	.....	.....
Rescheduled guaranteed loans	Obligations	184	614	683	584	574	497	451
	Loan disbursements	184	614	683	584	574	497	451
	Change in outstandings	*1,307*	*777*	*727*	*616*	*583*	*431*	*310*
	Outstandings	**1,671**	**2,448**	**3,175**	**3,791**	**4,374**	**4,805**	**5,115**
Public Law 480 long-term export credits	Obligations	975	906	827	843	859	874	887
	Loan disbursements	961	906	827	843	859	874	887
	Change in outstandings	*777*	*671*	*610*	*615*	*625*	*632*	*641*
	Outstandings	**10,046**	**10,717**	**11,327**	**11,942**	**12,567**	**13,199**	**13,840**
Rural electrification and telephone revolving fund	Obligations	1,738	1,196	435	290	145	.....	.....
	Loan disbursements	797	742	489	493	499	488	500

Table F-19. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
	Change in outstandings	*74*	*−45*	*−85*	*−94*	*−101*	*−123*	*−122*
	Outstandings	**10,237**	**10,191**	**10,107**	**10,012**	**9,912**	**9,788**	**9,666**
Rural electrification and telephone revolving fund (loans made by FFB)[1]	Obligations	2,063	2,019	1,815	1,500	1,300	1,100	900
	Loan disbursements	2,063	2,019	1,804	1,493	1,297	1,098	899
	Change in outstandings	*1,088*	*719*	*1,304*	*993*	*797*	*598*	*399*
	Outstandings	**21,675**	**22,394**	**23,698**	**24,691**	**25,488**	**26,086**	**26,485**
Rural electrification and telephone revolving fund (FFB loan assets)[2]	*Change in outstandings*	*188*	*327*			*		
	Outstandings	**3,724**	**4,051**	**4,051**	**4,051**	**4,051**	**4,051**	**4,051**
Rural telephone bank	Obligations	168	177	139	93	46		
	Loan disbursements	73	89	88	88	89	89	88
	Change in outstandings	*55*	*71*	*−31*	*−33*	*−35*	*−38*	*−122*
	Outstandings	**1,383**	**1,454**	**1,423**	**1,390**	**1,355**	**1,318**	**1,195**
Commerce:								
Economic development revolving fund	Obligations	93	21	16	14	11	9	7
	Loan disbursements	101	24	16	14	11	9	7
	Change in outstandings	*7*	*−49*	*−38*	*−16*	*−13*	*−11*	*−9*
	Outstandings	**631**	**582**	**544**	**528**	**514**	**503**	**495**
EDA miscellaneous appropriations	Obligations							
	Loan disbursements	*						
	Change in outstandings	*−3*	*−3*	*17*	*−10*	*−5*	*−1*	*−1*
	Outstandings	**98**	**95**	**112**	**102**	**97**	**96**	**95**
ITA operations and administration	Obligations	4	1					
	Loan disbursements	8	−1					
	Change in outstandings	*4*	*−7*	*−2*				
	Outstandings	**9**	**2**					
NOAA coastal energy impact fund	Obligations							
	Loan disbursements	*	*	*	*	*	*	*

	Change in outstandings	*−2*	*−2*	*−2*	*−2*	*−2*	*−2*	*−2*
	Outstandings	**94**	**92**	**90**	**88**	**86**	**84**	**82**
NOAA Federal ship financing (fishing)	Obligations	6	3					
	Loan disbursements	6	3					
	Change in outstandings	*−3*	*	*−15*				
	Outstandings	**15**	**15**					
Defense:								
Defense stock fund	Obligations							
	Loan disbursements							
	Change in outstandings							
	Outstandings	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Production guarantees	Obligations							
	Loan disbursements							
	Change in outstandings			*−1*				
	Outstandings	**1**	**1**					
Production guarantees (loans made by FFB) [1]	Obligations							
	Loan disbursements	3	6	6	2			
	Change in outstandings	*3*	*6*	*6*	*2*			
	Outstandings	**6**	**12**	**18**	**20**	**20**	**20**	**20**
Navy industrial fund (loans made by FFB) [1]	Obligations	1,533	495					
	Loan disbursements	1,533	495					
	Change in outstandings	*1,313*	*438*	*−30*	*−34*	*−42*	*−41*	*−43*
	Outstandings	**1,313**	**1,751**	**1,721**	**1,687**	**1,645**	**1,603**	**1,560**
Education:								
Guarantees of SLMA obligations (loans made by FFB) [1]	Obligations							
	Loan disbursements							
	Change in outstandings			*−30*	*−30*	*−30*	*−30*	*−30*
	Outstandings	**5,000**	**5,000**	**4,970**	**4,940**	**4,910**	**4,880**	**4,850**
Guaranteed student loans	Obligations	1,076	1,260	1,377	1,476	1,516	1,501	1,466
	Loan disbursements	1,033	1,249	1,372	1,472	1,514	1,502	1,467
	Change in outstandings	*738*	*843*	*356*	*457*	*330*	*153*	*−39*
	Outstandings	**3,203**	**4,046**	**4,401**	**4,858**	**5,188**	**5,341**	**5,302**
National direct student loans	Obligations	199	1	190	240	290	340	340
	Loan disbursements	180	170	42	172	239	289	334

Table F-19. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
	Change in outstandings	*159*	*111*	*−47*	*81*	*170*	*228*	*264*
	Outstandings	**5,133**	**5,244**	**5,197**	**5,277**	**5,447**	**5,675**	**5,939**
College housing loans	Obligations	40						
	Loan disbursements	43	61	61	21			
	Change in outstandings	*−375*	*−21*	*−1,119*	*−990*	*−7*	*−7*	*−6*
	Outstandings	**2,300**	**2,280**	**1,161**	**171**	**164**	**157**	**151**
Higher education	Obligations							
	Loan disbursements							
	Change in outstandings	*−9*	*−24*	*−18*	*−10*	*−24*		
	Outstandings	**77**	**52**	**34**	**24**			
Higher education facilities loans and insurance	Obligations							
	Loan disbursements							
	Change in outstandings	*−19*	*−17*	*−17*	*−108*	*−98*	*−88*	*−2*
	Outstandings	**356**	**339**	**322**	**213**	**115**	**27**	**26**
Energy:								
Alternative fuels (loans made by FFB) [1]	Obligations							
	Loan disbursements	247						
	Change in outstandings	*−1,290*						
	Outstandings							
Geothermal resources	Obligations	12	13					
	Loan disbursements	12	13					
	Change in outstandings	*12*				*−12*		
	Outstandings	**12**	**12**	**12**	**12**			
Geothermal resources (loans made by FFB) [1]	Obligations							
	Loan disbursements	6						
	Change in outstandings	*−6*						
	Outstandings							
Bonneville Power Administration	Obligations	*	20	20				

	Loan disbursements	*	20	20	...	...	...	...
	Change in outstandings	*−4*	*19*	*18*	*−42*	...	...	...
	Outstandings	**6**	**25**	**42**	...	...	...	...
Health and Human Services:								
HMOs and medical facilities	Obligations	2	2	2	2	2	2	2
	Loan disbursements	3	3	2	2	2	2	2
	Change in outstandings	*−3*	*1*	*1*	*1*	*1*	*1*	*1*
	Outstandings	**27**	**29**	**30**	**31**	**32**	**33**	**34**
HMOs and medical facilities (FFB loan assets)[2]	*Change in outstandings*	*−16*	*−10*	*−11*	*−12*	*−13*	*−14*	*−15*
	Outstandings	**232**	**222**	**211**	**199**	**186**	**172**	**158**
Health resources and services	Obligations	1	1	1	1	1	1	1
	Loan disbursements	1	1	1	1	1	1	1
	Change in outstandings	*−27*	*−11*	*−9*	*−8*	*−7*	*−6*	*−6*
	Outstandings	**511**	**500**	**492**	**484**	**476**	**470**	**464**
Housing and Urban Development:								
Low-rent public housing	Obligations	14,065	1,459	1,722	1,124	488	251	...
	Loan disbursements	14,065	1,459	1,722	1,124	488	251	...
	Change in outstandings	*13,479*	*−14,694*	...	...	...	...	...
	Outstandings	**14,694**	...	...	...	...	...	...
Low-rent public housing (loans made by FFB)[1]	Obligations	...	...	...	...	...	...	...
	Loan disbursements	...	...	...	...	...	...	...
	Change in outstandings	*−32*	*−35*	*−37*	*−39*	*−42*	*−44*	*−47*
	Outstandings	**2,146**	**2,111**	**2,074**	**2,035**	**1,993**	**1,949**	**1,902**
Housing for the elderly or handicapped	Obligations	597	55	30	19	11	7	5
	Loan disbursements	540	531	413	288	191	125	81
	Change in outstandings	*511*	*501*	*381*	*254*	*155*	*87*	*41*
	Outstandings	**5,667**	**6,167**	**6,548**	**6,802**	**6,957**	**7,043**	**7,085**
GNMA emergency mortgage purchases	Obligations	...	...	...	...	...	...	...
	Loan disbursements	455	351	163	...	...	...	...
	Change in outstandings	*−748*	*−653*	*−606*	*−218*	*−115*	*−5*	*−4*
	Outstandings	**1,634**	**981**	**375**	**157**	**42**	**37**	**32**
Community development grants (loans made by FFB)[1]	Obligations	133	50	...	...	...	...	...
	Loan disbursements	103	108	73	29	3	...	...

Table F-19. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
	Change in outstandings	*81*	*46*	.....	*−53*	*−76*	*−68*	*−57*
	Outstandings	**289**	**335**	**335**	**282**	**206**	**138**	**81**
Federal Housing Administration fund	Obligations	330	472	278	405	426	563	804
	Loan disbursements	330	459	257	373	420	563	804
	Change in outstandings	*38*	*96*	*−423*	*−94*	*−46*	*−40*	*−22*
	Outstandings	**4,204**	**4,301**	**3,877**	**3,783**	**3,737**	**3,697**	**3,675**
Rehabilitation loan fund	Obligations	75	11	.....	.....	.....	.....	.....
	Loan disbursements	69	79	16	.....	.....	.....	.....
	Change in outstandings	*3*	*−1*	*−73*	*−79*	*−79*	*−79*	*−79*
	Outstandings	**718**	**716**	**643**	**564**	**485**	**406**	**327**
Interior:								
Bureau of Reclamation loans	Obligations	55	46	46	37	42	15	6
	Loan disbursements	58	48	49	42	42	33	18
	Change in outstandings	*51*	*38*	*40*	*32*	*31*	*21*	*5*
	Outstandings	**442**	**480**	**520**	**551**	**583**	**604**	**609**
BIA revolving fund	Obligations	18	16	16	15	15	15	15
	Loan disbursements	18	18	16	15	15	15	15
	Change in outstandings	*13*	*7*	*7*	*4*	*6*	*6*	*6*
	Outstandings	**105**	**112**	**119**	**124**	**129**	**135**	**140**
Transportation:								
Railroad rehabilitation and improvement financing	Obligations	17	.....	.....	.....	.....	.....	.....
	Loan disbursements	9	12	6	.....	.....	.....	.....
	Change in outstandings	*8*	*12*	*6*	*−1*	*−7*	*−14*	*−22*
	Outstandings	**566**	**578**	**584**	**583**	**576**	**562**	**540**
Railroad rehabilitation and improvement financing (loans made by FFB)[1]	Obligations	2	4	.....	.....	.....	.....	.....
	Loan disbursements	4	2	4	3	.....	.....	.....
	Change in outstandings	*−6*	*−93*	*−3*	*−5*	*−9*	*−7*	*−5*
	Outstandings	**154**	**61**	**57**	**52**	**43**	**36**	**30**
Federal-aid highways trust fund	Obligations	27	*	1	.....	.....	.....	.....

	Loan disbursements	6	1	1				
	Change in outstandings	*6*	*1*	*1*	*−38*	*−19*	*−19*	
	Outstandings	**75**	**75**	**76**	**38**	**19**		
Right-of-way revolving fund	Obligations	50	48	50	50	50	50	50
	Loan disbursements	49	48	50	50	50	50	50
	Change in outstandings	*−15*	*−2*					
	Outstandings	**116**	**113**	**113**	**113**	**113**	**113**	**113**
Miscellaneous expired accounts	Obligations							
	Loan disbursements							
	Change in outstandings	*−11*	*−1*					
	Outstandings	1						
Aircraft purchase loan guarantees	Obligations	13						
	Loan disbursements	13						
	Change in outstandings	*−20*	*−8*	*−6*	*−5*	*−5*	*−4*	*−4*
	Outstandings	**69**	**61**	**55**	**50**	**45**	**41**	**37**
MarAd Federal ship financing fund	Obligations	336	522	117	37	15	15	15
	Loan disbursements	336	522	117	37	15	15	15
	Change in outstandings	*327*	*512*	*107*	*27*	*5*	*5*	*5*
	Outstandings	**597**	**1,109**	**1,216**	**1,243**	**1,248**	**1,253**	**1,258**
Environmental Protection Agency:								
Abatement, control, and compliance	Obligations	31	32	2				
	Loan disbursements	2	30	31	3			
	Change in outstandings	*2*	*30*	*30*	*1*	*−2*	*−2*	*−2*
	Outstandings	**2**	**32**	**62**	**63**	**62**	**60**	**58**
NASA:								
Space flight, control, and data communications (loans made by FFB) [1]	Obligations							
	Loan disbursements							
	Change in outstandings	*−67*		*−79*	*−91*	*−105*	*−121*	*−138*
	Outstandings	**888**	**888**	**809**	**717**	**612**	**491**	**354**
Veterans Administration:								
Vendee loans and loans repurchased	Obligations	963	999	1,036	936	845	791	756
	Loan disbursements	963	999	1,036	936	845	791	756
	Change in outstandings	*155*	*229*	*235*	*181*	*162*	*146*	*144*
	Outstandings	**1,221**	**1,451**	**1,685**	**1,866**	**2,028**	**2,174**	**2,318**
Direct loan revolving fund	Obligations	2	2	2	1	1	1	1

Table F-19. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate					
			1986	1987	1988	1989	1990	1991
	Loan disbursements	2	3	2	1	1	1	1
	Change in outstandings	*−29*	*−13*	*−33*	*−31*	*−31*	*−27*	*−3*
	Outstandings	**139**	**126**	**93**	**62**	**31**	**4**	**1**
National service life insurance fund	Obligations	97	98	101	106	108	118	119
	Loan disbursements	97	98	101	106	108	118	119
	Change in outstandings	*−48*	*−41*	*−33*	*−24*	*−19*	*−6*	*−5*
	Outstandings	**1,065**	**1,024**	**991**	**967**	**948**	**942**	**937**
Other veterans insurance funds	Obligations	27	26	27	30	31	34	35
	Loan disbursements	27	26	27	30	31	34	35
	Change in outstandings	*−13*	*−14*	*−7*	*−4*	*−4*	*−1*	*−1*
	Outstandings	**237**	**222**	**216**	**211**	**208**	**207**	**206**
District of Columbia:								
Loans to the District of Columbia	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−311*	*−35*	*−38*	*−41*	*−43*	*−46*	*−49*
	Outstandings	**1,572**	**1,537**	**1,498**	**1,457**	**1,414**	**1,367**	**1,318**
Export-Import Bank	Obligations	660	1,062	.....	.....	.....	.....	.....
	Loan disbursements	1,647	1,575	1,045	490	171	75	20
	Change in outstandings	*−644*	*−676*	*−1,210*	*−1,526*	*−1,898*	*−2,065*	*−1,916*
	Outstandings	**16,860**	**16,184**	**14,973**	**13,447**	**11,549**	**9,484**	**7,568**
Federal Deposit Insurance Corporation[3]	Obligations	.....	130	110	150	150	150	150
	Loan disbursements	.....	130	110	150	150	150	150
	Change in outstandings	*−305*	*127*	*51*	*111*	*111*	*111*	*111*
	Outstandings	**3,617**	**3,744**	**3,795**	**3,906**	**4,017**	**4,128**	**4,239**
Federal Savings and Loan Insurance Corporation[3]	Obligations	783	500	500	500	500	500	500
	Loan disbursements	783	500	500	500	500	500	500
	Change in outstandings	*603*	*481*	*495*	*400*	*400*	*400*	*400*
	Outstandings	**1,758**	**2,239**	**2,735**	**3,135**	**3,535**	**3,935**	**4,335**

National Credit Union Administration:								
Share insurance fund	Obligations	3	2	1	1	1	1	1
	Loan disbursements	8	5	3	3	3	3	3
	Change in outstandings	*29*	*−14*	*−7*	*−5*	*−3*	*−1*	.....
	Outstandings	**49**	**35**	**28**	**23**	**20**	**19**	**19**
Central liquidity facility	Obligations	47	100	80	150	150	150	150
	Loan disbursements	47	100	80	150	150	150	150
	Change in outstandings	*−48*	*−20*	*−22*	.....	.....	.....	.....
	Outstandings	**222**	**202**	**180**	**180**	**180**	**180**	**180**
General Services Administration Federal buildings fund (loans made by FFB)[1]	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−5*	*−5*	*−6*	*−6*	*−7*	*−8*	*−8*
	Outstandings	**408**	**403**	**397**	**391**	**384**	**376**	**368**
Small business:								
Business and investment loans	Obligations	697	621	491	388	243	182	94
	Loan disbursements	605	630	491	388	243	182	94
	Change in outstandings	*−119*	*−66*	*920*	*−1,568*	*−1,441*	*−1,066*	.....
	Outstandings	**3,220**	**3,154**	**4,074**	**2,507**	**1,066**	.....	.....
Small business development companies (FFB loan assets)[2]	*Change in outstandings*	*−7*	*−10*	*−10*	*−10*	*−3*	.....	.....
	Outstandings	**33**	**23**	**13**	**3**	.....	.....	.....
Small business assistance (loans made by FFB)[1]	Obligations	525	514	300	.....	.....	.....	.....
	Loan disbursements	525	514	300	.....	.....	.....	.....
	Change in outstandings	*405*	*369*	*−1,989*	.....	.....	.....	.....
	Outstandings	**1,620**	**1,989**	.....	.....	.....	.....	.....
Disaster loans	Obligations	320	342	259	.....	.....	.....	.....
	Loan disbursements	319	382	259	.....	.....	.....	.....
	Change in outstandings	*−403*	*−286*	*−1,462*	*−1,495*	*−1,286*	*−28*	.....
	Outstandings	**4,557**	**4,270**	**2,808**	**1,314**	**28**	.....	.....
Tennessee Valley Authority	Obligations	63	66	69	70	67	65	65
	Loan disbursements	63	66	69	70	67	65	65
	Change in outstandings	*−2*	*−1*	*−4*	*−2*	***	*1*	*1*
	Outstandings	**262**	**262**	**258**	**257**	**257**	**258**	**258**

Table F-19. DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
Tennessee Valley Authority (loans made by FFB) [1]	Obligations	206	248	167	165	145	133	112
	Loan disbursements	206	248	167	165	145	133	112
	Change in outstandings	*96*	*136*	*−147*	*−147*	*−159*	*−174*	*−59*
	Outstandings	**1,651**	**1,787**	**1,640**	**1,493**	**1,334**	**1,160**	**1,101**
Payments for Conrail securities	Obligations							
	Loan disbursements							
	Change in outstandings		*−851*					
	Outstandings	**851**						
United States Railway Association	Obligations							
	Loan disbursements							
	Change in outstandings	*2*	*6*	*7*	*7*	*8*	*9*	*9*
	Outstandings	**78**	**85**	**92**	**99**	**107**	**115**	**125**
Other agencies and programs	Obligations	21	41	42	46	49	51	53
	Loan disbursements	40	55	58	53	49	51	53
	Change in outstandings	*−30*	*2*	*−7*	*−2*	*−11*	*−10*	*−13*
	Outstandings	**624**	**626**	**619**	**617**	**607**	**597**	**584**
Other agencies and programs (loans made by FFB) [1]	Obligations	60						
	Loan disbursements	60						
	Change in outstandings	*59*	*−3*	*−63*	*−3*	*−3*	*−3*	*−4*
	Outstandings	**157**	**154**	**91**	**88**	**84**	**81**	**77**
Grand total, net direct loans	Obligations	52,847	41,634	30,555	28,006	24,794	22,262	20,141
	Loan disbursements	64,396	47,327	34,440	30,971	26,280	23,396	21,084
	Change in outstandings	*27,991*	*−4,076*	*−4,381*	*−3,249*	*−5,733*	*−7,069*	*−4,609*
	Outstandings	**257,366**	**253,290**	**248,910**	**245,661**	**239,928**	**232,860**	**228,251**

* $500,000 or less.
[1] Loans guaranteed by the agency and disbursed by FFB. They are counted as direct loans in the credit budget.
[2] Loans made by the agency and subsequently sold to FFB. The agency guarantees and repurchases the loans when they mature.
[3] Direct loan obligations and disbursements for these programs represent increases in their holdings of loan assets rather than cash disbursements.

Table F-20. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)

Agency or Program		Actual 1985	Estimate					
			1986	1987	1988	1989	1990	1991
Funds Appropriated to the President:								
Foreign military sales	Commitments							
	New guaranteed loans							
	Change in outstandings	*−20*	*−20*	*−20*	*−20*	*−20*	*−20*	*−20*
	Outstandings	**180**	**160**	**140**	**120**	**100**	**80**	**60**
Overseas Private Investment Corporation	Commitments	150	136	150	150			
	New guaranteed loans	31	44	75	100	100	100	100
	Change in outstandings	*24*	*4*	*27*	*75*	*75*	*75*	*75*
	Outstandings	**223**	**227**	**254**	**329**	**404**	**479**	**554**
AID housing and other credit guarantees	Commitments	160	145					
	New guaranteed loans	94	120	120	120	113	100	50
	Change in outstandings	*70*	*94*	*91*	*91*	*84*	*71*	*21*
	Outstandings	**1,176**	**1,269**	**1,360**	**1,451**	**1,536**	**1,607**	**1,628**
Agriculture:								
Rural Electrification Administration	Commitments							
	New guaranteed loans	147	140	140	100	50		
	Change in outstandings	*135*	*128*	*128*	*88*	*38*	*−12*	*−12*
	Outstandings	**1,045**	**1,173**	**1,301**	**1,389**	**1,427**	**1,415**	**1,403**
Farmers Home Administration:								
Agricultural credit insurance fund	Commitments	1,175	1,872	2,500	3,000	3,500	4,000	4,000
	New guaranteed loans	530	1,640	2,122	2,992	3,500	4,000	4,000
	Change in outstandings	*257*	*1,309*	*1,333*	*2,501*	*1,054*	*1,054*	*1,054*
	Outstandings	**1,385**	**2,694**	**4,027**	**6,528**	**7,583**	**8,637**	**9,691**
Rural housing insurance fund	Commitments							
	New guaranteed loans	*						
	Change in outstandings	*−238*	*−139*	*−21*	*−295*	*−185*	*−2*	*−3*
	Outstandings	**755**	**616**	**595**	**300**	**116**	**113**	**110**
Rural development insurance fund	Commitments	61	96					
	New guaranteed loans	176	226	137	97	66	18	
	Change in outstandings	*−294*	*−223*	*−156*	*−395*	*−244*	*−185*	*−179*

Table F-20. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
	Outstandings	**2,912**	**2,689**	**2,533**	**2,138**	**1,893**	**1,708**	**1,528**
Commodity Credit Corporation export credits	Commitments	2,674	5,264	3,000	3,000	3,000	3,000	3,000
	New guaranteed loans	3,134	5,264	3,000	3,000	3,000	3,000	3,000
	Change in outstandings	*404*	*2,298*	*−201*	*−265*	*−717*	*−50*	*−50*
	Outstandings	**5,094**	**7,392**	**7,191**	**6,926**	**6,210**	**6,160**	**6,110**
Commerce:								
Economic development revolving fund	Commitments							
	New guaranteed loans							
	Change in outstandings	*−172*	*−25*	*−40*	*−25*	*−22*	*−20*	*−18*
	Outstandings	**235**	**210**	**170**	**145**	**123**	**103**	**85**
ITA operations and administration	Commitments	3						
	New guaranteed loans	11	−3					
	Change in outstandings	*2*	*−10*	*−14*				
	Outstandings	**24**	**14**					
National Oceanic and Atmospheric Administration	Commitments	34	33					
	New guaranteed loans	34	33					
	Change in outstandings	*2*	*3*	*−161*				
	Outstandings	**158**	**161**					
Education: Guaranteed student loans	Commitments	8,888	9,269	9,756	11,420	12,888	14,033	14,739
	New guaranteed loans	8,454	8,826	9,304	10,893	12,293	13,388	14,064
	Change in outstandings	*3,903*	*3,077*	*2,608*	*3,412*	*3,800*	*3,801*	*3,374*
	Outstandings	**35,807**	**38,884**	**41,492**	**44,904**	**48,704**	**52,505**	**55,879**
Energy:								
Geothermal resources development fund	Commitments							
	New guaranteed loans							
	Change in outstandings	*−12*	*−13*					
	Outstandings	**23**	**10**	**10**	**10**	**10**	**10**	**10**
Health and Human Services:								
Medical facilities guarantees and loan fund	Commitments							

	New guaranteed loans							
	Change in outstandings	*−95*	*−63*	*−66*	*−67*	*−67*	*−67*	*−67*
	Outstandings	**995**	**932**	**865**	**798**	**731**	**663**	**596**
Health professions graduate student	Commitments	271	389	100	100	100	100	100
	New guaranteed loans	271	389	100	100	100	100	100
	Change in outstandings	*111*	*363*	*71*	*68*	*65*	*62*	*59*
	Outstandings	**831**	**1,194**	**1,265**	**1,334**	**1,399**	**1,461**	**1,521**
Housing and Urban Development:								
Low-rent public housing	Commitments							
	New guaranteed loans							
	Change in outstandings	*−13,276*	*−310*	*−337*	*−364*	*−392*	*−419*	*−447*
	Outstandings	**8,887**	**8,577**	**8,240**	**7,876**	**7,484**	**7,065**	**6,617**
Revolving fund (liquidating)	Commitments							
	New guaranteed loans							
	Change in outstandings	*−5*	*−3*	*7*	*−15*	*−8*	*−13*	*−15*
	Outstandings	**57**	**54**	**61**	**47**	**38**	**25**	**10**
Federal Housing Administration	Commitments	47,441	49,336	37,164	37,164	37,164	37,164	37,164
	New guaranteed loans	23,234	36,910	31,788	29,838	31,211	32,436	33,762
	Change in outstandings	*25,447*	*25,934*	*18,831*	*14,981*	*14,466*	*14,677*	*15,339*
	Outstandings	**195,480**	**221,413**	**240,244**	**255,225**	**269,691**	**284,368**	**299,707**
GNMA mortgage-backed securities	Commitments	54,597	60,463	55,357	51,875	52,632	52,371	53,340
	New guaranteed loans	36,277	43,188	39,541	292,836	318,179	341,411	363,984
	Change in outstandings	*24,541*	*33,655*	*30,778*	*26,578*	*26,143*	*23,231*	*22,573*
	Outstandings	**201,026**	**234,681**	**265,458**	**292,036**	**318,179**	**341,411**	**363,984**
Interior:								
Indian loan guaranty and insurance fund	Commitments	42	60	30	25	20	20	20
	New guaranteed loans	49	60	30	25	20	20	20
	Change in outstandings	*34*	*50*	*18*	*11*			
	Outstandings	**119**	**169**	**187**	**197**	**197**	**197**	**197**
Transportation:								
MarAd Federal ship financing fund	Commitments	38	67					
	New guaranteed loans	174	90	27	40			
	Change in outstandings	*−602*	*−810*	*−473*	*−380*	*−410*	*−410*	*−410*
	Outstandings	**6,444**	**5,634**	**5,161**	**4,781**	**4,371**	**3,961**	**3,551**
Aircraft purchase loan guarantees	Commitments							

Table F-20. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
	New guaranteed loans							
	Change in outstandings	*−87*	*−50*	*−46*	*−38*	*−33*	*−29*	*−26*
	Outstandings	**407**	**357**	**311**	**273**	**239**	**210**	**183**
Miscellaneous expired accounts	Commitments							
	New guaranteed loans							
	Change in outstandings							
	Outstandings	**997**	**997**	**997**	**997**	**997**	**997**	**997**
Treasury:								
Guarantees of New York City notes	Commitments							
	New guaranteed loans							
	Change in outstandings	*−637*	*−190*					
	Outstandings	**190**						
Biomass energy development	Commitments							
	New guaranteed loans	300	294	283				
	Change in outstandings	*300*	*287*	*273*	*−12*	*−12*	*−12*	
	Outstandings	**512**	**800**	**1,072**	**1,060**	**1,048**	**1,036**	**1,036**
Veterans Administration:								
Direct loan revolving fund	Commitments							
	New guaranteed loans							
	Change in outstandings	*−2*	*−2*	*−2*	*−2*	*		
	Outstandings	**5**	**3**	**2**	*			
Loan guarantee revolving fund	Commitments	12,140	12,299	14,715	14,564	14,440	14,307	14,231
	New guaranteed loans	11,452	11,569	13,948	13,857	13,803	13,708	13,658
	Change in outstandings	*5,208*	*5,801*	*7,933*	*7,504*	*7,133*	*6,688*	*6,324*
	Outstandings	**130,591**	**136,392**	**144,325**	**151,828**	**158,962**	**165,650**	**171,974**
Export-Import Bank	Commitments	7,849	11,484	12,000	12,000	12,000	12,000	12,000
	New guaranteed loans	4,424	5,123	5,479	6,219	6,440	6,584	6,695
	Change in outstandings	*−555*	*1,324*	*862*	*855*	*797*	*768*	*736*
	Outstandings	**5,127**	**6,450**	**7,312**	**8,167**	**8,964**	**9,733**	**10,469**

Federal Savings and Loan Insurance Corporation	Commitments	900	426	350	278	228	155	130
	New guaranteed loans	900	426	350	278	228	155	130
	Change in outstandings	*751*	*357*	*263*	*178*	*128*	*55*	*30*
	Outstandings	**2,514**	**2,871**	**3,134**	**3,312**	**3,440**	**3,495**	**3,525**
National Credit Union Administration	Commitments	*						
	New guaranteed loans	*						
	Change in outstandings	*−20*	*−4*					
	Outstandings	**4**						
Small business:								
Business and investment loan guarantees	Commitments	2,802	2,902					
	New guaranteed loans	2,496	2,685	1,400				
	Change in outstandings	*208*	*345*	*−852*	*−2,161*	*−1,586*	*−1,214*	*−955*
	Outstandings	**8,782**	**9,127**	**8,275**	**6,114**	**4,528**	**3,314**	**2,359**
Pollution control equipment guarantees	Commitments	7	48					
	New guaranteed loans	1	48					
	Change in outstandings	*1*	*48*					
	Outstandings	**327**	**374**	**374**	**374**	**374**	**374**	**374**
Disaster loans	Commitments							
	New guaranteed loans							
	Change in outstandings	*	*	*	*	*	*	*
	Outstandings	**4**	**3**	**3**	**3**	**2**	**2**	**2**
Tennessee Valley Authority	Commitments							
	New guaranteed loans							
	Change in outstandings				*−1*			
	Outstandings	**1**	**1**	**1**				
Synthetic Fuels Corporation	Commitments	60						
	New guaranteed loans	4	4	12	*	*		
	Change in outstandings	*4*	*4*	*12*	*3*	*−12*	*−11*	
	Outstandings	**4**	**8**	**20**	**23**	**11**		
Other agencies and programs	Commitments	15	30	3				
	New guaranteed loans	18	35	35				
	Change in outstandings	*−31*	*−41*	*124*	*−72*	*−65*	*−68*	*−71*
	Outstandings	**783**	**741**	**865**	**793**	**728**	**660**	**589**

Table F-20. GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued

Agency or Program		Actual 1985	Estimate					
			1986	1987	1988	1989	1990	1991
Subtotal, guaranteed loans (gross)	Commitments	139,308	154,313	135,125	133,577	135,971	137,150	138,723
	New guaranteed loans	92,213	117,110	107,891	360,495	389,104	415,020	439,563
	Change in outstandings	*45,357*	*73,176*	*60,968*	*52,234*	*50,010*	*47,948*	*47,310*
	Outstandings	**613,101**	**686,277**	**747,245**	**799,480**	**849,490**	**897,438**	**944,748**
Less secondary guaranteed loans:[1]								
GNMA guarantees of FHA/VA/FmHA pools	Commitments	54,597	60,463	55,357	51,875	52,632	52,371	53,340
	New guaranteed loans	36,277	43,188	39,541	292,836	318,179	341,411	363,984
	Change in outstandings	*24,541*	*33,655*	*30,778*	*26,578*	*26,143*	*23,231*	*22,573*
	Outstandings	**201,026**	**234,681**	**265,458**	**292,036**	**318,179**	**341,411**	**363,984**
Subtotal, guaranteed loans (net)	Commitments	84,711	93,850	79,768	81,701	83,339	84,779	85,384
	New guaranteed loans	55,936	73,921	68,350	67,659	70,924	73,609	75,579
	Change in outstandings	*20,815*	*39,521*	*30,190*	*25,656*	*23,867*	*24,717*	*24,738*
	Outstandings	**412,076**	**451,597**	**481,787**	**507,443**	**531,310**	**556,027**	**580,765**
Less guaranteed loans held as direct loans:[2]								
By GNMA	Commitments	.....	.....	.....	.....	.....	.....	.....
	New guaranteed loans	455	351	163	.....	.....	.....	.....
	Change in outstandings	*−748*	*−653*	*−606*	*−218*	*−115*	*−5*	*−4*
	Outstandings	**1,634**	**981**	**375**	**157**	**42**	**37**	**32**
Total, primary guaranteed loans	Commitments	84,711	93,850	79,768	81,701	83,339	84,779	85,384
	New guaranteed loans	55,481	73,570	68,187	67,659	70,924	73,609	75,579
	Change in outstandings	*21,564*	*40,174*	*30,796*	*25,874*	*23,982*	*24,722*	*24,742*
	Outstandings	**410,442**	**450,616**	**481,412**	**507,286**	**531,269**	**555,991**	**580,733**

* $500,000 or less.

[1] Loans guaranteed by the Federal Housing Administration, the Veterans Administration, or the Farmers Home Administration are included above. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double counting.

[2] When guaranteed loans are acquired by a budget account, they are counted as direct loans and shown in the direct loan table. Consequently, they are deducted from the totals in this table.

Table F–21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In millions of dollars)

Enterprise		Actual 1985	Estimate 1986	Estimate 1987
LENDING				
Student Loan Marketing Association	Obligations	3,125	3,437	3,781
	New transactions	3,125	3,437	3,781
	Net Change	*2,142*	*2,356*	*2,591*
	Outstandings	**11,576**	**13,932**	**16,523**
Federal National Mortgage Association:				
Corporation accounts	Obligations	21,795	21,271	19,550
	New transactions	20,328	16,981	17,224
	Net Change	*11,919*	*5,549*	*7,174*
	Outstandings	**96,769**	**102,318**	**109,492**
Mortgage-backed securities	Obligations	25,789	22,487	23,320
	New transactions	19,230	21,789	24,025
	Net Change	*15,881*	*18,033*	*19,823*
	Outstandings	**48,769**	**66,802**	**86,625**
Farm Credit Banks:				
Banks for cooperatives	Obligations	29,260	28,988	28,717
	New transactions	29,260	28,988	28,717
	Net Change	*–1,115*	*173*	*360*
	Outstandings	**7,533**	**7,707**	**8,067**
Federal intermediate credit banks	Obligations	13,390	12,716	12,078
	New transactions	13,390	12,716	12,078
	Net Change	*–3,368*	*–2,416*	*–26*
	Outstandings	**15,625**	**13,209**	**13,183**
Federal land banks	Obligations	1,445	1,660	1,876
	New transactions	1,445	1,660	1,876
	Net Change	*–3,368*	*–2,466*	*–3,241*
	Outstandings	**45,935**	**43,470**	**40,229**
Federal Home Loan Bank system:				
Federal home loan banks	Obligations	124,916	100,000	105,000
	New transactions	124,916	100,000	105,000
	Net Change	*12,139*	*10,013*	*8,748*
	Outstandings	**87,015**	**97,028**	**105,775**
Federal Home Loan Mortgage Corporation:				
Corporation accounts	Obligations	4,921	3,935	5,000
	New transactions	4,921	3,935	5,000
	Net Change	*3,641*	*1,297*	*3,106*
	Outstandings	**13,088**	**14,385**	**17,491**
Participation certificate pools [1]	Obligations	35,343	39,011	39,500
	New transactions	35,343	39,011	39,500
	Net Change	*27,957*	*30,758*	*26,593*
	Outstandings	**91,989**	**122,747**	**149,340**
Subtotal, lending (gross)	Obligations	259,984	233,505	238,822
	New transactions	251,958	228,517	237,201
	Net Change	*65,828*	*63,297*	*65,128*
	Outstandings	**418,299**	**481,598**	**546,725**
Less loans between sponsored enterprises	Obligations			
	New transactions			
	Net Change	*–600*	*–240*	*–250*
	Outstandings	**1,190**	**950**	**700**

Table F-21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1985	Estimate 1986	Estimate 1987
Less secondary funds advanced from Federal sources:				
SLMA from FFB [2]	Obligations			
	New transactions			
	Net Change			*−30*
	Outstandings	**5,000**	**5,000**	**4,970**
TVA to FNMA	Obligations			
	New transactions			
	Net Change			
	Outstandings	**80**	**80**	**80**
Less guaranteed loans held as direct loans by:				
Federal National Mortgage Association	Obligations			
	New transactions			
	Net Change	*1,826*	*−1,553*	*−1,476*
	Outstandings	**31,064**	**29,511**	**28,035**
Federal home loan banks	Obligations			
	New transactions			
	Net Change	*751*	*357*	*263*
	Outstandings	**2,514**	**2,871**	**3,134**
Federal Home Loan Mortgage Corporation	Obligations			
	New transactions			
	Net Change	*981*	*−94*	*−89*
	Outstandings	**1,875**	**1,781**	**1,692**
Farm Credit Banks	Obligations			
	New transactions			
	Net Change	*−13*	*55*	*−9*
	Outstandings	**60**	**115**	**105**
Student Loan Marketing Association [2]	Obligations			
	New transactions			
	Net Change	*2,142*	*2,356*	*2,621*
	Outstandings	**6,576**	**8,932**	**11,553**
Total lending	Obligations	259,984	233,505	238,822
	New transactions	251,958	228,517	237,201
	Net Change	*60,741*	*62,416*	*64,098*
	Outstandings	**369,940**	**432,358**	**496,456**
BORROWING (Funds Raised)				
Student Loan Marketing Association	*Net Change*	*2,671*	*2,465*	*2,741*
	Outstandings	**12,670**	**15,135**	**17,876**
Federal National Mortgage Association [3]	*Net Change*	*27,451*	*22,110*	*25,562*
	Outstandings	**140,462**	**162,572**	**188,134**
Farm Credit System:				
Banks for cooperatives	*Net Change*	*−258*	*19*	*457*
	Outstandings	**8,067**	**8,086**	**8,542**
Federal intermediate credit banks	*Net Change*	*−2,744*	*−2,318*	*−743*
	Outstandings	**15,522**	**13,205**	**12,461**
Federal land banks	*Net Change*	*−1,382*	*−2,160*	*−2,028*
	Outstandings	**46,249**	**44,088**	**42,059**
Federal Home Loan Bank system:				
Federal home loan banks	*Net Change*	*6,168*	*11,426*	*11,000*
	Outstandings	**73,573**	**85,000**	**96,000**

Table F-21. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1985	Estimate 1986	Estimate 1987
Federal Home Loan Mortgage Corporation	*Net Change*	*31,581*	*36,813*	*29,222*
	Outstandings	**105,815**	**142,628**	**171,850**
Subtotal, borrowing (gross)	*Net Change*	*63,487*	*68,355*	*66,211*
	Outstandings	**402,358**	**470,714**	**536,922**
Less borrowing from other sponsored enterprises	*Net Change*	*−626*	*−84*	*−298*
	Outstandings	**834**	**1,349**	**1,052**
Less borrowing from Federal sources:				
SLMA from FFB [2]	*Net Change*	.....	.....	*−30*
	Outstandings	**5,000**	**5,000**	**4,970**
FNMA from TVA	*Net Change*	.....	.....	.....
	Outstandings	**80**	**80**	**80**
Total borrowing from the public	*Net Change*	*64,113*	*68,439*	*66,539*
	Outstandings	**396,444**	**464,285**	**530,820**
Less investments in Federal securities	*Net Change*	*542*	*−553*	*−96*
	Outstandings	**2,743**	**2,190**	**2,094**
Less borrowings for guaranteed loans held as direct loans by:				
Federal National Mortgage Association	*Net Change*	*1,826*	*−1,553*	*−1,476*
	Outstandings	**31,064**	**29,511**	**28,035**
Federal home loan banks	*Net Change*	*751*	*357*	*263*
	Outstandings	**2,514**	**2,871**	**3,134**
Federal Home Loan Mortgage Corporation	*Net Change*	*981*	*−94*	*−89*
	Outstandings	**1,875**	**1,781**	**1,692**
Farm Credit System	*Net Change*	*−13*	*55*	*−9*
	Outstandings	**60**	**115**	**106**
Student Loan Marketing Association [2]	*Net Change*	*2,142*	*2,356*	*2,621*
	Outstandings	**6,576**	**8,932**	**11,553**
Total borrowed	*Net Change*	*57,884*	*67,871*	*65,325*
	Outstandings	**351,612**	**418,885**	**484,208**

[1] All new transactions are loans purchased from FHLMC corporation accounts.

[2] Until recently, all SLMA lending has been financed through the FFB, and therefore has been counted in Table F-19 as direct loans. All SLMA loans are student loans guaranteed by the Federal Government. They have, therefore been counted in Table F-20 as guaranteed loans. The first deduction eliminates the overlap of this table with the direct loan table. The second deduction removes the non-FFB financed remainder of SLMA, to eliminate overlap with the guaranteed loan table.

[3] Loans purchased at discount are recorded at their acquisition cost.

Table F-22. **FFB ACQUISITIONS (in millions of dollars)**

Agency or program	Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
Purchase of loan assets from:							
Overseas Private Investment Corporation:							
Net outlays	*−5*	*−5*	*−1*	*	.....	.....	.....
Outstandings	**6**	**1**	*	.....	.....	.....	.....
Farmers Home Administration (USDA):							
Agricultural credit insurance fund:							
New acquisitions	6,815	2,172	.....	.....	526	.....	.....
Net outlays	*2,658*	*922*	*−382*	*−385*	*−3,434*	*−2,620*	*−2,150*
Outstandings	**28,175**	**29,097**	**28,715**	**28,330**	**24,896**	**22,276**	**20,126**
Rural housing insurance fund:							
New acquisitions	3,695	391	.....	.....	.....	.....	.....
Net outlays	*1,585*	*391*	*−150*	.....	*−1,000*	*−1,990*	*−1,415*
Outstandings	**28,351**	**28,742**	**28,592**	**28,592**	**27,592**	**25,602**	**24,187**
Rural development insurance fund:							
New acquisitions	1,010	343	.....	362	.....	115	.....
Net outlays	*415*	*313*	.....	*362*	.....	*−180*	.....
Outstandings	**7,643**	**7,956**	**7,956**	**8,318**	**8,318**	**8,138**	**8,138**
Rural Electrification Administration (USDA):							
New acquisitions	379	327	.....	.....	.....	.....	.....
Net outlays	*188*	*327*	.....	.....	.....	.....	.....
Outstandings	**3,724**	**4,051**	**4,051**	**4,051**	**4,051**	**4,051**	4,051
Medical facilities guarantees (HHS):							
Net outlays	*−9*	*−6*	*−6*	*−7*	*−7*	*−7*	*−8*
Outstandings	**123**	**117**	**111**	**104**	**97**	**90**	**82**
Health Maintenance Organizations (HHS):							
New acquisitions	3	1	.....	.....	.....	.....	.....
Net outlays	*−7*	*−4*	*−5*	*−6*	*−6*	*−6*	*−7*
Outstandings	**109**	**105**	**100**	**95**	**89**	**82**	**76**
Small business assistance:							
Net outlays	*−7*	*−10*	*−10*	*−10*	*−3*	.....	.....
Outstandings	**33**	**23**	**13**	**3**	.....	.....	.....
Subtotal, purchase of loan assets:							
New acquisitions	11,902	3,234	.....	362	526	115	.....
Net outlays	*4,818*	*1,928*	*−554*	*−45*	*−4,450*	*−4,804*	*−3,580*
Outstandings	**68,164**	**70,093**	**69,539**	**69,494**	**65,044**	**60,240**	**56,660**
Direct loans (purchases of loans guaranteed by agencies):							
Foreign military sales credit (FAP): [1]							
New acquisitions	1,683	950	473	303	173	147	187
Net outlays	*978*	*187*	*−306*	*−440*	*−613*	*−720*	*−728*
Outstandings	**18,089**	**18,275**	**17,969**	**17,529**	**16,916**	**16,197**	**15,469**
Defense production guarantees (DOD):							
New acquisitions	3	6	6	2	.....	.....	.....

Table F-22. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
Net outlays	*3*	*6*	*6*	*2*	...	...	...
Outstandings	**6**	**12**	**18**	**20**	**20**	**20**	**20**
Navy industrial fund (DOD):							
New acquisitions	1,533	495	...	...	...	...	...
Net outlays	*1,313*	*438*	*−30*	*−34*	*−42*	*−41*	*−43*
Outstandings	**1,313**	**1,751**	**1,721**	**1,687**	**1,645**	**1,603**	**1,560**
Rural Electrification Administration (USDA): [1]							
New acquisitions	2,063	2,019	1,804	1,493	1,297	1,098	899
Net outlays	*1,088*	*719*	*1,304*	*993*	*797*	*598*	*399*
Outstandings	**21,675**	**22,394**	**23,698**	**24,691**	**25,488**	**26,086**	**26,485**
Guarantees of SLMA obligations (Education):							
Net outlays	...	...	*−30*	*−30*	*−30*	*−30*	*−30*
Outstandings	**5,000**	**5,000**	**4,970**	**4,940**	**4,910**	**4,880**	**4,850**
Alternative fuels production (Energy):							
New acquisitions	247	...	...	...	...	...	...
Net outlays	*−1,290*	...	...	...	...	...	...
Outstandings	...	...	...	...	...	...	...
Geothermal resources development fund (Energy):							
New acquisitions	6	...	...	...	...	...	...
Net outlays	*−6*	...	...	...	...	...	...
Outstandings	...	...	...	...	...	...	...
Low-rent public housing (HUD): [1]							
Net outlays	*−32*	*−35*	*−37*	*−39*	*−42*	*−44*	*−47*
Outstandings	**2,146**	**2,111**	**2,074**	**2,035**	**1,993**	**1,949**	**1,902**
Revolving fund-liquidating (HUD):							
Net outlays	...	*−1*	*−2*	*−2*	*−2*	*−2*	*−2*
Outstandings	**34**	**32**	**31**	**29**	**27**	**26**	**24**
Community development grants (HUD): [1]							
New acquisitions	103	108	73	29	3	...	...
Net outlays	*81*	*46*	...	*−53*	*−76*	*−68*	*−57*
Outstandings	**289**	**335**	**335**	**282**	**206**	**138**	**81**
Loans to territories (Interior):							
Net outlays	*−1*	*−1*	*−2*	*−2*	*−2*	*−2*	*−2*
Outstandings	**63**	**62**	**60**	**59**	**57**	**55**	**53**
Railroad programs (DOT): [1]							
New acquisitions	4	2	4	3	...	...	...
Net outlays	*−6*	*−93*	*−3*	*−5*	*−9*	*−7*	*−5*
Outstandings	**154**	**61**	**57**	**52**	**43**	**36**	**30**
Federal Buildings Fund (GSA):							
Net outlays	*−5*	*−5*	*−6*	*−6*	*−7*	*−8*	*−8*
Outstandings	**408**	**403**	**397**	**391**	**384**	**376**	**368**

Table F-22. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1985	Estimate 1986	1987	1988	1989	1990	1991
Space flight, control and data communications (NASA):							
Net outlays	*−67*	.....	*−79*	*−91*	*−105*	*−121*	*−138*
Outstandings	**888**	**888**	**809**	**717**	**612**	**491**	**354**
Small business investment companies and other small business assistance: [1]							
New acquisitions	525	514	300	.....	.....	.....	.....
Net outlays	*405*	*369*	*−1,989*	.....	.....	.....	.....
Outstandings	**1,620**	**1,989**	.....	.....	.....	.....	.....
Oregon veterans housing:							
New acquisitions	60	.....	.....	.....	.....	.....	.....
Net outlays	*60*	.....	*−60*	.....	.....	.....	.....
Outstandings	**60**	**60**	.....	.....	.....	.....	.....
Seven States Energy Corporation (TVA):							
New acquisitions	206	248	167	165	145	133	112
Net outlays	*96*	*136*	*−147*	*−147*	*−159*	*−174*	*−59*
Outstandings	**1,651**	**1,787**	**1,640**	**1,493**	**1,334**	**1,160**	**1,101**
Subtotal, direct loans (purchase of loans guaranteed by agencies):							
New acquisitions	6,433	4,342	2,827	1,994	1,617	1,378	1,198
Net outlays	*2,616*	*1,765*	*−1,380*	*145*	*−290*	*−619*	*−721*
Outstandings	**53,396**	**55,160**	**53,780**	**53,926**	**53,635**	**53,017**	**52,296**
Total, direct loans and purchases of agency loan assets:							
New acquisitions	18,335	7,575	2,827	2,356	2,143	1,492	1,198
Net outlays	*7,433*	*3,693*	*−1,934*	*100*	*−4,740*	*−5,423*	*−4,301*
Outstandings	**121,560**	**125,253**	**123,319**	**123,419**	**118,679**	**113,256**	**108,956**
ADDENDUM							
AGENCY BORROWING							
Export-Import Bank:							
Net change	*−281*	*−292*	*−890*	*−799*	*−900*	*−1,000*	*−1,100*
Outstandings	**15,409**	**15,117**	**14,227**	**13,428**	**12,528**	**11,528**	**10,428**
Tennessee Valley Authority:							
Net change	*896*	*350*	*577*	*581*	*265*	*339*	*470*
Outstandings	**14,381**	**14,731**	**15,308**	**15,889**	**16,154**	**16,493**	**16,963**
National Credit Union Administration:							
Net change	**−47**	**−22**	.....	.....	.....	.....	.....
Outstandings	**222**	**200**	**200**	**200**	**200**	**200**	**200**
U.S. Railway Association:							
Net change	*22*	*11*	*7*	*7*	*8*	*9*	*9*
Outstandings	**74**	**85**	**92**	**99**	**107**	**115**	**125**
Postal Service:							
Net change	*603*	*1,228*	*1,248*	*1,510*	*1,498*	*1,065*	*891*

Table F-22. **FFB ACQUISITIONS (in millions of dollars)—Continued**

Agency or program	Actual 1985	Estimate					
		1986	1987	1988	1989	1990	1991
Outstandings	**1,690**	**2,918**	**4,166**	**5,676**	**7,174**	**8,239**	**9,129**
Total, agency borrowing:							
Net change	*1,194*	*1,275*	*941*	*1,299*	*871*	*412*	*270*
Outstandings	**31,776**	**33,051**	**33,992**	**35,292**	**36,163**	**36,575**	**36,845**

*$500.000 or less.

[1] FFB activity for this account may not be identical to the entries in Part 6d of the Budget, "Budget by Agency and Account", due to timing differences between recognition of FFB budget authority and commitments to guarantee loans that are financed through the FFB (shown here as FFB new acquisitions).

Table F-23. **FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS**

(Dollar amounts in billions)

	Actual									
	TQ	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total funds loaned in U.S. credit markets [1]	**64.9**	**309.8**	**386.7**	**427.9**	**354.5**	**407.4**	**396.7**	**512.6**	**687.1**	**768.6**
Direct loans	3.7	11.6	19.8	19.6	24.2	26.1	23.4	15.3	6.3	28.0
Guaranteed loans	−0.1	13.5	13.4	25.2	31.6	28.0	20.9	34.1	20.1	21.6
Government-sponsored enterprise loans [2]	3.1	11.7	25.2	28.1	24.1	32.4	43.3	37.1	53.1	60.7
Federal and federally assisted lending	**6.7**	**36.7**	**58.4**	**72.9**	**79.9**	**86.5**	**87.6**	**86.5**	**79.6**	**110.3**
Federal lending participation ratio (percent)	**10.3**	**11.8**	**15.1**	**17.0**	**22.5**	**21.2**	**22.1**	**16.9**	**11.6**	**14.4**
Total funds borrowed in U.S. credit markets [1]	**64.9**	**309.8**	**386.7**	**427.9**	**354.5**	**407.4**	**396.7**	**512.6**	**687.1**	**768.6**
Federal borrowing from public	18.0	53.5	59.1	33.6	70.5	79.3	135.0	212.3	170.8	197.3
Borrowing for guaranteed loans	−0.1	13.5	13.4	25.2	31.6	28.0	20.9	34.1	20.1	21.6
Government-sponsored enterprise borrowing [2]	1.4	12.0	21.4	21.9	21.4	34.8	43.8	34.6	55.5	57.9
Federal and federally assisted borrowing	**19.3**	**79.0**	**93.9**	**80.7**	**123.5**	**142.1**	**199.7**	**281.0**	**246.5**	**276.8**
Federal borrowing participation ratio (percent)	**29.7**	**25.5**	**24.3**	**18.9**	**34.8**	**34.9**	**50.3**	**54.8**	**35.9**	**36.0**

[1] Funds loaned to and borrowed by nonfinancial sectors, excluding equities.

[2] The data in Table F-23 for total funds loaned are defined as excluding financial sectors. Nonetheless, the Government-sponsored enterprises, as well as Federal assisted lending, are properly compared with total funds loaned. Government-sponsored enterprises lending is a proxy for the lending by non-financial sectors that is intermediated by the sponsored enterprises. It assists the ultimate non-financial borrowers whose loans are purchased or otherwise financed by the sponsored enterprise.

Source: Federal Reserve Board Flow of Funds Accounts for total funds loaned and borrowed.

SPECIAL ANALYSIS F
TABLE OF CONTENTS

TABLES

CHARTS

SPECIAL ANALYSIS F

FEDERAL CREDIT PROGRAMS

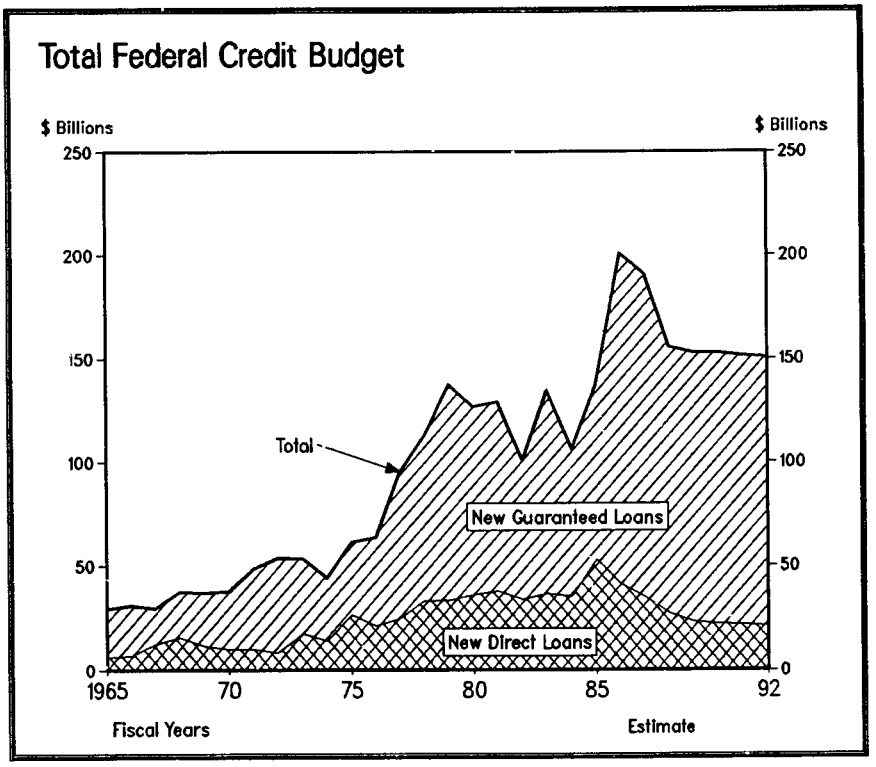
I. Introduction

The Federal Government is the Nation's largest financial intermediary. At the end of 1986, it held loans with a face value of $252 billion in its direct loan portfolio, which was 26 percent larger than the loan assets of the two largest U.S. commercial banks combined. The Federal Government also had guaranteed loans with an outstanding balance of $450 billion at the end of 1986. Through direct loans and loan guarantees, the Federal Government allocates or influences the allocation of credit and credit subsidies to farmers, homeowners, small businesses, exporters, utilities, shipbuilders, and State, local, and foreign governments. The following chart compares the pattern of growth over the last two decades with the most recent patterns and with estimates of future trends through 1992.

Federal credit is designed to meet various social or economic goals that, for whatever reason, the private sector does not meet. Meeting these goals may entail the provision of a subsidy to a favored borrower or the correction of a perceived capital market imperfection.

The problems in directing or controlling Federal credit are enormous and systemic. The discipline that the private market imposes on private financial intermediaries is absent. The discipline that the current budget process imposes is not fully effective in controlling Federal credit programs. The Federal credit budget, while an improvement over the previous control and display mechanisms of the unified budget, does not take into account explicitly the most important aspect of Federal credit—the economic subsidy offered to borrowers. The subsidy, as used here, measures the value to the borrower by comparing the terms and conditions associated with a Government loan to the alternative terms and conditions of financing for a similar loan from a private lender. This special analysis shows estimates of the subsidies provided by direct loan and loan guarantee programs in Tables F-11 and F-12.

In order to focus on that subsidy, the administration is proposing a reform of budgeting for credit programs that would remedy the shortcomings of existing practices by incorporating into the unified budget the subsidies provided by credit programs. The credit



reform proposal is outlined in Part 3, "Federal Credit," of the *Budget of the United States Government, FY 1988—Supplement.* Details of this proposal and specific legislative language will be transmitted to the Congress in March 1987.

This special analysis presents basic information on the broad spectrum of Government credit programs and policies from 1986 through 1992. It describes recent credit policy, summarizes the credit reform initiative, and explains the credit budget and its relationship to appropriations act limitations on direct loan obligations and guaranteed loan commitments. It outlines the credit activity of Government-sponsored enterprises (GSEs), and presents in detail the direct loans and guaranteed loans of the Federal Government. It also discusses trends in Federal credit, Federal credit subsidies, and other special topics. This special analysis supplements the credit data and discussions found elsewhere in the budget. See the Appendix of this special analysis for more details.

II. Controlling Federal Credit Programs

Comparisons with Private Financial Intermediaries.—The objectives of Federal credit programs are different from those of private financial institutions. While private financial institutions seek to

make a profit on their lending, Federal credit programs normally exist to offer credit to selected borrowers on terms and conditions that are more favorable than those available from private lenders. In some cases, the Government offers credit to borrowers for whom no private source of credit is available. Compared to fully private loans, these terms and conditions may include lower interest rates or loan guarantee fees, less stringent credit risk thresholds in making credit available, or more generous grace periods or repayment schedules. Legislation frequently defines the eligible pool of applicants, specifies the lending terms that an agency or program may offer, and otherwise restricts the discretion of Federal program managers in a manner that never occurs for private lenders.

In addition to these differences in purpose, there are also differences in procedures between public and private financial intermediaries. Unlike a private financial intermediary, a Federal direct loan or loan guarantee program has no standard measure of performance, such as profit, for assessing its success. Federal credit programs were created to subsidize favored borrowers to varying degrees. Therefore, net income does not measure success. In many cases, income is not even measured correctly since there is no well-defined cost of capital for credit programs. The lack of a measurement tool creates difficulties in efficiently allocating resources to Federal credit (and noncredit) programs.

Moreover, the standards of the marketplace that restrict the growth and size of private lenders do not apply to Federal credit programs. Unlike commercial banks, Federal agencies need not worry about constraints on the volume or quality of new lending imposed by the inadequacy of primary capital. Federal agencies can continue to lend even if they have little or no equity. Federal lending agencies need not be concerned with the standards imposed on private banks by Federal regulatory agencies for assessing and reporting on the quality of loan portfolios. This makes alternative forms of discipline all the more important if Federal credit is to be directed in the most efficient manner.

The Unified Budget and the Appropriations Process.—The unified budget, with its focus on budget authority, outlays, and receipts, provides a comprehensive system for recording and controlling most receipts and outlays, but it is an incomplete mechanism for recording and controlling Federal credit programs. The unified budget measures net outlays, not the full volume of new credit extended for direct loans. The appropriations process also treats credit in a limited way. The largest direct loan programs are currently financed by revolving funds in which disbursements for new direct loans are offset by repayments on existing loans. Congressional appropriations of budget authority for these revolving funds are generally necessary only when new disbursements exceed

available fund balances, which can be augmented by loan repayments and asset sales. Consequently, the appropriations process does not normally control directly the amount of new direct loans extended.

Second, guaranteed loan commitments, an important form of credit, do not constitute outlays and are not reflected in the unified budget. While, in principle, they could be included under budget authority, commitments were excluded from the definition of budget authority by the Congressional Budget Act of 1974. The reason for the exclusion was that the loan guarantee, by itself, does not affect budget outlays and the deficit. The loan guarantee is only a contingent liability of the Government. However, by assuming that contingent liability, the Government induces lenders to invest in particular loans by making them "riskless" from the lender's standpoint, and thereby allocates capital for federally determined purposes. In this manner, a guaranteed loan commitment may provide as large a subsidy and redirect capital as effectively as a direct loan obligation.

A third important shortcoming of the regular budget process for credit programs is that it neither measures nor controls the most salient aspect of Federal credit—the size of the subsidy offered the borrower. Since a primary purpose of Federal credit programs is to provide borrowers with a subsidy, this is a serious omission in effective budgetary control. Without some means of measuring and controlling this subsidy, neither the executive branch nor the Congress can make informed decisions about Federal credit programs, either in comparing one with another, or in comparing them with noncredit expenditure programs.

The Federal Credit Budget.—In January 1980, a significant step in redressing some of the inadequacies of the existing budget process was made with the introduction of the Federal credit budget. The Federal credit budget measures the direct loan obligations and guaranteed loan commitments, and, through the use of language in appropriation acts, limits these credit activities. Although it is a step forward, the credit budget has significant limitations—it does not measure subsidy costs, nor does it place any direct restriction on the level of subsidy that a program offers the borrower.

The Balanced Budget and Emergency Deficit Control Act of 1985, also known as Gramm-Rudman-Hollings, has led to a change in the way transactions of the Federal Financing Bank (FFB) are treated in the credit budget. As discussed further in the section below entitled "Federal Financing Bank," FFB transactions formerly presented as a separate line item in this special analysis and elsewhere in the budget have now been incorporated into the account of the agency originating the transaction.

OMB Circular No. A-70.—One means of controlling Federal credit more effectively is to control the price at which it is offered to the public. As a step toward this goal, the Office of Management and Budget (OMB) reissued Circular No. A-70, "Policies and Guidelines for Federal Credit Programs," on August 24, 1984. OMB circulars are directives that are binding upon the executive agencies as a matter of Presidential policy and are generally enforceable through administrative procedures. Circular A-70 was approved by the President prior to its release.

The A-70 guidelines apply to both existing and proposed Federal direct loan and loan guarantee programs. The guidelines place two sets of requirements on agencies. The first is to provide information on the costs and benefits of Federal credit programs. This includes estimates of the alternative credit available from relevant private financial institutions, Federal subsidies, and net default costs.

The second requirement is that new legislation or policies for credit programs be consistent with sound credit policies set out in the circular. If current legislation does not conform to those policies, agencies are generally required to prepare proposals to change that legislation so the programs will conform to A-70 guidelines.

A second OMB circular, No. A-129, "Managing Federal Credit Programs," expands on many of A-70's principles. It contains comprehensive guidance on servicing and collecting all Government receivables, including those arising from direct and guaranteed loans, grants and contracts. It requires agencies to develop annual credit management improvement plans describing their strategies for meeting performance goals and implementing the "nine-point program," which is discussed in the "Defaults" section of this special analysis.

Credit Reform Initiative.—Part 3 of the Budget Supplement contains an outline of an administration proposal to change the way Federal credit programs are treated in the budget. Under this reform, Federal agencies would obtain appropriations equal to the estimated subsidy component of the direct loans and loan guarantees they propose to make each year. A new Federal credit revolving fund (referred to as "the fund") would be established within the Department of the Treasury. As agencies make obligations for new direct loans, they would pay the estimated subsidy value of these loans into the fund, which would be recorded in the budget account of the originating agency. The fund would provide the balance, or financing portion, of the loan. As commitments for new loan guarantees are made, their estimated subsidy value would be paid into the fund and recorded in the budget account of the originating agency.

The fund would oversee the sale to the public of all new direct loans for which there are no policy or programmatic constraints to such asset sales, and it would oversee the purchase of private sector reinsurance for new guaranteed loans insofar as it is available. The subsidy cost of direct loans sold and loan guarantees reinsured would be determined by the actual price established by the market. Loan subsidies for direct loans not sold and guaranteed loans not reinsured would be calculated by the fund.

III. The Credit Budget

A. Credit Budget Principles

The credit budget measures direct loan obligations and guaranteed loan commitments. It is the sum of the credit authority offered by the Federal Government. The credit budget is based on three principles. First, it is intended to measure new credit at the point that the Government legally contracts to provide a loan or a loan guarantee. Usually, this is when a loan agreement or loan guarantee agreement is signed.

Second, the credit budget is based on credit authority—the authority to make new offers of credit. Credit authority is measured on a gross basis and does not reflect repayments of loans. This concept differs from the unified budget where budget authority is required only when collections are insufficient to finance new budgetary obligations. The concept of credit authority is necessary because subsidies are provided to all new recipients of direct loans and loan guarantees, regardless of the extent to which borrowers are repaying other loans previously made.

Third, guaranteed loan commitments are measured as the full principal of the loan, even if the Government's contingent liability is less than the full loan principal. The full principal is included in the commitment because the entire loan, even if only partially guaranteed, is assisted by the guarantee. Moreover, in some programs that offer partial guarantees, the private lender is at risk only when the value of the collateral and the guarantee combined are less than the full loan principal.

There are a number of programs in which less than the full principal of the loan is guaranteed. The major agency that nominally offers guarantees significantly below full loan principal is the Veterans Administration (VA).[1] In the aggregate, of the $450 billion of guaranteed loans outstanding in 1986, the Government's contingent liability was $363 billion or 81 percent. Excluding the

[1] The contingent liability for VA mortgage guarantees is up to 60 percent of the mortgage amount or a maximum of $27,500. The guarantee frequently acts as a 100 percent guarantee because, in 85 percent of the foreclosures involving VA guaranteed property, the VA acquires the property from the lender, who is made whole, rather than paying the guaranteed portion of the loan.

VA, the contingent liability was $300 billion for $307 billion of guaranteed loans outstanding, or 98 percent.

The contingent liability and full principal of all guaranteed loans outstanding are shown in Table F-1.

Table F-1. **CONTINGENT LIABILITY FOR GUARANTEED LOANS OUTSTANDING**

(In billions of dollars)

	1986 actual	1987 estimate	1988 estimate
Veterans Administration mortgage guarantees:			
Contingent liability	62.8	67.7	71.4
Full principal	142.6	153.8	162.2
All other loan guarantee programs:			
Contingent liability	300.2	364.4	407.9
Full principal	307.2	372.4	418.1
Total outstanding:			
Contingent liability	363.0	432.1	479.3
Full principal	449.8	526.2	580.3

Table F-2 provides the credit budget totals for 1984 through 1989. It also shows the major direct loan programs and loan guarantee programs.

Table F-2. **CREDIT BUDGET TOTALS**

(In billions of dollars)

	actual			estimate		
	1984	1985	1986	1987	1988	1989
Direct loan obligations:						
Farmers Home Administration	7.2	7.9	5.0	2.4	1.3	0.5
Foreign military sales	5.7	4.9	5.0	4.0	4.4	4.5
Commodity Credit Corporation	5.5	10.4	17.7	17.8	13.5	11.2
Rural Electrification Administration	2.1	4.0	3.1	1.5	0.4	0.2
Export-Import Bank	1.5	0.7	0.6	0.9	1.0	0.9
Low-rent public housing	1.4	14.1	.....	.....	.....	.....
All other	15.7	10.8	9.9	8.3	6.5	5.8
Total obligations [1]	39.1	52.8	41.3	34.9	27.1	23.1
Guaranteed loan commitments:						
Federal Housing Administration	17.1	47.4	102.6	87.0	70.0	69.0
Veterans Administration housing	16.5	12.1	34.3	35.0	27.9	27.7
Low-rent public housing	13.7	.....	.....	.....	.....	.....
Guaranteed student loans	7.6	8.9	8.6	9.6	9.4	10.7
Export-Import Bank	7.1	7.8	5.5	11.4	10.0	10.0
Commodity Credit Corporation	4.2	2.7	2.5	5.5	3.5	3.5
All other	4.6	5.8	5.7	7.2	7.2	8.6
Total commitments [2]	70.8	84.7	159.2	155.7	128.4	129.5
Total credit budget	109.9	137.6	200.6	190.6	155.5	152.6
MEMORANDUM						
Secondary guaranteed loan commitments	39.7	54.6	138.0	132.5	100.0	100.0

[1] Includes loans with an agency guarantee disbursed by the Federal Financing Bank.

[2] Excludes commitments for guarantees of loans previously guaranteed (secondary guarantees) and commitments for guarantees by one Government account of direct loans made by another Government account. Totals for the former are shown in the memorandum. Totals for the latter are included as direct loans.

For 1988, the administration proposes that the credit budget decrease by $35 billion, or 18 percent below the 1987 totals. The programmatic reasons for the changes in the credit budget totals since 1986 are discussed below in the sections on direct loans and guaranteed loans.

B. Appropriations Acts Limitations

The credit budget is included in the budget resolution and limitations for many programs are subsequently enacted in annual appropriations acts. The administration proposes limitations annually on direct loan obligations and guaranteed loan commitments for most credit programs. The limitations serve as ceilings on the volume of new credit that may be offered by the account. The limitation is specified in the appropriation language for individual budget accounts that include credit activity.

The President's 1988 Budget proposes limitations for programs whose funding amounts to 61 percent of the credit budget totals. Approximately 32 percent of direct loan obligations (excluding obligations for defaulted loans) and 68 percent of guaranteed loans are proposed for limitation. The relatively low percentage for direct loans results because the largest direct loan program—CCC commodity loans—is exempt from limitation. Table F-3 indicates the breakdown of loans subject to, and exempt from, appropriations act limitation.

Table F-3. **CREDIT BUDGET PROGRAMS SUBJECT TO AND EXEMPT FROM APPROPRIATIONS ACTS LIMITATIONS**

(In millions of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1986	1987	1988	1986	1987	1988
Limitations enacted	15,664	10,259	8,055	193,915	114,535	87,234
Less: Unused balance of limitation, expiring	−2,200	−579	−529	−49,520	−13,025	.....
Loan subject to limitation	13,464	9,680	7,526	144,395	101,510	87,234
Loans subject to limitation under P. L. 99-177 [1]	7,945	.....	.....	9,462	.....	.....
Loans exempt from limitation [2]	19,920	25,248	19,610	5,386	54,196	41,129
Total	41,329	34,927	27,136	159,243	155,705	128,362
ADDENDUM						
Secondary guarantees subject to limitation	.....	.....	.....	137,962	132,500	100,000

[1] Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings).
[2] Includes direct loan obligations for defaulted guaranteed loan claims, as follows: 1986, $5,927 million; 1987, $4,454 million; and, 1988, $3,960 million.

The first stage of congressional action on the credit budget is the budget resolution. The Congressional Budget Act, as amended by Gramm-Rudman-Hollings, requires functional allocations for direct

loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments in the budget resolution. The functional targets are then allocated to the Appropriations Committee and other committees. In the event of a sequestration under Gramm-Rudman-Hollings, credit authority—direct loan obligations and guaranteed loan commitments—is reduced by the general nondefense sequestration percentage.

After the budget is submitted to the Congress, the House and Senate Appropriations Committees begin working on the 13 appropriation bills. Three bills contain 19 of the 27 requested limitations: Agriculture, Foreign Assistance, and Housing and Urban Development/Independent Agencies. Over the past several years, Congress has enacted limitations in most of the programs for which limitations were requested. The administration continues to urge the Congress to enact limitations on guaranteed loans on the basis of the full principal amount of the loan rather than the contingent liability.

In general, limitation language in appropriation acts:

- is a *one-year* limitation;
- sets a *ceiling* on direct loan obligations and/or guaranteed loan commitments; and
- applies to an individual account, although limitations on specific programs within an account may also be provided.

Table F-4 identifies the enacted limitations in 1986 and 1987 and proposed limitations in 1988 for credit programs.

While the appropriations act limitation is an effective control mechanism for new lending for some programs, there are many programs in which the actual demand for Federal credit assistance has been consistently less than the level enacted in annual appropriation bills. For example, the enacted limitations on direct and guaranteed loans for the Export-Import Bank (Eximbank) have consistently exceeded the actual demand for loans since 1982. The accompanying chart illustrates the used and unused portions of the enacted limitations for 1982-1986.

There are a variety of programs, in addition to Eximbank, for which demand is often below the enacted limitation. Table F-5 compares the proposed and enacted limitations to the actual level of direct loan obligations and guaranteed loan commitments in 1986 for several credit programs with shortfalls from limitations.

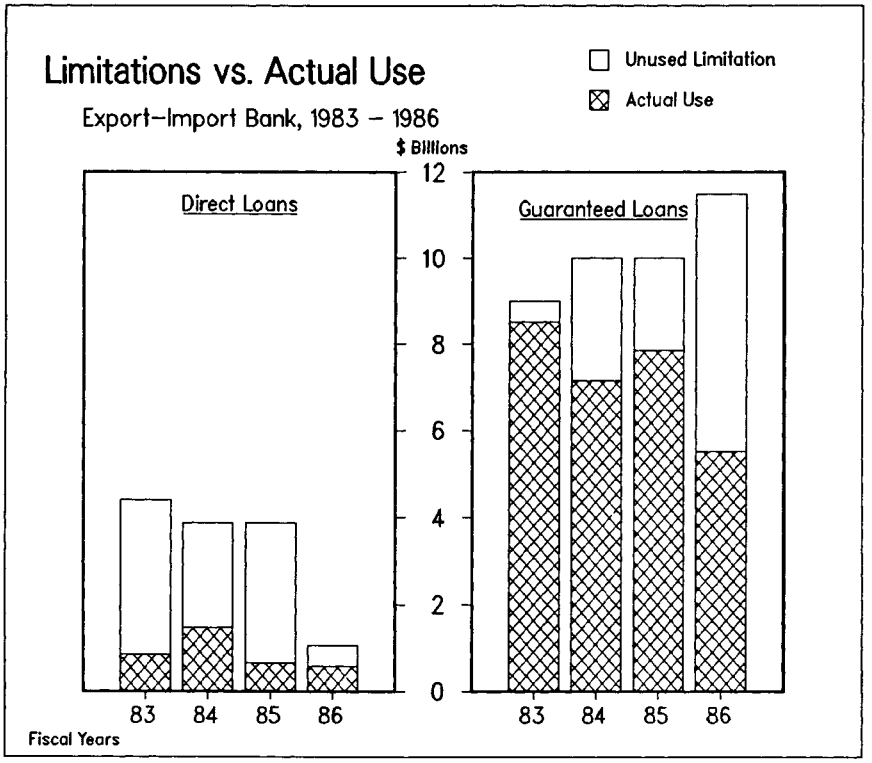
After enactment of appropriations bills, direct and guaranteed loan activity subject to limitation is controlled through the apportionment process. This is the mechanism by which the executive branch controls the rate at which new loans are obligated or guaranteed. While limitations are generally apportioned quarterly, a few are apportioned on an annual or project basis.

Table F-4. **CREDIT APPROPRIATIONS ACTS LIMITATIONS**

(In millions of dollars)

	1986 actual	1987 estimate [1]	1988 estimate
Limitations on direct loan obligations:			
Foreign military sales credit	4,967	4,040	4,421
AID, Private sector revolving fund	15	16	16
Overseas Private Investment Corporation	14	23	15
Agricultural credit insurance fund	3,176	1,817	1,295
Rural housing insurance fund	2,033	508	.....
Rural development insurance fund	421	107	.....
Rural electrification and telephone revolving fund [2]	2,129	1,305	290
Rural telephone bank	177	149	93
Self-help housing land development fund	1	*	.....
International Trade Administration, Operations and administration	8	.....	.....
College housing loans	57	.....	.....
Bonneville Power Administration fund	20	10	.....
Health resources and services	1	1	1
Nonprofit sponsor assistance	1	1	*
Federal Housing Administration fund	84	74	83
Housing for the elderly or handicapped	604	502	131
Community development grants [2]	50	.....	.....
Bureau of Reclamation, Loan program	48	44	27
National Park Service, Construction	1	.....	.....
Bureau of Indian Affairs, Revolving fund for loans	16	16	13
Federal Highway Administration, Right-of-way revolving fund	48	48	48
Railroad rehabilitation fund [2]	4	.....	.....
VA, Direct loan revolving fund	1	1	1
Export-Import Bank	1,059	900	1,000
SBA, Business loan and investment fund	160	97	20
National Credit Union Administration, Central liquidity fund	568	600	600
Total, limitations on direct loan obligations	15,664	10,259	8,055
Limitations on guaranteed loan commitments:			
AID, Housing and other credit guaranty programs	145	145	100
Overseas Private Investment Corporation	136	200	150
Agricultural credit insurance fund	1,916	2,498	2,500
Rural development insurance fund	96	115	.....
Rural electrification and telephone revolving fund	.....	.....	840
Economic development assistance [3]	188	22	.....
International Trade Administration, Operations & administration [3]	7	.....	.....
NOAA, Federal ship financing	.....	50	.....
Health professions graduate student loan insurance fund	.....	.....	100
Federal Housing Administration fund	141,500	100,000	70,000
Community development grants	163	150	.....
Bureau of Indian Affairs, Indian loan guaranty and insurance fund	.....	.....	34
VA, loan guaranty revolving fund	38,280	.....	.....
Export-Import Bank	11,484	11,355	10,000
SBA, Business loan and investment fund	.....	.....	3,510
Total, limitations on guaranteed loan commitments	193,915	114,535	87,234
ADDENDUM			
Secondary guaranteed loan commitments:			
GNMA, Guarantees of mortgage-backed securities	175,000	150,000	100,000

* $500,000 or less
[1] Includes President's budget proposals for changes in enacted limitations.
[2] Includes limitations on agency guarantees of direct loans disbursed by the Federal Financing Bank.
[3] Enacted on the basis of contingent liability; the full principal amount is reflected here.



For some programs, an appropriations act limitation on annual activity is deemed unsuitable for any of several reasons, and control is provided through other mechanisms. First, limitations are not proposed for programs in which the authorizing legislation provides a clear entitlement to qualified applicants, such as farm price support loans, credit assistance to veterans, and guaranteed student loans. These programs are similar to those expenditure programs considered relatively uncontrollable, and the levels of new credit are restricted solely by substantive law.

Second, direct loans that arise from payment of claims on defaulted guaranteed loans are exempt from appropriations act limitation. Payment of these default claims is mandatory, as in the FHA mortgage insurance and the guaranteed student loan program. Therefore, the effective point of control is earlier, at the time of the original guaranteed loan commitment.

Third, some programs are exempt from appropriations act limitation when additional control through such limitations is unnecessary or counterproductive. For example, in several foreign assistance programs, such as the economic support fund, AID development assistance, and P.L. 480 food assistance, appropriated budget authority governs both the loan and the grant activity. The alter-

Table F-5. **COMPARISON OF ENACTED LIMITATIONS WITH ACTUAL LOAN LEVELS FOR SELECTED PROGRAMS IN 1986**

(In millions of dollars)

	Enacted limitation	Acutal loan level	Unused balance of limitation
Direct loan obligations:			
Agricultural credit insurance fund	3,176	2,799	378
Rural housing insurance fund	2,033	1,825	208
Bonneville power administration fund	20	.....	20
Housing for the elderly or handicapped fund	604	556	48
Export-Import Bank	1,059	578	480
National Credit Union Administration, Central liquidity fund	568	31	537
Guaranteed loan commitments:			
Agricultural credit insurance fund	1,916	1,560	356
Rural development insurance fund	96	55	41
Federal Housing Administration fund	141,500	102,592	38,908
GNMA, Guarantees of mortgage-backed securities	175,000	137,962	37,038
VA loan guaranty revolving fund	38,280	34,297	3,983
Export-Import Bank	11,484	5,508	5,976

native to a direct loan in those programs is a grant, or 100 percent subsidy. A specific direct loan limitation might lead to a greater use of grants—an increase in effective subsidies.

C. Direct Loans

Direct loans are financed from a variety of sources, including appropriations, borrowing, and repayments of previous loans. Direct loan programs are designed to redirect economic resources to particular uses by providing credit on more favorable terms than would otherwise be available from private sources. A direct loan is best justified when the Federal objective could not be met with financing from private sources, even with a Government guarantee. The objectives of a direct loan program, for example, may require financing at interest rates that are lower than those available from private lenders, or loan maturities that are longer than otherwise available. Direct loans are made to individuals, businesses, and State, local, and foreign governments.

As discussed below in the section entitled "Federal Financing Bank," FFB transactions formerly presented as a separate line item in Table F-6 of this special analysis and elsewhere in the budget have now been incorporated into the account of the agency originating the transaction.

Direct loan obligations in a given year do not result in an equal volume of new direct loan disbursements in the same year for several reasons. First, there is often a lag between the time of obligation and the actual disbursement of the loan. For example, prospective borrowers may seek financing for a project when it is

production levels and the demand for the nonrecourse loans that finance production.

The Food Security Act of 1985 gave the Secretary of Agriculture the discretion to set commodity prices implicit in CCC loans more closely to market prices. This provision was intended to reduce eventually the need for Government price supports; however, overall spending on farm programs has continued to grow. Moreover, despite the enormous commitment of resources, economic conditions in agriculture are depressed. Accordingly, the administration will be proposing legislation to modify farm commodity price support programs. The proposed legislation is discussed in more detail in Part 5 of the Budget.

The Farmers Home Administration (FmHA) makes loans for purchasing and operating farms, improving rural housing, and developing rural community facilities. In 1988, FmHA direct loan obligations are proposed to total $1.3 billion, which is significantly below the 1986 total of $5.0 billion. This reduction reflects a shift in Federal loan activity from heavily subsidized direct loans to guarantees of private market rate loans in the agricultural credit insurance fund. The administration proposes to terminate both FmHA housing and rural development programs. Housing assistance would be provided through a voucher program similar to the program now administered by the Department of Housing and Urban Development.

Rural Electrification Administration (REA) direct loan activity is proposed to decline from $1.5 billion in 1987 to $383 million in 1988, to $191 million in 1989, and to be terminated in 1990. To ensure continued credit availablity, most borrowers will be eligible for a new program of privately originated loans with an REA guarantee of 70 percent of the loan principal. The decrease is proposed because REA's mission is complete—current programs have gone far beyond their original goal of providing electricity and telephone service to rural areas. When the REA was established in 1935, only 12 percent of the farms in the country received electricity; today over 99 percent of farms have electric service. In 1949 the REA act was amended to bring telephone service to rural areas; today over 95 percent of farms have telephones. Current REA programs have expanded to include subsidized lending to electric cooperatives serving prosperous urban or suburban areas of cities such as Washington, Atlanta, Dallas, Minneapolis, and Denver. Loans are also used to provide electric service to exclusive recreation communities, such as ski resorts in Vail, Aspen, and Steamboat Springs, Colorado, as well as other resorts in Myrtle Beach, Kiawah Island, and Hilton Head Island in South Carolina. In addition, REA has provided loans to telephone companies that

in the design stage, but the financing will not be needed until the next year or even the next several years. As a result, some agencies, such as the Export-Import Bank and the Rural Electrification Administration, disburse loans 4-7 years after the time of the direct loan obligation. Second, some prospective borrowers will never convert the direct loan obligations into borrowing because the projects for which financing had been sought are subsequently cancelled.

As shown in Table F-6, direct loan obligations are proposed to decline between 1986 and 1988 from $41.3 billion to $27.1 billion. Overall, the agricultural and business sectors will receive 57 percent and 31 percent, respectively, of the 1988 credit budget.

Table F-18 presents data for Federal direct loan programs from 1986 through 1992. The major credit programs and program changes in direct loan obligations are discussed below.

Table F-6. **SUMMARY OF DIRECT LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimated					
	1985	1986	1987	1988	1989	1990	1991	1992
Obligations	52.8	41.3	34.9	27.1	23.1	22.1	21.9	21.0
Loan disbursements	64.4	42.2	39.5	32.1	27.8	25.3	24.0	22.5
Change in outstandings	28.0	11.2	−15.2	−15.3	−9.1	−8.2	−7.4	−8.9
Outstandings	257.4	251.6	236.4	221.0	212.0	203.8	196.3	187.5

The Commodity Credit Corporation (CCC) provides short-term nonrecourse loans to producers of agricultural commodities. The loans provide subsidized financing for production costs and set a minimum price for individual commodities at which the farmer may turn his crop over to the Government rather than repay the loan. The demand for CCC price support loans, therefore, depends on the market price of the crop compared to the price in the loan rate. When market prices are below the threshold price in the loan rate, farmers borrow large amounts from the CCC, forfeiting the crop as repayment to the Government if market prices have not risen above the price support loan rate by the time the loan comes due.

Although demand for CCC price support loans decreased slightly from $17.4 billion in 1986 to an estimated $17.1 billion in 1987, loan obligations remain at high levels following sustained increases in agricultural production that resulted in lower crop prices and higher Federal outlays. Between 1987 and 1988, commodity loan obligations are estimated to decrease from $17.1 billion to $12.8 billion. The decrease is projected to result from the administration's plan to set support prices closer to market clearing levels. The elimination of artificially high price supports should reduce

are subsidiaries of large multimillion dollar holding companies with excellent credit ratings.

Foreign military sales (FMS) credit provides financing to foreign governments and international organizations so that they can procure U.S. military equipment and services. The proposed increase from $4.0 billion in 1987 to $4.4 billion in 1988 reflects a slight increase in U.S. exports. The increase will permit the Government to finance the procurement of additional military equipment and services by countries whose security is threatened by military forces hostile to U.S. interests. The bulk of the funds will be provided to Egypt, Israel, Turkey, Greece, and Spain.

Proposed direct loan obligations for elderly or handicapped housing decrease from $0.5 billion in 1987 to $0.1 billion in 1988. This decrease reflects the administration's commitment to substitute housing vouchers for direct loans. Housing vouchers benefit tenants by giving them more freedom of choice in where to live and are projected to be less expensive than new construction subsidies.

The Small Business Administration (SBA) provides direct loans to small businesses and to businesses and homeowners that suffer uninsured losses as a result of physical disasters. The 1988 budget proposes to rely on SBA's guaranteed loan programs to assist small businesses for business credit needs. Therefore, except for $20 million for the purchase of debentures from Minority Enterprise Small Business Investment Companies (MESBICs), the budget proposes to terminate new direct business lending in 1988. The balance of the direct loan obligations made by SBA are to honor defaulted guaranteed loan claims.

Consistent with the General Accounting Office's finding that insurance is a better form of disaster assistance than loans, the budget proposes to restrict eligibility for direct loans to those least likely to be able to afford increased insurance coverage and who cannot qualify for commerical credit. In order to provide businesses and homeowners who are more likely to be able to afford additional insurance coverage time to obtain such coverage (or make other arrangements to protect themselves against possible losses), the change in eligibility would not be effective until 1989. As a result of this change, the level of direct disaster loans is expected to decrease from $350 million in 1988 to $310 million in 1989.

Low rent public housing and Veterans Administration life insurance policy credit programs were deleted from this year's credit budget. Low rent public housing loans are not true loans since they are forgiven during the fiscal year in which they are made and therefore are, in fact, grants to the recipient. Similarly, VA life insurance policy loans are not loans of the Government, but advances against the cash value of the insured veteran's deposits. Furthermore, the veteran is not under a contractual obligation to

repay the loan; the cash value of the deposits can be used to offset the loan.

D. Loan Guarantees

A guaranteed loan is an agreement by the Government to pay the principal and, in some cases, interest on a loan should the borrower default. The guarantee can cover all or part of the loan, and therefore transfers all or some of the risk of default from the lender to the Government. Guaranteed loans include insured loans, where the Government collects insurance premiums from lenders, and then pledges the use of the accumulated premiums to cover defaults.

When the Government guarantees 100 percent of the loan, the private loan is transformed into a near-Government direct loan financed by a Government security. Although the economic effects of such a loan are essentially the same as a direct Government loan, the guaranteed loan may not have all the attributes of a direct loan. This is because a private lender may negotiate different terms and conditions for the loan than would a Government agency.

The guaranteed loan will also not have all of the attributes of a U.S. Treasury security, since it will be less liquid and will involve higher transaction costs. The great volume of Treasury securities, their regular issuance in a range of maturities, and the specialized institutions and trading facilities that deal in those securities, all produce an efficient market that cannot be matched by the market for guaranteed loans. The Government guarantee, for example, may not be transferred from one lender to another as readily as a U.S. Treasury security may be traded. In addition, legal counsel may be required to determine the extent to which a lender is assured of repayment and under what circumstances. This requirement is a transaction cost not associated with a U.S. Treasury security. For these and other reasons, guaranteed loans bear interest rates above the yields on otherwise comparable U.S. Treasury securities.

Loan guarantees, like direct loans, redirect economic resources by providing credit to borrowers at more favorable terms than would otherwise be available in the private market, and therefore contain a subsidy. The degree to which the guarantee reallocates credit will depend on the degree of the subsidy.[2] At one extreme, the potential transaction being financed may be considered so risky that no financing would be available without the guarantee. For example, it is unlikely that private lenders would make student

[2] The degree of credit reallocation will also depend on the price elasticity of demand of the good being financed. A small change in the price (i.e., the subsidy) of the good being financed may result in a considerable change in the amount of good actually bought and sold. This special analysis does not consider demand and supply elasticity effects.

loans generally available without guarantees because of the inherent, and significant, uncertainty about any particular borrower's future income stream. In this case, the subsidy will be quite large and will have a dramatic effect on the reallocation of credit.

At the other extreme, the guarantee may result in only a small subsidy and, other conditions being equal, may not significantly change the allocation of credit. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately—without Government support—albeit at a higher cost. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased even in the absence of a Federal guarantee. In such a case, the borrower benefits from a small subsidy and the guarantee does not significantly alter the allocation of credit resources.

In both cases, although to different degrees, the guarantee reallocates credit toward federally selected uses, increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit available to those potential borrowers who do not receive assistance, and increases the interest rates on financing available to these borrowers.

Loan guarantees are used in a wide variety of programs. Guaranteed loans may be made to individuals, to businesses, and to State, local, and foreign governments. The guaranteed loan commitment may be used for a loan made by a bank or other institutional lender or an investment security sold in the capital market. Guaranteed loans, for the purposes of the credit budget, do not include other contractual agreements, such as guarantees of private leases, contracts to make subsidy payments over extended periods, or debt service grants that the recipients may use as collateral for borrowing.

Data for guaranteed loans for 1986 through 1992 are summarized in Table F-7. As with direct loans, guaranteed loan commitments in a given year do not always result in new guaranteed loans in that year due to lags between the time of commitment and the actual disbursement of the loan, and because some prospective borrowers will never convert the loan commitment into actual borrowing. Table F-19 provides data for guaranteed loan programs for 1986 through 1992.

As noted in the previous section, direct loans guaranteed by a Federal agency, but which are disbursed by the Federal Financing Bank (FFB), are recorded as direct loans of the originating agency in Table F-6.

The composition of the guaranteed loan portion of the credit budget is proposed to change. Housing programs accounted for 86 percent of guaranteed loan commitments in 1986, and are expected

Table F-7. **SUMMARY OF PRIMARY GUARANTEED LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimated					
	1985	1986	1987	1988	1989	1990	1991	1992
Commitments	84.7	159.2	155.7	128.4	129.5	130.5	129.6	129.5
New guaranteed loans	55.5	89.6	124.8	109.4	102.1	103.2	103.1	103.1
Change in outstandings	21.6	34.6	76.4	54.1	43.5	40.0	36.8	34.2
Outstandings	410.4	449.8	526.2	580.3	623.8	663.8	700.6	734.8

to drop to 76 percent by 1988. The major programmatic changes are discussed below.

Guaranteed loan commitments in 1986 for the Federal Housing Administration (FHA) increased by nearly 120 percent over 1985 as a result of falling interest rates and a healthy housing environment. Commitments, which were $103 billion in 1986 compared to $47 billion in 1985, are expected to decline in 1987 and 1988. A large share of the increase in commitments in 1986 was due to the refinancing of existing loans, rather than to the financing of newly purchased homes.

The Veterans Administration (VA) offers a mortgage guarantee that is similar in effect to the FHA mortgage insurance program, but does not require veterans to make downpayments on their housing purchases. Guaranteed loan commitments by VA in 1985 were $12 billion; in 1986 they increased to $34 billion and are expected to be $35 billion in 1987. As with the FHA loans, most of the increase in VA loan activity is due to the refinancing of outstanding loans rather than the financing of new home purchases. In 1988, new commitments are estimated to fall to about $28 billion.

The Commodity Credit Corporation (CCC) provides loan guarantees for export sales that would not otherwise occur without Federal credit assistance. CCC guaranteed loan commitments for U.S. exports are estimated to rise from $2.5 billion in 1986 to $5.5 billion in 1987. The increase is a result of the Food Security Act of 1985 which established the CCC loan program level at $5.5 billion in 1987 and beyond. For 1988, the amount requested has been lowered to $3.5 billion reflecting a general weakness in demand for those loans.

The guaranteed student loan program (GSL) provides guarantees of education loans to graduate and undergraduate students, and to parents of dependent undergraduates. Commitments for the program fell by $313 million from 1985 to 1986 due to unanticipated administrative problems involving validation of student aid applications. A significant amount of commitments that would otherwise have occurred in 1986 is expected to shift to 1987. The level of GSL commitments is estimated at $9.6 billion in 1987, an increase

of $1 billion from 1986. In addition to the one-time shift of commitments, the increase reflects the administration's proposals for increased reliance on student aid in the form of loans.

Commitments for GSL in 1988 are somewhat lower than in 1987, partly because the shifting of 1986 commitments discussed above made the 1987 level higher than it would have been otherwise. In addition, the demand for these loans is expected to decline due to the elimination of Federal payment of borrower interest during in-school, grace, and deferment periods.

Even though the cost of a student's education should ultimately be borne primarily by the student, the Government has always paid virtually all the costs of borrower defaults on GSLs, which now exceed $1 billion per year. The administration is proposing to charge borrowers new insurance fees on regular and supplemental GSLs of 9 percent and 2 percent, respectively. These upfront fees are intended to generate revenues equal to the estimated present value of the costs of defaults arising from new loans.

The Export-Import Bank (Eximbank) provides guarantees to facilitate U.S. exports. Guaranteed loan commitments fell from $7.8 billion to $5.5 billion between 1985 and 1986. In 1987, Eximbank estimates that commitments will be $11.4 billion, as risk protection continues to be important to U.S. exporters. The proposed level in 1988 and beyond is $10.0 billion.

Prior to 1987, the Maritime Administration provided guarantees for construction mortgage loans to build U.S.-flag vessels in the United States. However, no new loan guarantee commitments have been made since 1986. The termination of this loan guarantee program reflects the administration's position that the maritime industry should be encouraged to rely on the private credit market, without Federal intervention, as the source for capital.

The Small Business Administration (SBA) provides credit assistance to small businesses through a variety of guaranteed loan programs. Beginning in 1988, the budget proposes to gradually reduce the amount of subsidy provided to borrowers by increasing guarantee fees and lowering levels of Federal contingent liability. The budget proposes a total of $3.5 billion in SBA guaranteed loans in 1988, including $2.9 billion in guaranteed general business loans, $373 million for development company loans, and $247 million for Small Business Investment Companies (SBIC) obligations. Except for $17 million in new authority for MESBICs, these levels are consistent with expected 1987 activity.

About 90 percent of all single-family mortgages insured by FHA or VA are sold subsequently in the secondary mortgage market using the Government National Mortgage Association (GNMA) mortgage-backed securities program. This program provides guarantees for securities issued by private mortgage originators and

backed by pools of FHA-insured and VA-guaranteed mortgages. The GNMA guarantees enhance the liquidity of trading these securities. GNMA's issuance of new securities is closely tied to the amount of FHA insurance and VA mortgage guarantees. Commitments for GNMA mortgage-backed securities therefore rose from $54.6 billion in 1985 to $138.0 billion in 1986. A slight decrease to $132.5 billion is estimated in 1987. In 1988 and thereafter, the program level is set at $100 billion.

The administration is adopting a Grace Commission recommendation to increase from 6 to 10 basis points the guarantee fee that GNMA currently charges issuers of mortgage-backed securities. This fee is closer to that charged by other issuers of mortgage-backed securities and is a part of a comprehensive effort to increase opportunities for private sector activity in the secondary market for home mortgages.

IV. Government-Sponsored Enterprises

Over the last 70 years, the Federal Government established five financial intermediaries, whose purpose is to direct funds to particular sectors of the economy. These entities, known as Government-sponsored enterprises (GSEs), are:

- Federal Home Loan Banks;
- Federal Home Loan Mortgage Association;
- Federal National Mortgage Association;
- Student Loan Marketing Association;
- Farm Credit System, composed of Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks.

While most of the GSEs were created as Government institutions, all have been privately owned since 1969 and are not included in either the unified budget or the credit budget. However, since they were designed to further Government objectives and since they continue to enjoy special benefits not received by other private financial intermediaries, their financial statements are shown in the Budget Appendix (Part IV). Table F-8 summarizes the lending and borrowing of the GSEs for 1986-1988; Table F-20 in the back of this special analysis presents details of their activity.

GSEs make capital available for housing, agriculture, and education. They seek to direct credit to these favored sectors of the economy by acting as financial intermediaries that stimulate greater amounts of lending to these sectors. Their goals are accomplished by creating a secondary market that increases the liquidity of direct lenders in housing and education, and by direct lending in agriculture. Over the last 5 years, outstanding GSE lending grew by 143 percent, from $187 billion in 1981 to $453 billion in 1986. In general, sectors that do not benefit from the presence of a GSE will

Table F-8. **SUMMARY OF LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In billions of dollars)

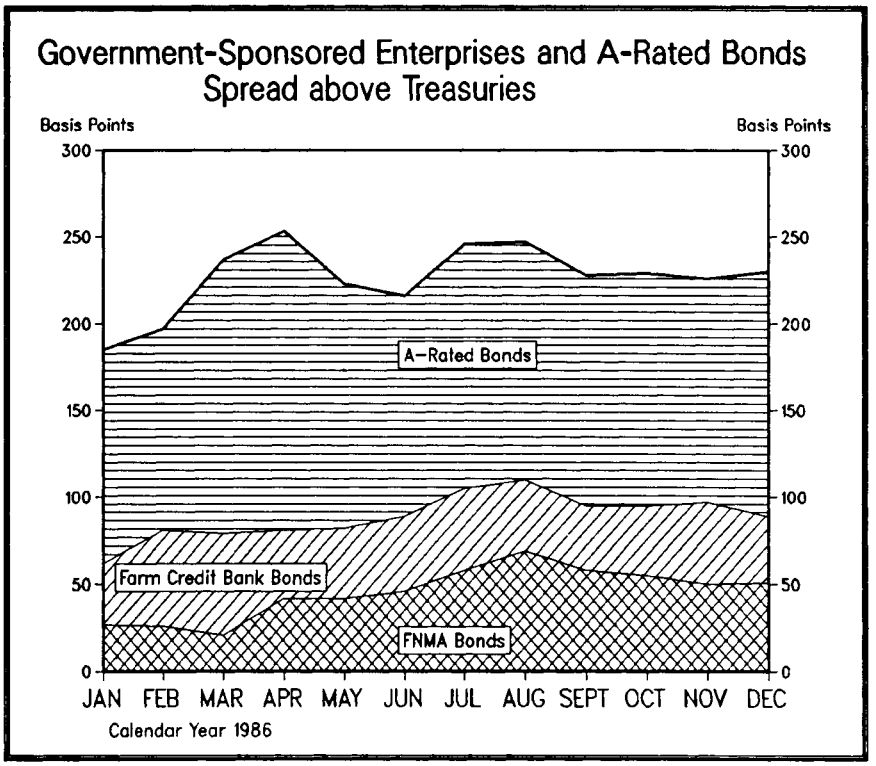
	Actual	Estimate	
	1986	1987	1988
Total net lending:			
Obligations	391.0	386.9	384.9
New transactions	375.9	380.1	372.9
Net change	83.3	95.2	95.6
Outstandings	453.3	548.5	644.1
Total borrowing:			
Net change	107.1	87.2	95.9
Outstandings	458.1	545.3	641.2

have less financing allocated to them, and the financing that is available will be more expensive because there is less of it.

Securities offered by GSEs in the financial market are not guaranteed by the U.S. Government. Nonetheless, these securities usually have yields of 50 to 300 basis points below medium-rated corporate debt. In fact, GSE instruments historically carried only slight premiums above the yields of Treasury securities of comparable maturity. As shown in the accompanying chart, the premium for the Federal National Mortgage Association (FNMA) bonds ranged from 21 to 69 basis points during 1986, while the premium for Farm Credit Bank (FCB) bonds ranged from 62 to 110 basis points.

The relatively small premiums above Treasuries are explained by the perception of a "special relationship" between the GSEs and the Federal Government. While the special relationship arises in part from the intangible nature of Government sponsorship, it also reflects real benefits enjoyed by these enterprises. Table F-9 lists some of the benefits available to GSEs.

In the past, the administration has proposed annual user fees on new borrowings by GSEs. One purpose of the proposed fees was to reimburse the Federal Government for some of the benefits of Government sponsorship that GSEs enjoy. However, perhaps a more important goal of the proposed user fees was to put GSEs on a more equal plane with private financial intermediaries. Along those lines, the administration is studying ways of privatizing the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Association (Freddie Mac)—the major Government-sponsored enterprises involved in the secondary mortgage market. While moving toward the goal of privatization, the administration plans to propose legislation that will limit permanently the maximum amount of a mortgage these Government-sponsored enterprises can purchase. This will limit their continued encroachment on the market served by private firms for as long as



these entities enjoy the advantages conferred by their association with the Federal Government. The administration will also resubmit last year's proposal to charge a fee to the Student Loan Marketing Association (Sallie Mae) for the new debt it issues in the marketplace. The fee would partly eliminate the borrowing advantage enjoyed by Sallie Mae as a Government-sponsored enterprise.

Table F-9. **SOME BENEFITS ENJOYED BY GOVERNMENT-SPONSORED ENTERPRISES**

Type of Benefit	FHLB	FHLMC	FNMA	FCS	SLMA
Line of credit at Treasury	Yes	Yes [1]	Yes	Yes	Yes
Exemption of corporate earnings from Federal income	Yes	No	No	Yes [2]	No
Exemption of interest income of investors from State and local income taxes.	Yes	No	No	Yes	Yes
Eligibility for Federal Reserve open market purchases	Yes	Yes	Yes	Yes	Yes
Equal standing with Treasury debt as investments for most banks	Yes	Yes	Yes	Yes	Yes
Exemption from SEC registration and various State banking laws	Yes	Yes	Yes	Yes	Yes
Eligibility as collateral for public deposits	Yes	Yes	Yes	Yes	Yes

[1] Indirect line of credit through the FHLBs.
[2] Federal Land Banks, Federal Intermediate Credit Banks, and Federal Land Bank Associations.

The operations of the five GSEs are discussed individually below.[3]

Federal Home Loan Bank System.—The Federal Home Loan Bank System was established in 1932 as the first permanent Government-sponsored intermediary for housing. Its original charter was to supervise federally chartered savings and loan associations and to promote home ownership through the extension of credit to savings and other home financing institutions. The Federal Home Loan Bank Board (FHLBB), which serves primarily as a regulatory agency, and 12 regional Federal Home Loan Banks (FHLBs) comprised the original system. Subsequently, the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Mortgage Corporation (Freddie Mac) were added to the system in 1934 and 1970, respectively.

The Federal Home Loan Banks support the residential mortgage market by providing a central source of housing credit to thrift institutions through loans or "advances" to members. The FHL banks provide member thrifts with access to national capital markets and eliminate regional barriers to the flow of mortgage funds. Advances are an attractive source of funds for members largely because they are the cheapest funds available after savings deposits. Each of the 12 FHL banks is regulated by the FHLBB but establishes its own policies within FHLBB guidelines. FHL banks finance their advances primarily by selling debt securities in the money and capital markets and, to a lesser extent, by accepting both demand and time deposits from member institutions.

Federal Home Loan Mortgage Corporation.—FHLMC (Freddie Mac) is owned by savings institutions. It was created in 1970 to increase the availability of mortgage credit and liquidity in the residential mortgage market. Freddie Mac provides a secondary market for conventional mortgage loans, which are not insured by the Federal Housing Administration or guaranteed by the Veterans Administration. Typically, Freddie Mac purchases mortgages originating from mortgage bankers, savings institutions, commercial banks, and other primary lenders. These institutions sell mortgages to enhance the liquidity of their assets.

Freddie Mac finances its purchases of mortgage loans by issuing debt or by pooling the mortgages together and issuing pass-through certificates backed by these loans. By issuing pass-through certificates, the ownership of the underlying mortgage pool is transferred to a trustee, thereby removing the loans from Freddie Mac's balance sheet. Thus, generally accepted accounting principles for pri-

[3] For additional information on GSEs, see also: Michael J. Moran, "The Federally Sponsored Credit Agencies: An Overview," Federal Reserve Bulletin, June 1985; and the Congressional Budget Office, "Government-Sponsored Enterprises and Their Implicit Federal Subsidy: The Case of Sallie Mae," December 1985.

vate businesses greatly understate Freddie Mac's participation in the secondary market.

As a financial intermediary, Freddie Mac is vulnerable to interest rate fluctuations but has developed innovative financing transactions in an effort to guard against unforeseen interest rate swings. The company's most recent financing innovation is the collateralized mortgage obligation (CMO). This debt instrument is backed by mortgages or mortgage-backed securities, and is designed to reduce the major disadvantage of uncertainty about maturity that is associated with mortgage pass-through certificates.

Federal National Mortgage Association.—FNMA (Fannie Mae) was established by Congress in 1938 to provide a secondary market for federally underwritten mortgages. In 1968, it became a privately owned corporation, and its stock is now traded on the New York Stock Exchange.

Fannie Mae is the largest single investor in home loans in the United States. The company increases the liquidity of mortgage bankers, savings institutions and commercial banks by purchasing from them both conventional loans and loans insured by the Federal Housing Administration and guaranteed by the Veterans Administration. Fannie Mae finances its purchases by issuing debt and mortgage-backed pass-through securities similar to those issued by Freddie Mac. As a financial intermediary, Fannie Mae's profitability is sensitive to movements in interest rates. In recent years, the company has attempted to decrease its sensitivity to interest rate fluctuations by increasing fee income, issuing zero-coupon bonds and other debt in the Eurobond market, issuing yen-denominated securities abroad, and by participating in currency swaps.

Fannie Mae, Freddie Mac, and the Government National Mortgage Association (Ginnie Mae) have long dominated the secondary market for mortgages, particularly the mortgage-backed securities portion of the market. Recently, however, totally private institutions have begun to issue mortgage-backed securities, in part because regulatory changes and recent legislation have enabled private firms to compete more effectively with Fannie Mae and Freddie Mac. Privatization of Fannie Mae and Freddie Mac would eliminate the major hurdle private mortgage insurers face in playing a significant role in the nation's housing credit markets. As long as those two GSEs continue to enjoy their special status, private insurers will have difficulty in competing with them. To mitigate the effects of this unfair competition, the administration is proposing legislation to prohibit Fannie Mae and Freddie Mac from purchasing mortgages in the top quartile (but not to exceed $153,100) of the home price distribution in any housing market.

Student Loan Marketing Association.—SLMA (Sallie Mae) was created in 1972 to expand the amount of funds available for insured student loans. It does so by providing liquidity to lenders, which include savings and loan associations, commercial banks, mutual savings banks, educational institutions, and State and nonprofit agencies.

One method that Sallie Mae uses to provide liquidity is the operation of a secondary market for student loans. Sallie Mae's secondary market involves the purchase of existing insured student loans from lenders. When this occurs, Sallie Mae gets title to the loans and is repaid directly by the borrowers. Another method is the provision of "warehousing" advances. Warehousing advances are Sallie Mae loans to lenders that are secured by student loans or certain types of obligations guaranteed by the Government. In such cases, the lenders continue to hold title to the loans and pay Sallie Mae interest on the funds borrowed. Advances are also available to State student loan agencies as a taxable source of funds for their operations.

Sallie Mae borrowing was carried out entirely through borrowing from the FFB until January 1982; since then, it has done all its new borrowing in private credit markets. It will borrow an estimated $3.0 billion in 1987. Sallie Mae is able to borrow at rates only slightly higher than Treasury bills, and virtually all of the student loans that it holds as assets are 100 percent federally insured. Sallie Mae's overall cost of funds in 1986 ranged from 5 to 17 basis points over Treasury bills of comparable maturity, while student loans in that year were guaranteed to yield the holder of the loan 350 basis points over the 91-day Treasury bill rate. As a result, Sallie Mae has maintained a profitable interest rate spread on its student loan portfolio even after its expenses in servicing student loans are taken into account. Sallie Mae's profit margins on its warehousing advances are considerably lower.

The continued profitability of Sallie Mae's operations ought to attract competitors to Sallie Mae's market and eventually drive down the yield associated with guaranteed student loans. However, such competition has not developed. The dominance of Sallie Mae in the secondary market for guaranteed student loans can apparently be attributed to the low-cost source of funds it enjoys as a GSE.

Farm Credit System.—The FCS, the forerunner of which was founded in 1916, is a system of cooperatives that provide credit to farmers and ranchers, their cooperatives, farm-related businesses, commercial fishermen, and rural homeowners. The FCS is supervised by the Farm Credit Administration (FCA), an independent Federal agency. The FCS obtains funds through the sale of securities to investors in the private credit markets. These securities are

"joint and several," which means that default by one FCS institution requires all others to honor the obligations of the security.

The goals of the FCS are accomplished through its component parts: Federal Land Banks (FLBs) and Federal Land Bank Associations (FLBAs); Federal Intermediate Credit Banks (FICBs) and Production Credit Associations (PCAs); and the Banks for Cooperatives (BCs).

The past few years have been difficult for farmers and all financial institutions that serve them. The cash flow of many farmers has been reduced due to depressed commodity prices, and large numbers of borrowers have defaulted on their loans. Land prices have declined in many areas of the country, reducing the value of collateral pledged for loans. These factors combined to make 1985 the worst year in the history of the FCS since the Great Depression. In 1985, the system's net loss was $2.7 billion. During the first 9 months of calendar year 1986, the FCS reported a net loss of $1.5 billion.

Published accounts of FCS woes inevitably affected the yields of FCS bonds. Prior to 1985, system securities were priced at only 5 to 10 basis points above Treasury instruments of comparable maturity; that spread grew to 17 to 31 basis points by April 1985, and 35 to 114 basis points by September 1985. In December 1986, Farm Credit Bank issues maturing in 1997 averaged 89 basis points above similar Treasury bonds.

The financial crisis of the Nation's farmers and its impact on FCS led the administration and the Congress to seek changes in the structure and operations of the system. The Farm Credit Amendments Act of 1985 was signed into law by the President on December 23, 1985, and a subsequent law, the Farm Credit Amendments Act of 1986, was passed in October 1986. The new laws provide the basis for reestablishing FCS as a reliable source of financing for American agriculture.

The 1985 Act had 3 main parts: it created the Capital Corporation (CC); it gave the FCA stronger regulatory powers; and it gave the Secretary of the Treasury the discretion to provide financial assistance to the FCS in certain circumstances.

One function of the CC created by the 1985 Act was to reallocate resources within the system by transferring funds from stronger system institutions to weaker ones. However, a number of legal actions have been filed against the CC questioning whether the reallocations proposed are constitutional. In 3 out of 9 cases, preliminary injunctions have been issued against the FCA, while in the remaining 6 cases such injunctions have been denied. The outcome of these lawsuits could have a significant impact on the role and authority of the CC and its ability to carry out its responsibilities, and could further threaten the stability of the FCS.

Nevertheless, in spite of lawsuits filed against the CC questioning the constitutionality of resource allocations with the system, the 1986 law will initiate a mandatory stock purchase and assessment program ("assessment program") by the CC pursuant to its authority under the Farm Credit Amendments Act of 1985. The assessment program requires financially stronger institutions within the system to invest funds totaling $297 million in the CC, and is being used to facilitate the transfer of resources between system institution.

The 1985 Act sought to strengthen the regulatory powers of the FCA, and the 1986 amendments have the same goals. The 1986 Amendments allow system institutions, with the approval of FCA, to capitalize certain interest costs and a portion of their provisions for loan losses during the period July 1, 1986, through December 31, 1988. Institutions may also amortize such capitalized amounts over periods not to exceed 20 years.

The 1986 amendments are intended to provide the system with an opportunity to work through its current financial difficulties without the immediate need for direct Government financial assistance. The system hopes that implementation of the 1986 amendments will enable system institutions to report reduced operating losses for regulatory accounting purposes and thereby minimize the need for transfers of financial assistance within the system to avoid impairments of capital stock in stronger system institutions.

V. Changes in the Quantity and Price of Federal Credit

This section discusses some of the trends and policy initiatives in Federal credit activity that cut across programs. After a brief introduction to administration credit initiatives, the general quantity of new Federal and federally assisted credit, including that of GSEs, is discussed. The last section summarizes an administration proposal to raise the price of Federal and federally assisted credit by charging higher interest rates and fees.

The major trend in Federal credit activity relates to the administration's success in cutting and in some instances reversing the rate of growth in new direct loans. The administration has been less successful in reducing new loan guarantees. The reduction in the rate of growth in Federal credit activity results from measures taken by the administration to reduce Federal intervention in domestic credit markets. Reduced intervention has been accomplished through:

- across-the-board cuts in the volume of new credit authority;
- specific credit program eliminations or drastic reductions; and
- increases in interest rates and loan guarantee fees.

In addition, the administration has worked to improve the management of existing credit programs. By implementing modern

business practices, the Government seeks to extend loans more prudently, service accounts more effectively, and collect payments more aggressively and in a more timely fashion. The goal of improved credit management is further enhanced by loan asset sales and the privatization of collection activites. The policies related to the better management of Federal credit programs are detailed in OMB Circular A-70, "Policies and Guidelines for Federal Credit Programs," and OMB Circular A-129, "Managing Federal Credit Programs."

Changes in the Quantity.—Changes in the quantity of credit activity in the economy are measured through the Federal Reserve Board's flow-of-funds accounts. Flow-of-funds accounts measure total net lending and borrowing between various sectors of the U.S. economy. Accordingly, comparing net Federal and federally assisted lending to total net lending in the U.S. economy provides a means for quantifying the amount of net lending directly influenced by Federal programs. The flow-of-funds accounts allow a comparison of changes in the degree of Federal influence over time.

The accompanying chart summarizes these relationships during the last decade. Federal and federally assisted lending in a given year is the difference between the amount of direct, guaranteed and GSE loans outstanding at the beginning and end of year. The net amount of Federal and federally assisted lending was $129.1 billion in 1986. The supply of credit is the net increase in the holdings of various investor groups. In 1986, this was $889.1 billion. The participation ratio of Federal and federally assisted lending to total lending, therefore, was 14.5 percent in 1986. This is below the peak for this decade of 22.6 percent in 1980.

These ratios should be used with caution for two reasons. First, and most importantly, the participation ratios measure volume and therefore do not indicate the full extent of Federal influence in allocating credit to favored borrowers. That influence is reflected in a more meaningful way by the degree of subsidy. A loan guarantee with a small degree of subsidy does not allocate capital to the same degree as a direct loan with a high degree of subsidy. Yet, the lending participation ratios do not distinguish between a dollar of guaranteed loans and a dollar of direct loans; they weigh both dollars equally.

Second, the participation ratios are shown on an aggregate basis for the entire economy and so do not reveal the Federal influence on borrowing by particular sectors, such as households, corporate businesses, or farms. This means that some sectors may be more affected by changes in Federal credit program levels than others, even when the overall lending participation ratio remains the same.

The Federal Government not only lends to various sectors of the economy, but it also borrows. The scope and details of Federal borrowing are discussed in Special Analysis E ("Borrowing and Debt"). The net annual amount of Federal and federally assisted borrowing in 1986 was $378.0 billion. The borrowing participation ratio, therefore, was 42.5 percent in 1986. As shown in the accompanying chart, the borrowing participation ratio is more volatile than the lending participation ratio, ranging from 19 percent to 55 percent of total borrowing between 1977 and 1986. The volatility is due primarily to swings in the budget deficit. Again, a cautionary note is in order. The full impact of Federal borrowing on the U.S. economy and the credit markets depends on competing demands from other borrowing sectors, as well as changes in the supply of credit available for borrowing. Table F-22 at the back of this special analysis provides additional details on participation ratios.

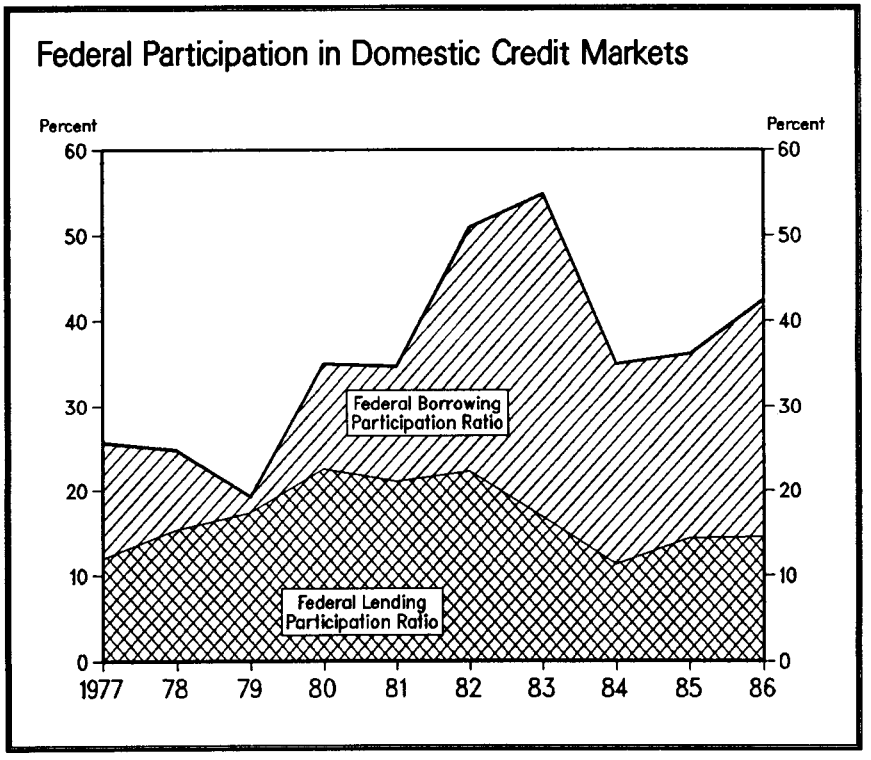


Table F-10 summarizes outstanding Federal and federally assisted loans from 1985 to 1988. Total direct loans outstanding at the end of 1986 were $251.6 billion and total guaranteed loans outstanding were $449.8 billion. In 1986, Federal and federally assisted loans outstanding increased by 11 percent over 1985. Increases of 14 percent in 1987 and 10 percent in 1988 are estimated.

Table F-10. **SUMMARY OF OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT**

(In billions of dollars)

	Actual		Estimate	
	1985	1986	1987	1988
Direct loans	257.4	251.6	236.4	221.0
Primary guaranteed loans	410.4	449.8	526.2	580.3
Loans by Government-sponsored enterprises	370.0	453.3	548.5	644.1
Total, Federal and federally assisted loans	1,037.8	1,154.7	1,311.1	1,445.4
Federal debt held by the public	1,509.9	1,746.1	1,908.4	2,015.1
Primary guaranteed debt (same as guaranteed loans above)	410.4	449.8	526.2	580.3
Debt of Government-sponsored enterprises	351.6	458.1	545.3	641.2
Total, Federal and federally assisted debt	2,271.9	2,654.0	2,979.9	3,236.6

Changes in the Price.—As part of the administration goal of reducing Federal intervention in credit markets, interest rates and fees have been increased where possible. Interest rates and guarantee fees typically do not cover all the costs to the Federal Government of many credit programs. These costs include default risks for both direct and guaranteed loans, as well as servicing and administrative costs.

The administration therefore proposes to charge borrowers from several loan programs interest rates and loan guarantee fees that compensate the Government more adequately for the risks and costs it bears. The specific interest rates and fees will differ by program depending on the credit risks specific to that program as well as whether the interest rate and guarantee fees are set in legislation. As the interest rates and fees are increased, the level of subsidy is reduced.

VI. Federal Credit Subsidies

Federal credit programs provide more favorable terms than those otherwise obtained in the private market and thus result in a subsidy to the borrower. For direct loans, a subsidy results when one or all of the following terms of Federal credit are in place:

- Interest rates below commercial levels.
- Longer maturities than fully private loans.
- Deferral of interest.
- Allowance of grace periods.
- Waiver or reduction of loan fees.
- Higher loan amount in relation to the value of the underlying enterprise than a fully private loan.
- Availability of funds to borrowers for purposes for which the private sector would not lend—at virtually any interest rate under virtually any repayment terms.

For guaranteed loans, an interest rate subsidy occurs because the Government guarantee removes some or all risk of default or loss facing the lender and because the Government does not charge what a private insurer would charge for the same degree of guarantee. In a few cases, notably guaranteed student loans, there is an additional, explicit payment by the Government of a portion of the borrower's interest. The lender is therefore willing to lend to the guaranteed borrower at rates lower than the market rate since no premium for default risk is required.

In many cases, large interest rate subsidies may be intended, for a direct loan program may be established with an objective that explicitly requires a below-market interest rate. The Economic Support Fund, for example, extends loans at interest rates of about 3 percent per annum in order to meet its objective of aiding foreign countries. In other cases, the extent of the subsidy may be unintentional, as when a direct loan program's interest rate is initially set at a level comparable to a market interest rate but is never changed to keep pace with changes in market interest rates over time. For example, in 1944 Congress set the interest rate on some loans of the Rural Electrification Administration at 2 percent, which was slightly higher than the cost of Treasury borrowing at that time. Last year, the cost of long-term Treasury borrowing was about 8.4 percent, but REA's lending rate had been increased only to 5 percent.

Neither the unified budget nor the credit budget adequately takes into account the subsidy that results from interest rate spreads and other loan terms characteristic of Government credit. However, the cash outlays of the direct loan or loan guarantee program are reflected in the unified budget, while the new levels of annual loan activity (both direct loan obligations and guaranteed loan commitments) are summarized in the credit budget.

The administration's credit reform proposal, summarized above and in Part 3 of the Budget Supplement, evaluates the subsidy cost of Federal credit programs and incorporates them in the unified budget. Under the proposal, subsidies provided by loan programs would be evaluated by selling some direct loans to the public and reinsuring some guaranteed loans with private sector insurance companies. The subsidy for a direct loan would be the difference between the face value of the loan and the price offered by the market. The subsidy for a guaranteed loan would be reflected by the premium charged by the insurance company, in addition to the value of any explict interest subsidy. For direct loans not sold to the public and guarantees not reinsured with private companies, subsidies would be evaluated using a method similar to that described below.

This section presents estimates of the subsidies that will be provided by most Federal direct loan and loan guarantee programs in 1986. The direct loan subsidy is calculated as the discounted or present value of the additional payments that the borrower would have been required to pay for the loan if it had been a purely private loan. This method requires an estimation of the interest rate and other costs a representative borrower would have had to pay to a private lender absent the Government loan. It is not possible to determine this rate of return with precision, since the terms of a loan depend on such conditions as the purpose of the loan, the creditworthiness of the borrower, the competition among lenders, and specific circumstances facing the borrower and lender at the time the loan agreement is negotiated. These conditions differ greatly among loans. Therefore, estimated representative private loans have been used for comparison.

To derive the rate of return on a representative private loan, estimates have been made of the private loan terms according to the purpose of the loan (e.g., to buy a house or to provide a small business with working capital) and the type of borrower (e.g., a high-risk company versus a low-risk company) typically associated with the particular direct loan program. The estimates take into account not only the differences in interest rates, but also the differences in loan fees, maturities, and repayment schedules that would normally be expected for the type of loan being compared.

The subsidy estimates do not take into account several nonquantifiable variables such as different legal covenants in loan contracts. A simplifying assumption used in these calculations is that all loans in a given program bear a similar degree of risk. This assumption is not always true. Several programs (e.g., the Export-Import Bank or the Small Business Adminstration) make loans to a variety of borrowers with widely dissimilar risk characteristics.

The discount rate used to evaluate the present values of the Government and private loan is the internal rate of return on the private loan. This rate is a more appropriate discount rate than the simple interest rate on the private loan, because that interest rate does not reflect the return that lenders receive from commitment commissions and other loan fees, nor does it reflect the maturity and repayment schedule.

Table F-11 shows subsidy values for 89 percent of the obligations that direct loan programs made in 1986. The present value of the total subsidy is $7.7 billion. Comparable estimates for 1987 and 1988 are $6.9 billion and $6.7 billion.

The method of calculation used in Table F-11 measures the value to the borrower of Federal credit by comparing the terms and conditions associated with a Government loan to the alternative terms and conditions of financing for a similar loan from a

Table F-11. **ESTIMATED SUBSIDY COSTS FOR 1986 DIRECT LOAN OBLIGATIONS**

Agency and program	Present value of subsidy	
	Percent of direct loan obligations	Millions of dollars
Funds Appropriated to the President:		
Foreign military sales credit:		
Grants	100.0	2,966.7
Concessional	18.0	157.9
Treasury rates	10.3	113.6
Economic support fund	65.1	67.6
Guarantee reserve fund	10.0	105.0
AID functional development assistance	66.7	169.4
AID housing	24.0	9.4
AID private sector revolving fund	15.9	2.4
OPIC	9.4	1.3
Agriculture:		
ACIF:		
Emergency disaster	12.5	318.4
Farm operating	12.3	31.0
CCC commodity loans	2.4	417.4
Public Law 480 export credits	95.1	773.2
REA:		
Revolving fund	23.2	685.1
Rural Telephone Bank	16.2	20.7
Education:		
Guaranteed student loan defaults	85.0	1,133.9
Housing and Urban Development:		
Housing for the elderly and handicapped	17.4	96.7
Interior:		
Bureau of Reclamation	57.0	25.7
Bureau of Indian Affairs	22.4	3.2
Transportation:		
MarAd federal ship financing fund	8.0	100.8
Highway right-of-way loans	37.2	17.9
Veterans Administration:		
Vendee loans and loans acquired	6.3	61.1
Export-Import Bank	11.0	63.6
FSLIC	3.2	0.7
National Credit Union Adminstration:		
Central liquidity facility	3.0	0.9
Small Business Administration:		
Disaster	44.4	229.1
Business loans	20.1	9.4
Development companies	18.2	64.2
Investment companies	30.7	41.8
Minority business assistance	67.0	26.1
Tennessee Valley Authority:		
Seven States Energy Corporation	4.7	9.5
Home weatherization	26.0	16.9
Total, direct loan subsidies		7,740.6

private lender. An alternative measure of subsidy calculates the direct cash costs to the Government, which are always less than the benefit to the borrower for two reasons. First, the Govern-

ment's cost of borrowing is always lower than that of the private sector due to the Government's sovereign power to tax and to print money, and to the safety and liquidity of Treasury securities. Second, the Government does not need to hold any reserves against its loan guarantees, which makes the Government less risk averse than is the private sector to the level and variance of risk inherent in the credit it grants.

If the cost to the Government were used instead of the benefit to the borrower as the basis for measuring subsidies, distortions would be created. The budget would continue to favor credit programs over direct spending programs; it would not give policymakers and the public the information they need to compare fairly those two kinds of programs and to determine what form of assistance is most cost effective. Furthermore, using cost to the Government would not take full account of the borrower's riskiness, which would skew the allocation of resources among borrowers, among credit programs, and between credit and other spending.

Guaranteed loan subsidies are calculated by the same method as direct loan subsidies. The guaranteed loan subsidy is the present value of the additional payments that borrowers would have paid if the loan had not been guaranteed by a Federal agency, and, in some cases, if the agency had not made explicit interest payments. In some cases, private insurance or guarantee coverage of a type offered by Federal programs is available from private insurers. An example is private mortgage insurance, which is comparable to the mortgage insurance or guarantees offered by the FHA and VA. In these cases, one means of estimating the subsidy is to calculate the present value of the difference in fees charged by the Federal Government and what a private insurer would have to charge to provide an identical guarantee. In other cases, private insurers simply do not offer insurance or guarantee coverage similar to that offered by Federal programs. The absence of private insurance may be because the credit risks of the guaranteed loans are so large or so immeasurable that private insurers will not undertake to offer guarantees or it may be because potential private insurance has been preempted by a Federal guarantee program, which inherently has an immensely larger capacity to bear risk and to charge guarantee fees below what the private insurer would charge. In these cases, the subsidy is calculated in terms of the interest rate and fees a private lender might have charged the borrower in the absence of a Federal guarantee.

Table F-12 presents these subsidy calculations for nearly all of the gross commitments that loan guarantee programs made in 1986. The present value of the total estimated subsidies is $10.2 billion. Comparable estimates for 1987 and 1988 are $10.6 billion and $9.2 billion.

Table F-12. **ESTIMATED SUBSIDY COSTS FOR 1986 GUARANTEED LOAN COMMITMENTS**

Agency and program	Present value of subsidy	
	Percent of guaranteed loan commitments	Millions of dollars
Funds Appropriated to the President:		
AID housing and other credit	22.4	32.5
Overseas Private Investment Corporation	12.6	17.1
Agriculture:		
ACIF	5.5	85.8
CCC export credits	2.6	65.1
Education:		
Guaranteed student loans	41.2	3,532.9
Health:		
Health education assistance loans	10.0	37.4
Housing and Urban Development:		
FHA fund	1.2	1,231.1
GNMA secondary mortgage guarantees	1.9	2,621.3
Transportation:		
MarAd federal ship financing fund	10.0	4.8
Veterans Administration:		
Loan guaranty revolving fund	6.3	2,160.7
Export-Import Bank:		
Financial guarantees	2.0	110.2
Small Business Administration:		
Business assistance	12.2	263.8
Total, guaranteed loan subsidies	.....	10,162.6

Table F-12, like Table F-11, measures the value of the subsidy to the borrower, not the cost of the subsidy to the Government. It would be inappropriate to use such a cost to Government basis for calculating economic subsidies, since it would not measure the cost of the loan guarantee to the economy. This could lead to the mistaken perception that a program was economically self-sustaining when, in fact, it was not. For example, the Federal Government is not required to set aside reserves in order to minimize the risk that it will be forced out of business should it miscalculate the credit risks of guaranteeing a large number of loans.

Some qualifications should be kept in mind when reviewing the estimates of Federal credit subsidies. First, there are theoretical difficulties in estimating subsidies. For example, private investors might wish to have more detailed financial information about the borrower than the Federal Government might request. The private sector would therefore reflect these higher transaction costs in its charges for loans and loan guarantees. The subsidy estimates do not take account of such transaction costs.

Second, the subsidies shown are almost certainly underestimated because they are calculated on a marginal price basis. The implicit assumption is that the Federal program is not large enough to

affect the price of similar unguaranteed loans. This is not true for some programs. The large size and pervasive nature of some Federal programs, especially in the housing sector, means that the Federal supply of credit is so large that the market clearing price of credit in that sector is probably lower than it would otherwise be. This means that the private lenders in that sector may charge less than they otherwise would, thereby lowering the subsidy estimate.

VII. Defaults

Federal credit programs have markedly different objectives than private lending institutions, which seek profits. Several Government credit programs, such as the Small Business Administration, are designed to play the role of "lender of last resort." Federal loans, therefore, often bear more risk than private lenders are willing to bear. Partially as a result, some Government loan programs have high default rates. The diverse characteristics of Federal credit programs, each with its own legislative mandate and a variety of different borrowers, make it difficult to compare default rates among Federal programs.

Table F-13 shows the amount of direct loans written off and the amount of guaranteed loans terminated for defaults. Of all direct loans outstanding, only 0.4 percent are recorded as write-offs in 1986. Of total guaranteed loans outstanding, 1.9 percent are reported to be terminated in 1986.

The agricultural and maritime programs have the highest estimated default or termination rates in 1987. In both instances the high delinquency and default rates can be traced to depressed market conditions. Starting in the early 1980's, the U.S. farm economy was characterized by declining income and asset values. As a result of the depressed conditions, delinquency, liquidation, and bankruptcy rates continue to rise.

An examination of world shipping markets reveals freight rates at a 5-year low and an enormous excess in shipping capacity. The sustained slump in world shipping has resulted in bleak shipping profits, forced many shipowners out of business, and motivated many usually accommodating private creditors to seek to liquidate their holdings at tremendous losses, rather than wait for further improvements.

The dramatic increase in terminations of defaulted loan guarantees in the economic development revolving fund in 1987 is the result of loans to failed steel companies. Losses from direct loan write-offs appear to have been a miniscule amount of loans outstanding over the last 2 years, according to the present system of Government reporting. To a large extent, however, this reflects the absence of Government-wide standards for writing off direct loans held in the Government's portfolio. Direct loans are frequently

Table F-13. **DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS**

	In millions of dollars			As percentages of outstanding loans [1]		
	Actual	Estimated		Actual	Estimated	
	1986	1987	1988	1986	1987	1988
Direct loans:						
Commodity Credit Corporation	1	63	63	0.01	0.35	0.42
FmHA agricultural credit insurance	205	500	400	0.72	1.77	1.47
Rural housing insurance fund	16	17	16	0.06	0.06	0.06
Guaranteed student loans	7	222	482	0.08	2.37	5.01
Other education loans	15	16	35	0.19	0.32	3.21
Federal Housing Administration	82	173	299	1.94	4.27	8.27
Small business assistance:						
Business loans	393	372	349	8.00	7.66	9.03
Disaster loan fund	161	138	105	3.67	3.68	3.68
Other	66	51	23	0.05	0.04	0.02
Total write-offs	946	1,552	1,772	0.38	0.64	0.77
Guaranteed loans:						
Commodity Credit Corporation	317	518	600	7.28	10.91	8.10
FmHA agricultural credit insurance	61	107	174	3.44	3.95	4.52
Rural development insurance fund	82	60	50	2.96	2.42	2.38
Economic development revolving fund	5	152	8	1.92	71.87	6.23
Guaranteed student loans	1,475	1,380	1,724	3.97	3.57	4.26
Medical facilities	5	23	2	0.53	2.86	0.30
Health education assistance loans	18	23	30	1.86	1.82	2.08
Federal Housing Administration fund	2,906	3,009	3,141	1.39	1.19	1.04
MARAD ship financing fund	1,243	600	100	21.73	12.99	2.44
VA loan guarantee revolving fund	1,541	1,562	1,591	1.11	1.05	1.01
SBA business loans	457	475	465	5.32	5.45	4.79
Other	25	33	21	0.11	0.14	0.09
Total terminations	8,135	8,005	7,906	1.88	1.64	1.43

[1] Average of loans outstanding over year

carried in the Government's portfolio at their nominal value regardless of their true value. The Eximbank, for example, still holds in its portfolio $89 million in principal and overdue interest on loans made to Cuba between 1951 and 1958. The FmHA holds in its portfolio, at their full nominal value, several billion dollars of loans that are delinquent by more than a year.

In the past, losses from loan guarantee programs were considered relatively small for two reasons. First, many of the guaranteed loans involved liens on marketable property, particularly houses. Second, due to the absence of Government-wide standards, many loans acquired as a result of defaults on guaranteed loans were never written off. This makes the losses due to Government guarantee programs look smaller than they are.

There has been a growing awareness that losses in both direct and loan guarantee programs are higher than reported. In recognition of this problem, the Treasury Department and the Office of Management and Budget are studying means to improve the Government's reporting of and control over defaults.

In addition, the administration has been working to reduce delinquency levels, recapture revenues, and improve overall credit management. Specifically, agencies will be held accountable for appropriate performance goals related to delinquency reductions. They have also been required to adopt the administration's nine-point program announced on August 18, 1986. The nine-point program includes:

- *Prescreening*—Avoid bad loans by using commercial credit reporting agencies to establish the creditworthiness of loan applicants (this measure is mandatory for all agency programs where creditworthiness is a criteria for receiving a loan).
- *Private sector credit bureau reporting*—Agencies are now referring credit information on Federal debtors to private sector credit bureaus where it can be accessed by both private and Federal loan officers.
- *Loan servicing*—Agencies have been required to use private sector contractors whenever possible; in cases where it is not possible, agencies are upgrading their loan servicing capabilities. Loan servicing will be part of all sales of direct loans and become the responsibility of the purchaser.
- *Private collection agencies*—A new policy is to turn over all debt more than six months delinquent that is held by the Government to private collection agencies that have the incentives, resources, and expertise to collect delinquent loan payments.
- *Income tax refund offset*—The Deficit Reduction Act of 1984 authorized the Internal Revenue Service to offset income tax refunds of taxpayers whom lending agencies have certified are delinquent on debt payments and who have failed to respond to agency debt collection efforts.
- *Offset Federal employees' salaries*—Agencies were given the authority in the Debt Collection Act of 1982 to offset the salaries of Federal employees who are delinquent on debt owed to Federal agencies.
- *Litigation*—Private sector attorneys will be used to assist the Justice Department in litigating cases, which will allow more timely litigation of uncollectible debt.
- *Write-offs*—Policies, procedures, and implementation plans to assure that uncollectible accounts are written-off are being developed.
- *Loan asset sales*—A number of loan portfolios will be sold in their entirety in 1988 and 1989. Larger portfolios will take longer to sell. There should be substantial credit management gains from selling loans, ranging from better loan origination and documentation, to more efficient servicing and collection.

Sale of existing loans will also provide insight into the subsidies implicit in these loans.

More information on the nine-point program can be found in the credit management and debt collection section of the document, "Management of the United States Government, FY 1988."

VIII. Federal Financing Bank

The Federal Financing Bank (FFB) began operation in May 1974 and has been a significant factor in financing Federal credit activities since then. The Bank is administered by the Treasury Department.

The FFB was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold, or guaranteed by Federal agencies. Use of the FFB by Federal agencies leads to lower debt financing costs than if the agencies or the guaranteed borrowers were to sell their obligations individually in the credit market. Agency obligations trade at premiums above Treasury securities due to their relative illiquidity, smaller size of issue, and unique financial terms that distinguish them from Treasury securities and each other. This budget proposes to allow the Secretary of the Treasury to recapture for the U.S. Government the costs that use of the FFB allows agencies to avoid by charging borrowers a special premium.

The FFB performs three functions: (1) it purchases guaranteed loan assets from Federal agencies; (2) it disburses loans directly to borrowers when the loans are guaranteed by a Federal agency; and (3) it buys debt of Federal agencies that are otherwise authorized to borrow from the public. In all cases, the operation of the programs remain with the agencies that use the FFB. Prior to passage of the Balanced Budget and Emergency Deficit Control Act of 1985, the outlays of the first two types of transactions were considered to be outlays of the FFB and were "off-budget." The third type of FFB transaction was considered to be a means of financing agency outlays. Under Section 214 of the Act, all transactions by the FFB on behalf of a Federal agency are now considered to be a means of financing for the agency. As a result, FFB transactions formerly presented as a separate line item in this special analysis and elsewhere in the budget have been incorporated into the account of the agency originating the transaction.

The following provides a brief description of each of the functions of the FFB, all considered to be forms of lending to Federal agencies:

(1) Loan asset sales.—Agencies may sell loan assets to the FFB as a means of financing their direct loan programs. The largest volume of loan assets sold were certificates of beneficial ownership

(CBOs) issued by the Farmers Home Administration and the Rural Electrification Administration (REA). In 1988, neither agency plans any new net sales of loan assets to the FFB. Loan assets sold to the FFB are repurchased by the agency at scheduled intervals.

(2) Guaranteed loan originations.—The FFB disburses loans directly to borrowers when the loan is guaranteed by a Federal agency. The agency's guarantee program thus becomes a program that effectively makes direct loans. The only program that proposes to use the FFB in this manner in 1988 is the Tennessee Valley Authority's Seven States Energy Corporation.

(3) Agency debt.—Agencies authorized to borrow from the public, such as Eximbank, almost always borrow from the FFB (or the Treasury) instead, since it is less expensive than issuing their own securities and borrowing directly from financial markets. Other agencies that are not authorized to borrow from the public also borrow from the FFB. This borrowing itself has no effect on outlays; instead, outlays are recorded when the proceeds of borrowing are spent by the agencies.

Table F-14 summarizes the activities of the FFB for 1986 through 1992. Table F-21 at the end of this document shows the activities of the FFB over the same period by agency and account.

Table F-14. **SUMMARY OF FEDERAL FINANCING BANK ACTIVITIES**

(In billions of dollars)

	Actual 1986	Estimated					
		1987	1988	1989	1990	1991	1992
Assets purchased from Federal agencies:							
New acquisitions	3.1	0.4	0.2	0.9	1.7	0.5	4.1
Net lending	1.7	−4.6	−3.9	−6.4	−5.5	−5.3	−5.1
Loans outstanding	69.9	65.2	61.3	54.9	49.4	44.1	39.1
Loans originated on behalf of Federal agencies:							
New acquisitions	4.0	3.5	3.1	2.1	1.6	1.0	0.7
Net lending	1.1	−1.2	−1.5	−0.7	−0.6	−1.4	−1.7
Loans outstanding	54.6	53.4	52.0	51.3	50.6	49.3	47.6
Debt securities acquired from Federal agencies:							
New acquisitions	4.5	4.3	2.7	2.9	2.6	2.3	1.3
Net lending	0.6	0.5	*	1.1	1.2	0.9	−*
Loans outstanding	32.4	32.9	32.9	34.0	35.2	36.1	36.1
Total, all FFB acquisitions:							
New acquisitions	11.6	8.2	6.0	5.9	5.9	3.8	6.1
Net lending	3.4	−5.3	−5.4	−6.0	−4.9	−5.7	−6.8
Loans outstanding	156.9	151.5	146.2	140.2	135.2	129.5	122.7

*$50 million or less.

IX. Loan Asset Sales to the Public

In this budget, the administration proposes to continue and expand its pilot program of selling existing loan assets to the public without recourse—a program first proposed in the 1987 Budget. Certain additional loan asset sales were required by Omnibus Budget Reconciliation Act of 1986. These sales are designed to achieve 4 major goals: reduce the Government's cost of administering credit programs; provide an incentive for agencies to improve loan origination and documentation; assist in determining the subsidies of Federal credit programs; and increase budgetary offsetting receipts in the year of sale.

The nominal value of loans to be sold under the pilot program in 1988 is $11.2 billion; other loans with a nominal value of $1.4 billion will also be sold in that year for programmatic reasons. Table F-15 presents the composition of the face value sales. Sales in 1988 of pilot program loans are estimated to have a market value of $6.9 billion. These sales are estimated to reduce the budget deficit by $5.3 billion in 1988, after taking into account the loss of principal repayments and interest income from these loans that were incorporated in previous budget estimates.

Although loan asset sales reduce current budget deficits, they increase future deficits because they move to the present the anticipated future streams of principal and interest payments from the loans. However, this effect is mitigated by several factors. First, revenues from asset sales reduce Treasury borrowing and, therefore, lower interest outlays in subsequent years. Second, the savings from improved management of credit programs that occur as a consequence of asset sales are not explicitly reflected in the budget. Finally, the discount at which the loans are sold measure the present value of the subsidies implicit in the loans. The "loss" recognized at the time of sale merely makes that subsidy explicit.

Selling loan assets to the public with a Government guarantee is a form of federal borrowing from the public. The Government incurs a contingent liability in the amount of the loan guarantee. Guaranteed loan asset sales are a more costly means of borrowing for the Government than selling Treasury securities, since purchasers of the guaranteed loan assets frequently will offer prices well below the face value of the loans, despite the Government guarantee. The lower price is offered because the loan assets may be relatively illiquid or have unique characteristics that reduce their value to the purchaser. Yet, because of the Government guarantee, such sales tend to reduce the investment demand for Treasury securities. It is more efficient for the Government to meet its borrowing needs by issuing Treasury securities. For this reason, administration policy is to sell loan assets to the public without a Government guarantee.

Table F-15. **LOAN ASSET SALES TO THE PUBLIC**

(In millions of dollars)

Agency and program	1987	1988	1989	1990	1991	1992	Total 1987-92
PILOT							
Agriculture:							
Rural housing insurance fund	2,200	1,200	1,000	1,000	1,000	1,000	7,400
Rural development insurance fund	1,870	1,200	1,000	1,000	1,000	380	6,450
Rural Electrification Administration		1,000	1,000	1,000	1,000	1,000	5,000
Rural telephone bank		500	500	250			1,250
SBA:							
Business loan investment fund		1,000	1,000				2,000
Disaster loans	600	670	670	670	670	662	3,942
Development companies		500	397				897
HUD:							
FHA fund	300	350					650
Rehabilitation loans		350	308				658
Community development	35	200	94				329
Housing for the elderly and handicapped		500					500
Education:							
College housing loans	983	931	59	34			2,007
Higher education facilities		142	51	33			226
Veterans Administration:							
Vendee loans		300	300	300			900
Export-Import Bank	2,018	1,200	1,000	1,000	1,000	1,000	7,218
Interior:							
Bureau of Reclamation		358					358
HHS:							
Medical facilities		132					132
Health maintenance organizations		97					97
Transportation:							
Railroad rehabilitation		583					583
Tennessee Valley Authority			256				256
Subtotal, pilot	8,006	11,213	7,635	5,287	4,670	4,042	40,853
PROGRAMMATIC							
HUD:							
GNMA tandem plan	650	329					979
Education:							
Guaranteed student loans		250	300	350	400	450	1,750
Perkins (NDSL) loans		33	33	33	33	33	165
Veterans Administration:							
Vendee loans	690	745	779	832	670	685	4,401
Subtotal, programmatic	1,340	1,357	1,112	1,215	1,103	1,168	7,295
Total, sales to the public	**9,346**	**12,570**	**8,747**	**6,502**	**5,773**	**5, 210**	**48,148**

X. Federal Deposit Insurance and Contingent Liabilities

The Federal Government provides guarantees and insurance against several types of risk for many sectors of the economy. One kind of insurance the Government provides is the insurance

against uncertain situations, or contingencies. Under this type of insurance, if a given situation occurs, such as borrower default or natural disaster, the Government assumes a liability and makes payment to the insured party. However, if the specified situation does not occur, the Government is not liable for any loss. When the Government makes an agreement such as that described above, it becomes exposed to the possibility of loss sometime in the future.

Table F-16 shows the current contingent liability of the Federal Government. Unlike an annual corporate financial statement, the data presented in Table F-16 do not represent the Government's expected loss contingency for 1987 alone, but rather the overall contingent liability or exposure of the Government resulting from all potential insurance claims and guaranteed loan defaults. As can be seen in the table, the Government bears risk from a variety of sources, including deposit insurance, loan guarantee programs, foreign political risk, flood and crop insurance, and pension insurance.

Table F-16. **CONTINGENT LIABILITY OF THE FEDERAL GOVERNMENT**

(In billions of dollars)

Program or activity	1985 actual	1986 actual
Deposit insurance:		
Federal Deposit Insurance Corporation	1,268.4	1,368.5
Federal Savings and Loan Insurance Corporation	769.0	817.2
National Credit Union Administration	104.0	130.0
Subtotal, deposit insurance	2,141.4	2,315.7
Other:		
Loan guarantee programs [1]	613.1	691.9
National flood insurance	133.8	133.8
Overseas Private Insurance Corporation	3.0	3.1
Federal crop insurance	6.7	7.2
Pension Benefit Guaranty Corporation	2.0	3.5
Subtotal, other	758.6	839.5
Total, contingent liabilities	2,900.0	3,155.2

[1] Gross basis.

The credit budget encompasses all loan guarantee programs, but only a small part of the transactions of Federal deposit insurance programs, and only the lending activity of the Pension Benefit Guaranty Corporation and Overseas Private Investment Corporation. Table F-16 also shows these and other programs that expose the Government to significant risk that are outside the scope of the credit budget; furthermore, there are additional, but smaller insurance programs not in the table that increase the Federal contingent liability.

Although only a small part of the transactions of Federal deposit insurance programs are included in the credit budget, these programs make up the largest portion of the Government's contingent liability. The Federal Government insures depositors through the

Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Corporation (FSLIC), and the National Credit Union Administration. Deposit insurance offered by these programs serves two purposes: it helps stabilize the Nation's monetary and financial system and thereby the economy as a whole; and it protects depositors in the insured financial intermediaries. As seen in Table F-16, the value of insured deposits at the end of 1986 was over $2.3 trillion.

Federal deposit insurance programs may assist insured depositors in a variety of ways. When an insured financial institution becomes troubled, deposit insurance programs may: (1) liquidate the institution and pay depositors directly; (2) merge the troubled institution with a healthier institution, in some cases providing financial assistance to the acquiring partner in the merger; or (3) provide financial assistance directly to the troubled institution in the expectation that it will recover. Financial assistance to private financial intermediaries has consisted of equity purchases, purchases of physical assets, and direct loans and loan guarantees.

Although similar to a guarantee, Federal deposit insurance is not included in the guaranteed loan portion of the credit budget, principally because it does not directly allocate credit to the ultimate borrowers of that credit. Deposit insurance directly affects the liabilities (deposits) of financial intermediaries but only indirectly their assets (loans). All other Federal guarantee programs are structured to influence the assets or loans of financial intermediaries directly. Nonetheless, it is argued that Federal deposit insurance gives insured institutions an incentive to take on more risk than they would otherwise, either by making riskier loans or by increasing leverage. To this degree, deposit insurance indirectly allocates credit. It also indirectly affects the allocation and amount of credit by changing depositor behavior as a result of its protection, and by insuring the stability of the financial system and the economy. Direct loan obligations of FDIC and FSLIC include two types of transactions: cash advances to troubled institutions, and purchases of loans to the public held in the failing financial institution's portfolio. Both of these transactions increase Federal outlays, and are included in the credit budget.

For 1987 and beyond, the FDIC does not plan to incur new direct loan obligations. Assistance to troubled institutions or purchases of failing banks will be in the form of cash grants or interest-bearing demand notes issued by FDIC. In the event of a liquidation, assets of the failed bank are held in receivership, rather than on the FDIC's books. These transactions increase outlays (and in the case of FDIC notes, agency debt), but would not affect the credit budget. FSLIC anticipates new direct loan obligations of $25 million in both

1987 and 1988. Direct loan obligations made by deposit insurance programs amounted to $183 million in 1986.

XI. Leasing

The Federal Government is both a lessor and a lessee in hundreds of leases involving billions of dollars every year. As a lessor, the Government allows private entities to contract for the use of on-shore and off-shore acreage for oil and gas exploration and lands for grazing and timber harvesting. Federal leases raise about $6 billion annually in proprietary receipts, primarily from rents and royalties on the Outer Continental Shelf.

As a lessee, the Federal Government uses both operating and capital leases to contract with private entities to use office facilities, computers, telecommunications equipment, satellites, ships, cars, planes, and other equipment. Operating leases are normally short term and do not involve a transfer of title to the asset. That is, the lessor holds title to, performs maintenance on, and regains the asset after the lease period.

Operating leases can be used to overcome peak load problems when the use of the asset is not needed indefinitely. Also, the lessee may not wish to take on the ownership risks of upkeep or may find that the lessor can provide more efficient maintenance services. Finally, the lessee may wish to avoid the purchase of an asset likely to be obsolete in a relatively short period of time.

In contrast, a capital lease arrangement is long term and involves a change in the basic ownership of an asset. In essence, capital leases are a means by which lessees can purchase an asset by borrowing from the lessor. This is obviously true in the case of lease-purchases, where the Government ends up holding title to the property at the end of the lease period. But even when this does not occur, if the lease covers a large part of the operating life of the asset, it has much the same economic impact as a front-end purchase that is eventually resold.

From a budgetary standpoint, capital leases can be more attractive than purchasing assets. Leasing entails lower outlays in the short-term and, under some circumstances, less budget authority. When capital assets are purchased, their entire purchase price requires obligational authority and is recorded as an outlay in the year of purchase. When capital assets are leased, only the annual lease payment is recorded as an outlay and, under certain lease contracts, there is no recognition of obligations to make payments in future years.

Yet, lease-purchase arrangements are inefficient borrowing mechanisms for the Government because the lessor (a private entity) will be charging rent based on an effective interest rate significantly above the Treasury's cost of money. Over the full

period of the lease, the Government will be paying more for the asset than if it bought it outright and financed the purchase with Treasury bonds.

The Office of Management and Budget issued Circular No. A-104, "Comparable Cost Analysis for Decisions to Lease or Purchase General Purpose Real Property," in 1972 to provide Government-wide guidelines on leasing. The circular requires economic analysis to justify major lease-buy decisions. Yet, the circular did not apply to all lease-buy decisions.

Owing to the recognition that the budget scorekeeping system should treat capital leases and capital purchases similarly in decisions on whether to buy or lease, the administration released a revision of A-104 on June 1, 1986. The revised A-104 prescribes a uniform method for the economic analysis to be conducted when considering whether to use leasing in place of direct Government purchase and ownership as a means of acquiring the use of assets. The budgetary treatment of leases with options to purchase is being reviewed.

XII. Tax-Exempt Credit

Interest on State and local government obligations generally has been exempted from the Federal income tax since its adoption in 1913.[4] Federal tax exemption increases the demand for these obligations, since it results in higher after-tax interest rates for the lenders and investors. This increase in demand reduces the pretax interest rates of these obligations relative to the pretax interest rates of taxable securities. Consequently, tax-exempt interest rates in recent years have historically been about 75 percent of taxable interest rates on long-term obligations with similar credit risk. In contrast, because of a record supply of tax-exempt bonds and uncertainty generated by the pending tax bill in 1986, the spread between tax-exempt and taxable bonds was unusally low, and tax-exempt yields averaged 94 percent of 20-year Treasury bond yields.

Tax exemption reallocates scarce credit resources, just as do Federal direct loans and loan guarantees. Borrowers aided by Federal tax-exempt status have access to credit resources at preferential interest rates over competing borrowers without the tax-exempt status. Borrowers who benefit both from tax exemption and Federal guarantees have an advantage over all other borrowers, including the Federal Government, since the interest on Federal Government debt is taxable.

Although tax-exempt financing alters the allocation of credit and has costs similar to other Government financing programs, it is not

[4] Tax exemption is a tax expenditure. (See Special Analysis G, "Tax Expenditures.") Special Analysis G includes a discussion of revenue losses attributable to special provisions of the tax code, including various types of tax-exempt bonds.

included in the credit budget for several reasons. First, unlike other credit assistance, the statutory authority for tax-exempt credit generally allows unlimited access that is unilaterally elected by eligible borrowers. Second, tax-exempt credit is not controlled by the budget process in the same manner as direct loans or guaranteed loans; effective control of tax-exempt financing can only be achieved through legislated changes to the tax code.

A relatively small portion of tax-exempt financing is guaranteed by the Federal Government, and is therefore included in the credit budget as guaranteed loan commitments. This occurs when the Federal Government guarantees the financial assets that underlie the tax-exempt obligation. Examples include State and local government bonds that finance home mortgages guaranteed by the Federal Housing Administration or the Veterans Administration, or bonds that finance student loans guaranteed by the Department of Education.

Another example of a tax-exempt bond that is indirectly guaranteed by the Federal government is tax-exempt bond issues backed by special Treasury obligations, the State and local government series (SLGS). The bulk of these tax-exempt bonds have originated in connection with advance refundings. In an advance refunding, an institution purchases SLGS bonds, and the Treasury uses the proceeds of the sale as collateral for an outstanding bond issue of the institution. The original issue is now "guaranteed" by the Federal government.

Advance refundings generally occur so that issuers of tax-exempt bonds can get out of restrictive covenants or realize debt service savings. An example of a restrictive covenant might be a limit on the dollar volume of bonds that an institution can issue. By using an advance refunding, the institution can issue a new series of bonds and exceed the limit originally agreed upon.

In recent years, tax-exempt bonds collateralized by SLGS bonds have been growing in importance. At the end of 1986, over $100 billion of these bonds were outstanding, which represents approximately 14 percent of all outstanding tax-exempt issues.

This administration and previous ones have believed for several reasons that Federal agencies should not offer direct or indirect guarantees for securities that benefit from tax-exempt status. First, tax-exempt financing is an inefficient means of financing, since the tax loss to the Treasury is greater than the savings from the lower financing costs available to the borrower. Therefore, it should not be stimulated by benefitting from a Government guarantee. Second, the guarantee of tax-exempt financing confers double benefits on investors in those securities: they pay no Federal income tax and they bear no risk. This class of debt obligation is therefore superior to Treasury securities.

During the first half-century of the income tax, tax-exempt borrowing was mainly for public purposes such as financing roads and schools. From the 1960s on, however, the benefits of tax-exempt financing have increasingly been made available to private businesses. State or local governments typically establish authorities that function as financial institutions in providing tax-exempt financing to private borrowers. They use their tax-exempt financing to purchase an asset, which in turn, is purchased from them by the borrower, or to lend the proceeds of an issue to a private borrower. In general, the private borrower is solely responsible for the payment of interest and principal even in the event of default. The State or local government, in some cases, can benefit from investment earnings on funds held for temporary periods and from fees paid by borrowers.

Industrial development bonds (IDBs) issued for use by private business were made taxable in the 1968 and 1969 tax acts, but a number of major exceptions were permitted. Tax-exempt IDBs were permitted for pollution control, prior to the 1986 tax act. Tax-exempt IDBs are still permitted for sewage and waste facilities, multifamily rental housing, facilities financed with "small issues" of under $10 million in face amount, and certain other private business projects. In recent years, tax-exempt bonds have also become a common means of financing owner-occupied housing, student loans, and private nonprofit hospitals and educational facilities.

Concerned by the rapid growth of private purpose tax-exempt bonds, Congress has placed further restrictions on their use in recent years. The Omnibus Reconciliation Act of 1980 imposed a number of restrictions on tax-exempt mortgage subsidy bonds for owner-occupied housing, including limitations on the volume issued in each State. The Tax Equity and Fiscal Responsibility Act of 1982 required that IDBs be approved by an elected public official after a public hearing, and that assets of certain IDB-financed projects placed in service after 1982 be depreciated using the straight-line method rather than accelerated depreciation. The 1982 tax act also eliminated the tax exemption for "small issue" IDBs issued after 1986.

The Deficit Reduction Act of 1984 (DEFRA) restricted the annual volume of student loan bonds and most IDBs issued in each State to the greater of $150 per capita or $200 million, approximately $37 billion in 1984. The per capita limitation will be reduced to $100 in 1987 to reflect the termination of the small-issue exception for nonmanufacturing facilities; authority for small-issue IDBs for manufacturing facilities was extended through 1988. DEFRA also required IDB issuers to rebate any excess arbitrage earnings to the Federal Government, and prohibited the use of consumer loan

bonds. Although the Act extended the use of mortgage subsidy bonds for 4 years, an optional program for issuers to provide mortgage credits to eligible homebuyers in lieu of tax-exempt bonds was enacted. Finally, volume limits on the use of veterans' housing bonds restricted their use to five States.

Even with these restrictions, the volume of private purpose tax-exempt bonds continued to increase. Table F-17 shows the growth in the volume of long-term, tax-exempt bonds. Total issues nearly quadrupled between 1981 and 1985, increasing from $55 billion to $218 billion. Over the same time period, the volume of private purpose tax-exempt bonds rose from $31 billion in 1981 to $116 billion in 1985. In 1976, private purpose tax-exempt bonds accounted for one-third of total tax-exempt, long-term issues. This percentage rose to 60 percent by 1980, and has remained fairly constant since then.

Table F-17. **TAX-EXEMPT FINANCING**

(In billions of dollars)

	Actual									Estimated	
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Private purpose tax-exempts	19.7	28.1	32.5	30.9	49.6	57.1	74.0	116.4	41.5	36.7	31.7
Housing bonds	6.9	12.1	14.0	4.8	14.6	17.0	20.5	38.1	8.3	10.3	6.6
Single-family mortgage subsidy bonds	3.4	7.8	10.5	2.8	9.0	11.0	12.8	12.0	6.0	7.0	3.3
Multi-family rental housing bonds	2.5	2.7	2.2	1.1	5.1	5.3	5.5	23.9	1.3	2.3	2.3
Veterans general obligation bonds	1.2	1.6	1.3	0.9	0.5	0.7	2.2	2.2	1.0	1.0	1.0
Private exempt bonds [1]	2.9	3.2	3.3	4.7	8.5	11.7	11.7	37.3	8.2	6.3	9.1
Student loan bonds	0.3	0.6	0.5	1.1	1.8	3.3	1.2	4.0	2.0	1.9	1.8
Pollution control industrial bonds	2.8	2.5	2.5	4.3	5.9	4.5	8.1	7.4	1.2	0.6	0.0
Small-issue industrial development bonds	3.6	7.5	9.7	13.3	14.7	14.7	18.3	17.5	11.7	3.5	3.2
Other industrial development bonds [2]	3.2	2.2	2.5	2.7	4.1	6.0	14.1	12.1	10.1	14.1	11.0
Public purpose tax-exempts [3]	29.3	20.3	22.0	24.2	35.3	36.2	41.7	101.8	103.0	53.0	56.0
Total new issues, long-term tax exempts [4]	49.1	48.4	54.5	55.1	84.9	93.3	115.7	218.2	144.5	89.7	87.7

[1] Private exempt entity bonds are obligations of the Internal Revenue Code Section 501(c)(3) organizations, such as private non-profit hospitals and educational facilities
[2] Other IDBs include obligations for private businesses that qualify for tax-exempt activities, such as sewage disposal, airports and docks.
[3] While most of these are commonly referred to as governmental bonds, some may be nongovernmental.
[4] Includes long-term refunding bonds including advance refundings.

Source: Office of Tax Analysis, Department of Treasury.

The Tax Reform Act of 1986 has the potential to reverse the trend of rapid growth in the issuance of tax-exempt securities. In particular, the Act is expected to reduce the volume of private activity bonds (those financing loans to industry or to individuals for mortgages or student loans).

The 1986 Tax Act combines the two existing State-by-State volume caps on mortgage revenue bonds and on student loan bonds and IDBs into a single tighter volume cap. The cap is initially set at the greater of $75 per capita or $250 million for each State, and is lowered to the greater of $50 per capita or $150 million beginning in 1988. Tax-exempt bonds can no longer be issued for certain purposes, such as pollution control and sports facilities. On the other hand, terminations required by prior law for both single-family mortgage revenue bonds and certain industrial development bonds were each extended by one year. The number of advance refundings of tax-exempt bonds was limited and the ability to earn arbitrage by investing proceeds of tax-exempt bonds in taxable instruments was reduced.

The effect of the new tax law on the demand side of the market for tax-exempt securities is uncertain. One important change made by the Tax Act that will tend to reduce the demand for tax-exempt bonds is the across-the-board reduction in marginal tax rates for both individuals and corporations. Another important change that will tend to reduce demand for tax-exempts is the disallowance for financial institutions of the deduction for the cost of carrying most tax-exempt debt.

The Tax Act also includes provisions that will tend to increase the demand for tax-exempt bonds. Individuals who have not previously purchased tax-exempt bonds may turn to the municipal market as other avenues for sheltering income from the Federal income tax are sharply curtailed. On the business side, because base-broadening measures will tend to increase taxable income for certain sectors of the economy, the demand for tax-exempt bonds will increase as a means of sheltering otherwise taxable income. The net effect of all the changes made by the Tax Act upon the yield of tax-exempt securities is uncertain.

XIII. Summary

The need for better control over Federal credit is widely recognized within the executive branch and the Congress. With $252 billion in direct loans outstanding and $450 billion in primary guaranteed loans outstanding in 1986, the Federal Government is the single largest financial intermediary in the United States. Its credit policy and practices affect all major sectors of the economy.

To gain better control over Federal credit, the Budget has included since January 1980 a credit control system, composed of the

credit budget and credit limitations proposed in individual appropriations bills. This system has been strengthened by Gramm-Rudman-Hollings, which requires Congress to establish aggregate limits on new direct loan obligations and guaranteed loan commitments in the budget resolution process and incorporates credit in the budget reconciliation process. The management of Federal credit programs should be improved through the application of the administration's nine-point program.

Control over credit programs would be further improved by adoption of the administration's credit reform initiative. Under this reform, Federal agencies would obtain appropriations equal to the subsidy component of direct loans and loan guarantees they make each year. Details of this proposal and specific legislative language will be prepared and sent to the Congress in March 1987. The subsidy costs of operating these programs could then be compared to the cost of other Federal spending programs and to the economic and social benefits realized in achieving credit program objectives.

XIV. Appendix

Additional Discussion of Federal Credit Programs and Related Issues in the 1988 Budget Documents

- Special Analysis E ("Borrowing and Debt") contains information on Federal borrowing, borrowing by Government-sponsored enterprises, and the Federal Financing Bank.
- Special Analysis G ("Tax Expenditures") contains information on tax-exempt borrowing.
- Special Analysis H ("Federal Aid to State and Local Governments") contains information on Federal loans to State and local governments.
- Part 5 of the Budget Supplement ("Meeting National Needs: The Federal Program by Function") contains a discussion of major credit programs by budget function (e.g., Agriculture, Commerce and Housing, International Affairs).
- Part 3 of the Budget Supplement ("Federal Credit") presents an outline of the credit reform initiative and a summary of much of the material in this special analysis.
- Part 6 of the Budget Supplement ("Summary Tables") contains summary tables of the credit budget totals (Table 1) and summaries by agency of direct loan obligations and guaranteed loan commitments (Table 5).
- The Budget Appendix contains detailed information for each credit program by budget account. Part I of the Appendix ("Detailed Budget Estimates") provides credit program information for Federal agencies. Part IV ("Government-Sponsored Enterprises") provides information on these enterprises.

- The Historical Tables contains total direct loan obligations by sector—agriculture, business, education, and housing—and by agency or program for the period 1951-1992.
- Management of the United States Government, contains discussions of credit program management issues, the debt collection report, and agency credit management goals.

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or program		Actual 1986	Estimate					
			1987	1988	1989	1990	1991	1992
Funds Appropriated to the President:								
Economic support fund	Obligations	104	176	176	240	240	240	240
	Loan disbursements	90	176	176	240	240	240	240
	Change in outstandings	*83*	*77*	*54*	*120*	*114*	*87*	*71*
	Outstandings	**6,305**	**6,381**	**6,436**	**6,556**	**6,670**	**6,756**	**6,828**
Foreign military sales	Obligations	4,967	4,040	4,421	4,499	4,573	4,639	4,695
	Loan disbursements	5,536	5,190	5,352	5,034	4,676	4,635	4,575
	Change in outstandings	*2,979*	*568*	*−163*	*1,396*	*907*	*617*	*474*
	Outstandings	**22,124**	**22,692**	**22,529**	**23,925**	**24,832**	**25,449**	**25,923**
Guarantee reserve fund (foreign military sales defaults)	Obligations	1,050	951	891	900	900	900	900
	Loan disbursements	1,050	951	891	900	900	900	900
	Change in outstandings	*255*	*8*	.....	.....	.....	.....	.....
	Outstandings	**1,420**	**1,429**	**1,429**	**1,429**	**1,429**	**1,429**	**1,429**
Overseas Private Investment Corporation	Obligations	14	23	15	15	15	15	15
	Loan disbursements	10	7	9	8	6	6	6
	Change in outstandings	*−1*	*2*	*3*	*3*	*1*	*1*	*1*
	Outstandings	**41**	**43**	**46**	**49**	**50**	**51**	**52**
AID functional development assistance	Obligations	254	150	150	150	150	150	150
	Loan disbursements	309	255	225	200	175	150	150
	Change in outstandings	*308*	*232*	*197*	*154*	*112*	*70*	*56*
	Outstandings	**3,425**	**3,657**	**3,854**	**4,008**	**4,120**	**4,191**	**4,247**
AID development loans revolving fund	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	*	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−244*	*−334*	*−328*	*−381*	*−387*	*−377*	*−375*
	Outstandings	**8,494**	**8,160**	**7,833**	**7,452**	**7,065**	**6,688**	**6,313**
AID private sector revolving fund	Obligations	15	16	16	12	15	16	16
	Loan disbursements	8	14	18	12	11	10	11

	Change in outstandings	*8*	*14*	*14*	*3*	*−2*	*−5*	*−5*
	Outstandings	**11**	**25**	**39**	**42**	**39**	**34**	**29**
AID housing and other credit guarantees	Obligations	39	49	51	51	51	51	51
	Loan disbursements	39	49	51	51	51	51	51
	Change in outstandings	*21*	*13*	*20*	*3*	*7*	*8*	*8*
	Outstandings	**69**	**82**	**101**	**105**	**112**	**120**	**128**
AID miscellaneous appropriations	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*10*	*−7*	*−5*	*−6*	*−6*	*−6*	*−6*
	Outstandings	**234**	**227**	**221**	**215**	**210**	**204**	**198**
Agriculture:								
Farmers Home Administration:								
Agricultural credit insurance fund	Obligations	2,799	1,8 17	1,295	500	400	300	.....
	Loan disbursements	2,897	1,907	1,424	813	428	328	31
	Change in outstandings	*136*	*−924*	*−1,135*	*−1,596*	*−1,731*	*−1,531*	*−1,479*
	Outstandings	**28,698**	**27,775**	**26,639**	**25,043**	**23,312**	**21,781**	**20,302**
Rural housing insurance fund	Obligations	1,825	508	.....	.....	.....	.....	.....
	Loan disbursements	2,347	1,216	706	316	92	3	9
	Change in outstandings	*615*	*−2,594*	*−2,020*	*−2,138*	*−2,269*	*−2,253*	*−2,137*
	Outstandings	**29,295**	**26,701**	**24,680**	**22,542**	**20,273**	**18,020**	**15,884**
Rural development insurance fund	Obligations	421	107	.....	.....	.....	.....	.....
	Loan disbursements	463	389	610	295	126	87	66
	Change in outstandings	*249*	*−1,519*	*−766*	*−858*	*−1,033*	*−1,047*	*−1,040*
	Outstandings	**7,957**	**6,438**	**5,672**	**4,814**	**3,781**	**2,734**	**1,694**
Commodity Credit Corporation:								
Short and medium term export loans	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*24*	*−14*	*21*	*40*	*32*	*10*	*−4*
	Outstandings	**827**	**813**	**834**	**874**	**906**	**916**	**913**
Commodity loans	Obligations	17,391	17,130	12,785	10,460	9,485	9,189	8,832
	Loan disbursements	17,391	17,130	12,785	10,460	9,485	9,189	8,832
	Change in outstandings	*6,261*	*−2,627*	*−3,197*	*−2,112*	*−2,324*	*−499*	*−1,201*
	Outstandings	**18,494**	**15,867**	**12,670**	**10,557**	**8,233**	**7,734**	**6,533**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1986	Estimate 1987	1988	1989	1990	1991	1992
Storage facility loans	Obligations	1	*					
	Loan disbursements	1	*					
	Change in outstandings	*−223*	*−141*	*−32*	*	*	*	
	Outstandings	**174**	**33**	**1**	*	*		
Rescheduled guaranteed loans	Obligations	328	673	703	743	751	541	532
	Loan disbursements	328	673	703	743	751	541	532
	Change in outstandings	*442*	*765*	*789*	*827*	*780*	*468*	*369*
	Outstandings	**2,113**	**2,878**	**3,668**	**4,494**	**5,274**	**5,742**	**6,111**
Public Law 480 long-term export credits	Obligations	813	819	749	771	800	806	811
	Loan disbursements	773	819	749	771	800	806	811
	Change in outstandings	*577*	*628*	*619*	*637*	*665*	*615*	*632*
	Outstandings	**10,622**	**11,251**	**11,869**	**12,507**	**13,172**	**13,787**	**14,419**
Rural electrification and telephone revolving fund	Obligations	2,953	1,305	290	145			
	Loan disbursements	2,321	3,177	2,601	1,960	1,565	999	562
	Change in outstandings	*304*	*2,045*	*276*	*−320*	*−720*	*−1,254*	*−1,662*
	Outstandings	**35,941**	**37,986**	**38,262**	**37,942**	**37,222**	**35,967**	**34,306**
Rural telephone bank	Obligations	128	149	93	46			
	Loan disbursements	72	83	78	74	48	22	5
	Change in outstandings	*51*	*64*	*−493*	*−490*	*−211*	*15*	*−4*
	Outstandings	**1,434**	**1,498**	**1,005**	**515**	**304**	**320**	**316**
Commerce:								
Economic development revolving fund	Obligations	5	152	8	7	6	5	4
	Loan disbursements	8	152	8	7	6	5	4
	Change in outstandings	*−62*	*99*	*−41*	*−40*	*−37*	*−36*	*−35*
	Outstandings	**568**	**668**	**626**	**587**	**550**	**514**	**479**
EDA miscellaneous appropriations	Obligations							
	Loan disbursements							
	Change in outstandings	*−7*	*−2*	*−2*				
	Outstandings	**91**	**88**	**86**	**86**	**86**	**86**	**86**

ITA operations and administration	Obligations	1	6	7				
	Loan disbursements	*	9	8	1			
	Change in outstandings	*−1*	*6*	*−3*	*−5*	*−1*	*−1*	*−1*
	Outstandings	**8**	**14**	**12**	**7**	**6**	**5**	**4**
NOAA coastal energy impact fund	Obligations							
	Loan disbursements	5	8					
	Change in outstandings	*2*	*4*	*−3*	*−3*	*−3*	*−3*	*−3*
	Outstandings	**96**	**100**	**97**	**94**	**91**	**88**	**85**
NOAA Federal ship financing (fishing)	Obligations	4	2	2	2	2	2	2
	Loan disbursements	4	2	2	2	2	2	2
	Change in outstandings	*2*						
	Outstandings	**17**	**17**	**17**	**17**	**17**	**17**	**17**
Defense:								
Navy industrial fund	Obligations	568						
	Loan disbursements	568						
	Change in outstandings	*435*	*−167*	*−169*	*−178*	*−178*	*−178*	*−178*
	Outstandings	**1,748**	**1,582**	**1,412**	**1,234**	**1,056**	**878**	**700**
Defense stock fund	Obligations							
	Loan disbursements							
	Change in outstandings		*−1*					
	Outstandings	**1**						
Production guarantees	Obligations							
	Loan disbursements	3						
	Change in outstandings	*3*	*−10*					
	Outstandings	**10**						
Education:								
Guaranteed student loans	Obligations	1,334	1,232	1,404	1,811	1,840	1,795	1,663
	Loan disbursements	1,366	1,249	1,369	1,729	1,834	1,804	1,689
	Change in outstandings	*944*	*441*	*80*	*275*	*82*	*−128*	*−440*
	Outstandings	**9,146**	**9,587**	**9,667**	**9,943**	**10,025**	**9,897**	**9,457**
National direct student loans	Obligations	191						
	Loan disbursements	205						
	Change in outstandings	*139*	*−4,739*	*−14*	*−19*	*−25*	*−30*	*−36*
	Outstandings	**5,272**	**532**	**519**	**500**	**475**	**445**	**409**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1986	Estimate					
			1987	1988	1989	1990	1991	1992
College housing loans	Obligations	57						
	Loan disbursements	21	64	63	4	−18		
	Change in outstandings	*−72*	*−1,002*	*−911*	*−65*	*−60*	*−7*	*−7*
	Outstandings	**2,229**	**1,226**	**316**	**251**	**191**	**184**	**177**
Higher education	Obligations							
	Loan disbursements							
	Change in outstandings	*−16*	*−17*	*−9*	*−8*	*−6*	*−6*	*−5*
	Outstandings	**61**	**44**	**35**	**26**	**20**	**14**	**9**
Higher education facilities loans and insurance	Obligations							
	Loan disbursements							
	Change in outstandings	*−17*	*−18*	*−158*	*−58*	*−37*	*−4*	*−4*
	Outstandings	**339**	**320**	**163**	**104**	**67**	**64**	**60**
Energy:								
Geothermal resources	Obligations	4						
	Loan disbursements	4						
	Change in outstandings	*4*						
	Outstandings	**16**	**16**	**16**	**16**	**16**	**16**	**16**
Bonneville Power Administration	Obligations							
	Loan disbursements							
	Change in outstandings	*−1*	*	*	*	*	*	*
	Outstandings	**5**	**5**	**4**	**4**	**4**	**4**	**4**
Health and Human Services:								
Medical facilities guarantees and loan fund	Obligations	5	23	2	2	2	2	2
	Loan disbursements	5	23	2	2	2	2	2
	Change in outstandings	*−10*	*−5*	*−132*	*2*	*2*	*2*	*2*
	Outstandings	**137**	**132**		**2**	**3**	**4**	**6**
Health maintenance organization loan fund	Obligations							
	Loan disbursements	1						
	Change in outstandings	*−7*	*−8*	*−97*				
	Outstandings	**105**	**97**					

Health resources and services	Obligations	*	1	1	1	1	1	1
	Loan disbursements	1	1	1	1	1	1	1
	Change in outstandings	*−16*	*−8*	*−8*	*−10*	*−6*	*−6*	*−5*
	Outstandings	**495**	**486**	**479**	**468**	**462**	**456**	**451**
Health education assistance loans	Obligations	16	22	29	33	35	33	31
	Loan disbursements	17	22	29	33	35	33	31
	Change in outstandings	*17*	*22*	*28*	*32*	*34*	*32*	*29*
	Outstandings	**30**	**52**	**81**	**113**	**146**	**178**	**207**
Housing and Urban Development:								
Low-rent public housing	Obligations	...	...	...	...	...	...	...
	Loan disbursements	...	...	...	...	...	...	...
	Change in outstandings	*−35*	*−37*	*−39*	*−42*	*−44*	*−47*	*−50*
	Outstandings	**2,111**	**2,074**	**2,035**	**1,993**	**1,949**	**1,902**	**1,852**
Housing for the elderly or handicapped	Obligations	556	502	131	24	14	8	4
	Loan disbursements	55 3	553	538	501	323	53	18
	Change in outstandings	*523*	*521*	*3*	*464*	*284*	*12*	*−25*
	Outstandings	**6,189**	**6,710**	**6,713**	**7,177**	**7,460**	**7,472**	**7,447**
GNMA emergency mortgage purchases	Obligations	...	...	...	...	...	...	...
	Loan disbursements	180	204	...	...	...	...	...
	Change in outstandings	*−750*	*−522*	*−45*	*−1*	*−1*	*−1*	*−1*
	Outstandings	**884**	**361**	**316**	**315**	**315**	**314**	**313**
Payments on mortgage-backed securities	Obligations	8	802	306	196	128	266	86
	Loan disbursements	8	802	306	196	128	266	86
	Change in outstandings	*7*	***	***	*−2*	*−2*	*−1*	*−1*
	Outstandings	**10**	**10**	**10**	**8**	**6**	**5**	**4**
Federal Housing Administration fund	Obligations	423	321	395	443	573	807	811
	Loan disbursements	423	299	372	412	573	807	810
	Change in outstandings	*42*	*−393*	*−476*	*6*	*−109*	*−114*	*−66*
	Outstandings	**4,246**	**3,853**	**3,377**	**3,382**	**3,273**	**3,159**	**3,092**
Rehabilitation loan fund	Obligations	40	85	...	...	...	...	...
	Loan disbursements	59	100	38	...	...	...	...
	Change in outstandings	*−8*	*20*	*−387*	*−343*	...	...	...
	Outstandings	**710**	**730**	**343**	...	...	...	...

Table F–18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1986	Estimate 1987	1988	1989	1990	1991	1992
Revolving fund for liquidating programs	Obligations							
	Loan disbursements							
	Change in outstandings	*−27*	*−56*	*−212*	*−96*	*−2*	*−2*	*−6*
	Outstandings	**392**	**336**	**124**	**28**	**26**	**25**	**19**
Interior:								
Bureau of Reclamation loans	Obligations	45	44	27	22	15	6	5
	Loan disbursements	47	38	32	27	33	18	2
	Change in outstandings	*38*	*28*	*−326*	*27*	*33*	*18*	*2*
	Outstandings	**480**	**507**	**181**	**209**	**241**	**259**	**261**
BIA revolving fund	Obligations	14	16	13	13	13	13	13
	Loan disbursements	11	21	13	13	13	13	13
	Change in outstandings	*1*	*12*	*4*	*4*	*4*	*4*	*4*
	Outstandings	**106**	**118**	**122**	**125**	**129**	**132**	**136**
Indian loan guaranty and insurance fund	Obligations	6	7	5	4	4	4	4
	Loan disbursements	6	7	5	4	4	4	4
	Change in outstandings	*6*	***	*2*	*−2*	*−2*	*−2*	*−2*
	Outstandings	**12**	**12**	**14**	**12**	**11**	**9**	**7**
Transportation:								
Railroad rehabilitation and improvement financing	Obligations							
	Loan disbursements	9	9	5				
	Change in outstandings	*−86*	*1*	*−585*	*−9*	*−7*	*−5*	*−6*
	Outstandings	**634**	**635**	**50**	**41**	**34**	**29**	**23**
Federal-aid highways trust fund	Obligations	27						
	Loan disbursements	1	*	*				
	Change in outstandings	*1*	***	***				
	Outstandings	**76**	**77**	**77**	**77**	**77**	**77**	**77**
Right-of-way revolving fund	Obligations	48	48	48	48	48	48	48
	Loan disbursements	38	48	48	48	48	48	48

	Change in outstandings	*16*						
	Outstandings	**131**	**131**	**131**	**131**	**131**	**131**	**131**
Miscellaneous expired accounts	Obligations							
	Loan disbursements							
	Change in outstandings	*	*−1*					
	Outstandings	**1**						
Aircraft purchase loan guarantees	Obligations	2						
	Loan disbursements	2						
	Change in outstandings	*−21*	*−6*	*−5*	*−5*	*−4*	*−4*	*−4*
	Outstandings	**48**	**42**	**37**	**32**	**27**	**23**	**20**
MarAd Federal ship financing fund	Obligations	1,260	610	105	105	105	105	105
	Loan disbursements	1,260	610	105	105	105	105	105
	Change in outstandings	*878*	*608*	*103*	*103*	*103*	*103*	*103*
	Outstandings	**1,475**	**2,082**	**2,185**	**2,288**	**2,390**	**2,493**	**2,595**
Environmental Protection Agency:								
Abatement, control, and compliance	Obligations	32						
	Loan disbursements	22	49	−5	−4	−2	−1	
	Change in outstandings	*22*	*48*	*−8*	*−6*	*−5*	*−4*	*−3*
	Outstandings	**24**	**72**	**6 4**	**58**	**53**	**49**	**46**
NASA	Obligations							
	Loan disbursements							
	Change in outstandings		*−79*	*−91*	*−105*	*−121*	*−138*	*−157*
	Outstandings	**888**	**809**	**717**	**612**	**491**	**354**	**197**
Veterans Administration:								
Vendee loans and loans repurchased	Obligations	970	930	826	914	963	988	990
	Loan disbursements	970	930	826	914	963	988	990
	Change in outstandings	*−34*	*70*	*−275*	*− 266*	*−277*	*−6*	*−35*
	Outstandings	**1,188**	**1,258**	**983**	**717**	**440**	**433**	**398**
Direct loan revolving fund	Obligations	1	2	2	3	3	3	3
	Loan disbursements	1	2	2	2	2	2	2
	Change in outstandings	*−29*	*−23*	*−18*	*−21*	*−19*	*−17*	*−15*
	Outstandings	**125**	**102**	**84**	**63**	**44**	**27**	**13**
Other veterans programs	Obligations	1	1	1	1	1	1	1
	Loan disbursements	1	1	1	1	1	1	1

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or program		Actual 1986	Estimate					
			1987	1988	1989	1990	1991	1992
	Change in outstandings	*−5*	*−6*	*−6*	*−7*	*−7*	*−7*	*−8*
	Outstandings	**47**	**41**	**35**	**28**	**21**	**14**	**6**
District of Columbia:								
Loans to the District of Columbia	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−564*	*−293*	*−30*	*−31*	*−33*	*−35*	*−37*
	Outstandings	**1,008**	**715**	**685**	**654**	**621**	**586**	**549**
Export-Import Bank [1]	Obligations	578	900	1,000	900	900	900	900
	Loan disbursements	906	771	693	700	700	700	700
	Change in outstandings	*−1,525*	*−3,681*	*−2,714*	*−97 5*	*−1,025*	*−1,075*	*−1,125*
	Outstandings	**14,351**	**10,670**	**7,956**	**6,981**	**5,956**	**4,881**	**3,756**
Federal Deposit Insurance Corporation [2]	Obligations	128	.....	.....	.....	.....	.....	.....
	Loan disbursements	128	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−194*	*−53*	*−1*	*−50*	*−50*	*−50*	*−50*
	Outstandings	**3,423**	**3,370**	**3,369**	**3,319**	**3,269**	**3,219**	**3,169**
Federal Savings and Loan Insurance Corporation [2]	Obligations	21	25	25	25	25	25	25
	Loan disbursements	21	25	25	25	25	25	25
	Change in outstandings	*−73*	*8*	*25*	*15*	*15*	*15*	*15*
	Outstandings	**1,686**	**1,694**	**1,718**	**1,733**	**1,748**	**1,763**	**1,778**
National Credit Union Administration:								
Share insurance fund	Obligations	3	5	5	5	5	5	2
	Loan disbursements	3	5	5	5	5	5	1
	Change in outstandings	*−25*	*−15*	*−1*	*−2*	*−2*	*−2*	*−2*
	Outstandings	**24**	**9**	**8**	**6**	**4**	**2**	.....
Central liquidity facility	Obligations	31	56	72	150	150	150	150
	Loan disbursements	31	56	72	150	150	150	150
	Change in outstandings	*−117*	*24*	*25*	*25*	*25*	*25*	*25*
	Outstandings	**106**	**129**	**154**	**179**	**204**	**229**	**254**
Small business:								
Business and investment loans	Obligations	1,027	591	454	448	428	405	381

	Loan disbursements	982	698	528	448	428	405	381
	Change in out standings	*77*	*−181*	*−1,814*	*−1,486*	*152*	*89*	*43*
	Outstandings	**4,950**	**4,769**	**2,956**	**1,470**	**1,622**	**1,711**	**1,754**
Disaster loans [1]	Obligations	516	325	350	310	310	310	310
	Loan disbursements	361	296	304	297	279	279	279
	Change in outstandings	*−334*	*−939*	*−864*	*−744*	*−652*	*−557*	*−466*
	Outstandings	**4,222**	**3,283**	**2,419**	**1,675**	**1,023**	**466**	.....
Tennessee Valley Authority	Obligations	268	301	280	343	346	330	405
	Loan disbursements	268	301	280	343	346	330	405
	Change in outstandings	*180*	*−211*	*74*	*−634*	*−66*	*−109*	*17*
	Outstandings	**2,094**	**1,882**	**1,957**	**1,322**	**1,256**	**1,147**	**1,163**
Payments for Conrail securities	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	.....	*−851*	.....	.....	.....	.....	.....
	Outstandings	**851**	.....	.....	.....	.....	.....	.....
United States Railway Association	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*6*	*−34*	*3*	*3*	*3*	*3*	*3*
	Outstandings	**84**	**50**	**52**	**55**	**58**	**62**	**65**
Other agencies and programs	Obligations	38	5	4	4	4	4	4
	Loan disbursements	99	77	35	5	5	4	4
	Change in outstandings	*−6*	*−38*	*−75*	*−98*	*−85*	*−74*	*−54*
	Outstandings	**966**	**928**	**853**	**755**	**670**	**595**	**541**
Grand total, net direct loans	Obligations	41,329	34,927	27,136	23,134	22,089	21,852	20,979
	Loan disbursements	42,232	39,467	32,087	27,848	25,341	24,016	22,531
	Change in outstandings	*11,155*	*−15,231*	*−15,321*	*−9,076*	*−8,195*	*−7,429*	*−8,885*
	Outstandings	**251,594**	**236,363**	**221,041**	**211,965**	**203,770**	**196,341**	**187,456**

* $500,000 or less.
[1] Obligations for 1989–1992 are not included in totals.
[2] Direct loan obligations and disbursements for these programs represent increases in their holdings of loan assets rather than cash disbursements.

Table F-19. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or Program		Actual 1986	Estimate 1987	1988	1989	1990	1991	1992
Funds Appropriated to the President:								
Foreign military sales	Commitments							
	New guaranteed loans							
	Change in outstandings	*−20*	*−20*	*−20*	*−20*	*−20*	*−20*	*−20*
	Outstandings	**160**	**140**	**120**	**100**	**80**	**60**	**40**
Overseas Private Investment Corporation	Commitments	136	200	150	150	150	150	150
	New guaranteed loans	81	80	80	80	80	80	80
	Change in outstandings	*45*	*45*	*45*	*45*	*45*	*45*	*45*
	Outstandings	**268**	**313**	**358**	**403**	**448**	**493**	**538**
AID housing and other credit guarantees	Commitments	145	145	100	100	100	100	100
	New guaranteed loans	66	75	75	75	75	75	75
	Change in outstandings	*40*	*47*	*44*	*41*	*38*	*36*	*34*
	Outstandings	**1,216**	**1,263**	**1,306**	**1,347**	**1,386**	**1,422**	**1,455**
Agriculture:								
Rural Electrification Administration	Commitments			840	1,115	1,388	1,388	1,388
	New guaranteed loans		100	329	836	1,318	1,759	2,052
	Change in outstandings	*−15*	*88*	*317*	*824*	*1,306*	*1,747*	*2,040*
	Outstandings	**1,030**	**1,118**	**1,435**	**2,260**	**3,565**	**5,312**	**7,352**
Farmers Home Administration:								
Agricultural credit insurance fund	Commitments	1,560	2,498	2,500	3,500	3,600	3,700	4,000
	New guaranteed loans	1,160	1,794	2,381	2,849	3,418	3,844	3,870
	Change in outstandings	*776*	*1,098*	*1,175*	*957*	*1,284*	*1,193*	*747*
	Outstandings	**2,161**	**3,258**	**4,434**	**5,391**	**6,675**	**7,868**	**8,615**
Rural housing insurance fund	Commitments							
	New guaranteed loans	*						
	Change in outstandings	*−138*	*−15*	*−291*	*−184*	*−3*	*−4*	*−9*
	Outstandings	**617**	**602**	**311**	**127**	**124**	**120**	**111**
Rural development insurance fund	Commitments	55	115					
	New guaranteed loans	127	70	81	39	11	7	4
	Change in outstandings	*−285*	*−290*	*−465*	*−316*	*−220*	*−186*	*132*
	Outstandings	**2,626**	**2,337**	**1,871**	**1,555**	**1,335**	**1,150**	**1,282**

Commodity Credit Corporation export credits	Commitments	2,503	5,500	3,500	3,500	3,500	3,500	3,500
	New guaranteed loans	1,595	5,500	3,500	3,500	3,500	3,500	3,500
	Change in outstandings	*−1,485*	*3,428*	*745*	*322*	*−317*	*300*	*250*
	Outstandings	**3,609**	**7,038**	**7,782**	**8,104**	**7,788**	**8,088**	**8,338**
Commerce:								
Economic development programs	Commitments	22	22	...	...	...	...	...
	New guaranteed loans	22	22	...	...	...	...	...
	Change in outstandings	*51*	*−149*	*−17*	*−16*	*−14*	*−13*	*−12*
	Outstandings	**286**	**137**	**120**	**104**	**90**	**77**	**65**
ITA operations and administration	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	*	*	...	...	...	...	...
	Change in outstandings	*−5*	*−8*	*−8*	*−2*	*	*	*
	Outstandings	**20**	**12**	**4**	**2**	**2**	**2**	**1**
National Oceanic and Atmospheric Administration	Commitments	19	50	...	...	...	...	...
	New guaranteed loans	19	50	...	...	...	...	...
	Change in outstandings	*35*	*38*	*−12*	*−12*	*−12*	*−12*	*−12*
	Outstandings	**193**	**231**	**219**	**207**	**195**	**183**	**171**
Education: Guaranteed student loans	Commitments	8,575	9,591	9,398	10,715	11,857	12,498	12,651
	New guaranteed loans	6,320	9,075	9,061	10,050	11,294	11,973	12,261
	Change in outstandings	*657*	*2,450*	*1,131*	*1,025*	*1,643*	*1,862*	*1,778*
	Outstandings	**37,482**	**39,931**	**41,063**	**42,088**	**43,731**	**45,594**	**47,372**
Energy:								
Geothermal resources development fund	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	...	...	...	...	...	...	...
	Change in outstandings	*−4*	...	...	...	...	...	...
	Outstandings	**50**	**50**	**50**	**50**	**50**	**50**	**50**
Health and Human Services:								
Medical facilities guarantees and loan fund	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	...	...	...	...	...	...	...
	Change in outstandings	*−119*	*−143*	*−132*	*−132*	*−132*	*−132*	*−132*
	Outstandings	**876**	**732**	**601**	**469**	**338**	**206**	**75**
Health education assistance loans	Commitments	374	343	100	100	100	100	...
	New guaranteed loans	321	343	100	100	100	100	...
	Change in outstandings	*275*	*310*	*58*	*52*	*48*	*48*	*−52*
	Outstandings	**1,106**	**1,416**	**1,474**	**1,527**	**1,575**	**1,623**	**1,572**

Table F-19. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT** (in millions of dollars)—Continued

Agency or Program		Actual 1986	Estimate					
			1987	1988	1989	1990	1991	1992
Housing and Urban Development:								
Low-rent public housing	Commitments							
	New guaranteed loans							
	Change in outstandings	*−275*	*−312*	*−339*	*−367*	*−394*	*−422*	*−450*
	Outstandings	**8,612**	**8,300**	**7,961**	**7,594**	**7,200**	**6,777**	**6,327**
Revolving fund (liquidating)	Commitments							
	New guaranteed loans							
	Change in outstandings	*−3*	*−1*	*−4*	*−9*	*−11*	*−15*	*−13*
	Outstandings	**54**	**53**	**49**	**40**	**29**	**14**	**1**
Federal Housing Administration	Commitments	102,592	86,975	70,000	68,999	71,347	73, 500	75,220
	New guaranteed loans	52,220	73,203	59,663	55,158	56,445	58,234	59,674
	Change in outstandings	*28,041*	*57,030*	*41,952*	*34,628*	*33,058*	*32,853*	*32,306*
	Outstandings	**223,520**	**280,550**	**322,502**	**357,129**	**390,188**	**423,041**	**455,347**
GNMA mortgage-backed securities	Commitments	137,962	132,500	100,000	100,000	100,000	100,000	100,000
	New guaranteed loans	81,779	87,700	67,000	67,000	67,000	67,000	67,000
	Change in outstandings	*40,204*	*50,817*	*34,246*	*29,397*	*28,800*	*27,996*	*27,788*
	Outstandings	**241,230**	**292,047**	**326,292**	**355,689**	**384,489**	**412,485**	**440,272**
Interior:								
Indian loan guaranty and insurance fund	Commitments	37	40	34	28	20	20	20
	New guaranteed loans	37	40	34	28	20	20	20
	Change in outstandings	*24*	*28*	*22*	*8*			
	Outstandings	**142**	**170**	**192**	**200**	**200**	**200**	**200**
Transportation:								
MarAd Federal ship financing fund	Commitments	48						
	New guaranteed loans	82	50					
	Change in outstandings	*−1,448*	*−750*	*−300*	*−300*	*−300*	*−300*	*−300*
	Outstandings	**4,995**	**4,245**	**3,945**	**3,645**	**3,345**	**3,045**	**2,745**
Aircraft purchase loan guarantees	Commitments							
	New guaranteed loans							

	Change in outstandings	*−131*	*−76*	*−37*	*−31*	*−30*	*−29*	*−25*
	Outstandings	**276**	**200**	**163**	**132**	**102**	**73**	**49**
Miscellaneous expired accounts	Commitments							
	New guaranteed loans							
	Change in outstandings							
	Outstandings	**997**	**997**	**997**	**997**	**997**	**997**	**997**
Treasury:								
Guarantees of New York City notes	Commitments							
	New guaranteed loans							
	Change in outstandings	*−190*						
	Outstandings							
Biomass energy development	Commitments							
	New guaranteed loans	294	283					
	Change in outstandings	*283*	*273*					
	Outstandings	**796**	**1,069**	**1,069**	**1,069**	**1,069**	**1,069**	**1,069**
Veterans Administration:								
Loan guarantee revolving fund	Commitments	34,297	35,000	27,930	27,700	24,800	21,000	18,900
	New guaranteed loans	21,966	26,198	25,367	24,996	22,508	19,094	17,175
	Change in outstandings	*8,254*	*11,194*	*8,483*	*6,911*	*3,486*	*−432*	*−2,336*
	Outstandings	**142,562**	**153,756**	**162,239**	**169,150**	**172,636**	**172,204**	**169,868**
Export-Import Bank	Commitments	5,508	11,355	10,000	10,000	10,000	10,000	10,000
	New guaranteed loans	3,167	4,894	5,289	1,300	1,300	1,300	1,300
	Change in outstandings	*−341*	*703*	*678*	*−500*			
	Outstandings	**4,785**	**5,488**	**6,166**	**5,666**	**5,666**	**5,666**	**5,666**
Federal Savings and Loan Insurance Corporation	Commitments	506	103	300	100	100	100	100
	New guaranteed loans	506	103	300	100	100	100	100
	Change in outstandings	*438*	*53*	*294*	*50*	*50*	*50*	*50*
	Outstandings	**2,952**	**3,005**	**3,299**	**3,349**	**3,399**	**3,449**	**3,499**
National Credit Union Administration	Commitments	6	2	1				
	New guaranteed loans	6	2	1				
	Change in outstandings	*1*	*−2*	*−2*	*−1*			
	Outstandings	**5**	**3**	**1**				
Small business:								
Business and investment loan guarantees	Commitments	2,754	3,567	3,510	3,510	3,510	3,510	3,510
	New guaranteed loans	1,754	2,900	3,010	3,000	3,000	3,000	3,000

Table F–19. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1986	Estimate 1987	1988	1989	1990	1991	1992
	Change in outstandings	*–461*	*705*	*715*	*610*	*530*	*340*	*260*
	Outstandings	**8,362**	**9,067**	**10,063**	**10,673**	**11,203**	**11,543**	**11,803**
Pollution control equipment guarantees	Commitments	25	50					
	New guaranteed loans	16	25					
	Change in outstandings	*–51*	*5*					
	Outstandings	**276**	**281**					
Disaster loans	Commitments							
	New guaranteed loans							
	Change in outstandings	*	*	*	*	*	*	*
	Outstandings	**3**	**3**	**2**	**2**	**2**	**1**	**1**
Tennessee Valley Authority	Commitments							
	New guaranteed loans							
	Change in outstandings			*–1*				
	Outstandings	1	1					
Synthetic Fuels Corporation	Commitments							
	New guaranteed loans							
	Change in outstandings	*–4*						
	Outstandings							
Other agencies and programs	Commitments	81	150					
	New guaranteed loans	1	148	85				
	Change in outstandings	*–132*	*122*	*38*	*–61*	*–65*	*–70*	*–75*
	Outstandings	**651**	**772**	**810**	**749**	**684**	**613**	**539**
Subtotal, guaranteed loans (gross)	Commitments	297,205	288,205	228,362	229,517	230,472	229,566	229,539
	New guaranteed loans	171,538	212,655	176,355	169,111	170,169	170,085	170,111
	Change in outstandings	*74,017*	*126,666*	*88,313*	*72,921*	*68,770*	*64,835*	*61,995*
	Outstandings	**691,921**	**818,587**	**906,900**	**979,821**	**1,048,591**	**1,113,425**	**1,175,420**
Less secondary guaranteed loans:[1]								
GNMA guarantees of FHA/VA/FmHA pools	Commitments	137,962	132,500	100,000	100,000	100,000	100,000	100,000

	New guaranteed loans	81,779	87,700	67,000	67,000	67,000	67,000	67,000
	Change in outstandings	*40,204*	*50,817*	*34,246*	*29,397*	*28,800*	*27,996*	*27,788*
	Outstandings	**241,230**	**292,047**	**326,292**	**355,689**	**384,489**	**412,485**	**440,272**
Subtotal, guaranteed loans (net)	Commitments	159,243	155,705	128,362	129,517	130,472	129,566	129,539
	New guaranteed loans	89,759	124,955	109,355	102,111	103,169	103,085	103,111
	Change in outstandings	*33,814*	*75,849*	*54,067*	*43,524*	*39,970*	*36,839*	*34,207*
	Outstandings	**450,691**	**526,540**	**580,608**	**624,132**	**664,102**	**700,941**	**735,148**
Less guaranteed loans held as direct loans:[2] By GNMA	Commitments	.....	.....	.....	.....	.....	.....	.....
	New guaranteed loans	180	204	.....	.....	.....	.....	.....
	Change in outstandings	*−750*	*−522*	*−45*	*−1*	*−1*	*−1*	*−1*
	Outstandings	**884**	**361**	**316**	**315**	**315**	**314**	**313**
Total, primary guaranteed loans	Commitments	159,243	155,705	128,362	129,517	130,472	129,566	129,539
	New guaranteed loans	89,580	124,751	109,355	102,111	103,169	103,085	103,111
	Change in outstandings	*34,564*	*76,371*	*54,113*	*43,525*	*39,971*	*36,840*	*34,207*
	Outstandings	**449,808**	**526,179**	**580,292**	**623,816**	**663,787**	**700,627**	**734,834**

* $500,000 or less.

[1] Loans guaranteed by the Federal Housing Administration, the Veterans Administration, or the Farmers Home Administration are included above. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double counting.

[2] When guaranteed loans are acquired by a budget account,they are counted as direct loans and shown in the direct loan table. Consequently, they are deducted from thetotals in this table.

Table F-20. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In millions of dollars)

Enterprise		Actual 1986	Estimate 1987	Estimate 1988
LENDING				
Student Loan Marketing Association	Obligations	4,238	4,662	5,128
	New transactions	4,238	4,662	5,128
	Net change	2,613	2,874	3,162
	Outstandings	14,189	17,063	20,225
Federal National Mortgage Association:				
Corporation Accounts	Obligations	32,102	27,386	28,575
	New transactions	26,806	28,804	25,505
	Net change	948	4,319	2,604
	Outstandings	97,717	102,036	104,640
Mortgage-backed securities	Obligations	61,824	55,600	58,600
	New transactions	51,963	46,732	49,256
	Net change	37,590	31,878	35,856
	Outstandings	86,359	118,237	154,093
Farm Credit Banks:				
Banks for cooperatives	Obligations	28,988	39,565	39,277
	New transactions	28,988	39,561	39,277
	Net change	−356	−14	1,878
	Outstandings	7,177	7,163	9,041
Federal intermediate credit banks	Obligations	12,716	6,563	6,467
	New transactions	12,716	6,563	6,467
	Net change	−6,924	−630	−108
	Outstandings	8,701	8,070	7,963
Federal land banks	Obligations	1,660	1,239	1,454
	New transactions	1,660	1,876	1,876
	Net change	−18,578	−3,241	−3,241
	Outstandings	27,358	24,117	20,876
Federal Home Loan Bank system:				
Federal home loan banks	Obligations	165,574	165,000	170,000
	New transactions	165,574	165,000	170,000
	Net change	13,048	6,711	9,997
	Outstandings	100,064	106,775	116,772
Federal Home Loan Mortgage Corporation:				
Corporation accounts	Obligations	5,054	5,275	5,375
	New transactions	5,054	5,275	5,375
	Net change	271	1,839	3,761
	Outstandings	13,359	15,198	18,959
Participation certificate pools [1]	Obligations	78,867	81,653	70,025
	New transactions	78,867	81,653	70,025
	Net change	54,882	55,265	47,145
	Outstandings	146,871	202,136	249,281
Subtotal, lending (gross)	Obligations	391,024	386,943	384,901
	New transactions	375,867	380,127	372,909
	Net change	83,494	99,001	101,054
	Outstandings	501,794	600,795	701,849
Less loans between sponsored enterprises	Obligations	.....	.....	.....
	New transactions	.....	.....	.....
	Net change	−240	−250	.....
	Outstandings	950	700	700

Table F-20. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1986	Estimate 1987	Estimate 1988
Less secondary funds advanced from Federal sources:				
SLMA from FFB [2]	Obligations			
	New transactions			
	Net change	−30	−30	−30
	Outstandings	4,970	4,940	4,910
TVA to FNMA	Obligations			
	New transactions			
	Net change			
	Outstandings	80	80	80
Less guaranteed loans held as direct loans by:				
Federal National Mortgage Association [3]	Obligations			
	New transactions			
	Net change	−3,385		
	Outstandings	27,679	27,679	27,679
Federal home loan banks	Obligations			
	New transactions			
	Net change	491	99	291
	Outstandings	3,005	3,104	3,395
Federal Home Loan Mortgage Corporation [3]	Obligations			
	New transactions			
	Net change	1,254		
	Outstandings	3,129	3,129	3,129
Farm Credit Banks	Obligations			
	New transactions			
	Net change	−39	−13	3
	Outstandings	21	8	11
Student Loan Marketing Association [2]	Obligations			
	New transactions			
	Net change	2,643	2,904	3,191
	Outstandings	9,219	12,123	15,314
Total lending	Obligations	391,023	386,943	384,901
	New transactions	375,866	380,126	372,909
	Net change	83,330	95,212	95,609
	Outstandings	453,272	548,483	644,093
BORROWING				
Student Loan Marketing Association	Net change	2,856	2,988	3,410
	Outstandings	15,526	18,515	21,925
Federal National Mortgage Association [4]	Net change	39,526	34,108	38,284
	Outstandings	179,988	214,096	252,380
Farm Credit System:				
Banks for cooperatives	Net change	422	−858	−373
	Outstandings	8,489	7,631	7,258
Federal intermediate credit banks	Net change	−2,561	−3,315	−256
	Outstandings	12,961	9,646	9,389

Table F-20. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1986	Estimate 1987	Estimate 1988
Federal land banks	Net change	−3,595	−9,221	−1,204
	Outstandings	42,653	33,431	32,227
Federal Home Loan Bank system:				
Federal home loan banks	Net change	14,509	6,917	9,000
	Outstandings	88,083	95,000	104,000
Federal Home Loan Mortgage Corporation	Net change	55,952	59,159	50,692
	Outstandings	161,767	220,926	271,618
Subtotal, borrowing (gross)	Net change	107,109	89,778	99,553
	Outstandings	509,467	599,245	698,797
Less borrowing from other sponsored enterprises	Net change	−203	−325	14
	Outstandings	1,230	905	919
Less borrowing from Federal sources:				
SLMA from FFB [2]	Net change	−30	−30	−30
	Outstandings	4,970	4,940	4,910
TVA to FNMA	Net change	.....	.....	.....
	Outstandings	80	80	80
Total borrowing from the public	Net change	107,342	90,133	99,569
	Outstandings	503,187	593,320	692,888
Less investments in Federal securities	Net change	−756	−39	234
	Outstandings	1,986	1,947	2,181
Less borrowing for guaranteed loans held as direct loans by:				
Federal National Mortgage Association	Net change	−3,385	.....	.....
	Outstandings	27,679	27,679	27,679
Federal home loan banks	Net change	491	99	291
	Outstandings	3,005	3,104	3,395
Federal Home Loan Mortgage Corporation	Net change	1,254	.....	.....
	Outstandings	3,129	3,129	3,129
Farm Credit Banks	Net change	−39	−13	3
	Outstandings	21	8	11
Student Loan Marketing Association [2]	Net change	2,643	2,904	3,191
	Outstandings	9,219	12,123	15,314
Total borrowed	Net change	107,134	87,182	95,850
	Outstandings	458,148	545,330	641,179

[1] All new transactions are loans purchased from FHLMC corporation accounts.

[2] All SLMA lending financed through the FFB has been counted in Table F0918 as direct loans. All SLMA loans are student loans guaranteed by the Federal Government and, therefore, counted in Table F0919 as guaranteed loans The first deduction eliminates the overlap of this table with the direct loan table; the second deduction removes the non-FFB financed remainder of SLMA to eliminate overlap with the guaranteed loan table.

[3] The estimates for 1987 and 1988 are made by OMB.

[4] Loans purchased at discount are recorded at their acquisition cost.

Table F-21. **FEDERAL FINANCING BANK ACTIVITIES**

(In millions of dollars)

Agency and program	Actual 1986	Estimated 1987	1988	1989	1990	1991	1992
Assets purchased from:							
Overseas Private Investment Corporation:							
New acquisitions							
Net lending	−5	−1	−1				
Loans outstanding	1	1					
Farmers Home Administration:							
Agricultural credit insurance fund:							
New acquisitions	1,470			654	1,398	244	3,831
Net lending	220	−385	−385	−3,306	−1,931	−1,731	−1,679
Loans outstanding	28,395	28,010	27,625	24,319	22,388	20,657	18,978
Rural housing insurance fund:							
New acquisitions	750						
Net lending	750	−1,860	−1,365	−1,919	−2,240	−2,270	−2,135
Loans outstanding	29,101	27,241	25,876	23,957	21,717	19,447	17,312
Rural development insurance fund:							
New acquisitions	265						
Net lending	235	−1,645	−720	−720	−920	−1,000	−1,020
Loans outstanding	7,878	6,233	5,513	4,793	3,873	2,873	1,853
Rural Electrification Administration:							
New acquisitions	617	388	211	207	255	249	233
Net lending	517	−704	−1,405	−465	−369	−290	−222
Loans outstanding	4,241	3,538	2,132	1,668	1,298	1,008	786
Medical facilities guarantees:							
New acquisitions							
Net lending	−15	−6	−35				
Loans outstanding	108	102	67	67	67	67	67
Health maintenance organizations:							
New acquisitions	1						
Net lending	−7	−8	−24				
Loans outstanding	102	95	71	71	71	71	71
Small business development companies:							
New acquisitions							
Net lending	−7	−7	−7	−6	−6		
Loans outstanding	26	19	12	6			
Subtotal, assets purchased:							
New acquisitions	3,103	388	211	861	1,653	493	4,064
Net lending	1,688	−4,614	−3,942	−6,416	−5,466	−5,291	−5,055
Loans outstanding	69,852	65,238	61,297	54,880	49,414	44,122	39,067
Loans originated on behalf of:							
Foreign military sales credit:							
New acquisitions	1,484	754	799	359	139	30	
Net lending	708	−539	−1,611	−43	−332	−575	−661
Loans outstanding	18,797	18,258	16,647	16,604	16,272	15,697	15,036

Table F-21. **FEDERAL FINANCING BANK ACTIVITIES—Continued**

(In millions of dollars)

Agency and program	Actual 1986	Estimated					
		1987	1988	1989	1990	1991	1992
Defense production guarantees:							
New acquisitions	3	...	...	...	...	...	...
Net lending	3	−9	...	...	...	...	...
Loans outstanding	9	...	...	...	...	...	...
Navy industrial fund:							
New acquisitions	568	...	...	...	...	...	...
Net lending	435	−167	−169	−178	−178	−178	−178
Loans outstanding	1,748	1,582	1,412	1,234	1,056	878	700
Rural Electrification Administration:							
New acquisitions	1,318	2,348	1,975	1,492	1,196	739	374
Net lending	−216	−69	1,096	641	372	−68	−417
Loans outstanding	21,460	21,390	22,486	23,127	23,499	23,431	23,014
Low-rent public housing:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−35	−37	−39	−42	−44	−47	−50
Loans outstanding	2,111	2,074	2,035	1,993	1,949	1,902	1,852
Revolving fund, liquidating programs (HUD):							
New acquisitions	...	...	...	...	...	...	...
Net lending	−1	−2	−2	−2	−2	−2	−6
Loans outstanding	32	31	29	27	26	24	18
Community development grants:							
New acquisitions	89	66	29	...	...	...	...
Net lending	11	−8	−51	−78	−65	−54	−34
Loans outstanding	300	292	241	163	98	44	10
Loans to territories:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−1	−2	−2	−2	−2	−2	−2
Loans outstanding	62	60	59	57	55	53	51
Railroad programs:							
New acquisitions	2	2	1	...	...	...	...
Net lending	−93	−5	−5	−9	−7	−5	−6
Loans outstanding	61	55	50	41	34	29	23
Guarantees of SLMA obligations:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−30	−30	−30	...	−30	−30	−30
Loans outstanding	4,970	4,940	4,910	4,910	4,880	4,850	4,820
Federal buildings fund:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−6	−6	−7	−8	−8	−9	−10
Loans outstanding	402	396	389	381	373	364	354
NASA:							
New acquisitions	...	...	...	...	...	...	...
Net lending	...	−79	−91	−105	−121	−138	−157
Loans outstanding	888	809	717	612	491	354	197

Table F-21. **FEDERAL FINANCING BANK ACTIVITIES—Continued**

(In millions of dollars)

Agency and program	Actual 1986	Estimated 1987	1988	1989	1990	1991	1992
Small Business Administration:							
New acquisitions	308	138	43	.....	.....	.....	.....
Net lending	163	−17	−617	−527	−90	−80	−65
Loans outstanding	1,783	1,766	1,149	622	532	452	387
Oregon veterans housing:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	−60	.....	.....	.....	.....	.....	.....
Loans outstanding	.....	.....	.....	.....	.....	.....	.....
Washington Metro Area Transportation Authority:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	.....	.....	.....	.....	.....	.....	.....
Loans outstanding	177	177	177	177	177	177	177
Seven States Energy Corporation (TVA):							
New acquisitions	203	196	209	272	277	261	337
Net lending	188	−244	78	−354	−135	−178	−51
Loans outstanding	1,840	1,595	1,673	1,319	1,184	1,007	956
Subtotal, loans originated:							
New acquisitions	3,975	3,504	3,056	2,123	1,611	1,030	711
Net lending	1,068	−1,215	−1,451	−706	−643	−1,366	−1,666
Loans outstanding	54,641	53,426	51,975	51,269	50,626	49,260	47,594
Debt securities acquired from:							
Export-Import Bank:							
New acquisitions	801	700	400	300	300	300	300
Net lending	−1,141	−2,401	−1,815	−700	−600	−600	−600
Loans outstanding	14,268	11,868	10,052	9,352	8,752	8,152	7,552
Tennessee Valley Authority:							
New acquisitions	2,425	1,896	514	817	451	374	484
Net lending	696	1,396	314	317	251	374	484
Loans outstanding	15,077	16,473	16,788	17,104	17,355	17,729	18,213
Central liquidity facility (NCUA):							
New acquisitions	34	59	74	50	50	50	50
Net lending	−118	25	25	25	25	25	25
Loans outstanding	104	129	154	179	204	229	254
Department of Transportation:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	.....	−39	.....	.....	.....	.....	.....
Loans outstanding	74	35	35	35	35	35	35
Postal Service:							
New acquisitions	1,250	1,635	1,700	1,769	1,840	1,562	476
Net lending	1,164	1,499	1,499	1,500	1,500	1,148	*
Loans outstanding	2,854	4,353	5,852	7,352	8,852	10,000	10,000

Table F-21. **FEDERAL FINANCING BANK ACTIVITIES—Continued**

(In millions of dollars)

Agency and program	Actual 1986	Estimated					
		1987	1988	1989	1990	1991	1992
Subtotal, debt securities:							
New acquisitions	4,510	4,290	2,689	2,936	2,641	2,286	1,310
Net lending	601	480	23	1,141	1,176	947	−91
Loans outstanding	32,377	32,858	32,881	34,022	35,198	36,146	36,054
Total, all FFB acquisitions:							
New acquisitions	11,588	8,182	5,955	5,920	5,905	3,808	6,085
Net lending	3,357	−5,349	−5,369	−5,981	−4,933	−5,710	−6,813
Loans outstanding	156,871	151,522	146,152	140,171	135,238	129,528	122,716

*$500,000 or less.

Table F-22. **FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS**

(In billions of dollars)

	Actual									
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total funds loaned in U.S. credit markets [1]	307.9	379.0	418.7	352.9	410.1	392.3	511.3	703.4	765.0	889.1
Direct loans	11.6	19.8	19.6	24.2	26.1	23.4	15.3	6.3	28.0	11.2
Guaranteed loans	13.5	13.4	25.2	31.6	28.0	20.9	34.1	20.1	21.6	34.6
Government-sponsored enterprise loans [2]	11.7	25.2	28.1	24.1	32.4	43.3	37.1	53.1	60.7	83.3
Federal and federally assisted lending	36.8	58.4	72.9	79.9	86.5	87.6	86.5	79.5	110.3	129.1
Federal lending participation ratio (percent)	12.0	15.4	17.4	22.6	21.1	22.3	16.9	11.3	14.4	14.5
Total funds borrowed in U.S. credit markets [1]	307.9	379.0	418.7	352.9	410.1	392.3	511.3	703.4	765.0	889.1
Federal borrowing from public	53.5	59.1	33.6	70.5	79.3	135.0	212.3	170.8	197.3	236.3
Borrowing for guaranteed loans	13.5	13.4	25.2	31.6	28.0	20.9	34.1	20.1	21.6	34.6
Government-sponsored enterprise borrowing [2]	12.0	21.4	21.9	21.4	34.8	43.8	34.6	55.5	57.9	107.1
Federal and federally assisted borrowing	79.0	93.9	80.7	123.5	142.1	199.7	281.0	246.4	276.8	378.0
Federal borrowing participation ratio (percent)	25.7	24.8	19.3	35.0	34.7	50.9	55.0	35.0	36.2	42.5

[1] Funds loaned to and borrowed by nonfinancial sectors, excluding equities.

[2] The data in Table F-22 for total funds loaned are defined as excluding financial sectors. Nonetheless, the Government-sponsored enterprises, as well as Federal assisted lending, are properly compared with total funds loaned. Government-sponsored enterprises lending is a proxy for the lending by non-financial sectors that is intermediated by the sponsored enterprises. It assists the ultimate non-financial borrowers whose loans are purchased or otherwise financed by the sponsored enterprise.

Source: Federal Reserve Board Flow-of-Funds Accounts for total funds loaned and borrowed.

SPECIAL ANALYSIS F
TABLE OF CONTENTS

TABLES

CHARTS

SPECIAL ANALYSIS F

FEDERAL CREDIT PROGRAMS

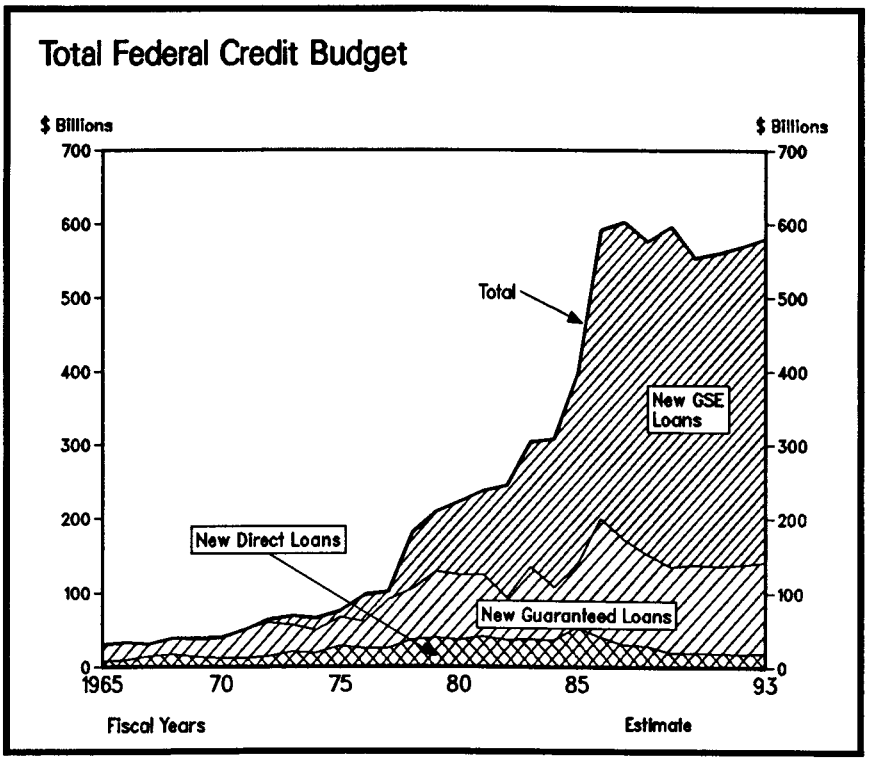
I. Introduction

The Federal Government is the Nation's largest financial intermediary. At the end of 1987, it held loans with a face value of $234 billion in its direct loan portfolio, which was 75 percent larger than the loan assets of the largest commercial bank in the United States. The Federal Government also had guaranteed loans with an outstanding balance of $507 billion at the end of 1987. Government-sponsored enterprises had an additional $581 billion of loans outstanding at the end of the year. Thus, directly or indirectly, the Federal Government had influenced the allocation of $1.3 trillion of outstanding credit to farmers, homeowners, small businesses, exporters, utilities, shipbuilders, and State, local, and foreign governments. The accompanying chart compares the pattern of new lending over the last two decades with the most recent patterns and with estimates of future trends through 1993.

Federal credit is designed to meet various social or economic goals that, for whatever reason, the private sector does not meet on its own. Meeting these goals may entail the provision of a subsidy to a favored borrower or the correction of a perceived capital market imperfection.

The problems in directing or controlling Federal credit are enormous and systemic. The discipline that the private market imposes on private financial intermediaries is absent. The discipline that the current budget process imposes is not fully effective in controlling Federal credit programs. The Federal credit budget, while an improvement over the previous control and display mechanisms of the unified budget for credit programs, does not take into account explicitly the most important aspect of Federal credit—the economic subsidy offered to borrowers. In order to focus on that subsidy, the administration is proposing a reform of budgeting for credit programs that would remedy the shortcomings of existing practices by incorporating into the unified budget and appropriations process the subsidies provided by credit programs. The credit reform proposal is outlined in Part 6b, "Federal Credit," of the *Budget of the United States Government, FY 1989.*

This special analysis presents data and information on the broad spectrum of Government credit programs and policies from 1987



through 1993. It examines some of the problems in controlling Federal credit programs through existing budgetary processes and summarizes how the administration's credit reform proposal would address those problems. This document discusses the basis of the credit budget and how the credit budget relates to appropriation act limitations on direct loan obligations and guaranteed loan commitments. The direct and guaranteed loan transactions of the Government are presented in detail. It also outlines the credit activity of Government-sponsored enterprises, describes trends in Federal credit, presents estimates of Federal credit subsidies, and includes discussions of other credit-related topics. This special analysis supplements the credit data and discussions found elsewhere in the budget. See the Appendix of this special analysis for more details.

II. Controlling Federal Credit Programs

Comparisons with Private Financial Intermediaries.—The objectives of Federal credit programs are different from those of private financial institutions. While private financial institutions seek to make a profit on their lending, Federal credit programs normally exist to offer credit to selected borrowers on terms and conditions that are more favorable than those available from private lenders.

In some cases, the Government offers credit to borrowers for whom no private source of credit is available. Compared to fully private loans, the terms and conditions of Federal loans may include lower interest rates or loan guarantee fees, less stringent credit risk thresholds in making credit available, or more generous grace periods or repayment schedules. Legislation frequently defines the eligible pool of applicants, specifies the lending terms that an agency or program may offer, and otherwise restricts the discretion of Federal program managers to screen loan applications in a manner common for private lenders.

In addition to these differences in purpose, there are also differences in procedures between public and private financial intermediaries. Unlike a private financial intermediary, a Federal direct loan or loan guarantee program has no standard measure of performance, such as profit, for assessing its success. Federal credit programs were created to subsidize favored borrowers to varying degrees; therefore, net income does not measure success.

Moreover, the standards of the marketplace that restrict the growth and size of private lenders do not apply to Federal credit programs. Unlike commercial banks, Federal agencies need not worry about constraints on the volume or quality of new lending imposed by the inadequacy of primary capital. Federal agencies can continue to lend if they have little, zero, or even negative equity. Federal lending agencies need not be concerned with the standards imposed on private banks by Federal regulatory agencies for assessing and reporting on the quality of loan portfolios. This makes alternative forms of discipline all the more important if Federal credit is to be directed in the most efficient manner.

The Unified Budget and the Appropriations Process.—The unified budget, with its focus on budget authority, outlays, and receipts, provides a comprehensive system for recording and controlling most receipts and outlays, but it is an incomplete mechanism for recording and controlling Federal credit programs. The unified budget measures net outlays, not the full volume of new credit extended for direct loans. The appropriations process also treats credit in a limited way. The largest direct loan programs are currently financed by revolving funds in which disbursements for new direct loans are offset by repayments on existing loans. Congressional appropriations of budget authority for these revolving funds are generally necessary only when new disbursements exceed available fund balances, which can be augmented by loan repayments and asset sales. Moreover, the budget treatment can be different even for otherwise similar accounts because of differing congressional practices. For all these reasons, the appropriations process does not normally control directly the amount of new direct loans extended.

Second, guaranteed loan commitments, an important form of credit, do not constitute outlays and are not reflected in the unified budget except to the extent that defaults occur. While, in principle, they could be included under budget authority, commitments were excluded from the definition of budget authority by the Congressional Budget Act of 1974. The reason for the exclusion was that the loan guarantee, by itself, does not affect budget outlays and the deficit. The loan guarantee is only a contingent liability of the Government. However, by assuming that contingent liability, the Government induces lenders to invest in particular loans by making them "riskless" from the lender's standpoint, and thereby allocates capital for federally determined purposes. In this manner, a guaranteed loan commitment may provide as large a subsidy and redirect capital as effectively as a direct loan obligation.

A third important shortcoming of the regular budget process for credit programs is that it neither measures nor controls the most salient aspect of Federal credit—the size of the subsidy offered the borrower. Since a primary purpose of Federal credit programs is to provide borrowers with a subsidy, this is a serious omission in effective budgetary control. Without some means of measuring and controlling this subsidy, neither the executive branch nor the Congress can make informed decisions about Federal credit programs, either in comparing one with another, or in comparing them with noncredit expenditure programs.

The Federal Credit Budget.—In January 1980, a significant step in redressing some of the inadequacies of the existing budget process was made with the introduction of the Federal credit budget. The Federal credit budget measures the direct loan obligations and guaranteed loan commitments, and, through the use of language in appropriation acts, limits these credit activities. The credit budget was a significant step forward because it provided a method of controlling new activity; however, even the credit budget has significant limitations—it does not measure subsidy costs, nor does it place any direct restriction on the level of subsidy that a program offers the borrower.

OMB Circulars.—One means of controlling Federal credit more effectively is to control the price at which it is offered to the public. As a step toward this goal, the Office of Management and Budget (OMB) reissued Circular No. A-70, "Policies and Guidelines for Federal Credit Programs," on August 24, 1984. The circular places two sets of requirements on agencies. The first is to provide information on the costs and benefits of Federal credit programs. This includes estimates of the alternative credit available from relevant private financial institutions, Federal subsidies, and net default costs. The second requirement is that new legislation or policies for

credit programs be consistent with sound credit policies set out in the circular. If current legislation does not conform to those policies, agencies are generally required to prepare proposals for recommendation to the Congress to change the legislation so the programs will conform to standards enunciated in Circular A-70.

A second OMB circular, No. A-129, "Managing Federal Credit Programs," expands on many of A-70's principles. It contains comprehensive guidance on servicing and collecting all Government receivables, including those arising from direct and guaranteed loans, grants and contracts. It requires agencies to develop annual credit management improvement plans describing their strategies for meeting performance goals and implementing the management improvement program.

Credit Reform Initiative.—Part 6b of the Budget contains an outline of an administration proposal to change the way Federal credit programs are treated in the budget. Under this reform, Federal agencies would obtain appropriations equal to the estimated subsidy component of the direct loans and loan guarantees they propose to make each year.

Two new Federal credit revolving funds would be established within the Department of the Treasury—one for the financing of direct loans and the other for guaranteed loan insurance. Agencies would continue to originate and close direct loans and make loan guarantees as they do now. As they make obligations and commitments, information about their terms and conditions would be sent to Treasury, which would oversee the subsidy estimate.

As borrowers draw down the obligated direct loans, the agency would pay the subsidy component of the loan into the direct loan revolving fund. This fund would provide the balance of the loan, or non-subsidized financing portion, through borrowing from Treasury. The original borrower would pay interest and repayments of principal to the lending agency, which in turn would pass these amounts through to the direct loan revolving fund to repay the financing portion. For loan guarantees, fees from the borrower and the appropriated subsidy would be paid to the loan guarantee revolving fund, which would assume responsibility to cover defaults. Excess balances of this fund would be available for use in lieu of borrowing from Treasury.

Credit Vouchers.—The use of credit vouchers as an alternative means for controlling Federal credit programs continues to be explored by the administration. Credit vouchers represent grants equal to the subsidy portion of Federal credit programs. Individual credit program recipients could receive a voucher for financial assistance that could be used to obtain privately originated credit instead of a Federal direct or federally guaranteed loan. For exam-

ple, vouchers could be used to lower the amount borrowers would need to obtain from private sources (compared with what an individual would need without Federal assistance) and thereby lower borrowing costs. Alternatively, a voucher could be used to buy private loan insurance that, in turn, would enable a borrower to get a private loan at a lower cost.

The use of vouchers to provide congressionally mandated subsidies is not new—various types of housing voucher programs for rental subsidies have been in effect since the early 1970s. Government housing support through vouchers may be preferable to other producer or consumer subsidies because of the perception that this type of assistance is less costly to the taxpayer and offers recipients a wider range of housing choices.

Federal credit vouchers could allow a direct subsidy similar to the proposal to appropriate the subsidy component of Federal loans—credit voucher amounts could be budgeted and appropriated on an equal basis with other Federal grants, transfers, and purchases—and the Federal Government could remove itself from the rest of the process. As a result, vouchers would provide assistance to targeted borrowers while simultaneously encouraging the maximum amount of private sector involvement through private origination, risk bearing, and servicing of loans. However, unless vouchers are specifically tailored to the needs of individual borrowers, they may be regressive in their impact. That is, if two borrowers, one more creditworthy than the other, are given vouchers with the same value, the less creditworthy individual would not be able to obtain the same amount of credit as the more creditworthy recipient.

Using private sector expertise in the origination and servicing of loans is more efficient for the Government in two ways. First, private sector review of applicants' creditworthiness will ensure that the least risky among those eligible for subsidies will receive credit. This selection process will result in the least distorted allocation of credit as possible consistent with providing Federal assistance. Also, from the Government's perspective, vouchers are more efficient than making direct loans and loan guarantees that typically have high administrative and servicing costs.

From the perspective of the recipient of Federal credit assistance, borrowers are able to choose the least costly loan in a competitive environment. More importantly, borrowers are able to establish relationships with private lenders that could help them obtain unsubsidized credit in the future.

III. The Credit Budget

A. Credit Budget Principles

The credit budget measures direct loan obligations and guaranteed loan commitments. It is the sum of the credit authority offered by the Federal Government. The credit budget is based on three principles. First, it is intended to measure new credit at the point that the Government legally contracts to provide a loan or a loan guarantee. Usually, this is when a direct loan agreement or loan guarantee agreement is signed.

Second, the credit budget is based on credit authority—the authority to make new offers of credit. In the unified budget, budget authority for direct loan programs is required only when collections are insufficient to finance new loans for those programs funded through revolving funds; budget authority for loan guarantees is needed only to pay for defaults when other resources are insufficient to fund those costs. In contrast, credit authority is measured on a gross basis and does not reflect repayments of loans or defaults on loan guarantees. As a result, credit authority is a needed tool because subsidies are incurred for all new direct loans and loan guarantees, regardless of the extent to which new loans are offset by repayment of loans previously made.

Third, guaranteed loan commitments are measured as the full principal of the loan, even if the Government's contingent liability is less than the full loan principal. The full principal is included in the commitment because the entire loan, even if only partially guaranteed, is assisted by the guarantee. Moreover, in some programs that offer partial guarantees, the private lender is at risk only when the value of the collateral and the guarantee combined are less than the full loan principal.

There are a number of programs in which less than the full principal of the loan is guaranteed. The Veterans Administration runs the home loan guaranty program, which is one of the largest credit programs that offers a guaranty for less than the full value of the loan. As the result of recently enacted legislation, the Federal Government's amount of guaranty, and therefore contingent liability, changed to: (1) 50 percent for loans of $45,000 or less; (2) the lesser of 40 percent or $36,000 is guaranteed (with a minimum of $22,500) for loans greater than $45,000; and (3) the lesser of 40 percent or $20,000 is guaranteed for manufactured homes. In approximately 75 percent of all VA guaranty loan foreclosures, VA acquires the property from the lender instead of paying the amount of the guaranty. This has the effect of limiting the lenders risk to less than the amount of the stated guaranty.

In the aggregate, of the $507 billion of guaranteed loans outstanding in 1987, the Government's contingent liability was $419

billion or 83 percent. Excluding the VA, the contingent liability was $354 billion for $361 billion of guaranteed loans outstanding, or 98 percent. The contingent liability and full principal of all guaranteed loans outstanding are shown in Table F-1.

Table F-1. **CONTINGENT LIABILITY FOR GUARANTEED LOANS OUTSTANDING**

(In billions of dollars)

	1987 actual	1988 estimate	1989 estimate
Veterans Administration mortgage guarantees:			
Contingent liability	65.4	65.6	66.8
Full principal	146.3	147.0	150.0
All other loan guarantee programs:			
Contingent liability	353.6	372.1	383.6
Full principal	360.7	380.8	394.9
Total outstanding:			
Contingent liability	419.0	437.7	450.4
Full principal	507.0	527.8	544.8

Table F-2 provides the credit budget totals for 1985 through 1990. It also shows the major direct loan programs and loan guarantee programs.

For 1989, the administration proposes that the credit budget decrease by $12 billion, or 8 percent below the 1988 totals. The programmatic reasons for the changes in the credit budget totals since 1987 are discussed below in the sections on direct loans and guaranteed loans.

B. Congressional Credit Budget Controls

The credit budget is included in the budget resolution and limitations for many programs are subsequently enacted in annual appropriations acts. The administration proposes limitations annually on direct loan obligations and guaranteed loan commitments for most credit programs. The limitations serve as ceilings on the volume of new credit that may be offered by the account. The limitation is specified in the appropriation language for individual budget accounts that include credit activity.

The President's 1989 budget proposes limitations for programs whose funding amounts to 74 percent of the credit budget totals. Approximately 38 percent of direct loan obligations and 80 percent of guaranteed loans are proposed for limitation. (The relatively low percentage for direct loans results because the largest direct loan program—CCC commodity loans—is exempt from limitation.) Table F-3 shows the breakdown of loans subject to, and exempt from, appropriations act limitation.

The first stage of congressional action on the credit budget is the budget resolution. The congressional budget requires functional allocations for direct loan obligations and primary loan guarantee

Table F-2. **CREDIT BUDGET TOTALS**

(In billions of dollars)

	Actual			Estimate		
	1985	1986	1987	1988	1989	1990
Direct loan obligations:						
Farmers Home Administration	7.9	5.0	3.6	3.3	0.9	0.7
Foreign military sales	4.9	5.0	4.1	4.1	4.5	4.5
Commodity Credit Corporation	10.4	17.7	16.6	15.0	10.7	10.9
Rural Electrification Administration	4.0	3.1	1.2	2.0	0.2	0.2
Veterans Administration	1.0	1.0	1.0	1.1	1.0	0.7
Export-Import Bank	0.7	0.6	0.7	0.7	0.7	0.7
Low-rent public housing	14.1	.....	.....	.....	.....	.....
All other	9.6	8.9	2.6	2.6	2.0	2.2
Total obligations	52.6	41.3	29.8	28.8	20.0	19.9
Guaranteed loan commitments:						
Federal Housing Administration	47.4	102.6	80.0	59.8	61.8	63.9
Veterans Administration housing	12.1	34.3	34.9	18.3	17.9	17.0
Guaranteed student loans	8.9	8.6	9.7	9.6	10.0	10.5
Export-Import Bank	7.8	5.5	6.8	14.6	10.2	10.4
Commodity Credit Corporation	2.7	2.5	3.0	5.5	3.5	3.5
Small Business Administration	2.8	2.8	3.4	3.7	3.6	3.6
Farmers Home Administration	1.2	1.6	1.7	2.9	3.7	3.9
Rural Electrification Administration	.....	.....	0.6	2.0	1.3	1.4
Foreign military sales	.....	.....	.....	5.2	2.3	3.3
All other	1.8	1.3	2.0	1.6	1.0	0.6
Total commitments [1]	84.7	159.2	142.1	123.2	115.3	118.1
Total credit budget	137.6	200.6	172.1	147.2	135.6	138.0
MEMORANDUM						
Secondary guaranteed loan commitments	54.6	138.0	140.0	83.4	83.6	84.5

[1] Excludes commitments for guarantees of loans previously guaranteed (secondary guarantees) and commitments for guarantees by one Government account of direct loans made by another Government account. Totals for the former are shown in the memorandum. Totals for the latter are included as direct loans.

Table F-3. **CREDIT BUDGET PROGRAMS SUBJECT TO AND EXEMPT FROM APPROPRIATIONS ACTS LIMITATIONS**

(In millions of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1987	1988	1989	1987	1988	1989
Limitations enacted	12,807	11,987	7,664	114,651	114,147	92,331
Less: Unused balance of limitation, expiring	−2,259	−1,000	−456	−25,847	−35,876	−13,210
Loan subject to limitation	10,548	10,987	7,208	88,804	78,270	79,121
Loans exempt from limitation	19,269	17,830	12,797	53,260	45,404	36,185
Total	29,817	28,817	20,005	142,064	123,333	115,306
ADDENDUM						
Secondary guarantees subject to limitation	.....	.....	.....	139,976	83,355	83,609

commitments in the budget resolution. The functional targets are then allocated to the Appropriations Committee and other committees. In the event of a sequestration under Gramm-Rudman-Hollings, credit authority—direct loan obligations and guaranteed loan commitments—is reduced by the general nondefense sequestration percentage.

After the budget is submitted to the Congress, the House and Senate Appropriations Committees begin working on the 13 appropriation bills. Three bills contain 23 of the 31 requested limitations: Agriculture, Foreign Assistance, and Housing and Urban Development/Independent Agencies. Over the past several years, Congress has enacted limitations in most of the programs for which limitations were requested. The administration continues to urge the Congress to enact limitations on guaranteed loans on the basis of the full principal amount of the loan rather than the contingent liability.

In general, limitation language in appropriation acts: (1) is a *1-year* limitation; (2) sets a *ceiling* on direct loan obligations and/or guaranteed loan commitments; and (3) applies to an individual account, although limitations on specific programs within an account may also be provided. Table F-4 identifies the enacted limitations in 1987 and 1988, and proposed limitations in 1989 for credit programs.

Table F-4. **CREDIT APPROPRIATIONS ACTS LIMITATIONS**

(in millions of dollars)

	Actual 1987	Estimate	
		1988	1989
Limitations on direct loan obligations:			
Foreign military sales credit	4,053	4,049	4,460
Overseas Private Investment subsidies	.....	.....	17
Overseas Private Investment Corp	23	23	.....
AID, Private sector loan subsidies	.....	.....	5
AID, Private sector revolving fund	15	12	.....
Agricultural credit insurance subsidies	.....	.....	600
Agricultural credit insurance fund	1,817	1,625	.....
Rural housing programs (FmHA)	1,919	1,715	.....
Rural development insurance subsidies	.....	.....	300
Rural development insurance fund (FmHA)	426	426	.....
Rural electrification and telephone revolving fund	2,155	1,794	.....
Rural telephone bank subsidies	.....	.....	177
Rural telephone bank	185	177	.....
Education	60	62	.....
PMA, Bonneville fund	10	.....	.....
Health resources and services	1	1	*
FHA loan subsidies	.....	.....	103
FHA fund	74	79	.....
Housing for elderly or handicapped subsidies	.....	.....	333
Housing for elderly or handicapped	593	566	17
Nonprofit sponsor assistance	1	1	.....
Nonprofit sponsor assistance subsidies	.....	.....	1
Bureau of Reclamation, Loan program	44	32	18

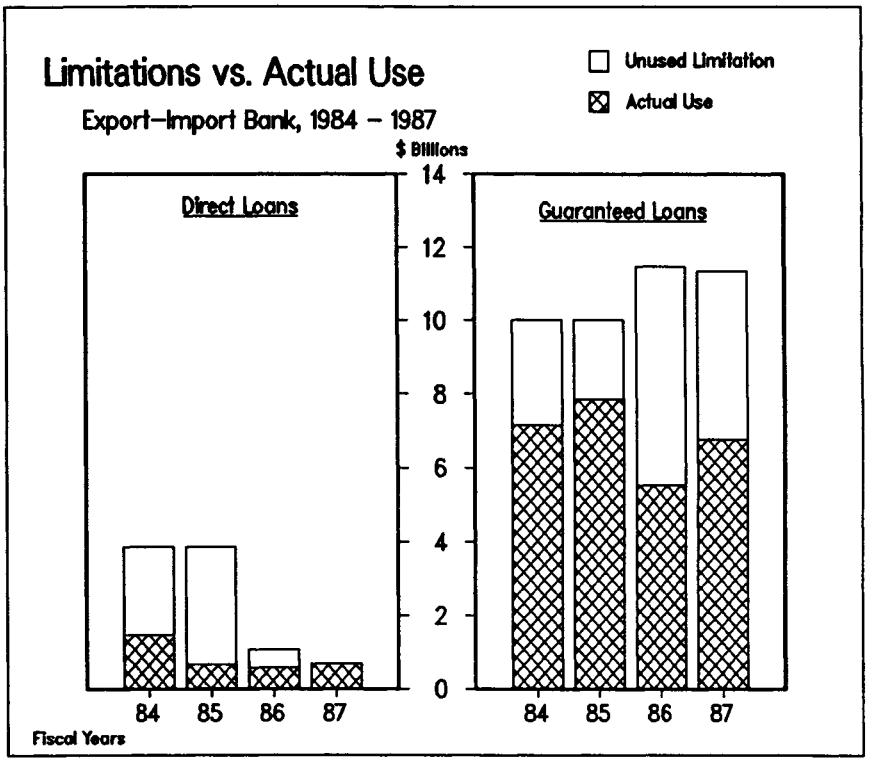
Table F-4. **CREDIT APPROPRIATIONS ACTS LIMITATIONS—Continued**

(in millions of dollars)

	Actual 1987	Estimate	
		1988	1989
Bureau of Indian Affairs	16	.....	13
Highways and mass transportation	48	45	48
VA, Income security	.....	.....	1
VA, Mortgage insurance and other housing	1	1	.....
Export-Import Bank subsidies	.....	.....	705
Export-Import Bank	680	693	.....
SBA, Business loan and investment fund	86	85	.....
SBA, Disaster loan fund	.....	.....	265
National Credit Union Administration, Central liquidity fund	600	600	600
Total, limitations on direct loan obligations	12,807	11,987	7,664
Limitations on guaranteed loan commitments:			
Overseas Private Investment Corporation subsidies	.....	.....	175
Overseas Private Investment Corp	200	200	.....
AID private sector loan subsidies	.....	.....	100
AID housing and other loan subsidies	.....	.....	100
AID housing and other guarantee programs	145	125	.....
Agricultural credit insurance subsidies	.....	.....	3,600
Agricultural credit insurance fund	2,498	2,793	.....
Rural development insurance subsidies	.....	.....	96
Rural development insurance fund (FmHA)	115	96	.....
Rural electrification and telephone subsidies	.....	.....	1,319
Economic development assistance	188	188	.....
Health education assistance subsidies	.....	.....	100
FHA loan subsidies	.....	.....	75,000
FHA fund	100,000	96,000	.....
Community development and other	150	144	.....
Bureau of Indian Affairs	.....	.....	45
Export-Import Bank subsidies	.....	.....	10,200
Export-Import Bank	11,355	14,601	.....
SBA, Business loan subsidies	.....	.....	3,596
SBA, Business loan and investment fund	.....	.....	*
Total, limitations on guaranteed loan commitments	114,651	114,147	92,331
ADDENDUM			
Secondary guaranteed loan commitments:			
GNMA, Guarantees of mortgage-backed securities	139,976	83,355	.....
GNMA, Guarantees of mortgage-backed securities subsidies	.....	.....	83,609

*$500,000 or less.

While the appropriations act limitation is an effective control mechanism for new lending for some programs, there are many programs in which the actual demand for Federal credit assistance has been consistently less than the level enacted in annual appropriation bills. For example, the enacted limitations on direct and guaranteed loans for the Export-Import Bank (Eximbank) consistently exceeded the actual demand for loans between 1983 and 1986. In 1987, however, the Congress reduced the limitation on direct loans to better reflect actual program usage. The accompanying chart illustrates the used and unused portions of the enacted limitations for 1983–1987.



There are several programs for which demand is often below the enacted limitation. Table F-5 compares the proposed and enacted limitations to the actual level of direct loan obligations and guaranteed loan commitments in 1987 for several credit programs for which the limitations exceeded use.

After enactment of appropriations bills, direct and guaranteed loan activity subject to limitation is controlled through the apportionment process. This is the mechanism by which the executive branch controls the rate at which new loans are obligated or guaranteed. While limitations are generally apportioned quarterly, a few are apportioned on an annual or project basis.

For some programs, appropriations limitations on annual activity are deemed unsuitable for any of several reasons, and control is provided through other mechanisms. First, limitations are not proposed for programs in which the authorizing legislation provides a clear entitlement to qualified applicants, such as farm price support loans, credit assistance to veterans, and guaranteed student loans. These programs are similar to those expenditure programs considered relatively uncontrollable, and the levels of new credit are restricted solely by substantive law.

Table F-5. **COMPARISON OF ENACTED LIMITATIONS WITH ACTUAL LOAN LEVELS FOR SELECTED PROGRAMS IN 1987**

(In millions of dollars)

	Enacted limitation	Acutal loan level	Unused balance of limitation
Direct loan obligations:			
Agricultural credit insurance fund (FmHA)	1,817	1,493	324
Rural housing programs (FmHA)	1,919	1,716	203
Rural electrification and telephone revolving fund	2,155	1,033	1,123
Bonneville power administration fund	10	.....	10
Housing for the elderly or handicapped fund	593	574	19
National Credit Union Administration, Central liquidity fund	600	106	494
Guaranteed loan commitments:			
Agricultural credit insurance fund	2,498	1,565	933
Economic development assistance	188	.....	188
Federal Housing Administration fund	100,000	79,995	20,005
GNMA, Guarantees of mortgage-backed securities	150,000	139,976	10,024
Export-Import Bank	11,355	6,754	4,601

Second, direct loans that arise from payment of claims on defaulted guaranteed loans are exempt from appropriations act limitation. Payment of these default claims is mandatory, as in the FHA mortgage insurance and the guaranteed student loan program. The effective point of control is earlier, at the time of the original guaranteed loan commitment.

Third, loan limitations are unnecessary for programs where other types of limitations exert effective control. For example, the appropriation language for the P.L. 480 food assistance loan program (Title I) sets a limitation on the total program level, allowing for a portion of the cost of shipping the commodities financed to be paid for with program funds. The program limitation serves as an effective ceiling on new loans while accommodating other requirements of the authorizing legislation.

C. Direct Loans

Direct loans are financed from a variety of sources, including appropriations, borrowing, and repayments of previous loans. Direct loan programs are designed to redirect economic resources to particular uses by providing credit on more favorable terms than would otherwise be available from private sources. A direct loan is best justified when the Federal objective could not be met with financing from private sources, even with a Government guarantee. The objectives of a direct loan program, for example, may require financing at interest rates that are lower than those available from private lenders, or loan maturities that are longer than otherwise available. Direct loans are made to individuals, businesses, and State, local, and foreign governments.

Direct loan obligations in a given year do not result in an equal volume of new direct loan disbursements in the same year for two major reasons. First, there is often a lag between the time of obligation and the actual disbursement of the loan. For example, prospective borrowers may seek financing for a project when it is in the design stage, but the financing will not be needed until the next year or even the next several years. As a result, some agencies, such as the Export-Import Bank and the Rural Electrification Administration, disburse many loans 4 to 7 years or longer after the time of the direct loan obligation. Second, some prospective borrowers will never convert the direct loan obligations into borrowing because the projects for which financing had been sought are subsequently cancelled or because the time to draw down the funds has expired.

As shown in Table F-6, direct loan obligations are proposed to decline between 1987 and 1989 from $29.8 billion to $20.0 billion. Overall, the agricultural and business sectors will receive 63 percent and 30 percent, respectively, of the 1989 credit budget. Table F-18 in the back of this special analysis presents data for Federal direct loan programs from 1987 through 1993. The major credit programs and program changes in direct loan obligations are discussed below.

Table F-6. **SUMMARY OF DIRECT LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimated					
	1986	1987	1988	1989	1990	1991	1992	1993
Obligations	41.3	29.8	28.8	20.0	19.9	19.2	18.3	19.1
Loan disbursements	42.2	35.2	34.5	27.7	25.6	24.4	23.2	23.0
Change in outstandings	11.2	−19.0	−16.2	−10.6	−8.3	−2.4	−3.6	−4.4
Outstandings	251.6	234.2	218.0	207.4	199.1	196.7	193.1	188.7

The Commodity Credit Corporation (CCC) provides short-term nonrecourse loans to producers of agricultural commodities. The loans provide subsidized financing for production costs and set a minimum price for individual commodities at which the farmer may turn his crop over to the Government rather than repay the loan. The demand for CCC price support loans, therefore, depends on the market price of the crop compared to the price support loan rate. When market prices are below the price support loan rate, farmers borrow large amounts from the CCC, forfeiting the crop as repayment to the Government if market prices have not risen above the price support loan rate by the time the loan comes due.

Although demand for CCC price support loans decreased from $16.6 billion in 1987 to an estimated $15.0 billion in 1988, loan obligations remain at high levels following sustained increases in

agricultural production that resulted in lower crop prices and, hence, higher Federal crop support outlays. In 1989, commodity loan obligations are estimated to decrease to $10.7 billion. The decrease is projected to result from the administration's plan to set support prices closer to market clearing levels. The reduction of artificially high price supports should reduce production levels and the demand for the nonrecourse loans that finance production. The Food Security Act of 1985 gave the Secretary of Agriculture the discretion to set price support loan rates closer to market prices. This provision was intended to reduce the demands for Government price support loans.

The Farmers Home Administration (FmHA) makes loans for purchasing and operating farms, disaster assistance, improving rural housing, and developing rural community facilities. In 1989, FmHA direct loan obligations are proposed to total $900 million, which is significantly below the 1987 total of $3.6 billion. This reflects a shift in Federal loan activity from heavily subsidized direct loans to guarantees of private market rate loans in the agricultural credit insurance fund. The administration proposes to replace the FmHA housing programs with housing assistance provided through a voucher program similar to the program now administered by the Department of Housing and Urban Development. Rural housing loans have proven to be a costly form of assistance. In many cases recipients are financially able to secure private credit and are, by definition, not the neediest rural residents. Vouchers would be targeted to low income residents and would give them a wider range of housing choices and a portable sudsidy.

The Export-Import Bank (Eximbank) provides direct loans to finance U.S. exporters in meeting competition supported by foreign official export credit agencies. The successful negotiations within the Organization for Economic Cooperation and Development (OECD) to reduce export subsidies have reduced the demand for Eximbank credits in recent years. The proposed level in 1989 is $705 million, a 2 percent increase above the 1988 enacted level. Within the $705 million ceiling, Eximbank offers long-term loans ($435 million), medium-term loans ($250 million) and small business loans ($20 million).

Rural Electrification Administration (REA) direct lending to rural electric cooperatives is proposed to be terminated in 1989. The administration proposes to increase the reliance of rural electric and telephone systems on private financing through the use of partial REA guarantees of privately originated loans because the goals of the REA program have largely been accomplished and direct lending to financially healthy borrowers is very costly to the taxpayer.

Starting in 1989, the administration proposes to accomplish this goal by making 80 percent guarantees of private loans to power supply borrowers instead of the 100 percent guaranteed REA loans disbursed by the FFB. In addition, starting in 1989, direct loans previously made at 5 percent from the rural electrification and telephone revolving fund would be made by private lenders with a 70 percent REA guarantee. Electric and telephone borrowers that serve largely urban, suburban, or recreation areas, and telephone borrowers who are subsidiaries of major telecommunications holding companies would not be eligible for such lending assistance. Also, the administration proposes to take the necessary steps to privatize the Rural Telephone Bank by 1995. This includes charging interest rates adequate to set aside $30 million per year to repurchase Treasury-owned Class A stock of over $500 million (that pays only a 2 percent annual dividend) and paying its administrative expenses.

In addition, the administration encourages privatization by proposing that any borrower with outstanding REA guaranteed loans disbursed by the FFB have the opportunity to prepay them using an 80 percent REA guarantee and without paying the required prepayment premium. Further, outstanding direct loans of the revolving fund could be prepaid at a discount if the borrower agrees not to seek REA assistance in the future. Overall, the administration's proposed reforms would result in outlay savings of $2.3 billion in 1989, while continuing to provide a comparable level of REA guarantees of private loans consistent with the direct lending programs in 1988.

Foreign military sales (FMS) credit provides financing to foreign governments and international organizations for procurement of U.S. military equipment and services. The program increased from $4.0 billion in 1988 to $4.5 billion in 1989. The increased level of aid will enable foreign countries and international organizations to procure additional military equipment and services. All of these loans will be forgiven, thereby reducing debt service problems that many countries receiving U.S. military aid are trying to resolve.

Proposed direct loan obligations for elderly or handicapped housing decrease from $574 million in 1987 to $350 million in 1989. This decrease reflects the administration's commitment to substitute housing vouchers for direct loans. Housing vouchers benefit tenants by giving them more freedom of choice in where to live and are projected to be less expensive than new construction subsidies.

The Small Business Administration (SBA) provides direct loans to small businesses and to businesses and homeowners that suffer uninsured losses as a result of physical disasters. The 1989 budget proposes to rely on SBA's guaranteed loan programs to assist small

businesses for business credit needs. Therefore, the budget proposes to terminate new direct business lending in 1989.

The budget proposes to restrict eligibility for SBA direct loans to those who are unable to qualify for credit elsewhere. As a result of this change, the level of direct disaster loans is expected to decrease from $350 million in 1988 to $265 million in 1989.

The Veterans Administration (VA) offers direct loan financing with a minimal down payment, called a vendee loan, to creditworthy individuals purchasing properties that VA has acquired through the default of a guaranteed home loan. The vendee loan program is similar to real estate owned programs managed by many banks and lending institutions that acquire properties from foreclosed mortgages. In 1989, the level of such loans is estimated to be $959 million.

D. Loan Guarantees

A guaranteed loan is an agreement by the Government to pay the principal and, in some cases, interest on a loan should the borrower default. The guarantee can cover all or part of the loan, and therefore transfers all or some of the risk of default from the lender to the Government. Guaranteed loans include insured loans, where the Government collects insurance premiums from lenders, and then pledges the use of the accumulated premiums to cover defaults.

When the Government guarantees 100 percent of the loan, the private loan is transformed into something approximating a Government direct loan financed by Government borrowing. Although the economic effects of such a loan are essentially the same as a direct Government loan, the guaranteed loan may not have all the attributes of a direct loan. This is because a private lender may negotiate different terms and conditions for the loan than would a Government agency.

The guaranteed loan will also not have all of the attributes of a U.S. Treasury security, since it will be less liquid and will involve higher transaction costs. The great volume of Treasury securities, their regular issuance in a range of maturities, and the specialized institutions and trading facilities that deal in those securities produce an efficient market that cannot be matched by the market for guaranteed loans. The Government guarantee, for example, may not be transferred from one lender to another as readily as a U.S. Treasury security may be traded. In addition, legal counsel may be required to determine the extent to which a lender is assured of repayment and under what circumstances. This requirement is a transaction cost not associated with a U.S. Treasury security. For these and other reasons, guaranteed loans bear

coupon rates above the yields on otherwise comparable U.S. Treasury securities.

Loan guarantees, like direct loans, redirect economic resources by providing credit to borrowers at more favorable terms than would otherwise be available in the private market, and therefore contain a subsidy. The degree to which the guarantee reallocates credit will depend on the degree of the subsidy. At one extreme, the potential transaction being financed may be considered so risky that no financing would be available without the guarantee. For example, it is unlikely that private lenders would make student loans as widely available as they are currently without Federal guarantees because of the inherent, and significant, uncertainty about many borrowers' future income stream. In this case, the subsidy will be quite large and will have a dramatic effect on the reallocation of credit. The degree of credit reallocation will also depend on the price elasticity of demand of the good being financed. A small change in the price (i.e., the subsidy) of the good being financed may result in a considerable change in the amount of good actually bought and sold. This special analysis does not estimate demand and supply elasticity effects.

At the other extreme, the guarantee may result in only a small subsidy and, other conditions being equal, may not significantly change the allocation of credit. Some beneficiaries of loan guarantee programs would have been able to secure the funds privately—without Government support—albeit at a higher cost. For example, guaranteed mortgage credit might be used to finance, at a lower cost, a house that would have been purchased in the absence of a Federal guarantee. In such a case, the borrower benefits from a small subsidy and the guarantee does not significantly alter the allocation of credit resources.

In both cases, although to different degrees, the guarantee reallocates credit toward federally selected uses, increasing the total volume of credit channeled into these uses. This leaves a smaller supply of credit available to those potential borrowers who do not receive Government assistance, and increases the interest rates on financing available to these borrowers.

Loan guarantees are used in a wide variety of programs. Loan guarantees may be made to individuals, to businesses, and to State, local, and foreign governments. The guaranteed loan commitment may be used for a loan made by a bank or other institutional lender or an investment security sold in the capital market. Guaranteed loans, for the purposes of the credit budget, do not include other contractual agreements, such as guarantees of private leases, contracts to make subsidy payments over extended periods, or debt service grants that the recipients may use as collateral for borrowing.

Data for guaranteed loans for 1987 through 1993 are summarized in Table F-7. As with direct loans, guaranteed loan commitments in a given year do not always result in new guaranteed loans in that year due to lags between the time of commitment and the actual disbursement of the loan, and because some prospective borrowers will never convert the loan commitment into actual borrowing. Table F-19 in the back of this special analysis provides data for guaranteed loan programs for 1987 through 1993.

Table F-7. **SUMMARY OF PRIMARY GUARANTEED LOAN TRANSACTIONS**

(In billions of dollars)

	Actual		Estimated					
	1986	1987	1988	1989	1990	1991	1992	1993
Commitments	159.2	142.1	123.2	115.3	118.1	117.0	119.9	122.9
New guaranteed loans	89.6	151.7	100.1	95.2	100.8	99.7	102.3	105.4
Change in outstandings	34.6	60.4	20.8	17.0	18.3	14.7	16.0	12.5
Outstandings	449.8	507.0	527.8	544.8	563.1	577.8	593.8	606.3

Guaranteed loan commitments are estimated to decline from $142 billion in 1987 to $115 billion in 1989. Further, composition of the guaranteed loan portion of the credit budget is proposed to change. Housing programs accounted for 81 percent of guaranteed loan commitments in 1987, and are expected to drop to 69 percent by 1989. The major programmatic changes are discussed below.

Guaranteed loan commitments in 1987 for the Federal Housing Administration (FHA) decreased by 22 percent over 1986. Commitments, which were $80 billion in 1987 compared to $103 billion in 1986, are expected to decline further to $60 billion in 1988, but then rise slightly to $62 billion in 1989.

The Veterans Administration (VA) offers a mortgage guarantee that is similar in effect to the FHA mortgage insurance program, but does not require veterans to make downpayments on their housing purchases. Guaranteed loan commitments by VA in 1987 were $34.9 billion and are expected to be $18.3 billion in 1988. As with the FHA loans, VA loan activity is returning to pre-1987 levels; the 1987 levels rose due to low interest rates and refinancing. In 1989, new commitments are estimated to remain at about $17.9 billion.

The Commodity Credit Corporation (CCC) provides loan guarantees for export sales that might not otherwise occur without Federal credit assistance. CCC guaranteed loan commitments for U.S. exports are estimated to rise from $3.0 billion in 1987 to $5.5 billion in 1988. The increase is a result of the Food Security Act of 1985 which established the CCC loan program level at $5.5 billion. For 1989, the amount requested has been lowered to $3.5 billion, reflecting a general weakness in demand for those loans.

The guaranteed student loan program (GSL) provides guarantees of education loans to graduate and undergraduate students and to parents of dependent students. Commitments for the program increased by $1.2 billion from 1986 to 1987 due to unanticipated administrative problems involving the processing of student aid applications that pushed some borrowing into 1987 that would otherwise have occurred in 1986. This has led to a projected decline in 1988 commitments from 1987 levels due to the one-time borrowing surge in 1987. The level of GSL commitments is estimated at $9.6 billion in 1988, a decrease of $0.2 billion from 1987.

Even though the cost of a student's education should ultimately be borne primarily by the student, the Government has always paid virtually all the costs of borrower defaults on GSLs, which now exceed $1.5 billion per year. The administration is proposing to increase risk-sharing with lenders and State guarantee agencies to reduce the incidence of default and reduce the cost of defaults that do occur.

The Export-Import Bank (Eximbank) provides guarantees to facilitate U.S. exports. Guaranteed loan commitments rose from $5.5 billion to $6.8 billion between 1986 and 1987. In 1988, Eximbank estimates that commitments will be $14.6 billion, as risk protection continues to be important to U.S. exporters. The proposed level in 1989 is $10.2 billion. Within the $10.2 billion ceiling, Eximbank offers long-term financial guarantees ($2.9 billion), medium-term guarantees ($0.8 billion) and short and medium-term export insurance ($6.5 billion), which is provided by the Foreign Credit Insurance Association (FCIA). Eximbank is the sole owner of the FCIA and approves most of FCIA's policy decisions.

The Rural Electrification Administration (REA) reform proposal would make available a new program of 80 percent REA guarantees of private loans for power generation starting in 1989. Existing 100 percent REA guaranteed FFB direct loans would be phased out at the end of 1988. In addition, a new program of 70 percent REA guarantees of private loans would be available in 1989 to replace the existing direct loan program which will be phased out at the end of 1988. Total guaranteed loans of $1.3 billion are requested for REA programs in 1989.

Foreign military sales (FMS) credit guarantees (that finance the same activities as FMS direct loans discussed above) are being refinanced at lower interest rates. Commercial financial institutions are expected to provide the funds to prepay foreign countries' FMS guarantees held by the FFB; new 90 percent guarantees will be issued to cover the commercial loans. In 1988, $5.2 billion guarantees will be refinanced; in 1989, the estimate is $2.3 billion.

The Maritime Administration has the authority to provide guarantees for construction mortgage loans to build U.S.-flag vessels in

the United States; however, no new commitments were made in 1987. The administration proposes that this program be terminated starting in 1988. The proposed termination reflects the administration's position that the maritime industry should be encouraged to rely on the private credit market, without Federal intervention, as the source for capital.

The Small Business Administration (SBA) provides credit assistance to small businesses through a variety of guaranteed loan programs. Beginning in 1989, the budget proposes to gradually reduce the amount of subsidy provided to borrowers by increasing guarantee fees and lowering levels of Federal contingent liability. The SBA share of the loan guarantee will be reduced, allowing for lower Federal costs to provide the same amount of loans. The budget proposes a total of $3.6 billion in SBA guaranteed loans in 1989, including $2.9 billion in guaranteed general business loans; $450 million for development company loans; $167 million for Small Business Investment Companies (SBIC) obligations; and $40 million in new authority for Minority Enterprise Small Business Investment Companies.

About 90 percent of all single-family mortgages insured by FHA or VA are sold subsequently in the secondary mortgage market using the Government National Mortgage Association (GNMA) mortgage-backed securities program. This program provides guarantees for securities issued by private mortgage originators and backed by pools of FHA-insured and VA-guaranteed mortgages. The GNMA guarantees enhance the liquidity of trading these securities. GNMA's issuance of new securities is closely tied to the amount of FHA insurance and VA mortgage guarantees. Commitments for GNMA mortgage-backed securities therefore rose from $138 billion in 1986 to $140 billion in 1987. A decrease to about $83 billion is estimated for 1988 and beyond.

The administration is proposing to deregulate the fee GNMA mortgage-backed issuers earn servicing FHA and VA mortgages underlying GNMA's securities. The servicing fee issuers currently earn is set by GNMA at 44 basis points per annum (44/100 of one percent) of the outstanding mortgage amount. This minimum fee was originally established to assure that lenders could profitably service the GNMA mortgage pools. However, the fee may be in excess of that needed to protect the Government's interest and may in fact lead to higher mortgage rates for borrowers. The administration proposes to deregulate the fee and increase minimum capital requirements for issuers to protect the Government against issuers defaulting on their mortgage pools.

IV. Government-Sponsored Enterprises

The Federal Government influences the allocation of credit in many different ways: through direct loans; loan guarantees; insurance for deposits in commercial banks, savings and loans, and mutual savings banks; and various other methods. One of the primary methods of influencing the allocation of credit has been through the creation and use of Government-sponsored enterprises (GSEs). GSEs typically act as financial intermediaries directing capital to particular sectors of the economy. Due to their perceived "special relationship" with the Federal Government, GSEs historically have been able to borrow in the credit markets at yields carrying only slight premiums above those of Treasury securities of comparable maturity. The special relationship has arisen both from the intangible nature of Government sponsorship and through direct benefits that have been available to most GSEs. Table F-8 lists some of the benefits that have historically been available to GSEs.

Table F–8. **SOME BENEFITS ENJOYED BY GOVERNMENT-SPONSORED ENTERPRISES**

Type of Benefit	FHLB	FHLMC	FNMA	FCS	SLMA	CCLIA	FAMC	FCSIC	FCSFAC	FICO
Line of credit at Treasury	Yes	Yes [1]	Yes	Yes	Yes	No	Yes	No	Yes	No
Exemption of corporate earnings from Federal income tax	Yes	No	No	Yes [2]	No	No	No	Yes	Yes	No
Exemption of interest income of investors from State and local income taxes	Yes	No	No	Yes	Yes	n/a [3]	n/a [3]	n/a [3]	Yes	Yes
Eligibility for Federal Reserve open market purchases	Yes	Yes	Yes	Yes	Yes	n/a [3]	n/a [3]	n/a [3]	n/a [3]	n/a 3
Equal standing with Treasury debt as investments for most banks	Yes	Yes	Yes	Yes	Yes	n/a [3]	Yes	n/a [3]	Yes	Yes
Exemption from SEC registration and various State banking laws	Yes	Yes	Yes	Yes	Yes	n/a [3]	No [4]	n/a [3]	Yes	Yes
Eligibility as collateral for public deposits	Yes	Yes	Yes	Yes	Yes	n/a [3]	Yes	n/a [3]	Yes	Yes

[1] Indirect line of credit through the FHLBs.
[2] Federal Land Banks, Federal Intermediate Credit Banks, and Federal Land Bank Associations.
[3] Entity newly created; data not available.
[4] Mortgage-backed securities may be exempt from State banking laws.

Five new entities created within the past 3 years have been preliminarily designated as GSEs in the 1989 budget. This designation may change, however, for one or more of these entities as they are more closely examined both as to their structure and as to their actual operations. Including these newly created entities in the GSE category makes no assumption as to what the special relationship will mean in the future.

The financial transactions of GSEs are not included in either the unified budget or the credit control aspects of the budget. However, since they were designed to further Government objectives and since most continue to enjoy special benefits not received by other privately owned financial intermediaries, their financial statements are shown, to the extent feasible, in Part IV of the Budget Appendix. Table F-9 summarizes the lending and borrowing of GSEs for 1987-1989; Table F-20 in the back of this analysis presents details of their activity. The new entities, however, in most cases will have only a narrative description with limited or no financial information for this budget.

Table F-9. **SUMMARY OF LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In billions of dollars)

	Actual	Estimate	
	1987	1988	1989
Total net lending:			
Obligations	427,518	425,093	462,161
New transactions	414,092	420,571	453,983
Net change	107,785	92,277	88,355
Outstandings	581,073	673,352	761,706
Total borrowing:			
Net change	115,046	96,681	91,994
Outstandings	569,212	665,893	757,887

GSEs have traditionally operated in three major areas: (1) to assist farmers and associated rural borrowers to have better access to the credit markets, (2) to facilitate credit operations for the housing industry, and (3) to facilitate the financing of higher education. While the focus on these areas has not changed in the past few years, the contingent liability of the Federal Government has grown dramatically, due to the greater governmental involvement in the newly created GSEs.

Agricultural Assistance.—The Federal Farm Credit System (FCS) has traditionally been composed of four elements: the Farm Credit Administration, a Federal agency, and three separate sets of GSEs that constituted the FCS. Only the Farm Credit Administration, which is the regulatory arm of the System, is included in the unified budget. It is financed by user charges assessed on the banks

that it regulates. Since 1933, the FCS has been composed of three kinds of financial intermediaries:

- The *Banks for Cooperatives,* which provide loans to farmer-owned marketing, supply, and service cooperatives;
- The *Federal Intermediate Credit Banks,* which provide short and intermediate term farm loans;
- The *Federal Land Banks,* which provide long-term loans secured by real estate.

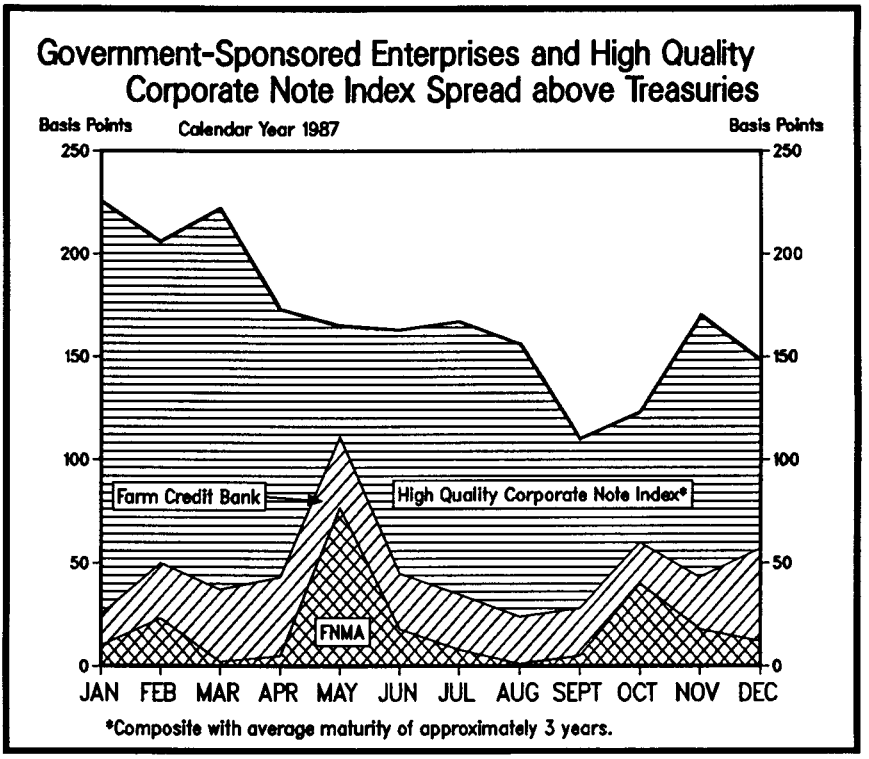
Each System bank operates through regional banks. The banks obtain funds through the sale of securities to investors in the private credit markets. This borrowing is aggregated by the Farm Credit System Funding Corporation, which in turn acts as a conduit through which the System Banks issue FCS debt to the credit markets. These securities are "joint and several," meaning that default by one System bank requires all others to honor the obligations of the security. As of September 30, 1987, there were $54.4 billion in outstanding consolidated, systemwide notes and bonds.

In recent years the depressed condition of farming in many areas has led to massive losses incurred by the FCS—$1.9 billion in calendar year 1986, and $197 million for the first nine months of calendar year 1987. However, the System was and still is able to borrow at rates substantially lower than those that would have been charged to other privately owned intermediaries with similar low net worth.

Legislation enacted in 1985 attempted to remedy the unequal erosion in asset quality experienced by some of the System banks due to the persistent agricultural crisis. The Act established the Farm Credit System Capital Corporation, a GSE which was never recognized as such in the budget, to provide assistance to troubled FCS banks. The Corporation was to provide technical assistance as well as administer a controversial asset sharing plan, whereby available surplus capital and reserves were to be transferred from strong banks to insolvent or nearly insolvent banks to improve their balance sheets. Mandatory assessments were imposed on System Banks to fund the Corporation's activities. However, the functioning of the Capital Corporation had been significantly impaired due to lawsuits challeging the asset sharing requirement.

As a result of the inadequacies of the 1985 legislation as well as continuing problems plaguing the farm sector, the Farm Credit System formally submitted a request to Congress for financial assistance on May 6, 1987. The request was spurred by the continuing decline in System surplus funds, perceived erosion of borrower confidence, and widening spreads on System obligations over comparable Treasury issues.

The goal of the legislation was to provide a long-term solution to a persistent agricultural crisis. On January 6, 1988, the President



signed a law which requires sweeping changes in the System. The charter of the Farm Credit System Capital Corporation has been revoked. The Farm Credit System Assistance Board has been chartered to assume some of the Capital Corporation's duties, chiefly to assist in restoring FCS institutions to economic viability and permitting such institutions to continue to provide credit. The Board is also charged with carrying out a program to provide assistance to, and protect the stock of borrowers of the institutions of the Farm Credit System. Additionally, the Act created three new GSEs:

- The *Farm Credit System Financial Assistance Corporation (FCSFAS)*, was created to provide the financing mechanism through which the System will raise needed capital. System obligations issued by the Assistance Corporation will carry the guarantee of the Federal Government and Treasury will pay all or part of the interest cost on the Corporation's debt for the next ten years.
- The *Federal Agricultural Mortgage Corporation (FAMC)*, was created to guarantee the timely repayment of principal and interest on pools, or obligations backed by, pools of qualified loans.

- The *Farm Credit System Insurance Corporation (FCIS)*, was created to insure the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued by System banks.

In 1988, the Farm Credit System Financial Assistance Corporation will begin to issue U.S. guaranteed 15-year bonds. It is anticipated that $2 billion of the bonds will be issued over the next 2 years.

The U.S. Treasury is obligated to pay the entire interest cost on the bonds during the first five years, and half of the interest cost during the second five years with the System responsible for the remainder. The System is responsible for the interest cost for the last five year period as well as the full repayment of principal. The Farm Credit banks are required to repay to the U.S. Treasury any amount exceeding $2 billion, when they are financially able to do so. System institutions, which are financially able to do so, will be required to make a one-time Assistance Corporation stock purchase as a downpayment on the retirement of the noncallable 15-year bonds; at maturity the participating banks will be required to contribute to repay principal on the basis of a formula using performing loan volume per bank as a measure of percentage responsibility in the entire obligation. The board of directors and employees of the existing Federal Farm Credit Banks Funding Corporation will be those designated to oversee and staff the new Assistance Corporation.

The purpose of the Federal Agriculture Mortgage Corporation, which some have dubbed Farmer Mac, is to establish a secondary market for farm mortgages and certain rural housing loans similar to the role created for the Government National Mortgage Association in the late 1960s. Farmer Mac will offer stock to banks, insurance companies, System institutions and other financing entities to raise initial capital. The Corporation will have available $1.5 billion from the U.S. Treasury should it become necessary. Ongoing operations will be financed through assessments for its guarantees on participating institutions and occasional additional stock offerings. The loan pools guaranteed by Farmer Mac will be originated by Farm Credit System banks, commercial banks, thrifts, insurance companies and other qualified lenders.

The Farm Credit System Insurance Corporation, will insure all bonds, notes, debentures, and other obligations issued by system institutions. The Insurance Corporation will be capitalized initially with funds from the Farm Credit System and subsequently through the use of assessments charged for the insurance. During 1989, the farm credit revolving fund, an on-budget fund, will be transferred to the Insurance Corporation. Those banks wishing to maintain

their Federal charter must purchase insurance from the corporation.

Restructuring of the System's banks was also mandated by the Act. The Federal Land Banks and Federal Intermediate Credit Banks in each district are required to merge; the 12 district Banks for Cooperatives are required to vote on whether to merge into one entity; and the 12 districts are required to vote on whether to merge into six. Additionally, the Act strengthens the value of existing borrower stock, improves borrowers rights, and expands procedures for restructuring loans.

Housing Assistance.—Three GSEs have been providing assistance to the housing sector for many years: the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. A fourth GSE, the Financing Corporation, was created in 1987 to provide assistance in funding the operations of the Federal Saving and Loan Insurance Corporation, an on-budget, federally-owned corporation.

Federal Home Loan Bank System.—The Federal Home Loan Bank System was established in 1932 as the first permanent Government-sponsored intermediary for housing. Its original charge was to supervise federally chartered savings and loan associations and to promote home ownership through the extension of credit to savings and other home financing institutions. The Federal Home Loan Bank Board (FHLBB), an independent agency in the executive branch, has served primarily as the regulator of the system. The Bank Board and the 12 regional Federal Home Loan Banks (FHL Banks) comprised the original system. Subsequently, the Federal Savings and Loan Insurance Corporation (FSLIC), a Government agency, and the Federal Home Loan Mortgage Corporation were added to the system in 1934 and 1970, respectively. The most recent additions to the System are the Federal Asset Disposition Association (FADA), wholly-owned by FSLIC and created in 1985, and the Financing Corporation.

The primary purpose of the Federal Home Loan Banks is to ensure the liquidity of member savings and loans and mutual savings banks which historically have lent primarily to the housing market. The FHL Banks accomplish this infusion of liquidity by providing advances to help individual institutions meet short term liquidity needs and by providing longer term loans to enable institutions to expand long-term lending historically associated with housing loans. The FHL Banks provide member thrifts with access to national capital markets and eliminate regional barriers to the flow of mortgage funds. Advances are an attractive source of funds for members largely because they are the least expensive source of funds available after savings deposits. Each of the 12 FHL Banks is

regulated by the FHLBB but establishes its own policies within FHLBB guidelines. FHL Banks finance their advances primarily by selling debt securities in the money and capital markets and, to a much lesser extent, by accepting both demand and time deposits from member institutions and through the issuance of additional capital stock. As of September 30, 1987, $105.1 billion of these debt securities were outstanding.

Federal insurance for the deposits made to the member savings and loans and mutual savings banks is provided by FSLIC, which is overseen by the FHLBB and is authorized to borrow up to a limit of $750 million outstanding at any one time from the U.S. Treasury, should it become necessary. An explanation and examination of FSLIC is detailed in Chapter V of this analysis. However, due to persistent losses experienced by FSLIC-insured institutions and the necessary intervention by FSLIC in providing cash infusions to either keep institutions open or to liquidate them, FSLIC was technically bankrupt at the end of calendar year 1986. In 1987, expenses exceeded revenues by $12.5 billion.

The FSLIC Recapitalization Act, which was passed in 1987, created a new GSE to provide a financing mechanism for FSLIC. The Financing Corporation (FICO) was created to assist in raising capital in the credit markets. FICO has the authority to borrow up to slightly more than $10.8 billion through the issuance of debt obligations to the public and in turn to purchase stock in FSLIC. The repayment of principal on FICO debt is guaranteed through the use of a segregated account within the corporation which invests funds in non-interest bearing eligible securities (zero-coupon bonds) whose face value at maturity is equal to the face value of the newly issued bonds at maturity. These funds are provided by the FHL Banks through a mandatory FICO stock purchase plan. Interest payments on the debt will be paid by an assessment-sharing plan with FSLIC and, if necessary, a special assessment on FSLIC-insured institutions. In calendar year 1987, FICO issued $1.2 billion of these bonds. The authorizing statute specifically states that the bonds are *not* direct obligations of the United States Government. FICO is controlled and staffed by the FHLBB and the FHL Banks. All administrative expenses are paid by the FHL Banks.

Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac).—Freddie Mac was created in 1970 by Congress to provide mortgage lenders with an organized national secondary market in which to sell conventional mortgages and to obtain additional funds to meet new demands for mortgages. Freddie Mac serves as a conduit to facilitate the flow of investment dollars from capital market investors to mortgage lenders. Freddie Mac is a publicly-chartered corporation whose preferred stock is owned by savings institutions across the Nation. Typically, Freddie Mac purchases

mortgages originating from mortgage bankers, savings institutions, commercial banks, and other primary lenders. These institutions sell mortgages to enhance the liquidity of their assets.

Freddie Mac finances most of its purchases of mortgage loans by pooling the mortgages together and issuing pass-through certificates backed by these loans. It guarantees the timely repayment of interest at the certificate rate and the ultimate repayment of principal on the mortgages. By issuing pass-through certificates, the ownership of the underlying mortgage pool is transferred to a trustee, thereby removing the loans from Freddie Mac's balance sheet. Thus, generally accepted accounting principles for private businesses greatly understate Freddie Mac's participation in the secondary market.

Federal National Mortgage Association (FNMA, or Fannie Mae).—Fannie Mae was established by Congress in 1938 to provide supplementary assistance to the secondary market for home mortgages by supplying a degree of liquidity for mortgage investment capital available for home financing. In 1968, it became a privately owned corporation, and its stock is now fully transferable and is listed on major stock exchanges.

Fannie Mae performs functions similar to Freddie Mac, purchasing mortgages from originators. These mortgages are then either packaged, guaranteed by Fannie Mae, and sold to investors; or, unlike Freddie Mac, kept by Fannie Mae in its portfolio for investment purposes. Because Fannie Mae finances the purchases of mortgages by issuing its own debt, Fannie Mae's profitability is much more sensitive to movements in interest rates than is Freddie Mac's. In recent years, the company has attempted to decrease its sensitivity to interest rate fluctuations by using various methods, including matching more closely the duration of the securities it holds in portfolio with the duration of its debt issues; increasing fee income; increasing the issuance of its guaranteed mortgage-backed securities; and repurchasing some high coupon debt.

Fannie Mae, Freddie Mac, and the Government National Mortgage Association (Ginnie Mae) have long dominated the secondary market for mortgages, particularly the mortgage-backed securities portion of the market. Recently, however, totally private firms have begun to issue mortgage-backed securities, in competition with Fannie Mae and Freddie Mac. Privatization of Fannie Mae and Freddie Mac would eliminate major hurdles private mortgage-backed securities issuers face in playing a significant role in the Nation's housing credit markets. The administration is proposing legislation to mitigate the effects of this unfair competition.

Educational Assistance.—The Student Loan Marketing Association, created in 1972, provides the major secondary market for student loans. In 1987, the College Construction Loan Insurance

Association was created to provide insurance for facilities loans to post-secondary institutions.

Student Loan Marketing Association (SLMA or Sallie Mae).—Sallie Mae was created to expand the amount of funds available for insured student loans. It does so by providing liquidity to lenders, which include savings and loan associations, commercial banks, mutual savings banks, educational institutions, and State and non-profit agencies.

One method that Sallie Mae uses to provide liquidity is the operation of a secondary market for student loans through its purchase of existing insured student loans from lenders. Another method is through the provision of "warehousing" advances—Sallie Mae loans to lenders that are secured by student loans or certain types of obligations guaranteed by the Government. In such cases, the lenders continue to hold title to the loans and pay Sallie Mae interest on the funds borrowed. Advances are also available to State student loan agencies as a taxable source of funds for their operations.

Sallie Mae borrowing was carried out entirely through the Federal Financing Bank (FFB), an arm of the U.S. Treasury, from May 1974 until January 1982; since then, all of Sallie Mae's new borrowings have been in the private credit markets. As of December 30, 1987, Sallie Mae had borrowed $16.4 billion in those credit markets. It will borrow an estimated $6.2 billion in 1988. Sallie Mae is able to borrow at rates only slightly higher than Treasury bills, and virtually all of the student loans that it holds as assets are 100 percent federally insured. Since student loans are guaranteed to yield the holder of the loan 325 basis points over 3-month Treasury bills, Sallie Mae has maintained a profitable interest rate spread on its student loan portfolio even after its expenses in servicing student loans are taken into account. Sallie Mae's profit margins on its warehousing advances are considerably lower.

The continued profitability of Sallie Mae's operations ought to attract competitors to Sallie Mae's market and eventually drive down the yield associated with guaranteed student loans. However, such competition has not developed. Like Fannie Mae and Freddie Mac in the secondary mortgage market, Sallie Mae's dominance of the secondary market for guaranteed student loans can apparently be attributed partly to the low-cost source of funds it enjoys as a GSE and, more importantly, to significant economies of scale.

College Construction Loan Insurance Association (CCLIA or Connie Lee).—Connie Lee was authorized by Public Law 99-498 and incorporated in February 1987. It was organized as a private, for-profit insurance corporation to guarantee and insure loans and bonds made for college construction and renovation. The authoriz-

ing statute explicitly states that "no obligation which is insured, guaranteed, or otherwise backed by the corporation, shall be deemed to be an obligation which is guaranteed by the full faith and credit of the United States." In order to provide the initial capitalization, the Secretary of Education, the Student Loan Marketing Association, and other investors are authorized to purchase stock in Connie Lee. The Secretary of Education purchased $19 million in stock using funds appropriated for this purpose in 1988. Sallie Mae purchased $22 million of Connie Lee's stock in 1987.

Initially, the Board of Directors will comprise eleven members, four of whom are appointed by the Federal Government, three by Sallie Mae, and the rest by the voting stockholders. The statute authorizes the Secretary of Education to sell the Department's stock in Connie Lee after five years, and requires the Secretary to offer the stock to Sallie Mae prior to offering it to any other party. If the Federal Government sells its stock in Connie Lee and if Sallie Mae owns more than 50 percent of the voting common stock, the entire eleven members would be elected by the voting stockholders.

V. Contingent Liabilities and Federal Deposit Insurance

Contingent Liabilities.—The Federal Government provides guarantees and insurance against several types of risk for many sectors of the economy. If a given situation occurs, such as borrower default or natural disaster, the Government frequently assumes a liability and makes payment to the insured party. However, if the specified situation does not occur, the Government is not liable for any loss. When the Government makes an agreement such as that described above, it becomes exposed to the possibility of loss sometime in the future.

Table F-10 shows the current contingent liability of the Federal Government. Unlike an annual corporate financial statement, the data presented in the table do not represent the Government's expected loss contingency for 1988 alone, but rather the overall contingent liability or exposure of the Government resulting from all potential insurance claims and guaranteed loan defaults. As can be seen in the table, the Government bears risk from a variety of sources, including deposit insurance, loan guarantee programs, foreign political risk, flood and crop insurance, and pension insurance.

The credit budget encompasses all loan guarantee programs, but only a small part of the transactions of Federal deposit insurance programs, and only the lending activity of the Pension Benefit Guaranty Corporation and Overseas Private Investment Corporation. Table F-10 shows these and other programs that expose the Government to significant risk that are outside the scope of the credit budget; furthermore, there are additional, but smaller insur-

Table F-10. **CONTINGENT LIABILITY OF THE FEDERAL GOVERNMENT**

(In billions of dollars)

Program or activity	1986 actual	1987 actual
Government-sponsored enterprises:		
Farm Credit System Financial Assistance Corporation [1]	NA	NA
Deposit insurance:		
Federal Deposit Insurance Corporation [2]	1,673.2	1,605.7
Federal Savings and Loan Insurance Corporation	817.2	836.1
National Credit Union Administration	130.0	152.9
Subtotal, deposit insurance	2,620.4	2,594.7
Other:		
Loan guarantee programs [3]	691.9	816.5
National flood insurance	133.8	159.0
Overseas Private Investment Corporation insurance program	9.6	9.4
Federal crop insurance	7.2	6.3
Pension Benefit Guaranty Corporation	4.5	3.8
Subtotal, other	847.0	995.0
Total, contingent liabilities	3,467.4	3,589.7

[1] Newly created GSE; data not yet available.
[2] Data as of June 30, 1987.
[3] Gross basis.

ance programs not in the table that increase the Federal contingent liability.

Deposit Insurance.—Although only a small part of the transactions of Federal deposit insurance programs are included in the credit budget, these programs make up the largest portion of the Government's contingent liability. The Federal Government insures depositors through the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Corporation (FSLIC), and the National Credit Union Administration (NCUA). Deposit insurance offered by these programs serves two purposes: it helps stabilize the Nation's monetary and financial system and thereby the economy as a whole; and it protects depositors in the insured financial intermediaries. As seen in Table F-10, the value of insured deposits at the end of 1987 was nearly $2.6 trillion.

Federal deposit insurance programs may assist insured depositors in a variety of ways. When an insured financial institution becomes troubled, deposit insurance programs may: (1) liquidate the institution and pay depositors directly; (2) merge the troubled institution with a healthier institution, in some cases providing financial assistance to the acquiring partner in the merger; or (3) provide financial assistance directly to the troubled institution in the expectation that it will recover. Financial assistance to private financial intermediaries has consisted of equity purchases, purchases of physical assets, and direct loans and loan guarantees.

The Federal Deposit Insurance Corporation was created by the Banking Act of 1933 to provide protection for bank depositors and to foster sound banking practices. In order to accomplish its varied

functions, the corporation is authorized to promulgate and enforce rules and regulations relating to the supervision of insured banks and to perform other regulatory and supervisory duties consistent with its responsibilities as insurer. The major portion of the corporation's operations consists of the examination of State banks that are not members of the Federal Reserve System and liquidation activities attendant to insured banks that have closed.

The insurance fund is supported by an authorization to borrow up to $3 billion from the U.S. Treasury should it become necessary; however, no borrowing under this authorization has been made to date. Income of the corporation is derived principally from insurance assessments paid by insured banks and interest on investments in U.S. Government securities.

The Federal Savings and Loan Insurance Corporation is authorized under Title IV of the National Housing Act to insure savings in all Federal savings and loan associations, Federal mutual savings banks, and in State-chartered institutions of the savings and loan type which apply and qualify for insurance. This protection may be provided either through the prevention of default or the payment of insurance to savings account holders, up to the maximum insured amount of $100 thousand per depositor in the event of liquidation. Preventing default, which protects each investor regardless of the amount in his account, is accomplished by making contributions or by purchasing all or part of an association's assets. Additionally, the corporation is authorized to make loans to institutions in financial difficulty. In the event liquidation is necessary, the corporation acts as receiver, or co-receiver.

FSLIC operates under the direction of the Federal Home Loan Bank Board, which provides administrative services. The expenses of the board and its staff offices are paid from assessments made on the Corporation and the Federal Home Loan Banks. FSLIC has continuing authority to borrow from the U.S. Treasury for insurance purposes, up to a limit of $750 million outstanding at any one time. No borrowing under this authorization has ever taken place.

The record number of thrift failures has severely strained the resources of the FSLIC both in manpower and finances in the past few years. In an attempt to facilitate the liquidation of assets acquired by FSLIC from failed member institutions and maximize the return on those assets, the Federal Home Loan Bank Board chartered the Federal Asset Disposition Association (FADA) in 1985. FADA was initially capitalized with $25 million from FSLIC. FADA finances ongoing operating expenses through consulting and management fees charged to FSLIC, its only client. The goal of FADA was the creation of an independent entity, outside of Federal pay constraints, which would be able to attract highly qualified people expert in real estate management and sales. They would

thus negotiate the highest prices possible for assets sold increasing the return on liquidated assets to FSLIC. FADA has not been entirely successful in funding operations solely through its consulting fees, however, and plans to ask FSLIC for an additional capital infusion.

Despite the injection of $25 million in 1986 by FSLIC, an on-budget entity, the 1989 budget documents display FADA for the first time. It will appear in the FSLIC section of the Budget Appendix. FADA was unable to supply data on a fiscal year basis for this budget, so its financial statements are presented for calendar year 1987 only and are not included in the budget totals. In subsequent budgets, actual data for the prior year, and estimates for the current and fiscal years will be presented. The budgetary treatment of FADA may change in the future; its status will be reassessed over the next year.

Federal credit unions and privately owned, cooperative associations are organized for the purpose of promoting thrift among their members and creating a source of credit. They are authorized by the Federal Credit Union Act of 1934, as amended. The National Credit Union Administration regulates these credit unions, provides liquidity assistance to member credit unions, and insures depositors' accounts. The NCUA insurance fund is used to carry out a program of insurance for member accounts in Federal credit unions and State-chartered credit unions, which apply and qualify for insurance.

The administration's activities consist of: (1) chartering new Federal credit unions; (2) supervising established Federal credit unions; (3) making periodic examinations of their financial condition and operating practices; and (4) providing administrative services.

The fund is structured to be entirely self supporting through assessments paid by member credit unions. The monies received plus the income generated from their investment are expected to cover all administrative and financial costs, as well as increase the fund balance proportionate to insured share growth. The fund has $100 million in borrowing authority from the U.S. Treasury for use in unforeseen emergencies.

VI. Changes in the Quantity and Price of Federal Credit

This section discusses some of the trends and policy initiatives in Federal credit activity that cut across programs. After a brief introduction to administration credit initiatives, the general quantity of new Federal and federally assisted credit, including that of GSEs, is discussed.

The major trend in Federal credit activity relates to the administration's success in cutting and in some instances reversing the rate of growth in new direct loans. The administration has been

less successful in reducing new loan guarantees. The reduction in the rate of growth in Federal credit activity results from measures taken by the administration to reduce Federal intervention in domestic credit markets. Reduced intervention has been accomplished through:

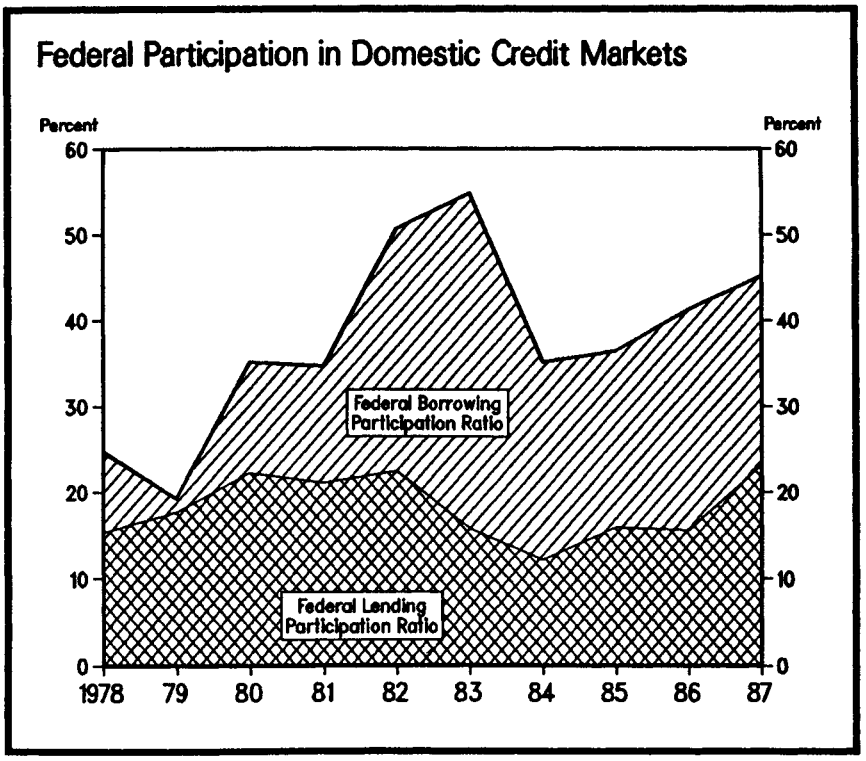
- across-the-board cuts in the volume of new credit authority;
- specific credit program eliminations or drastic reductions; and
- increases in interest rates and loan guarantee fees.

In addition, the administration has worked to improve the management of existing credit programs. By implementing modern business practices, the Government seeks to extend loans more prudently, service accounts more effectively, and collect payments more aggressively and in a more timely fashion. The goal of improved credit management is further enhanced by loan asset sales and the privatization of collection activities. The policies related to the better management of Federal credit programs are detailed in OMB Circular A-70, "Policies and Guidelines for Federal Credit Programs," and OMB Circular A-129, "Managing Federal Credit Programs."

Changes in the Quantity.—Changes in the quantity of credit activity in the economy are measured through the Federal Reserve Board's flow-of-funds accounts. Flow-of-funds accounts measure total net lending and borrowing between various sectors of the U.S. economy. Accordingly, comparing net Federal and federally assisted lending to total net lending in the U.S. economy provides a means for quantifying the amount of net lending directly influenced by Federal programs. The flow-of-funds accounts allow a comparison of changes in the degree of Federal influence over time.

The accompanying chart summarizes these relationships during the last decade. Federal and federally assisted lending in a given year is the difference between the amount of direct, guaranteed and GSE loans outstanding at the beginning and end of each year. The net amount of Federal and federally assisted lending was $149.2 billion in 1987. The supply of credit is the net increase in the holdings of various investor groups. In 1987, this was $642.7billion. The participation ratio of Federal and federally assisted lending to total lending, therefore, was 23.2 percent in 1987. This represents a new peak for the decade.

These ratios should be used with caution for two reasons. First, and most importantly, the participation ratios measure volume and therefore do not indicate the full extent of Federal influence in allocating credit to favored borrowers. That influence is reflected in a more meaningful way by the degree of subsidy. A loan guarantee with a small degree of subsidy does not allocate capital to the same degree as a direct loan with a high degree of subsidy. Yet, the



lending participation ratios do not distinguish between a dollar of guaranteed loans and a dollar of direct loans; they weigh both dollars equally.

Second, the participation ratios are shown on an aggregate basis for the entire economy and so do not reveal the Federal influence on borrowing by particular sectors, such as households, corporate businesses, or farms. This means that some sectors may be more affected by changes in Federal credit program levels than others, even when the overall lending participation ratio remains the same.

The Federal Government not only lends to various sectors of the economy, but it also borrows. The scope and details of Federal borrowing are discussed in Special Analysis E ("Borrowing and Debt"). The net annual amount of Federal and federally assisted borrowing in 1987 was $327.1 billion. In 1987, the total funds borrowed (excluding the financial section and equities) in U.S. credit markets was $723.8 billion. The borrowing participation ratio, therefore, was 45.2 percent in 1987. As shown in the accompanying chart, the borrowing participation ratio is more volatile than the lending participation ratio, ranging from 19.3 percent to 54.8 percent of total borrowing between 1978 and 1987. The volatility is due

primarily to swings in the budget deficit. Again, a cautionary note is in order. The full impact of Federal borrowing on the U.S. economy and the credit markets depends on competing demands from other borrowing sectors, as well as changes in the supply of credit available for borrowing. Table F-22 at the back of this analysis provides additional details on participation ratios.

Table F-11 summarizes outstanding Federal and federally assisted loans from 1986 to 1989. Total direct loans outstanding at the end of 1987 were $234.2 billion and total guaranteed loans outstanding were $507.0 billion. In 1987, Federal and federally assisted loans outstanding increased by 15 percent over 1986. Increases of 7 percent in both 1988 and in 1989 are estimated.

Table F-11. **SUMMARY OF OUTSTANDING FEDERAL AND FEDERALLY ASSISTED CREDIT**

(In billions of dollars)

	Actual		Estimate	
	1986	1987	1988	1989
Direct loans	251.6	234.2	218.0	207.4
Primary guaranteed loans	449.8	507.0	527.8	544.8
Loans by Government-sponsored enterprises	453.3	581.1	673.4	761.7
Total, Federal and federally assisted loans	1,154.7	1,322.3	1,419.2	1,513.9
Federal debt held by the public	1,746.1	1,897.8	2,025.1	2,152.1
Primary guaranteed debt (same as guaranteed loans above)	449.8	507.0	527.8	544.8
Debt of Government-sponsored enterprises	458.1	569.2	665.9	757.9
Total, Federal and federally assisted debt	2,654.0	2,974.0	3,218.8	3,454.8

Changes in the Price.—As part of the administration goal of reducing Federal intervention in credit markets, interest rates and fees have been increased where possible. Interest rates and guarantee fees typically do not cover all the costs to the Federal Government of many credit programs. These costs include default risks for both direct and guaranteed loans, as well as servicing and administrative costs.

VII. Federal Credit Subsidies

Federal credit programs provide more favorable terms than borrowers could otherwise obtain in the private market, and thus result in a subsidy to the borrower. For direct loans, a subsidy results when one or all of the following terms of Federal credit are in place: interest rates below commercial levels; longer maturities than fully private loans; deferral of interest; allowance of grace periods; waiver or reduction of loan fees; higher loan amount in relation to the value of the underlying enterprise than a fully private loan; and availability of funds to borrowers for purposes for

which the private sector would not lend—at virtually any interest rate under virtually any repayment terms.

For guaranteed loans, an interest rate subsidy occurs because the Government guarantee removes some or all risk of default or loss facing the lender and because the Government does not charge what a private insurer would charge for the same degree of guarantee. In a few cases, notably guaranteed student loans, there is an additional, explicit payment by the Government of a portion of the borrower's interest. The lender is willing to lend to the guaranteed borrower at rates lower than the market rate since no premium, or less than a normal premium, for default risk is required.

In many cases, large interest rate subsidies may be intended. The economic support fund, for example, previously extended loans at interest rates of about 3 percent per annum in order to meet its objective of aiding foreign countries. In other cases, the extent of the subsidy may be unintentional, as when a direct loan program's interest rate is initially set at a level comparable to a market interest rate but is not changed to keep pace with changes in market interest rates over time. For example, in 1944 Congress set the interest rate on some loans of the Rural Electrification Administration at 2 percent, which was slightly higher than the cost of Treasury borrowing at that time. But while the cost of long-term Treasury borrowing has varied through the years, REA's lending rate for its direct loans, proposed to be terminated by 1989, increased only to 5 percent.

However, neither the unified budget nor the credit budget adequately takes into account the subsidy that results from interest rate spreads and other loan terms characteristic of Government credit. The cash outlays of the direct loan or loan guarantee program are reflected in the unified budget, while the new levels of annual loan activity (direct loan obligations and guaranteed loan commitments) are summarized in the credit budget.

The administration's credit reform proposal, summarized above and in Part 6b of the budget, would estimate the subsidy cost of Federal credit programs, require the appropriation of those subsidies, and incorporate them in the unified budget. Under this proposal, subsidies would be estimated using the same method used to estimate subsidies in this special analysis. The direct loan subsidy is calculated as the discounted or present value of the additional payments that the borrower would have been required to pay for the loan if it had been a purely private loan. This method requires an estimate of the interest rate and other terms on which a private lender would have lent to a representative borrower from that Federal program.

To derive the rate of return on a representative private loan, estimates have been made of the private loan terms according to

the purpose of the loan (e.g., to buy a house or to provide a small business with working capital) and the type of borrower (e.g., a high-risk company versus a low-risk company) typically associated with the particular direct loan program. The estimates take into account not only the differences in interest rates, but also the differences in loan fees, maturities, and repayment schedules that would normally be expected for the type of loan being compared. A simplifying assumption used in these calculations is that a single example can adequately represent the array of loans in a given program. This assumption is not always a good approximation. Several agencies (e.g., the Export-Import Bank or the Small Business Adminstration) have programs where loans are made to a variety of borrowers with widely dissimilar risk characteristics.

The discount rate used to evaluate the present value of the Government loan is the internal rate of return on the private loan. This rate is a more appropriate discount rate than the simple interest rate on the private loan, because that interest rate does not reflect the return that lenders receive from commitment commissions and other loan fees, nor does it reflect the maturity and repayment schedule.

Excluding CCC priced support loans and FMS forgiven loans, table F-12 shows subsidy values for 95 percent of the obligations that direct loan programs are estimated to make in 1989. The present value of the total estimated subsidies is $0.9 billion.

The method of evaluating direct loan subsidies, as explained above, measures the cost of Federal credit by comparing the terms and conditions of a similar loan from the private sector. This method is therefore the same as evaluating the subsidy as the difference between the face value of the loan and the proceeds from promptly selling the loan without recourse in the market. This difference measures the subsidy as the equivalent of a grant that the Government provides to the borrower. The subsidy is therefore equivalent to direct budget outlays for grants made to individuals or businesses. In this manner the economic or programmatic effects of direct loans can be reasonably compared to the effects of budget outlays.

Another measure of subsidy that has been proposed calculates cost based on the Treasury borrowing rate, which is always less than the method used here for two reasons. First, the Treasury's cost of borrowing is always lower than that of the private sector due to the Government's sovereign power to tax and to print money, which provides safety to Treasury securities, and also due to the great liquidity of the enormous market for these securities. Second, the Government does not need to hold any reserves against its loan guarantees or any capital against direct loan defaults, which makes the Government less averse than is the private sector to the level and variance of risk inherent in the credit it grants.

Table F-12. **ESTIMATED SUBSIDY COSTS FOR 1989 DIRECT LOAN OBLIGATIONS**

Agency and program	Present value of subsidy	
	Percent of direct loan obligations	Millions of dollars
Funds Appropriated to the President:		
AID private sector revolving fund	8.3	0.4
OPIC	14.5	2.5
Agriculture:		
ACIF:		
Emergency disaster	18.9	18.9
Farm operating	11.2	55.8
RDIF	13.6	40.9
Public Law 480 export credits	70.0	517.1
REA:		
Rural Telephone Bank	15.2	26.9
Health and Human Services:		
Health resources and services	22.0	0.1
Housing and Urban Development:		
Housing for the elderly and handicapped	21.7	72.5
Federal Housing Administration	3.1	3.2
Nonprofit sponsor assistance	22.1	0.1
Interior:		
Bureau of Reclamation	61.0	11.1
Bureau of Indian Affairs	24.4	3.2
Transportation:		
MarAd federal ship financing fund	1.8	0.1
Veterans Administration:		
Vendee loans	16.0	0.2
Direct loans	1.6	0.2
Vocational rehabilitation	11.9	0.1
Export-Import Bank	11.6	82.0
FSLIC	3.0	2.1
National Credit Union Adminstration:		
Central liquidity facility	3.0	4.3
Share insurance fund	50.0	2.5
Small Business Administration:		
Disaster loans	14.2	37.7
Tennessee Valley Authority:		
Power program	5.0	2.7
Total, direct loan subsidies		884.7

If the Treasury borrowing rate were adopted instead of the method used here to estimate the present value of the subsidies, distortions would be created. The subsidy would be smaller than the equivalent of a grant to the borrower. Thus, the budget would continue to favor credit programs over direct spending programs. It would not give policymakers and the public the information they

need to compare fairly those two kinds of programs and to determine which form of assistance is more cost effective. Furthermore, using the Treasury rate would not take full account of the loan's riskiness, which would skew the allocation of resources toward the most risky loans among borrowers, among credit programs, and between credit and other spending.

Guaranteed loan subsidies are calculated by the same method as direct loan subsidies. The guaranteed loan subsidy is the present value of the additional payments that borrowers would have paid if the loan had not been guaranteed by a Federal agency, and, in a few cases, if the agency had not made explicit interest payments. In some cases, private insurance or guarantee coverage of a type offered by Federal programs is available from private insurers. An example is private mortgage insurance, which is comparable to the mortgage insurance or guarantees offered by the FHA and VA. In these instances, the subsidy can be measured by calculating the present value of the difference in the fees charged by the Federal Government and the fees that a private insurer would have charged to provide an identical guarantee. In other cases, private insurers simply do not offer insurance or guarantee coverage similar to that offered by Federal programs. The absence of private insurance may be because the credit risks of the guaranteed loans are so large or so immeasurable that private insurers will not undertake to offer guarantees; sometimes, it may be because potential private insurance has been preempted by a Federal guarantee program, which inherently has an immensely larger capacity to bear risk and to charge guarantee fees below those the private insurer would charge. In these circumstances, the subsidy is calculated in terms of the interest rate and fees a private lender would have charged the borrower in the absence of a Federal guarantee.

In both of these cases, as in the case of direct loans, the subsidy is equivalent to a grant paid by the Government to the borrower. The subsidy is thus equivalent to direct budget outlays for grants made to individuals or businesses. In this manner, economic or programmatic effects of loan guarantees can be reasonably compared to the effects of budget outlays.

Table F-13 presents these subsidy calculations for nearly all of the gross commitments that loan guarantee programs are estimated to make in 1989. The present value of the total estimated subsidies is $8.7 billion.

Table F-13, like Table F-12, estimates the value of the subsidy by measuring the cost of a loan on the same basis as direct spending for grants, and not by using the cost of Treasury borrowing. It would be inappropriate to use a Treasury borrowing cost basis for calculating economic subsidies, since it would not measure the cost of the loan guarantee to the economy. This could lead to the

Table F-13. **ESTIMATED SUBSIDY COSTS FOR 1989 GUARANTEED LOAN COMMITMENTS**

Agency and program	Present value of subsidy	
	Percent of guaranteed loan commitments	Millions of dollars
Funds Appropriated to the President:		
Foreign military sales credit	7.5	155.2
AID private sector loans	11.3	5.7
AID housing and other credit	15.7	15.7
Overseas Private Investment Corporation	13.1	22.9
Agriculture:		
ACIF	0.8	0.1
CCC export credits	13.7	554.0
RDIF	0.9	0.9
REA	17.3	80.7
Education:		
Guaranteed student loans	33.6	3,242.3
Health:		
Health education assistance loans	2.0	3.5
Housing and Urban Development:		
FHA fund	1.2	900.0
GNMA secondary mortgage guarantees	1.9	1,900.0
Interior:		
Bureau of Indian Affairs	2.5	11.2
Veterans Administration:		
Loan guarantees	6.6	1,184.1
Export-Import Bank	2.5	254.0
FSLIC	2.5	81.2
NCUA share insurance fund	100.0	4.0
Small Business Administration:		
Business assistance	9.1	327.3
Total, guaranteed loan subsidies		8,742.8

mistaken perception that a program was economically self-sustaining when, in fact, it was not. For example, the Federal Government is not required to set aside reserves in order to minimize the risk that it will be forced out of business should it miscalculate the credit risks of guaranteeing a large number of loans.

Some qualifications should be kept in mind when reviewing the estimates of Federal credit subsidies. First, there are theoretical difficulties in estimating subsidies. For example, private investors might require more detailed financial information about the borrower than the Federal Government requires. The private sector would reflect these higher transaction costs in its charges for loans and loan guarantees. The subsidy estimates do not take explicit account of such transaction costs.

Second, the subsidies shown are almost certainly underestimated because they are calculated on a marginal price basis. The implicit assumption is that the Federal program is not large enough to affect the price of similar unguaranteed loans. This is not true for

some programs. The large size and pervasive nature of some Federal programs, especially in the housing sector, means that the Federal supply of credit is so large that the market clearing price of credit in that sector is probably lower than it would otherwise be. This means that the private lenders whose fees are used for comparison may charge less than they otherwise would, thereby lowering the subsidy estimate.

VIII. Defaults

Federal credit programs have markedly different objectives than private lending institutions, which seek profits. Several Government credit programs, such as the Small Business Administration, are designed to play the role of "lender of last resort." Federal loans, therefore, often bear more risk than private lenders are willing to bear. Partially as a result, some Government loan programs have high default rates. The diverse characteristics of Federal credit programs, each with its own legislative mandate and a variety of different borrowers, make it difficult to compare default rates among Federal programs.

Table F-14 shows the amount of direct loans written off and the amount of guaranteed loans terminated for defaults. Of all direct loans outstanding, only 0.8 percent are recorded as write-offs in 1987. Of total guaranteed loans outstanding, 2.0 percent are reported to be terminated in 1987.

The economic development, business, and agricultural loan programs have the highest estimated default or termination rates in 1987. The economic development loans are from terminated programs that aided the financing of various public works and business development projects. The objective of these terminated programs was to provide increased employment opportunities and family income in areas of the country that lagged behind the rest of the nation economically. The high rate of write-offs and terminations in this program is the result of loans to failed steel companies and reflects the limited success of these types of loans in stimulating growth in certain areas of the country.

The high business loan write-off and termination rates are attributable to the nature of these loans—to small businesses that are unable to obtain private financing. Accordingly, since the failure rate is quite high for small businesses that are deemed creditworthy by private financial institutions, it is dramatically higher still for firms that qualify for Federal or federally guaranteed loans as the only source of financial assistance.

Delinquencies and defaults in various agricultural programs can be traced to depressed market conditions. Starting in the early 1980s, the U.S. farm economy was characterized by declining income and asset values. As a result of the depressed conditions,

Table F-14. **DIRECT LOAN WRITE-OFFS AND GUARANTEED LOAN TERMINATIONS FOR DEFAULTS**

	In millions of dollars			As percentages of outstanding loans [1]		
	Actual	Estimated		Actual	Estimated	
	1987	1988	1989	1987	1988	1989
Direct loans:						
Commodity Credit Corporation	1	63	78	.....	0.38	0.56
FmHA agricultural credit insurance	865	1,220	663	3.07	4.61	2.77
Rural housing insurance fund	31	30	30	0.11	0.11	0.12
Economic development revolving fund	99	100	26	17.62	20.04	6.22
Guaranteed student loans	121	225	328	1.74	4.42	5.80
Other education loans	24	60	50	0.48	3.29	4.00
Federal Housing Administration	65	68	69	1.46	1.50	1.55
MARAD ship financing fund	196	.....	.....	12.69	.....	.....
Small business assistance:						
Business loans	411	377	364	10.51	13.49	14.53
Disaster loan fund	181	144	128	4.56	4.09	4.48
Other	3	22	24	0.01	0.02	0.02
Total write-offs	1,997	2,309	1,760	0.82	1.02	0.83
Guaranteed loans:						
Commodity Credit Corporation	456	642	635	12.42	11.72	10.67
FmHA agricultural credit insurance	90	126	190	3.87	3.99	4.73
Rural development insurance fund	57	50	40	2.51	2.80	2.57
Economic development revolving fund	148	20	15	77.49	19.80	16.48
Guaranteed student loans	1,382	1,728	1,855	3.56	4.25	4.44
Federal Housing Administration fund	4,433	5,016	5,027	1.78	1.80	1.87
MARAD ship financing fund	342	250	100	7.38	6.18	2.72
BIOMASS energy development	196	.....	.....	24.62	.....	.....
VA loan guarantee revolving fund	1,898	2,426	2,322	1.31	1.65	1.66
SBA business loans	548	540	505	6.31	5.85	5.57
Other	26	74	187	0.11	0.27	0.30
Total terminations	9,576	10,872	10,876	2.00	2.10	2.03

[1] Average of loans outstanding over year

delinquency, liquidation, and bankruptcy rates continue to rise. However, this situation is expected to turn around owing to the major improvement in export markets, record levels of farm income in 1987, and the decline in farm debt that is projected for the fifth straight year.

In addition, the VA loan guaranty revolving fund is experiencing a dramatic increase in the home loan guarantees terminated due to default in 1988. Some of these terminations were expected due to the unprecedented high level of guarantees granted in 1987. The majority of the terminations are occurring in the States worst hit by the decline in the petroleum industry such as Texas, Colorado and Louisiana. This trend is expected to level off in 1989.

Finally, there has been a growing awareness that losses in both direct and loan guarantee programs are higher than reported. In recognition of this problem, agencies have been instructed to periodically review their existing portfolios and to write-off accounts that are determined to be uncollectible within a reasonable period

of time. In 1987, $11.6 billion in uncollectible accounts were written off by agencies, a 27 percent increase from the $9.1 billion in write-offs and terminations reported in 1986. However, further improvements in this area of credit management are needed. The agencies that have not already done so are expected to complete an initial review of their portfolios in 1988. Also, Treasury's Financial Management Service will issue a guidance paper to assist agency portfolio managers in determining whether, when, and how to write off uncollectible accounts.

IX. Federal Financing Bank

The Federal Financing Bank (FFB) began operation in May 1974 and has been a significant factor in financing Federal credit activities since then. The Bank is administered by the Treasury Department and is, in reality, merely another "window" of the Treasury. The FFB was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold, or guaranteed by Federal agencies. Use of the FFB by Federal agencies leads to lower debt financing costs than if the agencies or the guaranteed borrowers were to sell their obligations individually in the credit market. Agency obligations trade at premiums above Treasury securities due to their relative illiquidity, smaller size of issue, and unique financial terms that distinguish them from Treasury securities and each other.

The FFB performs three functions: (1) it purchases guaranteed loan assets from Federal agencies; (2) it disburses loans directly to borrowers when the loans are guaranteed by a Federal agency; and (3) it buys debt of Federal agencies that are otherwise authorized to borrow from the public. In all cases, the operation of the programs remain with the agencies that use the FFB. None of the three forms of FFB lending are recorded immediately as outlays; instead, outlays are recorded when the proceeds of borrowing are spent by the agencies.

Prior to passage of the Balanced Budget and Emergency Deficit Control Act of 1985, the outlays of the first two types of transactions were considered to be outlays of the FFB and were "off-budget." The third type of FFB transaction was considered to be a means of financing agency outlays. Under Section 214 of the Act, *all* transactions by the FFB on behalf of a Federal agency are now considered to be a means of financing for the agency. As a result, FFB transactions formerly presented as a separate line item in this analysis and elsewhere in the budget have been incorporated into the account of the agency originating the transaction.

Table F-15 summarizes the activities of the FFB on behalf of the agencies it serves for 1987 through 1993. Table F-21 at the end of

Table F-15. **SUMMARY OF FFB FINANCING OF AGENCY ACTIVITIES**

(In billions of dollars)

	Actual 1987	Estimated					
		1988	1989	1990	1991	1992	1993
Credit related:							
New acquisitions	3.4	2.4	1.4	1.2	0.5	0.6	0.7
Net lending	−2.4	−16.3	−12.7	−11.8	−5.9	−8.4	−7.0
Loans outstanding	134.7	118.4	105.7	93.5	87.6	79.2	72.2
Other:							
New acquisitions	3.6	2.8	3.0	3.1	2.6	0.8	1.3
Net lending	2.8	2.2	2.2	2.2	1.7	*	−*
Loans outstanding	22.6	24.8	27.0	29.3	31.0	31.0	30.9
Total, all FFB acquisitions:							
New acquisitions	7.0	5.2	4.4	4.3	3.1	1.3	2.0
Net lending	0.4	−14.0	−10.5	−9.6	−4.2	−8.4	−7.1
Loans outstanding	157.3	143.2	132.7	122.8	118.6	110.2	103.1

*$50 million or less.

this document shows the activities of the FFB over the same period by agency and account.

The Omnibus Budget Reconciliation Act of 1986 authorized certain rural electric cooperatives to prepay their Rural Electric Administration guaranteed-loans held by the FFB without premium or penalty, and provided that prepayments in excess of $2,017.5 million during 1987 were to be subject to the approval of the Secretary of the Treasury. Prepayments of approximately that amount were approved. Under this legislation, rural electric borrowers prepaid $589 million in principal with an associated taxpayer loss of $165 million.

The 1986 Act also authorized that refinancing be accomplished using full Government guarantees in the private credit markets. Refinancing in this manner (1) is contrary to the ongoing role and effectiveness of the FFB; (2) interferes with the administration of Federal credit policy; (3) competes with the Treasury financing of the national debt; and (4) provides a further subsidy to borrowers. This subsidy would be provided to borrowers that have already received the lowest available rate at the time that they originally borrowed funds, and this subsidy would be provided outside of the normal appropriations process, without the determination of the need of the borrower for the subsidy.

The Omnibus Budget Reconciliation Act of 1987 authorized an additional $2 billion in premium-free prepayments during 1988 using full Government guarantees and provided that prepayments in excess of $2 billion would be subject solely to the approval of the Secretary of the Treasury. The Secretary has determined that par prepayments in excess of $2 billion will not be approved because of taxpayer costs involved. While it is difficult to estimate the final

taxpayer costs because of changes in market interest rates that affect those costs, if the full $2 billion were prepaid at par under market conditions prevailing in January 1988, the costs could be as high as $631 million.

In other congressional action, the Continuing Appropriations Resolution for FY 1988 included a provision that allows FFB borrowers under foreign military sales guarantees to prepay at par their debt with interest rates of 10 percent or higher. While the amounts that these borrowers will choose to prepay are subject to a variety of factors and thus cannot be estimated precisely, if the $13.6 billion of FMS loans held by the FFB that have interest rates of 10 percent or higher were prepaid, the associated taxpayer costs could be as high as $3.5 billion.

X. Loan Asset Sales to the Public

The administration proposes to continue its pilot program of selling existing and newly made loan assets to the public without recourse or the right to make a claim against the Federal Government in the event of borrower default. The pilot program was first proposed in the President's 1987 budget with the goal of selling loan assets with a face value of $4.4 billion. This amount of sales was increased by Congress in the Omnibus Budget Reconciliation Act to approximately $7.1 billion in loan assets. As seen in table F-16, at the end of 1987, loans with a face value of $7.9 billion had been sold or prepaid by borrowers and had yielded $5.5 billion in net receipts.

Table F–16. **LOAN ASSET SALES AND PREPAYMENTS**

(in millions of dollars)

Agency or Program	1987			1988		1989		Total 1987–89	
	Face value	Gross proceeds [1]	Net proceeds [2]	Face value	Gross proceeds	Face value	Gross proceeds	Face value	Gross proceeds
PROCEEDS INCLUDED IN THE GRH BASELINE [3]									
Sales:									
Veterans Administration:									
Vendee loans—without recourse	...	...	...	680	436	1,341	781	2,021	1,217
Vendee loans—with recourse [4]	904	...	...	388	...	...	...	1,292	...
Agriculture: rural development insurance fund	1,907	1,045	1,004	635	356	1,125	630	3,667	2,031
Education: college housing and academic facilities [5]	237	98	97	650	336	...	...	887	434
HUD: GNMA—with recourse	241	...	...	24	...	385	...	650	...
Subtotal, sales	2,144	1,143	1,101	1,965	1,128	2,466	1,411	6,575	3,682
Prepayments:									
Agriculture: rural development insurance fund	80	51	51	870	505	...	...	950	556
Education: college housing and academic facilities	792	499	479	...	...	...	...	792	499
Export-Import Bank	1,901	1,901	1,901	500	500	525	525	2,926	2,926
Transportation: railroad rehabilitation	...	...	...	370	205	165	120	535	325
Subtotal, prepayments	2,773	2,451	2,431	1,740	1,210	690	645	5,203	4,306
Subtotal, in baseline	4,917	3,594	3,532	3,705	2,338	3,156	2,056	11,778	7,988
PROCEEDS NOT INCLUDED IN THE GRH BASELINE									
Sales:									
Interior: Bureau of Reclamation	...	...	...	529	130	...	...	529	130
Agriculture:									
Rural housing insurance fund [6]	2,989	1,960	1,943	...	...	1,752	870	4,741	2,830
Rural Electrification Administration	...	...	...	...	...	1,600	972	1,600	972
Education: college housing and academic facilities	...	...	...	...	...	483	230	483	230
HHS: Medical facilities	...	...	...	...	...	122	76	122	76
HUD:									
Public facilities	...	...	...	306	188	...	...	306	188

Table F-16. **LOAN ASSET SALES AND PREPAYMENTS—Continued**

(in millions of dollars)

Agency or Program	1987			1988		1989		Total 1987-89	
	Face value	Gross proceeds [1]	Net proceeds [2]	Face value	Gross proceeds	Face value	Gross proceeds	Face value	Gross proceeds
FHA fund—without recourse				103	78	146	100	249	178
FHA fund—with recourse				441				441	
SBA: business & disaster loans						1,080	710	1,080	710
Subtotal, sales not in base	2,989	1,960	1,943	938	396	5,183	2,958	9,110	5,314
Prepayments:									
Funds Appropriated to the President: Foreign military sales				5,900	5,900	2,300	2,300	8,200	8,200
Agriculture:									
Rural Electrification Administration (FFB)				2,000	2,000	1,000	1,000	3,000	3,000
Rural Electrification Administration						250	152	250	152
Rural Telephone Bank				230	230	50	50	280	280
HHS: Health maintenance organizations				30	20	30	20	60	40
HUD: public facilities	11	8	8					11	8
SBA: disaster loans	4	3	3					4	3
Economic Development Administration	10	10	10					10	10
Subtotal, prepayments not in base	25	21	21	8,160	8,150	3,630	3,522	11,815	11,693
Subtotal, not in base	3,014	1,981	1,964	9,098	8,546	8,813	6,480	20,925	17,007
Total, all sales	5,133	3,103	3,044	2,903	1,524	7,649	4,369	15,685	8,996
Total, all prepayments	2,798	2,472	2,452	9,900	9,360	4,320	4,167	17,018	15,999
Grand total, all sales and prepayments	**7,931**	**5,575**	**5,496**	**12,803**	**10,884**	**11,969**	**8,536**	**32,703**	**24,995**

[1] Gross proceeds represent the receipts received by the Government. These figures do not equal the amounts paid by investors (the amounts prior to the deduction of various transaction costs at closing). In 1987, the amounts paid by investors include: higher education and college housing—$127.0 million; rural development insurance fund—$1,134.1 million; and rural housing insurance fund—$1,840.7 million. In addition, the gross proceeds figures do not include any additional equity interest retained by the Government.

[2] Net proceeds calculations include lost principal and interest payments previously assumed in budget totals and all transaction costs including financial advisor, underwriter, legal, and filing fees.

[3] "GRH baseline" categorization only applies to 1988 and 1989.

[4] Loans sold with recourse have the full faith and credit of the United States as backing and as such are similar in form to a Treasury security. Accordingly, both OMB and the Congressional Budget Office consider this type of sale to be a means of financing other than borrowing instead of offsetting collections and thus the sale proceeds are scored as zero. Also, the face amounts of recourse sales are not included in the totals.

[5] Sale proceeds for Education in 1988 includes $22 million from a prior year sale. The Department's securitized sale, not included in the sales proceeds amount, provided the Government with a junior pool that had an estimated market value of $10.7 million.

[6] Sale proceeds for RHIF in 1987 include an estimated market value of $215 million for the junior security that was not sold.

The program is continuing in 1988 with loans having a face value of $12.8 billion. These sales or prepayments are projected to yield approximately $10.9 billion in offsetting collections. The loans to be sold or prepaid under the program in 1989 will come from 13 different portfolios and have a face value of $12.0 billion. The estimated market value of these assets is $8.5 billion.

Although loan asset sales reduce current budget deficits, they increase future deficits because they move to the present the anticipated future streams of principal and interest payments from the loans. However, this effect is mitigated by several factors. Collections from asset sales reduce Treasury borrowing and, therefore, have the potential to lower interest outlays in subsequent years. In addition, the savings from improved management of credit programs that occur as a consequence of asset sales are not explicitly reflected in the budget. Finally, to the extent that newly made loans are sold without recourse, the difference between the face and market values provides an objective measure of the subsidy implicit in loan programs.

The nonrecourse requirement of loan asset sales is an important part of the pilot program. Although selling with recourse would yield a higher initial price than selling loans without recourse, the primary reason behind loan asset sales is to improve the Government's credit management practices. Federal credit programs were designed with an emphasis on granting loans, rather than collecting and servicing loans; as a result, delinquency and default rates are frequently much higher than in the private sector. In addition, prior to the current loan sales program, agency procedures and standards varied and many field offices had inadequate documentation of their loans.

If loans are sold with recourse, there is no incentive for Federal programs to improve the origination and documentation of loans because borrowers will rely on the Federal guarantee rather than demand improved credit management of the underlying loans. Also, selling loan assets to the public with a Government guarantee is a form of Federal borrowing from the public in the sense that a contingent liability is created. Since this type of borrowing from the public is more costly than issuing Treasury securities—purchasers of the guaranteed loan assets typically offer prices well below the face value of the loans because the assets may be relatively illiquid or have unique characteristics that reduce their value to the purchaser—it is inefficient.

Management improvements have already occurred as a result of the three sales completed. Specifically, loan originations have been improved by including more rigorous legal review to ensure the enforceability of each loan, and deficiencies in the documentation of loans, as well as in the information systems used to track loan

repayments, have been identified and will be corrected. Also, future sales will benefit from past sales in two ways. First, if default and recovery experience on the portfolios sold turn out to be better than expected, the Government will benefit to the extent that more optimistic assumptions will raise the proceeds from future sales. Second, the continuing sale of similar assets develops buyer familiarity with the Government assets and enhances the salability of future issues.

To the extent possible, the sale of new loans will be emphasized in the 1988 and 1989 sales. This goal is in keeping with the credit reform initiative objective of measuring the subsidy element of Federal credit programs as the difference between the face and market value of a loan. The sale of loans as they are originated, as opposed to the sale of existing loan assets, not only provides information on the subsidy inherent in Federal programs, but it more directly encourages improvements in loan origination and documentation practices. Loans sell at a higher price if screening and documentation are up to private sector standards. The sale of loans close to the time of origination would make this connection between improved credit management and higher asset prices more direct than if the assets were to be sold at some indefinite point in the future.

XI. Leasing

The Federal Government is both a lessor and a lessee in hundreds of leases involving billions of dollars every year. As a lessor, the Government allows private entities to contract for the use of on-shore and off-shore acreage for oil and gas exploration and lands for grazing and timber harvesting. Federal leases raise about $6 billion annually in proprietary receipts, primarily from rents and royalties on the Outer Continental Shelf.

As a lessee, the Federal Government uses both operating and capital leases to contract with private enterprises to use office facilities, computers, telecommunications equipment, satellites, ships, cars, planes, and other equipment. Operating leases are normally short term and do not involve a transfer of title to the asset. That is, the lessor holds title to, performs maintenance on, and regains the asset after the lease period.

Operating leases can be used to overcome peak load problems when the use of the asset is not needed indefinitely. Also, the lessee may not wish to take on the ownership risks of upkeep or may find that the lessor can provide more efficient maintenance services. Finally, the lessee may wish to avoid the purchase of an asset likely to be obsolete in a relatively short period of time.

In contrast, a capital lease arrangement is long term and involves a change in the basic ownership of an asset. In essence,

capital leases are a means by which lessees can purchase an asset by borrowing from the lessor. This is obviously true in the case of lease-purchases, where the Government ends up holding title to the property at the end of the lease period. But even when this does not occur, if the lease covers a large part of the operating life of the asset, it has much the same economic impact as a front-end purchase that is eventually resold.

From a budgetary standpoint, capital leases can be more attractive than purchasing assets. Leasing entails lower outlays in the short-term and, under some circumstances, less budget authority. When capital assets are purchased, their entire purchase price requires obligational authority and is recorded as an outlay in the year of purchase. When capital assets are leased, only the annual lease payment is recorded as an outlay and, under certain lease contracts, there is no recognition of obligations to make payments in future years.

Like all contracts in the Government, leases are subject to the requirements of the Anti-Deficiency Act (31 U.S.C. 1341). The act requires the lessee agency to obligate funds sufficient to cover the commitments of the Government in the contract. Leases typically include termination clauses that limit the potential exposure of the Government and, therefore, also limit the amount of funds needed to be obligated.

Recently, however, several agencies and committees of the Congress have been proposing financing schemes involving lease-purchase arrangements. These are designed to allow agencies to enter into multiyear contracts that do not include effective termination rights and yet permit agencies to obligate only the annual costs, as opposed to the full legal obligation of the lessee agency under the contracts. Such proposals have included specific language exempting the transactions from the Anti-Deficiency Act. This, of course, violates the intent of the Act by under-reporting the liabilities of the Government. The administration is strongly opposed to any such efforts by agencies or the Congress intended to hide outlays and debts of the Government.

The Office of Management and Budget issued Circular No. A-104, "Comparable Cost Analysis for Decisions to Lease or Purchase General Purpose Real Property," in 1972 to provide Government-wide guidelines on leasing. The circular requires economic analysis to justify major lease-buy decisions. As originally issued, the circular did not apply to all lease-buy decisions. Recognizing that the budget scorekeeping system should treat capital leases and capital purchases similarly in decisions on whether to buy or lease, the administration released a revision of Circular A-104 on June 1, 1986. The revised circular prescribes a uniform method for the economic analysis to be conducted when considering whether to use

leasing in place of direct Government purchase and ownership as a means of acquiring the use of assets.

XII. Tax-Exempt Credit

Interest on State and local government obligations generally has been exempted from the Federal income tax since adoption of the tax code in 1913. Federal tax exemption increases the demand for these obligations, since it results in higher after-tax interest rates for investors. This increase in demand reduces the pretax interest rates of these obligations relative to the pretax interest rates of taxable securities. Consequently, tax-exempt interest rates have averaged about 75 percent of taxable interest rates on long-term obligations with similar credit risk. As a result of various provisions of the 1986 Tax Reform Act (Tax Act), the spread between tax-exempt and taxable bonds has decreased markedly with tax-exempt yields averaging 89 percent of long-term Treasury bond yields in 1987. The Tax Act has additionally affected the supply as well as the demand for municipal bonds. Tax exemption is a tax expenditure. (See Special Analysis G, "Tax Expenditures.") Special Analysis G includes a discussion of revenue losses attributable to special provisions of the tax code, including various types of tax-exempt bonds.

Tax exemption reallocates scarce credit resources, just as do Federal direct loans and loan guarantees. Borrowers aided by Federal tax-exempt status have access to credit resources at preferential interest rates over competing borrowers who lack the tax-exempt status. Borrowers who benefit both from tax exemption and Federal guarantees have an advantage over all other borrowers, including the Federal Government, since the interest on Federal Government debt is taxable under Federal income taxes.

Although tax-exempt financing alters the allocation of credit and has costs similar to other Government financing programs, it is not included in the credit budget. Tax-exempt credit is not controlled by the budget process in the same manner as direct loans or guaranteed loans. Effective control of tax-exempt financing can only be achieved through legislated changes to the tax code.

A relatively small portion of tax-exempt financing is guaranteed by the Federal Government, and is therefore included in the credit budget as guaranteed loan commitments. This occurs when the Federal Government guarantees the financial assets that underlie the tax-exempt obligation. Examples include State and local government bonds that finance home mortgages guaranteed by the Federal Housing Administration or the Veterans Administration, or bonds that finance student loans guaranteed by the Department of Education.

Another example of a tax-exempt bond that is indirectly guaranteed by the Federal government is tax-exempt bond issues backed by special Treasury obligations, the State and local government series (SLGS). The bulk of these tax-exempt bonds have originated in connection with advance refundings. In an advance refunding, State and local governments purchase SLGS securities, which are used as collateral for an outstanding bond issue of the entity. The original issue is now "guaranteed" by the Federal Government.

Advance refundings generally occur so that issuers of tax-exempt bonds can get out of restrictive covenants or realize debt service savings. An example of a restrictive covenant might be a limit on the dollar volume of bonds that an institution can issue. By using an advance refunding, the institution can issue a new series of bonds and exceed the limit originally agreed upon.

In recent years, tax-exempt bonds collateralized by SLGS bonds have been growing in importance. At the end of 1987, approximately $140 billion of these bonds were outstanding, which represents nearly 20 percent of all outstanding tax-exempt issues.

This administration and previous ones have believed for several reasons that Federal agencies should not offer direct or indirect guarantees for securities that benefit from tax-exempt status. First, tax-exempt financing is an inefficient means of financing, since the tax loss to the Treasury is greater than the savings from the lower financing costs available to the borrower. Therefore, it should not be stimulated by benefitting from a Government guarantee. Second, the guarantee of tax-exempt financing confers double benefits on investors in those securities: they pay no Federal income tax and they bear no default risk. This class of debt obligation is therefore superior to Treasury securities.

During the first half-century of the income tax, tax-exempt borrowing was mainly for public purposes such as financing roads and schools. From the 1960s on, however, the benefits of tax-exempt financing have increasingly been made available for nongovernmental purposes. State or local governments typically establish authorities that function as financial institutions in providing tax-exempt financing to private borrowers. They use their tax-exempt financing to purchase an asset, which in turn, is purchased or leased from them by the borrower, or to lend the proceeds of an issue to a private borrower. In general, the private borrower is solely responsible for the payment of interest and principal even in the event of default. The State or local government, in some cases, can benefit from investment earnings on funds held for temporary periods and from fees paid by borrowers.

Private purpose bonds have been a common means of financing for a range of activities from sewage treatment plants and multifamily rental housing to owner-occupied housing and private edu-

cational facilities. Starting with the 1968 and 1969 tax acts and most recently in the Tax Act of 1986, various prohibitions against this type of bond were enacted. Tax-exempt private purpose bonds are still permitted for the "public" activities undertaken by municipalities, but most of the business or private purpose bonds have become subject to strict volume caps on a State-by-State basis.

Table F-17 shows the growth in the volume of long-term, tax-exempt bonds. In anticipation of restrictions on tax-exempt bonds being incorporated into the 1986 Tax Act, the growth in volume in tax-exempt securities was unusually high in 1985. In 1986 and 1987, the volume of new issues dropped off markedly as a result of the large volume issued in 1985 and the effects of tax reform.

Table F-17. **TAX-EXEMPT FINANCING**

(In billions of dollars)

	Actual									Preliminary	Estimated	
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Private purpose tax-exempts	19.7	28.1	32.5	30.9	49.6	57.1	74.0	121.6	29.9	31.0	28.8	27.4
Housing bonds	6.9	12.1	14.0	4.8	14.6	17.0	20.5	41.5	7.7	8.4	6.5	4.5
Single-family mortgage subsidy bonds	3.4	7.8	10.5	2.8	9.0	11.0	12.8	14.3	5.1	6.2	4.2	2.0
Multi-family rental housing bonds	2.5	2.7	2.2	1.1	5.1	5.3	5.5	25.0	2.2	1.9	1.8	1.9
Veterans general obligation bonds	1.2	1.6	1.3	0.9	0.5	0.7	2.2	2.2	0.3	0.3	0.5	0.6
Private exempt bonds [1]	2.9	3.2	3.3	4.7	8.5	11.7	11.7	38.2	6.2	12.3	13.1	14.0
Student loan bonds	0.3	0.6	0.5	1.1	1.8	3.3	1.2	4.0	2.0	1.8	1.8	1.8
Pollution control industrial bonds	2.8	2.5	2.5	4.3	5.9	4.5	8.1	7.7	2.4	2.5	1.6	1.2
Small-issue industrial development bonds	3.6	7.5	9.7	13.3	14.7	14.7	18.3	17.8	7.8	2.8	2.8	2.8
Other industrial development bonds [2]	3.2	2.2	2.5	2.7	4.1	6.0	14.1	12.3	3.9	3.2	3.0	3.0
Public purpose tax-exempts [3]	29.3	20.3	22.0	24.2	36.3	36.2	41.7	99.6	115.5	68.8	72.0	77.0
Total new issues, long-term tax exempts [4]	49.1	48.4	54.5	55.1	84.9	93.3	115.7	221.2	145.4	99.8	100.8	104.4

[1] Private exempt entity bonds are obligations of the Internal Revenue Code Section 501(c)(3) organizations, such as private non-profit hospitals and educational facilities
[2] Other IDBs include obligations for private businesses that qualify for tax-exempt activities, such as sewage disposal, airports and docks.
[3] While most of these are commonly referred to as governmental bonds, some may be nongovernmental.
[4] Includes long-term refunding bonds including advance refundings.

Source: Office of Tax Analysis, Department of Treasury.

The pattern of growth in new issues of private purpose tax-exempt bonds was similar to the pattern of issuance for all bonds. In 1985, the volume of private purpose bonds issued rose dramatically and then dropped off considerably in 1986 and 1987.

In 1976, private purpose tax-exempt bonds accounted for one-third of total tax-exempt, long-term issues. This percentage rose to 60 percent by 1980, and remained fairly constant until 1986 when the percentage dropped back to 20 percent of the total. Again, the change in the proportion of private purpose versus public purpose bonds reflects the 1986 Tax Act limits on this type of tax exemption.

Owing to the specific provisions of the 1986 Tax Act, the supply and the demand for municipal bonds are both expected to decrease. In addition, the type of bonds issued as well as the type of investors purchasing bonds are expected to change.

More specifically, the tax reform provisions influencing the issuance of municipal bonds include:

- Restricting the type of allowable uses for tax-exempt bonds to Government use and certain private activity bonds. Tax-exempt bonds can no longer be used to finance pollution control facilities, sports stadiums, convention facilities, or parking complexes.
- Imposing a single unified cap by State on most private activity tax-exempt bonds. The annual cap was the greater of $75 per capita or $25 million in 1987 and $50 per capita or $100 million beginning in 1988. This cap applies to all private activity bonds except bonds under 501(c)(3)—nonprofit hospitals and private universities and colleges, qualified veterans mortgages, and publicly owned airports, docks, wharfs, and solid waste facilities.
- Permitting advance refundings only for governmental use and 501(c)(3) bonds as well as imposing a limit of at most two advance refundings in an issue.
- Restricting the use of small issue industrial development bonds (a particular type of private purpose bond) to manufacturing facilities (however, even this limited use of small issue industrial development bonds will expire on December 31, 1989).

On the demand side of the municipal bond market, the outlook is less predictable. The across-the-board reduction in marginal tax rates for both individuals and corporations, the alternative minimum tax provision that could be triggered for certain taxpayers investing in industrial development bonds that are still exempt under the regular tax, and the elimination of the tax deduction on interest that commercial banks used to enjoy when they borrowed money to buy municipal bonds are three provisions that will tend

to reduce the demand for tax-exempt bonds. Still, the Tax Act also includes provisions that will tend to increase the demand for tax-exempt bonds. Individuals who have not previously purchased tax-exempt bonds may turn to the municipal market as other means for sheltering income from Federal income tax are sharply curtailed. Similarly, the base-broadening measures aimed at business will tend to increase taxable income in certain sectors of the economy and may increase the demand for municipals.

XIII. Summary

To gain better control over Federal credit, since January 1980 the budget has included a credit control system, composed of the credit budget and credit limitations proposed in individual appropriations bills. This system has been strengthened by Gramm-Rudman-Hollings, which requires Congress to establish aggregate limits on new direct loan obligations and guaranteed loan commitments in the budget resolution process and incorporates credit in the budget reconciliation process. The management of Federal credit programs should be improved through the application of the administration's management improvement program.

Control over credit programs would be further improved by adoption of the administration's credit reform initiative. Under this reform, Federal agencies would obtain appropriations equal to the subsidy component of direct loans and loan guarantees they make each year. The subsidy costs of operating these programs could then be compared to the cost of grants and other Federal spending programs. Policy makers would thus have information to choose the form of Federal activity that is most cost effective in delivering economic and social benefits.

XIV. Appendix: Additional Discussion of Federal Credit Programs and Related Issues in the 1989 Budget Documents

- Special Analysis E ("Borrowing and Debt") contains information on Federal borrowing, borrowing by Government-sponsored enterprises, and the Federal Financing Bank.
- Special Analysis G ("Tax Expenditures") contains information on tax-exempt borrowing.
- Special Analysis H ("Federal Aid to State and Local Governments") contains information on Federal loans to State and local governments.
- Part 5 of the Budget ("Meeting National Needs: The Federal Program by Function") contains a discussion of major credit programs by budget function (e.g., Agriculture, Commerce and Housing, International Affairs).

- Part 6b of the Budget ("Federal Credit") presents an outline of the credit reform initiative and a summary of much of the material in this special analysis.
- Part 6g of the Budget ("Summary Tables") contains summary tables of the credit budget totals (Table 1) and summaries by agency and function of direct loan obligations, guaranteed loan commitments, and program subsidies (Tables 4 and 5).
- The Budget Appendix contains detailed information for each credit program by budget account. Part I of the Appendix ("Detailed Budget Estimates") provides credit program information for Federal agencies. Part IV ("Government-Sponsored Enterprises") provides information on these enterprises.
- The Historical Tables contain data on total direct loan obligations by sector—agriculture, business, education, and housing—and by agency or program for the period 1951–1993.
- Management of the United States Government, contains discussions of credit program management issues, the debt collection report, and agency credit management goals.

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
Funds Appropriated to the President:								
Economic support fund	Obligations	109	25					
	Loan disbursements	69	65					
	Change in outstandings	*5*	*−43*	*−73*	*−78*	*−81*	*−87*	*−90*
	Outstandings	**6,310**	**6,267**	**6,194**	**6,116**	**6,035**	**5,948**	**5,858**
Foreign military sales	Obligations	4,053	4,049	4,460	4,540	4,615	4,680	4,734
	Loan disbursements	4,498	4,351	4,111	4,286	4,674	4,498	4,605
	Change in outstandings	*1,066*	*−5,070*	*−1,571*	*−1,966*	*1,573*	*1,225*	*1,296*
	Outstandings	**24,935**	**19,865**	**18,293**	**16,327**	**17,900**	**19,125**	**20,421**
Guarantee reserve fund (foreign military sales defaults)	Obligations							
	Loan disbursements	710	1,257	738	427	115	143	68
	Change in outstandings	*−95*	*559*	*643*	*40*	*−5*	*−42*	*−359*
	Outstandings	**1,325**	**1,884**	**2,528**	**2,568**	**2,563**	**2,521**	**2,162**
OPIC loan subsidies	Obligations			17	18	18	18	18
	Loan disbursements			1	7	11	12	12
	Change in outstandings			*1*	*7*	*11*	*11*	*9*
	Outstandings			**1**	**8**	**19**	**30**	**39**
OPIC	Obligations	23	23					
	Loan disbursements	13	13	13	8	4	5	5
	Change in outstandings	*8*	*4*	*2*	*−1*	*−6*	*−5*	*−5*
	Outstandings	**49**	**53**	**56**	**54**	**48**	**43**	**38**
AID functional development assistance	Obligations	124	65					
	Loan disbursements	263	260	260	220	200	182	
	Change in outstandings	*229*	*220*	*215*	*169*	*140*	*108*	*−73*
	Outstandings	**3,654**	**3,874**	**4,089**	**4,258**	**4,398**	**4,506**	**4,433**

AID development loans revolving fund	Obligations							
	Loan disbursements							
	Change in outstandings	*−256*	*−279*	*−295*	*−295*	*−243*	*−244*	*−240*
	Outstandings	**8,052**	**7,773**	**7,478**	**7,183**	**6,940**	**6,696**	**6,456**
AID private sector loan subsidies	Obligations			5	5	5	3	3
	Loan disbursements				1	2	4	4
	Change in outstandings				*1*	*2*	*4*	*4*
	Outstandings				**1**	**4**	**7**	**11**
AID private sector revolving fund	Obligations	15	12					
	Loan disbursements	8	9	11	8	6	4	2
	Change in outstandings	*6*	*7*	*8*	*4*	*−1*	*−4*	*−6*
	Outstandings	**17**	**24**	**32**	**36**	**35**	**31**	**24**
AID housing & other credit guarantees	Obligations							
	Loan disbursements	45	51	51	50	49	52	51
	Change in outstandings	*23*	*19*	*20*	*26*	*21*	*19*	*15*
	Outstandings	**92**	**112**	**132**	**158**	**179**	**198**	**213**
AID miscellaneous appropriations	Obligations							
	Loan disbursements							
	Change in outstandings	*−7*	*−6*	*−7*	*−7*	*−7*	*−7*	*−7*
	Outstandings	**318**	**312**	**305**	**298**	**291**	**284**	**277**
Agriculture:								
Farmers Home Administration:								
Agricultural credit insurance fund	Obligations			600	500	400	100	100
	Loan disbursements			570	505	405	115	100
	Change in outstandings			*570*	*452*	*299*	*−18*	*−31*
	Outstandings			**570**	**1,022**	**1,321**	**1,303**	**1,272**
Agricultural credit insurance fund	Obligations	1,493	1,137					
	Loan disbursements	1,513	1,194	70	6	15	12	6
	Change in outstandings	*−1,471*	*−2,270*	*−2,742*	*−2,554*	*−2,241*	*−1,918*	*−1,576*
	Outstandings	**27,600**	**25,329**	**22,587**	**20,033**	**17,792**	**15,874**	**14,298**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
Rural housing insurance fund	Obligations	1,716	1,714					
	Loan disbursements	1,766	1,918	841	206	95	6	1
	Change in outstandings	*−3,220*	*301*	*−2,434*	*−1,195*	*−1,228*	*−1,224*	*−1,198*
	Outstandings	**26,510**	**26,811**	**24,377**	**23,182**	**21,954**	**20,730**	**19,531**
Rural development loan subsidies	Obligations			300	200	100		
	Loan disbursements			12	74	150	150	89
	Change in outstandings			*12*	*74*	*147*	*142*	*77*
	Outstandings			**12**	**86**	**233**	**375**	**452**
Rural development insurance fund	Obligations	426	426					
	Loan disbursements	468	542	492	221	168	81	60
	Change in outstandings	*−1,796*	*−1,044*	*−810*	*70*	*14*	*−72*	*−92*
	Outstandings	**6,431**	**5,386**	**4,576**	**4,646**	**4,660**	**4,588**	**4,496**
Commodity Credit Corporation:								
Export loan subsidies	Obligations							
	Loan disbursements			19	234	438	630	643
	Change in outstandings			*19*	*234*	*438*	*630*	*643*
	Outstandings			**19**	**252**	**690**	**1,320**	**1,964**
Short and medium term export loans	Obligations							
	Loan disbursements							
	Change in outstandings	*−49*	*−84*	*−10*	*−26*	*−28*	*−42*	*−48*
	Outstandings	**778**	**694**	**684**	**657**	**629**	**587**	**539**
Commodity loans	Obligations	16,566	15,024	10,746	10,923	10,330	9,888	10,639
	Loan disbursements	16,566	14,316	10,746	10,923	10,330	9,888	10,631
	Change in outstandings	*−3,386*	*−4,735*	*−1,317*	*−1,511*	*−364*	*−471*	*−725*
	Outstandings	**15,108**	**10,374**	**9,056**	**7,546**	**7,182**	**6,710**	**5,985**

Storage facility loans	Obligations	*						
	Loan disbursements	*						
	Change in outstandings	*−109*	*−55*	*−10*	*−73*	*−136*	*−196*	*−196*
	Outstandings	**65**	**10**	*	**−78**	**−214**	**−410**	**−606**
Rescheduled guaranteed loans	Obligations							
	Loan disbursements	478	708	682	430	247	13	11
	Change in outstandings	*513*	*690*	*620*	*380*	*240*	*−51*	*−75*
	Outstandings	**2,626**	**3,316**	**3,936**	**4,321**	**4,561**	**4,510**	**4,435**
Public Law 480 long-term export credits	Obligations	804	777	739	752	764	775	784
	Loan disbursements	740	780	742	751	763	774	783
	Change in outstandings	*597*	*543*	*499*	*607*	*556*	*578*	*598*
	Outstandings	**11,219**	**11,762**	**12,261**	**12,868**	**13,424**	**14,002**	**14,600**
Rural electrification and telephone revolving fund	Obligations	1,033	1,794					
	Loan disbursements	1,342	1,613	1,489	1,133	847	632	498
	Change in outstandings	*−666*	*−1,117*	*−1,120*	*−918*	*−1,006*	*−1,274*	*−1,459*
	Outstandings	**34,323**	**33,206**	**32,086**	**31,168**	**30,162**	**28,887**	**27,428**
Rural telephone bank subsidies	Obligations			177	177	177	177	177
	Loan disbursements			11	50	85	110	129
	Change in outstandings			*11*	*50*	*85*	*110*	*129*
	Outstandings			**11**	**60**	**145**	**255**	**383**
Rural telephone bank	Obligations	185	177					
	Loan disbursements	52	106	122	102	81	68	59
	Change in outstandings	*13*	*−145*	*53*	*32*	*9*	*−4*	*−15*
	Outstandings	**1,447**	**1,302**	**1,355**	**1,387**	**1,396**	**1,391**	**1,377**
Commerce:								
Economic development revolving fund	Obligations							
	Loan disbursements	145	20	15	15	15	15	15
	Change in outstandings	*−13*	*−114*	*−47*	*−13*	*−12*	*−5*	
	Outstandings	**556**	**441**	**394**	**381**	**370**	**364**	**364**
EDA miscellaneous appropriations	Obligations							
	Loan disbursements							
	Change in outstandings	*−5*	*−3*	*−3*				
	Outstandings	**85**	**83**	**80**	**80**	**80**	**80**	**80**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate 1988	1989	1990	1991	1992	1993
ITA operations and administration	Obligations							
	Loan disbursements	1	*					
	Change in outstandings	*−1*	*−7*					
	Outstandings	**7**						
NOAA coastal energy impact fund	Obligations							
	Loan disbursements	3						
	Change in outstandings	*−8*	*−3*	*−3*	*−3*	*−3*	*−3*	*−3*
	Outstandings	**89**	**85**	**82**	**79**	**75**	**72**	**69**
NOAA Federal ship financing (fishing)	Obligations	1						
	Loan disbursements	2	2	2	2	2	2	2
	Change in outstandings	*1*	*−2*	*−2*	*−2*	*−2*	*−2*	*−2*
	Outstandings	**19**	**17**	**16**	**14**	**13**	**11**	**10**
Defense:								
Navy industrial fund	Obligations							
	Loan disbursements	77						
	Change in outstandings	*40*	*−29*	*−38*	*−48*	*−48*	*−48*	*−48*
	Outstandings	**1,788**	**1,759**	**1,721**	**1,672**	**1,624**	**1,576**	**1,528**
Defense stock fund	Obligations							
	Loan disbursements							
	Change in outstandings	*−1*						
	Outstandings							
Production guarantees	Obligations							
	Loan disbursements							
	Change in outstandings	*−10*						
	Outstandings							

Education:								
Guarantees of SLMA obligations	Obligations							
	Loan disbursements							
	Change in outstandings	*−30*	*−30*		*−30*	*−30*	*−30*	*−30*
	Outstandings	**4,940**	**4,910**	**4,910**	**4,880**	**4,850**	**4,820**	**4,790**
Guaranteed student loans	Obligations							
	Loan disbursements	1,259	1,576	1,690	1,690	1,634	1,527	1,427
	Change in outstandings	*615*	*603*	*531*	*319*	*43*	*−256*	*−543*
	Outstandings	**4,792**	**5,394**	**5,925**	**6,244**	**6,287**	**6,030**	**5,488**
National direct student loans	Obligations							
	Loan disbursements							
	Change in outstandings	*−4,615*	*−17*	*−19*	*−18*	*−12*	*−13*	*−15*
	Outstandings	**657**	**639**	**620**	**602**	**590**	**577**	**562**
College housing & academic facilities	Obligations	60	62					
	Loan disbursements		6	42	55	19		
	Change in outstandings		*6*	*42*	*55*	*18*	*−2*	*−2*
	Outstandings		**6**	**48**	**104**	**121**	**120**	**118**
College housing loans	Obligations							
	Loan disbursements	32	35	36	30	20	24	
	Change in outstandings	*−1,035*	*−567*	*−424*	*13*	*3*	*6*	*−18*
	Outstandings	**1,194**	**626**	**203**	**216**	**218**	**225**	**207**
Higher education	Obligations							
	Loan disbursements							
	Change in outstandings	*−10*	*−33*	*−8*	*−5*	*−4*		
	Outstandings	**51**	**17**	**9**	**4**			
Higher education facilities loans and insurance	Obligations							
	Loan disbursements							
	Change in outstandings	*−120*	*−111*	*−70*	*−4*	*−5*	*−5*	*−5*
	Outstandings	**219**	**108**	**38**	**34**	**29**	**24**	**20**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
Energy:								
Geothermal resources	Obligations							
	Loan disbursements							
	Change in outstandings							
	Outstandings	**16**	**16**	**16**	**16**	**16**	**16**	**16**
Bonneville Power Administration	Obligations							
	Loan disbursements							
	Change in outstandings	*	*	*	*	*	*	*
	Outstandings	**5**	**4**	**4**	**4**	**4**	**4**	**3**
Health and Human Services:								
Medical facilities guarantees and loan fund	Obligations							
	Loan disbursements	2	16	2	2	2	2	2
	Change in outstandings	*−8*	*−7*	*−122*	*2*	*2*	*2*	*2*
	Outstandings	**129**	**122**		**2**	**5**	**7**	**9**
Health maintenance organization loan fund	Obligations							
	Loan disbursements	*						
	Change in outstandings	*−13*	*−51*	*−41*				
	Outstandings	**92**	**41**					
Health resources and services	Obligations	1	1	*	*	*	*	*
	Loan disbursements	1	1	*	*	*	*	*
	Change in outstandings	*−54*	*−1*	*−2*	*−2*	*−2*	*−2*	*−2*
	Outstandings	**440**	**439**	**438**	**436**	**435**	**433**	**432**
Health professions graduate student insurance fund	Obligations							
	Loan disbursements	12	19	25	22	21	20	16
	Change in outstandings	*18*	*28*	*35*	*33*	*30*	*28*	*22*
	Outstandings	**49**	**76**	**111**	**144**	**174**	**202**	**224**

Housing and Urban Development:								
Low-rent public housing	Obligations							
	Loan disbursements							
	Change in outstandings	*−37*	*−39*	*−42*	*−44*	*−47*	*−50*	*−52*
	Outstandings	**2,074**	**2,035**	**1,993**	**1,949**	**1,901**	**1,851**	**1,799**
Housing for the elderly or handicapped subsidies	Obligations			333	350	368	378	386
	Loan disbursements					79	235	338
	Change in outstandings					*79*	*235*	*338*
	Outstandings					**79**	**314**	**652**
Housing for the elderly or handicapped	Obligations	574	566	17	9			
	Loan disbursements	412	543	529	532	434	151	4
	Change in outstandings	*377*	*505*	*490*	*491*	*391*	*106*	*−44*
	Outstandings	**6,566**	**7,071**	**7,560**	**8,051**	**8,442**	**8,548**	**8,504**
GNMA emergency mortgage purchases	Obligations							
	Loan disbursements	12	2					
	Change in outstandings	*−427*	*−55*	*−393*	*	*	*	*
	Outstandings	**457**	**402**	**9**	**9**	**8**	**8**	**8**
Mortgage-backed securities subsidies	Obligations							
	Loan disbursements				4	8	11	15
	Change in outstandings				*	*	*1*	*1*
	Outstandings				*	**1**	**1**	**2**
Payments on mortgage-backed securities	Obligations							
	Loan disbursements	169	276	281	29	24	22	21
	Change in outstandings	*92*	*2*	*−28*	*−22*	*−10*	*−9*	*−9*
	Outstandings	**102**	**104**	**75**	**53**	**44**	**34**	**25**
FHA subsidies	Obligations			103	168	168	168	168
	Loan disbursements			53	151	239	253	253
	Change in outstandings			*41*	*107*	*166*	*172*	*171*
	Outstandings			**41**	**148**	**314**	**486**	**657**
Federal Housing Administration fund	Obligations		41					
	Loan disbursements	802	811	675	654	793	1,406	1,168
	Change in outstandings	*399*	*−203*	*42*	*280*	*338*	*835*	*523*
	Outstandings	**4,645**	**4,442**	**4,484**	**4,764**	**5,102**	**5,937**	**6,460**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
Rehabilitation loan fund	Obligations	64	85					
	Loan disbursements	38	75	47				
	Change in outstandings	*−52*	*−20*	*−39*	*−600*			
	Outstandings	**658**	**639**	**600**				
Revolving fund for liquidating programs	Obligations							
	Loan disbursements							
	Change in outstandings	*−62*	*−327*	*	*	*	*	*
	Outstandings	**329**	**2**	**2**	**2**	**2**	**2**	**2**
Nonprofit sponsor assistance subsidies	Obligations			1	1	1	1	1
	Loan disbursements				*	*	*	*
	Change in outstandings				*	*	*	*
	Outstandings				*	**1**	**1**	**1**
Nonprofit sponsor assistance	Obligations	1	1					
	Loan disbursements	*	1	1	*	*		
	Change in outstandings	*	*	*	*	*	*	*
	Outstandings	**2**	**2**	**2**	**1**	**1**	**1**	**1**
Interior:								
Bureau of Reclamation loans	Obligations	43	32	18	11	2	1	*
	Loan disbursements	51	29	23	11	*	*	1
	Change in outstandings	*40*	*−349*	*23*	*10*	*−1*	*−1*	*−1*
	Outstandings	**520**	**171**	**194**	**203**	**202**	**201**	**200**
BIA loan subsidies	Obligations			13	13	13	13	13
	Loan disbursements			13	13	13	13	13
	Change in outstandings			*13*	*12*	*10*	*10*	*9*
	Outstandings			**13**	**24**	**35**	**44**	**53**

BIA revolving fund	Obligations	7	13					
	Loan disbursements	10	14					
	Change in outstandings	*2*	*6*	*−9*	*−8*	*−7*	*−7*	*−6*
	Outstandings	**108**	**115**	**106**	**98**	**90**	**83**	**77**
BIA loan guaranty & insurance fund	Obligations							
	Loan disbursements	4	9	17	1	1	1	1
	Change in outstandings	*4*	*7*	*−7*	*−2*	*−3*	*−2*	*−3*
	Outstandings	**16**	**23**	**16**	**14**	**11**	**8**	**6**
Transportation:								
Railroad rehabilitation and improvement financing	Obligations							
	Loan disbursements	4	18	15				
	Change in outstandings	*3*	*−352*	*−151*	*−29*	*−105*		
	Outstandings	**638**	**285**	**134**	**105**			
Federal-aid highways trust fund	Obligations							
	Loan disbursements	*	1					
	Change in outstandings	*−38*	*−18*	*−21*				
	Outstandings	**38**	**21**					
Right-of-way revolving fund	Obligations	48	45	48	48	48	48	48
	Loan disbursements	45	45	48	48	48	48	48
	Change in outstandings	*−27*						
	Outstandings	**104**	**104**	**104**	**104**	**104**	**104**	**104**
Miscellaneous expired accounts	Obligations							
	Loan disbursements							
	Change in outstandings		*−1*					
	Outstandings	**1**						
Aircraft purchase loan guarantees	Obligations							
	Loan disbursements		15					
	Change in outstandings	*−4*	*12*	*	*	*	*	*
	Outstandings	**41**	**53**	**53**	**53**	**53**	**53**	**52**
MarAd ship loan subsidies	Obligations			5	5	5	5	5
	Loan disbursements			5	5	5	5	5
	Change in outstandings			*5*	*5*	*5*	*5*	*5*
	Outstandings			**5**	**10**	**15**	**20**	**24**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
MarAd Federal ship financing fund	Obligations	1	5					
	Loan disbursements	343	255	100	100	100	100	100
	Change in outstandings	*137*	*244*	*91*	*93*	*93*	*94*	*95*
	Outstandings	**1,612**	**1,856**	**1,946**	**2,039**	**2,133**	**2,227**	**2,321**
Environmental Protection Agency:								
Abatement, control, and compliance	Obligations	28	17					
	Loan disbursements	4	49	31				
	Change in outstandings	*4*	*46*	*26*	*−6*	*−6*	*−6*	*−6*
	Outstandings	**27**	**74**	**100**	**94**	**87**	**81**	**76**
NASA	Obligations							
	Loan disbursements							
	Change in outstandings	*−79*	*−91*	*−105*	*−121*	*−138*	*−157*	*−115*
	Outstandings	**809**	**717**	**612**	**491**	**354**	**197**	**82**
Veterans Administration:								
Vendee loan and repurchase subsidies	Obligations			959	712	606	571	523
	Loan disbursements			959	713	608	573	527
	Change in outstandings			*956*	*703*	*601*	*568*	*522*
	Outstandings			**956**	**1,659**	**2,260**	**2,828**	**3,351**
Vendee loans and loans repurchased	Obligations	1,008	1,061	16	7	5	3	2
	Loan disbursements	1,223	1,223	74	35	23	17	13
	Change in outstandings	*16*	*−318*	*−260*	*−192*	*−168*	*−161*	*−155*
	Outstandings	**1,204**	**886**	**626**	**434**	**266**	**105**	**−50**
Direct loan subsidies	Obligations			1	1	1	*	*
	Loan disbursements			1	1	*	*	*
	Change in outstandings			*1*	*1*	*	*	*
	Outstandings			**1**	**2**	**2**	**2**	**3**

Direct loan revolving fund	Obligations	2	2	*	*	*	*	*
	Loan disbursements	2	2	1	1	1	*	*
	Change in outstandings	*−27*	*−23*	*−59*	*−2*	*−1*	*	*
	Outstandings	**98**	**75**	**16**	**14**	**13**	**13**	**13**
Other veterans programs	Obligations	1	1	1	1	1	1	1
	Loan disbursements	1	1	1	1	1	1	1
	Change in outstandings	*−6*	*−6*	*−4*	*−3*	*−3*	*−3*	*−3*
	Outstandings	**40**	**35**	**30**	**27**	**24**	**21**	**19**
District of Columbia:								
Loans to the District of Columbia	Obligations							
	Loan disbursements							
	Change in outstandings	*−293*	*−30*	*−31*	*−33*	*−35*	*−37*	*−39*
	Outstandings	**715**	**685**	**654**	**621**	**586**	**549**	**510**
Export-Import Bank loan subsidies	Obligations			705	718	730	740	751
	Loan disbursements			103	252	371	431	473
	Change in outstandings			*96*	*218*	*297*	*309*	*302*
	Outstandings			**96**	**315**	**612**	**921**	**1,223**
Export-Import Bank	Obligations	677	693					
	Loan disbursements	468	794	606	428	194	104	31
	Change in outstandings	*−3,149*	*−1,552*	*−1,471*	*−960*	*−1,148*	*−1,076*	*−1,097*
	Outstandings	**11,202**	**9,649**	**8,178**	**7,218**	**6,070**	**4,994**	**3,898**
Federal Deposit Insurance Corporation[1]	Obligations							
	Loan disbursements							
	Change in outstandings	*−334*	*−1*	*−216*	*−50*	*−50*	*−50*	*−50*
	Outstandings	**3,089**	**3,088**	**2,872**	**2,822**	**2,772**	**2,722**	**2,672**
Federal Savings and Loan Insurance Corporation[1]	Obligations	96	100	74	25	25	25	25
	Loan disbursements	96	100	74	25	25	25	25
	Change in outstandings	*83*	*−12*	*−35*	*15*	*15*	*15*	*15*
	Outstandings	**1,769**	**1,757**	**1,722**	**1,737**	**1,752**	**1,767**	**1,782**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate 1988	1989	1990	1991	1992	1993
National Credit Union Administration:								
Share insurance fund	Obligations	2	20	5				
	Loan disbursements	2	20	5				
	Change in outstandings	*−17*	*15*	*−1*	*−5*	*−5*	*−5*	*−4*
	Outstandings	**5**	**20**	**19**	**14**	**9**	**4**	
Central liquidity facility	Obligations	106	127	144	150	150	150	150
	Loan disbursements	106	127	144	150	150	150	150
	Change in outstandings	*6*	*25*	*25*	*25*	*25*	*25*	*25*
	Outstandings	**112**	**137**	**162**	**187**	**212**	**237**	**262**
Small business:								
Business and investment loans	Obligations	86	85					
	Loan disbursements	670	608	500	421	282	170	89
	Change in outstandings	*−159*	*−158*	*−420*	*−313*	*−87*	*−167*	*−201*
	Outstandings	**2,874**	**2,716**	**2,296**	**1,983**	**1,896**	**1,729**	**1,528**
Small business investment companies	Obligations							
	Loan disbursements							
	Change in outstandings	*−226*	*−130*	*−110*	*−100*	*−100*	*−80*	*−60*
	Outstandings	**741**	**611**	**501**	**401**	**301**	**221**	**161**
Small business development companies	Obligations							
	Loan disbursements	115	60					
	Change in outstandings	*84*	*10*	*−380*	*−530*			
	Outstandings	**900**	**910**	**530**				
Disaster loan subsidies	Obligations			265	265	265	265	265
	Loan disbursements			119	239	239	239	239
	Change in outstandings			*112*	*205*	*172*	*145*	*120*
	Outstandings			**112**	**317**	**489**	**634**	**754**

Disaster loans	Obligations	208	350	.....	.....	.....	.....	.....
	Loan disbursements	209	224	158	.....	.....	.....	.....
	Change in outstandings	*−503*	*−394*	*−942*	*−754*	*−607*	*−1,022*	.....
	Outstandings	**3,719**	**3,325**	**2,383**	**1,629**	**1,022**	.....	.....
Tennessee Valley Authority:								
Power program	Obligations	97	72	70	68	65	62	59
	Loan disbursements	97	72	70	68	65	62	59
	Change in outstandings	*16*	*−6*	*−23*	*−12*	*−6*	*−8*	*−10*
	Outstandings	**267**	**261**	**238**	**226**	**220**	**212**	**203**
Seven States	Obligations	156	212	180	208	330	247	239
	Loan disbursements	156	212	180	208	330	247	239
	Change in outstandings	*−16*	*−80*	*169*	*−362*	*−190*	*−30*	*−599*
	Outstandings	**1,824**	**1,744**	**1,912**	**1,550**	**1,360**	**1,330**	**732**
Area and regional development	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	.....	*	*	*	*	*	*
	Outstandings	**3**	**3**	**3**	**3**	**2**	**2**	**2**
Payments for Conrail securities	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−851*	.....	.....	.....	.....	.....	.....
	Outstandings	.....	.....	.....	.....	.....	.....	.....
United States Railway Association	Obligations	.....	.....	.....	.....	.....	.....	.....
	Loan disbursements	.....	.....	.....	.....	.....	.....	.....
	Change in outstandings	*−89*	.....	.....	.....	.....	.....	.....
	Outstandings	.....	.....	.....	.....	.....	.....	.....
Other agencies and programs	Obligations	3	3	2	3	3	3	3
	Loan disbursements	68	26	28	3	3	3	3
	Change in outstandings	*−5*	*−75*	*−79*	*−86*	*−77*	*−58*	*−43*
	Outstandings	**948**	**873**	**794**	**708**	**631**	**573**	**530**

Table F-18. **DIRECT LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
Grand total, net direct loans	Obligations	29,817	28,817	20,005	19,877	19,195	18,321	19,094
	Loan disbursements	35,171	34,468	27,651	25,553	24,433	23,238	23,033
	Change in outstandings	*−18,984*	*−16,211*	*−10,626*	*−8,255*	*−2,432*	*−3,574*	*−4,440*
	Outstandings	**234,239**	**218,027**	**207,402**	**199,147**	**196,715**	**193,141**	**188,701**

* $500,000 or less.
[1] Direct loan obligations and disbursements for these programs represent increases in their holdings of loan assets rather than cash disbursements.

Table F–19. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)**

Agency or Program		Actual 1987	Estimate 1988	1989	1990	1991	1992	1993
Funds Appropriated to the President:								
Foreign military sales	Commitments		5,153	2,300	3,266			
	New guaranteed loans		5,153	2,300	3,266			
	Change in outstandings	*–20*	*5,133*	*2,280*	*2,730*	*–562*	*–541*	*–543*
	Outstandings	**140**	**5,273**	**7,553**	**10,283**	**9,721**	**9,180**	**8,637**
OPIC loan subsidies	Commitments			175	178	181	184	186
	New guaranteed loans			11	68	114	114	114
	Change in outstandings			*11*	*68*	*92*	*70*	*49*
	Outstandings			**11**	**80**	**171**	**242**	**290**
Overseas Private Investment Corporation	Commitments	200	200					
	New guaranteed loans	85	80	69	52			
	Change in outstandings	*40*	*30*	*19*	*–23*	*–60*	*–51*	*–51*
	Outstandings	**308**	**338**	**357**	**333**	**273**	**222**	**172**
AID private sector loan subsidies	Commitments			100	100	100	100	100
	New guaranteed loans				25	50	75	100
	Change in outstandings				*25*	*50*	*71*	*88*
	Outstandings				**25**	**75**	**146**	**233**
AID housing & other guarantee subsidies	Commitments			100	100	100	100	100
	New guaranteed loans						50	100
	Change in outstandings						*50*	*100*
	Outstandings						**50**	**150**
AID housing and other credit guarantees	Commitments	145	125					
	New guaranteed loans	140	125	145	160	125	75	25
	Change in outstandings	*112*	*95*	*112*	*124*	*86*	*33*	*–20*
	Outstandings	**1,328**	**1,423**	**1,535**	**1,659**	**1,745**	**1,778**	**1,758**

Table F-19. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
Agriculture:								
Rural electric and telephone loan subsidies	Commitments			1,319	1,413	1,413	1,413	1,413
	New guaranteed loans			179	581	875	1,059	1,161
	Change in outstandings			*179*	*581*	*875*	*1,057*	*1,155*
	Outstandings			**179**	**760**	**1,634**	**2,692**	**3,847**
Rural electric and telephone revolving fund	Commitments	582	2,000					
	New guaranteed loans	602	2,000					
	Change in outstandings	*404*	*1,985*	*−15*	*−15*	*−15*	*−15*	*−15*
	Outstandings	**1,434**	**3,419**	**3,404**	**3,389**	**3,374**	**3,359**	**3,344**
Farmers Home Administration:								
Agricultural credit subsidies	Commitments			3,600	3,675	3,750	4,050	4,050
	New guaranteed loans			1,615	3,292	3,396	3,830	4,002
	Change in outstandings			*1,615*	*2,969*	*2,398*	*2,269*	*1,982*
	Outstandings			**1,615**	**4,584**	**6,982**	**9,251**	**11,233**
Agricultural credit insurance fund	Commitments	1,565	2,793					
	New guaranteed loans	1,216	2,074	1,321	212	375	90	59
	Change in outstandings	*700*	*1,345*	*357*	*−757*	*−354*	*−505*	*−487*
	Outstandings	**2,488**	**3,834**	**4,191**	**3,433**	**3,079**	**2,575**	**2,088**
Rural housing insurance fund	Commitments							
	New guaranteed loans	*						
	Change in outstandings	*−5*	*−140*	*−1*	*−2*	*−5*	*−6*	*−1*
	Outstandings	**177**	**37**	**35**	**33**	**28**	**22**	**21**
Rural development insurance subsidies	Commitments			96	196	296	396	396
	New guaranteed loans			19	57	111	176	257
	Change in outstandings			*19*	*54*	*101*	*154*	*222*
	Outstandings			**19**	**73**	**175**	**329**	**551**

Rural development insurance fund	Commitments	115	96					
	New guaranteed loans	75	116	64	30	−20	−83	−161
	Change in outstandings	*−438*	*−265*	*−189*	*−213*	*−234*	*−264*	*−310*
	Outstandings	**1,918**	**1,653**	**1,464**	**1,251**	**1,017**	**753**	**443**
CCC export loan subsidies	Commitments			3,500	3,500	3,500	3,500	3,500
	New guaranteed loans			3,500	3,500	3,500	3,500	3,500
	Change in outstandings			*3,500*	*2,450*	*1,400*	*350*	*300*
	Outstandings			**3,500**	**5,950**	**7,350**	**7,700**	**8,000**
Commodity Credit Corporation export credits	Commitments	2,998	5,500					
	New guaranteed loans	2,447	5,500					
	Change in outstandings	*123*	*3,492*	*−2,879*	*−2,240*	*−1,729*	*−63*	*−57*
	Outstandings	**3,732**	**7,224**	**4,346**	**2,106**	**377**	**314**	**257**
Commerce:								
Economic development programs	Commitments		20					
	New guaranteed loans		20					
	Change in outstandings	*−191*	*8*	*−24*	*−23*	*−19*	*−10*	*−6*
	Outstandings	**95**	**103**	**79**	**56**	**37**	**27**	**22**
ITA operations and administration	Commitments							
	New guaranteed loans							
	Change in outstandings	*−2*	*−18*					
	Outstandings	**18**						
National Oceanic and Atmospheric Administration	Commitments	80	85					
	New guaranteed loans	80	85					
	Change in outstandings	*57*	*64*	*−20*	*−18*	*−18*	*−18*	*−18*
	Outstandings	**250**	**315**	**294**	**277**	**259**	**242**	**224**
Education:								
Guaranteed student loans	Commitments	9,730	9,576	10,039	10,521	11,027	11,564	12,250
	New guaranteed loans	9,266	9,124	9,567	10,029	10,515	11,030	11,688
	Change in outstandings	*2,585*	*1,190*	*1,049*	*860*	*813*	*1,037*	*1,242*
	Outstandings	**40,067**	**41,256**	**42,306**	**43,166**	**43,979**	**45,016**	**46,258**

Table F-19. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate 1988	1989	1990	1991	1992	1993
Energy:								
Geothermal resources development fund	Commitments							
	New guaranteed loans							
	Change in outstandings							
	Outstandings	**50**	**50**	**50**	**50**	**50**	**50**	**50**
Health and Human Services:								
Medical facilities guarantees and loan fund	Commitments							
	New guaranteed loans							
	Change in outstandings	*−84*	*−106*	*−102*	*−114*	*−126*	*−134*	*−143*
	Outstandings	**792**	**686**	**584**	**470**	**343**	**209**	**66**
Health professions graduate student insurance fund	Commitments	221	350	77				
	New guaranteed loans	221	350	77				
	Change in outstandings	*199*	*319*	*35*	*−39*	*−40*	*−40*	*−39*
	Outstandings	**1,305**	**1,623**	**1,659**	**1,620**	**1,580**	**1,539**	**1,501**
Health education assistance loan subsidies	Commitments			100	100	100	75	50
	New guaranteed loans			100	100	100	75	50
	Change in outstandings			*100*	*100*	*100*	*75*	*50*
	Outstandings			**100**	**200**	**300**	**375**	**425**
Housing and Urban Development:								
Low-rent public housing	Commitments							
	New guaranteed loans							
	Change in outstandings	*−249*	*−275*	*−300*	*−325*	*−350*	*−375*	*−400*
	Outstandings	**6,252**	**5,977**	**5,677**	**5,352**	**5,002**	**4,627**	**4,227**
Revolving fund (liquidating)	Commitments							
	New guaranteed loans							
	Change in outstandings	*9*	*−4*	*−8*	*−11*	*−15*	*−13*	*
	Outstandings	**63**	**59**	**50**	**40**	**24**	**11**	**11**

FHA loan subsidies	Commitments			61,790	63,918	66,309	68,339	70,060
	New guaranteed loans			34,972	52,088	54,018	55,822	57,355
	Change in outstandings			*34,801*	*51,141*	*51,519*	*50,469*	*49,939*
	Outstandings			**34,801**	**85,942**	**137,460**	**187,929**	**237,868**
Federal Housing Administration (FHA)	Commitments	79,995	59,850					
	New guaranteed loans	94,088	49,324	15,425				
	Change in outstandings	*51,897*	*7,685*	*−27,174*	*−42,048*	*−41,153*	*−39,264*	*−42,539*
	Outstandings	**275,417**	**283,102**	**255,928**	**213,880**	**172,727**	**133,463**	**90,925**
GNMA mortgage securities subsidies	Commitments			83,609	84,462	85,409	87,242	89,508
	New guaranteed loans			51,452	64,971	65,699	67,109	68,852
	Change in outstandings			*50,422*	*62,128*	*60,893*	*60,303*	*59,998*
	Outstandings			**50,422**	**112,550**	**173,443**	**233,746**	**293,744**
GNMA mortgage-backed securities	Commitments	139,976	83,355					
	New guaranteed loans	115,299	64,119	12,863				
	Change in outstandings	*67,767*	*32,522*	*−22,690*	*−36,771*	*−35,984*	*−34,132*	*−31,303*
	Outstandings	**308,997**	**341,519**	**318,829**	**282,058**	**246,074**	**211,943**	**180,640**
Interior:								
BIA guaranteed loan subsidies	Commitments			45	45	45	45	45
	New guaranteed loans			45	45	45	45	45
	Change in outstandings			*43*	*42*	*40*	*39*	*37*
	Outstandings			**43**	**85**	**125**	**164**	**201**
BIA loan guaranty & insurance fund	Commitments	39	34					
	New guaranteed loans	39	34					
	Change in outstandings	*26*	*18*	*−25*	*−7*	*−7*	*−7*	*−6*
	Outstandings	**169**	**187**	**162**	**155**	**148**	**142**	**136**
Transportation:								
MarAd Federal ship financing fund	Commitments							
	New guaranteed loans	26						
	Change in outstandings	*−716*	*−464*	*−291*	*−276*	*−262*	*−249*	*−237*
	Outstandings	**4,279**	**3,815**	**3,524**	**3,248**	**2,986**	**2,736**	**2,500**

Table F-19. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
Aircraft purchase loan guarantees	Commitments							
	New guaranteed loans							
	Change in outstandings	*−77*	*−68*	*−38*	*−21*	*−18*	*−11*	*−13*
	Outstandings	**199**	**131**	**93**	**72**	**54**	**43**	**30**
Miscellaneous expired accounts	Commitments							
	New guaranteed loans							
	Change in outstandings							
	Outstandings	**997**	**997**	**997**	**997**	**997**	**997**	**997**
Treasury:								
Biomass energy development	Commitments							
	New guaranteed loans							
	Change in outstandings	*−218*	*−12*	*−10*				
	Outstandings	**578**	**565**	**555**	**555**	**555**	**555**	**555**
Veterans Administration:								
Loan guarantee subsidies	Commitments			17,940	17,033	15,973	15,770	16,208
	New guaranteed loans			17,940	17,033	15,973	15,770	16,208
	Change in outstandings			*16,743*	*14,804*	*11,464*	*9,694*	*8,615*
	Outstandings			**16,743**	**31,547**	**43,012**	**52,706**	**61,321**
Loan guarantee revolving fund	Commitments	34,900	18,287					
	New guaranteed loans	34,900	18,287					
	Change in outstandings	*3,757*	*675*	*−13,780*	*−12,547*	*−10,244*	*−8,708*	*−7,170*
	Outstandings	**146,319**	**146,994**	**133,214**	**120,668**	**110,424**	**101,716**	**94,546**
Export-Import Bank subsidies	Commitments			10,200	10,384	10,555	10,703	10,826
	New guaranteed loans			3,185	5,291	6,362	6,962	7,330
	Change in outstandings			*1,184*	*1,498*	*1,461*	*1,381*	*1,290*
	Outstandings			**1,184**	**2,682**	**4,143**	**5,524**	**6,814**

Export-Import Bank	Commitments	6,754	14,601	...	...	...	...	...
	New guaranteed loans	3,852	3,890	1,041	1,633	828	447	256
	Change in outstandings	*294*	*−115*	*−1,125*	*−647*	*−554*	*−475*	*−423*
	Outstandings	**5,079**	**4,964**	**3,839**	**3,192**	**2,638**	**2,163**	**1,740**
Federal Savings and Loan Insurance Corporation	Commitments	1,260	623	325	100	100	100	100
	New guaranteed loans	1,260	623	325	100	100	100	100
	Change in outstandings	*1,110*	*−367*	*218*	*50*	*50*	*50*	*50*
	Outstandings	**4,063**	**3,696**	**3,913**	**3,963**	**4,013**	**4,063**	**4,113**
National Credit Union Administration	Commitments	62	5	4	...	...	...	...
	New guaranteed loans	62	5	4	...	...	...	...
	Change in outstandings	*1*	*−1*	*−2*	*−3*	...	...	...
	Outstandings	**6**	**4**	**3**	...	...	...	...
Small business:								
Business and investment loan subsidies	Commitments	...	...	3,596	3,596	3,596	3,596	3,596
	New guaranteed loans	...	...	1,600	3,200	3,200	3,200	3,200
	Change in outstandings	...	...	*1,345*	*2,485*	*1,625*	*815*	*405*
	Outstandings	...	...	**1,345**	**3,830**	**5,455**	**6,270**	**6,675**
Business and investment loans	Commitments	3,383	3,741	*	...	...	...	...
	New guaranteed loans	3,255	3,200	1,600	...	...	...	...
	Change in outstandings	*584*	*440*	*−1,035*	*−2,280*	*−1,530*	*−830*	*−430*
	Outstandings	**9,014**	**9,454**	**8,691**	**6,411**	**4,881**	**4,051**	**3,621**
Pollution control equipment guarantees	Commitments	4	50	...	...	...	...	...
	New guaranteed loans	12	10	...	...	...	...	...
	Change in outstandings	*1*	*−5*	...	...	...	...	...
	Outstandings	**277**	**272**	...	...	...	...	...
Disaster loans	Commitments	...	...	...	...	...	...	...
	New guaranteed loans	...	...	...	...	...	...	...
	Change in outstandings	*−1*	*	*	*	*	*	*
	Outstandings	**2**	**1**	**1**	**1**	*	*	...

Table F-19. **GUARANTEED LOAN TRANSACTIONS OF THE FEDERAL GOVERNMENT (in millions of dollars)—Continued**

Agency or Program		Actual 1987	Estimate					
			1988	1989	1990	1991	1992	1993
Tennessee Valley Authority:								
Power program	Commitments							
	New guaranteed loans	1	1	1	2			
	Change in outstandings		*−1*			*−1*		
	Outstandings	**1**	**1**	**1**	**1**			
Other agencies and programs	Commitments	30	144					
	New guaranteed loans	54	130	72	1			
	Change in outstandings	*32*	*111*	*19*	*−67*	*−72*	*−77*	*−83*
	Outstandings	**669**	**780**	**799**	**732**	**661**	**584**	**501**
Subtotal, guaranteed loans (gross)	Commitments	282,040	206,588	198,914	202,587	202,454	207,176	212,388
	New guaranteed loans	266,982	164,249	159,493	165,734	165,366	169,445	174,241
	Change in outstandings	*127,697*	*53,270*	*44,344*	*43,662*	*39,615*	*42,132*	*41,228*
	Outstandings	**816,483**	**869,753**	**914,097**	**957,759**	**997,374**	**1039,506**	**1080,734**
Less secondary guaranteed loans:[1]								
GNMA guarantees of FHA/VA/FmHA pools	Commitments	139,976	83,355					
	New guaranteed loans	115,299	64,119	12,863				
	Change in outstandings	*67,767*	*32,522*	*−22,690*	*−36,771*	*−35,984*	*−34,132*	*−31,303*
	Outstandings	**308,997**	**341,519**	**318,829**	**282,058**	**246,074**	**211,943**	**180,640**
GNMA guarantees subsidies	Commitments			83,609	84,462	85,409	87,242	89,508
	New guaranteed loans			51,452	64,971	65,699	67,109	68,852
	Change in outstandings			*50,422*	*62,128*	*60,893*	*60,303*	*59,998*
	Outstandings			**50,422**	**112,550**	**173,443**	**233,746**	**293,744**
Subtotal, guaranteed loans (net)	Commitments	142,064	123,233	115,306	118,125	117,045	119,935	122,880
	New guaranteed loans	151,683	100,130	95,178	100,763	99,667	102,336	105,389
	Change in outstandings	*59,930*	*20,748*	*16,611*	*18,305*	*14,706*	*15,960*	*12,533*
	Outstandings	**507,486**	**528,235**	**544,846**	**563,151**	**577,857**	**593,817**	**606,350**

Less guaranteed loans held as direct loans:[2]								
By GNMA	Commitments							
	New guaranteed loans	12	2					
	Change in outstandings	*−427*	*−55*	*−393*	*	*	*	*
	Outstandings	**457**	**402**	**9**	**9**	**8**	**8**	**8**
Total, primary guaranteed loans	Commitments	142,064	123,233	115,306	118,125	117,045	119,935	122,880
	New guaranteed loans	151,671	100,128	95,178	100,763	99,667	102,336	105,389
	Change in outstandings	*60,357*	*20,803*	*17,004*	*18,305*	*14,706*	*15,960*	*12,533*
	Outstandings	**507,029**	**527,833**	**544,837**	**563,142**	**577,848**	**593,809**	**606,342**

* $500,000 or less.

[1] Loans guaranteed by the Federal Housing Administration, the Veterans Administration, or the Farmers Home Administration are included above. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double counting.

[2] When guaranteed loans are acquired by a budget account, they are counted as direct loans and shown in tne direct loan table. Consequently, they are deducted from the totals in this table.

Table F–20. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In millions of dollars)

Enterprise		Actual 1987	Estimate 1988	Estimate 1989
LENDING				
Student Loan Marketing Association	Obligations	5,260	5,786	6,365
	New transactions	5,260	5,786	6,365
	Net change	3,540	3,893	4,283
	Outstandings	17,729	21,622	25,905
Federal National Mortgage Association:				
Corporation Accounts	Obligations	22,171	20,308	20,769
	New transactions	22,690	21,293	17,996
	Net change	−1,788	7,715	5,996
	Outstandings	95,929	103,644	109,640
Mortgage-backed securities	Obligations	80,944	43,067	42,266
	New transactions	66,999	37,560	36,861
	Net change	44,181	21,764	21,528
	Outstandings	130,540	152,304	173,832
Farm Credit Banks:				
Banks for cooperatives	Obligations	15,767	46,026	45,593
	New transactions	15,767	46,026	45,593
	Net change	485	−272	343
	Outstandings	8,162	7,891	8,233
Federal intermediate credit banks	Obligations	2,570	7,180	7,628
	New transactions	2,570	7,180	7,628
	Net change	−3,731	−251	−245
	Outstandings	9,478	9,229	8,982
Federal land banks	Obligations	2,555	1,606	2,041
	New transactions	2,555	1,606	2,041
	Net change	−10,965	−1,354	−137
	Outstandings	32,504	31,151	31,014
Federal Home Loan Bank system:				
Federal home loan banks	Obligations	197,143	225,000	260,000
	New transactions	197,143	225,000	260,000
	Net change	20,802	12,907	13,997
	Outstandings	120,865	133,772	147,769
Federal Home Loan Mortgage Corporation:				
Corporation accounts	Obligations	1,983	1,785	2,700
	New transactions	1,983	1,785	2,700
	Net change	−1,998	243	1,504
	Outstandings	12,940	13,183	14,687
Participation certificate pools [1]	Obligations	99,125	74,335	74,799
	New transactions	99,125	74,335	74,799
	Net change	63,349	50,219	45,960
	Outstandings	208,350	258,569	304,529
Subtotal, lending (gross)	Obligations	427,518	425,093	462,161
	New transactions	414,092	420,571	453,983
	Net change	113,875	94,864	93,229
	Outstandings	636,497	731,363	824,591
Less loans between sponsored enterprises	Obligations			
	New transactions			
	Net change	−406	−5	−1
	Outstandings	825	820	819

Table F–20. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1987	Estimate 1988	Estimate 1989
Less secondary funds advanced from Federal sources:				
SLMA from FFB [2]	Obligations			
	New transactions			
	Net change	−30	−30	
	Outstandings	4,940	4,910	4,910
TVA to FNMA	Obligations			
	New transactions			
	Net change			
	Outstandings	80	80	80
Less guaranteed loans held as direct loans by:				
Federal National Mortgage Association [3]	Obligations			
	New transactions			
	Net change	4,198	−927	375
	Outstandings	31,877	30,950	31,325
Federal home loan banks	Obligations			
	New transactions			
	Net change	1,058	−367	217
	Outstandings	4,063	3,696	3,913
Federal Home Loan Mortgage Corporation [3]	Obligations			
	New transactions			
	Net change	−2,290		
	Outstandings	839	839	839
Farm Credit Banks	Obligations			
	New transactions			
	Net change	−10	−7	
	Outstandings	11	4	4
Student Loan Marketing Association [2]	Obligations			
	New transactions			
	Net change	3,570	3,923	4,283
	Outstandings	12,789	16,712	20,995
Total lending	Obligations	427,518	425,093	462,161
	New transactions	414,092	420,571	453,983
	Net change	107,785	92,277	88,355
	Outstandings	581,073	673,352	761,706
BORROWING				
Student Loan Marketing Association	Net change	5,803	6,101	6,593
	Outstandings	21,329	27,430	34,023
Federal National Mortgage Association [4]	Net change	45,170	27,614	27,000
	Outstandings	223,158	250,772	277,772
Farm Credit System:				
Farm Credit System Financial Assistance Corporation	Net change			
	Outstandings			
Banks for cooperatives	Net change	401	−185	262
	Outstandings	8,890	8,705	8,967

Table F-20. **LENDING AND BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES—Continued**

(In millions of dollars)

Enterprise		Actual 1987	Estimate 1988	Estimate 1989
Federal intermediate credit banks	Net change	−2,721	−90	262
	Outstandings	10,240	10,150	10,412
Federal land banks	Net change	−7,325	−515	−520
	Outstandings	35,300	34,785	34,265
Federal Home Loan Bank system:				
Federal home loan banks	Net change	16,997	9,920	13,000
	Outstandings	105,080	115,000	128,000
The Financing Corporation	Net change	496	3,874	3,750
	Outstandings	496	4,370	8,120
Federal Home Loan Mortgage Corporation	Net change	65,592	51,003	47,019
	Outstandings	225,409	276,412	323,431
Subtotal, borrowing (gross)	Net change	124,413	97,722	97,366
	Outstandings	629,902	727,624	824,990
Less borrowing from other sponsored enterprises	Net change	−406	−5	−1
	Outstandings	825	820	819
Less borrowing from Federal sources:				
SLMA from FFB [2]	Net change	−30	−30	.....
	Outstandings	4,940	4,910	4,910
TVA to FNMA	Net change	.....	.....	.....
	Outstandings	80	80	80
Total borrowing from the public	Net change	124,849	97,757	97,367
	Outstandings	624,057	721,814	819,181
Less investments in Federal securities	Net change	3,281	−1,546	498
	Outstandings	5,266	3,720	4,218
Less borrowing for guaranteed loans held as direct loans by:				
Federal National Mortgage Association	Net change	4,198	−927	375
	Outstandings	31,877	30,950	31,325
Federal home loan banks	Net change	1,054	−367	217
	Outstandings	4,063	3,696	3,913
Federal Home Loan Mortgage Corporation	Net change	−2,290	.....	.....
	Outstandings	839	839	839
Farm Credit Banks	Net change	−10	−7	.....
	Outstandings	11	4	4
Student Loan Marketing Association [2]	Net change	3,570	3,923	4,283
	Outstandings	12,789	16,712	20,995
Total borrowed	Net change	115,046	96,681	91,994
	Outstandings	569,212	665,893	757,887

[1] All new transactions are loans purchased from FHLMC corporation accounts.
[2] All SLMA lending financed through the FFB has been counted in Table F-18 as direct loans. All SLMA loans are student loans guaranteed by the Federal Government and, therefore, counted in Table F-19 as guaranteed loans. The first deduction eliminates the overlap of this table with the direct loan table; the second deduction removes the non-FFB financed remainder of SLMA to eliminate overlap with the guaranteed loan table.
[3] The estimates for 1988 and 1989 are made by OMB.
[4] Loans purchased at discount are recorded at their acquisition cost.

Table F-21. **FFB FINANCING OF AGENCY ACTIVITIES**

(in millions of dollars)

Agency or Program	Actual	Estimates					
	1987	1988	1989	1990	1991	1992	1993
CREDIT RELATED ACTIVITIES							
Overseas Private Investment Corp.:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−1	−1	...	...	...	...	...
Loans outstanding	1	...	...	...	...	...	...
Farmers Home Administration:							
Agricultural credit insurance fund:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−385	−385	−3,960	−3,322	−1,975	−5,510	−3,950
Loans outstanding	28,010	27,625	23,665	20,343	18,368	12,858	8,908
Rural housing insurance fund:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−150	−2,980	−1,725	−1,990	−1,415	−275	−410
Loans outstanding	28,951	25,971	24,246	22,256	20,841	20,566	20,156
Rural development insurance fund:							
New acquisitions	170	...	...	...	...	...	...
Net lending	170	−3,387	−200	...	...	...	...
Loans outstanding	8,048	4,661	4,461	4,461	4,461	4,461	4,461
Rural Electrification Administration:							
Loan asset purchases:							
New acquisitions	635	394	258	...	...	...	...
Net lending	...	224	−1,172	−297	−334	−372	−413
Loans outstanding	4,241	4,465	3,293	19,508	19,677	19,707	19,621
Originations:							
New acquisitions	590	803	472	608	502	402	328
Net lending	−248	−1,457	−641	−439	−464	−613	−695
Loans outstanding	21,196	19,739	19,099	2,147	1,181	166	−857
Medical facilities guarantees:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−6	−7	−96	...	...	...	...
Loans outstanding	102	96	...	...	...	...	...
Health maintenance organizations:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−11	−49	−42	...	...	...	...
Loans outstanding	92	42	...	...	...	...	...
Small Business Administration:							
Loan asset purchases:							
New acquisitions	...	...	...	...	...	...	...
Net lending	−7	−7	−6	−6	−3	...	...
Loans outstanding	22	15	9	3	...	...	...
Originations:							
New acquisitions	115	60	...	...	...	...	...
Net lending	−143	−120	−490	−630	−100	−80	−60
Loans outstanding	1,640	1,520	1,030	401	301	221	161
Foreign military sales credit:							
New acquisitions	1,099	623	280	74	...	...	...
Net lending	367	−5,991	−2,740	−3,487	−303	−347	−349
Loans outstanding	19,164	13,173	10,433	6,946	6,643	6,296	5,947
Navy industrial fund:							
New acquisitions	77	...	...	...	...	...	...
Net lending	40	−29	−38	−48	−48	−48	−48
Loans outstanding	1,788	1,759	1,721	1,672	1,624	1,576	1,528

Table F-21. **FFB FINANCING OF AGENCY ACTIVITIES—Continued**

(in millions of dollars)

Agency or Program	Actual	Estimates					
	1987	1988	1989	1990	1991	1992	1993
Low-rent public housing:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	−37	−39	−42	−44	−47	−50	−52
Loans outstanding	2,074	2,035	1,993	1,949	1,901	1,851	1,799
Revolving fund for liquidating programs (HUD):							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	−2	−31	.....	.....	.....	.....	.....
Loans outstanding	31	.....	.....	.....	.....	.....	.....
Community development grants:							
New acquisitions	63	22	20	.....	.....	.....	.....
Net lending	24	−57	−56	−66	−55	−36	−20
Loans outstanding	324	267	211	145	90	54	34
Loans to territories:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	−2	−2	−2	−2	−2	−2	−2
Loans outstanding	60	59	57	55	53	51	49
Railroad programs:							
New acquisitions	2	1	.....	.....	.....	.....	.....
Net lending	−5	−7	−9	−7	−5	−6	−7
Loans outstanding	55	48	39	32	27	21	19
Guarantees of SLMA obligations:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	−30	−30	.....	−30	−30	−30	−30
Loans outstanding	4,940	4,910	4,910	4,880	4,850	4,820	4,790
Federal building fund:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	−7	−8	−9	.....	.....	.....	.....
Loans outstanding	395	387	378	378	378	378	378
NASA:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	−79	−91	−105	−121	−138	−157	−115
Loans outstanding	809	717	612	491	354	197	82
WMATA:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	.....	.....	.....	.....	.....	.....	.....
Loans outstanding	177	177	177	177	177	177	177
Export-Import Bank:							
New acquisitions	511	400	257	426	−9	114	281
Net lending	−1,805	−1,843	−1,407	−1,368	−973	−902	−918
Loans outstanding	12,463	10,621	9,214	7,845	6,872	5,970	5,052
Central liquidity facility (NCUA):							
New acquisitions	106	127	144	50	50	50	50
Net lending	6	25	25	25	25	25	25
Loans outstanding	112	137	162	187	212	237	262
U.S. Railway Association:							
New acquisitions	.....	.....	.....	.....	.....	.....	.....
Net lending	−89	.....	.....	.....	.....	.....	.....
Loans outstanding	.....	.....	.....	.....	.....	.....	.....
Subtotal, credit related:							
New acquisitions	3,368	2,430	1,431	1,158	543	566	659
Net lending	−2,400	−16,272	−12,715	−11,832	−5,867	−8,403	−7,044
Loans outstanding	134,697	118,424	105,710	93,499	87,632	79,228	72,188

Table F-21. **FFB FINANCING OF AGENCY ACTIVITIES—Continued**

(in millions of dollars)

Agency or Program	Actual	Estimates					
	1987	1988	1989	1990	1991	1992	1993
OTHER ACTIVITIES							
Tennessee Valley Authority:							
Originations:							
New acquisitions	156	212	180	1,306	695	254	816
Net lending	−16	−80	169	736	175	−22	−22
Loans outstanding	1,824	1,744	1,912	20,803	20,978	20,956	20,934
Acquisition of securities:							
New acquisitions	1,809	1,075	1,194	.....	.....	.....	.....
Net lending	1,309	1,075	694	.....	.....	.....	.....
Loans outstanding	16,386	17,461	18,155	.....	.....	.....	.....
Postal Service:							
New acquisitions	1,635	1,500	1,641	1,827	1,900	504	496
Net lending	1,499	1,239	1,380	1,500	1,500	28	.....
Loans outstanding	4,353	5,592	6,972	8,472	9,972	10,000	10,000
Subtotal, other:							
New acquisitions	3,600	2,787	3,015	3,133	2,595	758	1,312
Net lending	2,792	2,234	2,243	2,236	1,675	6	−22
Loans outstanding	22,563	24,797	27,039	29,275	30,950	30,956	30,934
Total, all FFB financing:							
New acquisitions	6,968	5,217	4,446	4,291	3,138	1,324	1,971
Net lending	392	−14,038	−10,472	−9,596	−4,192	−8,397	−7,066
Loans outstanding	157,260	143,221	132,749	122,773	118,581	110,184	103,123

Table F–22. **FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS**

(In billions of dollars)

	Actual									
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Total funds loaned in U.S. credit markets [1]	379.0	413.0	359.0	410.5	391.1	547.6	649.5	687.5	830.0	642.7
Direct loans	19.8	19.6	24.2	26.1	23.4	15.3	6.3	28.0	11.2	–19.0
Guaranteed loans	13.4	25.2	31.6	28.0	20.9	34.1	20.1	21.6	34.6	60.4
Government-sponsored enterprise loans [2]	25.2	28.1	24.1	32.4	43.3	37.1	53.1	60.7	83.3	107.8
Federal and federally assisted lending	58.4	72.9	79.9	86.5	87.6	86.5	79.5	110.3	129.1	149.2
Federal lending participation ratio (percent)	15.4	17.7	22.3	22.1	22.4	15.8	12.2	16.0	15.6	23.2
Total funds borrowed in U.S. credit markets [1]	379.0	418.5	351.1	409.5	393.3	511.4	700.7	758.2	906.1	723.8
Federal borrowing from public	59.1	33.6	70.5	79.3	135.0	212.3	170.8	197.3	236.3	151.7
Borrowing for guaranteed loans	13.4	25.2	31.6	28.0	20.9	34.1	20.1	21.6	34.6	60.4
Government-sponsored enterprise borrowing [2]	21.4	21.9	21.4	34.8	43.6	34.0	55.5	57.9	103.2	115.0
Federal and federally assisted borrowing	93.9	80.7	123.5	142.1	199.5	280.4	246.4	276.8	374.1	327.1
Federal borrowing participation ratio (percent)	24.8	19.3	35.2	34.7	50.7	54.8	35.2	36.5	41.3	45.2

[1] Funds loaned to and borrowed by nonfinancial sectors, excluding equities.

[2] The data in Table F–22 for total funds loaned are defined as excluding financial sectors. Nonetheless, the Government-sponsored enterprises, as well as Federal assisted lending, are properly compared with total funds loaned. Government-sponsored enterprises lending is a proxy for the lending by non-financial sectors that is intermediated by the sponsored enterprises. It assists the ultimate non-financial borrowers whose loans are purchased or otherwise financed by the sponsored enterprise.

Source: Federal Reserve Board Flow-of-Funds Accounts for total funds loaned and borrowed.