LOAN GUARANTEES: CURRENT CONCERNS AND ALTERNATIVES FOR CONTROL

A Compilation of
Staff Working Papers

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The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise indicated, all years referred to are fiscal years. For 1976 and before, fiscal years ran from July 1 through June 30 and were referred to by the years in which they ended. The Congressional Budget Act of 1974 changed the fiscal year to begin on October 1 and end on September 30. The interim between the old and new fiscal years, July 1 through September 30, 1976, is called the transition quarter; fiscal year 1977 began on October 1, 1976.

Details in the text, tables, and figures of this volume may not add to totals because of rounding.

PREFACE

In August 1978 the Congressional Budget Office published Loan Guarantees: Current Concerns and Alternatives for Control, a study prepared at the request of the Senate Budget Committee. In the course of developing that paper, four staff working papers were prepared. These papers are here compiled and published to support the analysis and conclusions of the paper on loan guarantees.

Alice M. Rivlin
Director

January 23, 1979

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INTRODUCTION

At the request of the Senate Budget Committee, the Congressional Budget Office prepared a background paper on the use and growth of loan guarantee and insurance programs, current concerns about the appropriateness of their use, and alternative methods for controlling them. That paper, Loan Guarantees: Current Concerns and Alternatives for Control, was released in August 1978. This volume contains four staff working papers that develop in further detail portions of the research and analysis contained in the background paper.

The first paper, Federal Credit Programs: A Statistical Compilation, compiles data on federal credit programs for fiscal years 1950 to 1979. It combines in one place the annual data on credit programs included in the special analyses on credit that have accompanied the Budget of the U.S. Government since fiscal year 1952. The compilation was undertaken to facilitate understanding of the many types of credit assistance offered by the federal government, their relative magnitudes, and their growth over time.

The second and third papers in this volume discuss two complexities in the financing of federal credit programs: the sale of loan assets and certificates of beneficial ownership (CBOs) by lending agencies and the financing of federal credit programs through the Federal Financing Bank. Both practices cause the unified budget totals to be understated because they exclude certain types of activities from counting in the totals. As a result, these practices pose problems in terms of determining the total levels of federal credit activity and allocating credit resources among competing needs. Loan Asset Sales: Current Budgetary Treatment and Alternatives considers the controversy surrounding the sales of loan assets and CBOs by federal agencies. The Federal Financing Bank: A Primer explains the operations of this nearly anonymous off-budget entity and their effects on the budgetary process.

The final paper in this volume stems from concern about the impossibility of obtaining data on defaults in loan guarantee and insurance programs that can be compared from program to program and agency to agency. To assess the extent of this problem, CBO asked Peat, Marwick, Mitchell & Co. to survey the accounting and data collection practices of 22 major loan guarantee or insurance programs. Their report, Loan Insurance and Guarantee Programs: A Comparison of Current Practices and Procedures, demonstrates that differences in the definitions used by agencies and in their data collection and reporting procedures make it impossible to compile estimates of defaults declared and claims paid. The lack of such data impairs the ability of Congressional committees to conduct oversight of guarantee and insurance programs effectively.

FEDERAL CREDIT PROGRAMS:

A STATISTICAL COMPILATION

The Congress of the United States
Congressional Budget Office

PREFACE

Although the Budget of the United States Government has included annual data on credit programs since 1952, this annual data has not yet been compiled in a single place. This paper has been prepared in response to a perceived need for an historical compilation of such data.

The paper was prepared by John D.Shillingburg of CBO's Budget Process Unit, with the assistance of Barbara J. Gluckstern. David K. Gillogly of the Office of Management and Budget provided technical assistance. The author wishes to acknowledge the helpful comments by Richard P. Emery, Jr. and John W. Ellwood of CBO. The paper was typed by Kathryn A. Quattrone and Susan L. Bailey. Patricia H. Johnston edited the manuscript.

Alice M. Rivlin
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October 1978

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Federal credit programs have been established over the years, one-by-one, with each program designed to solve a specific national problem. As a result, federal credit assistance has been gradually extended to a number of sectors in the economy: housing, agriculture, transportation, health, education, small business, and foreign aid.

There are three distinct types of federal credit assistance: direct loans, guarantees of loans and other credit, and secondary market activities of federally sponsored credit enterprises. Often, two or more of these forms are combined in a single program because of the complex financial and institutional arrangements that have evolved in response to specific problems.

In this paper, data on individual credit programs since 1950 have been brought together to show the relative magnitudes of these programs over time. This chapter discusses the measures of credit activity used and the limitations of the data. The next chapter presents a brief overview of federal credit assistance in the post-World War II era. The final chapter presents the data compiled since 1950 for each type of federal credit activity.

MEASURES OF LENDING ACTIVITY

There are four different measures of lending activity used by the federal government: new commitments, new loans disbursed or new guarantees extended, net lending or net loans guaranteed, and loans or guaranteed loans outstanding.

New Commitments. The federal government makes a commitment for a loan or a guarantee by agreeing with a prospective borrower to lend directly to him or to guarantee his borrowing from a third party, contingent on his fulfillment of specified conditions. Time often elapses between the extension of the commitment, the satisfaction of the conditions, and the conclusion of the loan or extension of the guarantee. This is particularly true when credit financing is used for construction projects, which have long planning and financing lead times.

The volume of new commitments for a fiscal year provides an advance indication of trends in the impact of federal credit programs--that is, changes in the level of new commitments precede corresponding changes in the volume of loans disbursed by the federal government and in the volume of purchases of goods and services by the ultimate borrowers. New commitments are, thus, the best single measure of short-run trends of credit programs.

New Loans Disbursed or Guarantees Extended. This measure records the actual volume of direct loans disbursed or guarantees extended by the federal government during a fiscal year. New disbursements or extensions are usually smaller than new commitments, since new commitments in a given year do not always result in new loans made or guaranteed, because of the complexity of the financing process. In some years, however, new loans disbursed or new guarantees extended may be greater than new commitments, because of loans made or guaranteed as a result of commitments made in previous years.

New loan disbursements or guarantee extensions are equivalent to outlays for direct spending programs. The levels of new disbursements or new extensions are, thus, the best measures of the impact of each type of federal credit assistance on the credit markets in a fiscal year.

Net Lending or Net Guarantees. Most federal expenditures are "exhaustive"--that is, once the money is disbursed by the federal government, none of it is recovered. Grant programs, for example, disburse funds to recipients who then spend the money themselves. Direct loans, on the other hand, are not exhaustive; instead, they represent an exchange of assets. The federal government lends the funds in exchange for a promise of future repayment. During any year, the federal government is receiving repayments on loans made in previous years at the same time that it is making new loans. The repayments received are deducted from new loan disbursements to arrive at a net lending figure, which accurately depicts the net change in the government's financial position during the fiscal year. This net lending figure is the amount charged for direct lending in the unified budget totals.

Accounting for guaranteed lending operates in a similar fashion. During any year, loans guaranteed in a previous year are repaid and the guarantees cancelled at the same time that guarantees on new borrowing are issued. Therefore, the net change in the government's guaranteed lending liability is calculated as the difference between new guarantees issued and guarantees cancelled.

Loans or Guaranteed Loans Outstanding. This last measure of lending activities indicates the cumulative total of direct or guaranteed loans that have been made and not completely repaid. The outstanding totals are useful indicators of the level of credit programs over time. Changes in the volume of loans or guaranteed loans outstanding from year to year equal net lending or net loans guaranteed each year. Thus, if the outstanding volume remains fairly constant, then new loans are being made or guaranteed only in amounts equal to repayments or cancellations (that is, net lending or net guarantees equals zero). On the other hand, if the volume of outstanding loans or guarantees is increasing over time, then the total volume of lending is increasing.

LIMITATIONS OF THE DATA

The data on program levels in this paper have been taken from the special analyses on credit that accompany the Budget of the United States Government each year. 1/ These supplements, prepared for each budget since the fiscal year 1952 budget, contain three years of data: actual data for the fiscal year just completed and estimates for the fiscal year currently in progress and for the fiscal year about to begin--the year for which the budget is being submitted. To construct historical data since 1950, this paper uses the actual year data in each special analysis, except for fiscal years 1978 and 1979, for which only estimates are available.

Reliance on the special analyses as a data source poses two major problems:

- Refinements of Data Collection and Reporting. Since 1951 the Bureau of the Budget and its successor, the Office of Management and Budget (OMB), have refined the collection and recording of credit data many times. These refinements pose problems of data comparability over the thirty-year period. Whenever possible in this paper, adjustments have been made when practices have changed in order to maintain data comparability. Notes to individual tables explain the details for each adjustment.

1/ In most years the special analysis on credit is designated Special Analysis E. In the budgets for fiscal years 1957, 1958, and 1979, it was designated Special Analysis F.

- <u>Problems of Aggregation</u>. In several cases, two or more entries previously recorded separately are combined in one or more years. Lacking the raw data, it has not been possible to disaggregate the combined entry. Rather than create a separate stub entry for only a few years, the combined entry is included in an "Other" category, leaving blanks in the table for one or more programs for one or more years. Again, when possible, such instances have been identified and explained in footnotes.

While these and other problems affect the accuracy of the data for some programs for some years, by and large the data can be relied upon for the purpose of showing relative magnitudes of credit activities and their growth in the post-World War II era.

CHAPTER II. FEDERAL CREDIT PROGRAMS: AN OVERVIEW OF THE POST-WORLD WAR II ERA

Federal credit programs have grown rapidly and become an important part of federal assistance since the end of World War II.

AGGREGATE GROWTH

In the seven years after the end of the war, the outstanding volume of direct loans tripled, while guarantees outstanding increased five-fold. On June 30, 1952, direct federal loans accounted for 5 percent of the private debt outstanding, and federal guarantees accounted for another 10 percent, for a combined total of 15 percent. 1/ During the late 1950s and early 1960s, the proportion of the total private debt outstanding that was advanced under federal auspices declined slowly to about 10 percent by the close of fiscal year 1966. This reduction of the federal proportion was not, however, indicative of a slowdown in federal credit. Instead, it reflected the explosive growth in total credit. The $290 billion of private debt outstanding on June 30, 1952, grew to just over $1 trillion by the end of fiscal year 1966, a growth of 256 percent over the period. 2/ In contrast, federal direct loans outstanding for the period grew only 135 percent, while guaranteed loans outstanding grew by 307 percent (see Tables 5 and 11 at the end of Chapter III).

The rapid growth of federal credit programs continued during the late 1960s and early 1970s, as shown in Table 1. 3/ With the

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1/ Fiscal year 1952 actual data from Budget of the United States Government, Special Analysis E, Fiscal Year 1954.

2/ Fiscal year 1966 actual data from Budget of the United States Government, Special Analysis E, Fiscal Year 1968.

3/ The reader should note that the discussion above of credit growth from 1950-1966 was based on data on outstanding volumes of federal lending and gross private debt. In the special analysis for fiscal year 1976, OMB began using flow of funds analysis and net lending data for trend discussions. The following discussion on credit growth from 1968-1979 is based on that analysis.

TABLE 1. FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS: BY FISCAL YEAR, IN BILLIONS OF DOLLARS

	1968	1969	1970	1971	1972
Total funds advanced in U.S. credit markets a/	97.0	96.9	93.6	124.9	164.3
Funds advanced under Federal auspices d/	14.9	15.0	17.4	16.5	22.8
Federal participation rate (percent)	15.4	15.5	18.6	13.2	13.9

(Continued)

SOURCE: Budget of the United States Government, Fiscal Year 1979, Special Analysis F, Table F-1, p. 121.

a/ On a flow-of-funds basis, including equities.
b/ Estimates.

exception of fiscal year 1970, credit advanced under federal auspices (including the loans of federally sponsored credit intermediaries) was within a narrow range of 13-16 percent of total credit. 4/ Although the size of the federal "share" of the credit advanced remained relatively constant during this period in absolute terms, total federal credit assistance grew rapidly, almost keeping pace with the growth in total credit. During this period (fiscal year 1968 to fiscal year 1976) total funds advanced in the credit markets grew 227 percent. Federal credit programs grew 145 percent, the increases coming both from the expansion of existing programs and the initiation of new ones.

4/ In fiscal year 1970 credit assistance for housing increased sharply, causing the overall federal percentage to increase also.

TABLE 1. (Continued)

1973	1974	1975	1976	TQ	1977	1978b/	1979b/
205.4	193.1	180.9	242.6	67.3	317.5	c/	c/
26.7	26.6	26.9	26.9	6.5	36.6	51.8	55.4
13.0	13.8	14.9	11.0	9.7	11.5	c/	c/

c/ Not estimated.
d/ Includes direct lending by on- and off-budget agencies, guaranteed lending, and lending by federally-sponsored credit enterprises, all on a net basis.

Federal credit growth "paused" in fiscal year 1976, remaining constant in absolute terms. 5/ As a result, federal credit as a percent of total credit dropped to 11.0 percent from 14.9 percent, since total credit continued to grow—34.1 percent during fiscal year 1976. Although federal credit growth resumed in fiscal year 1977, the pause was sufficient to keep the federal share in the 11 percent range.

THE RELATIVE IMPORTANCE OF FEDERAL CREDIT PROGRAMS

Although federal credit programs as a whole have accounted for only 10 to 20 percent of total credit during the postwar era, the relative importance of individual credit programs during this time

5/ The "pause" was even more pronounced in the transition quarter, when federal credit actually declined. This may have been partly due to changes in the timing of agency actions caused by the shift to the new fiscal year.

has varied according to the problems they aim to solve. For instance, during the early 1950s business loans made or insured by the federal government accounted for about 1 percent of outstanding corporate obligations. 6/ On the other hand, 40 percent of mortgage debt was insured or guaranteed by federal agencies. Also direct or guaranteed federal lending represented a large share of all international loans made by this country. This relationship continued to hold true in the 1960s. 7/

THE FEDERAL CREDIT PROGRAM TODAY

Table 2 summarizes the extension of credit under federal auspices for fiscal years 1977 to 1979. Including the loans of off-budget agencies and of the government-sponsored, privately owned credit enterprises, the total volume of credit extended is estimated to grow from $122.2 billion in fiscal year 1977 to $159.4 billion in fiscal year 1979.

As shown in Table 2, the estimated value of new guarantees extended is roughly twice that for on-budget direct federal loans made in each year given in the table. A two-to-one ratio of guarantees to direct loans has been the proportional mix of guaranteed and direct loans throughout the post-World War II era. This long-standing preference for guaranteed financing as opposed to direct federal financing reflects a policy to use private credit whenever it can be made available on reasonable terms.

In recent years the budget has become less useful in planning for, controlling, and measuring the impact of federal credit. For example, some new credit programs have been set up off-budget or as government-sponsored, but privately owned enterprises. Also, the preference for guaranteed loans, another activity outside the budget process, instead of direct extensions of federal credit, further reduces the utility of the budget as an indicator. The

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6/ Budget of the United States Government, Special Analysis E, Fiscal Year 1952.

7/ Budget of the United States Government, Special Analysis E, Fiscal Year 1965.

TABLE 2. NEW FEDERAL CREDIT EXTENDED, BY TYPE, FISCAL YEARS 1977 TO 1979: IN MILLIONS OF DOLLARS

Type of Credit Assistance	1977	1978 a/	1979 a/
Direct Loans, On-budget	21,854	29,361	26,575
Direct Loans, Off-budget	13,558	16,871	17,575
Guaranteed Loans b/	40,794	44,669	53,354
Loans of Government-sponsored Credit Intermediaries c/	46,021	56,580	61,874
Total	122,227	147,481	159,378

SOURCE: Budget of the United States Government, Special Analysis F, Fiscal Year 1979.

a/ Estimates.
b/ Primary guarantees, adjusted.
c/ Primary lending, adjusted.

only credit activities currently included in the budget totals are direct loans by on-budget agencies, and they are included only on a net basis. As a result, of the $159.4 billion of federal and federally sponsored credit activity estimated for fiscal year 1979, only $4.3 billion, the net direct lending, is included in the budget totals.

This chapter focuses on the three major types of federal credit activity and sets out the data compiled for each since the early 1950s. The activities of the Federal Financing Bank, a relatively new federal credit institution, are also discussed.

DIRECT LENDING

The federal government's most direct form of credit assistance is to lend its own funds directly to individuals, businesses, nonprofit organizations, and local governments. These loans are made for a wide variety of purposes, among them:

- The Commodity Credit Corporation (CCC) lends to producers to finance next year's crops.

- The Veterans Administration provides loans to veterans for home purchases in rural areas and small towns when other credit is not available.

- The Small Business Administration lends to small businesses for expansion.

- The Economic Development Administration in the Commerce Department lends to local governments for public works and to businesses for commercial expansion in economically distressed areas.

- The Export-Import Bank lends to businesses to assist them to compete in overseas markets.

These loans by federal agencies are included in the unified budget totals on a net basis. As Chapter I noted, this is calculated as the difference between new loans and repayments.

Several off-budget agencies have been established in recent years to lend federal funds to further various policy goals, such as:

- The U.S. Railway Association (U.S.R.A.) lends funds to railroads as part of the reorganization and consolidation of rail lines.

- The Rural Electrification Administration (REA) lends money to rural utilities to expand their service areas.

- The Federal Financing Bank (FFB), by purchasing agency securities and agency-guaranteed obligations, in effect makes direct loans for a wide variety of purposes. 1/

The off-budget status of these agencies means that these programs are not included in the unified budget totals at all.

Data on Direct Lending

Tables 3 to 6 provide historical data on new commitments, disbursements, and outstanding loans by on-budget agencies and new commitments by off-budget agencies. 2/ In each table, the steady growth of direct lending programs in the post-World War II period can be seen.

While the year-to-year growth for individual programs shown in Tables 3, 4, and 5 was relatively steady with no severe fluctuations, the year-to-year growth in the totals was more erratic. These fluctuations have two sources. First, year-to-year totals would increase rapidly for one or more years after the inception of a major new program, such as the direct loans made by the Government National Mortgage Association (GNMA) under its FHA and VA tandem plans. This program started in fiscal year 1968 and had new commitments that year of $1.7 billion, accounting for 57 percent of the $2.9 billion increase in the total over fiscal year 1967.

A second source of fluctuations in the year-to-year growth of the totals for direct lending stems from changes in the budgetary status of programs. For example, when the Federal National Mortgage Association (FNMA) was converted from mixed-ownership to fully private ownership in fiscal year 1969, its direct lending was removed from the budget totals. As a result, Tables 3, 4, and 5

1/ Various issues surrounding the operations of the FFB will be discussed later in this paper.

2/ Tables 3 through 14 appear at the end of this chapter.

display sharp drops in lending by FNMA in fiscal year 1969 and no activity in subsequent years. 3/ These drops in part explain the decreases in the totals for new commitments, new disbursements, and loans outstanding for fiscal year 1969.

Growth in direct loan totals would be even greater in the 1970s than that shown in Tables 3 to 5 if the lending activities of off-budget agencies were included. Various lending programs have been placed outside the budget totals during the 1970s; the Export-Import Bank, U.S. Railway Association, and the HUD Housing for the Elderly and Handicapped Fund, among others, were excluded form the budget totals. These direct federal loans, however, are identical to those by on-budget agencies. The effect has been to understate direct lending in the budget substantially, especially in the last several years, as the Federal Financing Bank, another of the off-budget entities, has expanded its operations.

The Net Treatment of Direct Lending

The treatment of direct loans on a net basis in the federal budget underestimates the magnitude of direct federal lending by understating the amount of new loans made each year. By deducting repayments on loans made in previous years from new lending in a fiscal year, it is possible to calculate the net change in the government's financial position during that fiscal year. This calculation is not useful, however, in trying to understand the magnitude of federal credit intervention. Current practice results in the deduction of $22.3 billion of estimated repayments in fiscal year 1979 from the estimated $26.6 billion of new direct loans. The resulting $4.3 billion for net lending is shown in the budget totals. New lending by budget agencies--including CCC crop loans, VA home loans, SBA business expansion loans--is understated by $22.3 billion.

Sales of Loan Assets

Current budgetary practices further complicate the understanding of direct lending by treating as repayments the sales to third parties of loans held by federal agencies. These loan asset sales play an important role in the federal credit program: they

3/ The fiscal year 1969 figures reflect that portion of FNMA's activities prior to its change of status. For data on its activities as a federally sponsored credit enterprise, see Table 14.

increase private participation in federally encouraged activities, and they play an intermediating, or at times countercyclical role, by providing greater liquidity of funds. The transfer of the loan asset from the federal government to a private owner does not change the economic effects of the loan transaction. It does, however, affect the budgetary totals.

It is possible for agencies to lower their budget totals by selling off their direct loan portfolios since sales of loan assets are counted as repayments and deducted from new lending. By selling all its new loans extended in a given year, an agency could create a net budget entry of zero for its lending program, giving the picture of no activity. Conceivably, by selling additional holdings from its loan portfolios, the agency could reduce its net lending to a negative figure and thus reduce the budget deficit. For instance, new loans extended by the Farmers Home Administration in fiscal year 1979 are estimated to be $8,421 million. After deducting $9,644 million of repayments, the net lending charge in the budget is minus $1,264 million. Of the $9,644 million in repayments, $7,369 million, or 74 percent, represent loan asset sales. While the negative outlay figure of $1,264 million is an appropriate picture of the government's cash flow position, it is not a valid representation of the level of federal lending activity for the fiscal year.

This manipulation of the budget totals has caused concern in recent years, as loan asset sales have increased in proportion to repayments. Of the $22.3 billion of repayments estimated for fiscal year 1978, $10.3 billion, or 46 percent, are sales of loan assets. Table 7 shows the growth of loan asset sales by agency since their beginning in the 1960s. Table 8 shows asset sales as a proportion of all repayments. Note that they have reached as high as 70 percent of repayments in recent years.

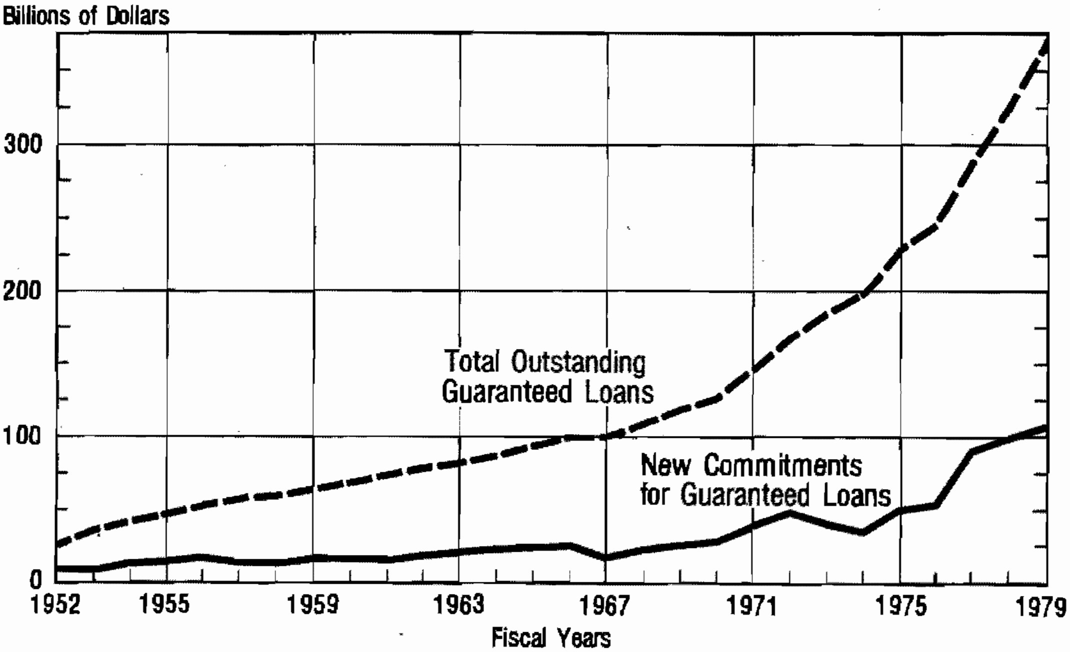
GUARANTEED LENDING

Through its direct loans the federal government can directly allocate credit to specific purposes. Loan guarantees, in contrast, are a way for the federal government to influence the allocation of private credit. For lenders, the federal government's guarantee of the safety of their investment makes guaranteed loans attractive, despite their slightly lower yields. For borrowers, the guarantee by the government serves to provide them access to credit, by encouraging lenders to make credit available to them on affordable terms.

Loan guarantees have been a useful policy tool since the Depression. The federal government has guaranteed billions of dollars of loans, enabling countless families to buy their own homes, farmers to buy their own farms, and even fisherman to buy their own boats.

As Figure 1 illustrates, the annual growth of new guarantees was relatively steady through the 1950s and 1960s. This steady annual growth, however, caused the amount of total guarantees outstanding—that is, the total amount of loan principal the government has pledged to repay in case of default or its contingent liability—to grow rapidly. Annual growth since 1970 has sharply accelerated; in fiscal year 1979 the federal government will guarantee an estimated $53.4 billion of loans, an increase of

Figure 1.
Growth of New Commitments and Total Outstanding Guaranteed Loans[a] for Fiscal Years 1952-1979[b]



SOURCE: *Budget of the United States Government*, Special Analysis on Credit, Fiscal Years 1952-1979.

[a]Unadjusted figures

[b]Fiscal year 1978 and 1979 figures are estimates.

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19 percent over the previous year. 4/ These rapid increases have caused an even sharper acceleration in the amounts outstanding. Total guarantees outstanding will increase by $23.1 billion during fiscal year 1979, from $200.3 billion at the close of fiscal year 1978 to $223.4 billion by September 30, 1979.

Until recently the largest shares of the resources allocated through loan guarantees have been in the housing field. These programs have been designed to allow individual borrowers to finance their own homes with credit. As Figure 2 illustrates, housing programs in the Veterans Administration and the agencies now collected in the Department of Housing and Urban Development (HUD)—principally the Federal Housing Administration (FHA)--accounted for 97 percent of the new commitments for guarantees in fiscal year 1950. While the housing programs have continued to grow in absolute volume, the lower panel of Figure 2 illustrates that they have declined in terms of relative shares of credit allocated through the guarantee mechanism. Numerous new guarantee programs have caused the allocation of guaranteed credit to a wider variety of purposes.

Tables 9 and 11 present data on new commitments for guarantees and guaranteed loans outstanding, respectively, since the early 1950s. In both tables the unadjusted totals include two kinds of double counting: secondary guarantees and guaranteed obligations acquired for direct loan portfolios. In the first instance, an agency grants a guarantee of a security that is itself based on other guaranteed securities. For example, HEW grants a secondary guarantee when it guarantees a Student Loan Marketing Association (SLMA) debt issue, which is in turn backed by a pool of guaranteed student loans. In the second instance, the purchase by an agency of an obligation guaranteed by another governmental agency in effect converts the guaranteed loan into a direct federal loan, since the federal government becomes the source of the funds as well as the provider of the guarantee. This happens quite often when the FFB purchases guaranteed obligations. OMB practice in the last few years has been to deduct the full amount of secondary guarantees and guarantees acquired for direct loan portfolios from total guarantees to avoid double counting. If this were not done,

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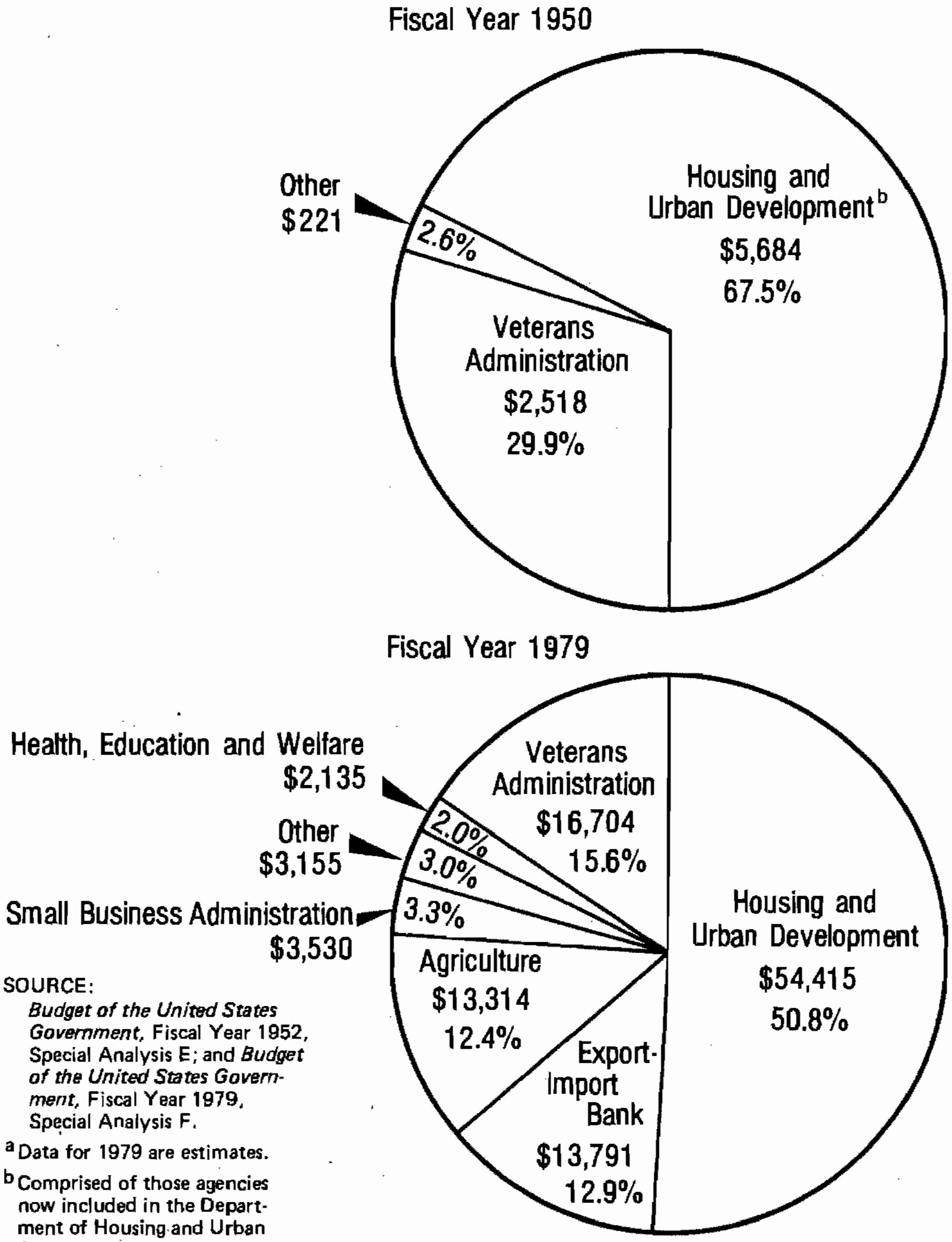
4/ Data is for new guarantees granted or disbursed for fiscal year 1979. Disbursement data for guarantees was not kept historically.

Figure 2.

Relative Shares of New Commitments for Guaranteed Loans, by Agency, Fiscal Years 1950 and 1979[a]: In Millions of Dollars



SOURCE:
Budget of the United States Government, Fiscal Year 1952, Special Analysis E; and *Budget of the United States Government*, Fiscal Year 1979, Special Analysis F.

[a] Data for 1979 are estimates.

[b] Comprised of those agencies now included in the Department of Housing and Urban Development.

secondary guarantees would be counted twice in the guarantee totals, and guarantees acquired for direct loan portfolios would be counted both as direct and guaranteed lending. Tables 10 and 12 provide the detailed adjustments to the totals in Tables 9 and 11 respectively.

FEDERALLY SPONSORED LENDING

A third form of federal credit activity is the lending by various federally sponsored credit enterprises. Included in this group are the Farm Credit System, the Federal Home Loan Bank System, the Federal National Mortgage Association (FNMA), and the Student Loan Marketing Association (SLMA). 5/ All of these organizations have been chartered by the federal government for the purpose of creating secondary markets for direct and guaranteed loans. These secondary markets serve to encourage private participation in federally encouraged activities and to provide greater liquidity of funds in these sectors by buying loans or providing advances in times of tight money conditions. In recent years, however, these institutions have expanded their roles by seeking to draw new funds into the lending markets. By borrowing additional funds themselves, they can provide more funds to the basic lending institutions in the mortgage markets. Table 13 displays data on the loans outstanding from these sponsored enterprises since fiscal year 1950. The dramatic increases in the totals are evidence of their expanding role.

Although they are all completely privately owned now, they began with federal capital as well as federal charters. The federal capital stock has since been retired. The agencies, however, are still subject to various kinds of federal supervision, 6/ consult the Treasury in planning their operations, and frequently include federal officials on their boards of directors. Because they are given special tax preferences and can point to their federal relationship, the securities of these enterprises receive a preferred position in the capital markets, enabling them to borrow money at rates only moderately above the Treasury's own borrowing rate.

5/ For a detailed explanation of these agencies see Off-budget Agencies and Government-Sponsored Corporations: Factsheets, Committee on the Budget, U.S. Senate, March 23, 1977.

6/ Witness the recent HUD-FNMA imbroglio over the ceiling on FNMA indebtedness and the composition of FNMA's borad of directors.

THE FEDERAL FINANCING BANK

No discussion of credit activities would be complete without a discussion of the important new actor in the credit field—the Federal Financing Bank (FFB), established in 1973 as an off-budget agency operating under the Treasury Department The principal purpose of the FFB is to coordinate and assist agency borrowing from the public. Instead of individually entering the securities markets, agencies now borrow from the FFB, which in turn borrows from the Treasury or the public. 7/

More important to this analysis than its lending to agencies is its activities in the credit field. Under its charter FFB can purchase not only securities issued by government agencies, but also securities guaranteed by government agencies. It is this activity that has caused some concern. When FFB buys a guaranteed security it substitutes direct federal lending for private participation. FFB purchases have grown until they now account for 20 percent of all guaranteed obligations. Table 14 displays FFB activity since 1976. While the economic effects of FFB providing the funds are not substantially different from those resulting from a completely private transaction, there are questions of policy about the appropriateness of this activity. 8/

7/ With the exception of one public borrowing in its early days, FFB has borrowed exclusively from Treasury. The memorandum portion of Table 15 displays net lending by FFB to on- and off-budget agencies.

8/ The controversy surrounding FFB activities is discussed in greater detail in the background paper entitled The Federal Financing Bank: A Primer.

TABLE 3. NEW COMMITMENTS FOR DIRECT LOANS, FISCAL YEARS 1950-1979: IN MILLIONS OF DOLLARS

Program	1950	1951	1952	1953	1954	1955
Funds Appropriated to the President						
Military Assist./ Int'l Security Assistance	---	---	---	---	---	---
Economic Assist./ Int'l Dev. Assistance	---	---	---	---	---	---
Agriculture						
Farmers, Home Administration	---	129	155	164	182	235
Commodity Credit Corporation	---	135	324	509	355	483
Rural Elect. Administration	379	260	206	201	242	217
Other	139	21	---	44	93	---
Commerce						
Economic Dev. Administration	---	---	---	---	---	---
Other	---	---	---	---	---	---
Health, Education & Welfare	---	---	---	---	---	---
Housing & Urban Development						
FNMA	1,784	1,018	836	914	710	14
FHA	---	---	27	8	11	15
Public Housing	186	518	252	402	275	300
GNMA	---	---	---	---	---	---
Other	64	47	31	114	96	90
Veterans Admin.	---	142	52	89	112	158
Export-Import Bank	379	395	551	570	139	406
Small Business Administration	---	---	---	---	13	32
Other	611	376	737	378	132	202
Total	3,543	3,041[a]	3,171[a]	3,393[a]	2,360[a]	2,152[a]

(Continued)

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Years 1952-1979.

[a]The Special Analyses on Credit for fiscal years 1953-1957 and 1969-1971 included data for the Banks for Cooperatives and the Federal Intermediate Credit Banks in the totals for direct lending. For purposes of consistency, data for these two agencies have been excluded from this table.

TABLE 3. (Continued)

1956	1957	1958	1959	1960	1961	1962	1963
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---
248	320	301	322	290	364	483	592
507	545	772	543	256	220	465	572
274	382	331	276	325	417	353	427
---	---	---	---	---	---	---	---
---	---	---	---	---	---	59	225
---	---	4	2	---	1	---	12
---	---	---	32	41	107	75	87
306	1,265	1,652	1,184	1,252	291	297	177
45	28	30	23	32	130	158	292
89	202	307	296	130	288	370	131
---	---	---	---	---	---	---	---
164	308	315	337	292	466	591	826
174	169	206	205	305	213	335	417
372	1,067	811	913	773	1,189	1,093	680
102	141	186	233	182	281	367	325
215	413	393	1,249	703	1,208	1,864	1,984
2,496	4,840	5,308	5,615	4,581	5,175	6,510	6,747

(Continued)

[b]Separate data on public housing loans were not reported in the fiscal years 1970 and 1971 Special Analyses on Credit. Data for public housing loans are included in the Other Housing and Urban Development item for fiscal years 1968 and 1969.

[c]The Special Analyses on Credit for fiscal years 1973, 1974, and 1975 reflect changing policies in the accounting for GNMA purchases of FHA/VA mortgages under the tandem plan. The fiscal year 1973 Special Analysis (the source for fiscal year 1971 actual data) excluded entirely GNMA commitments to purchase FHA/VA mortgages under the tandem plan. The fiscal year 1974 and 1975 Special Analyses (actual data for fiscal years 1972 and 1973) report

TABLE 3. NEW COMMITMENTS FOR DIRECT LOANS, FISCAL YEARS 1950-1979: IN MILLIONS OF DOLLARS (Continued)

Program	1964	1965	1966	1967	1968	1969	1970
Funds Appropriated to the President							
Military Assist./ Int'l Security Assistance	---	---	---	65	74	226	70
Economic Assist./ Int'l Dev. Assistance	---	---	---	1,190	1,084	723	807
Agriculture							
Farmers, Home Administration	540	569	477	505	495	489	451
Commodity Credit Corporation	781	9	14	1,694	2,605	2,868	3,093
Rural Elect. Administration	351	477	413	472	470	470	470
Other	---	---	---	---	---	---	---
Commerce							
Economic Dev. Administration	155	44	86	75	64	76	61
Other	9	9	7	---	---	1	---
Health, Education & Welfare	110	265	312	429	388	239	238
Housing & Urban Development							
FNMA	166	673	644	2,436	2,662	782	---
FHA	228	135	364	676	637	355	---
Public Housing	97	117	169	23	---[b]	---[b]	169
GNMA	---	---	---	---	1,701	2,557	995
Other	695	786	735	591	816	726	804
Veterans Admin.	516	481	412	690	565	509	501
Export-Import Bank	778	852	1,149	2,661	2,526	1,298	2,209
Small Business Administration	358	462	507	357	449	248	452
Other	2,104	1,838	1,906	1,123	1,414	437	252
Total	6,888	6,717	7,195	12,988[a]	15,948[a]	12,005[a]	10,571

(Continued)

such commitments as memorandum items, below the totals. In this table, they have been included in the totals, consistent with the practice in the Special Analyses beginning in fiscal year 1976 budget.

[d]The Export-Import Bank was excluded from the budget totals by statute on August 17, 1971. It was returned to on-budget status effective October 1, 1976 (for fiscal year 1977). See Table 6 , New Commitments for Direct Loans by Off-Budget Agencies for Export-Import Bank data for fiscal years 1972-1976 and the Transition Quarter.

TABLE 3. (Continued)

1971	1972	1973	1974	1975	1976	TQ	1977	1978[f]	1979[f]
688	330	332	878	437	780	684	1,079	1,316	1,095
718	632	675	522	478	460	96	365	436	471
463	378	58	3,329	4,481	4,594	1,420	8,051	8,853	8,684
2,169	3,172	2,609	1,554	1,101	1,754	675	4,376	7,935	6,018
487	663	420[e]	---	---	---	---	---	---	---
558	514	649	566	747	615	318	738	728	863
60	47	52	18	15	53	20	165	52	103
---	5	---	---	---	---	---	138	114	4
329	393	726	539	543	419	61	558	780	874
---	---	---	---	---	---	---	---	---	---
17	---	---	521	---	60	20	319	365	294
171	166	62	32	82	68	44	232	343	290
537[c]	7,160[c]	4,778[c]	3,027	11,779	5,112	176	2,091	2,300	2,300
698	776	908	899	508	60	6	456[g]	403[g]	1,089
382	375	412	507	524	525	136	571	599	651
2,362	319[d]	---[d]	---[d]	---[d]	---[d]	---[d]	1,221	3,413	4,300
572	365	1,313	604	520	411	165	892	2,313	853
241	348	535	256	1,831	2,249	1,144	3,210	2,162	1,054
10,451	15,642	13,527	13,252	23,044	17,162	4,965	24,462	32,109	28,942

[e]Effective January 1, 1973, REA direct loans for electrical and telephone service were discontinued. They were replaced by loans from the Rural Development Insurance Fund in the Farmers Home Administration.

[f]Data for fiscal years 1978 and 1979 are estimates.

[g]The Housing for the Elderly or Handicapped Program was returned to the budget totals for fiscal year 1979. OMB retroactively included $850 million for fiscal year 1977 and $750 million for fiscal year 1978 in the totals for new commitments for direct lending. These amounts have been excluded here and included instead in Table 6, New Commitments for Direct Loans by Off-Budget Agencies.

TABLE 4. DIRECT LOAN DISBURSEMENTS AND REPAYMENTS, FISCAL YEARS 1951-1979: IN MILLIONS OF DOLLARS

Program	1951	1952	1953	1954	1955	1956
Funds Appropriated to the President						
Military Assist./ Int'l Security Assistance	---	---	---	---	---	---
Economic Assist./ Int'l Dev. Assistance	---	---	---	---	---	---
Agriculture						
Farmers Home Administration	128	160	165	182	235	246
Commodity Credit Corporation	135	324	1,789	2,640	4,454	3,337
Rural Elect. Administration	268	235	232	210	197	209
Other	21	---	44	93	---	---
Commerce						
Economic Dev. Administration	---	---	---	---	---	---
Other	---	---	---	---	---	---
Health, Education & Welfare	---	---	---	---	---	---
Housing & Urban Development						
FNMA	1,018	605	586	481	539	372
FHA	---	40	38	44	49	45
Public Housing	227	622	924	526	215	237
GNMA	---	---	---	---	---	---
Other	72	8	30	59	62	54
Veterans Admin.	59	84	104	127	145	93
Export-Import Bank	226	243	519	504	201	185
Small Business Administration	---	---	---	3	25	61
Other	365	590	360	215	336	268
Gross Total	2,519[b]	2,911[b]	4,791[b]	5,084[b]	6,458[b]	5,107
Less Repayments	-1,660	-1,552	-3,182	-5,847	-5,081	-4,186
Net Total[a]	859	1,359	1,609	-763	1,377	921

(Continued)

TABLE 4. (Continued)

1957	1958	1959	1960	1961	1962	1963	1964
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---
309	334	350	311	369	587	760	739
2,512	1,993	3,741	1,580	1,365	2,366	3,137	3,235
259	288	305	321	291	293	332	330
---	---	---	---	---	---	---	---
---	---	---	---	---	1	24	47
---	4	2	---	1	---	12	9
---	---	31	42	58	75	91	110
963	848	1,372	1,369	221	208	137	136
28	35	33	56	87	158	292	211
250	204	149	132	132	171	379	457
---	---	---	---	---	---	---	---
131	217	275	350	339	439	512	537
118	210	269	380	339	329	405	546
231	823	779	441	526	903	508	398
94	126	178	143	190	348	293	292
211	418	1,979	530	801	1,273	1,631	1,731
5,106	5,500	9,462	5,655	4,719	7,151	8,513	8,778
-4,917	-4,531	-4,349	-5,583	-3,307	-4,218	-6,930	-6,597
189	969	5,113	72	1,412	2,933	1,583	2,181

(Continued)

TABLE 4. DIRECT LOAN DISBURSEMENTS AND REPAYMENTS, FISCAL YEARS 1951-1979: IN MILLIONS OF DOLLARS (Continued)

Program	1965	1966	1967	1968	1969	1970	1971
Funds Appropriated to the President							
Military Assist./ Int'l Security Assistance	---	---	43	44	77	136	513
Economic Assist./ Int'l Dev. Assistance	---	---	1,169	1,036	957	899	890
Agriculture							
Farmers, Home Administration	828	1,068	1,231	1,570	1,765	2,105	2,279
Commodity Credit Corporation	2,103	1,537	1,653	2,574	2,841	3,071	2,116
Rural Elect. Administration	381	361	412	495	402	492	627
Other	---	---	---	---	---	---	560
Commerce							
Economic Dev. Administration	57	45	34	62	50	65	61
Other	1	8	---	-3	1	---	---
Health, Education & Welfare	146	255	310	284	301	308	312
Housing & Urban Development							
FNMA	203	2,131	1,766	2,217	249	---	---
FHA	157	365	662	583	297	91	190
Public Housing	176	199	154	---[c]	---[c]	720	710
GNMA	---	---	---	1,134	2,439	816	536[d]
Other	641	732	1,135	921	890	969	801
Veterans Admin.	529	575	668	520	477	464	377
Export-Import Bank	403	685	1,167	1,646	1,668	1,569	1,406
Small Business Administration	444	510	280	406	208	342	481
Other	1,951	1,441	1,115	1,349	482	330	214
Gross Total	8,020	9,912[b]	11,799[b]	14,838[b]	13,104[b]	12,375	12,074
Less Repayments	-6,188	-8,123	-7,091	-7,227	-9,567	-9,413	-10,035
Net Total	1,832	1,789	4,708	7,611	3,537	2,964	2,039

(Continued)

TABLE 4. (Continued)

1972	1973	1974	1975	1976	TQ	1977	1978	1979
236	473	430	624	484	60	541	1,084	1,091
677	584	646	530	555	117	404	385	352
3,140	3,125	3,893	5,579	5,302	1,476	7,121	8,741	8,421
3,112	2,563	1,550	1,101	1,754	675	4,376	7,935	6,018
551	519[f]	---	---	---	---	---	---	---
524	690	578	747	615	318	738	728	863
53	45	32	23	30	9	77	147	103
1	---	---	---	---	---	28	5	15
355	349	478	576	542	163	454	766	650
---	---	---	---	---	---	---	---	---
249	432	361	914	1,073	70	319	365	294
716	625	623	645	278	50	238	600	600
589[d]	1,415[d]	1,533	3,664	7,596	1,178	927	1,660	2,450
754	913	921	639	460	164	444[h]	364[h]	1,008
360	401	469	524	531	137	568	596	649
127[e]	---	---	---	---	---	1,787	1,627	1,788
357	955	493	684	665	164	687	1,759	1,229
317	437	247	1,745	2,241	1,257	3,126	2,245	1,045
12,119	13,526	12,254	17,995	22,129	5,838	21,835	29,006	26,575
-9,376	-13,209	-10,325	-13,744	-18,859	-5,019	-19,300	-21,422	-22,246
2,743	317	1,929	4,251	3,270	819	2,535	7,584	4,329

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Year 1952-1979.

[a]Through the fiscal year 1967 Budget, OMB adjusted the net disbursements of direct loans to reflect the lending expenses actually included in the administrative budget totals. After the fiscal year 1967 Budget, this adjustment was not computed. For purposes of consistency, totals in this table are not adjusted. The net totals reflect only the arithmetical difference of gross disbursements and repayments, as is current practice.

[b]The Special Analyses for fiscal years 1953-1957 and 1968-1971 included data for the Banks for Cooperatives and the Federal Intermediate Credit Banks in the totals for direct lending. For purposes of consistency, data for these two agencies have been excluded from this table.

[c]Separate data on public housing loans were not reported in the fiscal year 1970 and 1971 Special Analyses on Credit. Data for public housing loans are included in the Other Housing and Urban Development item for fiscal years 1968 and 1969.

[d]The Special Analyses for fiscal years 1973, 1974, and 1975 reflect changing policies in the accounting for GNMA purchases of FHA/VA mortgages under the tandem plan. The fiscal year 1973 Special Analysis (the source for fiscal year 1971 actual data) excluded entirely GNMA purchases of FHA/VA mortgages under the tandem plan. The fiscal year 1974 and 1975 special analyses (actual data for fiscal years 1972 and 1973) report such purchases as memorandum items, below the totals. In this table they have been included in the totals, consistent with the practice in the Special Analyses beginning in fiscal year 1976 Budget.

[e]The Export-Import Bank was excluded from the budget totals by statute on August 17, 1971. It was returned to on-budget status effective October 1, 1976 (for fiscal year 1977).

[f]Effective January 1, 1973, REA direct loans for electrical and telephone service were discontinued. They were replaced by loans from the Rural Development Insurance Fund in the Farmers Home Administration.

[g]Data for fiscal years 1978 and 1979 are estimates.

[h]The Housing for the Elderly or Handicapped Program was returned to the budget totals for fiscal year 1979. OMB retroactively included estimates for the program in its fiscal years 1977 and 1978 totals in Special Analysis F. They have been excluded in the following amounts from this table to maintain consistency with the legal status of the program:

	Disbursements	Repayments	Net Lending
Fiscal year 1977	21	6	15
Fiscal year 1978	355	8	347

TABLE 5. DIRECT LOANS OUTSTANDING, FISCAL YEARS 1952-1979; IN MILLIONS OF DOLLARS

Program	1952	1953	1954	1955	1956	1957
Funds Appropriated to the President						
Military Assist./ Int'l Security Assistance	---	---	---	---	---	---
Economic Assist./ Int'l Dev. Assistance	---	---	---	---	---	---
Agriculture						
Farmers' Home Administration	551	588	647	767	779	815
Commodity Credit Corporation	331	875	360	1,151	1,733	1,634
Rural Elect. Administration	1,831	2,013	2,164	2,285	2,412	2,586
Other	---	55	104	---	---	---
Commerce						
Economic Dev. Administration	---	---	---	---	---	---
Other	---	---	---	---	---	---
Health, Education & Welfare	---	---	---	---	---	---
Housing & Urban Development						
FNMA	2,068	2,498	2,301	2,584	2,657	2,505
FHA	113	139	166	207	257	284
Public Housing	605	604	198	99	93	94
GNMA	---	---	---	---	---	---
Other	9	37	81	118	153	259
Veterans Admin.	132	245	348	431	512	628
Export-Import Bank	2,396	2,514	2,672	2,639	2,645	2,605
Small Business Administration	---	---	2	35	84	155
Other	5,984	6,088	5,697	5,772	5,791	5,938
Total	14,020[a]	15,656[a]	14,740[a]	16,088[a]	17,116	17,503

(Continued)

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Year 1952-1979.

[a]The Special Analyses on Credit for fiscal years 1953-1957 and 1969-1970 included data for the Banks for Cooperatives and the Federal Intermediate Credit Banks in the totals for direct lending. For purposes of consistency, data for these two agencies have been excluded from this table and included instead in Table 13, Direct Loans Outstanding of Federally, Sponsored Credit Enterprises.

TABLE 5. (Continued)

1958	1959	1960	1961	1962	1963	1964	1965
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---
858	914	972	1,087	1,293	1,551	1,759	1,990
1,172	2,251	1,191	917	1,353	1,768	2,437	2,115
2,774	2,974	3,187	3,367	3,525	3,694	3,869	4,072
---	---	---	---	---	---	---	---
---	---	---	---	1	25	71	126
---	207	181	154	131	126	113	109
---	31	73	131	206	296	410	551
2,503	3,440	3,559	3,416	3,324	2,883	2,623	2,121
295	318	360	448	556	633	596	527
91	89	92	97	97	94	48	60
---	---	---	---	---	---	---	---
455	656	877	1,159	1,484	1,809	2,132	2,465
852	1,053	1,366	1,618	1,804	1,630	1,694	1,649
2,987	3,471	3,262	3,369	3,569	3,296	2,706	2,490
232	339	392	481	694	817	924	1,147
6,235	6,715	7,067	7,688	9,227	10,837	11,944	13,632
18,454	22,458	22,579	23,932	27,264	29,459	31,326	33,054

(Continued)

[b]Separate data on public housing loans were not reported in the fiscal years 1970 and 1971 Special Analyses on Credit. Data for public housing loans are included in the Other Housing and Urban Development item for fiscal years 1968 and 1969.

[c]The Export-Import Bank was excluded from the budget totals by statute on August 17, 1971. It was returned to on-budget status effective October 1, 1976 (for fiscal year 1977).

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TABLE 5. DIRECT LOANS OUTSTANDING, FISCAL YEARS 1952-1979: IN MILLIONS OF DOLLARS (Continued)

Program	1966	1967	1968	1969	1970	1971	1972
Funds Appropriated to the President							
Military Assist./ Int'l Security Assistance	---	43	19	77	134	617	795
Economic Assist./ Int'l Dev. Assistance	---	6,074	8,919	7,837	8,633	9,401	9,975
Agriculture							
Farmers Home Administration	2,142	2,229	2,371	2,694	2,659	2,440	2,705
Commodity Credit Corporation	1,376	1,379	2,601	3,504	5,046	2,497	3,068
Rural Elect. Administration	4,274	4,506	4,797	5,026	5,343	5,795	6,160[d]
Other	---	---	---	---	---	2,241	2,697
Commerce							
Economic Dev. Administration	162	191	244	286	343	394	433
Other	110	101	89	82	73	64	57
Health, Education & Welfare	789	1,123	1,398	1,686	1,985	2,287	2,606
Housing & Urban Development							
FNMA	1,722	7,403	6,624	---	---	---	---
FHA	633	635	688	708	641	794	1,011
Public Housing	58	68	---[b]	---[b]	90	90	65
GNMA	---	---	3,758	4,256	4,847	5,091	5,056
Other	2,893	3,386	3,858	3,813	4,409	4,582	4,687
Veterans Admin.	1,013	2,959	3,265	3,518	3,722	3,599	3,270
Export-Import Bank	2,227	4,151	5,059	5,421	5,714	5,665[c]	---[c]
Small Business Administration	972	1,373	1,549	1,531	1,658	1,882	1,987
Other	14,626	6,583	6,560	6,414	5,772	5,716	5,575
Total	32,997	42,208[a]	51,799[a]	46,856	51,078	53,156	50,149

(Continued)

[d]Effective January 1, 1973, REA direct loans for electrical and telephone service were discontinued. They were replaced by loans from the Rural Development Insurance Fund in the Farmers Home Administration.

[e]Data for fiscal years 1978 and 1979 are estimates.

TABLE 8. (Continued)

1973	1974	1975	1976	TQ	1977	1978[e]	1979[e]
1,211	1,469	2,387	2,610	2,568	2,854	3,669	4,501
10,432	10,994	10,830	11,181	11,245	11,235	11,350	11,406
1,998	3,217	1,822	1,893	2,250	2,366	2,315	1,050
2,720	1,708	1,262	1,440	1,887	4,513	7,485	8,282
---	---	---	---	---	---	---	---
3,149	3,438	3,954	4,449	4,746	5,333	5,954	6,693
462	476	491	493	493	545	662	727
---	---	---	---	---	55	62	73
2,940	3,364	3,856	4,328	4,483	4,855	5,524	6,033
---	---	---	---	---	---	---	---
1,359	1,686	2,328	3,248	3,162	3,259	3,306	3,359
50	71	29	42	58	32	32	32
3,761	3,482	5,485	5,441	4,962	3,498	3,201	3,048
4,705	4,600	4,035	4,043	4,091	4,083[f]	4,159[f]	5,873
2,870	2,859	2,923	2,823	2,780	2,606	2,530	2,460
---[c]	---[c]	---[c]	---	---	11,538	11,873	12,454
2,677	2,871	3,075	3,072	3,113	3,260	4,520	5,180
5,559	5,897	7,302	8,341	8,382	7,606	8,579	9,249
43,891	46,132	49,777	53,404	54,220	67,637	75,221	80,420

[f] The Housing for the Elderly or Handicapped Program was returned to the budget totals for fiscal year 1979. OMB retroactively included \$523 million for fiscal year 1977 and \$870 million for fiscal year 1978 in the totals for outstanding direct loans. These amounts have been excluded here to maintain the consistency of this table with the legal status of the agencies included in the budget totals.

TABLE 6. NEW COMMITMENTS FOR DIRECT LOANS BY OFF-BUDGET AGENCIES a/: BY FISCAL YEARS, IN MILLIONS OF DOLLARS

Agency	1972	1973	1974	1975	1976	TQ	1977	1978b/	1979b/
Agriculture									
Rural Electrification and Telephone Revolving Fund	--	479	758	900	1,000	250	1,083	1,017	985
Rural Telephone Bank	--	14	163	160	180	27	160	185	230
Housing and Urban Development									
Housing for the Elderly or Handicapped	--	--	--	--	*	--	850	750	--
Treasury									
Federal Financing Bank	--	--	128	6,958	13,130	2,635	19,042	19,770	21,349
Export-Import Bank	2,967	4,053	4,905	3,813	3,492	448	--	--	--
U.S. Railway Association	--	--	--	34	375	11	223	100	27
TOTAL	2,967	4,546	5,954	11,865	18,177	3,371	21,358	21,822	22,591

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Years 1974-1979.

* Less than $0.5 million.

a/ For more information on the off-budget status of these agencies, see Off-budget Agencies and Government-Sponsored Corporations: Factsheets, Committee on the Budget, U.S. Senate, March 23, 1977.

b/ Data for fiscal years 1978 and 1979 are estimates.

TABLE 7. SALES OF DIRECT LOAN ASSETS BY BUDGET AGENCIES, FISCAL YEARS 1963-1979: IN MILLIONS OF DOLLARS

Agency	1963	1964	1965	1966	1967	1968[a]	1969	1970	1971
Agriculture Farmers, Home Administration	---	46	35	55	600	675	1,625[b]	1,668	2,005
Health, Education & Welfare	---	---	---	---	100	115	---	---	---
Housing & Urban Development FNMA	307	144	464	611	740	605	---[c]	---	---
Other	34	104	33	11	680	1,525	*	98	---
Veterans Admin.	460	342	427	990	260	765	1	38	244
Small Business Administration	5	5	31	470	520	315	---	---	30
Export-Import Bank	336	436	574	824	1,329	1,300	378	406	269
Treasury New York City Seasonal Financing Fund	---	---	---	---	---	---	---	---	---
Other	---	---	---	---	---	---	---	---	---
Subtotal, Budget Agencies Excluding Tandems	1,142	1,077	1,564	2,961	4,229	5,300	2,005	2,210	2,548
HUD:GNMA Tandems	---	---	---	---	---	---	---	---	---
Total, Budget Agencies	---	---	---	---	---	---	---	---	---

(Continued)

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Years 1965-1979.

*Less than $500 thousand.

[a]No actual data were available for fiscal year 1968. Estimated data for fiscal year 1968 included in Special Analysis E for fiscal year 1969 are used here.

TABLE 7. (Continued)

1972	1973	1974	1975	1976	TQ	1977	1978	1979
2,429	3,325	2,171	6,408	4,247	871	5,445	6,901	7,367
---	---	28	55	55	---	51	55	91
---	---	---	---	---	---	---	---	---
211	1,194	---	---	9	---	---	---	---
381	489	209	163	291	96	393	320	364
---	---	---	---	191	---	---	---	---
---[d]	---	---	---	---	---	---	---	---
---	---	---	---	1,260	1,075	2,050	950	---
11	---	---	---	---	---	49	---	---
3,032	5,008	2,408	6,626	6,053	2,042	7,989	8,225	7,822
324	1,246	1,503	1,296	7,259	1,592	2,080	1,760	2,450
3,356	6,254	3,911	7,922	13,312	3,634	10,068	9,985	10,272

[b]Includes $667 million in net loan sales by Commodity Credit Corporation.

[c]The Federal National Mortgage Association converted fully to private ownership during fiscal year 1969.

[d]The Export-Import Bank was placed off-budget during fiscal year 1972.

TABLE 8. LOAN SALES AS A PERCENTAGE OF LOAN REPAYMENTS

Fiscal Year	Loan Repayments (In millions) b/	Loan Sales, On-Budget (In millions) c/	Loan Sales as Percentage of Repayments
1963	6,930	1,142	16.5
1964	6,597	1,077	16.3
1965	6,188	1,564	25.3
1966	8,123	2,961	36.5
1967	7,091	4,229	59.6
1968	7,227	5,300	73.3
1969	9,567	2,005	21.0
1970	9,413	2,210	23.5
1971	10,035	2,548	25.4
1972	9,376	3,094	33.0
1973	13,209	6,133	46.4
1974	10,325	3,911	37.9
1975	13,744	7,922	57.6
1976	18,859	13,312	70.6
TQ	5,019	3,634	72.4
1977	19,300	10,068	52.2
1978 a/	21,422	9,985	46.6
1979 a/	22,246	10,272	46.2

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Years 1965-1978.

a/ Estimate.

b/ Including adjustments to balances, write-offs, etc.

c/ Including GNMA tandem plans.

TABLE 9. NEW COMMITMENTS FOR GUARANTEED LOANS, FISCAL YEARS 1950-1979: IN MILLIONS OF DOLLARS

Program[a]	1950	1951	1952	1953	1954	1955	1956
Funds Appropriated to the President							
Military Assist./ Int'l Security Assistance	---	---	---	---	---	---	---
Economic Assist./ Int'l Dev. Assistance	---	---	---	---	---	---	---
Agriculture							
Farmers Home Administration	---	18	11	12	10	48	51
Commodity Credit Corporation	---	636	625	1,620	3,001	1,895	2,516
Rural Elect. Administration	---	---	---	---	---	---	---
Commerce	---	---	---	---	---	---	18
Health, Education & Welfare	---	---	---	---	---	---	---
Housing & Urban Development							
FHA	5,684	3,552	3,817	4,308	4,637	5,960	6,034
GNMA	---	---	---	---	---	---	---
Public Housing	---	1	731	309	495	485	351
Other	---	---	---	---	---	---	---
Veterans Admin.	2,518	3,693	3,315	2,838	3,395	6,053	6,801
Export-Import Bank	16	---	---	---	111	215	7
Small Business Administration	---	---	---	---	15	32	24
Other	205	562	1,203	426	128	120	132
Total, Gross	8,424	8,462	9,702	9,513	11,792	14,808	15,934
Less Adjustments[b]	---	---	---	---	---	---	---
Total Guarantees, Adjusted	---	---	---	---	---	---	---

(Continued)

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Year 1952-1979.

[a]Guarantees by off-budget agencies have been included in this table.

[b]See Table 10 for a detailed display of the components of the adjustments.

TABLE 9. (Continued)

1957	1958	1959	1960	1961	1962	1963	1964
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---
35	29	40	19	28	109	200	202
1,900	1,363	3,003	1,247	1,594	2,197	2,497	2,452
---	---	---	---	---	---	---	---
77	143	48	253	31	8	43	53
---	---	---	---	---	---	---	---
5,421	7,945	8,753	10,570	10,457	11,850	11,930	12,973
---	---	---	---	---	---	---	---
308	290	110	435	311	439	648	859
58	115	313	292	194	312	280	401
5,207	2,173	2,633	2,376	1,702	2,286	2,879	3,157
32	91	---	---	146	268	850	1,326
31	26	48	14	18	41	57	23
157	167	151	159	173	172	91	70
13,226	12,342	15,099	15,365	14,654	17,682	19,475	21,516
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---

(Continued)

[c]Separate data on public housing loans were not reported in the Special Analyses on Credit for the fiscal year 1970 and 1971 Budgets. Data for public housing loans for fiscal years 1968 and 1969 are included in the Other Housing and Urban Development item.

[d]The Special Analyses for fiscal years 1972-1975 reflect changing policies in the accounting for GNMA guarantees of mortgage-backed securities. The following adjustments have been made to the actual data for fiscal years 1970-1973 to conform to later (post-fiscal year 1975) OMB practice:

TABLE 9. NEW COMMITMENTS FOR GUARANTEED LOANS, FISCAL YEARS 1950-1979: IN MILLIONS OF DOLLARS (Continued)

Program[a]	1965	1966	1967	1968	1969	1970	1971
Funds Appropriated to the President							
Military Assist./ Int'l Security Assistance	---	---	289	190	55	---	46
Economic Assist./ Int'l Dev. Assistance	---	---	59	100	216	51	56
Agriculture							
Farmers Home Administration	201	550	822	803	895	1,136	1,898
Commodity Credit Corporation	2,093	1,521	166	---	666	---	---
Rural Elect. Administration	---	---	---	---	---	---	---
Commerce	---	101	111	132	152	110	281
Health, Education & Welfare	---	---	---	436	687	959	1,644
Housing & Urban Development							
FHA	14,414	14,133	9,991	13,495	14,429	16,324	22,629
GNMA	---	---	---	---	---	438[d]	3,000[d]
Public Housing	474	567	443	---[c]	---[c]	1,517	1,709
Other	959	2,636	777	1,300	1,987	846	1,404
Veterans Admin.	3,030	2,619	2,831	3,829	4,017	3,720	4,356
Export-Import Bank	1,645	1,953	1,160	1,226	1,723	2,280	3,507
Small Business Administration	68	147	132	314	470	446	863
Other	137	41	104	66	6	93	155
Total, Gross	23,021	24,268	16,885	21,891	25,303	27,920	38,547
Less Adjustments[b]	---	---	---	---	---	-438	-3,000
Total Guarantees, Adjusted	---	---	---	---	---	27,482	35,547

(Continued)

The fiscal year 1972 Special Analysis excluded such secondary guarantees from the total but gave the 1970 actual data in a footnote.

The fiscal year 1973 Special Analysis also excluded GNMA secondary guarantees but gave no actual data for fiscal year 1971. It did note that guarantees outstanding increased by $3.0 billion during fiscal year 1971. That figure is used in this table as a proxy for the amount of new commitments for secondary guarantees by GNMA for fiscal year 1971.

TABLE 9. (Continued)

1972	1973	1974	1975	1976	TQ	1977	1978[e]	1979[e]
220	218	518	616	1,411	484	1,383	1,584	1,585
110	85	8	26	17	---	168	187	165
2,356	3,609	2,392	7,171	4,913	1,116	5,965	8,146	8,494
---	---	---	---	---	---	---	---	---
---	---	974	1,406	1,423	416	3,986	4,555	4,820
277	966	1,266	699	899	85	1,493	2,119	815
1,900	1,847	1,924	1,388	1,685	404	1,628	1,740	2,135
20,824	9,307	5,638	11,221	8,316	2,739	19,776	20,262	24,709
3,518[d]	3,607[d]	4,125	5,905	8,999	2,600	17,019	16,000	15,500
2,071	560	289	741	610	271	11,003	12,932	14,110
1,717	1,058	101	511	115	31	26	95	96
8,242	8,847	7,760	8,436	10,868	2,930	15,412	16,513	16,704
5,535	6,637	7,879	8,708	8,507	1,595	7,254	10,704	13,791
1,367	2,029	1,803	1,365	2,057	481	2,724	3,170	3,530
187	1,247	600	1,978	1,759	1,152	2,335	1,551	589
48,326	40,018	35,276	50,172	51,578	14,302	90,172	99,557	107,044
-3,518	-3,607	-11,727	-24,271	-31,073	-6,343	-44,032	-43,636	-43,905
44,808	36,411	23,549	25,901	20,505	7,959	46,140	55,921	63,139

In the fiscal year 1974 and 1975 Special Analyses, GNMA secondary guarantees were excluded from the totals, but shown as memorandum items below the totals (fiscal year 1972 and 1973 actual data).

[e]Data for fiscal years 1978 and 1979 are estimates.

TABLE 10. ADJUSTMENT TABLE -- LOAN GUARANTEES AND NEW COMMITMENTS, FISCAL YEARS 1970-1979

	1970	1971	1972	1973	1974
Total, Gross	27,920	38,547	48,326	40,018	35,276
Less: Secondary guarantees					
GNMA guarantees of FHS/VA pools	438	3,000	3,518	3,607	4,125
HEW guarantees of SLMA obligations	---	---	---	---	250
DOT guarantees of USRA debt	---	---	---	---	---
Less: Guaranteed loans held at direct loans by budget agency: GNMA	---	---	---	---	1,532
Total, Primary Guarantees	27,482	35,547	44,808	36,411	29.369
Less: Guaranteed Loans Held as Direct Loans by:					
Off-Budget Agency - FFB	---	---	---	---	102
Federally Sponsored Credit Enterprises					
SLMA	---	---	---	---	144
FNMA	---	---	---	---	5,282
FHL Banks	---	---	---	---	---
FHLMC	---	---	---	---	292
Total, Guaranteed Loans, Adjusted	---	---	---	---	23,549

(Continued)

SOURCE: Budget of the United States Government, Fiscal Years 1972-1979, Special Analyses on Credit.

TABLE 10. (Continued)

1975	1976	TQ	1977	1978[a]	1979[a]
50,172	51,578	14,302	90,172	99,557	107,044
5,905	8,999	2,600	17,019	16,000	15,500
---	160	5	105	95	130
---	29	4	131	1	---
6,842	3,113	176	2,092	2,300	2,300
37,425	39,277	11,517	70,826	81,161	89,114
6,958	13,130	2,635	19,042	19,770	21,349
144	227	12	225	205	196
4,239	5,362	902	5,362	5,265	4,427
30	24	6	---	1	2
153	28	2	56	---	---
25,901	20,505	7,959	46,140	55,921	63,139

[a]Estimates.

TABLE 11. LOAN GUARANTEES OUTSTANDING, FISCAL YEARS 1952-1979: IN MILLIONS OF DOLLARS

Program[a]	1952	1953	1954	1955	1956	1957
Funds Appropriated to the President						
Military Assist./ Int'l Security Assistance	---	---	---	---	---	---
Economic Assist./ Int'l Dev. Assistance	---	---	---	---	---	---
Agriculture						
Farmer, Home Administration	47	54	62	94	135	156
Commodity Credit Corporation	58	288	2,008	987	586	360
Rural Elect. Administration	---	---	---	---	---	---
Commerce	---	---	---	---	13	36
Health, Education & Welfare	---	---	---	---	---	---
Housing & Urban Development						
FHA	14,961	16,399	17,861	18,703	19,889	21,013
GNMA	---	---	---	---	---	---
Public Housing	1,129	1,604	2,429	2,735	2,818	2,795
Other	---	---	17	31	49	108
Veterans Admin.	7,450	15,694	17,318	22,308	27,145	30,960
Export-Import Bank	---	33	90	98	36	28
Small Business Administration	---	---	3	22	31	43
Other	739	948	672	414	395	440
Total, Gross	24,384	35,052	40,460	45,392	51,097	55,939
Less Adjustments[b]	---	---	---	---	---	---
Total Guarantees, Adjusted	---	---	---	---	---	---

(Continued)

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Years 1954-1979.

[a]Guarantees by off-budget agencies have been included in this table.

[b]See Table 12 for a detailed display of the components of the adjustments.

TABLE 11. (Continued)

1958	1959	1960	1961	1962	1963	1964	1965
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---
172	169	168	182	316	474	578	727
428	230	156	606	902	834	377	419
---	---	---	---	---	---	---	---
79	191	314	355	395	419	446	419
---	---	---	---	---	---	---	---
23,408	28,414	32,341	35,726	39,278	42,447	45,474	49,042
---	---	---	---	---	---	---	---
3,110	3,335	3,487	3,739	4,125	4,387	4,718	5,033
131	273	480	713	843	1,038	1,180	1,682
30,727	30,300	29,863	29,864	29,584	30,055	30,484	30,951
56	2	1	165	1,083	1,336	1,936	2,617
48	64	56	50	62	89	81	104
352	359	397	449	379	382	371	420
58,515	63,337	67,263	71,849	76,967	81,461	85,645	91,414
---	---	---	---	---	---	---	---
---	---	---	---	---	---	---	---

(Continued)

[c]Separate data on public housing loans were not reported in the Special Analyses on Credit for the fiscal year 1970 and 1971 Budgets. Data for public housing loans for fiscal years 1968 and 1969 are included in the Other Housing and Urban Development item.

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TABLE 11. LOAN GUARANTEES OUTSTANDING, FISCAL YEARS 1952-1979: IN MILLIONS OF DOLLARS (Continued)

Program	1966	1967	1968	1969	1970	1971	1972
Funds Appropriated to the President							
Military Assist./ Int'l Security Assistance	---	218	251	366	448	365	348
Economic Assist./ Int'l Dev. Assistance	---	237	338	389	227	178	462
Agriculture							
Farmers, Home Administration	1,009	1,636	2,339	2,679	4,952	5,361	6,917
Commodity Credit Corporation	855	1,021	923	1,590	---	---	---
Rural Elect. Administration	---	---	---	---	---	---	---
Commerce	456	573	662	647	644	896	1,111
Health, Education & Welfare	----	---	762	1,394	1,952	2,611	3,844
Housing & Urban Development							
FHA	52,967	54,197	58,634	63,001	67,594	77,214	85,017
GNMA	---	---	---	---	438[d]	3,431[d]	6,800[d]
Public Housing	5,413	5,772	---[c]	---[c]	8,072	9,463	10,718
Other	3,770	1,921	8,482	9,806	2,962	3,338	3,961
Veterans Admin.	30,970	31,537	33,369	34,927	36,040	37,597	42,002
Export-Import Bank	3,168	1,790	1,600	2,039	1,200	1,531	2,121
Small Business Administration	159	355	441	603	808	1,038	2,014
Other	458	244	271	263	177	526	398
Total, Gross	99,225	99,500	108,071	117,703	125,514	143,549	165,713
Less Adjustments[a]	---	---	---	---	-438	-3,431	-6,800
Total Guarantees, Adjusted	---	---	---	---	125,076	140,118	158,913

(Continued)

[d]The Special Analyses for fiscal years 1972-1975 reflect changing policies in the accounting for GNMA guarantees of mortgage-backed securities. The following adjustments have been made to the actual data for fiscal years 1970-1973 to conform to later (post-fiscal year 1975) OMB practice:

The fiscal year 1972 and 1973 Special Analyses excluded such secondary guarantees from the total but gave the 1970 and 1971 actual data in footnotes.

TABLE 11. (Continued)

1973	1974	1975	1976	TQ	1977	1978[e]	1979[e]
244	298	1,047	2,345	2,787	4,036	5,487	6,932
473	519	585	157	153	788	914	1,054
9,436	9,759	14,867	17,847	18,413	21,940	27,255	32,991
---	---	---	---	---	---	---	---
---	---	255	1,114	1,514	2,923	5,979	9,298
1,260	1,666	2,366	3,591	3,772	4,885	5,891	7,033
4,835	6,709	7,672	7,910	7,954	9,509	10,041	10,840
86,877	85,312	85,424	88,988	88,890	93,754	98,486	105,965
9,219[d]	12,879	17,723	25,610	27,500	42,932	55,000	64,900
11,783	12,441	13,153	13,607	13,727	14,203	15,556	17,837
4,551	4,869	4,366	3,348	3,021	1,926	1,346	1,007
47,165	52,895	57,983	64,116	64,763	71,923	79,803	87,878
2,749	3,443	4,464	5,273	4,927	5,324	6,889	9,468
3,105	4,019	4,112	4,979	5,096	5,780	6,856	8,101
1,596	2,331	4,258	4,329	5,299	4,367	3,878	4,543
183,292	197,159	218,273	243,213	247,816	284,289	323,381	367,848
-9,219	-43,977	-59,608	-73,385	-78,059	-100,366	-123,101	-144,432
174,073	153,182	158,665	169,828	169,757	183,923	200,280	223,416

In the fiscal year 1974 and 1975 Special Analyses, GNMA secondary guarantees were excluded from the totals, but shown as memorandum items below the totals (fiscal year 1972 and 1973 actual data).

[e]Data for fiscal years 1978 and 1979 are estimates.

TABLE 12. ADJUSTMENT TABLE -- LOAN GUARANTEES OUTSTANDING, FISCAL YEARS 1970-1979

	1970	1971	1972	1973	1974
Total, Gross	125,514	143,549	165,713	183,292	197,159
Less: Secondary Guarantees					
GNMA Guarantees of Mortgage-Backed Securities	438	3,431	6,800	9,219	12,879
HEW Guarantees of SLMA Obligations	---	---	---	---	250
DOT Guarantees of USRA Debt	---	---	---	---	---
Less: Guaranteed Loans Held as Direct Loans by Budget Agency: GNMA	---	---	---	---	3,482
Total, Primary Guarantees	125,076	140,118	158,913	174,073	180,548
Less: Guaranteed Loans Held as Direct Loans by:					
Off-Budget Agency -- FFB	---	---	---	---	102
Federally Sponsored Credit Enterprises					
SLMA	---	---	---	---	144
FNMA	---	---	---	---	25,251
FHL Banks	---	---	---	---	---
FHLMC	---	---	---	---	1,869
Total, Guaranteed Loans, Adjusted	---	---	---	---	153,182

(Continued)

SOURCE: Budget of the United States Government, Fiscal Years 1972-1976, Special Analyses on Credit.

TABLE 12. (Continued)

1975	1976	TQ	1977	1978[a]	1979[a]
218,273	243,213	247,816	284,289	323,381	367,848
17,723	25,610	27,500	42,932	55,000	64,900
240	400	405	510	605	735
---	33	39	316	388	396
5,062	4,030	4,368	3,348	3,201	3,048
195,248	213,140	215,504	237,183	264,188	298,769
6,282	12,413	15,036	23,123	33,793	46,392
225	408	401	519	615	752
27,900	28,691	28,548	28,061	28,122	26,994
244	68	74	58	58	53
1,934	1,733	1,688	1,499	1,319	1,161
158,665	169,828	169,757	183,923	200,280	223,416

[a]Estimates.

TABLE 13. LOANS OUTSTANDING FOR FEDERALLY SPONSORED CREDIT ENTERPRISES[a], FISCAL YEARS 1950-1979: IN MILLIONS OF DOLLARS

Agency	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Farm Credit Admin.										
Banks for Cooperatives	245	311	342	319	305	322	349	384	408	526
Fed. Inter. Credit Banks[b]	---	---	904	830	792	855	899	999	1,227	1,547
Fed. Land Banks	931	974	1,046	1,136	1,242	1,408	1,638	1,868	1,989	2,262
FHLBB										
Fed. Home Loan Banks	443	816	653	718	675	1,017	1,173	1,079	929	1,537
Fed. Home Loan Mort. Corp.	---	---	---	---	---	---	---	---	---	---
FNMA	---	---	---	---	---	---	233	1,248	1,394	1,574
SLMA	---	---	---	---	---	---	---	---	---	---
Total, unadjusted	1,618	2,101	2,945	3,003	3,014	3,602	4,292	5,578	5,947	7,446
Less adjustments[f]	---	---	---	---	---	---	---	---	---	---
Total, adjusted	---	---	---	---	---	---	---	---	---	---

(Continued)

TABLE 13. (Continued)

1960	1961	1962	1963	1964	1965	1966	1967[d]	1968	1969[d]	1970
551	595	692	701	758	931	1,095	1,298	1,457	1,594	1,749
1,698	1,831	1,998	2,293	2,504	2,687	3,069	3,544	3,940	4,349	5,091
2,487	2,728	2,968	3,198	3,516	4,058	4,725	5,304	5,973	6,557	6,995
1,770	1,869	2,767	3,270	4,769	5,586	6,783	4,302	4,889	6,452	10,275
---	---	---	---	---	---	---	---	---	---	---
2,600	2,522	2,871	2,138	2,021	2,069	3,718	4,592	6,624	8,003	13,405
---	---	---	---	---	---	---	---	---	---	---
9,106	9,545	11,296	11,600	13,568	15,331	19,390	19,040	22,883	26,955	37,515
---	---	---	---	---	---	---	---	---	---	---
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-----(Continued)-----

TABLE 13. LOANS OUTSTANDING FOR FEDERALLY SPONSORED CREDIT ENTERPRISES[a], FISCAL YEARS 1950-1979: IN MILLIONS OF DOLLARS (Continued)

Agency	1971	1972	1973	1974	1975	1976	TQ	1977	1978[e]	1979[e]
Farm Credit Admin.										
Banks for Cooperatives	2,036	2,061	2,725	2,733	3,371	4,412	4,466	5,235	6,060	6,749
Fed. Inter. Credit Banks[b]	5,903	6,374	6,952	8,481	10,021	11,192	11,582	13,286	15,204	17,405
Fed. Land Banks	7,580	8,431	10,118	12,400	15,437	18,010	18,607	21,548	24,521	27,865
FHLBB										
Fed. Home Loan Banks	7,280	6,113	11,179	17,703	20,462	19,198	19,942	19,575	23,748	27,643
Fed. Home Loan Mort. Corp.	567	1,720	2,770	3,871	6,027	6,584	6,680	8,720	12,381	16,535
FNMA	15,573	18,623	21,072	25,828	29,092	30,984	31,917	33,018	35,303	35,758
SLMA	---	---	---	144	225	408	401	519	615	752
Total, unadjusted	38,939	43,322	54,816	71,160	84,635	90,788	93,598	101,902	117,832	132,707
Less adjustments[f]	---	---	---	-100	-5,069	-5,858	-5,776	-2,974	-2,595	-2,625
Total, adjusted	---	---	---	71,060	79,566	84,930	87,822	98,928	115,237	130,082

SOURCE: Budget of the United States Government, Special Analyses on Credit, Fiscal Years 1952-1979.

[a]Does not include loans by the Federal Reserve to member banks.

[b]On January 1, 1957, the Federal Intermediate Credit Banks became mixed-ownership institutions and were excluded from the budget expenditure totals. Data for the banks during fiscal years 1952-1955 were included in the direct lending tables in the Special Analyses on Credit. They are shown in this table to maintain consistency of the data.

[c]Data come from Special Analysis E, Fiscal Year 1970.

[d]During fiscal year 1969, the Federal National Mortgage Association (FNMA), the Banks for Cooperatives, and the Federal Intermediate Credit Banks were converted to fully private ownership. The data for fiscal year 1969 include an adjustment factor not reported in the Special Analyses on Credit.

[e]Estimate.

[f]Adjustments include deductions of loans between two sponsored agencies and between a sponsored agency and a federal agency:

(In millions of dollars)

	1974	1975	1976	TQ	1977	1978	1979
Total, unadjusted	71,160	84,635	90,788	93,598	101,902	117,832	132,707
Less: Loans Between Sponsored Agencies							
Federal Home Loan Banks to FHLMC	---	-3,537	-3,924	-3,881	-2,464	-1,990	-1,890
Federal Home Loan Bank Interbank loans	---	-45	---	---	---	---	---
Less: Loans from Federal Agencies							
FFB to SLMA	-100	-240	-400	-405	-510	-605	-735
FHLBB to FHL banks	---	-1,247	-1,534	-1,490	---	---	---
Total, adjusted	71,160	79,566	84,930	87,822	98,928	115,237	130,082

TABLE 14. NEW PURCHASES OF THE FEDERAL FINANCING BANK, FISCAL YEARS 1976-1979 a/: IN MILLIONS OF DOLLARS

Agency	1976	TQ	1977	1978	1979
Purchased from Direct Loan Portfolios:					
Agriculture					
FMHA	3,800	850	4,965	6,575	7,180
REA CBOs	166	187	—	455	720
Health, Education, and Welfare					
Medical Facilities and HMO loans	57	7	51	55	91
Treasury					
New York City seasonal financing	1,260	1,075	2,050	950	—
Small Business Admin.	179	—	—	—	—
Guaranteed Loans Originated by FFB					
Defense					
International Security Assistance	1,411	484	1,383	1,584	1,585
Agriculture					
Rural Electrification Administration	693	212	1,222	2,500	2,500
Health, Education, and Welfare					
Guarantees of SLMA obligations	160	5	105	95	130
Transportation	227	42	347	255	228
Small Business Admin.	24	20	85	84	46
Other b/	899	-23	2,170	3,073	3,680
Total	8,876	2,859	12,379	15,626	16,158
FFB Purchases as Percentage of New Guarantees c/	20.0	21.5	22.0	24.1	21.8

(Continued)

TABLE 14. (Continued)

Agency	1976	TQ	1977	1978	1979
Memorandum: Net Purchases of Agency Debt Obligations					
TVA	745	555	1,145	1,165	1,460
Export-Import Bank	936	-216	1,155	996	1,559
U.S. Postal Service	1,248	500	-1,067	933	246
U.S.R.A.	51	11	214	79	—
Total	2,980	853	1,447	3,173	3,265

SOURCE: Budget of the United States Government, Special Analysis on Credit, Fiscal Years 1978-1979.

a/ The Federal Financing Bank was established December 29, 1973, and commenced operations during fiscal year 1974. For fiscal years 1974 and 1975 OMB reported only net purchases by FFB and did not disaggregate these purchases by agency and program. These net purchases have grown rapidly: in fiscal year 1974 they totalled only $102 million but grew to $6.2 billion by the end of fiscal year 1975.

b/ Applies to both categories.

c/ Computed as the percentage of FFB purchases of all primary guarantees extended. Primary guarantees are adjusted subtotals of the totals for guaranteed lending. Prior to the fiscal year 1979 budget, the adjustment for secondary guarantees was deducted from total guarantees extended to arrive at primary guarantees extended. Beginning with the fiscal year 1979 budget, OMB began including in the adjustment for secondary guarantees the purchase by GNMA of guarantees for its direct loan portfolio. This change was made to distinguish between the purchase of guarantees for direct loan portfolios by on-budget agencies (only GNMA) and by off-budget agencies and federally sponsored credit intermediaries. Since this table is concerned with the relationship of FFB purchases as a part of primary guarantees before other adjustments have been made, the data for fiscal years 1977, 1978, and 1979 have been adjusted to reflect the pre-1979 budget practices.

LOAN ASSET SALES:

CURRENT BUDGETARY TREATMENT

AND ALTERNATIVES

The Congress of the United States
Congressional Budget Office

PREFACE

Among the changes in budgetary scorekeeping contemplated in the control of federal credit activities are changes to the treatment of sales of loan assets to the Federal Financing Bank (FFB) and of certificates of beneficial ownership. This paper discusses the sale of loan assets generally, the distinctive nature of asset sales to the FFB and of CBO sales, the problems resulting from the current treatment of such sales, and proposals for changing that treatment. Because the FFB purchases most assets now sold, this paper is closely related to the third paper in this volume, The Federal Financing Bank: A Primer.

This paper was written by John D. Shillingburg and Benjamin Mark Cole of CBO's Budget Process Unit under the direction of Richard P. Emery, Jr. The authors wish to acknowledge the helpful comments by Brent G. Shipp and Robert E. Schafer of CBO. The paper was edited by Patricia H. Johnston and was typed by Kathryn A. Quattrone and Nancy E. Wenzel.

Alice M. Rivlin
Director

January 15, 1979

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WHAT LOAN ASSETS ARE

When the federal government lends money to a borrower, a loan asset is created. This asset most often takes the form of a bond, debenture, or promissory note. Whatever its form, the asset is a promise by the borrower to repay to the lending agency the principal borrowed, usually with interest. This asset, or promise of repayment, may be sold to the private sector, either by itself, or grouped with other loan assets in a pool, shares of which are then sold to private investors. These shares are variously called certificates of participation, certificates of beneficial interest, or certificates of beneficial ownership. 1/

WHY THEY ARE SOLD

Federal agencies sell their loan assets because their basic function is more that of a broker than that of an investor. Investors use their cash resources to acquire real or financial assets. Typically, an investor lends money to a borrower, in exchange for a note. In a sense, the lender buys the note; the borrower sells it. Brokers, on the other hand, act as intermediaries between buyers and sellers (lenders and borrowers) of financial assets.

If federal agencies operated in the investment mode, they would lend out all their available capital and then hold the loans to maturity. After receiving payments of interest and principal for several years, they could rebuild a body of capital with which to begin making new loans, in effect

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1/ Certificates of participation (PCs) were the first form of this mechanism. Certificates of beneficial interest (CBIs) were used only by one agency for a brief period. Certificates of beneficial ownership (CBOs) are the current form in use. In this paper, the terms participation certificates and certificates of beneficial interest will be used as they occurred historically. The term certificate of beneficial ownership will be used both to discuss the current form of this mechanism and as a generic term for all such devices in the discussions of control alternatives and problems.

reinvesting their annual income. If the agencies operated in the broker mode, instead of holding a loan to maturity, they would hold the loan temporarily, while arranging a sale to a permanent investor. By selling their loans, the agencies could exchange the future income stream of repayments for cash now, in effect refinancing or "rolling over" their loan portfolio. With the funds from the asset sale, the agencies could then make new loans, starting the process all over again.

LOAN ASSET SALES AND THE FEDERAL BUDGET

The federal budget has four primary purposes: to determine the share of national output that should be devoted to federal programs, to allocate that share of resources among competing federal programs, to determine how the federal government affects the distribution of resources among individuals and businesses, and to determine how much the federal government stimulates or restrains the economy. These four purposes can best be achieved if the unified budget includes all federally funded activities at their full costs.

Budgetary practice offsets loan repayments against new lending within a fiscal year to compute net lending for that fiscal year. Sales of loan assets are considered to be repayments of the original lending, and, as such, are offset against new lending. Currently, the sale of a loan note to the private sector, the sale of a loan note to the Federal Financing Bank, and the sale of a CBO to anyone, federal or private, are treated identically in the budget. They are, however, quite different transactions.

When an agency sells a loan note to a private investor, it transfers ownership of the asset to the buyer. The loan note completely leaves the government's hand, and the new owner assumes the responsibilities for servicing the loan. Private financing of the loan is effectively substituted for public financing.

The effects are different if the note is sold to the Federal Financing Bank (FFB) or if the note is pooled with others and CBOs are sold. A loan asset sold to the FFB, an off-budget federal entity, does not result in the substitution of private financing for government financing, it merely substitutes off-budget financing for on-budget financing. When an agency pools a group of loans and sells CBOs, ownership of the loan assets is not transferred. The government retains the loan asset and continues to service the loan, passing on to the certificate holder payments of interest and principal. Through the years, federal agencies have improved the marketability of their certificates such as CBOs by guaranteeing the repayment of the certificates, by substituting good loans for bad ones in a pool, and by offering better interest rates than are being paid by the loans in the pool. Such actions tend to establish an agency liability to the buyer, that is, to hold the buyer riskless while the agency absorbs any losses on loans in the pool.

The treatment of sales of loan assets to the FFB and of CBOs generally as asset sales has sparked controversy. First, federal budget totals are understated. Second, allocations of budget authority and outlays by function are made with the actual program levels of some functions being understated. And third, because of the lack of procedural controls on asset sales, their volumes are difficult to predict, resulting in their contributing to the outlay shortfall problems.

Although the issues surrounding sales of CBOs and loan assets are accounting in nature, they have far-reaching policy implications, particularly for the effectiveness of a Congressional budget process based on setting targets and ceilings for the unified budget totals to fulfill the four purposes stated above. This paper discusses the accounting issues and explores the policy implications of changing the treatments of assets sold to FFB and of CBO sales. The next chapter looks at the history and procedures of loan asset and CBO sales. The third chapter presents the accounting and control problems. The final chapter examines alternatives for accounting for and controlling sales of loan assets and CBOs.

CHAPTER II. LOAN ASSET SALES: HISTORY AND PROCEDURES FOR SALES

A BRIEF HISTORY

A history of the sale of loan assets must be incomplete because the Bureau of the Budget did not begin regularly reporting data on sales of loan assets until January 1964 in the special analysis on credit accompanying the Budget of the United States Government for fiscal year 1965. Knowledge of asset sales prior to that time is sketchy.

It is known that in the 1930s the Commodity Credit Corporation (CCC) financed commodity loans, particularly for cotton, by pooling cotton loans and selling participation certificates to commercial banks. It is also known that the first large-scale use of participation certificates outside of the CCC occurred during the liquidation of the Reconstruction Finance Corporation (RFC) in 1954. Many of RFC's small loans were pooled and certificates of participation sold to banks. Participation certificates were also sold by the Export-Import Bank (Eximbank) in 1962 and by the Federal National Mortgage Association (FNMA) and the Veterans Administration (VA) in 1964.

The Committee on Federal Credit Programs: A Limited Endorsement

In 1962 President Kennedy appointed a Committee on Federal Credit Programs to review legislation and administrative practices for federal credit programs. Committee members were Secretary of the Treasury Douglas Dillon, Director of the Bureau of the Budget David Bell, Chairman of the Council of Economic Advisers Walter Heller, and Chairman of the Board of Governors of the Federal Reserve System William McC. Martin, Jr. The committee submitted its report to the President in November 1962.

Among the topics included in the report was a discussion of the sales of assets as a source of financing for credit programs. The committee concluded that assets sales could be "an appropriate source of funds for new loans." 1/ It expressed the hope that sales of direct loans to private institutions would encourage the eventual substitution of private for government credit in the primary lending operation. It noted that, "if necessary to

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1/ Report of the Committee on Federal Credit Programs to the President of the United States, (February 11, 1963), p. 33.

foster development of a private market," it would be appropriate for agencies selling loan assets to guarantee or insure the loans sold. It tentatively approved the sale of certificates backed by loans as collateral:

> In exceptional cases involving the handicaps of unknown names and credit and where coinsurance is impracticable, it may be feasible, possibly as an interim procedure, to issue collateral trust certificates backed by a pool of Government loans.

The committee concluded its analysis of loan asset sales by recommending that the loan sales policies of the Federal National Mortgage Association be consistent with those of the Veterans Administration and the Federal Housing Administration (FHA), especially in terms of price and timing.

The Participation Sales Act of 1966: Wider Usage

In the spring of 1966 the Congress passed the Participation Sales Act of 1966 (Public Law 89-429). A response to the earlier participation sales by the RFC, Eximbank, and VA and by the recommendations of the Committee for Federal Credit Programs, the Participation Sales Act was set up "to promote private financing of credit needs and to provide an efficient and orderly method of liquidating financial assets held by federal credit agencies." 2/ It authorized federal agencies to enter into trust agreements with FNMA, whereby FNMA would manage and coordinate the pooling of assets held by the agencies and sell certificates of participation in such pools. The act further authorized appropriations for supplementary payments by the agencies to the trustee agency to cover the difference in interest paid on below-market-interest-rate loans and the rate paid by the participation certificates. Under this authority the Farmers Home Administration (FmHA), the Office of Education, the Department of Housing and Urban Development (HUD), the Veterans Administration, as the Small Business Administration (SBA) set aside loans for pooling by FNMA and the sale of certificates of participation in such pools.

The Federal Financing Bank: A Federal Buyer

This arrangement continued until 1968 when FNMA was reorganized as a privately owned, government-sponsored corporation. A new government agency, the Government National Mortgage Association (GNMA), was

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2/ The Participation Sales Act of 1966, Report accompanying H.R. 14545, Committee on Banking and Currency, U.S. House of Representatives, 89:2 (1966), p. 1.

created to carry out various subsidy programs formerly operated by FNMA. No agency was designated as FNMA's successor as trustee for participation sales, however. Consequently, after the divestiture of federal ownership of FNMA, agencies returned to the practice of selling their loan assets separately in the markets. This uncoordinated selling of assets continued until 1974 when the Federal Financing Bank (FFB) was established.

The FFB is an off-budget entity, under the supervision of the Treasury Department, whose purpose is the coordination of agency borrowing in the securities markets. 3/ By buying agency debt securities and borrowing in turn from the Treasury, the FFB is able to lower borrowing costs for federal agencies.

In 1974 the FFB began purchasing all CBOs offered to it by the FmHA and the Rural Electrification Administration (REA) of the Department of Agriculture. Those agencies now sell their assets almost exclusively to the FFB. The FFB also purchases loan assets of the Department of Health, Education, and Welfare, the Small Business Administration, and the Overseas Private Investment Corporation. In contrast, GNMA and the Veterans Administration continue to sell their loan assets directly to the public.

PROCEDURES FOR SALES

The procedures for selling loan assets vary greatly, depending on whether the assets are sold to the private sector or to the FFB.

Sales of individual loan notes or of certificates of beneficial ownership to the FFB are simple in procedure. The FFB, as a nonprogrammatic financing agent, makes a policy of purchasing all fully guaranteed agency assets offered to it. Such sales are conducted in an atmosphere of continuous communication and cooperation among agency officials and the FFB. For example, FmHA generally sells enough CBOs to the FFB to cover its cash needs for the thirty days following the sale. Its monthly sales have ranged from $350 million to $820 million. The Rural Electrification Administration carries on the same continuous exchange of informations and plans with the FFB regarding sales of CBOs by the Rural Electric and Telephone Revolving Fund.

3/ The FFB is the subject of a separate paper in this volume, The Federal Financing Bank: A Primer.

In contrast, GNMA and the Veterans Administration both sell their assets directly to the private sector. GNMA groups together loans with similar characteristics into dollar blocks large enough to draw favorable offers. The loans are grouped by interest rates, geographic area (usually states), lending institution, and maturity date. These pools of loans are then sold in public auction, with no bids accepted below a predetermined cutoff or minimum price. VA uses similar procedures. Both agencies aim to "sell what we buy"--in essence, trying to achieve net lending of zero each year. They may, however, hold onto loans for short periods, awaiting better interest rates or market conditions.

CHAPTER III. SALES OF LOAN ASSETS: CONTROVERSY AND PROBLEMS

Sales of loan assets, including participation certificates, were endorsed in the early 1960s as an appropriate source of credit financing. Since then the interpretation and treatment of participation certificates, certificates of beneficial interest, and CBOs as repayments has been questioned. Also questioned is the treatment of sales of loan notes to the FFB as repayments. This chapter discusses the controversy that results from these interpretations and treatments.

THE CONTROVERSY: WHAT IS CREDIT AND WHAT IS DEBT?

Accepted accounting practices for credit programs consider a sale of a loan asset by the original lender to be a repayment to that lender of the funds borrowed. Repayments, according to accepted practices, are deducted from new lending in a given fiscal year to compute net lending for the year. Because this net lending figure is indicative of the change in the federal government's financial picture, it is the amount charged in the budget totals for budget authority and outlays for federal direct loan programs.

Selling individual loans has been encouraged for two reasons. First, if the loan is sold to the private sector, then private credit is being substituted for federal credit. And second, by selling an asset, the selling agency is able to offset the receipts from the sale against its new lending, lowering its total budget authority and outlays. Not all loans, however, can be easily sold to private investors. The differing amounts, maturities, interest rates, originating agencies, and borrowers make it difficult for the securities markets to evaluate federal loans as investments. In an effort to improve the marketability of their loan assets, agencies began pooling loans with similar maturities and terms and selling certificates of participation as shares in such pools. These certificate sales were considered to be the same as sales of the underlying loans and, thus, were counted as repayments.

Gradually, the certificates of participation were "sweetened" in efforts to liquidate loans of inactive programs, loans made at interest rates below the going market rate, and loans of more doubtful quality. The sweeteners took the form of federal guarantees of the payment of interest and principal, subsidies by the agencies to make up the interest insufficiencies for below-market-interest-rate loans, and full federal responsibility for servicing the loans. Often the agency pledged to replace defaulting loans in a pool with good loans of equal value. These steps, while necessary to make the certificates attractive to investors, created a liability by the agency to the buyer. Under those circumstances, some asked if it is proper to consider the transaction a sale of an asset--that is, a credit transaction--or borrowing by the agency--that is, a debt transaction.

The Issue Joined: The Participation Sales Act of 1966

The issue was directly joined in 1966 during the Congressional deliberation on the Participation Sales Act. This bill proposed to expand greatly the sales of participation certificates by simplifying the administrative arrangements for such sales. Proponents of certificate sales, led by the Director of the Bureau of the Budget and the Secretary of the Treasury, argued that the sale of participation certificates was a logical extension of the federal government's policy to substitute private for public credit whenever feasible. They noted:

> Given the desirability of drawing in greater private participation in the Federal credit programs, the sale of interests in pools of assets is the most satisfactory and economical means that has been devised to meet this end. 1/

Opponents argued that the sale of a participation certificate is not a real sale of an asset, because ownership is never transferred to the buyer of the certificate. This difference formed the basis of the minority views in the House Banking Committee's report on the bill:

> This program is supposed to be a "sale of assets" program. In place of outright sales of individual assets, it is claimed that a pool of Government-held financial assets or loans will be sold through selling beneficial interests or participations therein.
>
> The participation "sale" is fiction. Under a sale, title passes, the purchaser acquires possession, the purchaser assumes the burdens of servicing the loan acquired, and he also assumes any risks of default.

1/ Memorandum for the President prepared by Secretary of the Treasury Henry Fowler and Director of the Bureau of the Budget Charles Schultze in support of the President's transmission of the Participation Sales Act of 1966, attached to White House Press Release dated April 20, 1966.

This does not happen under the participation sale device. The purchaser of the participation does not acquire title to the pooled asset. He does not even acquire a pro rata interest in the assets pooled. All he acquires is the right to have his investment repaid with interest at the rate stated in the participation certificate. The agency pooling the loans retains the right to any excess payments that may be received in the trust on account of principal or interest from the loans pooled. The agency pooling the loans retains possession of the assets. The agency pooling the loans continues to bear the responsibility and burden of servicing the loans. The agency pooling the loans remains exposed to the risks of default. 2/

The Issue Resolved: The President's Commission on Budget Concepts

The issue surfaced again during the deliberations in 1967 of the President's Commission on Budget Concepts. One issue that President Johnson specifically requested that the Commission study was the "receipts from sale or other disposition of loans." One of the staff papers prepared for the Commission's consideration noted that,

> ... treatment of the now sizeable PC sales as a reduction in budget expenditures and budget deficit has perhaps done more to undermine public and congressional confidence in the integrity of budget totals than any other single issue. 3/

Treasury Secretary Fowler and Budget Director Schultze, both members of the Commission, argued that sales of participation certificates should be treated as repayments and deducted from new lending. They reasoned,

> To the extent that its credit programs finance themselves through participations agency issues, sales of individual assets, or loan repayments, the Federal Government does not call upon the revenues of general borrowing of the Treasury. It is the call upon the Treasury revenues or borrowing which the net lending figure should equal. 4/

2/ Participation Sales Act of 1966, H.Rept. 1448, 89:2 (1966), p. 8.

3/ President's Commission on Budget Concepts, "Loans, Participation Certificates, and the Financing of Budget Deficits" in Staff Papers and Other Materials Reviewed by the President's Commission (1967), p. 292.

4/ Report of the President's Commission on Budget Concepts (1967), p. 55, footnote 1.

Their views did not, however, prevail, as the Commission, after studying the issue, concluded that sales of participation certificates should not be treated as repayments on a loan:

> The Commission is firm in its conviction, therefore, that participation certificates, regardless of their advantages and disadvantages on other scores, represent a means of financing the budget deficit rather than an offset to expenditures in determining the amount of the deficit to be financed. 5/

A Recommendation Circumvented

The recommendations of the President's Commission on Budget Concepts were implemented, with one or two exceptions, in the Budget of the United States Government for fiscal year 1969, including treating sales of participation certificates as borrowing. In comparing the old and new budget concepts, Special Analysis A estimated that treating sales of participation certificates as borrowing accounted for $3.1 billion of the $38.7 billion difference between the old administrative budget and the new unified budget. 6/

In spite of this announced policy, three agencies--the Export-Import Bank, the Farmers Home Administration, and the Rural Electrification Administration--sought and gained relief from the stricture. The Eximbank ceased using participation certificates and adopted instead certificates of beneficial interest (CBIs). These non-negotiable certificates supposedly transferred an ownership interest in a pool of loans to the buyer, and could thus qualify as a sale of an asset. The General Accounting Office, however, did not agree with this interpretation of a CBI. In 1971, legislation was passed to put the Export-Import Bank off-budget. In its report on the legislation, the House Banking Committee, noted that this would exclude Eximbank from the budget totals obviating the bank's need to resort to CBIs to keep its outlay totals low:

> Since the adoption of the unified budget concept, however, borrowings from the private market through issuance of the Bank's own obligations, such as debentures, are considered as borrowings and not receipts, and therefore

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5/ Report of the President's Commission on Budget Concepts (1967), p. 55.

6/ Budget of the United States Government, Fiscal Year 1967, Special Analysis A, Table A-1, p. 466.

cannot be accounted for as budget offsets. Thus, the Bank in order to have the proceeds from such sales credited as budget receipts, has been compelled to use a complicated and costly form of asset sale (certificates of beneficial interest), which is difficult to market because it is non-negotiable and not a familiar instrument to investors. In fact, the low net budget outlays attributable to the Bank in the last 2 fiscal years were realized only through this procedure.

With enactment of H.R. 8181 as reported, the Bank would no longer need to utilize this procedure because there would be no ensuing net budget outlay attributable to its operations calculated in the overall Federal budget. 7/

The Farmers Home Administration and the Rural Electrification Administration found themselves in similar situations. Unable to count sales of participation certificates as repayments, FmHA responded by increasing its sales of individual loans. As this became increasingly impractical on a large scale, it undertook to sell block notes, which are groups of loans to single investors. In 1973, the Nixon Administration requested, and the Congress provided, authority to count sales of certificates of beneficial ownership (CBOs) as sales of assets. The relevant language stated:

> Any sale by the Secretary (of Agriculture) of notes or of beneficial ownership therein shall be treated as a sale of assets for the purpose of the Budget and Accounting Act, 1921, notwithstanding the fact that the Secretary, under an agreement with the purchaser or purchasers, holds the debt instruments widening the loans and holds or reinvests payments thereon for the purchaser or purchasers of the notes or of the certificates of beneficial ownership therein. 8/

Since receiving this authority, both agencies have sold large volumes of CBOs, FmHA selling as much as $7 billion in a single year (estimate for fiscal year 1979).

7/ Export Expansion Finance Act of 1971, H. Rept. 92-303, 92:1 (1971), p. 4.

8/ Title II, Agriculture, Environmental and Consumer Protection Appropriation Act of 1974, Public Law 93-135 and Section 304, Rural Electrification Act of 1936, as amended by Section 2, Public Law 93-32.

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Sales of Loans to FFB: Credit or Debt?

Another facet of the controversy over treating some asset sales as debt sales instead of credit sales involves the sale of whole loans to the FFB. For example, the Department of Health, Education, and Welfare (HEW) routinely sells Health Maintenance Organization (HMO) loans to the FFB. If such loans were sold publicly, without guarantees or other sweeteners, the transactions would legitimately qualify as sales of assets. When the FFB buys a HMO loan, HEW holds the note "in trust" for the FFB and guarantees the note's repayment 100 percent. Furthermore, there is no substitution of private credit for public, since the payment comes from the FFB, an off-budget federal entity. Instead, off-budget financing is substituted for on-budget financing. In addition, the FFB does not assume responsibility for servicing the loans; HEW retains all such responsibilities. Therefore, it is not clear that this is a credit transaction; it strongly resembles collateralized borrowing by an agency.

The Situation Today

The estimated volume of sales of assets or CBOs by federal agencies during fiscal year 1979 is shown in Table 1. Of the $10.3 billion total sales, just over $3.0 billion will be sold to the public and is appropriately deducted from new lending as repayments. The other $7.3 billion will be sold to the FFB. The $91 million of Health Maintenance Organization (HMO) loans sold to FFB are treated as bona fide sales, since individual loans are sold in their entirety. As noted above, such sales to the FFB are more like borrowing than they are like asset sales. If the HMO loans had been sold to the public, they would have qualified as bona fide asset sales. The $7.2 billion of FmHA CBO sales constitutes borrowing in all aspects save its budgetary treatment. This $7.2 billion is deducted from the estimated $8.4 billion in new lending by FmHA in computing its net lending. Along with other repayments, the deduction of CBO sales gives a net lending figure of minus $1.3 billion. If the CBO sales were treated as borrowing, FmHA net lending would equal $5.9 billion, instead of minus $1.3 billion. Coupled with the $91 million in HMO loans sold to FFB, the effect is to reduce total budget outlays by $7.3 billion. What problems result from these actions?

THE PROBLEMS: ALLOCATION AND ESTIMATION

Treating sales of CBOs as repayments and selling loan assets to the FFB lower an agency's outlay totals as well as total federal outlays. This results in two problems. First, those programs able to sell CBOs or assets to FFB may hold an advantageous position in the allocation process. Secondly, because the sale of CBOs and assets is a matter left to the discretion of the executive branch, and it is very difficult to estimate the volume of asset sales in a fiscal year with any precision, because there are a number of factors that influence the timing and amount of such sales. Both of these problems affect the Congressional budget process.

TABLE 1. ESTIMATED SALES OF LOAN ASSETS AND CBOs, FISCAL YEAR 1979: IN MILLIONS OF DOLLARS

Agency	Sales to the Public (Loan Assets)	Sales to FFB: Loan Assets	Sales to FFB: CBOs	Total
Farmers Home Administration	188	---	7,179	7,367
HEW--HMO Loans	---	91	---	91
HUD--GNMA Tandem Plan	2,450	---	---	2,450
Veterans Administration	364	---	---	364
Total	3,001	91	7,179	10,272
Memorandum: Rural Electrification and Telephone Revolving Fund (off-budget entity)			720	

SOURCE: Budget of the United States Government, Fiscal Year 1979, Special Analysis F, Table F-3, pp. 130-131.

Impact on the Allocation Process

Treating sales of assets to the FFB or sales of CBOs as offsetting collections means that the selling agency enjoys a special position in the allocation of federal resources, at least for those programs from whose portfolios the sales are made. Allocation decisions are made by the Congress through the budget process. After setting targets for total budget authority and outlays, the Congress allocates, or divides up, that authority and outlays among its major activities. This allocation process occurs through the functional classification structure, in which all expenditures are assigned to a budget account in the appropriate function.

The practice of offsetting CBO and FFB asset purchases means that the allocations of budget authority and outlays made by the Congress under the targets of the concurrent budget resolutions do not completely reflect the extent of federal spending for a function. For example, its allocations to functions 350 (Agriculture), 370 (Commerce and Housing Credit), and 450 (Community and Regional Development) are understated by $1.9 billion, $4.2 billion, and $1.1 billion, respectively, because of sales of CBOs to the FFB. Obviously, to the extent that certain activities can be made to appear to have lower budgetary costs, there may be less pressure to hold down the levels of these programs in a period of budgetary constraints. By offsetting the receipts of such sales, agencies like FmHA can make it appear cheaper to finance a project by direct loans than by direct federal expenditures.

The Estimation Problem

The ability of certain agencies to lower their outlay totals by selling CBOs or loan assets not only complicates the allocation of resources through the Congressional budget process. It also complicates the process of estimating total federal outlays for a fiscal year. The sensitivity of such sales to changing economic conditions, coupled with the discretion allowed agencies to sell CBOs or assets to the FFB at any time, causes the planned timing and amount of such sales to change frequently.

Accurate estimates of outlays are needed in the Congressional budget process to maintain the credibility of the controls on additional spending after adoption of the second concurrent resolution. Section 311 of the Congressional Budget Act of 1974 (Public Law 93-344) provides that a bill would be subject to a point of order if it is estimated that its outlays would cause total budget authority or outlays to be pushed above the ceiling set in the second concurrent resolution on the budget for a fiscal year. 9/

9/ Or, if the floor on revenues were to be breached.

During the last several fiscal years, however, actual outlays have fallen significantly short of the ceiling set in the second concurrent resolution. This poses the possibility that a proposal for a new program or increase to an existing program could be turned down by the Congress on the grounds that the additional spending might exceed the first resolution targets and the second resolution ceilings. If, however, during the course of the fiscal year a shortfall developed, the sponsors of such additional spending could feel frustrated at having been denied their program unnecessarily. For example, while a $400 million program might be too large to fit under the ceiling as estimated in September prior to the start of the fiscal year, it might easily be accommodated in a $4 billion shortfall. If this situation occurred regularly, the Congress might be tempted to "spend the shortfall," thereby undermining the discipline of the budget resolutions. Already it is causing some lowering of confidence in the procedures established by the Congressional Budget Act of 1974. During hearings on the status of the new budget process, Chairman Carl Perkins of the Committee on Education and Labor in the House of Representatives submitted a statement for the record, saying, in part:

> On the subject of the level of Federal spending, I continue to be skeptical about the practicability of Budget Act provisions (section 311) that restrict spending measures on the grounds of their outlay estimates in the short run.
>
> The estimating of outlays is an art in which for many years there has been known to be ample room for improvement. Sizable discrepancies are neither new nor unusual. But a spending bill could be subject to a point of order if its estimated outlays were to breach the total congressional outlay ceiling, a ceiling that itself is derived from estimates whose accuracy would be applauded if within 1 percent. One percent of $400 billion is $4 billion. Yet the breaching of an outlay ceiling by $4 million would occasion a point of order. An estimate of total outlays cannot be produced to the degree of accuracy necessary for small shortrun Budget Act decisions. To attempt to apply the outlay restrictions envisaged in the budget process at a significant program level would be to attempt neurosurgery with a meat axe.
>
> To avoid any possible misunderstanding, may I emphasize I am not suggesting that because outlay estimates are imprecise, they should not be part of the budget process. Obviously, they are fundamental to budgeting both in the short run and

in the long run. I am suggesting that it would be insensate to base a point of order on a breach of the concurrent resolution's total outlay number. 10/

Sales of CBOs or other assets contribute to this shortfall problem because of the volatility of estimates of their volume during a fiscal year. This volatility has two sources. First, the volume of sales may go up or down depending on changes in the economic situation after the initial estimates are made. This is especially true of bona fide asset sales to the public, such as those conducted by GNMA or VA. If interest rates are higher than was expected, both agencies may stop selling their assets and wait for a more favorable market situation. This would cause sales to drop and outlays to increase (because of lower offsetting collections). On the other hand, if interest rates fall below expected levels, these agencies may sell more notes from their portfolios than anticipated, causing sales volume to increase and outlays to decrease.

The second factor affecting the volatility of CBO and asset sale estimates is the discretion left to the agencies to determine the timing and amounts of their sales. While GNMA and VA try to time their sales to fit market conditions, FmHA sales of CBOs to the FFB generally occur monthly. Occasionally, however, OMB and agency budget officials juggle the timing and amounts of sales to keep outlays high or to lower them, depending upon the desired circumstance.

As a consequence of these factors, sale volumes may fluctuate erratically. For example, GNMA sold $7.3 billion of loans in fiscal year 1976, liquidating a sizeable inventory accumulated during the 1975 recession. During fiscal year 1975 loan asset sales had been much smaller--only $1.3 billion. Appendix A presents data on the fluctuation of estimates of loan asset sales from the initial estimate presented in the President's budget until the actual amount is determined nearly two years later.

The Congress does not directly control the level of asset or CBO sales for any federal program. Estimates of sale volumes are scrutinized by the appropriations subcommittees as they review the programs under their jurisdictions. For some programs a measure of indirect control is achieved: by setting the volume of new loans that can be disbursed during a fiscal year, the Congress limits sales of loan assets by that program to an amount equal to the new loans disbursed plus the old loans in the agency's portfolio or inventory. The Congress is not, however, consulted about changes in asset sales plans as a fiscal year progresses.

10/ Oversight of the Congressional Budget Process, Hearings before the Task Force on the Budget Process of the Committee on the Budget, House of Representatives, 95:1 (1977), p. 157.

SUMMARY--THE NEED FOR CHANGES IN TREATMENT

The sale of loan assets held by federal agencies is an appropriate method of refinancing federally made loans. When sold to the public, the budgetary treatment of the receipts of such sales as repayments is appropriate and beyond question. Controversy arises over the interpretation and treatment of sales of loan assets to the FFB and sales of certificates of beneficial ownership to anyone, federal or private, as asset sales. In the former case--sales of assets to the FFB--often there is no real transfer of equity; never is there a transfer of servicing responsibility. Furthermore, the sale to FFB, an off-budget entity, distorts the totals of the unified budget by counting the receipts from the sale, but not the outlays to purchase it. The FFB's off-budget status does not change the fact the refinancing is federally-done, not privately-done.

In the latter case--the sales of CBOs--the "sweetening" of the CBO by fully guaranteeing repayment of principal and interest and by subsidizing the sale--in the form of making up insufficiencies in the interest rates of below-market rate loans--constitutes a direct liability by the selling agency to the buyer. The buyer assumes no risk since the risks of the pool of loans are borne by the selling agency. Such a transaction represents borrowing by the agency, even though the borrowing is collateralized by the pool of loans. Therefore, the sale of CBOs should be treated as borrowing, according to the recommendations of the President's Commission on Budget Concepts. The next chapter will outline the budgetary effects of treating such transactions as borrowing and an alternative that would leave the budgetary treatment unchanged, but that would achieve the necessary changes for control purposes.

Concerns about the budgetary treatment of loan asset sales boil down to two related issues: the treatment of sales of CBOs and the treatment of sales of assets to the FFB. This chapter will discuss two approaches to treating these transactions that would result in alleviation of some or all of the current concerns.

TREATING SALES AS BORROWING

The first alternative is to reaffirm the recommendation of the President's Commission on Budget Concepts and to treat the sales of CBOs as borrowing, not repayments. Also treated as borrowing would be sales of asset loans to the FFB. This alternative would mean that direct lending by the federal government would be fully reflected in the unified budget totals. Consequently, outlay totals might increase by as much as $7.3 billion. The possibility of distortions in the allocation process, because of the artificially low outlay totals for agencies selling CBOs, would be eliminated. Furthermore, there would be no outlay estimation problems, since borrowing by agencies through the sales of CBOs would not affect the outlay totals.

Implementing this alternative would require repealing the provisions of law permitting treatment of CBO sales as repayments. It would result in increases in the unified budget outlay totals by as much as one-half or more of the current volume of CBO sales ($7.2 billion estimated in fiscal year 1979). Presumably, FmHA might not wish to absorb the full outlay impact and would restructure its portfolio liquidation policies to begin selling to the public those loan assets that are marketable. As a result, private credit would be, in fact, substituted for federal credit, as the rationale for loan asset sales implies.

This alternative would also require changing the definition of loan asset sales to the FFB from repayment on lending to borrowing by the agency. This would affect sales of HMO loans by HEW to the FFB. Whether HEW would attempt to sell HMO loans in the market to avoid the $91 million outlay increase is not known.

CONTROL WITHIN CREDIT SECTION OF BUDGET

The second alternative would leave the budgetary treatment of CBO sales and asset sales to the FFB unchanged. It would not change the outlay totals of the unified budget, as now determined. Steps could be taken to remedy the two problems resulting from the current treatment: distortions in the allocation process and the outlay estimation.

Distortions in the allocation process could be partially alleviated by controlling the levels of gross lending for programs selling CBOs through a separate credit section in the concurrent resolutions of the budget process. In this credit section, the Congress would adopt targets for total gross lending and for gross lending by functional category. Targets would also be set for total extensions of gross new guarantees issued.

The Appropriations Committees already include limitations on new lending by the three revolving funds in FmHA, as well as a number of other programs. Under this alternative this practice would be extended across the board to all direct loan programs. With targets for all programs, it will be possible to make allocation decisions among them, an exercise currently not possible.

The outlay estimation problem remains if no changes to the current treatment are implemented. Again steps could be taken to alleviate this problem partially. If it is deemed necessary to control absolutely the volume of sales, a limitation on the amount of CBOs or assets that could be sold during a fiscal year could be included in the agency's appropriation act. Alternatively, procedures could be set up requiring notification of and approval by the appropriate Congressional committees of major changes, up or down in the volume of loan assets or CBOs to be sold. This procedure would be similar to that used for review and approval of reprogrammings of appropriated funds. This alternative would be less restrictive and more flexible than enacted limitations on sales volume. It has the advantage of allowing Congressional committees to distinguish between GNMA and VA sales of assets to the public, which will vary with economic conditions, and FmHA and others' sales of CBOs and assets to the FFB, which vary by executive discretion. It is the latter that should receive the closest scrutiny in terms of effects upon the outlay estimation problem.

SUMMARY AND RECOMMENDATION

Neither of these alternatives considers radical suggestions, such as abolition of the FFB and direct borrowing from Treasury by agencies. Given the existing institutional arrangements, the Congressional Budget Office recommends that sales of CBOs and sales of assets to the FFB be treated as borrowing, in accordance with the recommendations of the President's Commission on Budget Concepts. This would remedy the distortion in the allocation process. CBO furthers recommends, as it did in Loan Guarantees: Currents Concerns and Alternatives For Control, that the Congress add a section to the concurrent budget resolutions to set targets for gross lending and gross guarantees issued. The Congress would then be able to compare allocations of resources between direct and guaranteed loan programs and between credit and expenditure programs.

APPENDIX

APPENDIX. FLUCTUATION OF ESTIMATES OF LOAN ASSET SALES

Estimates of the volume of sales of loan assets, including sales of loans or CBOs to the FFB, during a fiscal year are quite volatile. The amount of assets sold during a fiscal year can be considerably higher or lower than was estimated when the budget totals were first proposed in the President's budget or first determined in the Congressional budget resolutions. Two factors account for this volatility. First, the timing of asset sales in the securities markets is sensitive to economic conditions. If interest rates are high, agencies may refrain from selling loans in their portfolios, awaiting lower interest rates and "easier" money conditions. Second, the timing of asset or CBO sales to the FFB is largely a matter of executive discretion.

Estimates of loan asset sales for a given fiscal year are first announced in the President's budget for that fiscal year, almost 10 months before the beginning of the fiscal year and nearly 22 months before the end of that fiscal year. These estimates are again revised before the beginning of the fiscal year in revisions of the President's budget required by April 10 and July 15 of each year. The ceiling on estimated outlays set by the Congress in the second concurrent resolution on the budget for a fiscal year is based on estimates of the volume of loan asset sales. After the fiscal year begins, the volume of loan asset sales is reestimated three additional times: in January in the President's budget for the next fiscal year, and in the April and July revisions.

Following are tables comparing initial and revised estimates of the volume of loan asset sales with the actual volume by fiscal year for the three largest agencies (in terms of sales volume) and for total asset sales. For these tables, the initial estimate is defined as the estimate in the President's budget for fiscal year in question. The revised estimate is defined as the estimate contained in the President's budget for the following fiscal year, prepared during the course of the fiscal year in question.

TABLE A-1. FLUCTUATION IN THE ESTIMATES OF SALES OF LOAN ASSETS BY THE VETERANS ADMINISTRATION

Fiscal Year	Estimated Sales (in millions of dollars) Initial	Revised	Actual Sales Volume (in millions of dollars)	Percent Increase or Decrease(-) Actual over Initial	Actual over Revised
1963	a/	a/	460	---	---
1964	a/	372	342	---	-8.1
1965	563	537	427	-24.2	-20.5
1966	1,228	1,145	990	-19.4	-13.5
1967	630	260	260	-58.7	0.0
1968	900	765	a/	---	---
1969	600	a/	1	-99.8	---
1970	a/	61	38	---	-37.7
1971	526	300	244	-53.6	-18.7
1972	432	427	381	-11.8	-10.8
1973	475	603	489	2.9	-18.9
1974	417	417	209	-49.9	-49.9
1975	390	568	163	-58.2	-71.3
1976	378	378	291	-23.0	-23.0
TQ	a/	42	96	---	128.6
1977	705	524	393	-44.3	-25.0
1978	311	320	a/	---	---
1979	364	a/	a/	---	---

SOURCE: Budget of the U.S. Government, Special Analyses on Credit, Fiscal Years 1965-1979.

a/ Data not available.

TABLE A-2. FLUCTUATION IN THE ESTIMATES OF SALES OF LOAN ASSETS a/ BY THE FARMERS HOME ADMINISTRATION

Fiscal Year	Estimated Sales (in millions of dollars) Initial	Estimated Sales (in millions of dollars) Revised	Actual Sales Volume (in millions of dollars)	Percent Increase or Decrease(-) Actual over Initial	Percent Increase or Decrease(-) Actual over Revised
1964	b/	b/	46	---	---
1965	b/	135	35	---	-74.1
1966	165	40	55	-66.7	37.5
1967	615	772	600	-2.4	-22.3
1968	941	675	b/	---	---
1969	500	b/	958	91.6	---
1970	b/	1,598	1,668	---	4.4
1971	2,914	2,219	2,005	-31.2	-9.6
1972	2,571	3,001	2,429	-5.5	-19.1
1973	3,822	4,105	3,325	-13.0	-19.0
1974	2,874	3,850	2,171	-24.5	-43.6
1975	4,354	5,792	6,408	47.2	10.6
1976	3,441	4,743	4,247	23.4	-10.5
TQ	b/	1,222	871	---	-28.7
1977	6,298	6,618	5,445	-13.5	-17.7
1978	4,869	6,901	b/	---	---
1979	7,367	b/	b/	---	---

SOURCE Budget of the U.S. Government, Special Analyses on Credit, Fiscal Years 1966-1979.

a/ Including sales of CBOs.
b Data not available.

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TABLE A-3. FLUCTUATION IN THE ESTIMATES OF SALES OF LOAN ASSETS BY THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

Fiscal Year	Estimated Sales (in millions of dollars) Initial	Revised	Actual Sales Volume (in millions of dollars)	Percent Increase or Decrease(-) Actual over Initial	Actual over Revised
1972	a/	a/	62	---	---
1973	a/	1,852	1,125	---	-39.3
1974	1,100	1,973	1,503	36.6	-23.8
1975	3,952	4,972	1,296	-67.2	-73.9
1976	6,550	5,525	7,259	10.8	31.4
TQ	a/	1,703	1,592	---	-6.5
1977	687	1,651	2,080	202.7	26.0
1978	2,338	1,760	a/	---	---
1979	2,450	a/	a/	---	---

SOURCE: Budget of the U.S. Government, Special Analyses on Credit, Fiscal Years 1974-1979.

a/ Data not available.

TABLE A-4. FLUCTUATION IN THE ESTIMATES OF SALES OF LOAN ASSETS BY ALL AGENCIES

Fiscal Year	Estimated Sales (in millions of dollars) Initial	Revised	Actual Sales Volume (in millions of dollars)	Percent Increase or Decrease(-) Actual over Initial	Actual over Revised
1963	a/	a/	1,142	---	---
1964	a/	1,593	1,077	---	-32.4
1965	2,274	2,227	1,564	-31.2	-29.8
1966	3,108	3,307	2,961	-4.7	-10.5
1967	4,739	3,922	4,229	-10.8	7.8
1968	5,275	5,300	a/	---	---
1969	4,000	a/	2,005	-49.9	---
1970	a/	2,093	2,210	---	5.6
1971	4,040	2,946	2,548	-36.9	-13.5
1972	4,138	3,703	3,094	-25.2	-16.4
1973	5,032	7,995	6,133	21.9	-23.3
1974	5,713	6,280	3,911	-31.5	-37.7
1975	9,112	11,485	7,922	-13.1	-31.0
1976	10,544	10,881	13,312	26.3	22.3
TQ	a/	4,092	3,634	---	-11.2
1977	8,928	11,085	10,068	12.8	-9.2
1978	8,710	9,985	a/	---	---
1979	10,272	a/	a/	---	---

SOURCE: Budget of the U.S. Government, Special Analyses on Credit, Fiscal Years 1965-1979.

a/ Data not available.

THE FEDERAL FINANCING BANK:

A PRIMER

The Congress of the United States
Congressional Budget Office

PREFACE

The Federal Financing Bank has become an important element in the financing of federal programs, particularly federal credit activities. Because of its off-budget status and the anonymity with which it operates, however, it is relatively unknown and only partially, if at all, understood. As the Congress and the Administration consider credit control proposals in the coming months, the need to understand the FFB's operations, particularly its conversion of guaranteed loans into off-budget direct loans, will increase. CBO has prepared this brief guide to understanding the FFB as a staff working paper to supplement its background paper on loan guarantees.

This paper was prepared by John D. Shillingburg and Patricia M. Early of CBO's Budget Process Unit, with the assistance and supervision of Richard P. Emery, Jr. The authors wish to acknowledge the helpful comments of Brent G. Shipp and Jane L. Gilbert of CBO's Budget Analysis Division, Rodger O. Schlickeisen of the Senate Budget Committee, and Thomas J. Cuny and Robert W. Kilpatrick of OMB. Patricia H. Johnson edited the paper, and Kathryn A. Quattrone and Nancy E. Wenzel typed it.

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Director

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CHAPTER I. THE FEDERAL FINANCING BANK: WHAT IT IS AND HOW IT WORKS

INTRODUCTION

At present it is not possible to account for and control federal credit activities through the Congressional budget process. 1/ The unified budget totals--which are the points of control of the concurrent budget resolutions--include an understated figure for direct federal loans and exclude federally guaranteed loans altogether. Major credit programs operated by off-budget entities are entirely outside the controls possible through the budget totals. As a result, the Congress cannot perfectly exercise its function of allocating federal credit resources. This imperfect allocation does not arise from a lack of information--the detailed schedules in the appendix to the Budget of the U.S. Government provide all the information needed. Rather, the current methods of treating credit activities in the budget totals do not reflect their full levels. For example, financing federal credit programs through the Federal Financing Bank (FFB) results in the exclusion of nearly $15.5 billion of activity from the totals of the unified budget. Therefore, that activity escapes the discipline imposed by the controls on budget totals exercised through the targets and ceilings of the concurrent budget resolutions.

This chapter reviews the FFB's establishment and its current operations. The second chapter describes the budgetary effects of the FFB's operations and the problems they pose for budgetary accounting and control. The third chapter suggests alternatives to current budgetary practice--alternatives that would make needed improvements in recording and controlling FFB's operations.

A BRIEF OVERVIEW OF THE FFB

The Federal Financing Bank, a wholly owned government corporation within the Department of the Treasury, was created by the Federal Financing Bank Act of 1973 (Public Law 93-224; 12 U.S.C. 2281). Its budget authority and outlays are by law not included in the unified budget totals.

1/ It should also be noted that federal credit activities are not systematically reviewed in any other way.

The bank's management is vested in a board of directors, consisting of the Secretary of the Treasury as chairman and four members appointed by the President from among the officers and employees of the bank or any other federal agency. President Nixon appointed four officers of the Treasury Department as the first board on May 6, 1974. The bank uses the Treasury's facilities and staff, primarily on a part-time basis, to conduct its operations.

Purposes

The FFB was established to centralize and reduce the cost of federal agency borrowing and to coordinate such borrowing with the overall economic and fiscal policies of the government. By acting as a source of funds for agencies (by purchasing securities they would have otherwise sold in the private markets), the FFB can reduce the number of types of federal securities entering the money markets and act as a coordinator of all agency borrowing.

This coordination and centralization function can reduce the cost of borrowing in two ways. First, federal agencies no longer need to maintain financial staffs to issue and service debt obligations; they can borrow all the funds necessary from the bank. Second, the FFB can obtain funds at the Treasury's rate of interest, a lower rate than agencies could obtain by issuing their own securities. These interest savings are then passed on to the agencies.

Operations

The Federal Financing Bank Act authorizes the bank to purchase and sell any obligation that is issued, sold, or guaranteed by a federal agency. Based on this authority, the FFB purchases three kinds of securities: agency debt issues, loan assets, and guaranteed loans.

Since the FFB was intended to be only a financial clearinghouse, it was believed that its activities would have practically no impact on the budget and, thus, there would be little need for it to be included in the budget totals. This is true of purchases of agency debt securities by the FFB. It is not true, however, of FFB's purchases of loan assets and guaranteed loans. These purchases do affect the budget totals, undermining the contention that the FFB is only a "neutral financing mechanism."

Purchase of Agency Debt. When the FFB purchases an agency debt security, it is, in effect, lending the agency the dollar value of the security's purchase price. In so doing, the FFB is fulfilling its originally intended purpose: to function as a central coordinator of agency borrowing.

For example, on June 1, 1978, the FFB lent $38.8 million to the Export-Import Bank (Eximbank) by buying a note in that amount. This note matures in ten years and bears interest at an annual rate of 8.422 percent. Prior to the establishment of the FFB, Eximbank could have borrowed the funds in the government securities market by issuing its own securities. Although its debt securities would have been backed by the full faith and credit of the federal government, just like Treasury securities, the securities markets would have charged a higher interest rate than for similar Treasury securities. The higher interest rate would result from the market's unfamiliarity with the Eximbank instrument and from the added costs of doing business with the Eximbank as compared to the routine Treasury channels.

Consider this example of the FFB's ability to obtain lower interest rates for agency borrowing. The FFB's loan to Eximbank, concluded June 1, 1978, had a term of 10 years and an interest rate of 8.422 percent. On that same day a Treasury note of similar maturity (due May, 1988) yielded 8.41 percent when sold in the market. Eximbank's cost of 8.422 percent is, thus, only 0.01 percentage point above Treasury's cost for a new ten-year note on that day. In contrast a Federal National Mortgage Association (FNMA) security of comparable maturity (due October, 1987) yielded 8.56 percent. FNMA is one of the privately owned but government-sponsored credit enterprises. Despite its private ownership, the government sponsorship of FNMA causes the securities markets to view its borrowing as similar to Treasury borrowing. As a result, it can borrow at rates below the best grade corporate securities and only marginally above Treasury's rates. Presumably, an Eximbank security sold in the market on June 1 would have had an interest rate between 8.41 percent and 8.56 percent, probably closer to the high side of that range. Eximbank, thus, gets a lower interest rate by borrowing from the FFB.

Table 1 provides data on FFB lending to agencies since its inception late in fiscal year 1974. Its clients have been two on-budget agencies, the Tennessee Valley Authority and the Eximbank, and two off-budget agencies, the Postal Service and the U.S. Railway Association.

The importance of the FFB's role is underlined by the fact that in recent years agency borrowing from the public has practically ceased. During fiscal year 1977, new agency borrowing from the public totalled $281 million. This new borrowing was overshadowed by $1.66 billion in repayments by agencies on previous borrowing from the public. At the same time new borrowing by agencies from the FFB totalled $1.44 billion. Agency borrowing from the FFB has thus substantially replaced borrowing by agencies in the securities markets.

TABLE 1. FFB PURCHASES OF AGENCY DEBT: BY FISCAL YEAR, IN MILLIONS OF DOLLARS

	1974 a/	1975	1976	TQ	1977	1978 b/	1979 b/
Net Purchases	500	6,518	2,980	850	1,447	3,173	3,265
Loans Outstanding	500	7,018	9,998	10,848	12,294	15,468	18,733

SOURCE: Budget of the United States Government, Fiscal Years 1976-1979, Special Analyses on Credit.

a/ Part year only. The FFB commenced operations in May, 1974.
b/ Estimated.

Purchase of Agency Loan Assets. The second major category of FFB activity is its purchases of loan assets. Although, strictly speaking, the term loan assets means the individual loan notes themselves, it also is used to refer to shares of ownership in a pool of loans. These shares are most often called certificates of beneficial ownership (CBOs). Agencies refinance their portfolios by selling loan assets as a way of exchanging the nonliquid loan note for cash and by selling CBOs as a way of borrowing against the future repayments of a pool of loans. 2/ With the receipts from such sales, they may make more loans.

For example, on June 2, 1978, the Farmers Home Administration (FmHA) sold a CBO to the FFB in the amount of $820 million. The certificate will mature in five years and pays an interest rate of 8.62 percent. If FmHA had not sold the certificate, it would have been left with the loan notes and their future income stream (from repayments) but with no current cash. By selling the CBO, FmHA is able to exchange the future income stream for cash today, in effect borrowing the cash to make new loans. And, by selling the CBO to the FFB, FmHA saves money through the

2/ The distinction between sales of loans and sales of CBOs, while technical, is important in determing their budgetary impact. It is discussed in Chapter II.

lower interest rates the FFB is able to charge. For example, one week after FmHA sold its CBO to the FFB at a yield of 8.62 percent, the Federal Home Loan Mortgage Corporation sold participation certificates in the market, paying yields between 9.18 percent and 9.24 percent, depending on their delivery dates.

Because of the more favorable terms available, most federal agencies are now selling their loan assets primarily to the FFB. Only the Government National Mortgage Association (GNMA) in HUD relies exclusively on sales to the public in its tandem programs. Table 2 shows the volume of FFB purchases and holdings of loan assets since its inception.

TABLE 2. FFB PURCHASES OF LOAN ASSETS a/: BY FISCAL YEAR, IN MILLIONS OF DOLLARS

	1974 b/	1975	1976	TQ	1977	1978 c/	1979 c/
Net Purchases	2	5,107	4,140	2,115	5,117	5,911	7,971
Loans Outstanding	2	5,109	9,249	11,365	16,486	22,397	30,368

SOURCE: Budget of the United States Government, Fiscal Years 1976-1979, Special Analyses on Credit.

a/ Includes certificates of beneficial ownership.
b/ Part year only. The FFB commenced operations in May, 1974.
c/ Estimates.

Purchases of Guaranteed Loans. The final type of FFB activity is its purchase of loans or other obligations guaranteed by a federal agency. In practice this activity is an efficient, economical way for the federal government to channel credit resources to a particular purpose that has been selected for assistance.

For example, on June 15, 1977, the Federal Railroad Administration of the Department of Transportation agreed to guarantee a loan of $12 million to the Missouri-Kansas-Texas Railroad (MKT). Simultaneously, it arranged for the FFB to make the loan--that is, for the FFB to purchase the fully guaranteed loan note. Since June, 1977, MKT has been drawing down the loan balance in amounts ranging from $700 thousand to $2 million, at interest rates ranging from 7.565 percent to 8.540 percent. If MKT were

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forced to borrow the funds in the market, it would have to pay at least 1 to 2 percentage points more in interest costs, if not more. Therefore, by granting the guarantee and financing the loan through the FFB, the federal government is able to provide credit to MKT to make desired improvements at a lower cost.

Purchases of guaranteed loans have become a major part of the FFB's operations. Table 3 shows the growth in the purchases of guaranteed obligations by the FFB. Guaranteed loans accounted for 8.8 percent of the FFB's holdings at the end of fiscal year 1975, the first full year of operation, compared to 52.8 percent for agency debt and 38.4 percent for loan assets. In fiscal year 1979, it is estimated that guaranteed loans will account for 24.6 percent of FFB's holdings, while agency debt securities will account for 28.8 percent and loan assets for 46.6 percent.

TABLE 3. FFB PURCHASES OF GUARANTEED OBLIGATIONS: BY FISCAL YEAR, IN MILLIONS OF DOLLARS

	1974 a/	1975	1976	TQ	1977	1978 b/	1979 b/
Net Purchases	100	1,074	1,991	508	2,970	4,759	4,628
Loans Outstanding	100	1,174	3,165	3,672	6,637	11,396	16,024

SOURCE: Budget of the United States Government, Fiscal Years 1976-1979, Special Analyses on Credit.

a/ Part year only. The FFB commenced operations in May, 1974.
b/ Estimates.

Financing

To finance its activities, the FFB may either sell its own securities directly to the public, or it may borrow from the Treasury. Although, according to the bank's charter,the FFB may borrow only $15 billion from the public at any time, it may, with the Secretary's approval, borrow without limits from Treasury. Originally, it was thought that the FFB would borrow from Treasury on an interim basis, repaying these borrowings periodically through the sale of its own securities in the market. It was assumed that the bank's securities would pay the same low interest rates paid by Treasury on its own obligations.

This did not turn out to be the case. On July 23, 1974, the bank auctioned \$1.5 billion of its own bills and paid an average of 8.048 percent interest. One day later, in one of its regular weekly auctions, the Treasury was paying only 7.836 percent, or 21 basis points lower. After that, the FFB began borrowing directly from the Treasury. In 1975, this practice became policy when the FFB's Board of Directors adopted a resolution stating that the FFB would borrow all its funds from Treasury, matching the terms and conditions of its borrowings from Treasury with the terms and conditions of its own loans.

Typically, to arrange financing for an agency, the FFB allows the agency to specify the terms of the loan with respect to amount, maturity, and payment dates. The FFB then borrows the necessary funds, paying interest at rates only slightly above the rate Treasury would have to pay to borrow the funds in the market. The FFB then executes the loan for the agency, charging it one-eighth of a percent more than the rate it is paying to the Treasury. The difference is used to cover the FFB's administrative costs and pay dividends to the Treasury. Risk is not a factor in these pricing decisions; the determining factor is the Treasury's current cost of money.

Besides providing lower interest costs, the FFB's policy of borrowing all funds from the Treasury has the advantage of being practically unlimited. This has enabled the FFB to increase greatly the scope of its operations. For example, at the end of fiscal year 1977, the FFB had totals holdings of \$35.4 billion of agency debt, loan assets, or guaranteed loans, totally financed by borrowing from the Treasury. This is over twice what the FFB could have financed, had it been limited to its \$15 billion borrowing from the public.

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The budgetary treatments of the three types of FFB activity described in Chapter I are entirely different. As a result, it is difficult to determine the budgetary impact of the FFB's operations. While this problem is accounting in nature, it has important consequences for decisionmaking in the budget process. The current budgetary treatment of FFB's purchases of loan assets and guaranteed loans enables these activities to enjoy special advantages in the competition for federal resources. This chapter discusses the problems of accounting for the FFB's activities and the associated problems that face decisionmakers in the process of allocating resources.

THE BUDGETARY TREATMENT OF FFB'S ACTIVITIES

An understanding of the difference, in terms of budgetary treatments, between borrowing and lending by the Treasury or other federal agencies is the key to discerning the differing treatment of FFB's activities in the budget. The Office of Management and Budget (OMB) has stated this difference quite simply:

> The Government borrows money to the extent that it intends to spend more than will be financed by its income and its other means of financing such as decreases in cash balances. Such borrowing should not be called income. If it were, the budget would be balanced simply by definition. Similarly, the repayment of past borrowings is not counted as an outlay; it is a debt reduction. Therefore any Federal debt transaction--borrowing or repayment--is a <u>means of financing</u> the budget, not an income or an outlay.
>
> In contrast, when the Government lends money to a non-Government entity this transaction is recognized as being a budget outlay. A loan is not the reverse of a means of financing the budget but instead is a direct governmental operation in itself and counts as budget outlays. By the same reasoning, loan repayments are offsets to budget outlays. 1/

1/ Office of Management and Budget, <u>The Federal Financing Bank and the Budget</u>, Technical Papers Series BRD/FAB 76-1 (January 26, 1976), p. 6.

Agency Borrowing: No Impact on Budget Totals

According to these rules, agency borrowing from the FFB (through the sale of debt securities) is not considered an expenditure transaction and thus is not included in the unified budget totals. Counting such transactions with the FFB would result in double-counting. Consider the chain of events: in order for an agency to borrow from the FFB, it must have borrowing authority, a form of budget authority. By borrowing from the FFB, the agency draws down its budget authority. Disbursements from the borrowed funds are counted as outlays by the agency. Thus, borrowing from and repayments to the FFB are simply the means of financing a program.

Agency borrowing from the FFB is not reflected in the budget totals, because it does not need to be counted. The agency's expenditures from the borrowed funds are fully counted in the totals as outlays and the volume of its activity is subject to limits on its authority to borrow. Borrowing from the FFB, thus, does not obsure any agency activity, nor does it affect the controls on budget authority and outlays.

Loan Asset Sales: Repayments or Borrowing?

The principles quoted earlier state that repayments on lending by a federal agency are to be counted as offsets to budget outlays. The repayments are deducted to present an accurate picture of the government's financial position. Although it may make $100 million of new loans, if an agency receives $75 million in repayments on its loans outstanding, then the net change in its financial picture is $25 million.

This practice of offsetting repayments may result in a distorted picture of government finances when the agency, instead of holding the loan note to maturity, sells it to a third party to refinance its portfolio. If the loan note is sold to the private sector, the effect is the same as if the borrower had fully repaid the loan early. Offsetting the receipts from the asset sale is appropriate because the government is being repaid for the loan. If, however, the loan note is sold to the FFB, an off-budget federal agency, the picture becomes clouded. Although the agency has been repaid for its lending, the federal government has not. The agency's outlay total is reduced by the receipts of the loan sale, but although the FFB's outlays increase by the amount of the purchase, total federal outlays are reduced since the FFB's outlays to purchase the asset are off-budget. Thus, there appears to have been a net reduction in federal activity, when no such reduction has in fact occurred.

The confusion is compounded even further by differences in the treatments of sales of loan notes themselves and sales of participation certificates or CBOs. The budgetary practices formulated by the President's Commission on Budget Concepts consider a sale of a loan note to a third party to be a repayment of that loan (to the original lender), which should be offset against new loan outlays. In contrast, the sale of a CBO or participation certificate is considered to be borrowing, since the note itself is never transferred by the agency to a new owner. Instead, the agency merely borrows against the future income stream of the loan repayments. Therefore, sales of CBOs, according to the principles of the Commission on Budget Concepts should be treated as a means of financing, like agency borrowing, with no effects on budget authority or outlay totals. 2/

FmHA and the Rural Electrification Administration (REA), however, have special statutory authority to count sales of CBOs as repayments, and to offset such sales against their outlay totals. 3/Thus, sales of CBOs by these two agencies to the public or to the FFB cause the outlay totals for these agencies to be understated. For fiscal year 1979 the outlays of FmHA are understated by an estimated $7.2 billion and those of REA by $720 million, accounting for $7.92 billion of the $7.971 billion in assets that it is estimated the FFB will buy.

The budgetary impact of these two understatements differs because FmHA is on-budget and REA is off-budget. The $7.2 billion understatement of FmHA outlays causes total budget outlays to be understated by the same amount. The understatement of REA outlays by $720 million is cancelled out in the total for off-budget outlays by FFB's $720 million in outlays to purchase the REA CBOs.

The total impact of FFB purchases of loan assets or CBOs on the unified budget totals is to understate outlays by $7.27 billion, $7.18 billion for purchases of FmHA CBOs and $91 million for purchases of direct loans by HEW to health maintenance organizations. In both cases, if the purchase by the FFB of the asset or CBO were counted as a means of financing rather than a loan repayment,the budget outlays and budget deficit would increase by $7.27 billion, and federal lending activity would be more fully recorded in the unified budget totals.

2/ The controversy surrounding the accounting for sales of CBOs is discussed in detail in the accompanying paper Loan Asset Sales: A Problem.

3/ See Public Laws 93-32 and 93-135 and Loan Asset Sales: A Problem.

Guaranteed Loans: Credit or Debt?

Two aspects of the loan guarantee mechanism contribute to its popularity among policymakers as a tool for federal action: its ability to provide support for a goal potentially at no cost to the government and its ability to leave intact the risk-evaluating processes of the marketplace. On both counts, however, the purchase by the FFB of a guaranteed loan creates results exactly opposite to those intended.

When the FFB buys a guaranteed loan, it in effect becomes the lender, and the loan becomes a direct federal loan. The FFB's off-budget status, however, means that these direct loans do not show up in the budget as government outlays. As a matter of policy, the FFB will buy only fully guaranteed loans. Because it bears no risk of loss, it does no screening of the project being financed or of the borrower's ability to repay, both normally tasks of the lender in a guaranteed loan program.

In effect, an FFB purchase of a guaranteed note is no different from an FFB purchase of an agency debt security, except for their budgetary treatment. In the latter case, an agency sells its own note to FFB and lends directly to a private borrower for a specific purpose. The loan is counted as outlays by the agency. In the former case, the agency guarantees a note by a private borrower, which is then purchased by the FFB. In both cases the government stands all the risks, since both the agency security and the guaranteed loan are backed by the full faith and credit of the United States. In both cases the determination to undertake a loan to a private borrower is up to the agency administering a program. The only difference is that in the debt case, the agency incurs the outlays for the loan, outlays that are counted in the unified budget totals. In the case of the guaranteed loan, outlays are recorded for the FFB's purchase of the obligation, but these outlays are not included in the budget totals because of FFB's off-budget status.

For fiscal year 1979, it is estimated that the FFB will purchase $8.2 billion of guaranteed obligations. Had these direct loans been financed as agency debt, the outlay totals and deficit for fiscal year 1979 would have increased by that $8.2 billion. As it is, the $8.2 billion is treated as guaranteed credit and does not appear in the unified budget totals.

Summary of Budgetary Impact

Sales of agency debt securities to the FFB are a means of financing an agency's regular activities. As such they are properly not counted in the unified budget totals, because to do so would cause double-counting. Selling loan assets or CBOs to the FFB and offsetting the receipts of such sales against outlays as loan repayments understates outlay totals by $7.27 billion for fiscal year 1979. Similarly, FFB purchases of guaranteed obligations understates outlay totals by $8.2 billion for fiscal year 1979. In essence, over $15 billion of federal credit activity is made to appear as if it didn't exist. This can interfere with the process of allocating federal resources.

IMPACT ON THE ALLOCATION PROCESS

One disturbing fact about the FFB is that the different and confusing treatments of activities make its budgetary impact hard to determine, particularly its impact on the budget totals. More fundamentally disturbing is the fact that these different treatments mean that certain activities enjoy a special position in the allocation of federal resources.

The Congress makes allocation decisions through the budget process. After setting targets for total budget authority and outlays, it allocates, or divides up, the authority and outlays among the major government activities. This allocation process occurs through the functional classification structure, in which all expenditures are assigned to a budget account in the appropriate function. The greater the importance attached to a particular function, the higher the priority that function enjoys relative to other functions in the competition for federal funds. Obviously, to the extent that certain activities can be financed outside the unified budget and are not subject to the constraints of competing for part of a total "pie," they stand a better chance of being fully funded. This was one of the reasons various agencies were put off-budget during the early 1970s. Similarly, to the extent that one activity appears to have lower budgetary costs than another, it stands a better chance of increasing its budgetary allocation than an activity whose budgetary costs are fully recorded.

The latter advantage accrues to FFB purchases of loan assets or CBOs. By offsetting the receipts from asset or CBO sales, agencies reduce their budget authority and outlays. Thus, it appears cheaper to finance a project by direct loans than by direct federal expenditures. If, however, the loans are refinanced by the federal government through the FFB and not by the private sector, as the offsetting of receipts implies, then the outlays by the government are the same, although some are on-budget and some are off-budget. 4/

4/ The costs are not the same, since the direct loan may be repaid by the private borrower. The requirements in a given year for federal dollars to be spent or lent are the same.

Likewise, the choice between a direct federal expenditure and a federal guarantee of private credit to accomplish a particular objective seems obvious: guarantees of private credit are not counted in the federal "pie," whereas direct loans are. If, however, the guaranteed loan is financed by the FFB, then the budgetary requirements are the same, although the loan by FFB is not included in the budget totals.

As a result of these practices, the Congress does not allocate budget authority and outlays, under the targets and ceilings of the concurrent budget resolutions, in a manner that completely reflects the extent of federal spending for a function. For example, its allocations to functions 350 (Agriculture), 370 (Commerce and Housing Credit), and 450 (Community and Regional Development) are understated by $1.9 billion, $4.2 billion, $1.1 billion respectively because of the sales of CBOs to the FFB. Similarly, over $4.6 billion of net guaranteed loans by FFB are not included in the allocations by function. At the level of the individual function or program these noninclusions become significant. For fiscal year 1979, the Carter Administration requested budget authority of $672.5 million for the Foreign Military Credit Sales Program. It stated that $155 million would be used as backing for guarantees of $1.55 billion in loans to other countries to purchase military equipment. It was planned for the FFB to buy the entire $1.55 billion of guaranteed notes. If that $1.55 billion were added to the $7.7 billion in outlays estimated for function 150 (International Affairs), it would increase the function by 20 percent to $9.2 billion. That figure would be a more accurate estimate of total federal outlays in function 150.

Besides not being fully reflected in the process of allocating federal resources, FFB purchases of loan assets, CBOs, or guaranteed loans can enable some activities to continue apace during a period of overall fiscal or budgetary constraints. Furthermore, as budgets begin to tighten, all programs start to feel pinched and this may be an incentive for program advocates to redesign their programs to take advantage of FFB financing.

To reflect fully the extent of federal activity and to enable previously unaccounted for activity to be allocated in the budget process, the activities of the agencies financing their programs through the FFB must be controlled. The next chapter discusses various alternatives that have been suggested.

The purchases of loan assets, CBOs and guaranteed loans by the FFB cause an understatement of the totals of the unified budget and distort the allocation of federal resources within the Congressional budget process. Currently, the volume of these activities is, for the most part, not controlled. Controlling such activities can be accomplished in either of two ways: by putting the FFB on-budget or by changing the budgetary treatment of transactions with the FFB. Most attention has been focused on the first approach. This chapter demonstrates that, while this approach would remedy the understatement of the budgetary totals, it would not necessarily alleviate the distortions in the allocation process. The alternative approach--changing the budgetary treatment of transactions with the FFB--has two elements: changing the treatment of sales of CBOs and controlling the purchase of guaranteed loans by the FFB. Both elements would remedy the understatement of budget totals and the distortion of the allocation process.

THE ON-BUDGET APPROACH

Does off-budget status confer on a program or agency absolute protection from budgetary controls? While in theory it does not, in practice it does seem to confer such protection. A recent study noted:

> Off-budget status by itself offers only limited escape from budgetary controls. An off-budget agency can be subjected to the same authorization and appropriation controls as are applied to other Federal agencies. 1/

Conceivably, authorization limits on new purchases by the FFB and appropriations control of FFB's budget authority could be enacted annually. The same report also noted, however:

> The Congressional Budget Act has had the effect of significantly enhancing the value of off-budget status. Off-budget agencies are not covered by the new Congressional process and they are not included in the aggregate or functional amounts set forth in Congressional budget resolutions. 2/

1/ Congressional Control of Expenditures, House Budget Committee (print), 95:1 (January 1977), p. 83.

2/ Ibid., p. 77.

So, the off-budget status does, in fact, contribute to loss of the control available in the target--and ceiling-setting processes of the new budget process. A brief review of the evolution of off-budget agencies underscores this finding.

Off-Budget Status: Protection Against Impoundments

In 1967 the President's Commission on Budget Concepts set forth the concept of the unified budget--an integrated and comprehensive statement of federal government accounts. The Commission's report stressed the importance of a comprehensive budget as an information and reporting system and as an indispensable tool in making allocation decisions. Towards this end, the Commission recommended:

> The budget should, as a general rule, be comprehensive of the full range of federal activities. Borderline agencies and transactions should be included unless there are exceptionally persuasive reasons for exclusion. 3/

Despite this strong recommendation, a number of agencies were excluded from the budget totals in succeeding years. 4/

One of the motivations for conferring off-budget status on particular agencies or programs was to exempt them from ceilings on federal outlays or debt. This exemption was thought to be an advantage in a period when President Nixon, in an effort to slow down inflation, was impounding funds to keep federal spending below various ceilings. By keeping programs out of the budget totals and, thus, "out of sight," advocates hoped to keep their programs "out of mind" when impoundments were considered.

The status of off-budget agencies was one of the issues raised during the consideration of the Congressional Budget Act of 1974. Noting that "in terms of their impact on the economy, there is no difference between an outlay (or a loan) provided through the budget or one that is outside the budget," the Senate Rules Committee included a provision returning six of the off-budget agencies to the unified budget in its version of the bill. 5/

3/ Report of the President's Commission on Budget Concepts, (October 1967), p. 25.

4/ See Off-Budget Agencies and Government-Sponsored Corporations, Senate Budget Committee, Committee Print, 95:1 (March 23, 1977).

5/ Congressional Budget Act of 1974, S. Rept. 93-688, 93:2 (1974) p. 13.

The Committee explained its action in terms evoking the concept of the unified budget:

> Since one of the purposes of the Congressional Budget Act of 1974 is for Congress to determine each year the appropriate level of Federal revenues and expenditures, the Committee decided that these off-budget agencies should be included in the Federal budget considered by Congress. 6/

In conference, this provision was deleted and substitute language was adopted, requiring the Committees on the Budget to conduct continuing studies of the off-budget status of various agencies. 7/

Returning the Off-Budget Agencies to the Budget: Different Proposals, Different Views of FFB

Since the passage of the Congressional Budget and Impoundment Control Act of 1974, four proposals for the return of one or more off-budget agencies to the budget totals have been developed. Each of these proposals treats the FFB somewhat differently. 8/

First, on September 30, 1976, the House Budget Committee responded to the requirement of Section 606 of the Congressional Budget Act with a report that recommended placing the off-budget agencies on-budget. 9/ The committe, however, specifically exempted the FFB from this recommendation, because it concluded that simply including the FFB in budget totals would not necessarily provide effective Congressional control of the activities of the bank's clients. This reluctance to change FFB's budget status stemmed from a concern that agencies and instrumentalities that use

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6/ Congressional Budget Act of 1974, S. Rept. 93-688, p. 66.

7/ Congressional Budget Act of 1974, Section 606.

8/ This paper will not undertake a detailed explanation of these proposals, nor will it discuss the ad hoc returns to unified budget status of the Export-Import Bank and the Housing for the Elderly and Handicapped Fund. It will focus on the proposal vis a vis the FFB, since that is the question under consideration.

9/ Off Budget Activities of the Federal Government, H. Rept. 94-1740, 94:2 (1976), p. 5.

the bank would return to the securities markets for their financing in the event the bank's operations went on-budget. This would defeat the objectives the bank was originally established to promote. This recommendation to return off-budget agencies to the budget totals was repeated in the report accompanying the First Concurrent Budget Resolution for Fiscal Year 1978. 10/

Chronologically, the second proposal involving the budgetary status of the FFB was a bill submitted on January 11, 1977, to the 95th Congress by the outgoing Ford Administration. 11/ The bill proposed to return off-budget agencies, except the Postal Service, to the unified budget totals. The bill, however, was never introduced and did not receive any attention during either session of the 95th Congress.

Third, the General Accounting Office (GAO) released a study in August, 1977, that focused specifically on the problems associated with the off-budget status of the FFB and its borrowing relationship with Treasury. It concluded that neither aspect is crucial to the bank's role, but that both result in real costs and inefficiencies. GAO recommended that the receipts and disbursements of the FFB and its client agencies be included in budget totals, that sales of certificates of beneficial ownership be treated as borrowing, and that the bank's growth be monitored to assess the indirect costs of the current borrowing arrangement with Treasury. 12/

Finally, a group of bills were introduced during the 95th Congress to control FFB's activities, particularly its purchase of guaranteed loans. 13/ These bills focused on three aspects. First, the FFB's operations would be put on-budget. Second, purchases of obligations by the FFB in any fiscal year would be limited to such amounts as might be provided in appropriations acts. Finally, guaranteed obligations that would otherwise be financed in the securities market would have to be bought by the FFB for the

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10/ First Concurrent Resolution on the Budget for Fiscal Year 1978, H. Rept. 95-189, 95-1 (1977), p. 135.

11/ Letter from James T. Lynn, Director, OMB, to the Speaker of the House of Representatives, January 11, 1977.

12/ Comptroller General, Government Agency Transactions with the Federal Financing Bank Should Be Included on the Budget, PAD-77-70, August 3, 1977.

13/ H.R.s 7416, 7597, 7918, 10416, 11124, and 11177.

guarantees to remain effective. During the 95th Congress, two committees held hearings on these proposals. The Subcommittee on Oversight of the House Ways and Means Committee held hearings on H.R. 7416 in September 1977. The full committee held hearings in February 1978 on H.R. 10416. Hearings on H.R. 7918, an identical bill, were held July 19 and September 15, 1977 by the Subcommittee on Economic Stabilization of the House Banking, Finance, and Urban Affairs Committee. The House Budget Committee endorsed the bills in 1978 when they repeated their call for legislation to put off-budget agencies on-budget. 14

Shortcomings of the Change in Status Approach

There are several shortcomings to the proposals to control the activities financed by the FFB through changing its status from off-budget to on-budget. If the FFB were simply included in the unified budget totals, the problem of understating the extent of federal activities in the budget totals would be rectified, since FFB purchases of guaranteed loans and CBOs would require budget authority and outlays. The problem of allocation of resources would not, however, be solved. Instead of such purchases showing in the budget function for the agencies in which the activities originate, they would be counted in the allocation for FFB, the financing agent.

A second problem with simply putting the FFB on-budget is that those agencies now selling CBOs and guaranteed loans to FFB might seek financing elsewhere. In the case of guaranteed loans, this is not really a problem. The principal purpose of the loan guarantee mechanism is to induce private credit to finance a socially desirable project. If the cheap off-budget financing of FFB were eliminated and agencies sought private financing, guarantee programs would operate as intended. Selling CBOs in the private market might, however, create a problem. Sales of CBOs to private parties should be counted as a means of financing, according to the recommendations of the President's Commission on Budget Concepts. If, however, they were counted as repayments and offset against outlays, then the lending activity of an agency would still be understated in the budget totals. Furthermore, higher expenditures would result from the higher interest rates that would be charged in the private market.

A different set of problems is encountered if the approach of H.R.s 7416, 7918, and others is adopted. First, the proposed legislation does not deal with the other off-budget entities. Putting the FFB on-budget had previously been recommended in the context of including all off-budget agencies in budget totals. While the FFB constitutes a large part of all off-budget activity, consistency dictates that all off-budget agencies should be included in the unified budget totals, if one or more is.

14/ First Concurrent Resolution on the Budget for Fiscal Year 1979, H. Rept. 95-1055, 95:2 (1978), p. 23.

Second, limiting FFB purchases of guaranteed obligations to amounts included in appropriation acts might force the bank to ration credit if agency requests exceeded the limitation set on the bank's activity. This could put the bank in the unfortunate position of establishing program levels and allocating resources through what was intended to be a financing device.

Third, the proposed legislation does damage to the concept of a guaranteed loan as a financing mechanism because it prohibits private participation in many of the transactions. 15/ The FFB would continue to convert guaranteed loans into direct loans. Its inclusion in the budget would mean these outlays would be included in budget totals. They would not, however, be counted in the same function as direct loan or expenditure programs serving the same national need. As a result, the Congress would not improve its ability to make allocation decisions for all federal activities.

Finally, the legislation addresses solely the FFB, which is only part of a much larger problem. There is no mechanism for overall Congressional review of credit programs, for allocation of credit resources within a budget ceiling, or for encouraging well-designed credit assistance programs. Improved Congressional control cannot result from changing the status of the FFB; rather, a comprehensive credit control proposal is needed.

CHANGING THE BUDGETARY TREATMENT OF TRANSACTIONS WITH THE FFB

A second approach to the problems posed by financing activities through the FFB is to change the budgetary treatment of transactions with the FFB. This approach has two elements: changing the treatment of sales of CBOs and controlling purchases of guaranteed loans by the FFB. Combined, these two elements would remedy both the problem of understatement of the budget totals and the distortion of the allocation process.

Changing the Treatment of Sales of CBOs

If the sales of CBOs by agencies were changed from repayments to borrowing, as the President's Commission on Budget Concepts recommended in 1967, it would not be possible to deduct sales of CBOs from agency outlay totals. The understatement of agency budget totals would be eliminated;

15/ The FFB would be required to finance all government-guaranteed obligations now traded in the securities markets. Only smaller loans, such as home mortgages, would be exempt from this requirement.

and, therefore, both the determination of federal budget totals and allocation of resources within that total to agencies would be made on the basis of full and complete accounting for agency outlays. This is the treatment recommended in the accompanying staff working paper, Loan Asset Sales: Current Budgetary Treatment and Alternatives.

Controlling Purchases of Guaranteed Loans by the FFB

The purchase of guaranteed loans by the FFB poses a knottier problem. Guarantees of the repayment of indebtedness on the part of an individual are excluded from the definition of budget authority by Section 3(a)(2) of the Congressional Budget Act of 1974. Therefore, controls on guarantees of loans that are sold to the FFB cannot be imposed through the agency budget authority totals. As noted earlier, it is not desirable to control such activity through limits on FFB budget authority and outlays, because that is not where the allocation of federal resources takes place. The control must then be on the agency's ability to guarantee loans that may be subsequently sold to the FFB. Three alternatives are possible.

Prohibit Purchases Outright. Legislation could be enacted to prohibit all purchases by the FFB of guaranteed loans. This is consistent with the original concept of a loan guarantee, that is, a leverage on private credit. Guaranteed loans would have to be financed by the private market and could not be hidden in the off-budget FFB. If this approach were adopted, in connection with the establishment of a credit section and a change in the treatment of CBOs, the bank would revert to its originally conceived function of a financial passthrough. It would provide a source for agency financing, either through purchase of debt issued under agency borrowing authority or through the purchase of agency assets. Thus, its activities would be purely financial and would have no impact on budget totals.

Limit Purchases to Amounts Provided in Appropriation Acts. If this approach were adopted, the bank would still be able to convert guaranteed loans into direct loans, but the amounts would be controlled through the use of limitations in appropriation bills. In order for a loan guaranteed by an agency to be bought by the FFB, the agency would have to seek additional authority in the form of a limitation on the amount of new obligations guaranteed under that program that could be purchased by the FFB. FFB's budget authority for all such purchases would be determined by summing the amounts that agencies would be authorized to sell to the FFB. To remedy the understatement problem, the FFB would have to be put on-budget to record its purchases in outlay totals. By placing the limitation on the agencys' abilities to issue new guarantees, the credit allocation decision could then be made in the appropriate budget functions. Thus, the Congress would make allocation decisions by function and agency, and the FFB would have no role in rationing credit.

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Treat Purchases of Guaranteed Loans as Means of Financing. A third option would treat FFB purchases of guaranteed loans as a means of financing, just like the treatment recommended for purchases of CBOs. Under this approach, FFB purchases of guaranteed loans would be recorded as an FFB loan to the agency issuing the guarantee and as a loan originating from the agency to the private borrower. This has the advantage of showing the direct FFB loan as a cost in the agency budget. The agency's budget authority and outlay totals would include the loan, instead of it being consolidated with all other such loans in FFB's budget authority and outlays, as the previous option would do. Although the previous option did have the allocation made at the agency level, through the limitations on purchases by the FFB of obligations guaranteed by that agency, it was not counted in the budget authority and outlay totals. Therefore, it was in a sense still a "separate" pile of money. By treating it as a direct loan, it would be counted in the regular expenditure schedules.

SUMMARY

The Congress could achieve comprehensive control of credit activities by combining changes in the treatment of CBOs and guaranteed loans with a credit section in the budget. The credit section of the budget, recommended by the Congressional Budget Office in Loan Guarantees: Current Concerns and Alternatives for Control, would provide a framework within which to record and allocate gross levels of direct and guaranteed lending. The expenditure section of the budget would continue to monitor outlays and receipts of such programs. Sales of CBOs to FFB would be treated as a means of financing and would not offset outlays. As in the third alternative above, FFB purchases of guaranteed lending, would be counted as lending to the agency and outlays by the agency. These tools, therefore, would enable the Congress to approve, review, and control both the level and the allocation of federal credit activity.

LOAN INSURANCE AND GUARANTEE PROGRAMS:
A COMPARISON OF CURRENT PRACTICES AND PROCEDURES

A Study Prepared for the

CONGRESSIONAL BUDGET OFFICE

by

Peat, Marwick, Mitchell & Co.

February 23, 1978

The Congress of the United States
Congressional Budget Office

PREFACE

In preparing the CBO background paper Loan Guarantees: Current Concerns and Alternatives for Control, an attempt was made to assess the number and cost of defaults in federal loan guarantee and insurance programs. It quickly became apparent that little or no relevant data were available, particularly for comparisons among agencies and programs. Differences among programs in the definitions of default, delinquency, and other loan conditions and variations among programs and agencies in the collection and reporting of such data are the principal reasons for the lack of default data. To assess the extent of this problem, CBO contracted with the firm of Peat, Marwick, Mitchell & Co. to conduct a survey of the practices and procedures of a sample of loan guarantee and insurance programs. This paper is the report of that study. Peat, Marwick, Mitchell & Co. assumes full responsibility for the accuracy of the findings and conclusions presented in this report.

Richard P. Emery, Jr. and John D. Shillingburg of the CBO's Budget Process Unit were the project officers for this effort. Questions concerning the report should be directed to them.

Alice M. Rivlin
Director

January 1979

FINAL REPORT

LOAN INSURANCE AND GUARANTEE PROGRAMS: A COMPARISON OF CURRENT PRACTICES AND PROCEDURES

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EXECUTIVE SUMMARY

This report responds to recent concerns about the growth and control of federally insured and guaranteed loan programs. Its purpose is twofold: to present and compare information about key aspects of loan guarantee and insurance programs; and to integrate findings from the study to address issues of current Congressional interest. The analysis contained within is based on a sample of 22 programs chosen to represent the universe of approximately 160 federally insured and guaranteed loan programs.

Three major conclusions emerged from this study:

- The liability of the U.S. Government, as a result of these credit activities, is difficult to assess because of significant variations in agency definitions of contingent liability and the inconsistent application of differing degrees of government commitment to meet claims experience.

- The ability to monitor the progress of individual programs and compare activity across programs is restricted because of limited data availability and comparability.

- Congressional oversight and control of insured and guaranteed programs is impaired severely, as a consequence of the first two conclusions. Moreover, reliance on traditional mechanisms of budgeting and the appropriations process does not appear to be sufficient for Congress to exert control over program growth and monitor program activity.

U.S. GOVERNMENT LIABILITY

The extent of U.S. liability is uncertain for a number of reasons. First, a variety of definitions of contingent liability are currently used by the different agencies. While many agencies define contingent liability as the net amounts of guaranteed or insured loans outstanding, others define it as the extent of reserves for losses or the cumulative amounts of commitments issued. To eliminate this uncertainty, we recommend the creation of one standard definition of contingent liability to be used by all agencies.

The extent of U.S. liability is also unclear because of the variation in the terms and conditions of both insurance and guarantee programs. A number of examples are provided in the text of insurance programs that pledge the Government's full faith and credit as backing. Therefore, the extent of U.S. liability for these programs exceeds the liability normally associated with insurance programs. Similarly, other insurance programs, which were designed to limit the U.S. liability to reserves for losses, have access to interfund transfers, appropriations, or Treasury borrowing. To the extent that supplemental funding is used to replenish exhausted reserves, the U.S. liability may be increased beyond the limits designed for these programs. It is therefore recommended that consistent models of insurance and guarantee programs be developed to reflect Congress' desires and intentions concerning the level of government liability for each program type.

DATA AVAILABILITY AND COMPARABILITY

The availability of key financial and program data varies from agency to agency although most data items are available in some form. Significant variations were also found in the frequency and timeliness of published reports containing the data and in the comparability of data elements. Comparability is limited because of differences in definitions used by the agencies. In addition, some agencies report data only at the fund level, and this obscures the program detail required to perform program level evaluations.

Because of the variations in data collection and reporting, it appears that Congress will require well-informed staff to expend significant portions of their time to understand and interpret data presented by the agencies. Uniform requirements for program and financial data should be developed to alleviate some of these problems. Standard report formats and formal reporting intervals should also be considered.

CONGRESSIONAL OVERSIGHT AND CONTROL

Both of the above conclusions point to the reduced ability of Congress to adequately perform its oversight and control functions. Furthermore, original authorizing legislation has not proven an effective control mechanism but has provided agencies with much flexibility in administering their respective programs and has made them relatively immune to control through the appropriations process. Moreover, the size of an agency's outstanding commitments in relation to its available funding is primarily a function of the risk associated with its loan portfolio. This, in turn, depends on the legislative intent of the programs, the quality of risk assessment performed by the agency, and the quality and nature of collateral securing the loan. These latter two considerations are areas of agency judgment over which Congress has little control. This element of judgment and the problems associated with the uncertainty regarding the extent of U.S. liability and insufficiency of program and financial data make Congressional oversight and control through its traditional approaches tenuous.

RECOMMENDATIONS FOR FUTURE ACTION

Based on these conclusions, it is recommended that an Executive branch agency (e.g., OMB) develop a manual for use by agencies conducting loan guarantee and insurance programs.

This manual should specify Congressional goals and objectives for each program type (insurance or guarantee) and requirements which must be implemented by agencies conducting programs of this nature. A statement of goals and objectives can serve as the foundation on which to structure specific programs. Requirements can specify data needs, reporting conventions, and other activities needed to make the current system more uniform. The development of a Congressional handbook can serve as a major tool for making program types consistent, improving agency management, and providing appropriate control and oversight mechanisms for Congress to operate these credit activities.

I. INTRODUCTION

This report responds to recent concerns about the growth and control of federally insured and guaranteed loan programs. It analyzes the diversity and, in some cases, inconsistency among insurance and guarantee programs. The analysis is based on a sample of 22 programs chosen to represent the universe of approximately 160 federally insured and guaranteed loan programs. (See Appendix B for the methodology used to select the 22 programs and to collect and analyze the data.)

This section of the report is divided into six parts:

- Report Structure and Format;
- Background on Federal Credit Activities;
- Current Concerns About the Use of Federally Insured and Guaranteed Loan Programs;
- Purpose and Scope of the Study;
- Related Research Activities; and
- Description of Programs Surveyed.

REPORT STRUCTURE AND FORMAT

This report has two purposes: first, to present and compare information about key aspects of loan guarantee and insurance programs; and second, to integrate findings from the study in order to address issues of current Congressional concern. The report is thus analytical as well as descriptive. Section I provides an introduction to the background for this report and some of the current concerns regarding federally insured and guaranteed loan programs.

Section II synthesizes the information collected in terms of critical issues facing Congress with respect to loan guarantee and insurance programs. Three major areas of concern evolved in the course of the study as having special significance:

- The extent of the U.S. Government's liability under loan guarantee or insurance programs, and what steps the agencies are taking to control and assess the extent and riskiness of guarantee and insurance commitments.
- Availability of data needed by Congress to evaluate effectively the benefits and costs of programs.
- If and how program oversight and control is exercised within the agency, by Congress, and by other executive agencies.

Although the information gathered in the brief course of this study cannot be used to address these issues in depth, a preliminary assessment can be made and areas for further research identified.

Section III describes the findings of this study in terms of eight program characteristics, including:

- a typology of programs;
- financing mechanisms and control;
- definitions of key program terms;
- accounting procedures and conventions;
- availability of program activity data;
- reporting;
- program administration; and
- program evaluation.

The discussion in Section III is organized according to a set of matrices that present information on each of these characteristics for all 22 programs. The narrative accompanying the matrices highlights key points presented in tabular form and makes cross-program comparisons. Inconsistencies, both within and across programs, are examined for implications for program management and Congressional oversight.

BACKGROUND ON FEDERAL CREDIT ACTIVITIES

It is not widely recognized that the Federal Government's credit and credit-related programs have expanded dramatically in recent years; but, in fact, they have increased so much that the contingent liabilities of the various "insurance" and "guarantee" programs will exceed $223.6 billion in fiscal year 1979. However, neither federal policy makers, members of Congress, nor the general public seem to fully understand the extent of the effect of the Federal Government's intervention in the nation's credit markets. For example, while the government's role on the demand side of the markets - i.e., as a borrower - is generally recognized, its role on the supply side - i.e., as a provider of credit or guarantees of the resultant liability - is far less known. Furthermore, this rapid increase in government intervention in the nation's credit markets has generally been unplanned, and it has been relatively uncontrolled since it takes place outside the traditional federal program planning and budgeting activities.

In response to a growing awareness of this situation, a number of analytical studies have recently been conducted to arrive at a better understanding of the Government's current role in these activities and provide a basis for assessing alternative credit policies and procedures. Both Congress and the Executive Branch are seeking to document current programs and their impact, in order to provide a data and analytical basis for developing rational policies and policies that at least take into account current credit and credit-related

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programs. This study, funded by the Congressional Budget Office, is one aspect of the overall policy development process and attempts to document the wide variety of loan guarantee and loan insurance programs that currently exist.

CURRENT CONCERNS ABOUT THE USE OF FEDERALLY INSURED AND GUARANTEED LOAN PROGRAMS

The underlying cause of the rapid increase in the Federal Government's credit and credit-related activities is related to the perception that such participation can be relatively economical and efficient. Specifically, programs of federal guarantees or insurance of loans, mortgages, and other debentures are seen as a means for the Federal Government to influence credit allocation in the United States economy to achieve particular policy and program objectives without actually entering into the money and capital markets as a source of credit or having too great an impact on agency budgets.

Diminishing - or even completely eliminating - the lender's risk in making loans obviously alters the traditional "balance" between credit demand and supply, as interpreted by the lender's assessment of risk and structure of the loan package. Generally, this study and others have shown that, from a federal policy and programming perspective, this intervention mainly occurs under three types of circumstances:

- When the Federal Government believes that lenders are unwilling to provide credit because they cannot estimate default rates and costs in the normal manner on the basis of past experience. (The FHA Basic Home Mortgage Insurance program is an example.)

- When greater than ordinary risks of default exist for certain classes of marginal borrowers, such as college students and small businesses.

- When the venture to be financed is a discrete project of great magnitude (such as industrial development in a developing country or subway construction) and lenders are unwilling to extend credit without some form of government involvement and sponsorship.

Federal loan guarantee credit programs targeted for one or more of these objectives have been increasing steadily in recent years. About $53.4 billion of private loans will be guaranteed in fiscal year 1979, as compared with less than $9 billion in fiscal year 1950; and total guarantees outstanding will exceed $223.6 billion in fiscal year 1979. Exhibit I-1 presents the contingent liabilities or other appropriate activity measures for the 22 programs comprising this study.

The insurance and guarantee programs are particularly attractive to Federal Government program planners for a number of reasons:

- Substantially larger private sector loan amounts can be guaranteed, and consequently leveraged for a relatively small amount of federal dollars.

- The amount of Congressional oversight of credit activities is far less than that of other federal program activities, particularly with respect to the amount of contingent liabilities involved.

- The Federal Government can target its intervention activities relatively directly to specific programmatic areas.

In light of this recent - and often unplanned and unregulated - growth, the Federal Government's intervention in the nation's credit markets, and particularly the federal guarantee and insurance programs, has emerged as a source of concern to Congress. Among the reasons for this increased recent concern are the following:

EXHIBIT I-1

CONTINGENT LIABILITY AND INSURANCE IN FORCE

Agency	Program	Number of Loans	Contingent Liability (CL) or Insurance in Force (IF)	Effective Date	Comments
FmHA	Business and Industry Loans	1,031	$431,531,000 (CL)	9/30/77	Number of borrowers rather than number of loans (one borrower may have more than one loan).
FmHA	Community Facilities Loans	831	$295,940,000	9/30/77	Direct loans, not contingent liability.
FmHA	Emergency Livestock loans and Line of Credit Guarantees	4,812	497,912,000 (CL)	9/30/77	Number of borrowers rather than number of loans.
FmHA	Recreation Facilites Loans	-----	-----	------	Program not implemented.
FmHA	Rural Housing Guaranteed Loans	75	1,726,000 (CL)	9/30/77	
FmHA	Rural Housing Insured Loans	851,933	12,064,634,000	9/30/77	Direct loans, not contingent liability.
MARAD	Federal Ship Financing	476	5,023,166,080 (CL)	12/31/77	
HEW	Federally Insured Student Loans	4,093,399	2,187,000,000 (CL)	12/31/76	For both HEW programs, the number of loans is an estimate for FY 1977. The contingent liabilities are based on estimates for FY 1978.
HEW	Guarantee Agency Loans	5,295,989	3,268,000,000 (CL)	12/31/76	
HUD	Basic Home Mortgage Insurance (203B)	3,742,115	49,988,573,511 (IF)	9/30/76	Insurance in force = estimated insurance outstanding.
HUD	Single Family Coinsurance (244)	56	not available	9/30/76	
HUD	Mortgage Insurance for Rental Housing for Low and Moderate Income Families (221 D3 MR)	1,315	1,404,328,000 (IF)	12/31/76	Insurance in force = estimated insurance outstanding.
HUD	Mortgage Insurance for Rental Housing for Low and Moderate Income Families (221 D3 BMIR)	1,030	1,832,389,000 (IF)	12/31/76	Insurance in force = estimated insurance outstanding.
HUD	Mortgage Insurance for Rental Housing for Moderate Income Families (221 D4)	1,062	3,042,533,000 (IF)	12/31/76	Insurance in force = estimated insurance outstanding.
HUD	Property Improvement and Mobile Home Loans (Title I, Section 2)	31,698,555	25,187,408,635	9/30/76	Cumulative data only.
HUD	Mortgage Insurance for Hospitals (242)	111	1,166,102,993 (IF)	9/30/76	Insurance in force = estimated insurance outstanding.
FAA	Aircraft Loan Guarantee Program	12	103,651,000 (CL)	9/30/76	Contingent liability = guaranteed portion outstanding.
OPIC	Investment Guarantees	17	155,677,566 (CL)	2/8/78	
SBA	Regular Business Loans (7A)	71,398	4,461,002,976 (CL)	9/30/77	
SBA	Loans to State and Local Development Companies (502)	644	63,169,770 (CL)	9/30/77	
SBA	Small Business Investment Companies (SBIC)	396	362,128,000 (CL)	9/30/77	
VA	Home Loan Guarantee Program	3,939,730	33,932,395 (CL)	9/30/77	Contingent liability amount also includes mobile homes.

- These are often "off-budget" activities, not considered a direct part of ongoing Congressional budget-setting and oversight activities.

- The contingent liabilities outstanding have grown so much that serious difficulties may result if provisions for possible losses are insufficient and the Government actually has to pay insurance and guarantee claims.

- Highly publicized problems regarding losses on certain guarantee programs (notably the Guaranteed Student Loan Program administered by the U.S. Office of Education) have drawn attention to: difficulties in administering the programs; the wide variety of standards used to assess the risk of loans guaranteed or insured; and the lack of sound program and financial data on which to base management and policy decisions. These problems have increased uncertainty as to whether the Federal Government will need to make major outlays to pay claims.

- Some indications suggest that the Executive Branch intends to expand the scope of loan guarantee and insurance programs as a way to direct private investment into areas consistent with administration policy goals without actually spending federal dollars (e.g., through direct loan or grant programs).

PURPOSE AND SCOPE OF THE STUDY

According to the House Banking Committee, there are currently over 160 loan guarantee or insurance programs administered by the Federal Government or by federally sponsored private corporations. These programs range widely in the size of loans guaranteed or insured, in the purpose of the loans, in the loan activity, or in sophistication of the borrowers and lenders with respect to debt financing. For example, in FY 1976, the program of guaranteed loans to displaced businesses run by the Small Business Administration involved only two loan guarantees, totaling $20,894, while HUD insured $9,807,468,403.

More important than the range in size of the individual loan program is the sheer magnitude of both the total contingent liabilities of the Federal Government and the range of program areas encompassing the credit intervention activities of the Federal Government. Generally, however, this growth in intervention and program size has not been subject to the traditional Congressional oversight mechanism. Consequently, the lack of solid information on the operations and effectiveness of existing guarantee and insurance programs has made Congress wary of permitting their expansion before the situation can be studied in more detail.

An outgrowth of the Congressional concern was that the U.S. Senate Budget Committee requested the Congressional Budget Office (CBO) to prepare a report summarizing current knowledge about loan guarantees and insurance. In seeking to assess the extent of actual defaults under various loan guarantee programs, the CBO began to realize that little or no relevant data were available across agencies and programs. Furthermore, there was the growing awareness that little, if any, documentation existed or was uniformly collected on many aspects of the operations or activities of loan guarantees or insurance programs. This was further complicated by:

- the limited accuracy of existing OMB and Treasury data;

- differences among programs in definitions of critical cost factors such as default, delinquency, and subsidies; and

- variations among programs in the collection and reporting of information on program performance and costs.

In order to provide useful information to assess these problems, Peat, Marwick, Mitchell & Co. (PMM&Co.), in a competitive selection process, was asked to conduct the present study. PMM&Co.'s specific task was to assess variations in program definitions, accounting reporting, and other administrative practices in a sample of loan guarantee and insurance programs.

RELATED RESEARCH ACTIVITIES

Paralleling the increasing size and magnitude of the Federal Government's involvement in the nation's credit markets has been increased attention to the programs and mechanisms involved in the intervention activities. Several recent studies have addressed this aspect of the situation:

- The Congressional Research Service has compiled a basic "fact file" of each identified loan guarantee and insurance program and is continuing its overall review of the various programs.

- The Office of Management and Budget of the Executive Office of the President is intensively assessing alternative strategies designed to increase the Administration's oversight of the various credit and credit-related programs.

- Many government agencies and departments are conducting similar internal reviews of loan guarantees and insurance programs, e.g., HUD (Section 242, Hospital Loan Guarantee Program) and HEW (Federally Insured Student Loan Program).

- The General Accounting Office (GAO) is conducting a series of program and financial audits of a number of programs.

- Congress has requested that the Congressional Budget Office conduct a series of analytical and policy-level reviews on the subject.

The PMM&Co. study, which documents and analyzes administrative and reporting procedures as well as the broader aspects of diversity, is designed to extend and complement the above studies. In particular, it is clear that since the variations in character of the many different programs - as formulated in the legislation, in administrative regulations or procedures, and in practice - can produce significant variations in performance and risk, a better understanding of these variations is vital for appropriate policy analysis and is the underlying rationale for this effort.

The scope of the study specifically included the following:

- documentation of the meaning of common administrative terms (default, forbearance, subsidy, etc.) as used in the legislation and in practice within each program;
- analysis of variations in risk assessment and monitoring;
- assessment of the degree to which the extent of loan guarantees or insurance is bound by premiums or other fees; and
- evaluation of the nature and extent of administrative and Congressional oversight.

DESCRIPTION OF PROGRAMS SURVEYED

The 22* programs surveyed are listed in Exhibit I-2 with brief descriptions of their purpose and indications of their statutory authorization. The programs are diverse; they range

*Although listed as a single program, the HUD/FHA program of Mortgage Insurance for Rental Housing for Low and Moderate Income Families has two components which are actually separate programs. These programs are the 221(D3) program with market interest rates and the 221(D3) program of below-market interest rate loans.

EXHIBIT I-2

DESCRIPTIONS OF PROGRAMS SURVEYED

Agency	Sub-Agency	Program	Statutory Authorization	Description (Purpose)	Program Type: Guarantee or Insurance
Department of Agriculture	Farmers Home Administration	Business and Industrial Loans	P.L. 92-419, Section 310b, Consolidated Farm and Rural Development Act, as amended.	Permit rural residents to acquire small business enterprises.	Guarantee
Department of Agriculture	Farmers Home Administration	Community Facilities Loans	P.L. 92-419, Section 306.	Construct, enlarge, extend or otherwise improve community facilities providing essential services to rural residents.	Insurance
Department of Agriculture	Farmers Home Administration	Emergency Livestock Line of Credit Guarantees	P.L. 93-357. Emergency Livestock Credit Act of 1974, as amended by P.L. 94-35.	Provide emergency lines of credit to farmers and ranchers engaged in agricultural production to finance normal farming or ranching operations.	Guarantee
Department of Agriculture	Farmers Home Administration	Recreation Facilities Loans	P.L. 92-419, Subtitle A, Section 304.	Assist individual farmers to convert farms into outdoor, income-producing recreation enterprises.	Guarantee (not implemented)
Department of Agriculture	Farmers Home Administration	Rural Rental Housing Loans	P.L. 81-171, Housing Act of 1949, as amended, Sections 515-521.	Provide rental or cooperative housing and related facilities for rural residents with low and moderate income or persons aged 62 or older.	Guarantee

EXHIBIT I-2 (Continued)

Agency	Sub-Agency	Program	Statutory Authorization	Description (Purpose)	Program Type: Guarantee or Insurance
Department of Agriculture	Farmers Home Administration	Rural Rental Housing Loans	P.L. 81-171, Housing Act of 1949, as amended, Sections 515 and 521.	Provide rental or cooperative housing and related facilities for rural residents with low and moderate income or persons aged 62 or older.	Insurance
Department of Commerce	Maritime Administration (MARAD)	Federal Ship Financing Guarantees	P.L. 74-385, The Merchant Marine Act, 1936 amended, 49 Stat. 1985.	Promote growth and modernization of the U.S. Merchant Marine by financing construction of vessels in the U.S.	Guarantee
Department of Health, Education and Welfare	Office of Education,* Bureau of Student Financial Assistance	Guaranteed Student Loan Program (Federally Insured and Reinsured Loans originally insured by Guarantee Agencies)	P.L. 89-329, Higher Education Act, Section 421, as amended.	Provide low-interest loans to students for education expenses.	Insurance (Re-insurance)
Department of Housing and Urban Development	Federal Housing Administration	Basic Home Mortgage Insurance (Section 203B)	P.L. 73-479, (National Housing Act), as amended by P.L. 91-152 (Housing and Community Development Act of 1969) and P.L. 93-383 (Housing and Community Development act of 1974),	Assist eligible participants to undertake home ownership	Insurance

*Until 1977, the Guaranteed Student Loan Program (GSLP) was administered by the office of Guaranteed Student Loans (OGSL), an office within the office of Education, DHEW. In December 1977, the OGSL was combined with other offices running OE-sponsored student aid programs. The resulting amalgamation is now called the Bureau of Student Financial Assistance (BSFA).

EXHIBIT I-2 (Continued)

Agency	Sub-Agency	Program	Statutory Authorization	Description (purpose)	Program Type: Guarantee or Insurance
Department of Housing and Urban Development	Federal Housing Administration	Single Family Coinsurance (Section 244)	P.L. 93-383 (National Housing Act), as amended by the Housing and Community Development Act of 1974 P.L. 94-375 (Housing Authorization Act of 1976.	Make available residential financing for prospective homeowners through joint insurance of mortgage loans by lending institutions and the Federal Government.	Insurance
Department of Housing and Urban Development	Federal Housing Administration	Mortgage Insurance for Rental Housing for Low and Moderate Income Families (at Market Interest Rates and at Below-Market Interest Rates) (Section 221 D3)	P.L. 83-560, as amended. P.L. 88-560. P.L. 89-769. P.L. 90-488. P.L. 94-375.	Provide good quality rental or cooperative housing within the price range of low and moderate income families.	Insurance
Department of Housing and Urban Development	Federal Housing Administration	Mortgage Insurance for Rental Housing for Moderate Income Families (Section 221 D4)	P.L. 86-372. P.L. 87-70. P.L. 93-383. P.L. 93-375.	Provide good quality rental housing within the range of moderate income families.	Insurance
Department of Housing and Urban Development	Federal Housing Administration	Property Improvement Loan Insurance for Improving all Existing Structures and Building of New Non-Residential Structures and Mobile Home Loan Insurance (Title 1, Section 2)	P.L. 73-479, Title I and P.L. 83-560. P.L. 84-1020 P.L. 90-448. P.L. 93-383.	Make possible reasonable financing for mobile home purchases; and facilitate the financing of improvements to homes and other existing structures and the erection of new non-residential structures.	Insurance

EXHIBIT I-2 (Continued)

Agency	Sub-Agency	Program	Statutory Authorization	Description (Purpose)	Program Type: Guarantee or Insurance
Department of Housing and Urban Development	Federal Housing Administration	Mortgage Insurance for Hospitals (Section 242)	P.L. 90-448 (National Housing Act). P.L. 93-383 (Housing and Community Development Act of 1974).	Assist in financing of hospitals.	Insurance
Department of Transportation	Federal Aviation Administration	Aircraft Loan Guarantee Program	P.L. 85-307 (Aircraft Loan Guaranty Act).	Facilitate loans for the purchase of modern aircraft and equipment.	Guarantee
Overseas Private Investment Corporation		Investment Guarantees	P.L. 91-175 (Foreign Assistance Act of 1961), as amended.	Mobilize and facilitate the participation of private U.S. capital and skills in the economic and social development of friendly, less developed countries.	Guarantee
Small Business Administration		Regular Business Loans (Section 7A)	P.L. 85-536 (Small Business Investment Act.	Aid small firms which have difficulty in obtaining private financing.	Guarantee
Small Business Administration		Loans to State and Local Development Companies (Section 502)	P.L. 85-699 (Small Business Investment Act of 1958), as amended.	Finance neighborhood development efforts of state and local development companies established for the explicit purpose of furthering local economic development through small business.	Guarantee

EXHIBIT I-2 (Continued)

Agency	Sub-Agency	Program	Statutory Authorization	Description (Purpose)	Program Type: Guarantee or Insurance
Small Business Administration		Small Business Investment Company (SBIC) Program	P.L. 85-699 (Small Business Investment Act of 1958), as amended.	Stimulate and supplement the flow of private equity capital and long-term loan funds which are not available in adequate supply to small business through guarantees of debentures of Small Business Investment Companies.	
Veterans Administration	Department of Veterans Benefits	Veterans Housing Loans	P.L. 78-346 (Servicemen's Readjustment Act), as amended.	Assist veterans, service persons, and certain unmarried widows and widowers of veterans in obtaining credit for the purchase, construction or improvement of homes on more liberal terms than generally available to non-veterans.	Guarantee

from small ones, with few loans in relatively small amounts (e.g., State and Local Development Company Loans - SBA) to very large ones, in terms of both number of loans (e.g., VA Housing Loans) and size of individual loans guaranteed or insured (e.g., OPIC). Insurance and Guarantee programs are each represented by 11 programs. Besides loans, a number of programs surveyed guarantee debentures or other financial instruments (e.g., SBA's Small Business Investment Company Guarantees and FmHA Rural Housing Insured Loans). Many of the programs guarantee loans made to individuals (e.g., GSLP, FHA programs), while others guarantee or insure those made to business enterprises (e.g., SBA and MARAD programs). The programs also vary in length of time they have existed and sophistication of support systems required to administer them (e.g., OPIC's Investment Guarantee Program, which involves so few loans that it has not been cost-effective to computerize the accounting for the program).

An attempt was made to examine representative programs so that the findings might be extrapolated to other loan guarantee and insurance programs. While extrapolation must be done carefully, with the full understanding that each program is unique in at least some ways, the diversity of programs studied should make it possible to generalize findings so that the information presented in this report applies to more than the 22 specific programs examined.

II. AREAS OF CONGRESSIONAL CONCERN

Congressional oversight over federal loan insurance and guarantee programs has become a source of major concern to Congress for three main reasons:

- A great deal of uncertainty exists regarding the size of the U.S. Government's probable liabilities under loan guarantee and insurance programs.

- Because of variations in terminology, data collection, program administration, and reporting among agencies administering loan programs, a mix of conflicting information is being sent to Congress; this information is not only difficult to compare across agencies, but also confusing and sometimes even of dubious validity. In addition, variations in program statutes minimize the effective level of Congressional oversight and control.

- Congress cannot generally obtain from the agencies timely and accurate information to use in evaluating programmatic and financial conditions of the programs.

These three concerns are presently heightened because of apparent interest within the Executive branch in expanding the use of loan guarantees and insurance to achieve policy objectives without on-budget, direct outlays of federal funds.

The motivation for this study was the increasing recognition by Congress that it needed additional data and information in order to carry out its oversight function. In the course of this study, specific information was collected about three major aspects of program finance and administration:

- how program terms and related costs are defined, recorded, and reported by program staff;

- what administrative and financial/accounting procedures are used in the programs; and

- what factors influence the extent of the U.S. Government's probable costs under these programs.

The objective of the study was to document the information for a variety of insurance and guarantee programs and provide a comparative analysis of these characteristics as reflected by the different programs. The information was obtained from such sources as program legislation and regulations, program materials and agency records, and in-depth interviews with persons responsible for program administration.

Since the large amount of detail presented in the next section may be overwhelming to the user, particularly one without solid background in the area of finance, accounting, or loan administration, this section highlights significant aspects of the study. These reflect, in particular, three major concerns of Congress:

- the extent of the U.S. Government's liability under loan guarantee and insurance programs;

- the availability and interpretation of program data; and

- the degree to which program oversight and budgetary control is exercised.

For each area of concern, relevant findings reported in Section III will be presented and then discussed as they bear on the issues under consideration. In some cases, when the information collected is insufficient to address these concerns definitely, topics for continuing study are suggested.

THE EXTENT OF POTENTIAL OR ACTUAL U.S. LIABILITY IS UNCERTAIN

A great deal of uncertainty currently exists regarding the magnitude of the U.S. Government's contingent liabilities under loan guarantee and insurance programs. This uncertainty has three components. First, it is often difficult to obtain an estimate of how many guaranteed or insured loans are likely to result in claims against the U.S. Government. Second, it is nearly impossible to obtain an accurate estimate of total outstanding contingent liabilities. Third, the widely varying interpretations--both within and among agencies, and between the agencies and Congress--of what a "guarantee" or "insurance" program is may result in confusion about how to assess the extent of liability, even if agency estimates are available. This lack of information and variation in interpretation result in potentially weakened budget and program planning, unmanageable legislative oversight, and great difficulty in enforcing accountability.

The findings of this study may be used to respond to three questions that arise in connection with an agency's ability to provide estimates:

- How do agencies define "contingent liability," "insurance," and "guarantee" and account for guaranteed and insured loans so that clear, accurate information on the extent of contingent liabilities can be provided?

- How do agencies assess risk in guaranteeing or insuring loans?

- How are loans monitored so that potential problem loans may be anticipated?

Definitional Problems in Measuring Contingent Liabilities

The terms contingent liability, insurance, and guarantee vary considerably in usage among agencies. Key findings from the study include the following:

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- At least three different definitions for contingent liability are used by the agencies interviewed in this study.

- At the aggregate level of all programs surveyed, the terms insurance and guarantee are often used interchangeably and little clear distinction is made as to the differences these terms should denote concerning the extent of U.S. liability.

- The agencies do not distinguish clearly between guarantee fees and insurance premiums; therefore no clear understanding exists of the relationship of fees and premiums to claims payments and other program costs. Fees and premiums collected under the programs are frequently not designed to cover estimated losses in full; in fact, few agencies set premiums or request appropriations to cover claims payment on the basis of actuarially or historically estimated loss rates.

The three definitions of contingent liability differ significantly. Most agencies define it as the net amounts of guaranteed or insured loans outstanding. That is, the agencies recognize that contingent liabilities are reduced when borrower payments on loans are made and when federal outlays are made to meet claims. In the latter case, the contingent liability becomes an actual expense. However, one agency defines its contingent liability under one program as equal to the extent of its reserve for losses. The reserve is established on an actuarial basis, and lenders are informed that the Government's liability is limited. Another agency, however, defines contingent liability as the total amount of loans guaranteed (including repaid portions) and in this way, overstates the actual contingent liability of the Federal Government. It is difficult for Congress to know, on the basis of non-detailed financial statements, just what definition an agency is using, and this makes cross-agency comparisons hazardous.

An examination of program legislation and regulations and interviews of agency staff did not clearly reveal whether Congress has any specific intention in distinguishing between insurance and guarantee programs. Much imprecise use of the two terms exists in the agencies, and thus there appears to be little regard for the differences in U.S. liability that these words should denote. In explicit and publicly accepted usage, the term insurance is used to characterize a program under which government liability is limited to a reserve for losses supported by premiums paid by the lenders. The reserve and the size of the premiums should be determined actuarially on the basis of risk - either the aggregate riskiness of the entire loan portfolio or the risk involved in an individual loan. Guarantees, on the other hand, are presumed to be used in cases where the risk element cannot be determined and where the Government is willing to pledge its "full faith and credit" in support of private lending.

In the agencies interviewed for this study, a number of insurance programs use the Government's full faith and credit as backing and do not collect fees and premiums to cover potential losses. Not only are these programs not truly insurance, but their inaccurate label can be misleading when an attempt is made to determine their budgetary impact. Furthermore, most insurance programs have access to federal appropriations and Treasury borrowing as sources of funds to pay claims under the program. The Federal Government's liability is clearly unlimited in most of these cases. If Congress has established these programs with the idea that, as insurance programs, liability is limited, and if Congress interprets data from the agency with this presumption, then considerable problems may arise.

Inconsistent Risk Assessment

An agency can only provide information on the extent of liabilities under its programs, if it has some idea of the amount of risk involved in loans in its portfolio. Thus, some procedures are needed in order to assess the risk. The following study findings support the view that risk assessment is not strongly developed and implemented in the agencies:

- Eight of the 22 surveyed programs had no formal procedures for assessing the risk involved in a particular loan and/or left it to the lender to assess the risk by whatever criteria the lender wished to use.

. The criteria established to determine borrower eligibility under the program provided few objective standards for controlling risk.

Difficulties in Anticipating Problem Loans

Agencies should be able to anticipate, on the basis of either individual loans or an aggregate portfolio, the extent of future liabilities and claims. Estimates of claims for the total portfolio are typically based on statistical risk measurement procedures which, as described above, are not established in many of the agencies. Alternatively, an agency could attempt to anticipate problem loans through a combination of communication with lenders and accurate record keeping.

The study found that:

. for the majority of programs, little communication existed between the lender and the sponsor agency concerning loans which had not gone into default. No "early warning" system was available to or existed within the agencies, which, in turn, could only react to problems that had already occurred rather than enforce underwriting standards, for example, or change policy to ensure that credit allocation was accomplished in a a manner consistent with Congressional intent.

. most agencies do not account for changes in the status of a loan in the event of delinquency, default, or forbearance.

The lack of an early warning system for problem loans makes the agencies vulnerable to "shocks" as groups of problem loans are reported after the problem is likely to be correctable. Most agencies must wait until a loan defaults before being notified; even then, there may be a lag of several months before the lender is required to notify the agency that a loan is no longer in current repayment status. The problem is compounded by the fact that problem loans are usually not recognized as such in the agencies' accounting systems. In many cases, the only existing record that a loan has, with agency approval, gone from current status into some period of forbearance is a handwritten note on the loan folder in the agency's regional office. At any point, most agencies could not even readily assemble information about these problem loans that are much more likely to result in claims.

It thus seems apparent that a number of agencies have neither the necessary agency-lender communication channels nor recording procedures that would allow them to provide timely, accurate information regarding the extent of potential U.S. liabilities.

PROGRAM DATA ARE AVAILABLE BUT NOT NECESSARILY COMPARABLE

To exercise appropriate oversight, the agencies and Congress need timely and accurate information about what is being done by agencies to carry out their programs. Information of three main types is required:

- program financial data:
  - financial statements;
  - fund balances;
  - contingent liabilities; and
  - loans terminated;
- program activity data:
  - origination;

    . servicing; and

    . borrower characteristics.

. program effectiveness data:

    . inputs vs. outputs; and

    . costs vs. benefits.

Program financial data include financial statements, records of changes in fund balances, and the extent of contingent liabilities and of claims paid and loans liquidated. Financial data also include budgetary information showing how the agency's program costs compare with amounts appropriated each year by Congress. Financial data should also reflect agency risk assessments. Specifically, they should compare expected future claims and the sufficiency of current reserves for losses.

Program activity data include information about the number of loans originated, serviced and compromised, the types of borrowers, and the program achievements. These data elements are retrospective in nature and should provide Congress with information to support additional legislation and the appropriations process.

Program effectiveness data can be generated by combining certain program financial and activity data elements. Effectiveness measures can be developed to compare program outputs and related federal costs. Ratios can be used, for example, to measure the stimulus created by specific programs in terms of the volume of private sector lending or production levels resulting from these credit programs. While these measurement activities are currently used infrequently, they provide a mechanism for reviewing program operations and can furnish useful information on which Congress can base its decisions concerning the future direction of individual programs.

Policy Concerns

Three questions regarding data availability should be answered from a policy perspective:

- Can accurate and timely data be obtained from the agencies administering the program?
- Is the data in a form that is readily understandable to persons not involved in the programs on a daily basis?
- Are data comparable and consistent among agencies?

The policy implications of the first question are clear: if accurate and timely data are not available, then the agency is not accountable to organizational bodies elected to oversee the agency's programs. The thrust of the second question is equally clear: unless the data can be interpreted by persons not involved in the agency's daily operations, they are not useful in the exercise of oversight. Reams of computer printout filled with numbers are no substitute for a few, carefully chosen report tables displaying the financial and programmatic status of the program.

The third question needs some clarification. In order for Congress to make responsible decisions about trade-offs among programs (e.g., in terms of appropriations), it is vital that the information reported by agencies be comparable. If the definitions, formats, and time periods used in reports vary widely, it will be nearly impossible for Congress to compare the relative strengths or weaknesses of the programs. It is, of course, unnecessary for programs serving very different kinds of clienteles to have exactly the same types of reports but some modicum of consistency must be established.

To a large extent, the issue of comparable data may be resolved by the use of standardized forms for all federal agencies; indeed, efforts have been made to require that all agencies report to certain monitor agencies (e.g., GAO, OMB) on the same forms. However, even on these forms the agencies may use wide discretion in defining terms. Thus, standardized forms are not a panacea, nor should we expect them to be. After all, program variations must be accommodated with parallel administrative variations when necessary. Moreover, to the extent that disaggregated data are required in addition to the standard financial statements and reports of contingent liabilities, agencies are left with a great deal of discretion in the way they report to Congress.

Findings From the Study

Without a more extensive analysis of particular methods used by the agencies to store and report data, it is difficult to make strong statements about the adequacy of the data available. Several particular findings may be highlighted:

- The availability of key financial and program activity data varies among agencies, but most data are available in some form.

- Definitions of key terms such as delinquency, default, forbearance, and contingent liability vary significantly among agencies; thus, certain types of data may not be comparable.

- The loss of program- or fund-specific data reported on standard Treasury forms (e.g., annual report - Data on Federal Credit Programs) clouds the interpretation of the data by the agency Secretary, Congress, and the Executive oversight agencies.

- One agency program (OE/Guaranteed Student Loan Program) and one independent federally-sponsored corporation (OPIC) had financial statements in 1976 for which GAO rendered a qualified opinion. In the case of the GSLP, the problems occurred in reporting procedures, in the computer system used to maintain financial data, and in certain practices used by GSLP that did not conform, in GAO's opinion, with legislative requirements. In OPIC's case, the difficulty arose in assessing the adequacy of reserves to cover potential claims. These problems may not be unique to GSLP and OPIC, but no such examples were found in the other 20 programs surveyed.

In general, Congress should not expect any difficulties in obtaining most important types of data from the agencies. The timeliness, reliability, and comparability of the financial and program activity data may be expected to vary considerably from one agency to another.

A more comprehensive analysis of the agencies' financial management information systems and of the specific data element definitions they use is necessary to assess the comparability of data included in agency reports. Moreover, a closer look at agency administrative procedures is needed to evaluate the reports required of lenders which form the basis of agency summary reports.

It seems clear from the findings presented here that Congress will require very well-informed staff persons to understand and interpret data presented by the agencies. Without a thorough knowledge of the particular procedures, accounting conventions, reporting periods, and methods of servicing loans that exist in an agency, the financial statements and other data provided to Congress--even on standard U.S. Treasury or other forms--cannot be properly put into perspective.

CONGRESSIONAL OVERSIGHT AND CONTROL OF PROGRAMS IS UNCERTAIN

Through its power to make appropriations and formulate legisiation, Congress has responsibility to oversee federal loan guarantee and insurance programs and control the level of actual and potential liabilities under the programs. Currently, Congress is concerned about what real power it may have over programs. This study contains evidence that mechanisms Congress may use to exercise oversight and control should be strengthened.

Congress can exercise oversight and control over programs in several ways:

- Absolute limits may be set on the amounts of guarantees an agency may issue; or a "fractional reserve for losses" percentage may be established.

- Program legislation and regulations may be made sufficiently explicit and detailed to control both the financial and administrative aspects of the program.

- Program and financial reports may be required at sufficiently frequent intervals to give Congress an opportunity to take corrective action if necessary.

- Congress may delegate or utilize other agencies (e.g., GAO, OMB) to exercise oversight through audits of financial and administrative procedures.

- Congress may conduct or commission evaluation studies related to administration, financing, or overall program effectiveness of a particular program.

These methods for overseeing and controlling programs fall into two general categories: methods of foreseeeing and preventing the agency from overreaching its authority or overcommitting (in terms of Congressional budget priorities) the U.S. Government's pledges to redeem problem loans; and methods of exercising control over the ongoing process of program administration.

Preventive Control Measures

Preventive measures to control program operations mainly include legislative strictures concerning such aspects as:

- whether the program is to be an insurance or a guarantee program (as a way of defining, in a general way, the scope of the U.S. Government's liability);

- who is eligible to obtain government guarantees or insurance;

- what funds are to be created to account for program finances, and how the program will be financed (e.g., fees, premiums, authorizations for appropriations or agency borrowing); and

- what financial limits the program has (including absolute levels of contingent liabilities under the program, limits on the amounts of individual contingent liabilities, and loss reserve requirements) for the agency making the guarantee or writing the insurance.

These guidelines, which are used as the basis for program regulations and standard operating procedures, are a critical means of ensuring that program goals are achieved within financial limits determined by Congressional budget priorities.

Several findings from this study raise doubt as to whether existing legislative mechanisms to solidify Congressional control over programs have been effectively used:

- The terms insurance and guarantee are infrequently defined in program legislation, and no standard meaning exists for these terms on a practical level. The terminology for loan guarantee and insurance programs varies considerably not only among agencies, but even within many agencies; for example, terms such as guarantee and insurance are used loosely or even interchangeably.

- While legislation does include specification of program fees or premiums, these often seem only vaguely related in a consistent way to whether the program is of the insurance or guarantee type. Furthermore, specification of which types of fees may be used to cover which types of expenses (e.g., administrative fees for administrative costs, premiums for claims payment) is rarely made in the legislation.

- With respect to control over the size of contingent liabilities, nine of the 22 programs surveyed had no limits at all to the amount of loans that could be guaranteed or insured.

- Ten of the 22 programs had unlimited authority to borrow from the U.S. Treasury to cover claims payments.

- In 14 programs, the extent of the U.S. Government's liability was not limited by the size of the reserve fund used to cover losses; rather, the "full faith and credit" of the U.S. Government was pledged for payment of claims.

Not using the legislation in a thorough way to set program limits has given the agencies much flexibility in administering their programs and has made ongoing program oversight more crucial as a way of controlling programs.

Not controlling programs through legislative means has resulted in loan guarantee programs that are relatively immune to control through the appropriations process. Although the legislation may authorize funds for the program only up to a certain amount, the authorization (and appropriations under the authorization) frequently cover only administrative expenses and reserves for claims payments. The contingent liabilities the agency is willing to allow may be very large or very small relative to the appropriated amounts, depending on the agency's assessment of how risky its loan portfolio is. This, in turn, depends on how carefully the agency analyzes the risk involved in particular loans and on how well secured the loans are. These are all areas of agency judgment over which Congress has little control. This judgment element and the agencies' authority to request supplemental appropriations or borrow from the U.S. Treasury to cover program costs make program control by means of legislation and the appropriations process generally inadequate for avoiding federal outlays of funds to pay claims that were not intended in the authorizing legislation.

A general impression from the interviews is that oversight exercised only through the appropriations process is more oriented to problems that have arisen in the year preceding the appropriations hearings than to problems on near term horizons. The data available to Congress are difficult to interpret and may not provide a thorough picture of what is happening or expected to happen within the agency.

Methods of Ongoing Program Oversight and Control

While preventive measures may be preferable, as a means of minimizing actual liabilities, to control through review of past operations, it is difficult to anticipate all eventualities in connection with a program. To cover all possible (or even all major) problems, program legislation and regulations would have to be complex, and this might have detrimental effects on program administration. Consequently, Congress may have to institute procedures that will ensure ongoing review of programs. Since, as described above, preventive methods are not being effectively used, the need for ongoing monitoring and control is especially important.

With regard to reporting, program evaluation, and delegation of oversight responsibility to non-Congressional groups, some key findings of the study are as follows:

. Financial reports prepared by the agencies for external oversight groups (including Congress) often present aggregate data on a fund basis rather than disaggregate costs by program within the fund. That is, when a fund is used to finance multiple programs, it is often impossible to obtain program-level financial data for evaluation purposes (e.g., FmHA).

. Although external oversight agencies (e.g., GAO, OMB) are involved in evaluating the financial aspects of programs (typically a GAO annual audit), the programmatic and administrative procedures of the majority of programs were not evaluated by outside agencies.

- The agencies' internal evaluations of their programmatic and administrative activities were typically performed on an ad hoc basis (usually when problems arose) and not on an ongoing, recurrent basis.

Further study is required of how reports and evaluation studies are used as a means of controlling programs. It does seem, however, that given the strong need for ongoing oversight, what is currently being done is scanty and inadequate.

POTENTIAL PROGRAM DEVELOPMENT AREAS

In the course of this study, we identified several topics that would be valuable to pursue in subsequent research efforts. The suggested topics are intended to provide an improved mechanism for Congressional oversight and agency management of the various insurance and guarantee programs currently in force and soon to be initiated.

To implement these suggestions, we recommend that Congress undertake a study to:

- develop uniform standards for insurance and guarantee programs;

- clarify common program terms and agency practices; and

- establish requirements for program development.

These topical areas are specified in greater detail below.

As part of this study, it would be advisable to undertake a more specific needs assessment and definition of intent for Congressional oversight. Upon completion of a more extensive Congressional needs assessment and integration with existing agency practices and data baes, an Executive branch agency (e.g., OMB and GAO) or, perhaps, the Congressional banking committees should develop a handbook or manual for the use of agencies conducting insurance and guarantee programs.

The handbook could state the goals and objectives of each program type (insurance or guarantee) and the Congressional requirements which must be implemented by agencies conducting programs of this nature. The statement of goals and objectives could serve as the foundation on which to structure specific programs. Further, specification of Congressional requirements would provide a mechanism for Congressional control of the various programs. This handbook would serve as a major tool for making program types consistent, improving agency management, and providing appropriate control and oversight mechanisms for Congress to operate these credit activities.

The areas recommended for further development and inclusion in the above mentioned handbook are as follows:

- The formulation of uniform standards for insurance and guarantee programs. These standards should consider the characteristics of program types discussed in Section III and be sensitive to private sector usage of the terms "insurance" and "guarantee."

- The clarification of common terms across programs and agencies. Although programs that differ in scope and substance may require unique usage of terms (e.g., default, forbearance), the practical application of terms should be clearly specified in agency regulations.

- The creation of consistent definitions of "contingent liability" so that Congress can compare similarly defined program activity levels.

- The methods used to set fee and premium levels.

- The practice and reporting of risk assessment of loan portfolios and the related determination of loan loss reserve size.

- The requirement for accounting recognition of changes in loan status.

- The standardization of program and financial data requirements, at the program level, so that each agency collects common types of data to facilitate external program comparisons.

- The development of standard report formats and formal reporting intervals to allow simultaneous external reviews of common or similar data in similarly constructed formats.

- The development of common evaluation practices conducted by the agencies for internal and Congressional use. These practices should include measures of program effectivenes, program administration, and financing.

III. PROGRAM AND AGENCY ANALYSES

In this chapter, the data collected are discussed within a matrix framework used to present, analyze, and correlate the data. The matrices, contained in Appendix A, describe the data for each of the following topics:

. typology of insured and guaranteed loan programs (Matrix 1);

. program financing control and mechanisms (Matrix 2);

. program definitions (Matrix 3);

. accounting characteristics and conventions (Matrix 4);

. availability of selected program data (Matrix 5);

. reporting program and accounting information (Matrix 6);

. program administration (Matrix 7); and

. program evaluation (Matrix 8).

The discussion based on the matrices provides specific comparisons of programs within and across agencies.

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TYPOLOGY OF INSURED AND GUARANTEED LOAN PROGRAMS

Introduction

This section presents descriptions of the 22 programs examined in terms of their programmatic characteristics. First, the following characteristics are described for each program:

- types of coverage provided;
- methods of determining interest rates;
- existence of subsidies; and
- nature of required collateral.

The specific program descriptions are then generalized to determine whether program types typically have certain programmatic characteristics, and similarities and differences between programs within one agency and across the eight agencies administering the programs are identified.

The next question addressed is that of internal program and agency consistency. Do the characteristics of individual programs support their classification as insurance or guarantee types? Are different programs of one agency with similar characteristics consistent with the program type? Finally, are the program types and characteristics consistent across agencies? For this discussion, additional program type characteristics are introduced:

- extent of U.S. liability;
- existence of fees and premiums;
- sources of funds for administration and claims; and
- program fund control mechanism.

Matrix 1 (Appendix A) illustrates the key elements for each program.

Program by Program Description

The following listing references the description of each program and corresponding agency.

Farmers Home Administration (FmHA)

The study covered six FmHA programs. FmHA considers two of them insurance programs and four guarantee programs. The main difference between insurance and guarantee programs at FmHA is that FmHA provides a direct loan for the insurance programs.

Business and Industrial Guaranteed Loan Program

This program covers claims for up to 90 percent of losses of principal and interest and requires an equity contribution by the borrower of at least 10 percent of the project cost. The interest rate for the program is established in the market through negotiations between lender and borrower. There is no explicit subsidy. Collateral is required in most instances but partial security is often accepted.

Community Facilities Insured Loan Program

This program covers losses of up to 100 percent of project costs.* The interest rate is pre-set at a maximum of 5 percent. Although this rate is technically a ceiling, in practice the ceiling is usually charged. An explicit interest rate subsidy is not recognized by FmHA for this program; however, at current government borrowing rates, there appears to be an effective subsidy built into the program. All loans are secured. The collateral

*Insurance programs at FmHA appear to be direct lending programs. FmHA makes a direct loan to a borrower and then sells a pool of loans in the form of certificates of beneficial ownership to the Federal Financing Bank. FmHA also has a number of programs which are called direct lending programs.

may range from bonds or notes pledging expected revenues to real estate or personal property.

Emergency Livestock Guaranteed Loan Program

This program covers 90 percent of losses of principal and interest for either a specified loan amount or the used portion of a line of credit. The interest rate is negotiated in the market between borrower and lender, and there is no explicit interest rate subsidy. At least partial security is required for all loans and may consist of first liens on livestock, real estate, or other property of the borrower.

Recreation Facilities Guaranteed Loan Program

This program has not been implemented, apparently because of its lack of appeal to lenders. It is designed to cover losses of up to 90 percent of principal and interest. The interest rate is pre-set at 5 percent but, unlike the community facilities insurance program, the explicit subsidy is recognized by FmHA. According to the regulations for this program, the explicit subsidy equals the difference between the interest charged to the borrower and any higher per annum rate prevailing in the market for similar loans at the time the guarantee is made. This difference (currently 3 percent) is paid by FmHA to the lender. Collateral for this program is a function of the loan amount and term of the mortgage. If the loan amount exceeds $60, 000 or the term is greater than 20 years, then a first mortgage is required. For loans of smaller amounts and shorter maturities, other security (liens on chattel or equipment) may be substituted.

Rural Housing Guaranteed Loan Program

This program guarantees 90 percent of the losses of principal and interest and requires a down payment whose size is a function of the age of the house. For homes less than one year old, a 10 percent down payment is required. For homes one year or older, the down payment is 3 percent of the first $25, 000 and 5 percent of the remainder. There is, therefore, an element of risk sharing in the guarantee program that is not present in the rural housing insured loan program (discussed below). Interest rates for the guarantee program are negotiated by the borrower and lender, and there is no explicit interest rate subsidy. Collateral for guaranteed loans is usually a first mortgage on the real estate. Smaller loans may be secured by a second mortgage.

Rural Housing Insured Loan Program

This program involves direct lending and may cover losses equal to 100 percent of the FmHA appraised value of the real estate. The interest rate varies from 1 to 8 percent, depending on the borrower's income, and is determined by formula. For those families earning between $10,000 and $15,600 annually, the maximum rate of 8 percent is charged; for those earning less than $10,000, the rate is set so that the sum of principal and interest payments does not exceed 25 percent of the annual family income. A minimum interest rate of 1 percent is also specified. FmHA does not recognize any explicit interest rate subsidy for this program. However, an effective subsidy would accrue to the program if rates charged to borrowers were less than the rates paid by the Federal Financing Bank after purchasing and reselling certificates of beneficial ownership.

The Maritime Administration (MARAD)

Federal Ship Financing Program

This program guarantees the bonds issued by shipowners to construct or reconstruct ships. Prior to 1972, it was an insured mortgage program in which the private lender held the mortgage. It was changed to free up the funds of the participating lenders. A small component of the current program guarantees commercial bank loans for the stated purposes of the program. This component is used infrequently and presently accounts for about 2.5 percent of the program's guarantees. The ship financing guarantee program covers 100 percent of the bonds issued. However, the bonds issued may not exceed 75 to 87.5 percent of the actual costs of the ship. The range of the debt to value ratio is a function of the size and type of the ship. Interest rates are negotiable, subject to approval by the Secretary of Commerce. Rates are usually set at about 30 basis points above the average Treasury rates for obligations with similar maturities. Collateral is the ship whose construction is being financed.

Department of Health, Education and Welfare (DHEW) - Office of Education (OE)

Federally Insured Student Loan Program

This program involves the Federal Government as the insurer of lenders making student loans. It covers 100 percent of losses of principal and interest. Interest rates are pre-set by statute at 7 percent. However, the statute provides for a "special allowance" which enables the agency to increase interest rates so that they are more comparable with other bank lending rates. The "special allowance" increase is based on a formula that is calculated quarterly. Consultation with the Secretary of the Treasury is required before the "special allowance" increase can be set. The Department of Health, Education and Welfare recognizes an explicit interest rate subsidy for the program. Students meeting a family income-based needs test are eligible to receive a subsidy. This subsidy is the Federal Government's payment of interest on the loan while the student is attending school and during periods of authorized deferment. Usually no collateral or security is required, although in some cases the lender may require that the student's parents co-sign the loan.

Guarantee Agency Program

This program for student loans is similar to its companion insurance program except that the Federal Government insures guarantee agencies for 100 percent of losses of principal and interest for those agencies with default rates lower than 5 percent. Guarantee agencies experiencing default rates in the range of 5 to 9 percent receive coverage benefits of 90 percent of principal and interest. Agencies with default rates above 9 percent are covered for 80 percent of losses of principal and interest.

Department of Housing and Urban Development (DHUD)/Federal Housing Administration (FHA)

Basic Home Mortgage Insurance Program (Section 203B)*

This program covers principal, interest, and allowable lender expenses. Coverage is a function of the permitted loan to value ratio and is equal to the sum of 97 percent of the first $25,000, 90 percent between $25,000 and $35,000, and 80 percent of the value in excess of $35,000. The interest rate for the 203B program is negotiated by the lender and borrower but cannot exceed the maximum limit (currently 8.5 percent) set by FHA. Although there is no explicit interest rate subsidy, the low down payment required for the program may be considered a form of subsidy. Further, a longer maturity (35 years) is available and also may be considered a form of subsidy. Neither form was recognized as a subsidy by those interviewed. Collateral for this program is a first lien on the real estate for which a mortgage has been issued.

Low and Moderate Income (221D3 MR and BMIR) and Moderate Income (221D4) Mortgage Insurance Programs for Rental Projects

These programs are considered jointly because their administration is based on the same set of regulations. Coverage for the three insurance programs includes principal, interest,

*Section 244, single family coinsurance, is included as part of the discussion of 203B.

and allowable lender expense. The claim payment is calculated as follows:

- For assigned properties, coverage equals the sum of the unpaid principal balance of the mortgage--computed as of the date of the default, allowable lender expenses, allowance for reasonable payments by the mortgagee for completion and preservation of the property, and an amount equal to the debenture interest which would have been earned on the portion of the benefits paid in cash. This sum is then reduced by any mortgagor payments made after the date of default, any net income received by the mortgagee after the date of default, the sum of cash items held by the mortgagee, and an amount equivalent to 1 percent of the mortgage funds advanced to the mortgagor and not repaid as of the date of default.

- For conveyed properties and for 221D3 BMIR properties, the 1 percent is not deducted.

The interest rates for the 221D3 MR and 221D4 programs are negotiated in the market place. For 221D3 BMIR, the negotiation process is used but the interest rate can be reduced to as low as 3 percent. There are no explicit interest rate subsidies for the two market rate programs, but one is recognized for the 221D3 BMIR program. Down payments range from 0 to 10 percent, depending on the type of mortgagor, and may be considered a subsidy. Furthermore, no mortgage insurance premium is charged for 221D3 BMIR, and program officials recognize this as a subsidy. The first lien on the real estate is required as collateral. In addition, the regulations for these programs provide for insurance of a loan to cover operating losses if the project has operated at a loss for the first two years after project completion. The regulations, however, do not specify the programmatic characteristics of the program; nor did the various officials interviewed.

Property Improvement and Mobile Home Insurance Program (Title 1, Section 2)

This program provides for the insurance of lenders making loans for property improvements, mobile homes, fire safety equipment in health care facilities, combination mobile homes and lots, and historic preservation activities. The study reviewed characteristics of the property improvement and mobile home programs. Coverage provisions for the two programs are calculated by adding:

- 90 percent of the net unpaid amount of the loan or the purchase price, whichever is less;

- 90 percent of the uncollected interest earned up to the date of default; and

- 90 percent of the interest, at 5 to 7 percent, on the outstanding balance computed from the date of default to either the date of the claim application or 9 months and 31 days after the default, whichever is less.

A distinguishing feature of this program is that coverage is limited to the extent of the lender reserve account at HUD. The reserve account is established for each lender and equals 10 percent of the aggregate amount advanced on loans originated by the insured lender. Once each year the account is adjusted for maturing loans, but it may not be reduced below $15,000. Thus, coverage is not only a function of the allowable percentage amounts described above, but actual claim payments cannot exceed the amount available in the lender's reserve account. This element of the two programs therefore introduces an element of risk sharing between HUD/FHA and the lender.

Interest rates for the program are effectively pre-set at a maximum of 12 percent. Although lower rates could be negotiated, HUD officials suggested that the majority of loans insured under Title 1, Section 2 carry the maximum interest rate.

The program does not have an explicit interest rate subsidy. Collateral for the property improvement component is a function of the loan amount. For loans of $7,500 or more, a first lien on the property is required. Smaller loans are secured by the borrower's personal liability. Mobile home loans, on the other hand, are not collateralized, but the lender is required to repossess and sell the mobile home prior to making a claim. The claim payment is then reduced by the amount of proceeds from the sale.

Mortgage Insurance for Hospitals (242)

This program is administered by the Department of Health, Education and Welfare. Its coverage provisions are based on the same regulations as the 221D3 and 221D4 programs. The provisions for assigned properties include the unpaid principal amount computed as of the date of default plus special expenses and an amount equal to the debenture interest which would have been earned on the portion of the insurance benefits paid in cash, as of the date of payment. This sum is then reduced by an amount equal to any payments or income received by the mortgagee and an amount equal to 1 percent of the mortgage funds advanced to the mortagor and not repaid. For conveyed properties, the same coverage applies except the 1 percent is not deducted. Interest rates are negotiable between borrower and lender as in the other HUD insurance programs, with the exception of the Title 1, Section 2 program. There is no explicit interest rate subsidy. Collateral is the first lien on the entire project, including any equipment financed with the proceeds of the mortgage.

Federal Aviation Administration (FAA)

Aircraft Loan Guarantee Program

This program covers losses of 90 percent of the unpaid principal and 100 percent of the interest. Interest rates are negotiable and there is no explicit interest rate subsidy. A distinguishing feature of the interest rate structure is that two rates are set: one for the guaranteed portion of the loan, and one for the non-guaranteed portion. Typically, higher rates are established for the non-guaranteed portion to compensate the lender for the added risk. A first lien on the aircraft is the collateral.

Overseas Private Investment Corporation (OPIC)

OPIC Investment Guarantee Program

This program provides coverage of up to 50 percent of the total project cost. The guarantee covers principal and interest on only the debt portion of the project financing. The actual percentage of project costs that OPIC will guarantee varies from project to project and is specified in a detailed investment agreement "package" for each project. Interest rates on the guaranteed portion of the debt are negotiated by the lender, the borrower, and OPIC within a range established by OPIC. The range is specified by the OPIC Finance Committee and is based on the prevailing conditions in the money markets. OPIC officials suggested that the interest rate is not a chief determinant of the decision to guarantee. Rather, OPIC is concerned primarily with project viability and its effect on the development of the host country. There is no explicit interest rate subsidy. A first mortgage is usually required for collateral, but other forms of security may be acceptable.

Small Business Administration (SBA)

Regular Business Loan Guarantee Program (7A)

This program covers 90 percent of the balance of the loan outstanding, as stated in the legislation. SBA officials indicated that up to 90 percent of principal and interest is covered by the guarantee program. The interest rate is pre-set quarterly by the program director, who uses a formula as a guide. There is no explicit interest rate subsidy provided by the program. Collateral typically takes the form of real property or accounts receivable, but a loan cannot be rejected because of lack of collateral.

Program of Guaranteed Loans to Development Companies (502)

This program covers up to 90 percent of principal or $500,000, whichever is less. The interest rate is pre-set annually, and rates are set to be consistent with the regular business guaranteed loan program. There is no explicit interest rate subsidy. Collateral is required to "reasonably assure repayment." The security typically consists of a lease, first or second mortgage, or personal guarantee.

Small Business Investment Company Program

This program guarantees 100 percent (timely payment) of principal and interest. The interest rate for the program is set at 3 percent or determined by formula, whichever is greater. The formula used by the Department of Treasury sets the rate as the average market yield on outstanding U.S. Government obligations that are comparable in terms of maturity structure to SBIC debentures, adjusted to the nearest 1/8 percent, less 3 percent. The program does not provide for an explicit interest rate subsidy. Collateral is the credit worthiness of the borrower and the project's financial viability.

Veterans Administration (VA)

VA Home Loan Guarantee Program

This program covers principal, interest, lender expenses, and advances made by the lender to borrowers that are delinquent in paying taxes. The guarantee may not exceed 60 percent of the original principal amount or $17,500, whichever is less. Interest rates are negotiated between the lender and borrower within a framework set by the administrator and based on market conditions. Although the regulations state that 8 1/2 percent is the maximum allowable rate, the VA official interviewed said there was no longer a maximum rate. In general, coordination of rates for the VA and HUD 203B programs is encouraged; VA rates are frequently the maximum allowable FHA interest rates. There is no explicit interest rate subsidy for this program. The down payment requirements, however, are often nominal and may be considered a subsidy. A first lien on the realty is required as collateral.

Program Descriptions

The descriptions of each program illustrate that program characteristics vary from program to program. The purpose of this section is to determine whether or not insurance or guarantee programs typically have certain program characteristics. The 11 insurance and 11 guarantee programs are analyzed, in aggregate by type, across the same set of characteristics.

Coverage Provisions

The coverage provisions of the programs sampled vary in the percentage of coverage and also in the elements (principal, interest, and expenses) they contain. No uniformity of coverage provisions seems to exist at the aggregate level of either insurance or guarantee types. For example, of the 11 insurance programs, 6 cover 100 percent of either the outstanding principal balance at the time of default plus interest (4 of the 6) or the outstanding principal balance plus interest and allowable lender expenses (2 of the 6 programs). The remaining 5 insurance programs cover less than 100 percent of the outstanding loan amount. The coverage provisions for these programs range from 99 percent of the outstanding principal balance to 90 percent of the outstanding principal balance or the extent of the lender's reserve account (HUD Title 1, Section 2), whichever is less. Of this group, only 1 program covers the outstanding principal balance plus interest. The remaining 4 programs cover the outstanding principal balance plus interest and allowable lender expenses.

The 11 guarantee programs can also be classified by whether or not 100 percent of the loan is covered by the guarantee, and by the elements the guarantee covers. The guarantee programs appear to be more uniform in terms of which elements are covered. Two of the programs provide 100 percent guarantees and cover only principal and interest. Of the 9 programs providing guarantees of less than 100 percent, 7 cover principal and interest. Of the remaining two, one covers only principal and the other covers principal, interest, and allowable lender expenses.

Method of Interest Rate Determination

Interest rates are established in one of three ways for all the programs studied; they are: pre-set by the agency, related to a formula, or negotiated between borrower and lender. In the third case, there is often a maximum interest rate permitted by the agency. There appears to be no pattern of determining interest rates as a function of program type (i.e., insurance or guarantee), program substance (e.g., housing, small business, education), or presence of interest rate or other subsidies.

The majority of insurance and guarantee programs either pre-set interest rates or rely on the negotiation process to establish them. Of the 11 insurance programs, 4 pre-set rates and 6 use the negotiation process. Similarly, of the 11 guarantee programs, 4 pre-set rates and 5 set rates through negotiation. One insurance program and 2 guarantee programs use a formula to set interest rates.

Although program substance does not appear to be a basis for establishing interest rate setting procedures, in a few cases groups appear to exhibit some uniformity. The 22 programs can be divided into five substantive groups: housing, business, education, agriculture, and discrete ventures.

Of the nine programs in the housing group, seven permit the negotiation process to set interest rates. Five of the seven are HUD/FHA insurance programs and the sixth is the VA guarantee program. The sixth HUD/FHA housing insurance program studied pre-sets the interest rate. As for the remaining two housing programs, the FmHA insured rural housing program relies on a formula to set rates, and the FmHA guaranteed rural housing program allows the rate to be negotiated between borrower and lender.

There appears to be less uniformity among the group of four business programs, consisting of three SBA programs and one FmHA program, than among the housing programs. Of the three SBA guarantee programs, two pre-set interest rates and one uses a formula. The FmHA guarantee program permits the negotiation process between borrower and lender to establish the interest rate.

The two HEW programs, comprising the education group, pre-set interest rates. However, one program is an insurance program, while the other is a guarantee program. (The ambiguity of HEW program classifications as insurance or guarantee is discussed in the following subsection, "Definitions.")

Of the three programs in the agriculture group, two pre-set interest rates, but one is an insurance program and the other is a guarantee program. The third program uses the negotiation process.

The discrete venture group consists of the FAA aircraft guarantee program, the MARAD guaranteed ship financing program, the HRA insured hospital program, and the OPIC guarantee program. There appears to be more uniformity in this group, perhaps because of the types of ventures being insured or guaranteed. All four programs use the negotiation process. OPIC, however, does pre-set a range of interest rates for a given type of investment.

The relationship between interest rate setting methods and the presence of interest rates or other subsidies* is also ambiguous and apparently bears no relationship to the type of program.

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*Other subsidies include but are not limited to lower down payments, longer maturities, or suspension of premiums.

Of the four insurance programs with pre-sete interest rates, two have interest rate subsidies and two have no subsidies. Of the four guarantee programs that pre-set rates, only one has an interest rate subsidy and three have no explicit interest rate subsidies.

Similar apparent randomness is exhibited by programs with negotiated rates. Of the six insurance type programs, one (HUD 221D3 BMIR) has both an explicit interest rate subsidy and another subsidy form (no mortgage insurance premium is charged). Three have other forms of subsidies, and two were designed without subsidies. However, of the five guarantee programs with negotiated rates, one provides a non-interest rate subsidy and the other four were designed with no subsidy components. For the one insurance program and two guarantee programs that use formulas to determine interest rates, no explicit subsidy form exists.

Types of Collateral Required

In the overriding majority of cases, physical collateral (e.g., a first lien on the insured property) is required as security. Nine of the 11 insurance programs require some form of physical collateral. The remaining two programs, both student loan programs, require no form of security. Eight of the 11 guarantee programs require physical collateral. Of the remaining three programs, one requires personal security and two require either physical or personal security.

Conclusions

The first two parts of this section have described the sample of insurance and guarantee programs selected for this study at both the program-specific and the more general program-type levels. The first part illustrates, by the specific descriptions of each program, the wide variety of programs and related characteristics. The second part shows that at the general level of either insurance or guarantee type, there do not appear to be uniform patterns of characteristics associated with a specific type

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of program. The following section addresses the question of internal program and agency consistency.

Internal Program and Agency Consistency

Internal consistency is a significant concern because of the connotations associated with the term "insurance." Specifically, insurance suggests a program designed to generate sufficient revenues from fees and premiums to cover actuarially determined future claims experience and, in many cases, the administrative expenses of the programs. Such expressions as "self-sufficiency," "self-sustaining," and "adequate reserves" are often used in reference to the term insurance.

As for the term "guarantee," it usually suggests a program designed to require appropriations or other sources of governmental funding to meet claims payments. These programs may have fees but usually do not have annual premiums designed to cover future losses. Expressions such as "self-sufficiency" or "self-sustaining" are normally not associated with the term guarantee.

In order to analyze the 22 programs in terms of these common associations with the terms "insurance" or "guarantee," four additional characteristics are introduced:

- extent of U.S. liability;
- presence of fees and premiums;
- sources of funds for administrative expenses and claims payments; and
- program fund control mechanism.

These characteristics are compiled for the 22 programs in Matrix 1 (Typology of Insured and Guaranteed Loan Programs) and Matrix 2 (Program Financing and Control Mechanisms) (see Appendix A). Insurance programs are analyzed in terms of these characteristics, and guarantee programs are examined to determine whether they may have characteristics normally associated with insurance programs. Further, programs within the same agency and possessing common characteristics are examined to see if they are consistently called either insurance or guarantee programs. Finally, programs are examined across agencies for consistency.

Insurance Versus Guarantee

The most consistent insurance program (used as a model in the course of this discussion) appears to be the HUD/FHA 203 basic home mortgage insurance program. In this case, the U.S. liability is limited to the reserves of the Mutual Mortgage Insurance Fund. Historically, premiums and fees have provided sufficient income to meet the claims experience of the Mutual Mortgage Insurance Fund, which has maintained a surplus position. As of September 30, 1976 (date of the most recent available HUD financial statement), neither appropriations nor Treasury borrowing was required to operate this fund. Furthermore, there is no statutory control over the size of the program, according to HUD officials, because the program "pays its own way."

The VA home loan guarantee program is a good model of a guarantee program. The program recognizes that the liability to the government is the amount of outstanding guarantees. Neither fees nor premiums are charged. After an initial capitalization of the loan guarantee revolving fund, the majority of claims have been paid by income generated from past loan and property sales. Appropriations are used for administrative expenses and are authorized for claims but have not been used to meet claim payments, according to the VA official interviewed. The same official stated that program size is limited only by the demand for its use.

At the aggregate level of 22 programs, the terms insurance and guarantee are often used interchangeably, and in many instances, the terms are not related to their program characteristics. In general, insurance programs are less consistent than guarantee programs in terms of these characteristics. For example, the FmHA rural housing insurance program, for which a direct loan is made, does not charge fees or premiums. The U.S. liability for this program is the government's full faith and credit. Although there is a $2.675 billion dollar limit on the aggregate insurance outstanding, the program has access to the appropriations process and to the Treasury (either directly or through the sale of certificates of beneficial ownership to the FFB) to cover losses and to finance the program.

A second FmHA example is the community facilities insurance program, for which a direct loan is also made. Although the U.S. liability is limited by the funds in the Rural Development Insurance Fund (RDIF), the program does not charge premiums or fees and therefore does not contribute to the reserves for losses. Furthermore, appropriations are used to cover losses and administrative expenses of the program. Because program fund sources are merged in the RDIF, additional sources of funds for claim payments may include premiums and fees collected for other programs that are contained within the RDIF or Treasury borrowing, for which the program has unlimited borrowing authority. Additional financing from the Treasury may take the form of sales of certificates of beneficial ownership to the Federal Financing Bank.

Similarly, the two student loan insurance programs are backed by the full faith and credit of the Federal Government. Annual premiums are included as part of the program; but for the federally insured student loan program, they are normally collected once, at the time the insurance is provided. Program officials also stated that an insurance approach to the program (using premiums based on the estimated default rates) was deliberately not chosen in order to avoid the possibility of good borrowers being penalized for bad risk borrowers. The spreading of risk across all borrowers, however, is normally considered a feature of insurance.

The two student loan programs deposit the premiums collected into the student loan insurance fund, but the collections have not been adequate to cover losses. Both programs require appropriations to cover losses and have limited borrowing authority ($25 million in FY 78) at the Treasury. Although the appropriations process sets a theoretical limit on the program, supplemental appropriations have been requested and provided for both programs.

A last example provides additional evidence that the term insurance does not always represent its usual connotations. A number of HUD programs that are part of the General Insurance Fund do not have the self-sustaining characteristics that normally define insurance. For example, the 221D3 BMIR program does not charge insurance premiums and, therefore, does not contribute to the insurance reserves for losses. Although the government liability for this program is designed to be limited to the insurance reserves in the fund, and the fund was designed to be actuarially sound, this is not the case. The General Insurance Fund has access to three external sources of funds: the Mutual Mortgage Insurance Fund; appropriations; and Treasury borrowing. Each source has been tapped to provide funds for claims experience. Moreover, one HUD official suggested that in the early 1980s, additional appropriations will be required to pay off part of the maturing debt owed to the Treasury.

Most guarantee programs are consistent with respect to their recognition of the government's liability, their need for appropriations and Treasury borrowing, and their understanding of the limitations on the size of the program. A number of programs, however, charge fees or premiums that are similar to charges normally associated with insurance programs. Although it does not appear to be a critical problem, the incorrect labeling of fees as premiums or premiums as fees may contribute to the confusion regarding the classification of programs as insurance or guarantee type.

A fee is normally a one-time charge to the borrower or lender and is usually a percentage of the loan amount. An example is the one-time fee of 1 percent charged by the SBA 7A program to the banks originating the loan. The FmHA recreation facilities guarantee program also charges a one-time fee of 1 percent of the principal amount of the loans. Other programs, however, have annual guarantee fees that are charges against the outstanding principal balance of the loan. These charges are normally associated with insurance programs. For example, both the Maritime Administration and the Federal Aviation Administration charge annual guarantee fees. Similarly, OPIC has an annual guarantee fee which ranges from 1 3/4 to 3 percent of the outstanding balance of the loans.

One exception to the general consistency of guarantee programs is the FmHA business and industrial loan guarantee program. For this program, a guarantee fee is charged once. However, according to an FmHA official, it is designed to cover losses accruing to the program. The liability to the government is its full faith and credit, and appropriations are available to replenish the fund if it is not self-sustaining. This program, therefore, charges a fee (which sounds like an insurance premium) that is supposed to make the program self-sustaining. However, both the appropriations process and unlimited borrowing authority are available to the program in times of need.

In summary, there appears to be more consistency among guarantee programs (with the exception of the FmHA business and industrial loan program) than among insurance programs, as illustrated by the various examples of insurance programs that do not comply with the generally accepted characteristics of insurance. Although examples of incorrect labeling of fees or premiums exist for guarantee programs, this may not be a critical problem except as a possible contributing factor to the general confusion about program types.

Internal Agency Consistency

Four agencies--FmHA, HEW, HUD, and SBA--contain more than one program sampled for this study. These agencies thus provide the opportunity to determine whether program types and characteristics are consistent at the agency level.

FmHA Programs

A number of inconsistencies exist across FmHA programs. The full faith and credit of the government is pledged for the four guarantee programs and for one of the two insurance programs. Neither insurance program should be backed by the government's full faith and credit if it is to be considered insurance in the pure sense of the word.

The rural housing insurance program, which is backed by the government's full faith and credit, does not charge fees or premiums and requires appropriations to cover losses. The community facilities insurance program, which limits the liability of the government to the amount available from the Rural Development Insurance Fund, does not charge fees or premiums either and does not, therefore, contribute income to cover losses. This is particularly significant because both programs make and "insure" their respective loans. Neither of these programs meets the requirements normally associated with the term insurance.

While neither insurance program charges fees or premiums, three of four guarantee programs do. The emergency livestock guarantee program does not charge its borrowers. Two of the three remaining programs (the rural housing and recreation facilities guarantee programs) charge an appropriate one-time guarantee fee. The business and industrial loan guarantee program also has a one-time fee which, according to one FmHA official, is supposed to cover ultimate losses; yet this program can rely upon appropriations if necessary.

In terms of access to alternative sources of funds for claims payments, the FmHA programs function independently of the normal boundaries of insurance or guarantee assumptions. Regardless of type, all programs can (at the fund level) request appropriations or borrow from the Treasury to cover losses.

In summary, the six FmHA programs have some common characteristics regardless of the program type. Although the emergency livestock program most closely resembles a pure guarantee type, the remaining guarantee programs have characteristics of both insurance and guarantee types. The two insurance programs are the least consistent and probably should be considered guarantee programs or direct loans. The insurance status of both programs appears only to facilitate the use of the Federal Financing Bank for additional liquidity.

HEW Programs

Both student loan insurance programs have the same characteristics. Each is backed by the government's full faith and credit and each collects one-time premiums. Both programs have access to appropriations and limited Treasury borrowing to cover losses since the premiums charged are not designed for this purpose. In summary, while both programs are internally consistent within the agency, they share more common characteristics with guarantee types than with insurance types.

HUD Programs

The seven programs conducted by HUD are considered insurance operations by the agency. The two programs contained within the Mutual Mortgage Insurance Fund, 203B and 244, appear to be the best examples of insurance.* Another example is the property improvement and mobile home program, Title 1, Section 2. This program has a unique feature called the lender's reserve account. Insurance coverage for this program is ultimately limited to the reserves of this account. The reserve is established initially as 10 percent of the aggregate loans made by an insured lender. The account is adjusted periodically to reflect changes due to maturing loans, but it cannot be reduced to less than $15,000. Although there was some confusion among HUD officials regarding the length of time an account must exist

*The 244 program is only one year old, and it is therefore difficult to determine whether it will be actuarially sound over its lifetime.

before the first adjustment can be made, the system apparently has operated successfully. The program has made a positive contribution to the insurance reserve for losses of the General Insurance Fund.

As previously mentioned, the 221D3 BMIR program, which is part of the General Insurance Fund, does not collect an insurance premium. The elimination of the premium is recognized as a subsidy and implies that the program was not intended to be actuarially sound. The inconsistency, therefore, is at the fund level because the fund was initially designed to be actuarially sound but it contains a program that is not.

The three remaining programs, 221D3 MR, 221D4, and 242 (hospitals), possess the characteristics typically associated with insurance. Each collects normal fees and premiums and limits the government's liability to the insurance reserve. The inconsistency, however, is again at the fund level because the fund's liability is not limited to its reserves. Rather, it has access to appropriations and Treasury borrowing which, therefore, expands the government's liability beyond the reserves of the fund.

One further point is that the regulations for the programs analyzed, except for Title 1, Section 2, permit payment of claims in either cash or debentures. The decision concerning which method to use is partly a function of how attractive HUD wants to make a program to the lenders. If a payment is made in debentures, additional liquidity is provided to the fund or program because the reserves have not been diminished by the size of the payment. When debentures are used, the government's liability is extended further.

SBA Programs

The three SBA programs are guarantee types and appear to be internally consistent. Each program is backed by the full faith and credit of the government. One program charges a one-time guarantee fee to the lender. The other two programs do not charge fees or premiums. All three programs have similar access to the appropriations process, and none has authority to borrow from the Treasury.

Consistency Across Agencies

Consistency across agencies for the full set of 22 programs is very limited. Although guarantee programs are more consistent across agencies than insurance programs, when inconsistency occurs at the agency level it re-occurs across agencies. Comparisons for insurance programs reveal a similar pattern. Without internal agency consistency, it appears to be difficult to obtain consistency across agencies.

DEFINITIONS

As shown in the previous section, federal loan guarantee and insurance programs display a variety of definitions for key terms such as "guarantee," "insurance," "delinquency," "default," "forbearance," "subsidy," and "contingent liability," and the variations occur not only among programs administered by different agencies but among programs administered by the same agency. These differences sometimes result from differences in legislative language, in cases where terms are defined in the legislation; but most of the differences are due to the way in which "working" or "operational" definitions evolve from being used on a daily basis by the persons who actually administer the programs and service the guaranteed or insured loans. While such "working" definitions are useful to those who use them, two major problems may result.

First, "working" definitions may become so loose that they no longer reflect--or may even obscure--Congress' initial intent in establishing a particular program. A prime example in this study is the guaranteed student loan program administered by the Office of Education. Ignoring special cases for which the term guarantee is mentioned, the legislation establishing and detailing the provision of the guaranteed student loan program does not refer to a guarantee program at all. Instead, the legislation constantly refers to a program of "federally insured" loans to students. As will be explained below, the terms guarantee and insurance may be given precise definitions. Yet the guaranteed student loan program uses the terms almost interchangeably through all the levels of units actually administering the program. If Congress intended that the program be funded from insurance premiums paid into a reserve for losses which was determined actuarially so that the reserve could in fact cover claims, the intentions of Congress have not been realized. If, however, Congress wanted a guarantee program, with the loans secured so as to ensure repayment and the risk involved in the Federal Government's contingent liability kept to a prescribed level, then why the emphasis in the legislation on "federally insured" loans?

One possible result of the confusion in terms is that the program now is neither a true insurance program nor a controlled guarantee program but a program in which, for a small fee, the Federal Government will assume the risk for almost any student loan a lender is willing to make. The fact that extensive defaults occurred under the program may not be related to the points made here regarding definitions, but a clearer conception of the program's objectives (reflected in more careful legislative language) might have helped to avoid the recent difficulties.

A second problem arising from the wide variations in definitions is the difficulty in interpreting information about the programs provided by the agencies. This is especially true with regard to definitions of delinquency and default. If Congress is told that a particular guaranteed or insured loan is 90 days "past due," that information could mean many things. If the loan guarantee was extended under the Maritime Administration's federal ship financing guarantee program, then the loan has been "in default" for 60 days and extensive remedial efforts are probably underway. If the loan was guaranteed under the Veterans Administration program for housing loans, then the default has just become "reportable" since the VA definition of reportable default is a loan on which three monthly payments have been missed. Until recent regulations were proposed to require that all lenders report defaults within 90 days, a loan 90 days past due under the guaranteed student loan program would probably not even have been reported to the OE regional offices by the lender. The definition of default for the GSLP, as specified in the legislation, even goes so far as to require that the Commissioner of Education make some judgment that a "borrower no longer <u>intends</u> [emphasis added] to honor his obligation to repay." Thus, unless Congress knows the specific operational definitions of default used in the agencies administering the programs, it cannot judge the extent or severity of a loan reported by an agency as "defaulted." The case is made <u>a fortiori</u> with respect to the term delinquency, which is used extensively in the agencies but rarely defined clearly or uniformly.

The combined effect of these two problems resulting from confusion in definitions is that Congress loses its power to control and monitor programs in an effective way. Without clear knowledge of what a particular word, such as default, means operationally within and across agencies, Congress cannot evaluate the effectiveness of programs or accurately estimate the contingent liabilities of the Federal Government under a particular program. If Congress has no clear definition of guarantee and insurance, it cannot control the basic thrust of a program and agencies have relatively free reign to implement programs in ways that may be inconsistent with Congress' intentions. These issues will be highlighted below as specific attention is given to cross-agency comparisons among definitions.

Guarantee and Insurance

The terms guarantee and insurance may be given precise definitions. The term insurance, in private sector finance, has come to mean commitment of one party (the insurer) to bear the risk, for a fee (premium), of a venture undertaken by the insuree or policyholder. The premium varies according to the risk of the venture and is set by the insurer on an actuarially determined basis to cover claims that may result. In certain government insurance programs (e.g., HUD 203B), the liability of the Federal Government is limited to the amount maintained in a particular insurance reserve which collects the premiums paid. By contrast, the term guarantee indicates a commitment in which unlimited liability of the Federal Government (usually expressed in terms of a "full faith and credit" backing) is typically involved, but the absolute amount of any particular contingent liability (i.e., loan) and/or the total aggregate contingent liability is usually controlled (e.g., a certain percent of total contingent liabilities must be kept in the form of guarantee reserves for paying claims--as in the case of OPIC investment guarantees).

The terms guarantee and insurance as used in the programs studied are not used in nearly as precise a way. Matrix 3 (Appendix A) presents an overview of definitions used by the agencies. The first point to be noted is that none of the agencies is working on the basis of definitions for guarantee or insurance specified in the legislation establishing the program. However, several guarantee programs (FmHA, OPIC) do have definitions of guarantee which can be found in the regulations or in other documents prepared by the agencies; and the GSLP does have a definition of "insurance premium" in its FISLP lenders manual (the GSLP will be discussed in greater detail below).

Beyond the lack of legislatively defined terms, there is little to say about the definitions of guarantee and insurance; the major discrepancies occur in the relationship between the types of programs and the types of fees or premiums collected and the extent of U.S. liability, as discussed in the section on program typology. These discrepancies demonstrate the confusion about the precise intentions of Congress in creating the programs. The differences in definitions shown in Matrix 3 are fairly trivial and relate more to emphasis than to substantive variation. For example, MARAD and FAA refer explicitly to some terms of the loan agreement; OPIC stresses the irrevocability and complete protection afforded by the agreement; and SBA and the VA provide simple generic descriptions of a guarantee. In the case of definitions that were provided in the course of interviews, the variations may be due as much to the perspective of the interviewee as to significant differences in wording.

With the exception of FmHA, the variations in definitions of insurance are equally minor. No definition was found in legislation or regulations or offered by program officers for the HUD/FHA property improvement loan insurance program. Apart from this program, OE and other FHA insurance programs emphasize the premiums collected as part of the program; and the FmHA community facilities program "assures payment" of the agency's obligations to the Federal Financing Bank for repayment of the certificates of beneficial ownership issued under the program.

The guaranteed student loan program (GSLP) is a special case with respect to definitions, but one that may illustrate possible difficulties for other programs if terms are not well-defined. The legislation creating the guaranteed student loan program--as it is widely known--refers to both the federally insured student loan program (FISLP) and the guarantee agency program (GA) under the heading "low interest loan to vocational students and students in institutions of higher education." Following this legislative title, the program is called a program of "federally insured" student loans, and even the guarantee agency sub-program is discussed in terms of re-insurance rather than loan guarantees. Except at the legislation level, the terms insurance and guarantee are used interchangeably. Even in the regulations (CFR 177.1(1)), "guarantee agency" is defined as "the state agency or private non-profit institution or organization administering a student loan <u>insurance</u> [emphasis added] program."

In practice, the GSLP is viewed as the umbrella term for the two programs mentioned above: the FISLP, which involves the Federal Government as direct insurer of lenders who make student loans; and the GA program, which involves the Federal Government as re-insurer (or guarantor) of student loans guaranteed (insured) by state agencies or other organizations. In fact, neither program is a formal insurance program, as defined above, since insurance premiums are not collected to be used as a reserve for paying claims. Program personnel in the Bureau of Student Financial Assistance stated that an "insurance" approach to the program (i.e., involving premiums set on the basis of estimated default rates) was deliberately <u>not</u> chosen in order to avoid good student borrowers being penalized for bad risk student borrowers. Guarantee fees ("insurance premiums") are collected, but these are more like administrative fees paid by lenders to the Federal Government or guarantee agencies. Moreover, there is no statutory reserve requirement (either dollar or percent) against which OE may make guarantees or insurance commitments. (In recent years, discussion of insurance or guarantee reserve requirements has been academic, since claims paid have far exceeded fee revenues.)

The GSLP is probably the best example of a program in which the terms are confused. It is not certain that this confusion has contributed to the defaults incurred under the program. However, it seems clear that lack of sufficient clarify in the legislation about the nature of the program (i.e., insurance or guarantee--but not merely "getting money in the hands of students") caused a situation in which definitions and derivative methods for administering the program were left in the hands of agency personnel who were less concerned about the precise financial thrust of the program than about making college accessible to students.

Default, Delinquency, and Forbearance

The area of problem loans involves significant differences among agencies in definitions of key terms. In many cases, the circumstances that determine whether a loan is in default are specified in the legislation or regulations; however, these conditions vary considerably even among the small sample of programs reviewed in this study. The terms delinquency and forbearance are typically unspecified in the legislation or regulations although they are used widely by program managers.

Default is usually defined as resulting from two types of conditions. First, if the borrower violates any terms of the loan agreement or contract, the loan may be declared in default. Second, most agencies specify a period when a loan may be past due without going into default, and default is defined to occur when a payment on a particular loan is not received within this "grace" period. The key to understanding default, however, is not to assume that default is an "objective" condition that occurs when a contract is breached or a grace period exceeded. Rather, it is most often a "management decision" that declares a loan is in default. At least one agency, SBA, explicitly reserves the right to pay its share of principal and interest at any time based on its own judgment about the viability of a loan (for the 7A and 502 programs). That is, if SBA anticipates a problem with a particular loan, it may take immediate action in paying a claim rather than wait for the loan to reach and exceed the grace period for repayment (which would involve some additional interest payment to the lender). A second example is the OPIC investment guarantee program, under which a borrower is required to report every month directly to OPIC as well as to particular private investors. In OPIC's case, problems on investments are usually anticipated several months in advance, and OPIC has some leeway in taking steps to remedy a potential problem. If an investment goes into "default," it is because OPIC has determined that conditions are so bad that the situation cannot be remedied and has decided that it would be better to pay the guarantee commitment than to attempt alternative action.

The "management decision" aspect of default is less strong--though not absent--when there is a specified period within which payment must be made. In the case of the GSLP, default occurs after 120 days for loans being repaid in monthly installments and after 180 days for loans being repaid in less frequent installments. However, the Commissioner of Education is mentioned in the legislation as involved in some determination that the borrower does not intend to repay. This gives some discretion to the agency to forbear in collecting on a particular loan. If, for instance, a loan is past due for 60 days and a lender reports that non-payment is due to extraordinary circumstances that will be cured within three months, then the loan will not be reported as in default even though no payment is received during the 120-day period.

Similarly, in cases involving a breach of contract which could be objectively considered default, an agency usually has some discretion in classifying the loan as such. Again, in the case of SBA, the covenants of the loan guarantee agreement often specify that the borrower will maintain a particular debt/equity ratio. On the basis of monthly financial statements, it would be possible for a lender to determine whether this ratio was being maintained and, thus, whether the borrower was in default under the terms of the agreement. However, the definition of default includes some provision that violations of certain agreement covenants must be indicative of an adverse change in the borrower's ability to repay. This, of course, is a management decision that either the lender or SBA must make.

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Thus, default is whatever, within certain bounds, the agency or lender chooses to call default. As a practical matter, it is usually acknowledged that default has occurred when a lender, operating within the bounds of his authority to judge the terms of a contract and allowable grace periods for repayment, files a claim with an agency which the agency is required to pay.

The term delinquency, which was not defined in the legislation or regulations of many of the program surveyed, has little precise practical definition for most of the agencies. In some cases (e.g., FHA property improvements, FHA home insurance, GSLP, and MARAD), delinquency is identical to default (i.e., any loan that is past due) or is a general classification of which default is a special case (because of additional restricting conditions involved for default). In a number of cases, no definition for delinquency exists or the term is not used. In practice, little distinction is made between loans that are past due (i.e., delinquent) and loans in default. As described in the section on accounting procedures, usually no explicit accounting distinction is recognized between a delinquent loan and a defaulted loan for which a claim payment is made. On the other hand, the term delinquency is used extensively as a general designation for a loan past due in most of the agencies visited.

Forbearance is a term that is rarely defined explicitly, but various forms of forbearance or loan compromise are frequently used by the agencies. Methods of forbearance may range from simple grace periods for making payments (e.g., MARAD) to a number of methods for easing the burden on the borrower. These methods may include one or more of the following:

- Deferral - agreeing to delay subsequent payments on the loan until some specified future time when the borrower's circumstances will have improved.

- Refinancing - repackaging the balance of the loan, or combining several loans, into a new loan with new terms of payment.

- Rescheduling - agreeing to make payments at a different rate over the life of the loan or extending the amount of time or number of payments to be allowed.

- Forgiveness - allowing the borrower to pay less than the initially agreed upon amounts of principal plus interest.

In addition, agencies have developed other forbearance mechanisms that are agency-specific. FmHA and MARAD have an option to assume the borrower's payments or to make advances to the borrower so that payments to holders of the borrowers' securities are not missed. The FHA hospital mortgage program legislation permits the Secretary of HUD to declare a moratorium on borrower repayment of principal and interest.

In all cases of forbearance, the agency responsible for administering the program requires notification from the lender and borrower of any changes in the terms of the original contract and reserves the right to approve or disallow the proposed forbearance provisions. Again, as in the case of delinquency, practically no special accounting record is kept of loans on which forbearance has resulted in changed loan terms.

Subsidy

There are explicit interest subsidies in only three of the programs examined--GSLP, HUD 221D3; and the FmHA recreation facility guarantee program. The GSLP subsidy involves the payment by OE of interest on a student loan during the period the student is in school or during other approved deferment periods (e.g., military service). In order to qualify for these interest payments, a student must report a family income of less than $25,000 or otherwise demonstrate the family's need for the subsidy. In the HUD 221D3 program (below-market interest rate portion of program), HUD pays lenders the interest difference between the maximum interest rate permitted under the program and a 3 percent interest charged to the borrower. A similar mechanism would be used for the FmHA program if it were implemented. These are explicit interest subsidies and are described, but not defined, as such in the legislation for most programs. In FmHA programs, the term subsidy is defined in the respective regulations.

Contingent Liability (Insurance in Force)

Definitions of the contingent U.S. liabilities under programs vary significantly from one agency to another. Several agencies (MARAD, GSLP, HUD/FHA--except Title 1, Section 2 and 242, FAA, SBA, VA) define contingent liabilities as total outstanding liabilities, i.e., the total amounts guaranteed by the agency less any repayments made and less any actual liabilities (claims paid) under the program. They thus represent an amount that is guaranteed but on which the government is uncertain as to how much it will actually have to pay in claims.

In contrast, the six FmHA programs include the full amount of guarantees, including those guaranteed portions of loans already acquired by FmHA, on which payments have been made. The rationale for including actual liabilities as contingent liabilities under these programs is not clear. HUD programs in the Mutual Mortgage Insurance Fund operate as pure insurance programs. In the General Insurance Fund, HUD property improvement insured loans stand out as the only insurance program that operates as an insurance program insofar as it views its contingent liabilities as limited by the size of its aggregate reserve accounts maintained for lenders.

With the exception of the six FmHA programs, guarantee programs appear to be consistent in their definition of contingent liability. To the extent that insurance programs view their contingent liabilities as more than their reserves for losses, it is not clear what distinguishes them from guarantee programs. Not only do these discrepancies for the insurance programs lead to confusion, at the agency and Congressional levels, about the meaning and financial designation of a particular program, but the different ways contingent liabilities are calculated in various programs make it difficult to determine with accuracy the total contingent liabilities of the Federal Government under loan guarantee and insurance programs.

ACCOUNTING CHARACTERISTICS AND CONVENTIONS

This section examines the accounting practices and conventions of the different agencies conducting loan guarantee and insurance programs. Specifically, it discusses the systems used, the level of detail and format of accounting data maintained, and the procedures for estimating administrative costs and loan loss reserves. It also addresses the question of whether or not accounting procedures accurately reflect risk as a function of loan status, and discusses liquidity effects of payment methods and recognition of supplemental financing. Finally, information is provided for the way in which each agency accounts for acquired loans or property. Matrix 4, Accounting Characteristics and Conventions (Appendix A), summarizes the information available for each agency.

Accounting Systems, Detail, and Format

All but one (FmHA) of the eight agencies surveyed use exclusively, the accrual basis of accounting. FmHA also uses the accrual basis in most instances, but it occasionally uses the cash basis of accounting to account for non-recurring expenditures and rental income from properties in inventory.

While, for the most part, the eight agencies use a comparable basis of accounting, the level of accounting detail and the format of financial data available differs from agency to agency. The degree of detail of accounting data can be measured at either the fund or program level. The difference is significant if the fund contains more than one program because of the potential loss of program-related financial data. The format of financial data may vary from formal financial reports to practically no publication of financial information. This variability is thus also significant because of the potential loss of information.

Two agencies maintain financial records only at the fund level. At FmHA, accounting data for each of the six programs is merged into the appropriate fund. The result is that program level financial data is not generally available, and it becomes difficult to attribute the sources and uses of funds to a specific program. At SBA, loan disbursement and payment information is maintained on a program basis. It is then aggregated at the fund level for reporting purposes. Until recently, administrative costs were accounted for in the Business Loan Revolving Fund. In fiscal year 1978, a salary and expense fund was created to account for administrative costs. Still, the direct costs of each program are not allocated by program and are available only at the fund level.

HEW also maintains its financial data at the fund level, but data is tracked by program as well. It is therefore possible to generate direct costs at the program level. Indirect costs or overhead allocations are not available at the program level.

The remaining five programs maintain data at the program level, but significant variations do exist. Both MARAD and the VA have only one program in their respective funds which simplifies data maintenance. FAA has no fund, so accounting records are kept for the aircraft loan guarantee program.

OPIC's financial records are maintained at the general program level for OPIC financing activities. This category includes both direct loans and investment guarantees. Financial information is not maintained separately for each component of OPIC's financing activities.

A similar problem exists at HUD. Although information is available at both the fund and program levels, it is not available for program components. For example, data is maintained, in aggregate, for the multi-family components of the 221 multifamily program. Data is not kept at the level of 221 D3 MR, 221 D3 BMIR, or 221D4. These programs are targeted at different population groups and therefore have different program objectives. But the lack of financial data at the component level precludes the opportunity to evaluate the operations of each component from a financial standpoint. Further, it is difficult to determine the net contribution of each component to the insurance fund in which it is contained. Similarily, financial data is not available for the two components of Title 1, Section 2: property improvements and mobile homes.* Comparable difficulties exist for evaluating each component's financial results or contribution to its insurance fund.

Formatting of information is important because of potential information loss and comparability of financial reports across the eight agencies. Each agency produces some form of financial statement of program or fund condition. But the contents of the reports vary from agency to agency. A number of agencies (FmHA, MARAD, HUD, OPIC, SBA, and VA) produce financial statements that vary in form. MARAD, for instance, produces the financial form required by the Treasury Department; HUD produces a formal, annual, financial statement of all mortgage insurance activities; FmHA, OPIC, SBA, and VA provide balance sheets, an income and expense statement, and a statement of contingent liabilities. In some cases, the contingent liability report is not part of the published financial data but is contained in a separate report.

FAA's financial data is limited. Since there is no fund for the program, balance sheets and income and expense statements are not maintained. FAA publishes an annual financial report of which one page is devoted to the guarantee program. The report contains data on the number of loans guaranteed and the amount of the guaranteed portion of each loan. Since no defaults and subsequent payments have occured, this level of information may be sufficient. According to one FAA official, however, legislation is currently being considered to increase the number of eligible carriers from 19 to approximately 200. If this increas occurs, the present format and level of detail may not be adequate to properly reflect the financial operation of the expanded program.

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*Title 1, Section 2 contains other components (listed in the section on typology) for which data is also not available.

HEW produces the normal complement of financial statements, including balance sheets and income statements. However, GAO refused to issue an opinion regarding the validity of the 1976 reports. Although program officials stated that remedial action has been taken in response to GAO's report, the changes were not implemented in time for the FY 1977 reports. It is, therefore, difficult to comment on the validity or merit of the financial data presented in those reports. The issue of format or level of detail may not be relevant until such time as GAO can offer an opinion on the financial reports of the two student loan programs.

Procedures for Estimating Administrative Expense

The procedures or mechanisms for determining administrative expenses of program-related activities range from direct charging of hours by program personnel to various allocation techniques. At MARAD, for example, both MARAD and Department of Commerce employees charge the number of hours spent on program-related activities to the ship financing program. At FAA, the program director charges 90 percent of his time and 10 percent of his secretary's time to the aircraft loan guarantee program. Time spent by employees on work related to the VA home loan guarantee program is charged directly to the program.

A number of allocation methods are used by the remaining five agencies. Although approximately one-third of the FmHA county offices charge the number of hours spent on program-related activities directly to the appropriate insurance fund, proration is used to allocate personnel costs of the remaining offices. The proration formula used is based on the loan volume of each fund.

Administrative costs for the HEW student loan programs are estimated according to program officials, on the basis of administrative cost experience of prior years. The reason given for this estimation procedure is the difficulty of maintaining cost data and allocating costs among program activities. This method is inadequate partly because allocated costs do not necessarily reflect current loan activity.

HUD is currently using a method which more accurately reflects current administrative activity and expense. Salary and administrative expense estimates are made each year by insurance fund and allocated on a monthly basis to each fund. The allocation process for each fund is based on the maintenance of three cost centers: loan origination, loan maintenance, and loan liquidation. Salary and administrative expense data are accumulated by cost center and distributed to the insurance funds based on activity factors for the three centers. These factors are:

- for origination - the number of applications per fiscal year, by section of the act;
- for maintenance - the total outstanding insurance in force; and
- for liquidation - the total number of homes or multifamily projects acquired or notes assigned.

At year end, actual costs are calculated based on time and expense reports, and appropriate adjustments are made to previously allocated amounts for each insurance fund.

Although this system reflects current activity, two problems are apparent. First, the allocation and calculation of actual costs creates a time lag of about 9 months, which necessitates large adjustments at year end. Second, all recoveries of salaries and expenses for each program are pooled and then allocated by the above formula to each fund, regardless of the actual costs contributed by the program. These problems suggest that actual costs by fund are not available until the end of the year and that cost data is not absolutely accurate.

SBA estimates costs which are then charged to the one fund for the three programs. SBA estimates the costs using workload factors based on historical levels of loan volume. Once a direct labor estimate is made, additional standard factors for benefits, travel, and other administrative costs are computed. The sum of direct labor and associated costs is then charged to the fund. A salary expense fund was established in FY 1978 to pay these costs.

OPIC maintains major categories of actual direct costs at the program level. Other costs are estimated "roughly" and then allocated at the program level. Since no special fund is maintained, costs are paid out of OPIC's general revenues.

Procedures for Estimating Loan Loss Reserves

Four agencies - MARAD, VA, FAA, and HEW - do not establish loan loss reserves for their respective programs. MARAD and the VA consider the total dollar amounts available in their respective revolving loan funds as reserves for the payment of claims. This concept seems consistent with the type (guarantees) of each program because appropriations are used to cover the administrative expenses of both agencies.

Reserves are not estimated for the FAA aircraft loan program because it has no revolving loan fund. Rather, claims (of which there have been none to date) would be made from Congressional appropriations. This procedure is also consistent with the guarantee nature of the program.

Although reserves for the HEW student loan programs are not currently estimated, attempts have been made in the past to develop a loan loss estimation model on which to base reserves. Changes in legislation, however, have made some of the model's assumptions irrelevant and therefore the model cannot be used. The model is being revised, but there is no definite schedule for its completion. Meanwhile, no formal procedures are applied for estimating losses or the size of reserves.

Three agencies - HUD, OPIC, and SBA - require reserves for losses, but they establish them in different ways. At HUD, the Mutual Mortgage Insurance Fund has two reserves: the insurance reserve and the participating reserve. The insurance reserve is used to cover losses, and its size is actuarially determined based on the outstanding insurance in force. Income generated from fees and premiums is first allocated to the insurance reserve to ensure sufficient funds to cover estimated future losses. Additional income is then allocated to the participating reserve. Because of the mutual nature of the insurance fund, participating reserves are used to pay dividends to policy holders, i.e., mortgagors. Dividend size is based on two factors: relative share and participation. The relative share factor determines the amount of total dividends available each mortgagor is eligible to receive. It is actuarially based, and it is a function of the number of years a mortgage has been outstanding and the dollar amount of mortgage payments. The participation factor is the dollar share per $1,000 of premiums paid into the fund; it is calculated in the following manner. After calculation of the relative share factor, each mortgage is placed in a mortgage pool according to insurance endorsement dates (date on which insurance is put in force) and loan maturity dates. The pools are then combined and the participation factor is calculated based on the relative share factor, the number of cases in each pool, the amount of insurance in force, and the interest rates on the mortgages. This calculation determines the total dividend payment and the amount each policyholder receives.

The General Insurance Fund, which is not a mutual fund, has only one insurance reserve. The reserve is used to cover losses which are determined actuarially. Although the fund was designed to be actuarially sound, HUD officials suggested that actuarial estimates for this fund are not as accurate as the estimates for the 203B program and, consequently, for the Mutual Mortgage Insurance Fund. One reason for the inaccuracy is the unexpected losses from the 221 program and, in particular, from 221 D3 BMIR (for which no premium is charged). One HUD official further stated that the 221 program is keeping the General Insurance Fund in a deficit position and that the fund will consequently never generate sufficient reserves to cover its future losses.

The procedure for estimating loan loss reserves for the OPIC investment guarantee program is set by statute. Specifically, a reserve requirement must be maintained which is equal to 25 percent of the outstanding guarantees at the time the guarantee is issued.

SBA estimates its loss reserves by performing an annual comprehensive loss study to review past loss experience. A flat percentage amount for loss reserves is then calculated based on historical data on loan guarantee volume.

Information concerning the FmHA loan loss estimation procedure could not be obtained from the officials interviewed in the FmHA national office. Those officials said this information should be available from the FmHA finance office in St. Louis, Missouri. FmHA officials in St. Louis stated that loss history and current economic conditions form the basis for estimating loan loss reserves. Although it is not a requirement that program officers in the national office have a complete understanding of the estimating procedures, it would seem that a working understanding would benefit those involved in the current operation of the various programs.

Accounting for Changes in Loan Status

The status of a loan may change over its life cycle. Whether it is current, in forbearance, delinquent, or defaulted, the status is indicative of the risk associated with the loan at a certain point in time. Furthermore, as loan status changes, the exposure to risk of the agency providing the insurance or guarantee also changes. Failure to record a change in loan status during periods of forbearance, delinquency, or default is a failure to accurately reflect the level of risk to which an agency is exposed.

Most agencies do not account for changes in status when a loan is in forbearance, delinquency, or default. These agencies recognize a change in loan status, in an accounting sense, only when an actual claim is made or paid. At FmHA, two programs account for refinancing decisions. "Subsequent loans" made by the community facilities program and the rural housing insured loan program are recorded in the same manner as the original loan. Delinquent or defaulted loans are not reflected in accounting records for the two programs. Accounting changes are not made for the remaining four programs when loans are in forbearance, delinquency, or default. FmHA has four programs in which an accounting change is made to recognize a claim upon receipt of the lender's request for claim payment:

- the emergency livestock guarantee program;
- the recreation facilities guarantee program;
- the business and industrial guarantee program; and
- the rural housing guarantee program.

Upon receipt of a request for claim payment for any of the four programs, the claim due is recognized and accounted for in accounts payable and in the reserve for potential losses. For the community facilities program and the rural housing insurance program, there are no claims or payments made because the loans are made by the agency and then pooled and sold as Certificates of Beneficial Ownership. According to FmHA officials, since CBOs are not backed by specific loans, there is no need to replace a loan if it is defaulted or foreclosed or to pay off a portion of the CBO. This practice appears troublesome because of the possible lack of accountability at FmHA for troubled loans and potential loss experience.

Loan status changes at HEW, HUD, FAA, and VA are not reflected in the accounting records until a claim is made or paid. At HEW, if a forbearance or refinancing decision is made, it is noted in the loan records maintained by the regional office. But the account remains in the long-term loan category which does not reflect the change in status. If a forbearance agreement results in a reduction or compromise, in principal or interest payments, the difference between what is due and what is paid would be written off to either a principal or interest receivable account. No accounting entry is made for delinquent or defaulted loans. Losses are written off against the revolving fund.

The HUD accounting system does not reflect the difference between current and non-current loans. It does however, explicitly recognize claims and ultimate losses in the following manner. Upon foreclosure and claim payment, a loan loss provision is charged to income. For multi-family projects, the loss provision is the difference between HUD's net investment (the claim amount plus expenses) and the estimated recovery value HUD expects to receive upon disposition of the property. For single family homes, the loss provision is based on the sales experience of the past year. A loss rate is calculated and applied to the balance of the acquired securities account for the single-family home program. The actual loss to the insurance fund is not recognized when the property is acquired and the claim is paid. Rather, a charge to income, through the loss provision, is made annually to estimate current losses. When a property is sold, the loss or gain is realized and recorded as reflected in the income and expense statement for the appropriate fund.

Three agencies - MARAD, OPIC, and SBA - recognize either a forbearance decision or a status change due to a delinquency or default. MARAD establishes an asset account for advances made to help a borrower avoid delinquency. A similar procedure is not necessary if the loan is defaulted because MARAD pays bondholders' claims immediately upon default and a charge is made to the Federal Ship Financing Fund.

At OPIC, a memorandum record for claims being negotiated or litigated but not yet paid is kept, and a footnote to the financial statement provides details of the loan status. Upon payment, the claim is written off against the guarantee reserve.

SBA maintains records of status changes for forbearance, delinquency, and default when a problem loan is acquired through payment of a claim to the lender. The acquired loan is placed into an "in-liquidation" account receivable, where it remains until efforts to solve the problem (forbearance, refinancing) result in the loan's regaining its current status. Recognition of the claim payment and resulting loss are charged against the Business Loan Investment Fund.

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Payment Method and Supplemental Financing

Seven of the eight agencies studied pay their claims in cash (usually a check drawn on the U. S. Treasury). HUD regulations for the sampled programs, except Title 1, Section 2, permit payment of claims in cash, debentures, or both. As alluded to earlier, the use of debentures may circumvent the control mechanism of the reserve process. That is, when debentures are issued, fund reserves are not reduced. Rather, the government's liability shifts from a contingent liability (the insurance agreement) to a real liability (the debenture).

Supplemental financing, in most instances, appears to be appropriately identified in the respective agency financial statements. Appropriations to HEW, FmHA, and SBA, however, are added to the fund and do not appear to be attributable to specific programs. The potential loss of information concerning program performance may result because of the inability to assign appropriations to a particular program. In contrast, HUD accounts for appropriations at the program level. Although the problem of the level of detail surfaces in the case of HUD (one cannot tell if an appropriation is due to 221 D3 MR or 221 D3 BMIR), it is possible to determine that appropriations were required for the 221 multifamily programs.

Treasury borrowing is recognized in one of two ways. Four of the agencies - FmHA, HEW, SBA, and VA - identify the amount borrowed from the Treasury as a liability. MARAD established an equity account to reflect funds received from the Treasury. HUD groups such Treasury borrowing with other supplemental financing and it appears in the financial statement in an account labeled appropriations, reserves, and borrowing from the Treasury. From an accounting standpoint, the group serves as an equity account for the purpose of satisfying the accounting identity (i.e., assets = liabilities + equity) necessary for a balance sheet. Neither OPIC nor FAA have required supplemental financing. Except for the potential benefits derived from standardized agency accounting practices, the different classifications of Treasury borrowing do not seem to be a serious concern. Of more importance is that agencies do recognize their use of external financing sources.

HUD is the only agency examined where interfund transfers may occur periodically and where special accounting procedures are therefore required to reflect the transaction. Legislation permits interfund transfers to the HUD General Insurance Fund. Accounting records are maintained to reflect the borrowing and lending funds. The balance sheet for the lending fund, in case the Mutual Mortgage Insurance Fund, shows a "contra-liability" account on the liability side of the balance sheet. In the MMIF Statement of Income and Expense and Changes in Reserves, the insurance reserve shows a "capital contribution" to the General Insurance Fund. Corresponding accounts are also established for the borrowing fund, in this case the General Insurance Fund. On the balance sheet for the GI Fund, a liability, "accounts payable interfund," is shown to record money owed to other funds. On the Statement of Income and Expense and Changes in the Insurance Reserves and Borrowing for the GI Fund, the capital contribution from the MMIF is shown.

Recording of Loan Acquisition and Liquidation

All of the agencies examined account for loan or property acquisitions in similar ways. Each establishes an asset account to represent the acquired security. FmHA calls its asset account an "acquired security" or an "investment in guaranteed loans," depending on whether property or a loan is acquired. HEW's asset account is called a "long term receivable" in the Student Loan Insurance Fund. Similar titles are given to the asset accounts at the various agencies. OPIC also maintains a memorandum record of each acquired security until recovery is made.

For the most part, liquidation of acquired security is also accounted for in similar ways across the agencies. Normally, the acquired security asset account is reduced and a corresponding account is increased, for example, to reflect the receipt of cash. Then, the gain or loss on the transaction is reflected either as income to the fund or as an expense of the fund. At HUD and VA, where "paper" reserves are established as a loss provision for each acquired security, the reserve is eliminated upon liquidation.

AVAILABILITY OF SELECTED PROGRAM DATA

The types of data available from program officials on such key points as applications received and approved, default rates, claims paid, and the Federal Government's contingent liability under a particular program are of critical concern to Congress. Matrix 5 (Appendix A) summarizes the availability of these and other data.

In order to exercise its control over a program, Congress requires data on three of its aspects:

- program effectiveness in achieving intended goals;
- quality of program administration; and
- potential and actual program cost.

The data categories arrayed in Matrix 5 are divided into three sections which correspond roughly to these program aspects. The data categories included under "Loan Origination" would indicate how active a program has been, (by implication) how many people have benefitted from the program, how much those people are willing to pay - and lenders to accept - in participating in the program; and what type of project is being financed (in terms of average size). The data categories included under "Loan Servicing" could be used to assess the problems the program is facing in terms of number of delinquencies and defaults and acquired loans. Some indication of the cost and potential cost of the program is given by the data categories listed under "Loan Liquidation." While a more exhaustive list of the data provided and disseminated by program personnel is provided in the following section on reporting, the data categories discussed in this section represent summary data or indicators which give a quick overview of the programs' administration and financial condition.

The data are available in a variety of forms, ranging from summary statistical data presented in management or financial reports to data collected and stored but not readily accessible because caluclations would have to be performed on the raw data available or because the data are on data files that would first have to be searched or reformatted. In some cases, these data files are maintained in the agency's regional or area offices. Where special arrangements would need to be made in order to obtain a certain piece of information (e.g., "number of loans per lender" from FmHA emergency livestock line of credit loans), this information is noted in Matrix 5.

The "not available" designation is used to cover two situations. First, it may signify that the data are not collected according to a particular category or a very similar category. This is the case, for example, for both the GSLP and SBA programs as regards applications received. In these programs, no record is made of rejected applications--only approved applications are recorded. Second, "not available" may designate information maintained on manual records that are kept in regional offices or are otherwise inaccessible. For instance, the interest rates for home loans charged by the VA are clearly recorded on the approved loan agreement; but these original records are kept in the VA regional offices, and the regional offices do not summarize the interest rate information in reports to the national office.

The designation "C" (for calculable) is used for situations in which the particular data described are not themselves available but data are available from which the information is readily calculable. One example is the FmHA rural housing program, which maintains data on the numbers of loans made and on the total amounts guaranteed. From this information, it is easy to compute the average amount of a loan insured under the program, even though the average is not automatically calculated for inclusion in FmHA reports.

The designations "available," "not available," and "calculable" were not all assigned on the basis of an explicit question to program personnel as to whether the particular item was available. In some cases, agency reports were examined and particular data items located. In other cases, a judgment was made, based on a detailed discussion of an agency's computer system and the data it contains, as to whether or not a certain piece of information could be calculated. Thus, some items designated "available" may actually have to be calculated. However, all data categories marked "available" or "calculable" should be readily available to legislators interested in a particular program.

Matrix 5 does not show how certain data items are defined or calculated. As explained in the section on definitions, for instance, contingent liability is defined in several different ways by the agencies. Thus, while all agencies could provide the dollar amount of their contingent liabilities, these amounts are not necessarily comparable across agencies. The same is true for other data categories - in particular "default rate," which may vary widely because of the differences in agency definitions of default and the "management decision" aspect of default. The only way to interpret the data is on an agency by agency basis, and caution must be exercised in comparing the data of one agency with that of another.

Two other points may be made with respect to data availability. Both points are made here in reference to particular agencies, but they may also apply to other programs not surveyed in this study. First, some programs are within the legislative purview of one agency but administered by a separate agency. For example, the HUD hospital mortgage program is administered by the Health Resources Administration of HEW. As shown in Matrix 5, some of the data are collected and stored in the computer system of one agency, while other program data are kept by the partner agency. In this instance, HEW/HRA maintains files of data on origination and loan servicing, while HUD has financial oversight of the program and thus maintains joint records of defaults and claims and keeps track of the program's contingent liabilities. This division of record keeping responsibilities parallels the division of labor; but the lack of centrally stored data may make the data more difficult to obtain and interpret.

The second point concerns the quality of the computer systems used for storing data. The computer system used by the guaranteed student loan program is a case in point. Theoretically, nearly all types of data on the program are retrievable from the computer system. However, for a variety of reasons (including poor record keeping, problems with system software development, and changes in program legislation that necessitated redefinition of certain terms), some data available from GSLP are of questionable validity.* In fact, several interviewees reported that the dollar amount of claims paid--which is used in calculating the default rate--varied by 100 percent, depending on whether the information was obtained from the computer system kept by the Bureau of Student Financial Assistance or from the OE Finance Division's financial computer system. The GSLP may be an aberration among loan guarantee and insurance programs (although similar problems were discovered at FmHA); but in assessing information on programs, Congress should take into account the quality and reliability of the computer system generating the data.

Little further comment is required with respect to Matrix 5. Most data are available. Non-available data are generally of two types: information kept by lenders or agency regional offices that is not readily available to the agency's national office (e.g., "applications received"); or information which is not kept because terms are not used. (e.g., "delinquency rate" several agencies have no explicit definition of delinquency, as opposed to default and do not calculate a rate.

*In an attempt to bring into operation a computer system capable of generating reliable data, OE/BSFS has issued a request for proposals from private contractors interested in developing and maintaining a revised system.

Matrix 6 illustrates the diversity of reports published by the various agencies sampled for this study. While each agency produces reports concerning its level of obligations, considerable variation exists in the number of other substantive reports produced and the frequency and timeliness of report publication.

FmHA maintains what appears to be a complete but complex reporting system. It produces five categories of reports:

- all programs;
- all insured loan programs;
- all guaranteed loan programs;
- programs with loans to individuals; and
- individual programs.

According to program officials, FmHA is in the process of developing a Unified Management Information System (UMIS) which will replace many of the reports in the first category.

FmHA prepares six reports at the aggregate level of all programs. Two of the reports are generated weekly and/or monthly and provide data on the status of obligations and the number of loans made. The status of obligations report is prepared weekly and monthly and is available 1 week after the close of the reporting period. The report on the number of loans made is prepared monthly and has a time lag of 3 weeks from report preparation to availability. Both time lags are considered short or marginal in comparison with other reports.

Two reports, the FmHA Quarterly Report and Semi-Annual Caseload Report, summarize activity data presented in the first two reports. The time lag for the two summary reports is 3 months and 45 days, respectively, which is considered reasonable for the effective use of aggregate reports for management purposes. A similar 45 day time lag exists for the semi-annual Congressional Summary, prepared to assist FmHA in responding to Congressional information requests. The last aggregate level report is the annual local Work Unit Report, which is used by the national office personnel division to aide in planning future staff requirements.

At the aggregate level of insurance or guarantee programs, nine insurance reports and one guarantee report are prepared. The insurance reports contain data on newly acquired properties, the existing inventory, liquidations, payment status, delinquency, compliance with the Civil Rights Act, loans satisfied, cumulative collections, and refinancing. The one guarantee report provides loan loss data. Although additional reports (described below) are available for individual programs, sufficient information does not seem to be available for the aggregate level of guarantee programs.

The nine insurance reports are prepared at regular intervals and have time lags ranging from 20 days to 2 months. These time lags are considered marginal for reporting data at the aggregate level. Similarly, the one guarantee report, prepared monthly, has a 1 month lag from preparation to availability.

FmHA prepares two reports which classify program participants and obligations by race. Each report is prepared annually with an associated 2 month lag. The "program participants by race" report is used to determine participant access to equal opportunity laws and is non-programmatic in use. The "obligations by race" report is used by the MIS staff and is contained in FmHA publications.

At the individual FmHA program level,* reports vary in terms of number per program, substance, frequency, and timeliness. Three reports are prepared for the emergency livestock program: a report on refinancing, a characteristics report, and a status

*There are no reports for the recreation facilities program because it has not been implemented.

report. The characteristics report classifies the number of borrowers by loan amount and credit ceiling, financial and demographic characteristics, state, and type of livestock. Similar classifications are made for the number and dollar volume of loans made.

The status report is of greater concern because of its frequency of publication and associated timeliness. This report provides data on the status of loans in the program. It is prepared semi-annually and requires an additional 2 months before it is available to program personnel. The frequency and timeliness of this report suggests that a maximum of 7 months may pass before the national office is aware of a change in loan status. This delay may reduce the effectiveness of program management, particularly in terms of quick response to problem loans.

One set of reports contains data for both the community facilities insurance program and the business and industry guarantee program. An additional set of reports is produced only for the business and industry program. The seven combined program reports contain data on the number of preapplications and applications in process, obligations to associations and organizations, organizations receiving advances of a least $1 million, rural community projects, delinquent loans, and uses of funds.

The frequency of preparation of the seven reports ranges from monthly to semi-annually, and their timeliness ranges from 1 week to 3 months. For most reports, these arrangements appear suitable for management purposes. The frequency and timeliness of two reports, however, appear inadequate. The delinquent loan report is prepared semi-annually and requires an additional 45 day turnaround period. The timing of this report appears to make it less useful for solving delinquent loan problems. Similarly, the practicality of the use of funds report is reduced because it is produced only once a year and has an associated 3 month time lag.

Seven reports are prepared only for the business and industry loan program. The data included in these reports cover the status of loans, defaulted loans, and the guarantees issued and obligations by SIC code, loan size, and area population. For the purposes of day-to-day program operations, the two most important reports appear to be the loan status and defaulted loans reports. Both are prepared monthly and require only 15 days for preparation. Their frequency and timeliness are appropriate for the effective use of the data they contain.

Twelve reports are prepared for the two FmHA housing programs. These contain data on loan delinquency, foreclosures and voluntary conveyance of property, loans by interest credit type, borrower characteristics, and uses of funds. Frequency of publication ranges from monthly to annual, and most reports are available within a reasonable time after the close of the reporting period.

MARAD's reporting system seems less complex than that of FmHA. Two types of reports are prepared: program and financial. Program reports are prepared by either the shipowner or MARAD. The shipowner is required to prepare three reports, all of which provide data on his financial condition. These reports are prepared either semi-annually or annually (with a short lag period) and distributed to the regional and national offices of MARAD for analysis.

Internal program reports are prepared at the regional and national levels. The regional office makes a site visit, after which it submits an early warning report to the national office if a problem has been identified at the site. Other internal reports are prepared at the national level. Two reports, one on contracts in force and one listing new guarantees, are used regularly to monitor program activity. The reports are prepared quarterly and monthly, respectively, and are available shortly after the close of the reporting period. The frequency and timeliness of these reports appear to make them effective management tools.

Accounting data is submitted internally and transmitted to the Treasury Department on a form required by the Treasury. This report is prepared quarterly, with some schedules produced monthly. The time lag of 45 days appears long given the frequency of report preparation, but it is still timely for management purposes. This accounting report is the only one prepared and distributed internally and on a regular basis.

A number of financial and program-related reports are prepared for the two student loan programs administered by HEW. Four regular financial statements are prepared by the Office of Education Finance Division. Two statements, the balance sheet and the statement of income and expense, are prepared quarterly. The remaining two reports, a statement of financial condition and a statement of income and retained earnings, are prepared semi-annually. According to program officials, these reports are available shortly after the close of the reporting period.

A number of supporting financial documents are also prepared on a regular basis. For example, an aging schedule (prepared quarterly) of loan receivables, a claims collection report (prepared monthly) and a report on obligations (prepared monthly) are available to provide data on collection efforts and new guarantee activity.

Most of the financial reports are used to monitor financial and program activities. In addition, two program management reports are prepared specifically to evaluate progress. The report on budget execution is generated monthly and measures actual versus budgeted costs. A monthly report on program objectives is used to measure whether or not program goals are being achieved. These reports are distinguished from other program reports in that they are evaluative in nature.

Although the HUD reporting system includes numerous reports, it seems to have serious time lags and is also informal in terms of report distribution. HUD produces an annual financial statement for its mortgage insurance activities. Although this statement is complete, a time lag of at least 6 to 12 months occurs before the report is published. The most recent annual financial statement available contains data through the period ending September 30, 1976. This time lag renders the information contained in the statement less meaningful for evaluative purposes.

Program activity data are available from numerous sources, as illustrated in Matrix 6. The most comprehensive program data report is the Office of Loan Management (OLM) Data Book. It is prepared manually about every 6 months (with a 3 to 6 month time lag) and includes data at the sub-program level (e.g., 221 D3 BMIR). The OLM Data Book is considered superior to other reports because of this feature. It is distributed formally to the Deputy Assistant Secretary for Insured Loans and is otherwise available upon request. According to the author of the Data Book, most requests for it are made by the Office of Policy Development and Research. Although other program reports are prepared more regularly, their distribution appears less formal. The OLM Data Book does not contain information on the Title 1, Section 2 program. Data is available from program personnel, but it is distributed primarily to those associated with the program.

HUD is currently generating two new management reports: the Current Status of Major Programs and the Executive Management Report. Both provide operations data at the aggregate level and are therefore not particularly useful at the program level. Additionally, HUD produces a statistical yearbook which summarizes the contents of the reports described in Matrix 6. The yearbook's usefulness is limited, however, because of the 1 year lag from preparation to publication.

In general, the HUD reporting system is comprehensive and provides program information about the various facets of insurance activity. It is difficult, however, to determine the usefulness or practicality of the data because of the informal distribution network and the serious time lags associated with the reports.

FAA produces a series of reports on program activity and finances. A compilation of loans guaranteed since 1972 and a statement of outstanding guaranteed loans by carrier are updated monthly. An additional list of loans guaranteed since program inception is available but updated less frequently. An annual financial statement indicates the number of loans guaranteed and the dollar amount of the guaranteed portion of the loan outstanding. The annual statement covers all FAA activities and has limited value to program officials because it contains data they have already gathered in program reports. A mimeographed statement of the amount of guarantee fees collected and deposited in the Treasury is also maintained.

Although the reports generated by FAA are manually prepared and generally one page long, they appear to be adequate for the number of eligible carriers in the program. However, if pending legislation to increase the number of eligible carriers is passed, the program may require a more sophisticated reporting system than that currently available.

The OPIC reporting system provides the normal complement of reports. Two financial statements are generated, one quarterly and one semi-annually. The latter report is audited. An additional financial report, the Report of Investments, summarizes earnings from investments but does not disaggregate the information at the program level. Program data is contained within a number of reports. A report on the outstanding balance of guarantees is generated quarterly. This is the OPIC contingent liability report. The Guarantee Claims Report provides data on claims registered and paid and the extent of claim recoveries. This report is prepared whenever a change in the status of a claim occurs and at year end. A Past Due Report details fee payments not received. The Status of Loans Report is prepared annually and monitors each investment guarantee.

SBA also provides reports on the management of program operations. The Management Information Summary is the primary status report on agency activity. It documents activity to date for the fiscal year and compares it to the prior fiscal year. Although the report is prepared for internal use, informal distribution extends to OMB and Congress. The report is prepared monthly and is available shortly after the close of the reporting period.

SBA field activity is reported monthly to the central office. The Report of Selected Loan Servicing and Liquidation Statistics is prepared monthly at the district or branch office level and contains data on the borrower's financial status, field visits to lenders and borrowers, and loan regulations and compromises. A loan status change is reported upon occurence by the district or branch office in a report of modification or administrative action.

The SBA central office provides a monthly listing of its loan inventory by servicing office. SBA considers this report its most current source of data. Additional reports including loan reimbursements and loans outstanding by program are prepared less frequently but constitute supporting documentation of program activity. SBA also produces an annual financial statement including a balance sheet and income statement.

The VA's reporting system is automated and generates monthly financial statements and program activity reports. The financial report package generates balance sheets, income statements, funds flow statements, and a budget report. The package, therefore, describes the effect of program transactions on the revolving fund. The report on VA Loan Guarantee Highlights provides both monthly and year-to-date activity data. This report is the primary record used for monitoring program operations and for program budgeting. A contingent liability report is prepared annually for distribution to OMB and the Treasury.

As part of its evaluation process, the VA also produces monthly and quarterly Statistical Quality Control Reports. Each regional station is responsible for verifying that a random sample of guaranteed loan cases is in compliance with the program regulations. In general, the VA reporting system appears to be well designed, timely, and effectively used for management purposes.

In addition to internal reports prepared by each agency, OMB requires that each agency submit an annual report, Data on Federal Credit Programs (Exhibit 42). One problem appears to make these reports less useful: data is often aggregated for those agencies with more than one guarantee or insurance program. In some cases, the aggregation does not correspond to program or fund operations. For example, HUD reports to OMB at the aggregate level of "all homes" or "all multi-family." There is no distinction for the insurance funds used by the agency. The lack of distinction by fund reduces the opportunity to examine fund operation which would be consistent with the operation of HUD's insurance activity. Although this may not be OMB's intent, the loss of program- or fund-specific data clouds the results at the agency level for Congress and the Executive branch of the government. The opportunity to exert control over agency activity is consequently reduced.

Comparable aggregation problems were found for other agencies reporting to OMB. For example, SBA submits a report at the appropriate fund level, but no data is provided at the program level. Similarly, OPIC combines its insurance and guarantee activities in one submitted report.

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PROGRAM ADMINISTRATION

Selected aspects of program administration were surveyed to provide a background for interpreting other data and to explore five areas of interest to Congress as it exercises its program oversight responsibility. These five areas are:

- measures taken to achieve program objectives (i.e., make capital available to designated groups) while controlling risk;
- agency efforts to monitor loans and maintain open communications with lenders;
- forbearance mechanisms and the extent of their use;
- control of claims--claims process characteristics that serve to minimize claims, and delays in reporting claims; and
- methods of liquidating loans for which claims have been paid.

Matrix 7 presents these five areas within three major classifications: loan origination, loan servicing, and loan liquidations. A brief overview of administrative procedures is given below, followed by a discussion of each of the five areas identified above in terms of the data presented in Matrix 7.

Overview of Program Administration

Programs fall into two main categories with respect to program administration: programs administered centrally from the agency's national office (usually in Washington, D.C.); and programs for which major operations are carried out in regional or area offices with the central office exercising supervision and providing certain support services (e.g., accounting function). The centrally administered programs tend to involve loan guarantees or insurance for large discrete ventures and include MARAD's ship financing program, OPIC's investment guarantee program, FAA's aircraft loan guarantee program, and SBA's program of debenture guarantees for small business investment companies (SBICs). Other programs surveyed focus on the guarantee or insurance of smaller loans to businesses or individuals and are administered out of geographically dispersed offices, which helps keep decision making closer and more accessible to lenders and borrowers under the program.

Although no data were collected on the number of loans guaranteed or insured by agencies, it became apparent during interviews that the programs financing large, discrete ventures generally had fewer loans to oversee than agencies handling small loans. In addition, the records kept on agency involvement in large discrete ventures were typically more extensive. The GSLP had literally thousands of loans to keep track of, each supported by a fairly short application requiring basic information about the borrowers' standing in school and family financial situation. By contrast, each OPIC investment guarantee was part of an extensive investment agreement involving several lenders and investors and articulated in a document of several hundred pages. A copy of the investment agreement for every OPIC guarantee was readily available in the office of OPIC's treasurer.

The large variation in volume of transactions between programs with many borrowers and programs with just a few large borrowers had several effects on program administration. First of all, information on the large loans guaranteed was very accessible and in many cases a single individual with general program oversight was able to provide detailed answers to questions on general program operation and particular guarantees or insurance extended. Where the volume of loan guarantees or insurance was great, operations were typically divided among several units and information on administration had to be obtained from the individuals responsible for particular functions. The division of labor in agencies which process many transactions will be discussed in greater detail below.

A second effect of the difference in the size and number of transactions was that communications between agency personnel and borrowers and lenders tended to be much more extensive for programs with just a few large guarantees. These communications began with the guarantee approval process and extended through all phases of servicing and (when necessary) forbearance and liquidation. Often the agency was heavily involved in arranging the conditions of loans it was willing to insure or guarantee--including interest rate setting, forms and extent of collateral, reporting requirements, and even financial management requirements (e.g., the borrower's debt structure). Once the guarantee or insurance was approved, monitoring was extensive. In almost every instance, problems could be anticipated and resolved before the loan became delinquent or defaulted and negotiations could be arranged to cure the difficulties. By contrast, when there were many transactions to process, lenders were relied upon to do almost all of the servicing, communications between borrower and the agency were mediated by the lender (i.e., communications were not direct), and problems with particular loans were reported to the agency (often with delays of up to 4 months) only after the loans had become delinquent or defaulted.

In agencies processing many transactions, administrative tasks were most frequently divided along functional lines into: program policy, portfolio management, budget and finance, and accounting and reporting. Program policy personnel had general oversight for the programs, were active in setting regulations and improving management systems, and occasionally became involved in approval of loan guarantees or insurance when there were special conditions. Portfolio management personnel had responsibility for all phases of servicing the loan guarantees and insurance agreements. They maintained contact with lenders, processed lender reports and borrower applications, worked with borrowers and lenders in curing problem loans, and processed and liquidated claims arising under the program. Budget and finance personnel managed the funds for the program, prepared appropriations requests for Congress, developed procedures for estimating necessary fund reserves for losses and for allocating agency costs among programs, and handled all borrowing from other government agencies. Accounting and reporting personnel maintained the accounting system and prepared periodic internal and external financial reports.

In most cases, these four groups of program personnel were able to function successfully in a coordinated way. In two cases, however, the division of labor had resulted in some difficulties. FmHA's accounting and financial information is kept in the St. Louis regional office rather than in the Washington, D.C., national office. It became clear in the course of interviews at FmHA that answers to particular questions regarding reports prepared and data available could only be answered by personnel in the St. Louis office. Program people in Washington were, in some instances, unable to answer questions about these program aspects. In this case, the division of labor also involved a geographical separation of functions. Since, however, key decisions are made in Washington, it seems a weakness of the arrangement that no one in the Washington office is sufficiently knowledgeable about St. Louis office functions to be able to provide basic authoritative information.

The second program in which the division of labor presented problems was the GSLP. Although OE regional offices handle most of the program's paperwork, oversight of all functions is centralized in the Washington, D.C., national office. The GSLP's difficulties had to do with the timely reporting of transactions between the program office in the Bureau of Student Financial Assistance and the Finance Division of the Office of Education which handles the program's accounting function. Loan status reports from lenders are channeled through the program office before reaching OE Finance. In some cases, delays in document transmittal have resulted in significant variations in the program statistics reported to Congress by the program office and the OE Finance Division. This may be partly due to inadequacies in report handling procedures; however, another contributing factor seems to be that accounting procedures are ranked far below achievement of program goals in the priorities of the program personnel. With the reorganization of the Office of Guaranteed Student Loans into the Bureau of Student Financial Assistance, all procedures will be reviewed and reevaluated; and changes may be made that will eliminate the problem identified here.

Program Administration and Congressional Oversight

The five areas of Congressional concern identified at the beginning of this section in regard to program administration will be discussed here sequentially.

Achieve Program Objectives while Controlling Risk

The objective of all loan guarantee or insurance programs is to make funds available to particular groups of borrowers who might not otherwise be able to obtain financing. In many cases, such borrowers are "risky" from the private financial institutions' viewpoint; and there is a fine line that federal program administrators must negotiate between getting funds to those the program was designed to serve and ensuring that some control is maintained over the Federal Government's potential liability. Three ways of maintaining control are: to assign the final decision for issuing the guarantee or insurance to a level where administrators can be held closely responsible for outcomes; to require formal assessments of the risk involved; and to establish borrower eligibility standards that control for risk.

For the programs surveyed in this study, decision making about who should receive loan guarantees or insurance was kept at the level of the regional office or lower. An exception occurred in agencies handling large individual transactions (e.g., MARAD, OPIC, FAA). In these cases, the national office staff was responsible for the origination function. Typically, whether the decision was made at the national or regional level was determined by the size of the loan, with larger loans requiring approval by higher ranking administrators. For example, in the FmHA rural housing insured loan program, the FmHA county supervisor was authorized to approve loans under \$35,000, while the district director had to approve loans between \$35,000 and \$37,000, and the state director was required to approve loans greater than \$37,000.

Formal risk assessment procedures varied widely among the agencies. In many cases, the risk assessment was left to the lender and no standardized procedures were required. This was the case for all the FmHA programs and for the GSLP. At the other end of the spectrum, MARAD and OPIC required extensive studies of the commercial feasibility of the projects to be financed and of the financial condition of the firm undertaking the project. Between these two extremes, and particularly where standard techniques for evaluating the soundness of a loan have been well-developed in the private financial sector (i.e., for loans to businesses and mortgage loans), government agencies conduct a risk assessment that might include standard financial ratios, credit checks for individuals, and some appraisal of the collateral that secures the loan. This middle course is followed by FHA, SBA and the VA in all of their programs that were examined.

Criteria for borrower eligibility are presented for each program in Exhibit III-1. An examination of these criteria suggests that they are used less to control risk than to specify general characteristics of borrowers who are entitled to guarantees or insurance under a program. Conditions of United States citizenship, control of a business in the hands of United States citizens, specific program objectives (e.g., to assist farmers and ranchers), and broad designations of classes of borrowers (e.g., veterans, students, small businesses) are all designed to identify broad groups but pay little attention to risk differences of borrowers within the groups. In some cases, the character or management ability of the borrower is listed as a criterion; but procedures for assessing these factors are subjective and not well-defined.

Monitor Loans and Maintain Communications with Lenders

Communications between lenders and federal agency personnel are rarely on a direct personal level except in programs where large discrete ventures are being guaranteed or insured. In most programs reviewed, the only communication requirement was an annual "call" report in which the lenders reported the status of all guaranteed or insured loans which they were servicing. In several cases (MARAD, FmHA emergency livestock guarantees, FmHA rural housing guarantees), monthly or semi-annual reports were required. In general, though, communications between agency and lender had two characteristics. First,

EXHIBIT III-1

CRITERIA FOR BORROWER ELIGIBILITY

DEPT. OF AGRICULTURE/FmHA						DEPT. OF COMMERCE/MARAD	HEW/OFFICE OF EDUCATION	
Business & industrial loans	Community facilities loans	Emergency livestock loan guarantees	Recreation facilities loans	Rural housing guaranteed loans	Rural housing insured loans	Federal ship financing	Federally insured student loans	Guarantee agency re-insured student loans
. U.S. citizen or permanent resident by visa . Activity must be located in a "rural area"	. Public agency or non-profit corporation . Legal authority . Unable to finance project from other resources or commercial credit . Serve residents of rural areas . Financially sound . In compliance with federal, state, and local laws	. U.S. citizen . Bonafide farmer or rancher . Legal capacity . Management ability and experience . Unable to obtain credit without guarantee	. U.S. citizen . Legal capacity . Farm background and training . Good character and management ability . Unable to obtain credit at reasonable rates and terms without guarantee . Engaged in farm management . If tenant, have lease that meets requirements	. In a rural area . Have above moderate family income . Without decent, safe, and sanitary housing . Unable to obtain credit at reasonable rates and terms without guarantee . Have sufficient income to meet homeowner's obligations, or have a co-signer . Good character, management ability, and experience . Citizen or permanent resident of state . Legal capacity	. In a rural area . Have low or moderate family income . Without decent, safe, and sanitary housing . Unable to obtain loan from private lender at feasible terms and conditions . Have sufficient income to meet homeowner's obligations, or have a co-signer . Good character, management ability, and experience	. U.S. citizen with ship operating ability. Vessel must be: . For research or commercial use . Over 5 net tons, or meet other weight and size requirements . Properly engineered . Class A-1 or equivalent	. U.S. national . H.S. graduate . Accepted or enrolled at approved institution (at least half-time) . Undergraduate with up to $2,500 outstanding college loans for academic year and $7,500 total; or graduate student with up to $5,000 loans for academic year and $15,000 total	

EXHIBIT III-1 (Continued)

HUD/FHA					
Homes insurance (203 B)	Single family coinsurance (244)	Mortgage insurance for rental housing for low and moderate income families (market and below-market rate) (221 D4)	Mortgage insurance for rental housing for moderate income families (221 D4)	Property improvement and mobile home loans (Title I, Section 2)	Mortgage insurance for hospitals (242)
. Income adequate to make repayments . Credit check		For insurance endorsement, HUD must be satisfied that project is economically sound		Under determination. HUD not involved in loan decision.	Not specified in regulations except that borrower can be either proprietary or non-profit mortgagor

DOT/FAA	OPIC	SBA			VA
Aircraft loan guarantee program	Investment guarantee program	Regular business loans (7A)	State and local development company loans (502)	Small business investment company debentures guarantees	VA home loan guarantees
. Must have certificate of Public Convenience and Necessity from CAB . Must prove that other financing unavailable by submitting 3 letters of loan denial from financial institutions	. Project must be commercially and financially sound . Proposed management must have proven record of success in the business and significant financial risk in the enterprise . Projects must be in approved countries . Certain types of projects disallowed (e.g., munitions, gambling facilities)	. Must be small business . Borrower must have been turned down by at least one lender . Venture must be so sound or have sufficient collateral to reasonably assure repayment . Borrower must complete application with history of business and financial statements and operations statistics . Good character, must be able to operate business			. Present and prospective income . Satisfactory credit risk

communications were in writing and typically in the form of reports submitted on standard government forms. Second, there was practically no contact between agency and lender or borrower from the time of approval of the guarantee or insurance until the loan was either paid in full or became delinquent. When a loan became delinquent or defaulted, the frequency of agency-lender communications increased (usually monthly reports were required); but it seems clear that for most loans, the Federal Government's ability to anticipate problems is very limited because of infrequent reporting required of lenders.

Forbearance Mechanisms

The mechanisms used by lenders and agency administrators to resolve problem loans have been described in the section on definitions. What is important to note here with respect to government oversight of programs is the extent to which forbearance is used and the level at which forbearance decisions are made. This study found that the extent of forbearance depends on the number of problems that occur in a program and on the agency's policy with respect to forbearance. In programs such as MARAD's ship financing program, FHA's hospital mortgage insurance program, OPIC's investment guarantees, FAA's aircraft financing program, and SBA's program of guaranteeing SBIC debentures, forbearance is rarely used because it is rarely needed. In those programs, agency administrators can usually anticipate problems and work out solutions before a loan defaults. If the problem is a serious one, then there is usually little the agency can do to help the borrower or lender, and the loan is liquidated and claims paid.

In programs where the loans made are riskier (e.g., loan guarantees for small businesses, most FHA and FmHA programs), forbearance is used much more frequently. In these programs agency personnel regard it as their mission to do all that can be done within reason to save the loan and avoid foreclosure or liquidation. There is general recognition that the program's purpose is to assist groups who are "high risk" borrowers; so problem loans are expected and there is greater willingness to compromise the repayment of the loan in order to avoid foreclosure.

The GSLP approach to forbearance is somewhat atypical of programs designed to help high risk borrowers. In the past, forbearance was discouraged as a matter of program policy. Instead, problem loans went into default, claims were paid, and then the Federal Government (for the FISL program) or the Guarantee Agency (for the GA program) would attempt to collect on the loan. One result was that the number of claims was very high and the OE regional office claims that examiners who were required to perform the collection were faced with staggering caseloads. Recent legislation makes new provisions to reduce the burden of the loans on student borrowers (e.g., by allowing repayment terms that involve lower initial payments and then gradually increasing payments as students' earning power increases); and this may be viewed as a kind of forbearance. Also, the Bureau of Student Financial Assistance has adopted new policies that encourage the use of forbearance (including debt forgiveness) in order to reduce the backlog of claims awaiting collection and reduce the number of new claims to be paid.

In practically every case, agencies allow the lender to arrange the forbearance provisions to be used for a particular loan. One type of exception is loans which finance large, discrete ventures. For such ventures, forbearance is usually the result of extensive negotiation involving national agency personnel, and the forbearance decision is made at the central office level. Another exception is the GSLP, for which the regional office is the locus of decision making according to policies described above. For all programs, even when the lender is relied upon to arrange forbearance, agencies reserve the authority to approve the terms.

Control of Claims

Claims control is presented in Matrix 7 under three headings: criteria for claim acceptance; time from default to lender notification to agency; and government action after notice of default.

There is relatively little variation among agencies as regards the criteria for claims acceptance. The vast majority of claims are processed and paid as long as lenders have complied with the regulations governing lender activity. These regulations usually involve proof that the lender made the loan and that no fraud or misrepresentation is involved. In one case (GSLP), the lender is required to have shown "due diligence" in attempting to collect the loans for which claims are submitted. Due diligence is defined in the program legislation as "collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans." This definition leaves considerable room for interpretation, and interviews produced no evidence that any claim was refused because due diligence was not exercised. Nonetheless, the requirement may serve as an additional inducement to lenders to make a slightly greater attempt to cure a problem loan themselves before filing a claim. SBA also differed slightly in its criteria for claims acceptance in that it reserved the option to foreclosure loans (and pay off lenders) at its own discretion. If SBA foresees a particular loan going into default because of poor management on the part of the borrower, it may step in and pay the claim immediately instead of waiting while the lender tries to cure the loan through exercise of some forbearance mechanism. Finally, FAA was distinctive in requiring that the lender attempt to cure a problem loan before the agency would pay a claim.

Much greater variation occurred among agencies with regard to the time allowed for lenders to report a default on a particular loan. OPIC was unusual in making no provision for a grace period, but this is because OPIC works very closely with both borrowers and lenders for each venture guaranteed and is usually able to anticipate when a loan will become delinquent. Thus, no time elapses between a missed payment and the time OPIC is informed. For most other agencies, the grace period before a lender was required to report a delinquent loan varied from 10 days, for the FAA program, to 120 days for the GSLP and certain FHA programs. The elasped time is allowed in order to give lenders a chance to solve whatever problem may be delaying loan repayment. Another reason the grace period varies is that for loans to individuals (e.g., student loans) delay in payment may be due to the individual's having changed address; the period is thus used to allow the individual to notify the lender of a change of address.

The FHA property improvement program stands out for having no required period within which lenders must report delinquent loans. This arrangement results from the way in which the program is administered. For each lender, FHA's liability for claims is limited to the size of the reserve account maintained in the lender's name. The reserve account is limited to 10 percent of the lender's total loans outstanding. Thus, there is a strong incentive for the lenders to control the quality of loans under the program, and the claims paid by FHA under this program have been extremely low.

SBA controls the time allowed lenders to report a default by penalizing late reporters. For all SBA loans, a percent of both principal and interest is guaranteed. If a lender fails to report a delinquent loan within the specified time, the lender forfeits the right to collect the interest that accrues after the reporting limit. According to SBA personnel in portfolio management, this penalty has helped decrease the time for reporting defaults. New regulations proposed for the guaranteed student loan program would institute a similar approach with a 90-day limitation for lenders to report problem loans.

After a claim has been filed by a lender and the government decides to accept the claim for payment, it is paid immediately by every agency except FAA; FAA reserves a 90-day period before paying the claim, during which it may attempt to cure the loan. Once the claim is paid, all agencies make some attempt to make the loan current through the use of forbearance procedures. If forbearance is not used or if it is not successful, then the agency moves into the loan liquidation stage.

Loan Liquidation

The criteria for ending forbearance practices and foreclosing on a particular loan are not well-defined in most of the agencies. Foreclosure and liquidation are usually the result of a judgment made by agency personnel at either the regional or area office or the national level, depending on the type of loan guaranteed or insured. The VA does require that some attempt be made to forbear on the loan before it is foreclosed, but it does not vary significantly in this respect from other agencies which do not require forbearance but routinely practice it. In only two cases is foreclosure automatic. The most extensive case is the MARAD ship financing program, in which the loan is foreclosed upon default. During the 90 days permitted for lenders to cure the loan, a wide variety of forbearance mechanisms may be tried; but if the loan goes into default at the end of the 90 days, the vessel financed by the loan is sold and the claim is paid. The second case of automatic foreclosure occurs in the SBA, where the declaration of bankruptcy by a borrower firm results in immediate attempts at liquidation of the loan and payment of the claim.

The collecting agent for loans that have been foreclosed often depends on the type of security pledged as collateral. If the security is in the form of major capital equipment (e.g., a ship under the MARAD program, or mining equipment under certain OPIC-financed ventures), then national office personnel will usually conduct liquidation activities. If the collateral is a home or real estate, then some office within the agency, at either the national or regional level, will manage the sale. If, however, the collateral pledged is some form of accounts receivable or other hard-to-liquidate collateral, then an agreement will typically be worked out between the agency and the lender to share the collection effort and the proceeds therefrom. In some cases, an auction firm will be engaged to handle the liquidation.

The guaranteed student loan program differs from the other programs reviewed in this study in that it consists mainly of unsecured loans. For the GSLP, foreclosure simply means that some form of collection activity will take place. The assignment of responsibility for the collection of bad loans is determined in the program's legislation. The Office of Education, through its regional offices, will make attempts to collect on loans made under the federally insured student loan program (FISL). For loans made under the guarantee agency program, the Federal Government is legally forbidden to collect. Thus the guarantee agency is required to do its own collection and then reimburse the Federal Government for the majority of the claim which the Federal Government paid to the guarantee agency. The guarantee agency is currently permitted to keep up to 30 percent of any proceeds collected on a loan to help cover its costs of collection. Because of the poor collection record of the Office of Education and the enormous backlog of defaulted loans awaiting collection, OE has recently requested bids from private collection agencies to serve as collectors for the FISL program.

PROGRAM EVALUATION

Internal evaluations may occur at different levels of an organization and be aimed at various substantive activities performed by the organization. This section describes the nature of the internal evaluation process for each agency in terms of the source (who performs the evaluation) and the substance (programmatic, financial, or administrative) of the evaluation. Matrix 8 summarizes the data collected for this part of the report. In general, each agency examined performs evaluations for its programs. However, the form, frequency, and substance of the evaluations differ from agency to agency. Furthermore, the incidence of program effectiveness measurement is very limited.

FmHA conducts numerous studies at the agency and program levels. At the agency level, the Management Systems and Organizational Planning staff (MSOP) has examined the rural housing programs but not the other programs included in this study. Most of their analysis covers financial and administrative activity. For example, it has conducted studies on the use of loan servicing systems for tax and insurance payments.

At the FmHA program level, an agency level program evaluation staff is responsible for conducting program analysis. For most programs, this group reviews program, financial, and administrative activities. For instance, it analyzed the characteristics of housing loans which resulted in the FmHA acquisition of properties. Other studies include a conceptual framework of cash flows created by FmHA activities and the development of an FmHA budget cycle.

In general, FmHA evaluations occur irregularly based on identified problems. Furthermore, there do not appear to be any program evaluations comparing the products of the insurance or guarantee programs to the costs associated with those programs. FmHA officials suggested that if the resources were available, the evaluation staff would monitor individual programs on an ongoing basis, and review operating statistics and perform impact analyses every two years. These types of evaluations are currently performed only sporadically.

At MARAD, program evaluations also occur irregularly and are in response to identified problems or special requests. Frequently, a change in the market place or suggestions by shipowners or financial institutions stimulate the demand for a review of program operations or alternatives. There is also no formal evaluation staff. Rather, as the need arises, the national office staff (MASFP), with support from MARAD and the Department of Commerce, form a task force to evaluate a specific problem. Program effectiveness does not appear to be evaluated, according to program officers interviewed. Furthermore, most of the evaluative work is focused on the project (i.e., the ship) rather than on the overall program. The financial status of the project is reviewed semi-annually and whenever a regional site visit reveals a specific problem.

The HEW Bureau of Student Financial Assistance does not perform internal evaluations of the two student loan programs. Other evaluation sources do, however, perform various studies. The Office of Planning, Budget, and Evaluation (OPBE) has recently initiated a series of evaluations which will encompass several areas of concern. This evaluation process is based on a sequenced schedule of discrete studies that will occur on an ad hoc basis but continue for several years. A second source is the HEW Secretary's Office, which uses a "Management Initiative Tracking System" to evaluate a specific program. For the past few years, this system has been evaluating the guaranteed student loan programs. In addition, GAO has published a number of external evaluations of the student loan programs.

A number of evaluative studies are performed by various groups at HUD. The Office of Organization and Management Information tracks mortgage insurance activity for all single-family home programs, in aggregate, on a monthly basis. Actuarial analysis is performed on an ongoing basis. This type of analysis focuses on fund reserves, claims experience, estimated future liabilities, and dividend payments (when appropriate). The Office of Policy Development and Evaluation performs special analyses upon request by the FHA Commissioner or other Secretaries. These studies usually focus on the administrative aspects of the programs. For example, the group is about to undertake an analysis

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of single-family home assignment procedures. In general, HUD does not appear to perform either program effectiveness or program impact evaluations on a formal continuous basis.

At FAA, two types of program evaluations occur. A review of program operations is made irregularly. A review of financial operations, however, is made regularly for the purposes of monitoring activity and developing program and department budgets.

The extent of evaluation activity at OPIC varies by evaluation substance. For example, OPIC does not evaluate the programmatic aspects of its investment guarantee program. According to OPIC officials, the overall evaluation of program benefits is a subject for Congressional debate. Similarly, financial evaluations are not performed at the program level. However, specific investments are analyzed in detail. With respect to financial evaluations, GAO performs an annual audit and provides an opinion of OPIC's financial statements. In 1976, OPIC received a qualified opinion because GAO could not evaluate the likelihood of certain contingent liabilities resulting in claims and, thus, could not evaluate the adequacy of reserves. Administrative activity is evaluated at the division level on an ongoing basis. Operating statistics are key inputs for the evaluations, which are used to support the OPIC budget request to the Treasury.

Evaluations at SBA focus primarily on financial and administrative activity. Program activity is not evaluated internally, according to officials in the SBA budget office. A major part of the financial evaluation is the Comprehensive Loss Study, performed annually and used to measure the adequacy of reserves for losses. Administrative evaluations range from regional office operations to portfolio management procedures. The subject of evaluation is generally chosen on an ad hoc basis, but evaluation activity is continuous.

The VA conducts two types of formal evaluation. The first is called "Statistical Quality Control." Its purpose is to determine whether a randomly chosen sample of cases is in compliance with the requirements of the program statutes and regulations. This activity is performed daily by the regional office and every 18 months by the central office. The second evaluation type is a management audit of regional office activity. Its purpose is twofold: first, to evaluate the quality and timeliness of case processing; and second, to determine whether procedures for origination, servicing, and termination are being carried out in compliance with regulations and other VA handbooks and manuals. This evaluation is conducted by the central office for each region at 18-month intervals.

In summary, practices and procedures for internal evaluations vary among the eight agencies examined. Although each agency performs evaluations, the nature, substance, and frequency of these evaluations is not consistent across agencies. Furthermore, none of the agencies conducts formal evaluations of program effectiveness or impact on a regular basis.

APPENDIX A

CROSS-PROGRAM COMPARISONS

MATRIX 1: TYPOLOGY OF INSURED AND GUARANTEED LOAN PROGRAMS

PROGRAM	INSURANCE OR GUARANTEE	NATURE OF INSURANCE OR GUARANTEE: COVERAGE PROVISION	NATURE OF INSURANCE OR GUARANTEE: EXTENT OF U.S. LIABILITY	NATURE OF INSURANCE OR GUARANTEE: PREMIUMS OR FEES	INTEREST: PRE-SET
Dept. of Agriculture/FmHA					
Business and Industrial Loans	Guarantee	90% of principal + interest	Full Faith and Credit	One-time, 1% of principal	Not Applicable
Community Facilities Loans	Insurance	Up to 100% of project cost	Rural Development Investment Fund (RDIF)	None	5% maximum
Emergency Livestock Loan Guarantees	Guarantee	Up to 90% of principal + interest	Full Faith and Credit	None	Not Applicable
Recreation Facilities Loans	Guarantee	Up to 90% of principal + interest	Full Faith and Credit	One-time, 1% of principal	5%
Rural Housing Loans (Section 502) Guar.	Guarantee	Up to 90% of principal + interest	Full Faith and Credit	One-time, 1% of principal	Not Applicable
Rural Housing Loans (Section 502) Ins.	Insurance	Up to 100% of FmHA appraised value of real estate	Full Faith and Credit	None	Not Applicable
Dept. of Commerce/MARAD					
Federal Ship Financing	Guarantee	100% of bonds issued	Full Faith and Credit	1/2% investigation fee 1/2%-1% annual guarantee fee	Not Applicable
HEW/Office of Education					
Federally Insured Student Loans	Insurance	100% of principal + interest	Full Faith and Credit	1/4% of unpaid principal per year	7% + special allowance
Guarantee Agency Re-insured Student Loans	(Re)insurance	80%-100% of principal + interest, depending on guarantee agency default rate	Full Faith and Credit	1/2% per year typical. Up to 1% allowed (charged to lender by guarantee agency)	7% + special allowance
HUD/FHA					
Basic Home Mortgage Insurance [203B]	Insurance	Principal, interest and expenses 97% of first $25,000; 90% between $25,000-$35,000; 80% of amount over $35,000	Reserve in Mutual Mortgage Insurance Fund (MMIF)	1/2% of average outstanding principal obligation, normal fees collected	Not Applicable
Single Family Coinsurance [244]	Insurance	Principal, interest and expenses; 97% of first $25,000; 90% between $25,000-$35,000; 80% of amount over $35,000	Reserve in Mutual Mortgage Insurance Fund	1/2% of average outstanding principal, normal fees collected	Not Applicable
Mortgage Insurance for Rental Housing for Low and Moderate Income Families (market rate and below-market rate) [221(d)(3)]	Insurance	Up to 100% of principal, interest and expenses	Reserve in General Insurance Fund (not specified in regulations)	Premium of 1/2% of average annual outstanding principal, normal fees collected	Not Applicable
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	Insurance	Up to 100% of principal, interest and expenses	Reserve in General Insurance Fund (not specified in regulations)	Premium of 1/2% of average annual outstanding principal, normal fees collected	Not Applicable
Property Improvement and Mobile Home Loans (Title 1, Section 2)	Insurance	90% of net unpaid amount of loan	Reserve in General Insurance Fund (not specified in regulations)	Property improvement - 1/2% per year of insured amount Mobile home-.54% of net proceeds	12% maximum
Mortgage Insurance for Hospitals [242]	Insurance	100% of unpaid principal + portion of interest and expenses	Reserve in General Insurance Fund	Premium of 1/2% of average annual outstanding principal. 3/10% application and commitment fee; 5/10% inspection fee	Not Applicable
DOT/FAA					
Aircraft Loan Guarantee Program	Guarantee	90% of unpaid principal; 100% of unpaid interest	Full Faith and Credit	1/4% annual guarantee fee on outstanding principal	Not Applicable
OPIC					
Investment Guarantee	Guarantee	Up to 50% of total venture finance cost. Only principal and interest of debt guaranteed	Full Faith and Credit	1¾%-3% per year on outstanding principal	Not Applicable
SBA					
Regular Business Loans [7(A)]	Guarantee	Up to 90% of principal + interest	Full Faith and Credit	One-time, 1% guarantee fee	Pre-set quarterly based on formula
State and Local Development Company Loans [502]	Guarantee	Lesser of 90% of principal or $500,000	Full Faith and Credit	None	Pre-set annually to be consistent with 7(A) rates
Small Business Investment Companies (SBIC's)	Guarantee	100% timely payment of principal and interest	Full Faith and Credit	Legislation permits "additional charges" to cover administrative costs	Not Applicable
VETERANS ADMINISTRATION					
VA Home Loan Guarantee Program	Guarantee	Lesser of 60% of original principal or $17,500	Full Faith and Credit	None	Not Applicable

Continued

MATRIX 1: (Continued)

PROGRAM	RATE DETERMINATION: FORMULA	RATE DETERMINATION: NEGOTIABLE	EXPLICIT INTEREST RATE SUBSIDY	TYPE OF LOAN COLLATERAL OR OTHER SECURITY
Dept. of Agriculture/FmHA				
Business and Industrial Loans	Not Applicable	Negotiated between borrower and lender	None	Some Form of Security
Community Facilities Loans	Not Applicable	Not Applicable	Not Applicable	Bonds, real estate, personal property, etc.
Emergency Livestock Loan Guarantees	Not Applicable	Negotiated between borrower and lender	None	Liens on livestock, real estate or other property of borrower
Recreation Facilities Loans	Not Applicable	Not Applicable	Difference between interest rate charged and prevailing market rate	First mortgage or other security
Rural Housing Loans (Section 502) Guar.	Not Applicable	Negotiated between borrower and lender	None	First mortgage in most cases
Rural Housing Loans (Section 502) Ins.	1% to 8%, depending on borrower's income level	Not Applicable	Not Applicable	Mortgage
Dept. of Commerce/MARAD				
Federal Ship Financing	Not Applicable	Approved by Secretary of Commerce	None	Vessel whose construction being financed
HEW/Office of Education				
Federally Insured Student Loans	Special allowance set quarterly in consultation with Secretary of Treasury (up to 5%)	Not Applicable	OE pays interest during in-school period, depending on family income of borrower	Unsecured
Guarantee Agency Re-insured Student Loans	Special allowance set quarterly in consultation with Secretary of Treasury (up to 5%)	Not Applicable	OE pays interest during in-school period, depending on family income of borrower	Unsecured
HUD/FHA				
Basic Home Mortgage Insurance [203B]	Not Applicable	Negotiated between borrower and lender within limit set by FHA	None	First lien on real estate
Single Family Coinsurance [244]	Not Applicable	Negotiated between borrower and lender within limit set by FHA	None	First lien on real estate
Mortgage Insurance for Rental Housing for Low and Moderate Income Families (market rate and below-market rate) [221(d) (3)]	Not Applicable	Market rate: negotiated between borrower and lender; Below-market rate: may be reduced by HUD Secretary as low as 3%	Market rate: None. Below-market rate: difference between interest rate charged and prevailing market rate	First lien on real estate
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	Not Applicable	Negotiated between borrower and lender	None	First lien on real estate
Property Improvement and Mobile Home Loans (Title 1, Section 2)	Not Applicable	Not Applicable	None	Mobile homes: not collateralized. Property/improvement: first lien on property
Mortgage Insurance for Hospitals [242]	Not Applicable	Negotiated between borrower and lender within maximum set by HUD Secretary.	None	First lien on property (including equipment financed with mortgage proceeds)
DOT/FAA				
Aircraft Loan Guarantee Program	Not Applicable	Negotiated between borrower and lender	None	First lien on aircraft
OPIC				
Investment Guarantee	Not Applicable	Negotiated by OPIC, lenders and borrowers within ranges set by OPIC Finance Committee	None	First mortgage on property or some other form of security
SBA				
Regular Business Loans [7(A)]	Not Applicable	Not Applicable	None	Collateral typically includes: property, accounts receivable
State and Local Development Company Loans [502]	Not Applicable	Not Applicable	None	Loans must be secured "so as to reasonably assure repayment"
Small Business Investment Companies (SBIC's)	Greater of 3% or average market yield on outstanding U.S. government obligations of comparable maturity less 3%	Not Applicable	None	Pledge of SBIC
VETERANS ADMINISTRATION				
VA Home Loan Guarantee Program	Not Applicable	Negotiable, coordination of rate with HUD 203B	None	First lien on real estate

MATRIX 2: PROGRAM FINANCING AND CONTROL MECHANISMS

PROGRAM	SOURCES OF FUNDS FOR CLAIMS AND ADMINISTRATIVE EXPENSES			PROGRAM FUND IDENTIFICATION	PROGRAM FUND CONTROL MECHANISM
	APPROPRIATIONS	PREMIUMS/FEES	BORROWING AUTHORITY		
FmHA					
Business and Industrial Loans	Appropriations to RDIF, determined by losses, with a lag	One-time guarantee fee of 1% of principal	RDIF unlimited borrowing authority	RDIF	$1 billion aggregate maximum (includes both guarantees and insured B&I loans)
Community Facilities Loans	Appropriations to RDIF, determined by losses, with a lag	None	RDIF unlimited borrowing authority. Also may sell Certificates of Beneficial Ownership (CBO's) to FFB	RDIF	$250 million aggregate maximum
Emergency Livestock Loan Guarantees	Appropriations to ACIF determined by losses, with a lag	Only a 1% fee charged to lenders for conversion of financial instruments	ACIF unlimited borrowing authority	ACIF	$1.5 billion maximum for lines of credit, "obligations"
Recreation Facilities Loans	Appropriations to ACIF determined by losses, with a lag	One-time guarantee fee of 1% of principal	ACIF unlimited borrowing authority	ACIF	$2 million maximum (includes both guarantees and insured loans)
Rural Housing Loans (Section 502) Guar.	Appropriations to RHIF, determined by losses, with a lag	Fees paid into RHIF	RHIF unlimited borrowing authority	RHIF	$900 million aggregate maximum
Rural Housing Loans (Section 502) Ins.	Appropriations to RHIF, determined by losses, with a lag	None	RHIF unlimited borrowing authority. Also may sell CBO's to FFB	RHIF	$2.675 billion aggregate maximum
MARAD					
Federal Ship Financing	None. Program self-sustained FY1973-FY1977. Claims recoveries paid into revolving fund (FSFF)	Investigation fee and annual guarantee fees paid into FSFF	Up to $7 billion	FSFF	$7 billion aggregate maximum
HEW/Office of Education					
Federally Insured Student Loans	Appropriations for defaults to SLIF. Appropriations for claims due to death and permanent disability to Higher Education Fund. Appropriations for salaries and expenses to HEW salaries and expense fund	Insurance premiums	$25 million for SLIF	SLIF-Revolving Fund HEW-Higher Education Fund HEW-Salaries and Expense Fund	No statutory limits. Appropriations have also been inadequate to cover claims
Guarantee Agency Reinsured Student Loans	Appropriations for defaults to SLIF. Appropriations for claims due to death and permanent disability to Higher Education Fund. Appropriations for salaries and expenses to HEW salaries and expense fund	Insurance premiums	$25 million for SLIF	SLIF-Revolving Fund HEW-Higher Education Fund HEW-Salaries and Expense Fund	No statutory limits. Appropriations have also been inadequate to cover claims
HUD/FHA					
Basic Home Mortgage Insurance [203B]	Not used	Premiums to pay claims. Fees to cover administrative expenses	MMIF has unlimited borrowing authority	MMIF	No controls set since program self-sustaining
Single Family Co-insurance [244]	Not used	Premiums to pay claims. Fees to cover administrative expenses	MMIF has unlimited borrowing authority	MMIF	No controls set since program self-sustaining
Mortgage Insurance for Rental Housing for Low and Moderate Income Families (Market rate and below market rate) [221(d)(3)]	Available when revenues do not cover claims and expenses	Premiums and fees insufficient to cover claims and expenses	GIF has unlimited borrowing authority	GIF	Appropriations for GIF limited to $500 million

Continued

MATRIX 2 (Continued)

PROGRAM	SOURCES OF FUNDS FOR CLAIMS AND ADMINISTRATIVE EXPENSES			PROGRAM FUND IDENTIFICATION	PROGRAM FUND CONTROL MECHANISM
	APPROPRIATIONS	PREMIUMS/FEES	BORROWING AUTHORITY		
HUD/FHA (Continued)					
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	Available when revenues do not cover claims and expenses	Premiums and fees insufficient to cover claims and expenses	GIF has unlimited borrowing authority	GIF	Appropriations for GIF limited to $500 million
Property Improvement and Mobile Home Loans (Title 1, Section 2)	Appropriations to start program. No appropriations for FY1978	Premiums and fees to pay claims	Program has authority to borrow, but no current debt exists	GIF-Title I is treated as separate program within fund	Congressional authority to insure unlimited amounts
Mortgage Insurance for Hospitals [242]	Appropriations to cover claims made to GIF	Premiums and fees paid into GIF to cover claims and administration	Unlimited borrowing authority through GIF	GIF	Reserves in GIF required but insurance written not limited by reserves
DOT/FAA					
Aircraft Loan Guarantee Program	Claims paid from DOT appropriations. Administrative costs paid from Dept. of Treasury appropriations	Guarantee fees credited to miscellaneous receipts of Dept. of Treasury	No legislative authority to borrow	No fund used	$30 million guarantees maximum per carrier
OPIC					
Investment Guarantee	Initial funds for reserves and OPIC paid-in capital appropriated. OPIC since self-sustaining	Investment guarantee fees	No borrowing authority	No particular fund used. OPIC operates as private corporation and most income can be used for any program	$750 million limit on outstanding contingent liabilities. Guarantee reserve must equal 25 percent of outstanding guarantees at time of new guaranty
SBA					
Regular Business Loans [7(A)]	Appropriations for claims and expenses to BLIF. Beginning in FY 1978, separate appropriations to be made for claims and for salaries and expenses	One-time, 1% guarantee fee charged to lender	No borrowing authority	BLIF - a revolving fund	Statutory limit on amount of loans guaranteed and on amounts of total guarantees made
State and Local Development Company Loans [502]	Appropriations for claims and expenses to BLIF. Beginning in FY 1978, separate appropriations to be made for claims and for salaries and expenses	One-time, 1% guarantee fee charged to lender	No borrowing authority	BLIF - a revolving fund	Statutory limit on amount of loans guaranteed and on amounts of total guarantees made
Small Business Investment Companies (SBIC's)	Appropriations for claims and expenses to BLIF. Beginning in FY 1978, separate appropriations to be made for claims and for salaries and expenses	One-time, 1% guarantee fee charged to lender	No borrowing authority	BLIF - a revolving fund	Statutory limit on amount of loans guaranteed and on amounts of total guarantees made
VETERANS ADMINISTRATION					
VA Home Loan Guarantee Program	Appropriations cover administrative expenses. Appropriations for claims authorized but none made. Sales of loans provide additional revenue	None	Legislation mute, but balance sheet shows $500 million liability for Treasury borrowing	VA Loan Guarantee Revolving Fund covers all costs except administrative	No limits or controls

MATRIX 3: DEFINITIONS

PROGRAM	GUARANTEE	INSURANCE	DELINQUENCY	DEFAULT	FORBEARANCE	SUBSIDY	CONTINGENT LIABILITY (INSURANCE IN FORCE)
FmHA Business and Industrial Loans	Loan made and serviced by a lender for which FmHA has entered into . . . a 'Lenders Agreement' and for which FmHA had issued a . . . 'Loan Note Guarantee' (R)	Not applicable	No definition	Breach of contract	No definition — may include: DEF, REF, RESCH, Transfer and assumption of loan to/by FmHA. (I)	Not applicable	Full amount of guarantees (incl. guaranteed portions acquired by FmHA) (I)
Community Facilities Loans	Not applicable	FFB assured that CBO's be repaid regardless of borrower payment or non-payment on loan. (I)	More than 15 days past due in payment. (I)	Term not used (I)	No foreclosures. FmHA helps arrange for mergers instead.	Not applicable	Full amount of insurance (principal + interest)
Emergency Livestock Loan Guarantees	Guaranteed Loan — See FmHA program (1). Guaranteed Line of Credit — Loan advances made and serviced by lender subject to agreed upon maximum amount and specified in an FmHA 'Contract Gearantee.' (R)	Not applicable	No definition	Breach of contract	See FmHA program (1) above	Not applicable	See FmHA program (1) above
Recreation Facilities Loans	See FmHA program (1) above	Not applicable	No definition	Breach of contract	See FmHA program (1) above.	"Payments made by FmHA to lenders to induce them to make . . . loans."	See FmHA program (1) above.
Rural Housing Loans (Section 502)	See FmHA program (1) above.	Not applicable	No definition	Breach of contract	See FmHA program (1) above.	Not applicable	See FmHA program (1) above.
Rural Housing Loans (Section 502)	Not applicable	See FmHA program (2) above	More than 15 days past due in payment. (I)	Failure to pay when due . . . or perform any covenant or agreement. (R)	Secretary authorized to grant moratorium on payment of principal and interest. (L)	Not applicable	Full amount of insurance (principal + interest)
MARAD Federal Ship Financing	100% payment of principal and interest in case of bond issuer's default. (I)	Not applicable	Any non-payment when due. (Term rarely used in program.) (I)	1. Breach of contract. 2. Delinquency beyond 30-day grace period. (I)	1. 30-day grace period when ship owner may cure delinquency. 2. Assistance may include: Advances to shipowners to cover principal payments to beudholders. (I)	Not applicable	Total outstanding guaranteed debt obligations. (I)
HEW/OFFICE OF EDUCATION Federally Insured Student Loans	No definition	Amount charged to lender by BSFA for insuring lender against loss. (D)	Any loan on which payment past due. (I)	Failure to make payment when due or comply with other terms of note such that OE Commissioner finds reasonable to conclude borrower no longer intends to honor obligation. (L)	Revision of repayment terms — may include: DEF, RESCH, FOR (I)	No definition	Total commitments net of repayments. (I)
Guarantee Agency Reinsured Student Loans	No definition	Amount charged to lender by BSFA for insuring lender against loss. (D)	Any loan on which payment past due. (I)	Failure to make payment when due or comply with other terms of note such that OE Commissioner finds reasonable to conclude borrower no longer intends to honor obligation. (L)	Revision of repayment terms — may include: DEF, RESCH, FOR (I)	No definition	Total commitments net of repayments. (I)
HUD/FHA Basic Home Mortgage Insurance [203B]	Not applicable	Premiums paid to cover anticipated claims determined actuarially. (I)	Any account on which payment past due. (I)	Account more than 30 days past due. Any breach of mortgage obligations. (L)	Revision of repayment terms if delinquency due to circumstances beyond borrowers control. May include: DEF, RESCH, RED, or recasting (i.e., change in amortization period). (I)	Not applicable	Estimated outstanding mortgage balances. (I)
Single Family Coinsurance [244]	Not applicable	Premiums paid to cover anticipated claims determined actuarially. (I)	Any account on which payment past due. (I)	Account more than 30 days past due. Any breach of mortgage obligations. (L)	Revision of repayment terms if delinquency due to circumstances beyond borrowers control. May include: DEF, RESCH, RED, or recasting (i.e., change in amortization period). (I)	Not applicable	Estimated outstanding mortgage balances. (I)

Continued

MATRIX 3 (Continued)

PROGRAM	GUARANTEE	INSURANCE	DELINQUENCY	DEFAULT	FORBEARANCE	SUBSIDY	CONTINGENT LIABILITY (INSURANCE IN FORCE)
HUD/FHA (Continued)							
Mortgage Insurance for Rental Housing for Low & Moderate Income Families (market rate and below-market rate [221(d)(3)]	Not applicable	Premiums paid to cover anticipated claims determined actuarially. (I)	Account up to 30 days past due. (I)	Any deficiency in aggregate monthly payment. (I)	Agreement between mortgagee and mortgagor to revise terms of mortgage. May include: RED, DEF. (I)	No definition	Outstanding liabilities
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	Not applicable	Premiums paid to cover anticipated claims determined actuarially. (I)	Account up to 30 days past due. (I)	Any deficiency in aggregate monthly payment (I)	Agreement between mortgagee and mortgagor to revise terms of mortgage. May include: RED, DEF. (I)	No definition	Outstanding liabilities
Property Improvement & Mobile Home Loans (Title 1, Section 2)	Not applicable	No definition	Account on which payment payment past due. (I)	Account on which payment past due. (L)	No definition – may include: DEF, REF. (I)	Not applicable	Aggregate individual reserve accounts of lenders. (I)
Mortgage Insurance for Hospitals (242)	Not applicable	See HUD/FHA program (1) above	No definition	Failure to make payment when due or perform any other covenant of mortgage agreement. (L)	No definition	Not applicable	No definition
DOT/FHA Aircraft Loan Guarantee Program	Agreement between FAA and lender to cover all interest and 90% of principal in event of borrower non-payment. (I)	Not applicable	No definition	Account more than 7 days past due. (I)	Attempt to cure default during 60-day pre-claim period and 60-90 day post-claim period before claim payment by FAA. (I)	Not applicable	Outstanding amount of guarantee at a particular time. (I)
OPIC Investment Guarantee	Irrevocable commitment to lender that OPIC pay principal and interest if borrower fails to pay according to loan agreement for any reason. (O)	Not applicable	Term not used	Failure to make payment when due or honor covenants of loan agreement. (I)	Term not used	Not applicable	Total amount guaranteed net of repayments (I)
SBA Regular Business Loans [7(A)]	Agreement that SBA purchase guaranteed portion of loan in case of borrower default. (I)	Not applicable	Any loan more than 30 days past due. (I)	Non-payment of principal and interest on due date (I). Breach of loan covenant which lender determines to be adverse change in borrower's ability to repay. (L)	Measures taken to prevent default of a problem loan. May include: DEF, RED, REF, SBA taking over repayment for a period. (I)	Not applicable	Total guaranteed portions of outstanding loans less payments made. (I)
State & Local Development Company Loans [502]	Agreement that SBA purchase guaranteed portion of loan in case of borrower default. (I)	Not applicable	Any loan more than 30 days past due. (I)	Non-payment of principal and interest on due date (I). Breach of loan covenant which lender determines to be adverse change in borrower's ability to repay. (L)	Measures taken to prevent default of a problem loan. May include: DEF, RED, REF, SBA taking over repayment for a period. (I)	Not applicable	Total guaranteed portions of outstanding loans less payments made. (I)
Small Business Investment Companies (SBIC's)	Assurance that SBIC debentures be repaid as to principal and interest. (I)	Not applicable	Any loan more than 30 days past due. (I)	Non-payment of principal and interest on due date (I). Breach of loan covenant which lender determines to be adverse change in borrower's ability to repay. (L)	Measures taken to prevent default of a problem loan. May include: DEF, RED, REF, SBA taking over repayment for a period. (I)	Not applicable	Total guaranteed portions of outstanding loans less payments made. (I)
VETERANS ADMINISTRATION VA Home Loan Guarantee Program	Obligation of U.S. to repay specified percentage of loan upon default of primary debtor. (I)	Not applicable	Non-payment of principal and interest when due. (I)	Failure of borrower to comply with terms of loan agreement. Default not "Reportable" until 3 monthly payments missed. (I)	Written agreement between lender and borrower to revise repayment terms. (I)	Not applicable	Cumulative guarantees outstanding. (I)

SOURCE OF DEFINITIONS:
- R = Regs
- I = Interview
- L = Legislation
- O = Other Documents published by Agency/Program

CODE FOR FORBEARANCE ACTIVITIES
- DEF = Deferment of repayment.
- RESCH = Rescheduling repayment.
- FOR = Forgiveness of all or part of principal or interest.
- REF = Refunding or refinancing: making a new loan with terms different from the initial loan in order to pay off the initial loan.
- RED = Reduction in payments for a prescribed period.

MATRIX 4: ACCOUNTING CHARACTERISTICS AND CONVENTIONS, PART 1

PROGRAM	TYPE OF ACCOUNTING SYSTEM	FUNDS USED FOR EACH PROGRAM	FUND OR PROGRAM BASIS FOR ACCOUNTING SYSTEM?	FORMAT OF DATA AVAILABLE	PROCEDURES FOR ALLOCATING ADMINISTRATIVE COSTS	PROCEDURES FOR ESTIMATING RESERVES FOR LOSSES
FmHA Business and Industrial Loans	ACCRUAL (Cash Basis at Times)	RDIF	Fund	Financial statements and work sheets. Additional reports printed by computer	Allocated based on timesheets or on formula.	Not available from Washington office.
Community Facilities Loans	ACCRUAL (Cash Basis at Times)	RDIF	Fund	Financial statements and work sheets. Additional reports printed by computer	Allocated based on timesheets or on formula.	Not available from Washington office.
Emergency Livestock Loan Guarantees	ACCRUAL (Cash Basis at Times)	ACIF	Fund	Financial statements and work sheets. Additional reports printed by computer	Allocated based on timesheets or on formula.	Not available from Washington office.
Recreation Facilities Loans	ACCRUAL (Cash Basis at Times)	ACIF	Fund	Financial statements and work sheets. Additional reports printed by computer	Allocated based on timesheets or on formula.	Not available from Washington office.
Rural Housing Loans (Section 502) Guar.	ACCRUAL (Cash Basis at Times)	RHIF	Fund	Financial statements and work sheets. Additional reports printed by computer	Allocated based on timesheets or on formula.	Not available from Washington office.
Rural Housing Loans (Section 502) Ins.	ACCRUAL (Cash Basis at Times)	RHIF	Fund	Financial statements and work sheets. Additional reports printed by computer	Allocated based on timesheets or on formula.	Not available from Washington office.
MARAD Federal Ship Financing	ACCRUAL	FSFF	Both	Standard Treasury format for financial statements (Form SF 220).	Actual costs	No reserves (entire fund)
HEW/Office of Education Federally Insured Student Loans	ACCRUAL	SLIF, Higher Education, Salaries & Expense [SLIF and HE. combined in SLIF in FY 1978 for Student Loan Appropriations].	Kept by fund but tracked by program	Data kept on one of three computer systems – OEFMIS GSLS, GSLP loan estimation model.	Extrapolate from prior years. Detailed cost data not kept.	Use GSLP loss estimation model (computer model).
Guarantee Agency Reinsured Student Loans	ACCRUAL	SLIF, Higher Education, Salaries & Expense [SLIF and HE combined in SLIF in FY 1978 for Student Loan Appropriations].	Kept by fund but tracked by program	Data kept on one of three computer systems – OEFMIS GSLS, GSLP loan estimation model.	Extrapolate from prior years. Detailed cost data not kept.	Use GSLP loss estimation model (computer model).
HUD/FHA Basic Home Mortgage Insurance [203B]	ACCRUAL	MMIF	Both	Std. Financial Statements for Fund.	Allocation based on formula, with annual adjustments based on time and expense reports.	Actuarial basis
Single Family Coinsurance [244]	ACCRUAL	MMIF	Both	Std. Financial Statements for Fund.	Allocation based on formula, with annual adjustments based on time and expense reports.	Actuarial basis

Continued

MATRIX 4: PART 1 (Continued)

PROGRAM	TYPE OF ACCOUNTING SYSTEM	FUNDS USED FOR EACH PROGRAM	FUND OR PROGRAM BASIS FOR ACCOUNTING SYSTEM?	FORMAT OF DATA AVAILABLE	PROCEDURES FOR ALLOCATING ADMINISTRATIVE COSTS	PROCEDURES FOR ESTIMATING RESERVES FOR LOSSES
HUD/FHA (Continued)						
Mortgage Insurance for Rental Housing for Low and Moderate Income Families (Market rate and below-market rate [221(d)(3)]	ACCRUAL	GIF	Both	Financial statements by fund and program [but not sub-program for 221].	Allocation based on formula, with annual adjustments based on time and expense reports.	Actuarial basis
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	ACCRUAL	GIF	Both	Financial statements by fund and program [but not sub-program for 221].	Allocation based on formula with annual adjustments based on time and expense reports.	Actuarial basis
Property Improvement and Mobile Home Loans (Title 1, Section 2)	ACCRUAL	GIF	Both	Financial statements.	Allocation based on formula, with annual adjustments based on time and expense reports.	Statutes require lender reserve equal 10% of total loans advanced.
Mortgage Insurance for Hospitals [242]	ACCRUAL	GIF	At HUD – Both At HEW – Program	Financial statements.	HEW estimates then bills HUD	Actuarial basis
DOT/FAA Aircraft Loan Guarentee Program	ACCRUAL	No fund	Program	Financial statement.	90% of Director's time and 10% of Secretarial time.	No reserves
OPIC Investment Guarantee	ACCRUAL	No special fund.	Program level – (OPIC financing program) but not subprogram (investment guarantee) level.	Only manual records of all transactions.	Direct costs kept by program. Other costs allocated by rough estimate.	Statutes require reserve of 25% of total guarantees outstanding.
SBA Regular Business Loans [7(A)]	ACCRUAL	BLIF	Fund	Financial statements obtained from computer FMIS.	Based on workload factors derived from historical experience and loan volume level.	Annual Comprehensive Loss Study prepared by Planning Research unit.
State and Local Development Company Loans [502]	ACCRUAL	BLIF	Fund	Financial statements obtained from computer FMIS.	Based on workload factors derived from historical experience and loan volume level.	Annual Comprehensive Loss Study prepared by Planning Research unit.
Small Business Investment Companies (SBIC's)	ACCRUAL	BLIF	Fund	Financial statements obtained from computer FMIS.	Based on workload factors derived from historical experience and loan volume level.	Annual Comprehensive Loss Study prepared by Planning Research unit.
VETERANS ADMINISTRATION VA Home Loan Guarantee Program	ACCRUAL	GLRF	Both	Financial statements.	Actual costs kept by program.	Reserves not kept. Entire GLRF available for claims.

MATRIX 4: ACCOUNTING CHARACTERISTICS AND CONVENTIONS, PART 2

PROGRAM	ACCOUNTING CONVENTIONS FOR PROBLEM LOANS AND CLAIMS				ACCOUNTING FOR ACQUIRED LOANS	
	RECORDING OF FORBEARANCE AND REFINANCING	CLAIMS PAYMENT	PAYMENT METHOD FOR CLAIMS: CASH OR NOTES	RECOGNITION OF SUPPLEMENTAL FINANCING (Interfund, FFB, Treas., Approp)	RECORDING OF LOAN ACQUISITION	RECORDING OF GAIN OR LOSS ON LIQUIDATION
FmHA Business and Industrial Loans	No special recognition.	Recorded as "Acct. Payable" and in "Res. for potential Losses."	Cash	No interfund transfers. Approp. added to operating fund asset account. Borrowing recorded as liability.	Increase in "Acquired Securities" or "Investment in Guaranteed Loans"	Increase or decrease in "Gain or Loss on Sale."
Community Facilities Loans	Accounting for "subsequent loans" similar to accounting for initial loans.	Not applicable – no claims.	Not applicable	Sale of CBO's to FFB is a liability.	Not applicable	Not applicable
Emergency Livestock Loan Guarantees	No special recognition.	Same as FmHA (1).	Cash	Same as FmHA (1).	Same as FmHA (1).	Same as FmHA (1).
Recreation Facilities Loans	No special recognition.	Same as FmHA (1).	Cash	Same as FmHA (1).	Same as FmHA (1).	Same as FmHA (1).
Rural Housing Loans (Section 502) Guar.	No entries to record delinquencies.	Same as FmHA (1).	Cash	Same as FmHA (1).	Same as FmHA (1).	Same as FmHA (1).
Rural Housing Loans (Section 502) Ins.	Same as FmHA (2).	Not applicable – no claims.	Not applicable	Same as FmHA (2).	Increase in "Acquired Securities" asset acct.	Same as FmHA (1).
MARAD Federal Ship Financing	Advances to forestall delinquency shown as assets.	Immediate full payment of claim. Contingent liability via a newly established real liability.	Cash	Not applicable	Acquired vessels are "Fixed Assets not in Use"	Recorded in expense acct. "Provision for Vessel Foreclosure Losses."
HEW/Office of Education Federally Insured Student Loans	Note made on loan records in regional office.	Payment written-off to SLIF.	Cash	Supplemental Approp. added to revolving fund. Treas. borrowing recorded as note payable.	Increase in "Long Term Receivables" in SLIF.	Collection goes into SLIF.
Guarantee Agency Reinsured Student Loans	Note made on loan records in regional office.	Payment written-off to SLIF.	Cash	Supplemental Approp. added to revolving fund. Treas. borrowing recorded as note payable.	Increase in "Long Term Receivables" in SLIF.	Collection goes into SLIF.
HUD/FHA Basic Home Mortgage Insurance [203B]	No special recognition.	Payment written-off to MMIF.	Cash or debentures	Interfund transfers from MMIF shown as "contra-liability" account. No other supplemental financing.	Recorded as asset: "receivable."	Increase cash, decreases receivable.
Single Family Coinsurance [244]	No special recognition.	Payment written-off to MMIF.	Cash or debentures	Interfund transfers from MMIF shown as "contra-liability" account. No other supplemental financing.	Recorded as asset: "receivable."	Increase cash, decreases receivable.

Continued

MATRIX 4: PART 2 (Continued)

PROGRAM	ACCOUNTING CONVENTIONS FOR PROBLEM LOANS AND CLAIMS: RECORDING OF FORBEARANCE AND REFINANCING	CLAIMS PAYMENT	PAYMENT METHOD FOR CLAIMS: CASH OR NOTES	RECOGNITION OF SUPPLEMENTAL FINANCING (Interfund, FFB, Treas., Approp)	ACCOUNTING FOR ACQUIRED LOANS: RECORDING OF LOAN ACQUISITION	RECORDING OF GAIN OR LOSS ON LIQUIDATION
HUD/FHA (Continued)						
Mortgage Insurance for Rental Housing for Low and Moderate Income Families (Market rate and below-market rate [221(d)(3)]	No special recognition.	Payment written-off to GIF.	Cash unless debentures requested.	Interfund transfers to GIF shown as Capital Contribution. Other supplemental financing shown in balance sheet and statement of income and expense.	Increase in "Acquired Securities" asset acct.	Increase cash, decreases receivable.
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	No special recognition.	Payment written-off to GIF.	Cash unless debentures requested.	Interfund transfers to GIF shown as Capital Contribution. Other supplemental financing shown in balance sheet and statement of income and expense.	Increase in "Acquired Securities" asset acct.	Increase cash, decreases receivable.
Property Improvement and Mobile Home Loans (Title 1, Section 2)	No special recognition.	Written off as GIF expense.	Cash	Interfund transfers to GIF shown as Capital Contribution. Other supplemental financing shown in balance sheet and statement of income and expense.	Increase in "Acquired Securities" asset acct.	Increase cash, decreases receivable.
Mortgage Insurance for Hospitals [242]	No special recognition.	Written off as GIF expense.	Cash or debentures	Interfund transfers to GIF shown as Capital Contribution. Other supplemental financing shown in balance sheet and statement of income and expense.	Increase in "Acquired Securities" asset acct.	Increase cash, decreases receivable.
DOT/FAA Aircraft Loan Guarantee Program	No special recognition.	No claims paid.	Cash	Not used.	Not applicable	Not applicable
OPIC Investment Guarantee	Not used.	Memorandum record made. Claim payment written off to guarantee reserve.	Cash	Not used	Memorandum Record	Collection added to Guarantee reserve.
SBA Regular Business Loans [7(A)]	Loan recorded as "In Liquidation" (Acct. Rec.)	Claim written off to BLIF.	Cash	No interfund transfers. Approp. added to BLIF. Borrowing recorded as liability.	Loan carried as "Receivable – In Liquidation." Contingent liabilities are decreased.	Collections added to BLIF.
State and Local Development Company Loans [502]	Loan recorded as "In Liquidation" (Acct. Rec.).	Claim written off to BLIF.	Cash	No interfund transfers. Approp. added to BLIF. Borrowing recorded as liability.	Loan carried as "Receivable – In Liquidation." Contingent liabilities are decreased.	Collections added to BLIF.
Small Business Investment Companies (SBIC's)	Loan recorded as "In Liquidation" (Acct. Rec.).	Claim written off to BLIF.	Cash	No interfund transfers. Approp. added to BLIF. Borrowing recorded as liability.	Loan carried as "Receivable – In Liquidation." Contingent liabilities are decreased.	Collections added to BLIF.
VETERANS ADMINISTRATION VA Home Loan Guarantee Program	No special recognition.	Payment written off to revolving fund.	Cash	Borrowing recorded as liability	Reserve set up. Loan recorded as asset. Subsidiary acct set up for each acquired property.	Collections recorded as income. Reserve eliminated and any losses written off.

MATRIX 5: AVAILABILITY OF SELECTED PROGRAM DATA

PROGRAM	LOAN ORIGINATION: APPLICATIONS RECEIVED	LOANS INSURED OR GUARANTEED PER YEAR	AVERAGE INTEREST RATE CHARGED	AVERAGE SIZE OF INSURANCE OR GUARANTY	DELINQUENCY RATE
FmHA Business and Industrial Loans	Available	Available	Not available	Available	Available
Community Facilities Loans	Available	Available	Available	Available	Available
Emergency Livestock Loan Guarantees	Available	Available	Available	Available	Not available
Recreation Facilities Loans Program Not Implemented	–	–	–	–	–
Rural Housing Loans (Section 502) Guar.	Available for aggregate Section 202 loans.	Available for aggregate Section 202 loans.	Not available	Calculable*	Available
Rural Housing Loans (Section 502) Ins.	Available for aggregate Section 202 loans.	Available for aggregate Section 202 loans.	Available only within range	Calculable	Available
MARAD Federal Ship Financing	NA – Can be compiled on request.	Available	Available	Available	NA – Can be compiled on request.
HEW/Office of Education Federally Insured Student Loans	Not available	Available	Available	Equals average size of loans – can be calculated.	Theoretically available but problems with computer system cast doubt on validity of data.
Guarantee Agency Reinsured Student Loans	Not available	Available	Available	Equals average size of loans – can be calculated.	Available
HUD/FHA Basic Home Mortgage Insurance [203B]	Available	Available	Available	Available	Calculable
Single Family Coinsurance [244]	Available only on "Submissions for Endorsement."	Available	Not available	Not available	Calculable
Mortgage Insurance for Rental Housing for Low & Moderate Income Families (market rate & below-market rate) [221(d)(3)]	Available	Available	Available	Available	Calculable
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	Available	Available	Available	Available	Calculable
Property Improvement & Mobile Home Loans (Title 1, Section 2)	Not applicable	Available	Not available	Available	Available only from lenders.
Mortgage Insurance for Hospitals [242]	Available only from regional offices.	Available: HUD or HEW.	Available: HEW.	Available: HUD or HEW.	Available: HEW
FAA Aircraft Loan Guarantee Program	Not available	Available	Not available	Available	Not available
OPIC Investment Guarantee	Available	Available	Available	Available	Available
SBA Regular Business Loans [7(A)]	Not available	Available	Available	Available	Not available
State & Local Development Company Loans [502]	Not available	Available	Available	Available	Not available
Small Business Investment Companies (SBIC's)	Not available	Available	Available	Available	Not available
VETERANS ADMINISTRATION VA Home Loan Guarantee Program	Available	Available	Not available	Available	Not applicable – Term not used.

*Calculable = Calculable from available data but not kept in this designation.

Continued

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MATRIX 5: (Continued)

PROGRAM	LOAN SERVICING DEFAULT RATE	ACQUIRED LOANS	NUMBER OF LOANS PER LENDER	NUMBER AND AMOUNT OF CLAIMS
FmHA Business and Industrial Loans	Available	Available	Available on request (charge for service).	"Losses Paid" are available.
Community Facilities Loans	Not applicable	Not applicable	(FmHA is lender)	Not applicable
Emergency Livestock Loan Guarantees	Data on "losses" are available.	Not available	Same as for FmHA (1).	Data on "losses" are available.
Recreation Facilities Loans Program Not Implemented	–	–	–	–
Rural Housing Loans (Section 502) Guar.	Available	Not available	Same as for FmHA (1).	Not available
Rural Housing Loans (Section 502) Ins.	Available	Loans are made by FmHA – not acquired. Data is available on Property Acquired.	(FmHA is lender)	Not applicable
MARAD Federal Ship Financing	Available	Available	Available	Available in total for life of program but not on yearly basis.
HEW/Office of Education Federally Insured Student Loans	Theoretically available but problems with computer system cast doubt on validity of data.	Available – but data of questionable validity.	Not readily available but collected.	Available
Guarantee Agency Reinsured Student Loans	Available	Available – but data of questionable validity.	Not readily available but collected.	Available
HUD/FHA Basic Home Mortgage Insurance [203B]	Available	Available	Not available except from region office.	Available
Single Family Coinsurance [244]	Available	Available	Not available except from region office.	Available
Mortgage Insurance for Rental Housing for Low & Moderate Income Families (market rate & below-market rate) [221(d)(3)]	Available	Available	Not available except from region office.	Available
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	Available	Available	Not available except from region office.	Available
Property Improvement & Mobile Home Loans (Title 1, Section 2)	Available only from lenders.	Available	Available	Available
Mortgage Insurance for Hospitals [242]	Available: HUD or HEW	Available: HUD or HEW.	Not readily available but collected.	Available: HUD or HEW.
FAA Aircraft Loan Guarantee Program	There have not been any defaults.	Not relevant.	Not available	Not relevant
OPIC Investment Guarantee	Available	Available	Available	Available
SBA Regular Business Loans [7(A)]	Available	Available	Available	Available
State & Local Development Company Loans [502]	Available	Available	Available	Available
Small Business Investment Companies (SBIC's)	Available	Available	Available	Available
VETERANS ADMINISTRATION VA Home Loan Guarantee Program	Available	Available	Available by class of lender.	Available

Continued

MATRIX 5: (Continued)

PROGRAM	LOAN LIQUIDATION: AGING SCHEDULE OF LOANS PAST DUE	LOAN LIQUIDATION: OTHER LOAN TERMINATION	LOAN LIQUIDATION: CONTINGENT LIABILITY
FmHA			
Business and Industrial Loans	Available for aggregate B&I loans.	Available	Available by fund, not program.
Community Facilities Loans	Available	Number and amount of "De-obligations."	Available by fund, not program.
Emergency Livestock Loan Guarantees	Not available	Not available	Available by fund, not program.
Recreation Facilities Loans Program Not Implemented	–	–	–
Rural Housing Loans (Section 502) Guar.	Available	Available	Same as for FmHA (1).
Rural Housing Loans (Section 502) Ins.	Available	Available	Same as for FmHA (1).
MARAD			
Federal Ship Financing	Not available	Available	Available
HEW/Office of Education			
Federally Insured Student Loans	Not available	Not applicable	Available
Guarantee Agency Reinsured Student Loans	Not available	Not applicable	Available
HUD/FHA			
Basic Home Mortgage Insurance [203B]	Available	Available	Available
Single Family Co-insurance [244]	Not available	Available	Available
Mortgage Insurance for Rental Housing for Low & Moderate Income Families (market rate & below-market rate) [221(d)(3)]	Available	Available	Available
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	Available	Available	Available
Property Improvement & Mobile Home Loans (Title 1, Section 2)	Available	Not available	Available
Mortgage Insurance for Hospitals [242]	Not readily available but collected by HEW.	Available: HUD.	Available: HUD.
FAA			
Aircraft Loan Guarantee Program	Not relevant	Not relevant	Available
OPIC			
Investment Guarantee	Available	Not applicable	Available
SBA			
Regular Business Loans [7(A)]	Not available	Not applicable	Available
State & Local Development Company Loans [502]	Not available	Not applicable	Available
Small Business Investment Companies (SBIC's)	Not available	Not applicable	Available
VETERANS ADMINISTRATION			
VA Home Loan Guarantee Program	Not available	Available	Calculable

MATRIX 6: REPORTING: PROGRAM AND ACCOUNTING INFORMATION

AGENCY PROGRAM / CHARACTERISTICS	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
•FmHA Program Reports							
All Programs*	RC205-Status of Obligations	Weekly and Month	St. Louis Finance Office	St. Louis Finance Office data files	1 week	Program personnel	Program management
	RC506-Loans Made	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	3 weeks	Primarily MIS staff – for preparing a publication	Primarily MIS staff – for preparing a publication
	RC666-FmHA Quarterly Report	Quarterly	St. Louis Finance Office	Forms FmHA492-3, 492-5	3 months	Primarily MIS staff – for preparing a publication	Primarily MIS staff – for preparing a publication
	RC705-Semiannual Caseload Report	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	45 days	Primarily MIS staff – for preparing a publication	Primarily MIS staff – for preparing a publication
	RC734-Congressional Summary	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	45 days	Primarily MIS staff – for preparing a publication	For responding to Congressional information requests
	RC895-Local Work Unit Reports	Annually	St. Louis Finance Office	St. Louis Finance Office data files and MIS data	3 months	N.O. Personnel Division	Personnel planning
Insured Loan Programs	RC592-Activity of Acquired Property	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	20 days	Budget, property management ($) program personnel	Program Management
	RC723-Inventory of Acquired Property	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	45 days	Program personnel	Program management
	RC893-Loans Liquidated through Transfer	Annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	Property management	Property management
	RC752-Payment Status of Loans	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	45 days	Program personnel	Program management
	RC616-Active Borrowers Delinquent	Quarterly	St. Louis Finance Office	St. Louis Finance Office data files	45 days	Program personnel	Program management
	RC739-Loans Subject to Civil Rights Act	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	1 month	Civil rights staff	Check compliance with Civil Rights Act
	RC852-Loans Satisfied ($) Borrowers Reclassified to Collection Only	Annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	MIS staff	For preparing a publication
	RC815-Cumulative Collections	Annually	St. Louis Finance Office	St. Louis Finance Office data files	1 month	MIS staff	For preparing a publication
	RC813-Refinancings	Annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	MIS staff	For preparing a publication
All Guaranteed Loan Programs	RC576-Guaranteed Loan Losses	Monthly	St. Louis Finance Office	St. Louis Finance Office data files (Report of Losses)	1 month	Emergency loan division	Program management
Programs Including Loans to Individuals	RC833-Program Participation by Race	Annually	St. Louis Finance Office	St. Louis Finance Office data files + target data from N.O.	2 months	Equal opportunity staff	Equal opportunity program
	RC891-Obligations by Race	Annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	MIS staff	For preparing a publication

*Data are not necessarily disaggregated by all program categories. For example, business and industry guarantees may be combined with business and industry insured loans.

Continued

MATRIX 6 (Continued)

AGENCY PROGRAM / CHARACTERISTICS	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
FmHA (Continued)	Conversion and Refinancing	Monthly	State Directors	State Office files	2 or 3 weeks	EL program personnel	Program management
Emergency Livestock Loan Guarantees	RC633-Characteristics Report	Quarterly	St. Louis Finance Office	St. Louis Finance Office data files (S) F449-31	15 days	EL program personnel	Program management
	RC753-Status Report	Semi-annually	State office staff	State office files, Form 320.2	2 months	EL program personnel	Program management
Recreation Facilities Loans (guaranteed, not implemented)	No reports include data on this program, as it has not been implemented.	–	No reports include data on this program, as it has not been implemented.	No reports include data on this program, as it has not been implemented.	–	No reports include data on this program, as it has not been implemented.	No reports include data on this program, as it has not been implemented.
Business and Industry Loans (guaranteed) and Community Facilities Loans (Insured)	RC563-Preapplications and Applications on Hand-Awaiting Funds	Monthly	St. Louis Finance Office	Form FmHA 440-48	1 week	MIS staff	For preparing a publication for use by Community Services Division.
	RC570-Obligations to Assns. & Organizations	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	1 week	Program personnel	Program management
	RC636-Preapplications & Applications in Process	Quarterly	St. Louis Finance Office	Form FmHA 440-48	1 week	Program personnel	Program management
	RC718-Rural Community Projects	Semi-annually	St. Louis Finance Office	Form FmHA 440-48	3 months	Program personnel	Program management
	RC721-Delinquent Loans	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	45 days	Program personnel	Program management
	RC804-Use of Funds	Annually	St. Louis Finance Office	Form FmHA 442-14	3 months	Program personnel	Program management
	RC701-Organizations Receiving Advances of $1,000,000 or More	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	20 days	Financial Support Division	Financial management
Business and Industry Loans (guaranteed)	Allocation List	Weekly	St. Louis Finance Office	St. Louis Finance Office data files	1 week	Program personnel	Program management
	Table 1 Status Report	Monthly	N.O. B&I loan staff	data from State Offices	15 days	Program personnel	Program management
	Table 3 Obligations, by SIC Code	Annually	N.O. B&I loan staff	data from State Offices	3 months (approx.)	Program personnel	Program management
	Table 4 Obligations, by Loan Size and Area Population	Annually	N.O. B&I loan staff	data from State Offices	3 months (approx.)	Program personnel	Program management
	Table 5 Guarantees Issued, by SIC Code	Annually	N.O. B&I loan staff	data from State Offices	3 months (approx.)	Program personnel	Program management
	Table 6 Guarantees Issued, by Loan Size and Area Population	Annually	N.O. B&I loan staff	data from State Offices	3 months (approx.)	Program personnel	Program management
	Defaulted Loans Report	Monthly	N.O. B&I loan staff	data from State Offices	15 days	Program personnel	Program management
Community Facility Loans (insured)	Report on Application and Preapplications on Hand Funds Obligated Report (Weekly Activity Report)	Monthly > Combined Weekly	CFL program staff	MIS reports and phone calls to State offices and reports from state offices	3 days	Program personnel	Program management
	Use of Funds	Annually	CFL program staff	Written reports from state offices	At least 3 months	Program personnel	Program management
Rural Housing Loans (insured)	RC586-Planned Use of Loans	Monthly	St. Louis Finance Office	Forms available in St. Louis	13 days	Program personnel	Program management
	RC581-Monthly Pmt. Delinquencies	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	1 week	Program personnel	Program management

Continued

MATRIX 6 (Continued)

AGENCY PROGRAM / CHARACTERISTICS	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
FmHA (Continued) Rural Housing Loans (guaranteed)	RC583-Annual Pmt. Delinquencies	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	1 week	Program personnel	Program management
	RC669-Moratoria on Loans	Quarterly	St. Louis Finance Office	Letters from county offices	1 week	Program personnel	Program management
	RC703 Avg. Family Income	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	Program personnel	Program management
	RC710 Use of Funds	Semi-annually	St. Louis Finance Office	Forms available in St. Louis	2 months	Program personnel	Program management
	RC711-Loans by Interest Credit type	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	Program personnel	Program management
	RC725-Loans on Non-farm Tracts by Interest Credit Type	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	Program personnel	Program management
	RC727-Foreclosures and Voluntary Conveyances	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	2½ months	Program personnel	Program management
	RC812-Interest Credits	Annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	Program personnel	Program management
	RC832-Use of Funds	Annually	St. Louis Finance Office	Forms available in St. Louis	2 months	Program personnel	Program management
	RC871-Changes in Interest Credits	Annually	St. Louis Finance Office	St. Louis Finance Office data files	3 months	Program personnel	Program management
Accounting Reports	RC302 Payroll Cost Information	Biweekly	St. Louis Finance Office	St. Louis Finance Office data files	3 weeks	St. Louis Finance Office and N.O. Budget Staff	Accounting and budget
	RC502 Allotment Accounts	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	2 weeks	St. Louis Finance Office and N.O. Budget Staff	Accounting and budget
	RC505 GNMAE Distributions	Monthly	St. Louis Finance Office	St. Louis Finance Office data files and memos	2 weeks	St. Louis Finance Office and N.O. Budget Staff	Accounting and budget
	RC511 Transactions Summary	Monthly	St. Louis Finance Office	RC523	2 months	St. Louis Finance Office and N.O. Finance	Accounting and finance
	RC523 General Ledger Trial Balance	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	2 to 3 weeks	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC525 Participation Pools	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	1 week	N.O. Fiscal Division	Financial management
	RC533 Sales of Financial Assts	Monthly	St. Louis Finance Office	St. Louis Finance Office data files	2 weeks	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC549 Administrative Expense	Monthly	St. Louis Finance Office	St. Louis Finance Office data files and reports	1 week	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC559 Cumulative Outlay	Monthly	St. Louis Finance Office	Reports in St. Louis Finance Office	2 weeks	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC606 Personnel Roster	Quarterly	St. Louis Finance Office	St. Louis Finance Office data files	1 week	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC613 Time Spent for A.I.D.	Quarterly	St. Louis Finance Office	St. Louis Finance Office data files	3 weeks	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC732 Liability for Premium Interest	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	2 weeks	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC757 Allowance for Losses	Semi-annually	St. Louis Finance Office	Reports in St. Louis Finance Office	5 weeks	St. Louis Finance Office and N.O. Budget	Accounting and budget

Continued

MATRIX 6 (Continued)

CHARACTERISTICS / AGENCY PROGRAM	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIME-LINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
FmHA Accounting Reports (Cont.)	RC763 Lease Account Trial Balance	Semi-annually	St. Louis Finance Office	St. Louis Finance Office data files	1 month	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC765 Financial Statements for Insured Loan Programs	Semi-annually	St. Louis Finance Office	St. Louis Finance Office reports	2 months	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC809 Payroll Expenditure	Annually	St. Louis Finance Office	St. Louis Finance Office data files	Variable	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC818 Budget Statements	Annually	St. Louis Finance Office	St. Louis Finance Office reports	Variable	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC834 Consolidated Statements	Annually	St. Louis Finance Office	St. Louis Finance Office reports	2½ months	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC847 Outlays by Geographic Area	Annually	St. Louis Finance Office	St. Louis Finance Office reports and data files	1½ months	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC854 Insured Loans and CBO's Held by Investors	Annually	St. Louis Finance Office	St. Louis Finance Office data files	1 month	St. Louis Finance Office and N.O. Fiscal Division	Financial management
	RC856 Administrative Costs	Annually	St. Louis Finance Office	St. Louis Finance Office reports	2½ months	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC858 Man-Years Distribution	Annually	St. Louis Finance Office	St. Louis Finance Office data files	2 months	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC859 Status of Accounts	Annually	St. Louis Finance Office	St. Louis Finance Office reports	2 months	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC869 Receipts to Treasury	Annually	St. Louis Finance Office	St. Louis Finance Office reports	1½ months	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC882 Stepping Stone, Unliquidated and Vouchered Data	Annually	St. Louis Finance Office	St. Louis Finance Office reports	2 weeks	St. Louis Finance Office and N.O. Budget	Accounting and budget
	RC883 Trial Balance of Employee Accounts	Annually	St. Louis Finance Office	St. Louis Finance Office reports	3 weeks	St. Louis Finance Office and N.O. Fiscal Division	Financial management
•Dept of Commerce/MARAD Federal Ship Financing Program							
Program Reports	MA-172–includes shipowner's balance sheet, income statement and back-up schedules	Semi-annually and audited annually	Shipowner	Shipowner's financial records	Current - with slight lag for processing	MASFP national office and copy to regional office	Determine compliance with financial requirements of contract
	Statement of Conformance	Semi-annually	Shipowner	Shipowner's financial records	Current - with slight lag for processing	MASFP national office and copy to regional office	Confirm compliance with contract
	Statement of amount on deposit in reserve fund (restricted fund)	Annually	Shipowner	Shipowner's financial records	Current - with slight lag for processing	MASFP national office and copy to regional office	Check reserve fund balance
	Early warning report	Irregular	MARAD regional office	Visit to site of ship construction, reconstruction or renovation	Current - with slight lag for processing	MASFP national office	Alert national office to potential problems at ship construction site

Continued

MATRIX 6 (Continued)

CHARACTERISTICS / AGENCY PROGRAM	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
Dept of Commerce/MARAD Program Reports (Cont.)	Report on contracts in force	Quarterly	MARAD SFP national office	MASFP internal operating data	Current - with slight lag for processing	MarAd, which may pass it on to Commerce	Monitor status of Ship Financing Program
	Listing of new guarantees	Monthly	MARAD SFP national office	MASFP internal operating data	Current - with slight lag for processing	Federal Financing Bank, U.S. Dept. of Treasury	Monitor status of SFP Financing mechanism
	Major status report	Every 2 or 3 years	MARAD SFP national office	MASFP internal operating data	Current - with slight lag for processing	Congress	Decide whether or not ceiling should be increased
Accounting Reports	SF220 Statement of Financial Condition, and accompanying schedules. Includes balance sheet, income statement.	Quarterly - with some schedules produced monthly	MARAD finance office	Accounts of the revolving fund	45-day lag	Treasury Dept., as required in their Circular 966	Internal use to inform MASFP personnel about information being given to Treasury Department.
•HEW/Office of Education							
Program Reports	Report on budget execution	Monthly	OE Finance Division	OEFMIS	Current at time of report for period covered in report.	HEW Budget Office	Assess actual program costs against budgeted.
	Call report – Lenders annual report on guaranteed student loans outstanding.	Annually	Lenders	Lender's records	Varies - report summarizes transactions throughout the year.	(BSFS) To OGSL Program Office. Stays within Bureau.	Confirm BSFS records. Provide summary of status of BSFS obligations.
	Monthly report on program objectives	Monthly	BSFA	BSFA records	Current.	Internal – Commissioner of Education	Evaluate attainment of program goals.
Accounting Reports	Statement of income and expense	Quarterly	Accounting Operations Branch/OE Finance Division	OEFMIS	Current at time of report for period covered in report.	OGSL/OE Budget Division	Determine loss (profit) on program
	Balance sheet	Quarterly	Accounting Operations Branch/OE Finance Division	OEFMIS	Current at time of report for period covered in report.	OGSL/OE Budget Division	
	Loans accrued and interest receivable report	Quarterly	OE Finance Division	BSFA records and OEFMIS	Current at time of report for period covered in report.	OE Finance Division use.	
	Aging schedule on regular loans receivable	Quarterly	BSFA	Guaranteed Student Loan System (GSLS) – computer system.	Current at time of report for period covered in report	OGSL, regional offices, committee for write-offs of defaulted loans.	Determine which defaulted loans may be written off.
	OGSL receivable report	Quarterly	BSFA	GSLS	Current at time of report for period covered in report.	OE Finance Division (for input into OEFMIS)	Subsidiary records for accounts receivable (i.e., loans rec., accrued interest rec, and ins. premiums billed.
	Statement of financial condition	Semi-annually	OE Finance Division	OEFMIS	Current at time of report for period covered in report.	Congress, GAO, Treasury, OMB	
	Statement of income and retained earnings	Semi-annually	OE Finance Division	OEFMIS	Current at time of report for period covered in report.	Congress, GAO, Treasury, OMB	

Continued

MATRIX 6 (Continued)

CHARACTERISTICS / AGENCY AND PROGRAM	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
HEW/Office of Education Accounting Reports (Cont.)	Statement of transactions	Monthly	OE Finance Division	OEFMIS	Current at time of report for period covered in report.	Internal – OE Finance Division	
	Report on obligations	Monthly	OE Finance Division	OEFMIS	Current at time of report for period covered in report.	OE Finance Division	Deputy Commissioner
	Claims collection report	Monthly	BSFA	GSLS	Current	Internal – Deputy Commissioner	Monitor claims activity
•HUD/FHA							
Program Reports							
All Programs	Current Status of Major Programs	Monthly	Asst. Sec. for Administration, Office of the Budget	Office of Administration	At end of month	Internal report available to each Asst. Sec. and regional administrators	Records number of loans insured for all programs
	Executive Management Report	Monthly	Office of Organization and Management Information Asst. Sec. for Administration	MIS records	2 to 4 months after close of period	Assistant Secretaries and others upon request	Summary of data presented in other reports
	HUD Statistical Yearbook	Annually	Office of Organization and Management Information	Office of Finance and Accounting	12 months after close of year	Available upon request	General source of information
203B	Notice of Delinquency Report	Monthly	Lender	Loan records	Required submitted monthly	Area and central office, Loan Management	Report of mortgages 90 or more days delinquent or reported in previous month's report.
	Field Office Visitation to Mortgagee Report	After site visit	Field Office – Loan Management	Lender's records	Submitted soon after site visit	HUD Central – Loan Management	Insures lender compliance with regulations, and review of collection efforts.
	DLM Data Book	Every 6-12 months	Asst. to Director, Office of Loan Management	DLM and OFA records	Reports available 3-6 months after close of period	Deputy Asst. Sec. for Insured Loan Program and others upon request	Central record of program activity: insurance written to date, mortgages assigned, titles conveyed and acquired, insurance terminated, insurance in force, insurance written in year, mortgage in default, foreclosures imminent, average mortgages.
	Status of Home Mortgage Operations	Annually	MIS Division	MIS records and Office of Insured and Direct Loan Origination	1-3 months after close of period	Director, Single Family Insurance Programs	Record of applications, commitments, net mortgages insured, terminations, mortgages in force, and terminations by type for number of cases, dollar amounts, and number of units.
	*Home Mortgage Insurance Claims	Monthly	MIS Division	MIS records	1-3 months after close of period	Director, Single Family Insurance Programs and Office of Loan Management	Record of cumulative number of mortgages written and number with insurance in force, number and percent of claims during period and cumulative, other non-claim terminations.
	*FHA Home Mortgage Insurance Written, Default Terminations and Mortgages in Default	Quarterly	MIS Division	MIS records	Available after close of period	Director, Single Family Insurance Programs and Office of Loan Management	Same as above plus number and percent of defaults.
	*Termination of FHA Home Mortgage Insurance	Annually	MIS Division	MIS records	3-6 months after close of period	Director of Single Family Insurance Programs, Office of Loan Management and Office of Property Disposition.	Tracks activity from insurance written through termination.
	Summary of Mortgage Insurance Operations and Contract Authority	Monthly	OFA, Financial Analysis and Investment Division	OFA records	3 months after close of period	All relevant personnel	Tracks all activity: insurance written and in force, properties and notes acquired, properties sold and notes liquidated, secretary held mortgages, insurance losses and estimated future losses.

*These reports also contain program data on 244.

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MATRIX 6 (Continued)

CHARACTERISTICS / AGENCY AND PROGRAM	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
HUD/FHA (Continued)							
244	Monthly Summary of Coinsurance Activity	Monthly	Office of Housing – MIS Division Single Family	Office of Insured and Direct Loan Origination	Soon after close of period	Office of Insured and Direct Loan Origination	Record of endorsement submissions and completions, appraisals, starts, conversion to full insurance, and mortgage credit only.
221 D3 BMIR and MR, 221 D4 and 2-year operating loss loans (Data does not appear to be available for 2-year operating loss loans under 221)	OLM Data Book	Every 6-12 months	Asst. to Director, Office of Loan Management	OLM and OFA records	Available 3-6 months after close of period	Deputy Asst. Sec. for Insured Loan Programs and others upon request	Central record of program activity. See 203B for contents of OLM Data Book.
	FHA Monthly Report of Operations, Project Mortgage Insurance Programs	Monthly, but has not been printed for every month	Office of Housing, MIS Division	MIS and Office of Insured and Direct Loan Origination	Available 1-3 months after close of period.	Director, Multi-Family Insurance Programs	Record of stages of application process through proposed and existing insured mortgages. Also includes number of cases and units and amount of insurance from beginning of each program to date.
	Summary of Project Operations	Annually	Office of Housing, MIS Division – Multi Insured Branch	MIS, Office of Insured and Direct Loan Origination, and Office of Loan Management	3-6 months after close of period	Director, Multi-Family Insurance Programs	Annual record of application process, mortgages insured and total in force, and terminations by type for 221 total, 221 MR and BMIR (Note: 221 MR is not broken out by 221 D3 MR and 221 D4.)
	Default Status of HUD Insured Multi Family Housing Mortgages	Monthly	Office of Housing, MIS Division – Multi Insured Branch	Office of Loan Management	Available shortly after close of period	Director, Multi-Family Insurance Program and others upon request	Record of mortgages in default, in process of assignment or foreclosure, defaults terminated and balance of mortgages.
	Multi-Family Housing Mortgages Insured, Terminated, and Disposition of Assigned Mortgages	Monthly	Office of Housing, MIS Division – Multi Insured Branch	Office of Insured and Direct Loan Origination and Office of Loan Management	Available shortly after close of period	Available upon request	Record of cumulative mortgages insured, mortgages with insurance in force, total terminations, assignments and foreclosures on a cumulative and per period basis.
	Summary of Mortgage Insurance Operating and Contract Authority	Monthly	OFA, Financial Analysis and Investment Division	OFA records	3 months after close of period	All relevant personnel	Tracks all activity but at 221 multi level for contents.
Title 1, Sec. 2	Lender Report	Upon request by FHA Commissioner	Lender	Lender accounting and loan records	Available upon request	Commissioner or designated representative	Verifies compliance with regulations
	Annual Call Report	Annually	Lender	Lender records	At close of year	Title 1 Division – Liquidations	Delinquency/Default data, and aging schedule for each lender
	Fact Sheet	Random	Division of Research and Statistics	Office of Finance and Accounting and Lender Call Reports	Last one was 1/29/70	Title 1 Division – Operations and Liquidations	Record of transactions
	Activity Data (mimeographed sheets)	Monthly	Management Information Systems Division, Mortgage Activities Branch	Office of Finance and Accounting	At end of month	Title 1 Division – Operations and liquidation. Available to others upon request	Record of activity for property improvement and mobile home programs.
HUD/HRA 242	Monthly Loan Status Report (still in debugging state)	Only 1 formal, comprehensive report prepared to date	Central Office, Loan Program Analysis Staff	Regional Office Loan Administration personnel	1 to 3 months after close of period	Central and Regional Office Loan Administration personnel	Record of insured loans, including commitment and closing dates, type of loan, liens, and terms, risk category, interest rates, mortgage amounts, and payment history.
	See HUD 221 Matrix for HUD reports that include 242 program activity						
Accounting Reports							
All Programs	Financial Statement	Annually	Office of Finance and Accounting	OFA records	6-12 months after close of period	Available upon request	Ultimate record of financial transaction

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MATRIX 6 (Continued)

AGENCY AND PROGRAM \ CHARACTERISTICS	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
•FAA							
Program Reports	Borrower quarterly financial statement	Quarterly	Borrower	Corporate records	Immediately, following end of quarter	Office of Aviation Policy	Monitors borrower's financial condition – analysis of quarterly earnings.
	Guaranteed loans by carrier since 1972	Monthly	Office of Aviation Policy	Loan agreements	Available at end of month	Available upon request. Internal report used by program officer.	Records all loans guaranteed, by name of carrier and outstanding balance.
	Guaranteed loans and equipment purchased since its inception in 1957	Upon request	Office of Aviation Policy	Loan agreements	List updated whenever new guarantee is issued	Available upon request. Internal report used by program officer.	Records loan amount, amount and type of equipment, year guarantee approved, and carrier.
	Outstanding guaranteed loans – totals by carrier	Monthly	Office of Aviation Policy	Loan agreements and Lender's records	Available at end of month	Available upon request. Internal report used by program officer.	Records original loan amount and effective date and outstanding balance for each carrier. Provides monthly record of contingent liabilities.
Accounting Reports	Annual financial report	Annually	FAA Accounting Office	Program records	FY 1976 report most recent available	Generally available	Number of loans and amount outstanding of guaranteed portion.
	Amount of guaranteed loan fees	Upon request	FAA Accounting Office	Collection records	Available regularly	Office of Aviation Policy	Records fees deposited in Treasury
•OPIC							
Program Reports	Outstanding balance of guarantees	Quarterly	OPIC Treasurer's Office	All report data direct from documents. Hand posted.	Current	OMB	
	Status of loans report	Annually	OPIC Treasurer's Office	All report data direct from documents. Hand posted.	Current	AID, internal	
	Guarantee claims	Whenever a change occurs and at end of year	OPIC Treasurer's Office	All report data direct from documents. Hand posted.	Current	Internal, Board. In-house (Treasury Dept.)	
	Personnel staffing	Monthly				Internal	Internal
Accounting Reports	Financial statements	Quarterly	OPIC Treasurer's Office	All report data direct from documents. Hand posted.	Current	Board, internal.	Published
	Financial statements	Semi-annually and annually	OPIC Treasurer's Office	All report data direct from documents. Hand posted.	Current	Treasury	
	Budget execution report	Monthly	OPIC Treasurer's Office	All report data direct from documents. Hand posted.	Current	OMB	Evaluate budget program.

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MATRIX 6 (Continued)

CHARACTERISTICS / AGENCY AND PROGRAM	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
OPIC Accounting Reports (Cont.)	Treas. report on grants, loans, credits and contingent liabilities (foreign credits)	Quarterly	OPIC Treasurer's Office	All report data direct from documents. Hand posted.	Current	Treasury, Congress	
	Report of investments (of fee fund)	Monthly (data not segregated by program)	OPIC Treasurer's Office	All report data direct from documents. Hand posted.	Current	Internal and President	
	Past due report	Monthly		Includes fees past due.		Internal	Internal
• SBA Program Reports	Report of selected loan servicing and liquidation statistics (473B)	Monthly	District and branch offices	District and branch office internal operations files	To arrive at SBA Central Office within 5 working days of end of month • Financial statements received from borrowers • Field visits to lenders and borrowers • Loan Liquidation • Loan Compromises	Regional office, SBA Central Office	Evaluate portfolio servicing and activity.
	Modification or admin. action (327)	Whenever a change occurs in an individual loan status	District and branch offices	District and branch office internal operations files	Current	Regional office. Central office (including budget and finance dept.)	Record changes in loan status.
	Portfolio listing by servicing office	Monthly	Central office	Loan Accounting System	Current		Official inventory of loans and source of most current data, including loan balance
	List of outstanding past due fee billing on guarantee loans	Semi-annually	Central office	Loan Collection System	Current	Regional and Central and District office.	Monitor past due loans.
	Management information summary	Monthly	Reports Division, Central Office	Loan Accounting System and Loan Collection System	Reports data for FY-to-date totals and comparison with previous FY • Loan numbers and volume • Status of portfolio • Loans made • Management assistance to borrowers • Trouble loans	Central Office – but many copies obtained by persons outside SBA (e.g., Congress, OMB, etc.)	Main status report on agency activity.

Continued

MATRIX 6 (Continued)

CHARACTERISTICS / AGENCY AND PROGRAM	REPORT NAME	FREQUENCY	PREPARED BY:	SOURCE OF DATA	TIMELINESS OF DATA	REPORT DISTRIBUTION	USE OF REPORT
SBA (Continued)							
Accounting Reports	Income statement, balance sheet	Annually	Accounting, Operations Division (Central Office)	Loan Accounting System	Current	Central Office, outside monitoring agencies	Financial and program evaluation
	Others, e.g., • Loan Disbursements • Loans and Receivables charge off • Loans outstanding by program	Frequency varies (monthly, quarterly, annually)	Accounting Operations Division (Central Office)	Loan Accounting System	Current	Internal SBA distribution varies.	Financial monitoring.
•VETERANS ADMINISTRATION							
VA Home Loan Guarantee Program							
Program Reports	Loan report	Once, within 30 days of loan disbursement	Lender	Lender's records	Must be submitted within 30 days of loan	Administrator – Director, Loan Guarantee Service	Confirms lender's disbursement
	Reportable defaults	Whenever a reportable default occurs	Lender	Lender's records	Within 15 days after reportable default	Administrator – Director, Loan Guarantee Service	Provides opportunity for VA to contact borrower to help cure default.
	Statistical quality control reports	Monthly and quarterly	Regional Office	Random sample of cases	Data collected on ongoing basis. Reports transmitted at end of reporting period.	– Director, Loan Guarantee Service	Examines regional office activity to determine compliance with statutes and regulations.
	VA loan guarantee highlights	Monthly	Central Office	Field Stations report information to Central Office	Reports published shortly after end of month. Year-to-date information included.	– Director, Loan Guarantee Service	Monitors program activity. Central record of program operations. Also used for budgeting.
	Contingent liability report	Annually	Central Office	Central records	Available upon request	Treasury, OMB	Records total contingent liability, workload activity, loan portfolio, and flow of funds.
Accounting Reports	Financial report package	Monthly	Central Office	Central and Field Station records acquired loans and properties; payments and receipts computerized through system located in Austin, Texas.	Available soon after end of each month	– Director, Loan Guarantee Service and VA Finance Division	Monitors revolving fund, flow of funds balance sheet and income statements, and budgeting.

MATRIX 7: PROGRAM ADMINISTRATION

PROGRAM	ORIGINATION: GOVERNMENT LEVEL MAKING DECISION	ORIGINATION: PRESENCE OF RISK ASSESSMENT	SERVICING: COMMUNICATIONS BETWEEN LENDER AND GOVERNMENT AGENCY	SERVICING: FORBEARANCE POLICY: MECHANISM	SERVICING: FORBEARANCE POLICY: LOCUS OF DECISION MAKING
FmHA					
Business and Industrial Loan	FmHA State Director, FmHA County Supervisor	Should be done by lender-no formal procedure	Financial statements (at least annually)	DEF, RESCH, REF reorganization, transfer of loan to FmHA	Lender
Community Facilities Loans	State director	No formal procedure	Not applicable	FmHA provides management assistance	FmHA
Emergency Livestock Loan Guarantees	County Supervisor	No formal procedure	Semi-annual report to county office	DEF, REF, RESCH reorganization, transfer of loan to FmHA	Lender
Recreation Facilities Loans	County Supervisor	No formal procedure	Annual report. More frequent for problem loans	DEF, REF, RESCH reorganization, transfer of loan to FmHA	Lender
Rural Housing Loans (Section 502) Guar.	County level	No formal procedure	Monthly reports to county office	DEF, REF, RESCH reorganization, transfer of loan to FmHA	Lender
Rural Housing Loans (Section 502) Ins.	County Supervisor-varies depending on loan size	No formal procedure	Not applicable	Payment moratorium. Cancellation of interest	FmHA
MARAD					
Federal Ship Financing	National office	Use of formal procedures	Semi-annual reports to national and regional offices	Grace period. Cash advance to ship-owner	MASFP National Office
HEW/Office of Education					
Federally Insured Student Loans	OE Regional Office	Left to lender	Annual call report to national office	DEF, FOR, REF, RESCH	OE Regional Office
Guarantee Agency Reinsured Student Loans	OE Regional Office	Left to lender	Annual call report to national office	DEF, FOR, REF, RESCH	OE Regional Office
HUD/FHA					
Basic Home Mortgage Insurance [203B]	Insuring office or area office	Technical underwriting standards	Monthly delinquency report to area office	Recasting of mortgage terms	Lender
Single Family Co-insurance [244]	Insuring office or area office	Technical underwriting standards	Monthly delinquency report to area office	Recasting of mortgage terms	Lender
Mortgage Insurance for Rental Housing for Low and Moderate Income Families (market rate and below-market rate) [221(d)(3)]	Insuring office or area office	Technical underwriting standards	Area office at time of application, default, claims	DEF, RESCH	Lender with HUD approval
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	Insuring office or area office	Technical underwriting standards	Area office at time of application, default, claims	DEF, RESCH	Lender with HUD approval
Property Improvement and Mobile Home Loans (Title 1, Section 2)	National office	Commercial credit report	Annual call report to national office	REF	Lender
Mortgage Insurance for Hospitals [242]	Regional office	Technical underwriting standards	Annual report prepared for third party reimbursement personnel	Case-by-case determination	National office approves regional office's negotiated plans
DOT/FAA					
Aircraft Loan Guarantee Program	National office	Standard financial credit evaluation	Negotiations at time of approval and time of default	FAA permits lender to allow borrower to miss payment – "Waiver of Default"	Lender
OPIC					
Investment Guarantee	National Office	Commercial and financial viability of venture assessed using standard ratio analysis and economic projections	Monthly progress report from borrower	DEF, REF, RESCH, any other mutually agreeable mechanism	OPIC/lender/borrower conference
SBA					
Regular Business Loans [7(A)]	Regional office	Technical and financial appraisal required	Annual reports to regional offices	DEF, REF, RESCH, SBA may take over payments for a time	Lenders – with SBA approval
State and Local Development Company Loans [5(A)]	Regional office	Technical and financial appraisal required	Annual reports to regional offices	DEF, REF, RESCH, SBA may take over payments for a time	Lenders – with SBA approval
Small Business Investment Companies (SBIC's)	National office	Technical and financial appraisal required	Annual reports to national office	DEF, REF, RESCH, SBA may take over payments for a time	SBA national office
VETERANS ADMINISTRATION					
VA Home Loan Guarantee Program	Regional station	Standard financial credit evaluation	Only formal contact after origination is in event of default	RESCH, reamortization	Lender

DEF – Deferment of repayment.
RESCH – Rescheduling repayment.
FOR – Forgiveness of all or part of principal or interest.
REF – Refunding or refinancing; making a new loan with terms different from the initial loan in order to pay off the initial loan.

Continued

MATRIX 7 (Continued)

SERVICING	LIQUIDATION				
FORBEARANCE POLICY	CLAIMS PROCESSING			GOVERNMENT ACQUIRED LOANS	
EXTENT OF USE	CRITERIA FOR CLAIM ACCEPTANCE	TIME FROM DEFAULT TO LENDER NOTIFICATION TO AGENCY	GOVERNMENT ACTION AFTER NOTICE	WHO HANDLES COLLECTION	CRITERIA FOR FORECLOSING LOANS
Very extensive	Absence of lender fraud and misrepresentation	Varies at lenders discretion	Investigation and prompt payment	Lender-based on FmHA approved plan	At lender's discretion
Very extensive	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Very extensive	Absence of lender fraud and misrepresentation	Varies at lender's discretion	Investigation and prompt payment	Lender-based on FmHA approved plan	At lender's discretion
Very extensive	Absence of lender fraud and misrepresentation	Varies at lender's discretion	Investigation and prompt payment	Lender-based on FmHA approved plan	At lender's discretion
Very extensive	Absence of lender fraud and misrepresentation	Varies at lender's discretion	Investigation and prompt payment	Lender-based on FmHA approved plan	At lender's discretion
Very extensive. County sets policy	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Not extensive	All claims accepted	Up to 60 days	Claims paid. Vessel sold	National office	Foreclosure upon default
Not extensive	"Due diligence" of lender in attempting to collect	Within 120 days	Lender paid. Claim assigned to regional office for collection	Regional office	No criteria for abandoning collection efforts
Not extensive	"Due diligence" of lender in attempting to collect	Within 120 days	Guarantee agency paid. Guaranty agency then tries to collect	Guarantee agency	No criteria for abandoning collection efforts
Extensive	Regulations compliance	Within 120 days	Forbearance is encouraged. Otherwise, HUD responds to mortgagor request for claim	Area office initially, then national	If mortgagor cannot or does not intend to remain current
Extensive	Regulations compliance	Within 120 days	Forbearance is encouraged. Otherwise, HUD responds to mortgagor request for claim	Area office initially, then national	If mortgagor cannot or does not intend to remain current
Extensive	Title evidence	Within 60 days	Can encourage forbearance or help cure loan	Area office initially, then national	If mortgagor cannot or does not intend to remain current
Extensive	Title evidence	Within 60 days	Can encourage forbearance or help cure loan	Area office initially, then national	If mortgagor cannot or does not intend to remain current
Extensive	Regulations compliance	No notice required. Within 6 months of final installment due date	Attempt to correct loan	Liquidation staff of Title I program	No criteria
Three times in program's history	None	Within 60 days	Encourage forbearance or honor claim	HRA division of Facilities Development Program	No criteria
Once in program's history	Attempt to cure default is prerequisite	10 days	FAA has 90 days to cure loan before paying claim	There have been no collections	There have been no foreclosures
Not extensive	Independent evaluation for each project	Usually anticipated—no elapsed time	OPIC does all it can to cure problem, then pays claim	National office	Depends on particular circumstances of venture
Very extensive	Regulations compliance or at discretion of SBA	Within 45 days	Major attempt to cure loan, then pay claim	Lender or SBA, at SBA's discretion	Borrower bankruptcy forces foreclosure. Otherwise at discretion of SBA
Extensive	Regulations compliance or at discretion of SBA	Within 45 days	Major attempt to cure loan, then pay claim	Lender or SBA, at SBA's discretion	Borrower bankruptcy forces foreclosure. Otherwise at discretion of SBA
Not extensive	Regulations compliance or at discretion of SBA	Within 45 days	Major attempt to cure loan, then pay claim	Regional office	Borrower bankruptcy forces foreclosure. Otherwise at discretion of SBA
Use encouraged by VA	Regulations compliance	Within 105 days	Claim paid. Effort made to cure problem	VA Field Stations	Foreclosure only if forbearance fails and no alternative

MATRIX 8: PROGRAM EVALUATION

PROGRAM	PROGRAM ACTIVITY EVALUATION				FINANCIAL EVALUATION				ADMINISTRATIVE ACTIVITY EVALUATION			
	EVALUATION SCOPE	EVALUATION GROUP INTERNAL	EVALUATION GROUP EXTERNAL	REGULARITY OF EVALUATION (internal evaluation only)	EVALUATION SCOPE	EVALUATION GROUP INTERNAL	EVALUATION GROUP EXTERNAL	REGULARITY OF EVALUATION (internal evaluation only)	EVALUATION SCOPE	EVALUATION GROUP INTERNAL	EVALUATION GROUP EXTERNAL	REGULARITY OF EVALUATION (internal evaluation only)
FmHA												
Business and Industrial Loans	CG, SG, SP	AP,	–	Ad Hoc	CG, SG	AP	EE	Ad Hoc	CG, SG, CP	AP, PP	EE	Ad Hoc
Community Facilities Loans	CG, SG	AP	–	Ad Hoc	CG, SG	AP	EE	Ad Hoc	CG, SG, CP	AP, PP	EE	Ad Hoc
Emergency Livestock Loan Guarantees	CG, SG, CP	AP	–	Ad Hoc	CG, SG	AP	EE	Ad Hoc	CG, SG, CP	AP, PP	EE	Ad Hoc
Recreation Facilities Loans	Program not implemented	–	–	–	–	–	–	–	–	–	–	–
Rural Housing Loans (Section 502), Guar.	CG, SG, SP	AP	–	Ad Hoc	CG, SG	AP	EE	Ad Hoc	CG, SG, CP, SP	AP, PP	EE	Ad Hoc
Rural Housing Loans (Section 502), Ins.	CG, SG, SP	AP	–	Ad Hoc	CG, SG	AP	EE	Ad Hoc	CG, SG, CP, SP	AP, PP	EE	Ad Hoc
MARAD												
Federal Ship Financing	SP	PTF	EE-Assistance	Ad Hoc	CP	PP	EE	Ongoing	SP	PTF	–	Ad Hoc
HEW/Office of Education												
Federally Insured Student Loans	CG, SG, CP, SP	AP	–	Ongoing	CG, SG, CP, SP	AP	EE (GAO)	Ongoing/Ad Hoc	CP	AP	EE (GAO)	Ad Hoc
Guarantee Agency Reinsured Student Loans	CG, SG, CP, SP	AP	–	Ongoing	CG, SG, SP, CP	AP	EE (GAO)	Ongoing/Ad Hoc	CP	AP	EE (GAO)	Ad Hoc
HUD/FHA												
Basic Home Mortgage Insurance [203B]	SP	PP	–	Ongoing	CP	AP	EE (GAO)	Ongoing	SP	AP	–	Ad Hoc
Single Family Coinsurance [244]	SP	PP	–	Ongoing	CP	AP	EE (GAO)	Ongoing	SP	AP	–	Ad Hoc
Mortgage Insurance for Rental Housing for Low & Moderate Income Families (market rate & below-market rate) [221(d)(3)]	None	–	–	–	CP	AP	EE (GAO)	Ongoing	SP	AP	–	Ad Hoc
Mortgage Insurance for Rental Housing for Moderate Income Families [221(d)(4)]	None	–	–	–	CP	AP	EE (GAO)	Ongoing	SP	AP	–	Ad Hoc
Property Improvement & Mobile Home Loans (Title 1, Section 2)	CP	AP	–	Ad Hoc	CP CP	PP	EE	Ongoing Ad Hoc	SP	AP	–	Ad Hoc
Mortgage Insurance for Hospitals [242]	None	–	–	–	SP	PP		Ongoing	None	–	–	–

Continued

MATRIX 8: (Continued)

PROGRAM	PROGRAM ACTIVITY EVALUATION: EVALUATION SCOPE	PROGRAM ACTIVITY EVALUATION: EVALUATION GROUP: INTERNAL	PROGRAM ACTIVITY EVALUATION: EVALUATION GROUP: EXTERNAL	PROGRAM ACTIVITY EVALUATION: REGULARITY OF EVALUATION (internal evaluation only)	FINANCIAL EVALUATION: EVALUATION SCOPE	FINANCIAL EVALUATION: EVALUATION GROUP: INTERNAL	FINANCIAL EVALUATION: EVALUATION GROUP: EXTERNAL	FINANCIAL EVALUATION: REGULARITY OF EVALUATION (internal evaluation only)	ADMINISTRATIVE ACTIVITY EVALUATION: EVALUATION SCOPE	ADMINISTRATIVE ACTIVITY EVALUATION: EVALUATION GROUP: INTERNAL	ADMINISTRATIVE ACTIVITY EVALUATION: EVALUATION GROUP: EXTERNAL	ADMINISTRATIVE ACTIVITY EVALUATION: REGULARITY OF EVALUATION (internal evaluation only)
FAA Aircraft Loan Guarantee Program	CP	AP	–	Ad Hoc	CP	AP		Ongoing	None	–	–	–
OPIC Investment Guarantee	None	–	–	–	CP	–	EE (GAO)	Ongoing	CP, SP	PTF	–	Ongoing
SBA Regular Business Loans [7(A)]	None	–	–	–	CG, CP, SP	AP	EE (GAO)	Ongoing, Ad Hoc	SP	AP	–	Ongoing
State & Local Development Company Loans [502]	None	–	–	–	CG, CP, SP	AP	EE (GAO)	Ongoing, Ad Hoc	SP	AP	–	Ongoing
Small Business Investment Companies (SBIC's)	None	–	–	–	CG, CP, SP	AP	EE (GAO)	Ongoing, Ad Hoc	SP	AP	–	Ongoing
VETERANS ADMINISTRATION VA Home Loan Guarantee Program	CP	AP, PP	–	Ongoing	–	–	–	–	SP	AP	–	Ongoing

Code

1. EVALUATION SCOPE
   - CG – Comprehensive, general review of agency or division programs or procedures that includes the referenced program.
   - SG – Special study of an aspect (e.g., loan monitoring procedures) of agency or division operations or programs that includes but is not limited to the specific referenced program.
   - CP – Comprehensive review of a particular program.
   - SP – Special study of a particular aspect of the referenced program.
2. EVALUATION GROUP
   - AP – Agency planning group (e.g., HEW Office of the Assistant Secretary for Planning and Evaluation).
   - ATF – Agency-appointed special task force.
   - PP – Program, unit or division planning group (e.g., Bureau of Student Financial Assistance/OE, planning branch).
   - PTF – Program, unit or division special task force.
   - EE – External Evaluation Group (e.g., GAO, OMB).
3. REGULARITY OF EVALUATION
   - "Ongoing" – Routine, regular, repeated evaluations or discrete studies performed according to master plan.
   - "Ad Hoc" – Discrete, non-repeated, evaluation studies.
   - "None" – No evaluation conducted.

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APPENDIX B

METHODOLOGY

A taxonomy of program characteristics was developed to ensure the selection of a representative sample of the ground covered by federal insurance and guarantee programs. Exhibit B-1 illustrates the approach.

The taxonomy classifies the programs by type (i.e., market imperfections, marginal borrowers, and discrete ventures), and then by the following categories:

- government level of delivery;
- percent of coverage; and
- presence of interest rate or other subsidies.

Approximately 55 insurance or guarantee programs were placed in the taxonomy matrix cells corresponding to the specific program characteristics. To a certain degree, placement was arbitrary if a program had more than one characteristic within the same category. For example, the HUD Multi-Family Housing Program (221D3) has one component with and one without an interest rate subsidy.

Once all programs were placed in the appropriate cells of the matrix, program selections were made based on the need to generate a representative sample of programs. The sample 22 programs--11 insurance and 11 guarantee programs with varying categorical characteristics--were selected jointly by PMM&Co. and CBO staff. Exhibit B-2 illustrates the placement of each program within the taxonomy framework.

The data collection instrument was developed at the same time as the program selection process. It took the form of an interview guide (see Appendix C) in order to reflect the nature

EXHIBIT B-1

PROGRAM TAXONOMY STRUCTURE

		TYPE 1 Correct Imperfections		TYPE 2 Marginal Borrowers		TYPE 3 Discrete Ventures	
		Federal Delivery	Non-Federal Delivery	Federal Delivery	Non-Federal Delivery	Federal Delivery	Non-Federal Delivery
100%	Interest Rate Subsidy						
	Other Subsidy						
	No Subsidy						
100%	Interest Rate Subsidy						
	Other Subsidy						
	No Subsidy						

EXHIBIT B-2

PROGRAM TAXONOMY

		TYPE 1 Correct Imperfections		TYPE 2 Marginal Borrowers		TYPE 3 Discrete Ventures	
		Federal Delivery	Non-Federal Delivery	Federal Delivery	Non-Federal Delivery	Federal Delivery	Non-Federal Delivery
100%	Interest Rate Subsidy		HUD 221 D3 BMIR		HEW Student Loan Insurance	FmHA Recreation Facilities	
	Other Subsidy		HUD 221 D3 MR HUD 221 D4				
	No Subsidy	FmHA Housing Insurance			SBA SBIC	FmHA Community Facilities	HUD 242 Hospitals
100%	Interest Rate Subsidy				HEW Student Loan Guarantee		
	Other Subsidy		HUD 203 B HUD 244 VA Home Loan Guarantee				
	No Subsidy		FmHA Housing Guarantee HUD Title 1, Sec. 2		FmHA Business and Industry FmHA Emergency Livestock SBA 7A	MARAD Ship Financing	FAA Aircraft Loan Program OPIC Investment Guarantee SBA State/Local Dev. Co.

of the data collection process (which relied primarily on interviews). The interview guide was divided into several sections: program description, definitions, operating statistics, program administration, cost/revenue recording, and reporting.

The data elements contained in the interview guide, particularly operating data, were largely based on the existing literature on insured and guaranteed loan programs. Upon completion of the guide, it was tested at the Department of Housing and Urban Development to determine whether its contents, especially the operating statistics, were consistent with the agency's program experience and data base. Since many differences were found to exist between the literature and the types of data maintained by the agencies in practice, the interview guide was modified to reflect more accurately existing agency data bases.

Once the study programs were chosen and the interview guide pre-tested, the fact finding and interview process began. PMM&Co., together with CBO staff, identified contacts within several agencies who were able to direct PMM&Co. interviewers to agency personnel with the necessary information for the study. In several agencies, it was possible to obtain the needed data from a single person who had oversight of operations for an entire program. In other cases, particularly when several programs within an agency were being reviewed or the program was so large that it was administered out of several offices, many interviews were required to obtain data. In one case, the Guaranteed Student Loan Program, an HEW contact advised that GAO personnel with audit responsibility for the program were probably the best source for specific data. However, sources outside the agencies operating the programs were not relied upon for information in any other cases.

Interviews were conducted with three main classes of personnel within the agencies. These classes represented a standard division of program responsibility within the agencies:

- Program personnel - provided information about legislation, regulations, characteristics of borrowers and lenders, and conditions for loan guarantee or insurance origination.

- Portfolio management personnel - provided information about procedures for loan servicing, monitoring of lenders, liquidation procedures, approaches to risk assessment, forbearance and compromise policies, and program administration structure.

- Financial and accounting officers - furnished information concerning accounting conventions, financing mechanisms and financial controls, and financial data and reporting requirements.

In almost all cases, the interviewees were most helpful in providing time for interviews and supplying written information about procedures, reports prepared on the programs, and accounting and financial data; and their assistance is gratefully acknowledged.

As the data collection activities progressed, a set of matrices was developed to correspond to the various sections of the interview guide. These matrices form the analytical basis for this report.

APPENDIX C

INTERVIEW GUIDE

INTERVIEW GUIDE — PROGRAM EXPERIENCE (PART 1)

I. Program Description

A. Type of program
1. Guarantee vs. insurance
   a. 100%
   b. <100%
   c. nature of guarantee or insurance
      1) percent of principal
      2) principal
      3) principal and interest
      4) principal, interest, and other expenses
   d. if insurance, extent of U.S. Government liability
   e. if guarantee, extent of U.S. Government liability
2. Subsidy
   a. interest rate
   b. other
   c. none
3. Fee or premium (or neither)
   a. what activities are covered
   b. what are dollar amounts
   c. impact on borrower's commitment
4. Interest rate
   a. preset
   b. negotiable
5. Nature of collateral
   a. title/physical
   b. personal liability
   c. other
   d. none
6. Control over program size
   a. legislation
   b. ability to borrow
   c. other
   d. no limit
7. Financing mechanism
   a. type
      1) reserve
      2) insurance fund
      3) appropriations for losses
      4) backstop authority
         a) limited
         b) unlimited
      5) federal financing bank buys paper
      6) individuals buy paper
         a) track record
         b) how are they keyed into the agency
      7) other

b. source of funds for claims payments
1) fees/premiums (%)
2) appropriations (%)
3) federal financing bank (%)
4) other

8. Origination and servicing (by whom)
a. federal agency
b. state
c. financial institution
d. other institution

9. Marketing (by whom)
a. direct by agency
b. government sponsored secondary market agency
c. state agency
d. financial institution
e. other institution

B. Operational Definitions
1. Guarantee versus insurance
2. Default versus delinquency
3. Gross guarantees outstanding
4. Net guarantees outstanding
5. Total guarantees outstanding
6. New guarantees extended
7. Primary guarantee
8. Secondary guarantee
9. Program costs - direct federal costs
a. administrative
b. default
c. delinquency
d. opportunity

10. Fees versus premium
11. Risk
12. Subsidy
13. Payback

II. Program Administration

A. Underwriting standards
1. Explanation of criteria
2. Process of creation

B. Rejection experience
1. Criteria
2. History

C. Forebearance policy
1. Criteria
2. History
3. Effect on default rate
4. Effect on cash flow and claims
5. Classificiation of liabilities during delinquency periods

D. Loan analysis
    1. Risk assessment
    2. Availability of private financing
E. Training of program administrators and underwriters
F. Administrative structure and monitoring
    1. Guarantee review process
        a. individual sign-off
        b. approval by committee
    2. Monitoring process
        a. frequency
        b. criteria
    3. Relationship of agency and intermediary
        a. responsibilities
        b. communication
G. Internal program evaluation
    1. Who performs evaluation
    2. Who receives evaluation results
    3. Frequency of evaluations
    4. Content of evaluation
        a. data used
        b. presence of effectiveness measures

III. Reporting

A. Information format
B. Information content
C. Information flow
    1. Internal to program
    2. Intermediary to agency
    3. Recipient to intermediary or program
    4. Program to OMB
    5. Program or OMB to Congress
D. Frequency of information flow
E. Definitions used in reporting

INTERVIEW GUIDE -- COST AND OPERATING STATISTICS (PART 2)

I. Cost/Revenue Recording

   A. Timing of recognition of losses from default
      1. Cash basis
      2. Modified accrual basis
   B. Cost definitions
   C. Functional cost/revenue breakdown
      1. Origination
         a. revenues
            1) premiums/fees
            2) other
         b. costs
            1) personnel costs - underwriting, approval, credit determination
            2) other direct costs
            3) indirect costs
      2. Servicing
         a. revenues
            1) premiums/fees
            2) other
         b. costs
            1) personnel costs - delinquency follow-up, normal payment processing, monitoring
            2) other direct costs
            3) indirect costs
      3. Liquidation
         a. revenues
            1) disposition recovery
            2) appropriations
            3) other
         b. costs
            1) peronnel costs - default/foreclosure processing, collection follow-up
            2) claim payments
            3) interest
            4) other direct costs
            5) indirect costs

II. Operating Statistics

   A. New guarantees extended (number of new loans per year)
      1. Primary guarantees
      2. Secondary guarantees
      3) Net guarantees extended
      4) Gross guarantees outstanding
      5) Net guarantees outstanding
      6) Total guarantees outstanding
   B. Number of loans made annually
   C. Average size of loan
   D. Average outstanding loan volume

E. Delinquency rates
   1. Number of delinquent loans
   2. Loss amounts
F. Default rates
   1. Number of defaulted loans
   2. Loss amounts
G. Average interest rate charged
H. Payback period (ave)
I. Reserve size

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