United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, House of Representatives

November 1989

FEDERAL CREDIT AND INSURANCE

Programs May Require Increased Federal Assistance in the Future

GAO United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-223690

November 16, 1989

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
House of Representatives

Dear Mr. Chairman:

In your letter of July 21, 1989, you requested that we review selected characteristics of federal credit assistance and insurance programs. In response to your request, we met with Subcommittee staff to discuss our ongoing work on the growth trends of and losses associated with these programs. As agreed at that time, this report on the results of our ongoing work is being issued to meet your request. Also, we agreed to provide additional information, if necessary, on issues related to your request which are not covered in this report.

As agreed with your office, unless you announce its contents earlier, we will not distribute the report until 30 days after the publication date. At that time, we will send copies to the Director, Office of Management and Budget; the Secretary, Department of the Treasury; interested congressional committees; and other interested parties. Copies will be made available to others upon request.

This report was prepared under the direction of Jeffrey C. Steinhoff, Director, Financial Management Systems Issues, who may be reached at (202) 275-9454 if you or your staff have any questions. Other major contributors to this report are listed in appendix VI.

Sincerely yours,

Charles A. Bowsher
Comptroller General
of the United States

Executive Summary

Purpose

Recent problems in the federal government's credit assistance and insurance programs have been widely publicized—including the savings and loan industry crisis, student loan defaults, pension insurance losses, and foreclosures and related losses on federal housing loan programs. These events have demonstrated the significant risk facing the government because of its commitment to providing credit and insurance for a wide variety of activities touching virtually every area of the nation's economy. Over the past 20 years these programs have grown dramatically, and currently they total over $5 trillion dollars. GAO performed this review to

- document the growth trends in credit assistance and insurance programs and
- identify reported financial losses resulting from credit assistance and insurance programs.

On July 21, 1989, the Chairman of the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, asked GAO to review selected characteristics of credit assistance and insurance programs. This report summarizes key features of federal credit assistance and insurance programs, including their size, growth, and composition over the past 20 years and their reported financial losses.

Background

The government has been involved with credit assistance and insurance programs since the Great Depression of the 1930s. Currently, these programs can be classified into four distinct groups—direct loans, loan guarantees, government-sponsored enterprise loans, and insurance commitments.

Direct loans are made to assist borrowers, who in turn agree to repay the loan amount at a later date with or without interest. Loan guarantees are privately held loans for which the government guarantees to pay all or part of the principal and interest in the event of a default. Government-sponsored enterprises are private financial institutions established and chartered by the federal government to direct credit to particular sectors of the economy. Although very little of the government-sponsored enterprise debt and mortgage-backed securities is expressly guaranteed by the government, the government's past willingness to assist troubled government-sponsored enterprises means that it may bear the cost of most losses that those enterprises may ultimately suffer. Insurance commitments include government programs that protect insured parties, such as depositors with accounts in banks or savings institutions, from losses.

Results in Brief

Federal credit assistance and insurance programs have grown rapidly and have expanded into new areas to meet specific social and economic goals. Government-sponsored enterprises and insurance programs have experienced the greatest growth among the four types of programs. Loan guarantees have also grown rapidly. Direct loans reached a peak in 1985 and since then have been increasingly replaced by guaranteed loans.

Losses involving the savings and loan industry, crop insurance, and housing and other guaranteed loan programs indicate clearly the risks associated with these programs. In the past 3 fiscal years, defaults on guaranteed loans and loan delinquencies have increased. Further, insolvencies associated with the thrift industry and losses associated with crop insurance have also grown. Also, the full magnitude of losses already incurred has not been reported because of long-standing deficiencies in financial management systems and the inconsistent application of accounting principles by some agencies responsible for administering federal credit assistance and insurance programs. It is apparent that federal financial assistance beyond that already provided by the government will be needed to pay for growing losses.

The fact that some fees and premiums charged by these programs are not sufficient to offset program costs contributes to the losses. Whether such fees or premiums on any specific programs need to be increased is a policy decision that requires detailed consideration of program characteristics and objectives.

In order for the Congress and the Office of Management and Budget to make budgetary decisions and adequately plan for future funding of federal credit assistance and insurance programs, it is important that they be fully aware of certain factors. These include program costs in terms of losses, the amount of those costs being recovered through fees and premiums, the source of any financing being provided, and the amounts of the shortfalls.

GAO's Analysis

Growth and Size of Credit and Insurance Programs

Federal credit assistance and insurance programs have increased over the past two decades, both in size and in areas of coverage. From fiscal years 1965 through 1988,

- outstanding direct loans grew from $33 billion to $257 billion in 1985 but decreased to $222 billion;
- outstanding guaranteed loans grew from $91 billion to $550 billion;
- outstanding loans by government-sponsored enterprises increased from $15 billion to $666 billion; and
- insurance commitments rose from $299 billion to $3.6 trillion.

Today these programs total more than $5 trillion. While the government will undoubtedly not be required to provide financial assistance for its total exposure associated with these programs, its continuing and growing exposure to losses cannot be ignored.

Credit and Insurance Programs Expose the Government to Significant Losses

Federal credit and insurance programs put the government at risk for very large losses. Huge losses have already manifested themselves—most recently in the poor financial condition of the savings and loan industry, which will require an estimated $257 billion in cleanup costs (of which the federal share is expected to be $139 billion). Direct loans also pose a major risk of future losses because of anticipated increases in delinquencies. Between fiscal year 1985 and fiscal year 1988, reported delinquencies rose from $14.6 billion to $19.5 billion, an increase of 33 percent. From fiscal year 1983 to fiscal year 1988, the reported cost of borrower defaults on guaranteed loans increased 138 percent, from $4.7 billion to $11.2 billion.

Also, the full magnitude of the government's losses under its credit assistance and insurance programs is not known. Because of long-standing deficiencies in financial management systems and inconsistencies in the application of accounting principles by federal agencies, losses are not always being recorded or reported when they occur. For example, as of September 30, 1988, the Department of Housing and Urban Development reported operating losses totaling $858 million for the Federal Housing Administration's four mortgage funds and an equity of about $2 billion. GAO's subsequent financial audit for the same period disclosed actual losses of $4.2 billion, or five times the reported amount, and an equity deficit of about $2.9 billion.

Fees and Premiums Do Not Cover All Program Costs

Some credit and insurance programs charge fees or premiums which cover varying percentages of program costs. Some of these fees and premiums are designed to cover only a portion of the costs. When fees and premiums do not recover the full costs of program activities, taxpayer dollars are required to make up the difference. For example, the 1-percent fee charged by the Department of Veterans Affairs for loan initiation and deposited in the Loan Guaranty Revolving Fund has been insufficient to cover program costs. Because of losses, the Loan Guaranty Revolving Fund needed about $900 million in additional funds in fiscal year 1988.

Recommendations

GAO is not making recommendations in this report. GAO has performed extensive audit work involving many of the federal credit assistance and insurance programs discussed in this report. Most notably, GAO has addressed financial management problems and breakdowns in areas such as the savings and loan industry, the farm credit system, and, most recently, federal housing loan programs. GAO plans to maintain this high level of involvement in reviewing federal credit assistance and insurance programs. For example, it will soon issue a report on the collection of loans and defaulted loan guarantees and will be initiating work on student loan and pension guarantee programs. It has recently initiated a comprehensive study of the risks associated with government-sponsored enterprises. GAO has also proposed revised budgeting procedures to improve congressional control over federal loans and loan guarantees. GAO's proposal did not address federal insurance programs, an area where large losses have occurred in recent years. GAO will be undertaking a study of the budgetary treatment of federal insurance programs.

Agency Comments

GAO did not request official agency comments on this report because the data used in this review came primarily from previously issued government publications.

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Abbreviations

FCIC	Federal Crop Insurance Corporation
FHA	Federal Housing Administration
FmHA	Farmers Home Administration
GAO	General Accounting Office
GI	General Insurance
GNMA	Government National Mortgage Association
GSE	government-sponsored enterprise
HUD	Department of Housing and Urban Development
MARAD	Maritime Administration
MMI	Mutual Mortgage Insurance
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
SBA	Small Business Administration
SRI	Special Risk Insurance
VA	Department of Veterans Affairs

Introduction

Recently, the Federal Savings and Loan Insurance Corporation,[1] the Federal Housing Administration, and the Department of Education have suffered enormous losses due to financial institution insolvencies, foreclosures and related losses on federal housing loans, and loan defaults. These losses will add billions of dollars to the deficit. Yet these are only three examples of the extensive credit assistance and insurance programs that the federal government, the nation's largest financial institution, is involved with. These programs can be divided into four broad categories: direct loans, loan guarantees, government-sponsored enterprise (GSE) loans, and insurance commitments. While each of these program categories is unique in the way it is run and the nature and magnitude of risks it represents, they collectively expose the government to losses in the future.

Over the past 20 years these programs have grown dramatically, and currently they total over $5 trillion. Each of the four categories of credit assistance and insurance programs is enormous in its own right. Table 1.1 identifies the reported outstanding amounts of credit assistance and insurance at the end of fiscal year 1988. Under each of these programs, the government has a contingent, or potential, exposure for some future losses. The risk associated with this exposure varies substantially from nonrecourse farm loans to fully collateralized programs.

Table 1.1: Reported Outstanding Amounts for Federal Credit Assistance and Insurance Programs at the End of Fiscal Year 1988

Dollars in billions

Program	Amount outstanding
Direct loans	$222
Loan guarantees	550
Government-sponsored enterprise loans	666[a]
Insurance commitments	3,617[b]
Total	**$5,055**

[a]GSE debt was approximately equal to GSE loans outstanding. Such debt, if unpaid because of the failure to collect loans outstanding, could result in requests for federal assistance.

[b]Insurance commitments for the Pension Insurance Program are reflected as of calendar year 1987, which was the most recent data available.

Source: Data from the Office of Management and Budget's (OMB) Special Analyses, Budget of the United States Government, fiscal year 1990, and the Department of Labor's Trends in Pensions, 1989.

[1]Legislation was enacted on August 9, 1989, which dissolved the Federal Savings and Loan Insurance Corporation and transferred its insurance function to a newly created insurance fund, the Savings Association Insurance Fund, administered by the Federal Deposit Insurance Corporation.

This report summarizes key features of federal credit assistance and insurance programs, including their growth, size, and composition over the past 20 years, and their reported financial losses.

Background

In the 1930s, the government initially became involved with credit assistance and insurance programs to provide relief to individuals and businesses suffering losses during the Great Depression. Within a decade, the thrust of these programs was shifted toward assistance to other selected housing and agriculture market areas. Since that time, federal credit assistance and insurance programs have been used to meet a number of the nation's vital social and economic needs. One result of these programs has been that home ownership is far more widespread than it ever would have been without credit assistance and insurance from the government. In addition, many students have received or are receiving a college education that they otherwise would not have had, and institutions like Lockheed Aircraft Corporation, Chrysler Corporation, and New York City were able to survive severe financial crises.

Under credit assistance and insurance programs, the government generally assumes the liability and subsequently makes a claim payment if a borrower defaults,[2] a financial institution fails, or a natural disaster occurs. These types of losses may be offset by fees or premiums charged under these programs. In addition, some types of credit and insurance programs are intentionally subsidized.

Direct Loans

Direct loans have traditionally been a key method by which the federal government has provided credit assistance. Under this form of credit, the government contractually lends its own funds to borrowers (individuals; businesses; and state, local, and foreign governments), who in turn agree to repay the loan amount at some later date with or without interest. If the borrower fails to repay the loan, the government generally incurs a loss. Direct loan programs are designed to play the role of lender of last resort and redirect economic resources to particular uses by providing credit on more favorable terms than those available from private lenders. Credit terms are more favorable because of lower interest rates and longer loan maturities.

[2]Default means failure to meet any obligation or term of a credit agreement that causes the lender to accelerate demand on a borrower.

In fiscal year 1988, the Department of Agriculture accounted for over 50 percent of federal direct loans currently outstanding, including

- nonrecourse loans to producers of agricultural commodities through the Commodity Credit Corporation, which made $13 billion in such loans during that year, and
- loans to farmers and others for purchasing and operating farms, rural housing, and rural community water and waste facilities through the Farmers Home Administration (FmHA), which made $3.6 billion in direct loans during that year.

Other direct loan programs include the following:

- The Department of Defense makes loans to foreign governments so that they can procure U.S. military equipment and services under the Foreign Military Sales program.
- The Export-Import Bank lends money to businesses to assist them in competing in overseas markets.
- The Rural Electrification Administration helps to finance electric and telephone organizations serving rural areas.

Loan Guarantees

Recently, the use of loan guarantees has grown at a tremendous pace. Loan guarantees are agreements by which an agency acting for the federal government guarantees the payment of portions or all of the loan principal and interest to lenders or security holders in the event of a borrower default. As with direct loan programs, many loan guarantee programs, including loan insurance programs,[3] began as efforts to revive the economy during the 1930s.

Like direct loans, loan guarantees redirect economic resources by permitting borrowers to obtain credit at more favorable terms than those available in the private market. Used in a wide variety of programs, loan guarantees may cover loans made to individuals; businesses; or state, local, and foreign governments. Since the guarantee can cover all or part of the loan, it can transfer all or some of the risk of default from the lender to the government.

[3]Loan insurance is included because it is a type of guarantee in which a government agency operates a program of pooled risks, pledging the use of insurance premiums to secure a lender against default by the borrower.

At the end of fiscal year 1988, the largest loan guarantee programs in the nation were the Federal Housing Administration's (FHA) home mortgage insurance programs. This agency was created in 1934 to help financial markets overcome the risk associated at that time with long-term mortgages. It accounts for over $300 billion, or 55 percent, of the federal guaranteed loans outstanding. Other major loan guarantee programs are administered by the Departments of Education, Agriculture, and Veterans Affairs and the Small Business Administration (SBA).

Government-Sponsored Enterprises

The federal government also influences the allocation of credit through government-sponsored enterprises. Major GSE programs include those administered by the Federal National Mortgage Association, the Federal Home Loan Banks, and the Federal Home Loan Mortgage Corporation.

GSEs have traditionally been privately-owned entities chartered by the federal government to perform specific functions. Their main purpose has been to increase credit availability to certain target groups—such as home buyers, farmers, and students. Although very little of the approximately $663 billion in reported net GSE debt and outstanding mortgage-backed securities is expressly guaranteed by the government, the government's past willingness to assist troubled GSEs means that it may bear the costs of most of the losses that GSEs may ultimately suffer.

Insurance Commitments

Federal insurance programs constitute, by far, the greatest portion of federal credit assistance and insurance being extended. In this report, we categorize insurance programs into (1) deposit insurance and (2) all other insurance (including foreign political risk, flood, crop, and pension insurance).

Deposit insurance[4] and basic changes in the way the federal government regulates the banking system were instituted during the Depression because the previous banking regulation system had not prevented large-scale bank failures and depositor losses. At the end of fiscal year 1988, depositors were insured through the Federal Deposit Insurance Corporation, the single largest insurance program, with about 58 percent of the total volume of deposit insurance in force; the Federal Savings and Loan Insurance Corporation; and the National Credit Union Administration. When an insured financial institution becomes troubled

[4]Federal deposit insurance programs protect accounts up to $100,000 in banks, savings institutions, or credit unions.

(that is, it becomes insolvent or starts to experience financial losses), federal deposit insurance programs may help in a number of ways:

- The institution may be closed and depositors paid directly through the insurance program.
- Financial assistance (in the form of cash, direct loans, or guarantees) may be provided to the troubled institution in the expectation that it will recover.
- A troubled institution may be merged with a healthier institution and, in some cases, financial assistance will be provided to the acquiring partner in the merger.

Although deposit insurance covers the depositor, and not the institution or its borrowers, the savings and loan crisis showed clearly that institutions with federal insurance backing may tend to make less secure loans than they would without that backing and thus may assume more risk than they would otherwise. In the case of the savings and loan institutions, this risk ultimately contributed to billions of dollars in losses to the federal government.

Insurance programs other than deposit insurance are designed to protect insured parties from losses, such as flood and crop damages or pension losses, which may arise from a natural disaster or an economic downturn. The largest of these other insurance programs is the Pension Insurance Program, administered by the Pension Benefit Guaranty Corporation.

Objectives, Scope, and Methodology

We undertook this review because of the enormous and increasing size of federal credit assistance and insurance programs and their potential for substantial future losses. On July 21, 1989, the Chairman of the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, requested that we review selected characteristics of federal credit assistance and insurance programs. In a subsequent meeting, we briefed Subcommittee staff regarding our ongoing work in this area. As agreed at that time, we are issuing our report to meet the Chairman's request. Specifically, our objectives were to (1) document the growth trends associated with credit assistance and insurance programs and (2) identify reported financial losses resulting from credit assistance and insurance programs.

We obtained relevant information on credit assistance and insurance programs from the Congressional Budget Office's Loan Guarantees: Current Concerns and Alternatives for Control, January 1979; OMB's Special Analyses, Budget of the United States Government, fiscal years 1967 through 1990; the Treasury Bulletin, Winter Issue, fiscal years 1965 through 1988; and the Department of Labor, Trends in Pensions, 1989.

Our work related to loan guarantees focused on those agencies reporting $1 billion or more in outstanding guaranteed loans at the end of fiscal year 1988, as shown in OMB's Special Analyses, Budget of the United States Government, fiscal year 1990. Using this criterion, we identified 15 funds at 11 departments and agencies for our review. The 15 funds accounted for over 99 percent of the outstanding amount of federal loan guarantees.

In order to provide a historical perspective, we documented the growth trends of federal credit assistance and insurance programs by gathering and reviewing data spanning 24 years, from fiscal year 1965 through fiscal year 1988.

We reviewed audited and unaudited agency financial statements to identify the financial losses reported by them resulting from federal credit assistance and insurance programs.

We did not separately test the accuracy of statistics provided to us. We conducted our fieldwork between August 1988 and October 1989 in the Washington, D.C., metropolitan area.

Growth and Size of Federal Credit and Insurance Programs

Since 1965, federal credit assistance and insurance programs have increased over 1,000 percent and currently involve trillions of dollars. Part of this dramatic growth can be attributed to the expansion of credit assistance and insurance into many new areas, particularly in the government-sponsored enterprise and insurance program categories. Loan guarantees have also grown rapidly, in part due to the fact that they are being used more and more in place of direct loans. Currently, federal credit assistance and insurance programs touch almost every aspect of the nation's economy.

Table 2.1 depicts the reported growth in credit assistance and insurance programs over the last two decades. Much of this growth has occurred since 1980.

Table 2.1: Reported Outstanding Amounts of Individual Credit and Insurance Programs Since Fiscal Year 1965

Dollars in billions

Program	1965	1970	1975	1980	1985	1988	Percent increase 1965 to 1988
Direct loans	$33	$51	$50	$164	$257	$222	573
Loan guarantees	91	126	218	299	410	550	504
Government-sponsored enterprise loans	15	38	80	151	370	666	4,340
Insurance commitments	299	446	1,102	1,931	2,852	3,617	1,110
Total	**$438**	**$661**	**$1,450**	**$2,545**	**$3,889**	**$5,055**	**1,054**

Direct Loans Experience Gradual Decline Recently

As discussed in chapter 1, a number of direct loan programs can be traced back to the 1930s. Under this form of credit assistance, the government lends its own funds directly to individuals, businesses, and state, local, and foreign governments. Examples of the wide variety of agriculture and foreign trade activities covered by direct loans include the following:

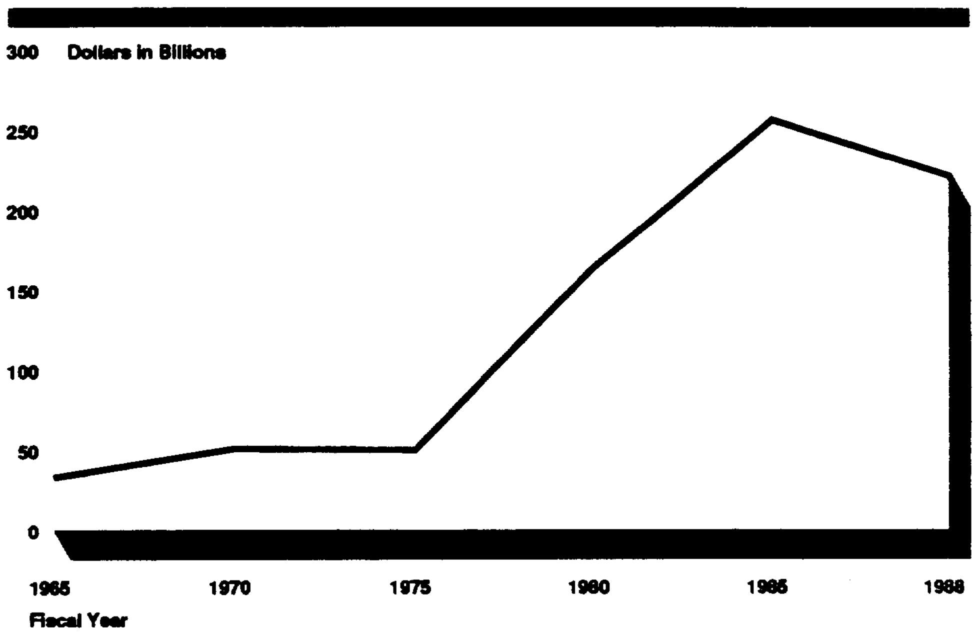
- The Commodity Credit Corporation currently provides substantial amounts of credit to producers of agricultural commodities. At the end of fiscal year 1988, outstanding nonrecourse direct loans were about $8 billion, and new direct loan obligations during that year amounted to $13 billion.
- The Export-Import Bank has, for many years, furnished direct loans to foreign businesses to help finance and promote U.S. exports. At the end of fiscal year 1988, the bank had over $9.9 billion in outstanding direct loans; during the year, it incurred $693 million in new obligations.

- Under the Foreign Military Sales program, the Department of Defense also makes direct loans to foreign governments to procure U.S. military equipment and services. Credit outstanding at the end of fiscal year 1988 was about $24 billion, which included $2 billion of defaulted loans, and new obligations during the year totaled about $4 billion.

Appendix I shows the total reported volume of direct loans outstanding from fiscal years 1983 through 1988.

From fiscal year 1965 through fiscal year 1985, federal direct loans increased from $33 billion to $257 billion. Most of this growth took place from 1975 to 1985. Since 1985, however, outstanding direct loans have declined; at the end of fiscal year 1988, they totaled $222 billion. This decline is particularly noteworthy in light of the dramatic increases in all other credit assistance and insurance programs. Total outstanding direct loans from 1965 through 1988 are shown in figure 2.1. OMB estimates that outstanding direct loans will continue to decline to about $177 billion by the end of fiscal year 1994.

Figure 2.1: Trends in Reported Outstanding Direct Loans for Fiscal Years 1965 Through 1988



Source: Data from OMB's Special Analyses, Budget of the United States Government for fiscal years 1982, 1987, and 1990 and the Congressional Budget Office's Loan Guarantees: Current Concerns and Alternatives for Control, January 1979.

Two direct loan programs in which recent declines have taken place are the Farmers Home Administration's farm operating and farm ownership loan programs and the SBA's business and investment loan program. The reductions in these programs are a direct result of the previous administration's initiative to reduce current budget outlays by moving from direct loans to guaranteed loans. Loan guarantees do not result in budget outlays until a borrower defaults, while direct loans (net of repayments) result in outlays when the loans are made, immediately increasing the reported budget deficit. Therefore, shifting from direct loans to guaranteed loans reduces current outlays (cash flow) and, correspondingly, the reported deficit. However, this shift does not necessarily represent a savings. If the guaranteed loans default in the future, the government will have to pay for the cost of the defaults, which, in turn, will increase the deficit at that time.

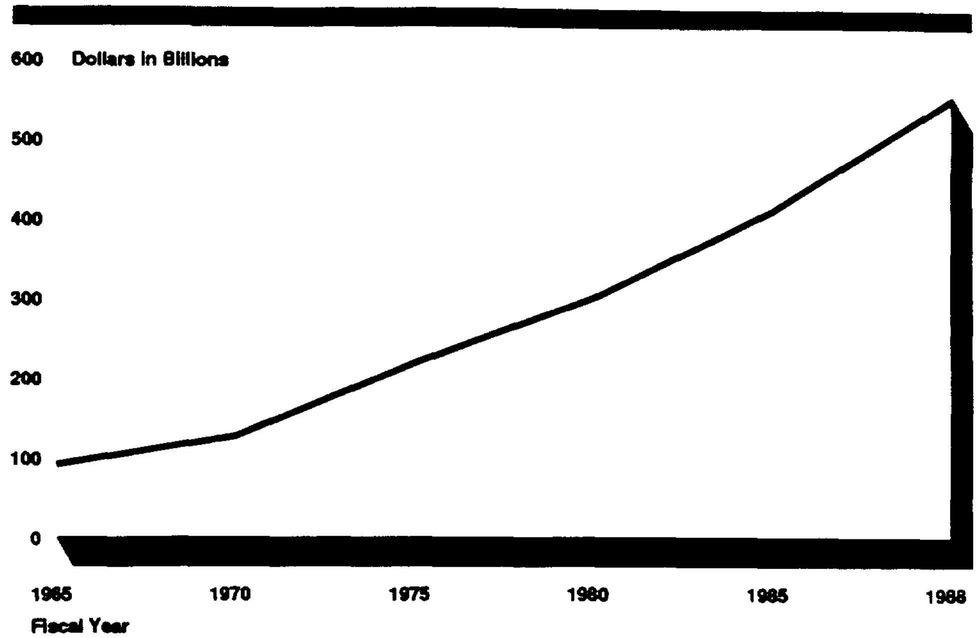
Recently, we issued reports discussing alternatives proposed by the Senate Budget Committee, the Congressional Budget Office, OMB, and GAO for the budgetary treatment of direct and guaranteed loans. Those reports also discuss how subsidy costs for such loans would be measured under the restructured budget we are proposing. We prefer an approach where, in the year the loans are made or guaranteed, (1) losses are measured in terms of expected future cash outlays which will impact on the budget and (2) appropriations are requested to cover such future losses.[1]

Loan Guarantees Are Steadily Increasing

Traditionally, loan guarantees have supported home buyers, with the Department of Housing and Urban Development (HUD) accounting for more than half of the total federal outstanding loan guarantees. However, loan guarantee program coverage has been expanded to provide support to farmers, students, businesses, exporters, and shipbuilders, as well as state, local, and foreign governments. As discussed previously, loan guarantees have also been increasingly used to replace direct loans. Figure 2.2 shows that from 1965 through 1988, reported outstanding loans on which guarantees had been made grew from $91 billion to $550 billion, an increase of more than 500 percent. OMB estimates that outstanding loan guarantees will continue to increase, totaling about $741 billion by the end of fiscal year 1994.

[1] Managing the Cost of Government: Proposals for Reforming Federal Budgeting Practices (GAO/AFMD-90-1, October 1989) and Budget Issues: Budgetary Treatment of Federal Credit Programs (GAO/AFMD-89-42, April 10, 1989).

Figure 2.2: Trends in Reported Outstanding Loan Guarantees for Fiscal Years 1965 Through 1988



Source: Data from OMB's Special Analyses, Budget of the United States Government for fiscal years 1982, 1987, and 1990 and The Congressional Budget Office's Loan Guarantees: Current Concerns and Alternatives for Control, January 1979.

The specific loan guarantee percentage for individual loans represents the government's total contingent liability and varies by program. Generally, between 80 and 100 percent of the loan amount is guaranteed, except for the Department of Veterans Affairs' (VA) housing loans.[2] At the end of fiscal year 1988, the federal government guaranteed $459 billion (83 percent) of the $550 billion in reported unpaid principal on outstanding loans.

For most loan guarantee programs listed in OMB's Special Analyses, Budget of the United States Government, fiscal year 1990, the annual appropriations specify the limitations on loan guarantee commitments. Limitations are not specified for some programs in which the authorizing legislation provides a clear entitlement to all qualified applicants, such as the Guaranteed Student Loan Program.

[2]For loan amounts of $45,000 or less, VA guarantees 50 percent of the loan. For loan amounts greater than $45,000, VA guarantees 40 percent of the loan or $36,000, whichever is less, but not less than $22,500.

There are currently about 110 separate federal loan guarantee programs. One agency, HUD, accounts for almost half of these programs. About 40 HUD programs are aimed at providing affordable housing to selected borrowers. At the end of fiscal year 1988, reported outstanding guaranteed loans for HUD's housing programs, in which, as discussed in chapter 3, we have identified major losses, totaled over $300 billion, and new commitments during 1988, about $50 billion. Further, the Department of Agriculture's Farmers Home Administration administers 19 loan guarantee programs under its two major funds, the Agricultural Credit Insurance Fund and the Rural Development Insurance Fund, designed to meet the needs of low-income rural dwellers and family farmers. At the end of fiscal year 1988, reported outstanding guaranteed loans totaled about $3.5 billion under the Agricultural Credit Insurance Fund and about $1.7 billion under the Rural Development Insurance Fund. New commitments in fiscal year 1988 were about $1.4 billion for the two funds.

Two other major loan guarantee programs are the Department of Education's guaranteed student loan program, which has grown to a reported $47.6 billion in outstanding loans at the end of fiscal year 1988, and the Department of Veterans Affairs' loan guarantee programs, which have grown to a reported principal total of $149.7 billion as of the end of the fiscal year 1988. VA guarantees about 44 percent of this total.

The two following loan guarantee programs have grown significantly in recent years:

- Farmers Home Administration. FmHA makes several types of guaranteed farm loans. Its two principal types of guaranteed farm loans are (1) farm operating loans and (2) farm ownership loans. Under the Food Security Act, passed in 1985, FmHA is gradually shifting from direct loans to guarantees of private loans. As stated in our recent report,[3] the purpose of the shift was to transfer most loan-making and servicing responsibilities to private lenders. Further, the shift reduces government outlays until a borrower defaults. In fiscal year 1986, FmHA was authorized $2 billion for loan guarantees and $2 billion for direct loans. For fiscal year 1988, the authorization for loan guarantees had been increased to $3 billion while the authorization for direct loans had been decreased to $1 billion.

[3]Farmers Home Administration: Implications of the Shift From Direct to Guaranteed Farm Loans (GAO/RCED-89-86, September 11, 1989).

- Small Business Administration. Over the past several years, SBA has proposed that it stop making direct loans to small businesses and that it replace those loans with guaranteed loans. The President's 1990 budget also proposes that SBA rely solely on guaranteed loan programs to meet small business credit needs. While SBA's business and investment direct loan obligations have not been eliminated entirely, they have been decreased 88 percent, from $697 million in 1985 to $82 million in 1988. On the other hand, reported guaranteed loan commitments have increased 28 percent, from $2.8 billion in 1985 to $3.6 billion in 1988.

Appendix II provides the total of reported outstanding guaranteed loans by major funds for fiscal years 1983 through 1988. Our discussion on loan guarantees does not include the Government National Mortgage Association (GNMA), which operates in the mortgage financial market. Because GNMA's function is to guarantee the timely payment of principal and interest on securities backed by a pool of FHA-insured, FmHA-insured, and VA-guaranteed mortgage loans, its exposure is included in the totals listed for these agencies' programs.

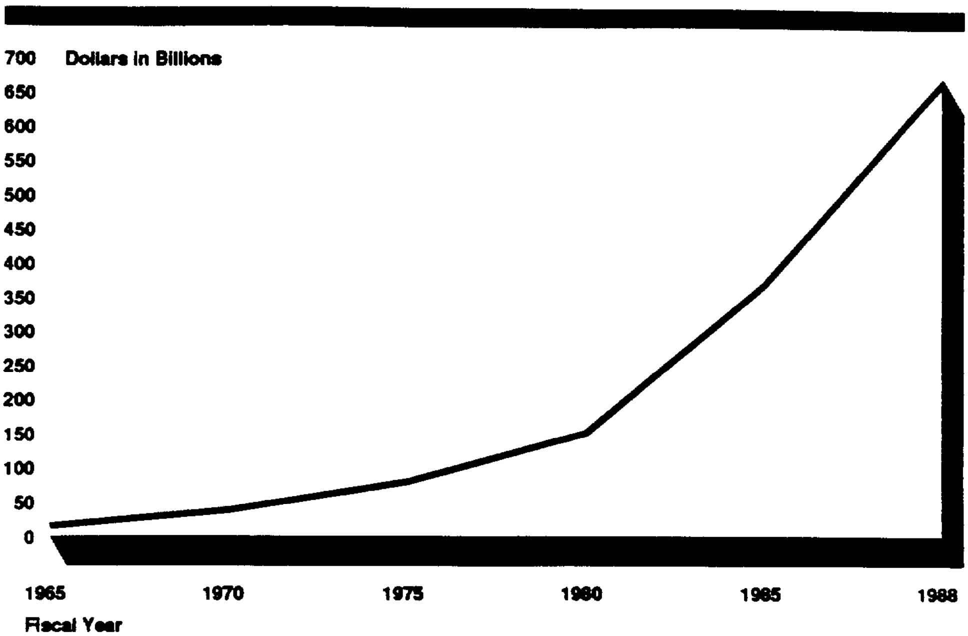
Lending Activity by GSEs Is Growing Rapidly

Most government-sponsored enterprises were established and chartered by the federal government to increase the availability of credit to certain target groups—such as home buyers, farmers, and students. Almost all GSE stock today is held by private investors. Most GSEs finance their operations, beyond their stock sales, primarily by borrowing from the public, selling mortgage-backed securities, or collecting fees for their guarantees and other services.

Prior to 1970, there were five GSEs; as of August 1989, there were eleven.[4] Some of the newer GSEs—the Financing Corporation, the Farm Credit System Financial Assistance Corporation, and the Federal Agricultural Mortgage Corporation—were created because of severe problems in the savings and loan industry and the agricultural economy and to provide farmers with a source of long-term agricultural real estate credit. As shown in figure 2.3, reported outstanding loans by GSEs grew from $15 billion in fiscal year 1965 to $666 billion in fiscal year 1988. Most of this increase took place between fiscal years 1980 and 1988. Appendix III shows the 11 GSEs currently operating and the cumulative reported outstanding loan amounts for each as of the end of fiscal year 1988.

[4]The Resolution Funding Corporation, the newest GSE, was established on August 9, 1989.

Figure 2.3: Trends in Reported Outstanding Lending Activity by Government-Sponsored Enterprises for Fiscal Years 1965 Through 1988



Source: Data from OMB's Special Analyses, Budget of the United States Government for fiscal years 1982, 1987, and 1990 and the Congressional Budget Office's Loan Guarantees: Current Concerns and Alternatives for Control, January 1979.

Currently, about 90 percent of GSE activity is in the housing mortgage market and about 7 percent is in agriculture. These percentages have changed since 1965, when housing mortgage activity and agriculture each comprised about 50 percent, because new GSEs have been added.

Size of Insurance Programs Is Increasing Dramatically

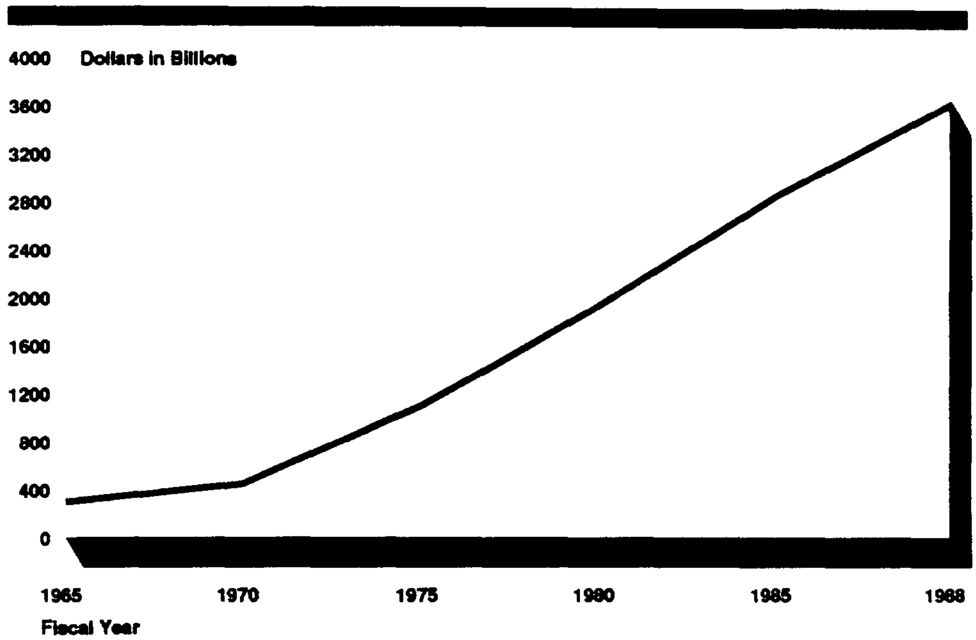
Traditionally, federal insurance programs have supported account holders' deposits in financial institutions. As recently as 1965, there was only one nondeposit type of insurance program (for federal crop insurance). Over the years, primarily since the mid-1970s, insurance programs have been expanded to cover areas such as natural disasters, foreign political risk, and pension benefit losses.

Since 1965, reported insurance commitments have increased over 1,000 percent and currently total $3.6 trillion. Although some of this increase can be attributed to the expansion of insurance coverage into new areas, deposit insurance remains by far the largest of all federal insurance programs. At the end of fiscal year 1988, deposit insurance represented 75 percent of insurance commitments—the Federal Deposit Insurance Corporation had about $1.7 trillion of insurance commitments, the Federal Savings and Loan Insurance Corporation had $893 billion, and the

National Credit Union Administration had $157 billion. Other insurance programs had grown to about $886 billion, with the Pension Benefit Guaranty Corporation (PBGC) accounting for almost 80 percent of this total. The PBGC total represents the present value of the total accrued pension benefit obligations for single employer and multiemployer plans at the end of calendar year 1987. (See note a in appendix IV for additional information on PBGC figures.)

Figure 2.4 shows the growth in reported insurance commitments over a 24-year period from fiscal years 1965 through 1988. Appendix IV provides the outstanding amounts of insurance programs over the past 4 years.

Figure 2.4: Trends in Reported Outstanding Amounts of Insurance Commitments for Fiscal Years 1965 Through 1988



Source: Data from the Treasury Bulletin, Winter Issue, fiscal years 1965 through 1988; OMB's Special Analyses, Budget of the United States Government for fiscal years 1987 and 1990; and the Department of Labor, Trends in Pensions, 1989.

Conclusions

The federal government's total reported exposure for its credit assistance and insurance programs has reached an all-time high of over $5 trillion. These programs have grown dramatically in recent years, and the current administration expects this growth to continue. While the government will undoubtedly not be required to provide financial assistance for its total exposure associated with these programs, its continuing exposure to losses cannot be ignored.

Federal Credit and Insurance Programs Expose the Government to Significant Losses

The federal government faces billions of dollars in losses from its fast-growing credit assistance and insurance programs. Huge losses have already manifested themselves, as in the case of the insolvent savings and loan institutions, the Farm Credit System insolvency, defaults on guaranteed student loans, and foreclosures and related losses on federal housing loans. Also, because of long-standing problems in the way agencies account for and report information on some of these programs, the government does not know the full magnitude of these losses. While each federal credit assistance and insurance program is unique, they all expose the government to some loss, although the amount varies greatly from program to program.

Because the government's exposure is so large under these credit assistance and insurance programs, it is important that the government be aware of the net costs of operating these programs. One of the factors that influence these net costs is the amount of fees and premiums it receives under these programs.

Direct Loan Delinquencies Continue to Rise

Despite recent declines in the number of new loans being made, total outstanding direct loans remain substantial and continue to pose a major risk of future loss to the government as delinquencies increase. As discussed in chapter 2, the 13-percent decline in total outstanding loans receivable between 1985 and 1988 was due in part to a shift away from direct loans to guarantees. Another factor in the decline in total outstanding direct loans was the significant increase in loans written off. Between fiscal years 1985 and 1988, loans receivable write-offs increased from $1.2 billion to $21.2 billion, an increase of almost 1700 percent. Despite the write-offs, however, loan delinquencies[1] continued to increase in the same 3-year period. Between fiscal years 1985 and 1988, reported delinquencies increased from $14.6 billion to $19.5 billion, an increase of 33 percent.

Delinquent direct loans are increasing as a percentage of total direct loans receivable. In fiscal year 1985, 6 percent of the government's total reported loans receivable were delinquent. This rose to 9 percent by the end of fiscal year 1988. The amount of delinquencies has been affected by (1) loan asset sales programs under which the government sells its better (nondelinquent) loans and (2) more accurate reporting of receivable and delinquency data by agencies.

[1] A loan delinquency is a loan receivable where the borrower has failed to pay his/her obligation by the date specified in the loan agreement and has not made other satisfactory arrangements.

Newer Loan Guarantees Pose Greater Risks

The growth in loan guarantee programs and the expansion of those programs into new areas have increased the total exposure of the federal government to the highest levels ever. Many newer guarantee programs (such as those for education and energy loans) involve loans with little or no marketable property as security. Also, some new guaranteed loans, such as certain small business loans, pose higher risks than loans with marketable property because they finance companies which usually cannot obtain loans in the private sector and are more quickly affected by industry downturns and other economic factors.

In 1965, about 93 percent of guaranteed loans outstanding were housing related and involved liens on marketable property. In the case of default, these property liens helped to minimize the government's losses.

By 1976, federal loan guarantee programs had expanded into areas such as transportation, energy, municipalities, education, and urban and economic development. Some of these programs have had high default rates and little or no marketable property as security; both of these factors usually result in more cost to the government. For example, on the Department of Education's guaranteed student loans, reported borrower defaults grew from $486 million in fiscal year 1983 to over $1.4 billion in fiscal year 1988. In a January 1988 report,[2] we highlighted options for reducing guaranteed student loan defaults and related federal costs.

As discussed in chapter 2, from 1983 to 1988 the government's outstanding guaranteed loans increased 51 percent, from $364 billion to $550 billion. During this same time, however, guaranteed loan terminations for default increased even more sharply, from $4.7 billion to $11.2 billion, or 138 percent. OMB projects that terminations for default will grow to $12 billion by the end of fiscal year 1989. The government will incur losses on any unsecured portion of defaulted guarantees that cannot be collected from the borrower.

Of the different categories of loan guarantees, student loans experience one of the highest rates of default. In March 1989, the President's Council on Integrity and Efficiency reported that Education reimbursed administering state agencies $1.4 billion for borrower defaults on unsecured guaranteed student loans in fiscal year 1987. As a result of Education's subsequent efforts to recover these losses, partial payments were collected on only about 36 percent of the defaulted loans during

[2]Guaranteed Student Loans: Potential Default and Cost Reduction Options (GAO/HRD-88-52BR, January 7, 1988).

the first year and 14 percent after 1 year. No payments were received on 50 percent of the defaulted loans.

Even on the loan guarantee programs backed by marketable property, such as the federal housing program, the government has experienced significant losses. In recent testimony,[3] we stated that in fiscal year 1988 FHA's four mortgage funds, which make up the largest federal housing credit program, incurred a total loss of $4.2 billion and together have an equity deficit of $2.9 billion. The largest of these funds, the Mutual Mortgage Insurance (MMI) fund incurred an annual operating loss in fiscal year 1988 totaling $1.4 billion. Two funds—General Insurance (GI) and Special Risk Insurance (SRI)—are directed at high-risk, low-income borrowers and inner-city properties. These two funds had operating losses totaling $2.8 billion in fiscal year 1988. Together, the two funds now have a cumulative $4.7 billion deficit. The GI Fund situation is particularly troubling because of basic weaknesses in the coinsurance program and the potential for defaults in the hospital mortgage insurance program. We stated in our testimony that substantial appropriations will be needed to restore the solvency of the GI Fund.

Viability of Some Insurance Programs Is Threatened

Problems involving insurance programs have resulted in substantial losses to the government and make the risks associated with some insurance programs more evident today than in the past. Problems with troubled insurance programs include the following:

- The financial condition of many savings and loan institutions has deteriorated in recent years as a result of diversification into riskier activities, the high cost of funds, insufficient supervision, fraud, and severe regional economic downturns.[4] The worsening condition of the savings and loan industry's troubled sectors has carried over to its insurer, the Federal Savings and Loan Insurance Corporation, whose insurance reserves from fees charged to insured institutions decreased until, at the end of 1988, it had a deficit of $75 billion. Based on recent estimates by the administration, the thrift industry cleanup over the next 33 years will cost at least $257 billion, of which the federal share is expected to be $139 billion. This figure is based largely upon certain administration assumptions, such as rapidly declining interest rates and fairly high

[3] 1988 Financial Audit: Federal Housing Administration (GAO/T-AFMD-89-17, September 27, 1989).

[4] Failed Financial Institutions: Reasons, Costs, Remedies and Unresolved Issues (GAO/T-AFMD-89-1, January 13, 1989) and The Federal Savings and Loan Insurance Corporation—Current Financial Condition and Outlook (GAO/T-AFMD-88-12, May 19, 1988).

insured deposit growth rates. As we have stated on numerous occasions, these assumptions are optimistic. To the extent the assumptions prove optimistic, the funding needs could increase.

- Since 1938, the Federal Crop Insurance Corporation (FCIC) has promoted agricultural stability by offering farmers insurance against crop damage and destruction caused by nature. Over the past several years, FCIC has also encountered operational and financial difficulties. FCIC has been unable to achieve a high level of program participation, negotiate equitable terms with private sector brokers selling and servicing its insurance, or operate in a fiscally or actuarially prudent manner. In fiscal year 1987, FCIC incurred a net loss of $58 million, despite receiving appropriations of $178 million and premiums of $87 million. Since 1981, insurance claims have exceeded premiums by about $2 billion, and FCIC's continued viability has been questioned. To continue its activities, FCIC will have to reduce operating losses or rely on increased financial assistance from the Congress.

GSEs Pose Unknown Level of Risk

Very little of the approximately $663 billion in net reported GSE debt and outstanding mortgage-backed securities[5] is expressly guaranteed by the government. For much of it, in fact, the law expressly disclaims any liability. Nonetheless, the marketplace responds to GSE debt and outstanding mortgage-backed securities much as it would to Treasury debt and senses that the government will assist in the event of a default or near default by GSEs. It is a widely held belief that the federal government would not renege on its perceived commitment for fear of causing a collapse in the $663 billion market in outstanding GSE debt and outstanding mortgage-backed securities.

The Farm Credit System provides an example of the government's response to a potential GSE default. In 1985 and 1986, a severe decline in farm incomes and agricultural land values caused loan delinquency rates to shoot up. The quality of the Farm Credit System's collateral declined dramatically, resulting in losses of $4.6 billion. Consequently, the federal government stepped in and provided assistance in the form of guaranteed and subsidized debt, enabling the Farm Credit System to remain solvent.

[5]The net reported GSE debt and outstanding mortgage-backed securities represent GSE borrowing to finance operations. This is different from the $666 billion in outstanding GSE loans shown in chapters 1 and 2 and appendix III, which represents the amount of loans GSEs have made to others.

The government's willingness to assist troubled GSEs means that it may bear the costs of most of the losses that GSEs may ultimately suffer. However, the magnitude of this risk has never been established.[6] Experts have indicated that no one knows for sure the government's current exposure for activities of GSEs.

Actual Credit Assistance and Insurance Program Losses Have Not Been Reported

Because of deficiencies in financial management systems and inconsistencies in the application of accounting principles by some federal agencies administering credit assistance and insurance programs, the full magnitude of losses already incurred has not been reported.

In some cases, conditions which result in losses have already taken place—the debtor is insolvent or payments are not being made on loans which are less than fully secured. However, the losses are not fully or accurately measured by the financial management systems in use because the event of default has not occurred or the government has not been called to make payment for a guarantee or insured loss. In other cases, amounts which are or could be measured by the accounting systems are not recorded because of long-standing agency accounting and financial reporting weaknesses.

In 1986,[7] we called for periodic financial audits of agency financial reports containing information on receivables. Where such audits have been done, major problems have been found with the accuracy of the financial information being reported by those entities, as seen in the following examples.

- We issued a qualified opinion on the Commodity Credit Corporation's fiscal years 1988, 1987, and 1986 financial statements because the Corporation's statements did not reflect an allowance for the uncollectible portion of outstanding loans.[8] We estimated that cumulative losses on such loans as of the end of fiscal year 1988 ranged between $5.6 and

[6]The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 requires us to study the risks undertaken by government-sponsored enterprises and the appropriate level of capital for such entities. We recently testified on our plans for this study. (See Government-Sponsored Enterprises, GAO/T-AFMD-89-16, September 28, 1989.)

[7]Debt Collection: Billions Are Owed While Collection and Accounting Problems Are Unresolved (GAO/AFMD-86-39, May 23, 1986).

[8]Financial Audit: Commodity Credit Corporation's Financial Statements for 1988 and 1987 (GAO/AFMD-89-83, August 4, 1989) and Financial Audit: Commodity Credit Corporation's Financial Statements for 1987 and 1986 (GAO/AFMD-88-47, July 7, 1988).

$8.8 billion. We also estimated additional cumulative losses for the Corporation of between $2.3 and $3.5 billion on outstanding loan guarantees.

- Our audit of the Federal Housing Administration's fiscal year 1988 financial statements disclosed that FHA had incurred about $4.2 billion in losses, not the $858 million it initially reported. (See footnote 3.) A number of serious financial management problems contributed to these losses. These included a lack of FHA monitoring of responsibilities delegated to the private sector, weak financial management systems and internal control procedures within FHA, shoddy performance of essential accounting functions, and management inattention to problems previously reported by us and the HUD Inspector General and in FHA's own reports filed under the Federal Managers' Financial Integrity Act.[9]

Until these accounting and financial reporting problems are resolved, we can only speak in terms of reported losses on federal credit assistance and insurance programs, recognizing that our past work has shown that actual losses exceed amounts reported.

Fees or Premiums Insufficient to Cover Government Losses

One of the factors that influence the government's risk of loss under its credit assistance and insurance programs is the level of fees or premiums it receives to cover program expenses, such as default and administrative costs. Actuarially sound fees and premiums can reduce the government's risk of loss. As shown in appendix V, some major loan guarantee programs charge fees or premiums ranging from 0 to 8 percent. Whether such fees or premiums on any specific programs need to be increased is a policy decision that requires detailed consideration of program characteristics and objectives. Our objective is to create an awareness of what happens when fees or premiums do not offset program costs.

When these fees and premiums are insufficient, the government is faced with the burden of providing financial assistance to cover losses and keep the programs in operation. This assistance comes from appropriated funds, borrowing from the Treasury, or repayments of previous direct loans. Further, some insurance programs and GSEs are designed to

[9]Under provisions of the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b) and (c)), agency managers are given the primary responsibility for maintaining adequate systems of internal control and accounting. The act requires agency heads to report annually to the President and the Congress on the status of these systems, and it holds managers responsible for correcting identified deficiencies.

be primarily self-supporting. Even in these cases, however, the government provides billions of dollars to assist these programs in difficult times, such as the recent crises involving the savings and loan industry and the Farm Credit System.

Currently, some credit assistance programs often cannot maintain sufficient reserves to offset losses as they occur. Because of the nature and objectives of some programs, fees or premiums are not charged or are established at levels insufficient to offset the government's full program costs. According to program officials, some of the individual programs—like the SBA's development company and FmHA's farm loans—charge fees which have not changed since they were initiated. Programs such as guaranteed student loans and federal housing loans are designed to be heavily subsidized annually by appropriated funds.

The government cannot determine the fee rate necessary to recover full costs on some credit assistance programs because agencies do not maintain such information. During our review of loan guarantee programs, we were unable to obtain the government's net costs for extending loan guarantee credit. Some agencies provided us data such as the total appropriated funds received to cover losses or the amount used to pay claims; in other instances, agencies did not track the information. Also, some credit assistance programs are legislatively prohibited from charging borrowers a fee or premium sufficient to cover full program costs.

The following are examples where program costs exceeded fees or premiums recovered.

- The Department of Veterans Affairs' Loan Guaranty Revolving Fund provides favorable financing terms for veterans to purchase homes through two guarantee programs: VA Home Loans and VA Manufactured Home Loans. At the inception of the loan guarantee program, no fee was charged and no downpayment was required on the loan. A one-half of 1 percent fee was imposed in 1982. As a result of the Deficit Reduction Act of 1984, borrowers were required to pay a one-time fee of 1 percent upon initiation of a VA guaranty. This fee, however, did not recover program costs. In fiscal year 1988, the legislation authorizing collection of this fee lapsed for a 6-week period and resulted in an estimated $30 million additional loss in revenue to the Loan Guaranty Revolving Fund. The temporary nature and small amount of this fee, along with increases in VA loan defaults and foreclosures in recent years, have resulted in the fund's suffering hundreds of millions of dollars in losses.

Because of these losses, the Loan Guaranty Fund has required significant supplemental appropriations. In fiscal year 1988 alone, the fund required $900 million in transfers and appropriations.

- The Maritime Administration (MARAD) Federal Ship Financing Fund is authorized to charge a one-time investigation fee of one-half of 1 percent on loan amounts up to $10 million and one-eighth of 1 percent on loan amounts greater than $10 million. It also charges an annual guarantee fee from one-fourth of 1 percent up to 1 percent, depending upon the credit risk of the borrower. Since 1983, defaults of MARAD's loan guarantees have increased dramatically, reaching $93 million in 1984, $321 million in 1985, and more than $1.2 billion in 1986. The fund has had operating losses since 1985—$251 million for fiscal year 1985, $755 million for fiscal year 1986, $234 million for fiscal year 1987, and $195 million for fiscal year 1988. Thus, the fund has had to borrow from Treasury—$1.4 billion in fiscal year 1986, $420 million in fiscal year 1987, and $95 million in fiscal year 1988. A supplemental appropriation was received in fiscal year 1987 to repay the $1.4 billion due to Treasury.
- The Pension Benefit Guaranty Corporation (PBGC) administers the insurance program which generally insures workers' vested benefits. In testimony before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives,[10] we stated that PBGC's Single Employer Pension Plan insurance program was experiencing serious financial trouble. Claims dollars that cannot be recovered from employers who terminate plans are considered losses by PBGC. These losses are to be financed by premiums that ongoing insured plans pay to PBGC. Since its inception, the program's losses and administrative costs have exceeded premiums collected. The program's cumulative deficit has grown dramatically from $333 million in fiscal year 1983 to $3.8 billion in fiscal year 1986. PBGC's annual premium increased from $2.60 to $8.50 per participant in 1986. The premium was raised in 1988 from a fixed rate of $8.50 per participant per year to $16 per participant per year plus a variable rate of up to $34 per participant based on $6 per $1000 of unfunded vested benefits under the Single Employer Program. The cumulative deficit remained about $1.5 billion at the end of fiscal years 1987 and 1988; however, because of the most recent premium increase, it is expected to drop in the future.

[10] Financial Condition of the Single Employer Pension Plan Insurance Program (GAO/T-HRD-87-8, April 7, 1987).

In order for the Congress and OMB to make budgetary decisions and adequately plan for future funding of federal credit assistance and insurance programs, it is important that they be fully aware of program costs in terms of losses, the amount of those costs being recovered through fees and premiums, the source of any financing being provided, and the amount of shortfall, if any.

Our Past and Planned Work on Federal Credit Assistance and Insurance Programs

We have performed extensive audits of many of the federal credit assistance and insurance programs discussed in this report. Most notably, we have addressed financial management problems and breakdowns in the savings and loan industry, problems associated with underfunded pension plans guaranteed by the federal government, the deteriorating financial condition of the farm credit system, rapidly growing defaults on student loans, federal agencies' efforts to improve their credit management programs, the need for improved budgetary treatment of federal credit programs, and, most recently, losses on federal housing loan programs. The Related GAO Products list at the end of this report identifies selected audit reports from each of the four categories of federal credit assistance and insurance programs.

We will maintain this high level of involvement in reviewing federal credit assistance and insurance programs. For example, we recently initiated a comprehensive study of the risks associated with government-sponsored enterprises. That study is one in a series of financial and programmatic studies involving federal credit assistance and insurance programs which we are required to perform under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Other work required under the act includes

- an examination of the Federal Savings and Loan Insurance Corporation 1988 assistance agreements;
- a review of the Affordable Housing Program established under the same act; and
- a comprehensive study of the nation's credit union system, including its present and future role, financial condition, capital, regulation and supervision, and the examinations performed by the National Credit Union Administration.

In the near future, we also plan to perform financial audits of the Federal Savings and Loan Insurance Corporation Resolution Fund, the Bank Insurance Fund, the Savings Association Insurance Fund, and the

Department of Agriculture; a study of the budgetary treatment of federal insurance programs; and surveys of the Pension Benefit Guaranty Corporation and the Student Loan Insurance Fund.

Conclusions

Recent publicized events, such as the savings and loan crisis, student loan defaults, pension insurance losses, and foreclosures and related losses on federal housing loans, demonstrate the government's significant exposure under credit assistance and insurance programs. Many programs are losing billions of dollars each year, and these losses will have to be financed by appropriations, borrowings, or other funding methods. Further, because of long-standing problems in the way some agencies account for and report on these programs, the magnitude of losses already incurred by the government has not been determined. If these programs and related losses continue to grow, financial assistance beyond that already provided by the government will undoubtedly be needed to pay for future credit assistance and insurance program losses.

One factor in determining the ultimate cost of these programs will be the fees or premiums the government charges to parties which benefit from the programs. Currently, the amount of program costs that fees or premiums offset varies greatly. Whether such fees or premiums on any specific programs need to be increased is a policy decision that requires detailed consideration of program characteristics and objectives. Further, some programs are legislatively prohibited from charging fees or premiums to offset full program costs.

Direct Loans Outstanding, Fiscal Years 1983 Through 1988

Dollars in millions

Agency/program	1983	1984	1985	1986	1987	1988
Agency for International Development	$11,860	$12,079	$12,079	$12,233	$12,133	$12,869
Department of Agriculture	115,767	115,103	127,121	135,555	126,107	117,150
Department of Defense—Foreign Military Sales	14,519	18,026	20,310	23,544	26,260	23,997
Department of Housing and Urban Development	16,059	16,020	29,352	14,542	14,833	15,073
Export-Import Bank	16,883	17,504	16,860	14,351	11,202	9,905
All other	48,098	50,571	51,627	51,369	43,709	42,968
Total	**$223,186**	**$229,303**	**$257,349**	**$251,594**	**$234,244**	**$221,962**

Source: Data from OMB's Special Analyses, Budget of the United States Government, fiscal years 1985 through 1990.

Funds With Guaranteed Loans Outstanding, Fiscal Years 1983 Through 1988

Dollars in millions

Agency/fund	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Agency for International Development						
Housing Guarantee Program	$1,073	$1,105	$1,176	$1,216	$1,328	$1,409
Department of Agriculture						
Commodity Credit Corporation	4,357	4,690	5,094	3,609	3,732	4,919
Farmers Home Administration						
Agricultural Credit Insurance Fund	1,025	1,128	1,385	2,161	2,488	3,507
Rural Development Insurance Fund	3,389	3,206	2,912	2,626	1,918	1,688
Rural Electrification Administration	[a]	[a]	1,045	1,030	1,434	2,868
Department of Defense						
Foreign Military Sales	[a]	[a]	[a]	[a]	[a]	2,600
Department of Education						
Guaranteed Student Loans	26,490	31,962	35,807	37,482	40,067	47,610
Department of Health and Human Services						
Medical Facilities Guarantees and Loan Fund	1,016	[a]	[a]	[a]	[a]	[a]
Health Profession Graduate Student Insurance Fund	[a]	[a]	[a]	1,106	1,305	1,850
Department of Housing and Urban Development						
Federal Housing Administration	160,985	170,032	195,480	223,520	275,417	300,758
Low-Rent Public Housing	19,935	19,985	8,887	8,612	6,252	5,998
Department of Transportation						
Maritime Administration Ship Financing Fund	7,320	7,046	6,444	4,995	4,279	3,864
Department of the Treasury						
Guarantees of New York Notes	1,201	[a]	[a]	[b]	[b]	[b]
Department of Veterans Affairs[c]						
Loan Guaranty Revolving Fund	119,933	125,383	130,591	142,562	146,319	149,705
Export-Import Bank						
Export-Import Bank Fund	$5,439	$5,684	$5,127	$4,785	$5,079	$5,703
Federal Savings and Loan Insurance Corporation						
Federal Savings and Loan Insurance Corporation Fund	[b]	1,763	2,514	2,952	4,063	3,077
Small Business Administration						
Business Loan Investment Fund	8,457	8,534	8,782	8,362	9,014	9,711

(continued)

Agency/fund	1983	1984	1985	1986	1987	1988
All other[a]	6,684	8,526	6,834	5,671	4,791	4,733
Subtotal	**$367,304**	**$389,044**	**$412,078**	**$450,689**	**$507,486**	**$550,000**
Less guaranteed loans held as direct loans[d]	3,465	2,382	1,634	884	457	34
Total	**$363,839**	**$386,662**	**$410,444**	**$449,805**	**$507,029**	**$549,966**

[a]Individual funds which had less than $1 billion in outstanding amounts in all government agencies.

[b]Data not reported.

[c]Formerly the Veterans Administration. The figures are the full principal of the outstanding loans.

[d]When agencies acquire guaranteed loans due to defaults, the loans are counted as direct loans.

Source: Data from OMB's Special Analyses, Budget of the United States Government, fiscal years 1985 through 1990.

Total Outstanding Loans by Government-Sponsored Enterprises as of September 30, 1988

Dollars in millions

Government-sponsored enterprise	Year established	Total outstanding loans
Student Loan Marketing Association	1972	$20,461
College Construction Loan Insurance Association	1986	[a]
Farm Credit Banks	1988	42,145
Banks for Cooperatives	1933	9,724
Farm Credit System Financial Assistance Corporation	1988	[a]
Federal Agricultural Mortgage Corporation	1988	[a]
Federal Home Loan Banks	1932	142,335
Federal Home Loan Mortgage Corporation	1970	236,125
Federal National Mortgage Association	1938	271,886
Financing Corporation	1987	[a]
Resolution Funding Corporation	1989	[a]
Subtotal		**$722,676**
Less: Lending between GSEs and amounts included as direct and guaranteed loans in appendixes I and II		56,541
Total		**$666,135**

[a]Amount not reported by OMB.

Source: Data from OMB's Special Analyses, Budget of the United States Government, fiscal year 1990.

Outstanding Amounts for Federal Insurance Programs, Fiscal Years 1985 Through 1988

Dollars in billions

Program/organization	1985	1986	1987	1988
Deposit insurance				
Federal Deposit Insurance Corporation	$1,268.4	$1,673.2	$1,605.7	$1,680.8
Federal Savings and Loan Insurance Corporation	769.0	817.2	836.1	893.0
National Credit Union Administration	104.0	130.0	152.9	157.0
Subtotal deposit insurance	**$2,141.4**	**$2,620.4**	**$2,594.7**	**$2,730.8**
Other insurance				
Federal Insurance Administration (Flood)	$133.8	$133.8	$159.0	$169.0
Overseas Private Investment Corporation	3.0	9.6	9.4	8.4
Federal Crop Insurance Corporation	6.7	7.2	6.3	6.9
Pension Benefit Guaranty Corporation[a]	567.0	598.0	661.0	702.0
Subtotal other insurance	**$710.5**	**$748.6**	**$835.7**	**$886.3**
Total Deposit and Other Insurance	**$2,851.9**	**$3,369.0**	**$3,430.4**	**$3,617.1**

[a]The latest available information for the total exposure of pension plans is as of December 31, 1987. For fiscal years 1985 to 1988, we used calendar year data from 1984 to 1987. These figures represent the present value of the total accrued pension benefit obligations for all single employer and multiemployer plans. PBGC guarantees all but a small proportion of these benefit commitments. Benefits not guaranteed are primarily those of (1) some plans with fewer than 25 participants and (2) individuals whose pension amounts exceed the maximum amount insured by PBGC.

Source: Data from OMB's Special Analyses, Budget of the United States Government, fiscal years 1988 through 1990, and the Department of Labor, Trends in Pensions, 1989.

Fees or Premiums Charged Under Major Loan Guarantee Funds

Agency/fund	Rate
Agency for International Development	
Housing Guarantee Program	An initial fee of 1 percent on loan amount and a semiannual fee of 1/2 of 1 percent of unpaid principal
Department of Agriculture	
Commodity Credit Corporation	One-time fees of 0.153 to 0.670 percent and 1.17 to 5.0 percent of the guaranteed amounts
Rural Electrification and Telephone Revolving Fund	None
Agricultural Credit Insurance Fund	One-time fee of 1 percent of the guaranteed amount
Rural Development Insurance Fund	One-time fee of 1 percent of the guaranteed amount
Department of Education	
Guaranteed Student Loan Fund	Reinsurance fee of .25 percent annually and a one-time origination fee of 5 percent of the principal amount
Department of Health and Human Services	
Health Profession Graduate Student Loan Insurance Fund	One-time premium of 8 percent of the principal amount
Department of Housing and Urban Development	
Federal Housing Administration Fund	One-time premium of 3.8 percent for most mortgage insurance
Low Rent	None
Department of Transportation	
Federal Ship Financing Fund	Fees are 1/2 of 1 percent on loan amounts up to $10 million and 1/8 of 1 percent on amounts greater than $10 million, plus an annual fee from 1/4 of 1 percent up to 1 percent
Department of Veterans Affairs	
Loan Guaranty Revolving Fund	One-time fee of 1 percent of the loan amount
Export-Import Bank	
Export-Import Bank of the United States Fund	Up-front fee based on term, country risk, and category of borrower and an annual commitment fee of 1/8 of 1 percent on the undisbursed balance of guaranteed loan
Federal Savings and Loan Insurance Corporation	
Federal Savings and Loan Insurance Corporation Fund[a]	None
Small Business Administration	
Business Loan Investment Fund	One-time fee of about 2 percent of the loan amount

[a]Legislation enacted on August 9, 1989, which dissolved the Federal Savings and Loan Insurance Corporation, transferred this loan guarantee function to a newly created fund, the Savings Association Insurance Fund, administered by the Federal Deposit Insurance Corporation.

Major Contributors to This Report

Accounting and Financial Management Division, Washington, D.C.

George H. Stalcup, Senior Assistant Director, (202) 275-9454
Margareth Lange, Assistant Director
Hodge Herry, Evaluator-in-Charge
Carla Ullrich, Accountant
Tracy Coleman, Accountant
Lisa Robenseifner, Accountant
Norma Samuel, Evaluator

Related GAO Products

Direct Loans

Financial Audit: Rural Electrification Administration's Financial Statements for 1987 (GAO/AFMD-89-21, December 23, 1988)

Internal Controls: SBA's Controls for Identifying Defaulted Loan Applicants (GAO/RCED-88-67, January 21, 1988)

Farmers Home Administration: An Overview of Farmer Program Debt, Delinquencies, and Loan Losses (GAO/RCED-86-57BR, January 2, 1986)

Loan Guarantees

Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1988 and 1987 (GAO/AFMD-89-69, September 15, 1989)

Maritime Administration: Efforts to Improve Data on the Federal Ship Financing Program (GAO/RCED-87-58, August 28, 1987)

Defaulted Student Loans: Private Lender Collection Efforts Often Inadequate (GAO/HRD-87-48, August 20, 1987)

Government-Sponsored Enterprises

Financial Audit: Federal Home Loan Mortgage Corporation's 1988 Financial Statements (GAO/AFMD-89-102, September 22, 1989)

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