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Staff Study

February 1991

BUDGET ISSUES

Profiles of Government-Sponsored Enterprises

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Preface

As part of our endeavor to provide current and useful budget-related information to the Congress and the public, we have prepared this staff study of the characteristics and financial activities of government-sponsored enterprises (GSEs). GSEs are federally established, privately owned corporations designed to increase the flow of credit to specific economic sectors. The Office of Management and Budget (OMB) has excluded GSE activities from the federal budget's totals on the grounds that they are privately owned.

We believe that such a study is timely given the ongoing concerns about GSEs, including (1) the government's potential risk exposure from GSE activities and (2) the current budgetary treatment of GSE activities. This study summarizes the activities, characteristics, and financial growth of GSEs and provides profiles on the 11 currently existing GSEs authorized or chartered by the Congress. It also contains organizational, legal, and financial information on each entity.

We are sending copies of this study to interested congressional committees and the Director of the Office of Management and Budget. Copies also will be made available to others upon request.

The major contributors to this study are identified in appendix XIII.

James L. Kirkman
Director, Budget Issues
Accounting and Financial Management Division

Contents

Abbreviations

FAC	Financial Assistance Corporation
FCA	Farm Credit Administration
FCB	Farm Credit Bank
FICO	Financing Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FSLIC	Federal Savings and Loan Insurance Corporation
GAO	General Accounting Office
GSE	government-sponsored enterprise
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
REFCORP	Resolution Funding Corporation
RTC	Resolution Trust Corporation

Introduction

Background

The federal government established the first financial entity known as a GSE in 1916. These entities were created to direct funds to particular sectors of society that were believed to be inadequately served by the private credit markets. Private parties own most of the stock in GSEs, whose traditional function has been to engage in business operations in the private sector to increase the flow of credit to home buyers, farmers, students, and colleges. Although, GSEs are authorized or established by the Congress, their activities are not included in the federal budget's totals. OMB excludes GSE activities from the budget's totals on the grounds that they are privately owned.

There are currently 11 GSEs in operation. They were established by law between 1916 and 1989. Five enterprises operate in the housing area: the Federal Home Loan Banks, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Financing Corporation (FICO), and the Resolution Funding Corporation (REFCORP). Four enterprises operate in the agricultural area: the Banks for Cooperatives, the Farm Credit Banks, the Financial Assistance Corporation (FAC), and the Federal Agricultural Mortgage Corporation (Farmer Mac). Two enterprises operate in the educational area: the Student Loan Marketing Association and the College Construction Loan Insurance Association (Connie Lee).

While private parties own all of the stock of most GSEs and they are managed by private persons, GSEs have strong ties to the federal government. The enabling legislation of each GSE specifies its general purpose and authorized transactions. For example, Fannie Mae is chartered to increase housing credit availability by engaging in secondary market and other transactions. The enabling legislation also identifies the federal agencies responsible for prescribing overall policy and regulations for the GSEs and usually provides that a minority of their board members be appointed by the President or another federal official.

GSEs typically receive their financing from private investors. They issue capital stock and short- and long-term debt instruments, sell asset-backed securities (also known as mortgage-backed securities), and collect fees for guarantees and other services. Their principal source of financing is borrowing through the issuance of debt obligations or the sale of mortgage-backed securities. GSEs generally do not receive government appropriations.

Federal legislation confers a number of benefits on GSEs that are not provided to private companies. Most enterprises have a direct line of credit with the U.S. Treasury, their securities are exempt from Securities and Exchange Commission registration requirements, and their investors' interest income is exempt from state and local taxation. In addition, GSE debt obligations and securities have characteristics that are common to U.S. Treasury obligations. For example, both GSE and Treasury obligations (1) are issued with the approval of the Secretary of the Treasury, who can also approve terms such as interest rates and maturities, (2) are lawful investments for federally supervised institutions, including banks, thrift institutions, and credit unions, (3) are lawful investments for federal trust, fiduciary, and public funds, and (4) are issuable and payable through the facilities of the Federal Reserve Banks.

As a result of the benefits conferred upon GSEs and the similarity between their debt securities and those of the U.S. Treasury, most GSE debt and mortgage-backed securities are perceived by the credit markets to be guaranteed by the federal government. The perceived guarantee allows GSEs to borrow in the credit markets at interest rates only slightly higher than the rates paid by Treasury on its borrowings. This perception by the credit markets was enhanced by the 1987 federal rescue of the Farm Credit System, which at that time was composed of three GSEs—the Federal Land Banks, the Banks for Cooperatives, and the Federal Intermediate Credit Banks. This rescue of the Farm Credit System could cost the federal government $5 billion.[1]

Objectives, Scope, and Methodology

The objectives of our study were to provide an overview of GSE activities and a historical profile of each entity's operating, statutory, and financial features.

We obtained relevant information on GSE activities from the OMB Budget of the U.S. Government, Appendix, fiscal years 1981 through 1990; Special Analyses: Budget of the U. S. Government, fiscal years 1981 through 1990; and Budget of the U.S. Government, fiscal year 1991. Our work focused on those entities identified by OMB as GSEs in its budget documents for fiscal years 1990 and 1991. According to OMB, 11 GSEs were in existence at the end of fiscal year 1989. We also reviewed laws governing the establishment and operation of GSEs and GSE annual reports for calendar years 1987, 1988, and 1989.

[1]Through September 30, 1992, the Farm Credit System Assistance Board may authorize Farm Credit System institutions up to $4 billion in financial assistance. Federally guaranteed bonds provide for this assistance, and the federal government will pay an estimated $1 billion of the bond's interest costs.

To provide a historical perspective, we identified the growth trends of GSE activities by gathering and reviewing data from OMB budget documents spanning 10 years, from fiscal year 1980 through 1989. We did not independently test the accuracy of the information provided by OMB or the GSEs. However, we compared selected portions of the GSE financial data reported by OMB to the financial data reported in the GSE annual reports.

We provided each GSE with a draft of its profile and incorporated their comments where appropriate.

Current Concerns About GSE Activity

GSE activities have grown significantly over the past decade. In fiscal year 1989, GSEs disbursed about $531 billion, equivalent to 40 percent of the amount disbursed by the federal government in that year. From 1980 to 1989, GSE borrowing and sales of mortgage-backed securities grew from $29 billion to $117 billion. GSE debt and mortgage-backed securities outstanding grew from $175 billion to $834 billion. Three enterprises account for approximately 90 percent of this activity—the Federal Home Loan Banks, Fannie Mae, and Freddie Mac. Overall, there has been a deterioration in the level of capital in comparison with (1) the activity level of GSEs shown by collections and disbursements and (2) GSE debt and exposure on mortgage-backed securities.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) required the Department of the Treasury and GAO to study the risk-taking and capital of GSEs.[2] The FIRREA legislation also established a new GSE whose budgetary treatment was debated in the Congress and for which GAO was asked to prepare testimony.[3] The recently enacted Budget Enforcement Act of 1990 included a definition for GSEs and required the Congressional Budget Office to also conduct a study of these entities.

[2]See Government-Sponsored Enterprises: The Government's Exposure to Risk (GAO/GGD-90-97, August 15, 1990), the first of GAO's two studies mandated by FIRREA.

[3]Government-Sponsored Enterprises and the Proposed Resolution Funding Corporation (REFCORP) (GAO/T-AFMD-89-6, April 18, 1989).

GSE Financial Activity for 1980 Through 1989

We identified the growth trends of GSE collections and disbursements, GSE net borrowing and sales of mortgage-backed securities, GSE debt and mortgage-backed securities outstanding, and total GSE capital for the 10-year period, 1980 through 1989. Although the presentation of GSE collections and disbursements consistently shows a higher level of disbursements in most years, the presentation does not imply that any enterprise is operating in a loss position.

While the terms collections and disbursements are generally relevant to federal budget practices and not to private corporations such as GSEs, OMB reports GSE data in accordance with these budget practices, in addition to data prepared in accordance with generally accepted accounting principles. The terms collections and disbursements are defined as follows.

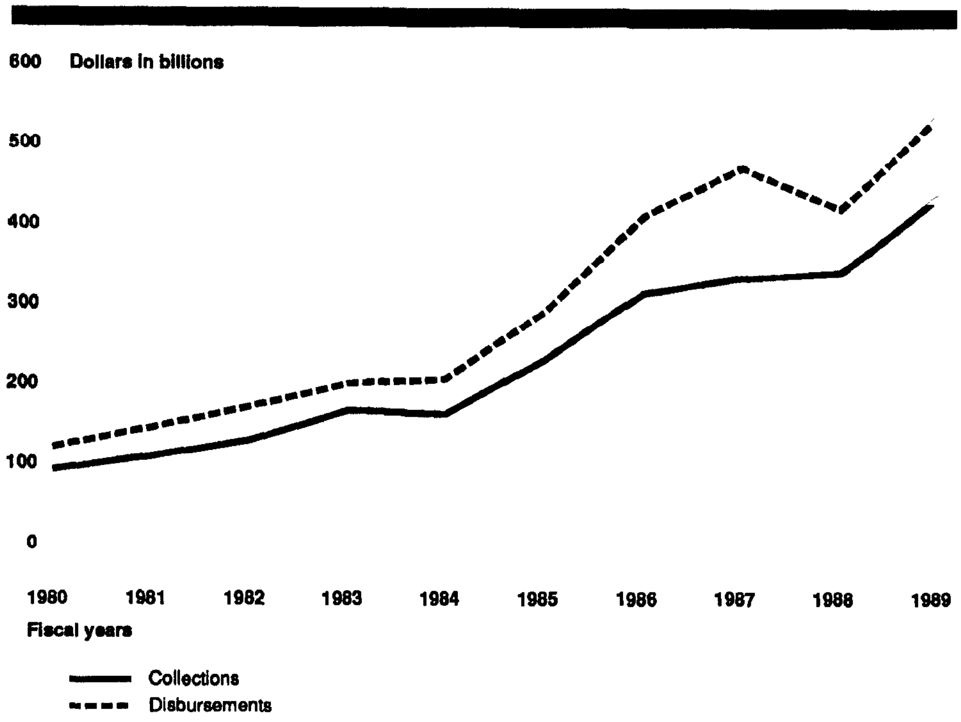
Collections: Collections are proceeds from the public that result from business-type activities and collections from other government accounts. These collections are deducted from gross disbursements in calculating outlays, rather than being counted in receipt totals. Collections do not include borrowings (proceeds from the issuance of debt securities), which are a major source of financing for some GSEs.

Disbursements: Disbursements represent all outlays of funds. They are not reduced by any funds received. Disbursements include lending activities, which account for most of the GSE funds disbursed.

Total GSE Collections and Disbursements

As shown in figure I.1, total GSE collections and disbursements grew significantly during the period 1980 to 1989. Total GSE collections increased from $89.2 billion to $429.2 billion during the 10-year period. Most of this increase occurred during fiscal years 1986 and 1989. Total GSE disbursements increased from $117.4 billion to $530.9 billion. Most of the increase in disbursements occurred during fiscal years 1986 and 1989.

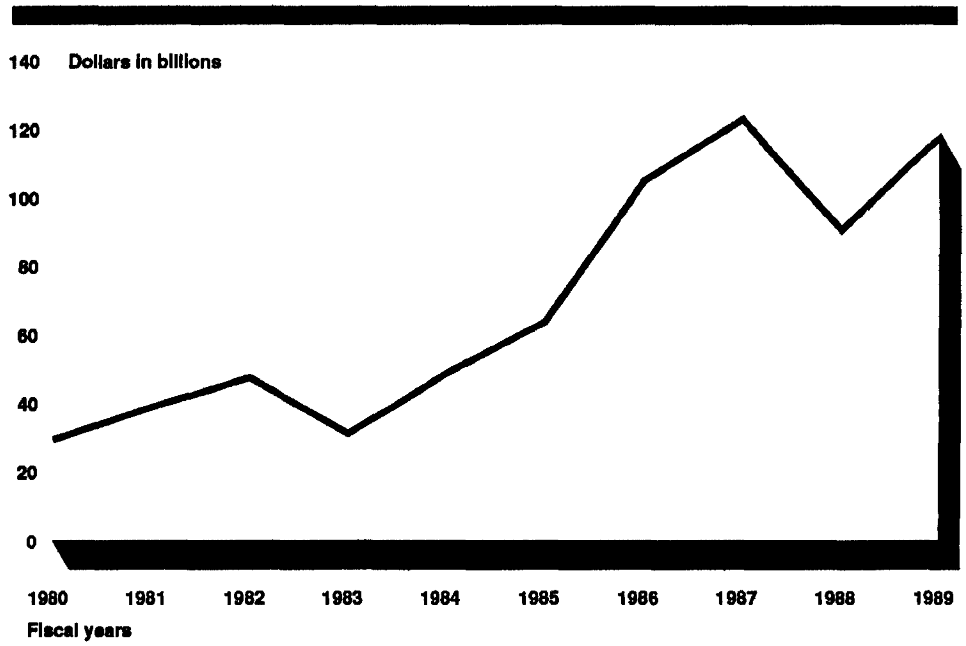
Figure I.1: Total GSE Collections and Disbursements for Fiscal Years 1980 Through 1989



Total GSE Net Borrowing and Sales of Mortgage-Backed Securities

From fiscal year 1980 through fiscal year 1989, total GSE net borrowing and sales of mortgage-backed securities grew from $29.2 billion to $117.3 billion, an increase of more than 300 percent. In fiscal year 1988, net borrowing and sales of mortgage-backed securities decreased by about $32 billion. Figure I.2 shows this growth in total GSE net borrowing and sales of mortgage-backed securities.

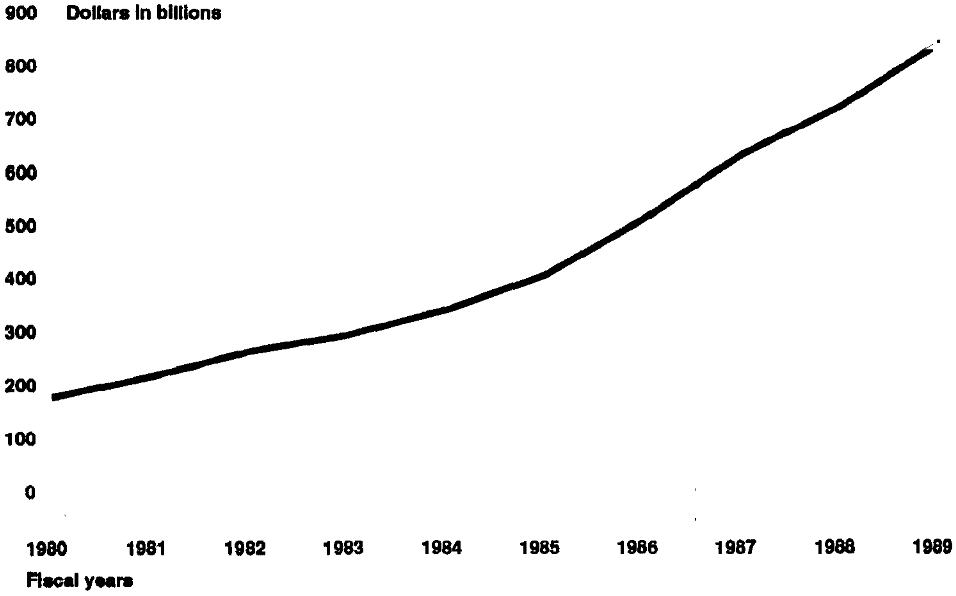
Figure I.2: Total GSE Net Borrowing and Sales of Mortgage-Backed Securities for Fiscal Years 1980 Through 1989



Total GSE Debt and Mortgage-Backed Securities Outstanding

From fiscal year 1980 through fiscal year 1989, total GSE debt and mortgage-backed securities outstanding grew from $174.7 billion to $833.7 billion, an increase of about 375 percent. Most of this growth occurred between fiscal years 1985 and 1989. Figure I.3 shows this growth in total GSE debt and mortgage-backed securities outstanding.

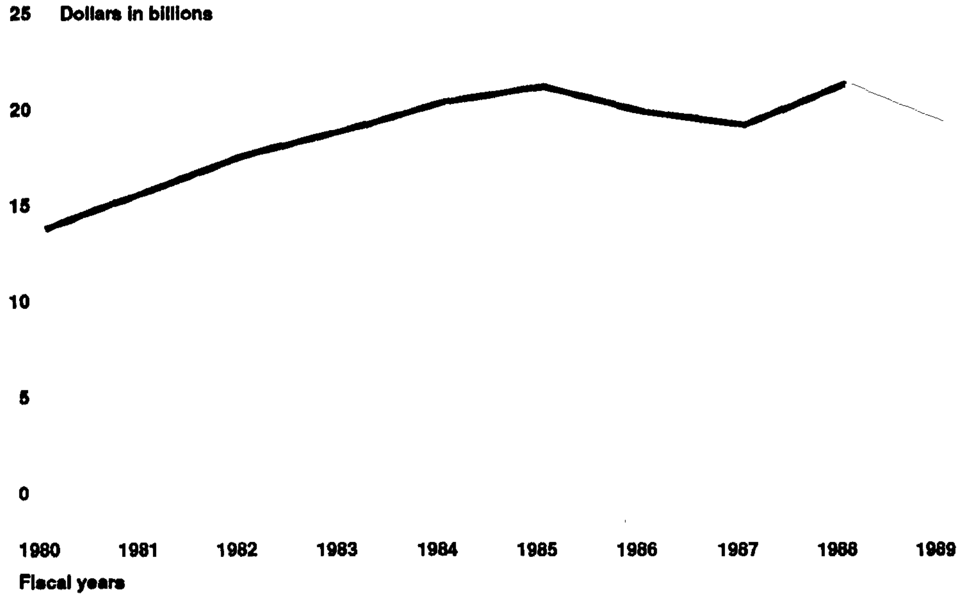
Figure I.3: Total GSE Debt and Mortgage-Backed Securities Outstanding for Fiscal Years 1980 Through 1989



Total GSE Capital

From fiscal year 1980 through fiscal year 1989, total GSE capital grew from $13.7 billion to $19.1 billion, an increase of about 40 percent. The annual increase in total GSE capital during this period averaged less than 5 percent, and, in fiscal years 1986, 1987, and 1989, total capital decreased. Figure I.4 shows these changes in total GSE capital.

Figure I.4: Total GSE Capital for Fiscal Years 1980 Through 1989



Federal Home Loan Banks

Background

Date of establishment: July 22, 1932.

Legal authority: Federal Home Loan Bank Act of 1932, as amended, 12 U.S.C. Sections 1421-1449.

Market position: Each of the 12 Federal Home Loan Banks operates in a geographic district, and, together, the Banks cover all of the United States as well as Puerto Rico, the Virgin Islands, and Guam. In 1989, the Banks extended credits of $244.9 billion and received repayments of $238.6 billion. Advances outstanding on September 30, 1989, totaled $151.1 billion.

Governmental benefits:

- Line of credit with the U.S. Treasury. The Banks have a $4 billion line of credit with the U.S. Treasury. The Banks used $1.6 billion of this line of credit in 1974 and repaid the amount borrowed in early 1978. The $1.6 billion was passed through to the Federal Home Loan Mortgage Corporation, which at that time had a line of credit with the Banks. To date, the Banks have never used their line of credit with the Treasury to finance their operations.
- Exempt from federal, state, and local taxation. The Banks, their income, franchises, capital, reserves, surplus, and advances are exempt from federal, state, and local taxation, except for real property taxes.
- Investors' income exempt from state and local taxation. The income earned by investors in Banks' securities is exempt from both state and local taxation.

Purpose

The 12 Banks were established to ensure the liquidity of member savings and loan institutions and mutual savings banks. These member institutions primarily serve the housing market. The Banks provide advances to help individual thrifts meet short-term liquidity needs and provide longer term loans to enable thrifts to expand long-term lending. The Banks provide member thrifts with access to national capital markets and eliminate regional barriers to the flow of mortgage funds.

Management

The Banks are under the general regulatory authority of the Federal Housing Finance Board, an independent federal agency. Federal law specifically authorizes the Board to govern and set systemwide operating policy; review the Banks' annual budgets; approve appointment of top personnel; ensure the Banks remain adequately capitalized; and suspend or remove any director, officer, employee, or agent of any Bank.

Although the 12 Banks are regulated by the Federal Housing Finance Board, each Bank establishes its own policies within the Board's guidelines. Each Bank also has its own board of directors consisting of at least 14 members. Six members are appointed by the Board. The Board also designates a chairman and vice chairman from among the directors of each bank.

The Government Corporation Control Act requires that the Comptroller General audit the Banks at least once every 3 years on a calendar-year basis.

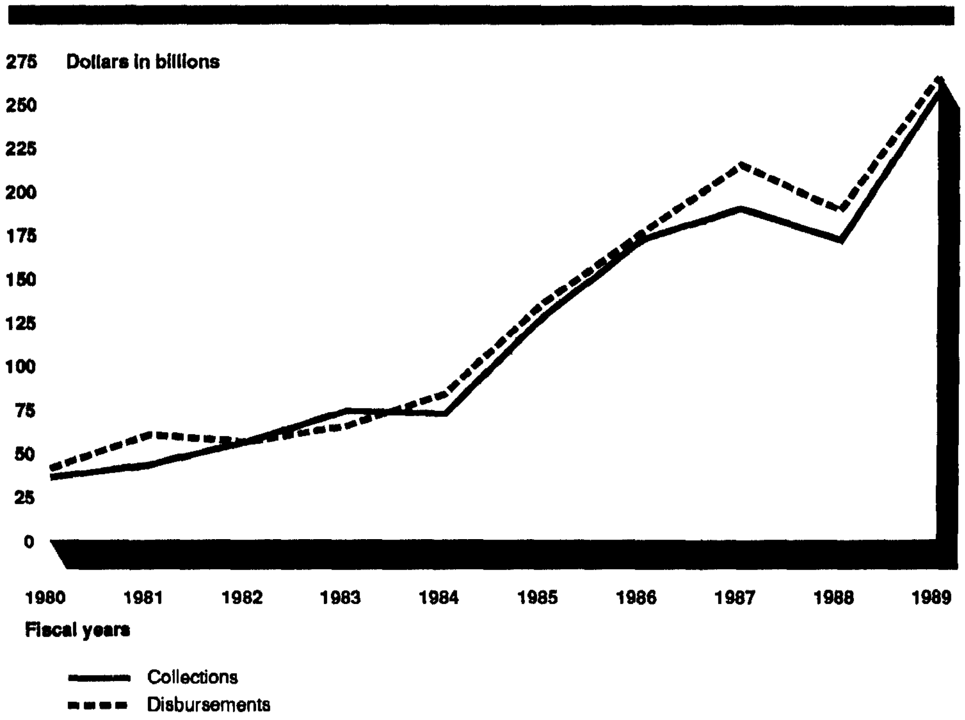
Financing

The Banks' principal sources of financing are the issuance of debt obligations, member institutions' deposits, and the sale of capital stock. The largest financing source is the issuance of debt obligations—bonds and discount notes. Other sources of financing include the Banks' retained earnings, interest earned on funds lent to member institutions, and fees for services.

Financial Trends

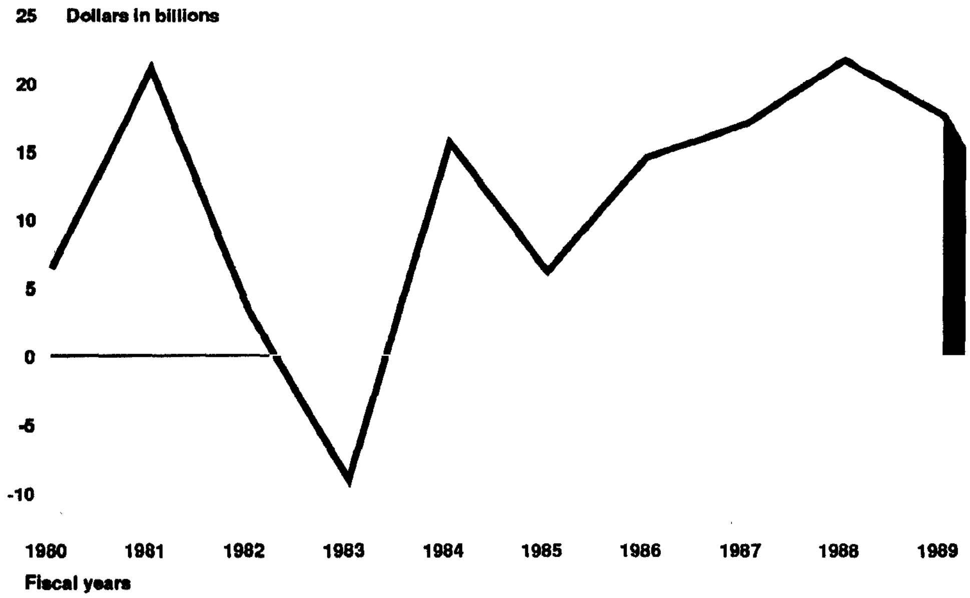
As shown in figure II.1, the Banks' collections and disbursements grew significantly from fiscal year 1980 through fiscal year 1989. Collections increased by more than 600 percent, from $35.9 billion to $255.7 billion during the 10-year period. Disbursements increased by more than 500 percent, from $41.0 billion to $264.9 billion. Most of this growth occurred during fiscal year 1989 when collections grew by $84 billion, and disbursements grew by $76 billion.

Figure II.1: Federal Home Loan Banks Collections and Disbursements for Fiscal Years 1980 Through 1989



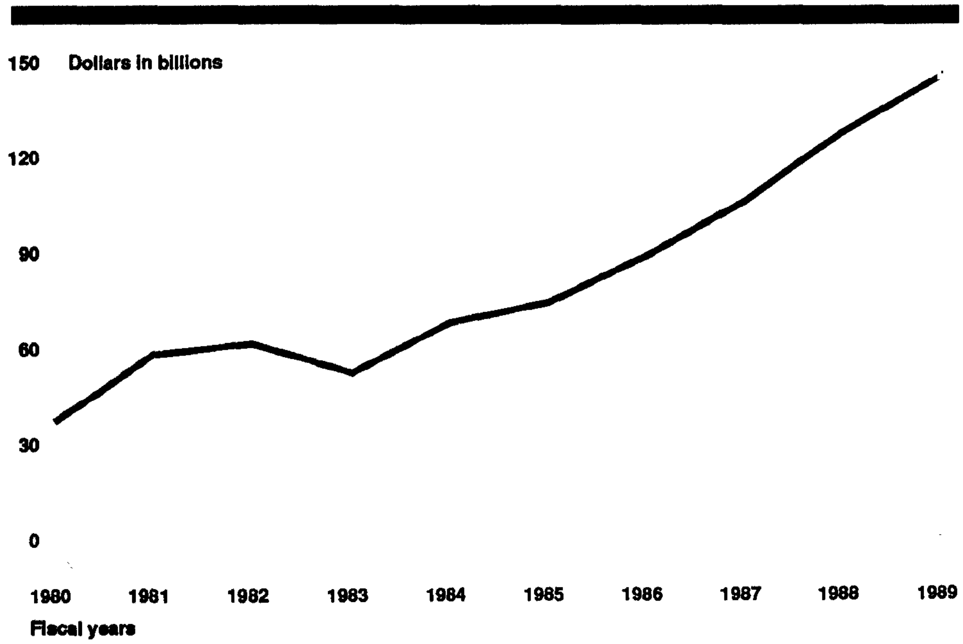
From fiscal year 1980 through fiscal year 1989, the Banks' net borrowing grew from $6.5 billion to $17.6 billion, a nearly threefold increase. Net borrowing decreased significantly between fiscal years 1981 and 1983 and again during 1985. The most significant increase in net borrowing occurred during fiscal year 1984 as shown in figure II.2.

Figure II.2: Federal Home Loan Banks Net Borrowing for Fiscal Years 1980 Through 1989



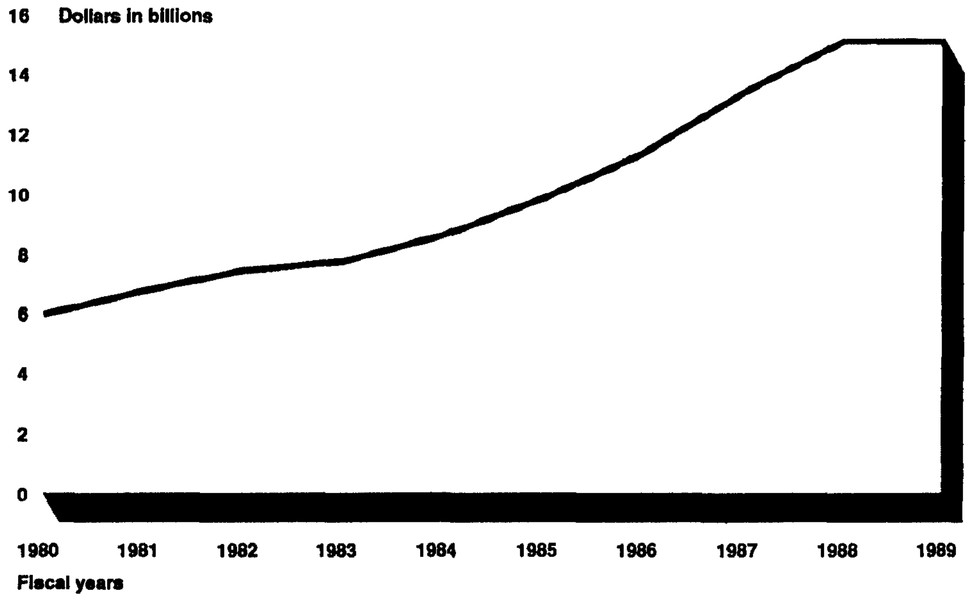
From fiscal year 1980 through fiscal year 1989, the Banks' debt outstanding grew nearly fourfold, from $36.6 billion to $144.3 billion as shown in figure II.3.

Figure II.3: Federal Home Loan Banks Debt Outstanding for Fiscal Years 1980 Through 1989



From fiscal year 1980 through fiscal year 1989, the Banks' total capital grew from $6 billion to $15.1 billion, an increase of about 150 percent. Most of this increase occurred between fiscal years 1985 and 1988 as shown in figure II.4.

Figure II.4: Federal Home Loan Banks Total Capital for Fiscal Years 1980 Through 1989



Federal National Mortgage Association

Background

Date of establishment: February 10, 1938.

Legal authority: National Housing Act of 1934, as amended, 12 U.S.C.A. Section 1716 et seq.

Market position: Since its establishment through June 30, 1990, the Federal National Mortgage Association (Fannie Mae) has supplied approximately $585 billion in mortgage funds, helping over 12 million families afford a home. In the 1980s alone, Fannie Mae supplied $450 billion in mortgage funds and, in 1989, helped provide housing for over 1 million families.

Governmental benefits:

- Line of credit with the U.S. Treasury. Fannie Mae has a $2.25 billion line of credit with the U.S. Treasury.
- Exempt from state and local taxation. Fannie Mae is exempt from state and local taxation, except for real property taxes.

Purpose

Fannie Mae was established to create a secondary market for home mortgages. Specifically, Fannie Mae is to (1) provide stability in the secondary market for home mortgages, (2) respond appropriately to the private capital market by developing new finance and mortgage products, and (3) provide ongoing assistance to the secondary market for home mortgages (including mortgages securing housing for low- and moderate-income families) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for home mortgage financing. The Federal Home Loan Mortgage Corporation has the same statutory purpose. To carry out its statutory purpose, Fannie Mae purchases and holds mortgage loans on residential properties in portfolio. Fannie Mae obtains funds to purchase mortgage loans from various capital markets. It also pools mortgages to form mortgage-backed securities, which are guaranteed by Fannie Mae and sold to investors.

Management

Fannie Mae is managed by an 18-member board of directors, 13 of which are private persons elected by the shareholders while the remaining 5 are private persons appointed by the President.

The Department of Housing and Urban Development (HUD) has regulatory authority over Fannie Mae. Federal law specifically authorizes HUD to examine and audit the records and financial transactions of Fannie Mae and requires the Association to issue reports on its activities as HUD determines advisable. HUD is also authorized to (1) limit the rate at which Fannie Mae may pay dividends, (2) raise its statutory debt-to-capital ratio, and (3) limit the aggregate amount of notes, debentures, and unsecured obligations which may be outstanding at any one time.

The U.S. Treasury has authority to approve the issuance, interest rates, and maturity of all Fannie Mae obligations.

The mortgage operations of Fannie Mae are subject to audit by GAO. A report of each such audit must be transmitted to the Congress.

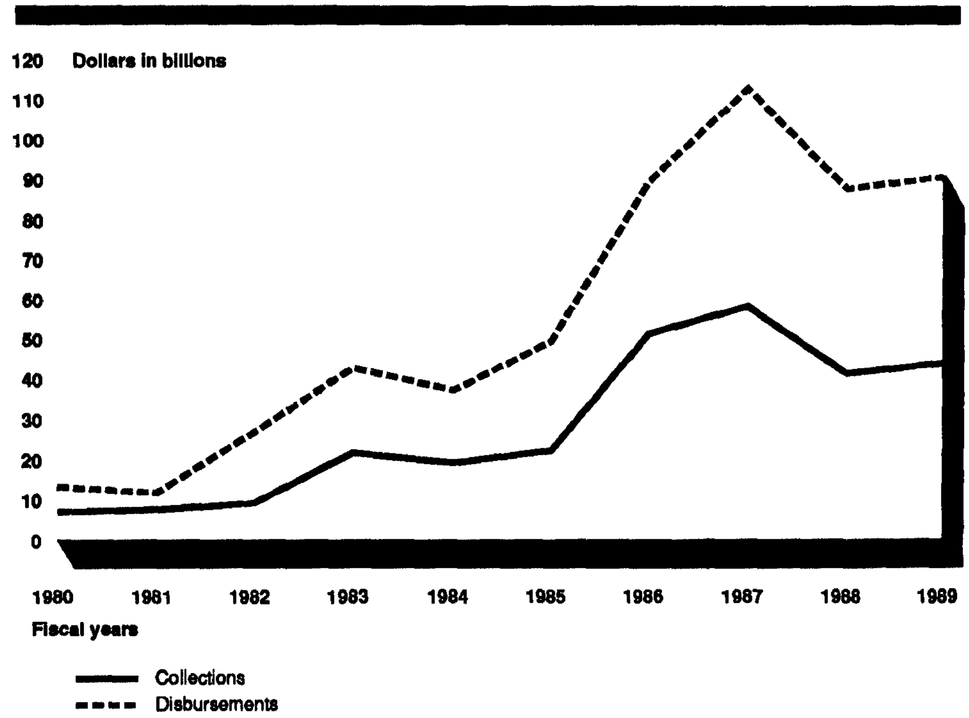
Financing

Fannie Mae's sources of financing are the sale of capital stock and mortgage-backed securities, the issuance of debt obligations, and interest and fee income. The issuance of debt obligations is the Corporation's principal source of financing. Fannie Mae's common stock is issued to the public, is fully transferable, and is listed on major stock exchanges.

Financial Trends

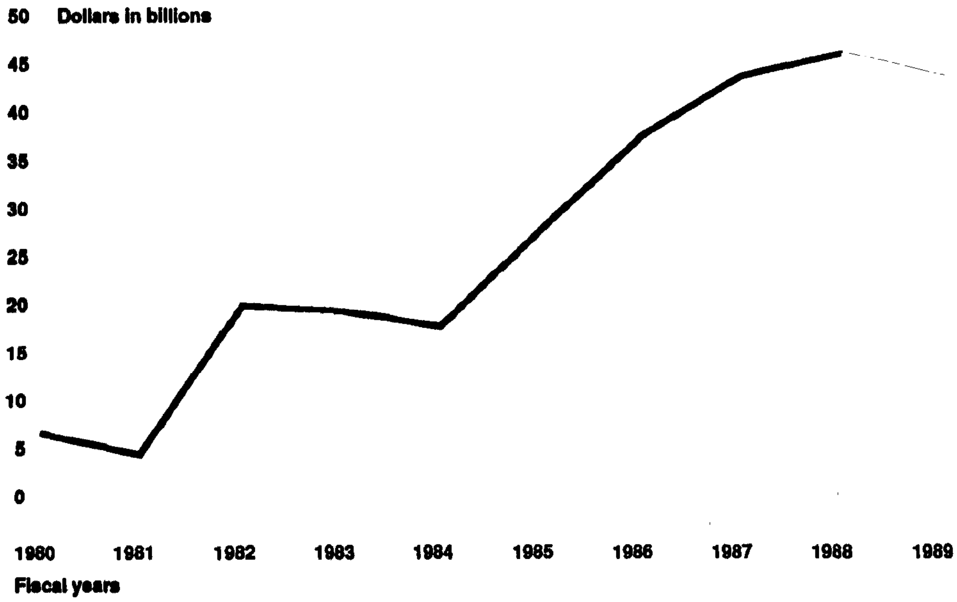
From fiscal year 1980 through fiscal year 1989, Fannie Mae collections and disbursements grew significantly, as shown in figure III.1. Collections increased by more than 500 percent, from $6.8 billion to $43.7 billion during the 10-year period. Disbursements increased nearly 600 percent, from $13.1 billion to $90.2 billion. Both collections and disbursements reached their highest level in fiscal year 1987, when collections grew to $57.9 billion and disbursements grew to $112.4 billion.

Figure III.1: Federal National Mortgage Association Collections and Disbursements for Fiscal Years 1980 Through 1989



From fiscal year 1980 through fiscal year 1989, Fannie Mae net borrowing and sales of mortgage-backed securities[1] grew from $6.4 billion to $43.2 billion, a sevenfold increase. Most of this growth occurred between fiscal years 1984 and 1988 as shown in figure III.2.

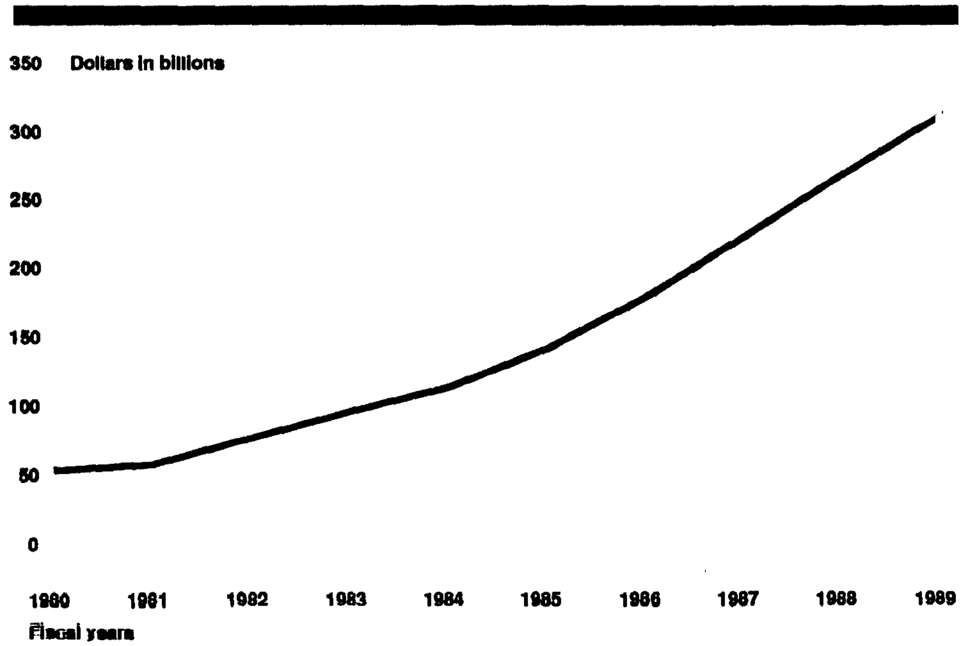
Figure III.2: Federal National Mortgage Association Net Borrowing and Sales of Mortgage-Backed Securities for Fiscal Years 1980 Through 1989



[1]Fannie Mae has primary liability on its debt obligations and contingent liability only as a guarantor on mortgage-backed securities.

From fiscal year 1980 through fiscal year 1989, Fannie Mae debt and mortgage-backed securities outstanding[2] grew sixfold, from $52.2 billion to $309.7 billion as shown in figure III.3.

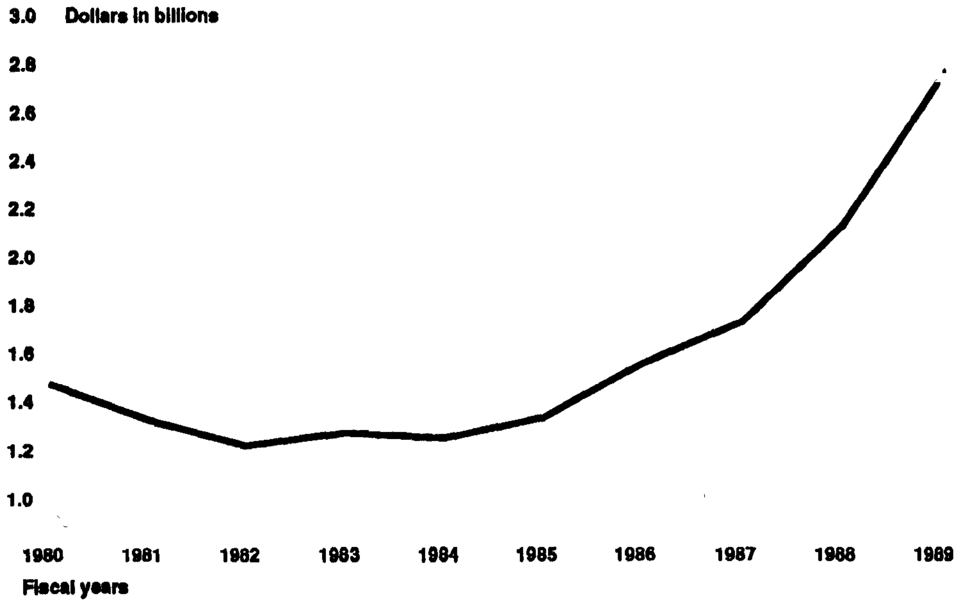
Figure III.3: Federal National Mortgage Association Debt and Mortgage-Backed Securities Outstanding for Fiscal Years 1980 Through 1989



[2]Fannie Mae debt and mortgage-backed securities outstanding is the aggregate of the principal amount of Fannie Mae's debt obligations and the Association's contingent liability for outstanding mortgage-backed securities. Fannie Mae has primary liability on its debt obligations and contingent liability only as a guarantor on mortgage-backed securities.

From fiscal year 1980 through fiscal year 1989, Fannie Mae total capital[3] grew from $1.5 billion to $2.7 billion, an increase of 88 percent. The largest increase in total capital occurred during fiscal year 1989, when total capital increased by 29 percent over the previous year. Figure III.4 shows this growth in total capital.

Figure III.4: Federal National Mortgage Association Total Capital for Fiscal Years 1980 Through 1989



[3]Fannie Mae total capital does not include the Association's subordinated debt.

Federal Home Loan Mortgage Corporation

Background

Date of establishment: July 24, 1970.

Legal authority: The Federal Home Loan Mortgage Corporation Act of 1970, as amended, 12 U.S.C.A. Sections 1451-1459.

Market position: Since its creation in 1970, the Federal Home Loan Mortgage Corporation (Freddie Mac) has helped finance almost 7.3 million homes, including more than 540,000 multi-family units. The Corporation has aided the growth of the secondary mortgage market in such a way that the market's size is second only to the market for U.S. Treasury securities. In 1989, sales of conventional mortgages in the secondary market totalled approximately $250 billion, representing about 3 million homes. Freddie Mac has been a major force in the rapid growth of the secondary market over the last two decades.

Governmental benefits:

- Line of credit with the U.S. Treasury. Freddie Mac has a $2.25 billion line of credit with the U.S. Treasury.
- Exempt from state and local taxation. Freddie Mac is exempt from state and local taxation, except for real property taxes.

Purpose

Freddie Mac was created to provide mortgage lenders with an organized, national secondary market in which to sell conventional mortgages. Freddie Mac serves as a conduit to facilitate the flow of investment dollars from capital market investors to mortgage lenders, and ultimately to homebuyers. The Corporation does this by purchasing mortgages from mortgage lenders, pooling and packaging them into securities, and selling the securities to investors. This provides lenders with new funds to meet demands for new mortgages. Freddie Mac's assistance to the secondary market for home mortgages is required to include assistance concerning mortgages for low- and moderate-income families.

Management

Freddie Mac is governed by an 18-member board of directors, 13 of which are private persons elected by the shareholders while the remaining 5 are private persons appointed by the President.

The Department of Housing and Urban Development (HUD) has regulatory authority over Freddie Mac. Federal law authorizes HUD to examine and audit the records and financial transactions of Freddie Mac and to require Freddie Mac to report on its activities as HUD determines advisable. HUD is also authorized to approve all issuances of capital stock, limit the rate at which the Corporation may pay dividends, and establish a maximum ratio of notes, debentures, and unsecured obligations outstanding at any one time. HUD is also authorized to increase the Corporation's minimum debt-to-capital ratio.

The U.S. Treasury is required to approve any issuance, interest rates, and maturity of all Freddie Mac debt obligations and trust certificates of beneficial interest on mortgages purchased by the Corporation.

Freddie Mac is subject to audit by GAO. A report of the audit results is transmitted to the Congress.

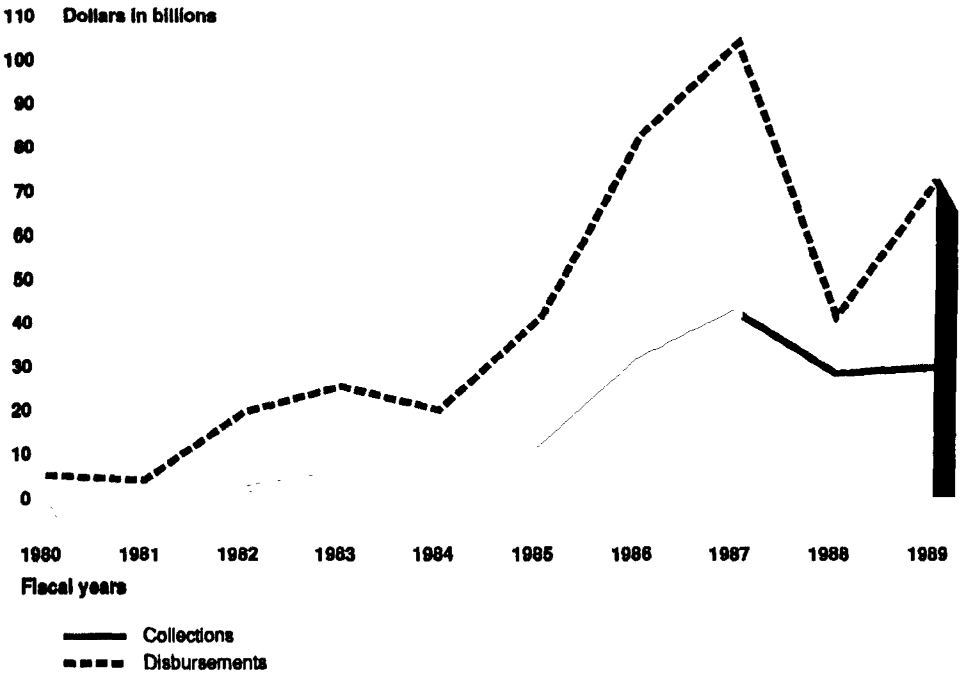
Financing

Freddie Mac's sources of financing are the sale of capital stock and mortgage-backed securities and the issuance of debt obligations, interest, and fee income. The sale of mortgage-backed securities is the Corporation's principal source of financing. About 95 percent of its mortgage assets are financed with mortgage-related securities. The Corporation's common stock is listed on the New York and Pacific Stock Exchanges.

Financial Trends

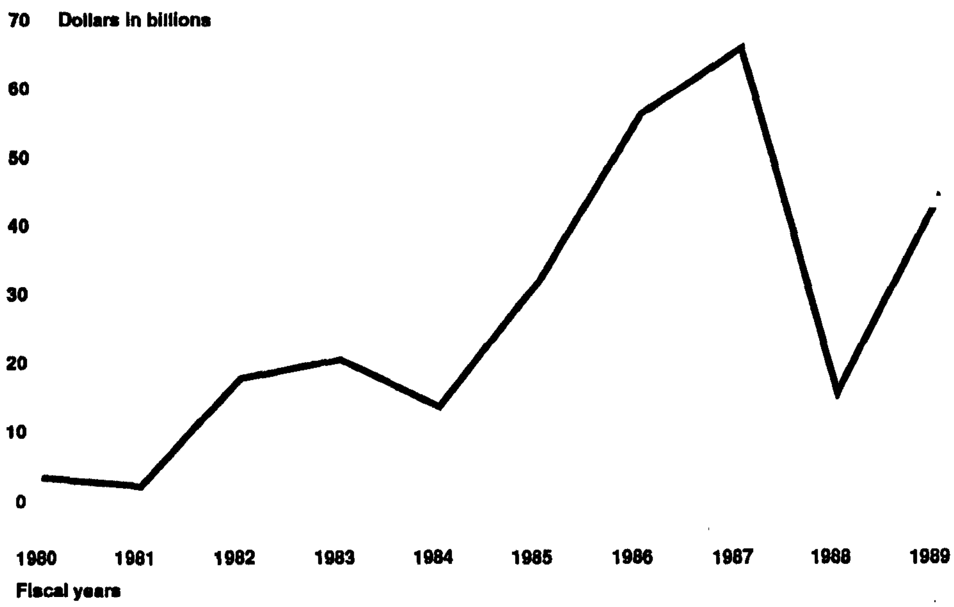
From fiscal year 1980 through fiscal year 1989, Freddie Mac collections and disbursements grew significantly as shown in figure IV.1. Collections increased almost 50-fold, from $0.6 billion to $29.3 billion during the 10-year period. Disbursements increased 15-fold from $4.8 billion to $72.1 billion. Collections and disbursements reached their highest level in fiscal year 1987, when collections grew to $41.9 billion and disbursements grew to $103.7 billion.

Figure IV.1: Federal Home Loan Mortgage Corporation Collections and Disbursements for Fiscal Years 1980 Through 1989



From fiscal year 1980 through fiscal year 1989, Freddie Mac net borrowing and sales of mortgage-backed securities[1] grew from $3.1 billion to $43.7 billion, a 14-fold increase. Net borrowing and sales of mortgage-backed securities reached its highest level in fiscal year 1987 when it grew to $65.6 billion as shown in figure IV.2.

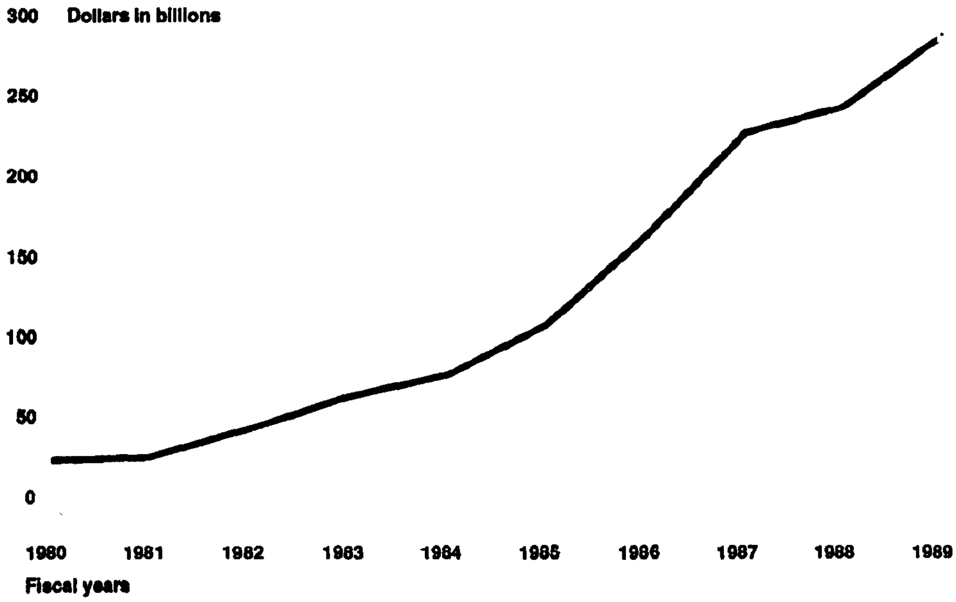
Figure IV.2: Federal Home Loan Mortgage Corporation Net Borrowing and Sales of Mortgage-Backed Securities for Fiscal Years 1980 Through 1989



[1]Freddie Mac has primary liability on its debt obligations and contingent liability as a guarantor on mortgage-backed securities.

From fiscal year 1980 through fiscal year 1989, Freddie Mac debt and mortgage-backed securities outstanding[2] grew from $21.5 billion to $285.0 billion, an increase of more than 1,200 percent as shown in figure IV.3.

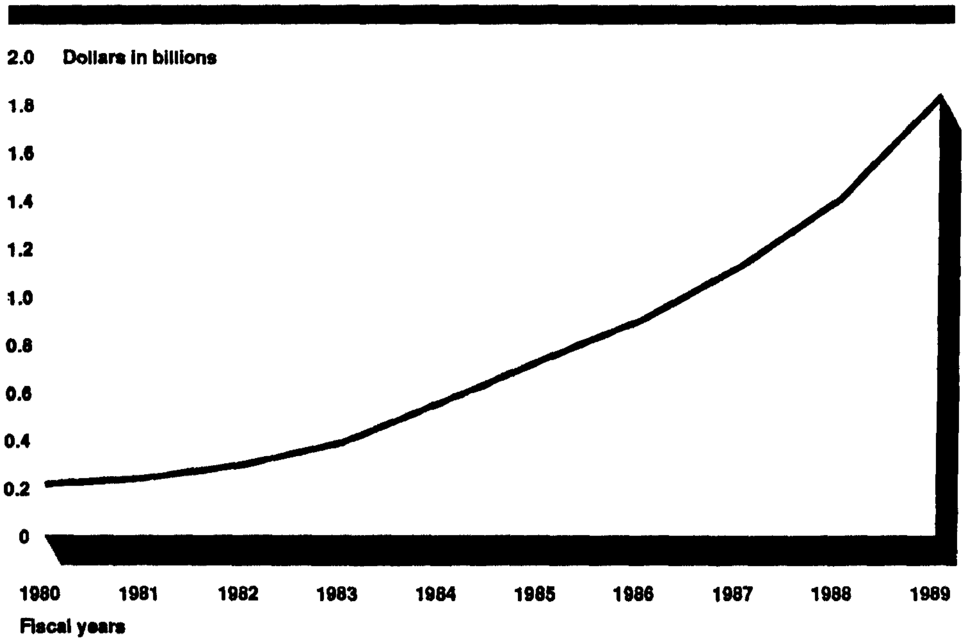
Figure IV.3: Federal Home Loan Mortgage Corporation Debt and Mortgage-Backed Securities Outstanding for Fiscal Years 1980 Through 1989



[2] Freddie Mac debt and mortgage-backed securities outstanding is the aggregate of the principal amount of Freddie Mac's debt obligations and the Corporation's contingent liability for outstanding mortgage-backed securities. Freddie Mac has primary liability on its debt obligations and contingent liability only as a guarantor on mortgage-backed securities, which account for approximately 95 percent of the Corporation's liability.

From fiscal year 1980 through fiscal year 1989, Freddie Mac total capital[3] grew eightfold, from $0.2 billion to $1.8 billion as shown in figure IV.4.

Figure IV.4: Federal Home Loan Mortgage Corporation Total Capital for Fiscal Years 1980 Through 1989



[3]Total capital does not include reserves or subordinated debt held by Freddie Mac.

The Financing Corporation

Background

Date of establishment: August 28, 1987.

Legal authority: Federal Savings and Loan Insurance Corporation Recapitalization Act of 1987, as amended, 12 U.S.C.A. Section 1441.

Market position: Not applicable.

Governmental benefit:

- Investors' income exempt from state and local taxation. The income earned by investors in Financing Corporation (FICO) securities is exempt from both state and local taxes.

Purpose

FICO was originally established to operate as a financing vehicle for recapitalizing the now defunct Federal Savings and Loan Insurance Corporation (FSLIC). The Corporation was chartered by the Federal Home Loan Bank Board, an independent federal agency. FICO's sole purpose was to borrow money in the capital markets and use these funds to purchase stock in FSLIC. Prior to its dissolution, FSLIC used the proceeds of these stock sales to provide assistance to insolvent savings and loan institutions. Pursuant to FIRREA, the proceeds of FICO debt issuances are to be transferred to the FSLIC Resolution Fund, also established by FIRREA. FICO's authority will terminate at the earlier of the maturity and full payment of all obligations issued or December 31, 2026.

Management

FICO is under the overall direction and supervision of the Federal Housing Finance Board, an independent federal agency. FICO is subject to "such regulations, orders, and directions as the Federal Housing Finance Board may prescribe." FICO's daily activities are governed by a three-member board of directors. Two of the three members are appointed by the Federal Housing Finance Board from among the presidents of the 12 Federal Home Loan Banks. The third member is designated by law to be the Director of the Office of Finance of the Federal Home Loan Banks.

Federal law requires that GAO audit the financial transactions of FICO during periods in which U.S. government capital is invested.

Financing

FICO is financed through the issuance of debt securities, capital contributions from the Federal Home Loan Banks, assessments on savings and loan institutions, and investment income. FICO is authorized to issue up to $10.8 billion in bonds, debentures, and other obligations to the general public. FICO's administrative expenses are paid by the Federal Home Loan Banks.

Financial Trends

Collections and disbursements: At fiscal year-end 1987, 1988, and 1989, FICO collections were $30.0 million, $530.7 million, and $950.0 million, respectively. FICO disbursements during the 3-year period were $29.9 million, $506.4 million, and $974.1 million.[1]

Net borrowing: At fiscal year-end 1987, 1988, and 1989, FICO net borrowing was $0.5 billion, $3.2 billion, and $4.4 billion, respectively.

Debt outstanding: At fiscal year-end 1987, 1988, and 1989, FICO debt outstanding was $0.5 billion, $3.7 billion, and $8.1 billion, respectively.

Total capital: At fiscal year-end 1987, FICO total capital was $30 million. Deficits of $3.4 billion and $7.4 billion were reported for 1988 and 1989, respectively.

[1]Collections and disbursements data were provided by the Office of Finance of the Federal Home Loan Banks.

Resolution Funding Corporation

Background

Date of establishment: August 9, 1989.

Legal authority: Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), 12 U.S.C.A. Section 1441b.

Market position: Not applicable.

Governmental benefits: None reported.

Purpose

The Resolution Funding Corporation (REFCORP) was established to borrow money in the credit markets and provide these funds to the Resolution Trust Corporation (RTC), a newly established on-budget federal agency. RTC will use these funds to resolve currently insolvent savings and loan institutions and other savings and loans which become insolvent during the 3 years following REFCORP's establishment. REFCORP will terminate after the maturity and full payment of all its debt obligations.

Management

REFCORP is under the overall supervision and direction of the RTC Oversight Board. This five-member board is composed of the Secretary of the Treasury, the Chairman of the Federal Reserve System, the Secretary of Housing and Urban Development, and two private persons appointed by the President. REFCORP is "subject to such regulations, orders and directions as the Oversight Board may prescribe." Specifically, FIRREA requires that the Oversight Board ensure the adequate capitalization of REFCORP and annually report to the Congress and the President on the operations and activities of the Corporation.

REFCORP's daily activities are governed by a three-member board of directors. Two of the three members are appointed by the Oversight Board from among the presidents of the 12 Federal Home Loan Banks. The third member is designated by law to be the Director of the Office of Finance of the Federal Home Loan Banks. The Oversight Board also appoints the board's chairperson from among the three members.

GAO is required to annually audit the financial transactions of REFCORP.

Financing

REFCORP is financed through the issuance of debt obligations, the sale of capital stock, and assessments. REFCORP is authorized to issue bonds, notes, debentures, and similar obligations in an aggregate amount not to exceed $30 billion. This borrowing from the public is the Corporation's primary source of financing.

Sources of funds for the repayment of debt principal and interest payments on REFCORP obligations include: (1) capital contributions from the Federal Home Loan Banks—subject to approval by the RTC Oversight Board, (2) premiums assessed on savings and loan institutions, (3) earnings on REFCORP assets, (4) funds collected from liquidating dividends and payments made on claims received by RTC from receiverships to the extent such proceeds are determined by the Oversight Board to be in excess of funds presently necessary for resolution costs and any proceeds from warrants and participations acquired by RTC, and (5) $300 million a year from the Federal Home Loan Banks to the extent such funds are not needed by the Financing Corporation and REFCORP to repay future debt offerings.

The U.S. Treasury is expected to pay part or all of the interest costs on debt obligations issued by REFCORP. In addition, REFCORP can assess the Federal Savings and Loan Insurance Corporation Resolution Fund for repayment of debt principal and can receive proceeds from the sale of FSLIC Resolution Fund assets by RTC.

Financial Trends

Collections and disbursements: At fiscal year-end 1989, both collections and disbursements were $1.2 billion.

Net borrowing: None as of fiscal year-end 1989.

Debt outstanding: None as of fiscal year-end 1989.

Total capital: At fiscal year-end 1989, total capital was $1.2 billion.

Banks for Cooperatives

Background

Date of establishment: June 16, 1933.

Legal authority: The Farm Credit Act of 1971, as amended, 12 U.S.C.A. Section 2121.

Market position: The Banks for Cooperatives provide 65 percent of all credit extended to U.S. agricultural cooperatives.

Governmental benefit:

- Investors' income exempt from state and local taxation. The income earned by investors in Banks for Cooperatives securities is exempt from both state and local taxes, with the exception of surtaxes, estate, inheritance, and gift taxes.

Purpose

The Banks were established to finance the operations of farmers' cooperatives. The Banks make loans to agricultural cooperatives engaged in marketing, supplies, and services. The Banks also extend credit to rural utilities on a nationwide basis and process international transactions of borrowing cooperatives. Prior to the Agricultural Credit Act of 1987, there were 12 Banks for Cooperatives. Under the authority of the act, 10 Banks were merged. There are currently three Banks—a National Bank for Cooperatives and two regional banks, the St. Paul Bank for Cooperatives and the Springfield Bank for Cooperatives. The regional banks also have nationwide lending authority.

Management

The Banks are governed by private persons elected by the shareholders. Currently, the National Bank for Cooperatives has a temporary board of directors consisting of 33 members. Federal law requires that a permanent board be established which will consist of four members elected by voting shareholders and one member appointed by the four elected members. The two regional Banks each elect a separate board of directors according to their own bylaws.

Federal law authorizes the Farm Credit Administration to approve all Bank charters, to regulate loan making, to approve the issuance of debt obligations, and to determine minimum levels of capital. The Farm Credit Administration is required to annually examine each Bank and is empowered to take specific enforcement actions to ensure safe and sound operations.

GAO is required to audit the Banks at least once every 3 years during periods in which government capital is invested in the Banks.

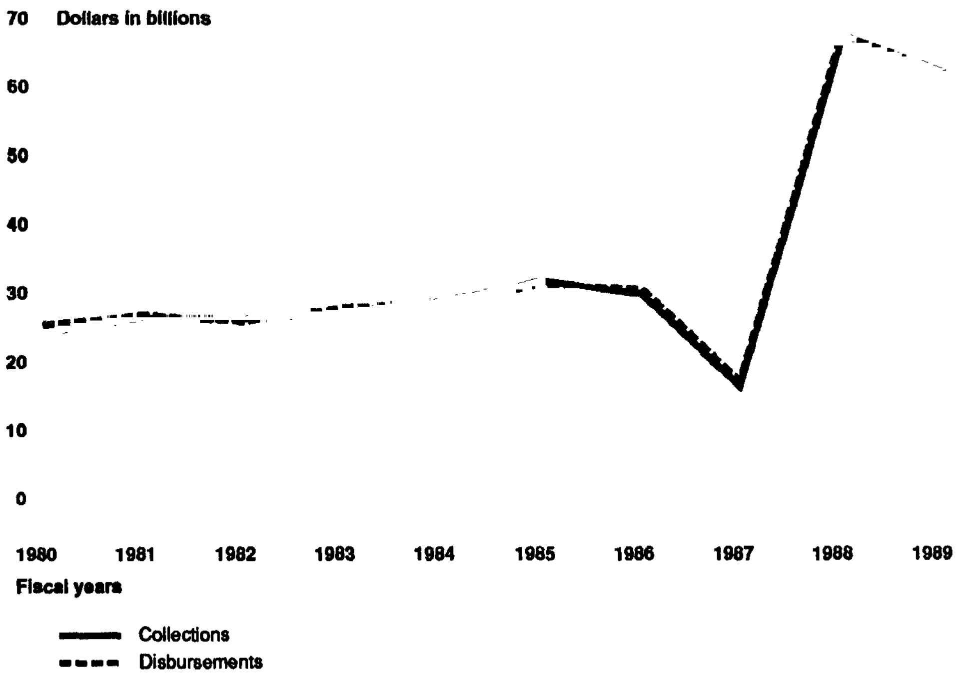
Financing

The Banks are financed through the issuance of debt obligations to the public.

Financial Trends

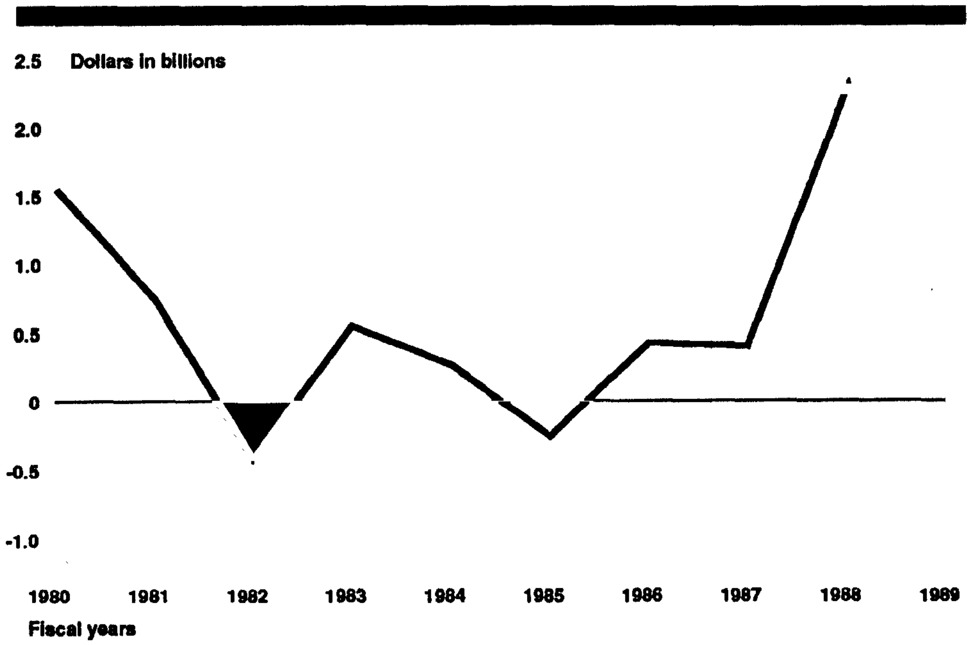
From fiscal year 1980 through fiscal year 1989, both collections and disbursements grew by more than 100 percent as shown in figure VII.1. Collections increased from $24.0 billion to $61.8 billion during the 10-year period. Disbursements increased from $25.1 billion to $61.9 billion during the 10-year period. Most of this growth occurred during fiscal year 1988, when both collections and disbursements grew by about 300 percent from the previous year.

Figure VII.1: Banks for Cooperatives Collections and Disbursements for Fiscal Years 1980 Through 1989



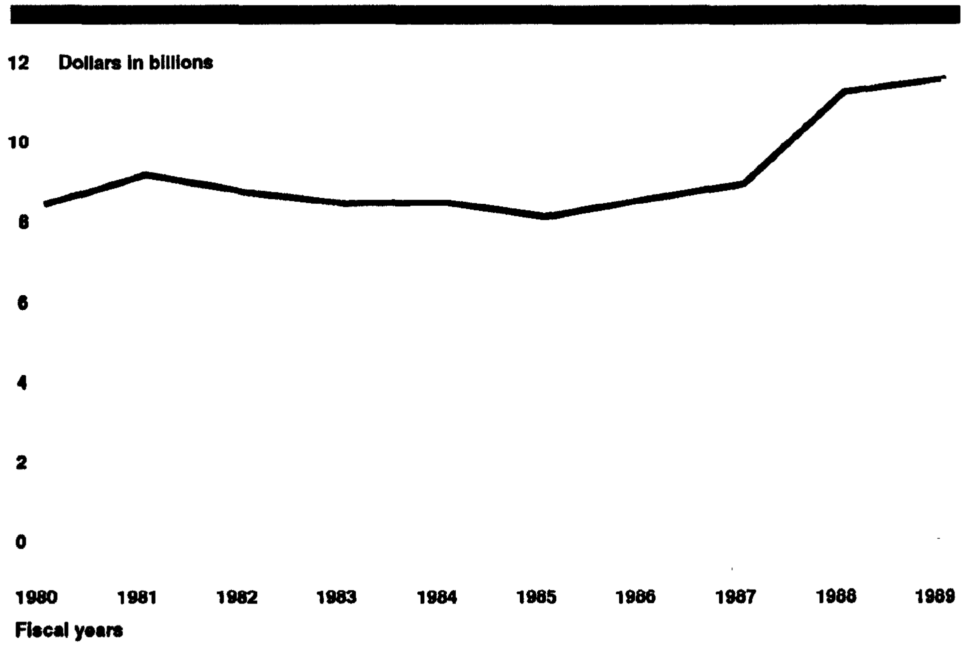
From fiscal year 1980 through fiscal year 1989, the Banks for Cooperatives' net borrowing decreased from $1.5 billion to $0.6 billion, a decline of about 60 percent. Net borrowing by the Banks fluctuated significantly throughout the 10-year period as shown in figure VII.2. In fiscal years 1982 and 1985, net borrowing was negative and, in fiscal year 1988, net borrowing reached its highest level of $2.3 billion.

Figure VII.2: Banks for Cooperatives Net Borrowing for Fiscal Years 1980 Through 1989



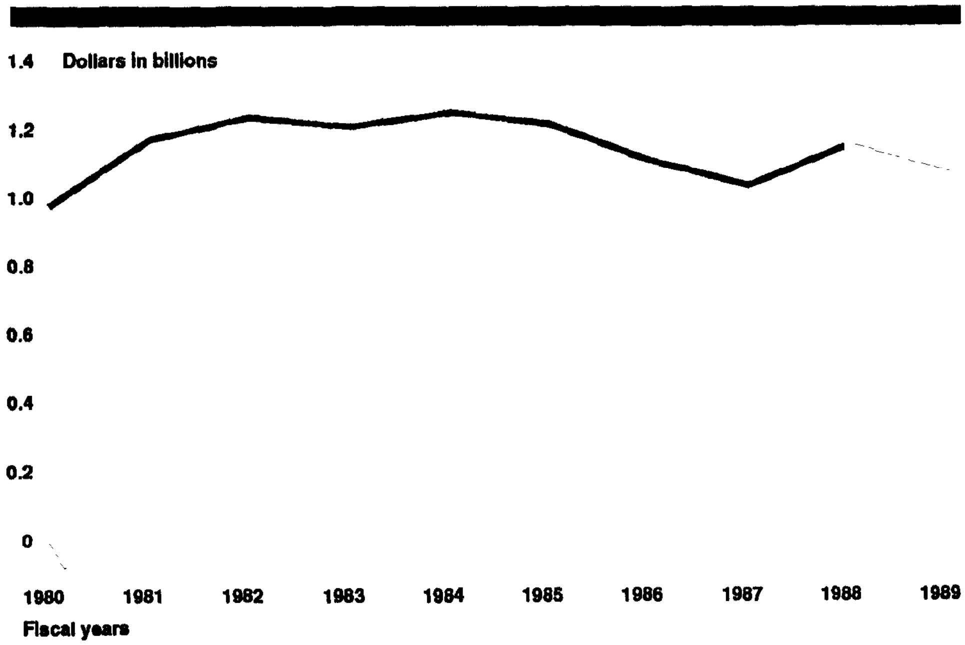
From fiscal year 1980 through fiscal year 1989, the Banks' debt outstanding increased 37 percent, from $8.4 billion to $11.5 billion as shown in figure VII.3.

Figure VII.3: Banks for Cooperatives Debt Outstanding for Fiscal Years 1980 Through 1989



From fiscal year 1980 through fiscal year 1989, the Banks' total capital increased 9 percent, from $1.0 billion to $1.1 billion as shown in figure VII.4.

Figure VII.4: Banks for Cooperatives Total Capital for Fiscal Years 1980 Through 1989



Farm Credit Banks

Background

Date of establishment: Federal Land Banks—July 17, 1916; Federal Intermediate Credit Banks—March 4, 1923; Farm Credit Banks—July 6, 1988.

Legal authority: Farm Credit Act of 1971, as amended, 12 U.S.C.A. Section 2011.

Market position: Data not available.

Governmental benefits:

- Corporation earnings exempt from federal taxation. The Farm Credit Banks' (FCBs) corporate earnings are exempt from federal income taxes.
- Investors' income exempt from state and local taxation. The income earned by investors in Farm Credit Banks securities is exempt from both state and local taxes.

Purpose

The 12 original Federal Land Banks were established to provide long-term real estate loans to farmers and ranchers. The 12 original Federal Intermediate Credit Banks were established to provide short- and intermediate-term farm loans. The Intermediate Credit Banks served as banks of discount for agriculture and for making loans to local financing institutions such as production credit associations, agricultural credit corporations, livestock loan companies, and commercial banks. The Intermediate Credit Banks were also responsible for supervising the production credit associations and assisting them to make sound credit available to farmers.

The Agricultural Credit Act of 1987 required each of the 12 district Land Banks and the 12 district Intermediate Credit Banks to merge and form the FCBs. In July 1988, 11 of the Land Banks and 11 of the Intermediate Credit Banks merged to form 11 FCBs. No merger occurred in one of the districts because the Land Bank in that district was in receivership at the time. The 11 newly formed FCBs operate under the statutory authority which combined the individual authorities of the two former Banks.

Management

The FCBs are managed by private persons elected by the shareholders. Each FCB elects its own separate board of directors according to its bylaws.

Federal law authorizes the Farm Credit Administration to approve all bank charters, regulate loan making, approve the issuance of debt obligations, and determine minimum levels of capital. The Farm Credit Administration is required to annually examine each FCB and is empowered to take specific enforcement actions to ensure safe and sound operations.

GAO is required to audit FCBs at least once every 3 years during periods in which government capital is invested in FCBs.

Financing

FCBs are financed through the issuance of debt obligations to the public.

Financial Trends

Collections and disbursements: For fiscal years 1988 and 1989, FCBs reported collections of $20.9 billion and $29.2 billion, respectively. For the same period, FCBs reported disbursements of $19.2 billion and $26.2 billion, respectively.

Net borrowing: For fiscal year 1988, the FCBs reported negative net borrowing of $2.2 billion. In fiscal year 1989, net borrowing was $0.4 billion.

Debt outstanding: For fiscal years 1988 and 1989, FCBs reported debt outstanding of $43.4 billion and $42.1 billion, respectively.

Total capital: For fiscal years 1988 and 1989, FCBs reported total capital of $4.0 billion and $3.8 billion, respectively.

Financial Assistance Corporation

Background

Date of establishment: January 11, 1988.

Legal authority: Agricultural Credit Act of 1987, 12 U.S.C.A. Section 2278b.

Market position: Not applicable.

Governmental benefits:

- Exempt from federal, state, and local taxation. The Corporation and its income, capital, and reserves are exempt from federal, state, and local taxation, with the exception of real estate taxes.
- Investors' income exempt from state and local taxation. The income earned by investors in Financial Assistance Corporation (FAC) securities is exempt from state, local, and municipal taxation.

Purpose

FAC was created to serve as a conduit for financial assistance to troubled Farm Credit System institutions. FAC issues 15-year uncollateralized debt obligations that are fully guaranteed by the full faith and credit of the U.S. government. The proceeds of these debt issuances flow into the Farm Credit Assistance Fund and are used to purchase stock, at the direction of the Farm Credit System Assistance Board, in troubled Farm Credit System institutions and for limited other purposes. FAC will be terminated upon retirement of all debt obligations issued.

Management

The activities of FAC are governed by the board of directors of the Federal Farm Credit Banks Funding Corporation. The Funding Corporation is a private Farm Credit System institution responsible for issuing Farm Credit System debt obligations. Its 10-member board consists of 9 voting members and 1 nonvoting member. Seven voting members are elected by the Funding Corporation's shareholders. These seven appoint the other two voting members. The one nonvoting member is the Funding Corporation's president.

The Farm Credit System Assistance Board, an independent federal agency, is responsible for approving all FAC debt issuances and FAC purchases of stock in System institutions. The members of this board consist of the Secretaries of the Treasury and of Agriculture, and one member is appointed by the President and confirmed by the Senate. The board's authority will end on December 31, 1992.

Financing

FAC's sources of financing are its initial sale of stock and the issuance of debt obligations. FAC is authorized to issue up to $4 billion in 15-year uncollateralized bonds. This authority will expire on September 30, 1992. The U.S. Treasury will pay all or part of the interest costs on FAC bonds over the next 10 years. In addition, FAC's debt obligations are backed by the full faith and credit of the U.S. government.

The Farm Credit System is required to eventually reimburse Treasury for the interest payments. Treasury is responsible for all of the interest payments during the first 5 years of issuance and up to half of the interest payments during the second 5 years. Treasury's interest obligation does not apply to $414 million in FAC bonds issued to satisfy certain inter-bank obligations which FAC was required to assume under the 1987 legislation.

Financial Trends

Collections and disbursements: For fiscal years 1988 and 1989, FAC reported collections of $448 million and $397 million, respectively. During the same period, FAC reported disbursements of $418 million and $400 million, respectively.

Net borrowing: For fiscal years 1988 and 1989, FAC net borrowing was $450 million and $397 million, respectively.

Debt outstanding: For fiscal years 1988 and 1989, FAC debt outstanding was $450 million and $847 million, respectively.

Total capital: None reported.

Federal Agricultural Mortgage Corporation

Background

Date of establishment: January 6, 1988.

Legal authority: Agricultural Credit Act of 1987, 12 U.S.C.A. Section 2279aa-1.

Market position: Data not available.

Governmental benefit:

- Line of credit with the U.S. Treasury. The Federal Agricultural Mortgage Corporation (Farmer Mac) has a $1.5 billion line of credit with the U.S. Treasury. This line of credit is available to fulfill the obligations of the Corporation under any of the Corporation's guarantees. This line-of-credit can only be used after the required cash reserves or subordinated interests in the pool and the Corporation's reserves are exhausted.

Purpose

Farmer Mac was established to facilitate the development of a secondary market for agricultural real estate and certain rural housing loans. Private organizations (called poolers) purchase agricultural real estate and rural housing mortgage loans from the originating financial institution. The poolers then package and sell the pools of loans to private investors. Farmer Mac guarantees the timely payment of principal and interest on the securities that are backed by these pools of loans.

Management

Farmer Mac is governed by a 15-member board of directors. Ten members are private persons elected by the Corporation's shareholders. Five are elected by class A shareholders which include insurance companies, banks, or other financial institutions; five are elected by class B shareholders that are Farm Credit System institutions; and five are private persons appointed by the President and confirmed by the Senate. The President also selects the chairperson from among the members he or she appoints.

Farmer Mac is subject to examination and supervision by the Farm Credit Administration (FCA), an independent federal agency. FCA is authorized to assert "general supervision of the safe and sound performance of the powers, functions and duties" of Farmer Mac. In addition, FCA is required to audit the financial transactions of Farmer Mac on an annual basis.

Federal law requires GAO to conduct financial audits of Farmer Mac. GAO is also required to conduct studies on Farmer Mac's operations and possibilities of expanding its secondary market. GAO must transmit a report to the Congress on the results of these studies.

Financing

Farmer Mac is financed through the sale of stock and guarantee fees.

Financial Trends

Collections and disbursements: Farmer Mac's collections and disbursements at fiscal year-end 1989 were $23.2 million and $2.3 million, respectively.

Net borrowing: None.

Debt outstanding: None.

Total capital: Farmer Mac's total capital was $20.9 million at fiscal year-end 1989.

Student Loan Marketing Association

Background

Date of establishment: June 30, 1972.

Legal authority: Higher Education Act of 1965, as amended, 20 U.S.C.A. Section 1087-2.

Market position: The Student Loan Marketing Association (Sallie Mae) ranks among the nation's 100 largest publicly owned corporations and 20 largest nonbank financial companies and provides the largest secondary market in guaranteed student loans. Since 1973, Sallie Mae has provided more than $40 billion in funds and commitments for educational loans. As of December 31, 1989, Sallie Mae owned $16 billion of outstanding student loans, holding 28 percent of the market share on guaranteed student loans outstanding.

Governmental benefits:

- Line of credit with the U.S. Treasury. Sallie Mae has a line of credit with the U.S. Treasury. The Secretary of the Treasury is authorized, at his or her discretion, to purchase obligations of Sallie Mae up to $1 billion outstanding at any one time. To date, no borrowings have been made under this authority. From 1974 to 1982, Sallie Mae borrowed through the Federal Financing Bank. At the end of fiscal year 1989, Sallie Mae had $4.9 billion in outstanding loans with the Federal Financing Bank.
- Exempt from state and local taxation. The Association, including its franchise, capital, reserves, mortgages, or other security holdings, and income, is exempt from all taxation imposed by any state, territory, possession, commonwealth, or by any county, municipality, or local taxing authority, except for real property taxes.
- Investors' income exempt from state and local taxation. The income earned by investors in Sallie Mae securities is exempt from state, local, and municipal taxation.

Purpose

Sallie Mae was created to invest in education loans and to extend credit to financial institutions and others engaged in education lending in order to provide liquidity and enhance the availability of education credit. The Association provides liquidity primarily to lenders engaged in the Stafford (formerly Guaranteed) Student Loan Program—the major source of loan financing for postsecondary education. Sallie Mae provides liquidity through the direct purchase of insured student loans from eligible lenders and through warehousing advances. Warehousing advances are loans to lenders that are secured by insured student loans, and government or agency securities. The Association is also authorized, if requested by the Secretary of Education, to assist in financing insured student loans. In addition, Sallie Mae provides other financial services, including providing a secondary market for noninsured loans, purchasing and underwriting student loan revenue bonds, and providing financing for academic facilities and equipment.

Management

Sallie Mae is governed by a 21-member board of directors, 14 of which are private persons elected by the shareholders. Seven are elected by voting common stockholders representing educational institutions, and seven are elected by voting common stockholders representing banks or other qualified financial institutions. The remaining seven members represent the general public and are appointed by the President. The President also designates the board's chairperson from among the 21 members.

Federal law requires that the Association submit an annual report of its operations and activities to the Congress and the President. Federal law also requires that the Association's financial statements be audited each year by independent certified public accountants. An audit report is to be transmitted to the Secretary of the Treasury who, in turn, annually reports to the Congress and the President on Sallie Mae's financial condition.

The Department of the Treasury must approve all of the Association's debt issuances, and the Department of Education regulates Sallie Mae's participation in the Stafford Student Loan Program. GAO reviews the Association's operations as a participant in the Stafford program.

Financing

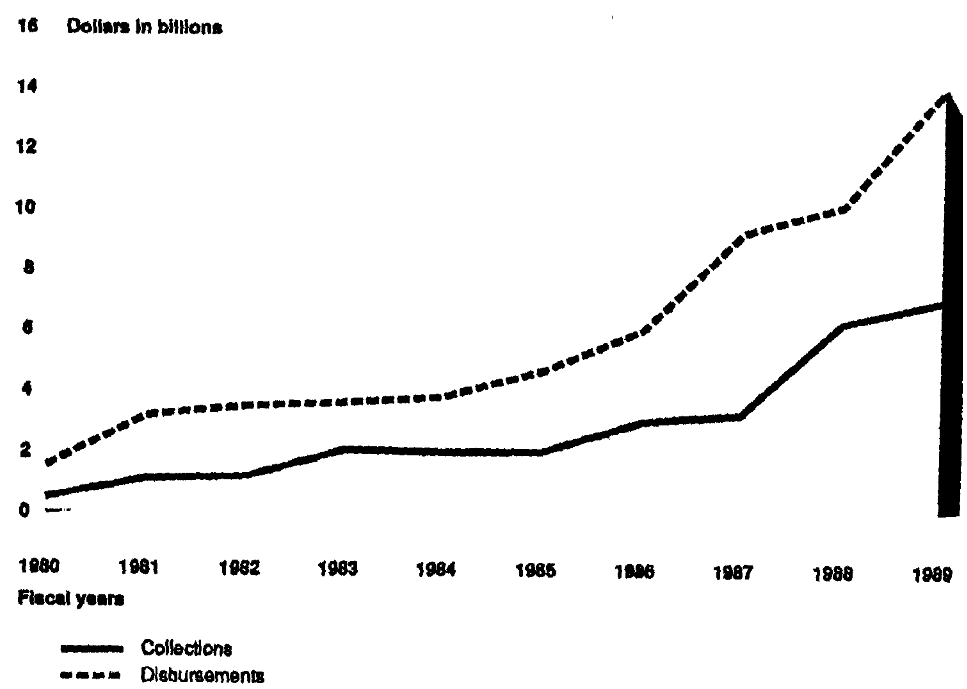
Sallie Mae's sources of financing are the sale of common and preferred stock, the issuance of debt securities, and interest income. The issuance of debt securities to the public and domestic and overseas capital markets are the Association's primary means of financing.

Sallie Mae issues voting common stock to financial institutions eligible to participate in the loan program and to postsecondary institutions located in the United States. The Association also issues nonvoting common stock to the general public.

Financial Trends

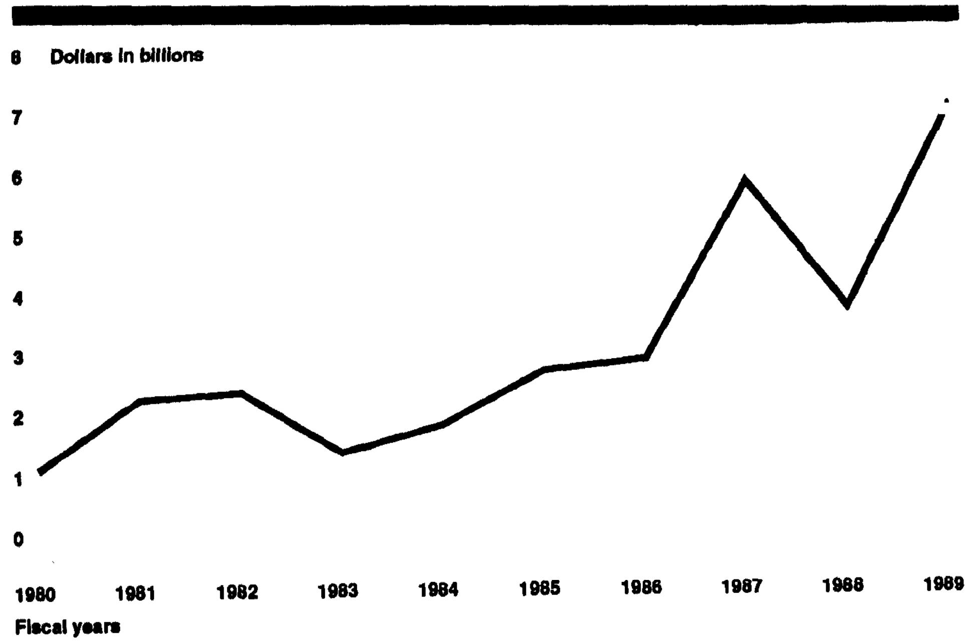
From fiscal year 1980 through fiscal year 1989, Sallie Mae collections and disbursements grew significantly, as shown in figure XI.1. Collections increased from $0.4 billion to $7.0 billion during the 10-year period. Disbursements increased from $1.5 billion to $14.0 billion.

Figure XI.1: Student Loan Marketing Association Collections and Disbursements for Fiscal Years 1980 Through 1989



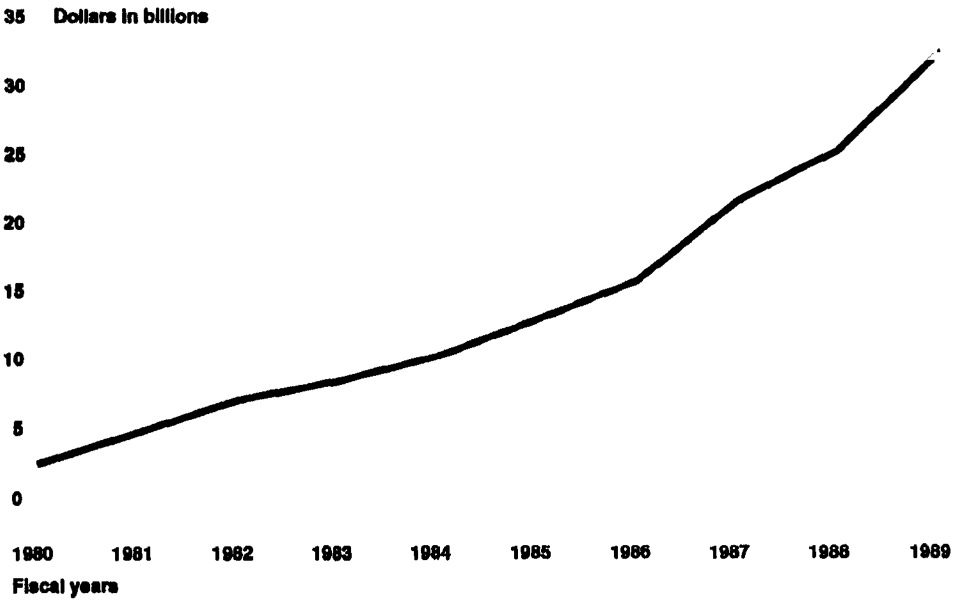
From fiscal year 1980 through fiscal year 1989, Sallie Mae net borrowing grew from about $1.1 billion to $7.0 billion, an increase of more than 500 percent. In fiscal year 1988, net borrowing declined to $3.7 billion, a decrease of about 36 percent, as shown in figure XI.2.

Figure XI.2: Student Loan Marketing Association Net Borrowing for Fiscal Years 1980 Through 1989



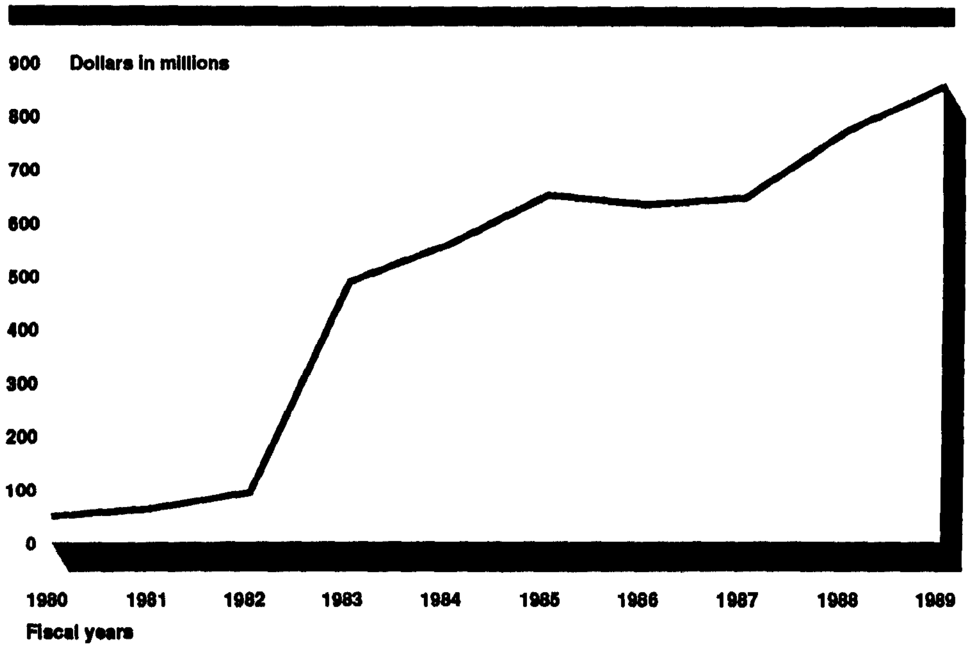
From fiscal year 1980 through fiscal year 1989, Sallie Mae debt outstanding grew from $2.3 billion to $32.0 billion, an increase of more than 1,200 percent. Most of this growth occurred between fiscal years 1985 and 1989, as shown in figure XI.3.

Figure XI.3: Student Loan Marketing Association Debt Outstanding for Fiscal Years 1980 Through 1989



From fiscal year 1980 through fiscal year 1989, Sallie Mae total capital grew from about $48.7 million to $853.2 million, an increase of more than 1,600 percent, as shown in figure XI.4.

Figure XI.4: Student Loan Marketing Association Total Capital for Fiscal Years 1980 Through 1989



College Construction Loan Insurance Association

Background

Date of establishment: October 17, 1986.

Legal authority: Higher Education Amendments of 1986, 20 U.S.C.A. Section 1132f.

Market position: Data not available.

Governmental benefits: None.

Purpose

The College Construction Loan Insurance Association (Connie Lee) was established to guarantee and insure bonds issued and loans made for the construction and renovation of college and university facilities. The Association conducts its insurance operations through its wholly-owned subsidiary, Connie Lee Insurance Company. Connie Lee was incorporated in February 1987 under the District of Columbia Business Corporation Act and, through the Insurance Company, began insurance activity in December 1988.

Management

Connie Lee is governed by an 11-member board of directors, consisting of all private persons. Four members are elected by the shareholders, three are appointed by the Student Loan Marketing Association (Sallie Mae), two are appointed by the Secretary of Education, and two are appointed by the Secretary of the Treasury. At least one elected member must be a college or university administrator. The board elects a chairperson from among the 11 members.

The Association is required to submit an annual report to the Congress and the President on its operations and activities. The Association's records must be audited by an independent public accountant, and a report detailing the audit results must also be included in this annual report.

Financing

Connie Lee's sources of financing are the sale of common and preferred stock, the issuance of debt obligations, and premium assessments. To provide the initial capitalization, Sallie Mae and other investors are authorized to purchase stock in the Association. In fiscal year 1987, Sallie Mae made an initial purchase of $2 million in Connie Lee voting common stock. In fiscal year 1989, Sallie Mae purchased an additional $51 million of equity securities. Connie Lee has issued no debt obligations to date.

Connie Lee is also authorized to sell voting common stock to the general public. During the first 5 years after incorporation, the Association can sell up to $125 million in voting common stock. Not less than 40 percent of such stock must be set aside for purchase by institutions of higher education before being offered to the general public.

Connie Lee is also authorized to issue, without limitation as to amount or restriction as to ownership, such nonvoting common, preferred, and preference stock, and debt and other securities and obligations, each having such terms and conditions as deemed necessary or appropriate by the Board of Directors.

In fiscal year 1988, the Department of Education purchased $19 million in voting common stock with funds appropriated for that purpose. The Secretary of Education is authorized to purchase additional stock in each of the 5 years following the Corporation's establishment. The Department of Education is prohibited from selling its stock in Connie Lee until 5 years after incorporation. Education must give Sallie Mae the right of first refusal. Education's current stock gives it 25-percent ownership in the Association.

Financial Trends

Collections and disbursements: None reported.

Net borrowing: None.

Debt outstanding: None.

Total capital: At the end of fiscal years 1987, 1988, and 1989, Connie Lee total capital was $1.8 million, $17.9 million, and $69.4 million, respectively.

Major Contributors to This Study

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

Edith A. Pyles, Assistant Director
Trina V. Lewis, Evaluator-in-Charge
Renu Saini, Accountant
Karen Hudelson, Accountant
Susan Johnson, Intern

Office of the General Counsel

Thomas H. Armstrong, Assistant General Counsel

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