

## 19. CREDIT AND INSURANCE

The Federal Government offers direct loans and loan guarantees to support a wide range of activities including home ownership, student loans, small business, farming, energy, infrastructure investment, and exports. In addition, Government-sponsored enterprises (GSEs) operate under Federal charters for the purpose of enhancing credit availability for targeted sectors. Through its insurance programs, the Federal Government insures deposits at depository institutions, guarantees private-sector de-

financed-benefit pensions, and insures against some other risks such as flood and terrorism.

This chapter discusses the roles of these diverse programs. The first section discusses individual credit programs and GSEs. The second section reviews Federal deposit insurance, pension guarantees, disaster insurance, and insurance against terrorism and other security-related risks.

### I. CREDIT IN VARIOUS SECTORS

#### Housing Credit Programs

Through housing credit programs, the Federal Government promotes homeownership among various target groups, including low- and moderate-income people, veterans, and rural residents. In times of economic crisis, the Federal Government's role and target market can expand dramatically.

#### Federal Housing Administration

The Federal Housing Administration (FHA) guarantees mortgage loans to provide access to homeownership for people who may have difficulty obtaining a conventional mortgage. FHA has been a primary facilitator of mortgage credit for first-time and minority buyers, a pioneer of products such as the 30-year self-amortizing mortgage, and a vehicle to enhance credit for many low- to moderate-income households. One of the major benefits of an FHA-insured mortgage is that it provides a homeownership option for borrowers who can make only a modest down-payment, but show that they are creditworthy and have sufficient income to afford the house they want to buy.

In addition to traditional single-family "forward" mortgages, FHA insures "reverse" mortgages for seniors and loans for the construction, rehabilitation, and refinancing of multifamily housing, hospitals and other health care facilities.

#### *FHA and the Single-Family Mortgage Market*

In the early 2000s, FHA's market presence diminished greatly as low interest rates increased the affordability of mortgage financing and more borrowers used emerging non-prime mortgage products, including subprime and Alt-A mortgages. Many of these products had risky and hard-to-understand features such as low "teaser rates" offered for periods as short as the first two years of the mortgage, high loan-to-value ratios (with some mortgages exceeding the value of the house), and interest-only loans with balloon payments that require full payoff at a set

future date. The Alt-A mortgage made credit easily available by waiving documentation of income or assets. This competition eroded the market share of FHA's single-family purchase and refinance loans, reducing it from 9 percent in 2000 to less than 2 percent in 2005.

During the financial crisis, starting at the end of 2007, the availability of credit guarantees from the FHA and Government National Mortgage Association (which supports the secondary market for Federally-insured housing loans by guaranteeing securities backed by mortgages guaranteed by FHA, VA, and USDA) was an important factor countering the tightening of private-sector credit. The annual volume of FHA's single-family mortgages soared from \$52 billion in 2006 to a high of \$330 billion in 2009.

Although loan volume has declined since its 2009 peak, FHA continued to experience strong demand in 2017 as mortgage rates remained low and the improving economy brought new home buyers into the market. FHA's single-family origination loan volume in 2017 was \$251 billion, and FHA's market share of home financing by dollar volume was 15 percent. For 2019, the Budget projects FHA volume will be \$230 billion.

#### *FHA Home Equity Conversion Mortgages*

Home Equity Conversion Mortgages (HECMs) are designed to support aging in place by enabling elderly homeowners to borrow against the equity in their homes without having to make repayments during their lifetime (unless they move, refinance or fail to meet certain requirements). A HECM is also known as a "reverse" mortgage because the change in home equity over time is generally the opposite of a forward mortgage. While a traditional forward mortgage starts with a small amount of equity and builds equity with amortization of the loan, a HECM starts with a large equity cushion that declines over time as the loan accrues interest and premiums. The risk of HECMs therefore is weighted toward the end of the mortgage, while forward mortgage risk is concentrated in the first 10 years. FHA recently took steps, including

lowering the share of home equity a homeowner can borrow against (the “principal limit factors”), to mitigate the risk of losses on HECMs, and FHA is exploring additional risk mitigation measures for 2019. HECM origination volume was \$18 billion in 2017, and the Budget projects \$12 billion in 2019.

### ***FHA Mutual Mortgage Insurance (MMI) Fund***

FHA guarantees for forward and reverse mortgages are administered under the Mutual Mortgage Insurance (MMI) Fund. At the end of 2017, the MMI Fund had \$1,227 billion in total mortgages outstanding and a capital ratio of 2.09%, remaining above the 2% statutory minimum for the third straight year but declining from the 2016 level of 2.35%. The HECM portfolio continues to have a negative impact on the MMI Fund, offsetting the positive capital position of the forward mortgage portfolio. While the 2017 capital ratio for forward mortgages was 3.33%, the HECM portfolio had a capital ratio of –19.84%. For more information on the financial status of the MMI Fund, please see the [\*Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2017\*](#).

### ***FHA Multifamily and Healthcare Guarantees***

In addition to the single-family mortgage insurance provided through the MMI Fund, FHA’s General Insurance and Special Risk Insurance (GISRI) loan programs continue to facilitate the construction, rehabilitation, and refinancing of multifamily housing, hospitals and other health care facilities. The credit enhancement provided by FHA enables borrowers to obtain long-term, fixed-rate financing, which mitigates interest rate risk and facilitates lower monthly mortgage payments. This can improve the financial sustainability of multifamily housing and healthcare facilities and may also translate into more affordable rents/lower healthcare costs for consumers.

GISRI’s new origination loan volume for all programs in 2017 was \$21 billion and the Budget projects \$21 billion for 2019. Total mortgages outstanding in the FHA GISRI Fund were \$158 billion at the end of 2017.

### ***VA Housing Program***

The Department of Veterans Affairs (VA) assists veterans, members of the Selected Reserve, and active duty personnel in purchasing homes in recognition of their service to the Nation. The housing program effectively substitutes the Federal guarantee for the borrower’s down payment, making the lending terms more favorable than loans without a VA guarantee. VA does not guarantee the entire mortgage loan to veterans, but provides a 100 percent guarantee on the first 25 percent of losses upon default. The number of loans that VA guaranteed reached a new record level in 2017, as mortgage rates remained low and the improving economy provided opportunities for returning veterans to purchase homes. The continued historically low interest rate environment of 2017 allowed 190,914 Veteran borrowers to lower interest rates on their home mortgages through refinancing. VA provided approximately \$47 billion in guarantees to assist 740,389

borrowers in 2017. This followed \$45 billion and 705,474 borrowers in 2016.

Approximately 4 percent of active VA-guaranteed loans were delinquent at any time during 2017. VA, in cooperation with VA-guaranteed loan servicers, also assists borrowers through home retention options and alternatives to foreclosure. VA intervenes when needed to help veterans and service members avoid foreclosure through loan modifications, special forbearances, repayment plans, and acquired loans, as well as assistance to complete compromise sales or deeds-in-lieu of foreclosure. These joint efforts helped resolve over 85 percent of defaulted VA-guaranteed loans and assisted over 97,000 Veterans retain homeownership and/or avoid foreclosure in 2017. These actions resulted in \$2.7B in avoided guaranteed claim payments.

### ***Rural Housing Service***

The Rural Housing Service (RHS) at the U.S. Department of Agriculture (USDA) offers direct and guaranteed loans to help very-low- to moderate-income rural residents buy and maintain adequate, affordable housing. RHS housing loans and loan guarantees differ from other Federal housing loan programs in that they are means-tested, making them more accessible to low-income, rural residents. The single family housing guaranteed loan program is designed to provide home loan guarantees for moderate-income rural residents whose incomes are between 80 percent and 115 percent (maximum for the program) of area median income.

Historically, RHS has offered both direct and guaranteed homeownership loans. In recent years, the portfolio has shifted to more efficient loan guarantees, an indication the direct loan program has achieved its goal of graduating borrowers to commercial credit and lowering costs to the taxpayer. The single family housing guaranteed loan program was authorized in 1990 at \$100 million and has grown into a \$24 billion loan program annually. The shift to guaranteed lending is in part attributable to the mortgage banking industry offering historically low mortgage rates, resulting in instances where the average 30-year fixed commercial mortgage rate has been at or below the average borrower rate for the RHS single family direct loan. Furthermore, financial markets have become more efficient and have increased the reach of mortgage credit to lower credit qualities and incomes. The number of rural areas isolated from broad credit availability has shrunk as access to high speed broadband has increased and correspondent lending has grown.

### ***Education Credit Programs***

The Department of Education (ED) direct student loan program is one of the largest Federal credit programs with \$999 billion in Direct Loan principal outstanding at the end of 2017. The Federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Because funding for the loan programs is provided through mandatory budget authority, student loans are considered separately for

budget purposes from other Federal student financial assistance programs (which are largely discretionary), but should be viewed as part of the overall Federal effort to expand access to higher education.

Loans for higher education were first authorized under the William D. Ford program—which was included in the Higher Education Act of 1965. The direct loan program was authorized by the Student Loan Reform Act of 1993 (Public Law 103–66). The enactment of the Student Aid and Fiscal Responsibility Act (SAFRA) of 2010 (Public Law 111–152) ended the guaranteed loan program (FFEL). On July 1, 2010, ED became the sole originator of Federal student loans through the Direct Loan program.

Under the current direct loan program, the Federal Government provides loan capital directly to over 6,000 institutions, which then disburse loan funds to students. Loans are available to students and parents of students regardless of income. There are three types of Direct Loans: Federal Direct Subsidized Stafford Loans, Federal Direct Unsubsidized Stafford Loans, and Federal Direct PLUS Loans, each with different terms. The Federal Government does not charge interest while the borrowers are in school and during certain deferment periods for Direct Subsidized Stafford loans—which are available only to undergraduate borrowers from low and moderate income families.

The Direct Loan program offers a variety of repayment plans including income-driven ones for all student borrowers, regardless of the type of loan. Depending on the plan, monthly payments are capped at no more than between 10 and 15 percent of borrower discretionary income and balances remaining after 20 to 25 years are forgiven. In addition, under current law, borrowers who work in public service professions while making 10 years of qualifying payments are eligible for Public Service Loan Forgiveness (PSLF).

The 2019 President's Budget includes several policy proposals for this program. For a detailed description of these proposals, please see the Federal Direct Student Loan Program Account section of the Budget Appendix.

### **Small Business and Farm Credit Programs**

The Government offers direct loans and loan guarantees to small businesses and farmers, who may have difficulty obtaining credit elsewhere. It also provides guarantees of debt issued by certain investment funds that invest in small businesses. Two GSEs, the Farm Credit System and the Federal Agricultural Mortgage Corporation, increase liquidity in the agricultural lending market.

### **Small Business Administration**

Congress created the U.S. Small Business Administration (SBA) in 1953 as an independent agency of the Federal Government to aid, counsel, assist and protect the interests of small business concerns; preserve free competitive enterprise; and maintain and strengthen the overall economy of the Nation. The SBA began making direct business loans and guaranteeing bank loans

to small business owners, and providing inexpensive and immediate disaster relief to those hard-hit by natural disasters. By 1958, The Investment Company Act had established the Small Business Investment Company (SBIC) Program, under which the SBA continues to license, regulate, and guarantee funds for privately-owned and operated venture capital investment firms. To this day, the SBA continues to complement credit markets by guaranteeing access to affordable credit provided by private lenders for those that cannot attain it elsewhere.

The SBA has grown significantly since its creation, both in terms of its total assistance provided and its array of programs offered to micro-entrepreneurs and small business owners. With its headquarters located in Washington, DC, it leverages its field personnel and diverse network of private sector and nonprofit partners across each U.S. State and territory to ensure that America's small businesses have the tools and resources needed to start and develop their operations, drive U.S. competitiveness, help grow the economy, and promote economic security.

In 2017, the SBA provided \$25.4 billion in loan guarantees to assist small business owners with access to affordable capital through its largest program, the 7(a) General Business Loan Guarantee program. This program provides access to financing for general business operations, such as operating and capital expenses. Through the 504 Certified Development Company (CDC) and Refinance Programs, the SBA also supported \$5.0 billion in guaranteed loans for fixed-asset financing and the opportunity for small businesses to refinance existing 504 CDC loans. These programs enable small businesses to secure financing for assets such as machinery and equipment, construction, and commercial real estate, and to take advantage of current low interest rates and free up resources for expansion.

The SBA also creates opportunities for very small and emerging businesses to grow. Through the 7(m) Direct Microloan program, which supports non-profit intermediaries that provide loans of up to \$50,000 to rising entrepreneurs, the SBA provided \$68 million in direct lending to the smallest of small businesses and startups. By supporting innovative financial instruments such as the SBA's SBIC program that partners with private investors to finance small businesses through professionally managed investment funds, the SBA leveraged \$2.0 billion in long-term, guaranteed loans to support \$5.7 billion in venture capital investments in small businesses in 2017.

SBA continues to be a valuable source for American communities who need access to low-interest loans to recovery quickly in the wake of disaster. In 2017 alone, the SBA delivered \$1.6 billion in disaster relief lending to businesses, homeowners, renters, and property owners.

The 2019 President's Budget includes several policy proposals for this program. For a detailed description of these proposals, please see the SBA Business Loans Program Account section of the Budget Appendix.



## Community Development Financial Institutions

Since its creation in 1994, the Department of the Treasury's Community Development Financial Institutions (CDFI) Fund has—through different grant, loan, and tax credit programs—worked to expand the availability of credit, investment capital, and financial services for underserved people and communities by supporting the growth and capacity of a national network of CDFIs, investors, and financial service providers. Today, there are over 1,100 Certified CDFIs nationwide, including a variety of loan funds, community development banks, credit unions, and venture capital funds.

Unlike other CDFI Fund programs, the CDFI Bond Guarantee Program (BGP)—enacted through the Small Business Jobs Act of 2010—does not offer grants, but is instead a Federal credit program designed to function at no cost to taxpayers. The BGP was designed to provide CDFIs greater access to low-cost, long-term, fixed-rate capital, and incentivize and empower them to finance large community and economic development projects in low-income or underserved urban, rural, and Native areas.

Under the BGP, the Secretary of the Treasury provides a 100-percent guarantee on long-term bonds of at least \$100 million issued to qualified CDFIs, with a maximum maturity of 30 years. To date, Treasury has issued \$1.4 billion in bond guarantee commitments to 26 CDFIs, over \$505 million of which has been disbursed to help finance affordable housing, charter schools, commercial real estate, and community healthcare facilities in 16 States and the District of Columbia.

## Farm Service Agency

Farm operating loans were first offered in 1937 (by the newly created Farm Security Administration) to assist family farmers who were unable to obtain credit from a commercial source to buy equipment, livestock, or seed. Farm ownership loans were authorized in 1961 to provide family farmers with financial assistance to purchase farmland. Presently, the Farm Service Agency (FSA) assists low-income family farmers in starting and maintaining viable farming operations. Emphasis is placed on aiding beginning and socially disadvantaged farmers. Legislation mandates that a portion of appropriated funds are set aside for exclusive use by underserved groups (beginning, minority, and women farmers).

FSA offers operating loans and ownership loans, both of which may be either direct or guaranteed loans. Operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment, while farm ownership loans assist producers in acquiring and developing their farming or ranching operations. As a condition of eligibility for direct loans, borrowers must be unable to obtain private credit at reasonable rates and terms. As FSA is the “lender of last resort,” default rates on FSA direct loans are generally higher than those on private-sector loans. FSA-guaranteed farm loans are made to more creditworthy borrowers who have access to private credit

markets. The subsidy rates for the direct programs fluctuate largely because of changes in the interest component of the subsidy rate.

In 2017, FSA provided loans and loan guarantees to more than 38,000 family farmers totaling \$6.0 billion. Direct and guaranteed loan programs provided assistance totaling \$2.6 billion to beginning farmers during 2017. Loans for socially disadvantaged farmers totaled \$832 million, of which \$437 million was in the farm ownership program and \$395 million in the farm operating program. The majority of assistance provided in the operating loan program during 2017 was to beginning farmers as well.

Following a downturn in the agricultural economy, in recent years FSA assistance has been at historically high levels. Though overall loan totals were slightly lower in 2017 compared to 2016, the amount of direct and guaranteed operating and farm ownership loan assistance provided in 2017 was the second highest total in agency history. Demand for FSA loans—both direct and guaranteed—continues to be high. More conservative credit standards in the private sector continue to drive applicants from commercial credit to FSA direct programs. Low grain prices and uncertainty over interest rates continue to cause lenders to force their marginal borrowers to FSA for credit.

Lending to beginning farmers was strong during 2017. FSA provided direct or guaranteed loans to more than 21,000 beginning farmers. The number of beginning farmer loans decreased slightly by one percent. Sixty-two percent of direct operating loans were made to beginning farmers. Overall, as a percentage of funds available, lending to beginning farmers was only 1 percentage point below record-breaking 2016 levels. Lending to minority and women farmers was a significant portion of overall assistance provided, with \$832 million in loans and loan guarantees provided to more than 8,700 farmers. Though loan assistance provided to beginning and socially disadvantaged farmers decreased slightly in 2017 compared to 2016, the trend in lending to underserved groups has remained relatively stable as a percentage of total loans made. Continued outreach efforts by FSA field offices to reach out to beginning and minority farmers and promote FSA funding have resulted in increased lending to these groups.

FSA continues to evaluate the farm loan programs in order to improve their effectiveness. FSA recently released a new microloan program to increase lending to small niche producers and minorities. This program has been expanded to include guaranteed as well as direct loans. This program dramatically simplifies application procedures for small loans, and implements more flexible eligibility and experience requirements. The demand for the micro-loan program continues to grow while delinquencies and defaults remain at or below those of the regular FSA operating loan program. FSA has also developed a nationwide continuing education program for its loan officers to ensure that they remain experts in agricultural lending, and it has transitioned information technology applications for direct loan servicing into a single, web-based application that expands on existing

capabilities including special servicing options. Its implementation allows FSA to better service its delinquent and financially distressed borrowers.

FSA farm loan (direct and guaranteed) programs have had a considerable impact on rural communities – not just with farm families who have received needed credit for their farming business but also main street businesses. FSA assistance is enabling farm families with the credit needed to sustain and grow their farming organization and become contributing members of rural communities.

### **Energy and Infrastructure Credit Programs**

The Department of Energy (DOE) administers two credit programs: Title XVII (a loan guarantee program to support innovative energy technologies) and the Advanced Technology Vehicle Manufacturing loan program (a direct loan program to support advanced automotive technologies). Title XVII of the Energy Policy Act of 2005 (Public Law 109–58) authorizes DOE to issue loan guarantees for projects that employ innovative technologies to reduce air pollutants or man-made greenhouse gases. Congress provided DOE \$4 billion in loan volume authority in 2007, and the 2009 Consolidated Appropriations Act provided an additional \$47 billion in loan volume authority, allocated as follows: \$18.5 billion for nuclear power facilities, \$2 billion for “front-end” nuclear enrichment activities, \$8 billion for advanced fossil energy technologies, and \$18.5 billion for energy efficiency, renewable energy, and transmission and distribution projects. The 2011 appropriations reduced the available loan volume authority for energy efficiency, renewable energy, and transmission and distribution projects by \$17 billion and provided \$170 million in credit subsidy to support renewable energy or energy efficient end-use energy technologies. From 2014 to 2015, DOE issued three loan guarantees totaling over \$8 billion to support the construction of two new commercial nuclear power reactors. DOE has not issued any Title XVII loan guarantees since 2015.

The American Reinvestment and Recovery Act of 2009 (Public Law 111–5) amended the program’s authorizing statute and provided \$2.5 billion in credit subsidy to support loan guarantees on a temporary basis for commercial or advanced renewable energy systems, electric power transmission systems, and leading edge biofuel projects. Authority for the temporary program to extend new loans expired September 30, 2011. Prior to expiration, DOE issued loan guarantees to 28 projects totaling over \$16 billion in loan volume. Four projects withdrew prior to any disbursement of funds.

Section 136 of the Energy Independence and Security Act of 2007 (Public Law 110–140) authorizes DOE to issue loans to support the development of advanced technology vehicles and qualifying components. In 2009, Congress appropriated \$7.5 billion in credit subsidy to support a maximum of \$25 billion in loans under ATVM. From 2009 to 2011, DOE issued 5 loans totaling over \$8 billion to support the manufacturing of advanced technology vehicles. DOE has not issued any ATVM loans since 2011.

### **Electric and Telecommunications Loans**

Rural Utilities Service (RUS) programs of the USDA provide grants and loans to support the distribution of rural electrification, telecommunications, distance learning, and broadband infrastructure systems.

In 2017, RUS delivered \$4.2 billion in direct electrification loans, \$428 million in direct telecommunications loans and \$24 million in direct broadband loans.

### **USDA Rural Infrastructure and Business Development Programs**

USDA, through a variety of Rural Development (RD) programs, provides grants, direct loans, and loan guarantees to communities for constructing facilities such as healthcare clinics, police stations, and water systems, as well as to assist rural businesses and cooperatives in creating new community infrastructure (e.g., educational and healthcare networks) and to diversify the rural economy and employment opportunities.

In 2017, RD provided \$2.6 billion in Community Facility (CF) direct loans, which are for communities of 20,000 or less. The CF programs have the flexibility to finance more than 100 separate types of essential community infrastructure that ultimately improve access to healthcare, education, public safety and other critical facilities and services. In 2017 RD also provided \$1.3 billion in water and wastewater direct loans.

### **Water Infrastructure**

The Environmental Protection Agency’s (EPA) new Water Infrastructure Finance and Innovation Act (WIFIA) program accelerates investment in the Nation’s water infrastructure by providing long-term, low-cost supplemental loans for projects of regional or national significance. During 2017, EPA solicited the first loans, selecting twelve entities with projects in nine States to apply for more than \$2 billion in WIFIA loans. Those first twelve projects will leverage more than \$1 billion in private capital, in addition other funding sources, to help finance a total of over \$5 billion in water infrastructure investments. The selected projects demonstrate the broad range of project types that the WIFIA program can finance, including wastewater, drinking water, stormwater, and water recycling projects.

### **Transportation Infrastructure**

Federal credit programs offered through the Department of Transportation (DOT) fund critical transportation infrastructure projects, often using innovative financing methods. The two predominant programs are the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation and Improvement Financing (RRIF) loan programs, both managed in DOT’s Build America Bureau. The Bureau combines the TIFIA and RRIF loan programs, Private Activity Bonds (PABs), and the Nationally Significant Freight and Highway Projects (INFRA) grant program all under one roof. The Bureau serves as the single point of

contact and coordination for States, municipalities, and project sponsors looking to utilize Federal transportation expertise, apply for Federal transportation credit and grant programs, and explore ways to access private capital in public-private partnerships.

Established by the Transportation Equity Act of the 21st century (TEA-21) (Public Law 105-178) in 1998, the TIFIA program is designed to fill market gaps and leverage substantial private co-investment by providing supplemental and subordinate capital to projects of national or regional significance. Through TIFIA, DOT provides three types of Federal credit assistance to highway, transit, rail, and intermodal projects: direct loans, loan guarantees, and lines of credit.

TIFIA can help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues at a relatively low budgetary cost. Each dollar of subsidy provided for TIFIA can provide approximately \$14 in credit assistance, and leverage additional non-Federal transportation infrastructure investment. The Fixing America's Surface Transportation (FAST) Act of 2015 (Public Law 114-94) authorizes TIFIA at \$300 million in 2019.

DOT has also provided direct loans and loan guarantees to railroads since 1976 for facilities maintenance, rehabilitation, acquisitions, and refinancing. Federal assistance was created to provide financial assistance to the financially-challenged portions of the rail industry. However, following railroad deregulation in 1980, the industry's financial condition began to improve, larger railroads were able to access private credit markets, and interest in Federal credit support began to decrease.

Also established by TEA-21 in 1998, the RRIF program may provide loans or loan guarantees with an interest rate equal to the Treasury rate for similar-term securities. TEA-21 also stipulates that non-Federal sources pay the subsidy cost of the loan, thereby allowing the program to operate without Federal subsidy appropriations. The RRIF program assists projects that improve rail safety, enhance the environment, promote economic development, or enhance the capacity of the national rail network. While refinancing existing debt is an eligible use of RRIF proceeds, capital investment projects that would not occur without a RRIF loan are prioritized. Since its inception, over \$5.1 billion in direct loans have been made under the RRIF program.

The FAST Act included programmatic changes to enhance the RRIF program to mirror the qualities of TIFIA, including broader eligibility, a loan term that can be as long as 35 years from project completion, and a fully subordinated loan under certain conditions. Additionally, in 2016 Congress appropriated \$1.96 million to assist Class II and Class III Railroads in preparing and applying for direct loans and loan guarantees.

### **International Credit Programs**

Currently, seven Federal agencies—USDA, the Department of Defense, the Department of State,

the Department of the Treasury, the Agency for International Development (USAID), the Export-Import Bank (ExIm), and the Overseas Private Investment Corporation (OPIC)—provide direct loans, loan guarantees, and insurance to a variety of private and sovereign borrowers. These programs are intended to level the playing field for U.S. exporters, deliver robust support for U.S. goods and services, stabilize international financial markets, enhance security, and promote sustainable development.

Federal export credit programs counter official financing that foreign governments around the world, largely in Europe and Japan, but also increasingly in emerging markets such as China and Brazil, provide their exporters, usually through export credit agencies (ECAs). The U.S. Government has worked since the 1970's to constrain official credit support through a multilateral agreement in the Organization for Economic Cooperation and Development (OECD). This agreement has established standards for Government-backed financing of exports. In addition to ongoing work in keeping these OECD standards up-to-date, the U.S. Government established the International Working Group (IWG) on Export Credits to set up a new framework that will include China and other non-OECD countries, which until now have not been subject to export credit standards. The process of establishing these new standards, which is not yet complete, advances a Congressional mandate to reduce subsidized export financing programs.

### **Export Support Programs**

When the private sector is unable or unwilling to provide financing, the Export-Import Bank, the U.S. ECA, fills the gap for American businesses by equipping them with the financing support necessary to level the playing field against foreign competitors. ExIm support includes direct loans and loan guarantees for creditworthy foreign buyers to help secure export sales from U.S. exporters, as well as working capital guarantees and export credit insurance to help U.S. exporters secure financing for overseas sales. USDA's Export Credit Guarantee Programs (also known as GSM programs) similarly help to level the playing field. Like programs of other agricultural exporting nations, GSM programs guarantee payment from countries and entities that want to import U.S. agricultural products but cannot easily obtain credit.

### **Exchange Stabilization Fund**

Consistent with U.S. obligations in the International Monetary Fund regarding global financial stability, the Exchange Stabilization Fund managed by the Department of the Treasury may provide loans or credits to a foreign entity or government of a foreign country. A loan or credit may not be made for more than six months in any 12-month period unless the President gives the Congress a written statement that unique or emergency circumstances require that the loan or credit be for more than six months.



## Sovereign Lending and Guarantees

The U.S. Government, through USAID, can extend short-to-medium-term loan guarantees that cover potential losses that might be incurred by lenders if a country defaults on its borrowings; for example, the U.S. may guarantee another country's sovereign bond issuance. The purpose of this tool is to provide the Nation's sovereign international partners access to necessary, urgent, and relatively affordable financing during temporary periods of strain when they cannot access such financing in international financial markets, and to support critical reforms that will enhance long term fiscal sustainability, often in concert with support from international financial institutions such as the International Monetary Fund. The long term goal of sovereign loan guarantees is to help lay the economic groundwork for the Nation's international partners to graduate to an unenhanced bond issuance in the international capital markets. For example, as part of the U.S. response to fiscal crises, the U.S. Government has extended sovereign loan guarantees to Tunisia, Jordan, Ukraine, and Iraq to enhance their access to capital markets, while promoting economic policy adjustment.

### Development Programs

Credit is an important tool in U.S. bilateral assistance to promote sustainable development. USAID's Development Credit Authority (DCA) allows USAID to use a variety of credit tools to support its development activities abroad. DCA provides non-sovereign loan guarantees in targeted cases where credit serves more effectively than traditional grant mechanisms to achieve sustainable development. DCA is intended to mobilize host country private capital to finance sustainable development in line with USAID's strategic objectives. Through the use of partial loan guarantees and risk sharing with the private sector, DCA stimulates private-sector lending for financially viable development projects, thereby leveraging host-country capital and strengthening sub-national capital markets in the developing world.

Established in 1971, OPIC provides businesses with the tools to manage the risks associated with foreign direct investment, fosters economic development in emerging market countries, and advances U.S. foreign policy and national security priorities. OPIC helps American businesses gain footholds in new markets, catalyzes new revenues and contributes to jobs and growth opportunities both at home and abroad. OPIC fulfills its mission by providing businesses with financing, political risk insurance, and advocacy, and by partnering with private equity investment fund managers.

The Budget includes policy proposals involving development credit programs. For a discussion of those proposals, please see the Department of State and Other International Programs chapter of the main Budget volume.

## The Government-Sponsored Enterprises (GSEs)

### Fannie Mae and Freddie Mac

The Federal National Mortgage Association, or Fannie Mae, created in 1938, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, created in 1970, were established to support the stability and liquidity of a secondary market for residential mortgage loans. Fannie Mae's and Freddie Mac's public missions were later broadened to promote affordable housing. The Federal Home Loan Bank (FHLB) System, created in 1932, is comprised of eleven individual banks with shared liabilities. Together they lend money to financial institutions—mainly banks and thrifts—that are involved in mortgage financing to varying degrees, and they also finance some mortgages using their own funds. The mission of the FHLB System is broadly defined as promoting housing finance, and the System also has specific requirements to support affordable housing.

Together these three GSEs currently are involved, in one form or another, with approximately half of residential mortgages outstanding in the U.S. today.

### *History of the Conservatorship of Fannie Mae and Freddie Mac and Budgetary Effects*

Growing stress and losses in the mortgage markets in 2007 and 2008 seriously eroded the capital of Fannie Mae and Freddie Mac. Legislation enacted in July 2008 strengthened regulation of the housing GSEs through the creation of the Federal Housing Finance Agency (FHFA), a new independent regulator of housing GSEs, and provided the Treasury Department with authorities to purchase securities from Fannie Mae and Freddie Mac.

On September 6, 2008, FHFA placed Fannie Mae and Freddie Mac under Federal conservatorship. In its Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, released in 2014, FHFA outlined three key goals for conservatorship: 1) maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets; 2) reduce taxpayer risk through increasing the role of private capital in the mortgage market; and 3) build a new single-family securitization infrastructure for use by Fannie Mae and Freddie Mac and adaptable for use by other participants in the secondary market in the future.

On September 7, 2008, the U.S. Treasury launched various programs to provide temporary financial support to Fannie Mae and Freddie Mac under the temporary authority to purchase securities. Treasury entered into agreements with Fannie Mae and Freddie Mac to make investments in senior preferred stock in each GSE in order to ensure that each company maintains a positive net worth. Based on the financial results reported by each company as of December 31, 2012, the cumulative funding commitment through these Preferred Stock Purchase Agreements (PSPAs) with Fannie Mae and Freddie Mac was set at \$445.5 billion. In total, as of December 31,

2017, \$187.5 billion has been invested in Fannie Mae and Freddie Mac, and this amount is projected to increase, based on publicly available information available through year-end 2017, by approximately \$5.1 billion in 2018 due to an accounting-related write-down of deferred tax assets resulting from the enactment of tax reform legislation.

The PSPAs also require that Fannie Mae and Freddie Mac pay quarterly dividends to Treasury, equal to the GSE's positive net worth above a capital reserve amount. The capital reserve amount for each company was initially set at \$3 billion for calendar year 2013, and set to decline by \$600 million each year until reaching zero on January 1, 2018. However, in December 2017, the PSPAs were amended to reinstate the \$3 billion reserve per GSE. Through December 31, 2017, the GSEs have paid a total of \$278.8 billion in dividend payments to Treasury on the senior preferred stock. The Budget estimates additional dividend receipts of \$184.7 billion from January 1, 2018, through 2028.

The Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law 112-78) required that Fannie Mae and Freddie Mac increase their credit guarantee fees on single-family mortgage acquisitions between 2012 and 2021 by an average of at least 0.10 percentage points. Revenues generated by this fee increase are remitted directly to the Treasury for deficit reduction and are not included in the PSPA amounts. The Budget proposes to increase this fee by 0.10 percentage points for single-family mortgage acquisitions from 2019 through 2021, and then extend the 0.20 percentage point fee for acquisitions through 2023. This proposal will increase compensation to the Federal Government for its ongoing and unprecedented support of the GSEs, while at the same time helping to level the playing field for private lenders seeking to compete with Fannie Mae and Freddie Mac. With this proposal, combined with the existing authority under the Temporary Pay-roll Tax Cut Continuation Act, the Budget estimates resulting deficit reductions of \$78.6 billion from 2012 through 2028.

In addition, in 2014 FHFA directed Fannie Mae and Freddie Mac to set aside 0.042 percentage points for each dollar of the unpaid principal balance of new business purchases (including but not limited to mortgages purchased for securitization) in each year to fund several Federal affordable housing programs created by Housing and Economic Recovery act of 2008, including the Housing Trust Fund and the Capital Magnet Fund. These set-asides were suspended by FHFA in November 2008 and reinstated effective January 1, 2015. Based on FHFA's stated policy the Budget assumes that no funds will be remitted to the programs in 2018 as a result of the anticipated draw on Treasury's funding commitments. Thereafter, the 2019 Budget again proposes to eliminate the 0.042 percentage point set-aside and discontinue funding for these funds, resulting in an increase to the estimated PSPA dividends.

### ***Future of Fannie Mae and Freddie Mac***

The Administration has publicly expressed its desire to work with members of Congress to facilitate a more

sustainable housing finance system. Any reform of the housing system likely will impact the cash flows attributable to the Fannie Mae and Freddie Mac in the 2019 Budget projections in ways that cannot be estimated at this time.

### **The Farm Credit System (Banks and Associations)**

The Farm Credit System (FCS or System) is a Government-sponsored enterprise composed of a nationwide network of borrower-owned cooperative lending institutions originally authorized by Congress in 1916. The FCS's mission is providing sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. In addition, the System serves rural America by providing financing for rural residential real estate, rural communication, energy and water infrastructure, and agricultural exports. In addition, maintaining special policies and programs for the extension of credit to young, beginning, and small farmers and ranchers is a legislative mandate for the System.

The financial condition of the System's banks and associations remains fundamentally sound. The ratio of capital to assets has remained stable at 17.3 percent on September 30, 2017, compared with 16.7 percent on September 30, 2016. Capital consisted of \$50.8 billion in unrestricted capital and \$4.7 billion in restricted capital in the Farm Credit Insurance Fund, which is held by the Farm Credit System Insurance Corporation (FCSIC). For the first nine months of calendar year 2017, net income equaled \$3.7 billion compared with \$3.6 billion for the same period of the previous year.

Over the 12-month period ending September 30, 2017, nonperforming loans as a percentage of total loans outstanding increased from 0.82 percent to 0.81 percent. System assets grew 2.3 percent during the year ending September 30, 2017, primarily due to increases in real estate mortgage loans and agribusiness loans. Real estate mortgage loans increased due to continued demand from new and existing customers.

Over the 12-month period ending September 30, 2017, the System's loans outstanding grew by \$9.0 billion, or 3.7 percent, while over the past three years they grew by \$43.1 billion, or 20.7 percent. As required by law, borrowers are also stockholder-owners of System banks and associations. As of September 30, 2017, System institutions had 525,309 of these stockholders-owners.

The number of FCS institutions continues to decrease because of consolidation. As of September 30, 2017, the System consisted of four banks and 70 associations, compared with seven banks and 104 associations in September 2002. Of the 73 FCS banks and associations rated (one association was not rated because it merged into another association on Oct 1, 2017), 69 of them had one of the top two examination ratings (1 or 2 on a 1 to 5 scale) and accounted for 98.5 percent of gross Systems assets. Four FCS institutions had a rating of 3.

In 2016, the pace of new lending to young, beginning, and small farmers remained relatively flat. In terms of dollar volume, the pace of young, beginning, and small



farmers (YBS) lending slightly exceeded the pace of overall farm lending by FCS institutions. In terms of loan numbers, the pace of YBS lending lagged slightly behind the pace of overall farm lending. The number of loans made in 2016 to young, beginning and small farmers decreased by 0.2 percent, 0.6 percent and 0.2 percent respectively from 2015, while overall the number of farm loans made by the System grew by 0.5 percent. Loans to young, beginning, and small farmers and ranchers represented 17.0 percent, 21.7 percent, and 41.1 percent, respectively, of the total new farm loans made in 2016.

From 2015 to 2016, the dollar volume of new loans made to small farmers rose 3.3 percent, while the dollar volume of new loans to young and beginning farmers declined by 1.9 percent and 0.3 percent, respectively. However, since the dollar volume of the FCS's overall farm lending declined by 5.4 percent in 2016, the proportion of the System's dollar volume going to every YBS category actually increased slightly. Loans to young, beginning, and small farmers and ranchers represented 11.7 percent, 16.0 percent, and 15.4 percent, respectively, of the total dollar volume of all new farm loans made in 2016. Young, beginning, and small farmers are not mutually exclusive groups and, thus, cannot be added across categories.

The System, while continuing to record strong earnings and capital growth, remains exposed to a variety of risks associated with its portfolio concentration in agriculture and rural America. In 2017, continued downward pressure on grain prices due to large supplies relative to demand following bumper crops in recent years has stressed less efficient producers and those renting a large share of their acreage. Low grain and oilseed prices have helped control feed costs for livestock, poultry, and dairy farmers, and they have benefited from relatively strong demand. Nevertheless, robust production in the livestock sector will likely lead to lower prices and profit margins in coming months. The general economy continues to expand and mortgage interest rates remain at historically low levels. This has benefited the housing sector, which should translate into improved credit conditions for the housing-related sectors such as timber and nurseries. Overall, the agricultural sector remains subject to risks such as a farmland price decline, which has been underway since 2015 in the Midwest, rising interest rates, continued volatility in commodity prices, weather-related catastrophes, and long-term environmental risks related to climate change.

The FCSIC, an independent Government-controlled corporation, ensures the timely payment of principal and interest on FCS obligations on which the System banks are jointly and severally liable. On September 30, 2017, the assets in the Insurance Fund totaled \$4.7 billion. As of September 30, 2017, the Insurance Fund as a percentage of adjusted insured debt was 2.11 percent. This was slightly above the statutory secure base amount of 2 percent. During the first nine months of calendar year 2017, outstanding insured System obligations remained essentially flat, compared with that of December 31, 2016.

### **Federal Agricultural Mortgage Corporation (Farmer Mac)**

Farmer Mac was established in 1988 as a Federally chartered instrumentality of the United States and an institution of the FCS to facilitate a secondary market for farm real estate and rural housing loans. Farmer Mac is not liable for any debt or obligation of the other System institutions, and no other System institutions are liable for any debt or obligation of Farmer Mac. The Farm Credit System Reform Act of 1996 expanded Farmer Mac's role from a guarantor of securities backed by loan pools to a direct purchaser of mortgages, enabling it to form pools to securitize. In May 2008, the Food, Conservation and Energy Act of 2008 (2008 Farm Bill) expanded Farmer Mac's program authorities by allowing it to purchase and guarantee securities backed by rural utility loans made by cooperatives.

Farmer Mac continues to meet core capital and regulatory risk-based capital requirements. As of September 30, 2017, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, standby loan purchase commitments, and AgVantage bonds purchased and guaranteed) amounted to \$18.6 billion, which represents an increase of 8.1 percent from the level a year ago. Of total program activity, \$14.8 billion were on-balance sheet loans and guaranteed securities, and \$3.8 billion were off-balance-sheet obligations. Total assets were \$17.7 billion, with non-program investments (including cash and cash equivalents) accounting for \$2.6 billion of those assets. Farmer Mac's net income attributable to common stockholders ("net income") for the first three quarters of calendar year 2017 was \$54.6 million. Net income increased compared to the same period in 2016 during which Farmer Mac reported net income of \$38.7 million.

## **II. INSURANCE PROGRAMS**

### **Deposit Insurance**

Federal deposit insurance promotes stability in the U.S. financial system. Prior to the establishment of Federal deposit insurance, depository institution failures often caused depositors to lose confidence in the banking system and rush to withdraw deposits. Such sudden withdrawals caused serious disruption to the economy. In 1933, in the midst of the Great Depression, a system of Federal de-

posit insurance was established to protect depositors and to prevent bank failures from causing widespread disruption in financial markets.

Today, the Federal Deposit Insurance Corporation (FDIC) insures deposits in banks and savings associations (thrifts) using the resources available in its Deposit Insurance Fund (DIF). The National Credit Union Administration (NCUA) insures deposits (shares) in most credit unions through the National Credit Union Share

Insurance Fund (SIF). (Some credit unions are privately insured.) As of September 30, 2017, the FDIC insured \$7.1 trillion of deposits at 5,746 commercial banks and thrifts, and the NCUA insured nearly \$1.1 trillion of shares at 5,642 credit unions.

### ***Recent Reforms***

Since its creation, the Federal deposit insurance system has undergone many reforms. As a result of the 2008 financial crisis, several reforms were enacted to protect both the immediate and longer-term integrity of the Federal deposit insurance system. The Helping Families Save Their Homes Act of 2009 (P.L. 111–22) provided NCUA with tools to protect the Share Insurance Fund and the financial stability of the credit union system. Notably, the Helping Families Save Their Homes Act:

- Established the Temporary Corporate Credit Union Stabilization Fund (TCCUSF), allowing NCUA to segregate the losses of corporate credit unions and providing a mechanism for assessing those losses to Federally-insured credit unions over an extended period of time;
- Provided flexibility to the NCUA Board by permitting use of a restoration plan to spread insurance premium assessments over a period of up to eight years, or longer in extraordinary circumstances, if the SIF equity ratio fell below 1.2 percent; and
- Permanently increased the Share Insurance Fund's borrowing authority to \$6 billion.

The Dodd-Frank Wall Street Reform and Consumer Protection (Dodd-Frank) Act of 2010 (Public Law 111–203) established new DIF reserve ratio requirements. The Act requires the FDIC to achieve a minimum DIF reserve ratio (ratio of the deposit insurance fund balance to total estimated insured deposits) of 1.35 percent by 2020, up from 1.15 percent in 2016. In addition to raising the minimum reserve ratio, the Dodd-Frank Act also:

- Eliminated the FDIC's requirement to rebate premiums when the DIF reserve ratio is between 1.35 and 1.5 percent;
- Gave the FDIC discretion to suspend or limit rebates when the DIF reserve ratio is 1.5 percent or higher, effectively removing the 1.5 percent cap on the DIF; and
- Required the FDIC to offset the effect on small insured depository institutions (defined as banks with assets less than \$10 billion) when setting assessments to raise the reserve ratio from 1.15 to 1.35 percent.

In implementing the Dodd-Frank Act, the FDIC issued a final rule setting a long-term (i.e., beyond 2028) reserve ratio target of 2 percent, a goal that FDIC considers necessary to maintain a positive fund balance during economic crises while permitting steady long-term assess-

ment rates that provide transparency and predictability to the banking sector.

The Dodd-Frank Act also permanently increased the insured deposit level to \$250,000 per account at banks or credit unions insured by the FDIC or NCUA.

### ***Recent Fund Performance***

As of September 30, 2017, the FDIC DIF balance stood at \$90.5 billion, a one-year increase of \$9.8 billion. The growth in the DIF balance is primarily a result of assessment revenue inflows. The reserve ratio on September 30, 2017, was 1.28 percent.

As of September 30, 2017, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) totaled 104, which represented a decrease of more than 88 percent from December 2010, the peak year for bank failures during the financial crisis. Furthermore, the assets held by problem institutions decreased by nearly 95 percent.

The NCUA SIF ended September 2017 with assets of \$13.7 billion and an equity ratio of 1.25 percent. On September 28, 2017, NCUA raised the normal operating level of the SIF equity ratio to 1.39 percent. If the ratio exceeds the normal operating level, a distribution is normally paid to insured credit unions to reduce the equity ratio. On October 1, 2017, NCUA transferred the funds, property, and assets of the TCCUSF to the SIF. This action also moved present and contingent liabilities, any receivables from insolvent corporate credit unions, and future income associated with guaranty fees from the NCUA Guaranteed Notes Program from the TCCUSF to the SIF. The transfer from the TCCUSF to the SIF raised liquid assets in the SIF by nearly \$1.9 billion. The Budget estimates that this transfer will result in the SIF equity ratio exceeding the normal operating level in 2018, resulting in a distribution of capital to credit unions.

The health of the credit union industry has markedly improved since the financial crisis. As of September 30, 2017, the SIF had set aside \$286 million in reserves to cover potential losses, an increase of 56 percent from the \$183 million set-aside as of September 30, 2016. The ratio of insured shares in problem institutions to total insured shares decreased slightly from 0.86 percent in September 2016 to 0.84 percent in September 2017. However, this is still a significant reduction from a high of 5.7 percent in December 2009.

### ***Restoring the Deposit Insurance Funds***

Pursuant to the Dodd-Frank Act, the restoration period for the FDIC's DIF reserve ratio to reach 1.35 percent was extended to 2020. (Prior to the Act, the DIF reserve ratio was required to reach the minimum target of 1.15 percent by the end of 2016.) On March 25, 2016, the FDIC published a final rule to implement this requirement no later than 2019. The Act also placed the responsibility for the cost of increasing the reserve ratio to 1.35 percent on large banks (generally, those with \$10 billion or more in assets). The final rule would lower overall regular assessment rates for all banks but also impose a 4.5 basis point surcharge on the assessment base (with certain adjust-

ments) of large banks. The reduction in regular rates and large bank surcharges would begin the quarter after the DIF reserve ratio reaches 1.15 percent. The reserve ratio surpassed 1.15 percent on June 30, 2016, with lower regular assessment rates and large bank surcharges commencing in the July-September quarter. Surcharges on large banks will continue until the reserve ratio reaches 1.35 percent. The Budget estimates reflect these assessment rates.

NCUA continues to seek compensation from the parties that created and sold troubled assets to the failed corporate credit unions. As of September 30, 2017, NCUA's gross recoveries from securities underwriters totaled more than \$5.1 billion, helping to minimize losses and future assessments on Federally-insured credit unions.

### ***Budget Outlook***

The Budget estimates DIF net outlays of -\$69.6 billion over the current 10-year budget window (2019–2028). This \$69.6 billion in net inflows to the DIF is \$7.8 billion lower than estimated over the previous 10-year window (2018–2027) for the 2018 President's Budget. The latest public data on the banking industry led to a reduction in projections of failed assets, reducing receivership proceeds, resolution outlays, and premiums necessary to reach the minimum Dodd-Frank Act DIF reserve ratio of 1.35 percent relative to MSR. The Budget estimates reflects a DIF reserve ratio of at least 1.35 percent in 2019. Although the FDIC has authority to borrow up to \$100 billion from Treasury to maintain sufficient DIF balances, the Budget does not anticipate FDIC utilizing its borrowing authority because the DIF is projected to maintain positive operating cash flows over the entire 10-year budget horizon.

## **Pension Guarantees**

The Pension Benefit Guaranty Corporation (PBGC) insures the pension benefits of workers and retirees in covered defined-benefit pension plans. PBGC operates two legally distinct insurance programs: single-employer plans and multiemployer plans.

### ***Single-Employer Program***

Under the single-employer program, PBGC pays benefits, up to a guaranteed level, when a company's plan closes without enough assets to pay future benefits. PBGC's claims exposure is the amount by which qualified benefits exceed assets in insured plans. In the near term, the risk of loss stems from financially distressed firms with underfunded plans. In the longer term, loss exposure results from the possibility that well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities, and that the healthy firms sponsoring those plans become distressed.

PBGC monitors companies with underfunded plans and acts to protect the interests of the pension insurance program's stakeholders where possible. Under its Early Warning Program, PBGC works with companies to strengthen plan funding or otherwise protect the insur-

ance program from avoidable losses. However, PBGC's authority to manage risks to the insurance program is limited. Most private insurers can diversify or reinsure their catastrophic risks as well as flexibly price these risks. Unlike private insurers, Federal law does not allow PBGC to deny insurance coverage to a defined-benefit plan or adjust premiums according to risk. Both types of PBGC premiums—the flat rate (a per person charge paid by all plans) and the variable rate (paid by some underfunded plans) are set in statute.

Claims against PBGC's insurance programs are highly variable. One large pension plan termination may result in a larger claim against PBGC than the termination of many smaller plans. The future financial health of the PBGC will continue to depend largely on the termination of a limited number of very large plans.

Single employer plans generally provide benefits to the employees of one employer. When an underfunded single employer plan terminates, usually through the bankruptcy process, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits. The amount of benefit paid is determined after taking into account (a) the benefit that a beneficiary had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, and (c) the legal maximum benefit level set in statute. In 2018, the maximum annual payment guaranteed under the single-employer program was \$65,045 for a retiree aged 65. This limit is indexed for inflation.

Since 2000, PBGC's single-employer program has incurred substantial losses from underfunded plan terminations. Nine of the ten largest plan termination losses were concentrated between 2001 and 2009. The other occurred in the early 1990s.

### ***Multiemployer Plans***

Multiemployer plans are collectively bargained pension plans maintained by one or more labor unions and more than one unrelated employer, usually within the same or related industries. PBGC's role in the multi-employer program is more like that of a re-insurer; if a company sponsoring a multiemployer plan fails, its liabilities are assumed by the other employers in the collective bargaining agreement, not by PBGC, although employers can withdraw from a plan for an exit fee. PBGC becomes responsible for insurance coverage when the plan runs out of money to pay benefits at the statutorily guaranteed level, which usually occurs after all contributing employers have withdrawn from the plan, leaving the plan without a source of income. PBGC provides insolvent multiemployer plans with financial assistance in the form of loans sufficient to pay guaranteed benefits and administrative expenses. Since multiemployer plans do not receive PBGC assistance until their assets are fully depleted, financial assistance is almost never repaid. Benefits under the multiemployer program are calculated based on the benefit that a participant would have received under the insolvent plan, subject to the legal multiemployer maximum set in statute. The maximum guaranteed amount depends on



the participant's years of service and the rate at which benefits are accrued. For example, for a participant with 30 years of service, PBGC guarantees 100 percent of the pension benefit up to a yearly amount of \$3,960. If the pension exceeds that amount, PBGC guarantees 75 percent of the rest of the pension benefit up to a total maximum guarantee of \$12,870 per year. This limit has been in place since 2011 and is not adjusted for inflation or cost-of-living increases.

In recent years, many multiemployer pension plans have become severely underfunded as a result of unfavorable investment outcomes, employers withdrawing from plans, and demographic challenges. In 2001, only 15 plans covering about 80,000 participants were under 40 percent funded using estimated market rates. By 2011, this had grown to almost 200 plans covering almost 1.5 million participants. While many plans have benefited from an improving economy and will recover, a small number of plans are severely underfunded and, absent any changes, projected to become insolvent within ten years.

As of November 15, 2017, the single-employer and multi-employer programs reported long-term actuarial deficits of \$10.9 billion and \$65.1 billion, respectively. While both programs have significant deficits, the challenges facing the multiemployer program are more immediate. In its 2017 Annual Report, PBGC reported that it had just \$2 billion in accumulated assets from premium payments made by multiemployer plans, which it projected would be depleted by 2025. If the program runs out of cash, the only funds available to support benefits would be the premiums that continue to be paid by remaining plans; this could result in benefits being cut much more deeply, to a small fraction of current guarantee levels.

To address the problems facing the multiemployer program and the millions of Americans who rely on those plans for their retirement security, the Congress passed The Multiemployer Pension Reform Act, which was included in the Consolidated and Further Continuing Appropriations Act signed on December 16, 2014. The law includes significant reforms to the multiemployer pension plan system, including provisions that allow trustees of multiemployer plans facing insolvency to apply to the Department of Treasury to reduce benefits by temporarily or permanently suspending benefits. The law does not allow suspensions for individuals over age 80 or for those receiving a disability retirement benefit. A participant or beneficiary's monthly benefit cannot be reduced below 110 percent of the PBGC guarantee. It also increases PBGC premiums from \$12 per person to \$26 beginning in 2015 and indexes premiums to inflation thereafter. While the legislation is an important first step, it will not be enough to improve PBGC's solvency for more than a very short period of time. PBGC projects that it is likely to become insolvent by 2025, extending its projected insolvency date by three years compared to the 2013 projection.

In addition, Congress enacted premium increases in the single-employer program as part of the Bipartisan Budget Act of 2015 (BBA). By increasing both the flat-rate and variable-rate premiums, the Act will raise an estimated \$4 billion over the 10-year budget window. This additional

revenue will improve the financial outlook for the single-employer program, which was already projected to see a large reduction in its deficit over the next 10 years.

### **Premiums**

Both programs are underfunded, with combined liabilities exceeding assets by \$76 billion at the end of 2017. While the single-employer program's financial position is projected to improve over the next 10 years, in part because Congress has raised premiums in that program several times in recent years, the multiemployer program is projected to run out of funds in 2025. Particularly in the multiemployer program, premium rates remain much lower than what a private financial institution would charge for insuring the same risk and well below what is needed to ensure PBGC's solvency.

The Budget includes a policy proposal to add additional PBGC premiums. For an in-depth discussion of that proposal, please see the Labor chapter of the Budget Appendix.

## **Disaster Insurance**

### **Flood Insurance**

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP), which is administered by the Federal Emergency Management Agency (FEMA) of the Department of Homeland Security (DHS). Flood insurance is available to homeowners and businesses in communities that have adopted and enforce appropriate floodplain management measures. Coverage is limited to buildings and their contents. At the end of 2017, the program had over five million policies worth \$1.25 trillion in force in 22,286 communities.

The NFIP was established in 1968 to make flood insurance coverage widely available, to combine a program of insurance with flood mitigation measures to reduce the nation's risk of loss from floods, and to reduce Federal disaster-assistance expenditures on flood losses. The NFIP requires participating communities to adopt certain building standards and take other mitigation efforts to reduce flood-related losses, and operates a flood hazard-mapping program to quantify geographic variation in the risk of flooding. These efforts have resulted in substantial reductions in the risk of flood-related losses nationwide. However, structures built prior to flood mapping and NFIP floodplain management requirements are eligible for reduced premiums. Currently, 20 percent of the total policies in force pay less than fully actuarial rates while continuing to be at relatively high risk of flooding.

To complement flood insurance, FEMA has a multi-pronged strategy for reducing future flood damage. The NFIP offers flood mitigation assistance grants to assist flood disaster survivors to rebuild to current building codes, including higher base flood elevations, thereby reducing the likelihood of future flood damage. In particular, flood mitigation assistance grants targeted toward repetitive and severe repetitive loss properties not only help

owners of high-risk property, but also reduce the disproportionate drain these properties cause on the National Flood Insurance Fund, through acquisition, relocation, or elevation of select structures. Further, through the Community Rating System, FEMA adjusts premium rates to encourage community and State mitigation activities beyond those required by the NFIP. These efforts, in addition to the minimum NFIP requirements for floodplain management, save over \$1.9 billion annually in avoided flood damage claims.

A major goal of the NFIP is to expand flood insurance coverage in the United States in order to reduce risk for more homeowners. The agency's strategy aims to increase the number of Americans insured against flood losses and improve retention of policies among existing customers. The strategy includes:

1. Providing financial incentives to private insurers that sell and service flood policies for the Federal Government to expand the flood insurance business.
2. Conducting a national campaign to inform the public about the NFIP and attract new policyholders.
3. Fostering lender compliance with flood insurance requirements through training, guidance materials, and regular communication with lending regulators and the lending community.
4. Conducting NFIP training for insurance agents via instructor-led seminars, online training modules, and other vehicles.
5. Seeking opportunities to simplify and clarify NFIP processes and products to make it easier for agents to sell and for consumers to buy flood insurance.

These strategies resulted in steady policy growth for many years, peaking in 2010 at 5.61 million policies. Subsequently, however, policy growth was hampered by the lingering effects of the Great Recession and by premium increases.

Due to the catastrophic nature of flooding, with hurricanes Harvey, Katrina and Sandy as notable examples, insured flood damages can far exceed premium revenue and deplete the program's reserves. On those occasions, the NFIP exercises its borrowing authority through the Treasury to meet flood insurance claim obligations. While the program needed appropriations in the early 1980s to repay the funds borrowed during the 1970's, it was able to repay all borrowed funds with interest using only premium dollars between 1986 and 2004. In 2005, however, Hurricanes Katrina, Rita, and Wilma generated more flood insurance claims than the cumulative number of claims paid from 1968 to 2004. Hurricane Sandy in 2012 generated \$8.5 billion in flood insurance claims. As a result, in 2013 Congress increased the borrowing authority for the fund to \$30.425 billion. After the estimated \$2.4 billion and \$670 million in flood insurance claims generated

by the Louisiana flooding of August 2016 and Hurricane Matthew in October 2016, respectively, the NFIP used its borrowing authority again, bringing the total outstanding debt to Treasury to \$24.6 billion.

In fall 2017, Hurricanes Harvey and Irma struck the southern coast of the United States, resulting in catastrophic flood damage across Texas, Louisiana, and Florida. Congress provided \$16 billion in debt forgiveness to the National Flood Insurance Program, bringing its total borrowing to \$20.525 billion. To pay Hurricane Harvey flood claims, NFIP also received \$1 billion in reinsurance payments as a result of transferring risk to the private reinsurance market at the beginning of 2017. FEMA plans to expand its reinsurance program and transfer additional risk to the private market in 2018 and beyond.

In July 2012, resulting largely from experiences during Hurricanes Katrina, Rita, and Wilma in 2005, the Biggert Waters Flood Insurance Reform Act of 2012 (Public Law 112–141; BW–12) was signed into law. In addition to reauthorizing the NFIP for five years, the bill required the NFIP generally to move to full risk-based premium rates and strengthened the NFIP financially and operationally. In 2013, the NFIP began phasing in risk-based premiums for certain properties, as required by the law. In 2014, when policy premiums were increased in compliance with the Biggert-Waters legislation, policy counts dropped 4.3 percent to 5.3 million.

In March 2014, largely in reaction to premium increases initiated by BW–12, the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) was signed into law, further reforming the NFIP and revising many sections of BW–12. Notably, HFIAA repealed many of the major premium increases introduced by BW–12 and required retroactive refunds of collected BW–12 premium increases, introduced a phase-in to higher full-risk premiums for structures newly mapped into the Special Flood Hazard Area, and created an Office of the Flood Insurance Advocate. In 2015, when a surcharge on all policyholders was introduced in compliance with HFIAA, policy counts dropped an additional 3.8 percent to 5.1 million. At the end of 2017, policies in force totaled 5.1 million.

### Crop Insurance

Subsidized Federal crop insurance, administered by USDA's Risk Management Agency (RMA) on behalf of the Federal Crop Insurance Corporation (FCIC), assists farmers in managing yield and revenue shortfalls due to bad weather or other natural disasters. The program is a cooperative partnership between the Federal Government and the private insurance industry. Private insurance companies sell and service crop insurance policies. The Federal Government, in turn, pays private companies an administrative and operating (A&O) expense subsidy to cover expenses associated with selling and servicing these policies. The Federal Government also provides reinsurance through the Standard Reinsurance Agreement (SRA) and pays companies an "underwriting gain" if they have a profitable year. For the 2019 Budget, the payments to the companies are projected to be \$2.5 billion in combined subsidies. The Federal Government also subsidizes

premiums for farmers as a way to encourage farmers to participate in the program.

The most basic type of crop insurance is catastrophic coverage (CAT), which compensates the farmer for losses in excess of 50 percent of the individual's average yield at 55 percent of the expected market price. The CAT premium is entirely subsidized, and farmers pay only an administrative fee. Higher levels of coverage, called "buy-up," are also available. A portion of the premium for buy-up coverage is paid by FCIC on behalf of producers and varies by coverage level – generally, the higher the coverage level, the lower the percent of premium subsidized. The remaining (unsubsidized) premium amount is owed by the producer and represents an out-of-pocket expense.

For 2017, the 10 principal crops (barley, corn, cotton, grain sorghum, peanuts, potatoes, rice, soybeans, tobacco, and wheat) accounted for over 77 percent of total liability, and approximately 86 percent of the total U.S. planted acres of those 10 crops were covered by crop insurance. Producers can purchase both yield and revenue-based insurance products which are underwritten on the basis of a producer's actual production history (APH). Revenue insurance programs protect against loss of revenue resulting from low prices, low yields, or a combination of both. Revenue insurance has enhanced traditional yield insurance by adding price as an insurable component.

In addition to price and revenue insurance, FCIC has made available other plans of insurance to provide protection for a variety of crops grown across the United States. For example, "area plans" of insurance offer protection based on a geographic area (most commonly, a county), and do not directly insure an individual farm. Often, the loss trigger is based on an index, such as a rainfall or vegetative index, which is established by a Government entity (for example, NOAA or USGS). One such plan is the pilot Rainfall and Vegetation Index plan, which insures against a decline in an index value covering Pasture, Rangeland, and Forage. These pilot programs meet the needs of livestock producers who purchase insurance for protection from losses of forage produced for grazing or harvested for hay. In 2017, there were 25,150 Rainfall and Vegetation Index policies earning premiums, covering over 75 million acres of pasture, rangeland and forage. In 2017, there was about \$1.9 billion in liability, with \$251 million in indemnities paid to livestock producers who purchased coverage.

A crop insurance policy also contains coverage compensating farmers when they are prevented from planting their crops due to weather and other perils. When an insured farmer is unable to plant the planned crop within the planting time period because of excessive drought or moisture, the farmer may file a prevented planting claim, which pays the farmer a portion of the full coverage level. It is optional for the farmer to plant a second crop on the acreage. If the farmer does, the prevented planting claim on the first crop is reduced and the farmer's APH is recorded for that year. If the farmer does not plant a second crop, the farmer gets the full prevented planting claim, and the farmer's APH is held harmless for premium cal-

ulation purposes the following year. In November 2017, RMA's actuarial documents were updated to remove the 10 percent buy-up coverage option on prevented planting coverage. This coverage represented the most expensive form of prevented planting coverage. Removing this coverage is expected to save the taxpayers \$414 million over 10 years.

RMA is continuously working to develop new products and to expand or improve existing products in order to cover more agricultural commodities. Under section 508(h) of the Federal Crop Insurance Act, RMA may advance payment of up to 50 percent of expected reasonable research and development costs for FCIC Board-approved Concept Proposals prior to the complete submission of the policy or plan of insurance. Numerous private products have been approved through the 508(h) authority, including Downed Rice Endorsement, Machine Harvested Cucumbers, ARPI Popcorn, Clary Sage, Hybrid Seed Rice, Specialty Trait Soybean, and Malting Barley.

For more information and additional crop insurance program details, please reference RMA's web site (<https://www.rma.usda.gov/>).

## Insurance against Security-Related Risks

### Terrorism Risk Insurance

The Terrorism Risk Insurance Program (TRIP) was authorized under P.L. 107–297 to help ensure the continued availability of property and casualty insurance following the terrorist attacks of September 11, 2001. TRIP's initial three-year authorization enabled the Federal Government to establish a system of shared public and private compensation for insured property and casualty losses arising from certified acts of foreign terrorism.

TRIP was originally intended to be temporary, but has been extended three times, and is currently set to expire on December 31, 2020. The most recent reauthorization, the Terrorism Risk Insurance Extension Act of 2015 (P.L. 114–1), made several program changes to reduce potential Federal liability. Over the first five extension years, the loss threshold that triggers Federal assistance is increased by \$20 million each year to \$200 million in 2020, and the Government's share of losses above the deductible decreases from 85 to 80 percent over the same period. The 2015 extension also requires Treasury to recoup 140 percent of all Federal payments made under the program up to a mandatory recoupment amount, which increases by \$2 billion each year until 2019 when the threshold is set at \$37.5 billion. Effective January 1, 2020, the mandatory recoupment amount will be indexed to a running three-year average of the aggregate insurer deductible of 20 percent of direct-earned premiums. Each successive reauthorization has included programmatic reforms to limit the Federal Government's risk exposure and the 2015 reauthorization will facilitate, over the longer term, full transition of support for terrorism risk insurance to the private sector.

The Budget baseline includes the estimated Federal cost of providing terrorism risk insurance, reflecting the

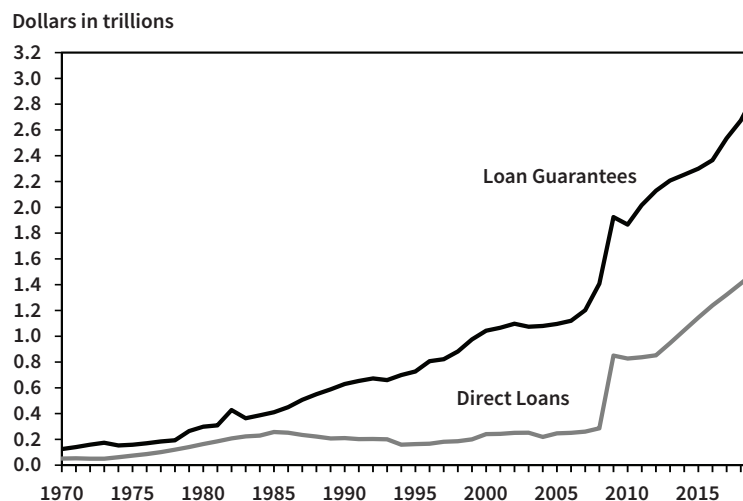


2015 extension. Using market data synthesized through a proprietary model, the Budget projects annual outlays and recoupment for TRIP. While the Budget does not forecast any specific triggering events, the Budget includes estimates representing the weighted average of TRIP payments over a full range of possible scenarios, most of which include no notional terrorist attacks (and therefore no TRIP payments), and some of which include notional terrorist attacks of varying magnitudes. On this basis, the Budget projects net spending of \$252 million over the 2019–2023 period and \$332 million over the 2019–2028 period.

### Aviation War Risk Insurance

In December 2014, Congress sunset the premium aviation war risk insurance program, thereby sending U.S. air carriers back to the commercial aviation insurance market for all of their war risk insurance coverage. The non-premium program is authorized through December 31, 2018. It provides aviation insurance coverage for aircraft used in connection with certain Government contract operations by a department or agency that agrees to indemnify the Secretary of Transportation for any losses covered by the insurance.

**Chart 19-1. Face Value of Federal Credit Outstanding**



**Table 19–1. ESTIMATED FUTURE COST OF OUTSTANDING DIRECT LOANS AND LOAN GUARANTEES <sup>1</sup>**  
(In billions of dollars)

Program	Outstanding 2016	Estimated Future Costs of 2016 Outstanding <sup>2</sup>	Outstanding 2017	Estimated Future Costs of 2017 Outstanding <sup>2</sup>
<b>Direct Loans:<sup>2</sup></b>				
Federal Student Loans .....	943	15	1,038	39
Education Temporary Student Loan Purchase Authority .....	70	-7	63	-3
Farm Service Agency, Rural Development, Rural Housing .....	55	4	57	4
Rural Utilities Service and Rural Telephone Bank .....	52	2	52	2
Housing and Urban Development .....	24	12	27	15
Export-Import Bank .....	24	1	22	1
Advanced Technology Vehicle Manufacturing, Title 17 Loans .....	16	2	14	1
Transportation Infrastructure Finance and Innovation Act Loans .....	13	1	13	*
Disaster Assistance .....	6	1	6	1
State Housing Finance Authority Direct Loans .....	7	1	5	1
International Assistance .....	3	1	6	1
Public Law 480 .....	3	1	2	1
Small Business Lending Fund (SBLF) <sup>3</sup> .....	*	-*	*	-*
Troubled Asset Relief Program (TARP) <sup>3</sup> .....	1	*	*	*
Other direct loan programs <sup>3</sup> .....	20	7	19	6
<b>Total direct loans .....</b>	<b>1,239</b>	<b>41</b>	<b>1,328</b>	<b>70</b>
<b>Guaranteed Loans:<sup>2</sup></b>				
FHA Mutual Mortgage Insurance Fund .....	1,153	-4	1,228	13
Department of Veterans Affairs (VA) Mortgages .....	525	10	604	11
Federal Student Loan Guarantees .....	197	1	176	4
FHA General and Special Risk Insurance Fund .....	149	3	156	8
Farm Service Agency, Rural Development, Rural Housing .....	140	2	145	1
Small Business Administration (SBA) Business Loan Guarantees <sup>4</sup> .....	113	2	121	3
Export-Import Bank .....	56	1	56	1
International Assistance .....	24	2	24	2
Title 17 Loan Guarantees .....	3	*	3	*
Commodity Credit Corporation Export Loan Guarantees .....	2	*	2	*
Other guaranteed loan programs <sup>3</sup> .....	14	2	15	3
<b>Total guaranteed loans<sup>4</sup> .....</b>	<b>2,375</b>	<b>20</b>	<b>2,529</b>	<b>44</b>
<b>Total Federal credit .....</b>	<b>3,614</b>	<b>61</b>	<b>3,857</b>	<b>114</b>

\* \$500 million or less.

<sup>1</sup> Future costs represent balance sheet estimates of allowance for subsidy cost, liabilities for loan guarantees, and estimated uncollectible principal and interest.

<sup>2</sup> Excludes loans and guarantees by deposit insurance agencies and programs not included under credit reform, such as Tennessee Valley Authority loan guarantees. Defaulted guaranteed loans that result in loans receivable are included in direct loan amounts.

<sup>3</sup> As authorized by the statute, table includes TARP and SBLF equity purchases. Future costs for TARP are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, as directed in legislation.

<sup>4</sup> To avoid double-counting, outstandings for GNMA and SBA secondary market guarantees, and TARP FHA Letter of Credit program are excluded from the totals.

**Table 19-2. DIRECT LOAN SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2017-2019**

(Dollar amounts in millions)

Agency and Program Account	2017 Actual			2018 Estimated			2019 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
<b>Agriculture:</b>									
Agricultural Credit Insurance Fund Program Account .....	1.75	42	2,353	0.22	8	3,248	1.13	36	3,152
Farm Storage Facility Loans Program Account .....	-1.30	-3	215	-1.30	-4	309	-0.53	-2	309
Rural Electrification and Telecommunications Loans Program Account ..	-4.24	-198	4,658	-3.89	-208	5,339	-4.09	-165	4,034
Distance Learning, Telemedicine, and Broadband Program .....	16.64	4	24	16.75	7	41	19.53	9	45
Rural Water and Waste Disposal Program Account .....	4.34	57	1,311	0.17	2	1,334	-0.27	-3	1,200
Rural Community Facilities Program Account .....	-2.56	-67	2,600	-8.10	-211	2,600	-7.61	-266	3,500
Multifamily Housing Revitalization Program Account .....	57.01	14	25	51.86	24	46	.....	.....	.....
Rural Housing Insurance Fund Program Account .....	8.36	90	1,091	5.37	61	1,115	-2.42	.....	2
Rural Microenterprise Investment Program Account .....	12.40	1	8	9.98	1	8	0.00	.....	1
Intermediary Relending Program Fund Account .....	28.99	6	19	23.09	6	24	.....	.....	.....
Rural Economic Development Loans Program Account .....	14.23	6	39	12.92	7	56	.....	.....	.....
<b>Commerce:</b>									
Fisheries Finance Program Account .....	-0.35	-*	72	-10.37	-13	124	-9.31	-12	124
<b>Education:</b>									
College Housing and Academic Facilities Loans Program Account .....	7.14	13	175	6.42	20	314	3.48	20	580
TEACH Grant Program Account .....	14.97	15	100	23.06	30	131	28.45	40	140
Federal Direct Student Loan Program Account .....	-0.75	-1,179	157,883	-2.20	-3,500	158,883	-5.24	-8,535	163,028
<b>Energy:</b>									
Title 17 Innovative Technology Loan Guarantee Program .....	.....	.....	.....	-2.89	-107	3,703	.....	.....	.....
<b>Homeland Security:</b>									
Disaster Assistance Direct Loan Program Account .....	91.03	12	14	95.73	4,754	4,966	90.71	75	83
<b>Housing and Urban Development:</b>									
FHA-Mutual Mortgage Insurance Program Account .....	.....	.....	.....	0.00	.....	5	0.00	.....	5
FHA-General and Special Risk Program Account .....	-11.19	-104	922	-8.18	-107	1,308	.....	.....	.....
<b>State:</b>									
Repatriation Loans Program Account .....	53.42	1	2	53.26	1	2	40.45	1	2
<b>Transportation:</b>									
Federal-aid Highways .....	5.28	202	3,851	<sup>2</sup> 6.64	249	3,751	<sup>2</sup> 6.3	249	3,945
Railroad Rehabilitation and Improvement Program .....	.....	.....	.....	0.00	.....	600	0.00	.....	600
<b>Treasury:</b>									
Community Development Financial Institutions Fund Program Account .	-2.41	-6	252	<sup>2</sup> 0.51	3	525	<sup>2</sup> 0.00	.....	500
<b>Veterans Affairs:</b>									
Veterans Housing Benefit Program Fund .....	1.92	*	6	-25.37	-70	276	-5.12	-16	333
Native American Veteran Housing Loan Program Account .....	-12.89	-1	7	-16.92	-2	13	-9.92	-1	14
<b>Environmental Protection Agency:</b>									
Water Infrastructure Finance and Innovation Program Account .....	.....	.....	.....	<sup>2</sup> 1.55	25	1,613	<sup>2</sup> 0.98	25	2,554
<b>International Assistance Programs:</b>									
Foreign Military Financing Loan Program Account .....	.....	.....	.....	13.55	150	1,105	<sup>2</sup> 6.60	75	1,135
Overseas Private Investment Corporation Program Account .....	-10.03	-53	535	<sup>2</sup> -10.88	-65	600	.....	.....	.....
Development Finance Institution, Program Account .....	.....	.....	.....	.....	.....	.....	<sup>2</sup> -12.83	-77	600
<b>Small Business Administration:</b>									
Disaster Loans Program Account .....	14.42	187	1,297	12.54	138	1,100	12.29	135	1,100
Business Loans Program Account .....	9.08	4	44	8.91	4	44	8.77	4	42
<b>Infrastructure Initiative:</b>									
Infrastructure Credit Programs Program Account .....	.....	.....	.....	.....	.....	.....	<sup>2</sup> 10.00	2,800	28,000
<b>Export-Import Bank of the United States:</b>									
Export-Import Bank Loans Program Account .....	0.00	.....	6	.....	.....	.....	.....	.....	.....
<b>Total .....</b>	<b>N/A</b>	<b>-957</b>	<b>177,509</b>	<b>N/A</b>	<b>1,203</b>	<b>193,183</b>	<b>N/A</b>	<b>-5,608</b>	<b>215,028</b>

N/A = Not applicable

\* \$500,000 or less

<sup>1</sup> Additional information on credit subsidy rates is contained in the Federal Credit Supplement.<sup>2</sup> Rate reflects notional estimate. Estimates will be determined at the time of execution and will reflect the terms of the contracts and other characteristics.



**Table 19–3. LOAN GUARANTEE SUBSIDY RATES, BUDGET AUTHORITY, AND LOAN LEVELS, 2017–2019**

(Dollar amounts in millions)

Agency and Program Account	2017 Actual			2018 Estimated			2019 Proposed		
	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels	Subsidy rate <sup>1</sup>	Subsidy budget authority	Loan levels
<b>Agriculture:</b>									
Agricultural Credit Insurance Fund Program Account .....	0.36	14	3,646	0.32	16	4,777	0.22	10	4,500
Commodity Credit Corporation Export Loans Program Account .....	–0.24	–4	1,582	–0.43	–23	5,500	–0.43	–24	5,500
Rural Water and Waste Disposal Program Account .....	0.48	*	5	0.00	.....	16	.....	.....	.....
Rural Community Facilities Program Account .....	2.24	3	150	3.27	4	137	.....	.....	.....
Rural Housing Insurance Fund Program Account .....	–0.79	–153	19,457	–0.72	–124	17,312	–0.72	–136	18,945
Rural Business Program Account .....	3.83	54	1,417	4.06	48	1,172	.....	.....	.....
Rural Energy for America Program .....	4.64	17	372	3.87	23	601	.....	.....	.....
Biorefinery Assistance Program Account .....	18.46	59	322	21.24	64	300	.....	.....	.....
<b>Health and Human Services:</b>									
Health Resources and Services .....	.....	.....	.....	2.69	*	3	2.71	.....	3
<b>Housing and Urban Development:</b>									
Indian Housing Loan Guarantee Fund Program Account .....	0.55	4	674	0.37	3	880	0.26	3	880
Native Hawaiian Housing Loan Guarantee Fund Program Account .....	–0.27	–*	15	–0.28	.....	23	–0.32	–*	23
Native American Housing Block Grant .....	11.20	1	10	11.50	2	17	11.26	2	17
Community Development Loan Guarantees Program Account .....	0.00	.....	39	0.00	.....	150	.....	.....	.....
FHA-Mutual Mortgage Insurance Program Account .....	–4.15	–11,150	268,664	–3.02	–7,641	252,800	<sup>2</sup> –3.04	–7,360	242,110
FHA-General and Special Risk Program Account .....	–3.40	–696	20,440	–3.62	–763	21,079	–3.08	–648	21,060
<b>Interior:</b>									
Indian Guaranteed Loan Program Account .....	6.32	7	106	6.50	7	106	5.34	6	106
<b>Transportation:</b>									
Maritime Guaranteed Loan (Title XI) Program Account .....	9.90	42	424	.....	.....	.....	.....	.....	.....
<b>Treasury:</b>									
Troubled Asset Relief Program, Housing Programs <sup>3</sup> .....	0.80	*	8	.....	.....	.....	.....	.....	.....
<b>Veterans Affairs:</b>									
Veterans Housing Benefit Program Fund .....	0.51	891	174,746	0.27	434	160,620	0.08	210	156,824
<b>International Assistance Programs:</b>									
Loan Guarantees to Israel Program Account .....	.....	.....	.....	0.00	.....	1,000	0.00	.....	1,000
MENA Loan Guarantee Program Account .....	25.53	255	1,000	.....	.....	.....	.....	.....	.....
Development Credit Authority Program Account .....	3.37	24	712	4.19	12	287	.....	.....	.....
Overseas Private Investment Corporation Program Account .....	–6.87	–139	2,033	<sup>2</sup> –8.95	–242	2,700	.....	.....	.....
Development Finance Institution, Program Account .....	.....	.....	.....	.....	.....	.....	<sup>2</sup> –7.09	–250	3,531
<b>Small Business Administration:</b>									
Business Loans Program Account .....	0.00	.....	30,958	0.00	.....	46,103	–0.35	–150	42,500
<b>Export-Import Bank of the United States:</b>									
Export-Import Bank Loans Program Account .....	–0.08	–2	3,425	–3.02	–604	20,024	–5.61	–929	16,574
<b>Total .....</b>	<b>N/A</b>	<b>–10,773</b>	<b>530,205</b>	<b>N/A</b>	<b>–8,784</b>	<b>535,607</b>	<b>N/A</b>	<b>–9,269</b>	<b>513,573</b>
<b>ADDENDUM: SECONDARY GUARANTEED LOAN COMMITMENT LIMITATIONS</b>									
<b>Government National Mortgage Association:</b>									
Guarantees of Mortgage-backed Securities Loan Guarantee Program Account .....	–0.37	–2,016	504,575	–0.40	–1,696	424,000	–0.44	–1,914	435,000
<b>Small Business Administration:</b>									
Secondary Market Guarantee Program .....	0.00	.....	9,301	0.00	.....	11,919	–0.04	–5	12,000
<b>Total, secondary guarantee loan commitments .....</b>	<b>N/A</b>	<b>–2,016</b>	<b>513,875</b>	<b>N/A</b>	<b>–1,696</b>	<b>435,919</b>	<b>N/A</b>	<b>–1,919</b>	<b>447,000</b>

N/A = Not applicable.

\* \$500,000 or less

<sup>1</sup> Additional information on credit subsidy rates is contained in the Federal Credit Supplement.<sup>2</sup> Rate reflects notional estimate. Estimates will be determined at the time of execution and will reflect the terms of the contracts and other characteristics.<sup>3</sup> Amounts reflect the Troubled Asset Relief Program, FHA Refinance Letter of Credit. Subsidy costs for the program are calculated using the discount rate under the Federal Credit Reform Act adjusted for market risks, consistent with the Emergency Economic Stabilization Act of 2008.

**Table 19–4. SUMMARY OF FEDERAL DIRECT LOANS AND LOAN GUARANTEES <sup>1</sup>**

(In billions of dollars)

	Actual								Estimate	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Direct Loans:</b>										
Obligations .....	246.0	296.3	191.1	174.4	174.0	181.3	175.6	180.0	193.2	215.0
Disbursements .....	218.9	186.7	170.0	157.5	155.4	161.4	158.5	164.4	174.3	175.6
Budget authority:										
New subsidy budget authority <sup>2</sup> .....	–9.2	–15.7	–27.2	–29.8	–22.4	4.9	–9.0	–1.0	1.3	–5.6
Reestimated subsidy budget authority <sup>2,3</sup> .....	–125.1	–66.8	16.8	–19.7	–0.8	10.1	8.0	32.5	–10.3	.....
<b>Total subsidy budget authority .....</b>	<b>–134.3</b>	<b>–82.5</b>	<b>–10.4</b>	<b>–49.4</b>	<b>–23.2</b>	<b>15.1</b>	<b>–1.1</b>	<b>31.5</b>	<b>–9.0</b>	<b>–5.6</b>
<b>Loan guarantees:</b>										
Commitments <sup>4</sup> .....	507.3	446.7	479.7	536.6	350.8	478.3	537.6	530.2	535.6	513.6
Lender disbursements <sup>4</sup> .....	494.8	384.1	444.3	491.3	335.6	461.6	517.6	520.6	485.4	510.6
Budget authority:										
New subsidy budget authority <sup>2</sup> .....	–4.9	–7.4	–6.9	–17.9	–13.7	–11.9	–7.5	–8.8	–7.1	–7.4
Reestimated subsidy budget authority <sup>2,3</sup> .....	7.6	–4.0	–4.9	20.8	1.2	–1.1	–13.6	16.8	9.4	.....
<b>Total subsidy budget authority .....</b>	<b>2.7</b>	<b>–11.4</b>	<b>–11.8</b>	<b>2.8</b>	<b>–12.5</b>	<b>–13.1</b>	<b>–21.1</b>	<b>8.0</b>	<b>2.3</b>	<b>–7.4</b>

<sup>1</sup> As authorized by statute, table includes TARP and SBLF equity purchases, and International Monetary Fund (IMF) transactions resulting from the 2009 Supplemental Appropriations Act.

<sup>2</sup> Credit subsidy costs for TARP and IMF transactions are calculated using the discount rate required by the Federal Credit Reform Act adjusted for market risks, as directed in legislation.

<sup>3</sup> Includes interest on reestimate.

<sup>4</sup> To avoid double-counting, the face value of GNMA and SBA secondary market guarantees and the TARP FHA Letter of Credit program are excluded from the totals.

