

Note 4. Loans Receivable and Loan Guarantee Liabilities, Net

Loans Receivable as of September 30, 2017, and 2016

	Face Value of Loans Outstanding		Long-term Cost of (income from) Loans Outstanding		Loans Receivable, Net		Subsidy Expense (Income) for the Fiscal Year	
	2017	2016	2017	2016	2017	2016	2017	2016
(In billions of dollars)								
Federal Direct Student Loans - Education	1,058.4	953.6	16.8	(5.3)	1,041.6	958.9	5.3	16.1
Federal Family Education Loans - Education	120.9	128.0	18.5	13.1	102.4	114.9	2.4	3.5
Electric Loans - USDA	48.2	47.3	1.8	2.1	46.4	45.2	-	-
Rural Housing Services - USDA	24.7	25.1	1.9	2.0	22.8	23.1	0.1	-
Export-Import Bank Loans	21.9	25.3	1.6	1.6	20.3	23.7	0.1	(0.3)
Housing and Urban Development Loans	26.3	22.4	7.5	5.7	18.8	16.7	(3.5)	(0.7)
All other programs	110.0	110.9	13.8	15.8	96.2	95.1	-	(0.7)
Total loans receivable	<u>1,410.4</u>	<u>1,312.6</u>	<u>61.9</u>	<u>35.0</u>	<u>1,348.5</u>	<u>1,277.6</u>	<u>4.4</u>	<u>17.9</u>

Loan Guarantee Liabilities as of September 30, 2017, and 2016								
(In billions of dollars)	Principal Amount of Loans Under Guarantee		Principal Amount Guaranteed by the United States		Loan Guarantee Liabilities		Subsidy Expense (Income) for the Fiscal Year	
	Restated		Restated				Restated	
	2017	2016	2017	2016	2017	2016	2017	2016
Federal Housing Administration Loans - HUD	1,409.5	1,338.6	1,277.6	1,215.9	20.6	(0.8)	13.0	(17.8)
Veterans Housing Benefit Programs - VA	596.5	517.2	151.9	132.8	10.4	10.0	(0.6)	(1.1)
Rural Housing Services - USDA ..	120.4	114.8	108.3	103.3	0.1	0.7	(0.5)	(4.3)
Small Business Loans - SBA.....	121.0	113.1	99.5	93.8	2.6	2.4	(0.9)	(0.4)
Federal Family Education Loans - Education	176.4	196.9	172.7	192.7	3.7	1.4	1.0	6.7
All other guaranteed loan programs	111.1	119.2	106.5	114.0	5.5	4.5	0.5	0.6
Total loan guarantee liabilities...	2,534.9	2,399.8	1,916.5	1,852.5	42.9	18.2	12.5	(16.3)

The government has two types of loan programs: direct loans and loan guarantees. One major type of loan is direct loans such as the Department of Education's (Education) Federal Direct Student Loans. The second type is loan guarantee programs, such as the Department of Housing and Urban Development's (HUD's) Federal Housing Administration Loans program.

Direct loans and loan guarantee programs are used to promote the Nation's welfare by making financing available to segments of the population not served adequately by non-federal institutions, or otherwise providing for certain activities or investments. For those unable to afford credit at the market rate, federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults.

The amount of the long-term cost of post-1991 direct loans and loan guarantees outstanding equals the subsidy cost allowance for direct loans and the liability for loan guarantees (including defaulted guaranteed loans) as of September 30. The amount of the long-term cost of pre-1992 direct loans and loan guarantees equals the allowance for uncollectible amounts (or present value allowance) for direct loans and the liability for loan guarantees. The long-term cost is based on all direct loans and guaranteed loans disbursed in this fiscal year and previous years that are outstanding as of September 30. It includes the subsidy cost of these loans and guarantees estimated as of the time of loan disbursement and subsequent adjustments such as modifications, re-estimates, amortizations, and write-offs.

Net loans receivable includes related interest and foreclosed property. Foreclosed property is property that is transferred from borrowers to a federal credit program, through foreclosure or other means, in partial or full settlement of post-1991 direct loans or as a compensation for losses that the government sustained under post-1991 loan guarantees. Please refer to the financial statements of the United States Department of Agriculture (USDA), VA, and HUD for significant detailed information regarding foreclosed property. The total subsidy expense/(income) is the cost of direct loans and loan guarantees recognized during the fiscal year. It consists of the subsidy expense/(income) incurred for direct and guaranteed loans disbursed during the fiscal year, for modifications made during the fiscal year of loans and guarantees outstanding, and for upward or downward re-estimates as of the end of the fiscal year of the cost of loans and guarantees outstanding. This expense/(income) is included in the Statements of Net Cost.

Loan Programs

The majority of the loan programs are provided by Education, HUD, USDA, Small Business Administration (SBA), VA, and Export-Import Bank. For significant detailed information regarding the direct and guaranteed loan programs listed in the tables above, please refer to the financial statements of the agencies.

Education has two major loan programs, authorized by Title IV of the *Higher Education Act of 1965 (HEA)*. The first program is the William D. Ford Federal Direct Loan Program, (referred to as the Direct Loan Program) that was established in fiscal year 1994. The Direct Loan Program offered four types of educational loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. With this program, the government makes loans directly to students and parents through participating institutions of higher education. Direct loans are originated and serviced through contracts with private vendors. Education disbursed approximately \$142.5 billion in Direct Loans to eligible borrowers in fiscal year 2017 and approximately \$140.5 billion in fiscal year 2016. The second program is the Federal Family Education Loan (FFEL) Program. This program was established in fiscal year 1965, and is a guaranteed loan program. Like the Direct Loan Program, it offered four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. The *Student Aid and Fiscal Responsibility Act (SAFRA)*, which was enacted as part of the *Health Care Education and Reconciliation Act of 2010 (P.L. 111-152)*, eliminated the authority to guarantee new FFEL after June 30, 2010. During fiscal year 2017, Education net loans receivable increased by \$70.1 billion, largely the result of increased Direct Loan Program disbursements for new loan originations and FFEL consolidations, net of borrower principal and interest collections.

HUD's Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to expand home ownership. FHA serves many borrowers that the conventional market does not serve adequately. This includes first-time homebuyers, minorities, low-income, and other underserved households to realize the benefits of home ownership. Borrowers obtain an FHA insured mortgage and pay an upfront premium as well as an annual premium to FHA. The proceeds from those premiums are used to fund FHA program costs, including claims on defaulted mortgages and holding costs, property management fees, property sales, and other associated costs. Certain FHA amounts have been restated. Refer to Note 1.V—Restatements for more information.

USDA's Rural Development offers both direct and guaranteed loans with unique missions to bring prosperity and opportunity to rural areas. The Rural Housing programs provide affordable, safe, and sanitary housing and essential community facilities to rural communities. Rural Utility programs help improve the quality of life in rural areas through a variety of loan programs for electric energy, telecommunications, and water and environmental projects.

The Export-Import Bank aids in financing and promoting U.S. exports. Loans and guarantees extended under the medium-term loan program typically have repayment terms of one to seven years, while loans and guarantees extended under the long-term program usually have repayment terms in excess of seven years. Generally, both the medium-term and the long-term loan and guarantee programs cover up to 85 percent of the U.S. contract value of shipped goods.

The SBA provides guarantees that help small businesses obtain bank loans and licensed companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters and businesses recover from disasters.

VA operates the following direct loan and loan guaranty programs: Home Loans, Insurance Policy Loans, and Vocational Rehabilitation and Employment Loans. The VA Home Loans program is the largest of the VA loan programs. The Home Loans program provides loan guarantees and direct loans to veterans, service members, qualifying dependents, and limited non-veterans to purchase homes and retain homeownership with favorable market terms. During fiscal year 2017, the face value of outstanding principal on loans guaranteed by the VA increased by \$79.3 billion. This increase was primarily due to \$161.8 billion in new loans guaranteed by the VA, partially offset by \$80.8 billion in guaranteed loan terminations.