7. 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 defined-benefit pensions, and insures against some other risks such as flood and terrorism. These programs are also exposed to climate-related financial risks, which the private sector is increasingly taking into account in the pricing of financial products. For a discussion of climate risks faced by Federal housing loans, please see Chapter 10, "Budget Exposure to Increased Costs and Lost Revenue Due to Climate Change."

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. The final section includes a brief analysis of the Troubled Asset Relief Program (TARP).

I. CREDIT IN VARIOUS SECTORS

Housing Credit Programs

Through its main housing credit programs, the Federal Government promotes homeownership among various groups that may face barriers to owning a home, including low- and moderate-income people, veterans, and rural residents. By expanding affordable homeownership opportunities for underserved borrowers, these programs can advance equity. 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 single-family mortgages that expand access to homeownership for households who may have difficulty obtaining a conventional mortgage. In addition to traditional single-family "forward" mortgages, FHA insures "reverse" mortgages for seniors (Home Equity Conversion Mortgages, described below) and loans for the construction, rehabilitation, and refinancing of multifamily housing, hospitals, and other healthcare facilities.

FHA Single-Family Forward Mortgages

FHA has been a primary facilitator of mortgage credit for first-time and minority homebuyers, 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, though they can only make a modest down payment, can show that they are creditworthy and have sufficient income to afford the house they want to buy. For 2022 new origination volume, 84 percent of FHA purchase mortgages were obtained by first-time homebuyers and 29 percent of all FHA loans (purchase and refinance) served minority borrowers. In addition, low-income homebuyers accounted for over 40 percent of new FHA purchase loans in calendar year 2021.

FHA Home Equity Conversion Mortgages

Home Equity Conversion Mortgages (HECMs), or "reverse" mortgages, 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 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 is therefore weighted toward the end of the mortgage, while forward mortgage risk is concentrated in the first 10 years.

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 2022, the MMI Fund had $1.28 trillion in total mortgages outstanding and a capital ratio of 11.11 percent, an increase from the 2021 level of 8.03 percent. 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 2022*.[1]

FHA's new origination volume in 2022 was $256 billion for forward mortgages and $32 billion for HECMs, and the Budget projects $206 billion and $26 billion, respectively, for 2024.

[1] *https://www.hud.gov/sites/dfiles/Housing/documents/2022FHAAnnualRptMMIFund.pdf*

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 healthcare 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 and lower healthcare costs for consumers.

GISRI's new origination loan volume for all programs in 2022 was $26 billion and the Budget projects $21 billion for 2024. The total amount of guarantees outstanding on mortgages in the FHA GISRI Fund were $169 billion at the end of 2022.

VA Housing Loan 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 VA housing loan program effectively substitutes a Federal guarantee for the borrower's down payment, meaning more favorable lending terms for veterans. Under this program, VA does not guarantee the entire mortgage loan, but typically fully guarantees the first 25 percent of losses upon default. In fiscal year 2022, VA guaranteed a total of 410,365 new purchase home loans, providing approximately $153.2 billion in guarantees. VA also guaranteed 127,949 Interest Rate Reduction Refinance loans and veteran borrowers lowered interest rates on their home mortgages through streamlined refinancing. VA provided approximately $257 billion in guarantees for 746,091 VA loans in fiscal year 2022. That followed $447 billion in guarantees for 1,441,745 VA loans closed in fiscal year 2021.

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 servicemembers avoid foreclosure through loan modifications, special forbearances, repayment plans, and acquired loans, as well as assistance to complete compromised sales or deeds-in-lieu of foreclosure. These standard efforts helped resolve over 96 percent of defaulted VA-guaranteed loans and assisted 205,702 veterans retain homeownership or avoid foreclosure in 2022. These efforts resulted in nearly $4 billion in avoided guaranteed claim payments. VA has responded to the COVID crisis by providing special CARES Act forbearances to support otherwise-current borrowers through the pandemic, under the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136), colloquially referred to as the CARES Act. As of September 30, 2022, 51,222 VA borrowers were participating in a special COVID-19 forbearance.

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.

RHS has traditionally offered both direct and guaranteed homeownership loans. The direct single family housing loans have been historically funded at $1 billion a year, while the single family housing guaranteed loan program, authorized in 1990 at $100 million, has grown into a $30 billion loan program annually. USDA also offers direct and guaranteed multifamily housing loans, as well as housing repair loans.

Education Credit Programs

The Department of Education (ED) direct student loan program is one of the largest Federal credit programs, with $1.34 trillion in Direct Loan principal outstanding in 2022. 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 (Public Law 89-329). The direct loan program was authorized by the Student Loan Reform Act of 1993 (subtitle A of title IV of Public Law 103–66). The enactment of the SAFRA Act (subtitle A of title II of Public Law 111–152) ended the guaranteed Federal Financial Education Loan program. 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 partners with over 5,500 institutions of higher education, which then disburse loan funds to students. Loans are available to students and parents of students regardless of income, and only Parent and Graduate PLUS loans include a minimal credit check. 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 Direct Loan program offers a variety of repayment options, including income-driven repayment ones for all student borrowers. Depending on the plan, monthly payments are capped at no more than 10 or 15 percent of borrower discretionary income, with any remaining

balance after 20 or 25 years forgiven. In addition, borrowers working in public service professions while making 10 years of qualifying payments are eligible for Public Service Loan Forgiveness.

The Department of Education also operates the Historically Black College and Universities (HBCU) Capital Financing Program. Since fiscal year 1996, the Program has provided HBCUs with access to low-cost capital financing for the repair, renovation, and, in exceptional circumstances, construction or acquisition of educational facilities, instructional equipment, research instrumentation, and physical infrastructure.

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

The Small Business Administration (SBA) ensures that small businesses across the Nation have the tools and resources needed to start, grow, and recover their business. SBA's lending programs complement credit markets by offering creditworthy small businesses access to affordable credit through private lenders when they cannot otherwise obtain financing on reasonable terms or conditions.

In 2022, SBA provided $25.7 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. In addition, through the 504 Certified Development Company (CDC) and Refinance Programs, SBA supported $9.2 billion in guaranteed loans for fixed-asset financing and provided 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 free up resources for expansion. The Small Business Investment Company (SBIC) Program also supports privately-owned and -operated venture capital investment firms that invest in small businesses. In 2022, SBA supported $7.9 billion in SBIC venture capital investments. In addition to these guaranteed lending programs, the 7(m) Direct Microloan program supports the smallest of businesses, startups, and underserved entrepreneurs through loans of up to $50,000 made by non-profit intermediaries. In 2022, SBA facilitated a record $82.6 million in microlending.

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 more than 1,380 Certified CDFIs nationwide, including a variety of loan funds, community development banks, credit unions, and venture capital funds. CDFI certification also enables some non-depository financial institutions to apply for financing programs offered by certain Federal Home Loan Banks.

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 exclusively a Federal credit program. The BGP was designed to provide CDFIs greater access to low-cost, long-term, fixed-rate capital.

Under the BGP, the Department of the Treasury (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 nearly $2.2 billion in bond guarantee commitments to 27 CDFIs, over $1.4 billion of which has been disbursed to help finance affordable housing, charter schools, commercial real estate, community healthcare facilities, and other eligible uses in 32 States and the District of Columbia.

Farm Service Agency

Farm operating loans were first offered in 1937 by the newly created Farm Security Administration (FSA) 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, 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 those underserved groups.

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 first opportunity," 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. Because the private loan originators must, in most situations, retain 10 percent of the risk, they exercise care in examining the repayment ability of borrowers. The subsidy rates for the direct programs fluctuate largely because of changes in the interest component of the subsidy rate.

In 2022, there were more than 24,000 direct or guaranteed loan obligations totaling over $5.8 billion. The entire

portfolio of outstanding debt as of September 30, 2022 totaled $33 billion, serving 115,000 farmers and ranchers. In 2022, the amount of lending declined in both dollar and volume terms, down 13 and 16 percent, respectively. Lending in dollar terms for real estate purchases decreased 13 percent for both direct and guaranteed loans. Operating loan obligations also fell in dollar terms among direct (decreasing 15 percent) and guaranteed (decreasing 8 percent) loans. The decline in 2022 obligations was not unexpected, particularly for operating loans that provide working capital to farmers and ranchers. Rising commodity prices and Farm Program payments have contributed to an increase in farm income. Once current supply chain challenges ease, there may be pressure on farm income if commodity prices decline. This cyclicality underscores the importance of FSA's Farm Loan Programs as a safety net.

A beginning farmer is an individual or entity who: has operated a farm for not more than 10 years; substantially participates in farm operation; and, for farm ownership loans, the applicant cannot own a farm larger than 30 percent of the average size farm in the county at time of application. If the applicant is an entity, all entity members must be related by blood or marriage, and all members must be eligible beginning farmers. Beginning farmers received 53 percent of direct and guaranteed loans in 2022. Direct and guaranteed loan programs provided assistance totaling $3.1 billion to nearly 14,300 beginning farmers. Additionally in 2022, loans for socially disadvantaged farmers totaled $1.2 billion to nearly 6,000 borrowers, of which $913 million was in the farm ownership program and $321 million in the farm operating program.

The FSA Microloan program increases overall direct and guaranteed lending to small niche producers and minorities. This program dramatically simplifies application procedures for small loans and implements more flexible eligibility and experience requirements. 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.

Energy and Infrastructure Credit Programs

The Department of Energy (DOE) administers four credit programs: Title XVII Innovative Technology Loan Guarantee Program (Title XVII), the Advanced Technology Vehicle Manufacturing (ATVM) Loan Program, the Tribal Energy Loan Guarantee Program, and the Carbon Dioxide Transportation Infrastructure Finance and Innovation Program. Section 1703 of title XVII of the Energy Policy Act of 2005 (Public Law 109–58), as amended, authorizes DOE to issue loan guarantees for clean energy projects that employ innovative technologies or are supported by State Energy Financing Institutions to reduce, avoid, or sequester air pollutants or man-made greenhouse gases. To date, DOE has issued four loan guarantees totaling over $12 billion to support the construction of two new commercial nuclear power reactors and a clean hydrogen production and storage project. DOE has one active conditional commitment totaling $1 billion to support an advanced fossil energy project. DOE is actively working with applicants proceeding to conditional commitment and financial close to utilize the $3.5 billion in appropriated credit subsidy and $77 billion in available loan guarantee authority currently available.

The American Recovery and Reinvestment Act of 2009 (Public Law 111–5) amended section 1705 of Title XVII and appropriated 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. $16 billion in loans and loan guarantees was disbursed via 24 loan guarantees issued prior to the program's expiration.

Public Law 117-169, colloquially referred to as The Inflation Reduction Act of 2022 (Public Law 117-169) further amended section 1706 to the Title XVII program's authorizing statute and appropriated $4.8 billion in credit subsidy to support loan guarantees for projects that retool, repower, repurpose, or replace energy infrastructure and avoid, reduce, or sequester air pollutants or man-made greenhouse gases. Appropriated authority for the section 1706 program expires September 30, 2026. DOE is actively working to establish this new program and anticipates working with applicants toward conditional commitment and financial close starting in 2023.

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, the 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 five loans totaling over $8 billion to support the manufacturing of advanced technology vehicles. Since 2021, DOE has issued five conditional commitments totaling over $5.6 billion, of which two loans have reach financial close. DOE has over $5 billion in credit subsidy balances with no loan limitation and is actively working with applicants proceeding to conditional commitment and financial close.

Title XXVI of the Energy Policy Act of 1992, as amended (Public Law 102-486) authorizes DOE to guarantee up to $20 billion in loans to Indian Tribes for energy development. The Congress has appropriated over $80 million in credit subsidy, cumulatively, to support tribal energy development. DOE issued a revised solicitation in 2022 and is actively working with applicants proceeding to conditional commitment and financial close.

Section 40304 of the Infrastructure Investment and Jobs Act (Public Law 117-58, "BIL") amended Title IX of the Energy Policy Act of 2005 by authorizing DOE to issue loans, loan guarantees, and grants to support the development of carbon dioxide transportation infrastructure (e.g., pipelines). The law provided $3 million for program start-up costs in 2022 and an advance appropriation of $2.1 billion in 2023 budget authority for the cost of loans, loan guarantees, and grants to eligible projects. DOE is actively working to establish the program.

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 2022, RUS delivered $5.2 billion in direct electrification loans (including $748.3 million in Federal Financing Bank (FFB) Electric Loans, $750 million in electric underwriting, and $71.8 million rural energy savings loans), $106.3 million in direct and FFB telecommunications loans, and $939.9 million in Reconnect broadband loans. RUS also helped rural Texas electric utilities recover from the aftermath of the February 2021 winter storm. As a result, RUS made an operating loan to a local cooperative for $25 million, which also unlocked an additional $2.5 million in energy efficiency initiatives.

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 2022, RD provided $1.3 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. RD also provided $1.3 billion in water and wastewater (W&W) direct loans, and guaranteed $1.7 billion in rural business loans, which will help create and save jobs in rural America. Since 2020, CF and W&W loan guarantees have been for communities of 50,000 or less.

Water Infrastructure

The Environmental Protection Agency's Water Infrastructure Finance and Innovation Act (Public Law 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. To date, WIFIA has closed 97 loans totaling $17 billion in credit assistance to help finance over $36 billion for water infrastructure projects and create 122,000 jobs. The selected projects demonstrate the broad range of project types that the WIFIA program can finance, including wastewater, drinking water, stormwater, and water reuse projects.

In addition, the WIFIA Program, authorized by the Water Resources Reform and Development Act of 2014 (Public Law 113-121), as amended, allows the U.S. Army Corps of Engineers to issue loans and loan guarantees for eligible non-Federal water resources projects. The Consolidated Appropriations Act, 2021 (Public Law 116-260) provided $12 million for the cost of loans and loan guarantees for dam safety projects at non-Federal dams identified in the National Inventory of Dams. The BIL provided an additional $64 million for this purpose. The Corps of Engineers is actively working to establish this new Federal credit program, including developing implementing regulations.

Transportation Infrastructure

The Department of Transportation (DOT) administers credit programs that 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. DOT's Build America Bureau administers these programs, as well as Private Activity Bonds, all under one roof. The Bureau serves as the single point of contact for States, municipalities, and other project sponsors looking to utilize Federal transportation innovative financing expertise, apply for Federal transportation credit programs, and explore ways to access private capital in public-private partnerships. The Budget reflects the TIFIA and RRIF programs' accounts in the Office of the Secretary, where the Bureau is housed.

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Established by the Transportation Equity Act for the 21st Century (Public Law 105-178, "TEA-21") in 1998, the TIFIA program is designed to fill market gaps and leverage substantial private co-investment by providing supplemental and subordinate capital to transportation infrastructure projects. Through TIFIA, DOT provides three types of Federal credit assistance to highway, transit, rail, intermodal, airport, and transit-oriented development 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. The Congress authorized $250 million for TIFIA in 2023. The BIL expanded incentives and support for rural transportation projects seeking financing from TIFIA. DOT launched the "TIFIA 49" initiative in 2023, which allows borrowing from TIFIA up to 49 percent of eligible project costs for transit and transit-oriented development projects.

Railroad Rehabilitation and Improvement Financing (RRIF)

Also established by TEA–21 in 1998, the RRIF program provides loans or loan guarantees with an interest rate equal to the Treasury rate for similar-term securities for terms up to 75 years. The RRIF program allows borrowers to pay the subsidy cost of a loan (a "Credit Risk Premium") using non-Federal sources, thereby allowing the program to operate without Federal subsidy appropriations. The RRIF program assists projects that further improve rail safety, promote environmental efficiency, support economic development, or increase the capacity of the national rail network. The RRIF program is a critical

tool for small 'short line' railroads that routinely maintain large acquired assets with limited revenue. The BIL expanded eligible RRIF lending to include landside infrastructure at sea ports serviced by the national freight rail network.

International Credit Programs

Through 2022, seven unique Federal agencies provide or have existing portfolios of direct loans, loan guarantees, and insurance to a variety of private and sovereign borrowers: USDA, the Department of Defense, the Department of State, the Department of the Treasury, the U.S. Agency for International Development, the Export-Import Bank (ExIm), and the U.S. International Development Finance Corporation (DFC). 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 provide financing support for American businesses involved in international trade and to counteract unfair foreign trade financing. Various foreign governments provide their exporters official financing assistance, usually through export credit agencies. The U.S. Government has worked since the 1970s 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 on Export Credits to set up a new framework that will include China and other non-OECD countries, which were not previously 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, ExIm, the U.S. Export Credit Agency, 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. It also includes 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. The GSM 102 program provides guarantees for credit extended with short-term repayment terms not to exceed 18 months.

Exchange Stabilization Fund

Consistent with U.S. obligations in the International Monetary Fund (IMF) regarding global financial stability, the Exchange Stabilization Fund (ESF) 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. The CARES Act established within the ESF an Economic Stabilization Program with temporary authority for lending and other eligible investments, which included programs or facilities established by the Board of Governors of the Federal Reserve System pursuant to section 13(3) of the Federal Reserve Act. The Consolidated Appropriations Act, 2021 rescinded this authority, though loans and investments already made remain active until obligations are liquidated.

Sovereign Lending and Guarantees

The U.S. Government 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 IMF. The 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 Jordan 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. The DFC provides loans, guarantees, and other investment tools such as equity and political risk insurance to facilitate and incentivize private-sector investment in emerging markets that will have positive developmental impact, and meet national security objectives.

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 Department of the Treasury 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. The next day, the 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. 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, 2022, $191.5 billion has been invested in Fannie Mae and Freddie Mac. The remaining commitment amount is $254.1 billion.

The PSPAs also generally require that Fannie Mae and Freddie Mac pay quarterly dividends to Treasury, though the terms governing the amount of those dividends have changed several times pursuant to agreements between Treasury and Fannie Mae and Freddie Mac. Notably, changes announced on January 14, 2021 permit the GSEs to suspend dividend payments until they achieve minimum capital levels established by FHFA through regulation. The Budget projects those levels will not be reached during the Budget window and accordingly reflects no dividends through 2033. Through December 31, 2022, the GSEs have paid a total of $301.0 billion in dividend payments to Treasury on the senior preferred stock.

The Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law 112–78) amended the Housing and Community Development Act of 1992 (Public Law 102-550) by requiring that Fannie Mae and Freddie Mac increase their annual credit guarantee fees on single-family mortgage acquisitions between 2012 and 2021 by an average of at least 0.10 percentage points. This sunset was extended through 2032 by the BIL. The Budget estimates these fees, which are remitted directly to the Treasury and are not included in the PSPA amounts, will result in deficit reduction of $77.8 billion from 2024 through 2033.

In addition, effective January 1, 2015 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 the Housing and Economic Recovery Act of 2008 (Public Law 110-289), including the Housing Trust Fund and the Capital Magnet Fund. The 2024 Budget projects these assessments will generate $5.4 billion for the affordable housing funds from 2024 through 2033.

Future of the Housing Finance System

Fannie Mae and Freddie Mac are in their fourteenth year of conservatorship, and the Congress has not yet enacted legislation to define the GSEs' long-term role in the housing finance system. The Administration is committed to housing finance policy that increases the supply of housing that is affordable for low- and moderate-income households, expands fair and equitable access to homeownership and affordable rental opportunities, protects taxpayers, and promotes financial stability. The Administration has a key role in shaping, and a key interest in the outcome of, housing finance reform, and stands ready to work with the Congress in support of these goals.

The Farm Credit System (Banks and Associations)

The Farm Credit System (FCS or System) is a GSE composed of a nationwide network of borrower-owned cooperative lending institutions originally authorized by the Congress in 1916. The FCS's mission is to provide sound and dependable credit to American farmers, ranchers, producers, or harvesters of aquatic products, their cooperatives, and farm-related businesses. The institutions serve 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 (YBS) 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 was 14.9 percent on September 30, 2022, compared with 16.9 percent on September 30, 2021. An increase in interest rates, which reduced the fair value of existing fixed-rate investment securities, contributed to the decline in the capital-to-assets ratio in 2022. Capital that is available to absorb losses amounted to $62.9 billion. For the first nine months of calendar year 2022, net income equaled $5.4 billion compared with $5.2 billion for the same period of the previous year.

Over the 12-month period ending September 30, 2022, System assets grew 13.2 percent, primarily because of higher cash and investment balances and increased

real estate mortgage, processing and marketing, rural infrastructure, and agricultural export loan volume. Nonperforming assets as a percentage of the dollar volume of loans and other property owned was 0.51 percent on September 30, 2022, compared with 0.55 percent on September 30, 2021.

The number of FCS institutions continues to decrease due to consolidation. As of September 30, 2022, the System consisted of four banks and 64 associations, compared with five banks and 84 associations in September 2011. Of the 67 FCS banks and associations rated under the Financial Institution Rating System (FIRS), 62 had one of the top two examination ratings (1 or 2 on a 1 to 5 scale) and accounted for 99.1 percent of gross Systems assets. Five FCS institutions had a rating of 3.

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. Those risks include ongoing moderate to exceptional drought conditions in almost half of the United States, an increase in severe weather events both in number and magnitude, increases in input costs, rising interest rates, and variability in Government policies supporting U.S. producers. In addition, trade disputes, rising inflation, labor issues, variability in production levels of global agricultural products, and fluctuating COVID-19 infection rates continue to keep agricultural market volatility elevated. In this challenging economic environment, the combination of farm commodity programs, disaster assistance, and crop insurance continued to mitigate the agricultural market volatility. Because of these mitigations, in fall 2021, producers experienced improved commodity prices and higher farm incomes, despite incurring higher cash expenses.

FCS Performance and YBS Portfolio

Both the dollar volume of the System's total loans outstanding and the dollar volume of YBS loans outstanding increased in calendar year 2021. While young, beginning, and small farmers are not mutually exclusive groups, and thus cannot be added across categories, it is important to note the growth of activity within each group. For example, total System loan dollar volume outstanding increased by 10.9 percent, and loan dollar volume outstanding to young farmers increased by 10.3 percent, to beginning farmers by 18.1 percent, and to small farmers by 14.2 percent.

The number of total System loans outstanding and YBS loans outstanding increased in 2021. The number of total System loans outstanding on December 31, 2021 was up 1.8 percent from a year ago. The number of loans outstanding to young farmers increased by 2.9 percent, to beginning farmers by 4.8 percent, and to small farmers by 1.7 percent. System originations in calendar year 2021 were up 12.7 percent from the prior 12 months, by loan amount. The dollar volume of originations to young farmers increased by 8.3 percent, to beginning farmers by 16.7 percent, and to small farmers by 9.3 percent.

By loan count, originations also increased for both total System lending and for each YBS category over the year ending December 31, 2021. The total number of System loans made during the year increased by 2.1 percent. The number of loans to young farmers increased by 2.8 percent, to beginning farmers by 3.0 percent, and to small farmers by 0.8 percent. The loans to young farmers originated in 2021 represented 17.9 percent of all loans the System made during the year and 11.0 percent of the dollar volume of loans made. The loans made to beginning farmers in 2021 represented 25.6 percent of all System loans made during the year and 19.2 percent of the dollar volume of loans made. The loans in 2021 to small farmers represented 44.3 percent of all loans made during the year and 18.8 percent of the dollar volume of loans made. In 2021, the System reported making a total of nearly 379,000 new loans, totaling $136.4 billion.

Federal Agricultural Mortgage Corporation (Farmer Mac)

Farmer Mac was established in 1988 by the Agricultural Credit Act of 1987 (Public Law 100-233) as a federally chartered instrumentality of the United States and an institution of the System 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 (Public Law 104-105) 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. The Food, Conservation, and Energy Act of 2008 (Public Law 110-246) 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, 2022, Farmer Mac's total outstanding program volume (loans purchased and guaranteed, standby loan purchase commitments, and AgVantage bonds purchased and guaranteed) amounted to $25.3 billion, which represents an increase of 9.5 percent from the level a year ago. Of total program activity, $21.4 billion were on-balance sheet loans and guaranteed securities, and $3.9 billion were off-balance-sheet obligations. Total assets were $26.4 billion, with non-program investments (including cash and cash equivalents) accounting for $5.3 billion of those assets. Farmer Mac's net income attributable to common stockholders ("net income") for the first three quarters of calendar year 2022 was $114.4 million. Net income increased compared to the same period in 2021, during which Farmer Mac reported net income of $84.4 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 deposit 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, 2022, the FDIC insured $9.9 trillion of deposits at 4,746 commercial banks and thrifts, and as of September 30, 2022, the NCUA insured nearly $1.7 trillion of shares at 4,813 Federal and federally insured State-chartered credit unions.

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 (division A of Public Law 111–22) provided NCUA with tools to protect the SIF and the financial stability of the credit union system. Notably, the Act established the Temporary Corporate Credit Union Stabilization Fund, which has now been closed with its assets and liabilities distributed into the SIF. In addition, the Act:

- 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 falls 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 Act of 2010 (Public Law 111-203, "Dodd-Frank Act") established new DIF reserve ratio requirements. The Act required 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. On September 30, 2018, the DIF reserve ratio reached 1.36 percent. However, as of June 30, 2020 the DIF reserve ratio fell to 1.30 percent, below the statutory minimum of 1.35 percent. The decline was a result of strong one-time growth in insured deposits. On September 15, 2020, FDIC adopted a Restoration Plan to restore the DIF reserve ratio to at least 1.35 percent by 2027.

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 assessment 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, 2022, the FDIC DIF balance stood at $125.5 billion, a one-year increase of $3.5 billion. The growth in the DIF balance is primarily a result of assessment revenue inflows. The reserve ratio on September 30, 2022, was 1.26 percent.

As of September 30, 2022, the number of insured institutions on the FDIC's "problem list" (institutions with the highest risk ratings) totaled 42, which represented a decrease of 95 percent from December 2010, the peak year for bank failures during the financial crisis. Moreover, the assets held by problem institutions were 59 percent below the level in December 2009, the peak year for assets held by problem institutions.

The NCUA-administered SIF ended September 2022 with assets of $20.2 billion and an equity ratio of 1.26 percent. In December 2022, NCUA maintained the normal operating level of the SIF equity ratio at 1.33 percent of insured shares, having reduced it from 1.38 percent in December 2021. If the ratio exceeds the normal operating level, a distribution is normally paid to insured credit unions to reduce the equity ratio.

The health of the credit union industry has markedly improved since the financial crisis. As of September 30, 2022, NCUA reserved $183 million in the SIF to cover potential losses, up 13.0 percent from the $162 million reserved as of December 31, 2021. The ratio of insured shares in troubled institutions to total insured shares decreased from 0.5 percent in December 2021 to 0.2 percent

in September 2022. This is a significant reduction from a high of 5.7 percent in December 2009.

Budget Outlook

The Budget estimates DIF net outlays of -$51.5 billion over the current 10-year budget window (2024–2033). The Budget projects that FDIC's Restoration Plan will remain in effect until 2027, when the DIF is estimated to reach the statutory reserve ratio target of 1.35 percent. The Budget also assumes that the DIF will reach the historic long-run reserve ratio target of 1.5 percent over the 10-year budget window. Although the FDIC has authority to borrow up to $100 billion from the Department of the 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 and financially separate insurance programs: single-employer plans and multiemployer plans.

Single-Employer Insurance Program

When an underfunded single-employer plan terminates, PBGC becomes the trustee and pays benefits, up to a guaranteed level. This typically happens when the employer sponsoring an underfunded plan goes bankrupt, ceases operation, or can no longer afford to keep the plan going. PBGC's claims exposure is the amount by which guaranteed 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 also results from the possibility that well-funded plans become underfunded due to inadequate contributions, poor investment results, or increased liabilities, and that the firms sponsoring those plans become distressed.

PBGC monitors companies with large, 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 mitigate risks to pension plans posed by corporate transactions or otherwise protect the insurance 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 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 potential 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, PBGC becomes trustee of the plan, applies legal limits on payouts, and pays benefits. To determine the amount to pay each participant, PBGC takes into account (a) the benefit that a participant had accrued in the terminated plan, (b) the availability of assets from the terminated plan to cover benefits, (c) how much PBGC recovers from employers for plan underfunding, and (d) the legal maximum benefit level set in statute. The guarantee limits are indexed (i.e., they increase in proportion to increases in a specified Social Security wage index) and vary based on the participant's age and elected form of payment. For plans terminating in 2023, the maximum guaranteed annual benefit payable as a single life annuity under the single-employer program is $81,000 for a retiree aged 65.

Multiemployer Insurance Program

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 does not trustee multiemployer plans. In the Multiemployer Program, the event triggering PBGC's guarantee is plan insolvency (the inability to pay guaranteed benefits when due), whether or not the plan has terminated. PBGC provides insolvent multiemployer plans with financial assistance in the statutorily required form of loans sufficient to pay PBGC guaranteed benefits and reasonable administrative expenses. Since multiemployer plans generally do not receive PBGC assistance until their assets are fully depleted, financial assistance is almost never repaid unless the plan receives special financial assistance under the American Rescue Plan Act of 2021 (Public Law 117-2, "ARPA").

Benefits guaranteed under the multiemployer program are calculated based on (a) the benefit a participant would have received under the insolvent plan, subject to (b) the legal multiemployer maximum set in statute. The maximum guaranteed amount depends on the participant's years of service and the level of the benefit accruals. 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 for a participant with 30 years of service. This limit has been in place since 2001 and is not adjusted for inflation or cost-of-living increases.

PBGC's FY 2021 Projections Report shows the Multiemployer Program is likely to remain solvent over the 40-year projection period. Prior to the enactment of the ARPA, PBGC's Multiemployer Program was projected to become insolvent in FY 2026. ARPA amended the Employee Retirement and Income Security Act of 1974 (Public Law 93-406) and established a new Special Financial Assistance program that provides funding from the Department of the Treasury's General Fund for

lump-sum payments to eligible multiemployer plans. By providing special financial assistance to the most financially troubled multiemployer plans, ARPA significantly extends the solvency of PBGC's Multiemployer Program. ARPA also assists plans by providing funds to reinstate previously suspended benefits.

Disaster Insurance

Flood Insurance

The Federal Government provides flood insurance through the National Flood Insurance Program (NFIP), which is administered by the Department of Homeland Security Federal Emergency Management Agency (FEMA). Flood insurance is available to homeowners, renters, businesses, and State and local governments in communities that have adopted and enforce minimum floodplain management measures. Coverage is limited to buildings and their contents. As of December 2022, the program had 4.7 million policies worth $1.3 trillion in force in over 22,500 communities. The program is currently authorized until September 30, 2023.

The Congress established the NFIP in 1968 via the National Flood Insurance Act of 1968 (Title XIII of Public Law 90-448) 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 land use ordinances consistent with FEMA's floodplain management regulations and to take other mitigation efforts to reduce flood-related losses in high flood hazard areas ("Special Flood Hazard Areas") identified through partnership with FEMA, States, and local communities. These efforts have resulted in substantial reductions in the risk of flood-related losses nationwide.

Until October 2021, flood insurance rates were based on static measurements using the Flood Insurance Rate Map. To ensure policyholders make informed decisions on the purchase of adequate insurance and on mitigation actions to protect against flood risk, in FY 2021 FEMA introduced a new pricing methodology (known as Risk Rating 2.0-Equity in Action). The new pricing methodology builds on flood hazard information and incorporates private sector datasets, catastrophe models, and evolving actuarial science. The system includes additional flood risk variables such as flood frequency, multiple flood types (riverine, storm surge, coastal, pluvial), and distance to water along with individual property characteristics. The new methodology also addresses premium inequities by taking into account the cost to rebuild as a factor in the premium, so that policyholders with low-valued home are no longer subsidizing higher-valued homes. New policies effective on or after October 1, 2021 are subject to the new pricing methodology, and existing policyholders were able to take advantage of immediate decreases in their premiums upon renewal. All remaining existing policyholders were subject to the new methodology beginning April 1, 2022 upon policy renewal.

FEMA's Community Rating System offers discounts on policy premiums in communities that adopt and enforce more stringent floodplain land use ordinances than those identified in FEMA's regulations and/or engage in mitigation activities beyond those required by the NFIP. The discounts provide an incentive for communities to implement new flood protection activities that can help save lives and property when a flood occurs. Further, NFIP offers flood mitigation assistance grants for planning and carrying out activities to reduce the risk of flood damage to structures covered by NFIP, which may include demolition or relocation of a structure, elevation or flood-proofing a structure, and community-wide mitigation efforts that will reduce future flood claims for the NFIP. 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 (NFIF). The BIL provided significant additional resources of $3.5 billion over five years for the flood mitigation assistance grants. The flood grants are a Justice40 covered program.

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 Department of the Treasury to meet flood insurance claim obligations. While the program needed appropriations in the early 1980s to repay the funds borrowed during the 1970s, 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 $8.8 billion in flood insurance claims. As a result, in 2013 the 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 the Department of the Treasury to $24.6 billion.

In the fall 2017, Hurricanes Harvey and Irma struck the southern coast of the United States, resulting in catastrophic flood damage across Texas, Louisiana, and Florida. To pay claims, NFIP exhausted all borrowing authority. The Congress provided $16 billion in debt cancellation to the NFIP, bringing its debt to $20.525 billion. To pay Hurricane Harvey flood claims, NFIP also received more than $1 billion in reinsurance payments as a result of transferring risk to the private reinsurance market at the beginning of 2017. FEMA continues to mature its reinsurance program and transfer additional risk to the private market.

In September 2022 Hurricane Ian hit the southern coast of Florida, resulting in estimated losses to the NFIP of $4.0 – 5.3 billion. Anticipating the impact of additional flood insurance claims from Hurricane Ian,

FEMA will likely have to exhaust its balances in the NFIF and Reserve Fund earlier than previously anticipated. Previous budget projections relied on both NFIF and Reserve Fund balances to make up for annual deficits between collections from policyholders and NFIF expenses, until 2027-2032 when NFIF would utilize borrowing authority for any shortfalls. However, Hurricane Ian changed the trajectory of the fiscal path, with FEMA now projecting the use of additional borrowing authority to pay claims and other expenses beginning in 2024, and resulting in spending above the current borrowing authority limit of $30.425 billion. The policy proposals in the Budget would eliminate debt and reduce borrowing to address this situation.

In July 2012, resulting largely from experiences during Hurricanes Katrina, Rita, and Wilma in 2005, the Biggert Waters Flood Insurance Reform Act of 2012 (subtitle A of title II of 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, and began collecting a policyholder Reserve Fund assessment that is available to meet the expected future obligations of the flood insurance program.

In March 2014, largely in reaction to premium increases initiated by BW–12, the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) (Public Law 113–89) was signed into law, further reforming the NFIP and revising many sections of BW–12. Notably, HFIAA repealed and adjusted 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 until full-risk rates are achieved, and created an Office of the Flood Insurance Advocate. HFIAA also introduced a fixed annual surcharge of $25 for primary residents and $250 for all other policies to be deposited into the Reserve Fund.

The 2022-2026 FEMA Strategic Plan creates a shared vision for the NFIP and other FEMA programs to build a more prepared and resilient Nation. The Strategic Plan outlines a bold vision and three ambitious goals designed to address key challenges the agency faces during a pivotal moment in the field of emergency management: Instill Equity as a Foundation of Emergency Management, Lead Whole of Community in Climate Resilience, and Promote and Sustain a Ready FEMA and Prepared Nation. While the NFIP supports all three goals, it is central to leading whole of community in climate resilience. To that end, FEMA is pursuing initiatives including:

1. Providing products that clearly and accurately communicate flood risk;
2. Helping individuals, businesses, and communities understand their risks and the available options like the NFIP to best manage those risks;
3. Transforming the NFIP into a simpler, customer-focused program that policyholders value and trust; and
4. Increasing the number of properties covered by flood insurance (either through the NFIP or private insurance).

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 expense subsidy to cover expenses associated with selling and servicing these policies. The Federal Government also provides reinsurance through the Standard Reinsurance Agreement and pays companies an "underwriting gain" if they have a profitable year. For the 2024 Budget, the payments to the companies are projected to be $3.96 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 2022, the four principal crops (corn, soybeans, wheat, and cotton) accounted for over 76 percent of total liability, and approximately 89 percent of the total U.S. planted acres of the 10 principal row crops (also including barley, peanuts, potatoes, rice, sorghum, and tobacco) 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 one on rainfall, which is established by a Government entity (for example, the National Oceanic and Atmospheric Administration). One such plan is the pilot Rainfall 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 2022, there were over 54 thousand Rainfall Index policies earning premiums, covering over 252 million acres of pasture, rangeland, and forage. In 2022, there was also over $7.1 billion in liability for those producers who purchased livestock coverage and $13.9 billion in liability for those producers who purchased coverage for milk.

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 calculation purposes the following year. Buy-up coverage for prevented planting is limited to 5 percent.

RMA is continuously working to develop new products and to expand or improve existing products in order to cover more agricultural commodities. RMA issued the Pandemic Cover Crop Program, providing $5 per acre of additional premium subsidy for producers who maintained a cover cropping system and subsequently planted and insured a cash crop on the same ground. The program covered more than 20 million net acres for about $110 million over 2021 and 2022. RMA also introduced the Post-Application Coverage Endorsement, a new product concept that provides additional yield coverage to producers who split-apply nitrogen, but are unable to complete the in-season portion due to weather events. Major program changes in 2022 included allowing irrigated grain sorghum producers to used corn yields as a better index for their acreage for area plans, improve and expand the High Risk – Alternative Coverage Endorsement, as well as, numerous new improvements to livestock products. For more information and additional crop insurance program details please reference RMA's website *www.rma.usda.gov*.

Farm Credit System Insurance Corporation (FCSIC)

Although not specifically disaster-related, 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. If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks would be required to make payments under joint and several liability, as required by section 4.4(a)(2) of the Farm Credit Act (Public Law 92–181, as amended). The insurance provided by the Insurance Fund is limited to the resources in the Insurance Fund. System obligations are not guaranteed by the U.S. Government. On September 30, 2022, the assets in the Insurance Fund totaled $6.5 billion. As of September 30, 2022, the Insurance Fund as a percentage of adjusted insured debt was 2.01 percent. This was slightly above the statutory secure base amount of 2.00 percent. As of September 30, 2022, the principal amount of outstanding insured System obligations increased 14.9 percent compared with that of September 30, 2021, from $328.8 billion to $377.8 billion.

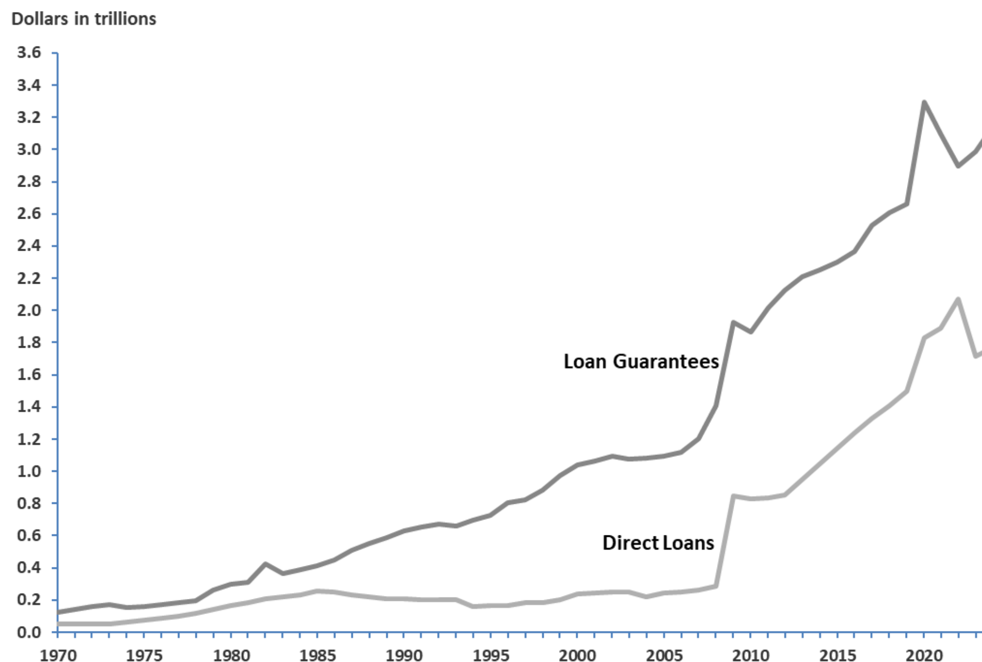
Insurance Against Security-Related Risks

Terrorism Risk Insurance

The Terrorism Risk Insurance Program (TRIP) was authorized by the Terrorism Risk Insurance Act of 2002 (Public Law 107-297) to ensure the continued availability of property and casualty insurance following the terrorist attacks of September 11, 2001. TRIP was originally intended to be temporary, but has been repeatedly extended. It is currently set to expire on December 31, 2027 and authorizes collections through 2029, after it was reauthorized by the Terrorism Risk Insurance Program Reauthorization Act of 2019 (title V of division I of Public Law 116–94). TRIP's initial three-year authorization established a system of shared public and private compensation for insured property and casualty losses arising from certified acts of foreign terrorism.

The prior reauthorization, the Terrorism Risk Insurance Program Reauthorization Act of 2015 (Public Law 114–1), made several program changes to reduce potential Federal liability. Over the five years after the 2015 extension, the loss threshold that triggers Federal assistance was increased by $20 million each year to $22 million in 2020, and the Government's share of losses above the deductible decreased from 85 to 80 percent over the same period. The 2015 extension also required the Department of the Treasury to recoup 140 percent of all Federal payments made under the program up to a mandatory recoupment amount, which increased by $2 billion each year until 2019 when the threshold was set at $37.5 billion. Since January 1, 2020, the mandatory recoupment amount has been indexed to a running three-year average of the aggregate insurer deductible of 20 percent of direct-earned premiums.

The Budget baseline includes the estimated Federal cost of providing terrorism risk insurance, reflecting current law. 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 $473 million over the 2024–2033 period.

Aviation War Risk Insurance

In December 2014, the 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 National Defense Authorization Act for Fiscal Year 2020 (Public Law 116-92) authorized the non-premium program through September 30, 2023. 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.

III. BUDGETARY EFFECTS OF THE TROUBLED ASSET RELIEF PROGRAM (TARP)

This section provides analysis consistent with sections 202 and 203 of the Emergency Economic Stabilization Act of 2008 (Public Law 110-343, "EESA"), including estimates of the cost to taxpayers and the budgetary effects of TARP transactions as reflected in the Budget. This section also explains the changes in TARP costs, and includes alternative estimates as prescribed under EESA. Under EESA, the Department of the Treasury has purchased different types of financial instruments with varying terms and conditions.[2] The Budget reflects the costs of these instruments using the methodology as provided by section 123 of EESA.

The estimated costs of each transaction reflect the underlying structure of the instrument. TARP financial instruments have included direct loans, structured loans, equity, loan guarantees, and direct incentive payments. The costs of equity purchases, loans, guarantees, and loss sharing are the net present value of cash flows to and from the Government over the life of the instrument, per the Federal Credit Reform Act of 1990 (FCRA); as amended (title V of Public Law 93-344, 2 U.S.C. 661 et seq.), with an EESA-required adjustment to the discount rate for market risks. Costs for the incentive payments under TARP housing programs, other than loss sharing under the FHA Refinance program, involve financial instruments without any provision for future returns and are recorded on a cash basis.[3]

[2] For a more detailed analysis of the assets purchased through TARP and its budgetary effects, please see the "Budgetary Effect of the Troubled Asset Relief Program" chapter included in the *Analytical Perspectives* volume of prior budgets.

[3] Section 123 of EESA provides the Department of the Treasury the authority to record TARP equity purchases pursuant to FCRA, with required adjustments to the discount rate for market risks. The Hardest Hit Fund (HHF) and Making Home Affordable (MHA) programs involve the purchase of financial instruments that have no provision for repayment or other return on investment, and do not constitute direct loans or guarantees under FCRA. Therefore, these purchases

Tables 7–10 through 7–16 are available online. Table 7–10 summarizes the cumulative and anticipated activity under TARP, and the estimated lifetime budgetary cost reflected in the Budget, compared to estimates from the 2023 Budget. The direct impact of TARP on the deficit is projected to be $31.5 billion, down $0.2 billion from the $31.7 billion estimate in the 2023 Budget. The total programmatic cost represents the lifetime net present value cost of TARP obligations from the date of disbursement, which is now estimated to be $50.2 billion, a figure that excludes interest on reestimates.[4]

Table 7–11 shows the current value of TARP assets through the actual balances of TARP financing accounts as of the end of each fiscal year through 2022, and projected balances for each subsequent year through 2033.[5] Based on actual net balances in financing accounts at the end of 2009, the value of TARP assets totaled $129.9 billion. As of December 31, 2022, total TARP net asset value has decreased to $4 million. The overall balance of the financing accounts is estimated to continue falling as TARP investments continue to wind down.

Table 7-12 shows the estimated impact of TARP activity on the deficit, debt held by the public, and gross Federal debt following the methodology required by EESA. Direct activity under TARP is expected to increase the 2023 deficit by $2.0 billion, the major components being:

- Outlays for TARP housing programs are estimated at $132 million in 2023.
- Administrative expense outlays for TARP are estimated at $29 million in 2023.
- Outlays for the Special Inspector General for TARP are estimated at $9 million in 2023.
- Debt service is estimated at $1.8 billion for 2023 and then expected to decrease to $1.3 billion by 2033, largely due to outlays for TARP housing programs and interest effects. Total debt service will continue over time after TARP winds down, due to the financing of past TARP costs.

Debt net of financial assets due to TARP is estimated to be $38.2 billion as of the end of 2023. This is $1.4 billion higher than the projected debt held net of financial assets for 2023 that was reflected in the 2023 Budget.

Table 7-13 reflects the estimated effects of TARP transactions on the deficit and debt, as calculated on a cash basis. Under cash basis reporting, the 2023 deficit would be $4 million lower than the $2.0 billion estimate now reflected in the Budget. However, the impact of TARP on the Federal debt, and on debt held net of financial assets, is the same on a cash basis as under FCRA and therefore these data are not repeated in Table 7-13.

Table 7-14 shows detailed information on upward and downward reestimates to program costs. The current reestimate of $0.4 million reflects a decrease in estimated TARP costs from the 2023 Budget. This decrease was due in large part to interest effects and continued progress winding down TARP investments over the past year.

The 2024 Budget, as shown in Table 7–15, reflects a total TARP deficit impact of $31.5 billion. This is a decrease of $0.2 billion from the 2023 Budget projection of $31.7 billion. The estimated 2023 TARP deficit impact reflected in Table 7-15 differs from the programmatic cost of $50.2 billion in the Budget because the deficit impact includes $18.8 billion in cumulative downward adjustments for interest on subsidy reestimates. See footnote 2 in Table 7-15.

Table 7-16 compares the OMB estimate for TARP's deficit impact to the deficit impact estimated by CBO in its "Report on the Troubled Asset Relief Program—May 2022."[6]

CBO estimates the total cost of TARP at $31.0 billion, based on estimated lifetime TARP disbursements of $444 billion. The Budget reflects a total deficit cost of $31.5 billion, based on estimated disbursements of $449 billion. CBO and OMB cost estimates for TARP have generally converged over time as TARP equity programs have wound down.

are recorded on a cash basis. Administrative expenses for TARP are recorded under the Office of Financial Stability and the Special Inspector General for TARP on a cash basis, consistent with other Federal administrative costs, but are recorded separately from TARP program costs.

[4] With the exception of MHA and HHF, all the other TARP investments are reflected on a present value basis pursuant to FCRA and EESA.

[5] Reestimates for TARP are calculated using actual data through September 30, 2022, and updated projections of future activity. Thus, the full impacts of TARP reestimates are reflected in the 2022 financing account balances.

[6] Available at: *https://www.cbo.gov/publication/58029*.