

## Note 4. Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability

| <b>Direct Loans and Loan Guarantees Receivable, Net as of September 30, 2020</b> |   |                            |                            |                               |   |   |
|--|---|----------------------------|----------------------------|-------------------------------|---|---|
| (In billions of dollars)   | <b>Direct Loans and Loan Guarantees Receivable, Gross</b> | <b>Interest Receivable</b> | <b>Foreclosed Property</b> | <b>Subsidy Cost Allowance</b> | <b>Direct Loans and Loan Guarantees Receivable, Net</b> | <b>Subsidy Expense (Income) for the Fiscal Year</b> |
| Federal Direct Student Loans - Education .....                                   | 1,224.8   | 92.1                       | -                          | (216.4)                       | 1,100.5   | 100.9   |
| Disaster Assistance Loans - SBA .....  | 185.3   | 1.8                        | -                          | (5.6)                         | 181.5   | 5.4   |
| Federal Family Education Loans - Education .....                                 | 84.8  | 24.1                       | -                          | (41.5)                        | 67.4  | 2.2   |
| Electric Loans - USDA .....  | 48.9  | -                          | -                          | (2.9)                         | 46.0  | 0.9   |
| Rural Housing Services - USDA .....  | 23.6  | 1.2                        | -                          | (3.0)                         | 21.8  | -   |
| Federal Housing Admin Loans and Other - HUD .....                                | 42.3  | 17.8                       | 0.9                        | (17.3)                        | 43.7  | -   |
| All other programs .....   | 130.5   | 2.3                        | 0.6                        | (16.9)                        | 116.5   | 0.1   |
| Total direct loans and loan guarantees receivable .....                          | <u>1,740.2</u>  | <u>139.3</u>               | <u>1.5</u>                 | <u>(303.6)</u>                | <u>1,577.4</u>  | <u>109.5</u>  |

| <b>Direct Loans and Loan Guarantees Receivable, Net as of September 30, 2019</b> |   |                            |                            |                               |   |   |
|--|---|----------------------------|----------------------------|-------------------------------|---|---|
| (In billions of dollars)   | <b>Direct Loans and Loan Guarantees Receivable, Gross</b> | <b>Interest Receivable</b> | <b>Foreclosed Property</b> | <b>Subsidy Cost Allowance</b> | <b>Direct Loans and Loan Guarantees Receivable, Net</b> | <b>Subsidy Expense (Income) for the Fiscal Year</b> |
| Federal Direct Student Loans - Education .....                                   | 1,164.9   | 83.3                       | -                          | (124.4)                       | 1,123.8   | 61.5  |
| Disaster Assistance Loans - SBA .....  | 9.6   | -                          | -                          | (1.3)                         | 8.3   | 0.1   |
| Federal Family Education Loans - Education .....                                 | 90.2  | 22.3                       | -                          | (35.7)                        | 76.8  | 5.8   |
| Electric Loans - USDA .....  | 49.2  | 0.1                        | -                          | (2.3)                         | 47.0  | (0.3)   |
| Rural Housing Services - USDA .....  | 23.6  | 1.1                        | 0.1                        | (2.8)                         | 22.0  | 0.3   |
| Federal Housing Admin Loans and Other - HUD .....                                | 37.4  | 14.1                       | 1.3                        | (16.7)                        | 36.1  | (0.1)   |
| All other programs .....   | 123.1   | 2.1                        | 1.1                        | (14.5)                        | 111.8   | (0.3)   |
| Total direct loans and loan guarantees receivable .....                          | <u>1,498.0</u>  | <u>123.0</u>               | <u>2.5</u>                 | <u>(197.7)</u>                | <u>1,425.8</u>  | <u>67.0</u>   |

| <b>Loan Guarantees Liability as of September 30, 2020, and 2019</b> |  |                |  |                |                                      |             |   |               |
|---|--|----------------|--|----------------|--------------------------------------|-------------|---|---------------|
|   | <b>Principal Amount<br/>of Loans Under<br/>Guarantee</b> |                | <b>Principal Amount<br/>Guaranteed<br/>by the U.S.</b> |                | <b>Loan Guarantees<br/>Liability</b> |             | <b>Subsidy Expense<br/>(Income) for the<br/>Fiscal Year</b> |               |
|   | <b>2020</b>  | <b>2019</b>    | <b>2020</b>  | <b>2019</b>    | <b>2020</b>                          | <b>2019</b> | <b>2020</b>   | <b>2019</b>   |
| (In billions of dollars)  |  |                |  |                |                                      |             |   |               |
| Federal Housing Administration<br>Loans - HUD .....                 | 1,544.4  | 1,524.6        | 1,379.7  | 1,366.2        | (6.2)                                | 2.5         | (20.6)  | (24.7)        |
| Veterans Housing Benefit<br>Programs - VA .....                     | 816.0  | 712.3          | 206.3  | 179.7          | 7.3                                  | 7.5         | (2.3)   | (2.1)         |
| Small Business Loans - SBA.....                                     | 646.0  | 129.7          | 621.7  | 105.8          | 512.7                                | 2.0         | 526.8   | (1.0)         |
| Federal Family Education Loans<br>- Education .....                 | 128.9  | 141.6          | 128.9  | 141.6          | 0.9                                  | 5.2         | (3.5)   | 6.9           |
| Rural Housing Services - USDA ..                                    | 127.9  | 124.1          | 115.0  | 111.6          | 0.7                                  | (0.2)       | 0.7   | (0.1)         |
| All other guaranteed loan<br>programs .....                         | 93.9   | 92.7           | 88.8   | 87.9           | 4.7                                  | 4.7         | (0.2)   | (1.2)         |
| <b>Total loan guarantees liability ...</b>                          | <b>3,357.1</b>   | <b>2,725.0</b> | <b>2,540.4</b>   | <b>1,992.8</b> | <b>520.1</b>                         | <b>21.7</b> | <b>500.9</b>  | <b>(22.2)</b> |

The government has two types of loan programs: direct loans and loan guarantees. One major type of loan is direct loans such as the Education Federal Direct Student Loans. The second type is loan guarantee programs, such as the HUD's FHA Loans program. While a loan guarantee is considered a liability, a loan guarantee program may also have a loan guarantee receivable. At a foreclosure of guaranteed loans, a federal guarantor may acquire the loans involved and record a guaranteed loan receivable. The acquired loans are recognized at the present value of their estimated net cash inflows from selling the loans or from collecting payments from the borrowers, discounted at the original discount rate adjusted for the interest rate reestimate.

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 subsidy amounts (or PV 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, reestimates, amortizations, and write-offs.

Net direct loans and loan guarantees 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 DOT, HUD, USDA, and VA for additional 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 reestimates 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, SBA, USDA, and VA. For additional information regarding the direct and guaranteed loan programs listed in the tables above, please refer to the financial statements of the entities.

Education has two major loan programs, authorized by Title IV of the *Higher Education Act of 1965*. The first program is the William D. Ford Federal Direct Loan Program (referred to as the Direct Loan Program), which was established in FY 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 \$117.4 billion in Direct Loans to eligible borrowers in FY 2020 and approximately \$130.7 billion in FY 2019. The second program is the FFEL Program. This program was established in FY 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*, 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. The CARES Act provided support for student loan borrowers by temporarily suspending nearly all federal student loan payments. In addition, all federal wage garnishments and collections actions for borrowers with federally held loan in default were halted. During FY 2020, Education net loans receivable decreased by \$32.4 billion, partly the result of net upward loan subsidy reestimates combined with CARES Act and Presidential Memorandum related upward loan modifications that increased the subsidy allowance by \$97.7 billion, offset by increases in loans outstanding and accrued interest receivable.

HUD's Office of Housing plays a vital role for the nation's homebuyers, homeowners, renters, and communities through its nationally administered programs. It includes FHA who provides over \$1.4 trillion in mortgage insurance on mortgages for single family homes, multifamily properties, and healthcare facilities. Due to COVID-19 the CARES Act provides borrowers with federally backed mortgage loans a temporary foreclosure moratorium and a right to forbearance of loan payments for homeowners experiencing financial hardship. In FY 2020, FHA's subsidy expense was influenced by a change in the way FHA accounted for accounts receivable and accounts payable accruals related to post-1991 loan guarantees.

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 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. The CARES Act provides funding for SBA to offer low-interest economic injury disaster loans for working capital to small businesses suffering substantial economic injury as a result of COVID-19 that can be used to pay fixed debts, payroll, accounts payable and other bills that cannot be paid because of the disaster's impact. The CARES Act, under the PPP program, also provides incentives for small businesses to keep their workers on the payroll and debt relief for small business loan borrowers. The SBA will pay six months of principal, interest, and any associated fees owed by current small business loan borrowers as well as new small business loans disbursed prior to September 27, 2020. The loan guaranty PPP provides loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, and rent and utilities. These receivables increased to \$182.9 billion during FY 2020, stemming from a \$173.2 billion increase in direct disaster loans primarily funded from the CARES Act. The loan guarantee liability for Small Business Loan Programs which includes the PPP also increased by \$510.7 billion due to the CARES Act provisions. For additional information on each specific loan program refer to SBA's financial statement.

VA operates the following direct loan and loan guarantee programs: Vendee Loans, Acquired Loans, Native American Direct Loans, Housing Guaranteed Loans, Insurance Loans, and Loan Sale Guarantees. 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 FY 2020, the face value of outstanding principal on loans guaranteed by the VA increased by \$103.7 billion. This increase was primarily due to \$329.0 billion in new loans guaranteed by the VA, partially offset by \$225.2 billion in guaranteed loan terminations.

For additional information regarding the CARES Act refer to the financial reports of SBA, Education, and HUD, Note 28—COVID-19 Activity, and Note 29—Subsequent Events.