United States General Accounting Office /132499

GAO

Testimony

For Release
on Delivery
Expected at
10 a.m. EST
Thursday
March 26, 1987

An Assessment of the Government's Loan Assets Sale Program

Statement of
Frederick D. Wolf, Director
Accounting and Financial Management Division

Before the
Legislation and National Security Subcommittee
of the House Committee on Government Operations

132499

038381

GAO/T-AFMD-87-7

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our assessment of the administration's current pilot program sale of existing federal loan assets under the Office of Management and Budget (OMB) guidelines and its fiscal year 1988 sale plans. In September 1986, we testified and reported to this subcommittee on the interim results of our review of OMB's guidelines for the sale of existing federal loan assets. We said that OMB's policies will result in the objectives of the loan asset sales pilot program not being fully achieved. Since our September 1986 testimony and report, we have completed our review of selected government-owned loan portfolios included in the initial pilot sale of existing federal loans and completed an overall assessment of the status of the administration's loan sale initiatives, which include the prepayment of loans by borrowers, for fiscal years 1987 and 1988.

It is important to note that the administration's current credit reform proposals also include proposals to sell new loans as they are made. Our testimony today, however, will focus on our review of the proposed sale of existing loans and the prepayment of loans by borrowers.

With respect to the sale and borrower prepayment of existing loans, we sampled and reviewed six loan portfolios. Collection results vary considerably from program to program. Except for the Department of Education's Guaranteed Student Loans, our work showed that loan repayments were not current for between 0 and 26 percent of the loans we reviewed. For the Guaranteed Student Loans program, about 91 percent of the loans were noncurrent. Many noncurrent loans, however, are brought back to current status, and our sample results for programs with available data show that the borrowers should ultimately fully repay between 93 and 100 percent of the amounts owed if past loan repayment trends continue. Our work also revealed the following.

-- The government has a wide variety of loan programs designed to achieve social and policy goals and to provide credit to borrowers who would not be served by the private sector. As a result, credit initiatives, such as loan sales, cannot always be uniformly applied to all government loan portfolios. Sale decisions, for example, should be made on a portfolio-by-portfolio basis.

-- Some characteristics of government loans--the high rate of noncurrent loans, for example--could adversely affect the net proceeds from their sale.

-- OMB's loan sale guidelines, which do not allow agencies to sell their loan portfolios with any form of recourse to the government, may result in depressing the net proceeds from the sale of some loan portfolios.

-- For certain loan portfolios, the government may realize larger cash receipts over the term of the loans by retaining the loan portfolios rather than by selling them to meet short-term deficit reduction goals.

-- The sale of federal loan assets--even when the government would get the full value of the loans when they are sold--will not reduce the structural budget deficit because loan sales simply shift revenues from future years to the year of sale.

To provide guidance to agencies in the loan asset sales area, on July 8, 1986, OMB issued guidelines for loan asset sales. As stated in the guidelines, the objectives of the loan asset sale pilot program are to

-- reduce the government's costs of managing credit programs by transferring responsibility for servicing, collecting, and other administrative activities to the private sector;

-- provide an incentive to improve loan origination (improve loan terms and conditions) and documentation;

-- determine the actual subsidy of a federal credit program; and

-- increase the government's receipts in order to reduce the budgetary deficit in the year of the sale.

In our view, there is a need to improve the government's management of credit activities. We agree that documentation on the borrowers and loans needs to be improved for some portfolios. This includes the need for better accounting records. Selected loan asset sales could provide an added incentive to develop and maintain sound records.

OVERVIEW OF EXISTING GOVERNMENT LOANS AND LOAN GUARANTEES

A brief overview of the government's loans and loan guarantees would be useful to put our views regarding the sale of existing loans into a proper frame of reference. According to the President's fiscal year 1987 budget request, the estimated outstanding principal balance for the federal government's direct loan programs will be $256 billion on September 30, 1987. In addition, the federal government will have loan guarantees of $567 billion outstanding. Details of the loans and guarantees are in attachment I.

Under direct loan programs, the government acts like a banker. It makes loans directly to borrowers and collects the principal and interest payments over the life of the loan. Under loan guarantee programs, private lending institutions make loans to the borrowers and can be responsible for servicing the loans until paid. In this instance, the government would only become involved if the borrower defaults on the loan. If this happens, the federal government often will repay the lender and assume title to the loan. Once title is assumed, the guaranteed loan is handled like a direct loan. In some guarantee loan programs, default is resolved by the lender foreclosing on the loan and taking possession of the collateral. In that case, the government may either take the collateral and pay off the loan or it may require the lender to sell the collateral and pay the lender any remaining shortfall from the outstanding balance of the loan.

The government provides loan guarantees and makes direct loans to achieve policy and social goals and to provide credit to borrowers who the Congress believes would not be served adequately by the private sector. The federal government's portfolio of loans consists of about 100 widely diversified types of loans with an enormous range of terms and conditions. These loans and guarantees also vary considerably as to the financial condition of borrowers (students versus small electric utilities, for example), collateral securing the loans and guarantees, interest rates, repayment periods, and loan servicing policies. As a result, we believe that credit reform initiatives, such as loan asset sales, cannot always be uniformly applied across-the-board to all federal credit programs. Instead, such initiatives must be evaluated on a portfolio-by-portfolio basis to determine the costs and benefits to the government, the impact on policy, and the impact on borrowers. A detailed listing of all of the portfolios is included as attachment I to this statement. It should also be recognized, however, that since the government will not be the holder of guaranteed loans unless the borrower has already defaulted, the net proceeds from the sale of such loans could be lessened.

ADMINISTRATION AND CONGRESSIONAL LOAN SALE INITIATIVES

I would now like to turn to the government's loan sale initiatives. The administration's initial pilot loan sale proposal for fiscal year 1987 involved the sale of loan assets from 12 programs with outstanding principal balances totaling about $4.4 billion, with the main objective of the sales being to foster federal credit reform. OMB projected that these sales would generate $1.7 billion in net sales receipts that could be used to reduce the federal deficit. As discussed earlier, OMB envisioned the pilot program primarily as a means of initiating reforms in federal credit programs.

The Omnibus Budget Reconciliation Act of 1986 expanded the administration's pilot program to generate a total of $6.8 billion in net cash receipts. The Congress estimated that about $9.3 billion in outstanding principal balances from nine programs would have to be sold to the public or redeemed by borrowers. The

Conference Report on the act specifies that various sale arrangements should be considered to ensure that the government realizes the best possible net return from the sale of these assets in a fiscally responsible manner.

Finally, in fiscal year 1988, the administration's budget proposes to increase selling loan assets with a total outstanding principal balance of $12.5 billion from 23 loan programs and expects to receive $5.9 billion in net sale proceeds. Attachment II provides a comparison of the original pilot sale with the fiscal years 1987 and 1988 sales programs.

CURRENT STATUS OF LOAN SALE PROGRAM

Currently, seven agencies plan to sell portions of nine loan portfolios or to offer borrowers the opportunity to prepay their loans. Two of these agencies have hired financial advisors--the Department of Education and the Department of Agriculture's Farmers Home Administration. The Department of Housing and Urban Development (HUD), while not using financial advisors, plans to use its own staff as well as the Government National Mortgage Association to help sell HUD loans. In addition, the Veterans' Administration (VA) also does not plan to obtain financial advisors but will rely on the expertise of its own staff to plan for and conduct loan sales. One agency, the Export-Import Bank, is in the process of selecting its financial advisor. The

Department of Education, with the assistance of its financial advisor, is in the process of selecting an underwriter to conduct the actual sale of portions of its $2.2 billion College Housing Loan Portfolio. The Rural Electrification Administration and HUD plan to offer borrowers the opportunity to prepay loans from certain portfolios.

To date, however, no loans have actually been sold under the pilot program. Only two utilities have actually prepaid their loans held by the Rural Electrification Administration. Attachment III provides additional information on the progress that agencies are making in preparing for loan sales.

CHARACTERISTICS OF SAMPLED LOAN PORTFOLIOS

I would now like to address the characteristics of the existing loan portfolios we sampled and reviewed. In evaluating the government's loan sale initiatives, we categorized the government's loan portfolios into five broad classes related to commercially available credit:

-- single family housing loans (four or fewer families per unit);

-- multifamily housing loans (over four families per unit);

-- commercial loans (utilities, businesses, schools);

-- consumer loans--secured; and

-- consumer loans--unsecured.

We sampled the following loan portfolios included in OMB's initial pilot sale program.

Table 1: Loan Portfolios Sampled

Type of loan by agency	Portfolio's unpaid principal balance	Portion of portfolio to be sold in FY 1987
	(millions)	
VA Vendee Single Family Housing Loans	$ 1,241	$ 690
HUD Federal Housing Administration Multifamily Housing Loans	2,799	300
Agriculture Rural Electrification Loans	14,678	14,678[a]
Small Business Administration Disaster Home Loans	700	600
Education Guaranteed Student Loans	1,051	0
Education College Housing Loans	$ 2,181	983
Total	$22,650	

[a]These loans will be offered to borrowers for prepayment.

We found that these portfolios varied widely in terms of borrower creditworthiness, collateral, and loan terms and, consequently, had to be considered on an individual basis as to their saleability. We also found that these government loans have characteristics which could lessen the net proceeds the government would receive if the loans were sold to private investors.

The six loan programs we reviewed reflect a cross section of the loan classes and each was included in the pilot sale program. The selected loans, however, should not be considered completely representative of the government's 100 widely diversified loan programs. As we have earlier reported, agency loan accounting systems and documentation differ substantially in quality.[1]

Special Loan Provisions

As previously mentioned, most federal loan programs are designed to accomplish certain national policy goals and objectives. During our review, we identified instances whereby federal agencies are required to ensure that the purchasers of federal loans continue these policies after sales have been conducted. For example, legislation authorizing the Department of Education to allow borrowers to prepay Academic Facilities Loans

---

[1]Debt Collection: Billions Are Owed While Collection and Accounting Problems Are Unresolved (GAO/AFMD-86-39, May 23, 1986).

at a discount requires the borrowers to continue to use the educational facilities (financed with the loan) for the purposes related to the original terms of the loán.

Similarly, some of HUD's multifamily program properties are involved in rent subsidy programs which provide rental assistance to eligible tenants. The loan agreements for these properties include covenants which cover issues such as rent subsidies, rent restrictions, and eviction policies. If HUD were to sell these loans, it would have to structure the sale in ways to preserve the provisions specified in the loan agreements. For example, the sale would have to be structured so that the purchasers of these loans could not raise rents after sale in the event of a foreclosure. Purchasers of these loans would probably request larger discounts than they would if the loans did not include these special provisions. If the provisions were not enforced after sale, however, the original purpose in making the loan would be lost. In addition, relaxation of these regulatory provisions could create opportunities for unintended windfall gains on the part of the borrower and the new owner of the loan.

Loan Collateral

With the exception of the Guaranteed Student Loan program, the loan portfolios we reviewed generally are backed by some form of collateral. The collateral, however, varies and could affect the amount a private investor would pay to purchase the portfolio even though the government's repayment experience with a particular portfolio indicates that the government may fully collect principal and interest payments for almost the entire portfolio.

To illustrate, the Small Business Administration's (SBA) disaster loan program makes direct loans to homeowners, renters, and businesses to repair or replace damaged real estate or personal property to predisaster conditions. They are secured by collateral such as borrowers' residences, borrowers' personal property, and, in some instances, no collateral at all. Since SBA does not always hold the first lien on real estate collateral, and the personal property collateral may be considered insufficient, prospective buyers may request larger discounts because of the risk associated with purchasing an asset with weak collateral. Even though some SBA loans are backed by relatively weak collateral, our sample results confirm SBA's accounting records which show that SBA fully collects on about 98 percent of its disaster loans.

Loan Documentation

For the loan portfolios included in our sample, with the exception of HUD's Multifamily Housing Loan portfolios and Education's College Housing Loans, the programs did a good job of maintaining loan records. We found the loan documentation files to be adequately maintained, and the loan records contained the important documents needed to conduct a loan sale. These documents included, among other things, promissory notes and copies of the mortgages.

For example, our review of the Rural Electrification Administration's loan program found that all loan files were accounted for and all required documents were included. Similarly, our review of the SBA's Disaster Home Loans disclosed that out of 720 loan files sampled, only 11 files were missing. The remaining files reviewed included all required documents. In contrast, 10 percent of the Department of Education's College Housing Loan files were completely missing, and 65 percent of the files sampled were missing key documents such as the mortgage contracts. Similarly, 16 percent of HUD's Multifamily Housing Loan files were completely missing, and 4 percent of the files sampled were missing key documents. Without proper documentation as evidence of loan asset ownership, we believe prospective portfolio buyers will probably be reluctant to bid on the portfolio or pay an acceptable price if recourse to the government is not offered.

Loan Delinquent and Uncollectible Rates

For the loan portfolios we reviewed, we identified two key rates related to the collection of loan principal and interest payments--the uncollectible rate and the noncurrent or delinquency rate. The uncollectible rate shows the number of loans for which borrowers did not pay all principal and interest payments called for in the original loan agreement and which resulted in the government taking some legal action to collect the amounts owed. The delinquency rate shows the number of loans for which payments are in arrears on the original or restructured loan terms. In many cases, the government granted an extension in the loan terms or other changes in the repayment terms of the original note.

The delinquency rate results from the nature of government loans, creditworthiness of government borrowers, and the government's sometimes tolerant loan servicing practices. The government, for example, often will extend the terms for delinquent borrowers during periods of financial hardships, such as loss of a job, by suspending loan payments until the borrower is capable of resuming them.

Overall, for the four programs for which we could collect the information, the government has experienced loan uncollectible rates of between 0 and 7.2 percent and delinquency rates of between 0 and 26 percent. For the Guaranteed Student Loan

Program, about 91 percent of the loans are delinquent, and these loans have doubtful collection prospects. Attachment IV to this statement shows the delinquency and uncollectible rates for loans reviewed, as well as other portfolio characteristics. Previously we have reported widely varying loan collection rates and practices in the government's other loan programs.

Loan Servicing Policies

Federal agencies will often work with delinquent borrowers to help them become current on their loan accounts. This forbearance, in most instances, is a matter of the agency's collection policies. However, in some cases, the agencies' policies are governed by statute. For each of the loan programs we reviewed, we identified several provisions in the loan programs' statutory authority which authorize federal agencies to defer loan payments and extend payment due dates. For example, the Rural Electrification Act of 1936 permits the Rural Electrification Administration (REA) to extend the time of payment of interest or principal from borrowers for up to 5 years beyond the date it became due. Similarly, legal provisions allow the Administrator of SBA to extend or suspend principal or interest payments on its Home Disaster Loans for up to 5 years in case of severe borrower financial hardship and to extend the term of the loan for up to 10 years if SBA expects to foreclose on the loan. Also, Public Law 89-754 provides VA the authority to grant mortgage relief to a "distressed mortgagor" through the issuance of a moratorium to the mortgage holder to avoid foreclosure.

The private sector will sometimes also work with borrowers to help them cope with temporary financial difficulties by modifying original loan payback terms. We did not, however, examine its practices as part of our review.

With respect to the government's special legal requirements and loan servicing policies, loan sale agreements with the purchasers of federal loans will have to be structured to ensure that the statutory and contractual rights of the borrowers are not prejudiced by the sales. Since most agencies with plans to sell loans are just engaging financial advisors and underwriters, and have not yet formalized final sale plans, we could not determine how they plan to protect borrowers' rights.

LOAN SALE RECOURSE NEEDED TO MAXIMIZE POTENTIAL NET SALES PROCEEDS

In our September 1986 testimony before this subcommittee and in our report[2] of the same date, we pointed out that the characteristics of federal loan portfolios that differ from private sector loans could adversely affect the net proceeds from the sale of these loans if the sales are made on a nonrecourse basis. These characteristics include high delinquency rates,

---

[2]Loan Asset Sales: OMB Policy Will Result in Program Objectives Not Being Fully Achieved (GAO/AFMD-86-79, Sept. 25, 1986).

substandard loan documentation, and the creditworthiness of the borrowers. Furthermore, both results of past government loan sales to private investors and our current review demonstrate that agencies need the flexibility to conduct sales on a recourse basis where appropriate. With sales on a recourse basis, the government insures to some degree the repayment of loans. Without this flexibility, the government will not realize the best possible net return on the sale of its assets.

The conference report on the Omnibus Budget Reconciliation Act of 1986 strongly favors such flexibility when agencies conduct loan sales. The report notes that the sections of the act dealing with the sale of various federal loan assets intentionally does not specify whether loan sales should be carried out with or without recourse. This was done, the conferees state, to ensure that loan sales would be structured to enable the government to realize the best possible net return from the sale of the assets in a fiscally responsible manner.

In both our September 1986 testimony and report, we recommended that OMB's loan sale guidelines be modified to allow recourse sales where appropriate--especially where future loan loss rates could be reliably predicted and recourse provisions could be structured so that both the government and investors shared the future risks.

Subsequent to our testimony and report, the subcommittee requested in a letter to OMB that it modify its loan sale guidelines in accord with our recommendations. OMB, however, has not modified its loan sale guidelines to provide for recourse sales. OMB still maintains that the primary objective of the sale of government-held loans is federal credit reform and not the maximization of loan sale net proceeds.

We believe OMB needs to recognize that the loan sales program has become a revenue raising tool, and, consequently, OMB needs to restructure the sales program to maximize revenues by providing for recourse sales. The Omnibus Budget Reconciliation Act of 1986 focuses on loan sales as a revenue generating tool. Furthermore, OMB testified during the September 1986 hearings that sales with recourse would be a logical way for the government to generate revenue.

The government's programs for mortgage loans have established a secondary credit market for housing loans, built private-investor familiarity with mortgage-backed loans, and established a payment history for the loans. As a result, portfolios of mortgage loans are now routinely sold in established markets. Even with these established markets, HUD has found that some form of recourse to the government is needed to maximize net sale proceeds from selling mortgage loans. HUD and VA have previously sold direct mortgage loans to private financial institutions, and many of their sales have been with some form of recourse to the government.

In 1984, OMB directed HUD to discontinue selling assigned mortgage loans with insurance--one form of recourse sales. According to HUD officials, dropping the insurance reduced the sale of mortgages so significantly that additional sales could not be justified, and the sales program was suspended.

Federal National Mortgage Association experts estimate that if HUD's Multifamily Housing Loans are sold without recourse, sales proceeds could be as low as 20 cents for each dollar of outstanding principal balance.

In July 1986, the consulting firm of Smith-Barney, Harris Upham & Co. issued a report on the proposed sale of the Department of Education's $2.2 billion College Housing Loan portfolio. The results of that study also showed that the government would realize higher net sale proceeds if sales were conducted with recourse rather than without. For example, the firm estimated that $220 million in additional sale proceeds could be realized if these sales were made with a limited recourse whereby the government's expected future liability would be $60 million if past loan repayment rates continue.

In contrast to mortgage loans, the private financial markets are not familiar with many of the types of loan portfolios the government now proposes to sell, and no established secondary credit markets for these loan portfolios exist. In addition, several private investors said they do not feel they have sufficient, reliable knowledge of the types of collateral, default and delinquency rates, and characteristics of the loans the government now proposes to sell. Consequently, if the federal government plans to continue its loan sales program and maximize its net sales proceeds, it will have to establish markets for these new kinds of loans and build investor confidence. This can best be done by offering, at the start at least, the sale of loan portfolios with some form of recourse to the government.

One form of recourse is being planned by the Farmer's Home Administration. It plans to sell securities backed by an overcollateralization of loans, or in other words, a collection of loans sufficient to achieve its desired net sales proceeds.

SOME LOAN PORTFOLIOS SHOULD BE HELD TO TERM RATHER THAN SOLD

From a financial perspective, the decision to sell existing government loan portfolios should be evaluated by comparing the value to the government today of future loan repayments with the estimated net proceeds expected from the sale of the loans. Determining the value today of future loan repayments involves a financial calculation called "present value." The present value calculation of future loan repayments will provide the financial cost to the government of selling government-held loans and of allowing borrowers to prepay their loans. Loan sale decisions, however, will include financial as well as policy considerations such as improving the government's management of credit activities.

We compared the present value of future loan repayments with the estimated net sale proceeds for three of the six existing loan portfolios we sampled and reviewed. (See attachment V.) These comparisons showed the following.

-- The value to the government of future loan repayments was greater than the estimated sale proceeds for the three loan portfolios and the amounts borrowers would pay to buy back their loans.

-- The sale of loan portfolios and the prepayment of loans by borrowers would not reduce budget deficits over the long-term even if the value of future loan repayments equaled the estimated net sale proceeds or prepayment amounts.

If, on the other hand, the sale of loans results in better repayment on other government loan portfolios through improved documentation and better overall collection activities, then it may be worthwhile to take some discounts on sales to accomplish this.

I would like to briefly discuss the methodologies for computing the present value to the government of future loan repayments and for determining estimated net loan sale proceeds used by private investors to compute loan prepayment amounts for borrowers who are allowed to prepay their loans. I would also like to discuss the results of our comparison of these amounts.

Computing the present value to the government of future loan payments entails

-- determining the net future payments the government will receive by determining the future principal and interest payments borrowers will make under their loan agreement and adjusting these payments to reflect the estimated future loan losses and

-- discounting the future payments of principal and interest to their present value using the Department of the Treasury's borrowing rates for securities having maturities comparable to the government's loans.

Similarly, private investors, in determining the net sale proceeds they will pay for a loan portfolio, will compute the present value of the future net principal and interest payments using an interest rate--commonly referred to as the discount rate--that will reflect the differences in loan interest rates and market interest rates at the time loans are sold and the risks the investors assume when purchasing the loans. Specifically, the investor's discount rate incorporates

-- the investor's rate of return on alternative investments--market rates at the time loans are sold;

-- the risk the investor assumes for estimated future loan losses, especially when sales are to be consummated on a non- or limited-recourse basis;

-- the investor's lack of familiarity with the type of loans the government is offering for sale;

-- the investor's cost to service the loans; and

-- the investor's cost to finalize the sale, including the cost of obtaining credit ratings on loans offered for sale.

Likewise, borrowers will determine the amount they will pay to buy back their loans by discounting their future principal and interest payments using the interest rate private lenders will charge them for the remaining life of the loan.

In computing the present value of any type of financial payments to be received in the future, such as a series of future loan principal and interest payments, a higher discount or interest rate will yield a lower present value. In the case of government loan portfolios, the government's borrowing rate will generally be lower than an investor's or borrower's discount rate; consequently, the present value to the government of future loan principal and interest payments will generally be higher than the net sale proceeds or borrower's prepayment amount calculated using discount rates. This fact was confirmed by our analyses of Education's college housing, and the REA's utilities loan programs.

Currently, REA loans have an unpaid principal balance of $14.7 billion. These loans carry a weighted-average interest rate of 3.77 percent and are to be repaid over an average of 24.5 years. REA borrowers would not repay the outstanding principal balances on their loans. Instead, they would repay the present value of outstanding principal and interest payments on their loans based on the double A bond rate for utilities, which is the discounted rate the REA Administrator has chosen for this program. The present value of loan principal and interest payments, based on interest rates for Treasury securities, is about $10.4 billion, while the present value of the principal and interest payments based on the double A bond rate is about $9.3 billion. Therefore, if all REA borrowers prepaid their loans, the present value of the funds the government would not receive would be about $1.1 billion. A private financial investor estimated that the REA portfolio would yield about $9.8 billion in sale proceeds if sold on a recourse basis and $9.1 billion if sold on a nonrecourse basis.

College housing loans have an unpaid principal balance of $2.2 billion. The loans carry an average interest rate of about 3.16 percent, and are to be repaid over an average of 21.54 years. The present value of loan principal and interest payments, based on interest rates for Treasury securities, is about $1.5 billion, while Smith-Barney estimates that the loans would yield about $1.2 billion in net proceeds if sold on the open market. The funds not received if the loans are sold have a present value of about $300 million.

The additional costs the government will incur in selling some loan portfolios, as illustrated by the above examples and our financial analyses of three portfolios detailed in attachment V, should be viewed in the context of the potential improvements sales could foster in agency loan origination practices. Specifically, if loan sales achieve the goals of encouraging agencies to more effectively evaluate the creditworthiness of borrowers and make better loan origination decisions, to maintain better loan documentation and accounting records, and to implement better collection practices, then the government will realize increased loan repayments or sales proceeds. These increases in loan repayments or sales proceeds could somewhat offset the costs incurred in selling some of the government's loan portfolios.

Currently, no one can reliably predict, however, whether loan sales will in fact foster better agency loan origination, documentation, and collection practices, nor can anyone predict the amount of any increased loan collections that will result. At the same time, in fairness, we would add that the attention to debt collection and loan sales activities over the past 2 years has resulted, we believe, in improvements in these areas. However, we are not able at this time to quantify this impact.

LOAN SALES WILL NOT NECESSARILY REDUCE BUDGETARY DEFICITS

Sales of loan assets should not be seen as a way to resolve our fundamental deficit problem. Portfolio sales of $5 billion to $10 billion a year will accelerate collections, but they will not change the basic structural imbalance between governmental receipts and outlays. Specifically, the sale of existing loans under the pilot program could potentially have very different effects on short- and long-run budget deficits.

The sale or prepayment of existing government-held loans will not, over the long term, reduce budgetary deficits even if net sale proceeds equal the present value to the government of future loan payments based on the government's borrowing costs, that is, the interest rates on Treasury securities. The structural budgetary deficits--the annual gaps between government cash receipts and outlays--will not be closed by the sale of federal loan assets because their sales will not create additional cash receipts throughout several budget cycles.

Sales of existing loans simply shift future loan payments to be received by the government to the year of sale and, as a result, do not create additional cash receipts above the revenues the government would have received through loan repayments had it not sold the loans. If loans are sold, cash receipts are increased in the year of the sale but are reduced over the remaining life of the loan portfolio, thus making additional Treasury borrowing necessary in subsequent years. Further, if the sale or prepayment of existing loans yields net sale proceeds or prepayment amounts less than the present value to the government of future loan repayments, budgetary deficits over the long term will increase.

In addition, the Government National Mortgage Association has outstanding about $424 million in special securities sold to the public and other federal agencies called participation certificates. These certificates are collateralized by portions of certain existing government loan portfolios. If these portfolios are sold, a portion of the net sale proceeds will have to be used to redeem the participation certificates.

CONCLUSIONS

Overall, our review of the administration's plans to sell existing loans shows that:

- Sales of loan portfolios will not resolve our fundamental deficit problem. More fundamental changes are needed to address deficits that have been running about $200 billion each year.

- The characteristics of federal loan portfolios are so varied that sale decisions must be made on a portfolio-by-portfolio basis.

- The stream of principal and interest payments that the government foregoes by selling a loan generally will be worth more than the revenue derived from the sale of the loan.

- OMB's loan sale guidelines, which do not allow agencies to sell their loan portfolios with any form of recourse to the government, may result in depressing the net proceeds from the sale of some loan portfolios.

This concludes my formal remarks. I will be pleased to answer any questions you or other members of the subcommittee may have.

SUMMARY OF FEDERAL GOVERNMENT LOANS PER FISCAL YEAR 1987 BUDGET ESTIMATE

ATTACHMENT I

(In Thousands of Dollars)

Agency/Department--Program	Agency Direct Loans To Public	Direct Loans To Public Held By FFB	Direct Loans To Public Held By FFB And Guaranteed By Agencies	Agency Guaranteed Loans Outstanding
Department of Education				
Office of Postsecondary Education:				
Student Financial Assistance	5,369,850			
Guaranteed Student Loan	4,777,157			43,849,362
Higher Education	34,158			
Higher Education Facilities Loans and Ins.	321,538			
College Housing Loans	1,167,064			
Guarantees of Student Loan Marketing Assoc. Obligations, FFB Direct Loans			4,970,000	4,970,000
Totals - All Department of Education Programs	11,669,767	0	4,970,000	48,819,362
Department of Energy				
Energy Programs:				
Energy Supply, R and D Activities	1,101			
Geothermal Resources Development Fund	12,400			10,000
Power Marketing Administration:				
Bonneville Power Administration Fund	42,400			
Totals - All Department of Energy Programs	55,901	0	0	10,000
Department of Health and Human Services				
Health Resources and Services Admin.:				
Health Resources and Services	491,889			45,607
Health Professions Grad Stu Loan Ins Fund	48,143			1,265,350
Health Education Loans	2,942			
Nurse Training Fund	3,031			
Medical Facilities Guarantee and Loan Fund	27,609			865,327
Med Fac Guar and Loan Fund FFB Loan Asset		110,891		
Health Maintenance Org Loan & Loan Guar Fd	2,175			
Health Maintenance Org Loan & Loan Guar Fd FFB Loan Asset Purchase		100,388		
Social Security Administration:				
Refugee and Entrant Assistance	13,796			
Human Development Services:				
Comm Dev Credit Union Revolving Loan Fund	1,751			
Total - All Department of HHS	591,336	211,279	0	2,176,284

Agency/Department--Program	Agency Direct Loans To Public	Direct Loans To Public Held By FFB	Direct Loans To Public Held By FFB And Guaranteed By Agencies	Agency Guaranteed Loans Outstanding
Department of Labor				
Pension Benefit Guaranty Coporation:				
Pension Benefit Guaranty Corp. Fund	3,311			
Total - Department of Labor Program	3,311	0	0	0
Department of State				
Administration of Foreign Affairs:				
Emergencies in Diplomatic & Consular Ser	3,863			
International Organizations and Conferences:				
Contributions to International Orgs	4,570			
Total - All Department of State Programs	8,433	0	0	0
Department of Transportation				
Federal Highway Administration:				
Liquidation of Contract Author Trust Fund	76,488			
Right-of-Way Revolving Fund	115,552			
Federal Railroad Administration:				
Railroad Rehab and Improvemt Financing Fds	587,601			
Railroad Rehab and Improvemt Financing Fd (Sec 511), FFB Direct Loans			57,386	57,386
Urban MASS Transportation Administration:				
Misc. Expired Accounts				997,000
Federal Aviation Administration:				
Aircraft Purchase Loan Guarantee Program	55,266			310,635
Maritime Administration:				
Federal Ship Financing Fund	1,216,371			5,163,792
Office of the Secretary				
Transportation Planning, Research, and Development	11,002			
Total - All Dept. of Transportation Programs	2,062,280	0	57,386	6,528,813

Agency/Department--Program	Agency Direct Loans To Public	Direct Loans To Public Held By FFB	Direct Loans To Public Held By FFB And Guaranteed By Agencies	Agency Guaranteed Loans Outstanding
Department of Housing and Urban Development				
Public and Indian Housing:				
Low-Rent Public Housing Loans & Other Exp	14,790,477			8,240,286
Low-Rent Public Housing, FFB Direct Loans			2,074,426	2,074,426
Government National Mortgage Association:				
Management Liquidating Functions Fund	375,180			
Guarantees of Mortgage-Backed Securities	3,891			265,458,085
Community Planning and Development:				
Community Dev Grants, FFB Direct Loans			416,373	416,373
Rehabilitation Loan Fund	712,493			
Revolving Fund (Liquidating Program)	349,049			61,369
Revolving Fund (Liquidating Programs), FFB Direct Loans			30,575	30,575
Total - All Department of HUD Programs	16,231,090	0	2,521,374	276,281,114
Department of Interior				
Water and Science:				
Loan Prog for Construction of Distrib Sys	519,356			
Emergency Fund	12,993			
Fish and Wildlife and Parks:				
Construction	8,000			
Indian Affairs:				
Revolving Fund for Loans	119,981			
Indian Loan Guaranty and Insurance Fund	7,790			189,302
Territorial & International Affairs:				
Adm of Territories, FFB Direct Loans			60,343	60,343
Total - All Department of Interior Programs	668,120	0	60,343	249,645

ATTACHMENT I

Agency/Department--Program	Agency Direct Loans To Public	Direct Loans To Public Held By FFB	Direct Loans To Public Held By FFB And Guaranteed By Agencies	Agency Guaranteed Loans Outstanding
Department of Defense				
Revolving and Management Funds:				
Defense Production Guarantee FFB Dir Loans			17,821	17,821
Defense Stock Fund	1,210			
Navy Industrial Fund, FFB Direct Loans			1,721,366	1,721,366
Total - All Department of Defense Programs	1,210	0	1,739,187	1,739,187
Department of Commerce				
Economic Development Administration				
Miscellaneous Appropriations:				
Financial and Technical Assistance	8,805			2,140
Trade Adjustment Assistance	7,778			11,757
Fisheries Loan Fund	9,091			
Federal Ship Financing Fund	10,129			167,980
Drought Assistance Program	82,859			
Economic Development Revolving Fund	544,043			170,094
National Oceanic and Atmospheric Admin.				
Coastal Energy Impact Fund	90,456			
Total - All Department of Commerce Programs	753,161	0	0	351,971
Department of Agriculture				
Foreign Assistance Program:				
General and Special Funds	11,367,876			
Commodity Credit Corporation:				
Short and Medium Term Export Loans	747,506			
Commodity Loans	13,698,399			
Storage Facility Loans	28,952			
Export Guarantee Claims	3,196,932			
CCC Export Guarantee Program				9,902,251
Rural Electrification Administration:				
Rural Communication Development Fund	21,707			9,964
Rural Electrification and Telephone Revolving Fund Loan Authorizations	10,049,642			1,300,789
Rural Electrification Administration, FFB Direct Loans			23,710,456	23,710,456
Rural Electrification Administration, FFB Loan Asset Purchases		4,127,007		
Rural Telephone Bank	1,425,661			

ATTACHMENT I

Agency/Department--Program	Agency Direct Loans To Public	Direct Loans To Public Held By FFB	Direct Loans To Public Held By FFB And Guaranteed By Agencies	Agency Guaranteed Loans Outstanding
Department of Agriculture Continued				
Farmers Home Administration:				
Agricultural Credit Insurance Fund	501,719			4,069,726
Agricultural Credit Insurance Fund, FFB Loan Asset Purchases		28,960,835		
Self-Help Housing Land Dev Fund	735			
Rural Housing Insurance Fund	422,463			595,069
Rural Housing Ins Fd, FFB Loan Asset Purch		29,002,000		
Rural Development Insurance Fund	201,856			2,534,809
Rural Development Insurance Fund, FFB Loan Asset Purchases		7,956,978		
Rural Development Loan Fund	36,832			
Total - All Dept. of Agriculture Programs	41,700,280	70,046,820	23,710,456	42,123,064
Funds Appropriated to the President				
International Security Assistance:				
Foreign Military Sales Credit	4,281,383			140,000
FMS Guarantees, FFB Direct Loans			17,969,031	17,969,031
Economic Support Funds	6,855,707			
Guarantee Reserve Fund	1,331,853			
International Development Assistance:				
International Organizations and Programs	48,376			
AID Functional Development Assistance Prog	3,581,332			
AID Miscellaneous Appropriations	155,999			
AID Housing and Other Credit Guaranty Prog	65,374			1,360,131
AID Private Sector Revolving Fund	21,447			
AID Development Loans-Revolving Fund	8,143,172			
Overseas Private Investment Corp.	39,339			259,887
OPIC, FFB Loan Asset Purchases		438		
Total - All Funds Approp to the President	24,523,982	438	17,969,031	19,729,049
Environmental Protection Agency				
Federal Funds:				
Abatement, Control, and Compliance	63,553			
Contruction Grants	34,329			
Total - All EPA Programs	97,882	0	0	0

Agency/Department--Program	Agency Direct Loans To Public	Direct Loans To Public Held By FFB	Direct Loans To Public Held By FFB And Guaranteed By Agencies	Agency Guaranteed Loans Outstanding
General Services Administration				
Real Property Activities:				
Federal Building Fund				636,692
Federal Building Fund, FFB Direct Loans			397,044	397,044
Total - All GSA Programs	0	0	397,044	1,033,736
National Aeronautics and Space Admin				
Federal Funds:				
Space, Flight, Control, and Data Communications, FFB Direct Loans			808,606	808,606
Total - All NASA Programs	0	0	808,606	808,606
Small Business Administration				
Federal Funds:				
Business Loan and Investment Fund	4,097,892			8,376,788
Guaranteed Loans, FFB Direct Loans				
Small Business Development Co Loans, FFB Loan Asset Purchases		12,929		
Disaster Loan Fund	2,831,586			2,941
Pollution Control Equipment Contract Guarantee Revolving Fund				376,640
Total - All SBA Programs	6,929,478	12,929	0	8,756,369
Veterans Administration				
Federal Funds:				
Burial Benefits and Miscellaneous Assist	15			
Veterans Insurance and Indemnitites	864			
Loan Guaranty Revolving Fund	1,685,310			144,820,247
Direct Loan Revolving Fund	93,061			1,850
Service Disabled Veterans Insurance Fund	40,232			
Veterans Reopened Insurance Fund	30,873			
Education Loan Fund	41,910			
Vocational Rehabilitation Revolving Fund	390			

ATTACHMENT I

Agency/Department--Program	Agency Direct Loans To Public	Direct Loans To Public Held By FFB	Direct Loans To Public Held By FFB And Guaranteed By Agencies	Agency Guaranteed Loans Outstanding
Veterans Administration Continued				
Trust Funds:				
National Service Insurance Fund	995,078			
US Government Life Insurance Fund	22,910			
Veterans Special Life Insurance Fund	79,773			
Total - All VA Programs	2,990,416	0	0	144,822,097
Department of Treasury				
Financial Management Service:				
Bio Mass Energy Development				1,072,292
Total - All Department of Treasury Programs	0	0	0	1,072,292
Other Independent Agencies				
District of Columbia:				
Loans to the D.C. for Capital Outlay	1,498,205			
Export-Import Bank of the US:	14,997,683			7,357,010
Federal Deposit Insurance Corporation:	3,795,153			
Federal Home Loan Bank Board:				
Federal Savings and Loan Insurance Corp Fd	2,734,716			3,134,439
Interstate Commerce Commission:				1,200
National Credit Union Administration:				
Credit Union Share Insurance Fund	28,000			
Central Liquidity Facility	180,000			

ATTACHMENT I

Agency/Department--Program	Agency Direct Loans To Public	Direct Loans To Public Held By FFB	Direct Loans To Public Held By FFB And Guaranteed By Agencies	Agency Guaranteed Loans Outstanding
Other Independent Agencies Continued				
United States Postal Service:				
Tennessee Valley Authority:				
Tennessee Valley Authority Fund:				
Non-Power Program	2,692			
Power Program	255,337			1,150
TVA Fund, Seven States Energy Corp., FFB Direct Loans			1,640,492	1,640,492
United States Information Agency:				
Salaries and Expenses	565			
United States Railway Association:				
Regional Rail Reorganization Program	91,682			
United States Synthetic Fuels Corporation:				19,564
Total - All Other Independent Agencies Progs	23,584,033	0	1,640,492	12,153,855
TOTALS	131,870,680	70,271,466	53,873,919	566,655,444

TOTAL DIRECT LOANS DUE FROM PUBLIC 256,016,065

Source: Budget Appendix for fiscal year 1987.

STATUS OF AGENCY LOAN ASSET SALES

	Pilot program fiscal 1987 budget		Estimated net revenue as per budget reconciliation act requirements[b]	Final fiscal 1987 budget (includes budget reconciliation act requirements)		Fiscal 1988 budget call	
	Amount to be sold[a]	Estimated net revenue[a]		Amount to be sold[c]	Estimated net revenue 1987[c]	Amount to be sold[c]	Estimated net revenue 1988[c]
	(in millions)						
Education							
Guaranteed Student Loans	$ 200	$ 30	$ 0	$ 0	$ 0	$ 0	$ 0
National DSL	48	7	0	0	0	0	0
College Housing Loans	1,102	579	579	983	579	931	522
Higher Education Facilities Loans	0	0	0	0	0	142	83
Small Business Administration							
Business Loan Investment Fund	1,153	251	0	0	0	1,000	140
Disaster Loans	1,100	403	0	600	277	670	168
Development Companies	0	0	0	0	0	500	249
Veterans Administration							
VA Vendee Loans	78	55	0	0	0	300	176
Housing and Urban Development							
FHA fund	300	267	0	300	217	350	212
Rehabilitation Loans	10	4	0	0	0	350	35
Community Development	0	0	0	35	21	200	120
Housing for Elderly and Handicapped	0	0	0	0	0	500	444
Agriculture							
Rural Housing Loans	100	26	1,715	2,200	1,715	1,200	830
Rural Development Loans	100	52	1,000	1,870	1,000	1,200	502
Rural Elect. Admin. Loans	100	46	2,017	0	0	1,000	653
Rural Telephone Bank	100	36	0	0	0	500	449
Interior							
Bureau of Reclamation	0	0	0	0	0	358	154

[a]Figures as reported in the mid-session review of 1987 budget.

[b]Omnibus Budget Reconciliation Act of 1986 does not mention the dollar amount of loans to be sold. Amount includes $2 billion in REA prepayments required under the act.

[c]Figures as reported in Special Analysis 'F', Budget of U.S. Government, 1988.

ATTACHMENT II

STATUS OF AGENCY LOAN ASSET SALES

	Pilot program fiscal 1987 budget		Estimated net revenue as per budget reconciliation act requirements	Final fiscal 1987 budget (includes budget reconciliation act requirements)		Fiscal 1988 budget call	
	Amount to be sold	Estimated net revenue		Amount to be sold	Estimated net revenue 1987	Amount to be sold	Estimated net revenue 1988
	(in millions)						
Health and Human Services							
Medical Facilities	0	0	0	0	0	132	38
Health Maintenance Organization	0	0	0	0	0	97	24
Transportation							
Railroad Rehabilitation	0	0	0	0	0	583	206
Other							
Export-Import Bank Loans	0	0	1,500	2,018	1,500	1,200	312
GNMA Tandem Plan[d]	0	0	0	650	413	329	(49)
EDU Guaranteed SL[d]	0	0	0	0	0	250	38
Perkins (NDSL) Loans[d]	0	0	0	0	0	33	5
VA-Vendee Loans[d]	$ 0	$ 0	$ 0	$ 690	$ 552	$ 745	$ 596
Total	$4,391	$1,756	$6,811	$9,346	$6,274	$12,570	$5,907

[d]Amounts noted under those programs are part of a previously established loan sales effort.

RECAPULATION OF SELECTED LOAN ASSET SALE PROPOSAL ACTIVITIES

		Fiscal 1987		Status related to the hiring of		Sales method planned[a]						
		Amount to be sold	Estimated net revenue	Financial adviser	Underwriter	In-house expertise	Undecided	Non-recourse	Limited recourse	Enhancement	To be sold back to borrowers	Estimated sale date
		-------(in millions)-------										
EDU	College Housing Loans	$ 983	$ 579	Chemical Bank	Underwriter may be hired in spring of 1987				x	x	x	July-September 1987
SBA	Disaster loans	600	277	Selection may be finalized in April 1987	"						x	"
HUD	FHA fund	300	217	Selection may be made in spring of 1987		x		x				"
	Community development	35	21			GNMA		x			x	"
Agricul- ture	Rural Housing Loans	2,200	1,715	Kidder, Peabody & Co.	"					x overcollateralization		"
	Rural development Loans	1,870	1,000	Manufacturers Hanover Bank	"							June-September 1987
Other	Export-Import loans	2,018	1,500	Selection may be finalized by end of March 1987	"		x					July-September 1987
	HUD GNMA Tandem Plan	650	413			GNMA		x				"
	VA Vendee Loans	$ 690	$ 552			x						"
Total		$9,346	$6,274									

[a]Recourse is not used.

ATTACHMENT III

CHARACTERISTICS OF LOAN PORTFOLIOS IN SIX FEDERAL AGENCY PROGRAMS

REVIEWED AND SAMPLED BY GAO IN 1986 AND 1987

FINANCIAL CHARACTERISTICS	Veterans Administration Vendee Loans	Department of Housing and Urban Development Multifamily Loans	Department of Agriculture Rural Electrification Loans	Small Business Administration Disaster Home Loans	Department of Education Guaranteed Student Loans - FISL (a)	Department of Education College Housing Loans
Weighted Average Age	6.82 years	Not calculated	10.5 years	7.67 years	10.94 years (b)	12.46 years
Weighted Average Remaining Life to Maturity	22.13 years	24.5 years	24.5 years	15.92 years	0 years (c)	21.54 years
Unpaid Principal Balance of Portfolio	$1.2 billion	$2.8 billion	$14.7 billion	$700 million (d)	$1 billion	$2.2 billion
Weighted Average Interest Rate	10.16 percent	6.9 percent	3.77 percent	3.39 percent	7.24 percent	3.16 percent (e)
COLLECTION STATUS CHARACTERISTICS						
Loan Current Rate	67 percent	69.6 percent	100 percent	92.95 percent	8.7 percent	95.88 percent
Loan Delinquent Rate	26 percent	23.2 percent	0 percent	5.64 percent	91.3 percent (f)	4.12 percent
Loan Uncollectible Rate	7 percent	7.2 percent	0 percent	1.41 percent	(g)	(g)
LOAN FILE DOCUMENTATION CHARACTERISTICS						
Percent of Key Documents in File	86.7 percent	79.6 percent	100 percent	98.5 percent	86.3 percent	24.5 percent (h)
Percent of Key Documents Missing	7.7 percent	4.4 percent	0 percent	0 percent	5.7 percent	65.3 percent (h)
Percent of Files Missing	5.6 percent	16.0 percent	0 percent	1.5 percent	8.0 percent	10.2 percent (h)

(a) Data based on review at two of three regions that service Education's guaranteed student loans, except for the unpaid principal balance.

(b) Average Age.

(c) Once a borrower defaults on a Guaranteed Student Loan Program - Federal Insured Student Loan, the loan, according to the promissory note becomes immediately due and payable. The lender then files a claim and returns the delinquent loan to the Department of Education. Because of the default, these loans have no remaining years to maturity.

(d) The Small Business Administration also has an additional $135 million in uncollateralized loans that we did not review or sample.

(e) Not weighted average interest rate.

(f) Collectibility of delinquent loans is highly questionable.

(g) We could not calculate the uncollectible rate. However, the collectibility of many defaulted loans in the student loan program is doubtful.

(h) Data obtained from sample taken in May 1986.

ATTACHMENT IV

FINANCIAL ANALYSES OF SIX LOAN PORTFOLIOS PROPOSED FOR SALE IN 1987

PORTFOLIO ANALYSES	Veterans Administration Vendee Loans	Department of Housing and Urban Development Multifamily Loans	Department of Agriculture Rural Electrification Loans	Small Business Administration Disaster Home Loans	Department of Education Guaranteed Student Loans - FISL	Department of Education College Housing Loans
PORTFOLIO UNPAID PRINCIPAL BALANCE AT THE TIME OF OUR REVIEW	$ 1,241,376,281	$ 2,798,926,004	$ 14,677,823,506	$ 699,972,264 (a)	$ 1,050,600,000	$ 2,181,387,712
MONTHLY PRINCIPAL AND INTEREST PAYMENTS CURRENTLY RECEIVED	11,770,703	19,754,838	76,553,274	4,747,023	1,056,938,585	11,660,566
GROSS PRINCIPAL AND INTEREST PAYMENTS TO BE RECEIVED IF PORTFOLIO IS HELD OVER REMAINING LIFE	3,125,827,889	5,807,922,372	22,506,662,556	906,871,274	NOT APPLICABLE	3,014,023,100
PRESENT VALUE OF GROSS PRINCIPAL AND INTEREST PAYMENTS IF HELD TO TERM USING TREASURY'S BORROWING INTEREST RATE (b)	1,540,570,865	2,668,816,002 (c)	10,404,531,863	535,381,536	1,037,299,090	1,517,142,954
ESTIMATED VALUE OF PROCEEDS IF THE GOVERNMENT SELLS WITH RECOURSE	(d)	2,798,926,004 (e)	NOT APPLICABLE	(d)	(d)	1,319,540,360
ESTIMATED COST OF RECOURSE PROVISION (f)	(d)	201,522,672	NOT APPLICABLE	(d)	(d)	60,698,856
ESTIMATED VALUE OF PROCEEDS IF THE GOVERNMENT SELLS WITH NO RECOURSE OR PREPAYMENT BY BORROWER	(d)	559,785,200 (e)	9,258,491,987 (g)	(d)	(d)	1,178,651,830
ESTIMATED COST OF NON RECOURSE PROVISION	(d)	2,239,140,804	1,146,039,876	(d)	(d)	338,491,124

(a) THE SMALL BUSINESS ADMINISTRATION ALSO HAS AN ADDITIONAL $135 MILLION IN UNCOLLATERALIZED LOANS THAT WE DID NOT REVIEW OR SAMPLE.

(b) PRESENT VALUE CALCULATED ON MONTHLY AMOUNTS COLLECTED LESS ESTIMATED UNCOLLECTIBLE AMOUNTS. CALCULATIONS BASED ON TREASURY'S 1986 T-BILL, NOTE, AND BOND RATES.

(c) PRESENT VALUE BASED ON TREASURY'S MONTHLY AVERAGE OF 30 YEAR NOTE AND BOND INTEREST RATE.

(d) FIGURES TO BE DEVELOPED.

(e) FIGURE BASED ON ESTIMATE FROM FEDERAL NATIONAL MORTGAGE ASSOCIATION.

(f) BASED ON ESTIMATE OF LOANS RETURNED TO THE GOVERNMENT UNDER THE RECOURSE PROVISION.

(g) THIS REPRESENTS PREPAYMENT BY THE BORROWERS. IF THESE LOANS WERE SOLD TO THE PUBLIC, THE ESTIMATED PROCEEDS WOULD BE $9,834,141,749 WITH RECOURSE OR $9,100,250,574 WITHOUT RECOURSE

ATTACHMENT V