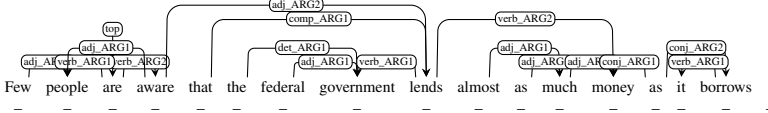


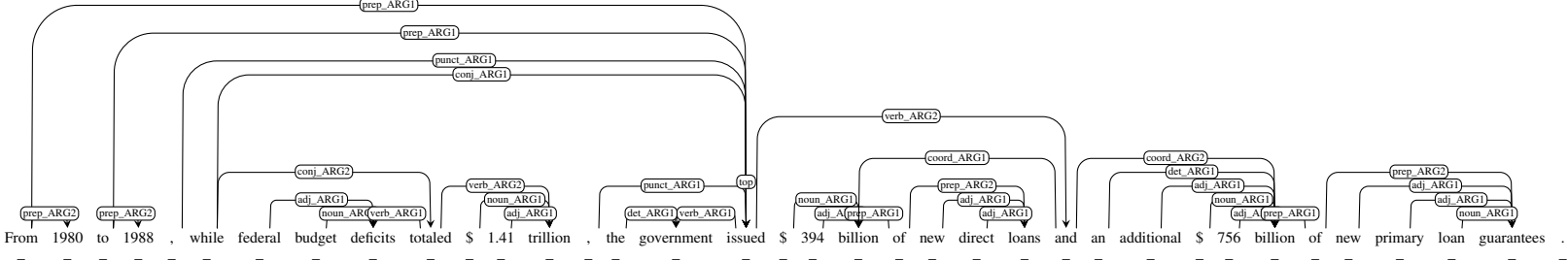
Document 1131

[21131001]



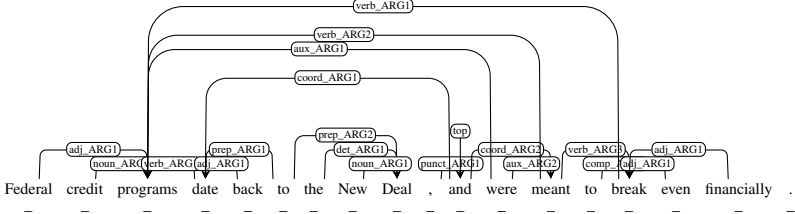
Few people are aware that the federal government lends almost as much money as it borrows .

[21131002]



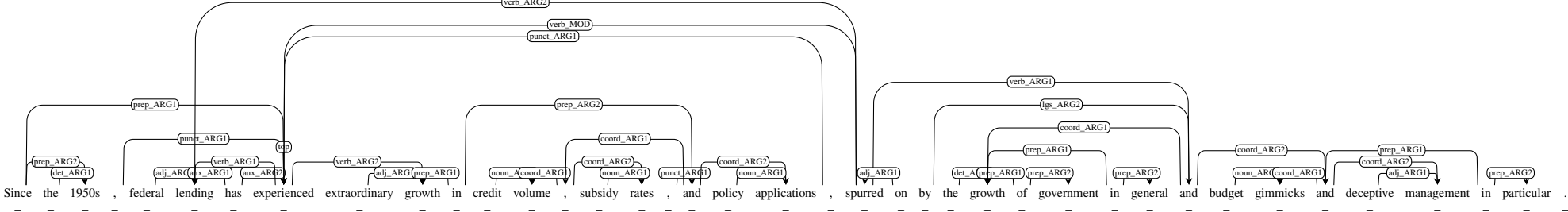
From 1980 to 1988 , while federal budget deficits totaled \$ 1.41 trillion , the government issued \$ 394 billion of new direct loans and an additional \$ 756 billion of new primary loan guarantees .

[21131004]



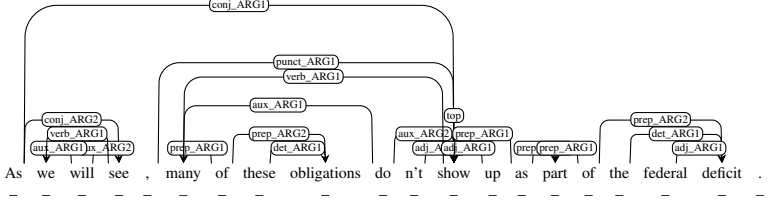
Federal credit programs date back to the New Deal , and were meant to break even financially .

[21131005]



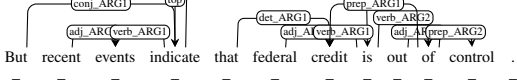
Since the 1950s , federal lending has experienced extraordinary growth in credit volume , subsidy rates , and policy applications , spurred on by the growth of government in general and budget gimmicks and deceptive management in particular .

[21131006]



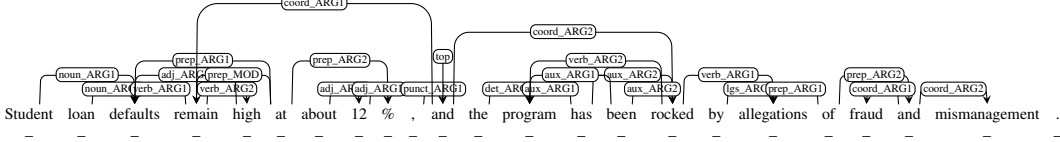
As we will see , many of these obligations do n't show up as part of the federal deficit .

[21131007]



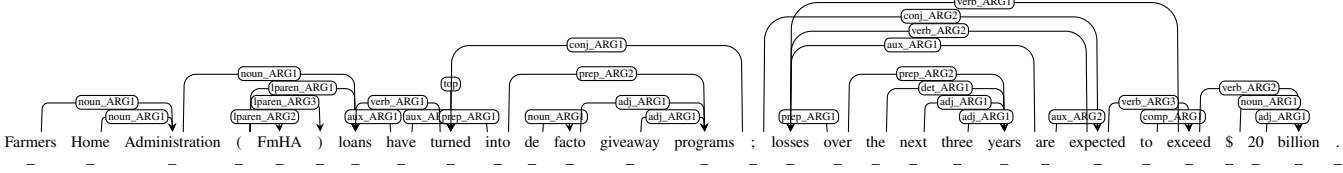
But recent events indicate that federal credit is out of control .

[21131008]



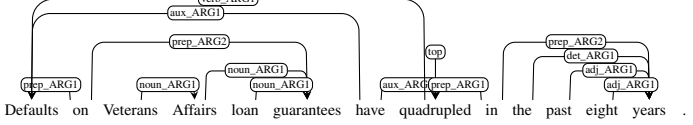
Student loan defaults remain high at about 12 % , and the program has been rocked by allegations of fraud and mismanagement .

[21131009]



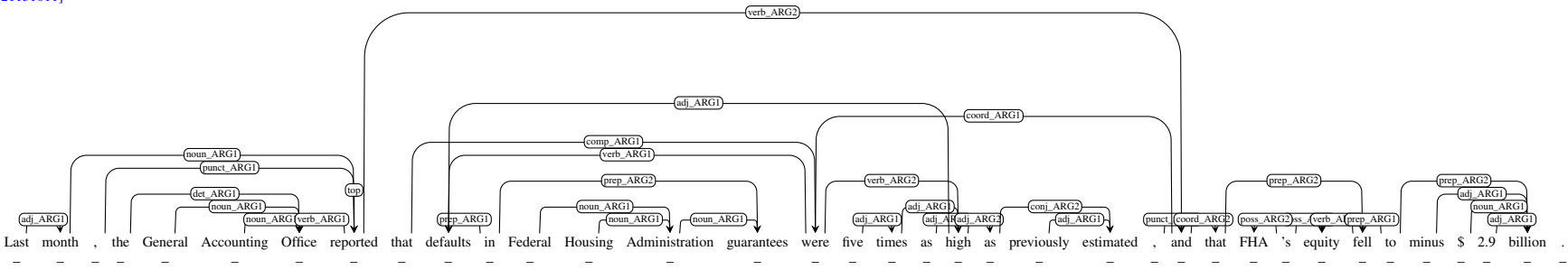
Farmers Home Administration (FmHA) loans have turned into de facto giveaway programs : losses over the next three years are expected to exceed \$ 20 billion .

[21131010]



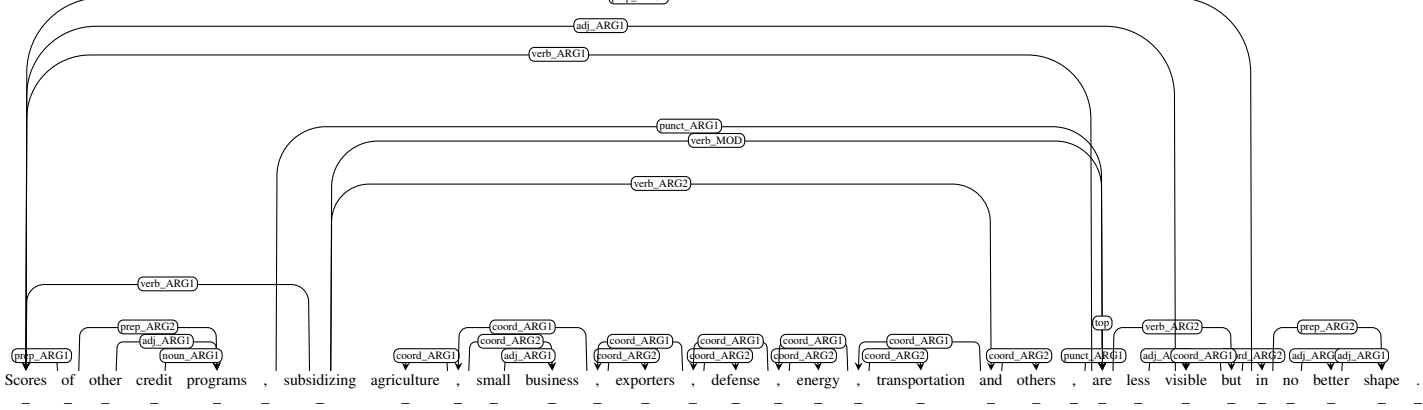
Defaults on Veterans Affairs loan guarantees have quadrupled in the past eight years .

[21131011]



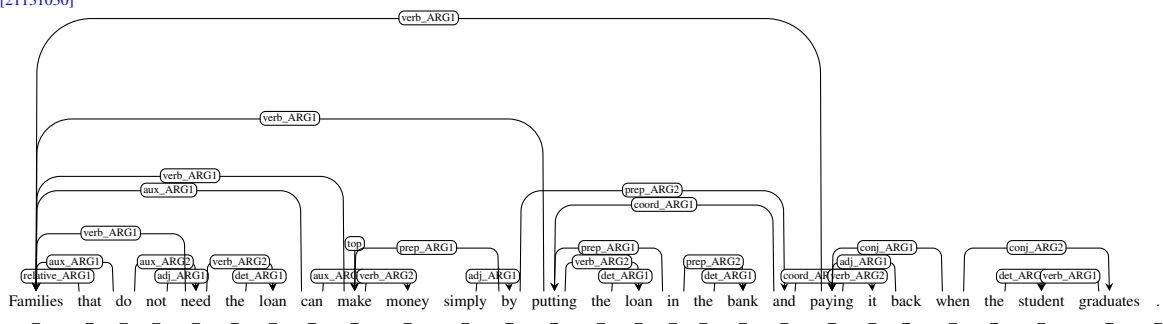
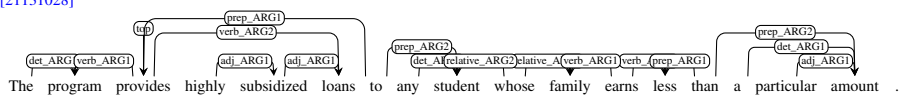
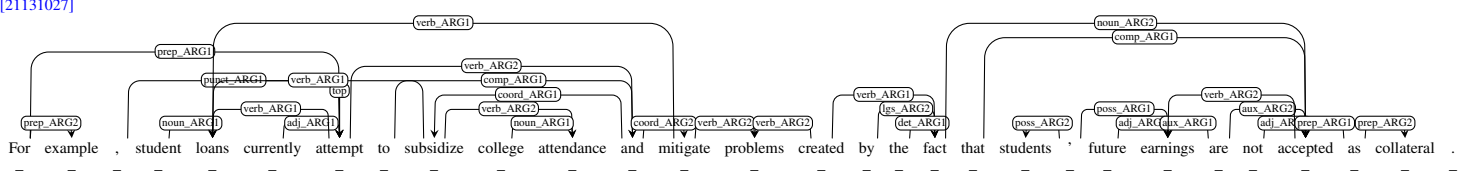
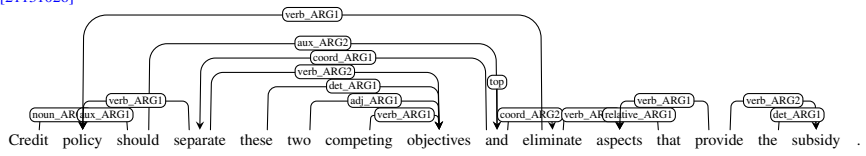
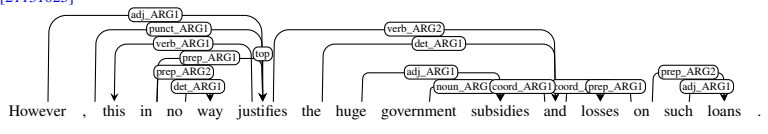
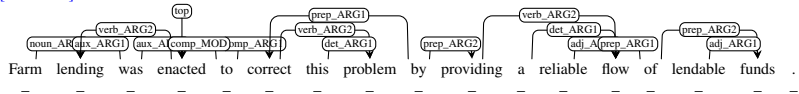
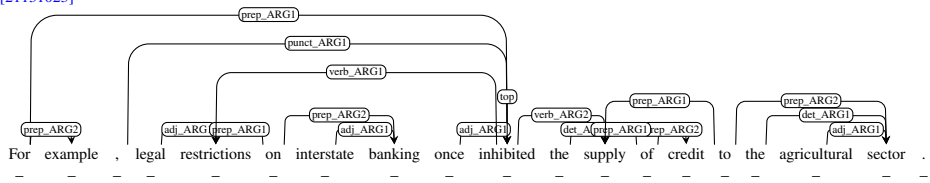
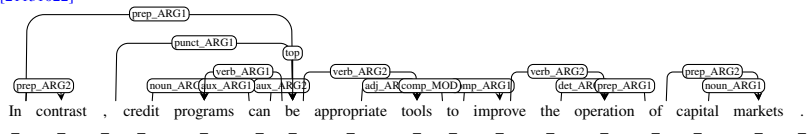
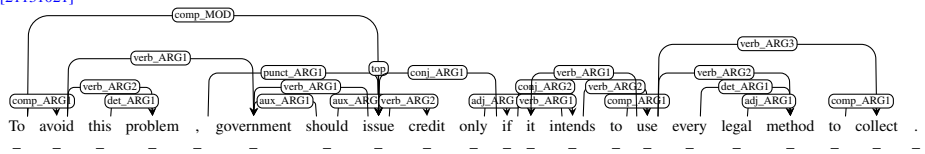
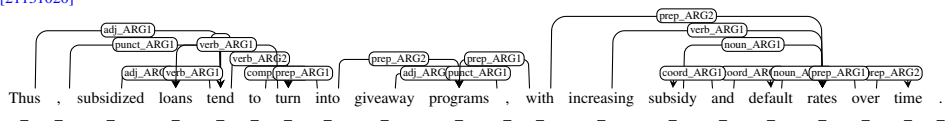
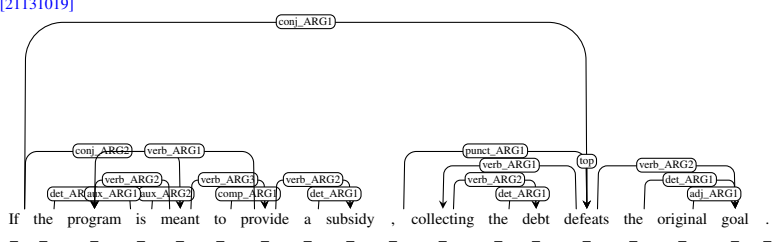
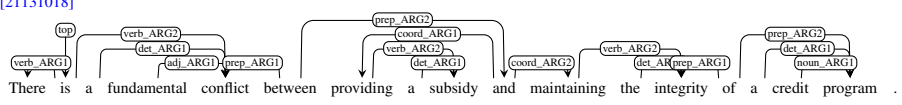
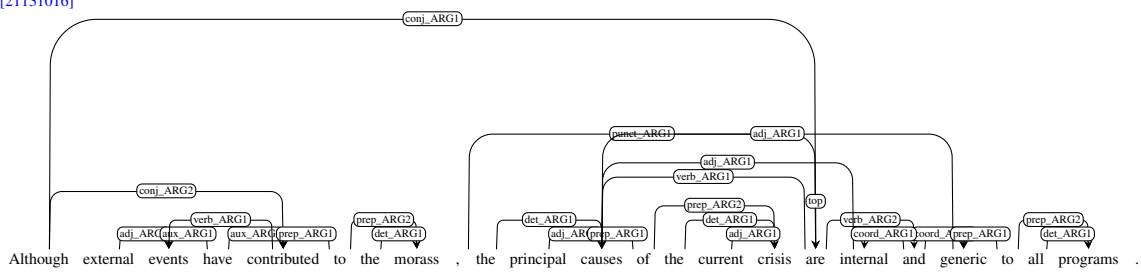
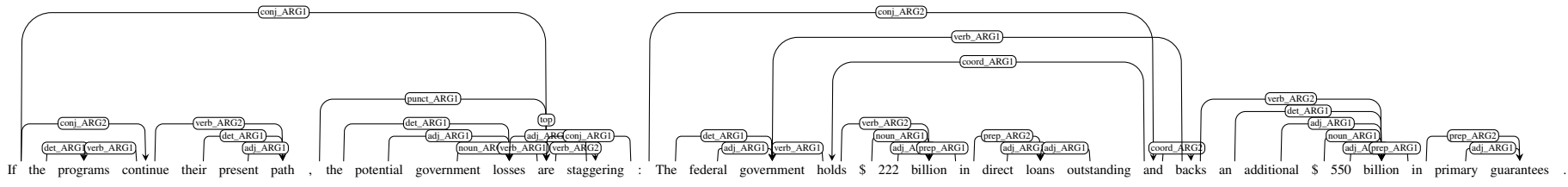
Last month , the General Accounting Office reported that defaults in Federal Housing Administration guarantees were five times as high as previously estimated , and that FHA 's equity fell to minus \$ 2.9 billion .

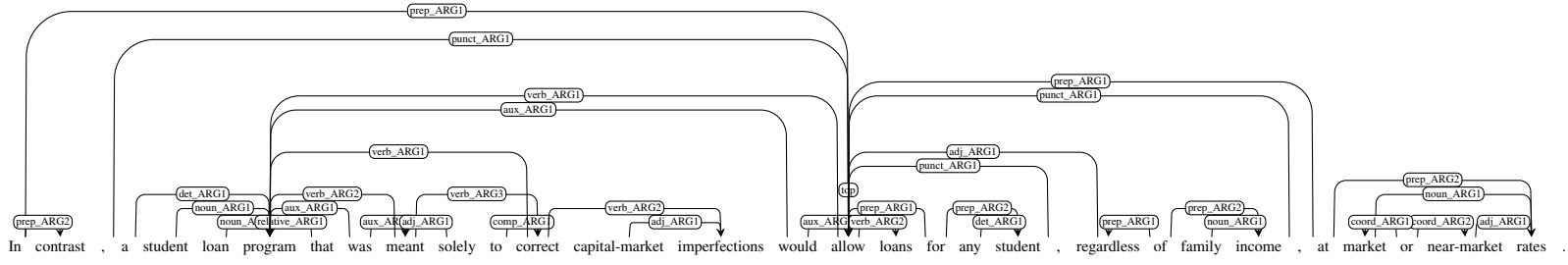
[21131013]



Scores of other credit programs , subsidizing agriculture , small business , exporters , defense , energy , transportation and others , are less viable but in no better shape .

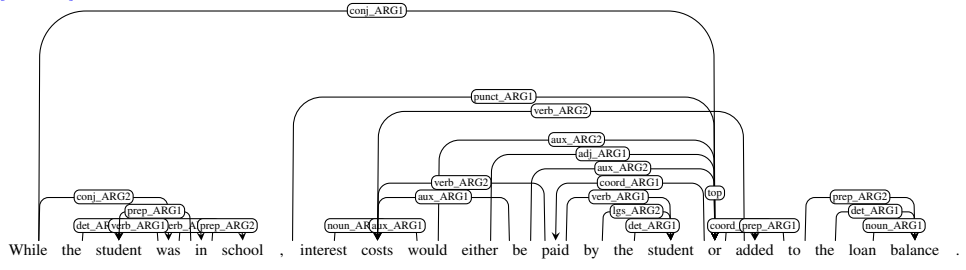
[21131014]





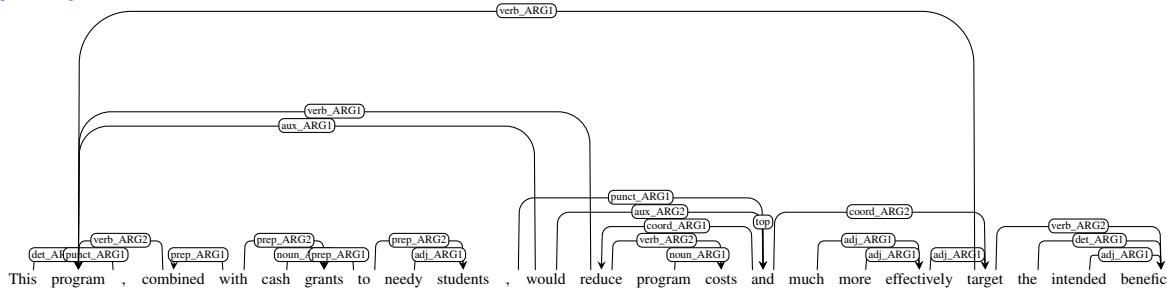
In contrast , a student loan program that was meant solely to correct capital-market imperfections would allow loans for any student , regardless of family income , at market or near-market rates .

[21131032]



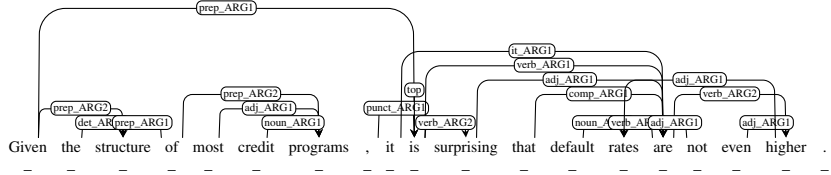
While the student was in school , interest costs would either be paid by the student or added to the loan balance .

[21131033]



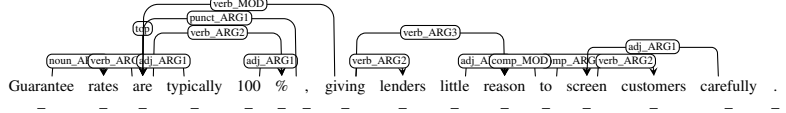
This program , combined with cash grants to needy students would reduce program costs and much more effectively target the intended beneficiaries .

[21131035]



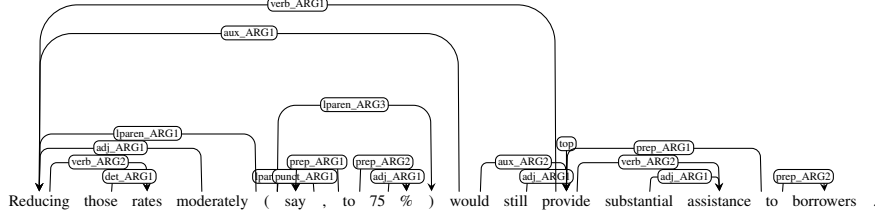
Given the structure of most credit programs , it is surprising that default rates are not even higher .

[21131036]

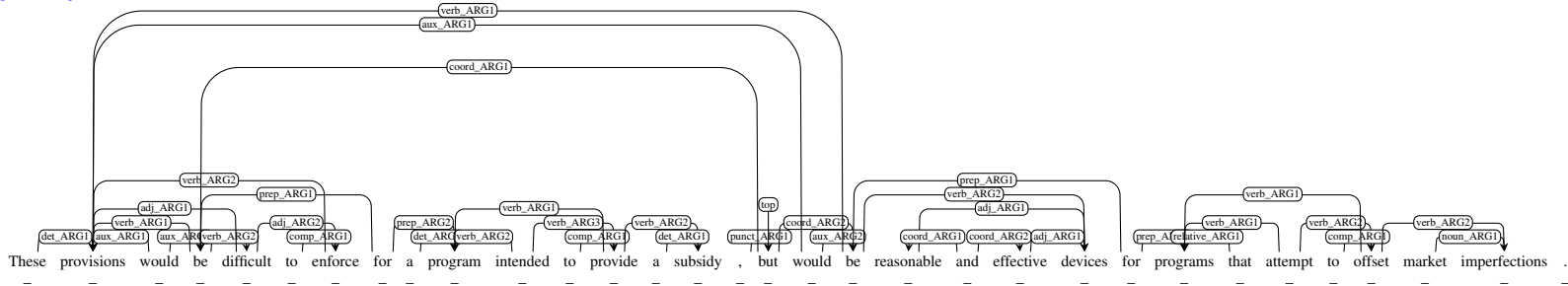


Guarantee rates are typically 100 % , giving lenders little reason to screen customers carefully .

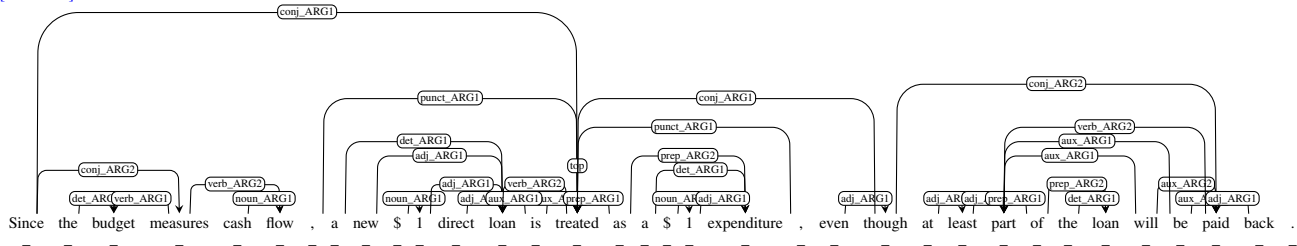
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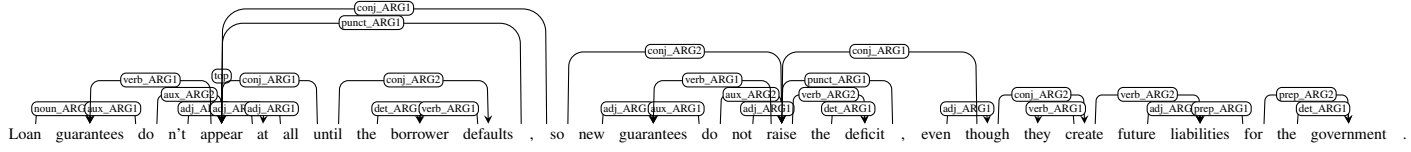
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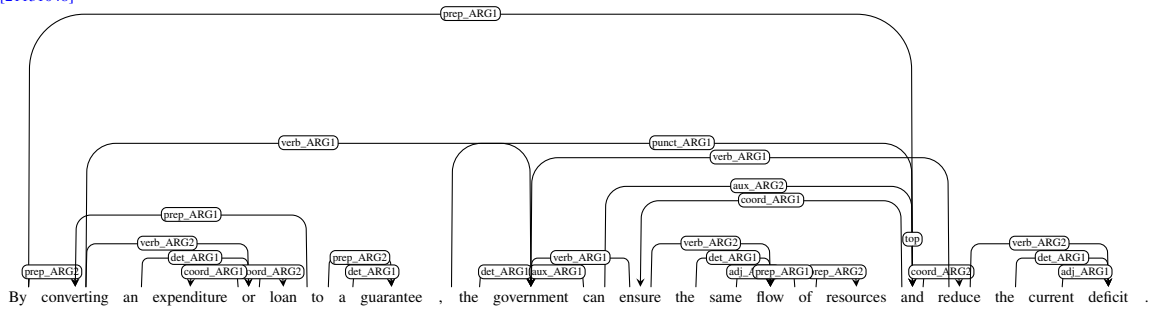
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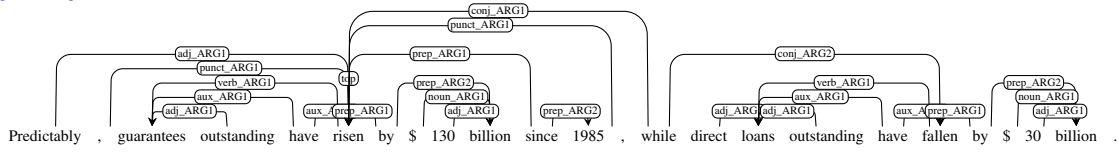
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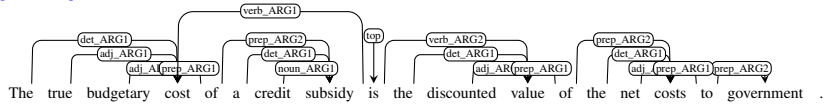
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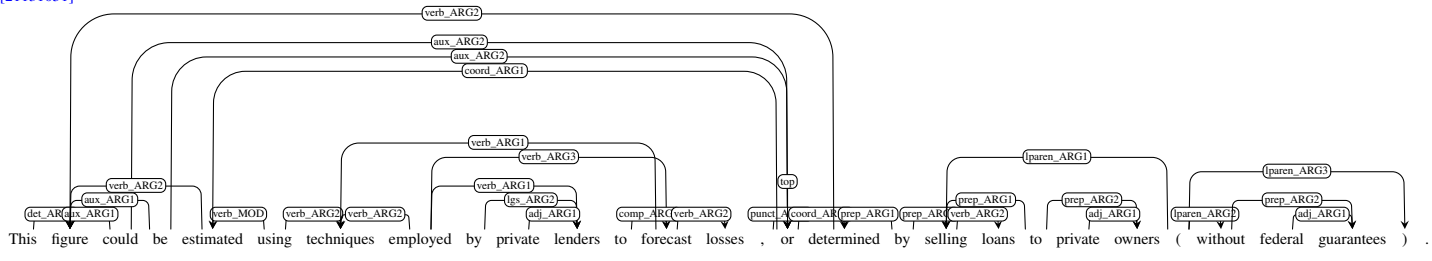
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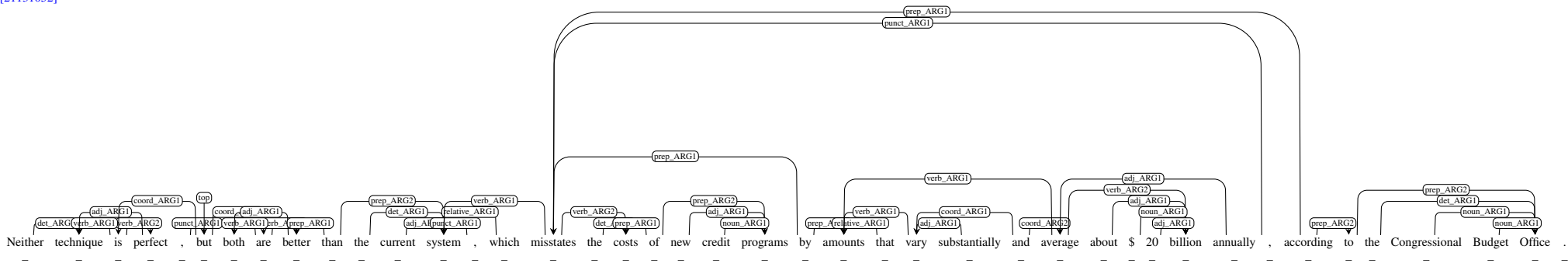
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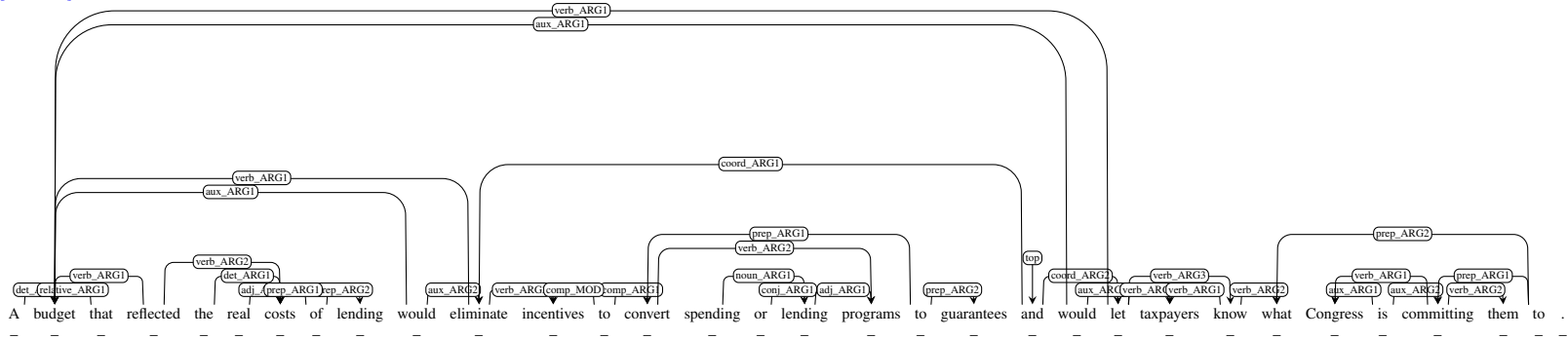
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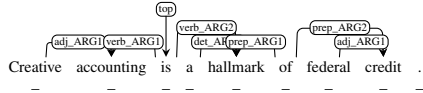
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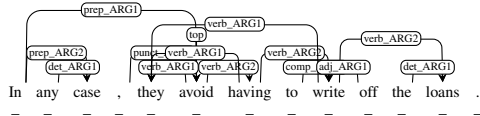
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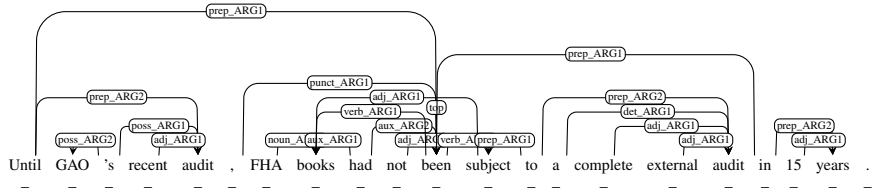
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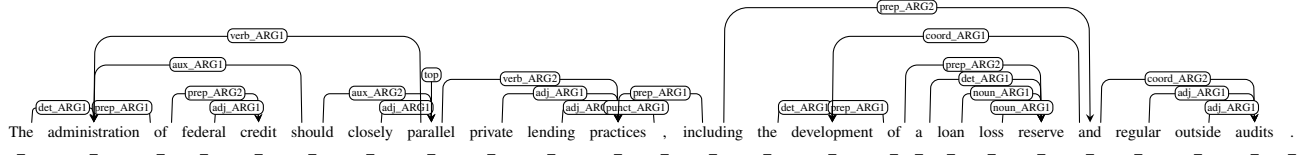
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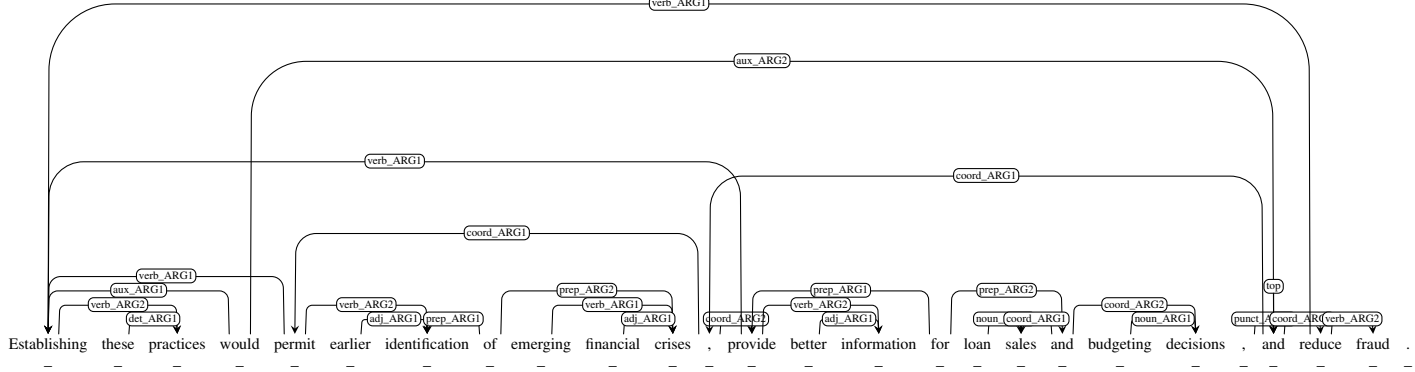
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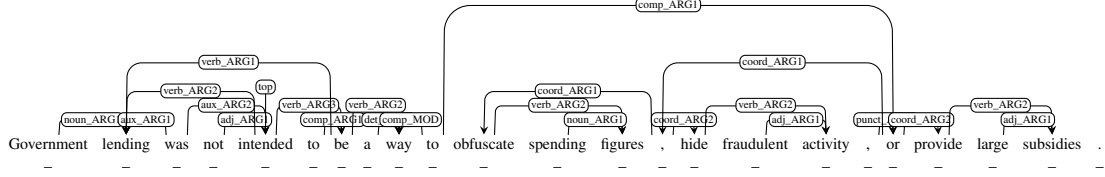
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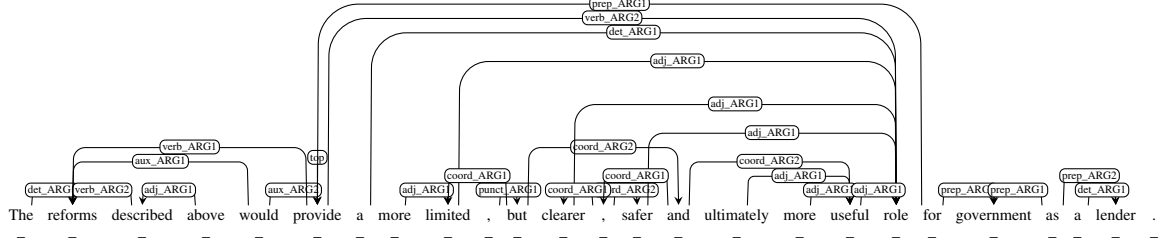
[21131062]



[21131063]



[21131064]



[21131066]

