The basic structure of an international financial agency was introduced in Chapter 1 when the role of development banks and supranational institutions was discussed. The same general process described there, borrowing and guaranteeing funds that are earmarked for a credit worthy borrower of less than the highest calibre, is also practised by domestic agencies on behalf of both institutions and individuals in the United States.

The agency function should not be confused with the role of brokers or investment bankers mentioned in Chapter 3. In the agency sense, the intermediary assumes a liability in the marketplace as a surrogate for another. While depending upon the third party end-borrower for payments so that its own creditors may be satisfied, the agency nevertheless assumes a risk if that third party should default upon payments in point of time. This process is somewhat similar to brokerage or investment banking in that the intermediary also finds itself at risk if the counterparty should fail, but the ultimate distinction between broker and agency lies in the ability of the agency to place its own creditworthiness in place of its end client. This ability is heightened by the fact that these institutions do so for the intermediate to long-term; mostly through the use of public bond borrowings.

As with the case of development banks, this agency function is not well understood because it is a fairly specialised type of financial intermediation that is mostly invisible to the public eye. However, its economic function is vital where practised because it effectively helps centralise the marketplace for borrowers while at the same time shifting the risk of holding debt instruments from institutions to the investing public. This effectively spreads the asset mix of these types of loans to the
largest single source of funds available rather than simply relying upon a specialised set of institutions to bear all the risk in a commercial banking sense.

As financial institutions, most government sponsored or directly related agencies do not deal with the general public directly. Their specialised functions preclude them from being direct depository institutions or intermediaries. They are rather providers of funds according to statute and as such rely upon their standing in the credit markets to provide monies to certain sectors of the economy. Nevertheless, their position enables them to be conduits of funds, not receivers of funds from savers. As intermediary institutions, most of them fund themselves by issuing bonds ranging from the short to the long-term and these obligations normally carry a government guaranty. Their government related status makes them low risk investments carrying low rates of interest. This security makes them appropriate investments for a wide range of financial institutions already mentioned in this book. As will be seen below, the assistance provided by these agencies ranges from providing funds to the housing market, for student loans, for loans to the agricultural sector, and as import loans to buyers of American goods and services.

THE AGENCY FUNCTION

Agencies are, in a financial sense, the intermediaries' intermediary. They provide funds, or liquidity, to financial institutions by purchasing loans from them, utilising their own standing in the marketplace. While not dealing with the public directly they are nevertheless able to provide funds for specific, and normally "big ticket", items.

As an example, imagine for a moment an American housebuyer seeking a mortgage for thirty years on a residential dwelling. The potential buyer approaches a bank or other mortgage granting institution and applies for a loan. The institution agrees, sets a rate and releases funds to the buyer. Behind this seemingly simple process, already described in Chapter 4, many more complex factors are at work than may ostensibly meet the eye. The credit process by which the lender decides to grant the mortgage is essentially the same, regardless