Credit Reform: 
Cash Flows for Direct Loans

 EXAMPLE: $100 loan, 20% subsidy, disbursed in one year.

1. The Congress appropriates $20 in subsidy budget authority to the program account.

2. The $20 subsidy is obligated when the $100 loan is obligated.

3. The $20 subsidy is outlaid to the financing account at the time the $100 loan is disbursed to borrower. Simultaneously, the financing account borrows the additional $80 from the U.S. Treasury need to make the $100 loan.

4. The borrower pays fees, interest, and principal to the financing account under the terms of the contract.

5. The financing account makes payments to the U.S. Treasury over time on the $80 of borrowing. If the subsidy rate is accurate, the loan repayments (and other payments) to the financing account will be exactly the amount necessary to repay the original Treasury borrowing ($80) plus interest.

6. If the subsidy is not accurate, a reestimate shall be made and, as necessary, either (1) an additional subsidy shall be disbursed from the program account to the financing account to cover the amount of the reestimate or (2) excess funds shall be moved from the financing account to a negative receipt account, where these funds are unavailable until appropriated.
Credit Reform: Cash Flows for Loan Guarantees

EXAMPLE: $100 loan with 75% Federal guarantee, 20% subsidy rate, disbursed in one year, upfront fee of 2%, and 40% default rate, no recoveries.

1. Congress appropriates $20 in subsidy budget authority to the program account.

2. The $20 subsidy is obligated when the $100 loan is obligated.

3. The lending institution lends a 75 percent government guaranteed $100 loan to the borrower. When the loan is disbursed, $20 in subsidy BA is outlayed to the financing account. The borrower pays a 2 percent upfront fee to the agency, which is deposited into the financing account.

4. Reserves (uninvested funds) are held in the financing account and earn interest.

5. The borrower pays principal and interest to the lending institution.

6. If the borrower defaults, the reserves held in the financing account are used to make claim payments to the lending institution. If the subsidy rate is accurate, the financing account will have exactly the reserves needed to cover all defaults and other subsidies for that cohort of loans.

7. If the subsidy is not accurate, a reestimate shall be made and, as necessary, either: (a) additional subsidy shall be disbursed from the program account to the financing account to cover the amount of the reestimate or (b) excess funds shall be moved from the financing account to a negative receipt account, where these funds are unavailable until appropriated.