CHAPTER 4

CREDIT MANAGEMENT

0401 OVERVIEW

040101. Purpose. This chapter establishes the policy and procedures for credit management within the Department of Defense. The polices and procedures for credit programs reflect the requirements of the Federal Credit Reform Act of 1990. The Federal Credit Reform Act of 1990 is found at Title V of the Congressional Budget Act of 1974, as amended by section 13201 of the Omnibus Budget Reconciliation Act of 1990. The major purposes of the Act are to:

- measure more accurately the costs of credit programs;
- place the cost of credit programs on a budgetary basis equivalent to other Federal spending;
- encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and
- improve the allocation of resources among credit programs and between credit and other spending programs.

040102. General. The policies set forth in this chapter apply to direct loan obligations and loan guarantee programs. The chapter provides implementing guidance for "Credit Apportionment and Budget Execution," found within the Office of Management and Budget (OMB) Circular No. A-34. It also implements "Accounting for Direct Loans and Loan Guarantees," Statement of Federal Financial Accounting Standards Number 2.

0402 STANDARDS

040201. Explanation. The specific accounting standards for each category type of loans, are discussed in the subsequent sections of this Volume. These standards concern the recognition and measurement of direct loans, the liability associated with loan guarantees, and the cost of direct loans and loan guarantees. (Figure 4-1 and 4-2 provides examples the credit reformtm cash flows for direct and guaranteed loans) The standards apply to direct loans and loan guarantees on a group basis, such as a cohort or a risk category, Section 0410 Credit Reform Accounts and Definitions, provides definitions for these categories. Present value accounting does not apply to direct loans or loan guarantees on an individual basis, except for a direct loan or loan guarantee that constitutes a cohort or a risk category.

040202. Accounting Standards

A. Post-1991 Direct Loans. Refers to direct loan obligations or made after the beginning of the fiscal year 1992, i.e., after October 1, 1991, and the resulting direct loans. Direct loans disbursed and outstanding are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance.

B. Post-1991 Guarantees. Refers to loan guarantee commitments made after the beginning of the fiscal year 1992, i.e., after October 1, 1991, and the resulting loan guarantees. For guaranteed loans outstanding, the present value of estimated net cash outflows of the loan guarantees is recognized as a liability. Disclosure is made of the face value of guaranteed loans outstanding and the amount guaranteed.

C. Subsidy Costs of Post-1991 Direct Loans and Loan Guarantees. For direct or guaranteed loans disbursed during a fiscal year, a subsidy expense is recognized. The amount of the subsidy expense equals the present value of estimated cash outflows over the life of the loans minus the present value of estimated cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term, applicable to the period during which the loans are disbursed (hereinafter referred to as the applicable Treasury interest rate).

1. For the fiscal year during which new direct or guaranteed loans are disbursed, the components of the subsidy expense of those new direct loans and loan guarantees are recognized separately among interest subsidy costs, default costs, fees and other collections, and other subsidy costs.

2. The interest subsidy cost of direct loans is the excess of the amount of the loans disbursed over the present value of the interest and principal payments required by the loan contracts discounted at the applicable Treasury rate. The interest subsidy cost of loan guarantees is the present value of estimated interest supplement payments.

3. The default cost of direct loans or loan guarantees results from any anticipated deviation, other than prepayments by the borrowers, from the payments schedule in the loan contracts. The deviations include delinquencies and omissions in interest and principal payments. The default cost is measured at the present value of the projected payment delinquencies and omissions minus net recoveries. Projected net recoveries include the amounts that would be collected from the borrowers at a later date, or the proceeds from the sale of acquired assets, minus the costs of foreclosing, managing, and selling those assets.

4. The present value of fees and other collections is recognized as a deduction from subsidy costs.

5. Other subsidy costs consist of cash flows that are not included in calculating the interest or default subsidy costs, or in fees and other collections. They include the effect of prepayments within contract terms.

D. Subsidy Amortization and Reestimation. The subsidy cost allowance for direct loans is amortized by the interest method using the interest rate that was originally used to calculate the present value of the direct loans when the direct loans were disbursed. The amortized amount is recognized as an increase (effective interest exceeds nominal interest) or decrease (nominal interest exceeds effective interest) in interest income. Nominal interest equals the nominal (face amount) of the loan times the stated interest rate. Effective interest equals the book value of the loan times the applicable Treasury interest rate.

1. Interest is accrued and compounded on the liability of loan guarantees at the interest rate that was originally used to calculate the present value of the loan guarantee liabilities when the guaranteed loans were disbursed. The accrued interest is recognized as interest expense.

2. The subsidy cost allowance for direct loans and the liability for loan guarantees are reestimated at the beginning of the fiscal year after the year of disbursements. Since the allowance or the liability represents the present value of the net cash outflows of the underlying direct loans or loan guarantees, the reestimation takes into account all factors that may have affected the estimate of each component of the cash flows, including prepayments, defaults, delinquencies, and recoveries. Any increase or decrease in the subsidy cost allowance or the loan guarantee liability resulting from the reestimates is recognized as a subsidy expense (or a reduction in subsidy expense). Reporting the subsidy cost allowance of direct loans (or the liability of loan guarantees) and reestimates by component is not required.

E. Criteria for Default Cost Estimates. The criteria for default cost estimates provided in this and the following paragraphs apply to both initial estimates and subsequent reestimates. Default costs are estimated and reestimated for each program on the basis of separate cohorts and risk categories. The reestimates take into account the differences in past cash flows between the projected and realized amounts and changes in other factors that can be used to predict the future cash flows of each risk category.

1. In estimating default costs, the following risk factors are considered: (l) loan performance experience; (2) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (3) financial and other relevant characteristics of borrowers; (4) the value of collateral to loan balance; (5) changes in recoverable value of collateral; and (6) newly developed events that would affect the loan's performance. Improvements in methods to reestimate defaults are also considered.

2. Each credit program should use a systematic methodology, such as an econometric model, to project default costs of each risk category. If individual accounts with

significant amounts carry a high weight in risk exposure, an analysis of the individual accounts is warranted in making the default cost estimate for that category.

3. Actual historical experience of the performance of a risk category is a primary factor upon which an estimation of default cost is based. To document actual experience, a data base should be maintained to provide historical information on actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

F. Revenues and Expenses. Interest accrued on direct loans, including amortized interest, is recognized as interest income. Interest accrued on the liability of loan guarantees is recognized as interest expense. Interest due from the Treasury Department on uninvested funds is recognized as interest income. Interest accrued on debt to the Treasury Department is recognized as interest expense.

1. Costs for administering credit activities, such as salaries, legal fees, and office costs, that are incurred for credit policy evaluation, loan and loan guarantee origination, closing, servicing, monitoring, maintaining accounting and computer systems, and other credit administrative purposes, are recognized as administrative expense. Administrative expenses are not included in calculating the subsidy costs of direct loans and loan guarantees.

G. Pre-1992 Direct Loans and Loan Guarantees. The losses and liabilities of direct loans obligated and loan guarantees committed before October 1, 1991, are recognized when it is more likely than not that the direct loans will not be collected totally or that the loan guarantees will require a future cash outflow to pay default claims.

1. The allowance of the uncollectible amounts and the liability of loan guarantees should be reestimated each year as of the date of the financial statements. In estimating losses and liabilities, the risk factors discussed in the previous section should be considered. Disclosure is made of the face value of guaranteed loans outstanding and the amount guaranteed.

2. Restatement of pre-1992 direct loans and loan guarantees on a present value basis is permitted but not required.

H. Modification of Direct Loans and Loan Guarantees. The term modification means a Federal Government action, including new legislation or administrative action, that directly or indirectly alters the estimated subsidy cost and the present value of outstanding direct loans, or the liability of loan guarantees.

1. Direct modifications are actions that change the subsidy cost by altering the terms of existing contracts or by selling loan assets. Existing contracts may be altered through such means as forbearance, forgiveness, reductions in interest rates, extensions of maturity, and prepayments without penalty. Such actions are modifications unless they are

considered reestimates, or workouts as defined below, or are permitted under the terms of existing contracts.

2. Indirect modifications are actions that change the subsidy cost by legislation that alters the way in which an outstanding portfolio of direct loans or loan guarantees is administered. Examples include a new method of debt collection prescribed by law or a statutory restriction on debt collection.

3. The term modification does not include subsidy cost reestimates, the routine administrative workouts of troubled loans, and actions that are permitted within the existing contract terms. Workouts are actions taken to maximize repayments of existing direct loans or minimize claims under existing loan guarantees. The expected effects of work-outs on cash flows are included in the original estimate of subsidy costs and subsequent reestimates.

I. Modification of Direct Loans. With respect to a direct or indirect modification of pre-1992 or post-1991 direct loans, the cost of modification is the excess of the pre-modification value of the loans over their post modification value. The amount of the modification cost is recognized as a modification expense when the loans are modified.

1. When a post-1991 direct loan is modified, its existing book value is changed to an amount equal to the present value of the loan's net cash inflows projected under the modified terms from the time of modification to the loan's maturity. It is discounted at the original discount rate (the rate that is originally used to calculate the present value of the direct loans, when the direct loans were disbursed).

2. When a pre-1992 direct loan is directly modified, it is transferred to a financing account and its book value is changed to an amount equal to its post-modification value. Any subsequent modification is treated as a modification of post-1991 loans. When a pre-1992 direct loan is indirectly modified, it is kept in a liquidating account. Its bad debt allowance is reassessed and adjusted to reflect amounts that would not be collected due to the modification.

3. The changes in the book value of both pre-1992 and post-1991 direct loans, resulting from a direct or indirect modifications, normally have cost differences attributable to the use of different discount rates or different measurement methods. Reference Office of Management and Budget Circular A-34 dated December, 1995. Any difference between the change in book value and the cost of modification is recognized as a gain or loss. For post-1991 direct loans, the modification adjustment transfer paid or received to offset the gain or loss is recognized as a financing source (or a reduction in financing source).

J. Modification of Loan Guarantees. With respect to a direct or indirect modification of pre-1992 or post-1991 loan guarantees, the cost of modification is the excess of the post-modification liability of the loan guarantees over their pre-modification liability. The modification cost is recognized as modification expense when the loan guarantees are modified.

1. The existing book value of the liability of modified post-1991 loan guarantees is changed to an amount equal to the present value of net cash outflows projected under the modified terms from the time of modification to the loans' maturity. It is discounted at the original discount rate (the rate that is originally used to calculate the present value of the liability when the guaranteed loans were disbursed).

2. When a pre-1992 loan guarantee is directly modified, it is transferred to a financing account and the existing book value of the liability of the modified loan guarantees is changed to an amount equal to its post-modification liability. Any subsequent modification is treated as a modification of post-1991 loan guarantees. When a pre-1992 loan guarantee is indirectly modified, it is kept in a liquidating account. The liability of such loan guarantees is reassessed and adjusted to reflect any change in the liability resulting from the modification.

3. The change in the amount of liability of both pre-1992 and post-1991 loan guarantees resulting from a direct or indirect modification and the cost of modification will normally differ, due to the use of different discount rates or the use of different measurement methods. Any difference between the change in liability and the cost of modification is recognized as a gain or loss. For post-1991 loan guarantees, the modification adjustment transfer paid or received to offset the gain or loss is recognized as a financing source (or a reduction in financing source).

K. <u>Disclosure</u>. Disclosure is made in notes to financial statements to explain the nature of the modification of direct loans or loan guarantees, the discount rate used in calculating the modification expense, and the basis for recognizing a gain or loss related to the modification.

L. <u>Foreclosure of Post-1991 Direct Loans and Guaranteed Loans</u>. When property 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, the foreclosed property is recognized as an asset. The asset is recorded at the present value of its estimated future net cash inflows discounted at the original discount rate.

1. If a legitimate claim exists by a third party or by the borrower to a part of the recognized value of the foreclosed assets, the present value of the estimated claim is recognized as a special contra valuation allowance.

2. Upon the foreclosure of a guaranteed loan, a federal guarantor may acquire the loan involved. The acquired loan is recognized at the present value of its estimated net cash inflows from selling the loan or from collecting payments from the borrower, discounted at the original discount rate.

3. When assets are acquired in full or partial settlement of post-1991 direct loans or guaranteed loans, the present value of the government's claim against the borrowers is reduced by the amount settled as a result of the foreclosure.

M. Write-off of Direct Loans. When post-1991 direct loans are Written off, the unpaid principal of the loans is removed from the gross amount of loans receivable. Concurrently, the same amount is charged to the allowance for subsidy costs. Prior to the write-off, the uncollectible amounts should have been fully provided for in the subsidy cost allowance through the subsidy cost estimate or reestimates. Therefore, the write-off would have no effect on expenses.

0403 CREDIT REFORM FUND CONTROLS

040301. Fund Control. For credit programs, systems for administrative control of funds are required to:

A. Restrict both obligations and expenditures from each program account, financing account, and liquidating account to the lesser of:

1. The amounts available for administrative expenses, direct loan subsidies, direct loan levels, guaranteed loan levels, and any limitations specified in law; or

2. The amounts apportioned for the amounts specified above.

B. Enable the fixing of responsibility for an obligation or expenditure exceeding the categories specified above.

C. Simultaneously determine, at the obligation stage for direct loans and at the commitment stage for guaranteed loans, whether sufficient budget authority for the subsidy exists in the program account and whether a sufficient unused loan level limit exists in the financing account. The system for calculating obligations also must be capable of changing the subsidy calculation when the Treasury interest rate changes. (Rate changes do not affect obligated but undisbursed loans in the case of direct loans and committed but undisbursed loans in the case of guaranteed loans.)

040302. Antideficiency Act Violations. For direct loan, guaranteed loan, and financing accounts, Antideficiency Act violations, reportable to the President, through the Director of OMB, and to the Congress, include the following:

A. Overobligation or Overexpenditure of the Subsidy. This is any case where an officer or employee of the United States makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, that is in excess of (1) the direct loan subsidy or (2) the guaranteed loan subsidy.

Violations include modifications of direct loans or loan guarantees, such as forgiveness, forbearance, reductions in interest rate, prepayments without penalty, and extensions of maturity, that result in obligations in excess of apportioned unobligated balances or subsidy amounts.

B. Overobligation or Overexpenditure of the Credit Level Supportable by the Enacted Subsidy. This is any case where an officer or employee of the United States makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, that is in excess of the credit program level supportable by the enacted subsidy, regardless of whether the subsidy is positive or negative. This includes obligations or expenditures that are in excess of (1) the direct loan level, (2) the guaranteed loan level or (3) any limitations on the loan level or the Federal share of guaranteed loan levels.

C. Overobligation or Overexpenditure of the Amount Appropriated for Administrative Expenses. This is any case where an officer or employee of the United States makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, that is in excess of the amount appropriated for administrative expenses.

D. Obligation or Expenditure of the Lapsed Unobligated Balance of the Subsidy, Except to Correct Mathematical or Data Input Errors in Calculating Subsidy Amounts. This is any case where an officer or employee of the United States makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, against unobligated subsidy balances after the period of obligational authority has expired. Correction of mathematical or data input errors up to the amount of the lapsed unobligated balance of the subsidy are specifically exempted. Corrections of these errors in excess of the amount of the lapsed unobligated balance of the subsidy are violations.

0404 CREDIT APPORTIONMENT AND REAPPORTIONMENT

040401. Basis for Apportionment. Unless specifically exempted by the OMB, all program, financing, and liquidating accounts will be apportioned. The apportionment document signed by the responsible OMB officials and all attachments transmitted to the agency are a part of the apportionment, unless otherwise specified on the apportionment document.

040402. Timing of Requests. Initial apportionment requests for direct loans and guaranteed loans will be submitted to the OMB within 10 calendar days after the enactment of the appropriations act.

A. Requests for reapportionment will be submitted to the OMB as soon as a change in the previous apportionment becomes necessary due to changes in amounts provide current data on each available, program requirements, or other factors.

B. Reapportionment requests made specifically for reestimates due to a change in the Treasury rate (yield) between the time of obligation and the time of disbursement will be submitted to the OMB in the year following disbursement.

C. Reapportionment requests will be required for subsidy reestimates and modifications.

040403. Types of Apportionment. Credit accounts will be apportioned in the same manner as non-credit accounts. This means that the credit accounts may be apportioned by time periods or by categories, or by a combination of time periods and categories, as determined by the OMB.

040404. Reporting Format and Procedures. Unless otherwise specified by the OMB, an original and one copy of an apportionment form will be submitted to the OMB. The original will be signed by an officer duly authorized by the head of the agency.

A. Figure 4-3 provides and illustration of Standard Form 132. This form will be used for program accounts that contain credit administrative expenses for both direct loans and guaranteed loans:

0405 REPORTS ON BUDGET EXECUTION (SF133)

040501. Coverage. Unless otherwise specified by the OMB, reports on budget execution will be prepared by all agencies to provide current data on each credit account, whether or not apportioned. Expired accounts will be included on the same form as the unexpired account (or accounts) of the same title.

040502. Timing of Reports. Reports on credit execution will be submitted electronically through, the Department of Treasury GOALS system, each quarter beginning with the second quarter of FY 1994, or such other time period specified by the OMB.

040503. Supporting Data. The execution reports will be accompanied by data supporting the various lines, including data on risk categories or financing tranches, whenever such data are required by OMB.

040504. Reporting Format and Procedures. For all liquidating accounts, continue to use Standard Form 133 (Figure 4-4).

040505. Number of Copies and Signature. An original and one copy of the appropriate version of the SF 133 or an approved substitute will be submitted directly to the OMB program division that has primary responsibility for reviewing the agency's budget. The original will be signed by an officer duly authorized by the head of the agency. Responsible agencies will also submit a copy of the reports to addresses that receive the Report on Budget Execution (Acct Rpt (M) 1176).

040506. Refunds. Refunds of obligations that were incurred erroneously in the current fiscal year will be netted against line 8, Obligations Incurred. Refunds of obligations incurred in prior fiscal years will be placed on line 4, Recoveries of Prior Year Obligations. These must be reapportioned before they can be used.

0406 DIRECT LOANS

040601. Direct Loan Apportionment and Reapportionment Schedule (SF132). This schedule (Figure 4-3) simultaneously apportions the direct loan program account and financing account.

040602. Recording Obligations, Disbursing Loans, and Reestimating Subsidies. Note that the subsidy is not recalculated at the time of loan disbursement. Rather, any change in estimated subsidy caused by an interest rate change is made at the beginning of the fiscal year after the fiscal year in which the loan is disbursed. If, at that time, the subsidy amount increases, a reapportionment request is needed to fund the increase. The permanent indefinite appropriation will be used to fund the increase. If the subsidy amount decreases, a payment will be made to a special fund receipt account.

040603. Reports on Execution--Direct Loans. Reports on Execution for direct loans will be reported on the SF133.

0407 GUARANTEED LOANS

040701. Guaranteed Loan Apportionment and Reapportionment Schedule (SF 133). This schedule (Figure 4-4) simultaneously apportions the guaranteed loan program account and financing account.

040702. Reports on Budget Execution--Guaranteed Loans. For the program account and for the financing account the Credit Execution reporting for guaranteed loans will be reported on the SF 133.

0408 COMPUTATION OF INTEREST EXPENSE AND INTEREST INCOME

040801. Procedures for Computing Interest Expense and Interest Income for Credit Financing Accounts. A simplified set of procedures has been developed to compute interest for direct loan and guaranteed loan financing accounts under credit reform. The procedures describe computations for: (1) interest expenses on borrowing from Treasury by financing accounts and (2) interest income on uninvested funds in financing accounts. The detailed computational processes have been divided into one set of modules for direct loans and a separate set of modules for guaranteed loans.

A. These computations may be used in lieu of the tranche accounting requirements prescribed by the OMB. If these procedures are used, the credit data base need only provide subdivisions for cohort and risk category. The modules have been designed to simplify these computations and enhance user understanding of the objectives of each major computation. These modules may be physically designed in any suitable configuration, as long as the principles which underlie the interest computations are not compromised.

B. In many instances, categories of disbursements and collections shown as line items in the modules are not critical to the computations as separate items or may not be applicable to all programs. Separate categories have been included to clarify the content of a collections or disbursements total. Consequently, the modules may be redesigned to summarize these categories, if the summary does not compromise the principles which underlie the computational requirements.

C. As a minimum, these new procedures must be applied to fiscal year 1994 transactions and year end balances for all credit reform cohorts. DoD Components may request Treasury Department approval to retroactively adjust FY 1992 and 1993 interest expense and income using these procedures.

D. The frequency of interest computations has been changed to require only annual computations of interest expense and income related to Treasury Department transactions.

040802. Instructions for Computations of Interest Expense and Interest Income for Direct and Guaranteed Loan Programs.

A. Background. Interest expense in a direct loan program results from borrowing from the Treasury Department. As each loan is disbursed by the financing account to the individual borrower, subsidy funds are transferred from the program account to the financing account. Consequently, each loan disbursement is financed by two sources--subsidy transfer and borrowing from the Treasury Department.

B. A single borrowing from the Treasury Department is made at the beginning of each fiscal year, separately for each cohort on the basis of the estimated net loan disbursements for the cohort. Interest expense accrues on the borrowing, and interest income accrues on the undisbursed balance of the Treasury Department borrowing. (The undisbursed balance of Treasury Department borrowing is held as uninvested funds and earns interest.) The interest rate earned on the uninvested funds equals the interest rate paid on borrowing from the Treasury Department.

040803. Frequency of Interest Computations. The OMB has determined that most credit programs do not have a seasonal bias in their loan disbursement patterns. Consequently, interest expense and income calculations for cohorts which are currently disbursing will be based on an assumption that the actual loan amounts disbursed during the year were disbursed equally throughout the four quarters. The assumption allows agencies to compute interest expenses and interest income annually, at the end of each fiscal year, using the average annual interest rate provided by the OMB and the Treasury Department. Quarterly or monthly computations are no longer required. In those few programs that have a strong seasonal pattern, the OMB will calculate special weighted average interest rates appropriate to these patterns and will provide them to the agencies.

040804. Weighted Average Interest Rate. The Credit Reform Act provides that the interest rate for borrowing will be assigned on the basis of the Treasury rate in effect during the period of loan disbursement. Many individual loans are disbursed in segments over several quarters or even years. Consequently, several interest rates can be applicable to an individual loan. To simplify the recordkeeping, a single weighted average interest rate is maintained for each cohort and is adjusted each year, until all the disbursements from the cohort have been made. Each year the current year average annual interest rate is weighted by current year disbursements and merged with the prior year's weighted average to calculate a new weighted average. Details of these computations are provided in the examples following.

040805. Procedure for Computing Interest Expenses and Income Related to Borrowing for Direct Loan Programs. The interest income and expenses for a direct loan financing account are computed in a series of modules. The modules which follow have been logically divided to compute interest income and expense for identical bases, such as undisbursed borrowing. Disbursement or non-disbursement of amounts borrowed does not affect interest expense since all borrowing is dated October 1. However, disbursement status does affect the amount of borrowed cash retained in the financing account and consequently the computation of interest income. Components of interest income and expense are calculated separately in each module and then added in module 6. The modules are subdivided on the basis of the following characteristics:

A. Interest expense for borrowing disbursed throughout the current year is partially offset by interest income on the delayed disbursement of cash borrowed (module 1).

B. Interest expense for undisbursed borrowing is wholly offset by interest income on the undisbursed cash borrowed (module 2).

C. Interest expense for borrowing disbursed in prior years is not offset by any interest income (module 3).

D. Collections during the year accrue interest income as they are deposited into the financing account (module 5).

040806. Procedures for Guaranteed Loans. The basic purpose of a financing account for guaranteed loans is to accumulate funds to finance future defaults. Consequently, the modules for guaranteed loans emphasize cash collections (mostly subsidy and fees) and the related interest Income on accumulated balances. Unlike the direct loan programs, subsidy transfers for guarantees are retained in the financing account for lengthy periods and earn interest income.

A. The methods of calculating the weighted average interest rate and interest income are not as exact as the methods for direct loans. The interest rate for cash accumulations related to each loan guarantee is determined by the date that the commercial lender (not the Federal agency) disburses the loan being guaranteed. Since this process can cause a variety of interest rates in each cohort, averages are used similar to direct loans.

B. Program agencies must rely on lender reporting for this information. Consequently, the interest income settlements with the Treasury Department, at the end of the fiscal year, will include an estimate of fourth quarter lender disbursements and collections because of delayed reporting. The estimate will be adjusted as actual lender data is accumulated.

C. While guaranteed loan financing cohorts are oriented toward cash accumulation, it is possible (although rare) for temporary net borrowing from the Treasury Department to become necessary. Under these circumstances, the guaranteed loan modules still should be used, but negative signs in modules 3 and 4 would indicate borrowing in lieu of cash balance and interest expense in lieu of interest income.

DIRECT LOAN PROGRAM INTEREST COMPUTATION
MODULE 1

Determine interest expense on disbursed borrowing for the current year and interest income earned, on the amount borrowed, prior to disbursement of the borrowing.

EXAMPLE

1. Total loans disbursed in current year	1,050,000
2. Subsidy payments received during current year for new direct loan disbursements	50,000
3. Net loan disbursements for current year	1,000,000
4. Working capital disbursements for current year	10,000
5. Borrowing from Treasury related to reestimates and modifications - current year	-0-
6. Total borrowing from Treasury for disbursements made during current year	1,010,000
7. Average annual interest rate, current year	.0700
8. Time factor for income	.5
9. Interest income - current year uninvested funds	35,350
10. Interest expense - current year disbursed borrowing	70,700

INSTRUCTIONS

ITEM 1: Total loans disbursed during current fiscal year from the cohort.

ITEM 2: Enter the total subsidy payments for new direct loan disbursements that were or should have been paid by the program account to the financing account for the cohort during the current fiscal year. (Payments related to reestimates and modifications are recorded in item 5.)

ITEM 3: Net loan disbursements, difference between item 1 and item 2.

ITEM 4: Any disbursements from the cohort during the current fiscal year for working capital disbursements.

ITEM 5: Enter the sum of gross payments made by the financing account during the current fiscal year, to: (1) the special fund receipt account, (2) the liquidating account, or (3) the general fund. These payments are related to downward subsidy cost reestimates or to modifications. (Note that gross collections are recorded in module 5.) This sum includes negative subsidy cost payments, modification adjustment transfers, and payments to acquire loans from the liquidating account or to compensate the liquidating account for losses.

ITEM 6: The sum of item 3 plus item 4 plus item 5.

ITEM 7: Average annual rate, current year.

ITEM 8: Time factor. Use .5 as a constant. This factor assumes that disbursements were made in an equal amount throughout the year.

ITEM 9: Interest income. (Item 6 x item 7 x item 8.)

ITEM 10: Interest expense for disbursed funds. Item 6 times item 7. Since funds were borrowed on October 1, the assumed time period is one year.

DIRECT LOAN PROGRAM INTEREST COMPUTATIONS
MODULE 2

Determine interest income and interest expense on unused borrowing.

EXAMPLE

1. Undisbursed borrowing balance, end of prior year	90,000
2. Borrowing during current year (retroactive to Oct. 1)	1,120,000
3. Total adjusted gross borrowing balance, current year	1,210,000
4. Net loan disbursements, current year (module 1)	1,000,000
5. Non-loan disbursements, current year (module 1)	10,000
6. Preliminary undisbursed borrowing balances, end of year	200,000
7. Average annual interest rate, current year	.0700
8. Interest income-unused borrowing balance	14,000
9. Interest expense-unused borrowing balance	14,000

INSTRUCTIONS

ITEM 1: Final undisbursed borrowing balance from Treasury, at end of prior fiscal year for the cohort. See module 7, item 9 from prior year.

ITEM 2: New borrowing during current fiscal year for the cohort. All borrowing during the year is dated retroactively to October 1.

ITEM 3: Sum of items 1 plus 2.

ITEM 4: Net loan disbursements, current year from module 1, item 3.

ITEM 5: Non-loan disbursements, current year (item 4 plus item 5 from module 1).

ITEM 6: Item 3 less item 4 less item 5. This balance is preliminary, as explained in module 7.

ITEM 7: Average annual interest rate, current year.

ITEM 8: Interest income from unused borrowing. Item 6 x item 7 (x 1 year).

ITEM 9: Interest expense from unused borrowing. Item 6 x item 7 (x 1 year).

DIRECT LOAN PROGRAM INTEREST COMPUTATIONS
MODULE 3

Determine interest expense on prior year borrowing that was disbursed in prior years.

EXAMPLE

1. Debt with Treasury, end of prior year	990,000
2. Undisbursed debt, end of prior year (module 2)	90,000
3. Adjusted debt, prior year disbursements	900,000
4. Weighted average interest rate, end of prior year (module 4)	.0500
5. Annual interest expense, prior year debt	45,000

INSTRUCTIONS

ITEM 1: Debt with Treasury at the end of the prior fiscal year (see module 8).

ITEM 2: Portion of debt at the end of the prior year that did not finance disbursements, nor was repaid to Treasury.

ITEM 3: Item 1 minus item 2.

ITEM 4: Weighted average interest rate as of the end of the prior year as computed in prior year's module 4.

ITEM 5: Annual interest expense for prior year borrowing, item 3 x item 4 (x 1 year).

DIRECT LOAN PROGRAM
MODULE 4

Compute new weighted average interest rate as of the end of the current year.

EXAMPLE

	Cumulative to End of Prior Year	Current Year	Total
1. Net loan disbursements	11,000,000	1,000,000	12,000,000
2. Interest rate	.0500	.0700	N/A
3. Annual Interest amount	550,000	70,000	620,000
4. Revised weighted average interest rate, end of current year			.0517

INSTRUCTIONS

ITEM 1: Enter in column 1 the cumulative net loan disbursements from the inception of the cohort to the end of the prior fiscal year. Enter net loan disbursements for the current fiscal year per module 1 in column 2, and the total in column 3.

ITEM 2: Enter in column 1 the weighted average interest rate from module 4 of prior year. Enter In column 2 the average annual Interest rate for the current year.

ITEM 3: Product of item 1 x item 2 to obtain a nominal annual interest. Add products in first two columns and post result to third column (total).

ITEM 4: New weighted average rate. In total column, item 3 divided by item 1, computed to four decimal places.

DIRECT LOAN PROGRAM
MODULE 5

Determine current year collections (unrelated to new borrowing) and compute the related interest income.

EXAMPLE

1.	Collections of loan principal--current year	100,000
2.	Collections of interest from borrowers--current year	187,500
3.	Collections of fees--current year	10,000
4.	Other collections from the public--current year	2,500
5.	Collections from budgetary accounts for reestimates and modifications--current year	-0-
6.	Total collections--current year	300,000
7.	Weighted average interest rate, end of current year	.0517
8.	Time factor	05
9.	Interest Income--current year collections	7,755

INSTRUCTIONS

ITEM 1: Collections of loan principal--current year. Summary of collections deposited during the year which derive from principal repayments by borrowers.

ITEM 2: Collections of Interest from borrowers--current year. Summary of collections deposited during the year which derive from Interest payments by borrowers.

ITEM 3: Collection of fees--current year. Summary of collections deposited during the year which derive from fees paid by the borrower at any time during the loan process.

ITEM 4: Other collections from public--current year. Summary of collections deposited during the year from the public other than items 1 through 3. Do not include subsidies in these collections.

ITEM 5: Enter the sum of gross collections received by the financing account, during the current fiscal year (unrelated to new borrowing), from: (1) the program account, (2) the liquidating account or (3) the general fund. These collections are related to upward subsidy cost reestimates or modifications. They include subsidy cost, modification adjustment transfers, and collections from the liquidating account to offset cost savings. (Gross payments are recorded in Module 1).

ITEM 6: Total collections. Sum of items 1 through 5.

ITEM 7: Revised weighted average interest rate--end of current year (see module 4).

ITEM 8: Use .5, which assumes equal collection throughout the year.

ITEM 9: Interest Income--current year collections. Product of Item 6 x item 7 x item 8.

DIRECT LOAN PROGRAM INTEREST COMPUTATIONS
MODULE 6

Determine total interest Income due from Treasury and Interest expenses payable to Treasury.

EXAMPLE

Interest Income Summary

1. Interest income module 1	35,350
2. Interest income module 2	14,000
3. Interest income module 5	7,755
Total interest income from Treasury	57,105

Interest Expense Summary

1. Interest expense module 1	70,700
2. Interest expense module 2	14,000
3. Interest expense module 3	45,000
Total interest expense to Treasury	129,700

INSTRUCTIONS

Obtain income and expense items from each module and sum the results.

DIRECT LOAN PROGRAM INTEREST COMPUTATION
MODULE 7

Determine amount of annual principal repayment to Treasury.

EXAMPLE

1. Total collections current year (module 5)	300,000
2. Interest income from Treasury (module 6)	57,105
3. Total collections available for transfer	357,105
4. Transfers to working capital funds, current year	10,000
5. Interest expense to Treasury (module 6)	9,700
6. New borrowing for Interest shortfall	-0-
7. Net funds available for principal repayment	217,405
8. Preliminary undisbursed borrowing balance at end of current year	200,000
9. Final undisbursed borrowing balance (amounts to be carried forward for future year disbursements)	100,000
10. Annual principal repayment to Treasury	317,405

INSTRUCTIONS

ITEMS 1, 2, AND 5: Obtain amounts from other modules as indicated.

ITEM 3: Sum of items 1 and 2.

ITEM 4: Total transfers to working capital funds during current year.

ITEM 6: If items 4 plus 5 are less in absolute value than item 3, enter a zero. If items 4 plus 5 are greater In absolute value than item 3, enter the exact amount of the difference as a positive number. Scheduled interest must be paid to the Treasury Department even if from new borrowing.

ITEM 7: Item 3 plus item 6 minus items 4 and 5.

ITEM 8: Enter any borrowing which remains undisbursed as of the end of the current year (from module 2).

ITEM 9: Enter any amounts which agency decides should be carried forward to the next fiscal year for future loan disbursements. This amount will be used in the next year's module 2, item 1. In the example, the agency decided to retain half of the preliminary balance.

ITEM 10: Item 7 plus item 8 minus item 9. This amount will be transferred on an SF-1151.

DIRECT LOAN PROGRAM INTEREST COMPUTATIONS
MODULE 8

Determine debt to Treasury at end of current fiscal year.

EXAMPLE

1. Debt to Treasury, end of prior year (module 8--prior year)	990,000
2. New borrowing for interest shortfall (module 7)	-0-
3. Borrowing during current year (module 2)	1,120,000
4. Annual principal repayment to Treasury (module 7)	317,405
5. Debt to Treasury end of year	1,792,595

INSTRUCTIONS

ITEMS 1-4: Enter amounts from other modules as indicated.

ITEM 5: Sum of Items 1+2+3 minus item 4.

GUARANTEED LOAN PROGRAM INTEREST INCOME AND EXPENSE COMPUTATIONS
MODULE 1

Compute revised weighted average interest rate as of end of current year.

EXAMPLE

	Cumulative to End of Prior Year	Current Year	Total
1. Lender disbursements	900,000	100,000	1,000,000
2. Interest rate	.06	.07	--
3. Annual Interest amount	54,000	7,000	61,000
4. Revised weighted average interest rate		.0610	

INSTRUCTIONS

ITEM 1: Enter cumulative lender disbursements from the inception of the cohort to the end of the current year in column 1; lender disbursements during the current year in column 2; and their total in column 3.

ITEM 2: Enter the weighted average Interest rate as of the end of the previous year In column 1 (from module 1 of previous year) and enter the current year average annual interest rate in column 2.

ITEM 3: Multiply items 1 x 2 in the first two columns to compute nominal annual Interest. Add these amounts and post results to column 3.

ITEM 4: Divide item 3 (total column) by item 1 (total column) to compute revised weighted average interest rate. Show to four decimal places.

GUARANTEED LOAN PROGRAM INTEREST INCOME AND EXPENSE COMPUTATIONS
MODULE 2

Compute Interest Income on current year transactions.

EXAMPLE

1. Net transfers from budgetary accounts to financing account during current year	4,000
2. Other deposits to financing account during current year	1,000
3. Total deposits during current year	5,000
4. Disbursements from financing account to the public during current year	2,000
5. Working capital disbursements during current year	0
6. Net collections during current year, or	3,000
7. Net disbursements during current year	0
8. Current year average Interest rate	.07
9. Time factor	.5
10. Interest income for current year transactions, or	105
11. Reduction in interest income for current year transactions	0

INSTRUCTIONS

ITEM 1: Enter the total net amount that was or should have been paid by budgetary accounts to the financing account for the cohort during the current fiscal year (except interest and debt transactions). This should include initial subsidy payments, reestimates, modifications, modification adjustment transfers and transactions with the liquidating account to acquire loan guarantees or to offset losses or savings. The total is the amount collected, net of payments by the financing account to budgetary accounts. It should include transactions with the program account, the special fund receipt account, the liquidating account and the general fund.

ITEM 2: Enter other deposits to the financing account during the current year from fees, etc., but exclusive of interest income earned on uninvested funds.

ITEM 3: Sum of items 1 and 2.

ITEM 4: Enter total disbursements from the financing account during the current year, to the public for default payments, interest supplements, etc.

ITEM 5: Enter any disbursements from the cohort during the fiscal year for working capital purposes.

ITEM 6: Enter net of item 3 minus sum of Items 4 and 5 (if Item 3 Is greater than items 4 and 5), otherwise enter 0.

ITEM 7: Enter net of Items 4 plus 5 minus Item 3 (if items 4 plus 5 Is greater than item 3), otherwise enter 0.

ITEM 8: Enter current year average annual interest rate.

ITEM 9: Enter time factor of .5.

ITEM 10: Enter product of items 6 x 8 x 9.

ITEM 11: Enter product of Items 7 x 8 x 9.

GUARANTEED LOAN PROGRAM INTEREST INCOME AND EXPENSE COMPUTATIONS
MODULE 3

Compute Interest income on prior year balances.

EXAMPLE

1. Adjusted cash balance in financing account, beginning of current year	100,000
2. Weighted average interest rate, beginning of current year	.0600
3. Time factor	1.0
4. Interest income on prior year balance	6,000

INSTRUCTIONS

ITEM 1: Enter adjusted cash balance in financing account as of the beginning of the current year (see module 4 of previous year for original computation).

ITEM 2: Enter weighted average Interest rate as of the beginning of current year.

ITEM 3: Item factor of 1.0 years.

ITEM 4: Product of Item 1 x 2 x 3.

GUARANTEED LOAN PROGRAM INTEREST INCOME AND EXPENSE COMPUTATIONS
MODULE 4

Compute year end cash balance.

EXAMPLE

1. Adjusted cash balance In financing account, beginning of year	100,000
2. Interest Income on prior year balance (module 3)	6,000
3. Interest Income (+) or reduction in interest income (-) for current year transactions (module 2)	105
4. Total Interest Income	6,105
5. Net collections (+) or disbursements (-) for current year (module 2)	3,000
6. Adjusted cash balance in financing account end of year	109,105

INSTRUCTIONS

ITEM 1: Enter adjusted cash balance in financing account at beginning of current year (item 6 of previous year).

ITEM 2: Enter interest income on prior year balance from module 3.

ITEM 3: Enter interest income on current year transactions as a positive value or reduction In interest Income as a negative value (module 2).

ITEM 4: Enter the sum of item 2 and the plus or minus value in item 3.

ITEM 5: Enter net collections or disbursements for current year from module 2.

ITEM 6: Enter sum of items 1, 4 and 5.

0409 STANDARD GENERAL LEDGER (SGL) ACCOUNTS

040901. Credit Reform Accounts and Definitions.

The following accounts were established by the Treasury Department to implement requirements of the Federal Credit Reform Act of 1990 and are intended to account for direct and guaranteed loans. These accounts will be included with those general ledger accounts currently in Volume 1, "General Financial Management Information, Systems, and Requirements," Chapter 7, "Department of Defense Standard General Ledger," Addendum 2, "Department of Defense Accounting/Sub-Account Descriptions."

1399 Allowance for Subsidy. Credit Balance. This amount reflects the unamortized credit reform subsidy for direct loans and for defaulted guaranteed loans assumed for collection by the government. It appears in the financing fund of the direct loan, or loan guarantee, program involved and is subtracted from loans receivable (account 1350) on the statement of financial position. All transactions that affect the subsidy will be recorded in this account.

1921 Receivable from Appropriations. Debit Balance. The amount to be received from appropriations to fund current or future expenses for which the appropriations are already authorized by law.

1922 Borrowings Receivable from Treasury. Debit Balance. The amount of cash to be received for loan programs through borrowing from the Treasury.

2180 Loan Guarantee Liability. Credit Balance. This account is in the financing fund for loan guarantee programs. All transactions that affect the subsidy for loan guarantees will be recorded in this account. It represents the expected present value of cash flows to, and from, the government from loan guarantees.

2930 Liability for Borrowings to be Received. Credit Balance. The estimated amount of funds that an agency can borrow from Treasury to cover the cost of loans to be disbursed.

2950 Liability for Subsidy Related to Undisbursed Loans. Credit Balance. The amount of subsidy owed by the financing fund for direct and guaranteed loans which have not been disbursed. This liability will be liquidated when the loan is disbursed. If the lan is not disbursed, the accrued susidy must be removed from the financing fund.

2970 Resources Payable to Treasury. Credit Balance. Liquidating Fund assets in excess of liabilities that are being held as working capital. After liquidating all liabilities, these funds will be returned to Treasury.

4001 Anticipated Total Resources. Debit Balance. The account used (for year-end closing) to consolidate the total amount of resources expected to be received by the financing fund from all sources (program fund receipts, borrowing from Treasury, collections of principal, and collections of loan interest).

4042 Anticipated Borrowing Authority. Debit Balance. The anticipated authority that permits a federal agency to incur obligations, and make payments, for specific purposes out of monies borrowed from Treasury.

4044 Anticipated Reductions to Borrowing Authority. The estimated amounts of reductions during the fiscal year to borrowing authority.

4047 Anticipated Payments to Treasury. Credit Balance. The anticipated amounts to be paid to Treasury to transfer pre-1992 resources or to repay borrowing under credit reform.

4060 Anticipated Collections from Non-Federal Sources. Debit Balance. The amount anticipated to be collected from non-Federal sources in the current fiscal year for loan programs (fees, loan principal, loan interest, rent, and proceeds from the sale of collateral).

4070 Anticipated Collections from Federal Sources. Debit Balance. The amount anticipated to be collected from Federal sources in the current fiscal year for loan programs (actual program fund subsidy-current, actual program fund subsidy - permanent, and interest from Treasury).

4115 Loan Subsidy Appropriation-Definite-Current. Debit Balance. The amount of definite current budget authority appropriated by law for loan subsidies in direct loan and loan guarantee programs.

4116 Entitlement Loan Subsidies Appropriation-Indefinite. Debit Balance. The amount of indefinite budget authority appropriated for subsidies in loan entitlement programs.

4117 Loan Administrative Expense Appropriation-Definite- Current. Debit Balance. The amount of definite current budget authority appropriated by law for administrative expenses in direct loan and loan guarantee programs.

4118 Re-estimated Discretionary Loan Subsidy Appropriation- Indefinite - Permanent. Debit Balance. The amount of indefinite permanent budget authority appropriated for direct loan and loan guarantee subsidies based upon reestimates.

4121 Loan Subsidy Appropriation-Indefinite-Current. Debit Balance. The amount of current indefinite budget authority appropriated to the program fund for loan subsidies in direct loan and loan guarantee programs.

4147 Actual Payments to Treasury. Credit Balance. The amounts paid to the Treasury Department to transfer pre-1992 resources, or to repay borrowings, under credit reform.

4201 Total Actual Resources. Debit Balance. The account is used to consolidate the total amount of actual resources received from all sources.

4261 Actual Collection of Fees. Debit Balance. The total amount of fees received from non-Federal sources during the year for loan programs.

4262 Actual Collection of Loan Principal. Debit Balance. The total amount of loan principal received from non-Federal sources during the year for loan programs.

4263 Actual Collection of Loan Interest. Debit Balance. The total amount of loan interest received from non-Federal sources during the year for loan programs.

4264 Actual Collection of Rent. Debit Balance. The total amount of rent received from non-Federal sources during the year for loan programs.

4265 Proceeds from Collateral. Debit Balance. The amount received from the sale of collateral.

4266 Other Actual Collections. Debit Balance. The total amount of collections from non-Federal sources received during the year by direct loan programs for which a specific SGL account is not otherwise required.

4271 Actual Program Fund Subsidy-Definite-Current. Debit Balance. The amount of current definite subsidy received during the year by the financing fund from the program fund for loan programs.

4272 Actual Program Fund Subsidy-Indefinite-Permanent. Debit Balance. The amount of permanent indefinite subsidy received during the year by the financing fund from the program fund for the loan program.

4273 Interest from Treasury. Debit Balance. The amount of interest received during the year by the financing fund from Treasury for loan programs.

4274 Actual Program Fund Subsidy-Indefinite-Current. Debit Balance. The amount of current indefinite subsidy received during the year by the financing fund from the program fund for direct loan and loan guarantee programs.

4275 Actual Receipts from Liquidating Accounting. Debit Balance. The amount the financing fund receives during the year from the liquidating account for assuming pre-credit reform loan guarantees for which the terms have been modified.

4276 Actual Collections from Financing Fund. Debit Balance. The amount the liquidating fund receives from the financing fund during the year for transfers of modified direct loans to the financing fund.

5799 Adjustment of Appropriated Capital Used. Debit Balance. The amount of adjustment to financing sources in the program fund to reflect the amount of excess subsidy funds returned to Treasury by the financing fund.

6199 Excess Subsidy Returned. Credit Balance. The amount of adjustment to subsidy expense in the program fund to reflect the amount of excess subsidy funds returned to Treasury by the financing fund as a result of a reestimate.

8010 Guaranteed Loan Level. Debit Balance. The amount of guaranteed loan commitments; supportable by the subsidy budget authority of new commitments, or in the case of negative subsidies, the amount authorized by appropriation acts.

8015 Guaranteed Loan Level-Unapportioned. Credit Balance. The amount of guaranteed loan level not yet apportioned by OMB.

8020 Guaranteed Loan Level-Apportioned. Credit Balance. The amount of category A and B guaranteed loan level that is available for allotment.

8025 Guaranteed Loan Level-Allotted and Available to Lenders. Credit Balance. The amount of category A and B guaranteed loan level allotted to program managers for which commitments may be made this period to lenders.

8030 Guaranteed Loan Level-Administrative Commitments Prior to Signing Contracts. Credit Balance. The amount of category A and B guaranteed loan level committed in anticipation of signing a contract.

8035 Guaranteed Loan Level-Contract Signed-Undisbursed by Lenders. Credit Balance. The amount of category A and B contracts for guaranteed loans that will be disbursed by a lender.

8040 Guaranteed Loan Level-Disbursed by Lenders. Credit Balance. The amount of category A and B guaranteed loan principal disbursed by the lender.

8045 Guaranteed Loan Level-Unused Authority. Credit Balance. The amount of category A and B guaranteed loan level for which contracts have not been signed.

8050 Guaranteed Loan Principal Outstanding. Credit Balance. The amount of guaranteed loan principal outstanding with the lender. At the end of the year accounts 8053 through 8068 are closed to this account.

8053 Guaranteed Loan New Disbursements by Lender. Credit Balance. The amount of guaranteed loan principal disbursed during the current year by lenders.

8056 Guaranteed Loan Repayments and Prepayments. Debit Balance. The amount paid during the current year by the borrower to the lender as principal repayment and prepayment of guaranteed loans.

8059 Guaranteed Loan Default-Loan Acquired. Debit Balance. The amount of guaranteed loan principal reduced by termination for default this current year that leads to the acquisition of a loan receivable by the agency.

8062 Guaranteed Loan Default-Property Acquired. Debit Balance. The amount of guaranteed loan principal reduced by terminations for default this current year that leads to the acquisition of property by the Agency.

8065 Guaranteed Loan Default-Claim Payment Only. Debit Balance. The amount of guaranteed loan principal reduced by termination for default this current year that leads to claim payments by the agency that does not result in the acquisition of a loan receivable or property.

8068 Guaranteed Loan Adjustments. Debit or Credit Balance. The amount of guaranteed loan principal reduced, or increased, this current year by reasons other than repayment or default, i.e., outstanding principal balances of guaranteed loans transferred to or received from other accounts.

8070 Guaranteed Loan Principal to be Collected. Debit Balance. The amount of guaranteed loan principal outstanding with the lender.

0410 Credit Reform Definitions

04101. Credit Reform Accounts and Definitions.

Cohort. Direct loans obligated or loan guarantees committed by a program in the same year, even if disbursements occur in subsequent years or the loans are modified. Modified pre-1992 direct loans will constitute a single cohort; modified pre-1992 loan guarantees will constitute a single cohort. For loans subsidized by no-year or mullet-year appropriations, the cohort may be defined by the year of obligation.

Direct Loan. A disbursement of funds by the Government to a non-Federal borrower under a contract requiring repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by a non-Federal lender. It also includes the sale of a Government asset on credit terms of more than 90 days duration.

Financing Account. The non budget account or accounts associated with each credit program account for post-1991 direct loans or loan guarantees. It holds balances, receives the subsidy cost payment from the credit program account, and includes all other cash flows to and from the Government. All credit programs require financing accounts. Separate financing accounts are required for direct loans and loan guarantees even if the subsidy costs for both are provided in the same appropriation. For new credit programs, a written request must be sent to the Department of the Treasury Financial Management Service before account symbols are established for the loan financing accounts. Financing accounts are usually established as revolving funds in the public enterprise fund group series 4000-4499. As part of the loan guarantee contract, a agency may be required to provide an interest differential to the non-Federal lender. These interest supplement payments are recorded in the financing account and disbursed to non-Federal lenders.

Financing Tranche. All direct or guaranteed loans with a cohort, separately identified by risk category, that are disbursed in the same quarter and have the same maturity interval. All borrowing from Treasury and all interest earned on uninvested funds from Treasury for a given financing tranche will be at the same interest rate (yield). The use of financing tranches is optional.

Liquidating Account. The budget account that includes all cash flows to and from the Government resulting from pre-1992 direct loans or loan guarantees. Cash flows associated with modified direct loans and loan guarantees are treated as exceptions. The liquidating accounts are the "old" credit accounts, whose transactions are counted on a cash basis in calculating budget outlays and the deficit. Liquidating accounts are not subject to credit reform accounting except for the effect of modifications. If the liquidating account receives collections in excess of the account liability, the collections are returned to Treasury via an SF 1151: Non-Expenditure Transfer Authorization as a capital transfer. The excess collections are returned to the miscellaneous receipt account "2814" preceded by the agency's two-digit department code.

Loan Guarantee. Any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. It does not, however, include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. When a pre-1992 loan guarantee is modified it becomes subject to credit reform accounting. The guarantee liability is transferred from the liquidating account to the financing account. A one-time adjusting payment is made from the liquidating account to the financing account. Subsequent cash flows will be recorded directly to the financing account. When a loan guarantee is in default, the defaulted loan claim of the non-Federal lender is paid from the financing account.

Modifications. Any Government action that alters the estimated subsidy cost, compared to the estimate contained in the most recent budget submitted to Congress, of an outstanding direct loan (or direct loan obligation) or an outstanding loan guarantee (or loan guarantee commitment). Action permitted within the terms of an existing contract are the only exception. Modifications to pre-1992 direct loans and loan guarantees are included in this definition, as well as modifications to post-1991 direct loans and loan guarantees. For pre-1992 direct loans and loan guarantees, the loan asset or guarantee liability will be transferred from the liquidating account the appropriate financing account. A one-time adjusting payment will be made between the liquidating and financing accounts. The subsequent cash flows will be recorded in the financing account.

Post-1991. Direct loan obligations or loan guarantee commitments made on or after October 1, 1991, and the resulting direct loans or loan guarantees.

Pre-1992. Direct loan obligations or loan guarantee commitments made prior to October 1, 1991, and the resulting direct loans or loan guarantees.

Program Account. The budget account into which an appropriation to cover the subsidy cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to the financing account. Usually, a separate amount for administrative expenses is also appropriated to the program account. Each program account is associated with one or two financing accounts, depending on whether the program account makes both direct loans and loan guarantees. The program account pays subsidies to the financing account for post-1991 direct loans and loans guarantees, for modifications, and for reestimates. These subsidy payments are counted in calculating budget outlays and the deficit

Reestimates. The recalculation of the subsidy cost of each risk category within a cohort of direct loans or guaranteed loans. Reestimates must be made at the beginning of each fiscal year following the year in which the initial disbursement was made and as long as the loans are outstanding, unless a different plan is approved by OMB.

Subsidy. The estimated long-term cost to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs. In net present value terms it is the portion of the direct loan disbursement that the Government does not expect to recover, or the portion of expected payments for loan guarantees that will not be offset by collections. The subsidy may be for post-1991 direct loan obligations or loan guarantee commitments, for reestimates of post-1991 loans or guarantees or for modifications of any direct loan or loan guarantees. When the estimated subsidy is negative, an amount equal to the negative subsidy will be paid from the financing account to a special fund receipt account for that program when the loan guarantee is disbursed. If a subsidy reestimate for a cohort is negative, the amount of that reestimate is recorded in the same way.

Uninvested balance. The fund balance with Treasury that is held by the financing account, including undisbursed borrowings and offsetting collections. This balance earns interest from Treasury as determined by the weighted-average interest rate for each specific maturity range within the financing account.

Special Fund Receipt Accounts. Treasury requires written request prior to establishing account symbols for special fund receipt accounts, which will collect negative subsidies and downward reestimates. These unavailable receipt symbols are classified in special fund receipt series.

Miscellaneous Receipts Accounts. This account is automatically established by Treasury for interest payments. Detailed reporting instruction applicable to this account can be found in the "Treasury Reporting Instructions for Credit Reform Legislation, paragraph 4620.40 preceded by the agency 2-digit department code.

Subclassed Accounts. Subclassed Accounts are existing fund symbols preceded by a 2-digit prefix, used to distinguish certain transactions(for instance, [95]99X4200, [85]99X4200, and [65]99X4200). Subclassed are used when repaying or borrowing funds to/from the Treasury on an SF 1151: Nonexpenditure Transfer Authorization. Subclassed accounts are also used to record payment of subsidy appropriations from the program account to the financing account on an SF 224: Statement of Transactions. The subclasses are:

1. Principal Borrowing - 95
2. Principal Repayment - 85
3. Subsidy Payment - 65

Interest Rates. Interest rates for Credit Reform subsidy calculations, budget execution, borrowing, uninvested funds and working capital balances can be obtained from the Department of Commerce Economic Bulletin Board (EEB). New interest rates are posted to the EBB each quarter by Treasury and are used for agency computations during the quarter. These rates remain fixed for one quarter and are categorized with the following maturity intervals:

1. 0 years, up to and including 1 year.
2. Over 1 year, up to but not including 5 years.
3. 10 years, up to but, not including 20 years
4. 20 years and longer.

The rate used for subsidy calculations, borrowing and interest on uninvested funds must be for a maturity comparable to the maturity of the direct or guaranteed loan being made. However, working capital balances will earn interest on the rate specified for “0 years, up to and including 1 year”.

Borrowings and Repayments from Treasury. The Credit Reform Act of 1990 provides financing accounts with indefinite authority to borrow from Treasury. To streamline agency activity, agencies will borrow from Treasury, once a year, an amount that reflect estimated yearly requirements (based on figures used to calculate the subsidy appropriation, unless better estimates are available). The borrowing will be dated the first day of the fiscal year, October 1. If necessary, agencies may initiate another borrowing (during the fiscal year) for an additional amount, which will also be dated October 1.

If an agency has insufficient funds to make an annual interest payment to Treasury at year end, an additional borrowing should be initiated. This borrowing will be dated September 30 and will carry the same maturity date as the original borrowing. Using the September 30 date will alleviate the recalculation of the interest payment due to the Treasury and the amount of interest to be paid on uninvested funds.

Certification. When requesting a borrowing, each SF 1151 must contain an agency certification stating that the borrowing is necessary to meet the estimated annual cash requirements and is based upon the most reliable data available. This statement must be included within the body of the SF 151 document.

Authority. In this block, the legislative authorization for the borrowing transaction should be cited. For borrowings subject to Part 2, Chapter 4600, of the Treasury Reporting Instruction for Credit Reform Legislation, reference Public Law 101-508, 104 Stat. 1388-613.

Signature. Borrowing transaction will be approved and signed by the Financial Management Branch. Repayments will be approved and signed by the authorized agency representative.

Pre-Modification Value. is the present value of the net cash inflows of direct loans. It is estimated at the time of modification under pre-modification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury securities that have a comparable maturity to the remaining maturity of the direct loans under pre-modification terms (simply stated, the pre-modification terms at the current rate).

Post-Modification Value. is the present value of the net cash inflows of direct loans. It is estimated at the time of modification under post-modification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury securities that have a comparable maturity to the remaining maturity of the direct loans under post-modification terms (simply stated, the post-modification terms at the current rate).

OMB instructions provide that if the decrease in book value exceeds the cost of modification, the reporting entity will receive from the Treasury Department an amount of "modification adjustment transfer" equal to the excess. Conversely, if the cost of modification exceeds the decrease in book value, the reporting entity will pay to the Treasury Department an amount of "modification adjustment transfer" to offset the excess.

Post-Modification Liability. is the present value of the net cash outflows of the loan guarantees. It is estimated at the time of modification under the post-modification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury securities that have a comparable maturity to the remaining maturity of the guaranteed loans under post-modification terms (simply stated, the post-modification terms at the current rate).

Pre-Modification Liability. is the present value of the net cash outflows of loan guarantees. It is estimated at the time of modification under the pre-modification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury Securities that have a comparable maturity to the remaining maturity of the guaranteed loans under pre-modification terms (simply stated, the pre-modification terms at the current rate).

OMB instructions provide that if the increase in liability exceeds the cost of modification, the reporting entity receives from the Treasury Department an amount of "modification adjustment transfer" equal to the excess. If the cost of modification exceeds the increase in liability, the reporting entity pays to the Treasury Department an amount of "modification adjustment transfer" to offset the excess.

Credit Reform: Cash Flows for Direct Loans

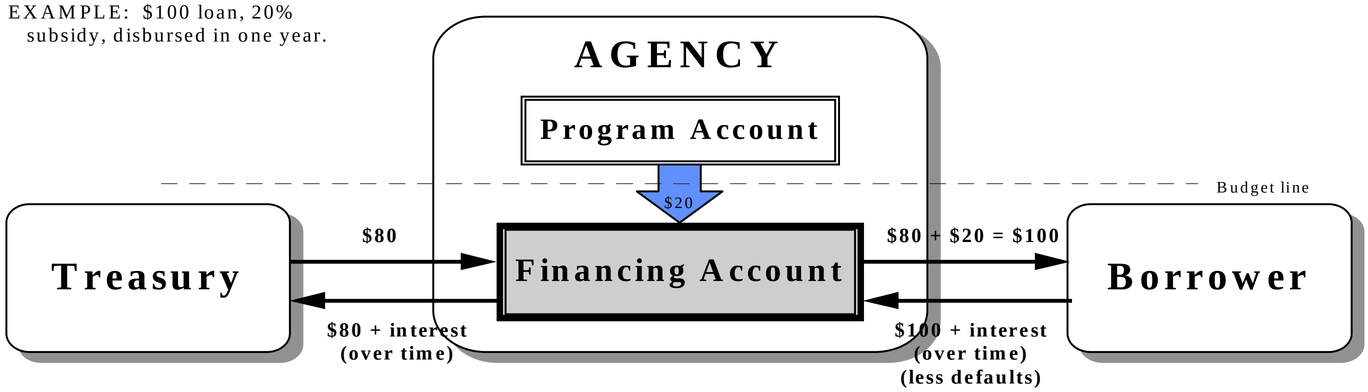

Figure 4-1.

1. Congress appropriates $20 in subsidy budget authority (BA) to the **program account**.

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

3. The $20 subsidy is outlayed to the **financing account** at the time the $100 loan is disbursed to borrower. Simultaneously, the **financing account** borrows the additional $80 from **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 **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 will be made and, as necessary, either (1) an additional subsidy will be disbursed from the **program account** to the **financing account** to cover the amount of the reestimate or (2) excess funds will be moved frm the **financing account** to a **negative receipt account**, where these funds are unavailable until appropriated.

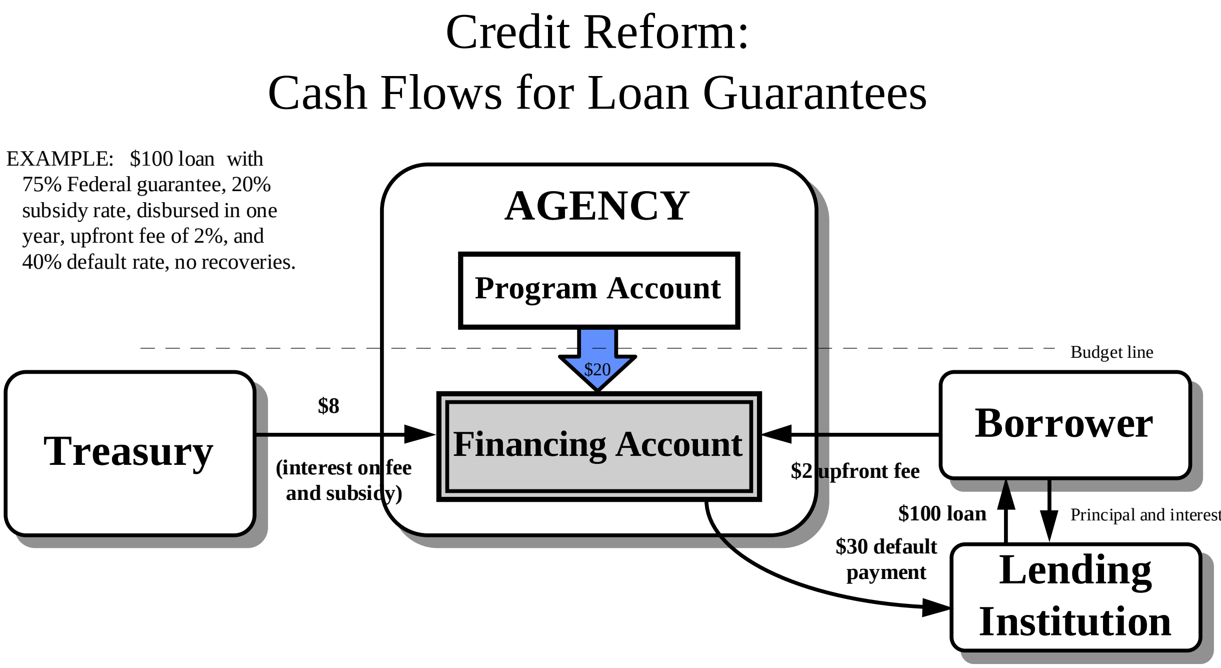

Figure 4-2.

1. Congress appropriates $20 in subsidy budget authority (BA) to the **program account**.

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

3. The **lending institution** lends a 75% Government guaranteed $100 loan to the **borrower**. When the laon is disbursed, $20 in subsidy BA is outlayed to the **financing account**. The **borrower** pays a 2% 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 will be made and, as necessary, either (1) additional subsidy will be disbursed frm lthe **program account** to the **financing account** to cover the amount of the reestimate or (2) excess funds will be moved form the **financing account** to a **negative receipt account**, where these funds are unavailable until appropriated.

Standard Form 132
Office of Management and Budget
Circular No. A-34

Sheet 1 of 2
Fiscal year 19CY

APPORTIONMENT AND REAPPORTIONMENT SCHEDULE

Agency Department of Government
Bureau Office of the Secretary

Appropriation or Fund Title and Symbol

Description	Amount on Latest S.F. 132	Agency Request	Action by OMB
BUDGETARY RESOURCES			
1. Budget authority:			
A. Appropriations P.L. 104-xxx	_______	_______	_______
B. Borrowing authority	_______	_______	_______
C. Contract authority	_______	_______	_______
D. Net transfers, current year authority (+ or -)	_______	_______	_______
E. Other			
2. Unobligated balance:			
A. Brought forward October 1	_______	_______	_______
B. Net transfers prior year balance, actual (+ or -)	_______	_______	_______
C. Anticipated transfers prior year balance (+ or -)	_______	_______	_______
3. Spending authority from offsetting collections (Gross):			
A. Earned:			
1. Collected	_______	_______	_______
2. Receivable from Federal sources	_______	_______	_______
B. Change in unfilled customers' orders (+ or -):			
1. Advance received	_______	_______	_______
2. Without advance from Federal sources	_______	_______	_______
C. Anticipated for rest of year:			
1. Advance for anticipated orders	_______	_______	_______
2. Without advance	_______	_______	_______
D. Transfers from trust funds:			
1. Collected	_______	_______	_______
2. Anticipated	_______	_______	_______
4. Recoveries of prior year obligations:			
A. Actual	_______	_______	_______
B. Anticipated	_______	_______	_______
5. Temporarily not available pursuant to P.L. _____(-)	_______	_______	_______
6. Permanently not available:			
A. Cancellations of expired and no-year accounts (-)	_______	_______	_______
B. Enacted rescission of prior year balances (-)	_______	_______	_______
C. Capital transfers and redemption of debt (-)	_______	_______	_______
D. Other authority withdrawn (-)	_______	_______	_______
E. Pursuant to P.L. ___________(-)	_______	_______	_______
F. Anticipated for rest of year (+ or-)	_______	_______	_______
7. Total Budgetary Resources	_______	_______	_______

Figure 4-3.

APPLICATION OF BUDGETARY RESOURCES

Sheet 2 of 2
Fiscal year 19CY

Memorandum: Obligations incurred

Description	Amount on Latest S.F. 132	Agency Request	Action by OMB
8. Apportioned:			
Category A:			
(1) First quarter	_______	_______	_______
(2) Second quarter	_______	_______	_______
(3) Third quarter	_______	_______	_______
(4) Fourth quarter	_______	_______	_______
Category B:			
(1)	_______	_______	_______
(2)	_______	_______	_______
(3)	_______	_______	_______
(4)	_______	_______	_______
9. Withheld pending rescission	_______	_______	_______
10. Deferred	_______	_______	_______
11. Unapportioned balance of revolving fund	_______	_______	_______
12. Total Budgetary Resources	_______	_______	_______

Submitted____Apportioned__________
(Authorized officer) (Date)

Figure 4-3. (Cont).

Standard Form 132
Office of Management and Budget
Circular No. A-34

Sheet 1 of 2
Fiscal year 19CY

SF 133 REPORT ON BUDGET EXECUTION

Agency Department of Government
Bureau Office of the Secretary

Appropriation or Fund Title and Symbol

Description	FY1996 Unexpired Account	FY1995 Expired Account	FY1994 Expired Account	FY1993 Expired Account	FY1992 Expired Account	FY1991 Expired Account	TOTAL
BUDGETARY RESOURCES							
1. Budget authority:							
A. Appropriations	______	______	______	______	______	______	______
B. Borrowing Authority	______	______	______	______	______	______	______
C. Contract authority	______	______	______	______	______	______	______
D. Net transfers, current year authority (+or-)	______	______	______	______	______	______	______
E. Other	______	______	______	______	______	______	______
2. Unobligated balance:							
A. Brought forward October 1	______	______	______	______	______	______	______
B. Net transfers prior year balance, actual (+or-)	______	______	______	______	______	______	______
C. Anticipated transfers prior year balance (+or-)	______	______	______	______	______	______	______
3. Spending authority from offsetting collections (Gross)							
A. Earned:							
1. Collected	______	______	______	______	______	______	______
2. Receivable from Federal sources	______	______	______	______	______	______	______
B. Change in unfilled customers' orders (+or-)							
1. Advance received	______	______	______	______	______	______	______
2. Without advance from Federal sources	______	______	______	______	______	______	______
C. Anticipated for rest of year:							
1. Advance for anticipated orders	______	______	______	______	______	______	______
2. Without advance	______	______	______	______	______	______	______
D. Transfers from trust funds:							
1. Collected	______	______	______	______	______	______	______
2. Anticipated	______	______	______	______	______	______	______
4. Recoveries of prior year obligations:							
A. Actual	______	______	______	______	______	______	______
B. Anticipated	______	______	______	______	______	______	______
5. Temporarily not available pursuant to P.L. _____(-)	______	______	______	______	______	______	______
6. Permanently not available:							
A. Cancellations of expired and no-year accounts (-)	______	______	______	______	______	______	______
B. Enacted rescission of prior year balances (-)	______	______	______	______	______	______	______
C. Capital transfers and redemption of debt (-)	______	______	______	______	______	______	______
D. Other authority withdrawn (-)	______	______	______	______	______	______	______
E. Pursuant to P.L. ___________(-)	______	______	______	______	______	______	______
F. Anticipated for rest of year (+or-)	______	______	______	______	______	______	______
7. Total Budgetary Resources	______	______	______	______	______	______	______

Figure 4-4.

STATUS OF BUDGETARY RESOURCES

Sheet 2 of 2
Fiscal year 19CY

Description	FY1996 Unexpired Account	FY1995 Expired Account	FY1994 Expired Account	FY1993 Expired Account	FY1992 Expired Account	FY1991 Expired Account	TOTAL
8. Obligations incurred:							
A: Category A, direct obligations	______	______	______	______	______	______	______
B. Category B, direct obligations	______	______	______	______	______	______	______
1. Subcategory 1	______	______	______	______	______	______	______
2. Subcategory 2	______	______	______	______	______	______	______
3. Subcategory 3	______	______	______	______	______	______	______
C. Not subject to apportionment	______	______	______	______	______	______	______
D. Reimbursable obligations	______	______	______	______	______	______	______
9. Unobligated balance:							
A. Apportioned:							
1. Balance currently available	______	______	______	______	______	______	______
2. Anticipated	______	______	______	______	______	______	______
B. Exempt from apportionment	______	______	______	______	______	______	______
C. Other available	______	______	______	______	______	______	______
10. Unobligated balance not available							
A. Apportioned for subsequent periods	______	______	______	______	______	______	______
B. Deferred	______	______	______	______	______	______	______
C. Withheld pending rescission	______	______	______	______	______	______	______
D. Other	______	______	______	______	______	______	______
11. Total Budgetary Resources							

RELATION OF OBLIGATIONS TO OUTLAYS

Description	FY1996 Unexpired Account	FY1995 Expired Account	FY1994 Expired Account	FY1993 Expired Account	FY1992 Expired Account	FY1991 Expired Account	TOTAL
12. Obligated balance, net as of October 1	______	______	______	______	______	______	______
13. Obligated balance transferred, net (+or-)	______	______	______	______	______	______	______
14. Obligated balance, net, end of period:							
A. Accounts receivable	______	______	______	______	______	______	______
B. Unfilled customer orders (-)							
1. Federal sources without advance	______	______	______	______	______	______	______
2. Federal sources with advance	______	______	______	______	______	______	______
3. Non-Federal sources with advance	______	______	______	______	______	______	______
C. Undelivered orders (+)	______	______	______	______	______	______	______
D. Accounts payable (+)	______	______	______	______	______	______	______
15. Outlays:							
A. Disbursements (+)	______	______	______	______	______	______	______
B. Collections (-)	______	______	______	______	______	______	______

____ (Authorized Officer)

_________________________ (Date)

(Preparer Name)
(Address)
(Phone number)

Figure 4-4. (Cont).

Calendar of Credit Reform Program Activities

Figure 4-5

Approximate Time	Agency/Budget & Execution	Agency/Accounting
ONGOING (throughout the year)	Update historical databases used for estimating credit subsidies. Update cashflow models to reflect program changes and historical loan performance. Continue to improve cashflow modeling and projection capabilities. (Mainly in spring and summer, but should be conducted on a ongoing basis.) Develop and tracking of performance measures. Work with OMB on subsidy estimate review. Allotment, obligation of funds for loan obligation and guarantee commitments.	Maintain accounting systems and control. Ongoing improvements for information systems and capability for credit management. Provide historical data and financing account cohort data to budget office for subsidy estimates and reestimates. Provide OMB with ongoing reports on status of credit reform cohorts.
February March April	Budget transmittal to Congress. Provide information to auditors on subsidy estimates used for budget execution. CONGRESSIONAL BUDGET HEARING/LEGISLATION: Congressional testimony on budget including justification of assumptions underlying subsidy estimates and re-estimates.	Prior year actuals presented in the President's Budget. Audit continues. March 1 (goal): Issue audited Financial Statements for prior year.
May June	Prepare internal subsidy estimate for upcoming budget cycle for Departmental submission and decision.	Provide financial data to budget office to support internal subsidy estimates for upcoming budget cycle.
July August	Provide midseason estimates. (Note: Some agencies perform annual subsidy reestimates at this time.)	Begin preparing for year-end close and audit. Develop footnote template for financial statements.
September	BUDGET SUBMISSION: Submit budget requests based on midseason economic assumptions to be updated at time of issuance of final economic assumptions. Initial submissions should include: proposed program changes (new fees, etc.), projected loan levels, estimated subsidies with notation that discount rates will change. Reestimates and performance	Assist budget office in collecting data for budget submission, including updated actuals, data necessary for reestimates, and financial statement information.

Calendar of Credit Reform Program Activities
Figure 4-5

Approximate Time	Agency/Budget & Execution	Agency/Accounting
October	APPORTIONMENT: Use first quarter interest rates to calculate subsidy rate for budget execution. Prepare apportionment forms. Subsidy rates for apportionment should be updated for new "explicit technical assumptions" but should retain same forecast technical assumption as President's Budget.	Prepare final receipts, outlays. FMS form 2108 due.
		Track apportionments and balances in budgetary and financial accounts, to ensure reconciliation with budget transactions.
	Initial allotment, obligation of funds for loan obligations and guarantee commitments.	
	REESTIMATES: Calculate final reestimates for all loans disbursed in prior years, using actual annual interest rate, actual loan or guarantee cashflow and updated assumptions about expected performance of each cohort.	CALCULATE INTEREST ON FINANCING ACCOUNTS: Use actual annual interest rates for calculation of interest to and from financing accounts.
		Complete and reconcile transactions relating to elimination entries.
		Prepare report on guaranteed loans (SF 220-8) and report on receivables due from the public (formerly SF 220-9).
November December		Prepare final reports on Budget Execution (SF-133) through GOALS between November 17-27.
	Work with accounting staff to reconcile end-of year balance sheet estimates to budget formulation estimates to be entered into the MAX database.	Prepare final reports on obligations (SF 225).
		December 1 - Adjusted trial balance.
January	Prepare final subsidy estimate, loan level requests, and estimated interest on financing accounts for President's Budget based on passback and using final economic assumptions. These estimates will be for both Presidential Policy and Baseline.	Provides unaudited data to OIG. Audit adjustments to auditor.
		Update of agency statements. Electronic transmissions, audit of adjustments.
	MAX data entry based on OMB approved subsidy model output. Budget galley preparation and review.	Transmit footnotes.
	Preparation of forms for Federal Credit Supplement to the Budget.	
	Document assumptions underlying subsidy estimates for Congressional review.	

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