



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

FEB 13 2020

COMPTROLLER

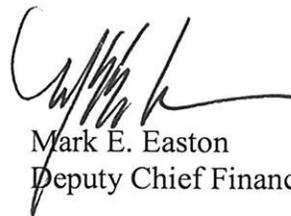
MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Department of Defense Method for Calculating Annual Subsidy Reestimates for
Post 1991 Direct Loans and Loan Guarantees under the Federal Credit Reform Act
(FPM 19-07)

Under the authority of the Federal Credit Reform Act (FCRA), and instruction prescribed in the Office of Management and Budget (OMB) Circular A-11, Section 185, Federal Credit, all Federal agencies are required to review and adjust subsidy cost annually. This process is known as annual subsidy reestimates.

The OMB allows for calculating annual subsidy costs by netting the upward and downward reestimates against each other, within the same cohort or risk category. This memorandum and attachment establish the netting method DoD components will use when performing subsidy reestimates for post-1991 direct loans and loan guarantees under the FCRA. The netting method avoids any unnecessary appropriated subsidy expense within a cohort from the U.S. Treasury. Any excess funds will be used to offset shortages within a cohort prior to issuance of additional appropriations. The attached guidance will be incorporated into the next update to Volume 12, Chapter 4, of the Department of Defense Financial Management Regulation. This policy is effective immediately.

The action officer for this matter is Ms. Kellie Allison (kellie.r.allison.civ@mail.mil or 703-614-0410).



Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated



**New Section to Be Added to the Department of Defense Financial Management Regulation,
Volume 12, Chapter 4, Last Updated June 2015**

NETTING SUBSIDY REESTIMATE AMOUNTS WITHIN COHORTS

To calculate subsidy costs, components begin by estimating the expected cash flows and inflows over the life of the loans for each cohort year.¹ Expected cash flows are then discounted to the point of loan disbursement to determine the net present value.² The subsidy cost represents the net present value cost of making or guaranteeing new loans and is included in the President's Budget.

The data used for budgetary subsidy cost estimates are updated, or reestimated, annually after the end of the fiscal year to reflect actual loan performance and to incorporate any changes in assumptions about future loan performance. Reestimates must be made immediately after the end of each fiscal year, as long as any loans in the cohort are outstanding. An upward reestimate indicates that insufficient funds had been paid to the financing account. A downward reestimate indicates that too much subsidy had been paid to the financing account. Components do not need to request additional appropriations to cover upward reestimates because the Federal Credit Reform Act provides permanent indefinite budget authority for this purpose.³

OMB Circular A-11, Part 5, Section 185.6 (f), "Calculating reestimate increases/decreases," provides that in cases where agencies execute a risk category on a loan-by-loan basis, increases or decreases in subsidy cost for different loans within the same cohort and risk category will be netted against each other; that is, loans which require increased subsidies may first draw on the excess from any risk categories within the cohort where the reestimate shows a subsidy decrease⁴. A negative subsidy, or downward subsidy reestimate, is recognized as a direct reduction in expense, not as a revenue, gain, or other financing source.

- If the netting within the cohort indicates a net increase in the subsidy cost of the cohort as a whole since the last estimate or reestimate, an obligation in the amount of the net increase (plus interest) must be recorded against permanent indefinite budget authority available to the program account for this purpose.
- If the netting within the cohort results in a net downward reestimate, there is no overall increase in subsidy cost for the cohort and hence no additional appropriated subsidy for the program account. To keep the correct amount of balances in the financing account, an obligation and a financing disbursement in the amount of the net decrease (plus interest on the reestimate) must be recorded in the financing account.

¹ Cohort refers to the fiscal year of obligation for direct loan obligations or loan guarantee commitments of a program.

² The present value of a stream of future returns or costs is its worth in terms of money paid immediately.

³ Permanent indefinite budget authority is available for obligation and expenditure without fiscal year limitation and is not limited to a specified amount or ceiling.

⁴ Risk category means subdivisions of a cohort of direct loans or loan guarantees into groups that are relatively homogenous in cost, given the facts known at the time of obligation or commitment.

- Within the financing account, any amounts borrowed for downward reestimates for individual loans not needed for/transferred to loans with upward reestimates are transferred to a miscellaneous receipt account.

The Defense Finance and Accounting Services maintains separate accounting records for each loan and loan guarantee with all accounting transactions including the above described cash flows. Intracohort transfers in the context of the reestimate process are accounted for under the approved netting methodology. All projects having a downward re-estimate, whether or not they are in a cohort with an upward re-estimate project, borrow the gross amount of their respective downward re-estimates from the Bureau the of Fiscal Services. The borrowed funds received by a downward re-estimate project are first transferred to the extent needed to fund an upward re-estimate project in the same cohort, if any, with any net remaining funds paid to Treasury. Such intracohort transfers are recorded by the downward re-estimate project as a credit to General Ledger Accounting Code (GLAC) 4271 (Actual Program Fund Subsidy Collected) with an offsetting debit to GLAC 4271 recorded by the upward re-estimate project. Consequently, the total re-estimate amount included in Line 4120 on the Standard Form 133 is the sum of the net cohort balances.

Detailed accounting guidance is provided by two Department of the Treasury accounting guides:

- Guide for Basic Accounting and Reporting for Direct Loan Programs without Collateral in Federal Credit Program (2019); and
- Guide for Basic Accounting and Reporting for Loan Guarantee Programs without Collateral in Federal Credit Program (2019).