

VOLUME 12, CHAPTER 4: “DIRECT LOANS AND LOAN GUARANTEES”**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue, and underlined font**.

The previous version dated **June 2015** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
040101	Removed the Overview section due to redundancy.	Deletion
040102	Included an Authoritative Guidance section.	Addition
0402	Added the subsection “Netting Subsidy Reestimate Amounts (within Cohorts)” as instructed in the FMR Policy Memorandum (FPM) 19-07, “Department of Defense Method for Calculating Annual Subsidy Reestimates for Post 1991 Direct Loans and Loan Guarantees under the Federal Credit Reform Act”.	Addition
040301	Updated section to conform with new guidance on Fund Control in accordance to “The Antideficiency Act” and removed outdated text.	Revision
0404	Included additional text mentioned in Office of Management and Budget (OMB) Circular A-11 to provide comprehensive guidance on apportionment.	Revision
040502	Deleted reference of the Federal Agencies’ Centralized Trial-Balance System II, and replaced with the Governmentwide Treasury Account Symbol material in order to mirror OMB Circular A-11 guidance.	Revision
040804	Deleted instruction on using Standard Form 1081; no longer applies. Replaced with OMB Circular A-11 guidance in calculating interest rates.	Revision
Policy Memo	The Deputy Chief Financial Officer (DCFO) policy memorandum “Department of Defense Method for Calculating Annual Subsidy Reestimates for Post 1991 Direct Loans and Loan Guarantees under the Federal Credit Reform Act (FPM19-07),” dated February 13, 2019, was incorporated into the chapter and cancelled.	Cancellation
ALL	Updated all website links and references.	Revision
APPENDIX	Included Volume 12 Chapter 4 Appendix within the chapter.	Consolidation

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CHAPTER 4

DIRECT LOANS AND LOAN GUARANTEES

0401 GENERAL

040101. Purpose

This chapter establishes the Department of Defense (DoD) policies for direct loans and loan guarantees for non-Federal borrowers. The policies for credit programs reflect the requirements of the [Federal Credit Reform Act of 1990 \(FCRA\)](#) as amended. The major purposes of the Act are to: (a) measure more accurately the costs of Federal credit programs; (b) place the cost of credit programs on a budgetary basis equivalent to other Federal spending; (c) encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and (d) improve the allocation of resources among credit programs and between credit and other spending programs.

*040102. Authoritative Guidance

The financial management policy and related requirements prescribed in this chapter are in accordance with the applicable provisions of the following sources, and apply to all proceeds resulting from sales of acquired assets:

- A. [Office of Management and Budget \(OMB\) Circular A-11](#), Part 5, Section 185, "Federal Credit."
- B. [OMB Circular A-129](#), "Policies for Federal Credit Programs and Non-Tax Receivables."
- C. [The Treasury Financial Manual \(TFM\) Volume I Part 2, Chapter 4600](#).
- D. [Statement of Federal Financial Accounting Standards \(SFFAS\) 2](#), "Accounting for Direct Loans and Loan Guarantees."
- E. [SFFAS 18](#), "Amendments to Accounting Standards For Direct Loans and Loan Guarantees in SFFAS No. 2."
- F. [SFFAS 19](#), "Technical Amendments to Accounting Standards For Direct Loans and Loan Guarantees in SFFAS No. 2."
- G. Federal Accounting Standards Advisory Board (FASAB) [Technical Release 3 \(Revised\)](#), "Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act."
- H. [FASAB Technical Release 6](#), "Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act."

*0402 ACCOUNTING STANDARDS

040201. Explanation

The specific accounting standards for direct and guaranteed loans are discussed in this chapter. The standards concern the recognition and measurement of direct loans, the liability associated with loan guarantees, and the cost of direct loans and loan guarantees.

040202. Accounting Standards

A. Post-1991 Direct Loans. Refers to direct loan obligations made on or 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 on or 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. A subsidy expense is recognized for direct or guaranteed loans disbursed during a fiscal year. The amount of 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 average interest rate on marketable U.S. Treasury securities of similar maturity to the cash flows of the loan or loan guarantee for which the estimate is being made.

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 as 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 U.S. Treasury interest 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 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. (See Appendix A)

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 loans were disbursed. The amortized amount is recognized as an increase (when effective interest exceeds nominal interest) or decrease (when nominal interest exceeds effective interest) in interest income. Nominal interest equals the nominal balance (i.e., the face amount) of the loan outstanding at the beginning of the period multiplied by the interest rate stated in the loan contract. Effective interest equals the book value of the loan (i.e., net of allowance for subsidy) multiplied by the applicable U.S. Treasury interest rate.

1. Interest is accrued and compounded on the liability of loan guarantees at the interest rate that was 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.

E. Criteria for Default Cost Estimates. The criteria for default cost estimates 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. Cohort refers to the fiscal year of obligation for direct loan obligations or loan guarantee commitments of a program. 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. The reestimates take into account the differences in 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: (a) loan performance experience; (b) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (c) financial and other relevant characteristics of borrowers; (d) the value of collateral to loan balance; (e) changes in recoverable value of collateral; and (f) newly developed events that would affect the performance of the loan. Improvements in methods to reestimate defaults also are considered.

2. Each credit program must use a systematic methodology, such as an econometric model, to project default costs of each risk category. If individual accounts contain significant dollars that would carry a proportionately higher weight in terms of risk exposure, an analysis of the individual accounts is warranted in making the default cost estimate for that category.

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

F. 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. Expected cash flows are then discounted to the point of loan disbursement to determine the net present value. The subsidy cost represents the net present value cost of making or guaranteeing new loans.

1. 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.

2. OMB Circular A-11, Part 5, Section 185.6 (f), “Calculating Reestimate Increases/Decreases”, states 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. Loans that require increased subsidies should draw on the excess from any risk categories within the cohort where the reestimate shows a subsidy decrease. A negative or downward subsidy reestimate, should be recognized as a direct reduction in expense, not as a revenue, gain, or other financing source.

a. 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.

b. 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.

c. 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.

3. The Defense Finance and Accounting Services (DFAS) maintains separate accounting records for each loan and loan guarantee with all accounting transactions. 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 reestimates from the Bureau of Fiscal Services. The borrowed funds received by a downward reestimate project are transferred to the amount needed to fund an upward reestimate project in the same cohort with any net remaining funds paid to the Department of the Treasury.

a. Such intracohort transfers are recorded by the downward reestimate project as a credit to Unites States. Standard General Ledger (USSGL) account 427100 (Actual Program Fund Subsidy Collected) with an offsetting debit to USSGL 427100 recorded by the upward re-estimate project. Consequently, the total reestimate amount included in Line 4120 (Federal Sources) on the Standard Form (SF) 133 “Report on budget Execution and Budgetary Resources”, is the sum of the net cohort balances.

b. Detailed accounting guidance provided by the Department of Treasury: [Guide for Basic Accounting and Reporting](#) for Direct Loan Programs without Collateral in Federal Credit Program and [Guide for Basic Accounting and Reporting](#) for Loan Guarantee Programs without Collateral in Federal Credit Program.

G. 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 U.S. Treasury on uninvested funds is recognized as interest income. Interest accrued on debt to the U.S. Treasury is recognized as interest expense. 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.

H. 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 for uncollectible amounts and the liability of loan guarantees **must** be reestimated each year as of the date of the financial statements. In estimating losses and liabilities, the risk factors discussed in subparagraph 040202.E.1. must 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.

I. Modification of Direct Loans and Loan Guarantees. The term "modification" means a Federal action, including new legislation or administrative action, which 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 in subparagraph 040202.I.3, 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, or 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 workouts on cash flows are included in the original estimate of subsidy costs and subsequent reestimates.

J. 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 premodification value of the loans over the post-modification value of those loans. 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, the existing book value of that loan is changed to an amount equal to the present value of the net cash inflows projected under the modified terms from the time of modification to the loan's maturity. That amount is discounted at the original discount rate. (The rate that originally was used to calculate the present value of the direct loan, when the direct loan was disbursed, after adjusting for the interest rate reestimate.)

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. The 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 modification, and the cost of modification, normally will differ due to the use of different discount rates or different measurement methods. 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).

K. 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 the premodification liability of those loan guarantees. The modification cost is recognized as modification expense when the loan guarantees are modified and results in a subsidy cost increase or decrease, which must be recorded on the SF-133; refer to OMB Circular A-11, section 185.30 for complete details.

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 maturity of those loans, discounted at the original discount rate (the rate that originally is used to calculate the present value of the liability when the guaranteed loans were disbursed, after adjusting for the interest rate reestimate.)

2. When a pre-1992 loan guarantee is directly modified, the modified loan guarantee 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 a post-1991 loan guarantee. When a pre-1992 loan guarantee is indirectly modified, that loan guarantee is kept in a liquidating account. The liability of such a loan guarantee 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 normally will 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).

L. Disclosure. 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. For further information on financial statement disclosures regarding direct or guaranteed loans, go to “Notes to the Financial Statements,” Volume 6B, Chapter 10.

M. Foreclosure of Post-1991 Direct Loans and Guaranteed Loans. 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 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, adjusted for the interest rate reestimate.

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, adjusted for the interest rate reestimate.

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.

N. Write-off of Direct Loans. When post-1991 direct loans are written off, the unpaid principal of each such loan 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 reflected in the subsidy cost allowance through the subsidy cost estimate or reestimates. Therefore, the write-off would have no effect on expenses. See OMB Circular A-129 for additional details.

O. Additional Disclosures Required for Periods Beginning After September 30, 2000. The SFFAS No. 18 requires additional disclosures. Beginning in FY 2001, Federal agencies are required to:

1. Report subsidy reestimates in two distinct components: the interest rate reestimate and the technical/default reestimate.

2. Display reconciliation between the beginning and the ending balances of the subsidy cost allowance for direct loans and the liability for loan guarantees, reported in an entity's balance sheet.

3. Provide a description of program characteristics and disclose:

a. the amounts of direct or guaranteed loans disbursed in each program during the reporting year;

b. the estimated subsidy rates for the total subsidy and the subsidy components at the program level in the current year's budget for the current year's cohorts;

c. events and changes in economic conditions, other risk factors, legislation, credit policies and subsidy estimation methodologies and assumptions, that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates; and

d. events and changes in conditions that may be likely to have a significant impact, but the effects of which are not measurable at the reporting date.

0403 CREDIT REFORM FUND CONTROLS

*040301. Fund Control

DoD agency heads must prescribe, by regulation, a system of administrative control of funds. For credit programs and resources, systems for administrative control of funds must ensure that internal controls include objectives specific to compliance with the Antideficiency Act. Additional detailed guidance can be found in OMB Circular A-11, Part 4, Section 150.

040302. Antideficiency Act Violations

Antideficiency Act violations for direct loans, guaranteed loans, and financing accounts are reportable to the President, through the Director of the OMB, to the [Comptroller General](#), and to the Congress. For additional information, go to “Antideficiency Act Violations,” Volume 14, Chapter 2. Violations include:

A. Overobligation or Overexpenditure of the Subsidy. This is any case where an officer or employee of the U.S. Government makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, that is in excess of amounts appropriated and apportioned for (1) the direct loan subsidy or (2) the guaranteed loan subsidy. Examples of 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 U.S. Government 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 U.S. Government makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, which is in excess of the amount appropriated for administrative expenses.

D. Obligation or Expenditure of the Expired 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 U.S. Government makes or authorizes expenditure or creates or authorizes an obligation, including a commitment, against unobligated subsidy balances after the period of obligation 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 expired unobligated balance of the subsidy are violations.

***0404 CREDIT APPORTIONMENT AND REAPPORTIONMENT**

All Treasury appropriation fund symbols (TAFS) and all program, financing, and liquidating accounts are required to be apportioned, except in the case of a TAFS that is in its entirety exempt from apportionment by OMB. See [OMB Circular A-11](#), part 4, section 120.6 for TAFS that are partially exempt from apportionment. This subject is discussed in full detail in Volume 3, Chapter 2, "Apportionment and Reapportionment."

0405 REPORT ON BUDGET EXECUTION AND BUDGETARY RESOURCES (Standard Form 133)**040501. Coverage**

Unless otherwise specified by the OMB, the Report on Budget Execution and Budgetary Resources **must** be prepared to provide current data on each credit account, whether apportioned or not. Current reporting requirements are published in OMB Circular A-11, Part 4, "Instructions on Budget Execution."

***040502. Timing of Reports**

The SF 133 **must** be submitted electronically through the [Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System](#), at the end of November, July, August, and each quarter or such other time period specified by the OMB for each open TAFS. This facilitates analysis and ensures consistent presentation of budget execution information so that Governmentwide totals are meaningful. A copy of the SF 133 for each calendar quarter **must** be submitted to the Committee on Appropriations, House of Representatives.

0406 DIRECT LOANS

Obligation of subsidy **must** be recorded in the program account when a binding contract has been signed, in accordance with the provisions of OMB Circular A-11, Part 5, Federal Credit. Subsidy funds **must** be paid from the program account to the financing account when the direct loan is to be disbursed to the borrower. 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 or change in estimates for other components of subsidy cost 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, permanent indefinite budget authority is available to fund the increase, pursuant to section 504(f) of the FCRA of 1990. If the subsidy amount decreases, a payment **must** be made to a receipt account.

0407 GUARANTEED LOANS

Obligation of subsidy **must** be recorded in the program account when a binding contract has been signed, in accordance with the provisions of OMB Circular A-11, Part 5, Federal Credit. Subsidy funds **must** be paid from the program account to the financing account when the guaranteed loan is disbursed to the borrower by the third-party lender. 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 or change in estimates for other components of subsidy cost 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, permanent indefinite budget authority is available to fund the increase, pursuant to section 504(f) of the FCRA of 1990. If the subsidy amount decreases, a payment **must** be made to a receipt account.

0408 COMPUTATION OF INTEREST EXPENSE AND INTEREST INCOME.

040801. Instructions for Computations of Interest Expense and Interest Income for Direct and Guaranteed Loan Programs

A. Interest expense in a direct loan program results from borrowing from the U.S. Treasury. 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 U.S. Treasury.

B. A single borrowing from the U.S. Treasury is made at the beginning of each fiscal year, separately for each cohort, based on the estimated net loan disbursements for the cohort. Interest expense accrues on the borrowing, and interest income accrues on the undisbursed balance of the borrowing from the U.S. Treasury. (The undisbursed balance of U.S. Treasury 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 U.S. Treasury.

040802. Frequency of Interest Computations

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 that currently are disbursing **must** 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 annually to compute interest expenses and interest income, at the end of each fiscal year, using the average annual interest rate provided by OMB and the U.S. Treasury. In those few programs that have a strong seasonal pattern, OMB will calculate special weighted average interest rates appropriate to these patterns and will provide them to the agencies.

040803. Weighted Average Interest Rate

The Credit Reform Act provides that the interest rate for borrowing **must** be assigned based on the U.S. 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 90 percent of 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. Additional information regarding subsidy calculation is contained in OMB Circular A-11, Part 5, Federal Credit.

*040804. Procedure and Due Dates for Computing Interest Expenses and Income Related to Borrowing for Direct Loan and Guaranteed Loan Financing Accounts

Detailed instructions for calculating interest due to and due from the U.S. Treasury are provided in Volume 1, Part 2, Treasury Financial Manual, Chapter 4600. OMB distributes the actual annual interest rates approximately 10 business days before fiscal year-end, September 30. Each cohort has its own specific interest rate used to earn or pay interest, referred to as a cohort interest rate. The OMB Credit Subsidy Calculator (CSC) calculates the cohort interest rate. Agencies must use the most current version of the CSC, available through the OMB contact with primary responsibility for the account, to calculate interest paid to Treasury. On or before the day the interest payment is made via the Intra-governmental Payments and Collections (IPAC) system, but in any case no later than September 30 of the current fiscal year. Agencies must email the supporting interest payment calculation to Federal Investments and Borrowings Branch.

0409 Credit Reform USSGL Accounts and Definitions

Credit reform accounts and definitions were established in the USSGL to implement requirements of the FCRA of 1990 (as amended), and are intended to account for direct loans and loan guarantees. DoD entities must follow the Standard Financial Information Structure (SFIS), which is based on the Treasury USSGL. For more complete information go to the [SFIS website](#).

*APPENDIX A

CREDIT REFORM: CASH FLOWS FOR DIRECT LOANS AND FOR LOAN
GUARANTEES

In order to more clearly understand the cash flow process as required by credit reform for a direct loan or a guaranteed loan, two examples are provided.

EXAMPLE: Cash Flow for a \$100 Direct Loan, 20 percent subsidy, disbursed in one year

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 the borrower. Simultaneously, the financial account borrows the additional \$80 needed to make the \$100 loan from the U.S. Treasury (Treasury).
4. The borrower pays fees, interest, and principal to the financing account under the terms of the loan.
5. The financing account makes payments to the Treasury over time on the \$80 portion of the loan. 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 amount of \$80 borrowed from the Treasury plus interest.
6. If the subsidy is not accurate, a reestimate must be calculated, and as necessary, either:
 - a. an additional subsidy will be disbursed from the program account to the financial account, to cover the amount of the reestimate, or
 - b. excess funds must be moved from the financial account to a negative receipt account, where these funds are unavailable until appropriated.

EXAMPLE: Cash flow for a \$100 Loan Guarantee with a 20 percent subsidy rate disbursed in one year

1. Congress appropriates \$20 in subsidy BA to the program account.
2. The \$20 subsidy is obligated when the \$100 loan is obligated.

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

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

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

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

7. If the subsidy is not accurate, a reestimate must be made and, as necessary either:

a. additional subsidy **must** be disbursed from the program account to the financing account to cover the amount of the reestimate, or

b. excess funds must be moved from the financing account to a negative receipt account, where these funds are unavailable until appropriated.