JFMIP

Federal
Financial
Management
System
Requirements

Guaranteed Loan System Requirements

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March 2000

What is JFMIP?

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the U.S. Department of the Treasury, the General Accounting Office, the Office of Management and Budget, and the Office of Personnel Management, working in cooperation with each other and other agencies to improve financial management practices in government. The Program was given statutory authorization in the Budget and Accounting Procedures Act of 1950 (31 USC 3511(d)). Leadership and program guidance are provided by the four Principals of the JFMIP--Comptroller General of the United States, Secretary of the Treasury, and the Directors of the Office of Management and Budget, and the Office of Personnel Management. Each Principal designates a representative to serve on the JFMIP Steering Committee, which is responsible for the general direction of the Program. The JFMIP Executive Director, and a program agency representative (who serves for 2 years) are also on the Steering Committee.

The Program promotes strategies and guides financial management improvement across government; reviews and coordinates central agencies' activities and policy promulgations; and acts as catalyst and clearinghouse for sharing and disseminating information about good financial management practices. This information sharing is done through conferences and other educational events, newsletters, meetings with interagency groups and agency personnel, and through FinanceNet, an electronic clearinghouse on the Internet.

The JFMIP has worked on interagency projects that developed a financial systems framework and financial systems requirements. For the future JFMIP plans to assist Federal agencies in improving their financial systems through its Program Management Office. The Office will work on developing and maintaining Federal governmentwide standard systems requirements documents, software testing, outreach, and knowledgebase. The first target of opportunity for software testing is core financial systems. The objectives of the Office are to develop systems requirements, communicate and explain Federal and agency needs, provide agencies and vendors information to improve financial systems, ensure that products meet relevant system requirements, and simplify the procurement process.

Information on JFMIP can be found at its website at www.financenet.gov/fed/jfmip/jfmip.htm or call (202) 219-0526.

Foreword

This is a functional requirements document for guaranteed loan systems requirements. Functional requirements for direct loan systems are contained in a separate JFMIP requirements document. This is one of a series of functional systems requirements documents published by the Joint Financial Management Improvement Program (JFMIP) on Federal financial management systems requirements.

All of the JFMIP Federal Financial Management System Requirements (FFMSR) series of documents should be considered together when determining how best to use information and supporting services to meet the financial management needs of a Federal agency.

The FFMSR series addresses the goals of the U. S. Government Chief Financial Officers' (CFO) Council, the JFMIP, the Federal Credit Policy Working Group (FCPWG), and others, to promote the efficient management of assets, and to improve financial management systems governmentwide to provide useful financial information on Federal government operations.

Agencies may develop additional technical and functional system requirements as necessary to support unique mission responsibilities. Agencies must also develop strategies for interfacing or integrating guaranteed loan systems with the agency's core financial system.

We want to take this opportunity to thank agency officials and others in the financial, guaranteed loans, and other program management communities who contributed to this document. We value their assistance and support. With continuing support such as theirs, we can confidently face the financial management challenges in the next century.

Karen Cleary Alderman

Karen Cleary Alderman
Executive Director
March 2000

Table of Contents

Acronyms

AAPC	Accounting and Auditing Policy Committee
ACH	Automated Clearing House
CAIVRS	Credit Alert Interactive Voice Response System
CCLR	Claims Collection Litigation Report
CFO Act	Chief Financial Officers Act of 1990
CM	Configuration Management
COTS	Commercial Off-the-Shelf
DCA	Debt Collection Act
DCIA	Debt Collection Improvement Act
DOJ	Department of Justice
EDA	Electronic Debit Account
E-mail	Electronic Mail
FASAB	Federal Accounting Standards Advisory Board
FCPWG	Federal Credit Policy Working Group
FCRA	Federal Credit Reform Act
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FLSA	Fair Labor Standards Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
GAO	General Accounting Office
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
IRS	Internal Revenue Service
JFMIP	Joint Financial Management Improvement Program
NPR	National Performance Review
OGC	Office of General Counsel
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCMI	President's Council on Management Improvement
PMC	President's Management Council
SAS	Statements of Auditing Standards
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SSN	Social Security Number
TFM	Treasury Financial Manual
TIN	Taxpayer Identification Number
TOP	Treasury Offset Program

Illustrations

Introduction

As the world's largest and most complex enterprise, the U. S. Federal government faces tremendous challenges in the management of guaranteed loan programs. These enormous responsibilities involve the management of billions of dollars of resources, and pose tremendous challenges as we rapidly approach the twenty-first century.

The Federal government has consistently recognized the importance of having high quality financial management systems to support improvement of government operations and provide financial and related information to program and financial managers. In response, the JFMIP began the process of defining financial management system requirements by publishing the FFMSR series of requirements documents, beginning with the Core Financial System Requirements document in January 1988. Since then JFMIP has issued several other publications in the FFMSR series.

In addition to the basic JFMIP systems requirements documents, several Federal organizations and agencies recognized the need for a comprehensive document describing a variety of general systems requirements e.g., system integration, data stewardship, and internal controls. As a result, JFMIP published the Framework for Federal Financial Management Systems document in January 1995.

The Federal Financial Management Improvement Act (FFMIA) of 1996 mandated that agencies implement and maintain systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. The FFMIA statute codified the JFMIP financial systems requirements documents as a key benchmark that agency systems must meet, in order to be substantially in compliance with systems requirements provisions under FFMIA. To support the requirements outlined in the FFMIA, JFMIP is updating publications which are obsolete and is publishing additional requirements documents. The JFMIP Core Financial System Requirements document was updated in February, 1999. This document is an update of the December 1993 JFMIP Guaranteed Loan System Requirements document.

This Guaranteed Loan System Requirements document is intended for guaranteed loan program financial systems analysts; system accountants; and others who design, develop, implement, operate, and maintain financial management systems. This includes buying or building systems. This document does not prescribe a single model for Guaranteed Loan Systems because guarantee programs vary greatly, the requirements contained in this document are applicable only to the extent that they support the operations of the individual systems. The primary purposes for this update are to reflect:

- changes in statutes, regulations, and technology that have occurred since the document was originally published in December 1993, e.g., passage of the CFO Act of 1990, and FFMIA of 1996;
- changes brought about by the National Performance Review (NPR); and
- increased availability of commercial off-the-shelf (COTS) software packages.

The CFO Act strengthened the government's efforts to improve financial management by:

- assigning clearer financial management responsibilities to senior officials;
- establishing new financial organizations; and
- requiring enhanced financial systems, audited financial statements, and improved planning.

The Government Performance and Results Act (GPRA); Government Management Reform Act (GMRA); FFMIA; and others further enhanced these responsibilities and requirements.

The Secretary of the Treasury; Director of the Office of Management and Budget; and Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB) in October 1990, to recommend Federal accounting principles and standards. In October 1999, FASAB was designated by the American Institute of Certificed Public Accountants (AICPA) as the accounting standards-setting body for the Federal government. FASAB promulgates accounting standards through issuance of its Statements of Federal Financial Accounting Standards (SFFAS) and other documents such as interpretations. More information on FASAB can be found on the website: www.financenet.gov/fed/fasab.

Increasingly, integrated financial management systems are necessary to support program managers, financial managers, budget officials, and others simultaneously. Data and information supplied by systems to these individuals are expected to be accurate, timely, and consistent across organizations, agencies, and the Federal government. Systems and data are shared more and more by multiple organizations, agencies, etc., with common needs.

Federal Financial Management Framework

This document provides high level functional requirements for guaranteed loan systems that will provide the capability for financial managers and others to control and account for guaranteed loan program assets, liabilities, and resources as defined in governmentwide and agency specific statutes, regulations, and guidelines. Appendix A is a listing of statutory and regulatory references. This document is one component of a broad program to improve Federal financial management which involves the establishment of uniform requirements for financial information, financial systems, reporting, and financial organizations.

As shown in Illustration 1, standards and systems requirements assist agencies in developing effective and efficient systems and provide a common framework so that outside vendors or in-house programmers can provide software more economically. Each agency should integrate its unique requirements with these governmentwide standard requirements to provide a uniform basis for the standardization of financial management systems as required by the CFO Act of 1990, FFMIA of 1996, and others.

Financial management systems in the Federal government must be designed to support the vision articulated by the government's financial management community. This vision requires financial management systems to support the partnership between program and financial managers and to assure the integrity of information for decision-making and measuring performance. This includes the ability to:

- collect accurate, timely, complete, reliable, and consistent information;
- provide for adequate agency management reporting;
- support governmentwide and agency-wide policy decision-making;
- support the preparation and execution of agency budgets;
- facilitate the preparation of financial statements and other financial reports in accordance with Federal accounting and reporting standards;
- provide information to central agencies for budgeting, analysis, and governmentwide reporting, including consolidated financial statements; and
- provide a complete audit trail to facilitate audits.

In support of this vision, the Federal government must establish governmentwide financial management systems and compatible agency systems, with standardized information and electronic data exchange, to support program delivery, safeguard assets, and manage taxpayer dollars.

It is critical that financial management systems plans support the agency's mission and programs, including planned changes to them, and that financial management systems plans are incorporated into the agency's plans for information technology infrastructure and information systems as a whole. Further, systems design efforts should include an analysis of how systems improvements, new technology supporting financial management systems, and modifications to existing work processes can together enhance agency operations and improve program and financial management. Reassessing information and processing needs and redesigning processes, procedures, and policies are essential steps to meeting user needs.

Integrated Financial Management Systems

Financial management systems must be designed with effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. To be integrated, financial management systems must have, as a minimum, the following four characteristics:

Financial System Improvement Projects

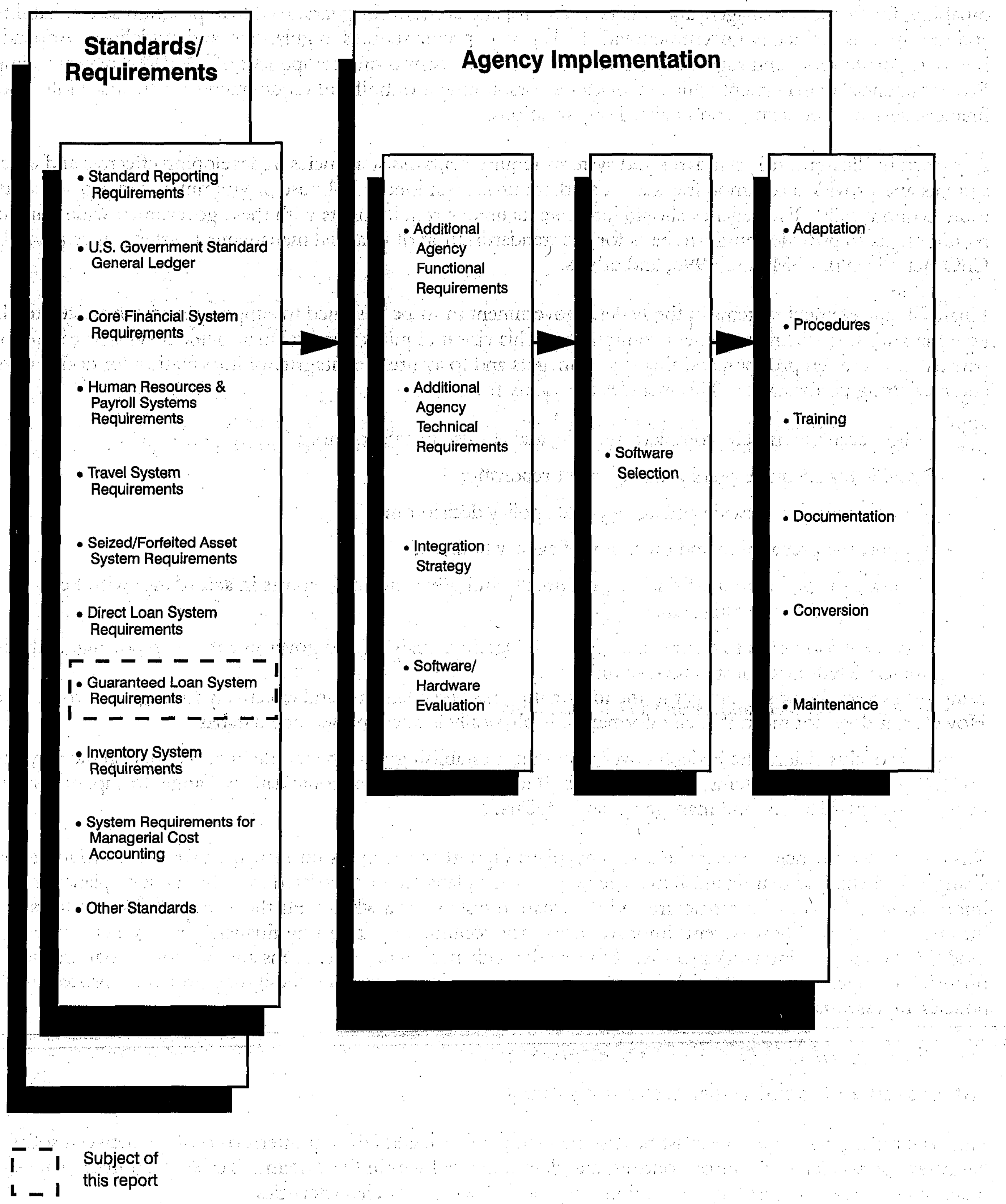

Illustration 1

- standard data classifications (definitions and formats) established and used for recording financial events;
- common processes used for processing similar kinds of transactions;
- internal controls over data entry, transaction processing, and reporting applied consistently; and
- a design that eliminates unnecessary duplication of transaction entry.

The financial management systems policy described in OMB Circular A-127 Financial Management Systems, requires that each agency establish and maintain a single integrated financial management system. Without a single, integrated financial management system to ensure timely and accurate financial data, poor policy decisions are more likely to occur, due to inaccurate or untimely information; managers are less likely to be able to report accurately to the President, the Congress, and the public on government operations in a timely manner; scarce resources are more likely to be directed toward the collection of information rather than to delivery of the intended programs; and modifications to financial management systems necessary to keep pace with rapidly changing user requirements cannot be coordinated and managed properly. The basic requirements for a single, integrated financial management system are outlined in OMB Circular A-127.

Having a single, integrated financial management system does not necessarily mean having only one software application for each agency covering all financial management systems needs. Rather, a single, integrated financial management system is a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public.

Unified means that systems are planned and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agencywide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

Integration means that the user is able to have one view into systems such that, at whatever level the individual is using the system, he or she can get to the information needed efficiently and effectively through electronic means. However, it does not mean that all information is physically located in the same database.

Interfaces, means that one system feeds data to another system following normal business/transaction cycles such as salary payroll charges recorded in general ledger control accounts at the time the payroll payments are made. Interfaces may be acceptable as long as the supporting detail is maintained and accessible to managers. In such cases, interface linkages must be electronic unless the number of transactions is so small that it is not cost-beneficial to automate the interface. Easy reconciliations between systems, where interface linkages are appropriate, must be maintained to ensure accuracy of the data.

To develop any integrated information system, it is critical that senior systems analysts and systems accountants identify:

- the scope of the functions to be supported (processes),
- how data quality will be assured (data stewardship),
- the information to be processed (management information),
- how systems fit together to support the functions (systems architecture), and
- safeguards needed to ensure the integrity of operations and data (internal control).

All of these pieces must be brought together in a model such as the one shown in Illustration 2. These pieces must work together to form an efficient integrated information system. A change to any part of the model will require determination of the implications on other parts of the model. For example, a new reporting requirement may require changes throughout the entire model.

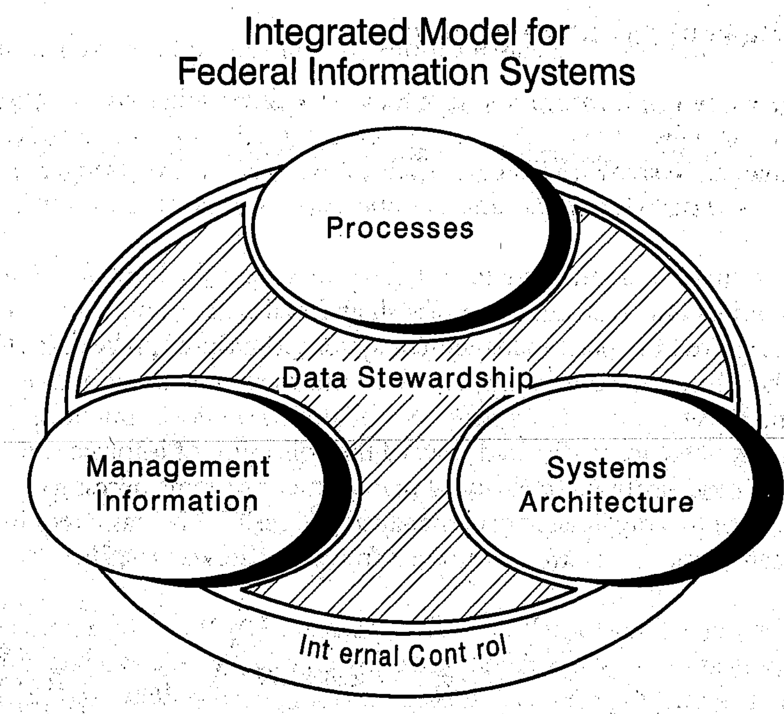

Illustration 2

Agency Financial Management Systems Architecture

Agency financial management systems are information systems that track financial events and summarize information to support the mission of an agency, provide for adequate management reporting, support agency level policy decisions necessary to carry out fiduciary responsibilities, and support the preparation of auditable financial statements.

Agency financial management systems fall into four categories:

- core financial systems;
- other financial and mixed systems, including guaranteed loan systems,
- shared systems, and
- departmental executive information systems (systems to provide management information to all levels of management).

These systems must be linked together electronically to be effective and efficient. Summary data transfers must be provided from agency systems to central systems to permit summaries of management information and agency financial performance information on a governmentwide basis.

Subject to governmentwide policies, the physical configuration of financial management systems, including issues of centralized or decentralized activities, processing routines, data, and organizations, is best left to the determination of the agency, which can determine the optimal manner in which to support the agency mission. The physical design of the system, however, should consider the agency's organizational philosophy, the technical capabilities available, and the most appropriate manner to achieve the necessary single, integrated financial management system for the agency.

The agency systems architecture shown in Illustration 3, provides a logical perspective identifying the relationships of various agency systems types. Although this does not necessarily represent the physical design of the system, it does identify the systems types needed to support program delivery/financing and financial event processing for effective and efficient program execution.

Guaranteed Loan Systems

As shown in Illustration 3, guaranteed loan systems are an integral part of the total financial management system for virtually all Federal agencies. Guaranteed loan systems support programmatic objectives and interact with core financial systems to validate funds availability; update budget execution data; record receivables and collections, and process disbursements.

Agency Systems Architecture

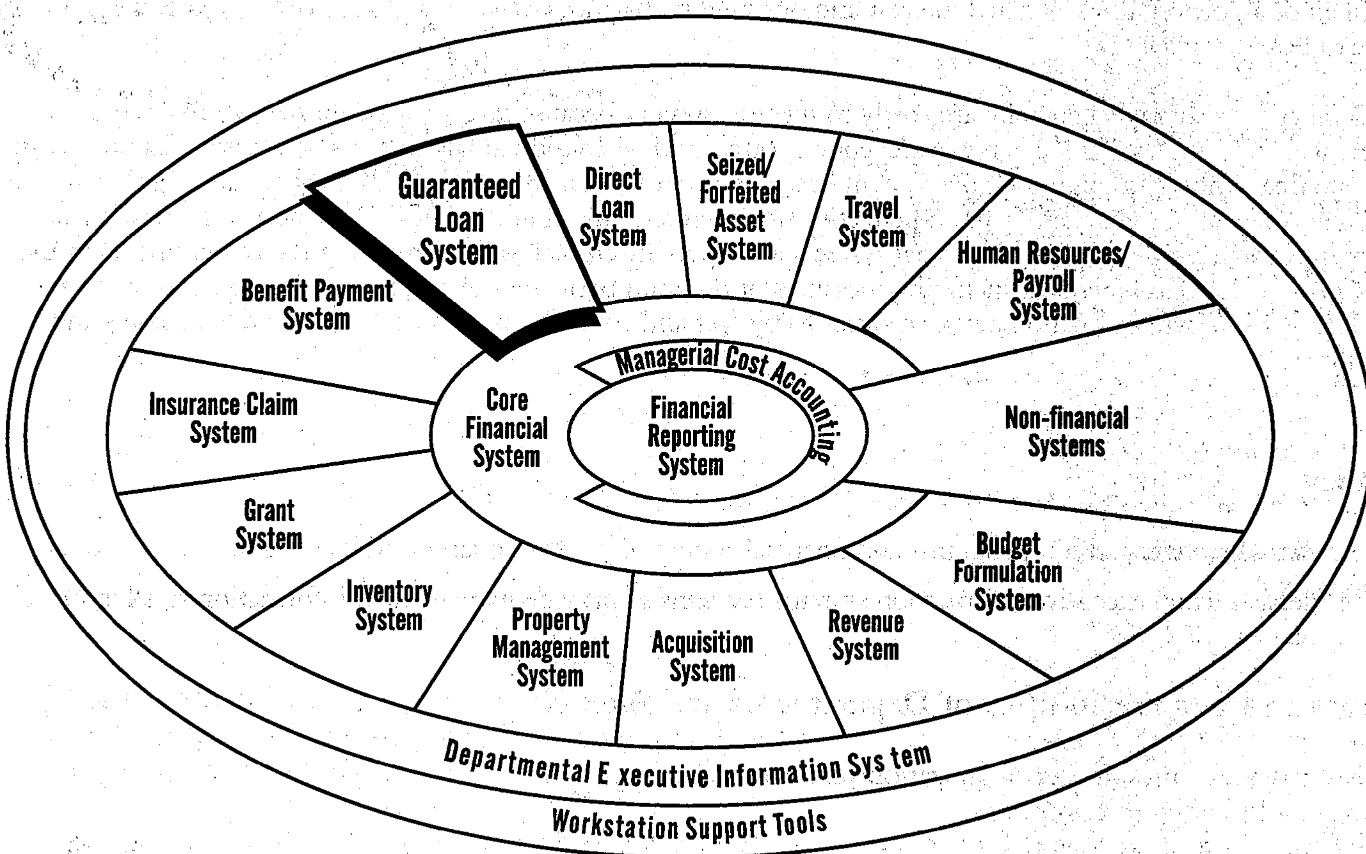

Illustration 3

Background

This chapter presents a brief history of Federal credit programs, describes the policies that affect Federal credit programs, and defines the roles and responsibilities of the Federal organizations involved in directing, overseeing, and implementing credit programs.

History

Federal credit programs provide benefits to certain borrowers or channel additional resources to certain sectors of the economy. Examples of Federal credit programs include agricultural loans, small business loans, housing mortgage loans, and student loans. There are two types of Federal loan programs: direct loans and guaranteed loans. In direct loan programs the Federal government makes a direct disbursement to an approved borrower, and services and collects the loan. Guaranteed loan programs utilize private sector lenders to originate and service loans, with all or a portion of the accrued interest and outstanding balance of the loan guaranteed by the government in case of borrower default.

Federal credit programs generally are costly to the government because they provide more favorable terms to borrowers than are available from private lenders, often lending to individuals and businesses who cannot obtain private financing. Although the government has chosen to carry out these inherently risky loan programs in order to achieve social purposes, efficient and effective management can minimize losses. Financial systems are a key element in achieving this goal. Financial systems are especially critical to implementing the requirements of the CFO Act of 1990 as amended, including measures of program performance and financial statements, and the FCRA of 1990, which sets up new procedures to budget and account for credit subsidies and loan assets and liabilities.

Policy

The policies governing credit programs and financial systems that affect guaranteed loan systems are listed in Appendix A.

Roles and Responsibilities of Departments and Agencies

This section identifies the key organizations in the credit management community and the roles they play in managing Federal credit programs.

Office of Management and Budget. OMB is responsible for reviewing legislation to establish new credit programs or to expand or modify existing credit programs, reviewing and clearing testimony pertaining to credit programs and debt collection, reviewing agency budget submissions for credit programs and debt collection activities, formulating and reviewing credit management and debt collection policy, and approving agency credit management and debt collection plans.

Department of the Treasury. The Department of the Treasury, through its FMS, is responsible for monitoring and facilitating implementation of credit management and debt collection policy. FMS develops and disseminates as a supplement to the TFM operational guidelines for agency compliance with Government-wide credit management and debt collection policy. FMS assists agencies in improving credit management activities and evaluates innovative credit management practices.

Federal Accounting Standards Advisory Board. The FASAB was established in October 1990, by the Comptroller General, the Director of OMB, and the Secretary of the Treasury. The Board exists through a memorandum of understanding among these three principal Federal executives. In October 1999, FASAB was designated by the AICPA as the accounting standards-setting body for the Federal government. FASAB promulgates accounting standards through issuance of its Statements of Federal Financial Accounting Standards (SFFAS) and other documents such as interpretations. More information on FASAB can be found on the website: www.financenet.gov/fed/fasab.

Accounting and Auditing Policy Committee. The Accounting and Auditing Policy Committee (AAPC) is a permanent FASAB committee established to improve Federal financial reporting by assisting in providing timely guidance to prepares and auditors of Federal financial statements. The AAPC receives issues from numerous sources related to three topical areas: Statement of Federal Financial Accounting Standards (SFFAS), OMB's Form and Content, and audit issues; and recommends guidance. The AAPC has established a credit reform task force composed of members of Treasury, GAO, OMB, and representatives from all the credit agencies to address all accounting, auditing, budgeting and reporting issues encountered by agencies subject to the FCRA of 1990.

Federal Credit Policy Working Group. The Federal Credit Policy Working Group (FCPWG) is an interagency forum that provides advice and assistance to OMB and Treasury in the formulation and implementation of credit policy. In addition to OMB and the Department of the Treasury, membership includes the Departments of Agriculture; Commerce; Education; Health and Human Services; Housing and Urban Development; Interior; Justice; Labor; State; Transportation; and Veterans Affairs; the Agency for International Development; the Export-Import Bank; the Resolution Trust Corporation; and the Small Business Administration.

Agencies. Each agency is responsible for managing its own credit activities in accordance with its statutory authorities and the provisions of OMB circulars and other policy guidance. OMB Circular A-129, Appendix A, outlines the specific functions of the agencies in relation to credit management.

System Overview

This chapter provides an overview of guaranteed loan system requirements. The complexity, diversity, and size of the Federal guaranteed loan programs place unique demands on managers of guaranteed loan program operations. The constantly changing requirements of guaranteed loan programs has led management to look not only at the functional capabilities of guaranteed loan systems, but also the managerial environments in which these systems are supported and/or operated.

All guaranteed loan systems that are being designed and implemented, or are in use, must operate in accordance with laws, regulations, and judicial decisions. It is the responsibility of each agency to be knowledgeable of the legal requirements governing its human resources and payroll operations.

This document identifies functional requirements for guaranteed loan systems. Although the document may be used when developing new guaranteed loan systems, or improving or evaluating current systems, the document does not provide a specific model for such systems. Functional requirements not mandated by law, regulation, directive, or judicial decision must result in cost-effective systems that are in the interest of the government. All possible alternatives for meeting the requirements should be considered.

Functional requirements of the Federal government's guaranteed loan systems can be segregated into two general categories, mandatory and value added. Following are definitions for these two categories of requirements:

mandatory - Mandatory requirements describe what the system must do and consists of the minimum acceptable functionality, necessary to establish a system, or are based on Federal laws and regulations. Mandatory requirements are those against which agency heads evaluate their systems to determine substantial compliance with systems requirements under the FFMIA. These requirements apply to existing systems in operation and new systems planned or under development.

value-added - Value-added requirements describe features or characteristics and may consist of any combination of the following: (1) using state of the art technology, (2) employing the preferred or best business practices, or (3) meeting the special management needs of an individual agency. Value-added, optional, and other similar terminology may be used to describe this category of requirements. Agencies should consider value-added features when judging systems options. The need for these value-added features in agency systems is left to the discretion of each agency head.

Within this document, requirements are specifically identified as mandatory or value-added. Federal agencies must carefully determine which value-added requirements are necessary for each credit program.

Value-added or optional requirements are discussed at various points throughout the document. The burden of demonstrating that value-added or optional functions are cost effective and clearly in the interest of the government rests with agency heads. Further, each agency must develop an efficient, effective, and economical strategy for interfacing or logically integrating its guaranteed loan systems (or subsystems) with other systems (or subsystems) that provide information to, or utilize information, from standard guaranteed loan systems.

The data in these optional processes must be consistent with standard guaranteed loan systems that contain the official records for the agency. Distributed processing and small end-user computers greatly increase the need for agency-wide strategic planning for information resources. Incompatible data in separate files or systems can prevent, or make difficult, the integration of data to generate the information required by management.

The remainder of this chapter provides information based on the following three categories:

- Summary of Functions - presents a high-level description of the functions that are supported by guaranteed loan systems.
- Relationships with Other Systems - describes how guaranteed loan system interact with other systems.

- Data Requirements - discusses the types of data needed to perform the various functions of a guaranteed loan system.

Summary of Functions

Illustration 4 shows the functions of guaranteed loan systems. The following is a brief description of the major functions of a guaranteed loan system. The functional requirements chapters provide a detailed description of each function, including the lower level processes within each function.

Lender Management

The Lender Management function supports analysis of lenders' program eligibility and monitors lender performance to ensure that only qualified and financially sound lenders participate in Federal guaranteed loan programs. The processes within the Lender Management function include the Lender Eligibility process and the Lender/Servicer Monitoring process.

Guarantee Extension and Maintenance

The Guarantee Extension and Maintenance function supports the accounting and documentation requirements for the evaluation of the guarantee request, the extension of the guarantee by the Federal agency, and the monitoring of the guarantee. The processes within the Guarantee

Extension and Maintenance function are the Guarantee Request Evaluation process, the Guarantee Origination process, and the Guaranteed Loan Maintenance process.

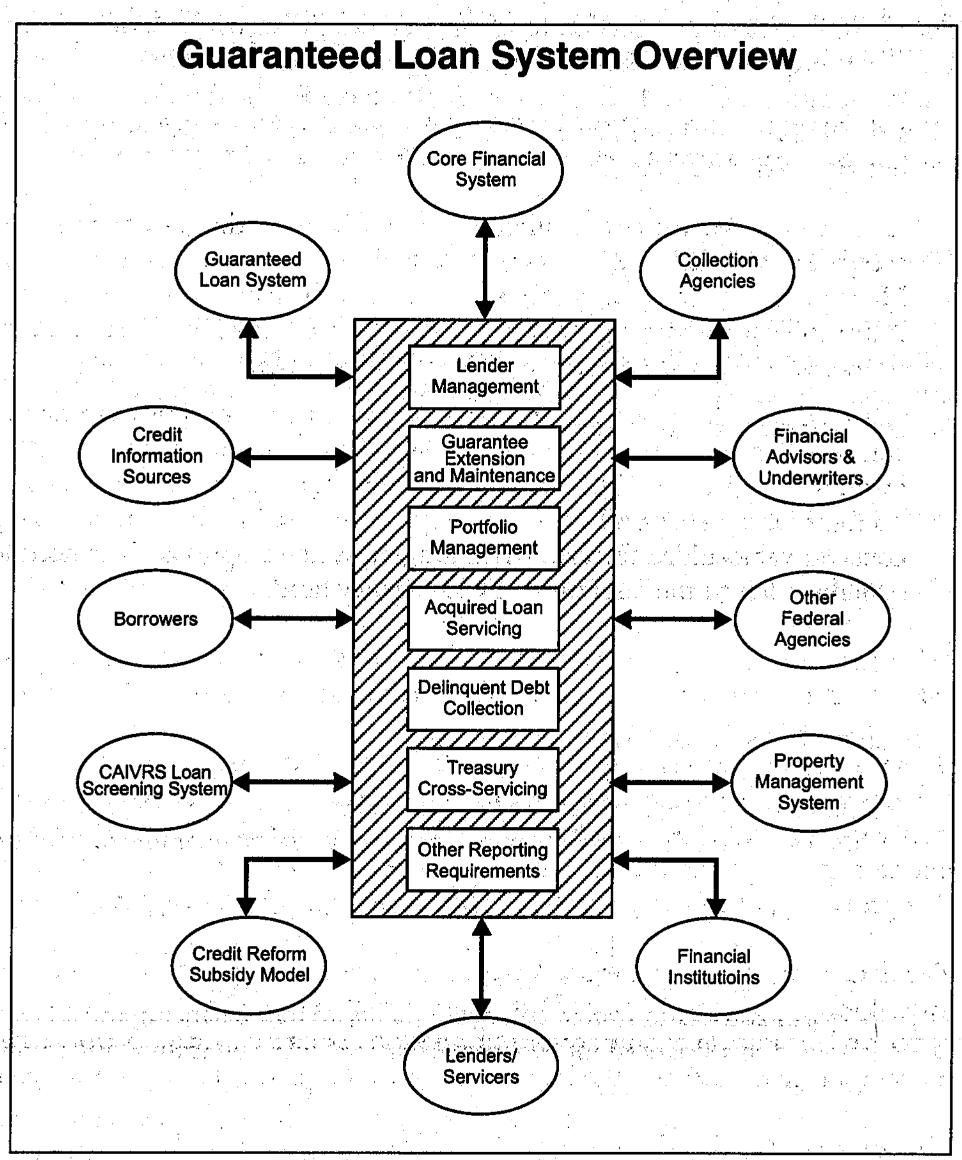

Illustration 4

Portfolio Management

The Portfolio Management function supports the management and evaluation of the guaranteed loan program and its portfolios of outstanding guaranteed loans and acquired loans.

The processes within the Portfolio Management function are the Portfolio Management process and the Program Financing process.

Acquired Loan Servicing

The Acquired Loan Servicing function encompasses the procedures for default claim review and payment in accordance with guarantee agreements and regulations, as well as the invoicing and collection procedures for acquired loans and the foreclosure and liquidation of property for collateralized loans acquired by the government. The processes within the Acquired Loan Servicing function are the Claim Processing process, the Account Status Maintenance process, the Foreclose on Collateral process, and the Manage/Liquidate Collateral process.

Delinquent Debt Collection

The Delinquent Debt Collection function includes the recovery of delinquent debt through the use of dunning letters, offset programs, collection agencies, garnishment of non Federal wages, litigation, and the termination of collection action on uncollectible debt. It also includes the foreclosure and liquidation of property for collateralized loans acquired by the government. The processes within the Delinquent Debt Collection function are: Collection Actions and Write-offs and Close-outs.

Treasury Cross-Servicing

Cross-servicing occurs when Treasury's Financial Management Service (FMS) or a Treasury-designated debt collection center provides debt collection services for other Federal agencies. The processes within cross-servicing are: Identify Accounts Selected, Monitor Accounts Referred to the Debt Collection Center, and Support an Agency's Request to Cross-Service.

Other Reporting Requirements

This chapter provides requirements for two types of reporting: Transaction History and External Reporting Requirements.

Relationships with Other Systems

The guaranteed loan system must be capable of interfacing with other financial management systems. A brief description of some of the systems which interact with the guaranteed loan system is provided below.

- The guaranteed loan system interacts with the core financial system to perform fund control checks, initiate or record payments, and record the results of other guaranteed loan-related financial transactions, and acknowledge receipt of financial information exchange. The Guaranteed Loan system must be able to perform automatic system balancing. This system balancing must ensure that guaranty loan partners involved in a financial information exchange agree on transaction number and dollar values passed, processed, and rejected. The automated system balancing will include cumulative subsidiary account balancing to the general ledger. This automated system balancing ensures that guaranty loan partners reflect the same picture of valid transactions over a specified period of time, normally a month. The Guaranteed Loan system must be capable of supporting Managerial Cost Accounting and credit subsidy re-estimates.
- Guaranteed loan programs and direct loan programs have common processes for managing receivables. Defaulted guaranteed loans acquired by the government are serviced and collected in a manner similar to direct loans. Therefore, an agency with both direct and guaranteed loan programs may have a direct loan

system and guaranteed loan system that share system capabilities related to collecting delinquent debt. If an agency acquires property serving as collateral on a defaulted guaranteed loan, the guaranteed loan system will provide the property management system with the information needed to manage and liquidate the collateral.

System Interface Functioning Verification

A team independent of the development organization will perform all verifications to ensure the guaranty loan system is capable of interfacing with other financial management systems. Verifications should include the following:

- Intersystem testing will take place to ensure the guaranty loan system can process incoming and outgoing data to other interfaces for the guaranty loan program. This testing will ensure the guaranty loan system can accept data files, process them correctly, and transmit the necessary transactions to other systems.
- All intersystem vendors involved with the testing will create and accept a comprehensive test plan.
- A team independent of the development organization will review requirements, test plans and scenarios, monitor test execution, and ensure testing objectives are met.
- The team independent of the development organization will work as partner in the development effort, gaining system-specific knowledge while reviewing processes, outputs, and techniques to ensure compliance with procedures and quality results.

When issues arise, they will be tracked through a configuration management (CM) tool, and the resolutions will be included in testing sign-off documentation when resolved. Review other than test execution will include at a minimum the following:

- Requirements Traceability Matrix - The system shall be able to demonstrate that all development requirements are incorporated into the final system output through the use of requirements traceability matrices. These matrices shall be submitted with the Preliminary Design Document and should be updated with each subsequent step in the enhancement effort (i.e., requirements should be traced through the Preliminary Design, Detailed Design, specifications, test plans and test results).
- Functional Requirements Document - The system shall perform work needed to accomplish the specified outcomes, achieve or exceed the specified performance standards, record and reconcile money, and track report activity.
- Detail Design Document - The detail design shall fully consider requirements for hardware, software, integration with other systems, security, telecommunications, data management, manual procedures, QA/QC, auditability, and capacity planning and management. It should document the design in system/subsystem specifications, program specifications, and database specifications.
- System Specifications - System/Subsystem specifications, program specifications and database specifications should all be included within the Detail Design Document. Specifications should include at a minimum flowcharts, Input/Output processing, and file layouts.
- Manual Procedures - All system modifications or maintenance changes shall be incorporated into manual procedures and functions as necessary to keep the procedures up to date. System testing shall ensure that all related manual procedures perform according to system requirements.

Post Implementation Testing

After the system is implemented, transactions should be reviewed to make sure that transactions are processing correctly and the data being produced is reliable. This testing will be conducted with actual production data, and will be done with the team independent of the development organization verifying expected results. In addition, whenever possible, daily, monthly, quarterly and fiscal/calendar year-end reports should be reviewed prior to dissemination to ensure that the data has updated correctly.

Configuration Management (CM)

The guaranteed loan system must use configuration management that will establish and maintain the security and integrity of the guaranty loan system throughout its development life cycle. A comprehensive CM must provide all project team members with a consistent level of understanding of the system engineering process, maintain systems stability, and reduce technical risk associated with the development effort.

Data Requirements

The guaranteed loan system stores, accesses, and/or updates seven types of data. In this document, a grouping of related types of data is referred to as an information store. The term information store (rather than database or file) is used to avoid any reference to the technical or physical characteristics of the data storage medium. Actual data storage (physical databases and files) must be determined by each agency during system development and implementation based upon the loan program's statutory requirements, and the agency's technical environment, processing volumes, organizational structure, and degree of system centralization or decentralization.

This section defines the seven information stores, five internal and two external, and provides examples of the data that make up each information store.

Information Stores in the Guaranteed Loan System

The five information stores internal to the system are:

Lender/Servicer Information. This refers to data about the lender necessary to determine the eligibility and creditworthiness of the lender financial information concerning the level of loans under the lender's control; data about the lender's level of responsibility extending loans to borrowers both within the agency and outside the agency; and the status of the various reviews performed on the lender. This information store includes the following data:

Mandatory

- Lender/Servicer Application Data
- Lender/Servicer Review Data
- Approved Lender/Servicer Data
- Lender/Servicer Status

Guarantee Information. This refers to data about guarantee requests received by the agency. The amount of information about each individual loan will vary depending on the loan's size, the lender's status, the statutory requirements of an individual loan program and each individual agency's policies. This information store includes the following data:

Mandatory

- Guarantee Data (e.g., lender, loan amount, guarantee level, loan status, subsidy information, interest rate, and loan terms)
- Collateral Data (e.g., appraised value, status) (Mandatory unless specifically excluded by program requirements
- Borrower Data (e.g., borrower's name, address, social security number (SSN) or taxpayer identification number (TIN), financial data)
- Guarantee fees due and/or collected

Value-Added

- Rejected Guarantee Data (e.g., lender, reason for rejection)

Claim Information This refers to data about a lender's claim for payment from the government on a defaulted loan under the guarantee agreement. This information store includes the following data:

Mandatory

- Claim Application Data
- Claim Status

Acquired Loan Information. This refers to data associated with a defaulted or delinquent loan guarantee that has been acquired by the agency. This store will include all loan information plus other data required for loan servicing and collection activity. This information store includes the following data:

Mandatory

- Acquired Loan Data
- Acquired Loan Status
- Acquired Loan Collateral Data
- Payment History

Program Criteria. This refers to decision-making criteria used by system functions and based on statutes, regulations, and policies for the guaranteed loan program. This information store includes the following data:

Mandatory

- Lender Eligibility
- Lender Financial Rating
- Lender Risk Rating
- Portfolio Evaluation
- Creditworthiness (Mandatory unless specifically excluded by program requirements)
- Borrower Eligibility
- Guarantee Fees
- Fee Penalty

- Claim Application Evaluation
- Invoicing
- Receipt Application Rules
- Debt Collection
- CAIVRS Referral
- Credit Bureau Reporting
- Treasury Offset Referral
- Collection Agency Selection
- Litigation Referral
- Write-off

Value-Added

- Close-out
- Loan Sale

Information Stores External to the Guaranteed Loan System

The two information stores external to the system are:

Core Financial System Information. This refers to information for performing funds control checks, initiating or recording payments, and recording the results of other guaranteed loan financial transactions. This information store includes the following data:

Mandatory

- Budget Execution Data
- Receivables
- Disbursement Data
- Collections/Receipts
- Administrative Costs
- Principal and Interest Data
- Acquired Asset Data
- Collateral

External Organizational Information. This refers to information coming from outside the agency into the guaranteed loan system. This information store is composed of the following types of data:

Mandatory

- Lender Rating Data
- Treasury Interest Rates

- SF-1151's (Non-Expenditure Transfer Authorization) and SF-1081's (Voucher and Schedule of Withdrawals and Credits)
- Loan Status
- Sale Approval
- Collection Activities and Results
- Write-off Approval
- Foreclosure Data

Value-Added

- Sale Proceeds

Relationship of Information Stores

Illustration 5 depicts the relationships between the loan system information stores described above and the processes within each function which access or update those information stores.

Guaranteed Loan Internal and External Information Stores

Information Stores \ System Process	Lender Management: Lender Eligibility	Lender Management: Lender/Servicer Monitoring	Guarantee Extension and Maintenance: Request Evaluation	Guarantee Extension and Maintenance: Origination	Guarantee Extension and Maintenance: Maintenance	Portfolio Management: Portfolio Performance	Portfolio Management: Program Financing	Portfolio Management: Portfolio Sales	Acquired Loan Servicing: Claim Processing	Acquired Loan Servicing: Account Status Maintenance	Acquired Loan Servicing: Foreclose on Collateral	Acquired Loan Servicing: Manage/Liquidate Collateral	Delinquent Debt Collection: Collection Actions	Delinquent Debt Collection: Write-Offs and Close-Outs	Treasury Cross-Servicing: Identify Account	Treasury Cross-Servicing: Monitor Referred Accounts	Treasury Cross-Servicing: Support Request	Other Reporting Requirements: Transaction History	Other Reporting Requirements: External Reporting
Lender/Servicer Information																			
Application Data	X																		
Review Data		X																	
Approved Lender/Servicer Data	X	X																	
Lender/Servicer Status	X	X																	
Guarantee Information																			
Guarantee Data		X	X	X	X	X	X												
Rejected Guarantee Data			X																
Collateral Data					X	X													
Borrower Data			X			X													
Claim Information																			
Claim Application Data									X										
Claim Status									X										
Acquired Loan Information																			
Acquired Loan Data									X	X	X	X	X	X					
Acquired Loan Status									X	X									
Acquired Loan Collateral Data									X		X	X							
Special Collection Activity Data													X						
Payment History										X									
Program Criteria																			
Lender Eligibility	X	X																	
Financial Rating		X																	
Risk Rating		X				X													
Portfolio Evaluation			X																
Creditworthiness			X																
Borrower Eligibility																			
Guarantee Fee					X														
Fee Penalty					X														
Claim Application Evaluation									X										

Illustration 5

Guaranteed Loan Internal and External Information Stores (continued)

System Process / Information Stores	Lender Management		Guarantee Extension and Maintenance			Portfolio Management			Acquired Loan Servicing				Delinquent Debt Collection		Treasury Cross-Servicing			Other Reporting Requirements	
	Lender Eligibility	Lender/Servicer Monitoring	Request Evaluation	Origination	Maintenance	Portfolio Performance	Program Financing	Portfolio Sales	Claim Processing	Account Status Maintenance	Foreclose on Collateral	Manage/Liquidate Collateral	Collection Actions	Write-Offs and Close-Outs	Identify Account	Monitor Referred Accounts	Support Request	Transaction History	External Reporting
Program Criteria (continued)																			
Invoicing										X									
Receipt Application Rules										X									
Debt Collection										X									
CAIVRS Referral													X						
Credit Bureau Reporting													X						
Offset Referral													X						
Collection Agency Selection													X						
Collection Agency Referral													X						
Litigation Referral													X						
Write-off														X					
Close-out														X					
Core Financial System Information																			
Budget Execution Data		X	X	X	X		X												
Receivables									X	X	X								
Disbursement Data					X				X			X							
Collections/Receipts	X	X		X	X		X			X		X	X						
Administrative Costs						X													
Principal and Interest Data							X												
Working Capital Data							X												
Acquired Asset Data											X	X							
External Organizational Information																			
Lender Rating Data	X																		
Treasury Interest Rates			X	X			X												
SF-1151 and SF-1081							X												
Loan Payments										X									
Write-off Approval														X					
Collection Activities and Results													X						
Foreclose Data											X								

Illustration 5 (continued)

Introduction to Functional Requirements

This chapter describes the functional requirements for a guaranteed loan system. The following functions should be supported by the system:

- Lender Management
- Guarantee Extension and Maintenance
- Portfolio Management
- Acquired Loan Servicing
- Delinquent Debt Collection
- Treasury Cross Servicing
- Other Reporting Requirements

The functional requirements identified define the typical processing and data requirements for federal guaranteed loan programs except some international programs, such as lending to sovereign nations. These requirements do not include specific or unique requirements of individual guaranteed loan programs. Agencies may determine that it is not practical to fully automate all functions based on factors such as loan volume, operating environment, statutory requirements, and costs. Agencies also may decide that one or more of the guaranteed loan functions may be best performed by an outside agency or contractor. Accordingly, it will be necessary for agencies to make adjustments to adapt to the requirements to meet their specific program and system requirements.

The internal management information requirements identified throughout this document are those required to establish credit management and financial reporting systems that are in compliance with the standards provided in OMB Circulars A-34, A-123, A-127, and A-129. Agencies' systems shall be capable of satisfying the reporting requirements of OMB and Treasury, including those associated with the Federal Credit Reform Act of 1990 and the CFO Act of 1990.

For each function, the narrative is supported by diagrams showing the relationship between processes and activities and the flow of information. These diagrams are conceptual in nature; they do not imply any physical structure of systems. The diagrams use conventions adopted to ensure consistency of presentation. Explanations of icons used in the illustrations are explained in Illustration 6.

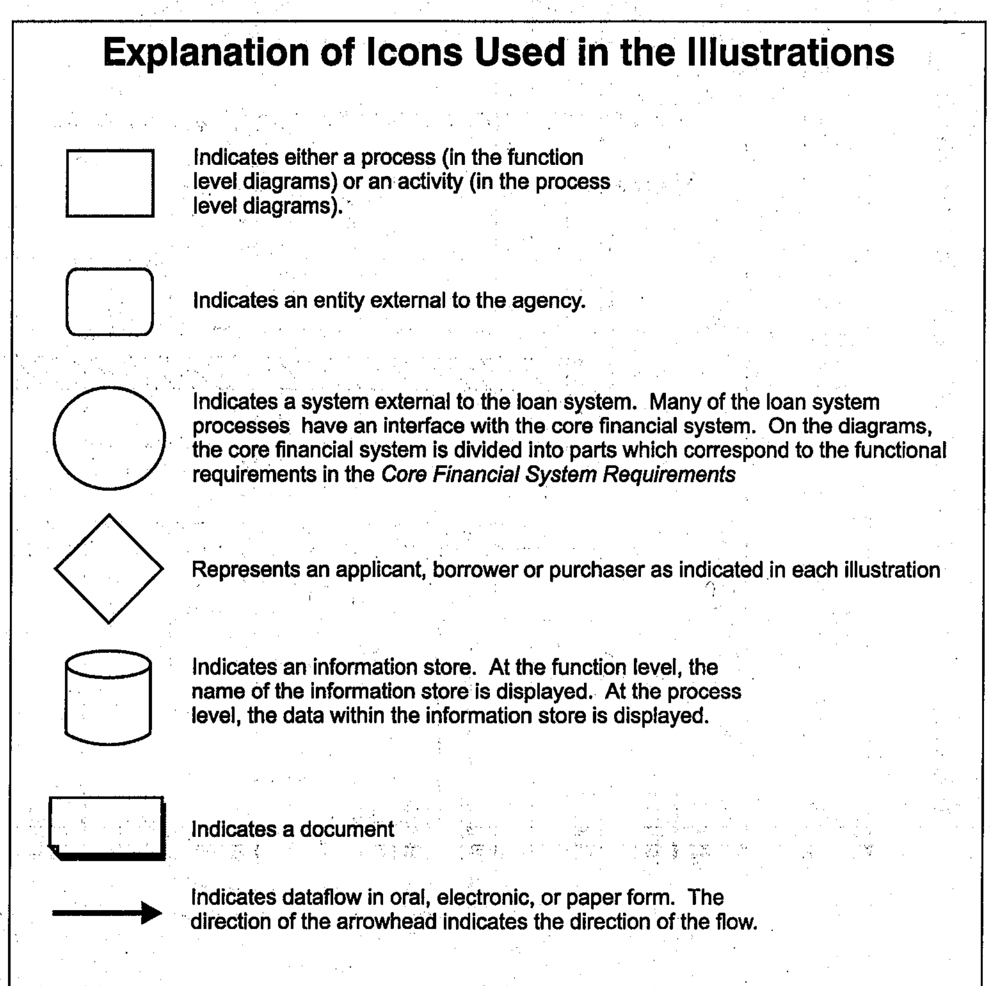

Illustration 6

Lender Management

Effective lender management is critical if the government is to ensure the availability of credit to eligible borrowers and use private sector expertise while protecting the government's interest and minimizing the government's risks. Effective lender management ensures that lenders adhere to agency-specific financial, program, and performance requirements as well as government-wide statutory and regulatory requirements.

General Requirements

This section provides the government-wide functional requirements for the Lender Management function of a guaranteed loan system. Illustration 7 provides an overview of the Lender Management function. As shown, the Lender Management function consists of the following major processes:

- Lender Eligibility Process, and
- Lender/Servicer Monitoring Process.

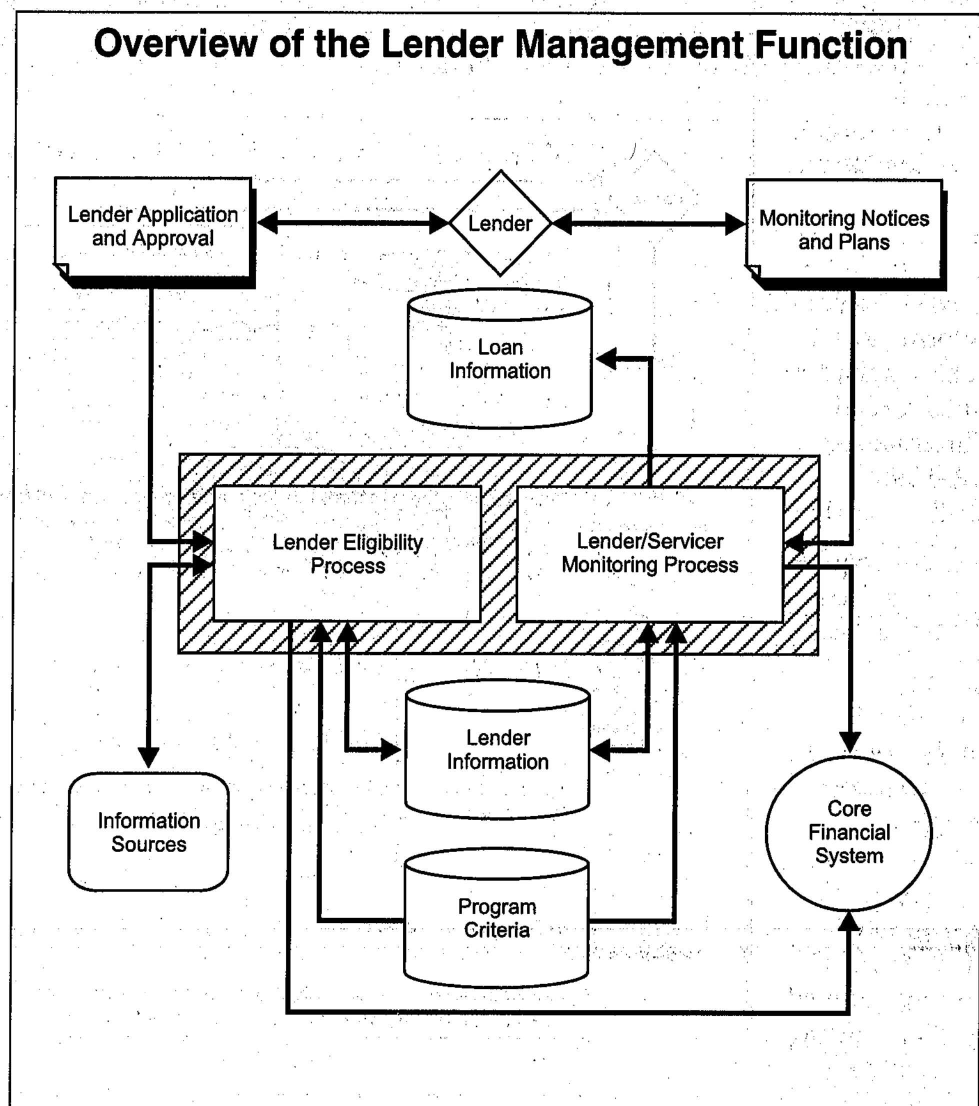

Illustration 7

Guaranteed loan management starts with ensuring that only financially sound, qualified lenders participate in guaranteed loan programs. The Lender Eligibility process is comprised of processing lender applications, evaluating eligibility, approving services, and establishing a lender agreement with accepted lenders. Lender application data is recorded in the system for both approved and disapproved applications.

As shown in Illustration 8, the Lender Eligibility process consists of the following major activities:

- Process Lender Application,
- Evaluate Lender Eligibility,
- Approve/ Disapprove Lender Application, and
- Establish Lender Agreement

Process Lender Application

This activity captures data about the lender and the application for participation in a guaranteed loan program.

An automated system should:

Mandatory

- Record and update lender application information, ensuring that all required data is present and valid (e.g., nine-digit numeric Taxpayer Identification Number (TIN)).
- Document that any required lender application fee has been received and calculated correctly.
- Provide an automated interface with the core financial system to record the receipt of any application fee.

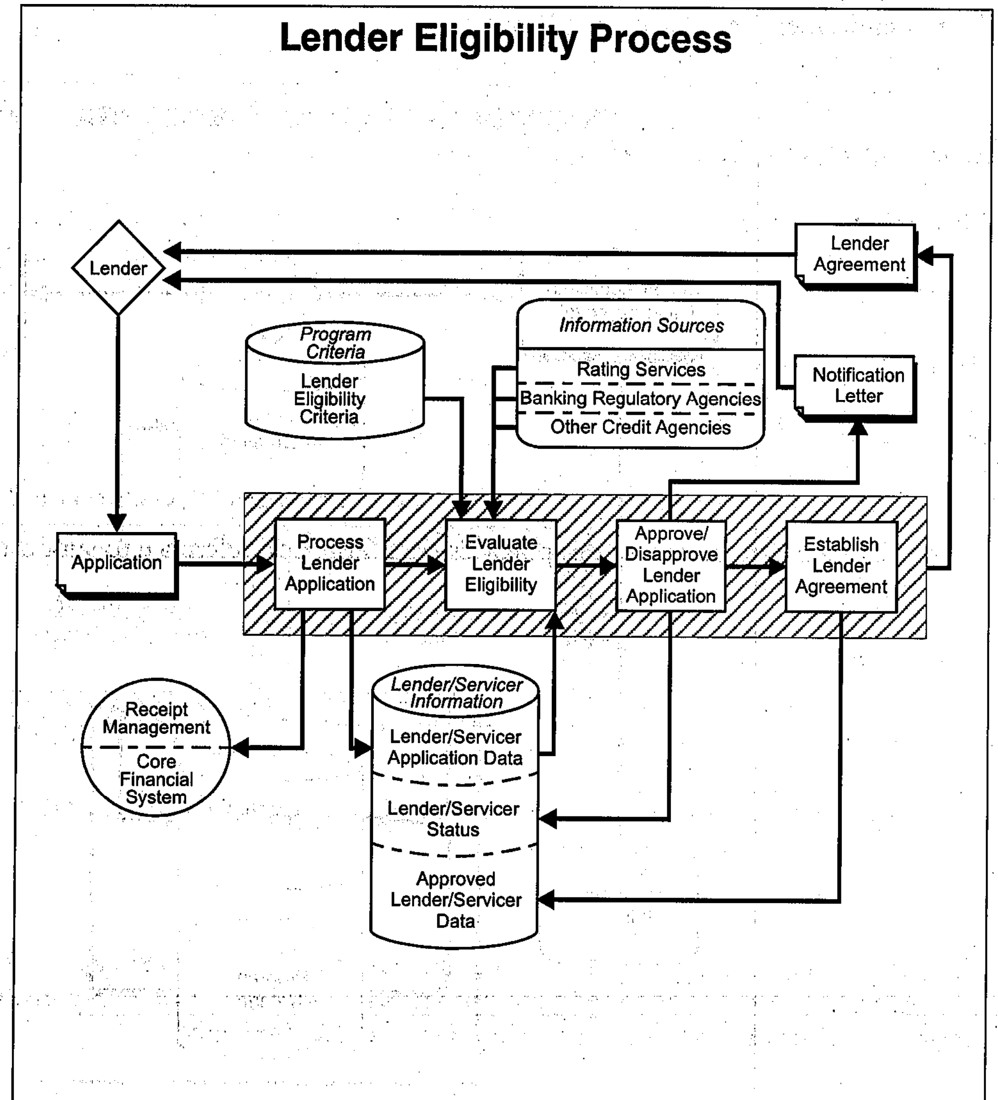

Illustration 8

Evaluate Lender Eligibility

This activity determines the lender's eligibility to participate in federal guaranteed loan programs. This determination is made by comparing application information, recorded in the system in the Process Lender Application process, to system-stored program lender eligibility criteria. These criteria should include agency eligibility requirements, as well as OMB Circular A-129 and other government-wide regulatory requirements.

An automated system should compare lender application information against:

Mandatory

- Information on firms currently debarred/suspended from participating in a government contract or delinquent on a debt to the government.
- Information concerning the lender's financial credentials from banking regulatory agencies, rating services, and other information sources.
- Lender performance data.

Value-Added

- Qualification requirements for principal officers and staff.

Approve/Disapprove Lender Application

This activity supports the final review and acceptance or rejection of each lender application based on the lender's satisfaction of program lender eligibility criteria. For approved lenders, the agency must consummate an agreement in accordance with the requirements defined in OMB Circular A-129.

An automated system should:

Mandatory

- Update the lender information store to reflect the agency's decision on the lender application.
- Maintain data on lender disapprovals as an historical reference to support effective monitoring of future lenders.

Value-Added

- Generate and electronically transmit a notice to inform the lender of approval or disapproval of the lender's application.
- Record text comments related to approval or disapproval of the lender application.

Establish Lender Agreement

This activity formalizes the agency's contractual relationship with the approved lender through lender agreements. The agreements must state program requirements, lender and agency responsibilities, due diligence standards, reporting standards, and loan servicer participation requirements.

An automated system should:

Mandatory

- Record relevant data concerning the lender agreement

- Document that the lender agreement has been consummated by the agency and lender.
- Provide a tracking mechanism to identify expiring agreements needing renewal.

Value-Added

- Generate the lender agreement for signature by the lender.

This process monitors lender/servicer performance to ensure that both performance and eligibility requirements for continued participation in guaranteed loan programs are met, and that corrective actions are implemented for lenders/servicers not in compliance. Lenders transferring and/or assigning the right to service guaranteed loans to a loan servicer should use only servicers meeting applicable standards set by the agency. OMB Circular A-129 requires on-site reviews of lenders/servicers at least every two years to review performance and determine eligibility for continued participation in the guaranteed loan program. Annual or special reviews should be conducted for high volume lenders/servicers or lenders/servicers with poor performance.

As shown in Illustration 9, the Lender/Servicer Monitoring Process consists of the following major activities:

- Monitor Lender/Servicer Performance,
- Support Lender/Servicer Reviews, and
- Assess Corrective Action

Monitor Lender/Servicer Performance

This activity alerts agency management to lenders/servicers requiring review by comparing system-stored review selection criteria and other program criteria to lender/servicer financial and performance data. Agreements between lenders and servicers must specify that loan servicers must meet applicable participation requirements and performance standards. The agreement should also specify that servicers acquiring loans must provide any information necessary for the lender to comply with reporting requirements to the agency. Lenders/servicers that are considered high risks may be placed on a watchlist.

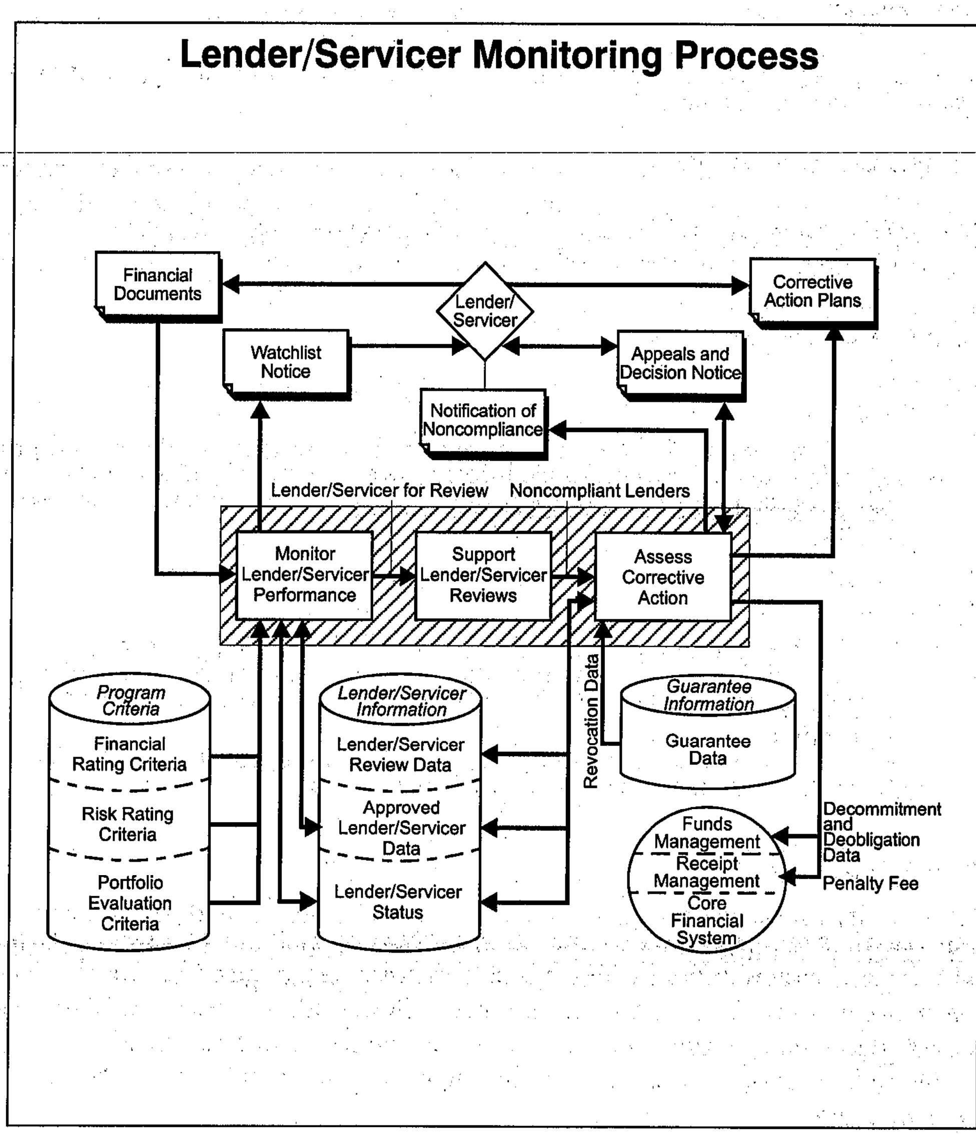

Illustration 9

An automated system should:

Mandatory

- Compare lender/servicer financial and performance information against agency portfolio evaluation criteria to identify lenders/servicers for regular or special review.
- Compute performance statistics for effective monitoring, including delinquency rates, default rates, and claim rates.
- Compute a quantified risk for each lender/servicer. The risk is quantified by weighting appropriate risk factors (e.g., loan volume, delinquency rate, default rate) based on the correlation between the risk factors and lender/servicer performance.
- Compare the quantified lender/servicer risk to risk rating criteria to assign a risk rating to each lender/servicer (e.g., high, medium, low).

Value-Added

- Enter high risk lenders/servicers on a problem watchlist and generate a notice to each affected lender/servicer.

Support Lender/Servicer Reviews

This activity supports on-site reviews of lenders/servicers to evaluate their performance against program standards and requirements. Agencies should document review findings and submit them to agency review boards.

An automated system should:

Mandatory

- Provide historical performance information on lenders and servicers identified for review to the review team. The preferred method is by electronic means.

Value-Added

- Provide for scheduling and tracking of the review team's activities.
- Document review results including date of review, Name(s) of reviewer(s), and any deficiencies and associated explanations.
- Record text comments relevant to the review process.

Assess Corrective Action

This activity supports the assessment of corrective actions by the agency for lenders/servicers in non-compliance with program requirements. For minor non-compliances, agencies and the lender/servicer should agree on corrective actions. For serious and frequent offenses, the review board should assess penalties, which may include loss of guarantees, reprimands, probation, suspension, and decertification. OMB Circular A-129 requires agencies to define the decertification process and establish timetables by which decertified lenders may apply for reinstatement.

An automated system should:

Mandatory

- Update the status of lenders and servicers that do not comply with agency standards for continued program participation, or do not correct deficiencies identified through reviews in a reasonable period of time. Provide data to support corrective action plans such as penalties and/or sanctions.
- Record penalties and/or sanctions imposed by the agency review board on those lenders or servicers found to be in serious and frequent non-compliance with Federal program standards.

Value-Added

- Generate a notice to inform the lender/servicer of a finding of non-compliance (electronically, where appropriate), including any penalties or sanctions and the right to appeal.
- Document and track corrective action plans agreed to by the agency and the lender/servicer, including proposed resolution dates, and update lender/servicer data to reflect any changes in status resulting from the corrective actions.
- Document and track appeals received from the lender/servicer and agency appeal decisions and generate a decision notice to the lender/servicer.

Collateral Requirements

There are no collateral requirements applicable to the Lender Management function.

Internal Management Information Requirements

Listed below are internal management information requirements for the Lender Management function. The information should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Lender Management function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. In order to support these needs, a system should provide a user-friendly query tool (preferably graphics-based) that facilitates reporting rapidly on any required data elements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are: transaction, loan history, risk category, cohort, and account. Each agency must also determine whether the information should be provided on hard copy reports or through system queries.

The guaranteed loan system should provide at least the following types of management information:

- **Lender Eligibility Activity.** This summary provides information about the number of lender applications received, approved, and disapproved in a period. The purpose of this data summary is to monitor the lender application activity of the agency and the disposition of the lender applications.
- **Completed Reviews.** This summary conveys the results of the lender reviews completed during the reporting period. The summary describes any recommended actions resulting from the lender reviews.

- **Lender Performance** . This summary presents the overall performance of each lender's portfolio, including total losses across fiscal years. The purpose of this data summary is to identify lenders with consistently high default rates or other poor performance for agency review and evaluation.
- **Exceptions.** This summary highlights deficiencies in the lender management function. The data summary should be generated periodically or on demand as needed. An example of exception data is a listing of lenders that are not in compliance with agency and statutory requirements, and that have not been penalized or decertified.

Guarantee Extension and Maintenance

Guaranteed loan commitments are recorded based on the approval of the request for the guarantee and the availability of subsidy appropriation and lending limits. Lenders/servicers are required to originate all their guaranteed loans in accordance with prudent lending practices. Agencies are required to review and approve guarantee requests from lenders, invoice lenders for the collection of periodic guarantee fees, and make interest supplement payments to lenders, as necessary.

General Requirements

This section provides the government-wide functional requirements for the Guarantee Extension and Maintenance function of a guaranteed loan system.

Illustration 10 provides an overview of the Guarantee Extension and Maintenance function. As shown, the Guarantee Extension and Maintenance function consists of the following major processes:

- Guaranteed Request Evaluation Process,
- Guaranteed Origination Process, and
- Guaranteed Loan Maintenance Process

In order to approve a guarantee request from a lender, agencies must verify the borrower's program eligibility and, creditworthiness, unless specifically excluded by program requirements. The extent to which an agency is involved in the loan origination process largely depends on the responsibilities established for each lender level. Many loan programs have preferred lenders, who maintain data on behalf of the agency, have responsibility for determining borrower eligibility and creditworthiness, and may disburse funds without prior approval. The agency must provide guidance to its lenders for determining a borrower's creditworthiness and train its personnel to evaluate the lender's analysis of creditworthiness.

Overview of the Guarantee Extension and Maintenance Function

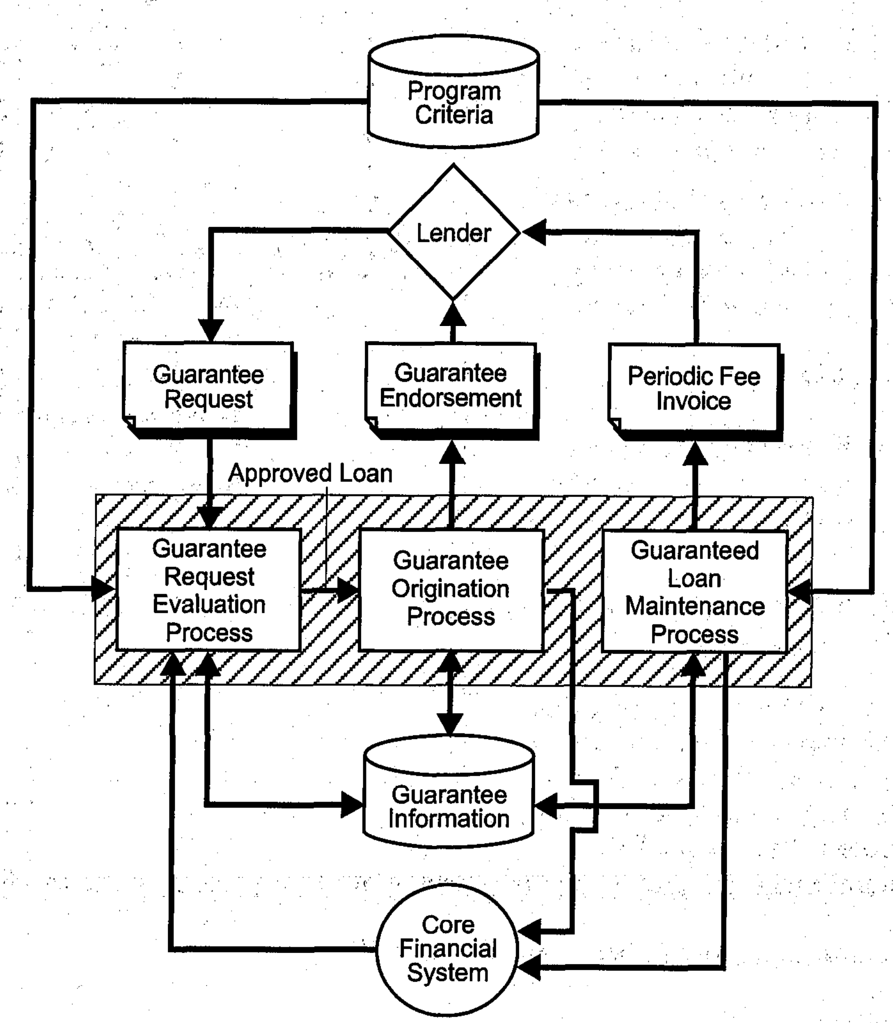

Illustration 10

As shown in Illustration 11, the Guarantee Request Evaluation Process consists of the following major activities:

- Process Request for Loan Guarantee,
- Verify Borrower Program Eligibility and Creditworthiness,
- Conduct Funds Control, and
- Approve/Reject Guarantee Request

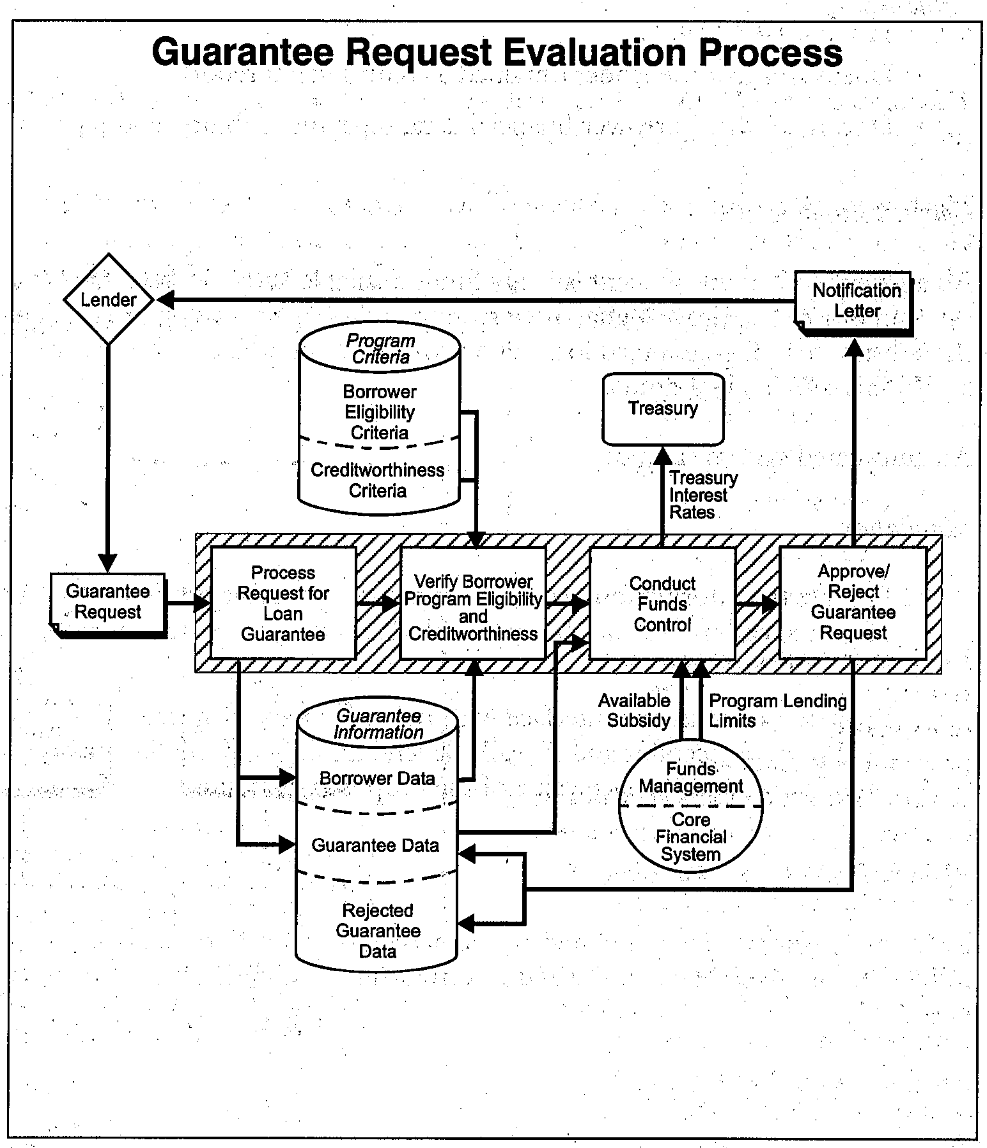

Illustration 11

Process Request for Loan Guarantee.

This activity captures data about a lender's guarantee request for a loan to be issued by the lender.

An automated system should:

Mandatory

- Record critical data on the lender's guarantee request to support the guarantee evaluation process.
- Provide access to guarantee request information to each individual participating in the guarantee decision.

Value-Added

- Record text comments relevant to the guarantee decision.

Verify Borrower Program Eligibility and Creditworthiness.

This activity verifies the eligibility of the guaranteed loan borrower. The determination is made by comparing information about the borrower from the lender's guarantee request, recorded in the system in the prior process, to system-stored agency program eligibility criteria.

An automated system where applicable should:

Mandatory

- Compare borrower information on the lender's guarantee request to agency program borrower eligibility criteria.

- Check the appropriate system data files to determine whether a lender has recently submitted a duplicate guarantee request for the applicant or a guarantee request for the applicant has been previously denied.
- Document whether the applicant has previously defaulted on debt to the federal government.
- Compare the applicant's creditworthiness information to system-stored program creditworthiness criteria and, assign a credit risk rating to the applicant, unless specifically excluded by program requirements.

Value-Added

- Document that the lender obtained a credit bureau report.
- Document that borrower financial data, repayment ability, and repayment history have been verified.

Conduct Funds Control.

An agency must have sufficient subsidy funds available and be within program lending limits (where program limits exist) in order to approve a guarantee request and obligate subsidy funds. This activity supports the calculation of the subsidy cost of guaranteed loans and provides an interface with the core financial system to check subsidy fund availability and lending limits.

An automated system should:

Mandatory

- Provide the information needed to compute the credit subsidy amount associated with a loan guarantee using projected cash flows and the applicable Treasury interest rate in accordance with OMB Circular A-34, A-11, and SFFAS No 2.
- Provide an automated interface with the core financial system to determine if sufficient funds are available in the Program Account and if available lending limits in the Financing Account are sufficient to cover the subsidy cost and the face value of the proposed guarantee.

Approve/Reject Guarantee Request.

This activity supports the final review and acceptance or rejection of each guarantee request based on the borrower's fulfillment of program eligibility and creditworthiness criteria and the availability of subsidy funds and lending limits.

An automated system should:

Mandatory

- Reflect the approved guarantee status.
- Accept, identify, track, and report supervisor overrides of system-generated acceptance/rejection recommendations.
- Create and maintain a system record of rejected guarantee requests.

Value-Added

- Notify lender of approval or disapproval (electronically where appropriate).

After an agency or lender has approved a guarantee, the guaranteed loan obligation must be recorded in the system to track the agency's potential liability. Any origination fee associated with the issuance of the loan guarantee is also recorded. The lender must inform the agency of the amount and date of each obligation and or disbursement so the agency can perform the necessary accounting.

As shown in Illustration 12, the Guarantee Origination Process consists of the following major activities:

- Issue Loan Guarantee, and
- Document Lender Loan Disbursement

Issue Loan Guarantee.

This activity provides eligible lenders with federal loan guarantee and records the guarantee obligation and related origination fee in accordance with agency requirements, the Credit Supplement to the Treasury Financial Manual," and OMB Circular A-34, Part VI.

An automated system should:

Mandatory

- Record the cohort and risk category, as defined in OMB Circular A-34, associated with the guaranteed loan.
- Assign a unique account number to the guaranteed loan that remains unchanged throughout the life of the guarantee.
- Generate a guarantee endorsement to confirm that the loan is guaranteed and transmit it to the lender (electronically where possible).
- Calculate and record the guarantee origination fee in accordance with the terms and conditions of the guarantee agreement.
- Record collections of origination fees received.
- Provide an automated interface with the core financial system to record the guaranteed loan commitment, the obligation for the related subsidy, and the origination fee, receivable, and collection.

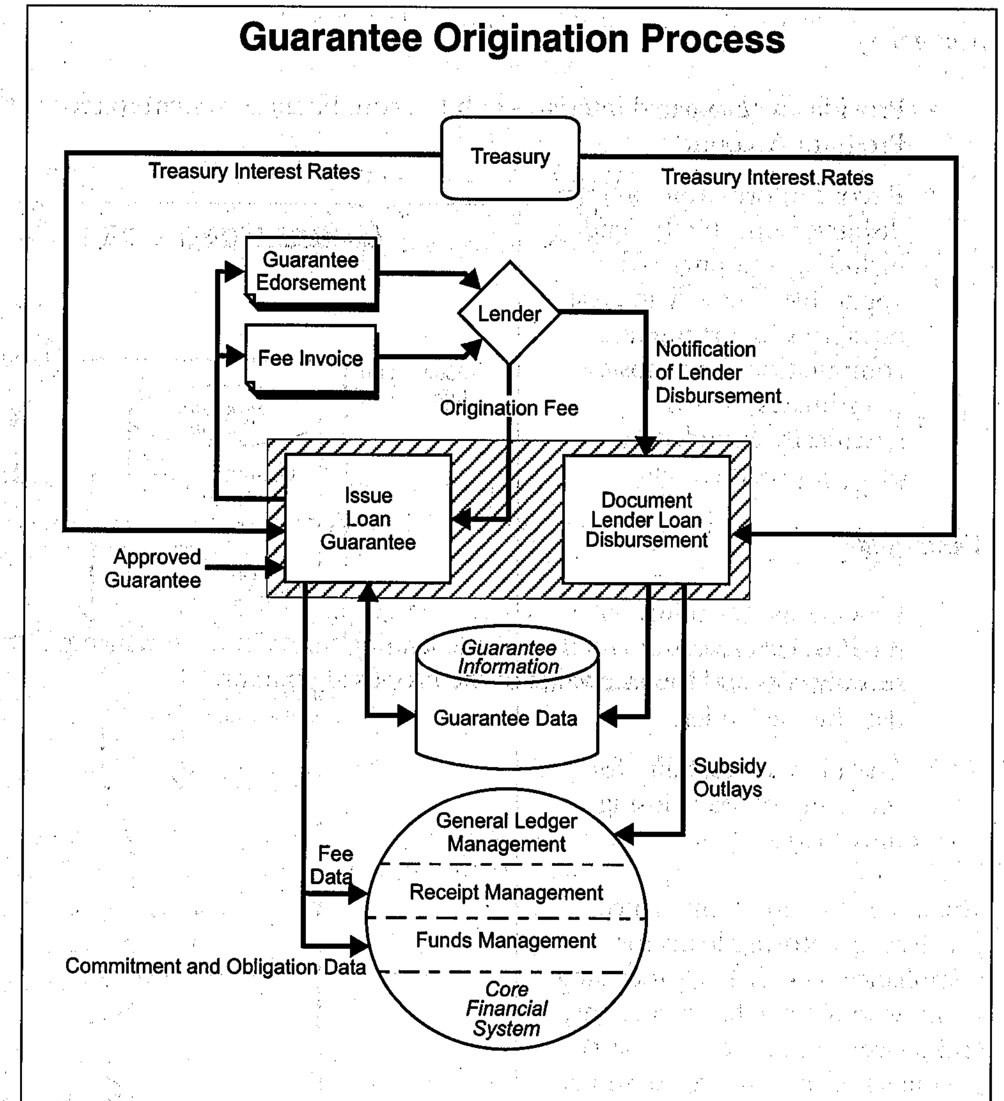

Illustration 12

Value-Added

- Transmit the origination fee invoice to the lender.

Document Lender Loan Disbursement.

This activity supports the receipt of notification that the loan has been disbursed and records the disbursement where required by agency programs in accordance with OMB Circular A-34, Part VI.

An automated system should:

Mandatory

- Provide an automated interface with the core financial system to record the outlay of subsidy from the Program Account.
- Record information on loan disbursements by the lender, including amounts and applicable Treasury interest rates, to support interest computations and subsidy re-estimates, unless specifically excluded by program requirements.

Value-Added

- Provide the capability to receive electronic transmission of disbursement data by the lender.
- Provide the capability for reporting of loan closing information.

Guaranteed Loan Maintenance involves monitoring loans for compliance with terms, processing periodic guarantee fee collections, and processing interest supplement payments to the lender. As shown in Illustration 13, the Guaranteed Loan Maintenance process consists of the following major activities:

- Document Loan Modifications,
- Process Fees, and

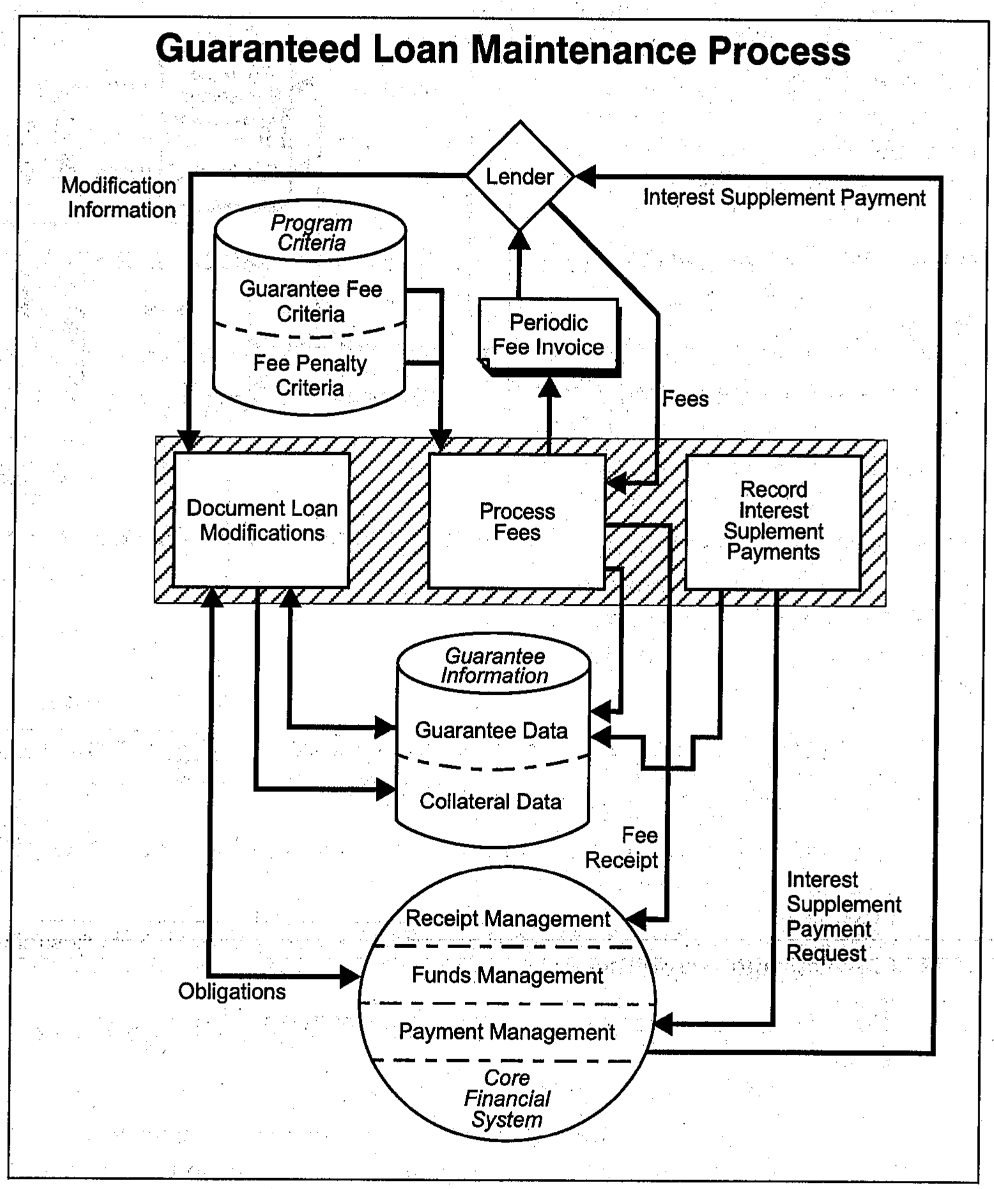

Illustration 13

- Record Interest Supplement Payments.

Document Loan Modifications.

Modifications to guaranteed loans are government actions that alter subsidy costs. Examples of government actions leading to a modification are forgiveness, forbearance, prepayment without penalty, and extensions of maturity unless such actions are provided for in the original loan agreement. Modifications do not include routine administrative workouts under the existing terms of the loan guarantee. Subsidy funds must be transferred from the program account to the financing account to cover the cost of the modification. This is required for all loans, although systems requirements for pre-1992 loans in liquidating accounts will be different than the system requirements for post-1991 loans.

An automated system should:

Mandatory

- Support reevaluation of the modified loans in accordance with OMB Circular A-34 and program policy.
- Reflect the modified status of the guaranteed loan.
- Establish a new loan account and collateral record for each new debt instrument and assign a unique loan account number to the new account record. Maintain a link between the new loan account established for the new debt instrument and the old loan account records.
- Perform a funds control check to verify the availability of subsidy through an automated interface with the core financial system.
- Provide an automated interface with the core financial system to record the subsidy changes associated with the guaranteed loan modification.

Process Fees.

This activity supports the routine billing and collection of periodic guarantee fees from the lender.

An automated system should:

Mandatory

- Compare guaranteed loan data to guaranteed fee criteria to determine which lenders owe guarantee fees.
- Compute the amount of the guarantee fee.
- Identify those lenders with overdue fee payments and calculate penalties on loans for which lenders have not submitted guarantee fee payments.
- Generate invoices, including penalties assessed for late payment, for guarantee fee payments due from lenders (electronically where possible).
- Provide an automated interface with the core financial system to record the receipt of guarantee fees from lenders.

Record Interest Supplement Payments.

Some guaranteed loans require the agency to pay interest supplements to the lender. Interest supplements are a form of interest subsidy that enable the borrower to pay lower interest to the lender. This activity identifies those guaranteed loan agreements that require interest supplement payments to the lender. The actual payment will vary based upon the type of interest supplements offered through the guarantee programs.

An automated system should:

Mandatory

- Identify guaranteed loans requiring interest supplement payments.
- Compare current interest rates to the interest rates in the agreement to determine the appropriate levels of interest supplements required.
- Recognize the interest supplement payment as an interest subsidy expense and a loan guarantee interest supplement liability.
- Provide an automated interface with the core financial system to initiate and record disbursements for interest supplement payments. If the guaranteed loan system itself handles the payment processing, it must meet the requirements in the Core Financial System Requirements related to payments and send summary data to the core financial system.

Collateral Requirements

Some credit programs provide loans to finance the acquisition of an asset that then serves as collateral for the loan. OMB Circular A-129 requires that property serving as collateral be appraised by a state licensed or certified appraiser when the loan amount exceeds a pre-determined amount. Circular A-129 also requires that the useful life and value of pledged collateral must be recognized in the guaranteed loan system at the time of credit screening. The estimated useful life of the collateral should be longer than the loan maturity and the loan-to-value ratio must be within applicable program requirements.

An automated system should:

Value-Added

- Capture the estimated useful economic life of the pledged collateral and compare it to the proposed term of the loan.
- Document that transactions over a pre-determined amount identified by program requirements have a collateral appraisal by a licensed or certified appraiser.
- Compute the loan-to-value ratio and flag those loans with a ratio exceeding applicable program requirements.

Internal Management Information Requirements

Listed below are internal management information requirements for the Guarantee Extension and Maintenance function. This information described below should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Guarantee Extension and Maintenance function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. In order to support these needs, a system should provide a user-friendly query tool (preferably graphics-based) that facilitates reporting rapidly on any required data elements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are: transaction, loan history, risk category, cohort, and account. Each agency must also determine whether the information should be provided on hard copy reports or through system queries.

The guaranteed loan system should provide at least the following types of management information:

- Approval and Rejection Monitoring. This Summary provides information about all credit applications that were approved or rejected for a given time period. The data are broken down into separate statistics on credit approvals and rejections. The approval section indicates the number of approved applications and the percentage of total applications that they represent. The total requested amount and total approved amount are shown for each loan origination office. The rejected application section contains the number of rejected applicants and the percentage of total applications that they represent. The total of all loans requested is also shown. This data summary also lists the average time spent to process a credit application, from the time of application until the final decision is made.
- Override Expectations. This summary identifies all credit application decisions that override the action recommended by the automated system processes. Overrides can occur in two situations: an application is approved even though the borrower's program eligibility or creditworthiness assessment is not acceptable under agency program management criteria, or an application is rejected even though the applicant's program eligibility and creditworthiness are acceptable under agency program management criteria.
- Potential Application Fraud. This summary provides all applications that matched one or more pending or recently rejected applications. Comparison is based on four criteria: applicant name, applicant address, applicant phone number, and applicant Taxpayer Identification Number (TIN). If a pending application matches any of these criteria, the data fields that matched and the original application and pending application identification numbers will appear on this data summary with primary application identification information.
- Approval/Rejection Statistics. This summary contains statistics on guarantee approvals and rejections. The data summary is broken down into separate statistics on guarantee approvals and rejections. The approval section indicates the number of approved applications and the percentage of total applications that they represent. The total requested amount and total approved amount are shown for each guarantee origination office. The rejected application section contains the number of rejected applicants and the percentage of total applications that they represent. The total of all guarantees requested is also shown.
- Detailed Transaction History. This summary contains detailed loan guarantee and account data. The data summary is used for control and tracking and also as an audit trail. The information is presented by program, for both the current and prior reporting period.
- Median Loan-to-Value Ratio. This summary is used to track the median loan-to-value ratios for guarantees written by each regional office. The median loan-to-value ratio is the mid-point in the range of portfolio loan-to-value ratios.
- Loan Guarantee Fee Collection. This summary is used to monitor guarantee origination fee collections.
- Loan Guarantee Periodic Fee Collection. This summary is used to monitor the periodic loan guarantee fee collection activity.
- Exceptions. This summary highlights deficiencies in guarantee origination processing. The data summary should be generated periodically or on demand as needed. An example of an exception summary is a listing of approved requests that have not been processed in a specified period of time.

Portfolio Management

Effective administration of guaranteed loan programs depends on agencies gathering and using reliable information on the performance of the agency's loan portfolios. Efficient mechanisms must be in place to provide sufficient accounting and management information for effective stewardship of the loan portfolio.

Mandatory (All requirements in this Chapter are Mandatory)

General Requirements

This section provides the government-wide functional requirements for the Portfolio Management function of a guaranteed loan system.

Illustration 14 provides an overview of the Portfolio Management function. As shown, the Portfolio Management function consists of the following major processes:

- Portfolio Performance Process,
- Program Financing Process,
- Support Subsidy estimate, and
- Portfolio Sales Process

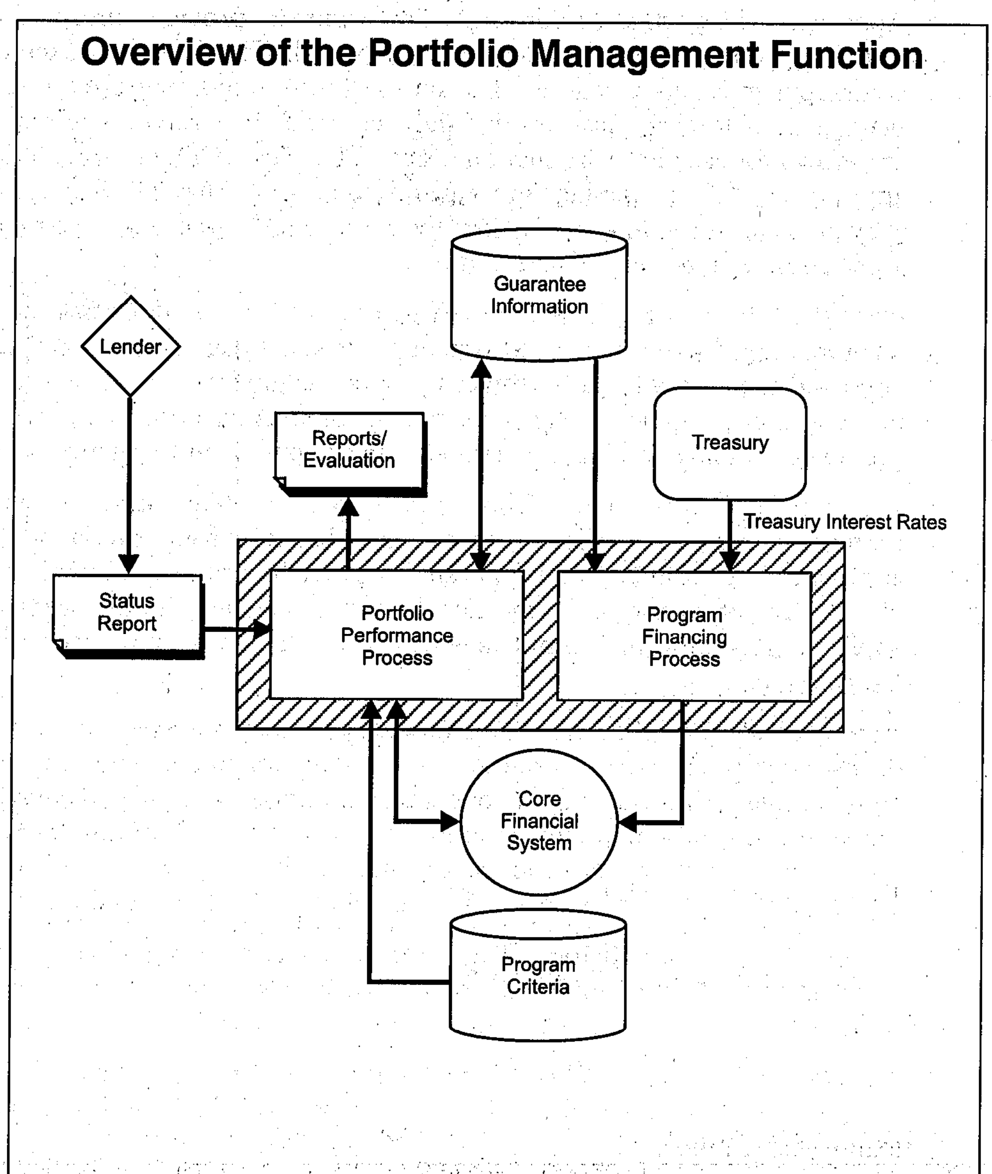

Illustration 14

Agencies must maintain adequate and up-to-date information on the status of their loan portfolio to evaluate management and program effectiveness. Agencies need information about the status and quality of the loan portfolio to monitor its financial health. As shown in Illustration 15, the Portfolio Performance process consists of the following major activities:

- Process Guaranteed Loan Status Reports from Lender, and
- Compute Portfolio Performance Measures

Process Guaranteed Loan Status Reports from Lender.

Lenders are required under OMB Circular A-34, Part VI and other OMB and Treasury documents to submit information on guaranteed loan commitments, lender disbursements, lender collections, delinquencies, and other data on the size and health of the guaranteed loan portfolio.

An automated system should:

- Receive and document loan guarantee information from lenders (electronically where appropriate).
- Maintain standard information on the history and status of each guaranteed loan (e.g., borrower identification, amount and nature of debt, loan originator, holder, and/or servicer).
- Maintain data from the lender which identifies delinquent accounts and potential defaults.
- Provide agency access to the loan status information.
- Receive and record lender substitution and/or transfer data, i.e., secondary market sales (electronically where possible).
- Accept lender data by cohort and risk category.

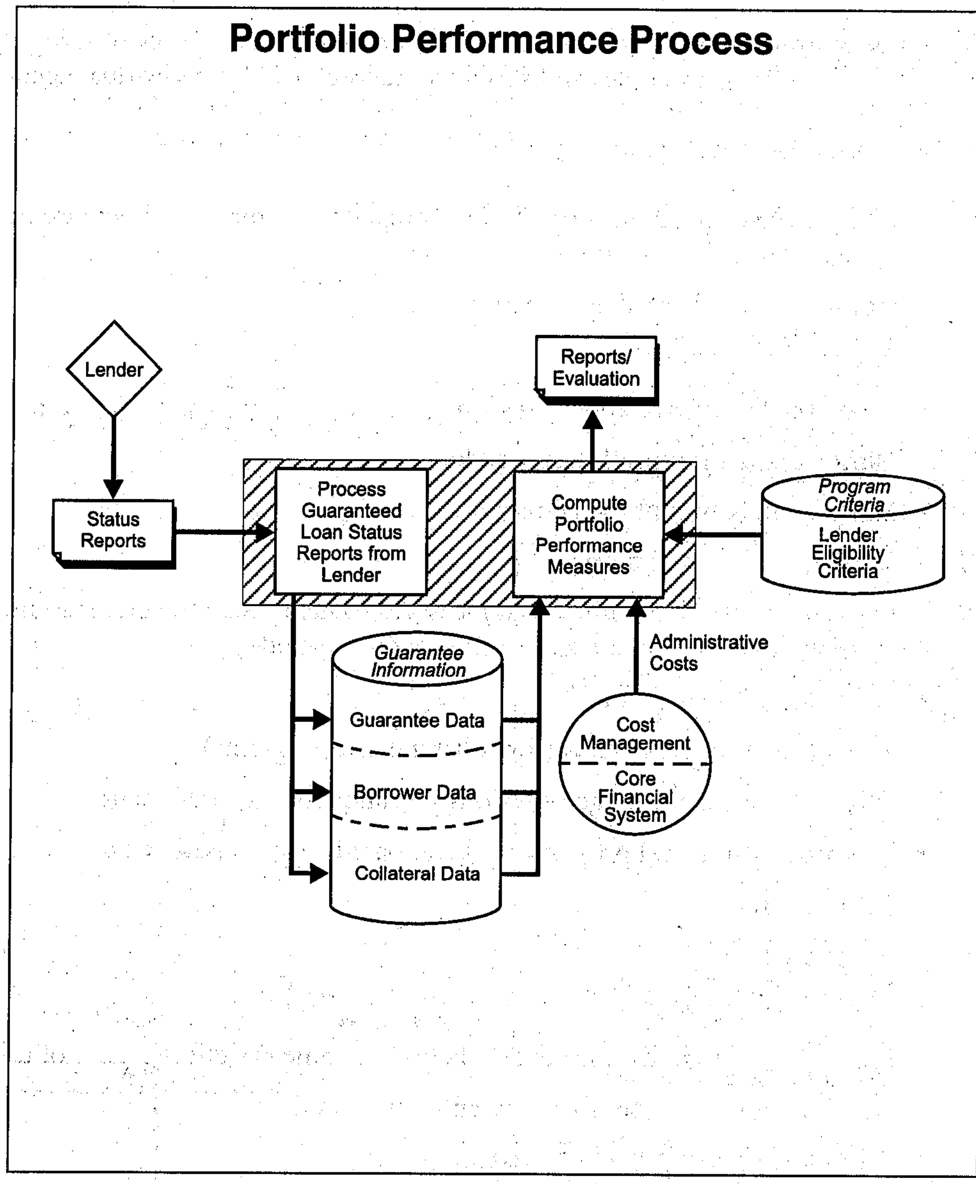

Illustration 15

Compute Portfolio Performance Measures.

This activity supports portfolio reviews that allow agency management to evaluate overall agency program performance in relation to program goals and performance measures included in the agency's annual performance plan, strategic plan, and financial statements. Performance measures inform management how well the program reaches its intended constituents, how effectively the program uses its allocated resources, and how successfully the program achieves its intended public policy results. Effective performance measurement should highlight program trends to prompt reexamination of agency policies as conditions warrant.

The information necessary to compute some of the following measures may not be readily available for all loan programs, or may be available only at substantial expense. Therefore, the value of a given performance measure should be examined within the context of the total cost to an agency of using that measure. The examples listed below are intended as examples and should be tailored to each individual agency's needs.

An automated system should:

- Compute and maintain program performance information. Some examples of typical program performance information would include:
- Number and dollar value of loans made
- Average loan size
- Loans made by geographical region
- Number and amount of defaulted loans
- Number and amount of claims paid
- Amount of loan write-offs
- Compute and maintain financial measures to help assess the credit soundness of a loan program. Some examples of typical financial measures would include:
- Overall portfolio risk rate
- Average loan to value ratio (for collateralized programs)
- Write-offs as a percentage of seriously delinquent acquired loans
- Net proceeds on real property sold compared to appraised value
- Loan loss rates
- Recovery rates
- Loan Currency Rates
- Maintain portfolio data needed to help determine the effectiveness of use of agency resources such as:
- Administrative cost per loan guarantee approved
- Administrative cost per acquired loan serviced
- Administrative cost per dollar collected
- Time required to process a loan guarantee application

In accordance with the FCRA of 1990 and OMB guidance, agencies have several components to credit program financing, including Treasury borrowing, subsidy reestimates, and working capital funding. Agencies borrow from the Treasury when the uninvested fund balance in the Financing Account is insufficient to cover disbursements for guarantee claims, but this situation should be rare (exception – negative subsidy) since the subsidy amounts are expected to be sufficient to cover any claims made. Agencies must reestimate subsidy costs upwards or downwards to reflect differences in interest rates, technical assumptions, and expected changes in current and future conditions that have occurred between the time of budget formulation and loan disbursement. Finally, agencies may elect to set aside funds as working capital to finance costs associated with foreclosing, managing, and selling collateral.

Agencies should use the Funds Management function of the core financial system to record the appropriations, apportionments, and limitations associated with the Program Account and Financing Account for each credit program. The guaranteed loan system would access the core financial system to perform funds control validation. Accounting for and controlling administrative expenses related to credit programs can be accomplished in the core financial system, so this activity would not normally be included in the guaranteed loan system.

As shown in Illustration 16, the Program Financing process consists of the following major activities:

- Support Treasury Borrowing Calculations,
- Support Subsidy Reestimates,
- Analyze Working Capital Needs, and
- Analyze Working capital Needs.

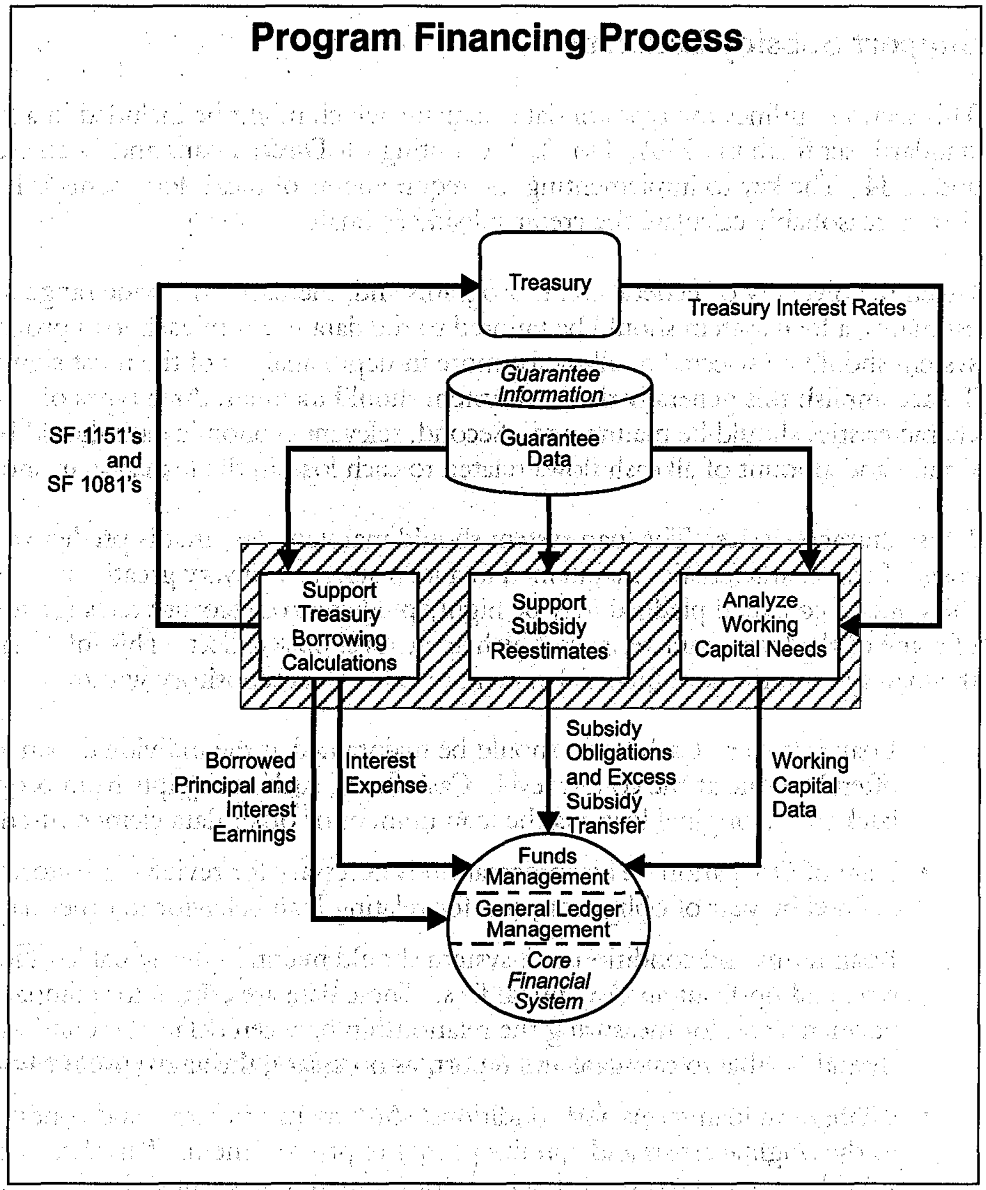

Illustration 16

Support Treasury Borrowing Calculations.

The FCRA of 1990 provides financing accounts with permanent indefinite authority to borrow from Treasury. The agency is required to track the amounts of borrowing, compute interest expense related to these borrowings, and compute interest earned on uninvested funds in accordance with guidance provided by OMB and Treasury. The transactions to record borrowings and interest would usually be processed by the core financial system with support for the calculations being provided by the guaranteed loan system. Unlike a direct loan program, a guaranteed loan program is not expected to make routine borrowings from Treasury (exception: negative subsidy). Subsidy amounts should be estimated so as to cover the costs of any payments of guarantee claims for defaulted loans. The actual organization of system processes between the guaranteed loan system and the core financial system is at the discretion of the agency.

An automated system should:

- Execute SF-1151's and record amounts borrowed from Treasury to cover shortfalls in the subsidy estimates temporarily.
- Track the amount of uninvested funds in the Financing Account as needed to support interest earnings calculations.
- Compute interest expense on borrowings and interest earnings on uninvested funds.
- Execute and record repayment of principal using SF-1151's and interest to Treasury using SF-1081's.
- Execute and record receipt of interest earnings from Treasury on uninvested funds using SF-1081's.

Support Subsidy Estimate

This section outlines the types of data elements which might be included in a loan system and builds upon the standards set forth in SFFAS No. 2, Accounting for Direct Loans and Loan Guarantees and OMB Bulletins A-11 and A-34. The key to implementing the requirements of these documents is having adequate systems and reliable data to reasonably calculate the credit subsidy estimate.

Given the diversity of Federal credit programs and, therefore, the wide range in data required to support subsidy estimates, a loan system should be tailored to the data needs of each loan program. The data elements in a loan system should be selected to allow for more in-depth analysis of the most significant subsidy estimate assumptions. To accomplish this generally the loan system should maintain three types of data. First, information regarding loan characteristics should be maintained. Second, relevant economic data should be gathered. Third, data on the actual timing and amount of all cash flows related to each loan in the loan system should be collected.

Loan characteristics. The loan system should maintain data that is predictive of loan performance and subsidy costs. Loan characteristics maintained in a loan system will vary greatly from program to program. For example, the value of collateral pledged may be highly predictive of recovery rates for some programs. The following is a list of some of the loan characteristics which agencies should collect. This information should be obtained from either the loan system, the core financial system, or other data repository within or outside the agency.

- Loan number - Cash flows should be maintained at the individual loan level, even though analysis might often be done at the cohort level. Cash flows, such as receipts from property disposition, must be tracked back to the original loan via the loan number or other data element used to identify the original loan.
- Date of Obligation - This information is necessary for reviewing historical cohort data, since cohorts are defined by year of obligation, and for relating loan behavior to other dated variables.
- Loan terms and conditions. A system should maintain the actual loan terms, including maturity, interest rate, and up-front and/or annual fees. These data are critical for comparing actual payments to scheduled payments and for measuring the relationship between default risk and loan terms and conditions. The system should be able to calculate and report, as necessary, the aggregate repayment schedule for a cohort.
- Changes in loan terms and conditions. Any change in terms and conditions needs to be recorded in addition to the original terms and conditions, not in place of them. This data is needed both to re-estimate the subsidy cost and to establish a basis for estimating new subsidies.
- Borrower location. Agencies may choose to collect several location elements, such as zip code, congressional district code, approving office code, and servicing office code for regional analysis.
- Borrower creditworthiness. Since creditworthiness may be a strong predictor of defaults, the loan system should include measures of the financial condition of the business or individual receiving the loan and past credit experience, unless specifically excluded by program requirements.
- Loan use. Track the intended loan use may reveal a significant variance in cost depending on the use of loan proceeds.
- Program-specific data. Other loan characteristics may also be important in predicting default. The loan-to-value ratio is a critical data element for predicting housing loan defaults; for student loans, the type of educational institution may be important; the value of collateral is required unless specifically excluded by program requirements.

Economic data. Nearly all loan programs are affected by trends and fluctuations in the economy. The system should maintain the primary economic factors which influence loan performance. The critical indicators will vary across programs. For housing loans, among other factors, property values and house appreciation rates should be monitored. For programs which determine borrower's interest rates based on the borrower's income, all economic data on incomes should be maintained in either the guaranteed loan system, the core financial system, or other data repository within or outside the agency.

Historical cash flows. All cash transactions related to each loan should be maintained in the system to allow for trend analysis. Since transactions may be identified by a wide variety of transactional codes, agencies should consider grouping transactions by the type of cash flows that are projected in loan program subsidy estimates. These groupings will vary from program to program, depending on the way cash flows are projected for subsidy estimates. This information should be obtained from either the guaranteed loan system, the core financial system, or other data repository (such as microfiche or CD-ROM that permits easy retrieval of data) within or outside the agency.

Examples of information groupings, which may be modified to fit actual loan programs include:

- Guaranteed amount.
- Disbursement amount and disbursement rate for each year.
- Up-front fee.
- Annual fees.
- Interest subsidies.
- Claims paid and guarantees terminated.
- Defaulted loan data including both the timing and amount.
- Delinquencies.
- Recoveries (including both the timing and amount) on defaulted loans by recovery method such as sale of collateral, or offset programs.
- Loan to value ratios.
- Scheduled principal and interest payments (if the agency acquires and services the loan).
- Actual principal and interest payments (if the agency acquires and services the loan).
- Prepayment including timing and amount.
- Repayment activity.

Support Subsidy Re-estimates. OMB Circular A-34 and SFFAS No. 2 generally requires that the subsidy cost of a cohort of guaranteed loans be re-estimated at the beginning of each fiscal year following the year in which the initial disbursement was made. A re-estimate of each cohort cash flow should include claims paid and fees collected, defaults, delinquencies, recoveries, etc. When the agency acquires the guaranteed loan, the re-estimate of each cohort cash flow should also include prepayments and collections of principal, interest and fees. This activity examines the results of operations, by risk category (if applicable) and cohort, and adjusts loan subsidy costs between risk categories (if applicable) within a cohort and for the cohort as a whole to account for changes in cohort subsidy costs resulting from interest rate changes and differences between estimated cash flows, the actual performance of the cohort, and expected performance changes in future cash flow. System activities may be located in either the Guaranteed loan system or the core financial system, as appropriate.

An automated system should:

- Support the re-estimate of the subsidy cost for each cohort and risk category of loans at the beginning of each fiscal year in accordance with OMB Circular A-34 and SFFAS No. 2.

- Maintain cash flow data that permits comparison of actual cash flows each year (and new estimates of future cash flows), as well as historical data from prior years to the cash flows used in computing the latest loan subsidy estimate.
- Compare the current year re-estimated subsidy cost to prior years re-estimated loan subsidy costs to determine whether subsidy costs for a risk category increased or decreased.
- Transfer loan subsidy from those risk categories with an excess of loan subsidy to those risk categories in the same cohort that are deficient in loan subsidy to provide adequate funding for each risk category.
- Group those cohorts that need indefinite appropriation loan subsidy funds separately from those cohorts that have excess funds. Support the request for an apportionment and obligate funds to cover the subsidy increase for those cohorts of loans that have insufficient subsidy. Transfer excess subsidy of cohorts of loans to the Special Fund Receipt Account.

The loan system should support the re-estimate calculation and provide the necessary data to record the re-estimate in the core financial system.

Collateral Requirements

There are no collateral requirements applicable to the Portfolio Management function.

Internal Management Information Requirements

Listed below are internal management information requirements for the Portfolio Management function. This information should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Portfolio Management function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are: transaction, loan history, risk category, cohort, and account. Each agency also must determine whether the information should be provided on hard copy reports or through system queries.

The guaranteed loan system should provide at least the following types of management information:

- Detailed Transaction History. This summary identifies, for each cohort, the number and amount of loan guarantees in each phase of the guaranteed loan lifecycle. The information provided includes the number of loans current and delinquent, the number of loans for which a claim has been submitted, and the total number and value of loans in the portfolio.
- Profile of Guaranteed Loan Portfolio. This summary provides a year-to-date profile of each guaranteed loan program, with comparisons to the prior year's loan guarantee activity.
- Program Credit Reform Status. This summary provides the status of the fiscal year's credit reform appropriations and subsidy levels.

Acquired Loan Servicing

A guaranteed loan is in default when the borrower breaches the loan agreement with the private sector lender. The guaranteed loan becomes a default to the federal government when the agency repurchases the loan (i.e., the agency pays the lender the balance of the borrower's debt up to the guarantee amount). The repurchased default becomes a receivable to the agency and is subject to the same debt collection provisions as a direct loan. Lenders of federally guaranteed loans with collateral maybe required by policy to liquidate, through litigation if necessary, collateral for delinquent debts before filing a default claim with the agency for any deficient balance.

Mandatory (All requirements in this Chapter are Mandatory)

General Requirements

This section provides the government-wide functional requirements for the Acquired Loan Servicing function of a guaranteed loan system. It describes requirements for non-collateralized guaranteed loan programs and collateralized programs where the lender forecloses and liquidates collateral as required by OMB Circular A-129.

- For those programs that allow lenders to transfer collateral to the government for foreclosure and/or liquidation, the guaranteed loan system requirements also include the Foreclose and Liquidate Collateral function discussed in the Collateral Requirements subsection.
- Those programs that allow private lenders to transfer notes to the federal government should satisfy the account servicing, portfolio management, and delinquent debt requirements for guaranty loan systems.

Illustration 17 provides an overview of the Acquired Loan Servicing function of a guaranteed loan system. As shown in the Illustration, the Acquired Loan Servicing function consists of the following major processes:

- Claim Processing Process, and
- Account Status Maintenance Process

Overview of the Acquired Loan Servicing Function

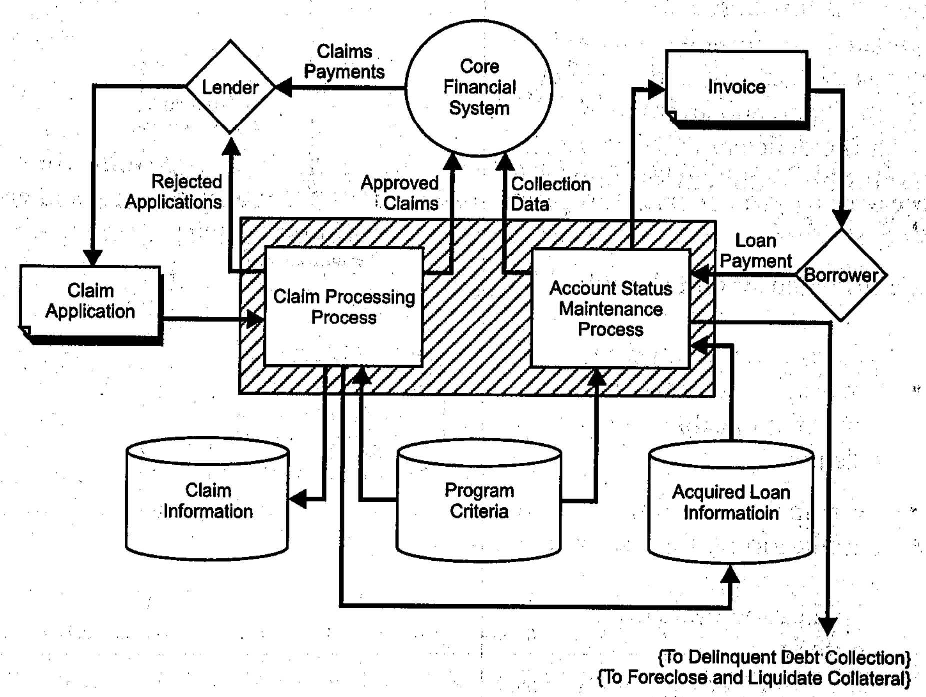

Illustration 17

Claim applications are submitted by a lender to an agency as a result of a default by a borrower under a guaranteed loan. The claim application outlines the best course of action for resolving a delinquent guaranteed loan. Some agencies require lenders to submit a formal or informal claim proposal which outlines various proposed courses of action, prior to submitting a claim application. The claim proposal process allows the agency the opportunity to evaluate the alternatives prior to any definitive action being taken by the lender in the form of a claim application. In either case, the claim application will describe the agreed-upon course of action.

Before an agency pays a guarantee claim, the agency must ensure that the lender has exercised due diligence in accordance with legislative and regulatory guidance for a particular program. The agency also must ensure that the lender has taken all appropriate steps to collect a debt including foreclosure and liquidation of any collateral.

As shown in Illustration 18, the Claim Processing process consists of the following major activities:

- Evaluate Claim Application, and
- Process Authorized Claim for Payment

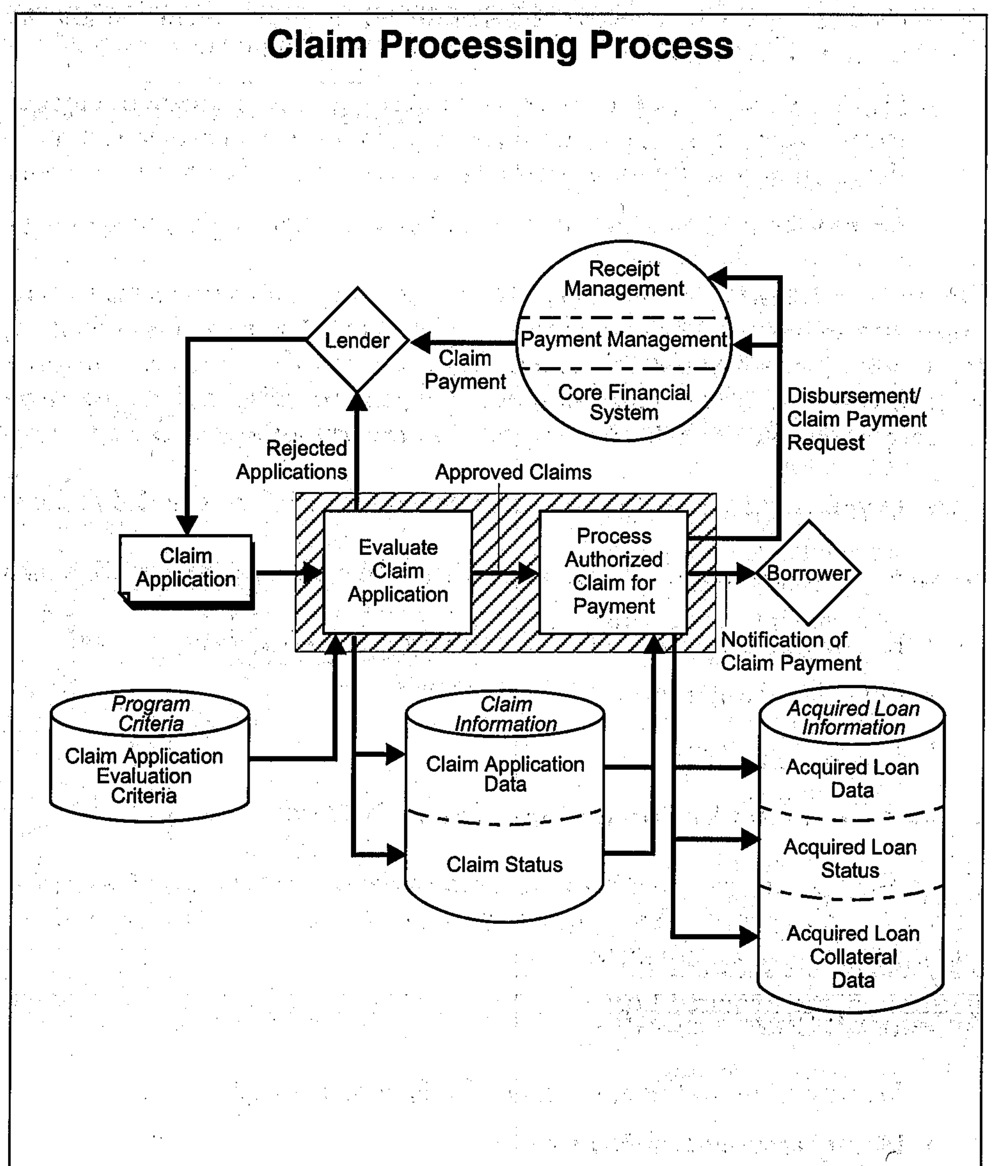

Illustration 18

Evaluate Claim Application

This activity supports the review and approval of claim applications. This procedure is followed for each defaulted guaranteed loan. If the lender has foreclosed and liquidated on any collateral, and still has a balance due, the agency pays the claim and attempts to collect the deficient amount based on statutory requirements and agency policy.

An automated system should:

- Record key claim data, maintain data on original and if applicable, final claims.
- Compare the claim application information to the agency program claim application evaluation criteria.
- Suspend processing for claims that are incomplete until corrected.
- Identify claims not meeting agency program requirements and notify the lender of the rejection.

- Document and track information on accepted and rejected claims and the reason for the rejections.
- Reflect the status of the claim.
- Develop edits to address claims issues.
- Record or track claims errors.

Process Authorized Claim for Payment

This activity supports the payment of an approved guaranteed loan claim to the lender.

- Support underlying details.

An automated system should:

- Calculate the claim payment to be made, making adjustments for any disallowed amounts or authorized debt collection activities.
- Provide an automated interface with the core financial system to initiate a disbursement of the claim payment to the lender. If the guaranteed loan system processes payments, it must meet the requirements in the Core Financial System Requirements related to payments data to the core financial system.
- Record acquired loan information and establish appropriate accounting entries such as a receivable.

This process evaluates receivables created as a result of claims payments to determine the legal and policy basis for pursuing repayment, and the likelihood of collection. Based on this evaluation, the account is either written-off or is processed for inclusion in billing and collection activities. Agencies must ensure that invoices are generated promptly and that efficient mechanisms are in place to collect and record payments and to provide support for loan servicing. Borrowers should be encouraged to use pre-authorized debit or credit cards when making loan payments.

System requirements related to collecting delinquent debt are included in the Delinquent Debt Collection function.

As shown in Illustration 19, the Account Status Maintenance process consists of the following major activities:

- Evaluate Delinquent Debtors for Collection or Write-off,
- Invoice Debtor, and
- Apply Collections

Evaluate Delinquent Debtors for Collection or Write-off

This activity determines whether repayment of the receivable created as a result of the claim payment will be pursued by the agency. This determination is made based on statutory authority and requirements, agency policy, and the likelihood of repayment.

An automated system should:

- Identify accounts for which collection is to be pursued.
- Identify accounts that should be written-off.

Invoice Debtor

This activity supports invoicing of debtors. Most loans are billed based on a schedule determined at loan origination, but some may be based on negotiated payment schedules.

An automated system should:

- Calculate outstanding balances for each loan account invoiced, including principal, interest, late charges, and other amounts due.
- Identify loan accounts to be invoiced based on agency program invoicing criteria and loan account information
- Generate and transmit an invoice to each borrower. At a minimum, the invoice must include borrower ID, amount due, date due, the date after which the payment will be considered late, and the current balance.
- Provide for automatic acceleration of delinquent installment payment notes based on the acceleration clause.

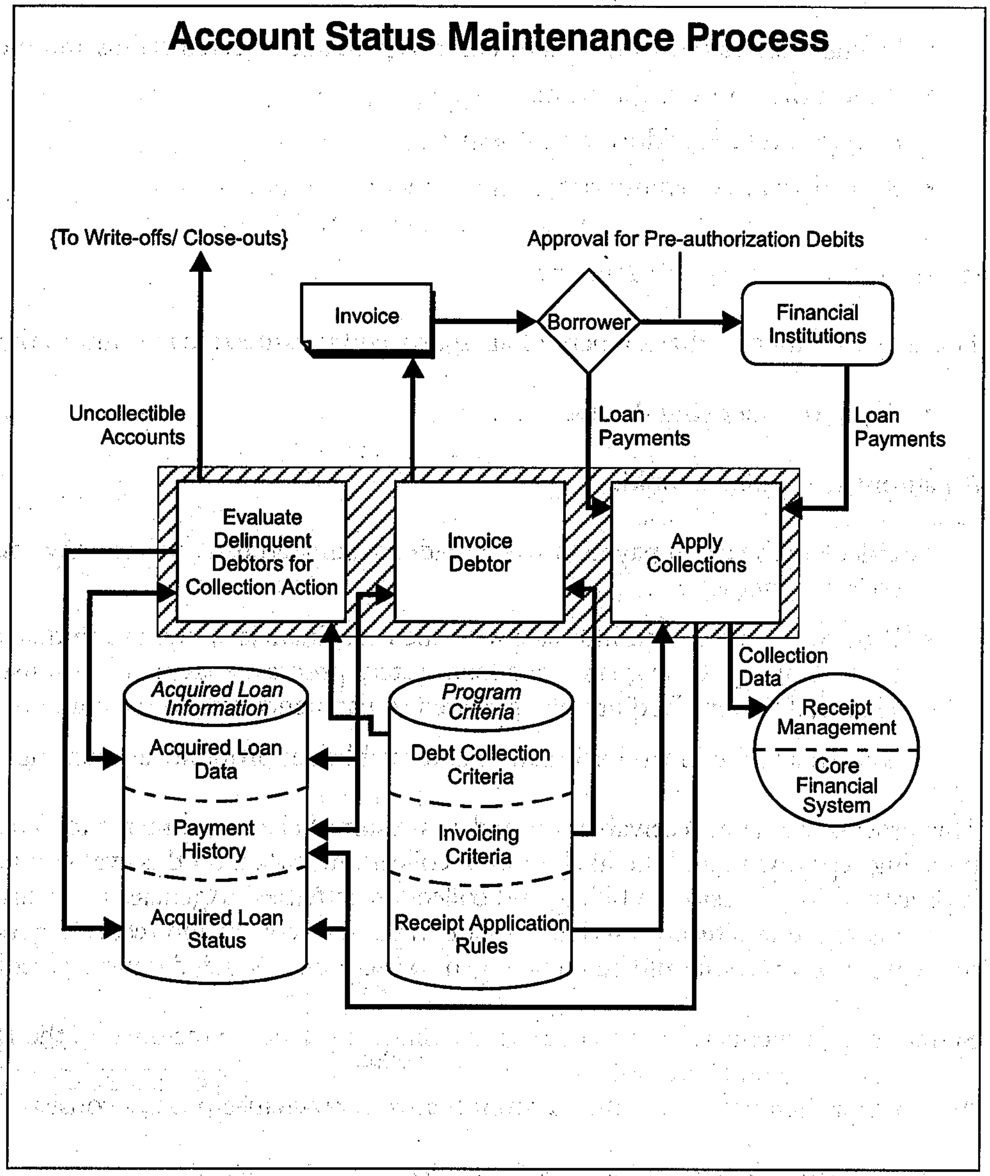

Illustration 19

- Track and age receivables by type.
- Provide an automated interface with the Core financial system to record accrual of interest, administrative charges, and penalties for delinquent loan accounts.

Apply Collections

This activity records collections against non-delinquent debt from borrowers and applies the loan payment receipts to the debtor's account in accordance with predetermined receipt application rules.

An automated system should:

- Apply collections according to agency program receipt application rules to the appropriate liquidating or financing account.

- Record a partial, full, or late payment indicator.
- Identify payments that cannot be applied and document the reasons why the payments cannot be applied.
- Provide an automated interface with the core financial system to record the collection. If the guaranteed loan system processes collections, it must meet the requirements in the Core Financial System Requirements related to collections and send summary data to the core financial system.

Collateral Requirements

When a borrower defaults on a collateralized guaranteed loan, the collateral could be liquidated/foreclosed by the lender, or the collateral could be assigned to the agency. If the lender liquidates the collateral, the agency is responsible for collecting any deficient balance through the use of various collection tools. If the agency acquires the collateral, the disposition of the assets is determined by the agency's property management policies.

This section describes the processes for foreclosing and liquidating collateral. Illustration 20 provides an overview of the Foreclose and Liquidate Collateral function. As shown, the Foreclose and Liquidate Collateral function includes, as major processes:

- Foreclose on Collateral Process, and
- Manage/Dispose of Collateral Process.

Overview of the Foreclose and Liquidate Collateral Function

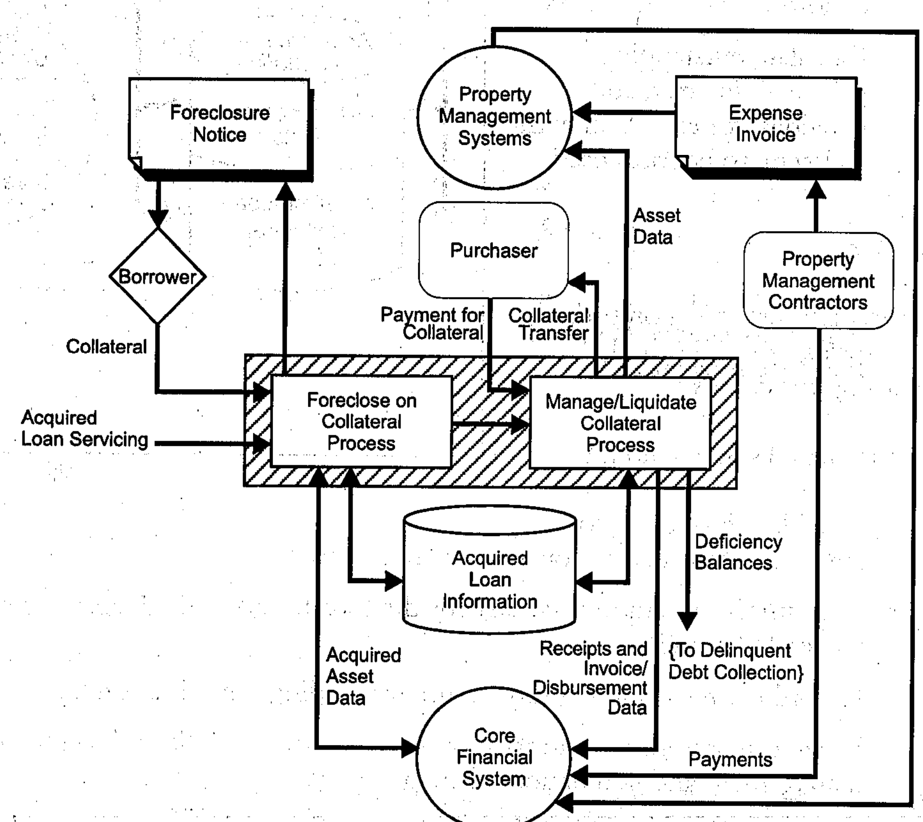

Illustration 20

As shown in Illustration 21, the Foreclose on Collateral process consists of the following major activities:

- Prepare Foreclosure Materials, and
- Foreclose.

Prepare Foreclosure Materials.

If the Federal agency, not the lender, is responsible for liquidating collateral associated with a guaranteed loan in a default situation, the agency initiates the process by preparing for foreclosure proceedings to take title to the property, unless specifically excluded by program requirements.

An automated system should:

- Provide information on collateral for use in the foreclosure process.
- Update the acquired loan information store with additional information obtained during the foreclosure preparation process, such as recent appraisal values and property condition.
- Calculate outstanding principal, interest, and penalties, for each loan with collateral to be foreclosed.

Foreclose.

Foreclosing includes monitoring the foreclosure process and recording the results.

An automated system should:

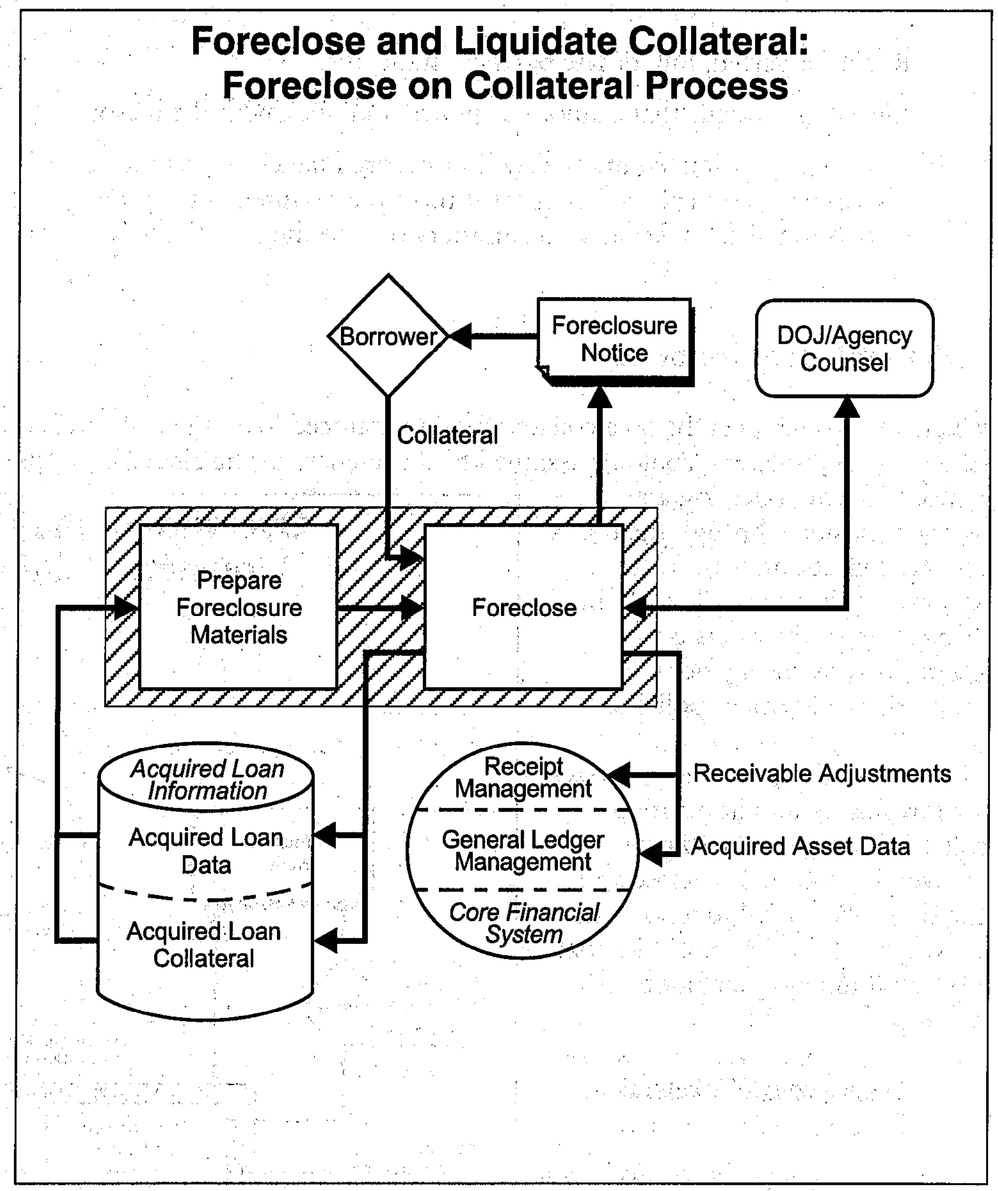

Illustration 21

- Provide information to generate a foreclosure notice to the borrower.
- Transmit information necessary for the foreclosure to the Department of Justice and/or agency Office of General Counsel.
- Record the results of the foreclosure proceedings and title conveyance to the agency.
- Provide an automated interface of data on acquired collateral to the property management system for management and liquidation of the property.
- Provide an automated interface to the core financial system to record the value of the property acquired and to reduce the receivable amount.

Collateral acquired by the agency should be liquidated (sold) to provide funds to recover the delinquent debt. Due to economic conditions, condition of the property, or other factors, the agency may decide to delay liquidation until conditions are more favorable. In that situation, the property must be managed until it is liquidated; this may involve making repairs, renting it out, etc.

As shown in Illustration 22, the Manage/Liquidate Collateral consists of the following major activities:

- Manage Collateral, and
- Dispose of Collateral.

Manage Collateral

This activity supports management of acquired collateral. If a property management system exists, some of these activities may be supported by that system rather than the guaranteed loan system.

An automated system should:

- Generate payments to property management contractors for services rendered.
- Track, record, and classify operations and maintenance expenses related to the acquired collateral.
- Document rental income and other collections related to the acquired collateral.
- Post the expenses and income to the core financial system through an automated interface.

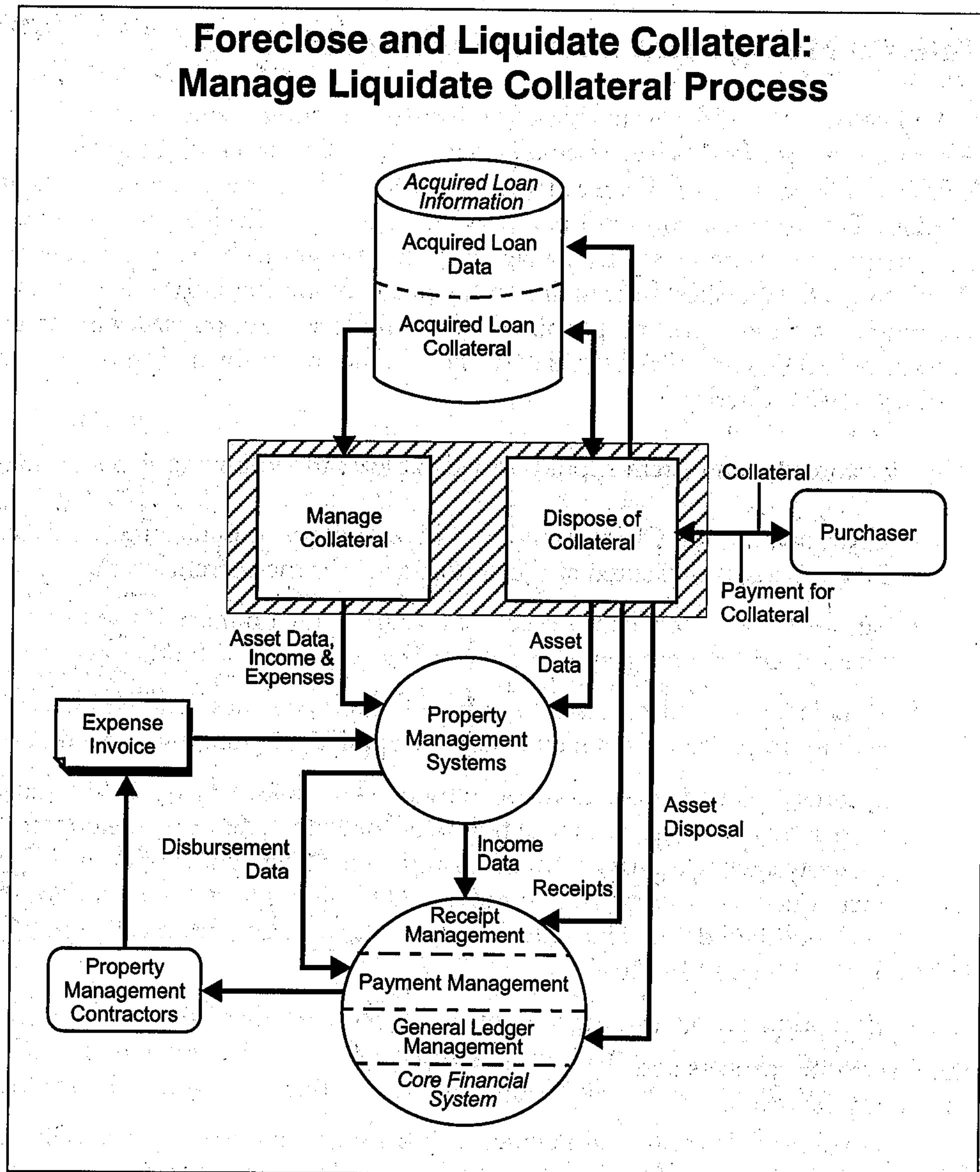

Illustration 22

Dispose of Collateral

This activity supports the sale or other disposal of acquired collateral.

An automated system should:

- Update the acquired loan information store to record receipts resulting from the liquidation of acquired collateral and the disposition of the collateral.
- Identify any deficiency balances remaining for the loan after collateral liquidation for further collection activities.
- Provide an automated interface to the core financial system and the property management system to record disposal of the property and associated receipts.

Internal Management Information Requirements

Listed below are internal management information requirements for the Acquired Loan Servicing function. The information described below should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Acquired Loan Servicing function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are: transaction, loan history, risk category, cohort, and account. Each agency also must determine whether the information should be provided on hard copy reports or through system queries.

The guaranteed loan system should provide at least the following types of management information.

- Guaranteed Loan Claim Activity. This summary is used to monitor trends in claim activity over time. The information is presented at the cohort level for the current year and the prior years.
- Summary Data of Claim Losses Paid Out. This summary is used to compare the estimated claim losses of guaranteed loan programs to the actual losses incurred by the program.
- Detailed Transaction History. This summary provides detailed loan account data and payment transaction activity to provide a detailed history of applied and unapplied payments.
- Standard Management Control/Activity. This summary tracks the status of all loan accounts by summarizing loan activity at various critical points of the loan cycle. The collection process summarizes payment activity to allow agency management to monitor the effectiveness of each activity in the collection process. Delinquency information is summarized to highlight delinquent debt (collateralized and non-collateralized) and modified debt. This data summary is produced periodically and provides information for preparing the SF-220-9 and SF-220-8.
- Exceptions. This summary identifies deficiencies that have occurred in the routine processing and monitoring of account status. Examples of exceptions include unapplied payments, and delinquent accounts not eligible for debt collection tools. This summary is generally produced on a periodic basis.
- Portfolio Sale Historical Payments. This summary provides a detailed payment history for each loan included in the portfolio selected for sale. Historical payment data is critical in order to assess the investment value of the portfolio to be offered for sale and in determining the structure and terms of the sale.
- Portfolio Sale Performance. This summary provides the rating agencies and financial advisors with statistics to more effectively evaluate portfolio characteristics performance. Statistics include loan to value ratios, effective yields, and loss estimates.
- Collateral Management Activity and Expense. This summary provides detailed and summary data of collateral management activity and expense data for monitoring collateral management activities that affect the value of the agency-owned property prior to disposition. All income earned and expenses incurred while the collateral is in the agency's possession must be recorded and tracked to support the agency's ability to recover the expenses.

Delinquent Debt Collection

Agencies which repurchase and service their guaranteed loans or are assigned collections rights when loss claims are paid must comply with the Debt Collection Improvement Act of 1996.OMB Circular A-129 requires agencies to have a fair but aggressive program to recover delinquent debt. Each agency must establish a collection strategy consistent with its statutory program authority that seeks to return the debtor to a current payment status or, failing that, maximize the collections that can be realized.

Mandatory (All requirements in this Chapter are Mandatory except as indicated)

General Requirements

This section provides the government-wide functional requirements for the Delinquent Debt Collection function of a guaranteed loan system.

Illustration 23 provides an overview of the Delinquent Debt Collection function. As shown, the Delinquent Debt Collection function consists of the following major processes:

- Collection Actions Process, and
- Write-offs and Close-outs Process.

An agency has considerable flexibility in determining how to collect its delinquent debt. The size, age, and type of debt are essential factors in determining the resources to be expended in recovering debt. OMB Circular A-129 and the Credit Supplement to the Treasury Financial Manual provide guidelines to determine the appropriate tools to use to collect delinquent debt. If collateral is attached to the guaranteed loan, foreclosure and liquidation of the collateral should occur after providing the debtor reasonable opportunity to cure the loan. Any deficiency balance may be pursued using collection tools such as litigation or cross servicing.

Overview of the Delinquent Debt Collection Function

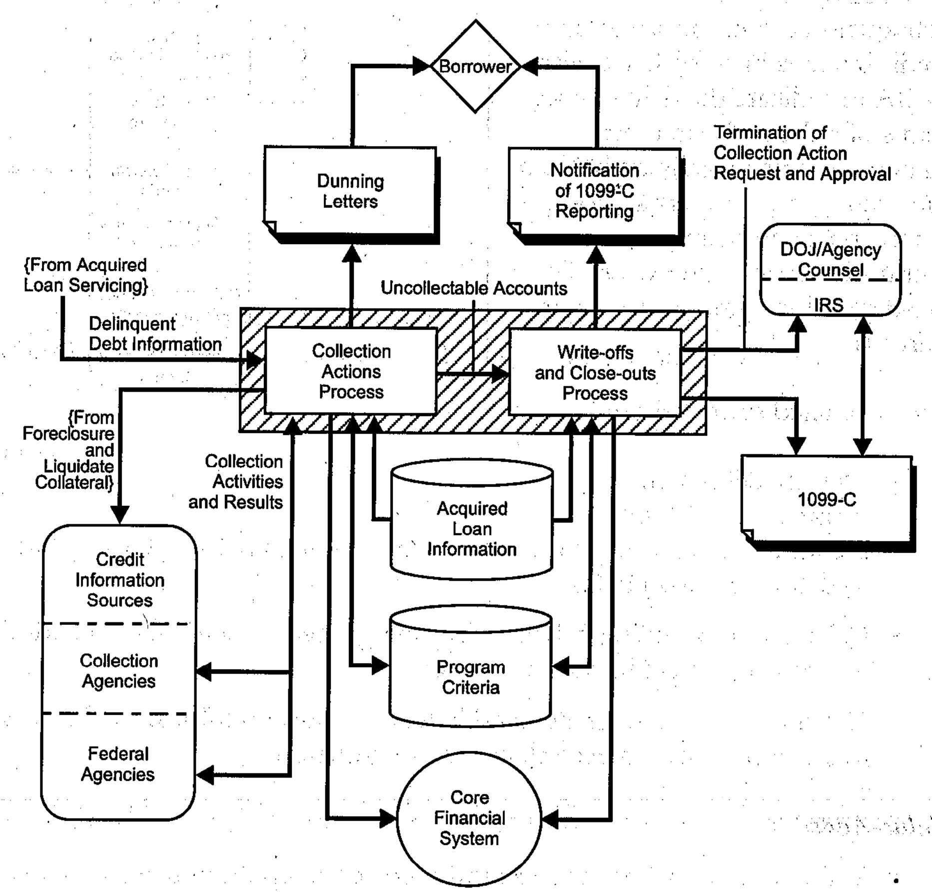

Illustration 23

As shown in Illustration 24, the Collection Actions Process, Troubled Debt Servicing under agency program requirements includes:

- Report Delinquent Debt
- Contact with the Debtor
- Refer for Treasury Offset
- Refer to Collection Agencies
- Refer for Litigation Activities
- Garnishment of non-Federal wages

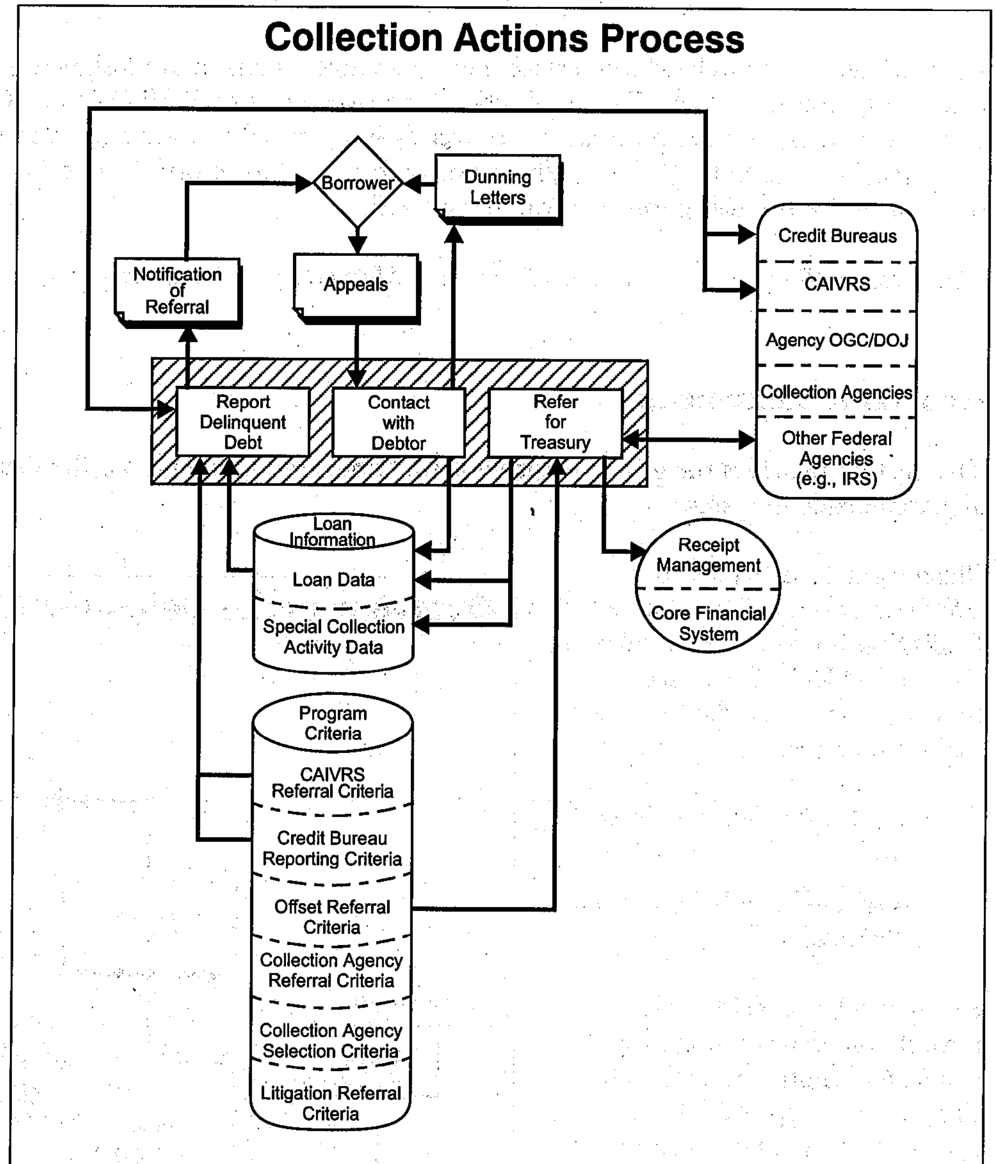

Illustration 24

Report Delinquent Debt

This activity reports selected delinquent account information to credit bureaus in accordance with DCIA to indicate the delinquency status of a debt. Guaranteed lenders, or when legally authorized the agency, must report all non-tax commercial and delinquent consumer accounts in excess of a pre-determined amount to credit bureaus.

An automated system should:

- Identify delinquent commercial and consumer accounts for reporting to credit bureaus (preferably by electronic interface) by comparing reporting criteria to delinquent loan data.
- Calculate outstanding balances, including interest, penalties, and administrative charges and include this information in credit bureau records.
- Generate (or include in demand letters) a notice to inform the borrower of the referral of a delinquent debt to a credit bureau in accordance with regulations.

Value-Added

- Maintain a record of each account reported to credit bureaus to allow tracking of referred accounts.
- Identify delinquent commercial and consumer accounts for reporting to CAIVRS by comparing reporting criteria to delinquent loan data.
- Generate (or include in demand letters) a notice to inform the borrower of the referral of a delinquent debt to CAIVRS in accordance with regulations.

- Prepare data on appropriate medium, on a monthly basis, of delinquent debtors to be included in the CAIVRS database.

Contact with Debtor

It is critical for an agency to address a delinquency immediately to prevent it from becoming more serious. If the delinquency is not resolved after the initial contact, the agency should pursue additional contacts as it determines necessary. If the volume and amount of loans is large enough, agencies may establish workout groups to decide on appropriate actions to maximize debt recovery.

An automated system should:

- Generate and transmit dunning letters to debtors with past-due loan accounts.
- Identify debtors who do not respond to dunning letters within a specified time period.
- Track demand letters and borrower responses to document borrower due process notification (and borrower willingness and ability to repay debt).
- Track and document debtor appeals received in response to demands for payment.
- Provide automated support to the collection process. Support could be provided for activities such as contacting a delinquent borrower by phone; documenting contacts with a debtor and the results; documenting installment payments, rescheduling agreements, and debt compromise; generating management reports; and tracking the performance of individual agency collectors.

Refer for Treasury Offset. The DCIA of 1996 mandates the referral of all Federal debts over 180 days delinquent to Treasury FMS for the purposes of administrative offset. A delinquent guaranteed debt for administrative offset is a guaranteed debt the agency has the legal right to pursue and is not being paid voluntarily by the debtor. If the delinquent debtor is in a voluntary repayment plan acceptable to the creditor agency and is making the payments as required under the plan, the debt should not be referred for administrative offset. In addition, debts that are in foreclosure, moratorium, or bankruptcy, or over 10 years old (exception: where accepted by Treasury) cannot be referred to Treasury for administrative offset. The administrative offset program administered by the Department of the Treasury is named the Treasury Offset Program (TOP). The DCIA requires FMS, the U.S. Postal Service, or any other government corporation, or any other disbursing officials of the U.S. designated by the Secretary of the Treasury, to offset Federal Payments to pay the delinquent debts. When fully implemented, TOP will offset Federal salaries, IRS refunds, and Federal administrative payments such as payments to vendors. DCIA authorizes Treasury to charge a fee sufficient to cover the full cost of implementing administrative offset; the agency can either pass this fee on to the debtor or absorb it.

An automated system should:

- identify accounts eligible for referral to the TOP.
- generate written notification to the borrower that includes the following: the nature and the amount of the debt; the intention of the agency to collect the debt through administrative offset; an explanation of the rights of the debtor; an offer to provide the debtor an opportunity to inspect and copy the records of the agency with respect to the debt; and an offer to enter into a written repayment agreement with the agency.
- identify, at the end of the notification period, the debtors that remain delinquent and are eligible for referral.
- offset delinquent debts internally before referral to TOP, where applicable.
- transmit to TOP eligible new debts, and increase, decrease, or delete previously reported debts.

- apply collections received through the TOP process to debtor accounts in accordance with applicable payment application rules.
- record offset fees in accordance with agency program requirements.
- update the loan information store to reflect TOP status.
- update the core financial system to record collections from TOP.
- process agency refunds given to borrowers erroneously offset and transmit this information to Treasury in a timely manner.
- record refunds given by Treasury and adjust the loan information store accordingly.

Garnishment of Non-Federal Wages. The DCIA of 1996 authorizes Federal agencies administratively to garnish up to 15 percent of the disposable pay of a debtor to satisfy delinquent non-tax debt. Prior to the enactment of the DCIA, agencies were required to obtain a court judgment before garnishing the wages of non-Federal employees. Wage garnishment is a process whereby an employer withholds amounts from an employee's wages and pays those amounts to the employee's creditor in satisfaction of a withholding order. At least 30 days before an agency initiates garnishment proceedings, the agency must give the debtor written notice of its intent.

An automated system should:

- generate written notice informing the borrower of the agency's intention to initiate proceedings to collect the debt through deductions from pay, the nature and amount of the debt to be collected, and the debtor's rights.
- document that the wage garnishment order was sent to the employer.
- provide adhoc reporting capability needed to monitor the amounts recovered through non-Federal wage garnishment.
- document that the agency provided debtors a hearing, when requested.
- interface with the core financial system to record receipts remitted to the agency.
- apply collections received through wage garnishment according to agency application rules.

Refer to Collection Agencies. This activity determines and refers delinquent loan accounts to collection agencies for collection. Agencies can refer debts to a private collection contractor for collection for a period of time determined by Treasury.

An automated system should:

- Compare delinquent account data to agency program collection agency referral criteria to select delinquent loan accounts for referral to collection agencies.
- Sort and group delinquent loan accounts based on type of debt (consumer or commercial), age of debt, and location of debtor.
- Calculate outstanding interest, penalties, and administrative charges for each delinquent loan account to be referred.
- Assign selected delinquent loan account groupings to appropriate collection agencies based on collection agency selection criteria for agency programs.
- Document that the delinquent account has been referred to a collection agency.

- Generate and receive electronic transmissions of account balance data and status updates to and from collection agencies.
- Record receipts remitted to the collection agency and forwarded to the agency.
- Update the loan information store to reflect receipts, adjustments, and other status changes, including rescheduling, compromise, and other resolution decisions.
- Accept and match collection agency invoices with agency records.
- Generate payment to the collection agency for services rendered through the core financial system.
- Request, reconcile, and record returned accounts from collection agencies.
- Interface with the core financial system to record collections processed through collection agencies.

Refer For Litigation Activities. OMB Circular A-129 requires agencies to refer delinquent accounts to the Department of Justice (DOJ), or use other litigation authority that may be available, as soon as there is sufficient reason to conclude that full or partial recovery of the debt can best be achieved through litigation. This activity determines and refers selected accounts for litigation. Referrals to DOJ should be made in accordance with the Federal Claims Collections Standards.

An automated system should:

- Compare delinquent loan account information against the agency's litigation referral criteria to identify delinquent loan accounts eligible for referral. Support identification of accounts to be referred to counsel for filing of proof of claim based on documentation that a debtor has declared bankruptcy.
- Provide an electronic interface with credit bureaus to obtain credit bureau reports that will enable assessment of the debtor's ability to repay before a claim is referred to legal counsel.
- Calculate the outstanding balance, including principal, interest penalties, and administrative charges, for each delinquent loan account to be referred to legal counsel.
- Generate the Claims Collection Litigation Report (CCLR). The CCLR is used to capture collection actions and current debtor information and transmit this information to DOJ.
- Receive electronic transmissions of account data and status updates to and from DOJ's Central Intake Facility or the agency's Office of General Counsel's (OGC) automated system for referrals.
- Update the loan status to reflect referral for litigation so that the loan can be excluded from other collection actions, and to alert the agency to obtain approval from counsel before accepting voluntary debtor payment.
- Track filing of pleadings and other motions, including proofs of claims in bankruptcy, to ensure swift legal action and to monitor litigation activity.
- Match agency litigation referrals with DOJ listing of agency litigation referrals.
- Record and track recovery of judgment decisions.
- Update the loan information store to reflect receipts and adjustments.
- Interface with the core financial system to record any collections resulting from litigation.

Delinquent Debt Collection: Write-Offs and Close-Outs Process

OMB Circular A-129 and the Credit Supplement to the TFM describe effective write-off and close-out procedures for delinquent loan accounts. As shown in Illustration 25, the Write-offs and Close-outs process consists of the following major activities:

- Identify and Document Accounts Selected for Write-off,
- Monitor Written-off Accounts, and
- Document Close-out of Uncollectible Accounts.

Identify and Document Accounts Selected for Write-Off. This activity identifies and processes accounts for write-off based on past collection history and a system-prepared debtor financial profile. Write-offs of loan accounts that exceed a pre-determined amount in accordance with program requirements require approval of the DOJ.

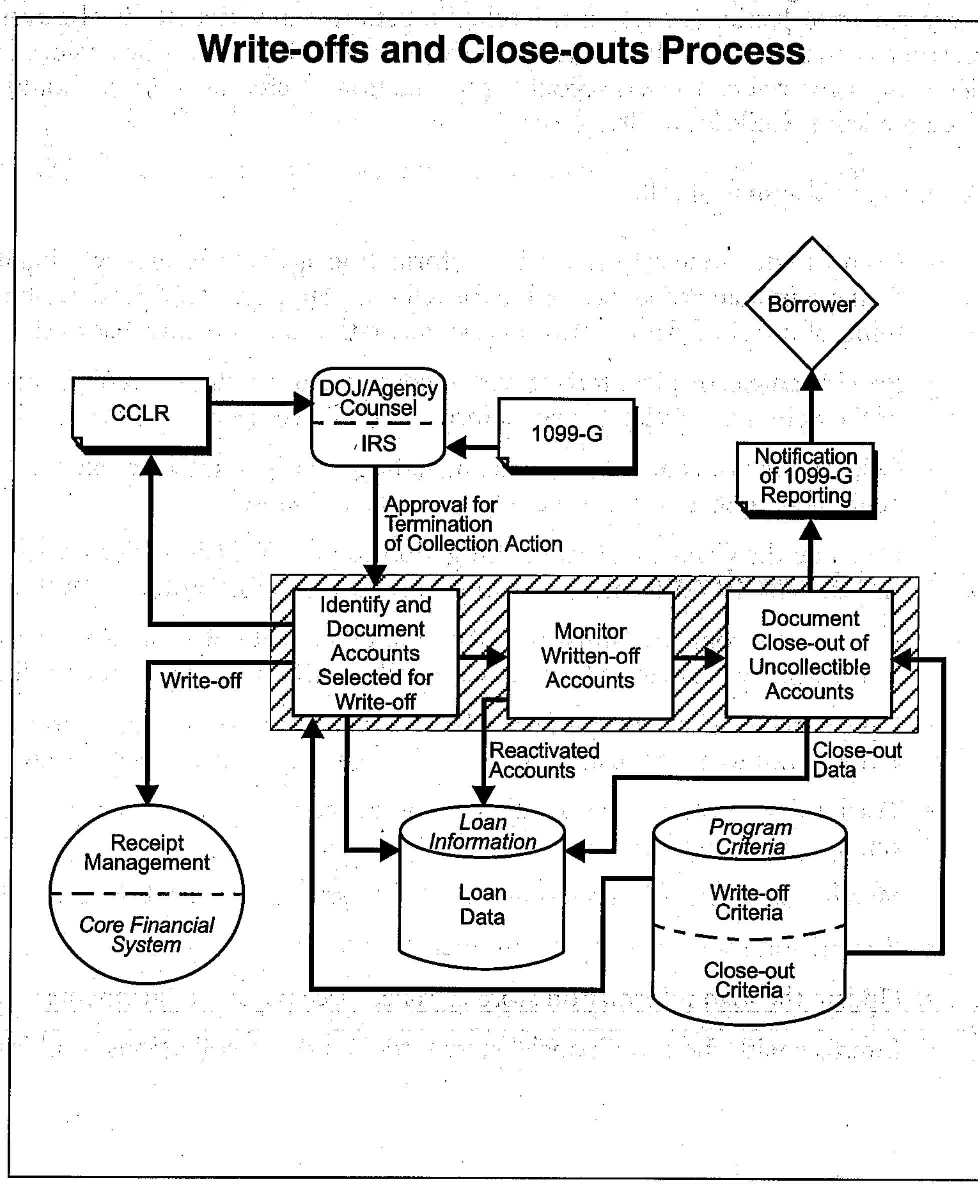

Illustration 25

An automated system should:

- Compare delinquent loan account information to agency program write-off criteria to select delinquent loan accounts for possible write-off.
- Classify debtors based on financial profile and ability to repay. Indicators of the financial well-being of a debtor include debtor financial statements, credit bureau reports, and payment receipt history.
- Produce a CCLR for each loan account to be referred to agency counsel or the (DOJ) for approval of termination of collection action. Update the loan status to reflect the referral.
- Update the loan information store to reflect approval or disapproval by agency counsel or the DOJ for termination of collection action.
- Update the loan information store and provide an automated interface with the

core financial system to record the write-off of the receivable.

Monitor Written-Off Accounts. This activity monitors and periodically reevaluates inactive accounts for possible reclassification.

An automated system should:

- Maintain a suspense file of inactive (written-off) loan accounts.
- Reactivate written-off loan accounts at a system user's request if the debtor's financial status or the account status changes.

Document Close-Out Of Uncollectible Accounts. This activity completes agency action on accounts determined to be uncollectible. Closed out accounts over a pre-determine amount must be reported to the IRS on Form 1099-C. When a debt is reported, the IRS will match the agency's Form 1099-C report against individual tax returns to determine if the discharge of the debt has been reported by the debtor as income.

An automated system should:

- Compare loan account data to agency close-out criteria to identify debtor accounts eligible for close-out and 1099-C reporting.
- Prepare and send a Form 1099-C to the IRS if the debtor has not responded within the required time period.
- Update the loan information store to reflect receipts, adjustments, and other status changes, including rescheduling, compromise, and other resolution decisions.
- Retain electronic summary records of close-out account activity for a period of five years for use in agency screening of new loan applications.

Collateral Requirements

There are no collateral requirements applicable to the Delinquent Debt Collection function for guaranteed loans. If applicable, collateral would have been acquired, foreclosed and liquidated in the prior function upon the default of the borrower.

Internal Management Information Requirements

Listed below are internal management information requirements for the Delinquent Debt Collection function. The information described below should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Delinquent Debt Collection function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are: transaction, loan history, risk category, cohort, and account. Each agency also must determine whether the information should be provided on hard copy reports or through system queries.

The guaranteed loan system should provide at least the following types of management information:

- Detailed Transaction History. This summary provides detailed account information by cohort for internal control and tracking, and, in the absence of an electronic interface to external entities, may be used to transfer data from the agency to the external entity to facilitate delinquent debt collection actions. Separate data summaries are produced for offset referrals, collection agency referrals, litigation referrals, and write-offs and close-outs.
- Standard Management Control/Activity. This summary tracks the status of all referral activity including initial referrals, status updates, and account balance updates. Separate and summary listings are produced for individual and total reporting and referral activity.
- Exceptions. This summary highlights deficiencies that have occurred in the referral process. Examples of subjects for periodic exception information include: delinquent accounts eligible for reporting that have not been reported, defaulted rescheduled loans, account referrals that cannot be processed, collection agency resolution percentage, accounts without foreclosure or collateral management activity for a specified period of time, accounts referred for litigation for which no litigation decision has been recorded, and delinquent accounts without activity for long periods of time that have not been written-off.
- Trend Analysis/Performance. This summary highlights the effectiveness of different delinquent debt collection techniques over time. The summary indicates the effectiveness of using different types of collection actions for different credit programs.
- Collection Contractor Compensation. This summary provides monthly account analyses to calculate, track, and verify compensation for each contractor providing collection services to an agency. This information aids in the verification of invoices received from the contractor, and highlights the differences in fee schedules among contractors.

Treasury Cross-Servicing

Mandatory (All requirements in this Chapter are Mandatory)

Cross-servicing occurs when Treasury's FMS or a Treasury-designated debt collection center provides debt collection services for other Federal agencies as shown in Illustration 26. The DCIA of 1996 mandates agencies to refer their delinquent non-tax debt over 180 days delinquent to Treasury or a Debt Collection Center for purposes of collection. Debt is considered delinquent if it is 180 days past due and is legally enforceable, i.e., there has been a final agency determination that the debt, in the amount stated, is due and there are no legal bars to collection action. For example, debts in an appeals process required by statute or regulation should not be transferred to a Debt Collection Center if collection action during the appeals process is prohibited. There are five specific instances where debts are excluded from transfer. They are:

- debts that are in litigation or foreclosure,
- debts that will be disposed of under an asset sales program within one year after becoming eligible for sale, or later than one year if consistent with an asset sales program and a schedule established by the agency and approved by the Director of OMB,
- debts that have been referred to a private collection contractor for collection for a period of time determined by Treasury,
- debts that have been referred to a Debt Collection Center with the consent of Treasury and for a period of time determined by Treasury, and
- debts that will be collected under internal offset if such offset is sufficient to collect the debt within three years after the debt is first delinquent.

In addition, a specific class of debt may be excluded by the Secretary of the Treasury at the request of an executive, legislative or judicial agency. Agencies are not required to transfer to FMS debts which are over 180 days delinquent until such time as a final agency determination regarding the debt is made or the legal bar to further

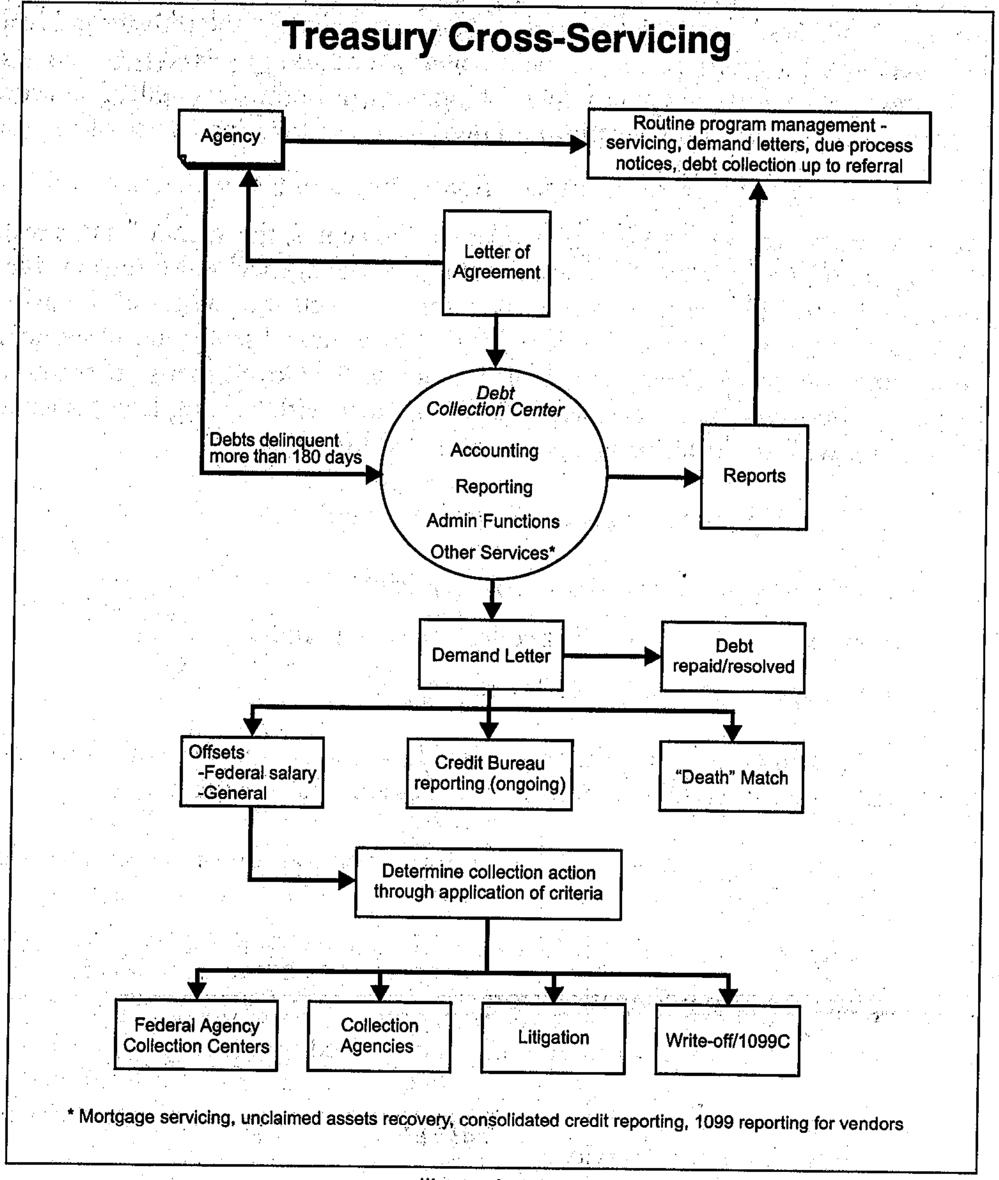

Illustration 26

collection action is removed. An agency may refer non-tax debt less than 180 days delinquent to FMS, or with the consent of FMS, to a Treasury-designated debt collection center for appropriate debt collection action.

Before referring debt to a Debt Collection Center, the agency enters into a letter of agreement with Treasury FMS authorizing FMS to provide debt collection services. This agreement details the limitations and parameters required for the compromise, settlement or termination of collection action.

FMS and other debt collection centers may charge and retain fees (based on actual costs) for debt collection services. Fees may be added on to the debt as an administrative cost if authorized by law.

Treasury can authorize an agency to "cross-service", that is, collect debts on behalf of another agency, as a debt collection center. The agency must submit a proposal to Treasury which contains the documentation supporting its request to be designated as a debt collection center. The proposal must indicate what types of debts the agency wishes to cross-service and its success at collecting its own delinquent accounts. Some agencies may be debt collection centers satisfactorily "working" their own debts. However, these agencies may not want to cross-service for other agencies. Treasury will grant a one-year waiver to the transfer provision of the DCIA for debts which are being collected in an agency's own debt collection center, provided the agency submits documentation which indicates the volume and type of debts being worked in the debt collection center, what percentage or proportion it represents of the total agency volume, a description of the center's use of the various debt collection tools, and historical portfolio performance.

After debts are referred to a designated collection center, the agency retains responsibility for reporting the debts on the Report of Receivables Due from the Public. The agency is also responsible for removing accounts from its receivables when the designated collection center directs it to write-off the debt. However, at the time the debt is referred to Treasury for cross-servicing, the agency must discontinue all servicing activities. At that time, the designated collection center has authority to act in the Government's best interest to service, collect, compromise, suspend or terminate collection action in accordance with existing laws under which the debts arise and in accordance with the letter of agreement with the Agency.

The cross-servicing process consists of the following:

- identify accounts selected for cross-servicing,
- monitor accounts at the debt collection center, and
- use an agency authorized to "cross-service."

Identify Accounts Selected. This activity identifies and refers accounts for cross-servicing based on past collection history and agency servicing requirements. An automated system should:

- compare delinquent loan account information to statutory criteria to select delinquent loan accounts for possible referral.
- generate notification to the debtor of the agency's intent to refer the debt to a debt collection center.
- update the loan information store.
- identify accounts that can no longer be serviced by agency personnel.

Monitor Accounts Referred to the Debt Collection Center. This activity monitors and periodically reevaluates accounts referred for cross-servicing.

- identify accounts with monetary adjustments that must be reported to the debt collection center.

- provide adhoc reporting capability needed to monitor the accounts referred to a debt collection center and the amounts recovered.
- interface with the core financial system to record receipts remitted to the agency.
- apply collections received from the debt collection center according to agency application rules.
- record collection fees in accordance with agency program requirements.
- process agency or debt collection center refunds, notify debt collection center as appropriate, and update the loan information store.
- notify debt collection center of adjustments, recalls of debt, or collections received by the agency on the referred debt.
- remove from the accounting and financial records accounts that the debt collection center recommends should be written off.

Use an Agency Authorized to Cross-Service. This activity determines the agency's performance in collecting debts.

An automated system should:

- identify the volume and type of debts serviced.
- identify the tools used by the agency to collect its own debt.
- provide one or more years of information on the average age of debt over 180 days.
- calculate the amount of debt collected using various collection tools.
- accrue late charges, as required by referring agency.
- provide information to referring agency sufficient for the referring agency to satisfactorily complete the Report on Receivables Due From the Public.
- track, by portfolio, age of debt referred, dollar and number of referrals, collections on referred debts and report to Treasury on a monthly basis.
- provide information to referring agency as needed i.e., collections received.
- provide ad hoc reporting capability needed to satisfy referring agencies unique information requests such as, length of workout agreements, percent of debt that can be compromised, etc.

Internal Management Information Requirements

Listed below are internal management information requirements for the Treasury Cross-Servicing function. This information should be available to agency credit program managers and designated internal review officials on a periodic or on an as requested basis. This list is not an all inclusive inventory of internal information requirements for the Treasury Cross-Servicing function. Each agency must determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements. Agencies must maintain financial accounting information at appropriate levels of summary for computational and reporting purposes. The main levels are:

- transaction,
- loan history,

- risk category,
- cohort, and
- account.

Each agency also must determine whether the information should be provided on hard copy reports or through system queries.

Other Reporting Requirements

This chapter provides requirements for two types of reporting:

Mandatory (All requirements in this Chapter are Mandatory)

- Transaction History, and
- External Reporting Requirements.

Transaction History

The guaranteed loan system must be capable of producing a complete transaction history of each loan.

External Reporting Requirements

Agencies' guaranteed loan systems must be capable of supporting the external reporting requirements of OMB and Treasury, including those associated with the Federal Credit Reform Act (FCRA) of 1990 and the CFO Act of 1990. These external reports rely on supplemental financial data resident in the guaranteed loan system, although they are generated from the general ledger. Appendix C contains a listing of some of the major summary level reports that must be accommodated. Others are identified in the JFMIP Core Financial System Requirements document; in a variety of governmentwide and agency specific regulations; and the reporting area is in a continuous state of change, which means that other reports may be identified, virtually at any point in time by an authoritative body.

Other system outputs are described in the functional requirements chapters of this document. Examples are: letters and invoices to lenders and borrowers, SF-1151's and SF-1080's used in Treasury borrowing, Treasury Report on Receivables (TROR) and delinquent debt information sent to credit bureaus, collection agencies, and the DOJ.

Records Retention

Mandatory (All requirements in this Chapter are Mandatory)

All records created within the Federal government may be destroyed only with the approval of the National Archives and Records Administration (NARA), per 36 CFR 1228. For questions regarding the disposition of Federal records, please contact:

National Archives and Records Administration
7th Street and Pennnsylvania Avenue NW
Washington, DC 20408

The telephone number for the Life Cycle Management Division is 301/713-7110.

Appendix A: References

This appendix displays statutory and regulatory requirements applicable to guaranteed loan programs as shown in Illustration 27.

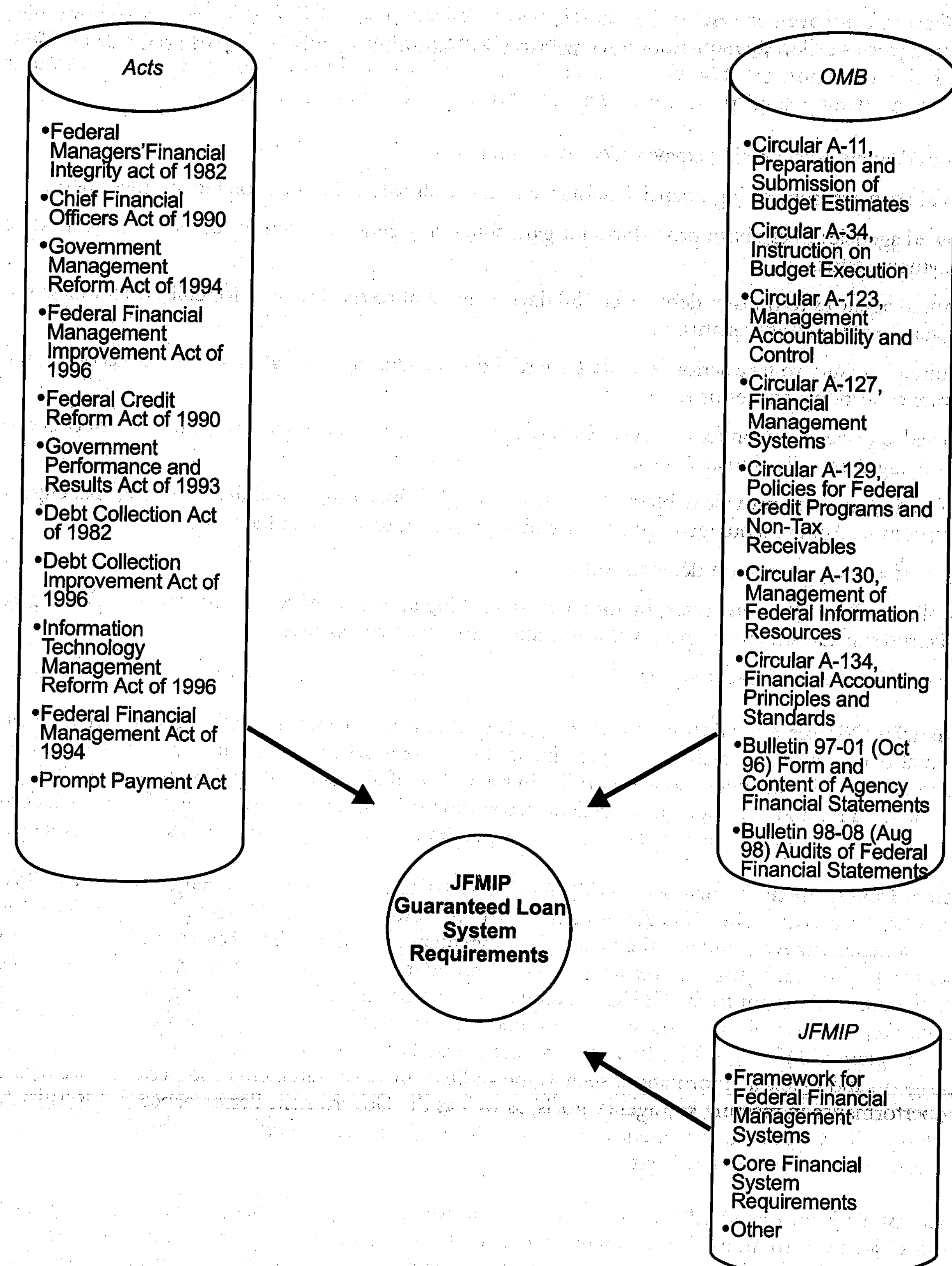

Illustration 27

Debt Collection Act of 1982 (as amended). The Debt Collection Act prescribes the policies and procedures for executive agencies in Federal debt collection activities.

Debt Collection Improvement Act of 1996. The Debt Collection Act of 1996 provided several new tools to help Federal agencies collect delinquent non-tax debt. It centralized many debt collection operations within the Treasury's Financial Management Service (FMS) and created a Treasury Offset Program enabling FMS to offset Federal debts by "withholding" payments to delinquent debtors. In addition the Act:

- required agencies to obtain taxpayer identifying numbers.
- barred agencies from giving financial assistance to those already delinquent on Government debt.
- allowed agencies to establish procedures for garnishing non-Federal wages to recover delinquent debts not in repayment status.
- required agencies to transfer debts over 180 days delinquent to the Treasury for collection, unless the debts are in a specified exempt status.
- required Treasury to take action to collect referred debts including referral to another collection center, to private collection agencies or DOJ.
- allowed agencies to retain fees charged for services from collection and to retain a portion of collections for improving debt collection activities.
- required agencies to provide debtors all due process rights, including the ability to verify, challenge, and compromise claims encouraged agencies, when appropriate, to sell delinquent debt.
- required agencies to submit debts for offset.
- simplified salary offset processes, by formally establishing an interagency consortium and allowing agencies to make routine adjustments to pay, without using salary offset procedures.
- mandated electronic funds transfer.

Chief Financial Officers Act of 1990 (CFO Act). The CFO Act provides new tools to improve the management of the Federal Government. It establishes Chief Financial Officers in 23 major executive agencies as well as a new Deputy Director for Management and a Controller in the Office of Management and Budget. The CFO Act reinforces the need for and development of Federal accounting standards; supports integration and modernization of the Government's financial systems; and requires the preparation of annual audited financial statements.

Government Management Reform Act (GMRA) of 1994/Federal Financial Management Act (FFMA) of 1994 The GMRA expands the CFO Act and the FMFIA, Title IV of the GMRA, known as **The Federal Financial Management Act,** contains the financial management provisions. The FFMA requires the Treasury Department to prepare each year a Government-wide, consolidated financial statement that the Comptroller General then audits. Pursuant to the GMRA, several agencies participated in a pilot program in which they issue accountability reports, consolidating their reporting under several statutes, including the **CFO, Federal Managers' Financial Integrity (FMFIA), GPR, Prompt Payment, and Debt Collection Acts.** The accountability reports include program and financial information, such as the audited financial statements and performance measures reflecting performance in meeting key agency goals, as well as the Government Performance and Results Act of 1993 (GPRA). The GPRA requires agencies to develop strategic plans, set performance goals, and report annually on actual performance compared to goals.

Federal Credit Reform Act of 1990. The Federal Credit Reform Act prescribes policies and requirements to achieve four objectives: to measure more accurately the costs of Federal credit programs; to place the cost of credit programs on a budgetary basis equivalent to other Federal spending; to encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and to improve the allocation of resources among credit programs and between credit and other spending programs.

Federal Managers' Financial Integrity Act (1982). The FMFIA requires that all executive agencies implement, maintain, and report on internal accounting and administrative controls. These controls must provide reasonable assurances that (i) obligations and costs comply with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. Agency heads must annually evaluate and report on the control and financial systems that protect the integrity of Federal programs. The FMFIA encompasses program, operational, and administrative areas as well as accounting and financial management.

OMB Circular A-11, Preparation and Submission of Budget Estimates (updated annually). Circular A-11 sets forth the policies and procedures for preparation and submission of agency budget estimates to the Office of Management and Budget.

OMB Circular A-34 - Instructions on Budget Execution. Credit Apportionment and Budget Execution (October 1991). Circular A-34, sets forth the requirements for apportionment and budget execution for all guarantee loan programs covered by the Federal Credit Reform Act of 1990.

OMB Circular A-123, Internal Control Systems (June 1995). Circular A-123 prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, and reporting on the internal controls in their program and administrative activities.

OMB Circular A-127, Financial Management Systems (July 1993). Circular A-127 sets forth policies for financial management systems development, operations, and evaluation. The circular establishes specific objectives related to financial management and accounting.

OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables (January 1993). Circular A-129 prescribes policies and procedures for justifying, designing, and managing Federal credit programs and for collecting non-tax receivables. The circular discusses principles for designing credit programs, including the preparation and review of legislation and regulations; budgeting for the costs of credit programs and minimizing unintended costs to the Government; and improving the efficiency and effectiveness of Federal credit programs. It also sets standards for extending credit, servicing credit and non-tax receivables, and collecting delinquent debt.

OMB Circular A-130, Transmittal Memorandum 3 Management of Federal Information Resources (February 1996). Circular A-130 establishes policies and procedures to be followed by executive departments and agencies in managing information, information systems, and information technology. The February 1996 revision of the Circular contains updated guidance in the "Security of Federal Automated Information Resources," Appendix III, and makes minor technical revisions to reflect the Paperwork Reduction Act of 1995.

OMB Circular A-134, Financial Accounting Principles and Standards (May 1993). This Circular establishes the policies and procedures for approving and publishing financial accounting principles and standards. It also establishes the procedures for OMB review of FASAB statements of accounting principles, standards, or concepts. If such a FASAB recommendation is agreed to by the Director of OMB, the Secretary of the Treasury, and the Comptroller General, the Director of OMB issues a Statement of Federal Financial Accounting Standards (SFFAS).

OMB Bulletin 97-01 (October 1996), and successor bulletins, Form and Content of Agency Financial Statements. This Bulletin defines the form and content of the financial statements of the executive agencies. It incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal Financial Accounting Standards (SFFASs) recommended by the Federal

Accounting Standards Advisory Board (FASAB) and approved as of October 1996. This Bulletin explains the financial accounting of "Direct Loans and Loan Guarantees, Non-Federal Borrowers."

OMB Bulletin 98-08 (August 1998), Audits of Federal Financial Statements. This Bulletin establishes minimum requirements for audits of Federal financial statements. The Bulletin's requirements implement the audit provisions of the CFO Act, the GMRA, and the FFMIA.

Statement of Federal Financial Accounting Standards Number 2, Accountinf for Direct Loans and Loan Guarantees. The Statement provides accounting standards for Federal direct loans and loan guarantees. The standards require that direct loans obligated and loan guarantees committed after September 30, 1991, be accounted for on a present value basis. The use of the present value accounting method is consistent with the intent of the Federal Credit Reform Act of 1990.

Appendix B: Glossary

Requirements	JFMIP systems requirements are either mandatory or value added. The definitions of these two categories are:
	Mandatory Mandatory requirements describe what the system must do and consists of the minimum acceptable functionality necessary to establish a system, or are based on Federal laws and regulations. Mandatory requirements are those against which agency heads evaluate their systems to determine substgantial compliance with systems requirements under the FFMIA. These requirements apply to existing systems in operation and new systems planned or under development.
	Value-added Value added requirements describe features or characteristics and may consist of any combination of the following: (1) using state of the art technology, (2) employing the preferred or bests business practices, or (3) meeting the special management needs of an individual agency. Value-added, optional and other similar terminology may be used to describe this category of requirements. Agencies should consider value added features when judging systems options. The need for these value-added features in agency systems is left to the discretion of each agency head.
Servicer	A financial institution, private service provider, corporation, government cross-servicing organization or other organization that provides services in support of grants management programs or systems.

Appendix C: Examples of External Reporting Requirements

Title	Title	Purpose	Level	Frequency	Guideline
Apportionment and Reapportionment Schedule	SF-132	Request for and status of apportionments and reapportionments	Appropriation/Fund Account	Initial/As required	OMB Circular A-34
Report on Budget Execution	SF-133	Report on utilization and status of budget resources	Appropriation/Fund Account	Monthly/ Final	OMB Circular A-34
Federal Agencies, Centralized Trial-Balance System (FACTS)	Electronic Reporting replacement of SF-220 SF-220-1 SF-222 SF-223	Report data for consolidation from FACTS into the U.S. Government Consolidated Financial Statement	Appropriation/Fund Group	Quarterly/ Annually	1 TFM 2-4000
Federal Agencies; Centralized Trial-Balance System (FACTS II)	Electronic Reporting replacement of SF-133 and TFS-2108	Federal Agencies; Centralized Trial-Balance System (FACTS II) into the U.S. Government Consolidated Financial Statement	Appropriation/Fund Group	Quarterly/ Annually	1 TFM 2-4000
Treasury Report on Receivables	TROR	Provides information for monitoring status of guaranteed loans	Supporting form for SF-220	Quarterly/ Annually	1 TFM 2-4000

Appendix D: Contributors

Joint Financial Management Improvement Program Steering Committee

Donald Hammond, Chair
Department of the Treasury

Karen Cleary Alderman
Executive Director, JFMIP

William B. Early, Jr.
General Services Administration

Jeffrey C. Steinhoff
U.S. General Accounting Office

J. Gilbert Seaux
Office of Personnel Management

Joshua Gotbaum
Office of Management and Budget

Former Members

Thomas R. Bloom
General Services Administration

Norwood (Woody) Jackson
Office of Management and Budget

Sheila Conley
Office of Management and Budget

Joint Financial Management Improvement Program

Karen Cleary Alderman
Executive Director, JFMIP

Dennis Mitchell
Systems Accountant

Lawrence Kitt
Women's Executive Leadership Program
Immigration and Naturalization Service

Susan Kaufman
Women's Executive Leadership Program
Defense Logistics Agency

Small Business Administration

Gregory A. Walter (Project Sponsor)

James Phillips (Project Team Leader)

William George

Department of Housing and Urban Development

Victoria L. Bateman

Richard E. Braun

Doretha S. Dabney

Department of Agriculture

Christine Burgess

Department of Education

Frank Ramos

Tony Magro

John Bollinger

John Rabil

Ronald Coats

United States Information Agency

Cameron Weber

Mike Hase

Department of Veterans Affairs

Terry Murphy

Dean Errigo

U.S. General Accounting Office

Robert Gramling

Daniel Blair

Marcia Carlsen

Office of Management and Budget

Jean Holcombe

Andrew Gillen

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Joint Financial Management Improvement Program
Suite 430
1990 K Street NW
Washington, DC 20005

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