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JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

Federal Financial Management System Requirements

December 1993

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Guaranteed Loan System Requirements

Joint Financial Management Improvement Program

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management. The Program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General of the United States, and was given statutory authorization in the Budget and Accounting Procedures Act of 1950. The Office of Personnel Management joined as a central agency sponsor of JFMIP in 1966.

The overall objective of JFMIP is to improve and coordinate financial management policies and practices throughout the government so that they will contribute significantly to the effective and efficient planning and operation of government programs. Activities aimed at achieving this objective include:

- Developing general objectives in those areas of common interest to the central agencies for guiding the improvement of financial management across government and promoting strategies for achieving those objectives.

- Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.

- Undertaking projects and special reviews of significant problems and new technologies in financial management and publishing the findings and conclusions.

- Acting as a catalyst and clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.

- Reviewing the financial management efforts of the operating agencies and serving as a catalyst for further improvements.

The JFMIP plays a key role in mobilizing resources and coordinating cooperative efforts in the improvement of financial management practices, and, to be successful, it relies on the active participation of federal agencies. The JFMIP is guided by a Steering Committee consisting of a key policy official from each sponsoring agency. A key official from a program agency also serves on the Steering Committee. A small staff is headed by the Executive Director.

Preface

This *Guaranteed Loan System Requirements* document is one of a series of publications published by the Joint Financial Management Improvement Program (JFMIP). The series began with the *Core Financial System Requirements.*

The *Guaranteed Loan System Requirements* addresses the goal of the President's Council on Management Improvement (PCMI) and the JFMIP to improve the efficiency and quality of financial management in the federal government. Impetus has been provided by the Chief Financial Officers Act of 1990 and the Federal Credit Reform Act of 1990, which strongly reaffirmed the need for the federal government to provide financial systems that facilitate the effective management of government programs and services and the proper stewardship of public resources.

Agencies are to use these functional requirements in planning their financial system improvement projects. As with the other systems requirements documents, agencies will have to include their unique requirements, both technical and functional, with the requirements in this document. Furthermore, each agency must develop its own integration strategy detailing how it will either interface or integrate with the core financial system and other applicable systems.

We want to take this opportunity to thank the agency officials and others in the financial management community who contributed to the document. We value their assistance and support.

Virginia B. Robinson
Executive Director

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Illustrations

List of Acronyms

ADP	Automated Data Processing
CAIVRS	Credit Alert Interactive Voice Response System
CCLR	Claims Collection Litigation Report
CFO Act	Chief Financial Officers Act of 1990
Core	Core Financial System or *Core Financial System Requirements*
DOD	Department of Defense
DOJ	Department of Justice
e-mail	Electronic mail
FMFIA	Federal Managers' Financial Integrity Act
IRS	Internal Revenue Service
OGC	Office of General Counsel
OMB	Office of Management and Budget
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SGL	U.S. Government Standard General Ledger
TFM	*Treasury Financial Manual*

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The Chief Financial Officers Act of 1990 (CFO Act) mandates improved financial management; assigns clearer responsibility for leadership to senior officials; and requires new financial organizations, enhanced financial systems, and audited financial reporting. The improvement of federal financial management systems is critical to increasing the accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the federal government.

Good financial management and, accordingly, good financial systems, must provide for:

- Accountability. Inform taxpayers, agency personnel, and the Congress, in terms they can readily understand, about what the nation's tax dollars are spent for, and how federal assets are protected.
- Efficiency and Effectiveness. Provide efficient and effective service to individuals, contractors, grantees, and state and local governments, who have financial dealings with the federal government.
- Better Decision-Making. Provide to agency heads, program managers, and the Congress timely reports linking financial results and program data — so that financial and program results of policy and program decisions can be identified, tracked, and forecasted more accurately.

The CFO Act requires agency CFOs to develop and maintain agency financial management systems that comply with applicable accounting principles, standards, and requirements; internal control standards; and policies and requirements prescribed by the Office of Management and Budget (OMB) and the Department of the Treasury.

Agency financial management systems must be able to provide complete, reliable, consistent, and timely information; prepare this information on a uniform basis; be responsive to the financial information needs of agency management; and support preparation of both agency budgets and financial statements.

OMB Circular A-127, "Financial Management Systems," sets forth general policies for federal financial management systems. Each agency is required to develop and maintain a single, integrated financial management system. To support this objective, each agency is required to have an ongoing financial systems improvement planning process and periodic reviews of financial system capabilities.

Agency financial systems must enable agencies to prepare financial reports in accordance with federal accounting and reporting standards. Financial systems need to be flexible to adapt to changes in accounting standards.

Introduction

The Federal Accounting Standards Advisory Board (FASAB) was established in October 1990 to recommend federal accounting principles and standards to the Secretary of the Treasury, the Director of OMB, and the Comptroller General, who are Principals of the JFMIP. Specific standards agreed upon by these three officials will be issued by the Director of OMB and the Comptroller General. The FASAB has recommended, and OMB has included in Bulletin 93-02 (revised) and 94-01 (and in successor bulletins as needed), interim guidance to apply until a comprehensive set of standards is recommended and adopted. The OMB announced by Circular A-134 its intent to issue Statements of Federal Financial Accounting Standards (SFFAS) as standards are adopted.

The *Guaranteed Loan System Requirements* document has been prepared as a continuation of the Federal Financial Management System Requirements series that began with the *Core Financial System Requirements* in January 1988. The document has been prepared in consultation with OMB, the General Accounting Office (GAO), the Financial Management Service (FMS) of the Department of the Treasury, and federal program agencies.

Federal Financial Management Framework

This document is a part of a broad program to improve federal financial management which involves the establishment of uniform requirements for financial information, financial systems, reporting, and financial organization.

In 1982, the Federal Managers' Financial Integrity Act provided a cornerstone for improved financial management. Section 4 of this legislation requires annual reports on the compliance of agency systems under policy direction of OMB on behalf of the President.

In 1984, OMB established Circular A-127, "Financial Management Systems," providing policy guidance for a broad program of improvement for all federal financial information and systems. In 1986, the Treasury issued new standards for improved business-type financial reporting and OMB issued the U.S. Government Standard General Ledger (SGL). The SGL provides for a uniform chart of accounts for accounting and budgetary information. It governs the recording of transactions within every agency financial system. In 1993, OMB published the revised Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," providing guidance for governmentwide credit management and debt collection. Also in 1993, OMB updated Circular A-127.

System requirements for common systems have been prepared under the direction of JFMIP as a series of publications entitled "Federal Financial Management System Requirements." The first of the series was the *Core Financial System Requirements*, published in January 1988. Successive publications of the series have included the *Personnel/Payroll System Requirements* (May 1990), the *Travel System Requirements* (January 1991), and the *Seized/Forfeited Assets System Requirements* (March 1993). This publication, *Guaranteed Loan System Requirements*, and its companion, *Direct Loan System Requirements*, extend the establishment of functional requirements for agency systems.

As shown in Illustration 1, establishing uniform requirements is only part of the process of improving financial management systems and information. Improvements can be achieved through the selection, development, and/or purchase of applications that meet approved functional requirements and technical as well as data management specifications. Agencies must continue to improve their financial systems and implement new requirements as they are issued so that continuing efforts to standardize and upgrade data and reporting requirements in accordance with OMB's governmentwide 5-year plan will be successful.

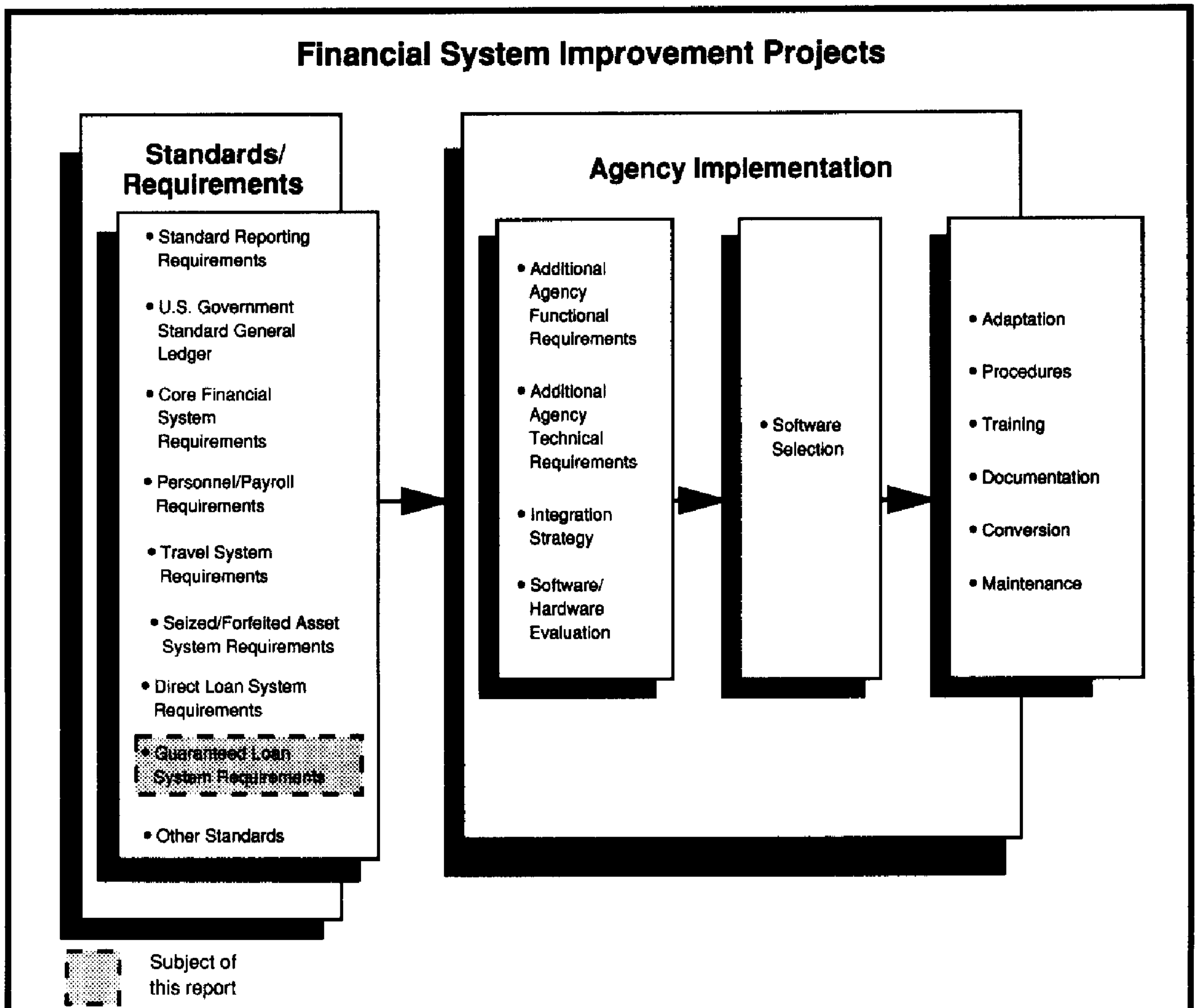

Illustration 1

Good governmentwide functional requirements assist agencies in developing strong systems and information by eliminating duplicate work among agencies and providing a common framework so that outside vendors can more economically provide systems software. Development of governmentwide functional requirements for each application is a critical effort that will affect internally developed systems and the evaluation and selection of commercially available systems. However, agencies must augment these governmentwide requirements with their own unique agency requirements, which must be carefully defined to assure consistency with the governmentwide requirements. Each agency must also integrate governmentwide requirements with existing systems, including the major program systems that are unique to the agency.

Integrated Financial Management Systems

OMB Circular A-127 requires each agency to develop and maintain a single, integrated financial management system. Development of an integrated financial management system is necessary to support the objectives of the CFO Act and agency management.

Specifically, OMB Circular A-127 requires the implementation of a unified set of financial systems and financial portions of mixed systems that provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. OMB Circular A-127 states an integrated financial management system has the following characteristics: common data elements, common transaction processing, consistent internal controls, and efficient transaction entry.

Integrated financial management systems may include electronic interfaces between component systems or applications if the interfaces are appropriately defined and controlled so that they meet the criteria above and follow the timing of normal business cycles. Determination of whether to interface two particular applications or to merge them into one will depend upon the compatibility of the applications, the physical environment in which the applications operate, and the commonality of data for making decisions, among other factors.

To provide information prepared on a uniform basis as required by the CFO Act, systems need to use consistently defined data, processes, and controls. Standard reporting requirements, the SGL, JFMIP-published financial system requirements, OMB circulars and bulletins, the *Treasury Financial Manual*, and other such publications provide a starting point for agencies defining specific data elements and processes for their systems.

Framework for the Integration of Federal Agency Systyems

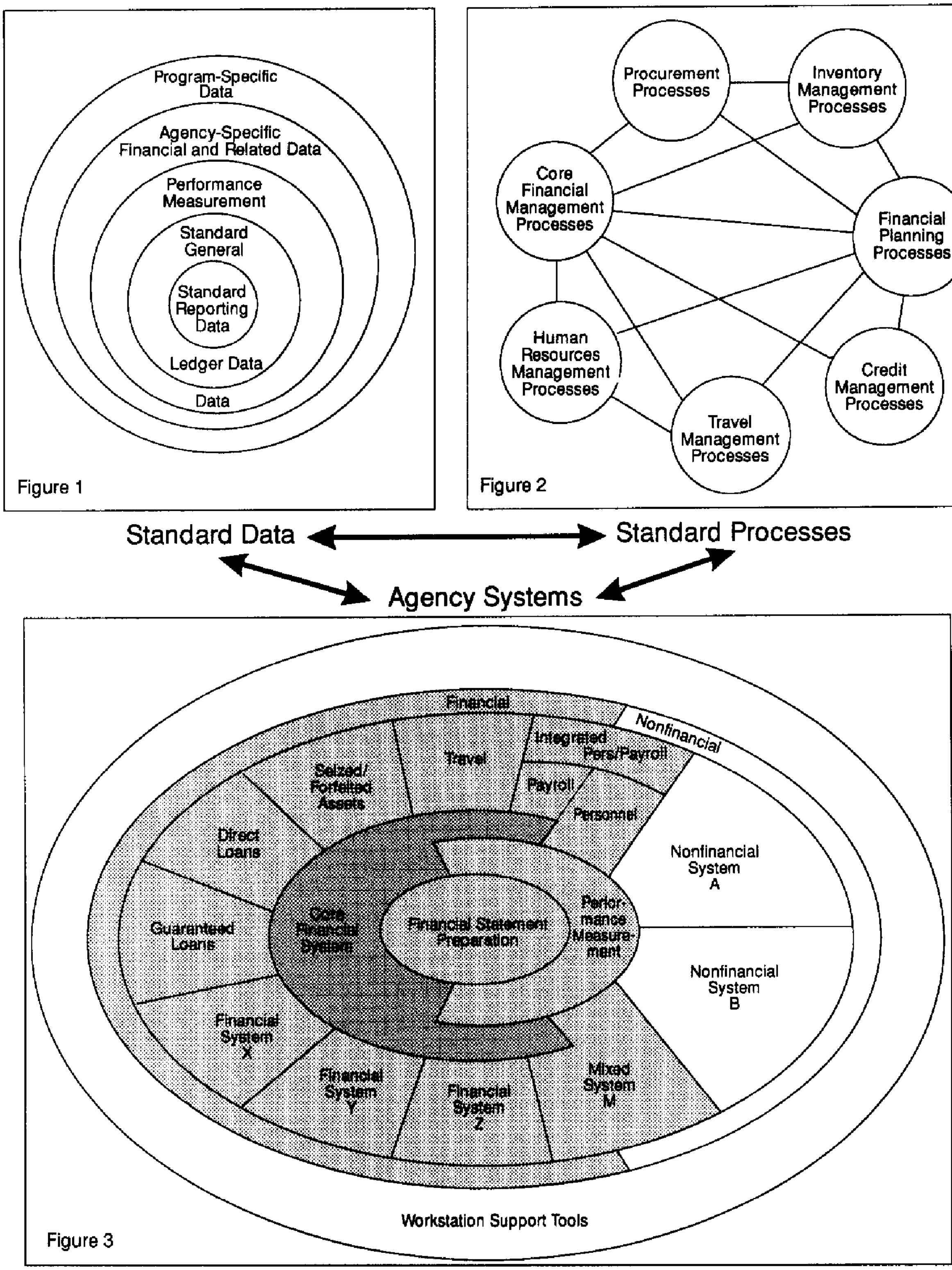

Illustration 2

As shown in Figure 1 of Illustration 2, many layers of data can be defined. The three inner layers—standard reporting data, standard general ledger data, and performance measurement data—must conform to data standards established through government-wide initiatives. The two outer layers represent data specific to an agency or to a program which should be standardized throughout the agency or program. Standard data classifications (definitions and formats) must be established and used for recording financial events as prescribed by OMB Circular A-127.

Figure 2 of Illustration 2 shows how management processes interrelate and provide common functionality. Common processes that are based on standards and used throughout the system enable transactions to be recorded consistently, with predictable results.

As shown in Illustration 2, data, processes, and application software need to be linked to each other to form a system; each is dependent on the other. Figure 3 of Illustration 2 shows that the core financial system forms the backbone for the agency's integrated financial management system. It provides common processing routines, supports common data for critical financial management functions affecting the entire agency, and maintains the required general ledger control over financial transactions, resource balances, and other financial systems.

Federal agencies have systems that support (1) agency administrative functions such as personnel/payroll, travel, procurement, and property management, (2) unique activities and operations of agency programs, such as loan programs, grant programs, entitlement programs, and law enforcement programs, and (3) employee workstation activities, such as word processing, electronic mail (e-mail), and desk management.

Guaranteed Loan System

As shown in Figure 3 of Illustration 2, guaranteed loan systems are an integral part of the total financial management system for those federal agencies authorized to make loan guarantees. The guaranteed loan system interfaces with the core financial system to validate funds availability, update budget execution data, record receivables and collections, and process disbursements.

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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 interest and loan repayment 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 Chief Financial Officers Act of 1990, including measures of program performance and financial statements, and the Credit Reform Act of 1990, which sets up new procedures to budget and account for credit subsidies and loan assets.

Policy

The policies governing credit programs and financial systems that affect guaranteed loan systems include the following:

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, managing lenders participating in guaranteed loan programs, servicing credit and non-tax receivables, and collecting delinquent debt.

Managing Government Credit: A Supplement to the *Treasury Financial Manual* (January 1989). The Credit Supplement to the *Treasury Financial Manual* provides agencies with detailed guidelines and procedures for the successful management of credit and debt collection activities.

Background

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.

Chief Financial Officers Act of 1990 (CFOs 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.

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

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.

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

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-130, "Management of Federal Information Resources" (June 1993). Circular A-130 establishes policies and procedures to be followed by executive departments and agencies in managing information, information systems, and information technology.

OMB Circular A-123, Internal Control Systems (August 1986). 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.

Federal Managers' Financial Integrity Act (FMFIA) (1982). The FMFIA requires that all executive agencies implement, maintain, and report on internal accounting and administrative controls.

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. The 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 Financial Management Service (FMS), is responsible for monitoring and facilitating implementation of credit management and debt collection policy. FMS develops and disseminates as a supplement to the *Treasury Financial Manual* (TFM) operational guidelines for agency compliance with governmentwide 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 Federal Accounting Standards Advisory Board (FASAB) was established in October 1990, by the Comptroller General, the Director of the Office of Management and Budget, and the Secretary of the Treasury. The Board exists through a memorandum of understanding among these three principals of the JFMIP. The FASAB recommends accounting standards to the JFMIP principals after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and other users of financial data.

Federal Credit Policy Working Group. The Federal Credit Policy Working Group 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.

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System Overview

This chapter provides an overview of guaranteed loan system requirements. The overview has the following sections:

- Summary of Functions, which presents a high-level description of the functions that are supported by guaranteed loan systems.
- Relationships with Other Systems, which describes how guaranteed loan systems interact with other systems.
- Data Requirements, which discusses the types of data needed to perform the various functions of a guaranteed loan system.

Summary of Functions

Illustration 3 shows the functions of guaranteed loan systems and the key sources and destinations of information flowing into and out of the loan system.

Overview of a Guaranteed Loan System

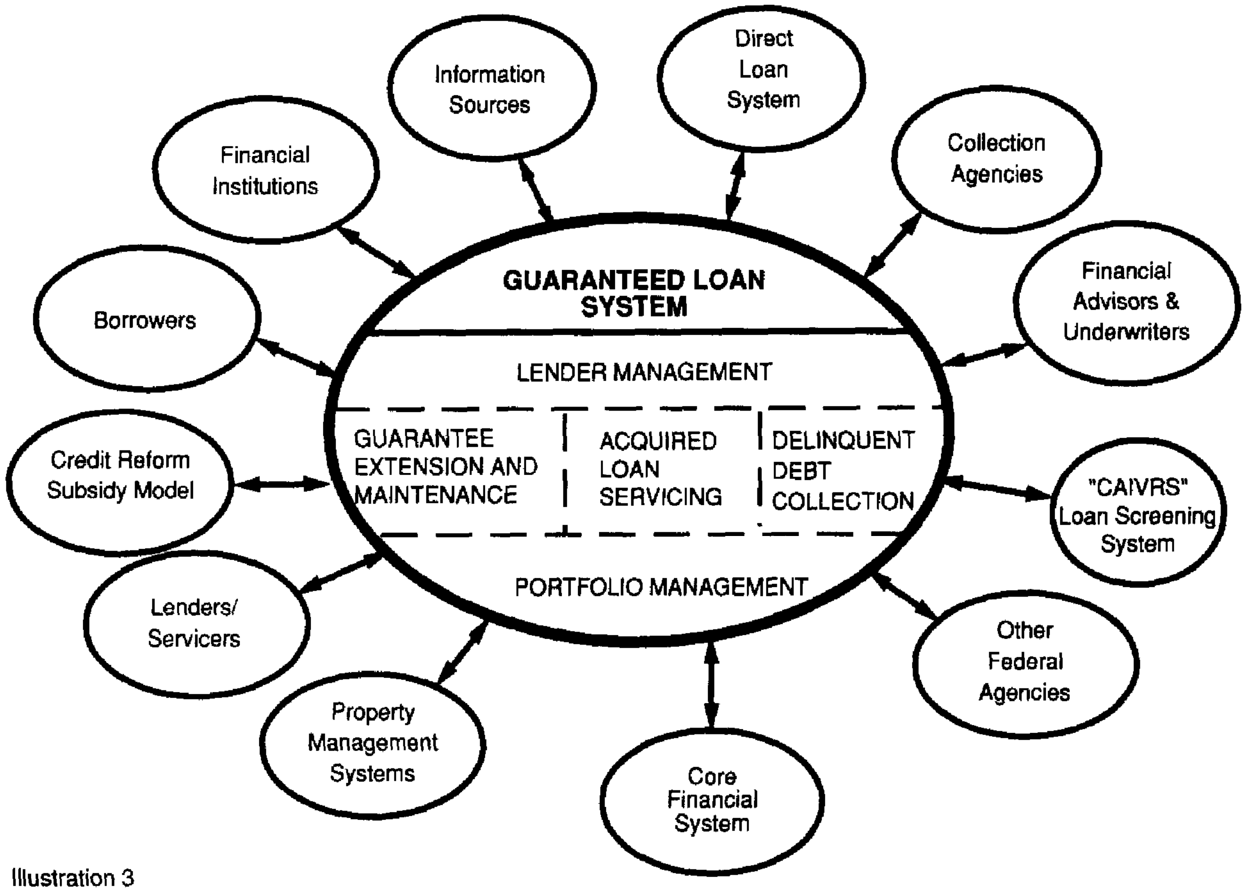

Illustration 3

The following is a brief description of the major functions of a guaranteed loan system. The Functional Requirements chapter provides 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, and to ensure that the government's risk exposure and loan losses are held to a minimum. 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.

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, 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 the Collection Actions process and the Write-offs and Close-outs process.

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.
- 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.
- The CAIVRS system provides information on borrowers who have defaulted or become delinquent on a federal loan or guarantee. Agency staff access CAIVRS by telephone and enter the response in the guaranteed loan system.
- 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.

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 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:

  - 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, and each individual agency's policies. This information store includes the following data:

  - Guarantee Data (e.g., lender, loan amount, guarantee level, loan status, subsidy information)
  - Collateral Data (e.g., appraised value, status)
  - Borrower Data (e.g., borrower's name, address, financial data)
  - 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:

  - Claim Application Data
  - Claim Status

- Acquired Loan Information. This refers to data associated with a loan once the loan 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:

  - Acquired Loan Data
  - Acquired Loan Status
  - Acquired Loan Collateral Data
  - Special Collection Activity 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:
  - Lender Eligibility Criteria
  - Financial Rating Criteria
  - Risk Rating Criteria
  - Portfolio Evaluation Criteria
  - Creditworthiness Criteria
  - Borrower Eligibility Criteria
  - Guarantee Fee Criteria
  - Fee Penalty Criteria
  - Claim Application Evaluation Criteria
  - Invoicing Criteria
  - Receipt Application Rules
  - Debt Collection Criteria
  - CAIVRS Referral Criteria
  - Credit Bureau Reporting Criteria
  - Offset Referral Criteria
  - Collection Agency Selection Criteria
  - Litigation Referral Criteria
  - Write-off Criteria
  - Close-out Criteria

Information Stores External to the Guaranteed Loan System

Additional information stores are controlled and managed outside the guaranteed loan system:

- **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:
  - Budget Execution Data
  - Receivables
  - Disbursement Data
  - Collections/Receipts
  - Administrative Costs

- Principal and Interest Data
- Working Capital Data
- Acquired Asset Data

- **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:
  - 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 Payments
  - Sale Approval
  - Collection Activities and Results
  - Sale Proceeds
  - Write-off Approval
  - Foreclosure Data

Relationship of Information Stores

Illustration 4 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 System

Internal Information Stores

Information Stores \ System Processes	Lender Management: Lender Eligibility	Lender Management: Lender/Servicer Monitoring	Guarantee Extension and Maintenance: Guarantee Request Evaluation	Guarantee Extension and Maintenance: Guarantee Origination	Guarantee Extension and Maintenance: Guaranteed Loan Maintenance	Portfolio Management: Portfolio Performance	Portfolio Management: Program Financing	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
LENDER/SERVICER INFORMATION													
Lender/Servicer Application Data	X												
Lender/Servicer 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 Criteria	X												
Financial Rating Criteria		X											
Risk Rating Criteria		X											
Portfolio Evaluation Criteria		X				X							
Creditworthiness Criteria			X										
Borrower Eligibility Criteria			X										
Guarantee Fee Criteria					X								
Fee Penalty Criteria					X								

Illustration 4

Guaranteed Loan System

Internal Information Stores

System Processes / Information Stores	Lender Management		Guarantee Extension and Maintenance			Portfolio Management		Acquired Loan Servicing			Delinquent Debt Collection		
	Lender Eligibility	Lender/Servicer Monitoring	Guarantee Request Evaluation	Guarantee Origination	Guaranteed Loan Maintenance	Portfolio Performance	Program Financing	Claim Processing	Account Status Maintenance	Foreclose on Collateral	Manage/Liquidate Collateral	Collection Actions	Write-offs and Close-outs
PROGRAM CRITERIA Continued													
Claim Application Evaluation Criteria								X					
Invoicing Criteria									X				
Receipt Application Rules									X				
Debt Collection Criteria									X				
CAIVRS Referral Criteria												X	
Credit Bureau Reporting Criteria												X	
Offset Referral Criteria												X	
Collection Agency Selection Criteria												X	
Collection Agency Referral Criteria												X	
Litigation Referral Criteria												X	
Write-off Criteria													X
Close-out Criteria													X
CORE FINANCIAL SYSTEM INFORMATION													
Budget Execution Data		X	X	X	X		X						
Receivables								X	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		

Illustration 4 (continued)

Guaranteed Loan System
External Information Stores

System Processes / Information Stores	Lender Management		Guarantee Extension and Maintenance			Portfolio Management		Acquired Loan Servicing			Delinquent Debt Collection		
	Lender Eligibility	Lender/Servicer Monitoring	Guarantee Request Evaluation	Guarantee Origination	Guaranteed Loan Maintenance	Portfolio Performance	Program Financing	Claim Processing	Account Status Maintenance	Foreclose on Collateral	Manage/Liquidate Collateral	Collection Actions	Write-offs and Close-outs
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 4 (continued)

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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.

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. Rather, the general requirements are a guide for agencies to use in enhancing existing systems or developing new systems. These requirements assume the agency has a fully automated system that encompasses the complete scope of requirements described in this document. Some 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. In addition, some agencies 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 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 Chief Financial Officers 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. The icons used are explained as follows:

Indicates either a process (in the function level diagrams) or an activity (in the process level diagrams).

Indicates an entity external to the agency.

indicates a system external to the loan system. Many of the loan system processes have an interface with the core financial system. On the diagrams, the core financial system is divided into parts which correspond to the functional requirements in the *Core Financial System Requirements*.

Indicates a borrower.

indicates an information store. At the function level, the name of the information store is displayed. At the process level, the data within the information store is displayed.

Indicates a document.

Indicates dataflow in oral, electronic, or paper form.
The direction of the arrowhead indicates the direction of the flow.

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 governmentwide statutory and regulatory requirements.

General Requirements

This section provides the governmentwide functional requirements for the Lender Management function of a guaranteed loan system. Illustration 5 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.

Overview of the Lender Management Function of a Guaranteed Loan System

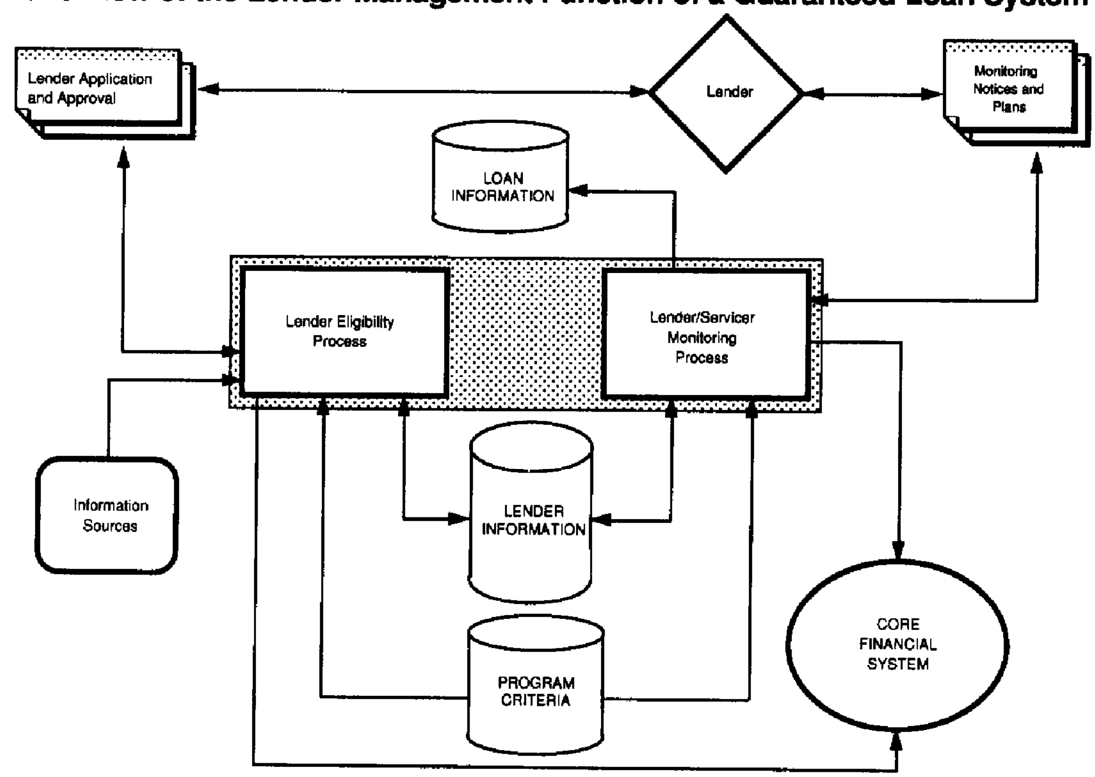

Illustration 5

Lender Management: Lender Eligibility Process

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 6, the Lender Eligibility process consists of the following major activities:

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

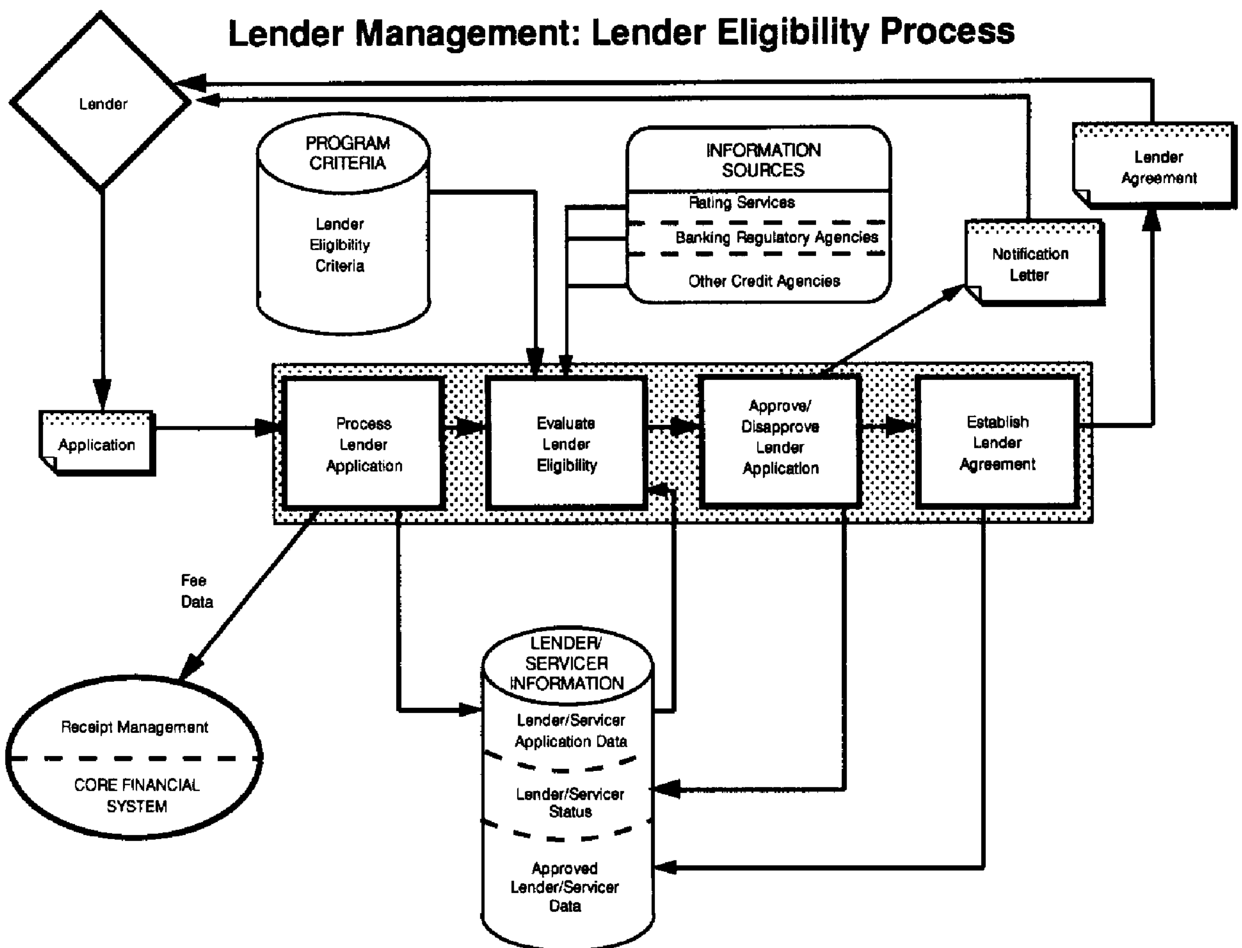

Illustration 6

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

An automated system should:

- 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.

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:

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

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:

- Update the lender information store to reflect the agency's decision on the lender application.
- Generate and electronically transmit a notice to inform the lender of approval or disapproval of the lender's application.
- Maintain data on lender disapprovals as an historical reference to support effective monitoring of future lenders.

- 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:

- Record relevant data concerning the lender agreement.
- Generate the lender agreement for signature by the lender.
- Document that the lender agreement has been consummated by the agency and lender.
- Provide a tracking mechanism to identify expiring agreements needing renewal.

Lender Management: Lender/Servicer Monitoring Process

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 7, the Lender/Servicer Monitoring Process consists of the following major activities:

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

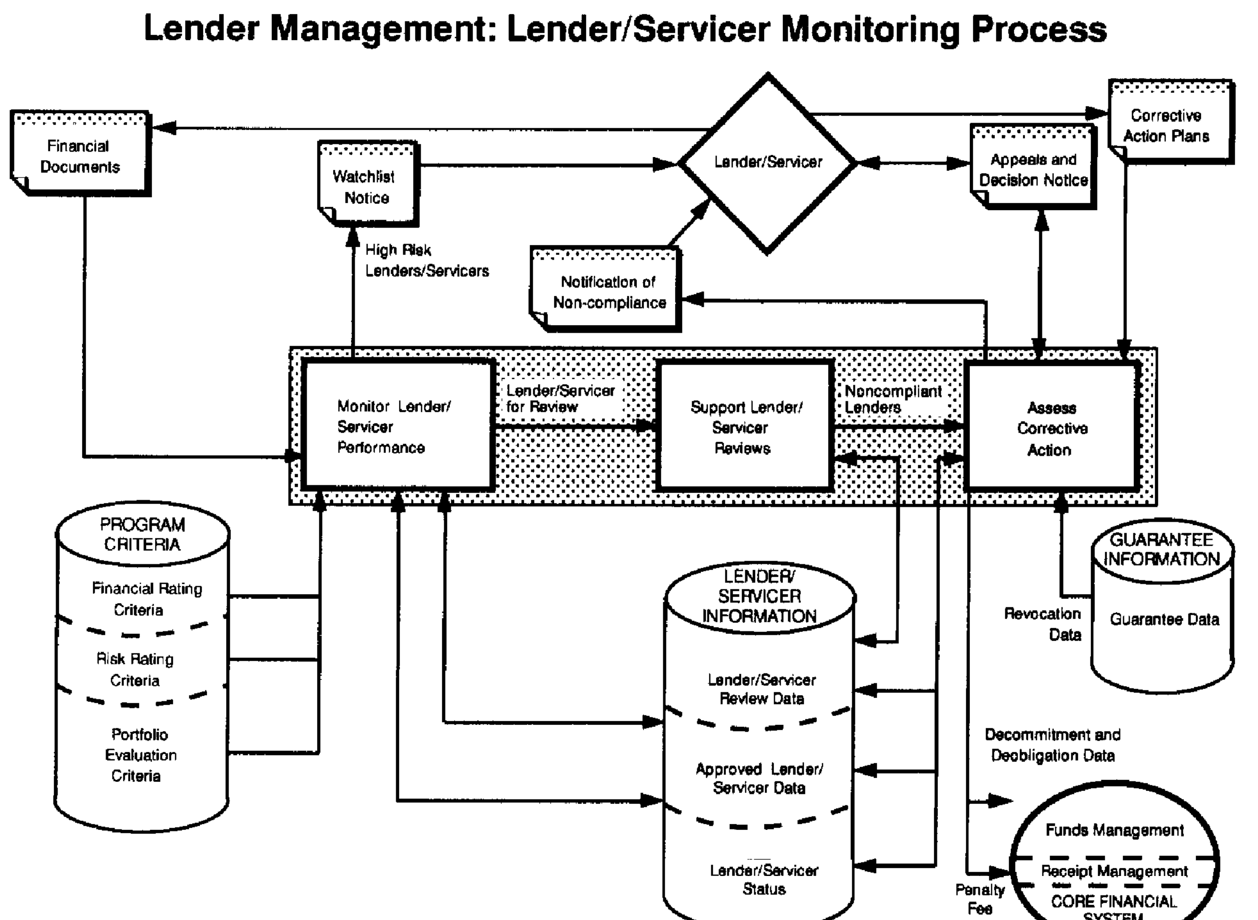

Illustration 7

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.

An automated system should:

- 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.
- Provide the capability to record lender/servicer financial data, including balance sheets, income statements, and lender profitability. These reports are used to determine the overall financial condition of the lender/servicer.
- 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).
- 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:

- Provide financial and historical information on lenders and servicers identified for review to the review team.
- 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:

- 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.
- 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.
- Document and track appeals received from the lender/servicer and agency appeal decisions and generate a decision notice to the lender/servicer.
- 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.
- Update the guaranteed loan information store to reflect the revocation of a guarantee and provide an automated interface with the Core financial system to record the decommitment of the guarantee and the deobligation of subsidy when a guarantee has been revoked.

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. 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 8 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

Overview of the Guarantee Extension and Maintenance Function of a Guaranteed Loan System

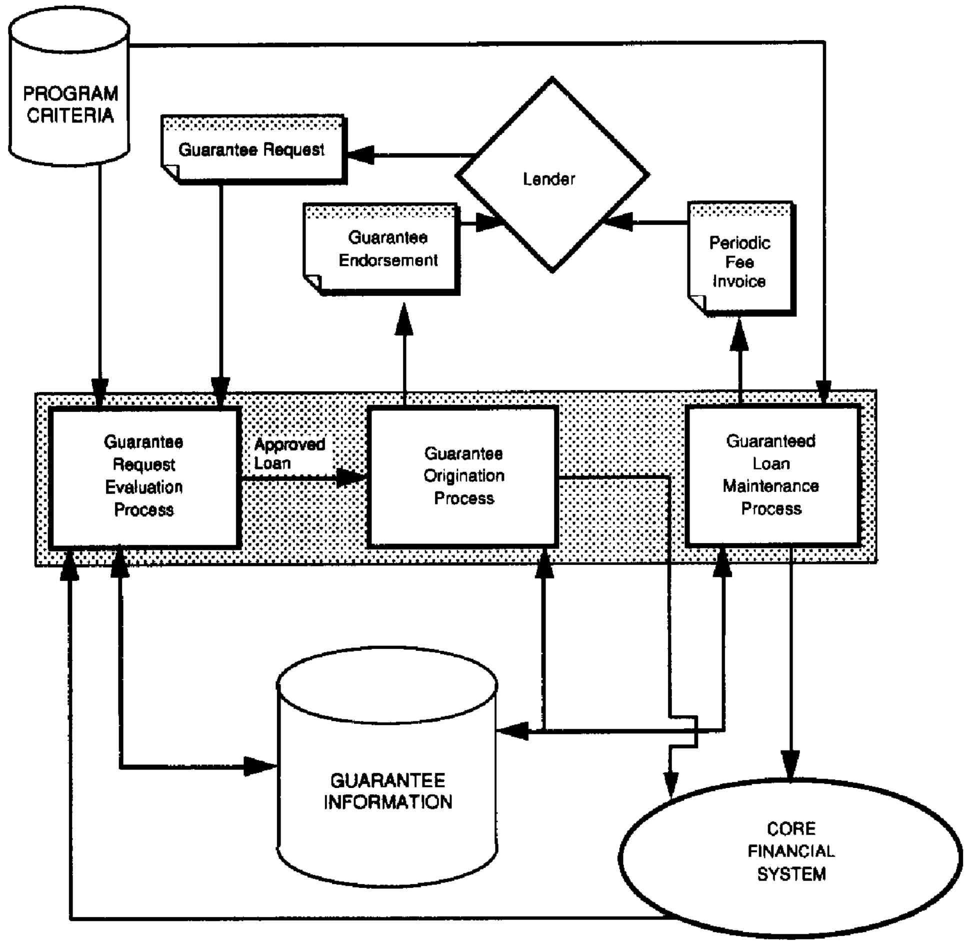

Illustration 8

In order to approve a guarantee request from a lender, agencies must verify the borrower's program eligibility and, where appropriate, creditworthiness. 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" that 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.

Guarantee Extension and Maintenance: Guarantee Request Evaluation Process

As shown in Illustration 9, 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

Guarantee Extension and Maintenance: Guarantee Request Evaluation Process

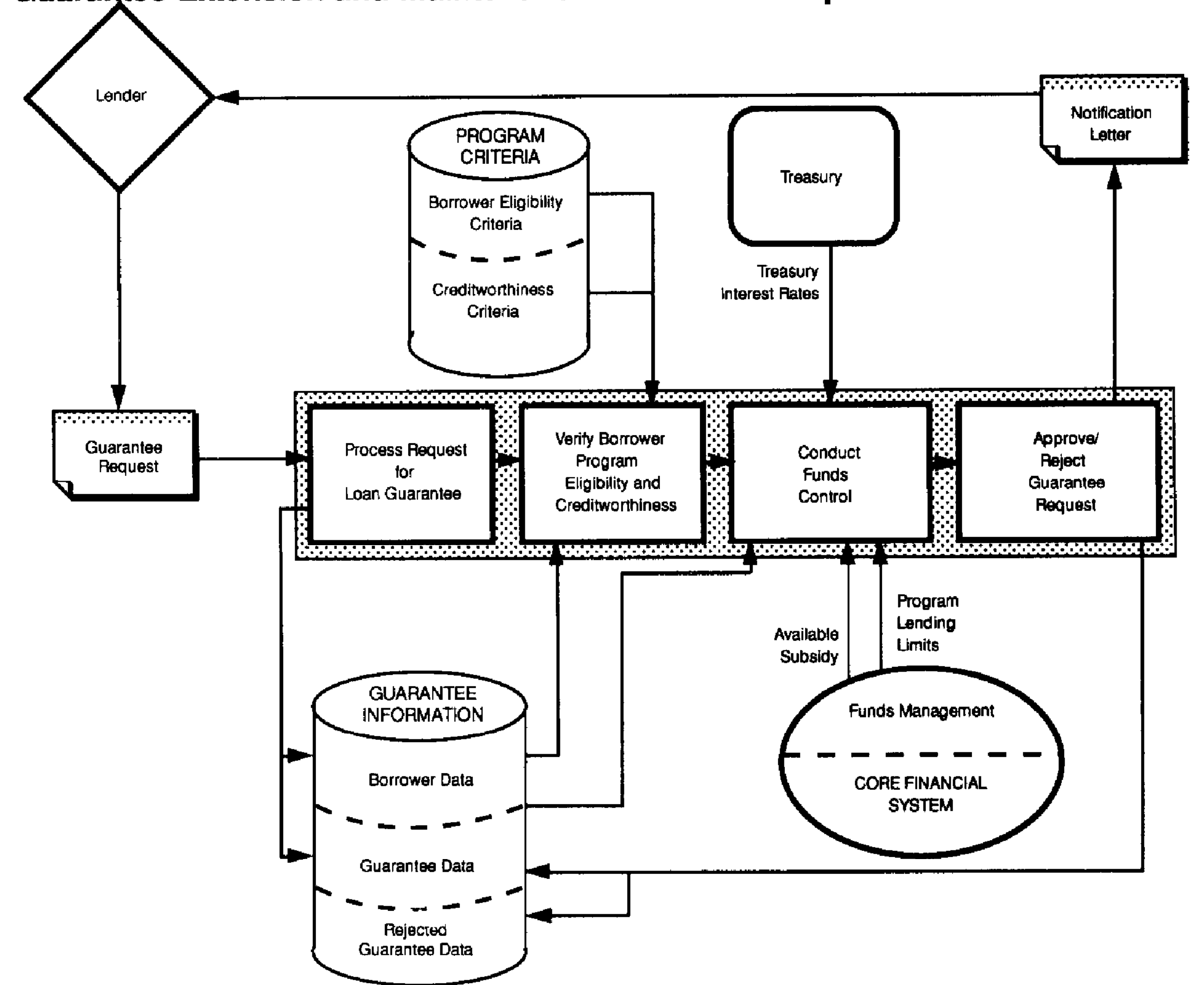

Illustration 9

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:

- 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.
- 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 should:

- 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 that the lender obtained a credit bureau report.
- Compare the applicant's creditworthiness information to system-stored program creditworthiness criteria and, where a program requirement, assign a credit risk rating to the applicant.
- Document that borrower financial data, repayment ability, and repayment history have been verified.
- Document whether the Credit Alert Interactive Voice Response System (CAIVRS) identified the applicant as a borrower who has previously defaulted on debt to the federal government. The system should not accept further processing if the lender's guarantee request does not have a CAIVRS authorization number.

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

An automated system should:

- Compute the credit subsidy amount associated with the guaranteed loan using projected cash flows and the applicable Treasury interest rate in accordance with OMB Circular A-34.
- 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:

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

Guarantee Extension and Maintenance: Guarantee Origination Process

After an agency has approved a guarantee, the guaranteed loan commitment 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 disbursement so the agency can perform the necessary accounting.

As shown in Illustration 10, the Guarantee Origination Process consists of the following major activities:

- Issue Loan Guarantee, and
- Document Lender Loan Disbursement

Guarantee Extension and Maintenance: Guarantee Origination Process

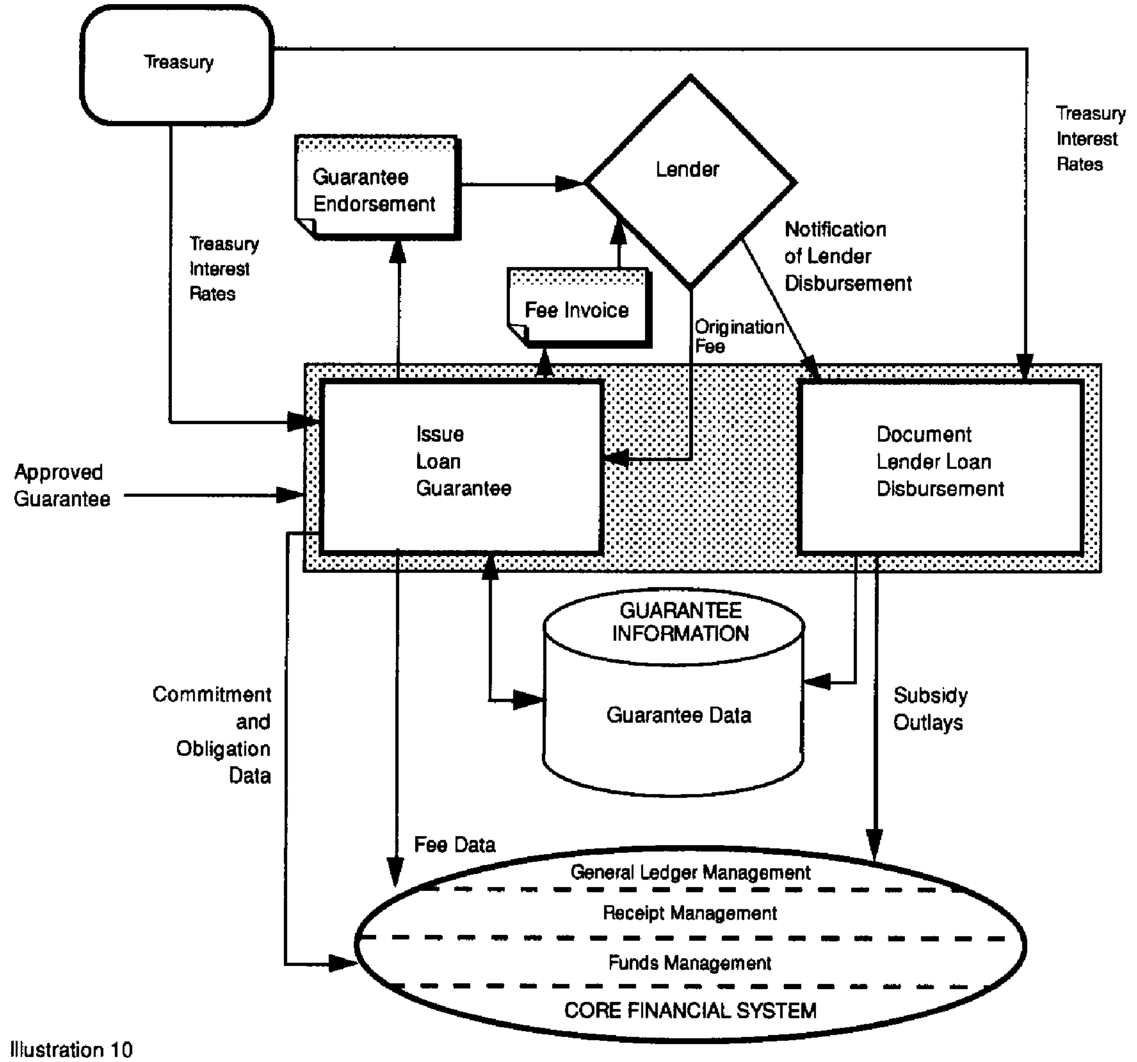

Illustration 10

Issue Loan Guarantee. This activity provides eligible lenders with federal loan guarantee and records the guarantee commitment 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:

- 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 appropriate).
- Calculate and record the guarantee origination fee in accordance with the terms and conditions of the guarantee agreement.
- If applicable, transmit the origination fee invoice to the lender (electronically where appropriate).
- Record collections of origination fees received.
- Record the applicable Treasury interest rate for the guaranteed loan at the time of commitment in accordance with OMB Circular A-34. This rate is used in subsidy rate calculations.
- 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.

Document Lender Loan Disbursement. This activity supports the receipt of notification that the loan has been disbursed and records the disbursement in accordance with OMB Circular A-34, Part VI.

An automated system should:

- Provide the capability to receive electronic transmission of disbursement data by the lender.
- Record information on loan disbursements by the lender, including amounts and applicable Treasury interest rates, to support interest computations and subsidy reestimates.
- Provide an automated interface with the core financial system to record the outlay of subsidy from the Program Account to the Financing Account related to the lender loan disbursement.

Guarantee Extension and Maintenance: Guaranteed Loan Maintenance Process

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 11, the Guaranteed Loan Maintenance process consists of the following major activities:

- Document Loan Modifications,
- Process Fees, and
- Record Interest Supplement Payments

Guarantee Extension and Maintenance: Guaranteed Loan Maintenance Process

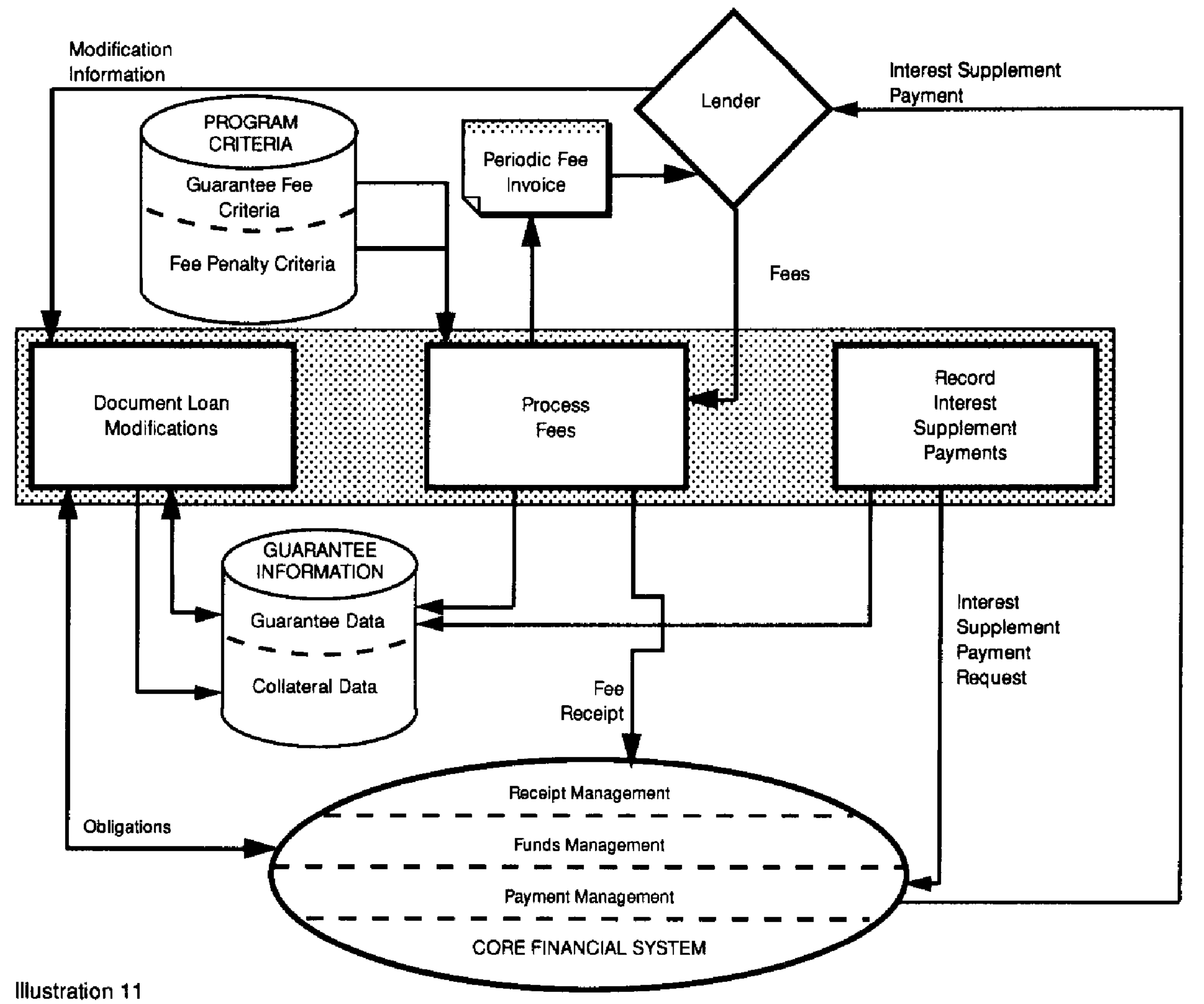

Illustration 11

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. 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:

- 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, where applicable.

An automated system should:

- Compare guaranteed loan data to guaranteed fee criteria to determine which lenders owe guarantee fees.
- Compute the amount of the guarantee fee.
- Compare guaranteed loan fee data to fee penalty criteria to identify those lenders with overdue fee payments.
- 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 appropriate).
- 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:

- 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 guarantees on 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 in accordance with the "Uniform Standards of Professional Appraisal Practice." The value of pledged collateral must be recognized in the guaranteed loan system at the time the guarantee is issued. The estimated useful life of the collateral must be longer than the loan maturity and the loan-to-value ratio should be less than 100 percent.

An automated system should:

- Capture the estimated useful economic life of the pledged collateral and compare it to the proposed term of the loan.
- Document that transactions over $100,000 have an appraisal prepared by a state-licensed or certified appraiser (or in accordance with more stringent appraisal requirements of the agency).
- Compute the loan-to-value ratio and flag those loans with a ratio exceeding 100%.

Internal Management Information Requirements

Listed below are internal management information requirements for the Guarantee Extension and Maintenance 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 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. 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 borrower applications for all loan types that were approved or rejected each day. This data summary is used by the agency to monitor approval activity.

- **Override Exceptions.** This summary identifies all 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.

General Requirements

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

Illustration 12 provides an overview of the Portfolio Management function. As shown, the Portfolio Management function consists of the following major processes:

- Portfolio Performance Process, and
- Program Financing Process

Overview of the Portfolio Management Function of a Guaranteed Loan System

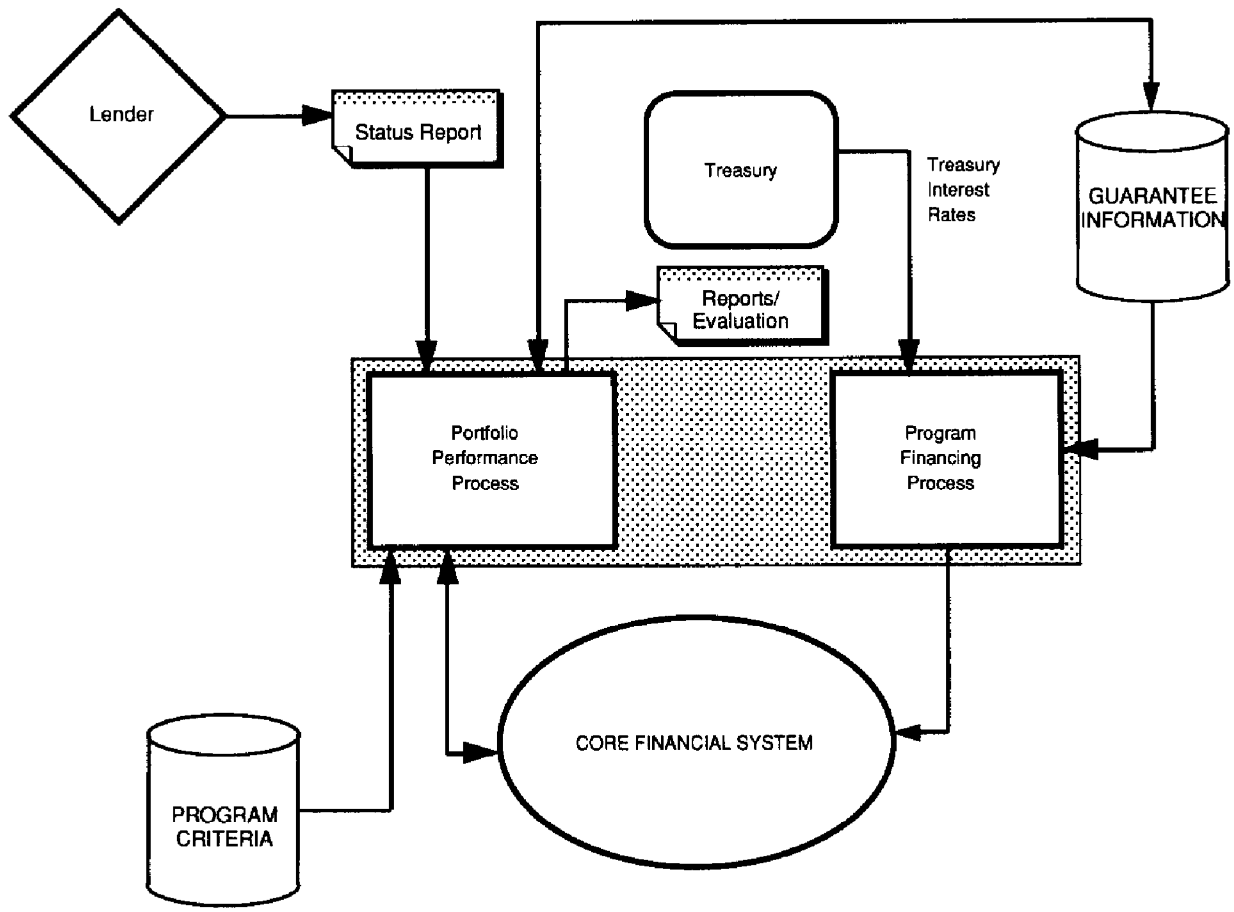

Illustration 12

Portfolio Management: Portfolio Performance Process

Agencies are responsible for ensuring the financial health of their portfolios, while achieving program objectives.

As shown in Illustration 13, the Portfolio Performance process consists of the following major activities:

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

Portfolio Management: Portfolio Performance Process

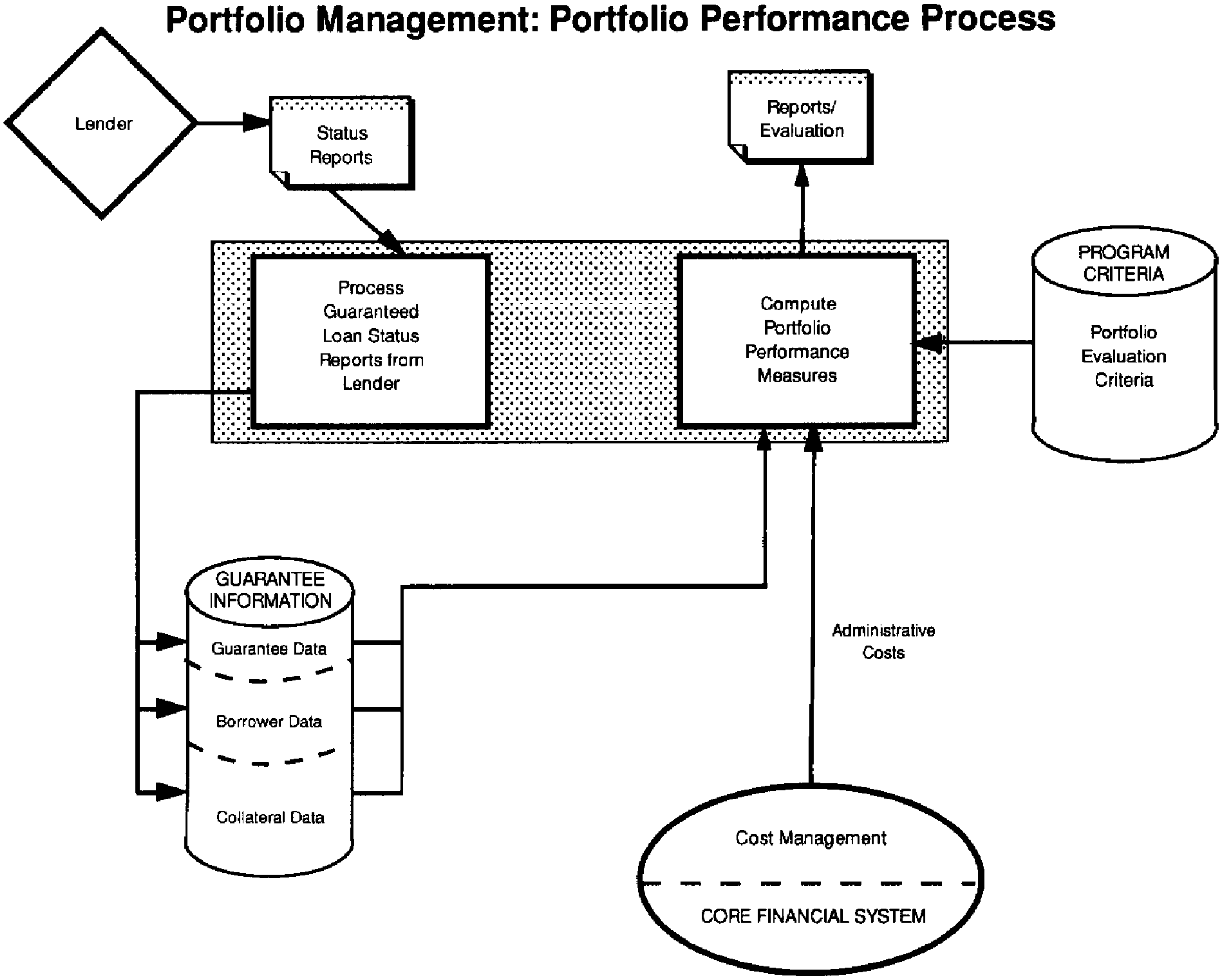

Illustration 13

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).
- Maintain data from the lender which identifies delinquent accounts and potential defaults.
- Accept lender data by cohort and risk category.
- Provide agency access to the loan status information.

Compute Portfolio Performance Measures. This activity supports portfolio reviews that allow agency management to evaluate overall agency program performance in relation to program goals. 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 trends such as:
  - Number and dollar value of loans made
  - Average loan size
  - Loans made by geographical region
  - Number and amount of defaulted loan accounts
  - 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 such as:
  - 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
- Compute and maintain efficiency measures 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

Portfolio Management: Program Financing Process

In accordance with the Federal Credit Reform Act 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 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 between the time of commitment and disbursement and changes in projected cash flows. 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 14, the Program Financing process consists of the following major activities:

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

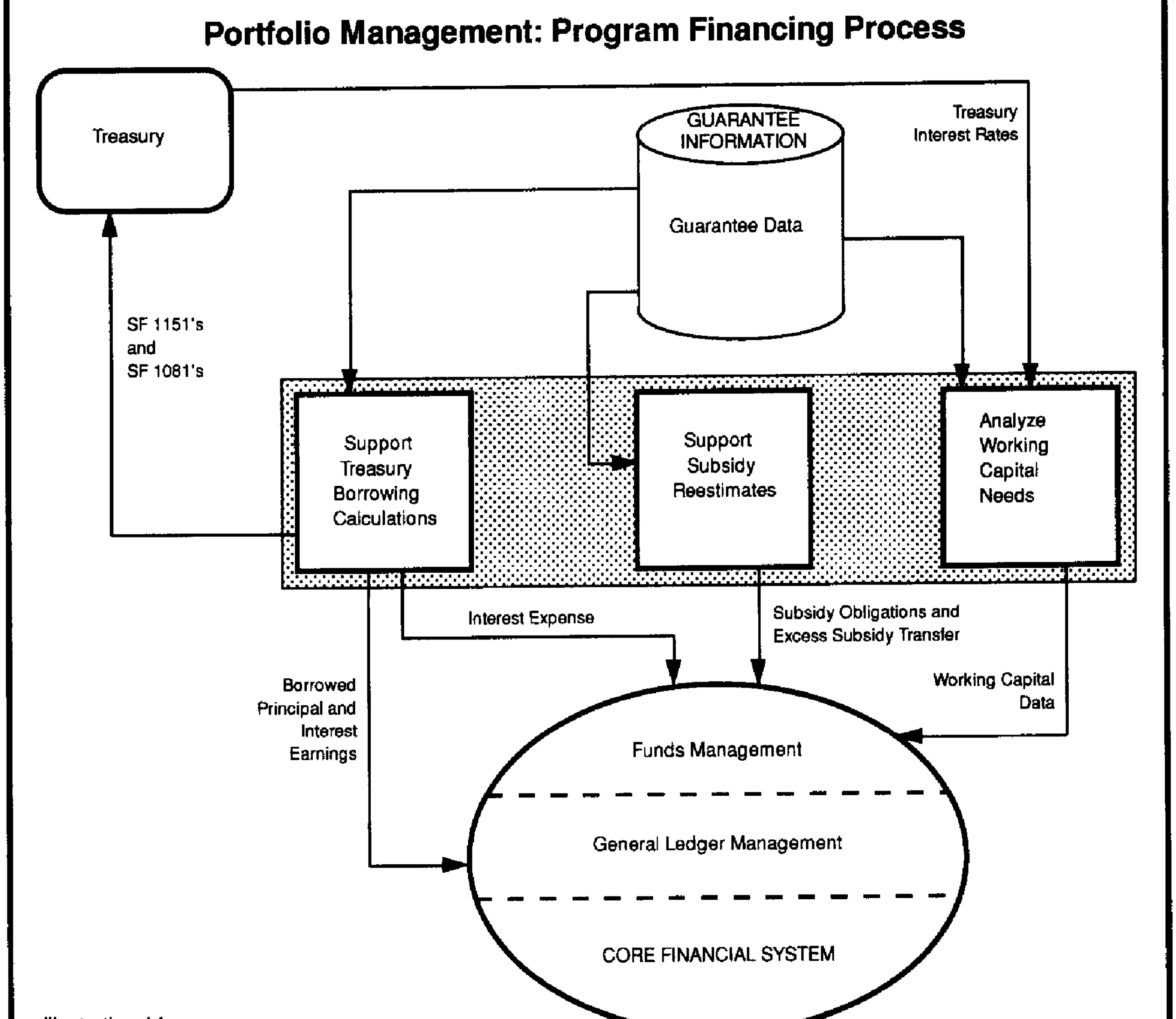

Illustration 14

Support Treasury Borrowing Calculations. The Federal Credit Reform Act 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. 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; however, together the systems 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 Reestimates. OMB Circular A-34, Part VI requires that the subsidy cost of a cohort of guaranteed loans be reestimated at the beginning of each fiscal year following the year in which the initial disbursement was made. The purpose of the reestimate is to make adjustments for changes of subsidy costs over the life of the loans. This activity examines the results of operations, by risk category and cohort, and adjusts loan guarantee subsidy costs between risk categories within a cohort and for the cohort as a whole to account for changes in cohort subsidy costs resulting from interest rate changes and cash flow changes.

An automated system should:

- Support the reestimate 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. The reestimate should be calculated in two parts:

  - The difference in the estimate resulting from changes in the applicable interest rates between the time of obligation and disbursement.

  - The difference in the estimate resulting from changes in the projected cash flows.

- Maintain cash flow data that permits comparison of actual cash flows each year (and new estimates of future cash flows) to the cash flows used in computing the latest loan subsidy estimate.

- Document the reasons for observed or expected changes in cash flows that result in a subsidy cost increase or decrease, and whether the changes in cash flows are expected to be temporary or permanent.

- Compare the current year reestimated subsidy cost to the latest year reestimated subsidy cost 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. Request 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.
- Provide an automated interface with the core financial system to record the transactions associated with subsidy reestimates.

Analyze Working Capital Needs. Working capital is the excess of current assets over current liabilities which an agency may elect to set aside in the Financing Account to finance the costs of foreclosing, managing, and selling loan collateral for collateralized programs. This activity assesses working capital data needs and provides for the maintenance and accounting for these funds in accordance with OMB Circular A-34, Part VI. System activities may be located in either the guaranteed loan system or the core financial system as appropriate.

An automated system should:

- Set aside funds to create and maintain the working capital cash balance in accordance with OMB guidance.
- Record costs incurred which are funded by working capital.
- Compute the amount of Treasury interest earned by working capital funds and provide this amount to 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. 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 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 are 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.

General Requirements

This section provides the governmentwide 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 direct loan systems.

Illustration 15 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 of a Guaranteed Loan System

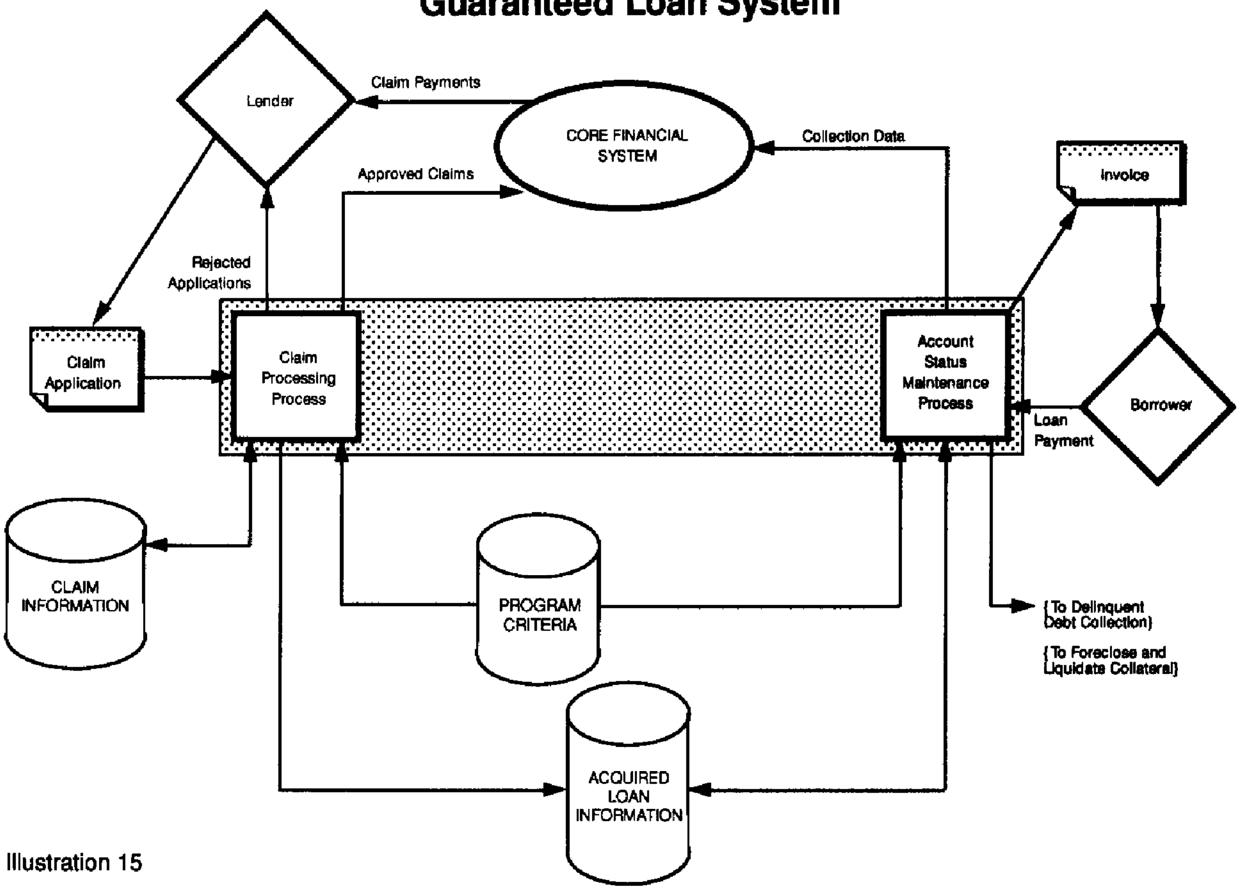

Illustration 15

Acquired Loan Servicing: Claim Processing Process

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 its loan servicing. 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 16, the Claim Processing process consists of the following major activities:

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

Acquired Loan Servicing: Claim Processing Process

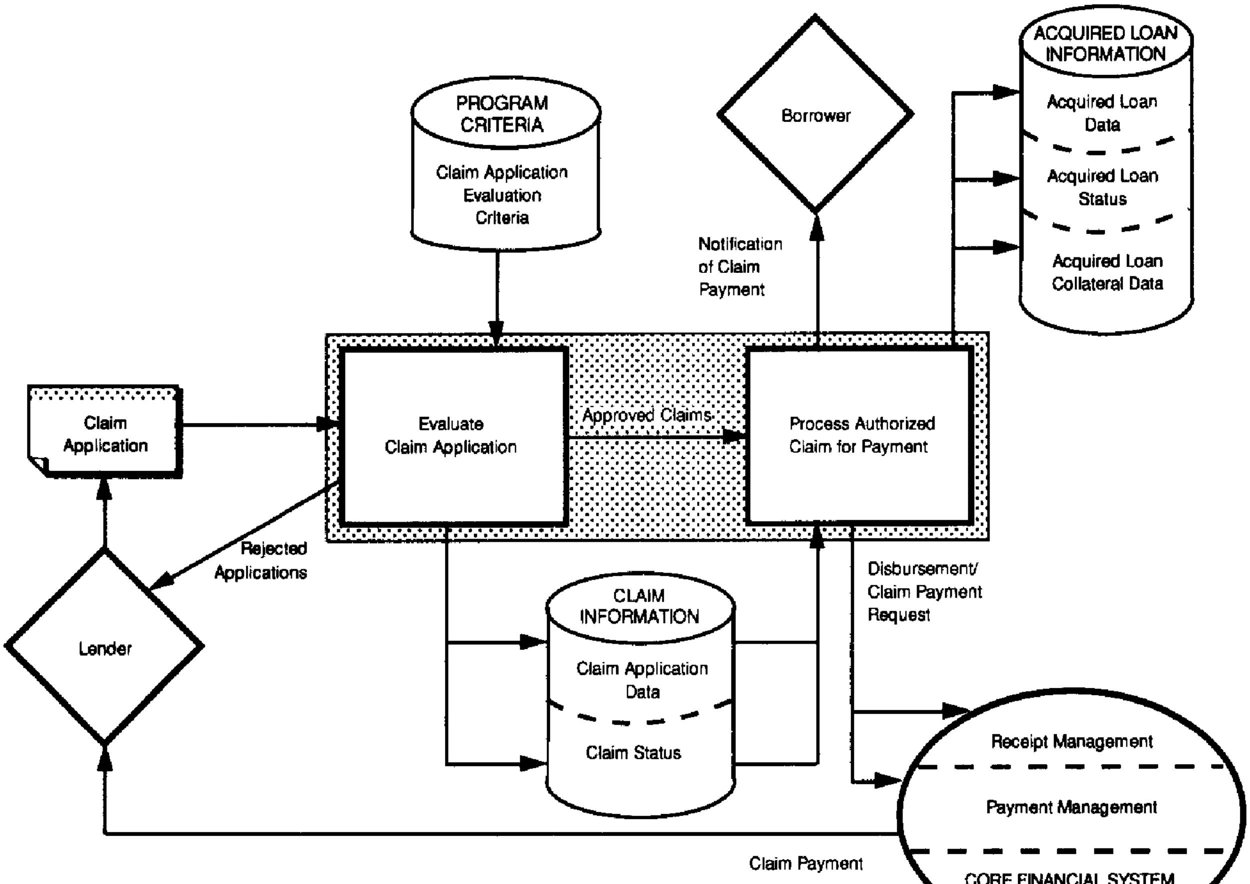

Illustration 16

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.
- 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 information on accepted and rejected claims and the reason for the rejections.
- Reflect the status of the claim.

Process Authorized Claim for Payment. This activity supports the payment of an approved guaranteed loan claim to the lender.

An automated system should:

- Calculate the claim payment to be made, making adjustments for any disallowed amounts.
- 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 and send summary data to the core financial system.
- Record acquired loan information and establish a receivable.
- Notify the borrower of the claim payment.

Acquired Loan Servicing: Account Status Maintenance Process

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 debits 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 17, the Account Status Maintenance process consists of the following major activities:

- Evaluate Delinquent Debtors for Collection Action,
- Invoice Debtor, and
- Apply Collections

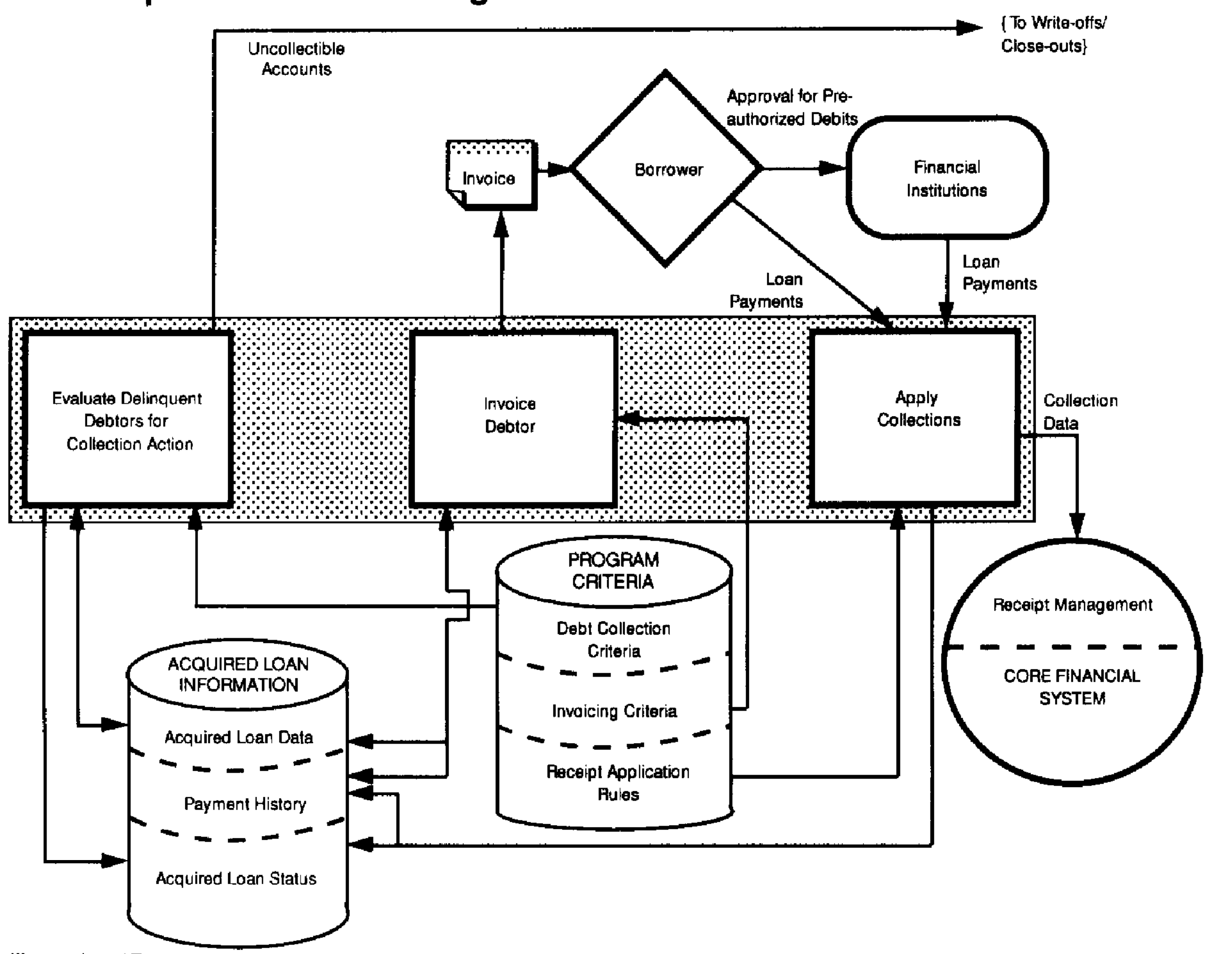

Illustration 17

Evaluate Delinquent Debtors for Collection Action. 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:

- Compare data on new receivables to program criteria for pursuing repayment.
- Compare debtor data against program criteria to assess the likelihood of repayment.
- Identify accounts that should be written-off.
- Identify accounts for which collection is to be pursued.

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 rescheduled installment payment notes based on an acceleration clause indicator.
- 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. Actual collection sources could include cash, check, or credit card.
- 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 the capability to compare borrower's pre-authorized debits received from financial institutions and other external sources to expected collections.
- 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 18 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/Liquidate Collateral Process

Overview of the Foreclose and Liquidate Collateral Function of a Guaranteed Loan System

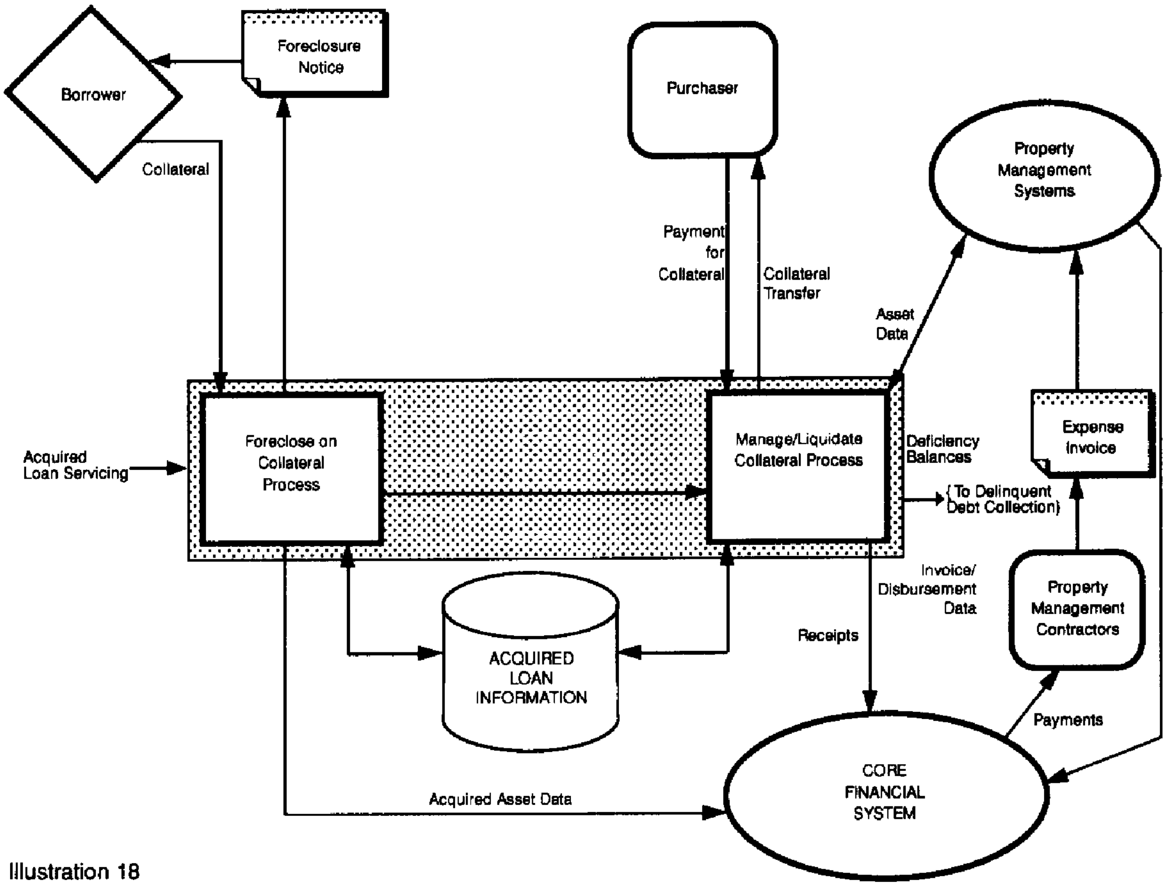

Illustration 18

Foreclose and Liquidate Collateral: Foreclose on Collateral Process

As shown in Illustration 19, the Foreclose on Collateral process consists of the following major activities:

- Prepare Foreclosure Materials, and
- Foreclose

Foreclose and Liquidate Collateral: Foreclose on Collateral Process

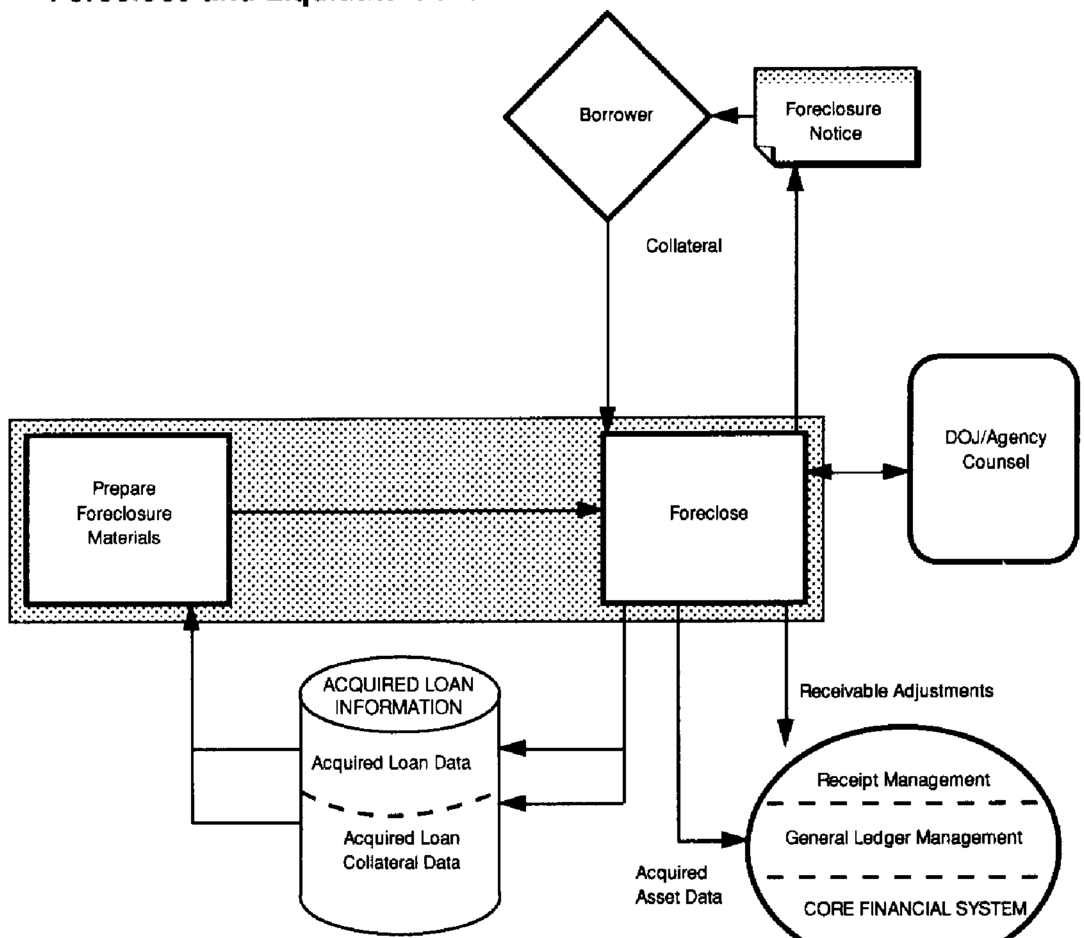

Illustration 19

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.

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, penalties, and administrative charges for each loan with collateral to be foreclosed.

Foreclose. Foreclosing includes monitoring the foreclosure process and recording the results.

An automated system should:

- Transmit a foreclosure notice to the borrower.
- Transmit information necessary for the foreclosure to the Department of Justice and/or agency Office of General Counsel, as applicable.
- 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.

Foreclose and Liquidate Collateral: Manage/Liquidate Collateral Process

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 20, the Manage/Liquidate Collateral consists of the following major activities:

- Manage Collateral, and
- Dispose of Collateral activities.

Foreclose and Liquidate Collateral: Manage/Liquidate Collateral Process

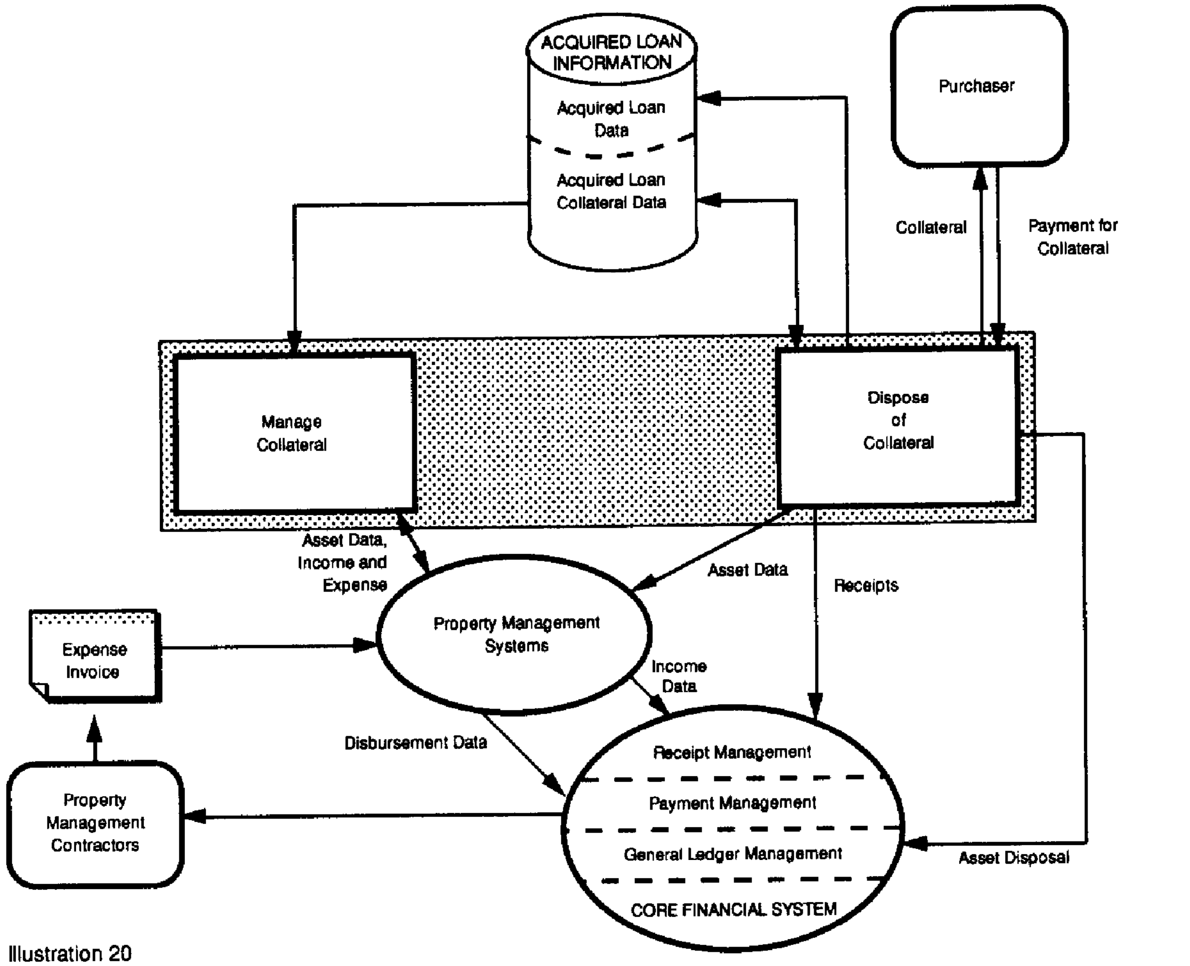

Illustration 20

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.

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 the 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

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.

General Requirements

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

Illustration 21 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

Overview of the Delinquent Debt Collection Function of a Guaranteed Loan System

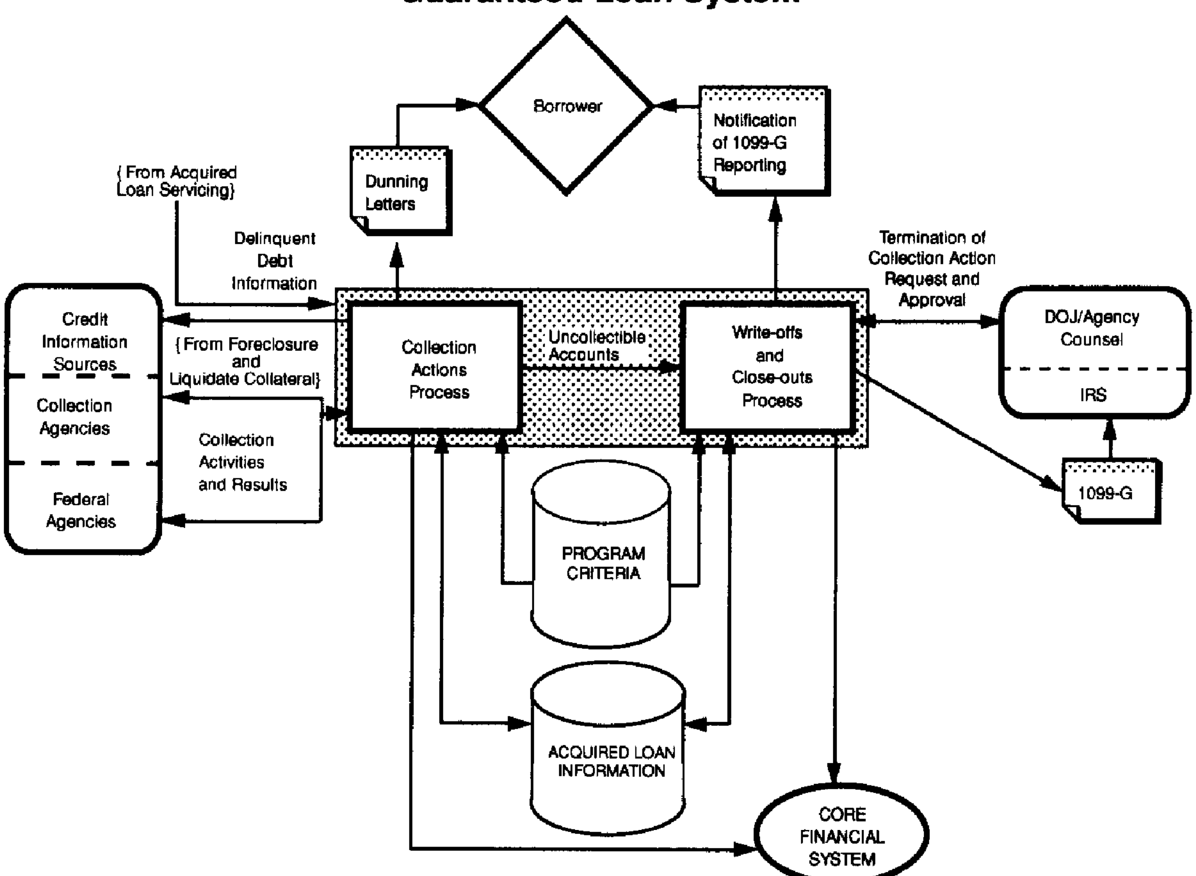

Illustration 21

Delinquent Debt Collection: Collection Actions 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.

As shown in Illustration 22, the Collection Actions process consists of the following major activities:

- Report Delinquent Debt,
- Contact with Debtor,
- Refer for Offset,
- Refer to Collection Agencies, and
- Refer for Litigation

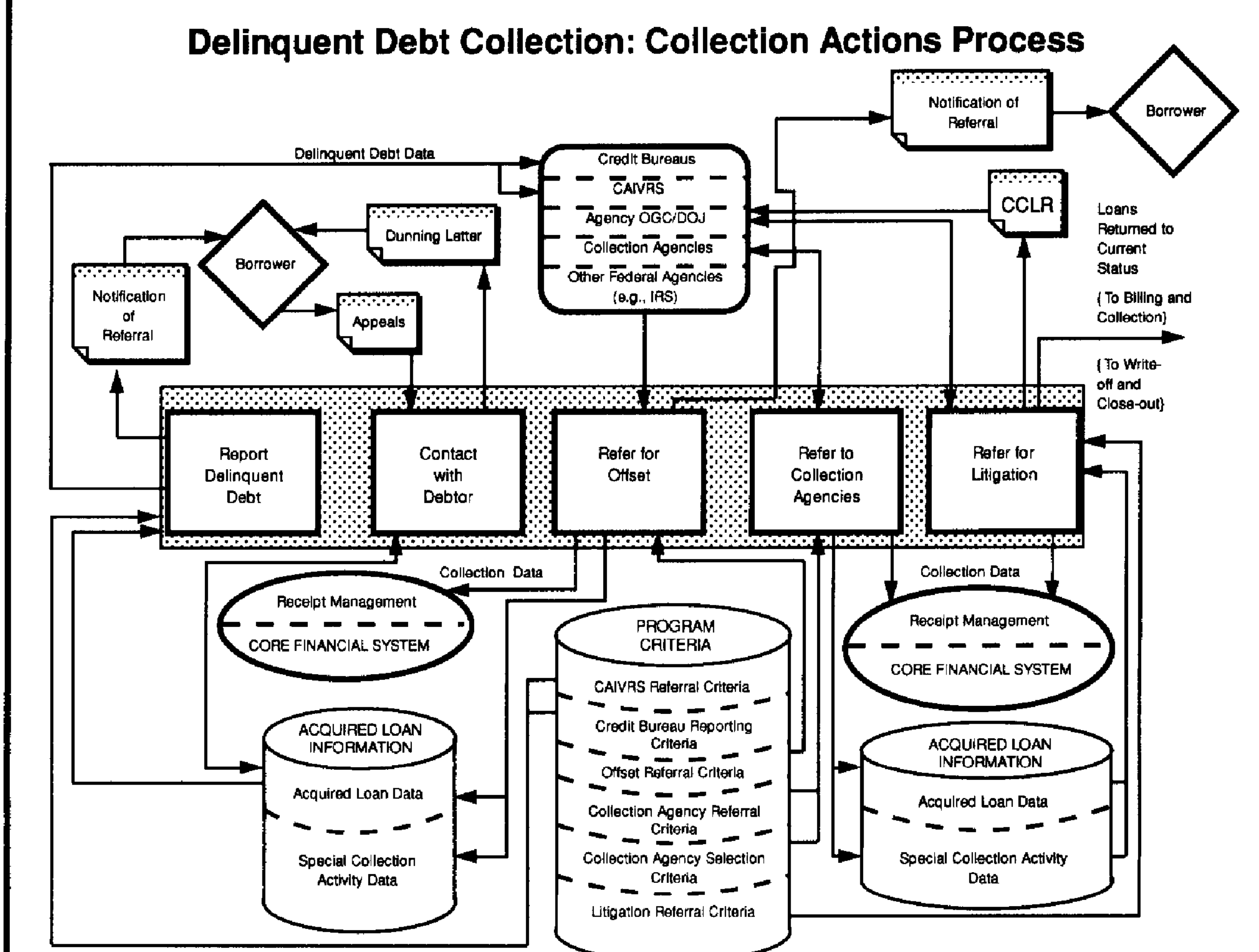

Illustration 22

Report Delinquent Debt. This activity reports selected delinquent account information to credit bureaus and to CAIVRS to indicate the delinquency status of a debt. Agencies must report all non-tariff and non-tax delinquent commercial and consumer accounts in excess of $100 to credit bureaus.

An automated system should:

- Identify delinquent commercial and consumer accounts for reporting to credit bureaus (preferably by electronic interface) and CAIVRS 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.
- Maintain a record of each account reported to credit bureaus to allow tracking of referred accounts.
- Prepare tapes, 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 Offset. OMB Circular A-129 requires agencies to collect delinquent debt using three types of offsets where appropriate: administrative offset, federal employee salary offset, and income tax refund offset. With an administrative offset, one agency requests another agency to reduce a pending payment to a debtor by the amount of delinquent debt owed to the first agency. The other federal agency processes the offset and remits the funds to the requesting agency. Administrative offsets are implemented in accordance with the Federal Claims Collection Standards. For the second type of offset, the salaries of federal employees who are delinquent on debts to the government (including partnerships and corporations if the debtor can be identified by social security number) may be offset to recover the amount owed. Under the Debt Collection Act of 1982, as amended, up to fifteen percent of an employee's disposable pay may be offset each pay period. Finally, income tax refund offsets permit agencies to recover delinquent debt through offset of any tax refunds due the delinquent debtor.

This activity refers delinquent loan accounts to the appropriate entity for offset, records subsequent collections, and updates loan status.

An automated system should:

- Compare delinquent account data to agency program offset referral criteria to identify accounts eligible for federal tax refund offset, federal employee salary offset, or administrative offset.
- Calculate outstanding interest, penalties, and administrative charges for each loan account eligible for offset.
- Generate debtor due process notices of intent to implement an administrative offset, tax refund offset, or salary offset.
- Generate files of delinquent loan account data on loans meeting referral criteria for each offset type and electronically transmit to the IRS for federal tax refund offset matching, to DOD for salary offset matching, and to other agencies which make disbursements for administrative offset matching.
- Generate salary offset requests to employing agencies for delinquent borrowers identified as federal employees.
- Update the acquired loan information store to reflect offset referral status.
- Accept matched/unmatched account data and update the acquired loan information store to incorporate data received from IRS, DOD, employing agencies, or other agencies.
- Match offsetting agency delinquency collection listings and totals with agency records and deposit data.
- Update the acquired loan information store to reflect receipts, adjustments, and status changes.
- Interface with the core financial system to record collections by offset.

Refer to Collection Agencies. This activity determines and refers delinquent loan accounts to collection agencies for collection. OMB Circular A-129 requires that all accounts that are six months or more past due must be turned over to a collection agency unless the accounts have been referred to the Department of Justice (DOJ) for litigation, or are eligible for the federal salary or administrative offset programs. However, agencies may use collection agencies at any time after the account becomes delinquent.

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 acquired 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. OMB Circular A-129 requires agencies to refer delinquent accounts to the Department of Justice, 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 acquired 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 *Treasury Financial Manual* describe effective write-off and close-out procedures for delinquent loan accounts.

As shown in Illustration 23, 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

Delinquent Debt Collection: Write-offs and Close-outs Process

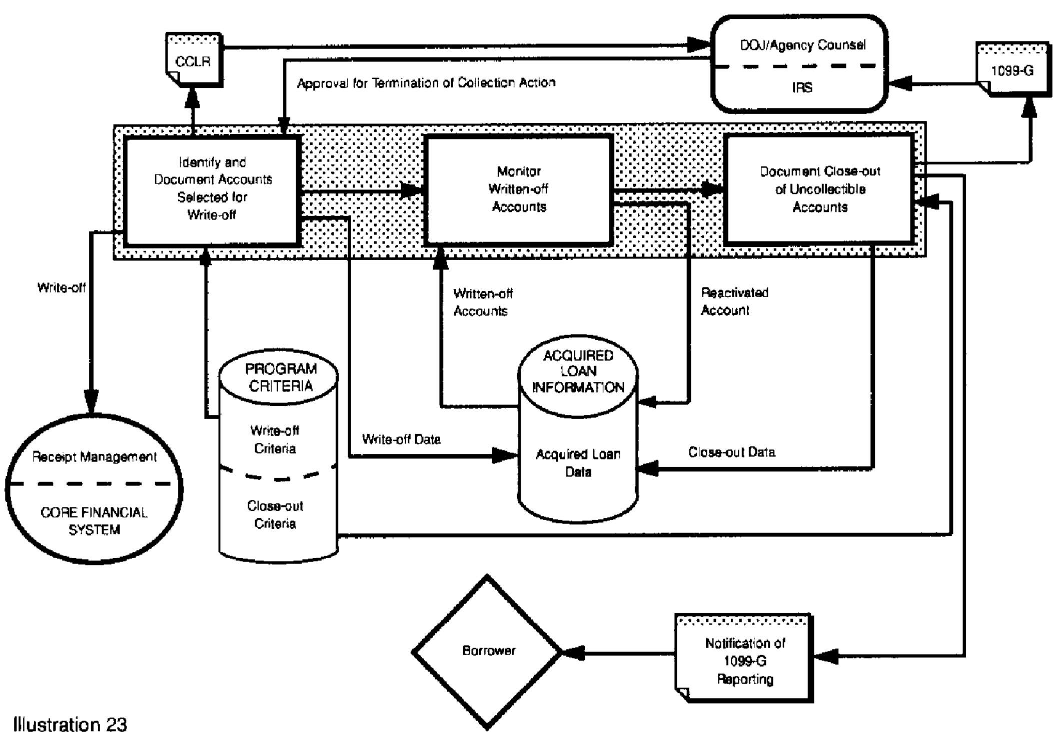

Illustration 23

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 $100,000 require approval of the Department of Justice.

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 Department of Justice for approval of termination of collection action. Update the loan status to reflect the referral.
- Update the acquired loan information store to reflect approval or disapproval by agency counsel or the Department of Justice for termination of collection action.
- Update the acquired 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 $600 must be reported to the IRS on Form 1099-G. When a debt is reported, the IRS will match the agency's Form 1099-G 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-G reporting.
- Generate a letter to the debtor to inform the debtor of the intended submission of the 1099-G to the IRS.
- Prepare and send a Form 1099-G to the IRS if the debtor has not responded within the required time period.

- Update the acquired loan information store to reflect receipts, adjustments, and other status changes, including rescheduling, compromise, and other resolution decisions.
- Retain electronic summary records of closed 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.

Other Reporting Requirements

This chapter provides requirements for two types of reporting:

- Transaction History
- External Reporting Requirements.

Transaction History

The guaranteed loan system must be capable of producing a complete transaction history of the 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 of 1990 and the Chief Financial Officers 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. The reports are presented below.

Title	*Form*	*Purpose*	*Level*	*Frequency*	*Guidelines*
Apportionment and Reapportionment Schedule	SF-132	Request for and status of apportionments and reapportionments	Appropriation/Fund Account (Liquidating Fund)	Initial/As required	OMB Circular A-34
Apportionment and Reapportionment Schedule	SF-142	Request for and status of apportionments and reapportionments	Appropriation/Fund Account (Program and Financial Funds)	Initial/As required	OMB Circular A-34
Report on Budget Execution	SF-133	Report on utilization and status of budget resources	Appropriation/Fund Account (Liquidating Fund)	Monthly/ Final	OMB Circular A-34
Report on Budget Execution	SF-143	Report on budget resources available	Appropriation/Fund Account (Program and Financial Funds)	Monthly/ Final	OMB Circular A-34
Report Guaranteed Loans	SF-220-8	Report on the status of guaranteed loans	Supporting form for SF-220	Quarterly/ Annually	1 TFM 2-4100
Information Returns	1099-G	Provide information to the IRS on discharged debts	Taxpayer identification number	Annually	IRS instructions for Forms 1099, 1098, 5498, and W-2G

Other Reporting Requirements

Other system outputs are described in the Functional Requirements chapter. These include items such as letters and invoices to lenders and borrowers, SF-1151's and SF-1080's used in Treasury borrowing, and delinquent debt information sent to credit bureaus, collection agencies, and the Department of Justice.

Requests for copies of JFMIP reports should be sent to:

Joint Financial Management Improvement Program
666 11th Street NW, Suite 320
Washington, DC 20001-4542

Telephone (202) 512-9209
Fax (202) 512-9593

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