Credit Reform:
Cash Flows for Direct Loans and for Loan Guarantees

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

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

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

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

3. The $20 subsidy is outlayed to the financing account at the time the $100 loan is disbursed to the borrower. Simultaneously, the financial account borrows the additional $80 needed to make the $100 loan from the U.S. Treasury (Treasury).

4. The borrower pays fees, interest, and principal to the financing account under the terms of the loan.

5. The financing account makes payments to the Treasury over time on the $80 portion of the loan. If the subsidy rate is accurate, the loan repayments (and other payments) to the financing account will be exactly the amount necessary to repay the original amount of $80 borrowed from the Treasury plus interest.

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

    a. an additional subsidy will be disbursed from the program account to the financial account, to cover the amount of the reestimate, or

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

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

1. Congress appropriates $20 in subsidy BA to the program account.

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

3. The lending institution lends a 75 percent government-guaranteed $100 loan to the borrower. When the loan is disbursed, $20 in subsidy BA is outlayed to the

financing account. The borrower pays a 2 percent upfront fee to the agency, which is deposited into the financing account.

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

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

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

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

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

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

For additional examples and details, see OMB Circular A-11, Part 5, Federal Credit ***(http://www.whitehouse.gov/omb/circulars/a11/current_year/s185.pdf).*** Guidance for the SF 133, Report on Budget Execution and Budgetary Resources, and further explanation may be found at ***http://www.whitehouse.gov/omb/circulars/a11/current_year/app_f.pdf*** and ***http://www.whitehouse.gov/omb/circulars/a11/current_year/s130.pdf*** . The text of the Credit Reform Act of 1990, as amended, is found at **http://www.fms.treas.gov/ussgl/creditreform/fcra.html** .