

VA Financial Policies and Procedures
Treasury Debt Borrowing

CHAPTER 5

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0501 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures for Treasury debt borrowing. VA has approved programs for direct loans and guaranteed loans and Congress provides permanent indefinite appropriations and borrowing authority for certain program outlays. VA's debt liability primarily consists of Treasury borrowings related to the Direct Loan and Loan Guaranty Program. Other debt liability situations may arise under special financing authorities provided to VA, where Treasury borrowings are necessary to finance program operations.

VA's authority to borrow is a statutory authority permitting VA to incur obligations and make payments for specific purposes from borrowed funds. This authority adds funds to VA's accounts in Treasury only after VA actually uses the authority to borrow a specific amount of funds. The authority to borrow is included in the Fund Balance with Treasury account only to the extent that funds are actually borrowed under the authority. VA recognizes debt liabilities in its financial statements in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Assets and Selected Liabilities*.

This chapter relates primarily to Treasury borrowing for the Direct Loan and Loan Guaranty Program. Additional information on this program is contained in Volume V, Chapter 5, *Loans Receivable*, and Volume VI, Chapter 6, *Liabilities for Loan Guarantees*.

050101 ACTIONS FOR TREASURY DEBT BORROWING. VA will borrow funds from the Treasury for the Direct Loan and Loan Guaranty Program, as authorized under the Federal Credit Reform Act (FCRA) of 1990 and as prescribed by OMB Circular A-11, Part 5, Section 185. VA will use financing accounts to record the borrowing authority. VA will accrue interest on its Treasury debt, paying for such interest through additional borrowed funds, if necessary.

050102 AMOUNTS TO RETURN TO TREASURY. VA will monitor cash balances in financing accounts throughout the fiscal year, preparing a report at yearend that indicates how much excess cash exists for return to Treasury. VA's Office of Budget and Office of Finance will concur on the proposed return amount prior to submission to Treasury.

050103 FINANCIAL RECORDING, REPORTING AND DISCLOSURE OF TREASURY DEBT BORROWING. VA will record, report and or disclose direct loan and guaranteed loan information as appropriate to the elements identified including exchange, intra-governmental, and interest.

0502 POLICIES

050201 ACTIONS FOR TREASURY DEBT BORROWING. VA will borrow funds from the Treasury for the Direct Loan and Loan Guaranty Program, as authorized under the FCRA of 1990 and as prescribed by OMB Circular A-11, Part 5, Section 185.

A. VA will establish a loan agreement with the Bureau of the Public Debt (BPD) for the designated Financing Account receiving the borrowed funds from Treasury.

B. VA will borrow funds from Treasury, as necessary, to pay for the direct loan obligations or loan guarantee commitments entered into per the loan agreement. VA will pay back the loan principals with interest. If necessary, VA may further borrow to pay the interest cost.

050202 AMOUNTS TO RETURN TO TREASURY.

A. VA will return any apportioned, but unobligated, borrowing authority (excess cash balance) in the financing account at the end of each fiscal year.

B. VA will authenticate actual cash balances and calculation amounts reported during the fiscal year and will record transfers in the accounting system, reviewing the results prior to submitting the information into the Governmentwide Accounting and Reporting Modernization (GWA) Project.

050203 FINANCIAL RECORDING, REPORTING AND DISCLOSURE OF TREASURY DEBT BORROWINGS.

A. VA will record debt arising from direct loan and loan guarantee programs as "exchange" transactions and classify such debt as covered by budgetary resources. VA will report debt owed to Treasury as intra-governmental.

B. VA will process borrowing from Treasury and repayment to Treasury as nonexpenditure transfers (NETs). VA will report its borrowing transactions to the BPD through GWA, as well as repayments of principal to Treasury.

C. VA will calculate the interest amount to be paid on its Treasury borrowing. VA will make actual interest payments via the Intra-Governmental Payment and Collection (IPAC) System, recognizing the interest. Interest accrued on debt to Treasury will be recognized as interest expense.

D. VA will disclose information related to the Statements of Budgetary Resources in the notes to the financial statements.

0503 AUTHORITY AND REFERENCES

050301 2 U.S.C. Chapter 17A, Subchapter III, Credit Reform

050302 Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 1, Accounting for Selected Assets and Liabilities

050303 FASAB, SFFAS No. 2, Accounting for Direct Loan and Loan Guarantees

050304 FASAB, SFFAS No. 5, Accounting for Liabilities of the Federal Government

050305 Office of Management and Budget (OMB) Circular A-11, Preparation, Submission and Execution of the Budget

050506 OMB Circular A-11, Part 5, Federal Credit, Section 185

050307 OMB Circular A-136, Revised, Financial Reporting Requirements

050308 OMB Memorandum M-07-03, Business Rules for Intra-Governmental Transactions

050309 Treasury Financial Manual (TFM), Vol. I, Bulletin 2007-03, *Intra-Governmental Business Rules*

050310 I TFM 2-4600, Treasury Reporting Instructions for Credit Reform Legislation

050311 Department of the Treasury, United States Standard General Ledger (USSGL)

050312 Department of the Treasury, USSGL, Credit Reform Accounting

050313 OF Bulletin 09GA1.01, Financing Account End of Year Transfers of Excess Cash (rescinded and incorporated into Paragraph 050502 in this chapter)

0504 ROLES AND RESPONSIBILITIES

050401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

050402 All Under Secretaries, Assistant Secretaries and other key officials have the responsibility to implement financial policies and procedures established by the CFO, including compliance with the policies and procedures set forth in this chapter.

0505 PROCEDURES

050501 ACTIONS FOR TREASURY DEBT BORROWING. VA has the statutory authority for borrowing funds from the Treasury for the Direct Loan and Loan Guaranty Program, as authorized in the FCRA of 1990 and as prescribed by OMB Circular A-11, Part 5, Section 185. Under FCRA, the subsidy portion of direct loans is financed by appropriations, while the unsubsidized portion of the loans, which equals the present value of the Government collections from the borrowers, is financed with funds borrowed from Treasury.

A. Establishment of Loan Agreements with Treasury.

1. VA will contact Treasury's Bureau of the Public Debt (BPD) to establish a loan agreement for the specific Financing Account [Name and Treasury Account Symbol (TAS)]. BPD's Chief Counsel will coordinate a legislative review of VA's borrowing authority to determine whether the standard Federal Credit Reform Agreement may be used or if there are any exceptions or conditions to the borrowing agreement as a result of legislation or otherwise. If a condition or exception exists, a nonstandard original agreement may be required.

2. The agreement will be reviewed, approved and signed by an authorized VA official and by the Assistant Commissioner of the Office of Public Debt Accounting. The agreement is not valid until the signatures are obtained.

B. Borrowing of Funds and Financing Accounts (see Appendix A). The FCRA of 1990 provides financing accounts with indefinite borrowing authority from Treasury, subject to apportionment. Annually, VA will borrow from Treasury an amount reflective of the estimated yearly requirements based on figures used to calculate the subsidy appropriation, unless better estimates are available (refer to Volume VI, Chapter 6, *Liabilities for Loan Guaranties*) and another borrowing is initiated (during the fiscal year) for any additional amount. VA may also borrow funds to meet default claims in excess of the loan guarantee financing account's cash balance, negative subsidy in advance of expected collections from the public, or downward subsidy reestimates.

1. To the extent permitted by law, Treasury will advance requested amounts to the specific Financing Account, as authorized by Section 505 (c) of the Congressional Budget Act of 1974, as amended by the FCRA (see 050301), based on direct loan obligations or loan guarantee commitments entered into by VA per the above agreement.

2. VA will pay back to Treasury the sums advanced, with annual interest thereon, per Agreement. Payments will be made from any proceeds of portfolio loan collections, funding fees and the sale of loans to Vinnie Mac trusts. If VA lacks sufficient funds to make its annual interest payment to Treasury at year end, VA should initiate an additional borrowing on the last business day of the fiscal year to make the interest payment. This additional borrowing will alleviate the recalculation of the interest payment due to Treasury and the amount of interest on any uninvested funds.
3. VA will return any apportioned but unobligated borrowing authority in the financing account at the end of each fiscal year to reduce any excess balance held, or the excess funds may be used to make an early repayment of principal at any time. VA may also carry forward amounts of borrowed, but undisbursed, funds held in financing accounts to the next fiscal year only if they are disbursing loans from the specific cohort, which refers to the direct loans obligated or loan guarantees committed by a program in the same year, even if disbursements occur in subsequent years. Refer to section 050502, Amounts to Return to Treasury, for additional information.
4. VA may reset the cohort interest rate once per cohort after the cohort is 90 percent or more disbursed. When the cohort interest rate is reset, VA will reset the interest rate on any amount carried forward to equal the interest rate applicable to the next fiscal year. VA may use the balances in future years (subsequent to the year of the original obligation) only to partially finance the disbursement of loans in the same cohort for which the borrowing was originally made. In accordance with OMB Circular A-11 Section 185.19, additional amounts for financing accounts, such as interest payments to Treasury, are automatically apportioned. Debt repayments are not obligations and do not require apportionment.
5. When the cohort has finished borrowing to make disbursements, VA may consolidate all of the Treasury borrowing related to the cohort to obtain a single maturity date.
 - a. All Treasury borrowing should mature on the final year of the cohort; however, if a cohort contains borrowing with multiple maturity dates, VA may request a consolidation.
 - b. The maturity date for the Treasury borrowing is based on the time period used in the subsidy calculation, not the contractual term of VA's or the private lender's loan to the borrower. The time period used for the subsidy calculation normally exceeds the contractual term of the loan to the borrower. Borrowings from Treasury mature on September 30 of the estimated final year of the cohort. If the estimated final date of the cohort is other than September 30, the associated Treasury borrowing matures on the following September 30.
 - c. VA will send a letter requesting the cohort consolidation to BPD by the last business day of the fiscal year when the cohort has finished disbursing its loans. The letter will include the balances and maturity dates to be consolidated and the new maturity date

for the related borrowings. The new maturity date will remain within the original maturity interval established for the cohort. VA may prepay all or part of a Treasury borrowing without penalty.

050502 AMOUNTS TO RETURN TO TREASURY

A. VA will return excess cash balances within the Financing Accounts to Treasury at the end of the fiscal year. Specifically, the Veterans Benefits Administration (VBA) will execute end-of-year transfers, using GWA, after calculating excess cash balances based upon cash on hand minus unpaid obligations and projected future obligations through year-end at the end of September. VBA has implemented a Loan Guaranty Service Cash Balance database to track daily estimated cash requirements.

B. Prior to the execution of GWA transfers during the period October–August of each fiscal year, VBA will authenticate actual balances and calculation amounts as reported in VA's financial accounting system and the Management Information Exchange (MINX) system. VBA will record the transfers in the accounting system and will review results within MINX before processing transactions in GWA.

C. For GWA transfers in the month of September, VBA will submit a report to VA's Office of Budget and the Office of Finance for concurrence for each Financing Account showing the following calculation:

Cash On Hand, 8/31/XX		Unpaid Obligations, 8/31/XX
+ Estimated September Collections	-	Estimated September Obligations
Total Estimated Cash, 9/30/XX		Total Estimated Cash Disbursements, 9/30/XX

= Total Proposed Cash Returned to Treasury

1. VBA will submit the report on September 15 (or the first business day after the 15th) and will include copies of the proposed GWA transfers.
2. VBA will report the cash position of the accounts (as reported in MINX and FMS) to the Office of Budget and the Office of Finance 4 business days prior to the end of the fiscal year, on the day of the transaction, the day after the transaction and by 10 a.m. on the final day of the fiscal year.

050503 FINANCIAL REPORTING AND DISCLOSURE OF TREASURY DEBT BORROWINGS.

A. Accounting for Treasury Debt Borrowing.

1. VA will classify Treasury actions covered by budgetary resources.

2. VA will report debt owed to Treasury as intra-governmental.

B. Recording of Principal Transactions. VA will report its transactions to the BPD through GWA for both borrowings from and repayments of principal to Treasury. By October 20 of the current fiscal year¹, VA will submit an initial borrowing transaction through GWA along with its current fiscal year borrowing estimate. VA will also submit any additional borrowings by the last business day of the month in which the funds were needed.

1. All borrowing from Treasury is effective on October 1 of the current fiscal year, regardless of when VA actually borrowed the funds, except for funds borrowed at the end of the fiscal year to make an annual interest payment. Borrowings for annual interest payments are effective September 30. For repayments, the effective date equals the date of repayment.

2. VA will process borrowing from Treasury and repayment to Treasury as nonexpenditure transfers (NETs). All transactions will be "VA certified" by 3 p.m. eastern standard time to be processed the same day. When submitting a transaction, VA will include the following on the Supplemental Worksheet: (1) Maturity date; (2) Cohort year; (3) Subcohort (if applicable) and the amount for each transaction detail item. VA will prepare a consolidated transaction for a single TAS.

3. When VA has certified a borrowing or repayment transaction in GWA, the transaction will be reviewed by the BPD. If approved, the transaction is posted and its status is updated; if rejected, BPD will return it to VA for correction.

C. Calculating and Recording Interest on Borrowings. VA will use the most current version of the OMB Credit Subsidy Calculator 2 (CSC 2) to calculate the interest amount to be paid the Treasury. VA will e-mail the supporting interest payment calculations to the BPD on or before the day the interest payment is paid through IPAC. Interest accrued on debt to Treasury is recognized as interest expense.

1. Annually, by the last business day of the fiscal year, Treasury requires payment of interest for each financing account through IPAC using Agency Location Code 20-55-0865. VA will enter the TAS and Business Event Type Code (BETC) information when submitting IPAC interest payments to BPD for interest on borrowings. Refer to TFM Volume I, Part 6, Chapter 4000, for additional IPAC guidance.

2. VA will report the Treasury Appropriation Fund Symbols (TAFS) from which the money is being withdrawn on its FMS 224 report. The amount of the transaction will equal the amount transmitted through IPAC.

¹ October 20th is the normal submission date, although a continuing resolution or other circumstance may impact the actual date.

3. VA will audit its accounts and maintain adequate records to support any loan transactions and accrued interest computations submitted to BPD for payment. The records should be readily available for internal auditors, Treasury and Government Accountability Office (GAO) auditors, if necessary.

D. VA will disclose information related to other Statements of Budgetary Resources in a note to the financial statements to include the following:

1. The amount of borrowing authority available at the end of the fiscal year for each program with such authority;
2. The amount of any adjustments to Budgetary Resources; and
3. The number of permanent and indefinite appropriations in existence.

0506 DEFINITIONS

050601 Appropriation. In most cases, appropriations are a form of budget authority provided by law that permit Federal agencies to incur obligations and make payments out of the Treasury for specified purposes. An appropriation usually follows enactment of authorizing legislation. An appropriation act is the most common means of providing budget authority, but in some cases the authorizing legislation itself provides the budget authority.

050602 Borrowing Authority. A type of budget authority that permits obligations and outlays to be financed by borrowing.

050603 Budget Authority. The authority provided by Federal law to incur financial obligations that result in immediate or future outlays. Budget authority may be classified by the period of availability (one year, multiple-year or no year), by the nature of the authority (current or permanent), by the manner of determining the amount available (definite or indefinite) or as a gross (without reduction of offsetting collections) and net (with reductions of offsetting collections).

050604 Bureau of the Public Debt (BPD). A Treasury bureau responsible for accounting and reporting the debt of the Federal Government.

050605 Business Event Type Code (BETC). An eight-character code indicating the type of activity being reported (borrowing, repayment, offsetting collection, receipt, disbursement, etc.). The BETC is used in combination with the TAS to determine the transaction effect on the Fund Balance with Treasury.

050606 Cohort. The direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years. Post-1991 direct loans or loan guarantees will remain with their original cohort throughout the life of the

loan, even if the loan is modified. Pre-1992 loans and loan guarantees that are modified will each, respectively, constitute a single cohort.

050607 Credit Program. A Federal program that makes loans and/or loan guarantees to non-Federal borrowers.

050608 Debt. Amounts borrowed from the Treasury, the Federal Financing Bank, other Federal agencies or the public under general or special financing authority. The components of debt will be disclosed in the notes to the financial statement.

050609 Disclosure. Reporting information in notes or narrative regarded as an integral part of the basic financial statement.

050610 Direct Loan. A disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds within a certain time with or without interest. The term includes the purchase of or participation in, a loan made by another lender.

050611 Exchange Transaction. A transaction that arises when each party to the transaction sacrifices value and receives value in return.

050612 Expense. Outflows or other use of assets or incurrences of liabilities (or a combination of both) during a period from providing goods, rendering services or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period.

050613 Financing Account. A non-budget account associated with each Credit Program account. The financing account holds fund balances, receives the subsidy cost payment from the Credit Program account and includes all other cash flows to and from the Government resulting from post-1991 direct loans or loan guarantees, including Treasury borrowings.

050614 Intra-Governmental. Operations primarily within and between Government agencies.

050615 Loan Guarantee. Any guarantee, insurance or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender, but not including the insurance of deposits, shares or other withdrawable accounts in financial institutions.

050616 Loan Guarantee Commitment. A binding agreement by a Federal agency to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender or any other party to the guarantee agreement.

050617 Nonexpenditure Transfer. For accounting and reporting purposes, a transaction between appropriation and fund accounts that does not represent payments for goods and services received or to be received but rather serves only to adjust the amounts available in the accounts for making payments.

050618 Obligation. Following the enactment of budget authority and the completion of required apportionment action, Government agencies incur obligations to make payments. Obligations are binding agreements that will result in outlays immediately or in the future.

050619 Outlay. The issuance of checks, disbursement of cash or electronic transfer of funds made to liquidate a Federal obligation. Outlays also occur when interest on the Treasury debt held by the public accrues and when the Government issues bonds, notes, debentures, monetary credits or other cash-equivalent instruments in order to liquidate obligations. Also, under credit reform, the credit subsidy cost is recorded as an outlay when a direct loan or guaranteed loan is disbursed.

050620 Probable. That which may reasonably be expected or believed to be more likely than not on the basis of available evidence or logic but which is neither certain nor proven.

050621 Reestimate. Refers to estimates of the subsidy costs performed subsequent to their initial estimates made at the time of a loan's disbursement.

050622 Subsidy Cost. The cost of a grant of financial aid, usually by a Government body, to some person or institution for particular purposes. Credit subsidy cost is the estimated long-term cost to the Government of direct loans or loan guarantees calculated on a net present value basis, excluding administrative costs.

050623 Treasury Account Symbol (TAS). The receipt, expenditure, appropriation and other fund account symbol and title, as assigned by Treasury.

050624 Treasury Account Symbol/ Business Event Type Code (TAS/BETC). The combination of a TAS/BETC will be used to identify transactions and classify them properly to determine the effect on the Fund Balance with Treasury.

050625 Uninvested Funds in Financing Accounts. Represents FBWT amounts from borrowings and/or offsetting collections that have not been disbursed. A loan guarantee financing account accumulates uninvested funds as offsetting collections obtained from subsidy payments, upfront fees and other fees, interest and other payments to the Government or from borrowings from Treasury. A direct loan financing account accumulates uninvested funds as offsetting collections obtained from interest and principal not yet paid to Treasury at the scheduled dates or borrowings from Treasury that are not immediately disbursed.

050626 Vinnie Mac Trusts. An expression used to describe VMT Trust Certificates issued for loan sales-guaranteed mortgage loans. The Vinnie Mac trust certificates are exempt from the Securities and Exchange Commission registration.

0507 RESCISSIONS

050701 OF Bulletin 09GA1.01, Financing Account End of Year Transfers of Excess Cash

0508 QUESTIONS

Questions concerning these financial policies and procedures should be directed as shown below:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)

APPENDIX A

LIST OF FINANCING ACCOUNTS – CREDIT REFORM

A. 36X4112 Vocational Rehabilitation Direct Loan Financing Account, VA

Records non-interest bearing advances provided to Veterans for purchasing educational equipment and supplies while attending an approved training program. The advances are recovered through benefit deductions over a period of less than twelve months. Collections are from the program account (36_1114) and from loan repayments.

B. 36X4127 Guaranty and Indemnity Direct Loan Financing Account, VA

Funds under this account are available for establishment of direct loans as a result of default on guaranteed loans closed after January 1, 1990. Expenses include reimbursement to liquidating account 36X4025 for direct loans closed after September 30, 1991, but were guaranteed between January 1, 1990 and September 30, 1991 or to guaranteed financing account 36X4129 for direct loans that originally were guaranteed after September 30, 1991, taxes and insurance advances, property expenses and other loan guaranty operations in accordance with Public Law 101-508, *The Federal Credit Reform Act of 1990*. Collections are from loan sale proceeds, subsidies from the program account 36X1119, interest income, funding fees and other revenue.

C. 36X4129 Guaranty and Indemnity Guaranteed Loan Financing Account, VA

This account is used to pay expenses for all home loan guarantees (except manufactured housing) guaranteed after September 30, 1991. The expenses include payments for lender claims, acquisitions and other loan guaranty operations in accordance with Public Law 101-508. Collections represent recoveries from the Guaranty and Indemnity Direct Loan Financing Account (36_36X4127), funding fees, subsidy payments from the program account (36_1119), proceeds from the cash sales of properties, interest on uninvested funds and other income.

D. 36X4130 Native American Veteran Housing Direct Loan Financing Account, VA

Public Law 102-389, "Department of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriation Act, 1993," makes funds available from this appropriation to subsidize gross obligations for the principal account authorized for direct loans. Collections to the account come from the program account (36_1120), interest income, fees, cash sales of homes and loan repayments.

E. 36X4258 Transitional Housing Loan Financing Account, VA

This account is used to disburse direct loans under the Transitional Housing Loan Program. Collections of subsidy payments are received from the program account (36X0128). Repayments of principal and interest are also credited to this account.

F. 36X4124: Veterans Housing Benefit Program Fund, Loan Sale Securities, Guaranteed Loan Financing Account, VA

This account is used to record all activity involving sales of Direct Loans in investment pools, including recording gains and losses on sales.