CREDIT REFORM TERMS AND DEFINITIONS

★ Cohort. Direct loans obligated or loan guarantees committed by a program in the same year, even if disbursements occur in subsequent years or the loans are modified. Modified pre-1992 direct loans shall constitute a single cohort; modified pre-1992 loan guarantees shall constitute a single cohort. For loans subsidized by no-year or multi-year appropriations, the cohort may be defined by the year of appropriation or the year of obligation.

Direct Loan. A disbursement of funds by the government to a nonfederal borrower under a contract requiring repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by a nonfederal lender. It also includes the sale of a government asset on credit terms of more than 90 days duration.

Financing Account. The nonbudget account or accounts associated with each credit program account for post-1991 direct loans or loan guarantees. It holds balances, receives the subsidy cost payment from the credit program account, and includes all other cash flows to and from the government. All credit programs require financing accounts. Separate financing accounts are required for direct loans and loan guarantees even if the subsidy costs for both are provided in the same appropriation. For new credit programs, a written request must be sent to the Department of the Treasury FMS before account symbols are established for the loan financing accounts. Financing accounts are usually established as revolving funds in the public enterprise fund group series 4000-4499. As part of the loan guarantee contract, an agency may be required to provide an interest differential to the nonfederal lender. These interest supplement payments are recorded in the financing account and disbursed to nonfederal lenders.

Financing Tranche. All direct or guaranteed loans with a cohort, separately identified by risk category, that are disbursed in the same quarter and have the same maturity interval. All borrowing from the U.S. Treasury and all interest earned on uninvested funds from the U.S. Treasury for a given financing tranche shall be at the same interest rate (yield). The use of financing tranches is optional.

Liquidating Account. The budget account that includes all cash flows to and from the government resulting from pre-1992 direct loans or loan guarantees. Cash flows associated with modified direct loans and loan guarantees are treated as exceptions. The liquidating accounts are the "old" credit accounts, whose transactions are counted on a cash basis in calculating budget outlays and the deficit. Liquidating accounts are not subject to credit reform accounting except for the effect of modifications. If the liquidating account receives collections in excess of the account liability, the collections are returned to the U.S. Treasury via an SF 1151: Non-Expenditure Transfer Authorization as a capital transfer. The excess collections are returned to the miscellaneous receipt account "2814" preceded by the agency's two-digit department code.

Loan Guarantee. Any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a nonfederal borrower to a nonfederal lender. It does not, however, include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. When a pre-1992 loan guarantee is modified it becomes subject to credit reform accounting. The guarantee liability is transferred from the liquidating account to the financing account. A one-time adjusting payment is made from the liquidating account to the financing account. Subsequent cash flows shall be recorded directly to the financing account. When a loan guarantee is in default, the defaulted loan claim of the nonfederal lender is paid from the financing account.

Modifications. Any government action that alters the estimated subsidy cost, compared to the estimate contained in the most recent budget submitted to the Congress, of an outstanding direct loan (or direct loan obligation) or an outstanding loan guarantee (or loan guarantee commitment). Action permitted within the terms of an existing contract are the only exception. Modifications to pre-1992 direct loans and loan guarantees are included in this definition, as well as modifications to post-1991 direct loans and loan guarantees. For pre-1992 direct loans and loan guarantees, the loan asset or guarantee liability shall be transferred from the liquidating account the appropriate financing account. A one-time adjusting payment shall be made between the liquidating and financing accounts. The subsequent cash flows shall be recorded in the financing account.

Post-1991. Direct loan obligations or loan guarantee commitments made on or after October 1, 1991, and the resulting direct loans or loan guarantees.

Pre-1992. Direct loan obligations or loan guarantee commitments made prior to October 1, 1991, and the resulting direct loans or loan guarantees.

Program Account. The budget account into which an appropriation to cover the subsidy cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to the financing account. Usually, a separate amount for administrative expenses is also appropriated to the program account. Each program account is associated with one or two financing accounts, depending on whether the program account makes both direct loans and loan guarantees. The program account pays subsidies to the financing account for post-1991 direct loans and loans guarantees, for modifications, and for reestimates. These subsidy payments are counted in calculating budget outlays and the deficit.

Reestimates. The recalculation of the subsidy cost of each risk category within a cohort of direct loans or guaranteed loans. Reestimates must be made at the beginning of each fiscal year following the year in which the initial disbursement was made and as long as the loans are outstanding, unless a different plan is approved by the OMB.

★ Subsidy. The estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs. In net present value terms it is the portion of the direct loan disbursement that the government does not expect to recover, or the portion of expected payments for loan guarantees that will not be offset by collections. The subsidy may be for post-1991 direct loan obligations or loan guarantee commitments, for reestimates of post-1991 loans or guarantees or for modifications of any direct loan or loan guarantees. When the estimated subsidy is negative, an amount equal to the negative subsidy shall be paid from the financing account to a special fund receipt account for that program when the loan guarantee is disbursed. If a subsidy reestimate for a cohort is negative, the amount of that reestimate is recorded in the same way, but to a different special fund receipt account.

★ Uninvested Fund Balance. The Fund Balance with Treasury that is held by the financing account, including undisbursed borrowings and offsetting collections. This balance earns interest from the U.S. Treasury as determined by the weighted-average interest rate for each specific maturity range within the financing account.

★ Special Fund Receipt Accounts. The Treasury Department requires a written request prior to establishing account symbols for special fund receipt accounts which shall collect negative subsidies and downward reestimates. These unavailable receipt symbols are classified in special fund receipt series 53XX.001 for negative subsidies, and series 53XX.003 for downward reestimates of the subsidy. Both accounts are preceded by a 2-digit partner code and are unique for each agency's direct and guaranteed loan programs.

★ Miscellaneous Receipts Accounts. This account is automatically established by the Treasury Department for interest payments. Payments of interest to the U.S. Treasury are paid to miscellaneous receipt symbol 1499, which is preceded by the agency 2-digit department code.

Subclassed Accounts. Subclassed accounts are existing fund symbols preceded by a 2-digit prefix, used to distinguish certain transactions (for instance, [95]99X4200, [85]99X4200, and [65]99X4200). Subclassed accounts are used when repaying or borrowing funds to/from the U.S. Treasury on an SF 1151: Nonexpenditure Transfer Authorization. Subclassed accounts are also used to record payment of subsidy appropriations from the program account to the financing account on an SF 224: Statement of Transactions. The subclasses are:

1. Principal Borrowing - 95
2. Principal Repayment - 85
3. Subsidy Payment - 65

★ Interest Rates. Interest rates for Credit Reform subsidy calculations, budget execution, borrowing, uninvested funds and working capital balances can be obtained from the Department of Commerce Economic Bulletin Board (EBB). New interest rates are posted to the EBB each quarter by Treasury and are used for agency computations during the quarter. These rates remain fixed for one quarter and are categorized with the following maturity intervals:

1. 0 years, up to and including 1 year
2. Over 1 year, up to but not including 5 years
3. 5 years, up to but not including 10 years
4. 10 years, up to but, not including 20 years
5. 20 years and longer

The rate used for subsidy calculations, borrowing and interest on uninvested funds must be for a maturity comparable to the maturity of the direct or guaranteed loan being made to nonfederal borrowers.

★ Borrowings and Repayments from Treasury. The "Federal Credit Reform Act of 1990" provides financing accounts with indefinite authority to borrow from the U.S. Treasury. To streamline agency activity, agencies shall borrow from the U.S. Treasury, once a year, an amount that reflects estimated yearly requirements (based on figures used to calculate the subsidy appropriation, unless better estimates are available). The borrowing shall be dated the first day of the fiscal year, October 1. If necessary, agencies may initiate another borrowing (during the fiscal year) for an additional amount, which shall also be dated October 1.

If an agency has insufficient funds to make an annual interest payment to the U.S. Treasury at year end, an additional borrowing should be initiated. This borrowing shall be dated September 30 and shall carry the same maturity date as the original borrowing. Using the September 30 date will alleviate the recalculation of the interest payment due to the U.S. Treasury and the amount of interest to be paid on uninvested funds.

Balances of borrowed but undisbursed funds shall earn interest. The same weighted average interest rates shall be used for the interest paid on borrowed funds and the interest earned on uninvested funds.

★ Certification. When requesting a borrowing, each SF 1151 must contain an agency certification stating that the borrowing is necessary to meet the estimated annual cash requirements and is based upon the most reliable data available. This statement and certifying signature must be included within the body of the SF 1151 document.

★ Authority. In this block of the SF-1151, the legislative authorization for the borrowing transaction should be cited. For borrowings subject to Part 2, Chapter 4600, of the "Treasury Reporting Instructions for Credit Reform Legislation," reference 2 U.S.C. 661d (formerly Public Law 101-508, 104 Stat. 1388-613).

★ Signature. Borrowing transaction shall be approved and signed by the Bureau of Public Debt. Repayments shall be approved and signed by the authorized agency representative.

Premodification Value. This amount is the present value of the net cash inflows of direct loans. It is estimated at the time of modification under premodification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable U.S. Treasury securities that have a comparable maturity to the remaining maturity of the direct loans under premodification terms.

Postmodification Value. This amount is the present value of the net cash inflows of direct loans. It is estimated at the time of modification under postmodification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable U.S. Treasury securities that have a comparable maturity to the remaining maturity of the direct loans under postmodification terms.

The OMB instructions provide that if the decrease in book value exceeds the cost of modification, the reporting entity shall receive from the Treasury Department an amount of "modification adjustment transfer" equal to the excess. Conversely, if the cost of modification exceeds the decrease in book value, the reporting entity shall pay to the Treasury Department an amount of "modification adjustment transfer" to offset the excess.

Postmodification Liability. This amount is the present value of the net cash outflows of loan guarantees. It is estimated at the time of modification under the postmodification terms and discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury securities that have a comparable maturity to the remaining maturity of the guaranteed loans under postmodification terms.

Premodification Liability. This amount is the present value of the net cash outflows of loan guarantees. It is estimated at the time of modification under the premodification terms and discounted at the interest rate applicable to the time when the modification occurs on marketable U.S. Treasury securities that have a comparable maturity to the remaining maturity of the guaranteed loans under premodification terms.

The OMB instructions provide that if the increase in liability exceeds the cost of modification, the reporting entity receives from the Treasury Department an amount of "modification adjustment transfer" equal to the excess. If the cost of modification exceeds the increase in liability, the reporting entity pays to the Treasury Department an amount of "modification adjustment transfer" to offset the excess.