



Subject: ACCOUNTING FOR LOAN PROGRAMS

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10-42-00 PURPOSE

This chapter describes the loan accounting procedures to be used by the Operating Divisions (OPDIVs) to implement policies and reporting requirements established by the Office of Management and Budget (OMB) and the Treasury.

10-42-10 DEFINITIONS

Definitions given are consistent with those published in OMB Circulars, A-11 and A-34 and other Treasury and OMB regulations.

- A. A direct loan obligation is a legal or binding agreement that results in:
1. a disbursement of funds to a non-Federal entity by a Federal agency (including the Federal Financing Bank (FFB) on behalf of a Federal agency) that is contracted to be repaid, with or without interest;
 2. a purchase of non-Federal loans by a Federal agency through secondary market operations;
 3. a sale of Federal agency assets to a non-Federal entity on credit terms of more than 90 days duration; or
 4. an acquisition of guaranteed non-Federal loans by a Federal agency in satisfaction of default or other guarantee claims. However, because loans acquired in satisfaction of defaults or of other guarantee claims are not subject to direct loan limitations, they are excluded from OMB credit apportionment and budget execution reports.

- B. A guaranteed loan commitment is a legal or binding agreement that results in:
1. a non-Federal debt instrument on which the agency pledges to pay part or all of the amount due to a lender or holder in the event of default by the borrower; or
 2. a direct Federal loan that an agency has sold to the public under guarantee agreement to repurchase, or other form of recourse. Loan guarantees include agreements in the form of loan insurance, defined as a type of guarantee in which an agency pledges the use of accumulated insurance premiums to secure lenders against default on the part of borrowers.

10-42-20 CENTRAL AGENCY DIRECTIVES

Following are a number of directives that establish policy with respect to the management of and reporting on the various loan programs:

- o OMB Circular A-11, Section 33.1 - 33.8, regarding direct and guaranteed loans, loan asset sales, and loan subsidy data.
- o OMB Circular A-34, Part II, Sections 23.12 and 23.13 "Application of Concepts of Obligations" on loans and guarantees.
- o OMB Circular A-34, Part VI, Credit Apportionment and Budget Execution.
- o OMB Circular A-70, Policies and Guidelines for Federal Credit Programs.
- o OMB Circular A-129, Managing Federal Credit Programs.
- o OMB Bulletin 87-7, Revised Budget Treatment of Agency Programs Financed by the Federal Financing Bank (FFB).
- o SF 220-8, Direct and Guaranteed Loans Reported by Agency and Program Due from the Public.
- o Credit Management Activities Report, Exhibit 42A, OMB Circular A-11.

10-42-30 ACCOUNTING GUIDELINES

Following are the policies with respect to funding of loans and procedural guidelines on apportionment processes and other accounting transactions for the various loan programs.

A. Initial Funding of Loan

Funding is initially authorized either by an appropriation authorization or by a legislative authority to borrow funds. The borrowing authority may be (1) definite in amount (specified dollar amount or such sums as needed, not to exceed a specific dollar amount) or (2) indefinite in amount (such sums as needed or such amounts as are collected). Borrowing may be authorized as a public debt borrowing (from the U.S. Treasury), or as an agency borrowing (from the FFB).

Budget authority, both appropriated and borrowing, must be apportioned before loans are made. The actual funding of this authority is accomplished by warrant or SF-1151, "Non-Expenditure Transfer."

OMB policy, cited above, directs Federal agencies to borrow from the FFB. The FFB, in turn, has permanent authority to borrow as a public debt transaction from the U.S. Treasury. However, it is important to note that each Federal agency appropriation or fund must have its own agency borrowing authority before it may borrow funds from FFB. An agency cannot rely solely on the FFB authority to borrow funds.

B. Estimated Reimbursements and Other Income

The estimated amounts for the fiscal year consist of reimbursable agreements, proceeds from the sale of loans, loan principal and accrued interest expected to be collected, and the net of discounts or premiums on investments purchased. The total of these estimated funds must be allocated between amounts to repay debt borrowing and amounts to be made available for program obligation needs. The amount applicable to repayment of debt borrowing is not available for apportionment while that for program obligations follows the apportionment and allotment distribution pattern. Amounts estimated to be collected on loan principal and from the sale of loans, to be used to repay FFB debt borrowing, are not subject to apportionment. See Exhibit A, Sample of SF-132, and Exhibit B, Sample of SF-133.

C. Repayment of Borrowings

Borrowing authority may be repaid through (1) the collection of the loan principal that is guaranteed/pledged to be used to repay borrowing, (2) by subsequent appropriations to liquidate borrowing authority, and (3) by the sale of loans for which the proceeds are used to repay borrowing. See paragraph E. General for procedures when adequate funds are not available to make a scheduled debt repayment.

The repayment of the borrowing authority is accomplished by SF-1151, "Non-Expenditure Transfer."

D. Secondary Market Loan Funds

When funds have been appropriated to a Loan Revolving Fund either directly or by borrowing authority, the loans made under that program may be authorized to be:

- o sold and/or "guaranteed/pledged" (service the loans) to a secondary money market source, such as FFB, or
- o sold outright to a non-Federal entity.

This authorization would provide the funds to make new loans. These sale transactions must be authorized by law and are to be treated as borrowing unless the loans are sold outright to a non-Federal entity. The proceeds of a sale, depending on the authorization, will be used to repay outstanding borrowing, to make new loans, or to be deposited to Miscellaneous Receipts.

E. General

There may be occasions when the collection of principal from those loans, guaranteed/pledged and serviced by HHS, backing-up a sale or debt borrowing are not adequate or timely to meet the principal and interest payment on the borrowed funds (usually semi-annual payments). In this event, it would be necessary (1) to use those funds collected, (2) to use principal collections and interest on loans under the same program but not involved in the sale or borrowing arrangement, and other available apportioned resources in the account or fund, and/or (3) obtain an insufficiency appropriation necessary to make the scheduled debt repayments. If making a payment is not possible due to lack of funds and lack of sufficient time to obtain an insufficiency appropriation, it may be necessary to increase the agency (program) borrowing, provided sufficient borrowing authority is available, to obtain the funds necessary to make the debt payment, on time.

A combination of the above scenario may involve the apportionment of budget authority, issuance of allotments and allowances, the acceptance of loan applications (commitments), and the evaluation and approval (either obligation or rejection) of loan applications. There are two options for disbursing the loans:

1. When the appropriation or fund has borrowing authority:

The approved loan applications will be forwarded to the FFB to disburse the loan (SF-1166) and fund (exercise) the borrowing authority (SF-1151). The FFB will process an SF-1151, "Non-Expenditure Transfer" to fund the borrowing authority to HHS, and will charge the loan disbursement (SF-1166) to HHS as a disbursement transaction. HHS must record the debt borrowing (SF-1151) and also record these loans as guaranteed/pledged (to be serviced by HHS on behalf of FFB). The subsequent collection of loan principal and interest will be a collection transaction, by SF-215, "Certificate of Deposit" to HHS, and HHS will transfer the principal collections by an SF-1151, Non-Expenditure Transfer" to the FFB to apply this amount to the repayment of the debt. FFB will process a charge for interest on the debt through the On-line Payment and Collection System (OPAC) or by SF-1081.

2. When the appropriation or fund has appropriated funds or collections available for making new loans.

The approved loan application(s) may be disbursed directly by the Operating Divisions. If the appropriation or fund is subsequently authorized to sell these loans to the FFB (as a debt borrowing transaction), then the appropriate debt borrowing transactions must be recorded. See paragraph 4 below.

F. Loan Programs in Annual or Multi-year Appropriations

In the past, funds have been appropriated for loan programs to annual appropriations. The collections from the loan repayment of principal and interest were required to be deposited to miscellaneous receipt accounts.

In more recent years, certain appropriations have authorized the annual loan collections, from loans made from annual or multi-year accounts that have since expired, to be deposited to an annual two-year (multi-year) appropriation. This appropriation will have same appropriation symbol and title. New loans may be made during the fiscal year in which the funds were collected and the subsequent fiscal year.

It is intended that new Federal Capital Contributions (FCC) should no longer be expended when made from the multi-year accounts and the FCC loans and accrued interest should no longer be recorded under the Miscellaneous Receipt Accounts. All outstanding accounts recorded under the receipt accounts should be transferred to the current multi-year account. Subsequently, collections of principal and accrued interest will be deposited under the appropriate multi-year account and all new FCC loans made from the multi-year account.

G. Apportionment of Funds

All appropriated authority, and borrowing authority from FBB for initial loan or from resale of loans must be apportioned as direct program funds.

All annual collections of loan principal are included in "estimated reimbursements and other income," (line 3 of SF-132), while the estimated annual repayment of debt borrowing is treated as a transfer out to FFB (line 2B of the SF-132). The remaining budgetary resources (line 7 of SF-132) are available for apportionment on lines 8 through 11 of the SF-132.

All proceeds from outright sale of loans to non-Federal entities, and collection of loan repayments available to make new loans (revolving fund and multi-year funds) during the current fiscal year period must be apportioned as Estimated Reimbursements or returned to Miscellaneous Receipts if authorized for a discontinued activity. Allotments and allowances of these reimbursable funds should be issued quarterly after recording the actual collections realized for the preceding quarter. Allotments and allowances may not exceed the amount of collections. Amounts of loans forgiven as authorized by law (for teaching, working in medically undeserved areas, etc.) and amounts reserved as allowance for losses shall result in reimbursements not realized during the year.

H. Effect of Debt Borrowing and Direct Loan Program on Government Equity and Invested Capital

All loans made from appropriated funds and revolving funds increase Invested Capital and all loan principal collections reduce the Invested Capital. The debt borrowing transactions and the repayment of borrowed funds have no effect on Government Equity.

I. Loan Receivable Accounts

When loans are made from appropriated funds they should be recorded in account 1351, "Loans Receivable-Principal." When loans are made from borrowed funds, these loans must be guaranteed/pledged (serviced by HHS) for the benefit and repayment of the borrowed funds. Therefore, these loans will be recorded in account 1355, "Loans Receivable-Principal-Guaranteed/Pledged-Principal." When loans recorded in account 1351 are sold to the FFB as a secondary market (source of funds), the proceeds are recorded in account 2521 "Borrowing from FFB," as a debt borrowing transaction and the 1351 receivables are transferred to 1355.

If loans are declared in default, they should be transferred from accounts 1351 or 1355, as appropriate, and recorded in account 1357, "Loans Receivable-Defaulted-Principal." Further, if a loan from account 1355 is declared in default and is transferred to account 1357 "Loans Receivable - Defaulted-Principal," a loan or loans at least equal in amount should be transferred from account 1351 "Loans Receivable" to 1355, "Loans Receivable, Guaranteed/Pledged." This is done so the value of loans in account 1355 is at least equal to the debt borrowing liability. Loans sold to FFB (account 1355) are tracked by the FFB. The FFB will request the OPDIV to either replace a defaulted loan in the FFB portfolio, or will require the OPDIV to pay off the defaulted loan, usually with a premium to compensate for lost interest.

10-42-40 TRANSACTION CODES

Exhibit C is intended as a guide to the transaction codes (TC) available for use in recording direct and guaranteed loan activity under the various funding and repayment scenarios presented above. Not all transaction codes necessarily will be used in all situations.

The TCs are intended to cover all activity: apportionment, borrowing, reimbursables, distribution of funds, commitment, obligation, accrual of interest and insurance premium, receivables, disbursement, collection, collateral and liens. Code 399 should not be used to record loan transactions.

**Filled-Out Example of Standard Form 133
(Circular No. A-34)**

APPORTIONMENT AND REAPPORTIONMENT SCHEDULE

NOT AVAILABLE IN ELECTRONIC FORMAT

Filled-Out Example of Standard Form 133

(Circular No. A-34)

REPORT ON BUDGET EXECUTION

NOT AVAILABLE IN ELECTRONIC FORMAT

**GUIDE TO TRANSACTION CODES FOR USE UNDER VARIOUS
LOAN PROGRAM SCENARIOS**

<u>Transaction Code</u>	<u>Transaction Name</u>
00B	Appropriation and Fund Authority Enacted
00C	Capital Appropriated for Revolving Funds Requiring Apportionment
001	Warrant Received Appropriations
014	Warrant Initial Capitalization of Revolving Fund
00D	Definite Borrowing Authority
020	Indefinite Borrowing Authority
02A	Exercise Borrowing Authority from Treasury (Public Debt Borrowing) and Federal Financing Bank(Agency Debt)*
006	Estimated Anticipated Reimbursements
007	Apportionment (Annual Estimate of Interest, Insurance Premium, Loan Principal Available for New Loans, etc.)
008	Record Estimated Debt Repayments (Principal) Due this Fiscal Year
013	Availability of Apportionment at Beginning of Quarter
030	Issue Allotments from the Apportionment
031	Issue Allowances from the Allotment
040	Commitments - Test for Availability of Funds
050	Obligations

* May include the sale of loans

<u>Transaction Code</u>	<u>Transaction Name</u>
184	Disbursement-Partial-for Loans and Accrued Interest Purchased
193	Payment of Accrued Interest Payable (on Debt Borrowings)
194	Disbursement-Final for Loans and Accrued Interest Purchased
19A	Loans Made by Non-Federal Lenders Guaranteed by HHS/OPDIV
19B	Repayment of Borrowing Authority from Treasury (Public Debt) and Federal Financing Bank (Agency Debt)
139	Accrual of Interest Earned on Loans
149	Accrual of Interest, Penalty, and Administrative Costs Earned on Delinquent Loans Receivable
050	Obligations (Accrual of Interest Payable on Debt Borrowings)
138	Accrual of Insurance Premiums (on Guaranteed 3 rd Party Loans)
109	Forgiveness (Cancellation) of Loans Receivable Due to Legislative authority, etc.
111	Allowance for Losses on Loans Receivable Unfunded
112	Allowances for Losses on Accrued Interest Receivable - Unfunded
11A	Allowance for Losses on Accrue Interest, Penalties, and Administrative Costs Receivable on Delinquent Accounts (Unfunded)
114	Write-off Uncollectible Loans (Non - Government)
118	Write-off Uncollectible Accrued Interest

<u>Transaction Code</u>	<u>Transaction Name</u>
129	Write-off Uncollectible Interest, Penalties and Administrative Costs on Delinquent Loans Receivable
223	Collection of Principal on Loans or Direct Sale to Non-Federal Agency (to be used to make new loans)
224	Collection of Interest on Loans (Repayment or Outright Sale)
227	Collection of Insurance Premiums (on Guaranteed Loans)
248	Collection of Interest, Penalties, and Administrative Costs on Delinquent Accounts Receivable
249	Collection of Interest, Penalties, and Administrative Costs on Delinquent Loans
33B	Discount on Sale of Loans to Non-Federal Entity
126	Record Loans Receivable (Collections to be Deposited to Miscellaneous Receipts)
12A	Reclassify Portion of Loans Receivable as Current Receivables
12D	Transfer Loans Receivable and Accrued Interest Between Multi-Year Accounts
296	Reclassify Loans Sold from Loans Receivable (Debt Borrowing) to Loans Receivable - Guaranteed/Pledged or to Loans Receivable - Defaulted
297	Reclassify Loans as Loans Receivable - Guaranteed/Pledged
298	Reclassify Loans as Loans Receivable - Defaulted
19D	Recording Acquired Collateral - Pending Possible Loan Default

<u>Transaction Code</u>	<u>Transaction Name</u>
250	Record Acquired Collateral Related to Pay-off of Defaulted Loan and Accrued Interest
251	Record Prior Loans Outstanding on Acquired Collateral as Result of Defaulted Loan Guarantee
252	To Adjust Value of Recorded Collateral Down to Fair Market Value
253	To Adjust Value of Recorded Collateral Up to Fair Market Value
11C	To Record Allowance for Loss on Acquired Collateral
254	Record Sale of Acquired Collateral
19E	Payment to Release Prior Liens on Acquired Collateral
26D	Record Loss on Liquidation of Prior Lien when Payment of Lien is Greater than Recorded Value (Liability) of the Prior Lien
26E	Record Gain on Liquidation of Prior Lien when Payment of Lien is Less than Recorded Value (Liability) of the Prior Lien
26F	Write-off Remaining Value of Acquired Collateral when Recorded Value is Greater than Amount Realized
26G	Write-off Remaining Value of Acquired Collateral when Recorded Value is Less than the Amount Realized