ADS Chapter 623

Financial Management of Credit Programs

Document Quality Check Date: 09/19/2012
Revision Date: 11/20/2009
Responsible Office: M/CFO/FPS
File Name: 623_091912

Functional Series 600 – Budget and Finance
ADS Chapter 623 – Financial Management of Credit Programs
POC for ADS 623: Pat Wexel, (202) 567-5252, pwexel@usaid.gov

Table of Contents

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

**An asterisk and yellow highlight indicate the adjacent material is new for this chapter or substantively revised.*

ADS Chapter 623 – Financial Management of Credit Programs

623.1 OVERVIEW

Credit programs are an important part of development assistance. USAID can make loans or issue loan guarantees for any development purpose in Part 1 of the Foreign Assistance Act. Credit programs available to USAID are often used to leverage private funds for development purposes. Because the true costs of these programs are significant, the actual and expected costs of USAID credit programs must be recognized fully in both budgeting and financial reporting.

USAID, to strengthen its credit and loan management operations, has among other things outsourced several loan servicing functions and established a Credit Review Board to assist the Chief Financial Officer (**CFO**) in oversight of all Agency credit activities. OMB reviewed USAID total efforts in the credit area and certified to Congress in April 1999 that we have established a credit management system capable of effectively managing the Development Credit Authority.

The Federal Credit Reform Act of 1990 requires that the subsidy costs of direct loans and loan guarantees be taken into account in making budgetary decisions. Under credit reform, the subsidy portion of direct loans is financed by appropriations, and the unsubsidized portion of the loans, which equals the estimated present value of the government collections from the borrowers, is financed with funds borrowed from Treasury. The present value measurement basis is also applied to loan guarantees. The future cash outflows required by loan guarantee commitments must be projected and discounted at an appropriate Treasury interest rate. The present value of the cash outflows is the cost of the loan guarantees.

The Federal Claims Collection Act (**FCCA**), as amended (**31 U.S.C. 3711**), places the responsibility for collecting debts owed to the government on the Federal departments or agencies whose individual activities give rise to the debt. Within USAID, the CFO is responsible for ensuring that financial management controls and systems are in place for adequately managing credit and debt activities. In addition, accounting systems must provide for promptly recording, collecting, reporting, and controlling applicable interest, penalties, and administrative costs due USAID on delinquent debts. Rigorous standards must be set and enforced in documenting receivables, actions to collect, compromise, or suspend claims, and referring delinquent receivables to the Department of Treasury or the Department of Justice.

The objective of the policy guidance in this ADS chapter is to centralize the various major credit management, claims collection, and debt management regulations into an organized, comprehensive management system that establishes basic standards, requires accountability by the cognizant USAID components for meeting those standards, and provides for periodic management-level reports of performance.

623.2 PRIMARY RESPONSIBILITIES

a. The **Chief Financial Officer** (**CFO**) is responsible for developing, issuing, and implementing policy, procedures, and standards for the management of USAID credit programs, including debt accounting and financial reporting, loan servicing, debt portfolio management, and debt collections. The CFO chairs the Credit Review Board.

b. The **Deputy Chief Financial Officer** (**DCFO**) is responsible for technical supervision of the Payment Transfer Agent/Loan Servicing Agent (**PTA/LSA**) who is maintaining the official subsidiary credit system for USAID and providing loan accounting, collection, and billing services for the entire portfolio of loans and loan guarantees.

c. The **Credit Review Board** (**CRB**), established under the authority of OMB Circular A-129, is responsible for advising the CFO on policies and procedures for the financing and financial management of all USAID credit programs. This includes but is not limited to the review of new credit activities for compliance with the Act, including the adequacy of the risk assessment and the economic and financial viability of the activity; and the development of subsidy cost estimates and reestimates, loan loss estimates, collection targets, and write-off estimates.

d. **Operating units** (**USAID Missions, Bureaus, and Offices**) are responsible for developing a financial monitoring plan and for following the procedures in the Development Credit Authority (**DCA**) Operations Manual for credit activities initiated under DCA. To the maximum extent feasible, all other credit programs such as Urban and Environmental Credit (**UEC**) and Micro and Small Enterprise Development (**MSED**) programs should also comply with the DCA Operations Manual.

e. The **Bureau for Management, Office of the Chief Financial Officer, Loan Management** (**M/CFO/LM**) is responsible for maintaining general ledger accounts using data provided by the Payment Transfer Agent/Loan Servicing Agent, certifying funds availability for direct loan and subsidy payments, and providing support and reports to operating units and the CRB as needed. M/CFO/LM is also responsible for complying with the Rescheduling Policies and Procedures Manual covering the Paris Club rescheduling procedure.

f. The **Economic Growth, Education, and Environment, Office of Development Credit** (**E3/DC**), Assistant Administrator, Development Credit Staff (DCS) is responsible for establishing risk assessment and subsidy calculation policy, maintaining the DCA Operations and Credit Manuals, and assisting Missions and other operating units in the deal structuring, risk assessment, and financial monitoring plans for DCA activities. E3/DC, in conjunction with M/CFO/LM and the Bureau for Management, Office of the Chief Financial Officer, Central Accounting and Reporting Division (**M/CFO/CAR**), prepares the subsidy budgeting and administrative expense budgeting for the DCA financing account and **E3/DC**.

623.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

623.3.1 Financial Documentation Responsibilities

Financial documentation is any documentation that impacts on or results in financial activity. It is not limited to documentation within the Controllers' or CFO operations, but includes any source material causing or resulting in a financial transaction. Contracting Officer's Representatives (**CORs**), Loans/Grants Officers, Development Objective (**DO**) teams, etc., are responsible for retaining financial documentation and ensuring its availability for audit.

Basic financial documentation retention rules follow:

- If an action will result in a financial transaction, it must be documented;

- Source documentation must be readily available for audit by either the Office of Inspector General or a responsible audit entity; and

- The general rule of thumb for retention of financial documents is seven years; however, retention times may vary, so please refer to retention by document type in **ADS 502**, The USAID Records Management Program. The specific financial Records Disposition Schedules are located in the Mandatory Reference Section of ADS 502, under Records Disposition Schedule, USAID/W, Chapter 15, Fiscal Management Records; and Records Disposition Schedule, USAID, Chapter 35, Financial Management Records. See also the National Archives and Records Administration (**NARA**) General Records Schedules, GRS 6, Accountable Officers' Account Records; and GRS 7, Expenditure Accounting Records.

623.3.2 Accounting Standards for Loans and Loan Guarantees

The accounting standards promulgated in this chapter cover the recognition and measurement of direct loans, the liability associated with loan guarantees, the cost of direct loans and loan guarantees, and the collection of loans from debtors. With the exception of loan collection procedures, the standards apply to direct loans and loan guarantees on a group basis, such as a cohort or a risk category of loans and loan guarantees.

Direct loans obligated and loan guarantees committed after September 30, 1991, must be accounted for on a present value basis. The use of the present value accounting method is consistent with the intent of the Federal Credit Reform Act of 1990. Present value accounting does not apply to direct loans or loan guarantees on an individual basis, except for a direct loan or loan guarantee that constitutes a cohort or a risk category.

Federal government credit reform standards permit but do not require the restatement of pre-credit reform direct loans and loan guarantees to present value accounting. USAID has an extensive loan portfolio covering pre-Fiscal Year (FY) 1992 loans and loan guarantees. Some of the portfolio is denominated in local currency and is without maintenance of value protection. USAID has decided not to adopt present value accounting for pre-FY1992 loans and loan guarantees but instead will continue to use conventional accounting.

USAID's accounting practices for direct loans and loan guarantees change as needed to be consistent with budgeting under credit reform so long as such changes do not materially affect the basic recognition and measurement principles embodied in these accounting standards.

623.3.2.1 Present Value Accounting for Post-FY 1991 Direct Loans

USAID recognizes disursed and outstanding direct loans as assets at the present value of their estimated net cash inflows. We recognize as a subsidy cost allowance the difference between the outstanding principal of the loans and the present value of their net cash inflows.

623.3.2.2 Present Value Accounting for Post-FY 1991 Loan Guarantees

For outstanding guaranteed loans, USAID recognizes the present value of the estimated net cash outflows of the loan guarantees as a liability. In the annual financial statements M/CFO/LM discloses the face value of guaranteed loans outstanding and the amount guaranteed.

623.3.2.3 Calculating Subsidy Expense of Post-FY 1991 Direct Loans and Loan Guarantees

For direct or guaranteed loans disbursed during a fiscal year, USAID recognizes a subsidy expense. The amount of the subsidy expense equals the present value of estimated cash outflows over the life of the loans minus the present value of estimated cash inflows. In determining present value, USAID uses the interest rate of marketable Treasury securities with a similar maturity term applicable to the period during which the loans are disbursed (**referred to here as the applicable Treasury interest rate**) as the discount rate.

For the fiscal year during which new direct or guaranteed loans are disbursed, we separate the subsidy expense of those new direct loans and loan guarantees into interest subsidy costs, default costs, fees and other collections, and other subsidy costs.

a. Interest subsidy costs. The interest subsidy cost of direct loans is the excess of the amount of the loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted at the

applicable Treasury rate. The interest subsidy cost of loan guarantees is the present value of estimated interest supplement payments.

b. Default costs. The default cost of direct loans or loan guarantees results from any anticipated deviation, other than prepayments, by the borrowers from the payments schedule in the loan contracts. The deviations include delinquencies and omissions in interest and principal payments. USAID measures the default cost at the present value of the projected payment delinquencies and omissions minus net recoveries. Projected net recoveries include the amounts that would be collected from the borrowers at a later date or the proceeds from the sale of acquired assets minus the costs of foreclosing, managing, and selling those assets.

c. Fees and other collections. USAID recognizes the present value of fees and other collections as a deduction from subsidy costs.

d. Other subsidy costs. Other subsidy costs consist of cash flows that are not included in calculating the interest or default subsidy costs, or in fees and other collections. They include the effect of prepayments within contract terms.

623.3.2.4 Frequency of Reestimating the Subsidy Cost Allowance of Post-FY 1991 Direct Loans and Loan Guarantees

USAID must reestimate the subsidy cost allowance for direct loans and the liability for loan guarantees each year as of the date of the financial statements. Since the allowance or the liability represents the present value of the net cash outflows of the underlying direct loans or loan guarantees, the reestimation takes into account all factors that may have affected the estimate of each component of the cash flows, including prepayments, defaults, delinquencies, and recoveries. We recognize as a subsidy expense or as a reduction in subsidy expense any increase or decrease in the subsidy cost allowance or the loan guarantee liability resulting from the reestimates.

USAID must measure and disclose reestimates in two separate components: namely, the interest rate reestimate and the technical/default reestimate. The former is a reestimate made for differences between interest rate assumptions at the time of budget formulation (**the same assumption is used at the time of obligation or commitment**) and the actual interest rates for the years of disbursement. The latter is a reestimate due to changes in projected cash flows as reflected in the direct loan allowance and loan guarantee liabilities at the beginning of each fiscal year, after reevaluating the underlying assumptions and other factors that affect cash flow projections as of the financial statement date, except for any effect of interest rate reestimates.

623.3.2.5 Amortization of the USAID Subsidy Cost Allowance

We amortize the subsidy cost allowance for direct loans by one of two approved methods. The interest method uses the interest rate that was originally used to

calculate the present value of the direct loans when the direct loans were disbursed. Under the interest method, the amortization amount of the subsidy cost allowance equals the effective interest minus the nominal interest of the direct loans. Alternatively, we can compute amortization as interest expense other than reestimates minus the sum of interest income from borrowers, interest income from reestimates, and interest income on fund balance with Treasury. The amortized amount is recognized as an increase or decrease in interest income.

We accrue and compound interest on the liability of loan guarantees at the interest rate that was originally used to calculate the present value of the loan guarantee liabilities when the guaranteed loans were disbursed. The accrued interest is recognized as interest expense.

623.3.2.6 Criteria for Default Cost Estimates

The criteria for default cost estimates provided in this and the following paragraphs apply to both initial estimates and subsequent reestimates.

USAID estimates and reestimates default costs for each program on the basis of separate cohorts and risk categories. The reestimates take into account the differences in past cash flows between the projected and realized amounts and changes in other factors that can be used to predict the future cash flows of each risk category.

In estimating default costs, we consider the following risk factors:

- Loan performance experience;
- Current and forecasted international, national, or regional (as applicable) economic conditions that may affect the performance of the loans;
- Financial and other relevant characteristics of borrowers;
- The value of collateral to loan balance;
- Changes in recoverable value of collateral; and
- Newly developed events that would affect the loans' performance.

Improvements in methods to reestimate defaults are also considered.

USAID uses a systematic methodology, such as risk models, to project default costs by credit program and each risk category. If individual accounts with significant amounts have a high risk exposure, we analyze the individual accounts in making the default cost estimate for that category.

Historical experience of the performance of a risk category is a primary factor upon which an estimation of default cost is based. To document actual experience, M/CFO/LM and E3/DC should maintain a database to provide historical information on actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

Risk Assessment for Sovereign Versus Non-Soveriegn Entities

a. Sovereign entities. In an effort to standardize and simplify credit risk assessment of sovereign entities, Federal regulators and international agencies have developed an ordinal risk rating system called the Inter-Agency Country Risk Assessment System (**ICRAS**). Members of ICRAS review risk factors applicable to countries and determine a sovereign risk. These ratings are revisited periodically for appropriateness based on recent and anticipated future events. In all but the most exceptional cases, the rating from ICRAS is the sole determinant of credit risk for sovereign activities.

b. Non-sovereign entities. Non-sovereign credit risk represents the willingness and ability of a borrower (**non-government credit recipient**) to repay a financial obligation. The factors affecting repayment of an underlying loan may include issues due to the country, borrower, intermediary, and nature of the transaction. The ICRAS credit risk ratings play a role in determining the credit risk rating for non-sovereign foreign borrowers. In instances where private sector risk ratings are available for the borrowers or intermediaries, USAID incorporates those ratings, as appropriate or required, into the overall assessment. **(See Mandatory Reference, DCA Credit Manual, for details on USAID's development of credit risk ratings. USAID employees may contact E3/DC for a hardcopy of this reference.)**

623.3.2.7 Revenues and Expenses

M/CFO/LM recognizes as interest income the interest accrued on direct loans, including amortized interest and the interest due from Treasury on uninvested funds (**exchange revenue**). M/CFO/LM recognizes as interest expense the interest accrued on the liability of loan guarantees and the interest accrued on debt to Treasury.

Costs for administering credit activities, such as salaries, legal fees, and office costs that are incurred for credit policy evaluation, loan and loan guarantee origination, closing, servicing, monitoring, maintaining accounting and computer systems, and other credit administrative purposes, are recognized in USAID's accounting system as administrative expenses. Administrative expenses are not included in calculating the subsidy costs of direct loans and loan guarantees.

Under OMB A-129, interest and fees should be set at levels that minimize USAID's total cost, including administrative costs and default and other subsidy costs of the direct

loan or credit guarantee, while supporting achievement of the program's policy objective.

M/CFO/LM in conjunction with the PTA/LSA must develop the estimates for accrued interest income and interest expense as required for the production of reports and statements. The DCA Operations Manual requires Operating Units to estimate the administrative expenses necessary to monitor the proposed DCA activity as part of the credit proposal.

623.3.2.8 Recognizing Losses and Liabilities on Pre-FY 1992 Direct Loans and Guarantees

USAID recognizes **an allowance for** the losses of direct loans obligated and **the liabilities of** loan guarantees committed before October 1, 1991, when it is more likely than not that the direct loans will not be collected totally or that the loan guarantees will require a future cash outflow to pay default claims.

M/CFO/LM must reestimate the allowance of the uncollectible amounts and the liability of loan guarantees each year as of the date of the annual financial statements. In estimating losses and liabilities, the risk factors discussed in **623.3.2.6** must be considered. (See **623.3.2.6**) M/CFO/LM discloses the face value of outstanding guaranteed loans and the amount guaranteed on the financial statement.

M/CFO/LM must use an estimate model designed in accordance with OMB guidance to calculate allowances for all pre-FY 1992 loans and guarantees. M/CFO/LM ensures that the model continues to reflect current policy and that all data used in the model, including interest rates and country risk premia, are accurate and current.

After the M/CFO/LM staff calculates the allowances, they are reviewed by M/CFO/LM management for accuracy and completeness before posting to the general ledger. The allowance accruals should also be compared with those from the prior year. In the case of material differences, M/CFO/LM management must verify the accuracy of external data, such as interest rates and country risk premia. The review also includes an assessment of the impact of the allowance calculations on the financial information presented in USAID's financial reports.

623.3.2.9 Accounting Impacts of Modifications of Direct Loans and Loan Guarantees

Modifications of direct loans and loan guarantees change the subsidy costs and accounting treatment of outstanding direct loans and loan guarantees. USAID must recognize in its accounting records and annual financial statements the financial impact of modifications.

The term "**modification**" means a major USAID or Federal government action, including new legislation or significant administrative action, that materially alters, directly or indirectly, the estimated subsidy cost and the present value of outstanding direct loans or the liability of loan guarantees.

There are two types of modifications, as follows:

a. Direct Modifications. Direct modifications are actions that change the subsidy cost by altering the terms of existing contracts or by selling loan assets. Existing contracts may be altered through such means as forbearance, forgiveness, reductions in interest rates, extensions of maturity, and prepayments without penalty. Such actions are modifications unless they are considered reestimates, or workouts as defined in this section, or are permitted under the terms of existing contracts.

b. Indirect Modifications. Indirect modifications are actions that change the subsidy cost by legislation that alters the way in which an outstanding portfolio of direct loans or loan guarantees is administered. Examples include a new method of debt collection prescribed by law or a statutory restriction on debt collection.

The term modification does not include subsidy cost reestimates, routine administrative workouts of troubled loans, and actions that are permitted within the existing contract terms. Workouts are actions taken to maximize repayments of existing direct loans or minimize claims under existing loan guarantees. The expected effects of workouts on cash flows are included in the original estimate of subsidy costs and subsequent reestimates.

Paris Club reschedulings are treated as workouts. Paris Club debt reductions are treated as direct modifications.

623.3.2.10 Calculating the Modification of Direct Loans

The cost of a direct or indirect modification to pre-FY 1992 or post-FY 1991 direct loans is the excess of the pre-modification value of the loans over their post-modification value. USAID recognizes as a modification expense the amount of the modification cost when the loans are modified.

When post-FY 1991 direct loans are modified, M/CFO/LM changes their existing book value to an amount equal to the present value of the loans' net cash inflows projected under the modified terms from the time of modification to the loans' maturity and discounted at the original discount rate (**the rate that was originally used to calculate the present value of the direct loans, when the direct loans were disbursed**).

When pre-FY 1992 direct loans are directly modified, M/CFO/LM transfers them to a financing account and their book values are changed to an amount equal to their post-

modification value. Any subsequent modification is treated as a modification of post-FY1991 loans.

When pre-FY 1992 direct loans are indirectly modified, they are kept in a liquidating account. Their bad debt allowance is reassessed and adjusted to reflect amounts that would not be collected due to the modification.

The changes in book value of both pre-FY 1992 and post-FY 1991 direct loans resulting from a direct or indirect modification and the cost of modification normally differ, due to the use of different discount rates or the use of different measurement methods. Any difference between the change in book value and the cost of modification is recognized as a gain or loss. For post-FY 1991 direct loans, the modification adjustment transfer paid or received to offset the gain or loss is recognized as a financing source (**or a reduction in financing source**).

If the decrease in book value exceeds the cost of modification, USAID receives a transfer from the Treasury for an amount of modification adjustment equal to the excess. If the cost of modification exceeds the decrease in book value, USAID must pay to the Treasury an amount of modification adjustment to offset the excess.

623.3.2.11 Calculating the Modification of Loan Guarantees

The cost of a direct or indirect modification of pre-FY 1992 or post-FY 1991 loan guarantees is the excess of the post-modification liability of the loan guarantees over their pre-modification liability. M/CFO/LM recognizes the modification cost as a modification expense when the loan guarantees are modified.

M/CFO/LM changes the existing book value of the liability of modified post-FY 1991 loan guarantees to an amount equal to the present value of net cash outflows projected under the modified terms from the time of modification to the loans' maturity, and discounted at the original discount rate (the rate that is originally used to calculate the present value of the liability when the guaranteed loans were disbursed).

When pre-FY 1992 loan guarantees are directly modified, M/CFO/LM transfers them to a financing account and the existing book values of the liability of the modified loan guarantees are changed to an amount equal to their post-modification liability. Any subsequent modification is treated as a modification of post-FY 1991 loan guarantees. When pre-FY 1992 direct loan guarantees are indirectly modified, they are kept in a liquidating account. The liability of those loan guarantees is reassessed and adjusted to reflect any change in the liability resulting from the modification.

The change in the amount of liability of both pre-FY 1992 and post-FY 1991 loan guarantees resulting from a direct or indirect modification and the cost of modification normally differ, due to the use of different discount rates or the use of different measurement methods. Any difference between the change in liability and the cost of modification is recognized as a gain or loss. For post-FY 1991 loan guarantees,

M/CFO/LM recognizes as a financing source (**or a reduction in financing source**) the modification adjustment transfer paid or received to offset the gain or loss.

If the increase in liability exceeds the cost of modification, USAID receives a transfer from the Treasury for the amount of modification adjustment equal to the excess. If the cost of modification exceeds the increase in liability, USAID pays the Treasury an amount of modification adjustment to offset the excess.

623.3.2.12 Sale of Loans

The sale of post-FY 1991 and pre-FY 1992 direct loans is a direct modification. **(See 623.3.2.9)** USAID determines the cost of modification on the basis of the pre-modification value of the loans sold. If the pre-modification value of the loans sold exceeds the net proceeds from the sale, the excess is the cost of modification, which is recognized as a modification expense.

For a loan sale with recourse, potential losses under the recourse or guarantee obligations are estimated, and the present value of the estimated losses from the recourse is recognized as subsidy expense when the sale is made and as a loan guarantee liability.

The book value loss (**or gain**) on a sale of direct loan equals the existing book value of the loans sold minus the net proceeds from the sale. Since the book value loss (**or gain**) and the cost of modification are calculated on different bases, they normally differ. Any difference between the book value loss (**or gain**) and the cost of modification is recognized as a gain or loss. For sales of post-FY 1991 direct loans, the modification adjustment transfer paid or received to offset the gain or loss is recognized as a financing source (**or a reduction in financing source**).

623.3.2.13 Financial Statement Disclosure and Discussion

M/CFO/LM discloses in notes to financial statements the nature of the modification of direct loans or loan guarantees, the discount rate used in calculating the modification expense, and the basis for recognizing a gain or loss related to the modification.

USAID must also provide in a note to the financial statements a reconciliation between the beginning and ending balances of the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees reported in the balance sheet. The reconciliation follows the format in Statement of Federal Financial Accounting Standards (**SFFAS**) 18 and 19 **(See Mandatory References, SFFAS 18 and SFFAS 19)**.

USAID must provide in the annual financial statement a description of the characteristics of the programs that we administer, and disclose the following for each program:

a. The total amount of direct or guaranteed loans disbursed for the current reporting year and the preceding reporting year;

b. The subsidy expense by components (**interest subsidy costs, default costs, fees and other collections, and other subsidy costs**), recognized for the direct or guaranteed loans disbursed in those years; and

c. The subsidy reestimates by components (**the interest rate reestimate and the technical/default reestimate**) for those years.

USAID must disclose, at the program level, the subsidy rates for the total subsidy cost and its components for the interest subsidy costs, default costs (**net of recoveries**), fees and other collections, and other costs, estimated for direct loans and loan guarantees in the current year's budget for the current year's cohorts. Each subsidy rate is the dollar amount of the total subsidy or a subsidy component as a percentage of the direct or guaranteed loans obligated in the cohort. Trend data to display significant fluctuations in subsidy rates, if used, **must** be accompanied by an analysis to explain the underlying causes for the fluctuations.

USAID must disclose, discuss, and explain events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates. The disclosure and discussion should also include events and changes that have occurred and are more likely than not to have a significant impact but the effects of which are not measurable at the reporting date. Changes in legislation or credit policies include, for example, changes in borrowers' eligibility, the levels of fees or interest rates charged to borrowers, the maturity terms of loans, and the percentage of a private loan that is guaranteed.

623.3.3 Mission Accounting Procedures for DCA Loan Portfolio Guarantees

The Subsidy Request Memo signed by the CFO is an important document in the approval of credit activities. This document contains the credit subsidy amount that has been allowed to the Mission and that is transferred into the DCA subsidy account.

Once the Mission Director and the Guaranteed Party (**the private-sector financial partner to the DCA deal**) sign the guarantee agreement, it becomes the obligating/sub-obligating document. The Mission Controller must maintain a copy of the obligating document to support the obligation recorded on the Mission's books.

Collection of Fees. The origination fee (**as outlined in the guarantee agreement**) is based upon a percentage of the guaranteed amount, and is denominated in dollars or in local currency.

a. Local currency. If it is a local currency guarantee, there are two methods of collecting the local currency origination fee. The most streamlined process is

only available if the PTA/LSA has a correspondent bank in country. The PTA/LSA then requests that the guaranteed party (**GP**) use the SWIFT (**Society for Worldwide Interbank Financial Telecommunications**) communication system to wire the funds directly to them. The PTA/LSA or their correspondent bank converts the foreign currency into dollars at market rates. The PTA/LSA forwards the dollar equivalent of the local currency originiation fee to USAID's financing account at Treasury.

When there is no PTA/LSA correspondent bank in country, the GP pays the local USAID Controller a check based on the dollar/local currency rate the day the fee is paid. The Controller credits the DCA guarantee financing account (**72X4266**) through the U.S. Disbursing Officer (**USDO**), referencing the DCA agreement number.

b. Dollars. If it is a dollar-denominated deal, the GP uses a wire transfer based on instructions from M/CFO/LM.

Liquidation of the Obligation. The liquidation of the obligation is based upon the GP utilizing the guarantee. As the subsidy is used, it is moved from the program account (**on the books of the Mission**) to the financing account (**on the books of USAID/W**). For example, if $100,000 in DCA subsidy is used to guarantee $1 million in loans, there is a 10 percent subsidy rate. The PTA/LSA determines how much of the guarantee is being utilized and notifies M/CFO/LM. M/CFO/LM maintains the general ledger for DCA and then uses an SF-1081, Voucher and Schedule of Withdrawals and Credits, to transfer the funds from the program account to the financing account. Via IPAC, M/CFO/LM sends the amount of subsidy transferred to the financing account to the Mission. The Mission records the IPAC charge as an expenditure against its obligation record, effectively reducing the program account obligation on the Mission's books. Section 1311 Reviews of the DCA obligation are conducted by the appropriate Missions to ensure that the GP is utilizing the guarantee.

Disbursement of Claims to the GP. If the GP suffers a write-off of a loan under the guarantee, they submit a claims request to the Mission project officer for payment. The project officer reviews and approves the claim and faxes the claim to the DCA credit office. The credit office, depending on whether there is a PTA/LSA correspondent bank in country, either furnishes a funds cite to the Mission Controller for making the payment or instructs the PTA/LSA to make the payment using SWIFT.

623.3.4 Loan Servicing

Loan and loan guarantee servicing requires contact with borrowers, maintenance of the official loan file, development of current and useful loan status information, identification of problem accounts, billing and collection, debt servicing, loan rescheduling, and processing of waivers, modifications, and amendments to loan agreements. Servicing is the responsibility of M/CFO/LM, the CRB, the PTA/LSA, and the Operating Units. Servicing responsibilities are described more fully in the DCA Operations Manual, the

individually approved credit deals, and the contract with the PTA/LSA. **(See Mandatory Reference, DCA Operations Manual)**

The CFO's Role in Loan Servicing. The CFO, working through the CRB, must ensure that cost-effective decisions are made concerning portfolio management, including full consideration of contracting out for servicing and selling the portfolio. USAID loan servicing standards must meet the requirements set forth in OMB Circular A-129 regarding loan documentation, billing and collections, the use of escrow accounts, and debt reporting to credit reporting agencies. **(See Mandatory Reference**, **OMB Circular A-129)** As part of USAID's CFO Financial Management Five Year Plan, the CFO develops a credit management and debt collection plan for effectively managing credit extension, account servicing, portfolio management, and delinquent debt collection.

Servicing for DCA Loans. For DCA loans, Operating Units must demonstrate that they have the capacity and necessary resources to ensure careful monitoring. As part of the activity approval process, the Credit Review Board (**CRB**) examines the Operating Unit's financial monitoring plan to ensure that the Operating Unit can establish a sound "**early warning system**." This early warning system is based on the PTA/LSA's monthly Control Logs to the Operating Unit. The early warning system tracks information that is relevant to the financial success of the activity. The factors to be monitored vary according to the nature of the activity, structure of the financial arrangements, and form of risk sharing.

The Operating Unit accomplishes financial monitoring by carefully assessing the reporting and payment thoroughness of participants in the activity. Additionally, the Operating Unit uses data from the monitoring process to meet subsidy reestimating requirements.

The Operating Unit must prepare a detailed financial monitoring plan to be included with other activity documentation during the activity approval process. It requests loan disbursements, reviews, and approves claims.

The Operating Unit sends exception reports to the Development Credit Staff if warranted due to changes in financial conditions of in-country borrowers/intermediaries. Early warning factors may include the following:

- Change in financial soundness of partners,
- Change in relevant attitudes,
- Change in economics of the sector, and
- Change in foreign exchange rates, if applicable.

Servicing for Other Loans. For all other loans in the Mission portfolio, the Mission Controller performs servicing functions and is responsible for maintaining a relationship

with the borrower (**e.g., Ministry of Finance in the cooperating country or other appropriate offices**) regarding the financial aspects of loan servicing. The Mission Controller furnishes payment due date information and pursues follow-up action to ensure timely repayment of the principal installment and payment of interest. The Mission Controller must maintain records as required for each USAID loan in the cooperating country or serviced region in order to answer questions and provide data.

M/CFO/LM's Role in Loan Servicing. M/CFO/LM coordinates information and actions with other offices pertaining to disbursements made by M/CFO, collections in local currency made at overseas posts, and any pending legal actions involving the borrower.

623.3.4.1 Paying and Transfer Agent/Loan Servicing Agent (PTA/LSA)

Riggs National Bank, as USAID's Paying and Transfer Agent/Loan Servicing Agent (**PTA/LSA**), has a contract for performing certain loan servicing functions. The PTA/LSA is authorized to disburse and collect funds on behalf of USAID and prepare reports for USAID, including the delineation of all disbursements and receipts of credit-related activities (**Control Logs**). In addition, the PTA/LSA performs subsidy ledger accounting for all loans, feeding this information electronically into USAID's Standard General Ledger.

In the case of DCA loan portfolio guarantees, the PTA/LSA creates an accounts receivable based on the Qualifying Loan Schedule (**QLS**) provided by the Guaranteed Party (**GP**) to USAID and send a bill to the GP. The PTA/LSA does **NOT** review the QLS for compliance with the loan criteria outlined in the guarantee agreement. The Mission performs this compliance review as part of its management oversight.

The PTA/LSA sends a Control Log to M/CFO/LM, the Development Credit Staff (**for Development Credit Authority (DCA) loans**) and the Operating Unit on at least a monthly basis. The Control Log summarizes the Borrower's/Intermediary's financial transactions each month, and is submitted by the 10th day of the month. In addition, as part of its funds collection and accounting process, the PTA/LSA generates Control Log "**early warning**" alerts to inform the Operating Units of financial events requiring attention. The PTA/LSA sends the Operating Unit a Control Log immediately each time there is a major financial event requiring action (**such as default, delayed claim payment, utilization reports not received, etc.**).

Data elements for the Control Log must include the following:

- Loan and guarantee transactions by country,
- Total amount of loans and guarantees,
- Principal and interest receipts (quarterly and cumulative to date),

- Facility fee and utilization fee outstanding and collected to date,
- Aged receivables, by time period,
- Claim payments made to date, and
- Undisbursed balances.

623.3.4.2 Notices of Payment Due (NPD)

Billings on all loans receivable are to be prepared in accordance with loan repayment terms. The PTA/LSA must prepare billings **60** calendar days before the scheduled payment due date. Billings should not be discontinued on a loan receivable unless the loan has been written-off, closed out, or recommended for litigation by USAID.

Prior to the initial principal billing, M/CFO/LM provides the borrower with an amortization schedule or payment remittance schedule showing the dates and amounts due, unless the loan agreement specifically provides for the terms and conditions of repayment.

The PTA/LSA handles all billing functions for the USAID loan portfolio. The PTA/LSA performs these functions in accordance with the USAID contract, individual DCA legal agreements, and the Operating Unit's financial management plan for the activity.

The PTA/LSA generates and submits NPDs to the recipient and provides copies of NPDs to the Operating Units and to M/CFO/LM. The PTA/LSA sends the first NPD as well as the first delinquency notice. Operating Units send subsequent delinquency NPDs in their collection efforts.

NPDs include, at a minimum, the following data:

a. Date of bill.

b. Billing period.

c. Outstanding balance.

d. Current and previous amounts due with information on principal, interest, late payment penalties, origination fees, utilization fees, and administrative charges, if any, shown separately.

e. Payment due date.

f. Warning of administrative, interest, and penalty charges on late payments, including the amount of interest due if paid after the due date.

g. Mailing address for the remittance.

h. Instruction to include bill number on the remittance for ease of identification of loan to be credited.

i. Applicable guidance for use of Electronic Funds Transfer (**EFT**) procedures.

The order of preference for the method of receiving payments is

a. EFT via the NY Fed to USAID's account at Treasury.

b. By check directly to the Mission or the PTA/LSA, as appropriate.

c. At the Mission in the case of a local currency payment.

Mission Controllers must fax the general receipts form for all local currency collections dealing with loans (DCA, Micro and Small Enterprise Development (**MSED**), and Direct Loans) to M/CFO/LM at (202) 216-3540. This ensures that these collections get posted in a timely manner to the Agency's General Ledger.

623.3.4.3 Delinquencies and Defaults

For direct loans, USAID considers a loan to be delinquent when the borrower has not made payment by the date specified in the agreement unless other satisfactory payment arrangements have been made.

Guaranteed loans are in default when the borrower breaches the loan agreement with the private sector lender, requiring USAID to repay the lender.

The PTA/LSA notifies the Operating Units and M/CFO/LM in the event of a late payment or default by a borrower. **(See 623.3.4.2)** The Operating Unit ensures that an aggressive but fair attempt to recover the delinquency is undertaken.
The monthly Control Logs from the PTA/LSA to the Operating Unit indicate overdue receivables. **(See 623.3.4.1)** The Operating Units are responsible for sending dunning notices to the borrower/intermediary in the event of non-payment.

In general, if an adequate response is not received from the borrower after the first dunning notice, the Operating Unit notifies the Development Credit Staff and the PTA/LSA of the delinquency via an Exception Report. **(See Mandatory Reference**, **Development Credit Authority Operations Manual)** The Operating Unit takes appropriate actions to further notify the borrower/intermediary management of the delinquency. The borrower/intermediary's failure to meet reporting requirements may prevent the Agency from making future claim payments until the reporting delinquency is resolved.

Within 10 days after the Operating Unit makes a collection attempt, the Operating Unit sends an Exception Report to the PTA/LSA and the Development Credit Staff documenting its efforts. Follow the procedures for continued follow-up as outlined in the DCA Operations Manual. **(See Mandatory Reference, DCA Operations Manual)**

623.3.4.4 Direct Loan Workouts

Sovereign Borrowers. The Paris Club, an informal forum of creditor governments that review, negotiate, and adopt debt relief programs for poor countries, is the official means of coming to a workout agreement with a sovereign borrower. The Department of State is the lead organization for dealing with the Paris Club. M/CFO/LM provides support as needed to the Department of State in developing bilateral rescheduling agreements.

Non-Sovereign Borrowers. Operating Units need to create workout plans for any non-sovereign transactions that are 180 days delinquent in financial payments. The Operating Units submit the workout plans to the CRB for approval. The Operating Unit may request assistance from the Development Credit Staff in establishing the plan.

At a minimum, on an annual basis, the Operating Unit coordinates with the Development Credit Staff to send out notifications to all current and former participants in the DCA where the intermediaries are responsible for pursuit of defaulted loans submitted for claim under USAID Guarantee. Borrowers/intermediaries are legally obliged to share any recoveries with USAID.

The Operating Unit requests a representative from the intermediary financial institution certify any outstanding claimed balances that have not been recovered. The Operating Unit maintains appropriate records for claims pursued.

623.3.4.5 Write-Offs

Section 620(r) of the Foreign Assistance Act of 1961, as amended, (FAA) prohibits the write-off, i.e., forgiveness, of any principal or interest of both sovereign and non-sovereign loans. In addition, the FCRA requires an appropriation for any increase in cost of a modification of a post-FY 1991 loan if existing appropriations or other budgetary resources are not available.

Termination and suspension of collection, settlement, and compromise are legal procedures that are separate and distinct from the accounting procedure of write-off. Additional guidance on these procedures is contained in the Federal Claims Collection Standards and OMB Circular A-129. **(See Mandatory References, 31 CFR 901 and OMB Circular A-129)**

Sovereign Loans. For sovereign loans, USAID retains the loan on its records unless a write-off is approved under special authorities legislated by Congress. Prior to 1988, the Paris Club generally engaged only in rescheduling, but not reducing debt. Under

authority granted by Congress in 1993 (**Pub.L. 103-87, Foreign Operations Appropriations, Section 570**), the United States began in 1994 to participate in Paris Club arrangements to reduce non-concessional debt owed by developing nations with strong economic reform records.

Pub.L. 105-214, Debt Relief for Tropical Rainforest Countries, authorizes the President to buy back, swap, or cancel concessional U.S. economic and food aid loans in order to generate local currencies that are used to support tropical forest conservation programs.

The Office of the General Counsel has ruled that the debt collection provisions of OMB Circular A-129 and the Federal Claims Collection Standards do not apply to sovereign loans.

Non-Sovereign Loans. Section 108 of the FAA exempts the Micro and Small Enterprise Development Program (**MSED**) from the provision of Section 620(r). Consequently, loans under the MSED program may be forgiven provided they comply with the requirements of OMB Circulars A-11 and A-129. **(See Mandatory References, OMB A-11 and A-129)**

Guarantees. Section 620(r) does not apply to guarantees. USAID has the authority to settle or compromise guarantees subject to the requirements of the FCRA and OMB Circulars A-11 and A-129 as appropriate. **(See Mandatory References, FCRA, OMB Circular A-11, and A-129)**

The Operating Unit recommends write-offs after certifying to the CRB that all due-diligence collection efforts have been made. The CRB has the duty of reviewing and making recommendations to the CFO on write-offs and compromises.

623.3.5 Management of Section 620(q) and Brooke Potential Violations

623.3.5.1 620(q)/Brooke Default Provisions

Section 620(q) of the FAA requires USAID to "**terminate**" FAA assistance for a country when debt (**principal and/or interest**) from loans made under the FAA is more than six months delinquent. The specific language of section 620(q) is as follows:

> "**No assistance shall be furnished under this Act to any country which is in default, during a period in excess of six calendar months, in payment to the United States of principal or interest on any loan made to such country under this Act, unless such country meets its obligations under the loan or unless the President determines that assistance to such country is in the national interest and notifies the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate of such determination**."

A country in violation of this provision is commonly referred to as "**in 620(q)**." Section 620(q) may be waived for a specific country by the Secretary of State based on U.S. national interest considerations.

The Brooke/Alexander Amendment to the Appropriation Act (**now Section 512 of the Appropriations Act**) applies to "**termination**" of assistance for loan defaults (principal and/or interest) of more than one year for loans made with funds appropriated by the foreign operations appropriation. The specific language of this section of the act is as follows:

> "**No part of any appropriation contained in this Act shall be used to furnish assistance to any country which is in default during a period in excess of one calendar year in payment to the United States of principal or interest on any loan made to such country by the United States pursuant to a program for which funds are appropriated under this Act: Provided, That this section and section 620(q) of the Foreign Assistance Act of 1961 shall not apply to funds made available for any narcotics-related assistance for Colombia, Bolivia, and Peru authorized by the Foreign Assistance Act of 1961 or the Arms Export Control Act**."

A country in violation of this provision is commonly referred to as being "in Brooke." Only the President may waive the sanctions mandated by Brooke. Section 620(q) and Brooke do not apply to defaults under guarantees.

Loans that trigger Brooke are sovereign loans from either the FAA or from under any of the other programs for which funds are appropriated in the foreign operations appropriation act, most notably Department of Defense (DOD) foreign military sales (FMS) loans and post-FY 1991 Export-Import Bank loans.

623.3.5.2 620(q)/Brooke U.S. Government Loan Triggers

Section 620(q) and Brooke do not apply to defaults under guarantees.

Loans that trigger 620(q) are sovereign loans authorized by the FAA (**primarily USAID direct loans under Development Assistance, Economic Support Funds, Development Fund for Africa, etc.**).

Loans that trigger Brooke are sovereign loans from either the FAA or from under any of the other programs for which funds are appropriated in the foreign operations appropriation act, most notably Department of Defense (**DOD**) foreign military sales (**FMS**) loans and post-FY1991 Export-Import Bank loans.

Non-sovereign loans, Public Law 480 (**PL 480**) loans, pre-FAA loans, and foreign currency loans do not trigger sanctions.

623.3.5.3 Mini-Brooke – A Special Case

DOD has an internal, administrative sanction called "**mini-Brooke**" that applies to refinanced FMS debt. Mini-Brooke prohibits any new FMS programs from being obligated following a country's 90-day delinquency on the rescheduled due date of a prior FMS debt. Mini-Brooke does not affect USAID programs.

623.3.5.4 Initiation of Sanctions

USAID does not officially notify Missions on the application of sanctions. The State Department takes that action. The official notice of sanctions may not arrive at Post until several days after 620(q) or Brooke has been triggered. Since the statutes refer to delinquencies "**in excess of**" six months or one year, USAID's policy is six months or one year plus one day for triggering sanctions under 620(q) and Brooke respectively. USAID takes the position that sanctions apply any time debt payment has not been received by USAID by the six month plus one day or one year plus one day period whether notice has been given, or for that matter, whether or not warning has been provided.

Example:

If the due date of an unpaid amount is January 5, 1991, and payment has not been received by July 5, 1991, sanctions apply at 12:01 a.m. July 6, 1991. If 620(q) has been waived, Brooke sanctions would apply at 12:01 a.m. January 6, 1992.

Neither the intention to seek debt rescheduling nor the fact that agreement may have been reached at Paris Club on the terms of debt rescheduling are sufficient to provide relief from the sanctions of 620(q) or Brooke.

The Paris Club agreement is a non-legally binding document in which the U.S. Government makes a commitment to recommend the terms of the rescheduling to the U.S. agencies involved. A bilateral agreement must then be executed. This agreement includes all U.S. agencies involved in the rescheduling. After entry into force, it is a binding agreement on the terms of the rescheduling. Entry into force date of bilateral agreements is determined and communicated by the State Department. (**Congressional notification, including a 30-day waiting period after an agreement is executed, is required before entry into force of the Agreement.**) USAID does not consider the bilateral agreement as affecting debt until the State Department determination is communicated to USAID.

As soon as M/CFO/LM receives notification of the entry into force date of a bilateral rescheduling agreement, it informs the Host Government and the corresponding USAID Mission of the effect of the rescheduling on 620(q) or Brooke sanctions as appropriate.

623.3.5.5 620(q)/Brooke Impact on USAID Assistance Programs

Section 620(q) prohibits assistance under any of the accounts in the FAA, not just the account from which the loan was made. Similarly, a default under Brooke prohibits assistance under any of the programs covered by the appropriations act. Thus, a default on a DOD loan covered by Brooke would prohibit assistance with FAA funds and the other appropriation accounts, such as SEED funds. Operating expense obligations are not considered assistance and therefore are not affected by 620(q) or Brooke sanctions. Sanctions do not apply to P.L. 480 funds because they are not in the FAA or the appropriations act.

Section 620(q) and Brooke are the type of prohibition on assistance that requires the "**termination**" of assistance. "**Termination**" means no new obligations of assistance. Unlike some other prohibitions on assistance, they do not require "**suspension**" of assistance that requires the cancellation of existing agreements. Therefore, implementation commitment actions on existing obligations can continue. Payments for services and goods under existing obligations can be made.

These prohibitions cover assistance to private individuals and entities in the prohibited country, not just to the government. They cover contracts, grants, cooperative agreements, and invitational travel.

As with other provisions on the prohibition of assistance, violations of section 620(q) and Brooke may call into question continuation of existing programs and whether USAID should begin a "**wind-up**" of existing programs. Section 617 of the FAA of 1966, as amended provides authority for new obligations for up to eight months from the date of termination of assistance necessary for an orderly wind-up of existing programs of assistance.

Address questions regarding whether new obligations of program funds can be incurred to your Regional Legal Officer (**RLO**) for resolution.

623.3.5.6 "Notwithstanding" Authorities

There are a number of "**notwithstanding**" authorities in the FAA and appropriations acts that permit the furnishing of assistance notwithstanding prohibitions on furnishing assistance, including 620(q) and the Brooke Amendment. For example

- Section 512 of the FY 2000 Foreign Operations Appropriations Act specifically exempts narcotics-related assistance for Colombia, Bolivia, and Peru from both 620(q) and Brooke.

- Section 522 of the FY 2000 Appropriations Act provides that funds appropriated by the Act for child survival activities or disease programs, including activities relating to research on, and the prevention, treatment and control of, Acquired

Immune Deficiency Syndrome, may be made available notwithstanding any provision of law that restricts assistance to foreign countries and that funds appropriated by the Act for family planning activities may be made available notwithstanding section 512 of the Act and section 620(q) of the Foreign Assistance Act of 1961.

- Section 538 (a) of the FY 2000 Appropriations Act provides that funds appropriated in titles I and II of this Act that are made available for Afghanistan, Lebanon, Montenegro, and for victims of war, displaced children, displaced Burmese, humanitarian assistance for Romania, and humanitarian assistance for the peoples of Kosova, may be made available notwithstanding any other provision of law: Provided that any such funds that are made available for Cambodia shall be subject to the provisions of section 531(e) of the Foreign Assistance Act of 1961 and section 906 of the International Security and Development Cooperation Act of 1985.

- Section 538 (b) of the FY 2000 Appropriations Act provides that funds appropriated by the Act to carry out the provisions of sections 103 through 106 of the Foreign Assistance Act of 1961 may be used, notwithstanding any other provision of law, for the purpose of supporting tropical forestry and biodiversity conservation activities.

- Section 541 (a) of the FY 2000 Appropriations Act provides that restrictions contained in this or any other Act with respect to assistance for a country shall not be construed to restrict assistance in support of programs of nongovernmental organizations.

- Section 491(b) of the FAA provides that notwithstanding any other provision of this or any other Act, assistance can be furnished to any foreign country, international organization, or private voluntary organization for disaster relief and rehabilitation, including assistance related to disaster preparedness and contingency planning for natural disasters abroad.

There are other notwithstanding authorities and the existing ones may change as the statutes change. Bureaus and Missions should consult their Assistant General Counsel or RLO on the application of any notwithstanding authorities.

623.3.5.7 Monitoring 620(q)/Brooke

M/CFO/LM has primary responsibility for monitoring 620(q) and Brooke using DOD and Export-Import Bank (**EXIM**) information, internally developed and PTA/LSA reports on delinquency, as well as any other appropriate source, and notifies Bureaus and Missions when a USAID loan payment is past due.

At least one follow-up to this initial message is sent on USAID loan arrearages stating that unless payment is received, 620 (q) (**or Brooke if applicable**) apply on a specific

date. This message must provide a warning of about 45 days for either 620 (q) or Brooke dates. After this message is sent to the field, M/CFO/LM primarily reacts to Mission inquires.

Exception: When a payment is received by M/CFO/LM on a potential 620(q) or Brooke debt, M/CFO/LM sends a message to the Mission verifying receipt of payment and establishing a new potential sanction date/amount, if appropriate.

In addition, M/CFO/LM prepares a monthly delinquency report from all appropriate sources. This report provides an additional warning notice to those countries under sanctions or with debt that is potential for 620(q) or Brooke with the subsequent 45 days. The latest copies of the monthly delinquency report can be found on **USAID's internal website** (**http://inside.usaid.gov/M/FM/**).

While one of the major responsibilities of M/CFO/LM is to provide accurate and timely loan servicing data, obligations are primarily made and recorded at the Mission, and the Mission Controller must also monitor debt repayments so that obligations are valid. Each Mission must establish a monitoring system for debt repayment. M/CFO/LM staff works with field Controllers to help maintain current data. Given that DOD can also trigger Brooke Sanctions, Controllers must establish liaison with appropriate staff in the Embassy to monitor DOD debt as well.

623.3.6 Reporting

USAID must produce external reports required by OMB in Circular A-11 **(See Mandatory Reference, OMB Circular A-11)** and Treasury, including those associated with the Federal Credit Reform Act of 1990 and the Chief Financial Officers Act of 1990. In addition, direct and guaranteed loans, direct credit, and credit guarantees are reported on the USAID consolidated financial statements. M/CFO/LM is responsible for the preparation and submission of timely and reliable reports that fully disclose the results of all programs and activities and the consolidation of the information. M/CFO/LM must carefully develop accrued revenues and expenses for financial statement preparation and review them for consistency.

623.4 MANDATORY REFERENCES

623.4.1 External Mandatory References

a. **31 CFR 285.12, Transfer of Debts to Treasury for Collection**

b. **Federal Claims Collection Standards (31 CFR 901)**

c. **Federal Credit Reform Act of 1990**

d. **OMB Circular A-11, Preparation and Submission of Budget Estimates, Part 5, Section 185, Federal Credit Programs**

e. **OMB Circular A-127, Financial Management Systems**

f. **OMB Circular A-129, Managing Federal Credit Programs**

g. **OMB's Form and Content Bulletin in effect for the period covered by the financial statements**

h. **Statement of Federal Financial Accounting Standards (SFFAS) No. 2 - Accounting for Direct Loans and Loan Guarantees**

i. **Statement of Federal Financial Accounting Standards (SFFAS) No. 18 - Amendments to Accounting Standards for Direct Loans and Loan Guarantees**

j. **Statement of Federal Financial Accounting Standards (SFFAS) No. 19 - Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees**

k. **Treasury Financial Manual reporting requirements**

623.4.2 Internal Mandatory References

a. **ADS 502, The USAID Records Management Program**

b. **ADS 623maa, Development Credit Authority Operations Manual**

c. **Development Credit Authority Credit Manual (USAID employees may contact E3/DC for a hardcopy of this reference.)**

623.5 ADDITIONAL HELP

***a.** **OMB Annual Credit Training Documents**

***b.** **Treasury FMS Credit Reform Case Studies:**
Visit **http://www.fms.treas.gov/ussgl/creditreform/index.html**
Direct Loan Programs 2008 Updated Case Study

623.6 DEFINITIONS

accrued revenue
Revenues are earned by USAID and are owed to USAID as performance occurs, regardless of the timing of collection or whether billing has occurred. Receipts collected in advance of performance are unearned revenue (deferred income) until performance occurs, and develop into accrued revenues as the money is earned by USAID. (Chapter 623)

**An asterisk and yellow highlight indicate the adjacent material is new for this chapter or substantively revised.*

book value
The net amount at which an asset or liability is carried on the books of account (also referred to as carrying value or amount). It equals the gross or nominal amount of any asset or liability minus any allowance or valuation amount. (SFFAS 2) (Chapter 623)

cohort
Those direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years. Post-FY 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-FY1992 loans and loan guarantees that are modified will each, respectively, constitute a single cohort. (OMB Circular No. A-11, Preparation and Submission of Budget Estimates) (Chapter 623)

direct loan
A disbursement of funds by USAID 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. (OMB Circular A-11) (Chapter 623)

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. (OMB Circular No. A-11, Instructions on Budget Execution) (Chapter 623)

interest method
A method used to amortize the subsidy cost allowance of direct loans. Under this method, the amortization amount of the subsidy cost allowance equals the effective interest minus the nominal interest of the direct loans. The effective interest equals the present value of the direct loans times the effective interest rate (the discount rate). The nominal interest equals the nominal amount (face amount) of the direct loans times the stated interest rate (the rate stated in the loan agreements). (SFFAS 2) (Chapter 623)

interest rate reestimate
A reestimate for the subsidy cost of direct loans or loan guarantees due to a change in the interest rates used in present value calculations from the assumed interest rates used in budget preparations to the interest rates that are applicable to the periods in which the direct or guaranteed loans are disbursed. (SFFAS 18) (Chapter 623)

liquidating account
The budget account that includes all cash flows to and from the government resulting from pre-FY 1992 direct loans or loan guarantees (those originally obligated or committed before Oct. 1, 1991) except those pre-FY 1992 direct loans and loan guarantees that have been directly modified and transferred to a financing account. (OMB Circular A-11) (Chapter 623)

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 nonfederal borrower to a nonfederal lender, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (OMB Circular No. A-11) (Chapter 623)

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. (OMB Circular No. A-11) (Chapter 623)

modification
A federal government action, including new legislation or administrative action, that directly or indirectly alters the estimated subsidy cost and the present value of outstanding direct loans (or direct loan obligations), or the liability of loan guarantees (or loan guarantee commitments). Direct modifications are such actions that change the subsidy cost by altering the terms of existing contracts, selling loan assets, and purchasing loans under guarantee from a private lender. Indirect modifications change the subsidy cost by legislation that alters the way in which an outstanding portfolio of direct loans or loan guarantees is administered. (According to OMB Circular A-11, the term modification does not include a Government action that is assumed in the baseline cost estimate, as long as the assumption is documented and has been approved by OMB. For example, modification does not include routine administrative workouts of troubled loans or loans in imminent default, and the borrower's or the Government's exercise of an option that is permitted within the terms of an existing contract, such as prepaying the loan. OMB Circular A-11, sec. 85.3 (n) July 1999) (Chapter 623)

modification adjustment transfer
A non-expenditure transfer from a financing account to the Treasury, or vice versa, to offset the difference between the cost of modification of direct loans (or loan guarantees) and the change in the book value of direct loans (or loan guarantee liabilities). (OMB Circular A-11) (Chapter 623)

Operating Unit
USAID field Mission or USAID/W office or higher level organizational unit which expends program funds to achieve a development objective, strategic support objective, or special objective, and which has a clearly defined set of responsibilities focused on the development and execution of a strategic plan. (Chapters **204**, 623)

Paris Club
A process that debtor governments follow to reschedule or refinance official debt. (Chapter 623)

post-modification liability
The present value of net cash outflows of loan guarantees estimated at the time of modification under the post-modification terms, discounted at the current discount rate. (SFFAS 2) (Chapter 623)

post-modification value
The present value of net cash inflows of direct loans estimated at the time of modification under the post-modification terms, discounted at the current discount rate. (SFFAS 2) (Chapter 623)

premia
A risk of default rating for a country. (Chapter 623)

pre-modification liability
The present value of net cash outflows of loan guarantees estimated at the time of modification under the pre-modification terms, discounted at the current discount rate. (SFFAS 2) (Chapter 623)

pre-modification value
The present value of net cash inflows of direct loans estimated at the time of modification under pre-modification terms, discounted at the current discount rate. (SFFAS 2) (Chapter 623)

present value (PV)
The value of future cash flows discounted to the present at a certain interest rate (such as the reporting entity's cost of capital), assuming compound interest. (SFFAS 2) (Chapter 623)

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. (OMB Circular No. A-11) (Chapter 623)

recourse
The rights of a holder in due course of a financial instrument (such as a loan) to force the endorser on the instrument to meet his or her legal obligations for making good the payment of the instrument if dishonored by the maker or acceptor. The holder in due course must have met the legal requirements of presentation and delivery of the instrument to the maker of a note or acceptor of a draft and must have found that this legal entity has refused to pay for or defaulted in payment of the instrument. (SFFAS 2) (Chapter 623)

reestimate
Refers to estimates of the subsidy costs performed subsequent to their initial estimates made at the time of a loan's disbursement. (SFFAS 2) (Chapter 623)

restatement (of direct loans or loan guarantees)
Refers to establishing a new book value of a direct loan or the liability of a loan guarantee. (SFFAS 2) (Chapter 623)

risk category
Subdivisions of a cohort of direct loans or loan guarantees into groups of loans that are relatively homogeneous in cost, given the facts known at the time of obligation or commitment. Risk categories will group all loans obligated or committed for a program during the fiscal year that share characteristics predictive of defaults and other costs. (OMB Circular No. A-11) (Chapter 623)

subsidy cost
The cost of a grant of financial aid, usually by a governmental 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. Direct loan subsidy cost is the estimated long-term cost to the government of direct loans calculated on a present value basis, excluding administrative costs. The cost is the present value of estimated net cash outflows at the time the direct loans are disbursed. The discount rate used for the calculation is the average interest rate (yield) on marketable Treasury securities of similar maturity to the loan, applicable to the time when the loans are disbursed. Loan guarantee subsidy cost is the estimated long-term cost to the government of loan guarantees calculated on a present value basis, excluding administrative costs. The cost is the present value of estimated net cash outflows at the time the guaranteed loans are disbursed by the lender. The discount rate used for the calculation is the average interest rate (yield) on marketable Treasury securities of similar maturity to the loan guarantees, applicable to the time when the guaranteed loans are disbursed. (OMB Circular No. A-11) (Chapter 623)

technical/default reestimate
A reestimate of the subsidy cost of direct loans or loan guarantees based the latest projections on defaults, delinquencies, recoveries, and prepayments, and other cash flow components. (SFFAS 18) (Chapter 623)

workout
Workouts are actions undertaken to maximize the repayments to USAID under existing direct loans or to minimize claim payments that USAID would make under loan guarantees. (SFFAS 2) (Chapter 623)

write-off
An action to remove an amount from USAID's assets. A write-off of a loan occurs when an agency official determines, after all appropriate collection tools have been used, that a debt is uncollectible. Active collection on an account ceases, and the account is removed from USAID's receivables. (SFFAS 18) (Chapter 623)

623_102816