CHAPTER 7

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0701 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) policy and procedures to be followed in accounting for loans receivable. Loans receivable, representing amounts due from others, are recorded as assets from the time the act giving rise to such claims has been completed until the time they are collected, or determined to be uncollectible, in whole or in part. A loan receivable must be recorded in the accounting records in the period in which said claims are established.

Loans receivable are recorded when funds are fully disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable amounts are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances. For loans obligated after September 30, 1991, an allowance equal to the subsidy cost associated with these loans adjusts the loans receivable. This adjustment is due to the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees and other estimated cash flows. Direct loan obligations made after 1991 are governed by the Federal Credit Reform Act of 1990, as amended by the Balanced Budget Act of 1997 and Federal Credit Supplement Budget of the U.S. Government Fiscal Year 2014.

0702 POLICIES

070201 VA will ensure that direct loans obligated after September 30, 1991, are 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 by the Balanced Budget Act of 1997 and Federal Credit Supplement Budget of the U.S. Government Fiscal Year 2014.

070202 VA will ensure that recognition and reporting of direct loans obligated comply with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) Nos. 2, 18, and 19.

070203 VA will ensure that loans receivable for exchange transactions are recorded at the full value of goods or services provided, or as mandated by legislation or regulations. To the extent that collection of the full amount (gross value) of the receivable is not probable, an allowance for bad debt or contractual adjustment shall be established. The allowance shall only be established on pre-1991 loans.

070204 VA will establish major categories of loans receivables at the level required to permit full disclosure of the nature of receivables in financial reports. The three major categories of loans receivables for purposes of this chapter include:

- Vocational Rehabilitation and Employment Loans
• Insurance Loans
• Direct Loans

070205 VA will disclose for each program the total subsidy cost and its components, the subsidy cost of modifications and the subsidy cost for re-estimates during the current and prior reporting years.

070206 VA will report subsidy re-estimates in two components: interest rate re-estimates and technical/default re-estimates.

070207 VA will display in a note to financial statements for reconciliation between the beginning and ending balances of the subsidy cost allowance for direct loans.

070208 VA will provide disclosure and discussion for changes in program subsidy rates, subsidy cost and subsidy re-estimates.

0703 AUTHORITY AND REFERENCES

070301 Balanced Budget Act of 1997
070302 Federal Credit Reform Act of 1990
070303 Federal Credit Supplement Budget of the U.S. Government Fiscal Year 2014
070304 Statement of Federal Financial Accounting Standards (SFFAS) No. 2, Accounting for Direct Loans and Loan Guarantees
070305 Statement of Federal Financial Accounting Standards (SFFAS) No. 18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees
070307 Office of Management and Budget (OMB) Circular A-123, Management’s Responsibility for Internal Control
070308 OMB Circular A-11, Part 5, Federal Credit, July 2013
070309 OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables
0703010 OMB Circular A-136, Financial Reporting Requirements - Revised
070401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department’s programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA’s financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

The CFO is responsible for identifying, reviewing and accounting for loans receivable and for ensuring that each transaction is accompanied with sufficient supporting and auditable documentation to comply with this chapter.

070402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chief Accountants, and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

070403 The Office of Financial Policy (OFP), under the CFO’s direction, provides Department-wide financial policy and guidance. Among its responsibilities, OFP develops, coordinates, issues, evaluates and reviews VA financial policies, including those impacting financial systems and procedures, for compliance with all financial laws and regulations and develops policies and procedures.

0705 PROCEDURES

070501 Recognition of Loans Receivable. The methodology described for recognition of loans receivable for items A – D below, is applicable to loans that are made after 1992. The methodology within item E is applicable to all loans.

A. VA will recognize direct loans disbursed and outstanding as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance.

B. VA will recognize direct loans disbursed during a fiscal year. The amount of the subsidy cost equals the present value of estimated cash outflows over the life of the loans minus the present value of estimated cash inflows.

C. The subsidy cost allowance for direct loans will be reestimated each year, taking into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the reestimates will be recognized as a subsidy cost (or a reduction in subsidy cost).
D. When direct loans are modified, the cost of modification shall be recognized at an amount equal to the decrease in the present value of the direct loans measured at the time of modification.

E. Upon foreclosure of direct loans, the acquired property will be recognized as an asset at the present value of its estimated future net cash inflows. This method of recognition is applicable for all loans.

F. The standards permit but do not require restating pre-credit reform direct loans at present value. Notwithstanding this provision, VA will report pre-1992 direct loans under the allowance for loss method. This method is one in which the assets are offset by an allowance for loan losses (estimated uncollectible loans).

070502 Reporting Requirements

A. VA will make disclosure of the face value of direct loans outstanding, as required by OMB Circular A-136.

B. VA will observe the accounting standards for direct loans under the following requirements, as required by OMB Circular A-136:

1. VA will report subsidy reestimates in two components: interest rate re-estimates and technical/default reestimates;

2. VA will display in a note to the financial statements a reconciliation between the beginning and ending balances of the subsidy cost allowance for direct loans; and

3. VA will provide disclosure and discussion for changes in program subsidy rates, subsidy cost and subsidy reestimates.

0706 DEFINITIONS

070601 Direct Loan. A disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds within a certain time, with or without interest.

070602 Insurance Loan. Policyholders of a cash value life insurance policy issued by the Department of Veterans Affairs may borrow against the policy’s cash value. A loan may be obtained at the end of the first policy year of a whole life or endowment plan of insurance that has loan value and is in force on a premium-paying basis or is paid up. A loan may also be obtained on paid-up additional insurance attached to either permanent or term plans of insurance.

070603 Negative Subsidies. Subsidy costs that are less than zero. These occur if the present value of cash inflows to the Government exceeds the present value of cash outflows. In such cases, appropriations bills must still provide specific authority before
direct loans can be made, generally in the form of loan limitations. When a direct loan obligation is made that has a negative subsidy, an amount equal to the negative subsidy will be obligated in the financing account. When the loan is disbursed, the financing account will pay the negative subsidy to the negative subsidy receipt account. The collections are recorded as offsetting receipts and they offset the agency's budget authority and outlays.

070604 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.

070605 Subsidy Cost. Subsidy cost (per OMB Circular A-11, Part 5, Federal Credit July, 2013) is the estimated present value of the cash flows from the Government (excluding administrative expenses) less the estimated present value of the cash flows to the Government resulting from a direct loan, discounted to the time when the loan is disbursed. The cash flows are the contractual cash flows adjusted for expected deviations from the contract terms (delinquencies, defaults, prepayments and other factors). Present values must be calculated using OMB Credit Subsidy Calculator 2. OMB Credit Subsidy Calculator 2 discounts the cash flow that is estimated for each year (or other time period) using the interest rate on a marketable zero-coupon Treasury security with the same maturity from the date of disbursement as that cash flow. A positive net present value means that the Government is extending a subsidy to borrowers; a negative present value means that the credit program generates a "profit" (excluding administrative costs) to the Government.

070606 Vocation Rehabilitation and Employment Loan (VR&E). A loan may be made to a qualified service-connected disabled Veteran who is found eligible and entitled to participate in a VR&E program.

0707 RESCISSIONS


0708 QUESTIONS

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

VBA VAVBAWAS/CO/INREP (Outlook)
All Others OFP Accounting Policy (Outlook)
0709 REVISIONS

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<th>Section</th>
<th>Revision</th>
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<tr>
<td>Header</td>
<td>Added: &quot;(VBA)&quot; after Loans Receivable</td>
<td>APS (047GA)</td>
<td>July 2014</td>
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<td>Heading</td>
<td>Added: &quot;(VBA)&quot; after Loans Receivable</td>
<td>APS (047GA)</td>
<td>July 2014</td>
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<td>0701</td>
<td>Added: &quot;and&quot;, so Overview section paragraph two's sentence reads as: &quot;Loans receivable are recorded as funds and are disbursed.&quot; Deleted &quot;in July 1997.&quot; at the end of paragraph two's last sentence. Added: &quot;by the Balanced Budget Act of 1997 and Federal Credit Supplement Budget of the U.S. Government Fiscal Year 2014.&quot; at the end of paragraph two's last sentence.</td>
<td>APS (047GA)</td>
<td>July 2014</td>
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<tr>
<td>0701</td>
<td>Deleted: &quot;as&quot; from paragraph 2, 1st sentence: &quot;Loans receivable are recorded as funds are disbursed.&quot; Added: &quot;when&quot; and &quot;fully&quot; so paragraph 2, 1st sentence says: &quot;Loans receivable are recorded when funds are fully disbursed.&quot;</td>
<td>VBA</td>
<td>July 2014</td>
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<td>070202</td>
<td>Added &quot;2&quot; so the sentence says: &quot;VA will ensure that recognition and reporting of direct loans obligated comply with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) Nos. 2, 18, and 19.&quot;</td>
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<td>July 2014</td>
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<td>070203</td>
<td>Added new sentence, end of paragraph: &quot;The allowance shall only be established on pre-1991 loans.&quot;</td>
<td>VBA</td>
<td>July 2014</td>
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<td>070204</td>
<td>Deleted: &quot;(i.e., Revolving Fund Loans)&quot; from &quot;• Vocational Rehabilitation and Employment Loans (i.e., Revolving Fund Loans)&quot;</td>
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<td>Added link for: OMB Circular A-11, Part 5, Federal Credit</td>
<td>APS (047GA)</td>
<td>July 2014</td>
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<td>070501</td>
<td>Added: &quot;The methodology described for recognition of loans receivable for items A – D below, is applicable to loans that are made after 1992. The methodology within item E is applicable to all loans.&quot;</td>
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<td>July 2014</td>
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<td>070501E</td>
<td>Added: &quot;This method of recognition is applicable for all loans.&quot;</td>
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<td>July 2014</td>
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<td>070605</td>
<td>Added: &quot;(per OMB Circular A-11, Part 5, Federal Credit)&quot; to the sentence that defines subsidy cost.</td>
<td>APS (047GA)</td>
<td>July 2014</td>
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<td>070704</td>
<td>Deleted: &quot;The Assistant Secretary for Management/Chief Financial Officer (CFO), as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309, oversees all financial management activities relating to the Department's programs and operations.&quot; Added: &quot;The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309.&quot;</td>
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<td>070709</td>
<td>Added: Revisions table</td>
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