Financial Policy

Volume VI

Liabilities

Chapter 5

Treasury Debt Borrowing

Approved:

Jon J. Rychalski
1367389
Digitally signed by
Jon J. Rychalski
1367389
Date: 2021.09.15
14:21:16 -04'00'

Jon J. Rychalski
Assistant Secretary for Management
and Chief Financial Officer
0501 Overview

This chapter establishes the Department of Veterans Affairs’ (VA) financial policies for Treasury debt borrowing. VA has statutory authority to borrow funds from the Treasury for the Direct Loan and Loan Guaranty Programs, as authorized in the Federal Credit Reform Act (FCRA) of 1990 and as prescribed by Office of Management and Budget (OMB) Circular A-11, Part 5, Section 185.

Key points covered in this chapter:
• VA will finance the subsidy portion of direct loans through appropriations, while the unsubsidized portion of the loans, which equals the present value of the Government collections from the borrowers, is financed with funds borrowed from Treasury;
• VA will accrue and record interest on debt and undisbursed borrowings; and
• VA will report debt to Treasury liabilities for direct loans and Federal Financing Bank liabilities for loan guarantees in accordance with Office of Management and Budget (OMB) Circular A-136.

0502 Revisions

<table>
<thead>
<tr>
<th>Section</th>
<th>Revision</th>
<th>Office</th>
<th>Reason for Change</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various</td>
<td>Reformatted to new policy format and completed five-year update</td>
<td>OFP (047G)</td>
<td>Reorganized chapter layout</td>
<td>September 2021</td>
</tr>
<tr>
<td>0503 Definitions</td>
<td>Update definitions to align with Loan Liability, Loan Receivable and Appropriations Chapters</td>
<td>OFP (047G)</td>
<td>For clarification and uniformity</td>
<td>September 2021</td>
</tr>
</tbody>
</table>

0503 Definitions

**Appropriation** – Provisions of law enacted by Congress, authorizing the federal agency to incur obligations and make payments for a given purpose. Usually, but not always, an appropriation provides budget authority.

**Bureau of the Fiscal Service (Fiscal Service)** – A Treasury bureau that is responsible for managing central accounting, central payment systems and public debt of the Federal government.
Borrowing Authority – A type of budget authority that permits obligations and outlays to be financed by borrowing. The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account’s resources are insufficient.

Cohort – The direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years. Post-1991 direct loans or loan guarantees will remain with their original cohort throughout the life of the loan, even if the loan is modified. Pre-1992 loans and loan guarantees that are modified will each, respectively, constitute a single cohort. The Veterans Housing Benefit Program Fund, liquidating account records all cash flows to and from the government resulting from direct loans obligated and loan guaranteed committed prior to 1992.

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

Direct Loan – A disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds within a certain time with or without interest. The term includes: (a) the purchase of or participation in, a loan made by another lender, (b) financing arrangements that defer payment for more than 90 days, including the sale of a Government asset on credit terms, and (c) loans financed by the Federal Financing Bank (FFB) pursuant to agency loan guarantee authority. For direct loan financing accounts, each loan disbursement is financed by the subsidy cost payment from the program account, fees where applicable, and borrowing from the Treasury.

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

Federal Credit Reform Act of 1990 (FCRA) – FCRA requires agencies to estimate the cost to the government of extending or guaranteeing credit. This cost, referred to as subsidy cost, equals the net present value of estimated cash flows from the government (e.g., loan disbursements and claim payments to lenders) minus estimated cash flows to the government (e.g., loan repayments, interest payments, fees, and recoveries on defaulted loans) over the life of the loan, excluding administrative costs. Discount rates that reflect the federal government's cost of financing are used to determine the net present value of estimated cash flows. Agencies generally update, or re-estimate, subsidy costs annually to reflect both actual loan performance and changes in expected future loan performance.

Federal Financing Bank (FFB) – A government corporation that was created by Congress in the Federal Financing Bank Act of 1973. FFB, under the general supervision of the Secretary of the Treasury, was established to centralize and reduce the cost of federal borrowing, as well as federally assisted borrowing from the public.
FFB has statutory authority to purchase any obligation issued, sold, or guaranteed by a federal entity and to monitor that fully guaranteed obligations are financed efficiently.

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

**Loan Guarantee** – Any guarantee, insurance or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender, but not including the insurance of deposits, shares or other withdrawable accounts in financial institutions. For loan guarantees, the financing account may borrow from Treasury when balances in the financing account are insufficient to pay claims.

**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.

**Non-expenditure Transfer (NET)** – A transaction that does not represent payment for goods and services but serves only to adjust amounts available in accounts. NETs do not appear in Treasury publications or in budget documents as receipts or expenditures, and therefore, do not affect the budget surplus or deficit.

**Obligation** – A legally binding agreement that will result in outlays, immediately or in the future. When you place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, an obligation is incurred.

**Outlay** – Payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are "means of financing" transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of Government spending.

**Program Account** – The Credit Program Account records the loan subsidy costs of the government that are associated with direct loans obligated and loan guarantees committed since 1992 and their related administrative expenses of the VA housing loan programs. The subsidy costs are calculated on a net present value basis. All administrative expenses are estimated on a cash basis.

**Subsidy Cost** – The estimated long-term cost to the Government of a loan, calculated on a net present value basis, excluding administrative costs. Specifically, the cost of a loan is the net present value, at the time when the loan is disbursed from the financing
account, of estimated cash flows. A positive net present value means that the
Government is extending a subsidy to borrowers, a negative present value means that
credit program generates a 'profit' (excluding administrative costs) to the Government.

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

**0504 Roles and Responsibilities**

**Under Secretaries, Assistant Secretaries and other key officials** are responsible for
ensuring compliance with the policies set forth in this chapter.

**Accounting Policy and Reporting Division (APRD), Veterans Benefits
Administration (VBA)** is responsible for creating the monthly and yearly financial
reporting, including any notes to the financial statements that pertain to the home loan
program.

**Administrative and Loan Accounting Center (ALAC), VBA** is responsible for
providing financial management support to VA’s housing programs by performing
accounting, financial reporting assistance, and performing reconciliations for the
housing programs.

**Loan Guaranty Service (LGY), VBA** is responsible for operating and managing loan
programs as a benefit for eligible borrowers to obtain, retain, and adapt homes.

**Secretaries, Assistant Secretaries and other key officials** are responsible for
ensuring compliance with the policies set forth in this chapter.

**0505 Policies**

**050501 General Policies**

A. VA will borrow funds for the Direct Loan and Loan Guaranty Program, as authorized
under the Federal Credit Reform Act (FCRA) of 1990 and as prescribed by OMB
Circular A-11, Part 5, Section 185.
In order to increase FBWT, VA must actually borrow under its borrowing authority granted by 2 U.S.C. §661, Credit Reform. The authority to borrow does not in itself place funds in the Fund Balance with Treasury (FBWT) account.

B. VA will use financing accounts to record the borrowing authority. OMB Circular A-11, requires separate financing accounts for direct loan cash flows and loan guarantee cash flows. Examples of VA financing accounts can be found in Appendix A.

C. VA will, per the FCRA, accrue interest on its Treasury debt, paying for such interest through additional borrowed funds, if necessary. Per SFAS No. 1, interest payable to federal entities is an intragovernmental liability and shall be accounted for separately from interest payable to the public.

D. VA will earn interest on its balances of borrowed but undisbursed funds. Treasury uses the same rate for both the interest paid on borrowed funds and the interest earned on uninvested funds.

E. VA will recognize debt liabilities in its financial statements in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 1, Accounting for Assets and Selected Liabilities, SFFAS 5, Accounting for Liabilities of the Federal Government, and as prescribed by OMB Circular A-11, Part 5, Section 185.

F. VA incurs debt to Treasury for amounts borrowed for the Direct Loan and Loan Guarantee Programs. Under both debts, VA has a 30-year term from the date of Treasury’s issuance of debt, with the exception of the Veteran Readiness and Employment Program, which has a 2-year term from the date of issuance.

050502 Determination of Borrowing Amount

A. Annually, VA will borrow from Treasury an amount reflective of the estimated annual requirements for the direct loan and loan guarantee programs for the fiscal year based on figures used to calculate the subsidy appropriation, unless better estimates are available (refer to Volume VI, Chapter 6, Liabilities for Loan Guarantees) and/or another borrowing is initiated (during the fiscal year). To the extent that VA lacks sufficient funds to make its annual interest payment to Treasury, an additional borrowing may be initiated.

B. VA will evaluate risk factors for each group of program loans each year in which the loans are disbursed. Loan disbursements are financed by estimated subsidy cost (based on risk factor evaluations), fees where applicable, and borrowing from Treasury. Risk factors include historical loan experience, regional economic conditions, financial and relevant characteristics of borrowers, value of collateral to loan balance, changes in recoverable value of collateral and new events that would affect the loans’ performance.
C. VA may also borrow funds to meet default claims in excess of the loan guarantee financing account's cash balance, negative subsidy in advance of expected collections from the public, or downward subsidy re-estimates.

050503 Establishment of Loan Agreements with Treasury

A. VA will contact Treasury’s Bureau of the Fiscal Service (Fiscal Service) to establish a loan agreement for the specific Financing Account [Name and Treasury Account Symbol (TAS)] to establish a loan agreement.

B. Fiscal Service's Office of the Chief Counsel coordinates a legislative review of relevant laws, including VA’s borrowing authority, to determine whether the standard Federal Credit Reform Agreement may be used, or if there are any exceptions or conditions to the borrowing agreement as a result of legislation or otherwise. If a condition or exception exists, a nonstandard original agreement may be required.

C. The loan agreement will be reviewed, approved, and signed by the VBA CFO and by a Fiscal Service representative at or above the Assistant Commissioner level. The agreement is not valid until all signatures are obtained.

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

050504 Borrowings

A. VA will monitor cash balances in financing accounts throughout the fiscal year. VA’s Office of Budget and Office of Finance will concur on the proposed return amount prior to submission to Treasury.

B. VA will, at year end, return to Treasury any apportioned, but unobligated, borrowing authority (excess cash balance) in the financing accounts to reduce any excess balance held, or the excess funds may be used to make an early repayment of principal at any time. VA may also carry forward amounts of borrowed, but undisbursed funds held in financing accounts to the next fiscal year only if they are disbursing loans from the specific cohort, which refers to the direct loans obligated or loan guarantees committed by a program in the same year, even if disbursements occur in subsequent years. Additional information on processing of amounts returned to Treasury in Appendix C.

C. VA will pay back to Treasury the sums advanced, with annual interest thereon, per Agreement. Payments will be made from any proceeds of portfolio loan collections, funding fees and the sale of loans to Vinnie Mac trusts.
D. If VA lacks sufficient funds to make its annual interest payment to Treasury at year end, VA should initiate an additional borrowing from Treasury on the last business day of the fiscal year to make the interest payment. This additional borrowing will alleviate the recalculation of the interest payment due to Treasury and the amount of interest on any uninvested funds. FCRA requires that the rates for financing account borrowing (including amounts treated as financing account lending by the FFB) be identical and based on the Treasury rates in effect during the period of loan disbursement.

E. VA may reset the cohort interest rate once per cohort after the cohort is 90 percent or more disbursed. When the cohort interest rate is reset, VA will reset the interest rate on any amount carried forward to equal the interest rate applicable to the next fiscal year. VA may use the balances in future years (subsequent to the year of the original obligation) only to partially finance the disbursement of loans in the same cohort for which the borrowing was originally made.

F. In accordance with OMB Circular A-11 Section 185.19, additional amounts for financing accounts, such as interest payments to Treasury, are automatically apportioned. Debt repayments are not obligations and do not require apportionment.

G. When the cohort has finished borrowing to make disbursements, VA may consolidate all of the Treasury borrowing related to the cohort to obtain a single maturity date.
   • All Treasury borrowing should mature on the final year of the cohort; however, if a cohort contains borrowing with multiple maturity dates, VA may request a consolidation.
   • The maturity date for the Treasury borrowing is based on the time period used in the subsidy calculation, not the contractual term of VA’s or the private lender’s loan to the borrower. The time period used for the subsidy calculation normally exceeds the contractual term of the loan to the borrower. Borrowings from Treasury mature on September 30 of the estimated final year of the cohort. If the estimated final date of the cohort is other than September 30, the associated Treasury borrowing matures on the following September 30.
   • VA will send a letter requesting the cohort consolidation to Fiscal Service by the last business day of the fiscal year when the cohort has finished disbursing its loans. The letter will include the balances and maturity dates to be consolidated and the new maturity date for the related borrowings. The new maturity date will remain within the original maturity interval established for the cohort. VA may prepay all or part of a Treasury borrowing without penalty.

050505 Recording, Reporting, and Disclosures

A. VA will record, in its accounting system, debt arising from direct loan and loan guarantee programs as "exchange" transactions and classify such debt as covered
by budgetary resources. VA will report debt owed to Treasury as an intragovernmental liability on the financial statements.

B. VA will process principal borrowings from Treasury and repayment to Treasury as non-expenditure transfers (NETs) in CARS. Borrowed amounts are posted in Central Accounting Reporting System (CARS) and entered into VA accounting system once approved by Treasury.

C. VA will record interest income on undisbursed Treasury borrowings, including amounts treated as financing account lending by the FFB, at the same rate as the financing account pays on its debt owed to Treasury.

D. VA will record accrued interest on debt to Treasury and recognize as interest expense.

E. VA will report Treasury Debt on the consolidated balance sheet in accordance with SFFAS 5, Accounting for Liabilities of the Federal Government.

F. VA will disclose information about Treasury debt borrowing in the notes to the financial statements in accordance with OMB Circular A-136.

0506 Authorities and References

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

Federal Credit Reform Act of 1990

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


Statement of Federal Financial Accounting Standards (SFFAS) 1, Accounting for Selected Assets and Liabilities

Statement of Federal Financial Accounting Standards (SFFAS) 2, Accounting for Direct Loan and Loan Guarantees

Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government

0507 Rescissions

Vol VI Chapter 5- Treasury Debt Borrowing, September 2010

0508 Questions

Questions concerning this financial policy should be directed to the following points of contact:

VHA  VHA Financial Policy (Outlook)
VBA  VAVBAWAS/CO/FINREP (Outlook)
All Others  OFP Accounting Policy (Outlook)
Appendix A: Examples of Financing Accounts – Credit Reform

A. 36X4127 Veterans Housing Benefit Program Fund - Direct Loan Financing Account, VA

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

B. 36X4129 Veterans Housing Benefit Program Fund - Guaranteed Loan Financing Account, VA

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

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

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

D. 36X4258 Veterans Guaranteed Transitional Housing Direct Loan Financing Account, VA

This account is a non-budgetary account that records all financial transactions to and from the government resulting from direct loan obligations. Although a loan guarantee program, all its transactions are accounted for as a direct loan program. The program’s sole direct loan was funded with borrowing from the FFB and is treated as a debt of VA. Repayments of principal and interest are credited to this account.

E. 36X4124: Veterans Housing Benefit Program Fund, Loan Sale Securities, Guaranteed Loan Financing Account, VA
This account is used to record all activity involving sales of Direct Loans in investment pools, including recording gains and losses on sales.

F. 36X4025: Veterans Housing Benefit Program Fund, Liquidating Account, VA

This account records all cash flows to and from the government resulting from VA direct loan obligations and loan guarantee commitments before 1992. This account is shown on a cash basis. All new VA acquired and vendee direct loan obligations in 1992 and after are recorded in the Direct Loan Financing Account. All new VA loan guarantee commitments in 1992 and after are recorded in the Guaranteed Loan Financing Account.
Appendix B: Recording of Principal and Interest Transactions

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

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

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

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

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

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

2. VA will report the Treasury Appropriation Fund Symbols (TAFS) from which the money is being withdrawn on its FMS 224 report. The amount of the transaction will equal the amount transmitted through IPAC.
3. VA will audit its accounts and maintain adequate records to support any loan transactions and accrued interest computations submitted to Fiscal Service for payment. The records should be readily available for internal auditors, Treasury and Government Accountability Office (GAO) auditors, if necessary.
Appendix C: Amounts to Return to Treasury

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

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

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

\[
\text{Cash on Hand, 8/31/XX} + \text{Estimated September Collections} - \text{Unpaid Obligations, 8/31/XX} - \text{Estimated September Obligations} - \text{Total Estimated Cash, 9/30/XX} - \text{Total Estimated Cash Disbursements, 9/30/XX} = \text{Total Proposed Cash Returned to Treasury}
\]

1. VBA will submit the report on September 15 (or the first business day after the 15th) and will include copies of the proposed CARS transfers.

2. VBA will report the cash position of the accounts (as reported in MINX and FMS) to the Office of Budget and the Office of Finance 4 business days prior to the end of the fiscal year, on the day of the transaction, the day after the transaction and by 10 a.m. on the final day of the fiscal year.