VA Financial Policies and Procedures
Liabilities for Loan Guarantees

CHAPTER 6

0601 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures relating to VA's liabilities for loan guarantees. VA's Loan Guaranty (LGY) program provides home financing assistance to Veterans and active duty personnel through the use of a partial guaranty of loans made by private lenders. VA's guaranty backing of the loan eliminates need for any down payment from the Veteran, which is a key benefit of the LGY program. In most cases, VA only limits the loan amount to the value of the property and the Veteran's ability to repay.

LGY provides supplemental loan servicing to Veterans who experience financial difficulties, which cause them to default on their home loans. Private lenders, such as banks, savings and loans or mortgage companies, make VA-guaranteed loans to eligible Veterans for the purchase of a home for personal occupancy. To obtain a loan, a Veteran must apply to a lender and if the loan is approved, VA may then guarantee a portion of the loan. This guaranty protects the lender against loss up to the amount VA guarantees in the event of default by the Veteran borrower. The Federal Credit Reform Act (FCRA)[1] of 1990 requires that the liabilities for loan guarantees reflect the long term cost to the Federal Government.

As a result of foreclosures on VA-guaranteed loans, VA often acquires and resells residences and condominiums that were the security for the loans. VA may also obtain the property through a bid purchase or conveyance via a deed in lieu of foreclosure. These actions result in the borrower being relieved from the loan obligation and trigger the payment of the claim. These acquired properties will be resold to Veterans, non-Veterans or investors for cash or with VA financing in the form of fixed-rate mortgage loans. These loans are known as "Vendee Loans" (i.e., Loan Sales Guarantees) and are underwritten using the same guidelines established for VA's LGY program. Vendee loans are made by VA to facilitate the sale of properties VA has acquired as a result of its obligations on loans made by private lenders to Veterans under the LGY program. These loans, which are guaranteed, constitute the Vendee Loan portfolio and the trust investment certificates issued there under are referred to as "Vinnie Macs."

060101 GUARANTEED LOANS. VA will guarantee private lender loans made to eligible Veterans and reservists by private lenders, paying the lenders in case of loan defaults. Borrowers will be offered different loan types with specific origination fees and various amounts of required down payments. VA will estimate its annual loan subsidy cost for providing credit assistance using financial models.

060102 GUARANTEED LOAN SALE SECURITIES ACCOUNT. VA will maintain loans in a national loan portfolio when vendee sales are closed, eventually selling the loan in its securitization program. Such sales must meet market criteria at the time of sale, provided they fall within an economically viable threshold. VA will pay the scheduled

[1] Pursuant to the FCRA of 1990, all post-1991 direct loans will be subsidized.

principal and interest on any vendee loan in default. When a vendee loan in the Trust is foreclosed and the ensuing property sale results in a liquidation loss, VA will pay the remaining scheduled principal balance of the loan.

060103 ACCOUNTING, REPORTING AND DISCLOSURES FOR LIABILITIES FOR LOAN GUARANTEES. VA will use credit reform accounting for guaranteed loans established October 1, 1991 and thereafter, including any loans that had been made or guaranteed prior to this date if modified. When there is a positive subsidy rate, VA will receive subsidies to pay for expected loan losses. VA will earn interest on these subsidies along with other forms of collections to pay for future claims. When there is a negative subsidy rate, VA will transfer funds to the Treasury. VA will report the liability for guaranteed loans separately for the pre-1992 and post-1991 group programs. VA will report Vendee Mortgage Trust (VMT) Securitization Program liabilities, associated with guaranteed loan sale securities accounts, as public liabilities. VA will disclose a reconciliation prepared for outstanding post-1991 guaranteed loans reported in the balance sheet and will present a similar but separate reconciliation for any guaranteed loans committed prior to October 1, 1991. VA will disclose a reconciliation between the beginning and ending balances of the liability for outstanding VMT Certificate guarantees reported in the balance sheet.

0602 POLICIES

060201 GUARANTEED LOANS.

A. VA will guarantee private lender loans made to eligible Veterans and reservists by private lenders, paying the lenders the claim amount in case of loan defaults.

B. VA will offer various loan types to Veterans and reservists through its LGY program with each type including an origination or funding fee and different down payment requirements. VA has no downpayment requirement for guaranteed loans.

C. VA may refund or purchase a lender loan, in case of borrower default, if this action is in the best interest of both VA and the borrower.

D. VA will encourage the borrower to avoid foreclosure through the private sale of a home. If the home is valued less than the remaining loan balance, VA will pay the difference to the private lender, subject to maximum guaranty limitations.

E. VA may pay a lender’s claim without electing to acquire either the loan or property.

F. VA may accept a deed from a borrower in lieu of foreclosure and the property will be conveyed to VA, thus relieving the borrower of the loan obligation. VA will pay the lender for the property and, if the home is valued less than the remaining loan balance, will pay the difference to the lender, subject to maximum guaranty limitations.

G. If the lender decides to proceed with foreclosure, VA may obtain the property through a bid purchase. VA will pay the lender for the property and, if the home is valued less than the outstanding loan balance, will pay the difference to the lender, subject to maximum guaranty limitations. VA may then sell the property for cash or with vendee financing.

H. VA may recover its costs when a borrower defaults on a guaranteed loan, through a cash sale of the property, recovery of principal, interest and other fees or vendee financing from the Direct Loan Financing Account. VA may also rent the property obtaining miscellaneous income, as necessary.

I. VA will estimate its annual loan subsidy cost for providing credit assistance to the public through direct loans or loan guarantees through the use of financial models.

060202 GUARANTEED LOAN SALE SECURITIES ACCOUNT.

A. When vendee sales are closed, VA will maintain loans in a national loan portfolio until they are sold under VA's VMT Securitization Program.

B. VA will sell loans that meet the market criteria at the time of sale provided they meet an economically viable threshold. The parameters of the loan sale will fall within the range of either a minimum unpaid principal balance of all outstanding vendee loans or a maximum percent of any cohort.

C. VA will pay the scheduled principal and interest on any vendee loan in default, which will result in a deposit of funds into the Trust for any defaulted loans that have been sold with its guaranty.

D. VA will pay the remaining scheduled principal balance of the loan when a vendee loan in the Trust is foreclosed and the ensuing property sale results in a liquidation loss.

060203 ACCOUNTING, REPORTING AND DISCLOSURES FOR LIABILITIES FOR LOAN GUARANTEES.

A. Credit Reform Accounting.

VA will use FCRA accounting for guaranteed loans established October 1, 1991 and thereafter, including loans made or guaranteed prior to this date that had been substantially modified from October 1, 1991 forward. Any advanced subsidies will be used to finance expected losses on loans. VA will use earned interest on its investment of advanced subsidies and other collections to pay for future claims. VA will implement the fund categories required by the Office of Management and Budget (OMB) to implement the FCRA. Subsidy costs will be determined under FCRA using the present value concept. (See 060632.)

B. Financial Reporting.

1. VA will report the liability for guaranteed loans separately for the pre-1992 and post-1991 group programs, using either the Allowance for Loss Method or the Present Value Method, depending upon the fiscal year of the underlying guaranteed loan. VA will report guaranteed loans disbursed in the current and prior years and disclose the face value and amounts guaranteed, as well as the subsidy rates and expenses for the guarantees by program and component. VA will also report information on any defaulted guaranteed loans.

2. VA will report VMT Securitization Program liabilities associated with guaranteed loan sale securities accounts as public liabilities and will include reconciliation between the beginning and ending balances of the liability for outstanding VMT Certificate guarantees in a note on the consolidated financial statements.

C. Disclosures.

1. VA will disclose a reconciliation for outstanding post-1991 guaranteed loans reported in the balance sheet and will present a similar but separate reconciliation for any guaranteed loans committed prior to October 1, 1991. VA will disclose subsidy expenses for loan guarantees, administrative expenses for guaranteed loans and the nominal or face value of guaranteed loans outstanding and the amount guaranteed. VA will explain any significant events or other changes in economic conditions and other factors that may have a major effect on subsidy rates, subsidy expense and subsidy re-estimates. Any modifications made to existing loans will be reflected in notes to the financial statements.

2. VA will disclose the reconciliation between the beginning and ending balances of the liability for outstanding VMT Certificate guarantees reported on the balance sheet.

0603 AUTHORITY AND REFERENCES

060301 2 U.S.C. 661, Subchapter III, Credit Reform

060302 38 U.S.C Part III, Chapter 37, Housing and Small Business Loans

060303 38 U.S.C. 3720(h)(2), Veterans Education and Benefits Expansion Act of 2001

060304 FASAB, Statement of Federal Financial Accounting Standards (SFFAS) No. 2, Accounting for Direct loans and Loan Guarantees

060305 FASAB, SFFAS No. 18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2

060306 FASAB, SFFAS No. 19, Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2

060307 Office of Management and Budget (OMB) Circular No. A-11, Part V, Section 185, Federal Credit

060308 OMB Circular No. A-129, Policies for Federal Credit Programs and Non-Tax Receivables

060309 OMB Circular No. A-136 Revised, Financial Reporting Requirements

060310 Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, Appendix 1, 2 and 3

060311 TFM,USSGL, Credit Reform Accounting Case Studies

0604 ROLES AND RESPONSIBILITIES

060401 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. 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.

060402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Finance Officers, Chiefs of Finance Activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

0605 PROCEDURES

060501 GUARANTEED LOANS.

A. VA will guarantee loans made to eligible Veterans and reservists by private lenders[2] and will pay such lenders the claim amount, up to certain limits, in case of any defaults on the loans. The following conditions must be present:

1. Potential borrowers must have a home loan entitlement and a good credit record to qualify;

[2] Contractual terms such as the repayment schedule, down-payment requirement, closing costs, security and borrower interest rate are negotiated between the lender and borrower. The maximum loan term for the guaranteed housing loan program is 30 years and 32 days, but may never exceed the remaining economic life of the property as appraised.

2. Eligible loan purposes include purchase or construction of a home or refinance of an existing VA home loan; and

3. Borrowers must occupy or intend to occupy the property as their primary residence.

B. VA will offer various types of loans to Veterans and reservists through its LGY program with each loan type having a corresponding origination or funding fee. The categories of loan types include loans with down payment of 10 percent or more, between 5 and 10 percent, less than 5 percent, refinanced loans and others as determined.

C. In case of default by the borrower, VA may either refund or purchase the loan of the lender, if it determines that is in the best interest of VA and the borrower. This will usually occur when the borrower has or will have in the near future the ability to maintain the mortgage obligation and the lender refuses further forbearance.

D. VA will encourage the borrower to privately sell the home to avoid foreclosure if he or she lacks the ability to even pay a mortgage that has been reduced. If the value of the home is less than the outstanding balance of the loan, VA may pay the difference as a claim payment to the lender.

E. VA may pay the claim to the lender without electing to acquire the loan or property.

F. If a borrower is not able to cure his or her default, VA may accept a deed in lieu of foreclosure, in which case the property will be conveyed to VA and the borrower will be relieved from the loan obligation. VA pays the lender for the property and if the value of the home is less than the outstanding balance of the loan, may pay the difference as a claim payment, subject to maximum guaranty limitations, to the lender.

G. If the lender decides to proceed with foreclosure, VA may obtain the property as a result of a bid purchase. VA will pay the lender for the property and if the value of the home is less than the outstanding balance of the loan, may pay the difference as a claim payment, subject to maximum guaranty limitations, to the lender. VA may then sell the property for cash or with vendee financing.

H. When a guaranteed loan is in default, VA may recover its costs through cash sales of the property, recoveries of principal and interest payments, or other fees or from vendee financing from the Direct Loan Financing Account (DLFA). VA may also collect rent or any other miscellaneous income available, if possible.

I. VA will prepare an annual budget for the estimated cost of providing credit assistance to the public through direct loans or loan guarantees, using financial models to estimate the cash flows between the Government and the public on the direct loans or loan guarantees.

1. In accordance with FCRA, VA will annually re-estimate the subsidy costs of all loans and guarantees it made since 1992 for actual performance and updated future

projections. To calculate these costs, VA will discount the cash flows between the Government and the public to the point of disbursement of the loans or guarantees.

2. VA will further calculate interest earnings on cash balances or interest payments on outstanding borrowings, in the applicable financing accounts.

060502 GUARANTEED LOAN SALE SECURITIES ACCOUNT.

A. VA will place loans, when a vendee sale is closed, in its national loan portfolio[3], where they will remain until they can be sold under VA's VMT Securitization Program. The Guaranteed Loan Sale Securities Account uses a competitive bidding process to sell the bulk of the vendee loans. These accounts consist of vendee loan sales from either liquidating accounts for loans disbursed prior to October 1, 1991, or from loans from the DLFA for loans disbursed on or after October 1, 1991.

1. VA will securitize loans and sell them to investors through an Underwriting Syndicate of security brokers. VA may realize profits from selling a vendee loan on the secondary market.

2. Upon sale, VA will transfer the loans to a Trust that is managed by a Trustee and serviced by a Master Servicer. VA will maintain vendee loan sales in the Trust under VA's oversight and, in some cases, its unconditional guaranty of full and timely payment of principal and interest. VA will refund the DLFA the outstanding balance of vendee loans sold. On the other hand, VA may receive additional funds from the Trust, which are not expected in the future.

B. VA will sell loans that meet the market criteria at the time of sale that attain an economically viable threshold. Most cohorts can be expected to be included in a loan sale when VA accumulates enough collateral. The parameters for a loan sale will include a minimum unpaid principal balance of all outstanding vendee loans and a maximum percent of any cohort.

C. VA will pay the scheduled principal and interest on any vendee loan in a Trust that is in default, resulting in a funds deposit to the Trust for any defaulted loans that have been sold with its guaranty.

D. VA will pay the remaining scheduled principal balance of the loan when a vendee loan in the Trust is foreclosed and the ensuing property sale results in a liquidation loss.

060503 ACCOUNTING, REPORTING AND DISCLOSURES FOR LIABILITIES FOR LOAN GUARANTEES.

A. Credit Reform Accounting.

[3] VA's portfolio is currently being serviced by a contracted loan servicer.

1. VA will use Federal Credit Reform accounting for all direct loans and guaranteed loans established October 1, 1991 and thereafter, including loans made or guaranteed prior to this date that had been substantially modified October 1, 1991 or later.

2. VA will receive loan subsidies in advance, under Federal Credit Reform, in the case of a positive subsidy rate, to finance expected losses on loans in the year that the loans are made or guaranteed. VA will invest these subsidies, plus any loan-related funding fees and other collections, with any earned interest applied to the payment of any future claims. When there is a negative subsidy rate, VA will return funds to the Treasury.

3. VA will use three categories of funds established by OMB to implement Federal Credit Reform, as follows:

a. Liquidating accounts for all pre-FY 1992 loan activity;

b. Program accounts for OMB budgeted subsidies apportioned in the current year, plus all current year costs to administer the fund in which the loans are made; and

c. Financing accounts for all loan proprietary accounting and claims and expenses payments. Each account must distinguish all financial activity by fiscal year beginning with FY 1992 (cohort year).

4. VA will apply the concept of present value, defined in 060632, in measuring the subsidy costs of direct loans and loan guarantees.

5. VA will rely on the date of the loan to distinguish between liquidating and financing account transactions within Loan Guaranty, Guaranteed and Indemnity and Direct Loan activity under Federal Credit Reform accounting.

B. Financial Reporting.

1. Guaranteed Loans.

a. VA will report the liability for guaranteed loans separately for the pre-1992 and post-1991 group programs. For pre-1992 loan guarantee commitments, VA will report under the Allowance for Loss Method, while for post-1991 loan guarantee commitments, they will be reported at present value.

b. VA will report guaranteed loans disbursed in the current and prior year and disclose the face value and amount guaranteed.

c. VA will report defaulted guaranteed loan information as follows:

(1) Classify the defaulted loan guarantees in two groups: pre-1992 and post-1991.

(2) Present the method of measurement used for each group of defaulted loan guarantees.

(3) Include information on defaulted guaranteed loans receivable (for payments made by VA on behalf of the borrower and recoverable from the borrower), interest receivable, foreclosed property (acquired property is recognized as an asset at the present value of its estimated future net cash inflows) and allowance for loan losses or subsidy costs.

d. VA will report the subsidy rates for guarantees by program and component.

2. Guaranteed Loan Sale Securities Account.

VA will report liabilities from VMT Loan Sales Guarantees as a part of VA's Public Liabilities.

C. Disclosures.

1. Guaranteed Loans.

a. VA will disclose a reconciliation between the beginning and ending balances of the liability for outstanding post-1991 guaranteed loans reported in the balance sheet and present a similar but separate reconciliation for guaranteed loans committed prior to October 1, 1991.

b. VA will disclose subsidy expenses for loan guarantees by program. Administrative expenses, such as salaries, legal fees and office costs, that are incurred for credit policy evaluation, loan guarantee origination, closing, servicing, monitoring and maintaining accounting and computer systems, will not be included in calculating the subsidy costs of loan guarantees.

c. VA will disclose the nominal or face value of guaranteed loans outstanding and the amount guaranteed.

d. VA will disclose administrative expenses for guaranteed loans by program and component.

e. VA will include a discussion and explanation of events and changes in economic conditions, 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 re-estimates.

f. VA will explain the nature of a modification, and the discount rate used in calculating the expense and basis for recognizing a gain or loss related to the modification when one is made.

g. VA will also disclose, if appropriate, the subsidy expense resulting from reestimates included in the financial statements, but not reported in the budget until the following year.

2. Guaranteed Loan Sale Securities Account.

VA will disclose the reconciliation between the beginning and ending balances of the liability for outstanding VMT Certificate guarantees reported in the balance sheet.

0606 DEFINITIONS

060601 Administrative Expenses. All costs that are directly related to credit program operations, including payments to contractors. The FCRA generally requires that administrative expenses for post–1991 loan guarantees be included in program accounts. Administrative expenses are included in the liquidating accounts only if the amounts would have been available for administrative expenses under a provision of law in effect prior to October 1, 1991, and if no loan guarantee commitment has been made or any modification of a loan guarantee has been made since September 30, 1991.

060602 Allowance for Loss Method. An allowance account used by VA for pre-1992 loans to offset the related loans receivable assets.

060603 Cash Flows. The contractual cash flows adjusted for expected deviations from the contract terms (delinquencies, defaults, prepayments and other factors). For example, for direct loans, these will include: loan disbursements, repayments of principle, payments of interest and any other payments such as defaults, prepayments, fees, penalties and other recoveries. For loan guarantees, these will include: payments by the Government to cover defaults and delinquencies, interest subsidies, payments to the Government, such as origination and other fees, penalties and recoveries and any other payments.

060604 Certificates. Certificates represent interests in the assets of the Vendee Mortgage Trust and will be paid from the Trust's assets.

060605 Cohort. Those 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 shall each, respectively, constitute a single cohort.

060606 Credit Program. For the purpose of this Statement (SFFAS No. 19), a Federal program that makes loan guarantees to non-Federal borrowers.

060607 Default. The failure to meet any obligation or term of a credit agreement, grant or contract. Often used to refer to accounts more than 90 days delinquent.

060608 Disclosure. Reporting information in notes or narrative regarded as an integral part of the basic financial statement.

060609 Discount Rate. An interest rate that is applied in present value calculations to equate amounts that will be received or paid in the future to their present value.

060610 Federal Credit Reform Act (FCRA) of 1990. An Act of Congress that was passed to ensure timely and accurate measure and presentation in the President's budget of the long-term subsidy costs of Direct Loans and Loan Guaranty credit programs. FCRA mandated the accounting change for the credit programs costs to change from an "actual cash conversions" basis to a "budgetary basis" with the intention to provide a better comparison between credit programs among cohort years and other forms of assistance.

060611 Financing Account. The non-budget account or accounts associated with each credit program account that holds balances, receives the cost payment from the credit program account and also includes all other cash flows to and from the Government resulting from direct loan obligations or loan guarantee commitments made on or after October 1, 1991. A financing (proprietary) fund is established for each credit program to hold balances, receive subsidy cost payments from the credit program funds, and include all other cash flows to and from the Government resulting from Direct Loan obligations or Loan Guaranty commitments established on or after October 1, 1991 (36X4112, 36X4124, 36X4127, 36X4129, 36X4130 and 36X4258). See Appendix C for descriptions of each appropriation account.

060612 Foreclosure. A method of enforcing payment of a debt secured by a mortgage by seizing the mortgaged property. Foreclosure terminates all rights that the mortgagor has in the mortgaged property upon completion of due process through the courts.

060613 Guaranteed Loan Sales Liabilities. The present value of the estimated cash flows to be paid by VA as a result of the guarantee.

060614 Liabilities for Loan Guarantee. For post-1991 loan guarantees, the present value of the estimated net cash flows to be paid as a result of loan guarantees. For pre-1992 loan guarantees, the amount of known and estimated losses to be payable.

060615 Liquidating Account. The budget account that includes all cash flows to and from the Government resulting from pre-1992 direct loans or loan guarantees (those originally obligated or committed before Oct. 1, 1991), except those pre-1992 direct loans and loan guarantees that have been directly modified and transferred to a financing account. Liquidating funds pertain to on-budget accounts for loans originated prior to 1992 that use cash basis "pre-credit reform" accounting (36X4025).

060616 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.

060617 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.

060618 Loan Guarantee Subsidy Cost. 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.

060619 Marketable Treasury Securities. Debt securities, including Treasury bills, notes and bonds, that the U.S. Treasury offers to the public and are traded in the marketplace. Their bid and ask prices are quoted on securities exchange markets.

060620 Master Servicer. The servicing entity responsible for performing all of the servicing functions under the separate Pooling and Servicing Agreement created for each Vendee Mortgage Trust. The Master Servicer is entitled to be compensated.

060621 Maturity or Maturity Date. Refers to the final payment date of a loan or other financial instrument, at which point the principal (and all remaining interest) is due to be paid.

060622 Measurable. Can be determined with reasonable certainty or is reasonably estimable.

060623 Modification. Any Government action different from the baseline assumptions that affects the subsidy cost, such as a change in the terms of the loan contract or legislation that provides new collection tools. The cost of a modification is the difference between the present value of the cash flows before and after the modification. Direct modifications are actions that change the subsidy cost by altering the terms of existing contracts or by selling loan assets. 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. The term modification does not include subsidy cost reestimates, the routine administrative workouts of troubled loans and actions that are permitted within the existing contract terms.

060624 Negative Subsidy. Negative subsidy rates exist when the present value of expected cash inflows exceeds the present value of expected cash outflows.

060625 Nominal or Face Value. The amount of a bond, note, mortgage or other security as stated in the instrument itself, exclusive of interest or dividend accumulations. The nominal amount will or will not coincide with the price at which the instrument was first sold, its present market value or its redemption price. Often referred to as the stated value.

060626 Obligation. A binding agreement that will result in outlays immediately or in the future. When funds are obligated for a direct loan or loan guarantee, the estimated cost shall be based on the current assumptions, adjusted to incorporate the terms of the loan contract, for the fiscal year in which the funds are obligated.

060627 OMB Credit Subsidy Calculator 2 (CSC2). Computer software developed by OMB for discounting cash flows in estimating credit subsidies. It uses agency cash flow inputs to compute the net present value at the point of disbursement and the subsidy rate associated with those cash flows.

060628 Pooling and Service Agreement (PSA). An agreement among VA, the Master Servicer and the Trustee in relation to Vendee Loan Sales. The PSA provides for the issuance of certificates that support the transfer of VA's entire interest in the related loans to the Trustee for the benefit of the related certificate holders. Under the PSA, the Trust will issue the certificates, backed by mortgage loans and installment contracts. The Trust will own the mortgage loans and other property described in the offering, and will make an election to treat certain of its assets as one or more Real Estate Mortgage Investment Conduits (REMICs) for U.S. Federal income tax purposes.

060629 Positive Subsidy. Positive subsidy rates exist when the present value of expected cash outflows exceeds the present value of expected cash inflows.

060630 Post-1991 Loan Guarantees. Loan guarantees committed after September 30, 1991. These loan guarantees are treated in accordance with the FCRA of 1990 requirements.

060631 Pre-1992 Loan Guarantees. Loan guarantees committed before October 1, 1991. These loan guarantees are treated in accordance with accounting standards prior to the FCRA of 1990.

060632 Present Value. Defined as today's value of money to be collected or paid in the future. A dollar today should be worth more in the future because it will earn interest. Therefore, a dollar to be paid or received in the future has as its present value a lesser amount today. 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. 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.

060633 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. A Program (Budget) Fund is established for each credit program and contains annual appropriations to cover all estimated subsidy costs arising from post-1991 Direct Loan obligations and Loan Guaranty commitments (36_0128, 36_1114, 36_1119 and 36_1120). A Program Fund also receives permanent indefinite appropriations for re-estimate of subsidy costs.

060634 Recognize. The process of formally recording or incorporating an item into the financial statements of an entity as an asset, liability, revenue, expense or the like.

060635 Reestimates. Refers to estimates of the subsidy costs performed subsequent to their initial estimates made at the time of a loan's disbursement.

060636 Subsidy. An estimate derived by a computation from the Credit Subsidy Calculator (CSC), mandated by OMB Circular A-11. Subsidy rates can be either positive or negative.

060637 Underwriting. The process that a large financial service provider (bank, insurer, investment house) uses to assess the eligibility of a customer to receive their products (equity capital, insurance, mortgage or credit).

060638 Vendee Mortgage Trust (VMT) Securitization Program. VA continues to have VMT loan sales to reduce the administrative burden of servicing vendee loans. Under the sale of VMT loans, certificates are issued pursuant to the Pooling and Servicing Agreement (PSA) among VA, the Master Servicer and the Trustee. On the closing date of the certificates, VA will transfer its entire interest in the related loans to the Trustee for the benefit of the related certificate holders pursuant to the PSA. All Vinnie Mac certificates are sold with an unconditional VA guaranty of full and timely payment of principal and interest, which in turn is backed by the full faith and credit of the United States Government.

060639 Vinnie Mac. Describes VMT Certificates issued for Loan Sales Guarantees mortgage loans. Vinnie Mac's guaranteed certificates are exempt from Securities and Exchange Commission registration and do not require a Wall Street rating.

0607 RESCISSIONS

None required.

0608 QUESTIONS

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

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)