



## ADS Chapter 623

### Financial Management of Loan Guarantee Programs

Full Revision Date: 10/20/2022  
Responsible Office: M/CFO/FPS  
File Name: 623\_102022

***This chapter has been revised in its entirety.***

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## ADS 623 – Financial Management of Loan Guarantee Programs

### 623.1 OVERVIEW

Effective Date: 10/20/2022

This chapter provides USAID’s policy and procedures for servicing the Agency’s Loan Guarantee portfolio. The Agency’s loan portfolio only covers loan guarantees (Sovereign Loan Guarantee (SLG) or Sovereign Bond Guarantee (SBG)).

The [Better Utilization of Investments Leading to Development Act of 2018 \(BUILD Act\)](#) established the Development Finance Corporation (DFC). Under this Act, the DFC has administrative and financial responsibilities for the Agency’s four loan programs: Direct Loans, Urban and Environmental (UE) Credit Program, Micro and Small Enterprise Development (MSED), and Development Credit Authority (DCA).

USAID works with the DFC to access guarantee/equity authorities and financing tools. USAID Missions initiate and manage these “USAID-sponsored transactions” for DFC to help accomplish their Development Objectives. Sponsoring USAID Missions and Operating Units (OUs) monitor and evaluate these transactions (see the [DFC Field Manual for USAID](#)).

### 623.2 PRIMARY RESPONSIBILITIES

Effective Date: 10/20/2022

- a. The Agency’s **Chief Financial Officer (CFO)** develops, issues, and implements policy, procedures, and standards for managing USAID’s loan guarantee programs, including debt accounting and financial reporting, loan servicing, debt portfolio management, and debt collections.
- b. The **Bureau for Management, Office of the Chief Financial Officer, Washington Financial Service (M/CFO/WFS)** manages the Agency’s loan guarantee programs. M/CFO/WFS in coordination with the M/CFO Funds Control team is responsible for loan budget functions (i.e., apportionment, allotment, obligation, etc.).
- c. The **Bureau for Development, Democracy, and Innovation, Private-Sector Engagement Hub (DDI/PSE)** establishes risk assessment and subsidy calculation policy. DDI/PSE, in conjunction with M/CFO/WFS 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 loan financing accounts. DDI/PSE notifies Congress of the use of subsidy transfers to DFC under [Section 1434\(j\) of the BUILD Act](#).

### 623.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

#### 623.3.1 Financial Documentation Responsibilities

Effective Date: 10/20/2022

[ADS Chapter 620, Financial Management Principles and Standards](#) provides information on the Agency's financial documentation responsibilities. Any financial documentation that the WFS and other staff area generate, such as subsidy calculation documents, guaranteed loan disbursement, and related documents must be readily available for audit purposes.

**623.3.2 SFFAS 18 Accounting Standards for Loans and Loan Guarantees**  
Effective Date: 10/20/2022

The Agency uses the accounting standards in [Statement of Federal Financial Accounting Standards \(SFFAS\) 18](#). SFFAS 18 covers the recognition and measurement of the liability associated with loan guarantees, the cost of loan guarantees, and the collection of loans from debtors. Except for loan collection procedures, the standards apply to loan guarantees on a group basis, such as a cohort or a risk category of loans and loan guarantees.

The Agency must account for loan guarantees on a present value basis. The use of the present value accounting method is consistent with the [Federal Credit Reform Act of 1990](#). Present value accounting does not apply to loan guarantees on an individual basis, except for a loan guarantee that constitutes a cohort or a risk category.

**623.3.2.1 Present Value Accounting for Post-FY 1991 Loan Guarantees**  
Effective Date: 10/20/2022

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

**623.3.2.2 Calculating Subsidy Expense of Post-FY 1991 Loan Guarantees**  
Effective Date: 10/20/2022

For guaranteed loans disbursed during a fiscal year, USAID records 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, M/CFO/WFS 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 guaranteed loans are disbursed, M/CFO/WFS separates the subsidy expense of those new 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 loan guarantees is the present value of estimated interest supplement payments.

- b. Default costs.** The default cost of 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 as 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.

### **623.3.2.3 Frequency of Re-estimating the Subsidy Cost Allowance of Post-FY 1991 Loan Guarantees**

Effective Date: 10/20/2022

M/CFO/WFS must re-estimate the liability for loan guarantees each year as of the date of the financial statements. Since the liability represents the present value of the net cash outflows of the underlying loan guarantees, the re-estimate considers all factors that may have affected the estimate of each component of the cash flows, including prepayments, defaults, delinquencies, and recoveries. M/CFO/WFS recognizes any increase or decrease in the loan guarantee liability resulting from the re-estimates as a subsidy expense or as a reduction in subsidy expense.

USAID must measure and disclose re-estimates in two separate components: the interest rate re-estimate and the technical/default re-estimate. The former is a re-estimate 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 re-estimate due to changes in projected cash flows as reflected in the 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 re-estimates.

### **623.3.2.4 Amortization of the USAID Subsidy Cost Allowance**

Effective Date: 10/20/2022

M/CFO/WFS accrues and compounds 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 an interest expense.

### **623.3.2.5 Criteria for Default Cost Estimates**

Effective Date: 10/20/2022

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

M/CFO/WFS estimates and re-estimates default costs for each program based on separate cohorts and risk categories. The re-estimates consider 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, M/CFO/WFS considers the following risk factors:

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

M/CFO/WFS also considers improvements in methods to re-estimate defaults.

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, M/CFO/WFS analyzes the individual accounts in making the default cost estimate for that category.

When estimating default costs, M/CFO/WFS uses historical data from the performance of a risk category as a primary factor. To document actual experience, M/CFO/WFS must maintain a database to provide historical information on actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

### **Risk Assessment for Sovereign Entities**

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 DDI/PSE may rely solely on ICRAS to determine the credit risk of a sovereign entity.

### 623.3.2.6 Revenues and Expenses

Effective Date: 10/20/2022

The M/CFO/WFS records the following:

- a. Interest income - the Agency receives interest on uninvested funds from the Treasury (exchange revenue).
- b. Interest expense - the Agency incurs costs (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 loan guarantees.

Per [OMB A-129 - Policies for Federal Credit Programs and Non-tax Receivables](#), DDI/PSE in conjunction with M/CFO/WFS and M/CFO/CAR set interest and fees at levels that minimize USAID's total cost, including administrative and default costs; while supporting the achievement of program objectives.

### 623.3.2.7 Accounting Impacts of Modifications of Loan Guarantees

Effective Date: 10/20/2022

Modifications of loan guarantees change the subsidy costs and accounting treatment of outstanding loan guarantees. M/CFO/WFS must record in the accounting system and in the annual financial statements the financial impact of modifications.

There are two types of modifications:

- a. **Direct Modifications.** These 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 re-estimates, or workouts as defined in this section, or are permitted under the terms of existing contracts.
- b. **Indirect Modifications.** These are actions that change the subsidy cost by legislation that alters the way an outstanding portfolio of loan guarantees is administered. Examples include a new method of debt collection prescribed by law or a statutory restriction on debt collection in either the United States or the borrowing country.

The term modification does not include subsidy cost re-estimates, routine administrative workouts of troubled loans, and actions that are permitted within the existing contract terms. Workouts are actions taken to 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 re-estimates.

#### **623.3.2.8 Calculating the Modification of Loan Guarantees**

Effective Date: 10/20/2022

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

M/CFO/WFS must change 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).

The change in the amount of liability of 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/WFS records 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.

#### **623.3.2.9 Sale of Loans**

Effective Date: 10/20/2022

For a loan sale with recourse, M/CFO/WFS must estimate the potential losses under the recourse or guarantee obligation/liability; as well as the present value of the estimated losses from the recourse and record the estimate as subsidy expense when the sale is made.

#### **623.3.2.10 Financial Statement Disclosure and Discussion**

Effective Date: 10/20/2022

M/CFO/CAR and M/CFO/WFS must disclose in notes to financial statements the nature of the modification of loan guarantees, the discount rate used in calculating the



modification expense, and the basis for recognizing a gain or loss related to the modification.

M/CFO/WFS must provide in a note to the financial statements a reconciliation between the beginning and ending balances of the liability for outstanding loan guarantees reported in the balance sheet. The reconciliation follows the format in [SFFAS 18](#) and [SFFAS 19](#). In addition, M/CFO/WFS must provide in the Agency annual financial statements a description of the characteristics of the programs that the Agency administers and disclose the following for each program:

- a. The total amount of 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) recorded for the guaranteed loans disbursed in those years; and
- c. The subsidy re-estimates by components (the interest rate re-estimate and the technical/default re-estimate) for those years.

M/CFO/WFS 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 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 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.

M/CFO/WFS must disclose, discuss, and explain events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy re-estimates. 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 Loan Servicing**

Effective Date: 10/20/2022

Loan guarantee servicing requires contact with borrowers and Fiscal Agents, 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. M/CFO/WFS is responsible for servicing.

**The CFO's Role in Loan Servicing.** The CFO, working through M/CFO/WFS, 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 A-129 - Policies for Federal Credit Programs and Non-tax Receivables](#) regarding loan documentation, billing and collections, the use of escrow accounts, and debt reporting to credit reporting agencies. 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 (see [31 CFR 285.12](#) for guidance on delinquent debt collection).

**M/CFO/WFS's Role in Loan Servicing.** M/CFO/WFS coordinates information and actions with other offices pertaining to disbursements made by M/CFO, confirming repayments with the Fiscal Agents, and any pending legal actions involving the borrower.

#### **623.3.3.1 Fiscal Agent**

Effective Date: 10/20/2022

The Issuer (Foreign Government Borrower) usually appoints an established U.S. Bank to act as its Fiscal Agent for the Notes issued (the loan guarantee). The Fiscal Agent must make payment received from the Issuer on the Notes on each date on which payment of principal or interest on the Notes is due to the holders of the Notes.

M/CFO/WFS uses the information provided by the Fiscal Agent to record and track the principal and interest repayments and serves as the liaison with the Fiscal Agent.

#### **623.3.3.2 Delinquencies and Defaults**

Effective Date: 10/20/2022

Guaranteed loans are in default when the borrower (Sovereign Government) breaches the loan agreement with the private sector lender (banks or other private investors), requiring USAID to repay the lenders. In the event the borrower fails to deposit with the Fiscal Agent any payment of principal or interest due on any Note on a particular payment date, the Fiscal Agent must file an application for compensation with USAID. Upon default by the lenders, USAID has less than three business days to make the payment to the creditor agency (Fiscal Agents).

#### **623.3.3.3 Relief of Liability for Loan Assistance**

Effective Date: 10/20/2022

[Section 620\(r\) of the Foreign Assistance Act \(FAA\) of 1961, page 223](#) as amended, prohibits the relief of liability for repayment of any principal or interest of both sovereign and non-sovereign loans that are made for foreign assistance.

**Sovereign Loans.** For sovereign loans, USAID retains the loan on its records and financial statements. 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, page 40](#)), 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.

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

**Guarantees.** [Section 620\(r\) of the Foreign Assistance Act \(FAA\) of 1961, page 223](#) 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 [OMB Circular A-129](#), as appropriate (also see [Federal Claims Collection Standards \(31 CFR 901\) - Part 902, Standards for the Compromise of Claims](#)).

**Rescheduling.** 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 State Department is the lead organization for dealing with the Paris Club. M/CFO/WFS provides support as needed to the State Department in developing bilateral rescheduling agreements.

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 between the agency or agencies and the debtor government. This agreement includes all U.S. agencies involved in the rescheduling. After the agreement is executed between the agency and the debtor government, the rescheduled agreement becomes binding. 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. The Paris Club rescheduling is treated as a workout. Paris Club debt reductions are treated as direct modifications.

#### **623.3.3.4 Statutory Prohibitions for Countries in Default**

Effective Date: 10/20/2022

There are certain statutory prohibitions on providing foreign assistance to countries whose governments are in default in payment on sovereign loans to the United States Government. The prohibitions are:

1. [Section 620\(g\)\(1\) of the FAA of 1961](#), which prohibits USAID from providing assistance under the FAA to the government of a country when loans (principal

or interest) made to that country under the FAA are in default for a period of more than six months.

2. [Section 620\(g\)\(2\) of the FAA of 1961](#), which prohibits USAID from providing assistance under the FAA to the government of a country if any loans with the United States (authorized under the FAA or otherwise) are in default (principal or interest) for more than one year.
3. [The Brooke/Alexander Amendment \(now Section 7012 of the Consolidated Appropriations Act, 2022\)](#), which prevents FAA funds from being used for assistance to the government of a country when loans (principal or interest) made to that country are in default for more than one year and the loans were made with funds appropriated by a foreign operations appropriation. (Note that the most recent appropriation should be checked since the wording may change from year to year.) However, please note, [section 620\(g\) of the FAA](#) and [Brooke/Alexander Amendment](#) do not apply to defaults to private sector recipients receiving assistance under section 257 of the FAA.

When use of funds is prohibited by these restrictions, it is important to remember that there are a number of "**notwithstanding**" authorities in the FAA and appropriations acts that permit the furnishing of assistance notwithstanding certain statutory restrictions.

#### **623.3.3.5 Reporting**

Effective Date: 10/20/2022

M/CFO/WFS must produce external reports required by [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, guaranteed loans are reported on the USAID consolidated financial statements. M/CFO/CAR and M/CFO/WFS are 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/CAR must develop accrued revenues and expenses for financial statement preparation and review them for consistency.

#### **623.4 MANDATORY REFERENCES**

##### **623.4.1 External Mandatory References**

Effective Date: 10/20/2022

- a. [31 CFR 285.12, Transfer of Debts to Treasury for Collection](#)
- b. [Better Utilization of Investments Leading to Development Act of 2018' or the "BUILD Act of 2018"](#).
- c. [Federal Claims Collection Standards \(31 CFR 901\)](#)
- d. [Federal Credit Reform Act of 1990](#)

- e. [OMB Circular A-11, Preparation and Submission of Budget Estimates, Part 5, Section 185, Federal Credit Programs](#)
- f. [OMB Circular A-123 - Management's Responsibility for Enterprise Risk Management and Internal Control](#)
- g. [OMB Circular A-129, Managing Federal Credit Programs](#)
- 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. [Treasury Financial Manual reporting requirements](#)
- k. [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 19 - Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees](#)

**623.4.2 Internal Mandatory References**

Effective Date: 10/20/2022

- a. [ADS 502, The USAID Records Management Program](#)
- b. [ADS 620, Financial Management Principles and Standards](#)

**623.5 ADDITIONAL HELP**

Effective Date: 10/20/2022

- a. [OMB Annual Credit Training Documents](#)
- b. [Treasury FMS Credit Reform Case Studies](#)
- c. [U.S. International Development Finance Corporation's FIELD MANUAL FOR USAID: Version 2.0, February 2021](#)

**623.6 DEFINITIONS**

Effective Date: 10/20/2022

See the [ADS Glossary](#) for all ADS terms and 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**)

### **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. (**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. (**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. (**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). (**Chapter 623**)

### **Interest Rate Re-estimate**

A re-estimate 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. (**Chapter 623**)

### **Leverage**

Significant resources mobilized from non-U.S. Government sources. USAID seeks the mobilization of resources of other actors on a 1:2 or greater basis (i.e., 50 percent of the proposed value of the award). Leveraged resources may include grants/awards from non-U.S. Government organizations and other donor governments. (**Chapters [201](#), [303](#), 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 non-federal

lender, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (**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 guaranteed agreement. (**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 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 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. (**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 loan guarantees and the change in the book value of loan guarantee liabilities. (OMB Circular A-11) (**Chapter 623**)

### **Non-concessional**

Debts extended to developing nations on terms that are considerably less generous than the standard market terms, these debts are not designed to help bring developing nations debts to sustainable levels unlike concessional loans. (**Chapter 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. (**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. **(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. **(Chapter 623)**

**Program Account**

The budget account into which an appropriation to cover the subsidy cost of a 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. **(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. **(Chapter 623)**

**Re-estimate**

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

**Restatement (of loan guarantees)**

Refers to establishing a new book value of the liability of a loan guarantee. **(Chapter 623)**

**Risk Category**

Subdivisions of a cohort of 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. **(Chapter 623)**

**Subsidy Cost**

Credit subsidy cost is defined in the Federal Credit Reform Act of 1990 as the estimated long-term cost to the government of a loan guarantee or modification thereof, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. 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. (**Chapter 623**)

**Technical/Default Re-estimate**

A re-estimate of the subsidy cost of loan guarantees based the latest projections on defaults, delinquencies, recoveries, and prepayments, and other cash flow components. (**Chapter 623**)

**Workout**

Workouts are actions undertaken to minimize claim payments that USAID would make under loan guarantees. (**Chapter 623**)

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