

# INSTRUCTIONS FOR CALCULATING SUBSIDY REESTIMATES FOR THE FY 2001 BUDGET (includes use of "reest01.wk1" worksheet)

## A. Introduction

Reestimates of subsidy cost estimates are made on all direct loans and loan guarantees that have been disbursed. The purpose of reestimates is to account for differences between actual and estimated cash flows, as well as expected changes to future cash flows. Reestimates must be made at the end of fiscal year for as long as the loans are outstanding, unless a different plan is approved by OMB.

Reestimates are calculated on a cohort basis. If risk categories are used, then each risk category must be reestimated separately.

Please note that subsidy reestimates should be made using version r.9, dated 8/1/94, of the OMB credit subsidy model. Do not use any other version to calculate reestimates. The following framework is used to calculate reestimates:

1. Starting points -- (a) The starting point for comparison and calculating the cumulative reestimate is always the original subsidy rate estimate (%) made at the point of loan obligation (or guarantee commitment). (b) The starting point for updating cashflow inputs to the OMB credit subsidy model will always be the cashflows from the most recent Budget, which may have been updated for any modifications as defined in OMB Circular A-11, Section 85.3(n) and undergone previous reestimates. Hence, the cashflows from the most recent reestimate must be saved and maintained in your files in order to calculate subsequent reestimates.
2. Interest rate reestimate -- An interest rate reestimate is made, at a minimum, once after the cohort (or risk category) is 90% disbursed. This type of reestimate accounts for the difference between: a) the interest rate assumption used to calculate the subsidy rate for budget execution (when funds were obligated) and b) the actual average interest rate(s) prevailing during the year(s) of disbursement.
3. Technical reestimate -- This type of reestimate is made every year as long as loans in that cohort remain outstanding, unless a different plan has been approved by OMB. A technical reestimate accounts for changes in technical estimates that underlie the cashflow estimates.

Reestimated factors include: disbursements, defaults, delinquencies, repayment patterns, borrower interest rates, recoveries, fees, and other cash flow elements. To the extent that future cash flows are influenced by economic assumptions (in programs with variable interest rates, for example), then the reestimate may be updated for the current budget economic assumptions, if it is deemed that this will make a material change in the estimates.

4. Cumulative (total) reestimate -- The difference between the original subsidy rate estimate and the reestimated subsidy rate estimate. {Special note: If there has been a modification as defined in OMB Circular A-11 Section 85.3(n), and a subsidy for this modification has been calculated and disbursed to the cohort or risk category being estimated, then the cumulative reestimate will include the dollar amount of the modification outlays. However, the dollar amount which has been outlaid from the program to the financing account for the modification will be subtracted from the cumulative reestimate before the current year reestimate is calculated. }
5. Current year reestimate -- The current year reestimate is calculated by starting with the cumulative reestimate and subtracting: a) all previously apportioned amounts for reestimates, plus b) any previously apportioned modification outlays (as described above). The residual is the amount of reestimate which will appear in the current year column of the Budget and be apportioned in the current year.
6. Interest on reestimates -- Interest on reestimates must be calculated from the time of disbursement to the point in time when the reestimate is actually paid from the program to the financing account. This is because reestimates are calculated and paid in a year following loan disbursement, but are discounted to the time of loan disbursement. Hence, it is necessary to pay interest on the reestimates to keep the financing account "whole". This is the interest which would have accrued for the amount of time that the reestimate would have been in the financing account, if it had actually been paid at the time of loan disbursement.

## **B. Instructions and Summary Spreadsheet**

The following pages describe the steps to be taken to make both types of reestimates and interest on reestimates above. On October 22, 1999, OMB program examiners were provided a summary spreadsheet to accompany these instructions (filename: "reest01.wk1"). This reestimate spreadsheet can be enhanced for individual agency use. If your agency has enhanced the file and would like to share your ideas with other agencies, please contact Courtney Timberlake at (202) 395-7864.

## **C. Treatment of Reestimates in Budgeting and Accounting**

The budgetary treatment of subsidy reestimates is described in OMB Circular No. A-11, Sections 85.3(t) and 85.5(f). Reestimates are also presented in agency financial statements (and are included in preparing the financial statements for individual accounts published in the Budget). The use of these instructions for financial statements is explained in Section IX of the *User's Guide for the OMB Credit Subsidy Model version r.8 with r.9 Supplement*.

## D. Reestimates

### Step 1. INFORMATION NEEDED FOR ALL REESTIMATES

Assemble the following information for each cohort and if applicable for each risk category which has disbursed loans:

- a. the original subsidy rates (and cash flows) used for budget execution (calculated at the time of obligation or commitment),
- b. the dollar amount of actual disbursements and subsidy outlays for each year,
- c. the actual annual average interest rate(s) for the year(s), if calculating an interest rate reestimate (see Attachment A),
- d. any actual data on cash flows and other data that supports changes in expectations about the estimated future cash flows (**NOTE: PLEASE DO NOT CHANGE THE CASH FLOWS UNTIL STEP 4**), and
- e. number of months between the (1) end of FY99 and (2) expected date for transferring the reestimate amount (used for calculating interest on reestimates).

### Step 2. STARTING POINT FOR ALL REESTIMATES

The weighted-average “original” subsidy rate for a cohort or risk category is the rate used in budget execution to calculate subsidy outlays to the financing account, using the estimated discount rate(s) and forecast technical assumptions.

**SPREADSHEET ENTRY:** Enter the subsidy rate (in decimal form) in column B of summary spreadsheet for each cohort or risk category.

**SPREADSHEET ENTRIES:** Enter the dollar amount of loan disbursements made in FYs 92-99 for this cohort or risk category in columns E - L of the summary spreadsheet.

### Step 3. STARTING POINT FOR INTEREST RATE REESTIMATE

Interest rate reestimates on a cohort must be calculated, at a minimum, once when the cohort is 90% disbursed.

If you are not calculating an interest rate reestimate at this time:

Enter in column C of the summary spreadsheet your original weighted average subsidy rate calculated in Step 2, and skip to Step 6.

If you are calculating an interest rate reestimate:

For FYs 92-99 use the actual annual average interest rate as the discount rate for the risk category in the current version of the OMB subsidy model (for calculating reestimates for the FY01 Budget this is r.9). **DO NOT ADJUST ANY CASH FLOWS AT THIS TIME.** Do not update forecasted discount rates (discount rates beyond FY99).

ACTION: Calculate a new subsidy rate using r.9 of OMB credit subsidy model.

SPREADSHEET ENTRY: Enter the result of this calculation in column C of the summary spreadsheet.

### Step 4. INTEREST RATE REESTIMATE

Calculate the difference in percentage points between the "original" subsidy rate estimate (in Step 2) and the "new" subsidy rate estimate (as calculated in Step 3).

AUTOMATIC CALCULATION: The summary spreadsheet calculates this difference automatically and places the result in column D.

Step 5. INTEREST RATE REESTIMATE

Calculate the interest rate reestimate in dollars -- Multiply the difference calculated in Step 4 (the change in percentage points) by the TOTAL AMOUNT DISBURSED IN FYs 92 - 99 (total shown in Step 2).

AUTOMATIC CALCULATION: The summary spreadsheet calculates this amount in column M.

## Step 6. STARTING POINT FOR TECHNICAL REESTIMATE

Calculate the new subsidy rate estimate for the technical reestimate. Recalculate the subsidy rate estimate using the same interest rate(s) as in step 3 (if you have performed an interest rate reestimate), or the original interest rate assumptions (if you have not performed an interest rate reestimate), as well as any actual cash flows and revised technical assumptions for future cash flows. Include:

- o Actual data -- all actual data which is known (for example, fee receipts, interest received, principal repaid, and disbursement amounts).
- o Revised technical assumptions -- any new assumptions about borrower interest rates, defaults, recoveries, payments of claims, etc., for the risk category.
- o Revised economic assumptions -- to the extent that future cash flows are influenced by economic assumptions (in programs with variable interest rates, for example), then the reestimate may be updated for the current budget economic assumptions, if it is deemed that this will make a material change in the estimates.

These new assumptions should be used to modify the cash flows. The revised cash flows should be used to recalculate the subsidy rate for new technical assumptions.

ACTION: Calculate a new subsidy rate using r.9 of OMB credit subsidy model.

SPREADSHEET ENTRY: Enter results in summary spreadsheet column N.

### Step 7. TECHNICAL REESTIMATE

Calculate the difference in percentage points between the revised subsidy rate estimate for interest rates (from Step 4) and the revised subsidy rate estimate for technical assumptions (from Step 6).

AUTOMATIC CALCULATION: The summary spreadsheet automatically calculates this difference in column O. If you did not calculate an interest rate reestimate, then column N will equal column Q.

### Step 8. TECHNICAL REESTIMATE

Calculate the technical reestimate in dollars. Multiply the difference in subsidy rate calculated in Step 7 (the percentage points) by the TOTAL AMOUNT DISBURSED IN FYS 92 - 99 (total shown in Step 2). {Note: For programs that disburse all loans in the same year as obligation/commitment, the amounts disbursed will be shown in that one year. Hence, for these programs there would be no loans disbursed in FYS 93 - 99 from the FY 92 cohort, for example.}

AUTOMATIC CALCULATION: The summary spreadsheet calculates this difference in column P.



## E. Budget presentation

### Step 9. TOTAL OF ALL INTEREST RATE REESTIMATES AND ALL TECHNICAL REESTIMATES FOR THE CURRENT YEAR

Calculate total reestimate amounts to display for Budget P&F.

From the total reestimate for each cohort or risk category, subtract the a) cumulative reestimates (EXCLUDING INTEREST ON REESTIMATES) that have been shown in previous budgets, and were apportioned for in prior years; and b) outlays which have been apportioned for credit modifications as defined by OMB Circular A-11, Section 85.3(n).

P&F entries: For positive (upward) reestimates<sup>1</sup>, the total results of all interest rate and technical/default calculations for all cohorts or risk categories within an account are displayed in the current year on the following P&F schedule lines in the credit program account:

- 00.05 Reestimates of direct loan subsidy (total of all direct loan reestimates)
- 00.07 Reestimates of loan guarantee subsidy (total of all loan guarantee reestimates)

Downward reestimates are shown as a payment from the financing account to a receipt account, and appear as an obligation line: "Payment of downward reestimate" in the financing account in the current year.

**SPREADSHEET ENTRIES:** Enter in column S the amount of reestimates (EXCLUDING INTEREST ON REESTIMATES) that have been shown in previous budgets, and were apportioned in FYs 93-99. Enter in column T the amount of outlays that have been apportioned for credit modifications apportioned through FY 99.

**AUTOMATIC CALCULATION:** The summary spreadsheet calculates the total reestimate amount automatically and places the result of interim calculations in columns Q, R, and the final result in column U.

<sup>1</sup> Note: If the results provide negative (downward) reestimates, the reestimate will be shown in the credit financing account and a receipt account. Specific instructions on the budgetary treatment of subsidy reestimates are provided in OMB Circular No. A-11, Sections 85.3(t) and 85.5(f).

## Step 10. INTEREST ON REESTIMATES

To calculate interest on reestimates, find the interest rate in Attachment A for the maturity and fiscal year of the cohort or risk category being reestimated.

P&F entries: For positive (upward) reestimates, the total results of the interest on reestimates calculations for all cohorts or risk categories within an account are displayed in the current year on the following P&F lines in the credit program account:

00.06 Interest on reestimates of direct loan subsidy

00.08 Interest on reestimates of loan guarantee subsidy

Downward reestimates are shown as a payment from the financing account to a receipt account, and interest on these downward reestimates appears as an obligation line: "Payment of interest on downward reestimate" in the financing account in the current year.

SPREADSHEET ENTRIES: Enter this interest rate in column V of the summary spreadsheet. Enter in cell K4 the number of months between the end of FY 99 and the time the reestimate is expected to be apportioned.

AUTOMATIC CALCULATION: The summary spreadsheet then calculates the interest on reestimates. The result is placed in columns W and X of the spreadsheet.

AUTOMATIC CALCULATION: The summary spreadsheet also calculates all P&F entries and places the result in column Z.

## Actual Annual Average Interest Rates

The following are the actual annual interest rates.

Fiscal Year	Maturity Category				
	1 year or less	More than 1 year, less than 5 years	5 years or more, less than 10 years	10 years or more, less than 20 years	20 years or more
1992	4.06	5.52	6.93	7.59	7.59
1993	3.25	4.58	5.90	6.65	6.65
1994	4.06	5.36	6.21	6.77	6.77
1995	5.99	6.78	7.11	7.26	7.39
1996	5.45	5.96	6.33	6.64	6.77
1997	5.50	6.19	6.51	6.77	6.89
1998	5.34	5.57	5.68	5.85	5.98
1999	4.76	5.11	5.36	5.67	5.81

Notes:

1. All rates are effective annual yield rates. They are used in credit subsidy cost calculations, to reestimate credit subsidy cost, and to calculate the interest income and expense of the financing accounts.
2. For 1992-1994, the 10-20 year and 20+ year categories were combined into one category with a single interest rate. Starting in 1995, interest rates for these categories are computed separately.