



The Balances Approach to Reestimates

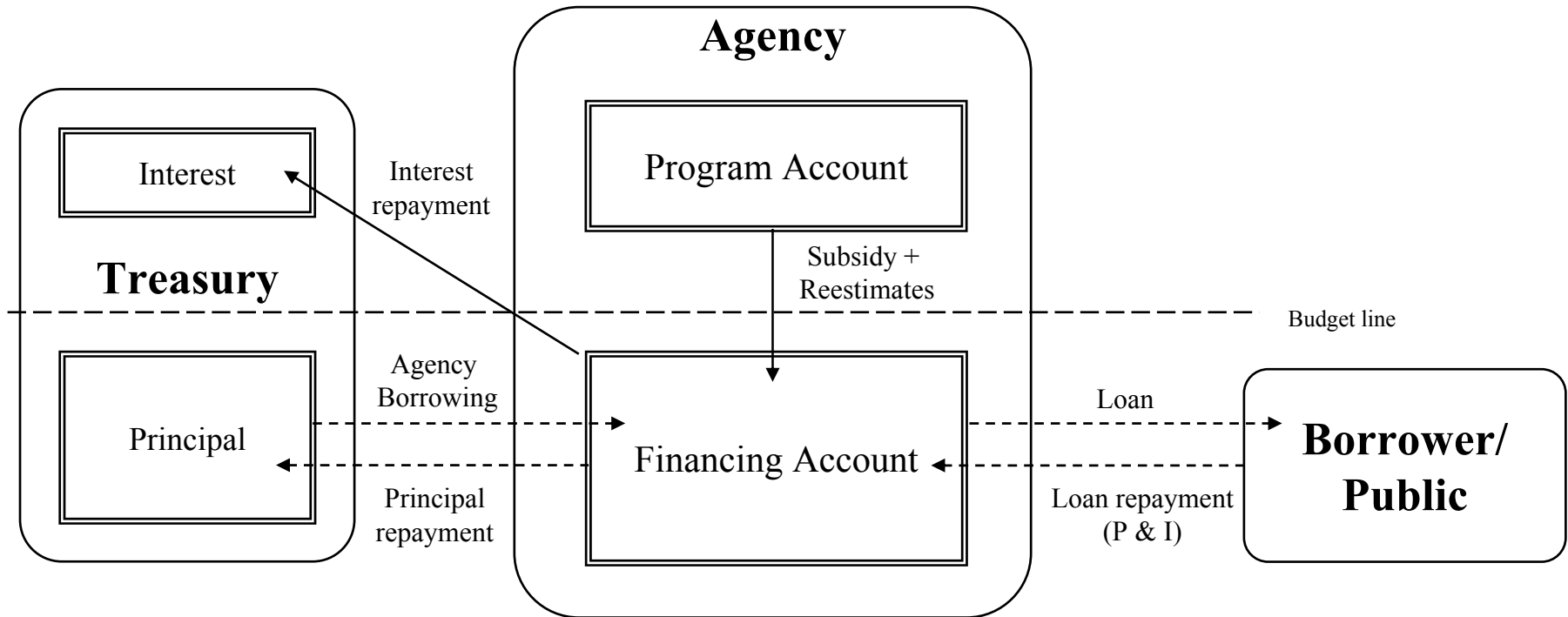
**OMB Annual Training
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The Basic Concept

- Alternative method for calculating technical reestimates
- Cash flow estimates are required for future periods only
- Compares the NPV of projected future cash flows to the balance in the financing account as of September 30th

The Basic Concept, Continued



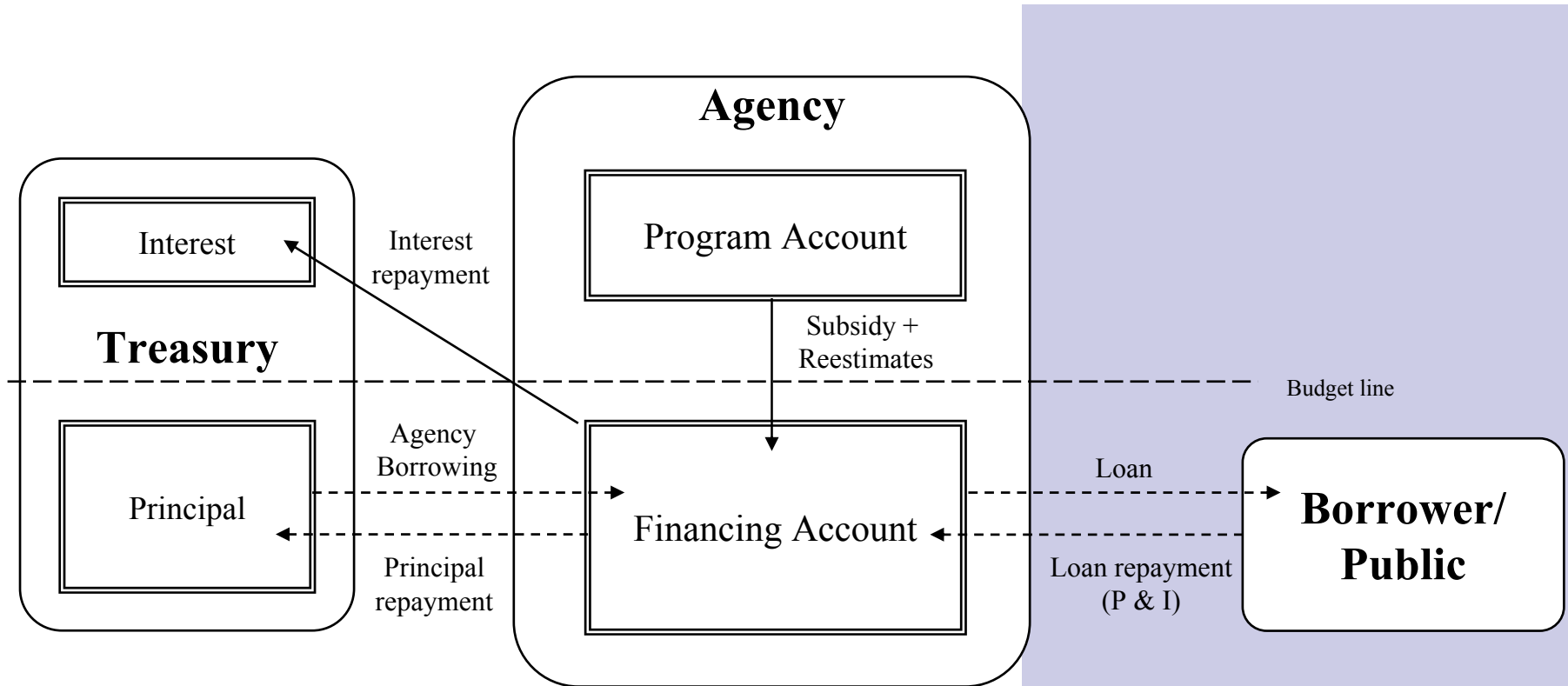
Transactions with Treasury exactly match transactions with the public.

Or: Liabilities (debt to Treasury) equal assets (loan to public)

Or: Net position is zero

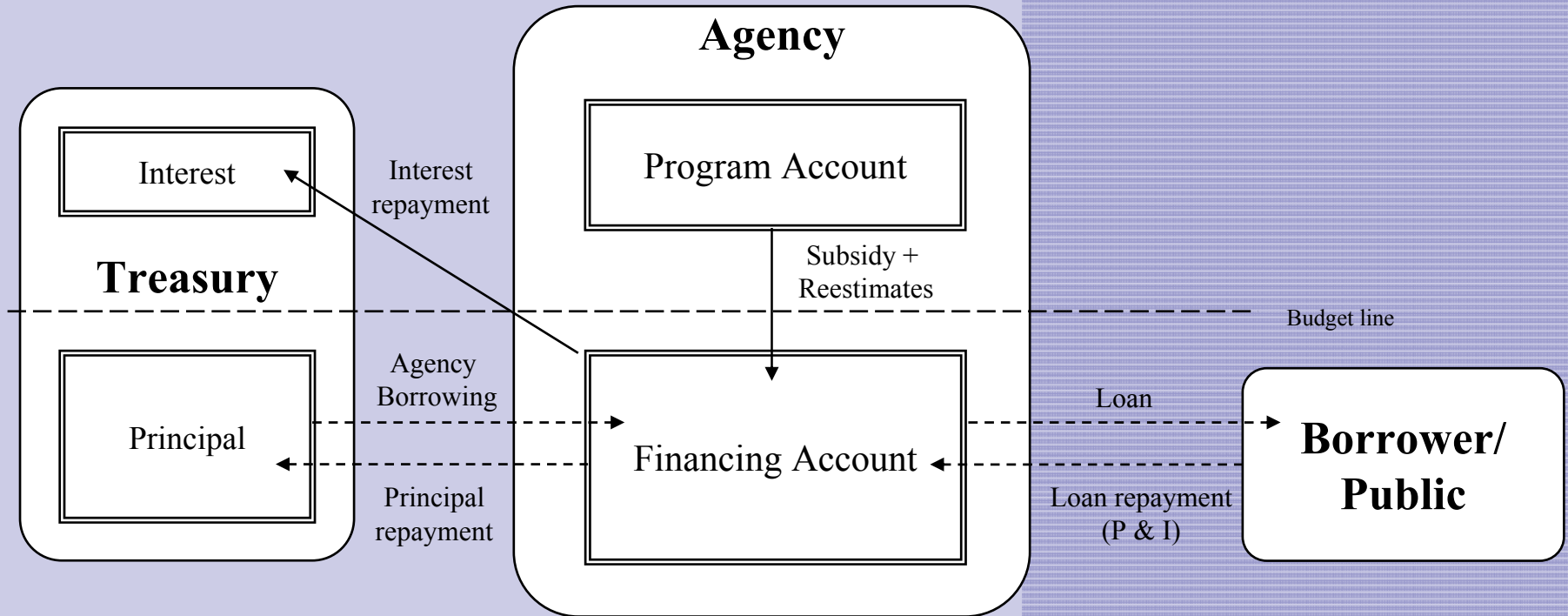
Or: The financing account has no debt or cash after the borrower repays its loan.

The Basic Concept, Continued



**Traditional
Reestimate**

The Basic Concept, Continued



Balances Approach Reestimate

Benefits

- Original cash flows not necessary for reestimate
 - Still needed for formulation/execution
 - Original cashflows necessary for analysis
- Timing issues surrounding calculation
 - Workload issues
 - Timing of cash flows
- Able to identify problems in the financing account

Common Problems

- Cross-subsidizing cohorts
- Inappropriate payments from the financing account
- Incorrect execution of budget or accounting transactions
 - Transfer incorrect amount of subsidy
 - Incorrect interest earnings or payments in financing account



Reestimate Requirements

- Interest rate reestimates must be performed using the traditional method
- Single effective rate must be determined using the traditional method
- Estimates must be updated to reflect current judgement about future performance
- Required to be calculated annually

Calculating Technical Reestimates

Assets

- For direct loans, present value of remaining cash flows
- Balance of funds on deposit with Treasury


Change from previous versions:

- Value of unliquidated assets recovered from defaulted loans required as cashflows, not as cash-value asset

Calculating Reestimates Cont.

Liabilities

- balances owed to Treasury
- For loan guarantees, the present value of remaining cash flows, including undisbursed loans



The Balances Approach to Reestimate Calculator (BARC)

For More Information:

- Guidance on Reestimates:
 - OMB Circular A-11, Section 185.6

- Federal Credit Support Page:
 - <http://www.whitehouse.gov/omb/credit>
 - Balances Approach Reestimate Calculator (BARC) and instructions
 - Draft guidance on the Balances Approach