
Constructing Cash Flows

OMB Annual Training
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What are cash flows?

- Cash flows to and from government that result from credit programs.
 - They must be presented in either an Excel or Lotus spreadsheet.
 - They must be specifically formatted to be read by OMB's Credit Subsidy Calculator 2 (CSC2).
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Basic Cash Flow Components

Direct Loans

- Disbursements
- Scheduled principal payments
- Scheduled interest payments
- Defaults (P&I that never arrives)
- Recoveries

Loan Guarantees

- Disbursements (private lender)
 - Fees to government
 - Default claim payments to private lenders
 - Recoveries on default claim payments
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Basic Direct Loan Cash Flow

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Obligations	300,000					
Disbursements	300,000					
Scheduled Principal Payments	50,000	50,000	50,000	50,000	50,000	50,000
Scheduled Interest Payments	12,000	10,000	8,000	6,000	4,000	2,000
Defaults	0	0	0	(56,000)	(54,000)	(52,000)
Recoveries	0	0	0	0	75,000	0

Basic Guaranteed Cash Flow

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
Commitments (Full Face Amount)	300,000					
Disbursements (Private Lenders)	300,000					
Annual Fees Received	2,400	2,000	1,600	1,200	800	400
Default Payments	0	0	0	120,000	0	0
Lost Fees	0	0	0	(1,200)	(800)	(400)

Developing Cash Flow Expectations

- Requires historical program data, a suitable proxy, or, in their absence, expert opinion
 - New programs usually use proxies
 - Established programs build upon historical data
 - Goal for all programs: a model and database of historic or proxy data—information store
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Two Types of Cash Flow Modeling

■ Loan by Loan

- One loan: payments, defaults and recoveries are all attributable to one borrower
- Default rates are usually cumulative and expressed as a percentage, multiplied by the sum of the principal and interest payment for any given year

■ Portfolio

- More than one loan: payments, defaults and recoveries are attributable to many borrowers
 - Default and recovery rates may fluctuate with various maturities within the portfolio
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Formatting budget cashflows for the CSC2

- CSC2 has specific formatting requirements
 - Named Range
 - CSC2 only reads data within the named range
 - Keywords
 - 4 required for ALL cash flows
 - Many more for DL and GL
 - New CSC2 keywords for reestimate and interest calculations
 - Timing
 - Frequency and Timing of Payment
 - Organized by cohort
 - Commenting Out
 - 3 ways to comment out a line of data
 - Examples
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