
Calculating Reestimates: Concepts

OMB Annual Training

June 25, 2007

Agenda

- The requirements for calculating reestimates
 - Why are reestimates needed
 - Concepts and data underlying reestimates
 - Interest rate reestimate
 - Technical reestimates
 - Balances Approach Reestimates
 - Traditional Approach Reestimates
 - Reestimates with the CSC2 (concepts)
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Review: Subsidy Estimation

Subsidy estimate:

- Cost to the Government on a net present value (NPV) basis of direct loans or loan guarantees
 - Subsidy rate = subsidy cost/total disbursements
 - Subsidy estimates by cohort and risk category
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Review: Subsidy Estimation

Subsidy estimate:

- Rate is expressed in terms of percentage
 - Program X has a 20% subsidy estimate
 - Applied to the estimated face value of direct loans or loan guarantees
 - 20% subsidy rate
 - \$10 million in loan volume
 - \$2 million of subsidy budget authority required
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Review: Subsidy Estimation

- Agency develops models to generate expected program cash inflows and outflows between the Government and the public
 - Agency formats cash flows to be read by the OMB Credit Subsidy Calculator 2 (CSC2)
 - CSC2 discounts cash flows to disbursement and generates the subsidy rate
 - Interest rates used for discounting are provided by OMB through CSC2
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Reestimate

- Reestimate—a revision of the subsidy cost estimate of a cohort (or risk category) based on information about the actual performance and/or estimated changes.
 - Comparison **for each cohort** of:
 - prior subsidy estimates for each disbursed loan/guarantee cohort
 - to -
 - actual loan/guarantee cash flows and updated assumptions about expected performance
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Credit Subsidy Reestimates (cont.)

Two types of reestimates are required for each cohort/risk category

- **Interest rate reestimate**

- Update for change in the discount rate between time of loan obligation (or guarantee commitment) and disbursement.
- Performed at substantial disbursement (i.e. 90 percent)

- **Technical reestimate**

- Update for actual cash flows and changes in technical/default assumptions (e.g., forecast technical assumptions)
 - Performed annually
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Interest Rate Reestimate

- Trues up the financing account for the difference between estimated and actual discount rates
 - Replace OMB-issued economic assumption Treasury rates with actual Treasury rates
 - Recalculate the subsidy estimate
 - Some agencies update borrower's interest rate
 - Interest rate reestimate output is a subsidy rate
 - Federal credit supplement shows the percent change due to interest
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When should agencies perform interest rate reestimates?

- Once after a cohort becomes at least 90% disbursed (“use 90 percent” method).
 - Some agencies are required by auditors to calculate each year during disbursement unless the interest rate reestimate is not material to the financial statements (“use all” method).
 - OMB does not require “use all” method for budget formulation and execution
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Interest rate reestimate example

Credit Subsidy Calculator 2 - [Cashflows_directloan.xls]

File Edit View Actions Window Tips Help

CFs SUB PWFs DDP NPV Calc CSC SUM Msg

Pro-rata method.....Construction model
All content displayed.....See Tips-Views-Limitations menu for potentia
Purpose of this calculation.....Budget formulation
Interest rate assumptions.....Budget forecast rates, Budget 2005 [2003-12-

Year	Subsidy components					Single effective Discount rate
	Total Subsidy	Financing Subsidy	Default Subsidy	Subsidy Reduction for Fees	All Other components	
2005	6.23	-4.19	10.42	0.00	0.00	3.2540 (C)

Ready NUM

- Direct loan with a Budget subsidy rate of 6.23% using the 2005 budget assumption discount rates

Interest rate reestimate CSC2 Output

Credit Subsidy Calculator 2 - [Cashflows_directloan.xls]

File Edit View Actions Window Tips Help

CFs SUB PVFs DDP NPV Calc CSC₂ SUM Msg

Pro-rata method.....Construction model
All content displayed.....See Tips-Views-Limitations menu for potentia
Purpose of this calculation..... Reestimate
Interest rate assumptions..... Reestimate rates may vary by cohort. See PL

Subsidy components

Year	Total Subsidy	Financing Subsidy	Default Subsidy	Subsidy Reduction for Fees	All Other components	Reestimate Discount rate	
2005	6.99	-3.34	10.33	0.00	0.00	3.60	Single Effective Rate

Ready NUM

- Interest rate reestimated subsidy rate of 6.99% using the actual discount rates

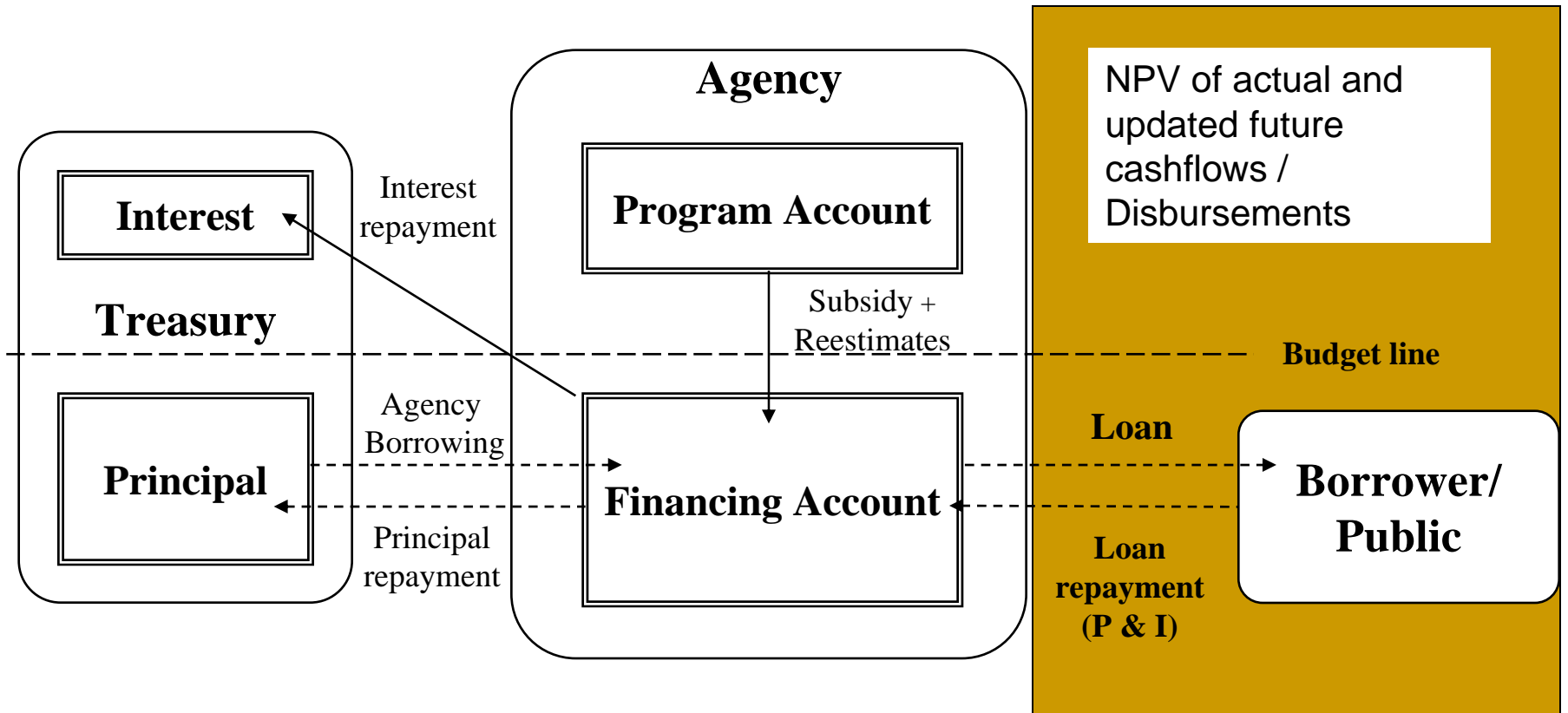
Technical Reestimate

- Corrects for changes in actual loan performance from the latest subsidy estimate.
 - Example:
 - A loan guarantee program fully guarantees a \$10 million loan.
 - Original subsidy estimate is 20%, based on the default risk of the borrower. Agency sets aside \$2 million in a financing account in anticipation of future default.
 - Loan defaults on first payment. Bank places a claim of \$10 million.
 - The reestimate gives the agency permanent indefinite authority to cover the \$8 million shortfall between the claim and the balance of the financing account.
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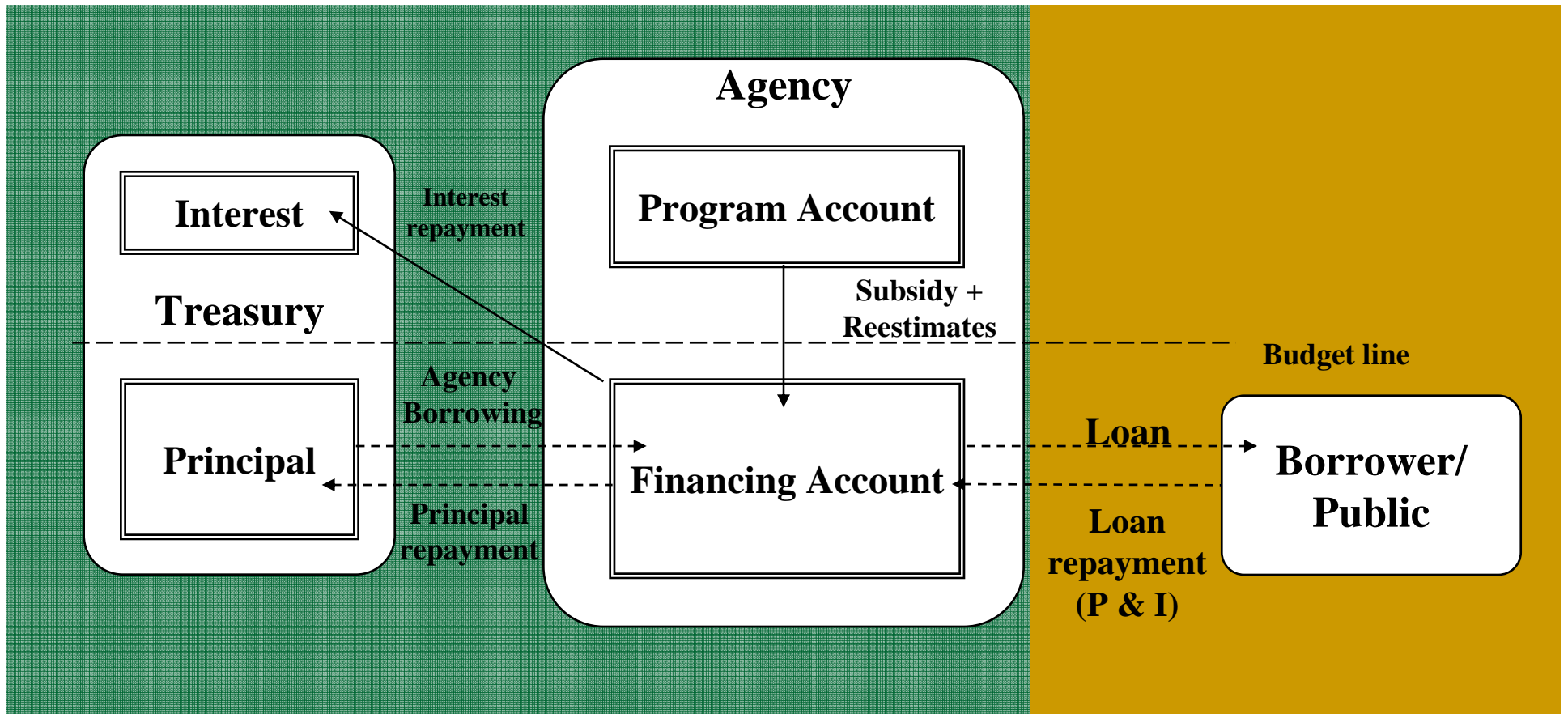
When should agencies perform technical reestimates?

- Required to be calculated and executed annually, unless one of the following four conditions is met:
 - based upon periodic schedules established with OMB;
 - a major change in actual versus projected activity is detected,
 - a material difference is detected through monitoring “triggers” developed in coordination with OMB, or
 - a cohort is being closed out.
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The Basic Concept: Traditional Approach



Balances approach reestimate



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 at the end of the life of the loan.

Calculating Balances Approach

Reestimates

Assets

- ❑ Direct loans—present value of remaining cash flows from the public
- ❑ Balance of funds on deposit with Treasury

Liabilities

- ❑ Balances owed to Treasury
 - ❑ For loan guarantees, the present value of remaining cash flows, including undisbursed loans
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Shortfalls of previous reestimate tools

- Traditional approach reestimates:
 - Reestimate based on cashflows with the public
 - Traditional approach had no check on accounting errors
 - Unexplained balances in financing accounts

 - Balances approach reestimates:
 - Took the end of year financing account balance as given
 - Could not distinguish between reestimates resulting from borrower performance and accounting errors—subsidy rates that did not reflect borrower performance

 - Financing account interest:
 - Simplified interest and no method for correcting interest earned at budget assumptions
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CSC2 Reestimate

- Balances approach reestimates
 - Calculated financing account balance with interest
 - Agencies reconcile calculated vs. reported balance
 - Future cashflows discounted to the end of the fiscal year
 - Traditional approach reestimate
 - Check against Balances approach reestimated rate
 - Financing account interest adjustment
 - Historical cohort data is required for Traditional approach reestimate check and financing account interest adjustment
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CSC2 Reestimates

- Consistent data for credit calculations
 - Disconnects in financing account balances are transparent
 - Accounting differences are transparent
 - Cost accurately reflects long term cost to government
 - Transactions to and from public +
Intragovernmental transactions = Financing
account balance
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Calculating a Technical Reestimate

To perform technical reestimates using the CSC2:

DATA

- Update borrower cashflows (to or from the public) for actual performance
- Updated estimated future borrower cashflows
- Financing account balances
 - End of year Debt/Cash balance in the financing account
- Intragovernmental transactions
 - Includes borrowing, repayments, subsidy, financing account interest, modifications, and prior reestimates

ANALYSIS

- Source of any differences between what should be in the financing account (sum of transactions) and what was reported.
 - Why are costs changing?
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Reestimate Requirements

- Required to be calculated at the close of each fiscal year
 - With OMB approval, agencies may use actual data through either March 31 or June 30 and estimate remainder of year
 - Discount rates for calculating the cohort interest rate are released about 10 days before the end of the fiscal year.
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Reestimate execution

- Upward reestimate
 - Liabilities exceed assets
 - The subsidy cost is higher than previously estimated
 - Permanent indefinite authority cover the upward reestimate

 - Downward reestimate
 - Assets exceed liabilities
 - The subsidy cost is lower than previously estimated
 - The downward reestimate must be returned to the general fund via the downward reestimate receipt account
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Interest on the Reestimate

- The amount of interest that would have been paid or earned by the financing account if loan had originally been executed at the reestimated subsidy rate
 - Interest on the reestimate is calculated at the disbursement-weighted average discount rate or single effective rate
 - Financing account interest adjustment is executed as interest on reestimate.
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What rate should agencies use to discount reestimate cashflows?

- For basket of zeros cohorts (cohorts 2001 and forward), only two single effective rates will be calculated.
 - Budget formulation single effective rate
 - Final single effective rate
 - For technical reestimates, enter the numeric single effective rate as the “reestimate discount rate” in CSC2 input cashflows for each cohort
 - Exceptions:
 - Interest rate reestimate
 - First technical reestimate after 90% disbursement
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For More Information

- Guidance on Reestimates:
 - OMB Circular A-11, Ch. 185, especially Section 185.6
 - Federal Credit Support Page:
 - <http://www.whitehouse.gov/omb/credit>
 - OMB Credit Subsidy Calculator 2 User guide
 - Reference tools for previous software
 - Consolidated Credit Tool instructions (Utilities page)
 - Balances Approach Reestimate guidance
 - Working Paper, “Performing reestimates with the revised credit subsidy calculator” (CSC page)
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