

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 (CSC).

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

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 Pmnts	50,000	50,000	50,000	50,000	50,000	50,000
Scheduled Interest Pmnts	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

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
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 their historical data
- Goal for all programs: the model information store

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

Major formatting considerations for the CSC

- Named Range
 - Ignores data outside the range
- Keywords
 - 4 required for ALL cash flows
 - Many more for DL and GL
- Timing
 - Frequency
 - Timing of payment
- Organized by cohort
- Commenting Out
 - 3 ways to comment out