

Calculating Traditional Reestimates

OMB Annual Training

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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 = $\text{subsidy cost} / \text{total disbursements}$

Review - Subsidy Estimation

Subsidy estimate:

- Rate is expressed in terms of percentage, e.g. Program X has a 15% subsidy estimate
- Applied to the estimated face value of direct loans or loan guarantees, e.g. 15% of \$10,000,000 in loans = \$1.5 million = subsidy budget authority required

Review - Subsidy Estimation

- Agency develops models and spreadsheets presenting program cash inflows and outflows between the Government and the public
- Agency uses OMB Credit Subsidy Calculator (CSC) to discount cash flows to the date of disbursement
 - Interest rates used for discounting are provided by OMB through CSC

Developing a Subsidy Estimate

- 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

Credit Subsidy Estimates

General Components of Subsidy

CONTRACTUAL:

- Loan maturity
- Borrower interest rate
- Upfront fees
- Annual fees
- Grace periods
- Interest subsidies

FORECAST:

- Delinquencies
- Default rate
- Timing of defaults
- Recovery rate
- Timing of recoveries
- Prepayment rate
- Borrower characteristics

Credit Subsidy Estimate Assumptions for Budget Execution

At the Time of Obligation:

Update subsidy estimate for explicit assumptions

- cash flows specified in loan contract

Update subsidy estimate for changes in law

Forecast assumptions remain the same

- forecast assumptions must be same as the assumptions used to formulate the President's Budget

At the Time of Disbursement:

Update for changes in law, regulation or policy (modification)

After Disbursement:

Update for all forecast assumptions (reestimate)

Update for changes in law, regulation or policy (modification)

Credit Subsidy Reestimate

Annual comparison of:

- prior subsidy estimates for each previously disbursed loan/guarantee cohort
 - to -
- actual loan/guarantee cash flows and updated assumptions about expected performance of cohort

Two-part calculation:

- update for change in interest/discount rate between time of loan obligation (guarantee commitment) and disbursement (“interest rate reestimate”)
- update for changes in technical/default assumptions (e.g., forecast technical assumptions) (“technical reestimate”)

Interest Rate Reestimate

- Required to be calculated...
 - For budget purposes: once after a cohort becomes at least 90% disbursed (“use 90 percent” method).
 - For financial statement purposes: each year during disbursement unless the interest rate reestimate is not material to the financial statements (“use all” method).

Interest Rate Reestimate

- Replace OMB-issued economic assumption Treasury interest rates with actual Treasury rates
- Recalculate the subsidy estimate
- Trues up the financing account for the difference between estimated and actual rates

Technical Reestimate

- Required to be calculated 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.

Technical Reestimate

- Replace estimated cash flows (forecast assumptions) with actuals
 - direct loans: repayments of principal and interest, defaults, recoveries, fees, prepayments, etc.
 - loan guarantees: default claim payments, recoveries, fees, interest subsidies, etc.
- Update estimates of future cash flows based upon recent historical performance (must be supported by analysis)
 - why is performance different from expected?

Reestimate Requirements

- Generally, agencies calculate first technical reestimate after a cohort has fully disbursed
 - Most agencies will calculate first interest and technical reestimates at the same time
- Required to be calculated after the close of each fiscal year
- Exception for technical reestimates: agencies may use data through June 30 and project 4th quarter

Reestimate Execution

- Upward reestimate
 - The subsidy cost is higher than previously estimated
 - Permanent indefinite authority is available to cover the upward reestimate
- Downward reestimate
 - The subsidy cost is lower than previously estimated
 - The downward reestimate must be returned to the general fund via the downward reestimate receipt account (there is an exception for mandatory programs)

Interest on the Reestimate

- The amount of interest that would have been paid or earned by the financing account if the reestimated subsidy amount had been the original subsidy amount
- Interest on the reestimate is calculated at the disbursement-weighted average discount rate or single effective rate

Balances Approach

- Alternative method for calculating reestimates
- Compares the NPV of projected future cash flows to the balance in the financing account

Performing Traditional Reestimates

- Interest Rate Reestimate
 - Run the original cash flows through the OMB Credit Subsidy Calculator (CSC).
- Technical Reestimate
 - Update the cash flows for actual data and updated projections. Run revised cash flows through the CSC.
- Enter Data into the Consolidated Credit Tool

For More Information

- Guidance on Reestimates:
 - OMB Circular A-11, Ch. 185, especially Section 185.6 (Ch. 185 now includes former A-34 Section 70)
- Federal Credit Support Page:
 - <http://www.whitehouse.gov/omb/credit>
 - OMB Credit Subsidy Calculator (CSC page)
 - Consolidated Credit Tool and instructions (Utilities page)
 - Working Paper, “Performing reestimates with the revised credit subsidy calculator” (CSC page)