



# Department of Veterans Affairs

## Financial Policy

### Volume V

#### Assets

### Chapter 7

#### Loans Receivable (VBA)

Approved:

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## 0701 Overview

This chapter establishes the Department of Veterans Affairs (VA) financial policies regarding measuring, recognizing, and reporting of loans receivable. The [Federal Credit Reform Act of 1990 \(FCRA\)](#), effective October 1, 1991, divides VA’s federal credit program loans into two groups: pre-1992 and post-1991. For post-1991 loans, the Act requires federal agencies to estimate the cost of extending or guaranteeing credit through federal credit programs, which is referred to as subsidy cost. A positive subsidy value means that VA incurs a cost for extending a loan to borrowers; a negative subsidy value means that the credit program generates a positive return to VA, excluding administrative costs. VA will comply with the statutory and regulatory requirements to measure, recognize, (re)estimate, and report loans receivable and the associated subsidy.

Key points covered in this chapter:

- VA will apply different accounting standards to pre-1992 and post-1991 loans in accordance with the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 2, 18, and 19;
- VA will re-estimate the subsidy costs to reflect the actual loan performance and expected changes in estimates of future loan performance;
- VA will account for loan modifications, sales, write-offs, and foreclosure in accordance with FASAB, the Office of Management and Budget (OMB), Treasury, and VA’s guidance; and
- VA will, in accordance with the OMB Circular A-136, report loans receivable on the consolidated balance sheet and disclose required information in the accompanying notes.

## 0702 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed five-year review	OFP (047G)	Reorganize chapter layout	November 2019
0705 Policies	Updated policy statements	OFP (047G)	Properly reflect VA’s current loans receivable accounting and reporting requirements	November 2019

### 0703 Definitions

**Credit Reform Accounting** – An accounting concept and methodology established by the FCRA.

**Cohort** – A set of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years.

**Direct Loan** – A disbursement of funds by the government to a nonfederal borrower under a contract that requires the repayment of such funds within a certain time with or without interest.

**Discount Rate** – An interest rate that is applied in present value calculations to estimate the value of future payments.

**Financing Account** – A non-budgetary account that is used to record cash flow resulting from post-1991 direct loans or loan guarantees.

**Interest Rate Re-estimate** – A re-estimate due to a change in interest rates from those that were assumed in budget preparation and used in calculating the subsidy expense to the interest rates that are prevailing during the time periods in which the direct or guaranteed loans are disbursed.

**Liquidating Account** – A budget account that records all cash flows to and from the U.S. Government resulting from pre-1992 direct loan obligations or loan guarantee commitments, unless they have been modified and transferred to a financing account.

**Modification (Direct Loan or Loan Guarantee)** – A federal government action, including new legislation or administrative action, that directly or indirectly alters the estimated subsidy cost and the present value of outstanding direct loans, or the liability of loan guarantees. Direct modifications are actions that change the subsidy cost by altering the terms of existing contracts or by selling loan assets. Indirect modifications are actions that change the subsidy cost by legislation that alters the way in which an outstanding portfolio of direct loans or loan guarantees is administered.

**Present Value** – The current value of future cash flows.

**Program Account** – A budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account.

**Recognize** – To formally record or incorporate an item into the Agency's financial statements as an asset, liability, revenue, expense, etc.

**Subsidy Cost** – The estimated long-term cost to the Government of a loan, calculated on a net present value basis, excluding administrative costs. Specifically, the cost of a

loan is the net present value, at the time when the loan is disbursed from the financing account, of estimated cash flows.

**Re-estimate** – A re-estimate due to changes in projected cash flows of outstanding direct loans and loan guarantees after reevaluating the underlying assumptions and other factors that affect cash flow projections as of the financial statement date, except for any effect of the interest rate re-estimates.

## 0704 Roles and Responsibilities

**Accounting Policy and Reporting Division (APRD), Veterans Benefits Administration (VBA)** is responsible for providing guidance on the methods used to measure, recognize, estimate, and re-estimate loans receivable in accordance with authoritative guidance. APRD assists OFR in the reporting of loans receivable.

**Administrative and Loan Accounting Center (ALAC), VBA** is responsible for providing financial management support to VA's housing programs by performing accounting, financial reporting assistance, voucher examining, payments, and collections.

**Loan Guaranty Service (LGY), VBA** is responsible for operating and managing loan programs as a benefit for eligible borrowers to obtain, retain, and adapt homes.

**Insurance Service, VBA** is responsible for operating and managing insurance programs that provide veterans with life insurance benefits that may not be available from the commercial insurance industry.

**Vocational Rehabilitation and Employment Service, VBA** is responsible for operating and managing Vocational Rehabilitation and Employment (VR&E) programs that assist entitled veterans and servicemembers with service-connected disabilities and an employment handicap to prepare for, find, and maintain a job.

**Debt Management Center (DMC)** is responsible for collecting debts resulting from an individual's participation in VA's benefit programs within DMC's jurisdiction. The DMC consults with veterans and their families in the management and liquidation of their benefit debts.

## 0705 Policies

### 070501 General Policies

- A. VA will comply with the following authorities to measure, recognize, (re)estimate, and report loans receivable.
  - FCRA of 1990;

- FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 2, 18, and 19;
  - OMB Circulars A-11 and A-136;
  - Treasury Financial Manual (TFM) and credit reform case studies; and
  - VBA home loan circulars and materials.
- B. VA will establish budgetary and financing control of loan programs through three types of accounts: program, liquidating, and financing accounts. Program and liquidating accounts are both budgetary accounts; while the financing account is a proprietary account.
1. The program account contains appropriations for the subsidy cost and indirect cost of administering the credit programs.
    - a. Obligations for the subsidy cost and administrative expenses are separately recorded in the program account.
    - b. When a loan is disbursed outlays are recorded and a subsidy transferred from the program account to the financing account.
  2. The financing account combines the subsidy transfer from the program account with borrowing from Treasury to finance direct loans.
    - a. Actual cash flows to and from VA are recorded in the financing accounts.
    - b. The financing account repays Treasury over time (with interest) using payments from the borrowers.
    - c. The financing account uses the reserve from Treasury, together with interest earnings on the reserve, to pay default claims over the life of the loans.
  3. The liquidating account records activities for pre-1992 loans.
    - a. Collections received in the liquidating account will be used to pay obligations, but not to finance any new direct loans.
    - b. FCRA provides VA the permanent indefinite authority to cover obligations and commitments if funds in the liquidating accounts are otherwise insufficient.
- C. Loans receivable reported on the consolidated balance sheet will consist of VA's direct loans and guaranteed loans receivable.
1. DMC will establish and maintain receivables for debts that result from a loss on a defaulted guaranteed loan for more information see VA Financial Policy, [Volume XII, Debt Management, Chapter 6 – Benefit Debts](#).

2. For direct loans, VA will establish and disclose the nature of each of its programs in the notes to the financial statements. This includes but is not limited to: (1) home loans; (2) insurance policy loans; and (3) Vocational Rehabilitation and Employment (VR&E) loans.
  - a. VBA's LGY operates and manages home loan programs for eligible borrowers to obtain homes. Home loans are the largest portion of loans receivable within VA.
  - b. VBA's Insurance Service operates and manages life insurance programs that provide policy loans to policy holders of permanent plans. Insurance policy loans allow eligible veterans to borrow against the cash value of their policies. The policyholder can take up to 94 percent of the cash surrender value of the policy or the paid-up additional insurance.
  - c. VBA's Vocational Rehabilitation and Employment Service operates and manages a loan program that provides non-interest direct loans to eligible beneficiaries to start, continue, or reenter vocational rehabilitation training if an unforeseen hardship occurs.

**070502 Measurement and Recognition of Pre-1992 Loans Receivable**

- A. VBA will apply the allowance for loss method to pre-1992 direct loans. Under this method, loans receivable is offset by an allowance for loan loss (estimated uncollectible loans).
- B. VBA will recognize the loss of pre-1992 loans when it is more likely than not that the loans will not be totally collected.

**070503 Measurement and Recognition of Post-1991 Loans Receivable**

- A. VBA will adhere to the requirements of FCRA and use the present value method to account for post-1991 direct loans.
- B. VBA will record direct loans disbursed and outstanding as assets at the present value of their estimated net cash inflows.
- C. VBA will recognize the difference between the outstanding principal balance of direct loans and the present value of their net cash inflows as a subsidy cost allowance.
- D. VBA will recognize a subsidy expense for new direct loans disbursed during the fiscal year.

1. The subsidy expense for new direct loans is comprised of interest subsidy cost, default cost, other costs, and, fees and other collections.
  2. VA's total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current year (1 above) plus modifications to existing loans, and interest rate and technical re-estimates made to existing loans.
- E. VBA will finance the subsidy using appropriations, and the unsubsidized portion by borrowing from Treasury and fee collections.

#### **070504 Subsidy Estimates, Re-estimates, and Amortization**

- A. A subsidy estimate will be performed when a loan is disbursed or modified. VBA will provide subsidy estimates for all budget accounts that have post-1991 direct loan obligations or modifications of pre-1992 direct loans.
- B. VA will re-estimate the subsidy costs to reflect the actual loan performance and expected changes in estimates of future loan performance. The re-estimate will include both interest rate re-estimates and technical/default re-estimates.
1. The Office of Financial Management within VBA will perform re-estimates in both August and November.
    - a. The re-estimate in August is for the purpose of preparing the financial statements. The Office of Management within VBA will review the re-estimate and the VBA Deputy Chief Financial Officer within this office will approve the re-estimate.
    - b. The re-estimate in November is for the purpose of preparing budget formulation. The Director of Credit Reform will prepare the re-estimate. The Office of Budget may review the re-estimates. VA will submit the re-estimate to OMB for approval.
  2. APRD will prepare the journal vouchers for the re-estimates and ALAC will enter them into VA's accounting system. The re-estimate for financial statements will be recorded in September, while the re-estimate for budget formulation will be recorded after VA's receipt of a reapportionment of the re-estimates from the Office of Budget.
- C. VBA will use the interest method to calculate the amortization of allowance for subsidy in order to reflect the difference between effective interest and nominal interest on VA direct loans in accordance with SFFAS 2.



1. APRD will calculate the subsidy allowance amortization every month. The amortized amount will be recognized as an increase or decrease in interest income where the offsetting accounts are either the allowance for subsidy for direct loans or loan guaranty liability for guaranteed loans.

Under the interest method of amortization, the amortization of each period equals the effective interest of the outstanding direct loans minus the nominal interest. Therefore, subsidy allowance amortization is the process of netting interest revenue and interest expense to zero so there are no cumulative results of operation in a financing fund.

- a. For any period for which interest is to be paid (a fiscal year in this example), the effective interest equals the book value (which is also the present value) of the direct loans at the beginning of the period multiplied by the applicable Treasury rate.
  - b. The nominal interest equals the outstanding nominal balance of the loans at the beginning of the period, multiplied by the interest rate stated in the loan contract.
2. APRD will prepare the subsidy allowance amortization journal vouchers based on the above calculation and ALAC will process the vouchers in VA's accounting system every month.
  3. For funds with borrowing authority from Treasury, VA will receive its interest expense from Treasury after the month-end closing. APRD will record both the interest expense from Treasury borrowing and subsidy allowance amortization in VA's financial reporting system. These journal vouchers will lag a month behind due to the timing of the information received from Treasury.

#### **070505 Loan Modification, Sale, Write-off, and Foreclosure**

- A. The modification of a direct loan will change the subsidy cost. VBA will recognize modification costs as a modification expense when the loan is modified.
  1. When a post-1991 direct loan is modified, VBA will adjust the loans' book value to the present value of the loan's net cash inflows projected under the modified terms from the time of modification to the maturity and discounted at the original discount rate.
  2. When a pre-1992 direct loan is modified VBA will for:
    - a. A direct modification transfers the loans to the financing account and adjust the book value equal to the post-modification value. Any subsequent modification will be treated as a post-1991 loan modification.

- b. An indirect modification keeps the loan in the liquidating account and reassess and adjust the bad debt allowance to reflect amounts that would not be collected due to the modification.
  3. Changes in book value of direct loans from modification and the cost of a modification will normally differ. VBA will recognize this difference as a gain or loss.
- B. VBA will publish planned loan sales in the President's budget. VBA will bundle and sell these loans to a private investor and close them out in the Direct Loan Financing Account.

These loans will then become guaranteed loans in the Veterans Housing Benefit Program Fund, Loan Sale Securities, Guaranteed Loan Financing Account. These guaranteed loans will be accounted for comparable to guaranteed loans covered in the [VA Financial Policy, Volume VI, Chapter 6 –Liabilities for Loan Guarantees](#).

- C. VBA will treat unplanned loan sales as volume estimates or loan modifications and adopt the same accounting principles and guidance as the loan modification as stated in previous policy section.
- D. Loan write-offs will be performed based either on the terms of VBA's contract with the Loan Portfolio Service Contractor or according to LGY Services' approval. Write-offs are write-downs of principal balance on continuing direct home loans or the write-off home loans entirely. When direct loans are written off VBA will for:
1. Post-1991 direct loans, remove the unpaid principal of the loan from loans receivable and reduce the same amount in the allowance for subsidy costs.
  2. Pre-1992 direct loans, reduce the loans receivable in the amount of the non-recoverable principal and reduce the same amount in resources payable to Treasury.
- E. Upon foreclosure of both post-1991 and pre-1992 direct loans, the acquired property will be recognized as an asset at the present value of its estimated future net cash inflows. See VA [Financial Policy Volume V, Chapter 10A, Foreclosed Property Acquired](#), for details.

#### **070506 Reporting for Loans Receivables**

- A. VA will report loans receivable on the consolidated balance sheet in accordance with SFFAS 2, Accounting for Direct and Loans and Loans Guarantees.
1. Post-1991 Loans:

- a. Direct Loans – loans disbursed and outstanding will be recognized as assets at the present value of the estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of the net cash inflows will be recognized as a subsidy cost allowance.
  - b. Loan Guarantees – The present of estimated net cash outflows of the loan guarantees will be recognized as a liability. Disclosure will be made of the face value of guaranteed loans outstanding and the amount guaranteed.
2. Pre-1992 Loans:
- a. Direct Loans – Losses will recognize when it is more likely than not that the loan will not be totally collected. The allowance of the uncollectible amounts will be re-estimated each year as of the date of the financial statements.  
**Note:** Re-statement of the loans on a present value basis will be permitted but not required.
  - b. Loan Guarantees – The liabilities of the loan will be recognized when it is more likely than not that the loan will require future cash outflow to pay default claims. The liability will be re-estimated each year as of the date of the financial statements. Additional information on recognizing liabilities related to guaranteed loans is covered in [VA Financial Policy, Volume VI, Chapter 6 – Liabilities for Loan Guarantees.](#)  
**Note:** Re-statement of the loans on a present value basis will be permitted but not required.
- B. Insurance policy loans are not subject to FCRA and will be reported at face value in the financial statements and notes in accordance with OMB Circular A-136 (Financial Reporting Requirements).
- C. VA will disclose information about notes receivable in the notes to the financial statements in accordance with OMB Circular A-136 (Financial Reporting Requirements).
- D. VA will only separately display and disclose loan programs that materially affect the financial statements and notes.

## 0706 Authorities and References

[Federal Credit Reform Act of 1990](#)

[OMB Circular A-11, Part 5, Federal Credit](#)

[OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables](#)

[OMB Circular A-136, Financial Reporting Requirements – Revised](#)

[SFFAS 2: Accounting for Direct Loans and Loan Guarantees](#)

[SFFAS 18: Amendments to Accounting Standards For Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2](#)

[SFFAS 19: Technical Amendments to Accounting Standards For Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2](#)

[Federal Financial Accounting and Auditing Technical Releases 6: Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act](#)

[TFM Volume I Part 2 Chapter 4600 Treasury Reporting Instructions for Credit Reform Legislation](#)

[TFM Supplemental USSGL](#)

[Treasury Credit Reform Accounting Case Studies](#)

[Treasury Resources: Managing Federal Receivables](#)

[VBA Home Loan Circulars](#)

[VBA Home Loan Materials](#)

## **0707 Rescissions**

VA Financial Policy, Volume V, Assets, Chapter 7 – Loan Receivables (VBA) dated July 2014.

## **0708 Questions**

Questions concerning these financial policies and procedures should be directed as follows:

VBA  
VBA  
All Others

[VAVBAWAS/CO/FINREP](#) (Outlook)  
[VAVBAWAS/CO/OPERATIONS](#) (Outlook)  
[OFP Accounting Policy](#) (Outlook)