

Overview

This Chapter describes policies with respect to Federal credit programs, as outlined in the Office of Management and Budget (OMB) Circular No. A-129, “Policies for Federal Credit Programs and Non-Tax Receivables” which may be found at the OMB web site at www.whitehouse.gov/omb and the Department of the Treasury’s Financial Management Service web site at www.fms.treas.gov. When developing new or revising existing credit programs, Federal agencies must take into consideration the Budget and Legislative Policy for Credit Programs promulgated in OMB Circular No. A-129, which states:

“Federal credit assistance should be provided only when it is necessary and the best method to achieve clearly specified Federal objectives. Use of private credit markets should be encouraged, and any impairment of such markets or misallocation of the nation's resources through the operation of Federal credit programs should be minimized.”

OMB Circular No. A-129, Section II., provides four subsections to assist agencies with respect to development and review of budget and legislative policy.

Program Review

Proposals submitted to OMB for new programs and for reauthorizing, expanding, or significantly increasing funding for existing credit programs should be accompanied by a written review. See OMB Circular No. A-129, Section II., subsection 1., paragraphs a-f, for the factors that must be included in the written review.

Budget and Legislative Policy for Credit Programs

Form of Assistance

When Federal credit assistance is necessary to meet a Federal objective, loan guarantees should be favored over direct loans, unless attaining the Federal objective requires a subsidy, as defined by the Federal Credit Reform Act of 1990, deeper than can be provided by a loan guarantee. See OMB Circular No. A-129, Section II., subsection 2., paragraphs a-f, for details on the use of guaranteed loans over direct loans and other considerations regarding loan guarantees.

Financial Standards

In accordance with the Federal Credit Reform Act of 1990, agencies must analyze and control the risk and cost of their programs. Agencies must develop models (statistical or otherwise) predictive of defaults and other deviations from loan contracts. Agencies are required to estimate subsidy costs and to obtain budget authority to cover such costs before obligating direct loans and issuing loan guarantee commitments. **Specific instructions for budget justification, subsidy cost estimation and budget execution under the Federal Credit Reform Act of 1990 are provided in OMB Circular No. A-11.**

Agencies shall follow sound financial practices in the design and administration of their credit programs. Where program objectives cannot be achieved while following sound financial practices, the cost of these deviations shall be justified in agency budget submissions in comparison with expected benefits. **Unless a waiver is approved, agencies should follow the financial practices discussed in Circular No. A-129, Section II., subsection 3., paragraphs a-g.**

Budget and Legislative Policy for Credit Programs

Implementation

The provisions of OMB Circular No. A-129, Section II will be implemented through the OMB Circular No. A-19 legislative review process and the OMB Circular No. A-11 budget justification and submission process.

For accounting standards for Federal credit programs, see Accounting for Direct Loans and Loan Guarantees, Statement of Federal Financial Accounting Standards Number 2, developed by the Federal Accounting Standards Advisory Board. See OMB Circular No. A-129, Section II., subsection 4., paragraphs a-c, for details on such matters as:

- a. proposed legislation on credit programs, reviews of credit proposals made by others, and testimony on credit activities submitted by agencies under the OMB Circular No. A-19. The legislative review process should conform to the provisions of this OMB Circular No. A-129;
- b. How to request a waiver from OMB for use of proposed provisions or language not in conformance with the policies of OMB Circular No. A-129. Agencies will be required to request in writing that OMB waive the requirement, and the request must be submitted on a standard waiver request form, available from OMB. See OMB Circular No. A-129, Section II., subsection 4., paragraph (c) 1, for details on how requests should be completed;
- c. the checklist for review of legislative and budgetary proposals. See **Appendix B** of OMB Circular No. A-129; and
- d. the model bill language to be used in developing and reviewing legislation (unless OMB has approved the use of alternative language that includes the same substantive elements) See **Appendix C** of OMB Circular No. A-129.

Budget and Legislative Policy for Credit Programs

Every four years, or more often at the request of the OMB examiner with primary responsibility for the account, the agency's annual budget submission (required by OMB Circular No. A-11, Section 15.2) should include:

- a. a plan for periodic, results-oriented evaluations of the effectiveness of the program, and the use of relevant program evaluations and/or other analyses of program effectiveness or causes of escalating program costs. See OMB Circular No. A-129, Section II. for further details on program evaluation;
- b. a review of the changes in financial markets and the status of borrowers and beneficiaries to verify that continuation of the credit program is required to meet Federal objectives, to update its justification, and to recommend changes in its design and operation to improve efficiency and effectiveness; and
- c. proposed changes to correct those cases where existing legislation, regulations, or program policies are not in conformance with the policies of OMB Circular No. A-129, Section II. When an agency does not deem a change in existing legislation, regulations, or program policies to be desirable, it will provide a justification for not conforming with the Circular.

Questions regarding this chapter should be referred to the Office of Management and Budget, Budget Review Division at 202-395-3945.