

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

ROUTE SLIP

TO	Steve Basheim <i>SB</i>	Take necessary action	<input type="checkbox"/>
	Lou Pavia	Approval or signature	<input type="checkbox"/>
	<i>John Gannat</i>	Comment	<input type="checkbox"/>
	<i>Dan Kowalczyk</i>	Prepare reply	<input type="checkbox"/>
	<i>Susan Birta</i>	Discuss with me	<input type="checkbox"/>
	<i>✓ Dan Finnigan</i>	For your information	<input type="checkbox"/>
		See remarks below	<input type="checkbox"/>
FROM	Jack Donahue	DATE	10/11/83

REMARKS

Attached for your information is a copy of Working Paper #6 on Federal Credit Policy. This is an internal working document and is not intended for public consumption so please control access to it. Hopefully, the document will help you shape the credit standards report; we should follow up with a meeting with Rodney Bent of OMB when you have your first drafts. He is looking for some data from the survey as well.

*Dan FYI*

*Steve*



## STATEMENT OF WORK

### Objective

The objective of this project is to develop uniform standards for credit allocation, innovative risk analysis, and delinquent loan write-off policy for the federal government. Once developed, these standards will be implemented and applied on a governmentwide basis in order to improve credit/debt management practices in the federal government.

### Background

The Department of the Treasury has been requested by the Office of Management and Budget to assume the lead agency responsibility for the development of uniform standards for credit allocation, risk analysis, and delinquent debt write-off policy for the federal government. A plan was developed (See Attachment A) and submitted to OMB for their review. In addition, various other federal agencies have been asked to assume lead agency responsibilities for various other projects in the debt collection area. A chart outlining these projects, and the responsible agencies, is included under Attachment B.

Based upon preliminary discussions with these lead agencies, it is clear that speedy completion of certain aspects of the Treasury plan would be beneficial to projects being conducted by other agencies, as well as necessary for the credit allocation, risk analysis, and delinquent debt write-off policy project. Specifically, discussions have identified the need for a series of comparable information covering the government's more than 400 credit programs, and the incorporation of that data into a matrix.

Up to now, no government agency has attempted to establish a model system for credit management and debt collection. No governmentwide standards have been established as to what are appropriate credit standards for overall government debt programs. There is no standard risk analysis formula or uniform policy for writing off bad debts. Agencies are unaware of credit standards used by other agencies, and there have been inadequate interagency communications pursuant to substantive debt collection issues.

Federal credit allocation and administration by various agency and department programs could be profoundly impacted by the ramifications implicit in a governmentwide set of credit standards. For example, standards might be developed according to the classification of borrower, e.g., industry, business, individual, etc. In the interest of effective resource allocation, credit standards may have to be reviewed in light of federal policies and programs. Programs may exist to provide



benefits for the "social good," national economic development, or ameliorative subsidies, considered as loans which, in fact, are grants, due to the low probability of repayment. Examples of the latter are loans to business sectors or industries that fit in a low growth/low survival matrix.

### Project Scope

The overall project is designed to produce specific recommendations for governmentwide improvements in credit/debt management activities:

1. Improvements in the development and application of credit standards for credit granting.
2. Improvements in the application of risk analysis for credit management and debt collection.
3. Improvements in write-off policies related to loan losses and loan sales on a discounted basis.

### Statement of Work

The project will be divided into two major phases. The first phase will be a data gathering and preliminary-analysis phase. The second phase will involve the construction of detailed, uniform governmentwide standards for determining credit worthiness, risk analysis, and for discounting and writing off debt portfolios. The contractor is expected to provide separate prices for the first and second phases of the project, with the understanding that the Treasury Department reserves the right to fund only the first phase at this time.

Specific tasks to be accomplished in the first phase include:

1. A Department of the Treasury sponsored roundtable for representatives of each major agency with loan programs will be held to provide a forum for discussion of the major issues and concerns relating to credit/debt management and the development of governmentwide standards and procedures. The roundtable will focus on the following issues (this list is not exhaustive; the contractor will prepare a detailed agenda for the conference; the agenda must be approved by the Department of the Treasury):
  - extent to which Agencies currently have risk analyses procedures
  - uniformity of procedures within Agencies themselves;
  - the feasibility of developing governmentwide standards in the debt/credit management area;



- difficulties associated with implementation of any governmentwide standards, from the Agency perspective; and
  - the development of model systems for credit/debt management control of each agency's portfolio.
  - a proposed analytic framework for classifying government loan programs
2. An analytic framework for studying all loan programs operated by the government will be developed. This framework will provide a tool for conducting a systematic analysis of the characteristics of the programs. A set of identifiers for classifying loan programs will be developed and applied to the more than 400 programs. This matrix will consider, for example, the primary of purpose of making the loan, recipient characteristics, access to other sources of capital, and potential risk to the government of making the loan.
  3. The contractor will develop a matrix of government-operated loan programs based on the analytic framework developed in Task 2. This matrix will provide the structure for the detailed data collection and analysis activities.
  4. The contractor will develop instruments to collect detailed data on current credit standards, risk analysis, and write-off procedures, statutory and regulatory bases for current policies, and current status of the program's portfolio for each of the programs. This instrument will take into account the needs of the Veterans Administration in designing and developing the instruments. (See Attachment C.) The Department of the Treasury will be responsible for distributing and collecting the data collection instruments.
  5. The contractor will assist analysts assigned by Treasury (including assistance provided by other federal agencies) for compiling the data, for preparing summary analyses, and for transmitting the data to debt collection officials across the government.

In the second phase of this project the contractor will produce the following:

1. A final report which consists of a uniform set(s) of credit standards to serve as the basis for extending credit in the various federal credit programs and identifies and discusses the need for a specific level of collectibility in proposed programs to assist decision-makers in determining whether the program should be a loan or grant program.



2. Provides technical assistance to the Treasury Department in developing a draft policy statement for writing-off individual, business, and foreign loans and accounts receivable.
3. Develops a set of criteria and standardized procedures to be used governmentwide as the basis for writing off loans and accounts receivable.
4. Identifies legislative and regulatory impediments to effective write-off policy, procedures, and criteria.
5. Develops risk analysis criteria which can be used governmentwide to evaluate the collectibility of loans to individuals, businesses or foreign recipients in any proposed or existing loan program.
6. Develops credit scoring procedures which can be used by Federal credit managers to evaluate the collectibility of a loan to an individual, business, or foreign recipient before the loan is made.

In developing the above criteria and procedures the contractor will examine practices that exist in the private sector and determine the extent to which they are applicable across the wide range of federal programs.

#### Potential Data Sources

In addition to the potential data sources identified in Attachment A, it is noted that the Debt Collection Project at OMB has developed profiles for 50 of the major programs. The agency action plans to be submitted under OMB Bulletin 83-11 may also provide useful information.

#### Work Plan Milestones

<u>Major Activities</u>	<u>Date</u>
<u>PHASE 1</u>	
Contract Award	May 16
Agenda for Conference Developed and Approved by Treasury	May 23
Conference Held (Tentative)	June 10
Analytic Framework Developed	June 24
Treasury Approval of Analytic Framework	June 30



Matrix of Government Programs Developed	July 5
Survey Instruments Developed and Pilot Tested	July 19
Survey Administered by Treasury to All Federal Agencies	July 25
Agencies Respond to Survey	August 25
Analyses of Agency Responses Completed	September 1
Publication of Report	September 6

PHASE 2\*

Deliverables 1 through 6 cited earlier      December 30, 1983

\* Note -- detailed milestones and delivery dates will be developed following completion of phase 1.



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A

PROJECT WORK PLAN  
THE ROLE OF TREASURY AS A LEAD AGENCY FOR  
THE CREDIT/DEBT MANAGEMENT PROJECT

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MARCH 1983

Proposal Submitted by  
Cora P. Beebe, Assistant Secretary (Administration)  
Department of Treasury



PROJECT WORK PLAN  
THE ROLE OF TREASURY AS A LEAD AGENCY FOR  
THE CREDIT/DEBT MANAGEMENT PROJECT

I. BACKGROUND

The Department of Treasury has been requested by the Office of Management and Budget to assume the lead responsibility for the development of uniform standards for credit allocation, risk analysis, and delinquent loan write-off policy. With respect to the magnitude of the problem, from fiscal year 1971 to 1981, new direct loan obligations increased on the order of 445% to \$57.2 billion, and new loan guarantee commitments increased about 99% to \$76.5 billion. During this same period payments by borrowers were substantially below government lending activities, thereby increasing the total amounts owed to or guaranteed by the government. Direct loans outstanding at the end of fiscal year 1981 totaled \$185 billion, an increase of 248% from 1971. Guaranteed loans outstanding increased 121% from 1971 to \$309.1 billion. (These data are reported in The Catalog of Federal Credit Programs and Their Interest Rate Provisions prepared by the General Accounting Office, December 28, 1982.) There may be many factors which have contributed to the large increase in outstanding loans. One likely factor is the statutory authorizations for these loan programs.

Three years ago the Office of Management and Budget formed a task force on Debt Collection in order for the federal government to identify the total amount of debts owed to each of its agencies. The task force completed its study in late 1982 and, since that time, OMB has continued to track total agency debts on a quarterly basis.

The task force did not, however, look beyond dollar amounts of debt to identify statutory and/or regulatory policies for each specific agency regarding debt collection, credit standards, risk analysis, and write-off considerations.

OMB has been successful in collecting debt collection data necessary as a basis for government-wide guidance. In fact, concrete plans for improving debt collection have been drafted which take into consideration this information.

But to date, OMB has not issued a debt collection circular to establish precise guidelines for credit standards, risk analysis and write-off policy because of the difficulty of providing specifics that could have general applicability for all agencies.

Last year Congress passed the Deb Collection Act of 1982. This legislation was designed to provide tools for government agencies to ameliorate their rising debt collection difficulties. GAO and the Justice Department have been busy trying to promulgate regulations pursuant to interpreting the Act. The Bureau of Government Financial Operations looked towards establishing uniform interest standards for debt to federal government in the wake of the Act. Still, however, even the term "debt" under the Act has been inadequately defined after one and one-half years of dispute.



Up to now, no government agency has attempted to establish a model system for credit management and debt collection. There have been General Accounting Office studies of credit/debt management. No government-wide standards have been established as to what are appropriate credit standards for overall government debt programs. There is no standard risk analysis formula or uniform policy for writing-off bad debts. Agencies are unaware of the credit standards used by other agencies, and there have been inadequate inter-agency communications pursuant to substantive debt collection issues. It will be the Treasury's objective to develop specific recommendations for improvements in these areas.

On an informal basis, the Treasury Office of Federal Finance has advised federal loan program officials on minimum credit management standards. Through its direction of the Federal Financing Bank, this office has also assumed an informal advisory role in portfolio analysis. CMB Circular A-70 is used as a regulatory basis for its recommendations.

Federal credit allocation and administration by various agency and department programs could be profoundly impacted by the ramifications implicit in a government-wide set of credit standards. For example, standards might be developed according to the classification of borrower, e.g., industry, business, individual, etc. In the interest of effective resource allocation, credit standards may have to be reviewed in light of federal policies and programs. Programs may exist to provide benefits for the "social good," national economic development, or ameliorative subsidies, considered as loans which, in fact, are grants, due to the low probability of repayment. Examples of the latter are loans to business sectors or industries that fit in a low growth/low survival matrix.

Sound, front-end credit standards which adequately assess the borrowing entity's economic and financial ability to survive as a viable operation and maintain timely loan repayments should be considered. Similarly, there should be assurance that the government is, in fact, the lender of the last resort. Program policy and legislative intent, where applicable, will be reviewed in light of these considerations.

## II. PROJECT SCOPE

The Treasury Department will conduct a detailed analysis of the following three major areas as part of its efforts to develop recommendations for government-wide improvements in credit/debt management activities:

1. Improvements in the development and application of credit standards for credit granting.
2. Improvements in the application of risk analysis for credit management and debt collection.
3. Improvements in write-off policies related to loan losses and loan sales on a discounted basis.

The final recommendations which are developed will be designed to achieve the following objectives as related to the scope of work.

1. Resource Management

- a. Net dollar savings, both over the near and long term.
- b. Improvement in the management and allocation of financial and managerial resources.

2. Management Control of Loan Administration

- a. Improved information systems.
- b. Identified rationale and accountability for decisions.
- c. Improved records and reports, for corrective action, risk analysis, and loss reserve forecasting.
- d. Adoption of relevant private sector banking practices.

3. Governmental Impact

- a. Government-wide applicability of credit management and debt collection policy and procedural recommendations.
- b. Identification of potential legislative changes which would permit loan policy recommendations to be implemented.
- c. Assessment of compatibility with other Reform '88 project results.

III. STATEMENT OF WORK

The project will provide a review and analysis of all loan programs operated by the government, including the identification of current credit standards, risk analysis and write-off procedures and the statutory and regulatory bases for these policies. These standards and procedures will be compared to credit management standards and procedures used in private sector financial institutions. The project will determine the applicability of private sector financial management procedures and practices to government loan programs. The project will consider the feasibility of introducing government-wide uniform standards for determining credit worthiness, risk analysis, and for discounting and writing-off debt portfolios. A final report will be presented which provides recommendations for a comprehensive credit/debt management system for adoption government-wide.

Specific tasks to be accomplished include:

- 1) A Department of the Treasury-sponsored roundtable for representatives of each major agency with loan programs will be held to provide a forum for



discussion of the major issues and concerns relating to credit/debt management and the development of government-wide standards and procedures. The roundtable will also provide an opportunity for each agency to describe current credit standards, risk analysis and write-off procedures, and the statutory and regulatory basis for such such policies and procedures. The participants will also discuss the primary public policy intents of the programs operated by their agencies.

Treasury will be responsible for convening and conducting the roundtable. The consultants selected by Treasury to assist in the project will work with Treasury to define the specific outcomes expected from the roundtable and will attend the roundtable.

- 2) An analytic framework for studying all loan programs operated by the government will be developed by the consultants. The purpose of the framework is to provide a tool for conducting a systematic analysis of the characteristics of the programs. A set of identifiers for classifying loan programs will be developed and applied to the more than 400 programs. This matrix will consider, for example, the government's primary purpose in making the loan as one of the identifiers. To illustrate, the government's primary purpose in extending a loan may be to provide economic stimulus, to accomplish social good, or to carry out some other public purpose. The framework may also take into consideration characteristics of the recipients of the loans, individuals or businesses, and specific factors such as access to other sources of capital and potential risk to the government in collection of payment. This framework will clarify the credit/debt management issues and problems relating to each category of loan programs and will facilitate identification of model standards and procedures sensitive to public policy concerns which must be considered for any such model system to be implemented.

In carrying out this task, the consultants will review existing documents presenting information on the federal government's various credit programs. The consultants will conduct interviews within the major agencies which operate loan programs and within GAO, Treasury, and OMB, as necessary, to supplement written studies and reports.

The consultants will then review the analytic framework with Treasury.

- 3) The consultants will develop a matrix of government-operated loan programs based on the analytic framework developed in Task 2. This matrix will provide the structure for the detailed data collection and analysis activities.
- 4) Instruments will be developed by the consultants to collect detailed data on current credit standards, risk analysis and write-off procedures, statutory and regulatory bases for current policies, and current status of the program's portfolio for each of the programs. The data collection instruments will be pilot tested by the consultants prior to being administered to all agencies.

Treasury will be responsible for distributing and collecting the data collection instruments.

- 5) The consultants will prepare summary formats for compiling the data and will test the formats on actual data provided by a sample of departments.

Analysts assigned by Treasury will have primary responsibility for compiling the data and for preparing summary analyses, with assistance from the consultants as necessary.

- 6) Using this comprehensive data base, the consultants will analyze current credit/debt management procedures for programs operated by the government. The performance of each program's portfolio will be analyzed. Based on their knowledge of private sector debt management standards and procedures, the consultants will identify significant differences between public sector and private sector practices. They will analyze whether and how private sector policies and practices might be applied to the loan programs operated by the federal government. The consultants will document constraints imposed by statutory or regulatory provisions governing the operations of the various loan programs.
- 7) The consultants will prepare recommendations on credit standards, risk analysis and discounting/write-off formulae and procedures in light of the evaluation they have conducted of the programs operated by the government.
- 8) Treasury will review the recommendations prepared by the consultants and will be responsible for conducting an interagency review if that step is determined to be appropriate at this stage.
- 9) In light of the comments provided by Treasury (and other agencies as appropriate), the consultants will develop model systems for credit/debt management control for each program's portfolio. The model will take into consideration relevant statutory and/or regulatory constraints and will identify the need for any changes necessary to implement the model system. The model will address the applicability of differential terms and conditions for loan programs.
- 10) Treasury will review the model system, and the consultants will revise the proposed model as appropriate in light of that review. Treasury will be responsible for conducting any external review of the proposed system.
- 11) The consultants will present a final report to Treasury presenting recommendations for comprehensive credit/debt management control, including a model system addressing government-wide credit standards, risk analysis and write-off procedures. Recommendations may identify needs for legislative and/or regulatory changes and whether a single agency should be given responsibility in this area.
- 12) Treasury will present the final report to the Steering Committee.



#### IV. POTENTIAL DATA SOURCES

Existing data sources which will be reviewed include:

1. "Money Management: Study," Joint Financial Management Improvement Program, 1976.
2. "Project Plan" and "Agency Review Guide," Debt Collection Project, Office of Management and Budget, 1979.
3. "Report on Strengthening Federal Credit Management," Office of Management and Budget, 1981.
4. "Catalog of Federal Credit Programs and Their Interest Rate Provisions," General Accounting Office, 1982.
5. "Special Analysis F, FY 1984 Budget," Office of Management and Budget, 1983.

#### WORK PLAN MILESTONES

<u>MAJOR ACTIVITIES</u>	<u>ELAPSED TIME</u>
Project Plan Approved	
Selection of Consultants	Start-Up
Agency Roundtable on Debt Collection	30 Days
Second Quarter of FY 83 Closes for Reform 88 Reporting to OMB	March 31
Second Quarter FY 83 Reform 88 Reporting Due	April 30
Develop Analytical Framework for Loan Program Project	50 Days
Internal Review by Treasury	60 Days
Develop Matrix of Government-Operated Loan Programs	70 Days
Internal Review by Treasury	80 Days
Develop Survey Instruments and Conduct Pilot Test	90 Days

<u>MAJOR ACTIVITIES</u>	<u>ELAPSED TIME</u>
Internal Review by Treasury	100 Days
Distribute and Collect Survey Instruments (8 largest agencies)	120 Days
Third Quarter FY 83 Reform 88 Reporting Due	July 31
Analysis of Data Collected and Formulation of Recommendations	120 Days
Internal Review by Treasury	140 Days
Develop Model System for Credit/Debt Management Control	170 Days
Internal Review by Treasury	180 Days
External Review of Model to Be Completed	240 Days
Fourth Quarter FY 83 Reform 88 Reporting Due	October 31
Completion of Treasury's Review of Agency Comments	270 Days
Modifications to the Model System and Completion of Final Report	300 + Days
Presentation to the Steering Committee	300 + Days

#### V. PROJECT MANAGEMENT AND STAFFING

Treasury will commit two full-time analysts and one part-time support person, and will provide executive and managerial oversight on the project.\* In addition, a consultant will be retained to provide assistance in the development of an analytical framework, data collection instruments, and draft models for the credit/debt management system.

Each of the five largest "creditor" agencies will be asked to detail a senior analyst from their credit or debt collection organization to the Treasury and will reimburse Treasury for one and one-half clerical staff years.

\* This estimate is subject to significant revision when final resource requirements are determined.



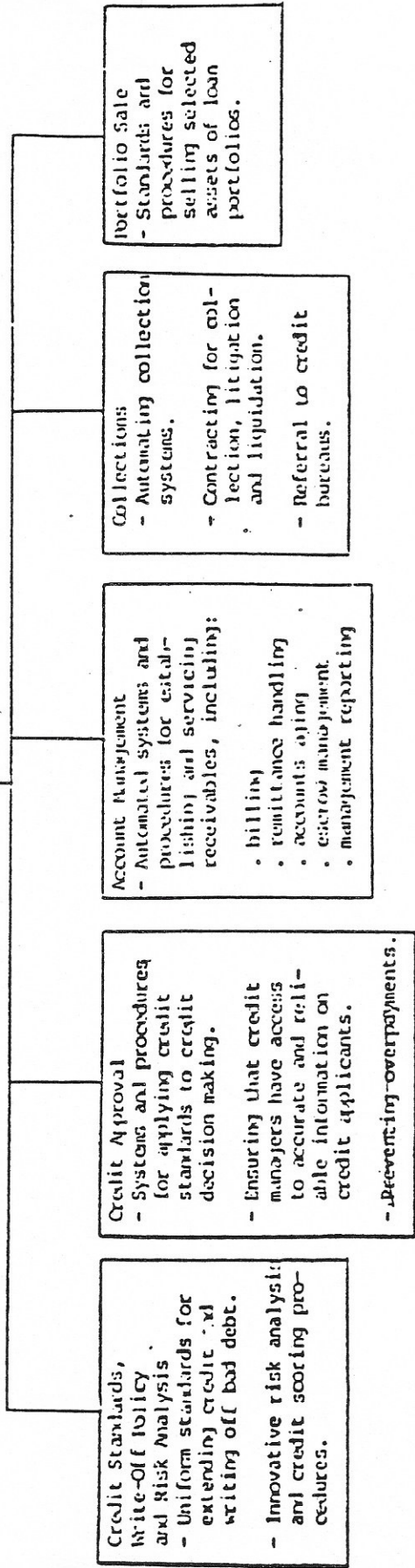
In addition, each such agency and BGFO, CMB, GAO, and the Department of Justice will name a senior credit or debt collection official to represent their respective agencies at interagency meetings called by Treasury.

All creditor agencies will reimburse Treasury for the cost of consultants and related services required for this project.

#### VI. REPORTING REQUIREMENTS

The Department of Treasury will provide a report on the progress and status of the project to the Steering Committee as part of its quarterly FY 83 Reform 88 report. The final report detailing the Model Credit/Debt Collection Control System will be presented to the Steering Committee.

Policy Formulation, Oversight and Coordination (43)
Data Collection and Analysis Treasury
Design, Develop and Evaluate Models Lead Agencies



**Credit Standards, Write-Off Policy and Risk Analysis**

- Uniform standards for extending credit and writing off bad debt.
- Innovative risk analysis and credit scoring procedures.

**Credit Approval**

- Systems and procedures for applying credit standards to credit decision making.
- Ensuring that credit managers have access to accurate and reliable information on credit applicants.
- Preventing overpayments.

**Account Management**

- Automated systems and procedures for catalyzing and servicing receivables, including:
  - billing
  - remittance handling
  - accounts aging
  - error management
  - management reporting

**Collections**

- Automating collection systems.
- Contracting for collection, litigation and liquidation.
- Referral to credit bureaus.

**Portfolio Sale**

- Standards and procedures for selling selected assets of loan portfolios.

Treasury

VA (Individual loans)  
Commerce (business loans)  
FIS (overpayments)

Agriculture (in house)  
HUD (contracting out)

Education (individual debts)  
FHA (corporate debts)  
Treasury (automated systems)

Commerce



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