

April 2000

DIRECT LOAN SYSTEM REQUIREMENTS

Checklist for Reviewing Systems Under the Federal Financial Management Improvement Act



G A O

Accountability * Integrity * Reliability

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Abbreviations

| | |
|---------|---|
| ACH | automated clearinghouse |
| CAIVRS | Credit Alert Interactive Voice Response System |
| CCLR | Claims Collection Litigation Report |
| CFO Act | Chief Financial Officers Act |
| DCIA | Debt Collection Improvement Act |
| DOJ | Department of Justice |
| EDA | Electronic Debt Account |
| FCRA | Federal Credit Reform Act |
| FFMIA | Federal Financial Management Improvement Act |
| FMFIA | Federal Managers' Financial Integrity Act |
| GMRA | Government Management Reform Act |
| IRS | Internal Revenue Service |
| JFMIP | Joint Financial Management Improvement Program |
| OGC | Office of General counsel |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| PCMI | President's Council on Management Improvement |
| SF | standard form |
| SFFAS | Statement of Federal Financial Accounting Standards |
| TIN | taxpayer identification number |
| TOP | Treasury Offset Program |

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PREFACE

B-284928

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. These requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP) and in Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*, and OMB's *Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996*, issued September 9, 1997. JFMIP intends for the requirements to promote understanding of key financial management systems concepts and requirements, to provide a framework for establishing integrated financial management systems to support program and financial managers, and to describe specific requirements of individual types of financial management systems.

We are issuing this checklist that reflects JFMIP's revised *Direct Loan System Requirements* (June 1999) to assist (1) agencies in implementing and monitoring their direct loan systems and (2) managers and auditors in reviewing their direct loan systems to determine if they substantially comply with FFMIA. This checklist is not required to be used in assessing the direct loan system. It is provided as a tool for use by experienced staff. This checklist, the JFMIP source document, and the two previously mentioned OMB documents should be used concurrently. Experienced judgment must be applied in the interpretation and application of this tool to enable a user to consider the impact of the completed checklist on an entire direct loan system and whether the system, as a whole, substantially complies with requirements.

Additional copies of the checklist can be obtained from Room 1100, 700 4th Street, NW, U.S. General Accounting Office, Washington, D.C. 20548, or by calling (202) 512-6000, or TDD (202) 512-2537. This checklist replaces GAO's previously issued exposure draft of the *Direct Loan System Checklist* (October 1999) and is available on the Internet on GAO's Home Page (www.gao.gov) under "Other Publications."



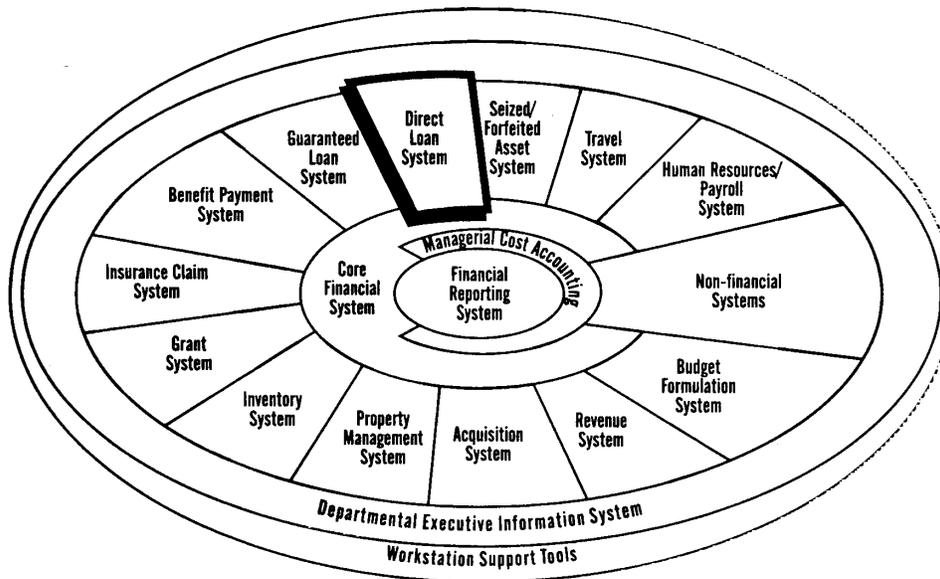
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OVERVIEW

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. These system requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP)¹ and Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*. JFMIP requirements documents identify (1) a framework for financial management systems, (2) core financial systems requirements, and (3) 16 other financial and mixed systems supporting agency operations, not all of which are applicable to all agencies. Figure 1 is the JFMIP model that illustrates how these systems interrelate in an agency's overall systems architecture.

Figure 1: Agency Systems Architecture



Source: JFMIP *Direct Loan System Requirements* (June 1999).

¹JFMIP is a joint cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices throughout the government. The program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget (now OMB), and the Comptroller General and was given statutory authorization in the Budget and Accounting Procedures Act of 1950. The Civil Service Commission, now the Office of Personnel Management (OPM), joined JFMIP in 1966.

To date, JFMIP has issued the framework and systems requirements for the core financial system and 7 of the 16 systems identified in the architecture. (See figure 1.)²

We are issuing this checklist that reflects JFMIP's revised *Direct Loan System Requirements* (June 1999) to assist (1) agencies in implementing and monitoring their direct loan systems and (2) managers and auditors in reviewing agency direct loan systems to determine if they substantially comply with FFMIA. This checklist is not required to be used in assessing the direct loan system. It is provided as a tool for use by experienced staff. This checklist, the JFMIP source document, OMB Circular A-127, and OMB's *Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996*, issued September 9, 1997, should be used concurrently. Experienced judgment must be applied in the interpretation and application of this tool to enable a user to consider the impact of the completed checklist on the entire direct loan system and whether the system, as a whole, substantially complies with requirements.

Authoritative Guidance

OMB Circular A-127 and OMB's implementation guidance provide the basis for assessing whether agencies implement and maintain their financial management systems in substantial compliance with FFMIA. The implementation guidance identifies various criteria that an agency must meet to substantially comply with these requirements. One of the criteria listed in the OMB guidance is the JFMIP systems requirements series.

The source of all the questions in this checklist is the JFMIP *Direct Loan System Requirements* (JFMIP-SR-99-8, June 1999). This JFMIP document is an update of the December 1993 JFMIP *Direct Loan System Requirements* document. This update addresses the goal of the President's Council on Management Improvement (PCMI) and JFMIP to improve the efficiency and quality of financial management in the federal government. Impetus was provided by the Chief Financial Officers (CFO) Act of 1990 and the Federal Credit Reform Act of 1990 (FCRA), Government Management Reform Act of 1994 (GMRA), and Federal Financial Management Improvement Act of 1996, which strongly reaffirmed the need for the federal government to provide financial systems that facilitate the effective management of government programs and services and the proper stewardship of public resources.

The JFMIP source document states that functional requirements of the federal government's financial systems can be segregated into two general categories, mandatory and value added. Definitions of the two terms are found on p. 6 of the source document. The source document states that all direct loan systems requirements are mandatory. This includes all statements described as "should" or "must;" therefore, all direct loan systems requirements listed in this checklist are mandatory.

²Thus far, the series includes the (1) *Framework for Federal Financial Management Systems*, (2) *Core Financial System Requirements*, (3) *Inventory System Requirements*, (4) *Seized/Forfeited Asset System Requirements*, (5) *Direct Loan System Requirements*, (6) *Guaranteed Loan System Requirements*, (7) *Travel System Requirements*, (8) *Human Resources & Payroll Systems Requirements*, and (9) *System Requirements for Managerial Cost Accounting*. In early 1998, JFMIP decided to initiate projects to update system requirements documents that were not current with regulations and legislation. JFMIP also planned to initiate projects to complete the remaining systems requirements where none currently exist. As these projects are completed, we plan to issue related checklists.

How to Use This Checklist

OMB's 1997 implementation guidance provides chief financial officers and inspectors general with a means for determining whether their agencies' financial management systems substantially comply with federal financial management systems requirements. The annual assurance statement required pursuant to section 4 of the Federal Managers' Financial Integrity Act (FMFIA) is one of the means to assist agencies in the determination of substantial compliance. Agencies can also use this checklist as a tool to help determine annual compliance with section 4 of this act.³

Filling out this checklist will allow agencies to systematically determine whether specific system requirements are being met. In determining substantial compliance, agencies should assess the results of the completed checklist on the direct loan system requirements taken as a whole. "No" answers should not be viewed individually or taken out of context. Rather, "no" answers should be assessed as to the impact on the overall human resources and payroll systems and the extent to which the "no" answers inhibit the entire human resources and payroll systems from meeting substantial compliance.

The checklist contains three columns with the first citing the question to be answered. Use the second column to answer each question "yes," "no," or "na." Use the third column to explain your answer. A "yes" answer should indicate that the agency's direct loan system provides for the capability described in the question. For each "yes" answer, the third column should contain a brief description of how the direct loan system contains the capability and should also refer to a source that explains or shows the capability.

A "no" answer indicates that the capability does not exist. For a "no" answer, the third column should provide an explanation and, where applicable, a reference to any related supporting documentation. Such explanations could include the following examples: (1) the agency is working on modifying or implementing its direct loan system to have the capability available in subsequent years or (2) management believes the capability is not cost-effective and will not enhance the direct loan system's ability to manage operations. Cost-benefit studies, or other reasoning, that support a "no" answer should be identified in the explanation column. If there are no cost-benefit studies or other support, a full explanation should be provided.

Not every checklist may apply to each agency. Further, while a checklist may be applicable to an agency, certain questions within the checklist may not be applicable. Answer such nonapplicable question(s) with "na" and provide an appropriate explanation in the second column.

³In addition, the CFO Council has charged the Financial Systems Committee with developing implementation guidance for performing FFMIA compliance reviews. The CFO Council and JFMIP plan to jointly issue the guidance.

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DIRECT LOAN SYSTEM REQUIREMENTS

The direct loan system requirements document provides agencies with requirements that encompass the full scope of requirements for an automated direct loan system. Each agency must evaluate whether it is practical to fully automate all of these functions or whether manual systems and processes are justified. Agencies are to use the functional requirements in planning their financial system improvement projects. As with the other systems requirements documents, agencies will have to include their unique requirements, both technical and functional, with the requirements in the JFMIP document. Furthermore, each agency must develop its own integration strategy detailing how the direct loan system will either interface or integrate with the core financial system and other applicable systems.

The six functions of the direct loan system are discussed below.

1. Loan Extension – Supports analysis of the applicant’s eligibility in accordance with statutory and regulatory requirements. The function also supports the development of information to satisfy credit reform accounting and budgeting requirements. (The checklist questions for this area are drawn from pp. 19-26 of the source document.)
2. Account Servicing – Supports routine invoicing and collection of debts. (The checklist questions for this area are drawn from pp. 27-32 of the source document.)
3. Treasury Cross-Servicing -- Occurs when Treasury’s Financial Management Service (FMS) or a Treasury-designated debt collection center provides debt collection services for other federal agencies. (The checklist questions for this area are drawn from pp. 33-36 of the source document.)
4. Portfolio Management – Supports the management and performance evaluation of the direct loan program and its portfolio. It also supports program financing and management of portfolio sales. (The checklist questions for this area are drawn from pp. 37-47 of the source document.)
5. Delinquent Debt Collection/Troubled Debt Servicing – Includes the recovery of delinquent debt through the use of dunning letters, offset programs, collection agencies, garnishment of nonfederal wages, litigation, and the termination of collection action on uncollectible debt. (The checklist questions for this area are drawn from pp. 48-61 of the source document.)
6. Other Reporting Requirements -- Provides requirements for two types of reporting—transaction history and external reporting requirements. (The checklist questions for this area are drawn from p. 62 of the source document.)

Direct Loan System Requirements

The checklist questions follow the JFMIP source document. It should be noted that not all questions will apply in all situations and, as with the use of any checklist, professional judgment should be exercised. Using the JFMIP source document and its “Appendix D: Glossary,” that defines terms used, along with the two previously mentioned OMB documents, will help ensure that the user is cognizant of the background information necessary to fully understand the questions.

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|--|--------------|-------------|
| <p>General requirements – application screening process – process loan application</p> <p>1. Does the automated system provide for an electronic application process using various media, such as a secure internet application (Web site)?</p> <p>2. Does the automated system record critical credit application data needed to support application screening?</p> <p>3. Does the automated system provide access to application information to all agency staff participating in the screening and credit-granting decisions?</p> <p>4. Does the automated system process and record collections of fees remitted with the application in both the direct loan system and the core financial system?</p> | | |
| <p>General requirements – application screening process – evaluate applicant program eligibility</p> <p>5. Does the automated system compare loan application information to agency program eligibility criteria?</p> <p>6. Does the automated system check the appropriate system data files to determine whether the applicant has submitted a duplicate application or has had a recent loan application</p> | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|--|--------------|-------------|
| rejected? These situations may indicate attempts by applicants to subvert agency credit policies. | | |
| 7. Does the automated system document that borrowers have certified that they have been unable to obtain credit from private financial sources, where such certification is a program requirement? | | |
| General requirements – application screening process – conduct credit analysis 8. Does the automated system provide an automated interface with credit bureaus that allows agencies to obtain applicant credit history information (credit bureau report)? | | |
| 9. Does the automated system record credit history information entered by agency staff for credit bureaus that do not have the capability for an automated interface? | | |
| 10. Does the automated system document that applicant financial data, repayment ability, and repayment history have been verified through the use of supplementary data sources such as employment and income data, financial statements, tax returns, and collateral appraisals, where this is a program requirement? | | |
| 11. Does the automated system compare the applicant's creditworthiness information to | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>system-stored program creditworthiness criteria and, where a program requirement, calculate a credit risk rating for the applicant?</p> | | |
| <p>12. Does the automated system document whether the Credit Alert Interactive Voice Response System (CAIVRS) identified the applicant as a borrower who is delinquent/defaulted on a previous federal debt? The system should allow override if the agency determines that the account was referred to CAIVRS in error.</p> | | |
| <p>General requirements – application screening process – conduct funds control</p> <p>13. Does the automated system provide the information needed to compute the credit subsidy amount associated with a loan using projected cash flows and the applicable Treasury interest rate in accordance with OMB Circular A-11, <i>Preparation and Submission of Budget Estimates</i>; A-34, <i>Instructions on Budget Execution</i>; and Statements of Federal Financial Accounting Standards No. 2, <i>Accounting for Direct Loans and Loan Guarantees</i>?</p> | | |
| <p>14. Does the automated system provide an automated interface with the core financial system to determine if sufficient funds are available in the program account to cover the subsidy cost and if available lending limits in the Financing Account</p> | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|---|----------------------|--------------------|
| are sufficient to cover the face value of the proposed loan? | | |
| 15. Does the automated system provide an automated interface with the core financial system to commit funds for the loan if funds control is not done within the Direct Loan System? | | |
| General requirements – application screening process – approve/reject credit request 16. Does the automated system update the application information store to reflect the status of the loan? | | |
| 17. Does the automated system accept, identify, track, and report supervisor overrides of system-generated acceptance/rejection recommendations? | | |
| 18. Does the automated system create and maintain a system record of accepted and rejected loan applications? | | |
| 19. Does the automated system generate a letter notifying the applicant of rejection or acceptance of the loan application? | | |
| General requirements – loan origination process – book loan 20. Does the automated system record loan terms and calculate disbursement schedules and repayment amounts and schedules as needed? | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|--|----------------------|--------------------|
| 21. Does the automated system record the cohort and risk category, as defined in OMB Circular A-34, <i>Instructions on Budget Execution</i> , associated with the loan? | | |
| 22. Does the automated system assign a unique account number to the loan that remains unchanged throughout the life of the loan? | | |
| 23. Does the automated system support the generation of loan documents for the borrower and the agency? | | |
| 24. Does the automated system record information concerning the loan booking process, including date of booking? | | |
| 25. Does the automated system record the applicable Treasury interest rate for the loan at the time of obligation in accordance with OMB Circular A-34, <i>Instructions on Budget Execution</i> , and agency-specific guidelines? This rate is used in subsidy calculations. | | |
| 26. Does the automated system provide an automated interface with the core financial system to record the direct loan obligation, including the obligation for the subsidy, and liquidate commitments previously recorded? | | |
| 27. Does the automated system include in credit bureau reporting all commercial accounts in excess of a | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|---|----------------------|--------------------|
| predetermined amount? | | |
| <p>General requirements – loan origination process – disburse and account for funds</p> <p>28. Does the automated system calculate and deduct the loan application and origination fee from disbursements if not previously remitted by the applicant?</p> | | |
| <p>29. Does the automated system provide the capability to cancel, thus deobligating, undisbursed loans?</p> | | |
| <p>30. Does the automated system update debtor accounts to reflect management override of offsets?</p> | | |
| <p>31. Does the automated system record information needed for each loan disbursement, including amounts and applicable Treasury interest rates, to support both the computation of accrued interest expense on borrowings from Treasury and subsidy reestimates?</p> | | |
| <p>32. Does the automated system support the calculation of the borrowings? The actual organization of the system processes between the direct loan system and core financial system is at the discretion of the agency.</p> | | |
| <p>33. Does the automated system provide an automated interface with the core financial system</p> | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|--|----------------------|--------------------|
| to initiate and record the disbursement by cohort, establish the receivable, and record the movement of the subsidy funds from the Program Account to the Financing Account? | | |
| 34. Is the automated system able to annotate on the borrower record that a disbursement was offset by Treasury on behalf of another government agency? | | |
| 35. If the direct loan system itself handles the payment processing, does the system meet the requirements in the <i>Core Financial System Requirements</i> related to this activity and send summary data to the core financial system? | | |
| Collateral requirements 36. Is the automated system able to capture the estimated useful economic life of the pledged collateral and compare it to the proposed term of the loan? | | |
| 37. Does the automated system document that transactions over a predetermined amount have a collateral appraisal by a licensed or certified appraiser? | | |
| 38. Does the automated system compute the loan-to-value ratio and flag those loans with a ratio exceeding 100% (or more stringent standards set by the agency)? | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>Internal management information</p> <p>39. Are the internal management information requirements available to agency credit program managers and designated internal review officials on a periodic or an as requested basis?</p> | | |
| <p>40. Has the agency determined the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements?</p> | | |
| <p>41. In order to support these needs, does the system provide a user-friendly query tool (preferably graphics-based) that facilitates reporting rapidly on any required data elements?</p> | | |
| <p>42. Does the agency maintain financial accounting information at appropriate levels of summary for computational and reporting purposes? The main levels are</p> <ul style="list-style-type: none"> • transaction, • loan history, • risk category, • cohort, and • account. | | |
| <p>43. Has the agency determined whether the information should be provided on hard copy reports or through system queries?</p> | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>Internal management information – approval and rejection monitoring</p> <p>44. Does the system provide at least approval and rejection monitoring management information? The approval and rejection monitoring summary provides information about all credit applications that were approved or rejected for a given time period. The data are broken down into separate statistics on credit approvals and rejections. The approval section indicates the number of approved applications and the percentage of total applications that they represent. The total requested amount and the total approved amount are shown for each loan origination office. The rejected application section contains the number of rejected applicants and the percentage of total applications that they represent. The total of all loans requested is also shown. This data summary also lists the average time spent to process a credit application, from the time of application until the final decision is made.</p> | | |
| <p>Internal management information – override exceptions</p> <p>45. Does the system provide at least override exceptions management information? The override exceptions summary identifies all credit application decisions that override actions of the automated system</p> | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>processes. Overrides can occur in two situations: an application is approved even though the applicant's program eligibility or creditworthiness assessment is not acceptable under agency program management lending criteria, or an application is rejected even though the applicant's program eligibility and creditworthiness are acceptable under agency program management lending criteria.</p> | | |
| <p>Internal management information - potential application fraud</p> <p>46. Does the system provide at least potential application fraud management information? The potential application fraud summary identifies all credit applications that matched one or more pending or recently rejected applications. Comparison is based on four criteria: applicant name, applicant address, applicant phone number, and applicant Taxpayer Identification Number (TIN). If a pending application matches any of these criteria, the data fields that matched and the original application and pending application identification numbers appear on this data summary with primary application identification information.</p> | | |
| <p>Internal management information - detailed transaction history</p> <p>47. Does the system provide at least</p> | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>a detailed transaction history? The detailed transaction history summary contains detailed loan origination and account data. The data summary is used for control and tracking, as an audit trail, and provides some of the data necessary for the credit subsidy calculation. Detailed transaction history data summaries include, at a minimum, loan origination and disbursement data.</p> | | |
| <p>Internal management information - exceptions</p> <p>48. Does the system provide at least exceptions management information? The exceptions summary highlights exceptions in loan origination processing. The summary should be generated periodically or on demand as needed. Examples of exception data include loan-to-value ratios exceeding the allowable amount for a given program and approved loans that have not been disbursed within a specified period of time.</p> | | |
| <p>Internal management information - disbursement management summary</p> <p>49. Does the system provide at least disbursement management summary information? The disbursement management summary periodically displays all loan origination. The summary is used to monitor the performance of each loan</p> | | |

Direct Loan System Requirements

| Loan extension | Yes/no na | Explanation |
|---|----------------------|--------------------|
| origination center and to track the volume and amount of loan disbursements by program. | | |

Direct Loan System Requirements

| Account servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>General requirements – billing and collection process – invoice debtor</p> <p>1. Does the automated system calculate outstanding balances for each loan account invoiced, including principal, interest, late charges, and other amounts due?</p> | | |
| <p>2. Does the automated system identify loan accounts to be invoiced based on agency program invoicing criteria and loan account information, such as amount outstanding, most recent payment, payment amount due, and date due?</p> | | |
| <p>3. Does the automated system provide the capability to analyze escrow balances to adjust required deposit amounts to prevent deficiencies in tax and insurance deposits and payments for housing and other long-term real estate loans?</p> | | |
| <p>4. Does the automated system generate and transmit a bill, payment coupon, invoice, or other document that shows the borrower ID, amount due, date due, the date after which the payment will be considered late, and the current balance?</p> | | |
| <p>5. Does the automated system provide a means for debtors to inquire into their account status such as electronic inquiry using a secure internet site, Web site, or automated telephone program such as a voice</p> | | |

Direct Loan System Requirements

| Account servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| response unit? | | |
| <p>General requirements – billing and collection process – reporting</p> <p>6. Is the system able to prepare and mail to borrowers by January 31 of each year Internal Revenue Service (IRS) Form 1098, Mortgage Interest Statements; IRS Form 1099-A, Acquisition or Abandonments of Secured Property; IRS Form 1099-C, Cancellation of Debt; IRS Form 1099-G, Certain Government Payments; and other IRS forms as required?</p> | | |
| <p>7. Is the system able to transmit information on interest paid and other reportable data to the IRS? The Debt Collection Improvement Act (DCIA) now authorizes agencies to report nondelinquent consumer and commercial debt to credit bureaus, providing that the agency has processed the necessary Privacy Act notices for consumer debt.</p> | | |
| <p>General requirements – billing and collection process – apply collections</p> <p>8. Does the automated system apply collections according to agency program receipt application rules to the appropriate liquidating or financing account? Collection sources could include cash, preauthorized debit, check, or credit card.</p> | | |

Direct Loan System Requirements

| Account servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| 9. Does the automated system record a prepayment (the early payoff of the entire loan balance or paying more than the scheduled monthly payment), a partial payment, a full payment, or indicate a late payment? | | |
| 10. Does the automated system identify payments that cannot be applied and document why the payments cannot be applied? | | |
| 11. Does the automated system apply components of payment (principal, interest, and late fees) in accordance with established business rules? | | |
| 12. Is the automated system capable of automatically capitalizing interest in accordance with established policy? | | |
| 13. Does the automated system provide an electronic means to receive payments such as Automated Clearinghouse (ACH) and Electronic Debit Account (EDA)? | | |
| 14. Does the automated system provide the capability to compare borrower's preauthorized debits received from financial institutions and other external sources to expected collections? | | |
| 15. Does the automated system provide an automated interface with the core financial system to record the collection? | | |

Direct Loan System Requirements

| Account servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| 16. If the direct loan system itself handles the collection processing, does the system meet the requirements in the <i>Core Financial System Requirements</i> related to this activity and send summary data to the core financial system? | | |
| General requirements – account status maintenance process – direct loan modifications 17. Does the automated system support the evaluation of accounts proposed for modification by the agency or borrower by comparing loan data to agency program loan modification criteria? | | |
| 18. Does the automated system calculate rescheduled loan terms, including repayment amounts and schedules, where appropriate? | | |
| 19. Does the automated system calculate any change in the subsidy amount as a result of the loan modifications? | | |
| 20. Does the automated system perform a funds control check to verify the availability of a subsidy through an automated interface with the core financial system? | | |
| 21. Does the automated system produce selected loan account information listings for review by internal modification groups? | | |

Direct Loan System Requirements

| Account servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| 22. Does the automated system establish a new loan account and collateral record for each new debt instrument and assign a unique loan account number to the new account record? | | |
| 23. Does the automated system maintain a link between the new loan account established for the new debt instrument and the old loan account records? | | |
| 24. Does the automated system update the loan information store to reflect the modified status of the loan, including changes in the value or status of any collateral? | | |
| 25. Does the automated system provide an automated interface with the core financial system to record pre-1992 and post-1991 direct loan modifications? | | |
| 26. Does the automated system generate a new loan document that displays information concerning the original and modified direct loan? | | |
| Collateral requirements | | |
| 27. Does the system document significant changes to the condition and value of any collateral? | | |
| Internal management information requirements | | |
| 28. Is the internal management information available to agency credit program managers and designated internal review | | |

Direct Loan System Requirements

| Account servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| officials on a periodic or on an as requested basis? | | |
| 29. Does the agency determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements? | | |
| 30. Does the agency maintain financial accounting information at appropriate levels of summary for computational and reporting purposes? The main levels are: <ul style="list-style-type: none"> • transaction, • loan history, • risk category, • cohort, and • account. | | |
| 31. Has the agency determined whether the information should be provided on hard copy reports or through system queries? | | |
| <p>Internal management information requirements – detailed transaction history</p> <p>32. Does the system provide at least a detailed transaction history? The detailed transaction history summary provides detailed loan account data and payment transaction activity on a loan-by-loan basis to provide a sufficient amount of the detailed transaction history and should be accessible online to permit routine account servicing. Additional detailed transaction</p> | | |

Direct Loan System Requirements

| Account servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>history should be maintained on media, such as microfiche or CD-ROM, which can be readily accessible by the user.</p> | | |
| <p>Internal management information requirements – standard management control/activity</p> <p>33. Does the system provide at least standard management control/activity information? The standard management control/activity summary tracks the status of all loan accounts by summarizing loan activity at various critical points of the loan cycle such as status, i.e., current, delinquent, in collection, etc. The collection process summarizes payment activity to allow agency management to monitor the effectiveness of each activity in the collection process. Delinquency information is summarized to highlight delinquent debt (collateralized and noncollateralized) and modified debt. This data summary is produced periodically and provides information for preparing the Standard Form (SF) 220-9.</p> | | |
| <p>Internal management information requirements – exceptions</p> <p>34. Does the system provide at least exceptions management information? The exceptions summary identifies deficiencies that have occurred in the routine processing and monitoring of account status.</p> | | |

Direct Loan System Requirements

| Account servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| Examples of exceptions include unapplied payments and delinquent accounts not eligible for debt collection. This summary is generally produced periodically. | | |

Direct Loan System Requirements

| Treasury cross-servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| General requirements – identify accounts selected | | |
| 1. Does the automated system compare delinquent loan account information to statutory criteria to select delinquent loan accounts for possible referral? | | |
| 2. Does the automated system generate notification to the debtor of the agency’s intent to refer the debt to a debt collection center? | | |
| 3. Does the automated system update the loan information store? | | |
| 4. Does the automated system identify accounts that can no longer be serviced by agency personnel? | | |
| General requirements – monitor accounts referred to the debt collection center | | |
| 5. Does the system identify accounts with monetary adjustments that must be reported to the debt collection center? | | |
| 6. Does the system provide ad hoc reporting capability needed to monitor the accounts referred to a debt collection center and the amounts recovered? | | |
| 7. Does the system interface with the core financial system to record receipts remitted to the agency? | | |

Direct Loan System Requirements

| Treasury cross-servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| 8. Does the system apply collections received from the debt collection center according to agency application rules? | | |
| 9. Does the system record collection fees in accordance with agency program requirements? | | |
| 10. Does the system process agency or debt collection center refunds, notify the debt collection center as appropriate, and update the loan information store? | | |
| 11. Does the system notify the debt collection center of adjustments, recalls of debt, or collections received by the agency on the referred debt? | | |
| 12. Does the system remove from the accounting and financial records accounts that the debt collection center recommends should be written off? | | |
| General requirements – use an agency authorized to cross-service 13. Does the automated system identify the volume and type of debts serviced? | | |
| 14. Does the automated system identify the tools used by the agency to collect its own debt? | | |
| 15. Does the automated system provide 1 or more years of information on the average age of debt over 180 days? | | |

Direct Loan System Requirements

| Treasury cross-servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| 16. Does the automated system calculate the amount of debt collected using various collection tools? | | |
| 17. Does the automated system accrue late charges, as required by the referring agency? | | |
| 18. Does the automated system provide information to the referring agency sufficient for the referring agency to satisfactorily complete the Report on Receivables Due From the Public? | | |
| 19. Does the automated system track, by portfolio, age of debt referred, dollar and number of referrals, and collections on referred debts and report to Treasury monthly? | | |
| 20. Does the automated system provide information to referring agency as needed, i.e., collections received? | | |
| 21. Does the automated system provide an ad hoc reporting capability needed to satisfy referring agencies' unique information requests, such as length of work out agreements, percent of debt that can be compromised, etc.? | | |
| Internal management information requirements | | |
| 22. Is the internal management information available to agency credit program managers and designated internal review officials on a periodic or on an | | |

Direct Loan System Requirements

| Treasury cross-servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| as requested basis? | | |
| 23. Does the agency determine the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements? | | |
| 24. Does the agency maintain financial accounting information at appropriate levels of summary for computational and reporting purposes? The main levels are <ul style="list-style-type: none"> • transaction, • loan history, • risk category, • cohort, and • account. | | |
| 25. Does the agency determine whether the information is provided on hard copy reports or through system queries? | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>General requirements – portfolio performance process – identify loans for evaluation</p> <p>1. Does the automated system compare loan data to agency program portfolio evaluation criteria in order to identify loans that require review or evaluation?</p> | | |
| <p>2. Does the automated system compare loan data to agency program portfolio evaluation criteria to identify loans with potential for graduation to private sector financing?</p> | | |
| <p>General requirements – portfolio performance process – compute portfolio performance measures</p> <p>(Note: The information necessary to compute some of the following measures may not be readily available for all loan programs or may be available only at substantial expense. Therefore, the value of a given performance measure should be examined within the context of the total cost to an agency of using that measure.)</p> <p>3. Does the automated system compute and maintain program performance information? Some examples of the types of performance measures an agency may want its automated system to compute are:</p> <ul style="list-style-type: none"> • Number and dollar value of loans made • Average loan size | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <ul style="list-style-type: none"> • Loans made by geographical region • Number and amount of delinquent loans by key indicators such as loan-to-value ratios • Number and amount of defaulted loans by key indicators such as loan-to-value ratios • Number and amount of rescheduled loans • Amount of loan write-offs | | |
| <p>4. Does the automated system compute and maintain financial measures to help assess the credit soundness of a loan program? Some examples of the types of performance measures an agency may want its automated system to compute are:</p> <ul style="list-style-type: none"> • Average loan-to-value ratio (for collateralized programs) • Current loans as a percentage of total loans • Delinquent loans as a percentage of total current loans • Write-offs as a percentage of seriously delinquent loans • Overall portfolio risk rate • Loan loss rates • Recovery rates on defaulted loans | | |
| <p>5. Does the automated system compute and maintain efficiency measures to help determine the effectiveness of the use of agency resources? Some examples of the types of performance measures an</p> | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>agency may want its automated system to compute are:</p> <ul style="list-style-type: none"> • Administrative cost per loan approved • Time required to process a loan application • Administrative cost per loan serviced • Administrative cost per delinquent dollar collected • Net proceeds on real property sold compared to appraised value | | |
| <p>General requirements – program financing process – support Treasury borrowing calculations</p> <p>(Note: The organization of system processes between the direct loan system and the core financial system is at the discretion of the agency.)</p> <p>6. Do the direct loan system and core financial system processes, in combination:</p> <ul style="list-style-type: none"> • Execute SF-1151s and record amounts borrowed from Treasury to finance loans? • Make adjustments to borrowings during the year to reflect changes in original estimates? • Execute and record Treasury borrowings to finance interest payments to Treasury if insufficient funds are available to make the payment? • Track the amount of uninvested funds in the | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>Financing Account as needed to support interest earnings calculations?</p> <ul style="list-style-type: none"> • Compute interest expense on borrowings and interest earnings on uninvested funds? • Execute and record repayment of principal using SF-1151s and interest to Treasury using SF-1081s? • Execute and record receipt of interest earnings from Treasury on uninvested funds using SF-1081s? • Provide an automated interface with the core financial system to record all calculations? | | |
| <p>General requirements – support subsidy estimate – loan characteristics</p> <p>7. Does the system maintain data that is predictive of loan performance and subsidy costs? Loan characteristics maintained in a loan system will vary greatly from program to program. For example, the value of collateral pledged may be highly predictive of recovery rates for some programs. The following is a list of some of the loan characteristics that agencies should collect. This information should be obtained from either the loan system, the core financial system, or other data repositories within or outside the agency.</p> <ul style="list-style-type: none"> • Loan number – Cash flows should be maintained at the individual loan level, even | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>though analysis might often be done at the cohort level. Cash flows, such as receipts from property disposition, must be tracked back to the original loan via the loan number or other data element used to identify the original loan.</p> <ul style="list-style-type: none"> • Date of obligation – This information is necessary for reviewing historical cohort data, since cohorts are defined by year of obligation, and for relating loan behavior to other dated variables. | | |
| <p>General requirements – support subsidy estimate – loan terms and conditions</p> <p>8. Does the system maintain the actual loan terms, including maturity, interest rate, and up-front and/or annual fees? These data are critical for comparing actual payments to scheduled payments and for measuring the relationship between default risk and loan terms and conditions. The system should be able to calculate and report, as necessary, the aggregate repayment schedule for a cohort.</p> | | |
| <p>General requirements – support subsidy estimate – changes in loan terms and conditions</p> <p>9. Does the system record any changes in terms and conditions in addition to the original terms and conditions, not in place of</p> | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| them? These data are needed both to reestimate the subsidy cost and to establish a basis for estimating new subsidies. | | |
| <p>General requirements – support subsidy estimate – borrower location</p> <p>10. Has the agency chosen to collect several location elements such as zip code, congressional district code, approving office code, and servicing office code for regional analysis?</p> | | |
| <p>General requirements – support subsidy estimate – borrower creditworthiness</p> <p>11. Does the system include measures of the financial condition of the business or individual receiving the loan and past credit experience if applicable since creditworthiness may be a strong predictor of defaults?</p> | | |
| <p>General requirements – support subsidy estimate – loan use</p> <p>12. Does the system track the intended loan use for certain loan programs to reveal any significant variance in cost depending on the use of the loan proceeds?</p> | | |
| <p>General requirements – support subsidy estimate – program-specific data</p> <p>13. Does the system recognize that</p> | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>other loan characteristics may also be important in predicting default? The loan-to-value ratio is a critical data element for predicting housing loan defaults; for student loans, the type of educational institution may be important; the value of collateral is important in a number of programs.</p> | | |
| <p>General requirements – support subsidy estimate – economic data</p> <p>14. Does the system recognize that nearly all loan programs are affected by trends and fluctuations in the economy? The system should maintain the primary economic factors that influence loan performance. The critical indicators will vary across programs. For housing loans, among other factors, property values and house appreciation rates should be monitored. For programs that determine a borrower’s interest rates based on the borrower’s income, all economic data on incomes should be maintained in either the direct loan system, the core financial system, or another data repository within or outside the agency.</p> | | |
| <p>General requirements – support subsidy estimate – historical cash flows</p> <p>15. Does the system maintain all cash transactions related to each loan for several years to allow for trend analysis? Since transactions may be identified by a wide variety of</p> | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>transactional codes, agencies should consider grouping transactions by the type of cash flows that are projected in loan program subsidy estimates. These groupings will vary from program to program depending on the way cash flows are projected for subsidy estimates. This information should be obtained from either the direct loan system, the core financial system, or another data repository (such as microfiche or CD-ROM that permits easy retrieval of data) within or outside the agency.</p> <p>Listed below are suggested groupings that may be modified to fit actual loan programs.</p> <ul style="list-style-type: none"> • Approval amount. • Disbursement amount and disbursement rate for each year. • Up-front fee. • Annual fees. • Interest subsidies. • Prepayments including both the timing and amount. • Defaulted loan amounts including both the timing and amount. • Delinquencies. • Recoveries (including both the timing and amount) on defaulted loans by recovery methods such as the sale of collateral or offset programs. • Scheduled principal and interest payments. • Actual principal and interest payments. | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>General requirements – support subsidy estimate – support subsidy reestimates</p> <p>(Note: System activities may be located in either the direct loan system or the core financial system, as appropriate.)</p> <p>16. Does the automated system support the reestimate of the subsidy cost for each cohort and risk category of loans at the beginning of each fiscal year in accordance with OMB Circular A-34, <i>Instructions on Budget Execution</i> and Statement of Federal Financial Accounting Standards (SFFAS) No. 2, <i>Accounting for Direct Loans and Loan Guarantees</i>?</p> | | |
| <p>17. Does the automated system maintain cash flow data that permit comparison of actual cash flows each year (and new estimates of future cash flows), as well as historical data from prior years to the cash flows used in computing the latest loan subsidy estimate?</p> | | |
| <p>18. Does the automated system compare the current year reestimated subsidy cost to prior years' reestimated loan subsidy costs to determine whether subsidy costs for a risk category increased or decreased?</p> | | |
| <p>19. Does the automated system transfer loan subsidy from those risk categories with an excess of loan subsidy to those risk categories in the same cohort that are deficient in loan</p> | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| subsidy to provide adequate funding for each risk category? | | |
| 20. Does the automated system group those cohorts that need indefinite appropriation loan subsidy funds separately from those cohorts that have excess funds? | | |
| 21. Does the automated system request an apportionment and obligate funds to cover the subsidy increase for those cohorts of loans that have insufficient subsidy? | | |
| 22. Does the automated system transfer excess subsidy of cohorts of loans to the Special Fund Receipt Account? | | |
| 23. Does the system support the reestimate calculation and provide the necessary data to record the re-estimate in the core financial system? | | |
| <p>General requirements – support subsidy estimate – analyze working capital needs</p> <p>(Note: System activities may be located in either the direct loan system or the core financial system, as appropriate.)</p> <p>24. Does the automated system account for working capital cash balances in accordance with OMB guidance?</p> | | |
| 25. Does the automated system record costs incurred that are funded by working capital? | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|---|----------------------|--------------------|
| 26. Does the automated system compute the amount of Treasury interest earned by working capital funds and provide this amount to the core financial system? | | |
| General requirements – portfolio sales process – prepare portfolio for sale | | |
| 27. Does the automated system compare loan information to agency program criteria to select loans for inclusion in a potential sales pool? | | |
| 28. Does the automated system provide the ad hoc query capability needed to provide information on selected loans? | | |
| 29. Does the automated system record OMB/ Treasury approval or disapproval of the sale/ prepayment? | | |
| General requirements – portfolio sales process – conduct prepayment program | | |
| 30. Does the automated system generate a prepayment offer to be sent to eligible borrowers for participation in the prepayment program? | | |
| 31. Does the automated system record receipt of commitment letters from borrowers? | | |
| 32. Does the automated system provide an automated interface with the core financial system to record the receipt of a prepayment and the changes in | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| subsidy costs? | | |
| <p>General requirements – portfolio sales process – execute portfolio sale</p> <p>33. Does the automated system identify loans with incomplete documentation in the loan information store and generate a request for information to ensure that loan files are complete?</p> | | |
| <p>34. Does the automated system update the loan information store with any provided information?</p> | | |
| <p>35. Does the automated system generate documents and other information necessary to finalize the sales agreement with the purchaser?</p> | | |
| <p>36. Does the automated system update the loan information store to identify loans sold using information received from the underwriter?</p> | | |
| <p>37. Does the automated system provide an automated interface with the core financial system to record the sale of the receivables, the proceeds, changes in subsidy costs, and calculate the related gain or loss in accordance with SFFAS No. 2, <i>Accounting for Direct Loans and Loan Guarantees</i>?</p> | | |
| <p>Collateral requirements</p> <p>(Note: There are no collateral requirements applicable to the</p> | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|---|----------------------|--------------------|
| portfolio management function.) | | |
| <p>Internal management information requirements</p> <p>38. Has the agency determined the specific management information needs necessary to manage its credit programs based on the agency mission and applicable statutory requirements?</p> | | |
| <p>39. Does the agency maintain financial accounting information at appropriate summary levels for computational and reporting purposes? The main levels are</p> <ul style="list-style-type: none"> • transaction, • loan history, • risk category, • cohort, and • account. | | |
| <p>40. Has the agency determined whether the information should be provided on hard copy reports or through system queries?</p> | | |
| <p>Internal management information requirements - detailed transaction history</p> <p>41. Does the system provide at least a detailed transaction history? The detailed transaction history summary identifies, for each program by cohort and compiled on a loan by loan basis, the number and amount of loans in each phase of the direct loan life cycle. The information provided includes</p> | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|--|----------------------|--------------------|
| the number of loans, current and delinquent, and the total number and value of loans in the portfolio. | | |
| <p>Internal management information requirements – standard management control/activity</p> <p>42. Does the system provide at least standard management control/activity information? The standard management control/activity summary provides portfolio activity, with comparisons to one or more prior year loan activity, for agency management use in evaluating portfolio and credit management performance.</p> | | |
| <p>Internal management information requirements – portfolio sale historical payments</p> <p>43. Does the system provide at least portfolio sale historical payment information? The portfolio sale historical summary provides a detailed payment history for each loan included in the portfolio selected for sale. Historical payment data are critical in order to assess the investment value of the portfolio to be offered for sale, determining the structure and terms of the sale, and calculating the gain or loss on the sale.</p> | | |
| Internal management information requirements – portfolio sale performance | | |

Direct Loan System Requirements

| Portfolio management | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>44. Does the system provide at least portfolio sale performance information? The portfolio sale performance summary provides the rating agencies and financial advisors with statistics to more effectively evaluate portfolio characteristics performance. Statistics include loan-to-value ratios, effective yields, and loss estimates.</p> | | |
| <p>Internal management information requirements – program credit reform status</p> <p>45. Does the system provide at least program credit reform status information? The program credit reform status summary provides the status of the fiscal year’s credit reform appropriations and subsidy levels.</p> | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| General requirements – collection actions process – report delinquent debt | | |
| 1. Does the automated system identify delinquent commercial and consumer accounts for reporting to credit bureaus (preferably by electronic interface) and CAIVRS by comparing reporting criteria to delinquent loan data? | | |
| 2. Does the automated system calculate outstanding balances, including interest, penalties, and administrative charges, and include this information in credit bureau reports? | | |
| 3. Does the automated system generate (or include in demand letters) a notice to inform consumer borrowers of the referral of a delinquent debt to a credit bureau and CAIVRS in accordance with regulations? | | |
| 4. Does the automated system maintain a record of each account reported to credit bureaus to allow tracking of referred accounts? | | |
| 5. Does the automated system prepare monthly data on appropriate medium of delinquent debtors to be included in the CAIVRS database? | | |
| General requirements – collection actions process – contact with the debtor | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| 6. Does the automated system generate and transmit dunning letters to debtors with past due loan accounts? | | |
| 7. Does the automated system identify debtors who do not respond to dunning letters within a specified time? | | |
| 8. Does the automated system track demand letters and borrower responses to document borrower due process notification (and borrower willingness and ability to repay debt)? | | |
| 9. Does the automated system track and document debtor appeals received in response to demands for payment? | | |
| 10. Does the automated system provide automated support to the collection process? Support could be provided for activities such as contacting a delinquent borrower by phone; documenting contacts with a debtor and the results; documenting installment payments, rescheduling agreements, and debt compromise; generating management reports; and tracking the performance of individual agency collectors. | | |
| <p>General requirements – collection actions process – refer for Treasury offset</p> <p>11. Does the automated system identify accounts eligible for referral to the Treasury Offset</p> | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| Program (TOP)? | | |
| <p>12. Does the automated system generate written notification to the borrower that includes the following?</p> <ul style="list-style-type: none"> • The nature and the amount of the debt. • The intention of the agency to collect the debt through administrative offset. • An explanation of the rights of the debtor. • An offer to provide the debtor an opportunity to inspect and copy the records of the agency with respect to the debt. • An offer to enter into a written repayment agreement with the agency. | | |
| <p>13. Does the automated system identify, at the end of the notification period, the debtors who remain delinquent and are eligible for referral?</p> | | |
| <p>14. Does the automated system offset delinquent debts internally before referral to TOP, where applicable?</p> | | |
| <p>15. Does the automated system transmit to TOP eligible new debts and increase, decrease, or delete previously reported debts?</p> | | |
| <p>16. Does the automated system apply collections received through the TOP process to debtor accounts in accordance with applicable payment application rules?</p> | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| 17. Does the automated system record offset fees in accordance with agency program requirements? | | |
| 18. Does the automated system update the loan information store to reflect TOP status? | | |
| 19. Does the automated system update the core financial system to record collections from TOP? | | |
| 20. Does the automated system process agency refunds given to borrowers erroneously and offset and transmit this information to Treasury promptly? | | |
| 21. Does the automated system record refunds given by Treasury and adjust the loan information store accordingly? | | |
| <p>General requirements – collection actions process – garnishment of non-federal wages</p> <p>22. Does the automated system generate a written notice informing the borrower of the agency’s intention to initiate proceedings to collect the debt through deductions from pay, the nature and amount of the debt to be collected, and the debtor’s rights?</p> | | |
| 23. Does the automated system document that the wage garnishment order was sent to the employer? | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| 24. Does the automated system provide the ad hoc reporting capability needed to monitor the amounts recovered through nonfederal wage garnishment? | | |
| 25. Does the automated system document that the agency provided debtors a hearing, when requested? | | |
| 26. Does the automated system interface with the core financial system to record receipts remitted to the agency? | | |
| 27. Does the automated system apply collections received through wage garnishment according to agency application rules? | | |
| General requirements – collection actions process – refer to collection agencies 28. Does the automated system compare delinquent account data to agency program collection agency referral criteria to select delinquent loan accounts for referral to collection agencies? | | |
| 29. Does the automated system sort and group delinquent loan accounts based on type of debt (consumer or commercial), age of debt, and location of debtor? | | |
| 30. Does the automated system calculate outstanding interest, penalties, and administrative charges for each delinquent loan account to be referred? | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| 31. Does the automated system assign selected delinquent loan account groupings to appropriate collection agencies based on collection agency selection criteria for agency programs? | | |
| 32. Does the automated system document that the delinquent account has been referred to a collection agency? | | |
| 33. Does the automated system generate and receive electronic transmissions of account balance data and status updates to and from collection agencies? | | |
| 34. Does the automated system record receipts remitted to the collection agency and forwarded to the agency? | | |
| 35. Does the automated system update the loan information store to reflect receipts, adjustments, and other status changes, including rescheduling, compromise, and other resolution decisions? | | |
| 36. Does the automated system accept and match collection agency invoices with agency records? | | |
| 37. Does the automated system generate payment to the collection agency for services rendered through the core financial system? | | |
| 38. Does the automated system request, reconcile, and record returned accounts from | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| collection agencies? | | |
| 39. Does the automated system interface with the core financial system to record collections processed through collection agencies? | | |
| General requirements – collection actions process – refer for litigation activities 40. Does the automated system compare delinquent loan account information against the agency’s litigation referral criteria to identify delinquent loan accounts eligible for referral? | | |
| 41. Does the automated system support identification of accounts to be referred to counsel for filing of proof of claim based on documentation that a debtor has declared bankruptcy? | | |
| 42. Does the automated system provide an electronic interface with credit bureaus to obtain credit bureau reports that will enable assessment of the debtor’s ability to repay before a claim is referred to legal counsel? | | |
| 43. Does the automated system calculate the outstanding balance, including principal, interest penalties, and administrative charges, for each delinquent loan account to be referred to legal counsel? | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| 44. Does the automated system generate the Claims Collection Litigation Report (CCLR)? CCLR is used to capture collection actions and current debtor information and transmit this information to the Department of Justice (DOJ). | | |
| 45. Does the automated system receive electronic transmissions of account data and status updates to and from DOJ's Central Intake Facility or the agency's Office of General Counsel's (OGC) automated system for referrals? | | |
| 46. Does the automated system update the loan status to (1) reflect referral for litigation so that the loan can be excluded from other collection actions and (2) alert the agency to obtain approval from counsel before accepting voluntary debtor payment? | | |
| 47. Does the automated system track filing of pleadings and other motions, including proofs of claims in bankruptcy, to ensure swift legal action and to monitor litigation activity? | | |
| 48. Does the automated system match agency litigation referrals with DOJ list of agency litigation referrals? | | |
| 49. Does the automated system record and track recovery of judgment decisions? | | |
| 50. Does the automated system update the loan information | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| store to reflect receipts and adjustments? | | |
| 51. Does the automated system interface with the core financial system to record any collections resulting from litigation? | | |
| <p>General requirements – write-offs and close-outs process – identify and document accounts selected for write-off</p> <p>52. Does the automated system compare delinquent loan account information to agency program write-off criteria to select delinquent loan accounts for possible write-off?</p> | | |
| 53. Does the automated system classify debtors based on financial profile and ability to repay? | | |
| 54. Does the automated system have indicators of the financial well-being of a debtor, including debtor financial statements, credit bureau reports, and payment receipt history? | | |
| 55. Does the automated system produce a CCLR for each loan account to be referred to agency counsel or DOJ for approval of termination of collection action? | | |
| 56. Does the automated system update the loan status to reflect the referral? | | |
| 57. Does the automated system update the loan information | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| store to reflect approval or disapproval by agency counsel or DOJ for termination of collection action? | | |
| 58. Does the automated system update the loan information store and provide an automated interface with the core financial system to record the write-off of the receivable? | | |
| <p>General requirements – write-off and close-out process – monitor written-off accounts</p> <p>59. Does the automated system maintain a suspense file of inactive (written-off) loan accounts?</p> | | |
| 60. Does the automated system reactivate written-off loan accounts at a system user’s request if the debtor’s financial status or the account status changes? | | |
| <p>General requirements – write-off and close-out process – document close-out of uncollectible accounts</p> <p>61. Does the automated system compare loan account data to agency close-out criteria to identify debtor accounts eligible for close-out and 1099-C reporting?</p> | | |
| 62. Does the automated system prepare and send a Form 1099-C to IRS if the debtor has not responded within the required time? | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| 63. Does the automated system update the loan information store to reflect receipts, adjustments, and other status changes, including rescheduling, compromise, and other resolution decisions? | | |
| 64. Does the automated system retain electronic summary records of close-out account activity for a period of 5 years for use in agency screening of new loan applications? | | |
| Collateral requirements – foreclose on collateral process – identify foreclosure candidates 65. Does the automated system compare delinquent account data to collateral foreclosure selection criteria? | | |
| 66. Does the automated system sort and group selected delinquent accounts by type of collateral (single family or multifamily, commercial, farm, etc.), location, loan-to-value ratios, and amount of debt? | | |
| 67. Does the automated system calculate outstanding principal, interest, penalties, and administrative charges for each loan account selected for foreclosure review? | | |
| Collateral requirements – foreclose on collateral process – foreclose 68. Does the automated system transmit a foreclosure notice to the borrower? | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| 69. Does the automated system transmit information necessary for the foreclosure to DOJ and/or agency OGC, as applicable? | | |
| 70. Does the automated system record the results of the foreclosure proceedings and title conveyance to the agency? | | |
| 71. Does the automated system provide an automated interface of data on acquired collateral to the property management system for management and liquidation of the property? | | |
| 72. Does the automated system provide an automated interface to the core financial system to record the value of the property acquired and to reduce the receivable amount? | | |
| 73. Does the automated system generate or provide the information needed to manually prepare IRS Form 1099-A, Acquisition or Abandonment of Secured Property? | | |
| <p>Collateral requirements – manage/dispose of collateral process – manage collateral</p> <p>74. Does the automated system generate payments to property management contractors for services rendered?</p> | | |
| 75. Does the automated system track, record, and classify operations and maintenance expenses related to the acquired | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| collateral? | | |
| 76. Does the automated system document rental income and other collections related to the acquired collateral? | | |
| 77. Does the automated system post the expenses and income to the core financial system through an automated interface? | | |
| Collateral requirements – manage/dispose of collateral process – dispose of collateral 78. Does the automated system update the loan information store to record receipts resulting from the liquidation of acquired collateral and the disposition of the collateral? | | |
| 79. Does the automated system identify any deficiency balances remaining for the loan after collateral liquidation for further collection activities? | | |
| 80. Does the automated system provide an automated interface to the core financial system and the property management system to record disposal of the property and associated receipts? | | |
| Internal management information requirements 81. Has the agency determined the specific management information needs necessary to manage its credit programs based on the agency mission | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| and applicable statutory requirements? | | |
| <p>82. Does the agency maintain financial accounting information at appropriate levels of summary for computational and reporting purposes? The main levels are</p> <ul style="list-style-type: none"> • transaction, • loan history, • risk category, • cohort, and • account. | | |
| <p>83. Has the agency determined whether the information should be provided on hard copy reports or through system queries?</p> | | |
| <p>Internal management information requirements - detailed transaction history</p> <p>84. Does the system provide at least a detailed transaction history? The detailed transaction history summary provides detailed account information by cohort for internal control and tracking and, in the absence of an electronic interface to external entities, may be used to transfer data from the agency to the external entity to facilitate delinquent debt collection actions. Separate data summaries are produced for offset referrals, collection agency referrals, litigation referrals, and write-offs and close-outs.</p> | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>Internal management information requirements - standard management control/activity</p> <p>85. Does the system provide at least standard management control/activity information? The standard management control/activity summary tracks the status of all referral activity including initial referrals, status updates, and account balance updates. Separate and summary lists are produced for individual and total reporting and referral activity.</p> | | |
| <p>Internal management information requirements - exceptions</p> <p>86. Does the system provide at least exceptions information? The exceptions summary highlights deficiencies that have occurred in the referral process. Examples of subjects for periodic exception information include</p> <ul style="list-style-type: none"> • delinquent accounts eligible for reporting that have not been reported, • defaulted rescheduled loans, • account referrals that cannot be processed, • collection agency resolution percentage, • accounts without foreclosure or collateral management activity for a specified period of time, • accounts referred for litigation for which no litigation decision has been | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>recorded, and</p> <ul style="list-style-type: none"> delinquent accounts without activity for long periods of time that have not been written-off. | | |
| <p>Internal management information requirements – offsetting agency description</p> <p>87. Does the system provide at least offsetting agency description information? The offsetting agency description summary contains offsetting agency requirements to facilitate the offset referral process. The summary includes content and transmission specifications, reimbursement fee data, account selection criteria, and any other agency-specific details.</p> | | |
| <p>Internal management information requirements – trend analysis/performance</p> <p>88. Does the system provide at least trend analysis/performance information? The trend analysis/performance summary highlights the effectiveness of different delinquent debt collection techniques over time. The summary indicates the effectiveness of using different types of collection actions for different credit programs.</p> | | |
| <p>Internal management information requirements – collection contractor compensation</p> | | |

Direct Loan System Requirements

| Delinquent debt collection/ troubled debt servicing | Yes/no na | Explanation |
|--|----------------------|--------------------|
| <p>89. Does the system provide at least collection contractor information? The collection contractor compensation summary provides monthly account analyses to calculate, track, and verify compensation for each contractor providing collection services to an agency. This information aids in the verification of invoices received from the contractor and highlights the differences in fee schedules among contractors.</p> | | |
| <p>Internal management information requirements - collateral management activity and expense</p> <p>90. Does the system provide at least collateral management activity and expense information? The collateral management activity and expense summary provides detailed and summary data of collateral management activity and expense data for monitoring collateral management activities that affect the value of agency-owned property prior to disposition. All income earned and expenses incurred while the collateral is in the agency's possession must be recorded and tracked to support the agency's ability to recover the expenses.</p> | | |

Direct Loan System Requirements

| Other reporting requirements | Yes/no na | Explanation |
|---|----------------------|--------------------|
| <p>Transaction history</p> <p>1. Is the system capable of producing a complete transaction history of each loan?</p> | | |
| <p>External reporting requirements</p> <p>2. Is the system capable of supporting the external reporting requirements of OMB and Treasury, including those associated with FCRA of 1990 and the CFO Act of 1990? These external reports rely on supplemental financial data resident in the direct loan system, although they are generated from the general ledger. The reports are</p> <ul style="list-style-type: none"> • SF-132, Apportionment and Reapportionment Schedule • SF-133, Report on Budget Execution • SF-220-9, Report on Accounts and Loans Receivable Due from the Public <p>(Note: Other system outputs are described in the Functional Requirements chapters of the JFMIP source document. These include items such as letters and invoices to borrowers, SF-1151s and SF-1081s used in Treasury borrowing, and delinquent debt information sent to credit bureaus, collection agencies, and DOJ.)</p> | | |

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