

APPENDIX A: PROGRAM REVIEWS

INTRODUCTION

In-depth program reviews are essential to ensure that Federal resources are used effectively. In the case of Federal credit programs, these evaluations should assess whether programs are achieving policy goals while mitigating risk and cost to the taxpayer and minimizing displacement of private credit markets. Periodic program reviews can help inform agencies' strategies and budget decisions, and enable management to identify appropriate actions—including improvements to daily processes, structural changes to improve management and oversight, or proposals to better target assistance. The purpose of these reviews is to assess the core questions related to credit programs, and they may be supplemented by other evaluations that provide a more in-depth analysis of a particular component of a program.

Program reviews under this Circular should be performed on a biennial basis, or other timeframe approved by OMB, and submitted to OMB as part of the agency's budget request, or other mechanism acceptable to OMB. Agencies may be required to perform reviews more frequently for significant programs or programs experiencing a major change, such as a change in purpose or scope, or a change in how the program is administered. In addition, any proposals submitted to OMB for new credit programs, and for reauthorizing or expanding existing credit programs, should also be accompanied by such a written analysis, and related evaluations or studies. Agencies should consult with OMB on the timing, structure, and content of reviews under this requirement.

This Appendix sets forth guidelines and best practices for performing these program reviews. It explains the required components outlined in this Circular (see Sections II.A, and II.D), and provides an overview of key considerations for quality analyses. It also provides an example structure for agency program reviews, and an example checklist for such reviews.

COMPONENTS OF PROGRAM REVIEWS

Program reviews required under Section I.D.10 of this Circular are designed to provide timely, results-oriented information that examines the Federal objectives of the program and the program's progress toward achieving policy goals in light of established risk thresholds, and identifies opportunities to maximize the effectiveness and efficiency of the program. The analyses will help inform budget, management, and policy decisions.

Program reviews include both qualitative and quantitative analyses. Specifically, qualitative descriptions of policy objectives, market factors, performance trends, program administration, and other relevant factors should be paired with quantitative elements (where applicable) to highlight program performance towards measureable targets. Analyses should incorporate regular program reporting, supplemented by any additional relevant information, including external data sources and analyses. In addition to historical data, program reviews should analyze trends, and use such analyses to project estimates of future program volume and changes in risk and cost.

These reviews should be clearly structured and address all of the required elements in this Circular. Program reviews must include a request and justification for waivers from requirements of this Circular (if applicable); key findings supported by qualitative and quantitative analyses; and proposals to improve the program's efficiency and effectiveness, per Section II.D. Program reviews should also cover each element outlined in Section II.A, more specifically:

1. The Federal objectives to be achieved, including what the program is intended to do (e.g., correct a market failure, subsidize specific borrowers, and/ or encourage certain activities) and why these objectives cannot be achieved without Federal credit assistance.
2. The scope of the program, including the estimated amount of Federal credit assistance necessary to efficiently meet the intended Federal objectives, and the time horizon of Federal investment where applicable.
3. The justification for the use of a particular credit subsidy.
4. The estimated net economic benefits of the program and any proposed program change.
5. The realized and potential effects on private capital markets.

6. The estimated subsidy level, i.e., estimated program subsidy costs.
7. The administrative resource requirements including the estimated costs of extension, servicing, collection and management and oversight structures, both on an annual basis, and estimated costs over the lifetime of the program.

EXAMPLE STRUCTURE FOR PROGRAM REVIEW

The following example provides guidelines that agencies could follow when performing program analyses, whether in satisfaction of the biennial review requirements, or as support for a proposal to create, expand, or change a Federal credit program.

1. **Executive Summary and Background.** The executive summary and background section would provide a high-level overview of the program, findings of the review, and recommendations for improving the program. It should clearly articulate the Federal objective(s) the program is intended to achieve, and highlight any critical risks or significant changes in cost.
2. **Program Analysis.** This section would provide a detailed analysis of all aspects of the program. While the structure and depth of the analysis may vary given specific program characteristics, program reviews should address all of the elements outlined in Section II.A of this Circular.
 - a. *Program Overview.* The analysis should evaluate the need for the program, and review the program's objectives and scope. It would explain what the Federal objectives are, why they cannot be achieved without credit assistance, and why other Federal and non-Federal activities are not sufficient to meet these objectives. The analysis should consider the context of the program, including the environment that it is operating within. For example, if the program is intended to correct a market failure, the analysis should review relevant market trends to identify conditions giving rise to the imperfection and how the program is targeted to address the failure. The analysis should consider the extent to which other Federal and non-Federal programs are targeting similar goals. The degree of subsidy should also be analyzed. The subsidy analysis can include: the mechanisms for implementing the program (including any subsidies to lenders or other counterparties); terms and conditions of the program credit assistance and how it compares to private market credit terms; and the relative costs to the borrowers compared to private credit, and/or total subsidy provided by the Government including other tools, where appropriate. The analysis should also identify any area where a program is not consistent with the requirements of this Circular, and evaluate the effects of any deviation and whether it is still necessary.
 - b. *Performance.* Program reviews should assess the progress of the program over time in meeting its policy goals and staying within risk and cost thresholds using outcome-based measures. Agencies should outline risk thresholds defined by clear metrics, and provide justification for why these thresholds represent an acceptable level of risk given the program's policy goals. In addition to evaluating economic benefits, agencies should analyze the Federal and non-Federal costs imposed by the program, including economic costs and the effects on private capital markets. Finally, this section should include quantitative and qualitative explanations of the key metrics and significant changes in program performance.
 - c. *Management and Oversight.* The analysis should evaluate program administration, including program governing documents, management and oversight, operations, and risk-mitigation strategies. This should include an examination of the program administrative costs and critical risks. Where possible, agencies should seek to identify costs for different program functions, including origination, servicing, monitoring, and resolution of troubled loans, as well as lifetime estimated administrative costs for credit assistance. An evaluation of program management and oversight structures (See Appendix C: Management and Oversight Structures) should address any management and internal control issues, including those identified by auditors or Inspectors General. This section should also include identification of any failures, audit or other findings with respect to management and oversight or internal controls, and actions taken in response to such issues.
3. **Findings.** Program reviews should articulate key findings—specifically, how well the program is performing in terms of its policy goals and established risk thresholds. In particular, this section should explain the key successes, chal-

allenges, and risks identified in the analysis, and provide a brief explanation of the evidence underlying each finding, and the strength of such evidence. Successes may include improved targeting via administrative changes, meeting or exceeding program performance targets while remaining within established risk thresholds, or otherwise achieving the program's Federal objectives. A review of the program's challenges may include barriers to achieving these goals, such as existing legislation, regulations, or unnecessary or otherwise inefficient program subsidies or processes. Risks may include emerging or existing risks that are within the agency's control, or external factors that could negatively impact the program's effectiveness. Problems or risks that may compromise the ability of the program to accomplish Federal goals and efforts to address problems or mitigate risks should be highlighted.

4. **Recommendations.** In providing recommendations for improving the program, this section should explain how each recommendation responds to the findings identified in the previous section. Recommendations may be legislative, regulatory, or administrative in nature. For each recommendation, clarify estimated resource requirements, degree of effort associated with implementation, and any challenges. As appropriate, the section should also recommend options to address significant program risks, which may include taking steps to mitigate risks, changing program processes or policies, and/or terminating some programmatic activities. This section should also include a request for any waiver, or extension of a waiver, from policies or requirements outlined in this Circular. Requests must be accompanied by analytical justification, and indicate the specific period of time for which the waiver is requested.

AN EXAMPLE CHECKLIST FOR CREDIT PROGRAM REVIEWS

The following checklist is an example that may be used by OMB to facilitate a program review:

- Program title
- Form of assistance (direct or guarantee)
- Federal objectives of this program (See Section II.A.1.a)
- Reasons why Federal credit assistance is the best means to achieve these objectives. (See Section II.A.1.b.)
- Where applicable, include draft legislation. Any draft bill establishing a credit program should contain the elements reflected in Appendix B of this Circular, including:
 - o Authorization to extend direct loans or make loan guarantees subject to the requirements of the Federal Credit Reform Act of 1990, as amended.
 - o Authorization and requirement for a subsidy appropriation.
 - o Cap on volume of obligations or commitments. (See Section II.C.5.)
 - o Terms and conditions defined sufficiently and precisely enough to estimate subsidy rate. (State estimated subsidy of this program (rate and dollar amount).) (See Section II.A.6)
 - o Authorization of administrative expenses.
- Describe briefly the existing and potential private sources of credit (and type of institution). (See Section II.A.1.b.i)
- Explain reasons why private sources of financing and their terms and conditions must be supplemented and subsidized, including (See Section II.A.1.b.ii):
 - o To correct a defined capital market imperfection;
 - o To subsidize identified borrowers or other beneficiaries; and/or
 - o To encourage certain specified activities.
- State the scope of the program, the amount of Federal credit assistance estimated necessary to efficiently meet the intended Federal objectives, reasons why a Federal credit subsidy is the most efficient way of providing assistance, how it provides

assistance in overcoming market imperfections, and how it assists the identified borrowers or beneficiaries or encourages the identified activities. (See Sections II.A.2, II.A.3.)

- ❑ Summarize briefly the benefits expected from the program. Can the value of these benefits (or some of these benefits), and costs associated with the program be estimated in dollar terms? If so, state the estimate of their value. Further information on conducting cost-benefit analysis can be found in [OMB Circular No. A-94](#). (See Section II.A.4.)
- ❑ Describe any elements of program design which encourage and supplement private lending activity, such that private lending is displaced to the smallest degree possible by agency programs. (See Section II.A.5.)
- ❑ Estimate the expected administrative (including origination, servicing, and collection) resource requirements and costs of the credit program. (See Section II.A.7.)
- ❑ Verify the structure is consistent with prohibitions (See Section II.B.5.):
 - o Agencies will not guarantee federally tax-exempt obligations directly or indirectly.
 - o Agencies will not subordinate direct loans to tax-exempt obligations and will provide that effective subordination of guaranteed loans to tax-exempt obligations will render the guarantee void.
- ❑ Describe how the program structure encourages risk sharing (See Section II.C.1.):
 - o Lenders and borrowers share a substantial stake in full repayment according to the loan contract.
 - o Private lenders who extend Government-guaranteed credit bear at least 20 percent of any potential losses.
 - o Borrowers deemed to pose less of a risk receive a lower guarantee as a percentage of the total loan amount.
 - o Borrowers have an equity interest in any asset being financed by the credit assistance.
- ❑ Explain fees and interest rates, and how they are consistent with credit policies (See Section II.C.2.):
 - o Interest and fees are set at levels that minimize default and other subsidy costs.
 - o Interest rates charged to borrowers (or interest supplements) not set at an absolute level, but instead set by reference to the rate (yield) on a benchmark Treasury security.
- ❑ Confirm terms and conditions protect the Government's interest:
 - o Contractual agreements include all covenants and restrictions (e.g., liability insurance) necessary to protect the Federal Government's interest. (See Section II.C.3.)
 - o Maturities on loans are shorter than the estimated useful economic life of any assets financed. (See Section II.C.3.a.)
 - o The Government's claims on assets not subordinated to the claim of other lenders in the case of a borrower's default. (See Section II.C.3.b.)
 - o Loan contracts to be standardized and private sector documents used to the extent possible. (See Section II.C.7.)
- ❑ Describe the methods used to evaluate the program and the results of evaluations that have been made, and include supporting analyses or other evidence. (See Section II.D. 3.a.)
- ❑ Provide proposed changes to improve the efficiency and effectiveness of the program based on the findings described above. (See Section II.D.3.b.)