

Allowance for Loss Policy (2019.2 REV 1)



Office of the Chief Financial Officer (OCFO)

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I. Background:

This handbook sets forth the policy the U.S. Department of Housing and Urban Development's (HUD) Office of Chief Financial Officer (OCFO) will implement to set the Allowance for Loss rate on non-loan receivables.

The allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of the receivables to its net realized value. It is an adjustment needed to estimate the receivable to its net realizable value for reporting purposes. The purpose of this allowance method is not to "write off" receivables but to report a realistic value for the receivables balance.

The Allowance for Doubtful Accounts is a valuation reserve, a contra account, established to acknowledge the estimated risk to HUD of potentially uncollectible non-loan receivables so the financial statements present an accurate assessment of HUD's overall financial position. The Allowance for Loss rate is used to estimate the amount to be recorded in the Allowance for Doubtful Accounts.

The basis of this calculation is an estimate of the current amount of non-loan receivables that HUD will be unable to collect given the facts and circumstances as of the evaluation date. The estimated rate should consider all significant factors that affect the collectability of the non-loan receivables. HUD first determines the historical loss rate for its non-loan receivables and uses the calculation as a reasonable starting point to determine the Allowance for Loss rate. The Allowance for Loss rate established by management also considers the qualitative, economic and environmental factors that are likely to affect the Allowance for Loss rate.

II. Related Legislation, Regulations and Guidance:

The related legislation, regulations and guidance for this policy handbook:

Chief Financial Officers Act of 1990 (CFO Act) - Institutes practices to improve the Federal Government financial management and internal control systems.

Federal Accounting Standards Advisory Board (FASAB), *Statement of Federal Financial Account Standard 1: Accounting for Selected Assets and Liabilities* - Defines, illustrates, and establishes specific standards for selected assets and liabilities.

Federal Accounting Standards Advisory Board (FASAB), *Loss Allowance for Intragovernmental Receivables*, Technical Bulletin 2019-1, Exposure Draft – Clarifies that SFFAS1, Accounting for Selected Assets and Liabilities (paragraph 41-51) applies to both intragovernmental receivables and nonfederal entities receivables.

HUD OCFO Allowance for Doubtful Accounts Standard Operating Procedure - Provides guidance to properly account for reporting, managing, and collecting non-loan receivables.

OMB Circular No A-129, Policies for Federal Credit Programs and Non-Tax Receivables - Establishes policies and procedures for Federal credit programs and for collecting outstanding receivables.

III. Scope:

This policy applies to HUD non-loan receivables, which consist of but are not limited to:

- Refund receivables;
- Court-Enforced Judgment receivables;
- Sustained Audit receivables;
- Grants and Subsidies Receivables (including Housing Choice Voucher Program receivables);
- Financial Adjustment Factor (FAF) receivable;
- Excess Rental Income (ERI) receivable; and
- Employee Debt.

IV. Policy:

The OCFO sets the Allowance for Loss on non-loan receivables in accordance with the following:

- Current debts following their repayment terms will have an allowance for loss rate of 10 percent.
- Debts without repayment terms or that are delinquent for less than two years will have an allowance for loss rate of 95 percent.
- Debts that are delinquent more than two years will have an allowance for loss rate of 100 percent.

V. Responsibilities:

OCFO Accounting offices, Accounting Monitoring and Analysis Division (AMAD) and Fort Worth Accounting Center (FWAC) are responsible for reviewing loss rates, updating the policy as needed, implementing, and ensuring compliance with this policy.

VI. Policy Review Period:

This policy will be reviewed annually or on an as-needed basis to determine if the Allowance for Loss percentages and procedures should be adjusted.

VII. Definitions:

Allowance for Doubtful Accounts: A contra-asset account that nets against the total receivables presented on the financial statements to reflect only the amounts expected to be collected. This is only an estimate of the amount of accounts receivables which are expected to not be collected.

Allowance for Loss: An estimated rate of the receivables that are unlikely to be recovered.

Court-Enforced Judgment Receivable: A receivable established when a debtor has been tried and the court issues a judgment against the debtor. The receivable can be associated with a grant/project or as a miscellaneous receivable.

Excess Rental Income (ERI) Receivable: A receivable consisting of a cash collection against accounts receivable on rent from residents of a project or projects, on a unit-by-unit basis, that is in excess of the HUD approved unassisted Basic Rent.

Financial Adjustment Factor (FAF) Receivable: A receivable established relating to FAF Bond refunding collections.

Grants and Subsidies Program Receivable: A receivable established by a HUD program office related to a grant or subsidy program.

Refund Receivable: A receivable established when a direct reduction of program expenditures has been returned.

Sustained Audit Receivable: A receivable established as the result of an Office of the Inspector General (OIG) audit finding. The audit report may identify the grant/project number relating to the audit finding or as a miscellaneous receivable.