



DEFENSE SECURITY COOPERATION AGENCY

2800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2800

August 22, 2024

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF THE AIR FORCE FOR
INTERNATIONAL AFFAIRS
DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR
DEFENSE EXPORTS AND COOPERATION
DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR
INTERNATIONAL PROGRAMS
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY
DIRECTOR, MISSILE DEFENSE AGENCY
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE
AGENCY
DIRECTOR, SECURITY COOPERATION ACCOUNTING
DIRECTORATE, DEFENSE FINANCE AND ACCOUNTING
SERVICE, INDIANAPOLIS OPERATIONS
DIRECTOR OF CYBERSECURITY DIRECTORATE AND DEPUTY
NATIONAL MANAGER FOR NATIONAL SECURITY
SYSTEMS, NATIONAL SECURITY AGENCY

SUBJECT: Defense Security Cooperation Agency Policy Memorandum 24-15, Foreign Military Finance Direct Loans and Loan Guarantees [SAMM E-Change 630]

References: (a) [DSCA Policy Memo 16-17](#), Stand-Alone Letter of Offer and Acceptance Requirement for Foreign Military Financing (FMF) Loans, 7 March 2016.
(b) [Office of Management and Budget Circular A-11](#), Preparation, Submission and Execution of the Budget, August 2023.

The Foreign Military Financing (FMF) Direct Loan and Loan Guarantee program requires extensive coordination among the Department of Defense (DoD), the Department of State (State), and other U.S. government agencies to be an effective financing tool for Foreign Military Sales (FMS) cases. This memorandum clarifies each agency's responsibilities and details procedures for executing FMF Direct Loans and Loan Guarantees for FMS purchases. This policy memo rescinds Reference (a). The policy in the attachment is incorporated into the DSCA Security Assistance Management Manual (SAMM) at <https://samm.dsca.mil>.

If you have questions on this guidance, please contact the Financial Policy & Regional Execution Directorate, Financial Policy Division (FPRE/FP) at dsca.ncr.obo.list.fpre-

fp@mail.mil. For questions relating to the SAMM, please contact DSCA (Office of Strategy, Plans, and Policy, Execution Policy and Analysis Directorate (SPP/EPA)), dscanrcr.spp.mbx.epa@mail.mil.

ANDERSON.GLENN
N.EDWARD.

Digitally signed by
ANDERSON.GLENN.EDWARD.

Date: 2024.08.22 13:44:54 -04'00'

Mr. Glenn Anderson
Acting Chief Operating Officer and Chief Financial
Officer

Attachment:

1. Attachment to Memorandum 24-15
2. SAMM E-Change 630

1) Attachment to Memorandum 24-15

The [Arms Export Control Act \(AECA\), section 23 \(22 U.S.C 2763\)](#) authorizes the President to finance the procurement of defense articles and services for foreign countries and international organizations. The [AECA, section 24 \(22 U.S.C 2764\)](#) authorizes the President to guarantee any individual, corporation, partnership, or other juridical entity doing business in the United States against political and credit risks of nonpayment arising out of their financing of credit sales of defense articles, defense services, and design and construction services. Foreign Military Financed (FMF) Direct Loans are direct financing where the U.S. Government funds a loan, and the Defense Security Cooperation Agency (DSCA) sends the loan proceeds directly to the Foreign Military Sales (FMS) partner's Trust Fund account. FMF Loan Guarantees are indirect financing where a third-party lender funds a loan and sends the loan proceeds directly to the FMS partner's Trust Fund account. The U.S. Government guarantees the loan using an FMF subsidy under the requirements of Office of Management and Budget (OMB) Circular A-11 ([OMB Circular A-11](#)). Under the FMF direct and indirect loan financing constructs, loan proceeds are available to finance the purchase of defense articles, defense services, and design and construction services by an FMS partner using a Letter of Offer and Acceptance (LOA).

Partner Interest. FMS partners should work with their Security Cooperation Organization (SCO) to request FMF Loan and/or FMF Loan Guarantee financing. SCOs must submit the foreign partner's letter of interest to the relevant Foreign Affairs Officer at the Department of State's Office of Security Assistance, Bureau of Political-Military Affairs/Security Assistance (PM/SA) to be considered for FMF Loan and/or FMF Loan Guarantee financing. State will advise DSCA on whether they can move forward with the FMS purchaser's request and will inform the FMS partner and DSCA of the conditional intent to offer a loan within thirty (30) calendar days of receiving the request. This offer will include the loan amount and subsidy, if available. All positive offers should be considered conditional, pending the successful conclusion of a loan agreement text, notification to Congress of the intent to exercise an FMF loan, and the potential obligation of FMF funding to be used to pay loan subsidies. State reserves the right to change its decision should legal or policy challenges arise during agreement negotiations. Negative decisions likewise can be revisited for similar reasons, including a change in available funding.

Loan Agreements. DSCA's Office of Business Operations, Financial Policy and Regional Execution (OBO/FPRE) is lead for drafting loan agreements and negotiating terms with FMS partners and lenders. If a subsidy is tied to the loan agreement, the U.S. Department of Treasury (USDT) builds the subsidy model using the loan agreement's proposed terms and other inputs (OMB discount rates, etc.), which results in a subsidy cost. The OMB is the decision authority on the amount of subsidy cost associated with a loan to the FMS partner. The OMB examiner and credit crew must review and approve before DSCA (OBO/FPRE) can submit the Payment Schedule for the direct loan agreement to USDT for concurrence (See SAMM [Appendix 3, Figure 6](#) for Payment Schedule template). Upon approval of the FMF Loan agreement with the FMS partner nation, DSCA (OBO/FPRE) manually populates the loan data within the FMF Credit System of the Defense Agencies Initiative system. The data includes the County Program Name (CPN) with cohort year and approved total loan amount and other information such as the loan/guarantee payment schedule.

Apportionments. State makes appropriated funding available for FMF programs, and State provides Standard Form (SF)-132 apportionment approval for these FMF funds to DSCA's Office of Business Operations, Comptroller for Security Assistance Programs (OBO/CMP/SA). DSCA (OBO/CMP/SA) prepares an SF-132 apportionment file, combines it with State's documents, and provides the package to OMB for approval. If approved, OMB issues signed apportionment documentation to DSCA (OBO/CMP/SA). DSCA (OBO/CMP/SA) is responsible for setting up the line of accounting in DSCA's financial system (Defense Agencies Initiative (DAI)) for FMF Loans and FMF Loan Guarantees. The 11X4122 Treasury account is the direct financing account for FMF loans. The 11X1085 Treasury Account is the program account for direct loans and loan guarantees and is used to account for subsidies. The 11X4386 Treasury Account is the FMF Guaranteed Loan Financing Account, which will hold any subsidy funds and fee collections. If subsidy and fee balances alone are insufficient, USDT will provide funds to the 11X4386 account when requested by DSCA (OBO/CMP/SA) to make payments to the lender in the event of a lapse in payment from the borrower (FMS partner) under the loan guarantee program. Financing accounts accrue interest on borrowings (interest owed) or cash balances (interest earned) with USDT. DSCA (OBO/CMP/SA) is also responsible for submitting approval of apportionments for both the program and financing account prior to incurring direct loan obligations or loan guarantee commitments. The Financing Account must reflect associated borrowing authority as well as any subsidy transactions, as appropriate. See [OMB Circular A-11](#), Sections 185.15 and 185.16. The apportionment actions must occur before the loan agreements are signed. FMF loan funds are obligated when the loan agreement with the borrower (FMS partner) or loan guarantee agreement with the lender (third-party bank) is signed.

Terms of Sale for Foreign Military Sales Cases. The term "FMS Credit" is used for FMS cases financed with repayable FMF funds. The term "FMF Guarantee" is used for FMS cases financed indirectly with a third-party lender guaranteed by the DoD. See SAMM [Table C9.T11](#) for Terms of Sale. An FMS case may be funded in whole or in part by FMF loans and loan guarantees. For mixed funded LOAs, the Implementing Agency (IA) must not combine type of assistance (TA) code 'Z', FMS Credit, or TA code 'Y', FMF Guarantee, with any TA code on any single line item on the LOA, unless the FMS case line is for the procurement of major end item(s). Major end items are defined as Major Defense Equipment and/or Significant Military Equipment. See SAMM [Figure C5.F5. Letter of Offer and Acceptance Information](#), Section f. for TA Codes.

Disbursement of Direct Loan Proceeds. The FMS partner must send a request for disbursement to the Defense Finance and Accounting Service-Indianapolis (DFAS-IN) and DSCA. The request must be received by DFAS-IN and DSCA at least fifteen (15) business days prior to the desired disbursement date. The request must cite the FMS loan document number and dollar amount (reference SAMM [Figure A3.F2](#) for Financing Approval template). DSCA will disburse loan proceeds via DAI to the FMS partner's Trust Fund Account (9711X8242).

Disbursement of Loan Guarantee Proceeds. The FMS partner must send a request for disbursement to DSCA. The request must include the FMS case identifier number(s) (to include Amendment or Modification number if applicable), and dollar amount(s) not less than 30 business days before the desired disbursement date. See SAMM [Appendix 3 for Disbursement Request](#) template. If approved by the lender, the lender will transfer loan proceeds to DFAS-IN Cash Team for collection into the FMS partner's Trust Fund account (9711X8242).

Repayment of Direct Loan Proceeds. The FMS partner must remit payment in accordance with the loan agreement. DFAS-IN collects payments from the FMS partner and reports collections against within Treasury's 11X4122 FMF Direct Loan account. In the event of a lapse in payment from the borrower (FMS partner), DSCA will work with OMB, DFAS-IN, and the FMS partner to ensure necessary actions are taken or new agreement with the specific loan is made; to include, modifying and extending the loan payment schedule.

Repayment of Loan Guarantees. The FMS partner must remit payment in accordance with the debt agreement into which it entered with the third party lender. In the event of a lapse in payment or default from the borrower (FMS partner), DSCA will coordinate with OMB, Treasury and DFAS-IN to determine the funds available in the guaranteed loan financing account to make the claim payment. If sufficient funds are not available DSCA will borrow the necessary funds from Treasury into the guaranteed loan financing account.

2) SAMM E-Change 630 - Foreign Military Finance Loans and Loan Guarantees

1. Update C9.7.2.4. per below:

Current Version:

C9.7.2.4. Fiscal Provisions Relating to Foreign Military Sales Credits. The AECA, section 37 (22 U.S.C. 2777), specifies that cash payments received under section 21 (22 U.S.C. 2761), section 22 (22 U.S.C. 2762), and section 29 (22 U.S.C. 2769), and advances received under section 23 (22 U.S.C. 2763) shall be available solely for payments to suppliers (including the Military Departments (MILDEPs)) and refunds to purchasers, and are not available for financing credits and guaranties. Amounts received from foreign governments and international organizations as repayments for credits extended pursuant to AECA, section 23 (22 U.S.C. 2763) (FMF direct loans), are transferred to either account 11X4121 ("Foreign Military Loan Liquidating Account, Funds Appropriated to the President" - for pre-Fiscal Year (FY)1992 loans) or account 11X4122 ("Foreign Military Financing, Direct Loan Financing Account, Funds Appropriated to the President" - for post-FY1991 loans). If Guaranty Reserve (AECA, section 24(c) (22 U.S.C. 2764(c))) funds have been used for a borrower's overdue payment to the FFB, subsequent amounts received from the borrower shall be merged with the Reserve and shall be available for any purposes for which funds are normally available.

Revised Version:

C9.7.2.4. Fiscal Provisions Relating to Foreign Military Sales Credits. The AECA, section 37 ([22 U.S.C. 2777](#)), specifies that cash payments received under section 21 ([22 U.S.C. 2761](#)), section 22 ([22 U.S.C. 2762](#)), and section 29 ([22 U.S.C. 2769](#)), and advances received under section 23 ([22 U.S.C. 2763](#)) shall be available solely for payments to suppliers (including the Military Departments (MILDEPs)) and refunds to purchasers, and are not available for financing credits and guaranties. Amounts received from foreign governments and international organizations as repayments for credits extended pursuant to AECA, section 23 ([22 U.S.C. 2763](#)) (FMF direct loans), are transferred to either account 11X4121 ("Foreign Military Loan Liquidating Account, Funds Appropriated to the President" - for pre-Fiscal Year (FY)1992 loans) or account 11X4122 ("Foreign Military Financing, Direct Loan Financing Account, Funds Appropriated to the President" - for post-FY1991 loans). **The 11X4386 Treasury Account is the FMF Guaranteed Loan Financing Account, pursuant to AECA, section 24(c) ([22 U.S.C. 2764\(c\)](#)), which will hold any subsidy funds and fee collections.** If Guaranty Reserve (~~AECA, section 24(c) (22 U.S.C. 2764(c))~~) funds have been used for a borrower's overdue payment ~~to the FFB~~, subsequent amounts received from the borrower shall be merged with the Reserve and shall be available for any purposes for which funds are normally available.

2. Update C9.7.2.9.2.2. per below:

Current Version:

C9.7.2.9.2.2. Implementation and Management of Foreign Military Financing Loans and Grants. Within DSCA, DSCA (Office of Business Operations (OBO)) implements and manages loans and grants. DSCA (OBO) prepares the loan and grant agreements (see Appendix 3) and obtains signatures. Defense Finance and Accounting Services - Indianapolis (DFAS-IN) disburses loan and grant funds, bills the borrower, and collects payments

C9.7.2.9.2.2.1. Terms of sale for Foreign Military Financing Loan Funds.

C9.7.2.9.2.2.1.1. For all FMF loans, the IAs must use a stand-alone LOA for the initial implementation and utilization of funds.

Revised Version:

C9.7.2.9.2.2. Implementation and Management of Foreign Military Financing Loans and Grants. Within DSCA, ~~the DSCA~~(Office of Business Operations (OBO)) implements and manages loans and grants. DSCA (OBO) prepares the loan and grant agreements (see Appendix 3) and obtains signatures. Defense Finance and Accounting Service - Indianapolis (DFAS-IN) ~~Security Cooperation Accounting (SCA)~~ disburses loan and grant funds, bills the borrower, and collects payments.

~~**C9.7.2.9.2.2.1. Terms of sale for Foreign Military Financing Loan Funds.**~~

~~**C9.7.2.9.2.2.1.1.** For all FMF loans, the IAs must use a stand-alone LOA for the initial implementation and utilization of funds.~~

3. Update C9.T11. to revise the FMS Credit entry and add FMF Guarantee:

Current Version:

Term of Sale	Application
FMS Credit	This term applies to an FMS case financed with repayable Foreign Military Financing (FMF) funds, or partly repayable FMF funds, extended or guaranteed by the DoD under AECA, sections 23 (22 U.S.C. 2763) and 24 (22 U.S.C. 2764) or under other legislation.

Revised Version:

Term of Sale	Application
FMS Credit	This term applies to an FMS case financed with repayable Foreign Military Financing (FMF) funds, or partly repayable FMF funds, extended or guaranteed by the DoD under AECA, sections 23 (22 U.S.C. 2763) and 24 (22 U.S.C. 2764) or under other legislation.

FMF Guarantee	This term applies to an FMS case where a partner secures a third-party loan and guaranteed by USG FMF funds under AECA, section 24 (22 U.S.C. 2764) or under other legislation.
---------------	---

4. Update C5.F5. entry 2f. to revise Type of Assistance code “Z” and add “Y”:

Current Version:

f. Type of Assistance (TA) Codes below may also be found in DLM 4000.25 V2 Appendix 7.19:

Code	Explanation
Z	Term of Sale FMS Credit; AECA Sections 23 or 24. Use instead of TA Codes 3-8.
Footnote – Mixed types of funding require use of all applicable TA Codes for defined order and blanket cases.	

Revised Version:

f. Type of Assistance (TA) Codes below may also be found in Defense Logistics Manual (DLM) 4000.25 ~~V2~~ Appendix 7.19:

Code	Explanation
Y	Term of Sale FMF Guarantee; AECA Section 24. Use instead of TA Codes 3-8.
Z	Term of Sale FMS Credit; AECA Sections 23 or 24 . Use instead of TA Codes 3-8.
Footnote – Mixed types of funding require use of all applicable TA Codes for defined order and blanket cases except for TA Codes associated with MAP Merger/USG Grant, FMS Credit (Non-Repayable), and FMF Guarantee Terms of Sale. The only time TA codes associated with MAP/USG Grant and FMF Credit (Non-Repayable) and FMF Guarantee may be comingled with other TA Codes is if the line(s) are funding major end item(s).	