

**FISCAL YEAR 2008 REPORT**  
**TO THE CONGRESS**

**U.S. GOVERNMENT RECEIVABLES**

**AND**

**DEBT COLLECTION ACTIVITIES**

**OF FEDERAL AGENCIES**



**Department of the Treasury**  
**July 2009**

**FISCAL YEAR 2008 REPORT TO THE CONGRESS  
U.S. GOVERNMENT RECEIVABLES AND  
DEBT COLLECTION ACTIVITIES  
OF  
FEDERAL AGENCIES**

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## **I - EXECUTIVE SUMMARY**

### **A - LEGISLATIVE REQUIREMENT TO REPORT**

The Debt Collection Act of 1982 as amended by the Debt Collection Improvement Act of 1996 (DCIA) directs the Secretary of the Treasury (Secretary) to report to Congress annually on the management of debt collection activities by the head of each Federal agency. This report includes information that the agency heads provide to the Secretary on the status of loans and accounts receivable that each manages. See 31 U.S.C. § 3719.

### **B - SCOPE OF REPORT**

This report summarizes the information provided by Federal agencies concerning their receivables as reported to the Department of the Treasury (Treasury) and as contained in the Treasury Report on Receivables and Debt Collection Activities (TROR). It includes information about total receivables, collections on receivables, delinquencies, collections on delinquencies, and write-offs.

As a point of clarification, receivables and delinquencies as reported on the TROR do not include debts that have been written-off. Debts that are written-off are classified as either Currently-Not-Collectible (CNC), or closed out on the TROR. Though written-off and not counted as receivables or delinquencies in the TROR, debts that are classified as CNC are included when determining eligibility for referral to Treasury for mandatory offset and Cross-Servicing. See *Referral to Treasury Under the DCIA*, Part II, Section B of this report.

This report also summarizes key Government-wide actions to collect delinquent debt, a specific concern that led to the passage of the DCIA. Additionally, this report highlights several special and/or unique collection activities and accomplishments by certain Federal agencies.

## C - SUMMARY

- Since the enactment of the DCIA in April 1996, through September 30, 2008, \$37.4 billion has been collected to pay delinquent debts through Treasury's Financial Management Service's (FMS) Treasury Offset Program (TOP) and Cross-Servicing Program (Cross-Servicing).
- Total collections by FMS, exclusive of offset of the 2008 stimulus payments, on delinquent debts through TOP and Cross-Servicing were \$4.41 billion in FY 2008. This is the highest amount collected by FMS in a single fiscal year since FMS began government-wide delinquent debt collection programs in 1996. Annual collections through these programs have averaged over \$3.6 billion during the last five years. An additional \$1.51 billion was collected through TOP from the 2008 stimulus payments for an FMS FY 2008 total of \$5.9 billion.
- In FY 2008, the Department of Justice (DOJ) collected \$2.8 billion in cash recoveries on delinquent debts owed to Federal agencies through its civil litigation program. DOJ has collected a total of \$15.5 billion through civil litigation in the last five fiscal years.
- In FY 2008, private collection agencies (PCAs) under contract with the Department of Education (Education), the Department of Health and Human Services (HHS) and FMS had referrals of \$28.4 billion in delinquent Federal debt. These PCAs collected \$759 million in FY 2008.
- The Federal Government collected \$171.4 billion in FY 2008 on all of its non-tax receivables. See *Appendix I, Federal Receivables and Delinquent Debt*.

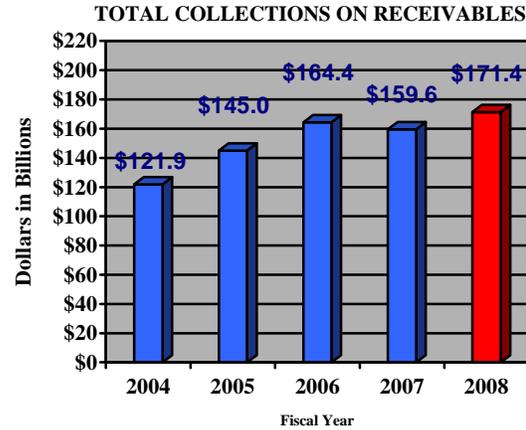
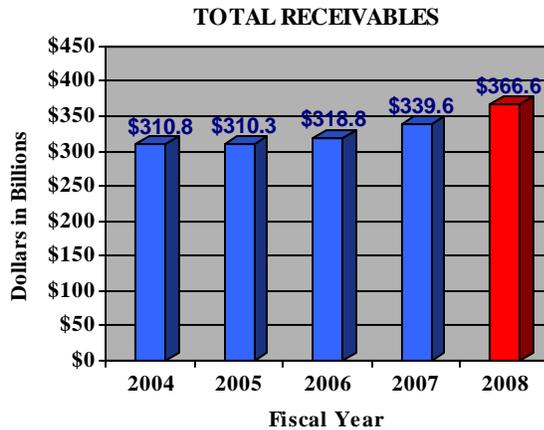
## D – LEGISLATION

Two proposals to enhance FMS's debt collection program were passed into law in FY 2008:

1. Elimination of the 10-year statute of limitations for collection of delinquent Federal debts by administrative offset; and
2. Authorization to offset and levy Medicare payments to collect delinquent nontax, child support and Federal tax debts.

Authorization to offset federal tax refund payments to collect delinquent state unemployment insurance debts resulting from fraud was also passed into law.

## II - GOVERNMENT DEBT PORTFOLIO, COLLECTIONS AND WRITE-OFFS

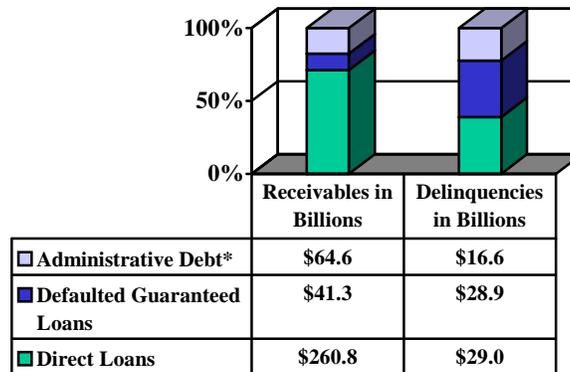


### A - FISCAL YEAR-END DATA

#### 1. Receivables and Delinquencies

- The FY 2008 total receivables of \$366.6 billion represented an increase of \$27.0 billion from the previous year, and total delinquencies of \$74.5 billion represented an increase of \$9.6 billion.
- At the end of FY 2008, Federal loan programs (direct and guaranteed) comprised 82.4 percent of total receivables, up slightly from 81 percent at the end of FY 2007. Federal loan programs comprised 78 percent of total delinquencies, also up slightly from 76 percent at the end of FY 2007.

Distribution of Receivables and Delinquencies  
as of 9/30/08



\*Examples: Fines, penalties and overpayments.

Federal loan programs are authorized when private sector credit is unavailable or inadequate, and a Federal objective is to be achieved. Accordingly, Federal loan receivables occur in programs that serve the public interest and are of relatively high risk of default. As these receivables increase, normally delinquencies will correspondingly increase.

- The two agencies with the largest total receivables at the end of FY 2008 are Education (\$157.1 billion) and the Department of Agriculture (USDA) (\$107.3 billion). Receivables from these two agencies comprise 73 percent of the Government's total receivables (Education 43 percent and USDA 30 percent).
- Two types of Education receivables accounted for almost all of its receivables: Federal Direct Student Loans (\$123.6 billion), and Defaulted Guaranteed Student Loans (\$27.6 billion).
- Five program areas of the USDA accounted for over \$101 billion of its receivables: Rural Electric & Telephone Revolving Fund (\$40.9 billion), Rural Housing Insurance Fund (\$25.6 billion), Commodity Credit Corporation (\$15.3 billion), Rural Development Insurance Fund (\$13 billion), and Farm Service Agency (\$6.7 billion).

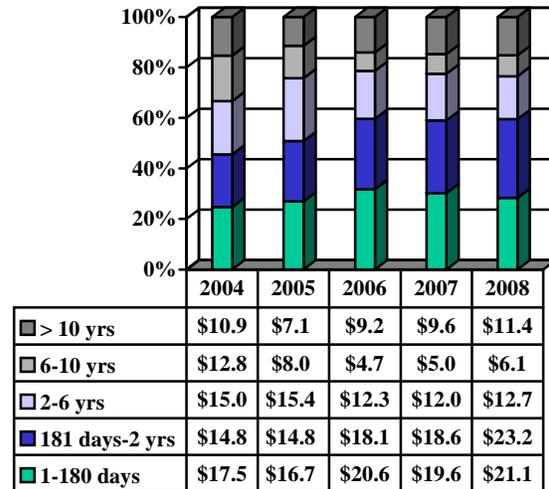
#### Analysis of Receivables Data

- Contributing to the FY 2008 increase in total receivables was a \$20.4 billion increase in direct and guaranteed loans at the Department of Education. Education's direct student loan portfolio has grown significantly over the last several years and this trend is continuing. That portfolio has increased from \$71.8 billion at the end of FY 2001 to \$123.6 billion at the end of FY 2008, and by \$16.4 billion in FY 2008 alone.
- Collections Note: Education breaks out its loan consolidations from the amount it reports as Collections on Receivables in the Treasury Report on Receivables (TROR). At one time, it had reported those consolidations with collections because it considers them to be collections. Therefore, Education's consolidations have been added to its collections in this report to arrive at the total agency and government-wide collections amount.

Additional Delinquent Debt Data

With the increase in total receivables, there was also an increase in total delinquencies, which rose by 15 percent or \$9.6 billion. The chart to the right provides the breakdown, in billions, of those delinquencies by age.

**Aging of Government-wide Delinquencies**

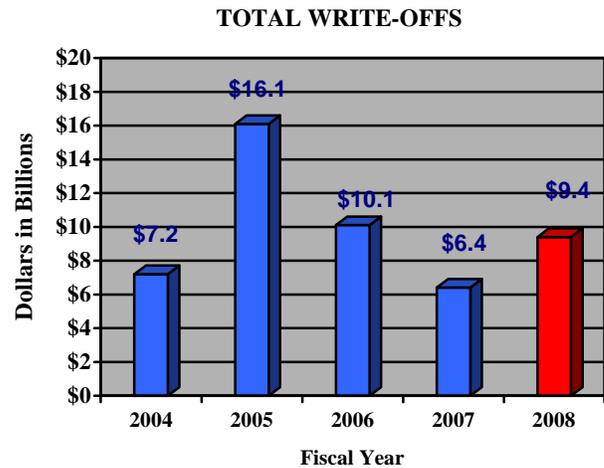


- At the end of FY 2008, \$64.7 billion (87 percent) of the Government’s delinquent debts were distributed among six agencies: Education, the Department of Defense (DOD), the Social Security Administration (SSA), USDA, HHS, and the Small Business Administration (SBA).

Agency	Delinquencies (in billions)	
	FY 2008	% Change from FY 2007
Education	\$47.8	+22%
DOD	\$4.6	+4%
SSA	\$3.7	+7%
USDA	\$3.4	+3%
HHS	\$2.9	+24%
SBA	\$2.3	+16%
<b>TOTAL</b>	<b>\$64.7</b>	<b>+18%</b>
<b>TOTAL GOV'T</b>	<b>\$74.5</b>	<b>+15%</b>

2. *Write-offs*

- Total write-offs in FY 2008 increased from FY 2007 by \$3 billion to a level closer to the amount reported in FY 2006.
- The substantial increase in write-offs in FY 2005 resulted from greater adherence by agencies to established write-off policy (See OMB Circular No. A-129). Beginning in the third quarter of FY 2004, OMB began to specifically monitor the Federal program agencies' write-off policies and practices. Also, FMS published additional guidance on write-off that year and continues to provide ongoing training to the agencies on the topic. Specifically, there were substantial one-time write-offs in FY 2005 by the Federal Communications Commission (FCC) and the Department of Energy.



- OMB continues to monitor agency adherence to write-off policy. However, it should be noted that, while OMB guidance *generally* requires write-off when debts are two years delinquent, agencies do not write off debts when material collections can be documented to occur after two years.
- Write-offs increased at many agencies in FY 2008. The largest increases were at SBA (\$1.11 billion), Education (\$862 million), HHS (\$559.5 million), Commodity Futures Trading Commission (\$473.9 million), Veterans Affairs (\$191.3 million), and USDA (\$162.5 million).

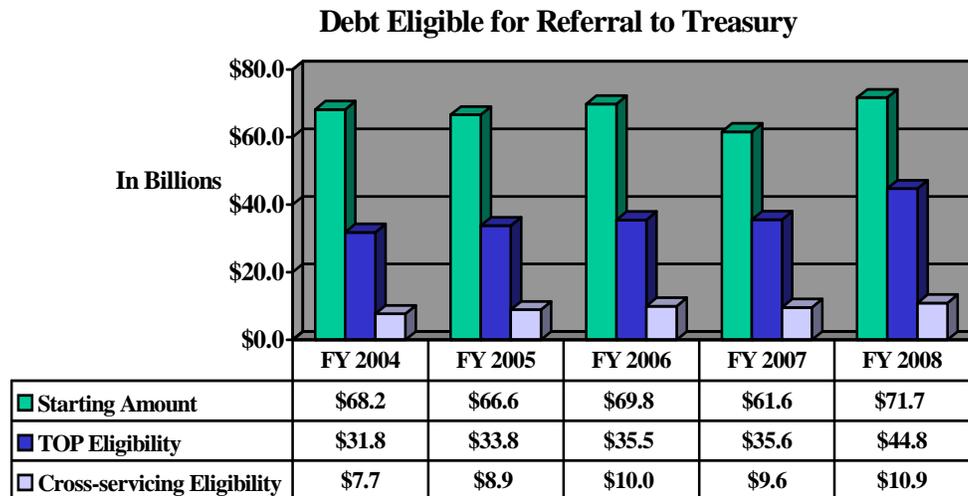
3. *Interest, Penalties and Costs*

Agencies charge interest, penalties and administrative costs on receivables in accordance with applicable loan documents and statutory requirements. See, e.g., 31 U.S.C. 3717. Of the \$366.6 billion in receivables at the end of FY 2008, \$8.8 billion represents unpaid interest, penalties and administrative costs.

**B - REFERRAL TO TREASURY UNDER THE DCIA**

- The DCIA specifically mandates that Federal agencies refer non-tax debts more than 180 days delinquent to Treasury for collection through TOP and/or Cross-Servicing.

Certain debts are not eligible for referral to Treasury for either TOP or Cross-Servicing because of various exemptions permitted under the DCIA or otherwise required by law. Debts exempt from both TOP and Cross-Servicing include those in appeals or forbearance; debts in litigation or that have been referred for litigation to DOJ; debts in foreclosure or in bankruptcy; and foreign sovereign debts. Additional exemptions from Cross-Servicing include debts at PCAs, debts being collected by internal offset, and debts exempted from Cross-Servicing by Treasury. These exemptions are subtracted from the “Starting Amount” (debts more than 180 days delinquent plus those classified as Currently-Not-Collectible but not yet closed out) to determine “TOP Eligibility” and “Cross-Servicing Eligibility.”



- At the end of FY 2008, debts eligible for referral to TOP increased by \$9.1 billion, and debts eligible for Cross-Servicing increased by \$1.2 billion from amounts reported in FY 2007. During FY 2008, FMS and the reporting agencies continued to work cooperatively to improve the accuracy of these eligibility numbers.

### III - GOVERNMENT-WIDE DELINQUENT DEBT COLLECTION ACTIVITIES

#### **A - TREASURY OFFSET PROGRAM (TOP)**

##### *1. Description*

###### Offset

Offset is a program whereby Federal payments are reduced or "offset" to satisfy a person's overdue Federal non-tax debt, child support obligation, and/or state debt. Offset referrals and collections are indicated in the charts on the next page.

###### Reciprocal Offset Agreements with States

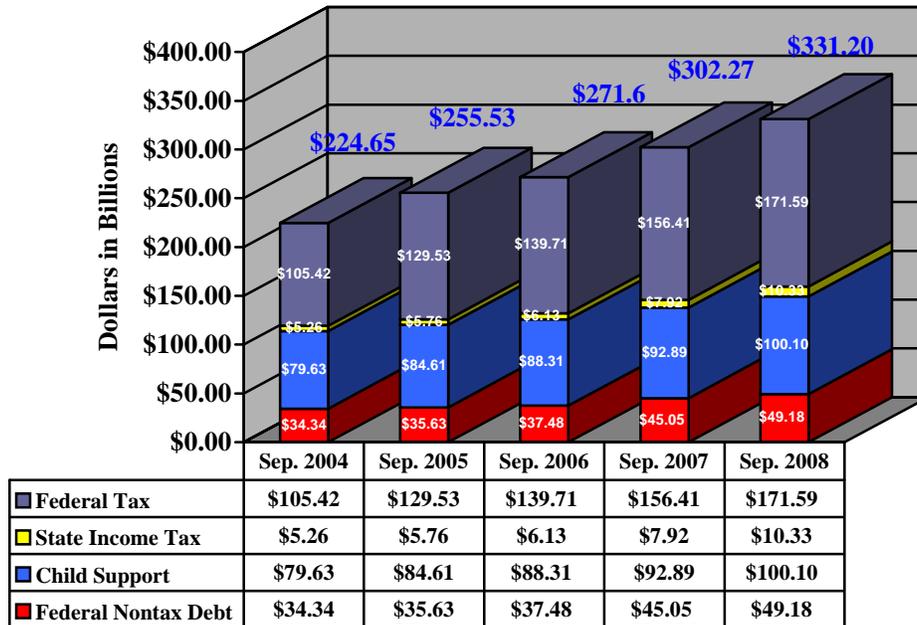
In January 2007, FMS published a regulation to implement a provision in the DCIA that authorizes Treasury and the states to enter into reciprocal agreements to collect each other's debts. Under these agreements, Treasury can collect unpaid state debt by offsetting Federal non-tax payments, and states can collect delinquent Federal non-tax debt by offsetting state payments. Two states, Maryland and New Jersey, signed agreements and participated in a pilot program with Treasury, which began in June 2007 and ended in August 2008. The resulting collections realized by the states, federal agencies and FMS indicated that the reciprocal program will be extremely beneficial to both the states and the federal government. Therefore, FMS decided to establish the program and expand it to additional states in calendar year 2009. Several states have expressed interest in participating in the program.

###### Federal Payment Levy Program

The Federal Payment Levy Program (FPLP) is a program whereby delinquent Federal income tax debts are collected by levying non-tax payments, as authorized by the Taxpayer Relief Act of 1997. Continuous tax levy collections are indicated in the chart on the next page.

2. Referrals

TOTAL DEBT REFERRALS TO THE TREASURY OFFSET PROGRAM



3. Collections

Collections Through TOP In Millions of Dollars						
Type of Collection	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008 With Stimulus	FY 2008 Without Stimulus
Administrative Offset*	\$109	\$123	\$144	\$187	\$244	\$244
Tax Refund Offset – Child Support	\$1,487	\$1,580	\$1,582	\$1,696	\$2,830	\$1,989
Tax Refund Offset – Federal Non-tax Debt	\$974	\$990	\$989	\$1,195	\$1,948	\$1,373
Tax Refund Offset – State Income Tax Debt	\$218	\$232	\$216	\$219	\$378	\$289
Continuous Tax Levy	\$114	\$197	\$303	\$343	\$400	\$400
<b>Total Collected</b>	<b>\$2,902</b>	<b>\$3,123</b>	<b>\$3,234</b>	<b>\$3,640</b>	<b>\$5,800</b>	<b>\$4,295</b>

\*Offset of nontax payments (i.e., payments other than tax refunds) to collect delinquent State and Federal debts.

NOTE: Neither chart includes the referrals and collections made in the State Reciprocal Offset Program, which was fully implemented in the latter part of FY 2008. This data will be presented in the Report in subsequent years.

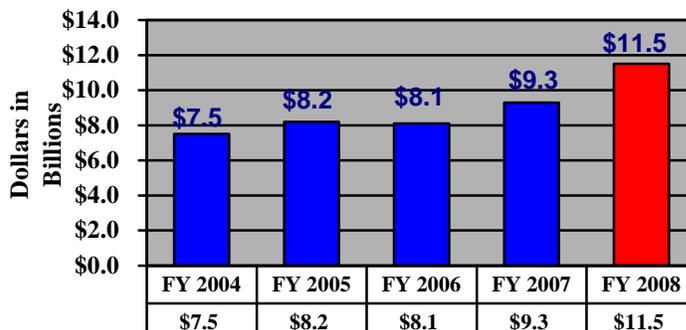
**B - CROSS-SERVICING AT FMS**

**1. Description**

Cross-Servicing is the process whereby agencies refer delinquent Federal non-tax debts to FMS’s Debt Management Services (DMS) for collection. Treasury utilizes a variety of collection tools once agencies refer their debts. Collection tools include Treasury demand letters, telephone calls to debtors, referral of debts to TOP, credit bureau reporting, use of PCAs, referral of debts to DOJ for litigation, and administrative wage garnishment (AWG).

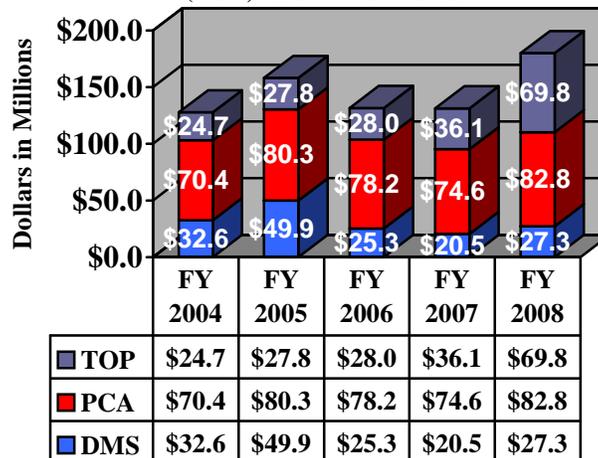
**2. Referrals**

**CROSS-SERVICING REFERRALS**



**3. Collections**

**CROSS-SERVICING & PRIVATE COLLECTION  
AGENCY (PCA) COLLECTIONS**

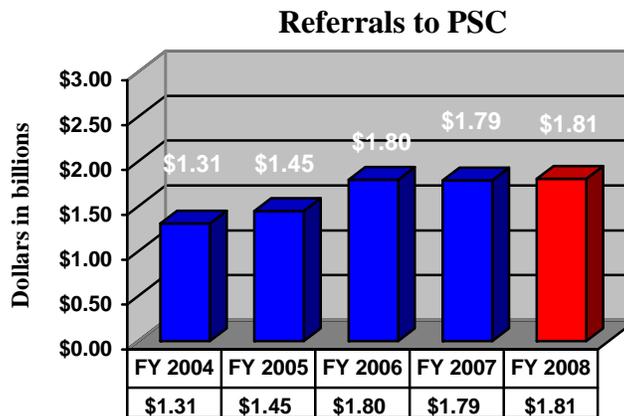


**C - HHS'S DEBT COLLECTION CENTER**

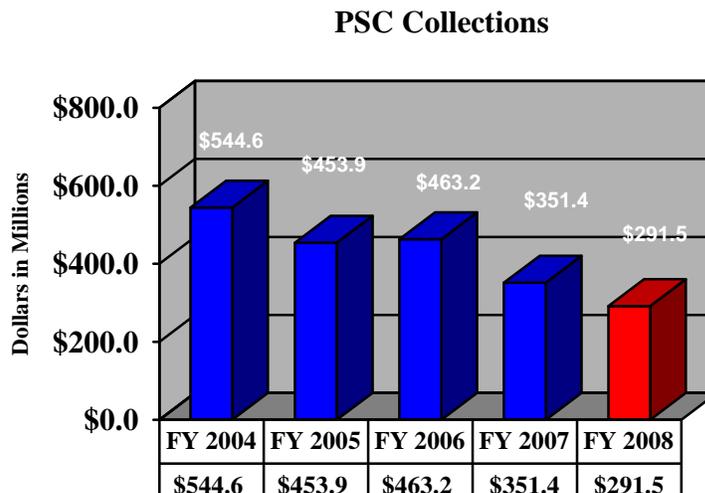
**1. Description**

The Program Support Center (PSC), established in 1995, is an operating division within HHS that collects debts on a fee-for-service basis for 11 different agencies within HHS and several agencies outside of HHS. Collections were down in FY 2008 due to a reduction in audit findings and State activity recovery as well as the economic downturn.

**2. Referrals to PSC**



**3. Collections at PSC**



**D - LITIGATION AT THE DEPARTMENT OF JUSTICE (DOJ)**

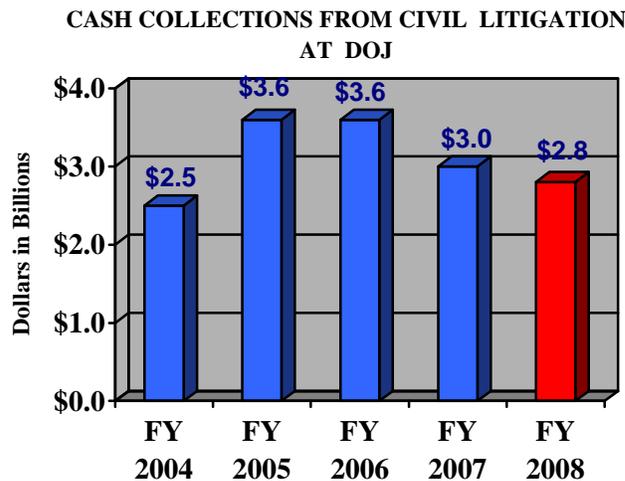
**1. Description**

When a Federal agency cannot collect a debt administratively using debt collection tools such as those available under the DCIA, the agency may refer the debt to DOJ to pursue enforced collection through the courts. FMS's Cross-Servicing Program also has the option to refer agency debts to DOJ.

**2. Referrals**

Fiscal Year	Total Civil Referrals - new debts opened	Value of New Debts (in billions)
2004	7,165	\$2.5
2005	6,723	\$5.0
2006	7,913	\$6.1
2007	9,718	\$5.0
2008	11,559	\$3.8

**3. Collections**



**E - EDUCATION STUDENT LOANS**

- Since November 1998, Treasury has exempted student loan debts collected by Education from mandatory transfer to Treasury for Cross-Servicing, based on Education’s demonstrated expertise in collecting student loan debts. Federal Student Aid debt collection activities at Education are centralized in Education’s Borrower Services-Collections (BSC). BSC services Education's defaulted student loans (loans delinquent more than 270 days). Use of the full range of debt collection tools outlined in Education’s own statutes and the DCIA is authorized once the loan reaches default status. Additionally, BSC collects on student grant overpayments, which represent a very small amount of BSC’s total delinquent debt portfolio.
- Total student loan receivables (principal and interest) serviced by BSC have increased from \$15.9 billion at FY 2004 year-end to \$23.1 billion at FY 2008 year-end; and collections have increased from \$1.803 billion in FY 2004 to \$3.209 billion in FY 2008.

<b>Education’s Use of Debt Collection Tools</b> (in millions)					
<b>Collection Tools</b>	<b>FY 2004 Collections</b>	<b>FY 2005 Collections</b>	<b>FY 2006 Collections</b>	<b>FY 2007 Collections</b>	<b>FY 2008 Collections</b>
<b>Private Collection Agency</b>	\$362	\$378	\$410	\$368	\$376
<b>Litigation (DOJ)</b>	\$22	\$18	\$16	\$13	\$11
<b>Internal Offset</b>	\$2	\$1	\$3	\$1	\$1
<b>AWG (at Education and PCAs)</b>	\$186	\$237	\$251	\$281	\$304
<b>Treasury Offset</b>	\$389	\$415	\$402	\$465	\$758
<b>Other Tools at Education</b>	\$59	\$50	\$51	\$46	\$42
<b>Total Loan Consolidations (at Education and at PCAs)</b>	\$206	\$197	\$224	\$179	\$236
<b>Total Loan Rehabilitations (at Education and at PCAs)</b>	\$587	\$786	\$954	\$1,322	\$1,480

- Recoveries from TOP increased by 63 percent, from FY 2007 to FY 2008. The large increase was primarily due to the additional amounts collected from offset of the 2008 stimulus payments. Education still relies heavily on PCAs and refers every eligible debt as quickly as possible to one of its 17 PCAs. Education effectively uses AWG to collect debts, primarily through its PCAs. Education also uses loan consolidations and loan rehabilitations to further reduce delinquencies by moving debts back into current repayment status.

- PCAs rehabilitated \$1.407 billion in defaulted loans in FY 2008, up 16 percent from the \$1.251 billion in FY 2007. New laws enacted as of July 1, 2006 allow borrowers to rehabilitate if they make 9 consecutive on-time monthly payments in a 10 month period, which is the preferred method for borrowers to cure defaults (other than paying the debt in full). The PCAs have also exceeded Education's expectations in this area. Education found that the reduction in regular collections from FY 2006 to FY 2007 leveled off between FY 2007 and FY 2008, increasing about \$10 million, while rehabilitations increased by \$156 million for the same period.
- Education has continued its successful matching program with HHS's National Directory of New Hires Database that, for FY 2008, resulted in the capture of new debtor location information on over 1.356 million accounts. Use of the New Hire Database led to an additional \$454 million in student loan recoveries.
- BSC did not receive the software components to its updated system that were needed to participate in TOP Federal Salary Offset. This was due to a series of new congressional mandates that became a higher priority. BSC is currently working on a new procurement to replace the Debt Management and Collections Systems (DMCS). BSC is also planning to do a pilot test of Federal Salary Offset using the old system and some manual processes. Although a full run of all Federal borrowers cannot be done, there are processes and procedures that can be worked out through the pilot that will inform the requirements for the new system. In the interim, Education uses all other available debt collection tools to collect debts owed by Federal employees.

NOTE: The Education PCA and Student Loans sections of this report do not include data from Education's Federal Family Education Loan Program (FFELP). The loans in this program are made by private companies and held by State guarantee agencies (GAs). Education pays a GA upon default of a loan (and, therefore, has an "interest" in the loan), but the GA conducts the process of collection using many of the same tools, such as TOP, PCAs, and AWG, that are employed by Education.

**F - USE OF PRIVATE COLLECTION AGENCIES (PCAs)**

**1. Description**

- Education, FMS, and HHS have each established contracts with PCAs to collect non-tax debts owed to the Federal Government. PCAs assist Federal agencies in many ways, including establishing repayment agreements and resolving debts administratively by determining that a debtor is deceased, disabled, bankrupt, or out of business.
- Education uses PCAs to collect its portfolio of defaulted student loan debts. Education relies heavily on PCAs and refers every eligible debt to one of its seventeen PCAs as quickly as possible. Education’s PCAs also initiate Education’s use of administrative wage garnishment as a debt collection tool.
- FMS’s PCA contracts are used as part of its Cross-Servicing Program. Debts that are not collected or resolved, generally within 30 days after referral to FMS for Cross-Servicing, are referred to one of its five PCAs for collection action. FMS’s PCAs also utilize administrative wage garnishment as an effective collection tool.
- HHS’s PCA contract is administered by its Program Support Center (PSC), which provides centralized debt collection services for HHS’s agencies and bureaus, and several other Federal agencies. PSC refers debts to its PCA if payment in full is not made or a repayment agreement has not been established within 45 days after the PSC receives the debt for collection action. Referrals and collections were lower in FY 2008 because HHS replaced its PCA during the year, taking over the previous PCA’s repayment agreements. The new PCA started with new referrals only.

**2. Referrals**

<b>Referrals to PCAs (in millions)</b>			
<b>Agency</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY2008</b>
<b>HHS</b>	\$68	\$69	\$35
<b>FMS</b>	\$3,500	\$3,341	\$4,454
<b>Education</b>	\$13,952	\$18,982	\$23,863
<b>Totals</b>	\$17,520	\$22,392	\$28,352

3. Collections

<b>Collections by PCAs (in millions)</b>			
<b>Agency</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>HHS</b>	\$9.6	\$7.4	\$3.8
<b>FMS*</b>	\$78.2	\$74.6	\$82.8
<b>Education*</b>	\$651.8	\$639	\$672
<b>Totals</b>	\$739.6	\$721	\$758.6

\*Includes collections by administrative wage garnishment

**APPENDIX I: FEDERAL RECEIVABLES AND DELINQUENT DEBT**

The table below presents the ending balances, collections, write-offs, delinquencies, delinquencies greater than 180 days, and debts that have been written off and classified as Currently-Not-Collectible (CNC) for the credit agencies with the highest ending balances at the end of FY 2008. The table groups all other agencies into a single category. At the end of FY 2008, 95 percent of the receivables belonged to the 11 agencies listed in the table below.

<b>Federal Receivables and Delinquent Debt as of September 30, 2008 (in millions)</b>						
<b>Agency</b>	<b>Ending Balance</b>	<b>Collections</b>	<b>Write-offs</b>	<b>Delinquencies</b>	<b>Delinquencies &gt; 180*</b>	<b>Currently Not Collectible</b>
Education	\$157,069	\$14,440	\$1,770	\$47,782	\$32,025	\$228
USDA	\$107,250	\$25,346	\$983	\$3,346	\$2,879	\$1,090
SSA	\$14,912	\$3,366	\$1,010	\$3,737	\$2,631	\$250
SBA	\$13,086	\$2,403	\$1,775	\$2,326	\$1,995	\$1,898
HHS	\$12,228	\$38,997	\$1,278	\$2,849	\$1,795	\$8,960
HUD	\$9,993	\$4,074	\$162	\$282	\$209	\$404
DOD	\$8,601	\$10,576	\$303	\$4,622	\$4,256	\$191
EX/IM <sup>1</sup>	\$6,413	\$1,306	\$114	\$1,980	\$1,821	\$0
AID <sup>2</sup>	\$5,886	\$742	\$26	\$470	\$453	\$0
Treasury	\$5,523	\$3,554	\$3	\$21	\$7	\$4
Energy	\$4,091	\$5,718	\$.2	\$134	\$109	\$2,079
All Other	\$21,543	\$60,826	\$1,962	\$6,919	\$4,579	\$2,948
<b>Gov't Total</b>	<b>\$366,595</b>	<b>\$171,348</b>	<b>\$9,387</b>	<b>\$74,468</b>	<b>\$53,365</b>	<b>\$18,052</b>

<sup>1</sup>Export Import Bank

<sup>2</sup>Agency for International Development

Amounts reported as write-offs represent the dollar amount of uncollectible receivables written off during FY 2008.

“Currently-Not-Collectible” (CNC) represents the dollar amount of all debts that have been written off by the agency but not yet closed out. Debts classified as CNC for any reporting period continue to be reported in that category in subsequent reporting periods until closed-out or collected.

\* Does not include write-offs reported as CNC.

## APPENDIX II: SOURCES OF DATA

Data contained in this report were obtained from the following sources:

### **Part II – Government Debt Portfolio, Collection and Write-offs and Appendix I**

Source – Treasury Report on Receivables and Debt Collection Activities – Fourth Quarter 2008, as reported by Federal agencies to the Department of the Treasury.

### **Part III – Government-Wide Collection Activities**

#### *A & B – Treasury Offset & Cross-Servicing Programs*

Source – Department of the Treasury, Financial Management Service

#### *C – HHS Debt Collection Center*

Source – Department of Health and Human Services, Program Support Center

#### *D – Litigation at the Department of Justice*

Source – Department of Justice, Office of Debt Collection Management

#### *E – Education Student Loans*

Source – Department of Education, Borrower Services-Collections

#### *F – Use of Private Collection Agencies*

Sources – Department of Education, Borrower Services-Collections  
Department of the Treasury, Financial Management Service  
Department of Health and Human Services, Program Support Center