

**FISCAL YEAR 2004 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 Treasury's Report on Receivables Due from the Public (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 close-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 *Analysis of Mandatory 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 - ACCOMPLISHMENTS AND SUCCESSES

- Through September 30, 2004, \$21.2 billion has been collected to pay delinquent debts through the Treasury Offset Program (TOP) and Cross-Servicing Program (Cross-Servicing) since the enactment of DCIA in April 1996.
- The Federal Government collected \$121.9 billion in fiscal year (FY) 2004 on all of its nontax receivables, up \$2.3 billion from the \$119.6 billion collected in FY 2003.
- In FY 2004, the Department of Justice (DOJ) collected \$2.5 billion in cash recoveries on delinquent debts owed to Federal agencies through its financial litigation program. DOJ has collected a total of \$13.8 billion through civil litigation in the last five fiscal years.
- In FY 2004, private collection agencies (PCAs) under contract with the Department of Education (Education), the Department of Health and Human Services (HHS) and Treasury had referrals of \$18.3 billion in delinquent Federal debt, up 27 percent from

the \$14.4 billion in referrals in FY 2003. These PCAs collected \$610 million in FY 2004, up 12 percent from the \$547 million collected in FY 2003.

- In FY 2004, the Department of Housing and Urban Development (HUD) completed loan asset sales of performing and non-performing loans totaling \$1.18 billion in unpaid principal balance. These sales generated \$777 million in gross proceeds. In the last five fiscal years HUD has sold \$3.8 billion in loan assets, generating \$2.5 billion in gross proceeds.
- Total collections by Treasury's Financial Management Service (FMS) on delinquent debts through TOP and Cross-Servicing were \$3.0 billion in FY 2004. Annual collections through these programs have averaged over \$3.0 billion during the last four years.

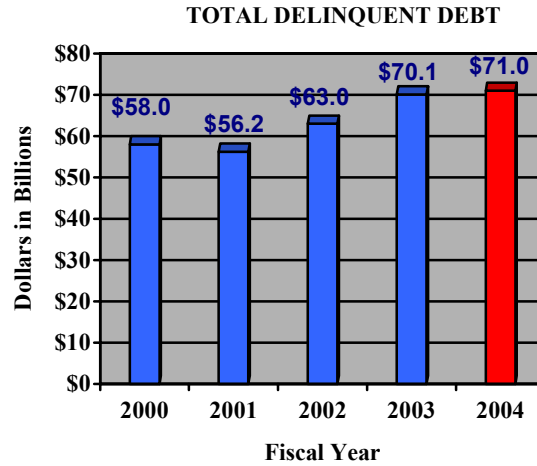
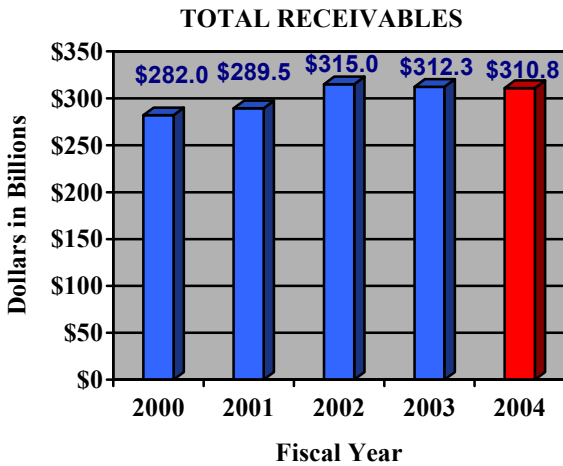
D – LEGISLATIVE AGENDA

In FY 2004, at the request of the Office of Management and Budget, Treasury proposed four legislative changes aimed at increasing delinquent debt collection. They were:

1. increase the amount of a vendor payment that may be continuously levied to collect Federal tax debts from 15 percent to 100 percent;
2. allow Treasury access to information contained in HHS's New Hire Database for the purpose of Federal debt collection;
3. authorize the offset of Federal tax refund payments to collect delinquent state unemployment insurance debts; and
4. eliminate the 10-year statute of limitations for collection of delinquent Federal debts by administrative offset.

Proposals 1 and 2 were enacted into law during the 108th Congress. Proposals 3 and 4 are included in the President's FY 2006 Budget.

II - GOVERNMENT DEBT PORTFOLIO, COLLECTIONS AND WRITE-OFFS



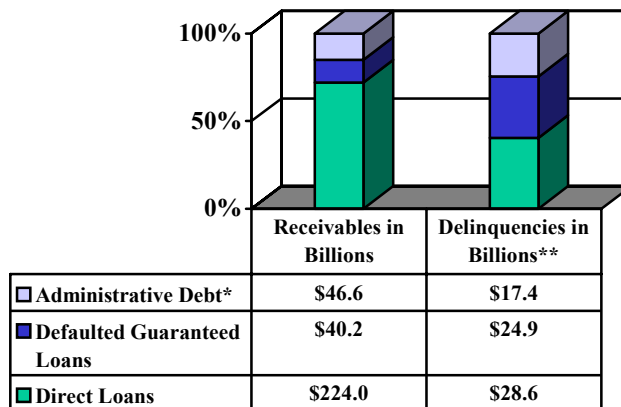
A - FISCAL YEAR END DATA

1. Receivables and Delinquencies

- Total receivables declined slightly in FY 2004 from the amount reported at the end of FY 2003. This is the second consecutive year that a slight decline in total receivables was reported. Total delinquencies increased by \$0.9 billion in FY 2004, substantially less than the increases during FY 2002 (\$6.8 billion) and FY 2003 (\$7.1 billion).
- At the end of FY 2004, Federal loan programs (direct and guaranteed) comprised 85 percent of total receivables and 75 percent of total delinquencies.

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. As these receivables increase, delinquencies will correspondingly increase.

Distribution of Receivables and Delinquencies
as of 9/30/04



*Includes fines, penalties and overpayments, etc.

**Total of delinquencies in the chart does not equal \$71 billion due to rounding.

- The two agencies with the largest total receivables at the end of FY 2004 are Education (\$113.1 billion) and the Department of Agriculture (USDA) (\$99 billion). Receivables from these two agencies comprise 68 percent of the Government's total receivables (Education 36 percent and USDA 32 percent).
- Two types of Education receivables accounted for almost all of its receivables: Federal Direct Loans (\$92.8 billion), and Defaulted Guaranteed Loans (\$20.0 billion).
- Four program areas of the USDA accounted for over \$96 billion of its receivables: Rural Development & Farm Service Agency (\$34.4 billion); Rural Utilities Service (\$32.3 billion); Commodity Credit Corporation (\$19.7 billion); and Rural Development (\$10.0 billion).

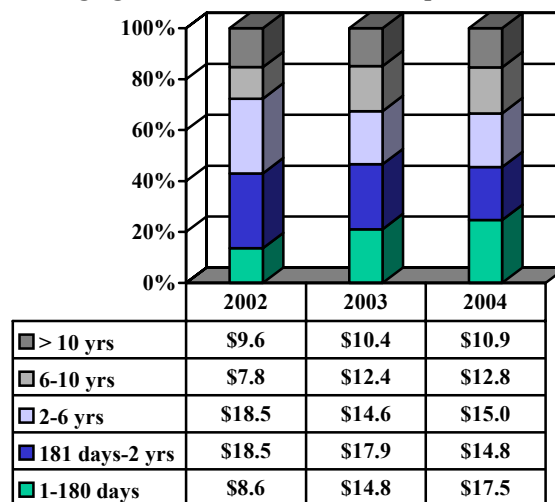
Analysis of Receivables Data

- Total receivables appear to have peaked in FY 2002 and have declined slightly in each of the last two fiscal years. The peak in total receivables coincided with a reclassification of \$11.9 billion of defaulted guaranteed loan receivables by Education in FY 2002 that were formerly classified as written-off/CNC.
- Education's direct loan portfolio has grown significantly over the last several years and it appears this trend will continue. Education's direct loan portfolio has increased from \$59.1 billion at the end of FY 2000 to \$92.8 billion at the end of FY 2004, and by \$5.1 billion in FY 2004 alone.
- While Education's receivables have increased over the last several years, non-Education receivables have declined from \$213.2 billion at the end of FY 2000 to \$197.7 billion at the end of FY 2004. This also appears to be a continuing trend.

Additional Delinquent Debt Data

- At the end of FY 2004, \$55.4 billion (77.6 percent) of the Government's delinquent debts were distributed among five agencies: Education, USDA, Small Business Administration (SBA), the Federal Communications Commission (FCC) and the Department of Defense (DOD).
- Total delinquencies increased by \$0.9 billion over the last fiscal year. Debts less than 180 days delinquent increased by

Aging of Government-wide Delinquencies



\$2.7 billion to a total of \$17.5 billion. Debts more than 180 days delinquent decreased by \$1.8 billion to a total of \$53.5 billion.

- While the total Federal delinquencies increased slightly (by 1.3 percent), several agencies' total delinquencies in FY 2004 significantly changed from the previous fiscal year. The chart to the right details these net changes.
- Education's delinquencies grew as a result of the growth of direct loan receivables. From FY 2003 to FY 2004, direct loan delinquencies increased by \$1.9 billion, while defaulted guaranteed loan delinquencies fell by \$0.3 billion.

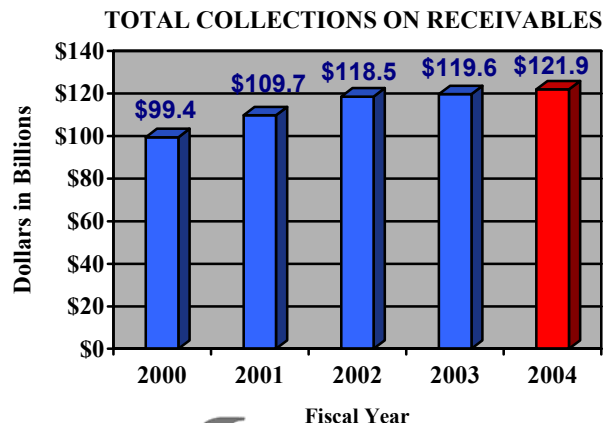
Agency	Delinquencies (in millions)	
	FY 2004	Change from FY 2003
Education	\$33,611	\$1,445
SBA	\$3,071	\$1,290
FCC	\$6,685	\$915
SEC	\$1,488	\$527
HHS	\$2,010	(\$1,250)
EX-IM Bank	\$1,955	(\$696)
USDA	\$6,248	(\$364)

Analysis of Delinquent Debt Data

- Over the last three fiscal years: (1) debts delinquent 180 days or less have increased by \$8.9 billion; (2) debts delinquent between 181 days and 2 years have decreased by \$3.7 billion, and (3) debts more than 2 years delinquent have increased by \$2.8 billion. The changes in the latter two categories resulted from changes in non-Education delinquencies. During this period, non-Education delinquencies between 181 days and 2 years decreased by \$5.2 billion, and non-Education delinquencies more than 2 years increased by \$3.1 billion.
- Education's total delinquencies have increased from \$19.2 billion at the end of FY 2001 (34 percent of the Government's total delinquencies) to \$33.6 billion at the end of FY 2004 (47 percent of the Government's total delinquencies). Key factors in the increase of Education's total delinquencies during this period were the reclassification in FY 2002 of \$14.3 billion in receivables formerly classified as written-off/CNC and an increase of \$6.1 billion in direct loan delinquencies from FY 2001 to FY 2004.
- During the period between FY 2001 and FY 2004, non-Education delinquencies have changed slightly from \$37 billion to \$37.4 billion.

2. *Collections*

- Total collections on receivables in FY 2004 increased by \$2.3 billion over FY 2003 collections.

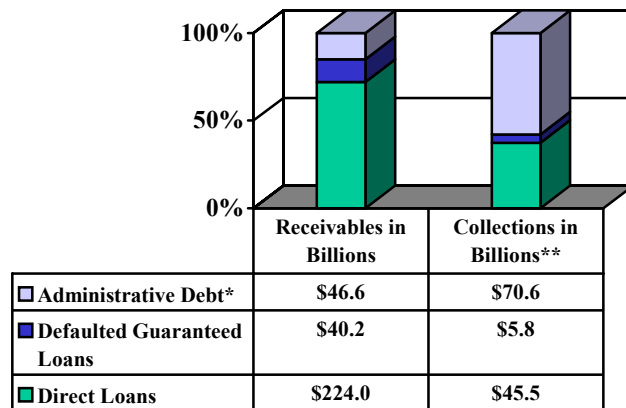


- Agencies that reported significant increases in collections were DOD, Education, and FCC. Education and FCC also had significant increases in receivables from the previous year. Agencies that reported significant decreases in collections were USDA, HUD, and Tennessee Valley Authority (TVA). Only USDA evidenced a corresponding significant decrease in receivables.

Agency	Collections (in millions)		Net Change in Receivables FY 2003 to FY 2004 (in millions)
	FY 2004	Change from FY 2003	
DOD	\$11,927	\$4,639	(\$91)
Education	\$19,804	\$3,338	\$4,687
FCC	\$7,491	\$1,584	\$1,175
USDA	\$22,784	(\$2,641)	(\$1,728)
HUD	\$5,749	(\$1,847)	(\$131)
TVA	\$5,666	(\$1,329)	\$41

- While the largest percentage of receivables is direct loans, most collections reported on the TROR fall under the category of administrative debt (57.9 percent).

Distribution of Receivables and Collections
as of 9/30/04



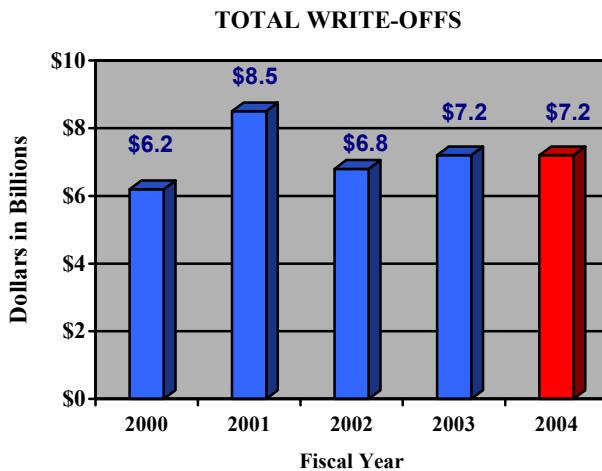
Analysis

- Governmentwide collections have steadily increased over the last several years due to increases in collections at Education. Education’s collections have grown from \$9.3 billion in FY 2001 to \$19.8 billion in FY 2004. This increase parallels the increase in Education’s direct loan portfolio; direct loan collections in FY 2004 were \$17.9 billion – 90 percent of Education’s collections in FY 2004.
- Collections as a percentage of year-end receivables vary greatly for the three types of receivables (Administrative Debt – 152 percent; Defaulted Guaranteed Loans – 14 percent; and Direct Loans – 20 percent). These differences reflect the types of debts and corresponding collections. Administrative Debts are often paid in full at the time of collection, so collections during the fiscal year include those made on receivables that no longer appear as receivables at year-end. Defaulted Guaranteed Loans are predominantly delinquent receivables (62 percent), so a lesser rate of collections can be expected on these receivables. Direct Loans that are not delinquent (87 percent of year-end Direct Loans) are routinely set up to be paid in installments over a period of years, so only a percentage of the total receivable amount is collected each year.

- The largest segment of Government collections, administrative debt, showed volatility over the last four years, ranging from a high of \$73.6 billion in FY 2002 to a low of \$68.3 billion in FY 2003. Because of the volatility in this portion of Government collections, there is no certainty that governmentwide collections will continue to increase on an annual basis.
- Large increases or decreases in collections at individual agencies from one year to the next do not necessarily result from or in corresponding increases or decreases in year-end receivables.

3. *Write-offs*

- Total write-offs in FY 2004 remained unchanged from the FY 2003 total.
- HHS reported the most significant increase in write-offs by an agency (\$1,613 million), primarily in Medicare Secondary Payer debts. The Commodity Futures Trading Commission had the next largest amount of write-offs for an agency in FY 2004 (\$387 million).



- Three agencies reported significant decreases in write-offs: Education (\$698 million), Export-Import Bank (Ex-Im) (\$546 million), and Federal Deposit Insurance Corporation (FDIC) (\$356 million). It is noted that the Ex-Im and the FDIC reported large increases from their previous levels in FY 2003, and FY 2004 write-offs for these two agencies are consistent with their respective level of write-offs from FY 2000 through FY 2002.

Analysis

- The apparent consistency in total annual write-offs over the past three fiscal years does not reflect the volatility in the write-off numbers at the agency level. Eight different agencies reported significant changes (from \$300 million up to more than \$1.6 billion from one fiscal year to the next) in the last three years. Thus, it is difficult to assume a trend from the total annual write-off numbers.

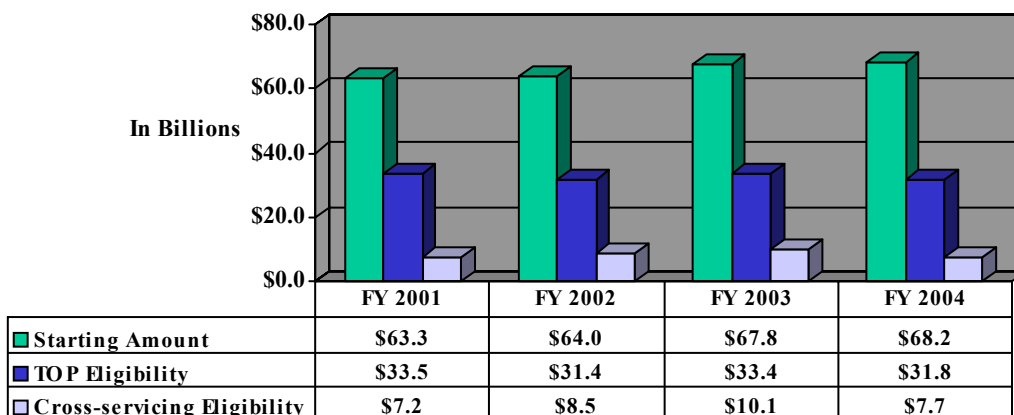
4. *Interest, Penalties and Costs*

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 \$310.8 billion in receivables at the end of FY 2004, \$10.7 billion represents unpaid interest, penalties and administrative costs.

B - ANALYSIS OF MANDATORY REFERRAL TO TREASURY UNDER THE DCIA

- The DCIA specifically mandates that Federal agencies transfer nontax debts more than 180 days delinquent to Treasury for collection through TOP and/or Cross-Servicing. The mandate does not apply to classes of debts that are exempted by Treasury from Cross-Servicing. Treasury received no new requests for exemptions in FY 2004, and no new exemptions were granted during the fiscal year.
- Each year, an analysis is done to determine the dollar amount of delinquent debts eligible for referral to TOP and Cross-Servicing in the upcoming fiscal year. In FY 2002, this analysis was incorporated as part of the agencies' reporting in the TROR. **In the analysis, delinquent debts reported as CNC are added to debts reported as more than 180 days but less than 10 years delinquent to determine the "Starting Amount" for calculating the amounts eligible for referral.** Note that agencies, such as Education, that are not subject to the 10 year statute of limitations for collection through offset, include debts greater than 10 years delinquent in calculating their Starting Amounts.
- 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 referred to DOJ for litigation; 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 to determine "TOP Eligibility" and "Cross-Servicing Eligibility."

Mandatory Referral of Debt to Treasury



- At the end of FY 2004, debts eligible for referral to TOP decreased by \$1.6 billion and debts eligible for Cross-Servicing decreased by \$2.4 billion from amounts reported in FY 2003. During FY 2004, FMS and the reporting agencies worked cooperatively to improve the accuracy of these eligibility numbers.

Detailed data for 12 agencies with the largest dollar amounts of receivables in FY 2004 can be found on the *Federal Receivables and Delinquent Debt* table in Appendix I.

III - GOVERNMENT-WIDE DELINQUENT DEBT COLLECTION ACTIVITIES

A - USE OF PRIVATE COLLECTION AGENCIES (PCAs)

1. Description

- Education, Treasury, and HHS have each established contracts with PCAs to collect debts owed to the Federal Government. In addition to collecting debts, PCAs also help Federal agencies establish repayment agreements and resolve debts administratively (e.g., by determining if a debtor is bankrupt, disabled or deceased).
- 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 twelve PCAs as quickly as possible. Education's PCAs also implement Education's use of administrative wage garnishment as a debt collection tool.
- Treasury's PCA contract is administered by FMS and is used as part of its Cross-Servicing program. Debts that are not collected or resolved within 30 days after transfer to FMS for Cross-Servicing are referred to a PCA for collection action. FMS's PCAs have also begun using 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.

2. Referrals

- In FY 2004, \$18.3 billion in Federal debts were referred to PCAs for collection action. Referrals increased by 27 percent from the previous fiscal year due to a substantial increase in referrals by Education.

Referrals to PCAs (in millions)				
Agency	FY 2001	FY 2002	FY 2003	FY 2004
HHS	\$378	\$339	\$65	\$66
FMS	\$3,645	\$4,775	\$3,631	\$2,292
Education	\$8,700	\$10,588	\$10,679	\$15,897
Totals	\$12,723	\$15,702	\$14,375	\$18,255

3. Collections

- Total PCA collections were \$610.4 million in FY 2004, an 11.6 percent increase over FY 2003 collections. Total PCA collections have increased in each of the last four fiscal years.

Collections by PCAs (in millions)				
Agency	FY2001	FY2002	FY2003	FY2004
HHS	\$16.6	\$13.8	\$9.5	\$7.5
FMS*	\$27.8	\$42.9	\$73.3	\$70.4
Education*	\$351	\$386	\$464	\$532.5
Totals	\$395.4	\$443	\$546.8	\$610.4

**Includes collections by administrative wage garnishment*

B - Treasury Offset Program (TOP)

1. Description

TOP is a debt collection program that encompasses both "offsets" and "continuous levies."

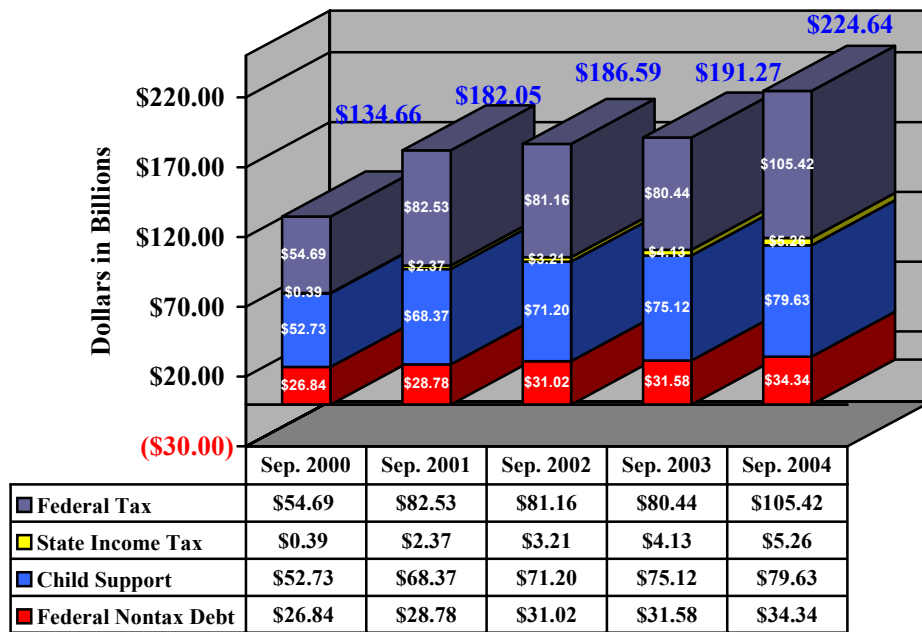
Offset

- Offset is a program whereby Federal payments are reduced or "offset" to satisfy a person's overdue Federal nontax debt, child support obligation, or state income tax debt. A payee's name and taxpayer identification number (TIN) are matched against a Treasury/FMS database of delinquent debtors for automated offset of funds. Offset funds are then used to satisfy payment of the delinquent debt to the extent allowed by law.
- For FY 2004, payment types subject to offset included Office of Personnel Management (OPM) retirement payments, Internal Revenue Service (IRS) tax refund payments, vendor payments (including vendor payments disbursed by DOD), Federal employee travel payments, Federal salary payments, and Social Security benefit payments.
- Offset of Federal salary payments through TOP has been implemented in partnership with USDA's National Finance Center, the Department of the Interior, the U.S. Postal Service and DOD's Defense Finance and Accounting Service. TOP provides a more efficient process than the alternative non-centralized salary offset process. In FY 2005, FMS plans to implement salary offset with the General Services Administration (GSA), the last of the four payroll providers selected as part of the E-Payroll initiative.
- In January 2000, FMS began collecting state income tax debts by offsetting Federal income tax refunds, as authorized by the 1998 Internal Revenue Service Restructuring and Reform Act. In FY 2004, the number of states and territories participating in this process was 36, along with the District of Columbia.

Continuous Tax Levy

- In July 2000, FMS initiated *Continuous Tax Levy*, a program whereby delinquent Federal income tax debts are collected by levying nontax payments, as authorized by the Taxpayer Relief Act of 1997. Continuous Tax Levy includes levy of vendor, Federal employee salary, OPM retirement, and Social Security benefit payments. Continuous Tax Levy is accomplished through a process almost identical to that of offset, which is matching of delinquent debtor data with payment record data. This automated collection of the debt at the time of payment occurs after the delinquent taxpayer has been afforded due process, in accordance with the Internal Revenue Code.
- In FY 2004, a multi-agency task force was established to improve the process for levying DOD contract payments. A number of action items were identified by the task force, including: maximizing delinquent tax debts available for matching; maximizing DOD payments available for matching; increasing data exchanges between FMS and DOD; and establishing a process to validate TINs of Federal contractors. As a result of the implementation of several of the action items identified, between January through September 2004, 550 DOD contractor payments were levied resulting in the collection of \$4.6 million in unpaid income tax debts, compared to 93 levied payments and \$672,673 collected during the same period last year.

TOTAL DEBT REFERRALS TO THE TREASURY OFFSET PROGRAM



2. Referrals

- As of September 30, 2004, the largest component of TOP's delinquent debtor database was \$105.42 billion in Federal income tax debts, available for matching to identify potential levies. However, only \$29 billion of these tax debts have been "turned on" by IRS, that is, due process has been completed and payments are subject to continuous levy.
- Efforts by states, HHS' Office of Child Support Enforcement (OCSE), and FMS to refer more delinquent child support obligations to TOP have resulted in referrals of \$79.63 billion as of September 30, 2004, a 51 percent increase in referrals from September 30, 2000.
- Referrals of nontax debts increased to \$34.34 billion as of September 30, 2004, a 28 percent increase in referrals from September 30, 2000. As of September 30, 2004, 100 percent of the nontax debts eligible for mandatory referral to TOP have been referred. (See page 9 for a discussion on nontax debts eligible for referral to TOP.)
- Referrals of state income tax debts rose to \$5.26 billion at the end of FY 2004, a 27 percent increase from the end of FY 2003.

3. Collections

- Total collections through TOP were \$2.9 billion in FY 2004. Since enactment of the DCIA in April 1996, \$20.7 billion has been collected through TOP. The chart below summarizes collections through TOP for the last five fiscal years.

Collections Through TOP In Millions of Dollars					
Type of Collection	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Administrative Offset*	\$17	\$25	\$84	\$88	\$109
Tax Refund Offset – Child Support (excluding tax rebates)	\$1,389	\$1,377	\$1,463	\$1,428	\$1,487
Tax Refund Offset – Federal Nontax Debt (excluding tax rebates)	\$1,167	\$1,147	\$1,048	\$1,025	\$974
Tax Refund Offset – State Income Tax Debt (excluding tax rebates)	\$23	\$79	\$119	\$152	\$218
Tax Refund Offset – Tax Rebates***	N/A	\$471	N/A	\$207	--
Continuous Tax Levy	\$0.1	\$16	\$60	\$89	\$114
Total Collected	\$2,597**	\$3,117**	\$2,769	\$2,990***	\$2,902

*Collection of Federal nontax debts and child support debts by offsetting Federal nontax payments.

**Numbers in column do not equal total due to rounding.

***Tax rebate offsets for FY 2003 are for offsets of advance child tax credit payments.

- Excluding the offsets collected in FY 2003 against one time advance child tax credit payments, total collections through TOP, increased in FY 2004 by \$119 million over total collections in FY 2003.
- In FY 2004, administrative offset collections were \$109 million, a 23.9 percent increase over the \$88 million collected in FY 2003.
- Tax refund offset collections (not including tax rebates) in FY 2004 increased slightly for child support debts (by \$59 million), and decreased slightly for Federal nontax debts (by \$51 million), as compared to FY 2003 collections.
- Total collections of state income tax debts by offsetting Federal tax refunds increased by \$66 million over the \$152 million collected in FY 2003.
- Collections under Continuous Tax Levy totaled \$114 million in FY 2004, a 28.1 percent increase over the \$89 million collected in FY 2003. The IRS maintains control over which Federal tax debts can be collected through the levy process.

C - CROSS-SERVICING AT FMS

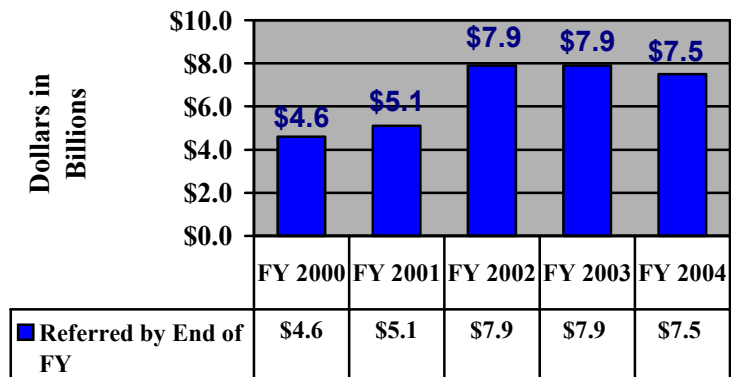
1. Description

- Cross-Servicing is the process whereby agencies refer Federal nontax debts more than 180 days delinquent to FMS for collection. Treasury applies 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, and referral of debts to DOJ for litigation.
- Administrative wage garnishment (AWG) became available to Federal agencies through Cross-Servicing in FY 2001. Twelve agencies currently utilize AWG through the program, which resulted in \$1.7 million in collections from AWG in FY 2004. FMS continues to encourage Federal agencies to authorize the use of this debt collection tool through Cross-Servicing.

2. Referrals

- The calculation of the amount of debts eligible for referral is described in this report in Section II-B, above. The calculation of Cross-Servicing referrals excludes those debts no longer actively collected at FMS.

CROSS-SERVICING REFERRALS

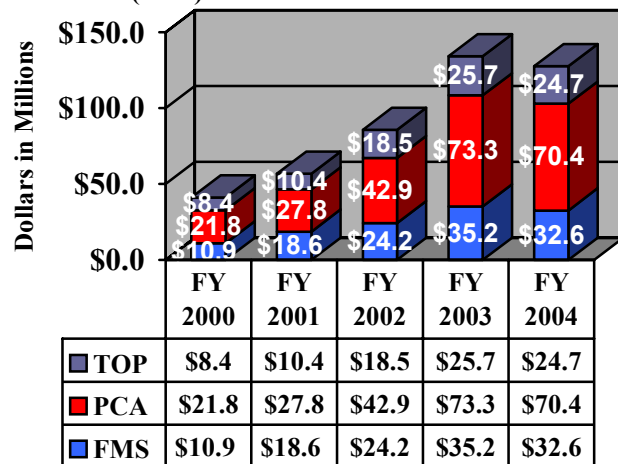


- At the end of FY 2004, \$7.5 billion in delinquent debts were at FMS for Cross-Servicing. This amount is slightly less than the \$7.9 billion in Cross-Servicing at the end of FY 2002 and FY 2003 and reflects the maturation of the Cross-Servicing program, including the reduction of backlogs previously held by some agencies.
- As of September 30, 2004, 97.4 percent of all eligible debts were submitted to FMS for Cross-Servicing. (See page 9 for a discussion on nontax debts eligible for referral to Cross-Servicing.) The increase in this percentage from that reported in the previous fiscal year (78 percent) was the result of cooperative efforts by FMS and the reporting agencies to: (1) improve eligibility reporting accuracy on the TROR; and (2) identify and refer all eligible debts.

3. Collections

- Since the inception of the Cross-Servicing program, FMS and the PCAs have brought in \$479.9 million in collections.
- In FY 2004, FMS and its PCAs collected \$127.7 million, a slight decrease from the \$134.1 million* collected in FY 2003. The reduction in the collection amount parallels the decrease in Cross-Servicing referrals at fiscal year end previously discussed.

CROSS SERVICING & PRIVATE COLLECTION AGENCY (PCA) COLLECTIONS



(*Number does not equal graph totals due to rounding.)

- In addition to collecting debts, PCAs under contract with FMS also helped resolve delinquent debts by identifying debts that are not collectible due to reasons such as bankruptcy or death. In FY 2004, PCAs resolved debts valued at \$111 million, a \$23 million increase in delinquent debt resolutions over FY 2003. Since the inception of the Cross-Servicing program in 1998, PCAs have resolved debts valued at over \$361 million.

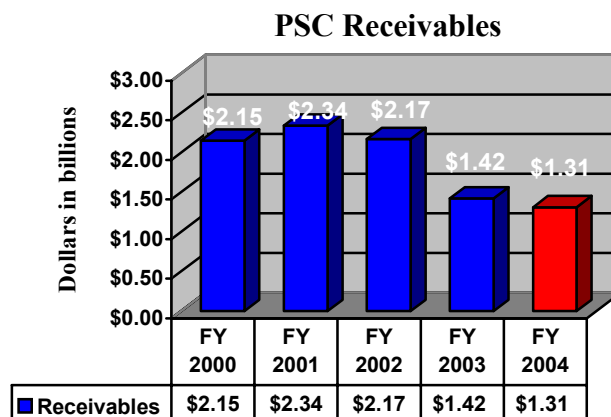
D – HHS’ DEBT COLLECTION CENTER

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 10 different agencies within HHS and 10 agencies outside of HHS.
- In January 1999, Treasury granted a three-year debt collection center designation to the PSC to collect three types of HHS debts: Health Profession debts, Unfiled Cost Report debts, and Medicare Secondary Payer debts.
- In May 2002, PSC's designation as a debt collection center was renewed and revised by Treasury. The current debt collection center designation covers HHS debts less than 180 days delinquent, HHS debts exempt from mandatory transfer to Treasury (i.e., Health Profession debts and Unfiled Cost Report debts), and grant audit and program disallowances owed to HHS and other agencies for a period of 180 days following the completion of any appeals.
- PSC uses all appropriate and available debt collection tools to collect debts referred for collection, including: demand letters and telephone calls, internal offsets, credit bureau reporting, referrals to TOP, referrals to PCAs, and litigation. In addition, PSC applies special debt collection tools available to certain debt types. For example, PSC uses denial of Medicare/Medicaid participation and publication of debtor information in collecting Health Profession debts, where appropriate.
- PSC also serves as HHS' conduit for referrals of delinquent debts to FMS for both TOP and Cross-Servicing.

2. Referrals to the PSC

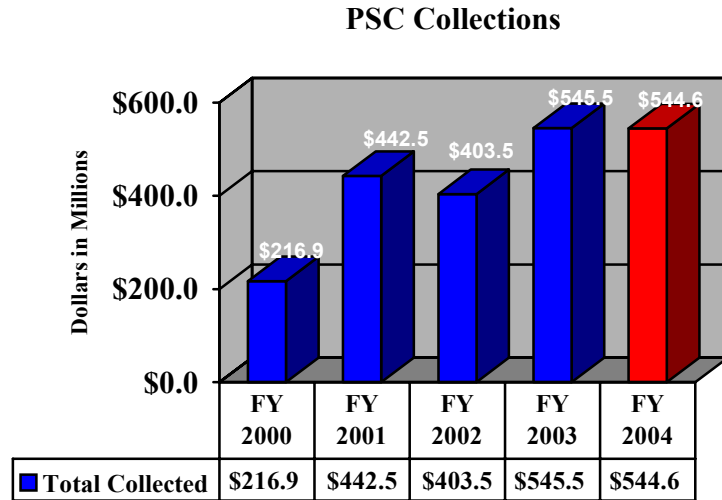
- Debt referrals to PSC decreased significantly over the last 2 years due to the change in debt collection center designation in 2002. This change resulted in Medicare Secondary Payer debts being referred to FMS for Cross-Servicing rather than the PSC.



- PSC receivables do not include amounts referred to FMS for Cross-Servicing. PSC referrals of HHS delinquent debts to FMS for Cross-Servicing totaled \$4.1 billion at the end of FY 2004.

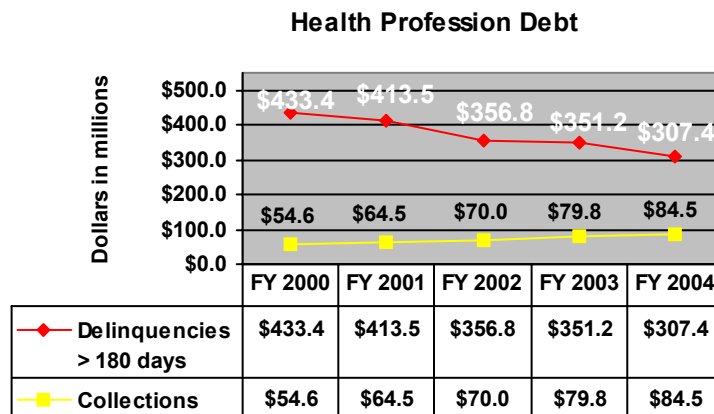
3. Collections

- Since the inception of its debt collection program in 1995, PSC has brought in over \$2.7 billion in collections.
- A sharp increase in collections began in FY 2001 primarily due to increases in administrative (grant audit and program disallowance) debt collections. Collections in FY 2004 were slightly less than collections in FY 2003.



4. Health Profession Debt

- Over the last five years, PSC has been especially effective in collecting Health Profession debts. During this time, debts more than 180 days delinquent have decreased by 29 percent, while annual collections have increased by 55 percent.



E - LITIGATION AT THE DEPARTMENT OF JUSTICE (DOJ)

1. Description

- DOJ serves as the Federal Government’s “collector of last resort.” 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.

- With judicial oversight, DOJ enforces collection by seizing bank, stock and similar accounts from debtors. In some cases, DOJ seizes and sells debtor-owned real estate and other property to enforce collection. DOJ also may garnish a higher percentage of the debtors’ wages than AWG allows. The courts can assist in establishing and enforcing payment arrangements for some debtors.
- DOJ incorporates administrative debt collection tools, such as TOP, into the array of litigation tools available to enforce the collection of debts.
- DOJ supplements its litigation resources by contracting with private counsel in 16 judicial districts, and it plans to expand this program to additional districts in the future.

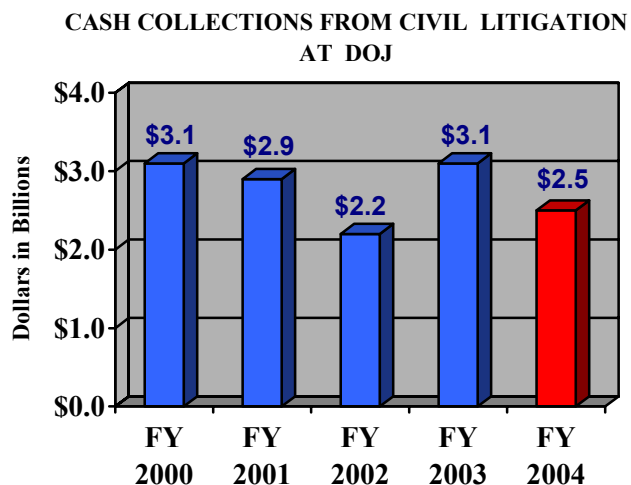
2. Referrals

- Federal creditor agencies determine when to refer debts to DOJ. Both the numbers of debts referred and their value vary greatly from year to year for this reason. Although the number of referrals to DOJ has declined in recent years, the average value of a debt referred has increased substantially.
- Debt referrals vary greatly in amount, complexity and collectibility. Referrals include loans with clear debtor liability as well as multi-jurisdictional fraud cases which require extensive and lengthy investigation over a period of years to be resolved.

Fiscal Year	Total Civil Referrals - new debts opened	Value of New Debts (in billions)
2000	50,572	\$5.6
2001	24,357	\$5.4
2002	8,443	\$3.0
2003	11,557	\$2.1
2004	7,165	\$2.5

3. Collections

- The amount DOJ collects in any fiscal year includes recoveries for debt referred in prior fiscal years.
- DOJ has collected \$13.8 billion from civil litigation over the last five fiscal years.



- DOJ has placed a greater emphasis on using its own litigation resources in recent years to pursue those who defraud America's taxpayers. Much of the increase in the amounts collected by DOJ in recent years reflects the success of these efforts.

F - DEBT CHECK – BARRING DELINQUENT DEBTORS

- Federal agencies are required to deny loans, loan insurance, and loan guarantees to entities that owe delinquent non-tax debt to the Federal government pursuant to 31 U.S.C. § 3720B and 31 C.F.R. § 285.13. Executive Order 13019 extends this bar to delinquent child support debtors whose debts have been referred to TOP for administrative offset.
- Debt Check is a initiative under the FMS debt program that is being employed to electronically identify delinquent debtors and potentially bar them from receiving federal loans, loan insurance, or loan guaranties. Initial roll out of Debt Check began in February 2003 with the SBA, and additional agencies will participate in the near future.
- Presently, at least three other options exist for agencies and outside lenders to collect information on applicants: credit bureau reports, the Credit Alert Interactive Voice Response System (CAIVRS) managed by HUD, and the GSA sponsored web site listing those people or vendors barred from Federal procurement activities. Debt Check complements these and other systems, serving as an additional source of debt information.

IV – SPECIFIC AGENCY ACTIVITIES

A - 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 \$11.9 billion at FY 2000 year-end to \$17.5 billion at FY 2004 year-end; and collections have increased from \$1.26 billion in FY 2000 to \$1.81 billion in FY 2004.

Education's Use of Debt Collection Tools (in millions)					
Collection Tools	FY 2000 Collections	FY 2001 Collections	FY 2002 Collections	FY 2003 Collections	FY 2004 Collections
Private Collection Agency	\$228	\$229	\$260	\$322	\$362
Litigation (DOJ)	\$25	\$30	\$30	\$27	\$22
Internal Offset	\$5	\$3	\$3	\$2	\$2
AWG (at Education and PCAs)	\$110	\$134	\$136	\$150	\$186
Treasury Offset	\$431	\$450	\$368	\$398	\$389
Other Tools at Education	\$53	\$39	\$68	\$59	\$59
Total Loan Consolidations (at Education and at PCAs)	\$389	\$464	\$365	\$290	\$206
Total Loan Rehabilitations (at Education and at PCAs)	\$12	\$25	\$102	\$369	\$587

- Recoveries from TOP decreased slightly, by 2 percent, from FY 2003 to FY 2004. Education still relies heavily on PCAs and refers every eligible debt as quickly as practicable to one of its twelve PCAs. Education effectively uses AWG to collect debts, primarily through its PCAs, which collected \$170 million of the \$186 million collected through AWG in FY 2004. Education also uses loan consolidations and loan rehabilitations to further reduce delinquencies by moving debts back into current repayment status.
- Collections by PCAs and by AWG have steadily increased over the last four years. Regarding PCAs, Education also tracks collection costs as a percent of collections. These costs have shown a declining trend from 18.6 percent in FY 1999 to 16 percent

in FY 2004. This decline is the direct result of reduced negotiated rates in the FY 2000 PCA contracts and increased usage of lower cost PCA recovery tools such as rehabilitation and consolidation.

- PCAs rehabilitated \$587 million in delinquent loans in FY 2004. Student loan statutes allow borrowers to rehabilitate if they make 12 consecutive on-time monthly payments, which is the preferred method for borrowers to cure defaults (other than paying the debt in full).
- Education has successfully implemented a matching program with HHS and the National Directory of New Hire Database that, for FY 2004, resulted in the capture of new debtor location information on over one million accounts. Use of the New Hire Database led to an additional \$386 million in student loan recoveries.
- BSC does not currently participate in the salary offset component of TOP, but plans to do so in FY 2006 when it phases in the applicable software component as part of its comprehensive upgrade of its debt collection systems. In the interim, Education uses all other available debt collection tools to collect debts owed by Federal employees.

B - SBA AND HUD LOAN ASSET SALES

Fiscal Year	Small Business Administration		Dept. of Housing and Urban Development	
	Unpaid Principal Balance	Gross Proceeds	Unpaid Principal Balance	Gross Proceeds
2000	\$1.2 billion	\$530 million	\$480 million	\$467 million
2001	\$2.4 billion	\$1.6 billion	\$623 million	\$432 million
2002	\$1.27 billion	\$871 million	\$502 million	\$291 million
2003	\$651 million	\$444 million	\$1 billion	\$510 million
2004	0	0	\$1.18 billion	\$777 million
TOTALS	\$5.5 billion	\$3.4 billion	\$3.8 billion	\$2.5 billion

- SBA and HUD established Loan Asset Sales programs to sell performing and non-performing loans to the public. SBA’s asset sales program included the sale of direct loans and defaulted guaranteed loans. HUD’s Federal Housing Administration is taking action to sell HUD’s entire inventory of single family and multifamily mortgage notes held by the Secretary of HUD.
- SBA did not conduct any asset sales in fiscal year 2004 and has no plans for future sales at this time. However, SBA is exploring the possibility of partnering with another federal agency to include groups of loans in another agency's sales.
- Over the last four fiscal years, SBA and HUD have sold over \$9 billion in loan assets and collected almost \$6 billion in gross proceeds from these sales.

APPENDIX I: FEDERAL RECEIVABLES AND DELINQUENT DEBT

The table below presents the ending balances, collections, write-offs, delinquencies, and delinquencies greater than 180 days for the credit agencies with the highest ending balances at the end of FY 2004. The table groups all other agencies into a single category. At the end of FY 2004, 95 percent of the receivables belonged to the 12 agencies listed in the table below.

Federal Receivables and Delinquent Debt as of September 30, 2004 (in millions)						
Agency	Ending Balance	Collections	Write-offs	Delinquencies	Delinquencies > 180¹	Currently Not Collectible
Education	\$113,136	\$19,804	\$417	\$33,611	\$16,379	\$447
USDA	\$99,003	\$22,424	\$678	\$6,248	\$2,637	\$637
HUD	\$12,855	\$5,749	\$161	\$763	\$415	\$236
SSA	\$12,489	\$2,313	\$893	\$2,483	\$1,695	\$8,271
EXIM	\$9,944	\$2,439	\$66	\$1,955	\$428	0
DOD	\$8,131	\$11,927	\$466	\$4,783	\$4,202	\$257
AID	\$8,116	\$747	\$1	\$466	\$454	0
FCC	\$7,787	\$7,491	\$10	\$6,685	\$6,608	0
SBA	\$7,064	\$1,058	\$531	\$3,071	\$2,578	\$1,094
Energy	\$6,296	\$4,437	\$2	\$2,278	\$189	\$2
HHS	\$5,701	\$15,051	\$3,012	\$2,010	\$1,034	\$6,022
FATP*	\$5,250	\$1,467	\$15	\$1,166	\$1,121	0
All Other	\$15,002	\$27,027	\$993	\$5,433	\$15,754	\$622
Gov't Total	\$310,774	\$121,934	\$7,245	\$70,952	\$53,494	\$17,588

*Funds Appropriated to the President

Amounts reported as write-offs represent the dollar amount of uncollectible receivables written off during FY 2004.

“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.

¹ Does not include write-offs reported as Currently Not Collectible.

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 Due From the Public – Fourth Quarter 2004, as reported by Federal agencies to the Department of the Treasury.

Part III – Government-Wide Collection Activities

A – 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

B & C – Treasury Offset Program and Cross-Servicing

Source – Department of the Treasury, Financial Management Service

D – HHS’ Debt Collection Center

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

E – Litigation at the Department of Justice

Source – Department of Justice, Office of Debt Collection Management

Part IV – Specific Agency Activities

A – Education Student Loans

Source - Department of Education, Borrower Services-Collections

B – SBA and HUD Loan Asset Sales

Sources – U.S. Small Business Administration
Department of Housing and Urban Development