

**FISCAL YEAR 2003 REPORT TO THE CONGRESS  
U.S. GOVERNMENT RECEIVABLES AND  
DEBT COLLECTION ACTIVITIES  
OF  
FEDERAL AGENCIES**

<b>I - EXECUTIVE SUMMARY .....</b>	<b>2</b>
A - LEGISLATIVE REQUIREMENT TO REPORT .....	2
B - SCOPE OF REPORT .....	2
C - ACCOMPLISHMENTS AND SUCCESSES .....	2
<b>II - GOVERNMENT DEBT PORTFOLIO, COLLECTIONS AND WRITE-OFFS.....</b>	<b>3</b>
A - FISCAL YEAR END DATA .....	3
1. <i>Receivables and Delinquent Debt</i> .....	3
2. <i>Collections and Write-offs, and Interest, Penalties and Costs</i> .....	5
3. <i>Analysis of Mandatory Referral to Treasury Under the DCIA</i> .....	6
B - KEY TRENDS .....	7
<b>III - GOVERNMENT-WIDE COLLECTION ACTIVITIES .....</b>	<b>8</b>
A - USE OF PRIVATE COLLECTION AGENCIES (PCAs).....	8
1. <i>Description</i> .....	8
2. <i>Referrals</i> .....	9
3. <i>Collections</i> .....	9
B - TREASURY OFFSET PROGRAM (TOP) .....	10
1. <i>Description</i> .....	10
2. <i>Referrals</i> .....	11
3. <i>Collections</i> .....	11
C - CROSS-SERVICING AT FMS .....	13
1. <i>Description</i> .....	13
2. <i>Referrals</i> .....	13
3. <i>Collections</i> .....	14
D - HHS' DEBT COLLECTION CENTER .....	14
1. <i>Description</i> .....	14
2. <i>Referrals to PSC</i> .....	15
3. <i>Collections</i> .....	15
4. <i>Health Profession Debt</i> .....	16
E - LITIGATION AT THE DEPARTMENT OF JUSTICE (DOJ) .....	16
1. <i>Description</i> .....	16
2. <i>Referrals</i> .....	17
3. <i>Collections</i> .....	17
F - DEBT CHECK - BARRING DELINQUENT DEBTORS .....	18
<b>IV - SPECIFIC AGENCY ACTIVITIES .....</b>	<b>19</b>
A - EDUCATION STUDENT LOANS .....	19
B - SBA AND HUD LOAN ASSET SALES .....	20
<b>APPENDIX I: FEDERAL RECEIVABLES AND DELINQUENT DEBT .....</b>	<b>21</b>
<b>APPENDIX II: SOURCES OF DATA.....</b>	<b>22</b>

## **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**

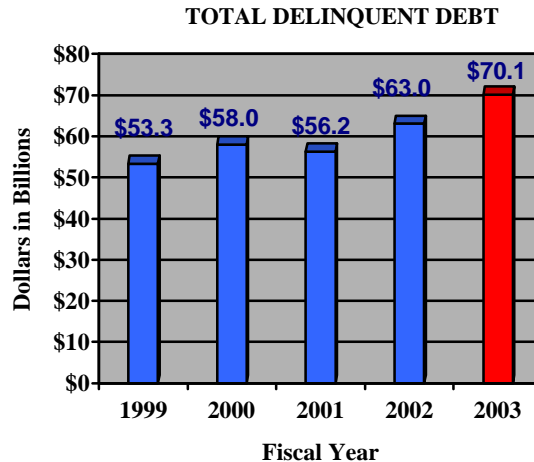
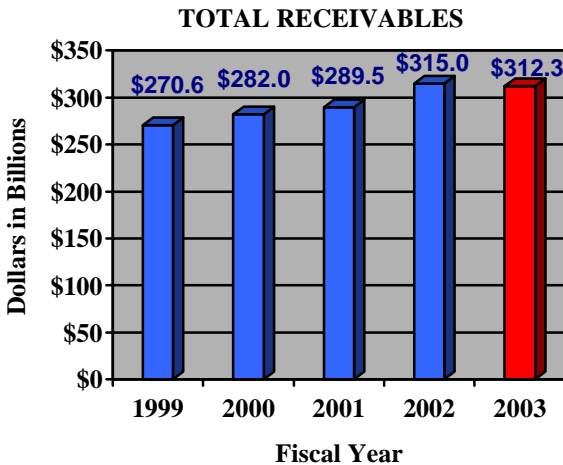
This report summarizes the information provided by Federal agencies concerning their receivables as reported to the Department of the Treasury (Treasury) and as contained in Treasury's Report on Receivables Due from the Public (TROR). It includes information about total receivables, collections on receivables, delinquencies, collections on delinquencies, and write-offs. It 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, 2003, \$18.2 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 \$119.6 billion in fiscal year (FY) 2003 on all of its nontax receivables, up more than \$1 billion from the \$118.5 billion collected in FY 2002.
- In FY 2003, the Department of Justice (DOJ) collected \$3.1 billion in cash recoveries on delinquent debts owed to Federal agencies through its financial litigation program. DOJ has collected a total of \$12.8 billion through civil litigation in the last five fiscal years.
- In FY 2003, 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 \$14.4 billion in delinquent Federal debt, which resulted in \$546.8 million in collections.
- In FY 2003, the Department of Housing and Urban Development (HUD) and the Small Business Administration (SBA) completed loan asset sales of performing and non-performing loans totaling \$1.65 billion in unpaid principal balances. These sales generated \$954 million in gross proceeds.

- Total collections by Treasury’s Financial Management Service (FMS) on delinquent debts through TOP and Cross-Servicing were \$3.1 billion in FY 2003. Annual collections through these programs have averaged over \$3.0 billion during the last three years.

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



### **A - FISCAL YEAR END DATA**

#### **1. Receivables and Delinquent Debt**

- The two agencies with the largest total receivables at the end of FY 2003 are Education (\$108.4 billion) and the Department of Agriculture (USDA) (\$100.7 billion). Receivables from these two agencies comprise 67 percent of the Government’s total receivables (Education 35 percent; and USDA 32 percent).
- Two types of Education receivables accounted for almost all of its receivables: Federal Direct Loans (\$87.7 billion), and Defaulted Guaranteed Loans (\$20.4 billion).
- Four program areas of the USDA accounted for over \$97 billion of its receivables: Rural Development & Farm Service Agency (\$35.7 billion); Rural Utilities Service (\$32.2 billion); Commodity Credit Corporation (\$20.8 billion); and Rural Development (\$8.5 billion).
- At the end of FY 2003, Federal loan programs (direct and guaranteed) comprised 87.4 percent of total receivables and 65.2 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.

**REPORT TO CONGRESS: RECEIVABLES AND DEBT COLLECTION ACTIVITIES OF  
FEDERAL AGENCIES**

Type of Receivable	Total Receivables as of 9/30/03 (in billions)	Percentage of Total Receivables	Delinquencies as of 9/30/03 (in billions)	Delinquencies as a Percentage of Total Receivables
<b>Direct Loan</b>	\$223.3	71.5	\$26.7	8.5
<b>Administrative*</b>	\$49.7	15.9	\$19.0	6.1
<b>Defaulted Guaranteed Loan</b>	\$39.5	12.6	\$24.3	7.8
<b>Gov't Totals</b>	**\$312.3	100	**\$70.1	22.4

\*Includes fines, penalties and overpayments, etc.

\*\*Numbers do not total due to rounding

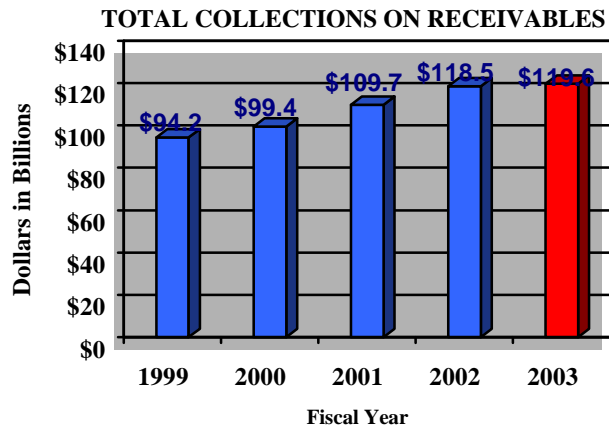
- As the chart above indicates, direct loans were 71.5 percent of the Government's receivables, and direct loan delinquencies were 8.5 percent of total receivables. Defaulted guaranteed loans were 12.6 percent of the Government's receivables, and represented 7.8 percent of the delinquencies as a percentage of total receivables, only slightly less than direct loan delinquencies.
- At the end of FY 2003, \$53.4 billion (76.2 percent) of the Government's delinquent debts were distributed among five agencies: Education, USDA, HHS, the Federal Communications Commission (FCC) and the Department of Defense (DOD).
- Total delinquencies increased by \$7.1 billion over the last fiscal year. Debts less than 180 days delinquent increased by \$6.2 billion to a total of \$14.8 billion. Debts more than 180 days delinquent increased by \$0.9 billion to a total of \$55.3 billion.

<b>DEBTS &gt; 180 DAYS DELINQUENT</b>	<b>FY 2000</b>		<b>FY 2001</b>		<b>FY 2002</b>		<b>FY 2003</b>	
	Dollar amount of debts (in billions)	Ratio of debts > 180 days to all debts (percent)	Dollar amount of debts (in billions)	Ratio of debts > 180 days to all debts (percent)	Dollar amount of debts (in billions)	Ratio of debts > 180 days to all debts (percent)	Dollar amount of debts (in billions)	Ratio of debts > 180 days to all debts (percent)
<b>Time Delinquent</b>								
181-365	<b>5.7</b>	15	<b>5.6</b>	13.5	<b>5.5</b>	10.1	<b>5.9</b>	10.7
1-2 years	<b>11.4</b>	29.9	<b>11.1</b>	26.8	<b>13.0</b>	23.9	<b>12.1</b>	21.9
2-6 years	<b>11.7</b>	30.7	<b>14.7</b>	35.5	<b>18.5</b>	34.0	<b>14.6</b>	26.4
6-10 years	<b>4.9</b>	12.9	<b>7</b>	16.9	<b>7.8</b>	14.3	<b>12.4</b>	22.4
Over 10 years	<b>4.4</b>	11.5	<b>3</b>	7.2	<b>9.6</b>	17.6	<b>10.4</b>	18.8
<b>Total &gt;180</b>	<b>38.1</b>		<b>41.4</b>		<b>54.4</b>		<b>55.3</b>	

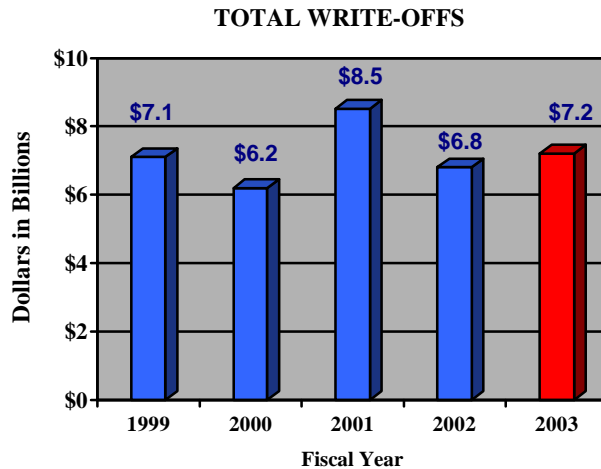
- The increase in delinquencies at the end of FY 2003 can be attributed to an increase of \$9.7 billion in delinquencies reported by Education over the previous fiscal year, with \$8.5 billion of that increase occurring from debts less than 180 days delinquent. The combined delinquencies of all agencies other than Education at the end of FY 2003 totaled \$37.9 billion, \$2.6 billion less than at the end of FY 2002.
- Education's direct loan receivables increased in total delinquencies by \$11.1 billion, and receivables 180 days or less delinquent increased by \$8.5 billion over the previous year. Education's defaulted guaranteed loan delinquencies fell by \$1.4 billion during the same period.
- As evident in the preceding table, from the end of FY 2001 to the end of FY 2002 a significant increase in debts more than 180 days delinquent was reported. This increase was primarily due to Education's reclassification of \$14.3 billion in receivables [formerly classified as written-off/currently not collectible (CNC)] in FY 2002. This reclassification resulted in an increase of Education's debts (more than 180 days delinquent) by \$10.2 billion during FY 2002.

**2. Collections and Write-offs; Interest, Penalties and Costs**

- Total collections on receivables in FY 2003 increased by \$1.1 billion over FY 2002 collections.
- Agencies that reported significant increases in collections were Education (an increase of \$4.4 billion), and USDA (an increase of \$2.4 billion).



- Total write-offs increased by \$400 million in FY 2003, a 6 percent increase over FY 2002 write-offs. Agencies reporting significant changes from the previous fiscal year were Export - Import Bank (+\$526 million), HHS (+\$410 million), HUD (+\$249 million), Federal Deposit Insurance Corporation (+\$356 million), USDA (-\$619 million), and SBA (-\$540 million).



Agencies charge interest, penalties, and administrative costs on receivables in accordance with applicable loan documents and statutory requirements. See 31 U.S.C. 3717. Of the \$312.3 billion in receivables at the end of FY 2003, \$9 billion represents unpaid interest, penalties and administrative costs.

**3. Analysis of Mandatory Referral to Treasury Under the DCIA**

- The DCIA specifically mandates that Federal agencies, unless exempted, transfer nontax debts more than 180 days delinquent to Treasury for collection through TOP and/or Cross-Servicing.
- 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.

<b>Debts Eligible for Referral to TOP and Cross-Servicing (in billions)</b>				
	<b>As of 9/30/00</b>	<b>As of 9/30/01</b>	<b>As of 9/30/02</b>	<b>As of 9/30/03</b>
<b>Total CNC* and Debt &gt; 180 Days Delinquent but &lt; 10 Years Delinquent</b>	\$61.8	\$63.3	\$64.0	\$67.8
<b>Eligible to Refer for Offset</b>	\$31.3	\$33.5	\$31.3	\$33.4
<b>Eligible to Refer for Cross-Servicing</b>	\$6.9	\$8.2	\$8.5	\$10.1

\*\*"CNC" – delinquent debts written off but not closed out (see Appendix I).

- 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.
- At the end of FY 2003, debts eligible for referral to TOP increased by \$2.1 billion (6.7 percent) over the FY 2002 figure. Debts eligible for Cross-Servicing increased by \$1.6 billion (18.8 percent) over the same period. The table on page 7 details the referral eligibility amounts reported by selected agencies, and the changes in these referral eligibility amounts from those reported by the agencies at the end of FY 2002.

Agency	TOP Eligibility (in millions)		Cross-Servicing Eligibility (in millions)	
	FY 2003	Change from FY 2002	FY 2003	Change from FY 2002
<b>Education</b>	\$20,475	\$332	\$470	(\$ 96)
<b>HHS</b>	\$5,361	(\$212)	\$4,989	\$915
<b>USDA</b>	\$1,656	\$276	\$506	\$142
<b>SBA</b>	\$1,106	(\$393)	\$1,083	(\$416)
<b>SEC</b>	\$900	\$662	\$900	\$662
<b>DOD</b>	\$733	\$287	\$513	\$144
<b>DOT</b>	\$555	\$413	\$493	\$417
<b>FCC</b>	\$469	\$392	\$467	\$389
<b>GSA</b>	\$27	(\$419)	\$ 9	(\$437)
<b>Other</b>	\$2,105	\$672	\$622	(\$192)
<b>Totals</b>	<b>\$33,387</b>	<b>\$2,010</b>	<b>\$10,052</b>	<b>\$1,528</b>

## B - KEY TRENDS

- Although total receivables decreased slightly in FY 2003, the Federal Government's portfolio has generally grown steadily over the past few years due to increases in Education's receivables. In FY 2003, Education's receivables rose \$3.2 billion from the previous year to \$108.4 billion, as compared to \$69.8 billion at the end of FY 2000. Education's receivables represented 34.7 percent of the Government's total receivables at the end of FY 2003, up from 24.8 percent at the end of FY 2000.
- Education's direct loan receivables increased from \$59.7 billion at the end of FY 2000 to \$87.7 billion at the end of FY 2003. The increase in direct loan receivables was almost entirely due to new receivables added each fiscal year. Education's defaulted guaranteed loan receivables rose from \$9.7 billion at the end of FY 2000 to \$20.4 billion at the end of FY 2003. The increase in this portion of Education's receivables can be attributed to a reclassification of \$11.9 billion of defaulted guaranteed loan receivables in FY 2002, that were formerly classified as written-off/CNC.
- While Education's receivables have increased substantially over the last few fiscal years, total nontax receivables of agencies other than Education have shown a declining trend. Non-Education receivables totaled \$203.9 billion at the end of FY 2003, down 3.9 percent from the \$212.2 billion reported at the end of FY 2000. It is this trend that resulted in the overall decrease in total receivables at the end of FY 2003 as compared to FY 2002.
- Similar trends exist with respect to delinquencies. Education's total delinquencies have increased from \$18.7 billion at the end of FY 2000 to \$32.2 billion at the end of FY 2003. The key factor in the increase of Education's total delinquencies during this

period was the reclassification in FY 2002 of \$14.3 billion in receivables formerly classified as written-off/CNC. During the same period, non-Education delinquencies have decreased 3.6 percent from \$39.3 billion to \$37.9 billion.

- USDA’s receivables have shown a declining trend over the last several years, but delinquencies have not reflected any consistent trend. Receivables and delinquencies totaled \$104.7 billion and \$6.3 billion, respectively, at the end of FY 2000; \$103.1 billion and \$6.2 billion, respectively, at the end of FY 2001; \$102 billion and \$6.9 billion, respectively, at the end of FY 2002; and \$100.7 billion and \$6.6 billion, respectively, at the end of FY 2003.

<b>Governmentwide</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>Debts &gt;180 days delinquent (in billions)</b>	\$38.1	\$41.4	\$54.4	\$55.3
<b>As a % of total receivables</b>	13.5	14.4	17.3	17.7

- Over the last four fiscal years, debts more than 180 days delinquent have increased both in dollar amount and as a percentage of total receivables. However, the rate of increase slowed significantly from the end of FY 2002 to the end of FY 2003. It is premature to assess any trend to the lessening of the rate of increase.

Detailed data for 12 specific agencies for FY 2003 can be found on the *Federal Receivables and Delinquent Debt* table in Appendix I.

### **III - GOVERNMENT-WIDE 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' PCA contract is administered by its Program Support Center (PSC), which provides centralized debt collection services for HHS' 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 2003, \$14.4 billion in Federal debts were referred to PCAs for collection action. This represents an 8.5 percent decrease in referrals from the previous fiscal year.

<b>Referrals to PCAs (in millions)</b>				
<b>Agency</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>HHS</b>	\$317	\$378	\$339	\$65
<b>FMS</b>	\$2,613	\$3,645	\$4,775	\$3,631
<b>Education</b>	\$9,100	\$8,700	\$10,588	\$10,679
<b>Totals</b>	\$12,030	\$12,723	\$15,702	\$14,375

**3. Collections**

- Total PCA collections were \$546.8 million in FY 2003, a 23.4 percent increase over FY 2002 collections. Total PCA collections have increased in each of the last three fiscal years.

<b>Collections by PCAs (in millions)</b>				
<b>Agency</b>	<b>FY2000</b>	<b>FY2001</b>	<b>FY2002</b>	<b>FY2003</b>
<b>HHS</b>	\$7.5	\$16.6	\$13.8	\$9.5
<b>FMS*</b>	\$21.8	\$27.8	\$42.9	\$73.3
<b>Education*</b>	\$322	\$351	\$386	\$464
<b>Totals</b>	\$351.3	\$395.4	\$443	\$546.8

\*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

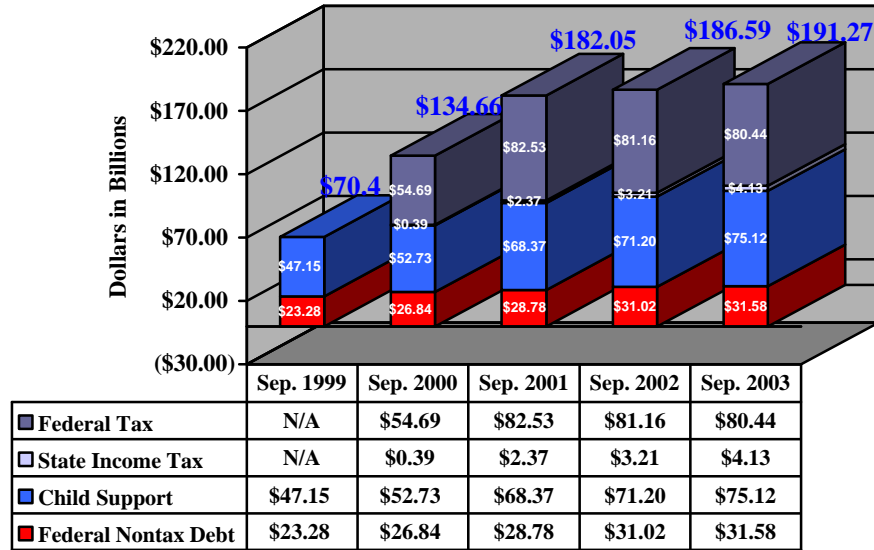
- Offset is a program whereby Federal payments are reduced or "offset" to satisfy a person's overdue Federal nontax debt, child support obligation, or state income tax debt. A payee's name and taxpayer identification number are matched against a Treasury/FMS database of delinquent debtors for automated offset of funds. Offset funds are then used to satisfy payment of the delinquent debt to the extent allowed by law.
- For FY 2003, payment types subject to offset included Office of Personnel Management retirement payments, Internal Revenue Service (IRS) tax refunds, 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 non-centralized salary offset process currently used by some Federal agencies. FMS plans to implement salary offset with the General Services Administration (one of the four payroll providers selected as part of the E-Payroll initiative) in FY 2004.
- 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 2003, the number of states and territories participating in this process was 31, 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, Office of Personnel Management 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.

2. Referrals

TOTAL DEBT REFERRALS TO THE TREASURY OFFSET PROGRAM



- As of September 30, 2003, the largest component of TOP’s delinquent debtor database was \$80.44 billion in Federal income tax debts, available for matching to identify potential levies. However, only \$15.03 billion of these tax debts has been "turned on," 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 \$75.12 billion as of September 30, 2003, a 59 percent increase in referrals from September 30, 1999.
- Referrals of nontax debts increased to \$31.58 billion as of September 30, 2003, a 36 percent increase in referrals from September 30, 1999. As of September 30, 2003, 94.9 percent of the nontax debts eligible for mandatory referral to TOP have been referred. (See page 6 for a discussion on nontax debts eligible for referral to TOP.)
- Referrals of state income tax debts rose to \$4.13 billion at the end of FY 2003, an increase of \$1.76 billion (74 percent) from the end of FY 2001.

3. Collections

- Total collections through TOP were \$2.99 billion in FY 2003. Since enactment of the DCIA in April 1996, \$17.8 billion has been collected through TOP. The chart below summarizes collections through TOP for the last five fiscal years.

<b>Collections Through TOP In Millions of Dollars</b>					
<b>Type of Collection</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
<b>Administrative Offset*</b>	\$6	\$17	\$25	\$84	\$88
<b>Tax Refund Offset – Child Support (excluding tax rebates)</b>	\$1,343	\$1,389	\$1,377	\$1,463	\$1,428
<b>Tax Refund Offset – Federal Nontax Debt (excluding tax rebates)</b>	\$1,259	\$1,167	\$1,147	\$1,048	\$1,025
<b>Tax Refund Offset – State Income Tax Debt (excluding tax rebates)</b>	N/A	\$23	\$79	\$119	\$152
<b>Tax Refund Offset – Tax Rebates***</b>	N/A	N/A	\$471	N/A	\$207
<b>Continuous Tax Levy</b>	N/A	\$0.1	\$16	\$60	\$89
<b>Total Collected</b>	\$2,608	\$2,597**	\$3,117**	\$2,769	\$2,990**

\*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.

- Total collections through TOP increased in FY 2003 by \$221 million over total collections in FY 2002. The primary reason for the increase in total collections was the \$207 million collected as a result of offsets of advance child tax credit payments (tax rebates).
- In FY 2003, administrative offset collections were \$88 million, an increase over the \$84 million collected in FY 2002. FY 2002 was the first full year that included offsets of Social Security payments to collect nontax debts.
- Total tax refund offset collections (not including tax rebates) in FY 2003 for child support debts (\$1.428 billion), and Federal nontax debts (\$1.025 billion) were slightly less than the amounts collected in these categories in FY 2002.
- Total collections of state income tax debts by offsetting Federal tax refunds increased by \$33 million over the \$119 million collected in FY 2002.
- Collections under Continuous Tax Levy totaled \$89 million in FY 2003, a 48 percent increase over the \$60 million collected in FY 2002. The IRS maintains control over which Federal tax debts can be collected through the levy process.

**C - CROSS-SERVICING AT FMS**

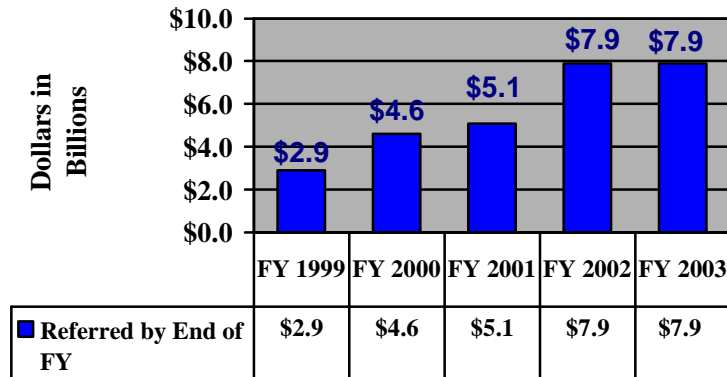
**1. Description**

- 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. Six agencies currently utilize AWG through the program. 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 A-3, above. The calculation of Cross-Servicing referrals excludes those debts no longer actively collected at FMS.

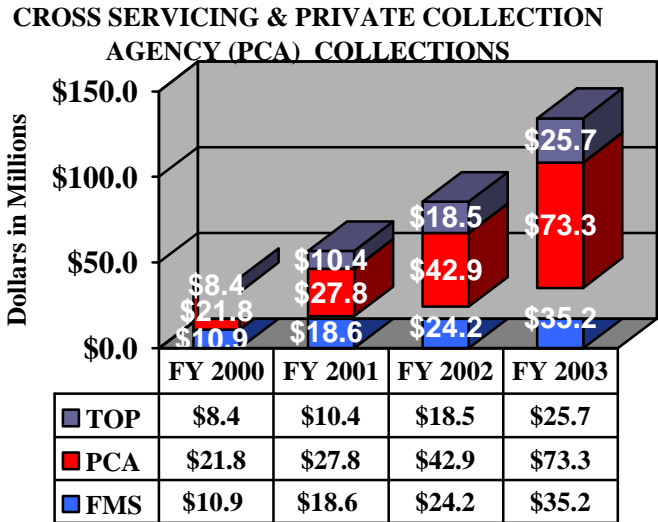
**CROSS-SERVICING REFERRALS**



- As of September 30, 2003, 78 percent of all eligible debts were submitted to FMS for cross-servicing. (See page 6 for a discussion on nontax debts eligible for referral to Cross-Servicing.) The low percentage is due to reporting errors on the TROR and agency noncompliance with statutory debt referral requirements. Efforts are underway by FMS to identify, educate and assist those agencies that are not currently meeting their debt collection referral and/or reporting responsibilities.

3. Collections

- Since the inception of the Cross-Servicing program, FMS and the PCAs have brought in \$352.2 million in collections.
- In FY 2003, FMS and its PCAs collected \$134.1 million\*, an increase of \$48.5 million (57 percent) over FY 2002 collections. (\*Number does not equal graph totals due to rounding.)



- In each of the three categories of collections (referrals to TOP, collections by PCAs and collections at FMS's Debt Management Operations Center) there were increases in FY 2003 over the previous fiscal year. TOP collections through Cross-Servicing rose by 39 percent, PCA collections increased by 71 percent, and collections at the Debt Management Operations Center rose by 45 percent.
- 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 2003, PCAs resolved debts valued at \$88.1 million. Since the inception of the Cross-Servicing program in 1998, PCAs have resolved debts valued at over \$250 million.

**D – HHS’ DEBT COLLECTION CENTER**

1. Description

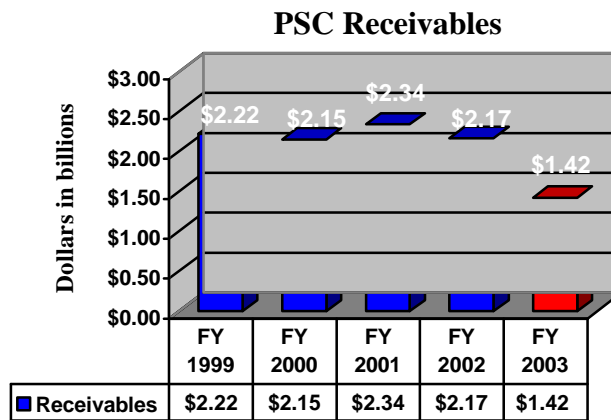
- The Program Support Center (PSC), established in 1995, is an operating division within HHS that collects debts on a fee-for-service basis for 10 different agencies within HHS and 10 agencies outside of HHS.
- In January 1999, Treasury granted a three-year debt collection center designation to the PSC to collect three types of HHS debts: Health Profession debts, Unfiled Cost Report debts, and Medicare Secondary Payer debts.
- In May 2002, the 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.

- The 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.
- The PSC also serves as HHS' conduit for referrals of delinquent debts to FMS for both TOP and Cross-Servicing.

**2. Referrals to the PSC**

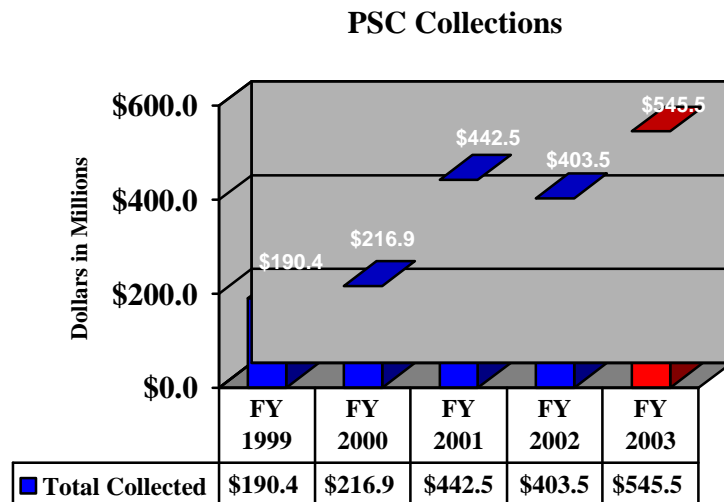
- Debt referrals to the PSC decreased significantly last year due to the change in debt collection center designation in 2002. This change resulted in Medicare Secondary Payer debts being referred to FMS for Cross-Servicing rather than the PSC.



- PSC receivables do not include amounts referred to FMS for Cross-Servicing. PSC referrals of HHS delinquent debts to FMS for Cross-Servicing totaled \$4.3 billion at the end of FY 2003.

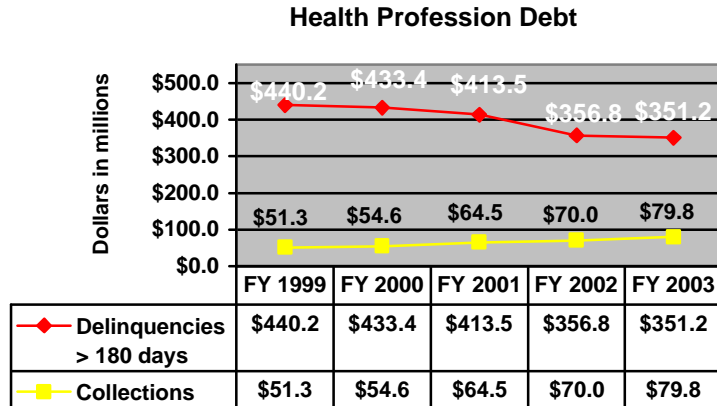
**3. Collections**

- Since the inception of its debt collection program in 1995, the PSC has brought in over \$2.2 billion in collections.
- Collections over the last five years evidence a general trend toward increased collections. A sharp increase began in FY 2001 primarily due to increases in administrative (grant audit and program disallowance) debt collections.



**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 20 percent, while annual collections have increased by 56 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. The decline in referrals to DOJ between 1999 and 2002 can be attributed to the increased use of AWG by Education, and the low volume of referrals from other federal agencies. It is not clear if the increase in the number of referrals in FY 2003 represents a reversal of the previous trend.

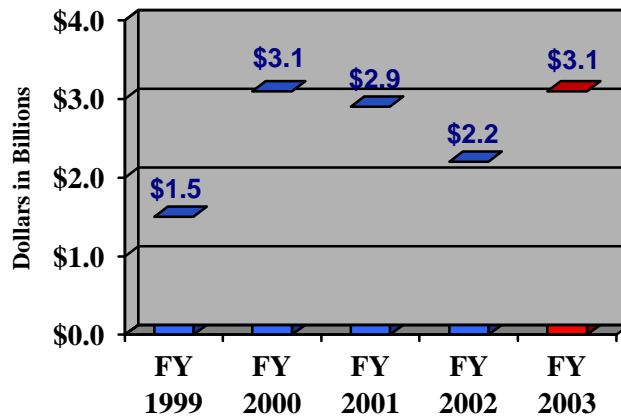
Fiscal Year	Total Civil Referrals - new debts opened	Value of New Debts (in billions)
1999	88,228	\$2.8
2000	50,572	\$5.6
2001	24,357	\$5.4
2002	8,443	\$3.0
2003	11,557	\$2.1

- 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.

3. Collections

- The amount DOJ collects in any fiscal year includes recoveries for debt referred in prior fiscal years.
- DOJ has collected \$12.8 billion from civil litigation over the last five fiscal years.

CASH COLLECTIONS FROM CIVIL LITIGATION AT DOJ



- 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.
- More than 75 percent of the funds DOJ collects are received as electronic fund transfers. DOJ also accepts credit card payments and payments in foreign currency. In FY 2001, DOJ implemented a new program called EZPay that debits debtor bank accounts on a schedule authorized by the debtor. In FY 2003, over \$500,000 was collected through EZPay.

**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 new 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 Small Business Administration, and additional agencies will participate in the near future.

Presently, at least three 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 General Services Administration (GSA) sponsored web site listing those people or vendors barred from Federal procurement activities. Debt Check will complement 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 the mandatory transfer to Treasury for Cross-Servicing, based on Education’s demonstrated expertise in collecting student loan debts. The Office of Postsecondary Education debt collection activities are centralized in the 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.
- Total student loan receivables (principal and interest) serviced by BSC have increased from \$11.9 billion at FY 2000 year-end to \$15.9 billion at FY 2003 year-end. Total delinquencies (principal and interest) have increased from \$10.5 billion at FY 2000 year-end to \$13.3 billion at FY 2003 year-end; and collections have increased from \$1.26 billion in FY 2000 to \$1.62 billion in FY 2003.

<b>Education’s Use of Debt Collection Tools</b> (in millions)				
<b>Collection Tools</b>	<b>FY 2000 Collections</b>	<b>FY 2001 Collections</b>	<b>FY 2002 Collections</b>	<b>FY 2003 Collections</b>
<b>Private Collection Agency</b>	\$228	\$229	\$260	\$322
<b>Litigation (DOJ)</b>	\$25	\$30	\$30	\$27
<b>Internal Offset</b>	\$5	\$3	\$3	\$2
<b>AWG (at agency and PCAs)</b>	\$110	\$134	\$136	\$150
<b>Treasury Offset</b>	\$431	\$450	\$368	\$398
<b>Other at Agency</b>	\$65	\$64	\$170	\$428
<b>Total Loan Consolidations (at agency and at PCAs)</b>	\$389	\$464	\$365	\$290

- Recoveries from TOP increased 8.1 percent from \$368 million in FY 2002 to \$398 million in FY 2003. 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 \$142 million of the \$150 million collected through AWG in FY 2003. 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 2003. 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 \$359 million in delinquent loans in FY 2003. This accounts for the substantial increase in collections in the "other at agency" category this fiscal year (see chart on previous page). 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 2003, resulted in the capture of new debtor location information on over one million accounts. Use of the New Hire Database led to an additional \$429 million in student loan recoveries.

**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
<b>TOTALS</b>	\$5.5 billion	\$3.4 billion	\$2.6 billion	\$1.7 billion

- SBA and HUD have established Loan Asset Sales programs to sell performing and non-performing loans to the public. SBA's asset sales program has 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.
- Over the last four fiscal years, SBA and HUD have sold over \$8 billion in loan assets and collected more than \$5 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 2003. The table groups all other agencies into a single category. At the end of FY 2003, 94 percent of the receivables belonged to the 12 agencies listed in the table below.

<b>Federal Receivables and Delinquent Debt as of September 30, 2003 (in millions)</b>						
<b>Agency</b>	<b>Ending Balance</b>	<b>Collections</b>	<b>Write-offs</b>	<b>Delinquencies</b>	<b>Delinquencies &gt; 180<sup>1</sup></b>	<b>Currently Not Collectible</b>
Education	\$108,449	\$16,465	\$1,115	\$32,166	\$21,178	\$440
USDA	\$100,731	\$25,425	\$ 750	\$6,613	\$6,034	\$599
SSA	\$13,599	\$2,590	\$919	\$2,540	\$1,676	\$6,842
HUD	\$12,986	\$7,596	\$265	\$763	\$587	\$213
EXIM	\$11,082	\$2,513	\$612	\$2,651	\$2,546	\$0
AID	\$8,627	\$776	\$36	\$555	\$545	\$0
HHS	\$8,557	\$16,111	\$1,399	\$4,260	\$3,932	\$3,369
DOD	\$8,222	\$7,289	\$356	\$4,542	\$3,995	\$214
FCC	\$6,612	\$5,907	\$44	\$5,771	\$5,559	\$44
Energy	\$6,587	\$4,348	\$14	\$2,291	\$2,270	\$0
SBA	\$6,136	\$1,442	\$629	\$1,780	\$1,521	\$2,885
VA	\$3,338	\$2,664	\$216	\$1,109	\$826	\$0
All Other	\$17,379	\$26,364	\$831	\$5,020	\$4,604	\$310
Gov't Total	\$312,305	\$119,490	\$7,780	\$70,061	\$55,273	\$14,916

Amounts reported as write-offs represent the dollar amount of uncollectible receivables written off during FY 2003.

“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.

<sup>1</sup> Does not include delinquencies 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  
2003, 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