FISCAL YEAR 2007 REPORT
TO THE CONGRESS

U.S. GOVERNMENT RECEIVABLES

AND

DEBT COLLECTION ACTIVITIES

OF FEDERAL AGENCIES

Department of the Treasury
May 2008

FISCAL YEAR 2007 REPORT TO THE CONGRESS
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Department of the Treasury
Financial Management Service

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 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

- Through September 30, 2007, $31.5 billion has been collected to pay delinquent debts through the Department of the Treasury's Financial Management Service's (FMS) Treasury Offset Program (TOP) and Cross-Servicing Program (Cross-Servicing) since the enactment of the DCIA in April 1996.

- Total collections by FMS on delinquent debts through TOP and Cross-Servicing were $3.76 billion in FY 2007. 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 $3.3 billion during the last five years.

- In FY 2007, the Department of Justice (DOJ) collected $3 billion in cash recoveries on delinquent debts owed to Federal agencies through its civil litigation program. DOJ has collected a total of $15.8 billion through civil litigation in the last five fiscal years.

- In FY 2007, 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 $22.4 billion in delinquent Federal debt. These PCAs collected $721 million in FY 2007.

- The Federal Government collected $159.6 billion in fiscal year (FY) 2007 on all of its non-tax receivables. See *Appendix I, Federal Receivables and Delinquent Debt.*

D - LEGISLATIVE AGENDA

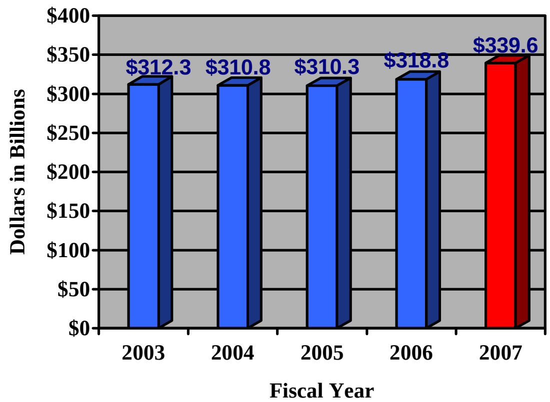
Two proposals to enhance FMS's debt collection program were included in the President's FY 2009 Budget:

1. Authorize the offset of Federal tax refund payments to collect delinquent state unemployment insurance debts, and

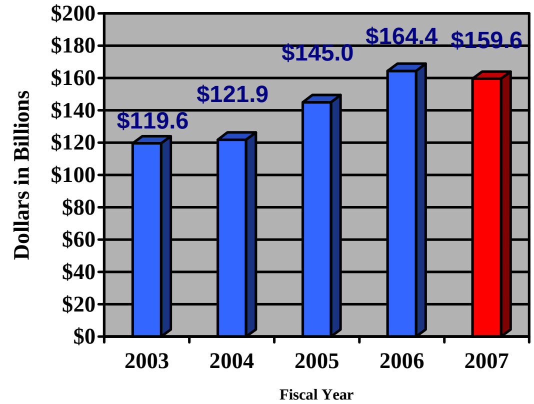
2. Eliminate the 10-year statute of limitations for collection of delinquent Federal debts by administrative offset.

II - GOVERNMENT DEBT PORTFOLIO, COLLECTIONS AND WRITE-OFFS

TOTAL RECEIVABLES



TOTAL COLLECTIONS ON RECEIVABLES



A - FISCAL YEAR-END DATA

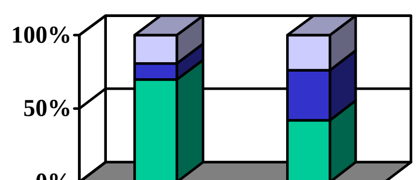
1. Receivables and Delinquencies

- Total receivables increased by $20.9 billion in FY 2007 from the previous year, but total delinquencies - $64.9 billion – increased by only $19.4 million.

- The decrease in the FY 2007 collections on receivables from FY 2006 is attributable, in large part, to a $19.6 billion decrease in Education's debt consolidations, which the agency treats as collections. (Please see the Collections Note on Page 5.)

- At the end of FY 2007, Federal loan programs (direct and guaranteed) comprised 81 percent of total receivables, down slightly from 83 percent at the end of FY 2006. Federal loan programs comprised 76 percent of total delinquencies, also down slightly from 78 percent at the end of FY 2006.

Distribution of Receivables and Delinquencies as of 9/30/07



	Receivables in Billions	Delinquencies in Billions
Administrative Debt*	$65.6	$15.5
Defaulted Guaranteed Loans	$37.2	$22.2
Direct Loans	$236.7	$27.2

*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 2007 are Education ($131.7 billion) and the Department of Agriculture (USDA) ($104.8 billion). Receivables from these two agencies comprise 70 percent of the Government's total receivables (Education 39 percent and USDA 31 percent).

- Two types of Education receivables accounted for almost all of its receivables: Federal Direct Student Loans ($107.2 billion), and Defaulted Guaranteed Student Loans ($23.7 billion).

- Five program areas of the USDA accounted for almost $99 billion of its receivables: Rural Electric & Telephone Revolving Fund ($37.8 billion), Rural Housing Insurance Fund ($25.4 billion), Commodity Credit Corporation ($16.7 billion), Rural Development Insurance Fund ($12.1 billion), and Farm Service Agency ($6.8 billion).

Analysis of Receivables Data

- Total receivables increased in FY 2007, in part because write-offs went down during the last two fiscal years after a substantial increase in FY 2005. During FY 2007, Federal agencies wrote off $6.4 billion in receivables, compared to $16.1 billion in FY 2005 and $10.1 billion in FY 2006. (Please see the discussion of write-offs on Page 7.) Another factor was a $10.4 billion increase reported by the Department of Health & Human Services due, in large part, to the first time recording of a receivable for Medicare Part D overpayments to plans in 2006.

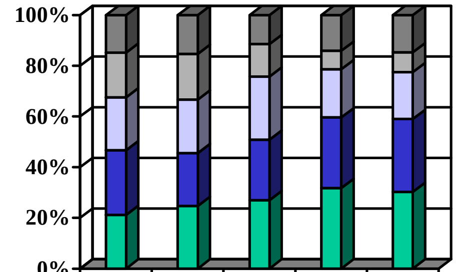
- Also, Education's direct student loan portfolio has grown significantly over the last several years and this trend is continuing. Education's direct loan portfolio has increased from $71.8 billion at the end of FY 2001 to $107.2 billion at the end of FY 2007, and by $6.2 billion in FY 2007 alone.

- Collections Note: In a previous fiscal year (FY 2006), Education began to break out its loan consolidations from the amount it reports as Collections on Receivables in the Treasury Report on Receivables (TROR). It had previously 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

Total delinquencies were essentially unchanged from the previous fiscal year, increasing by only 0.03% or $19.4 million. There was a slight increase in the amount of debts more than 2 years delinquent. However, the overall trend over the last three fiscal years has been downward in this age category. Debts between 2 and 6 years delinquent decreased by $297 million.

Aging of Government-wide Delinquencies



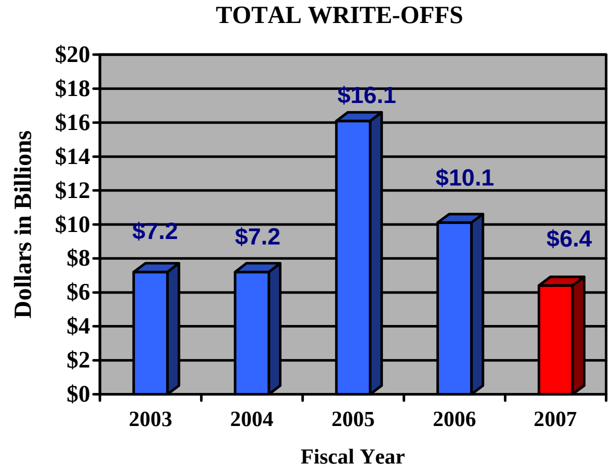
	2003	2004	2005	2006	2007
> 10 yrs	$10.4	$10.9	$7.1	$9.2	$9.6
6-10 yrs	$12.4	$12.8	$8.0	$4.7	$5.0
2-6 yrs	$14.6	$15.0	$15.4	$12.3	$12.0
181 days-2 yrs	$17.9	$14.8	$14.8	$18.1	$18.6
1-180 days	$14.8	$17.5	$16.7	$20.6	$19.6

- At the end of FY 2007, $54.8 billion (85 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).

	Delinquencies (in millions)	
Agency	**FY 2007**	**% Change from FY 2006**
Education	$39,233	1.7%
SSA	$3,509	7.6%
HHS	$2,302	10.2%
FATP*	$1,560	7.9%
DOD	$4,450	(9%)
USDA	$3,253	(13.1%)
SBA	$2,012	(36.2%)
EX-IM BANK	$1,926	(4.2%)

* Funds Appropriated to the President

2. *Write-offs*



- Total write-offs in FY 2007 decreased from FY 2006 by $3.7 billion to a level closer to the amounts reported in FY 2003 and FY 2004.

- 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 individual agencies in FY 2007. Among those were Education ($255.5 million), the Department of Veterans Affairs (VA) ($122.2 million), the Pension Benefit Guaranty Corporation ($47.3 million), the Department of Housing & Urban Development (HUD) ($21.2 million), and the Overseas Private Investment Corporation ($20.6 million).

3. *Interest, Penalties and Costs*

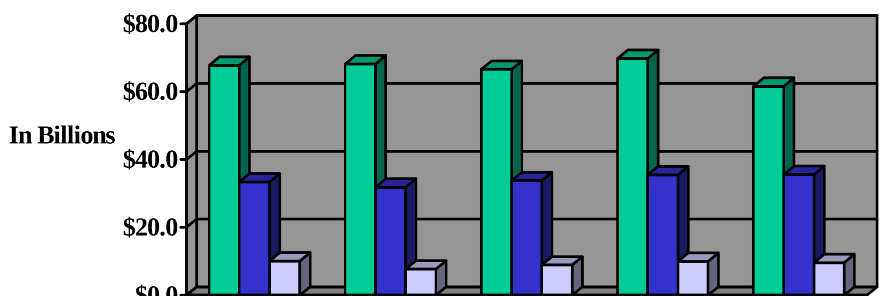
Agencies charge interest, penalties and administrative costs on receivables in accordance with applicable loan documents and statutory requirements. See, e.g., 31 U.S.C. 3717. Of the $339.6 billion in receivables at the end of FY 2007, $8.5 billion represents unpaid interest, penalties and administrative 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) to determine "TOP Eligibility" and "Cross-Servicing Eligibility."

Debt Eligible for Referral to Treasury



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Starting Amount	$67.8	$68.2	$66.6	$69.8	$61.6
TOP Eligibility	$33.4	$31.8	$33.8	$35.5	$35.6
Cross-servicing Eligibility	$10.1	$7.7	$8.9	$10.0	$9.6

The decrease in the FY 2007 "Starting Amount" from FY 2006 is attributable, to a large extent, to a change in the way the Social Security Administration reported its written-off debt. The change resulted in an $8.8 billion decrease in SSA's debts in the status of Currently Not Collectible.

- At the end of FY 2007, debts eligible for referral to TOP increased by $118.8 million, and debts eligible for Cross-Servicing decreased by $362 million from amounts reported in FY 2006. During FY 2007, 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 - 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.

2. *Referrals*

Referrals to PCAs (in millions)			
Agency	**FY 2005**	**FY 2006**	**FY2007**
HHS	$45	$68	$69
FMS	$2,280	$3,500	$3,341
Education	$11,376	$13,952	$18,982
Totals	$13,701	$17,520	$22,392

3. *Collections*

Collections by PCAs (in millions)			
Agency	**FY2005**	**FY 2006**	**FY 2007**
HHS	$10.1	$9.6	$7.4
FMS*	$80.3	$78.2	$74.6
Education*	$603.1	$651.8	$639
Totals	$693.5	$739.6	$721

*Includes collections by administrative wage garnishment

B - 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 income tax debt. Offset referrals and collections are indicated in the charts on the next page.

Federal Payment Levy Program

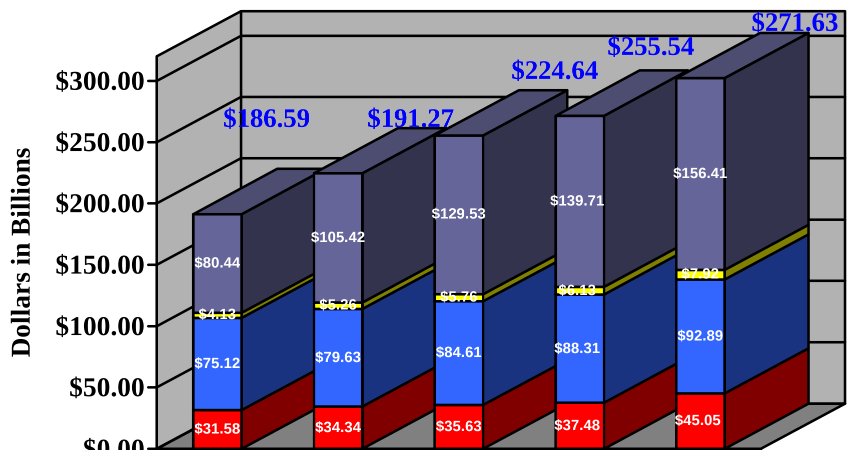
The Federal Payment Levy Program (FPLP) is a program whereby delinquent Federal income tax debts are collected by levying non-tax payments, as authorized by the Taxpayer Relief Act of 1997. Continuous tax levy collections are indicated in the chart on the next page.

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 are participating in a pilot program with Treasury, which began in June 2007. As of December 31, 2007, New Jersey had successfully offset 358 State payments for $255,188.10 and Maryland had successfully offset 886 State payments for $371,441.38. On the other side, FMS had offset 1,978 Federal vendor payments for $4,297,774.74 for New Jersey debts and 2,660 Federal non-tax payments for $4,616,630.90 for Maryland debts.

2. *Referrals*

TOTAL DEBT REFERRALS TO THE TREASURY OFFSET PROGRAM



	Sep. 2003	Sep. 2004	Sep. 2005	Sep. 2006	Sep. 2007
Federal Tax	$80.44	$105.42	$129.53	$139.71	$156.41
State Income Tax	$4.13	$5.26	$5.76	$6.13	$7.92
Child Support	$75.12	$79.63	$84.61	$88.31	$92.89
Federal Nontax Debt	$31.58	$34.34	$35.63	$37.48	$45.05

3. *Collections*

Collections Through TOP In Millions of Dollars					
Type of Collection	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
Administrative Offset*	$88	$109	$123	$144	$179
Tax Refund Offset – Child Support (excluding tax rebates)	$1,428	$1,487	$1,580	$1,582	$1,696
Tax Refund Offset – Federal Non-tax Debt (excluding tax rebates)	$1,025	$974	$990	$989	$1,195
Tax Refund Offset – State Income Tax Debt (excluding tax rebates)	$152	$218	$232	$216	$219
Tax Refund Offset – Tax Rebates**	$207	--	--	--	--
Continuous Tax Levy	$89	$114	$197	$303	$343
Total Collected	$2,990**	$2,902	$3,123	$3,234	$3,632

*Collection of Federal non-tax debts and child support debts by offsetting Federal non-tax payments.

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

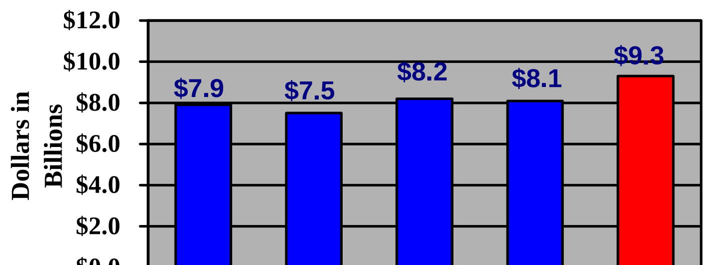
C - CROSS-SERVICING AT FMS

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

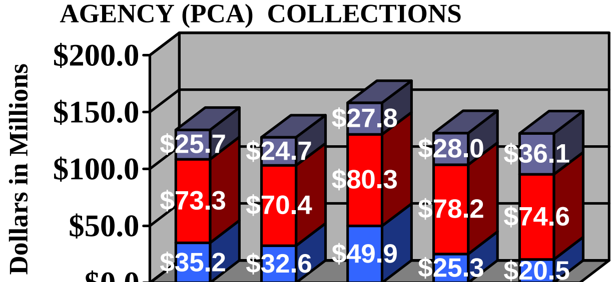
CROSS-SERVICING REFERRALS



FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
$7.9	$7.5	$8.2	$8.1	$9.3

3. Collections

CROSS-SERVICING & PRIVATE COLLECTION AGENCY (PCA) COLLECTIONS



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
TOP	$25.7	$24.7	$27.8	$28.0	$36.1
PCA	$73.3	$70.4	$80.3	$78.2	$74.6
DMS	$35.2	$32.6	$49.9	$25.3	$20.5

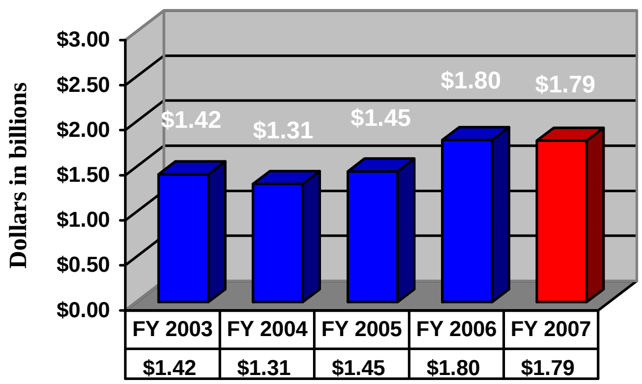
D - HHS'S DEBT COLLECTION CENTER

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.

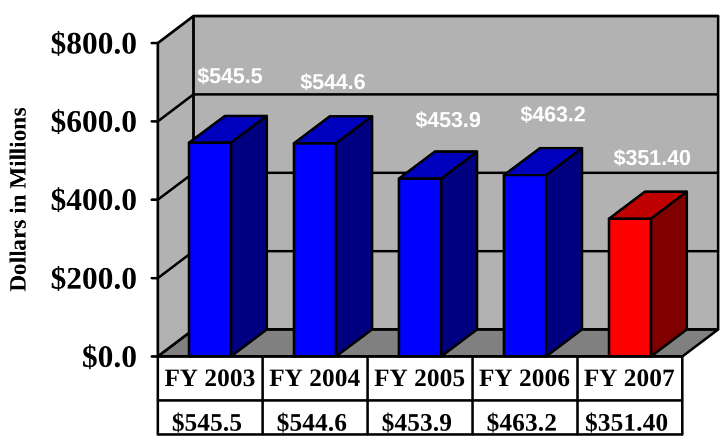
2. Referrals to PSC

Referrals to PSC



3. Collections at PSC

PSC Collections



F - LITIGATION AT THE DEPARTMENT OF JUSTICE (DOJ)

1. *Description*

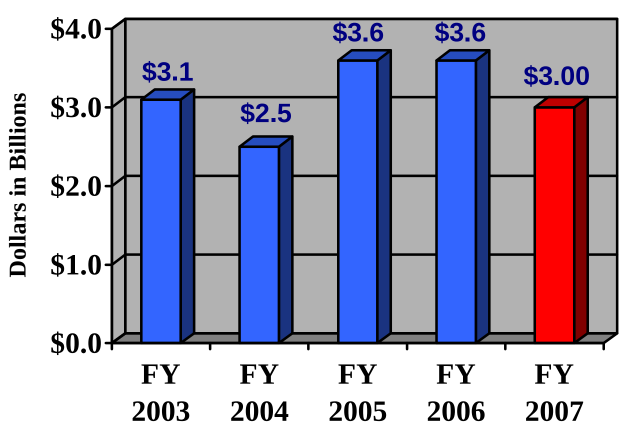
DOJ serves as the Federal Government's "collector of last resort." When a Federal agency cannot collect a debt administratively using debt collection tools such as those available under the DCIA, the agency may refer the debt to DOJ to pursue enforced collection through the courts. FMS's Cross-Servicing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

2. *Referrals*

Fiscal Year	Total Civil Referrals - new debts opened	Value of New Debts (in billions)
2003	11,557	$2.1
2004	7,165	$2.5
2005	6,723	$5.0
2006	7,913	$6.1
2007	9,718	$5.0

3. *Collections*

CASH COLLECTIONS FROM CIVIL LITIGATION AT DOJ



G - 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 $13.975 billion at FY 2003 year-end to $23.1 billion at FY 2007 year-end; and collections have increased from $1.617 billion in FY 2003 to $2.675 billion in FY 2007.

Education's Use of Debt Collection Tools (in millions)					
Collection Tools	**FY 2003 Collections**	**FY 2004 Collections**	**FY 2005 Collections**	**FY 2006 Collections**	**FY 2007 Collections**
Private Collection Agency	$322	$362	$378	$410	$368
Litigation (DOJ)	$27	$22	$18	$16	$13
Internal Offset	$2	$2	$1	$3	$1
AWG (at Education and PCAs)	$150	$186	$237	$251	$281
Treasury Offset	$398	$389	$415	$402	$465
Other Tools at Education	$59	$59	$50	$51	$46
Total Loan Consolidations (at Education and at PCAs)	$290	$206	$197	$224	$179
Total Loan Rehabilitations (at Education and at PCAs)	$369	$587	$786	$954	$1,322

- Recoveries from TOP increased by 16 percent, from FY 2006 to FY 2007. 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 $1.252 billion in defaulted loans in FY 2007, up significantly from the $954 million in FY 2006. 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 has found that the reduction in regular collection from $410 million in FY 2006 to $368 million in FY 2007 is due to the larger rehabilitation volume.

- Education has continued its successful matching program with HHS's National Directory of New Hire Database that, for FY 2007, resulted in the capture of new debtor location information on over 1.148 million accounts. Use of the New Hire Database led to an additional $511 million in student loan recoveries.

- BSC did not receive the software components to its updated system that were needed to participate in TOP salary offset. This was due to a series of new congressional changes which became a higher priority. BSC is currently in negotiations to determine when a new system will be functional. At the same time, it continues to work with the current contractor to implement in the legacy system. Currently, there are no implementation dates. In the interim, Education uses all other available debt collection tools to collect debts owed by Federal employees.

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 2007. The table groups all other agencies into a single category. At the end of FY 2007, 95 percent of the receivables belonged to the 11 agencies listed in the table below.

Federal Receivables and Delinquent Debt as of September 30, 2007
(in millions)

Agency	Ending Balance	Collections	Write-offs	Delinquencies	Delinquencies > 180*	Currently Not Collectible
Education	$131,735	$17,884	$908	$39,233	$24,059	$371
USDA	$104,807	$27,312	$821	$3,253	$2,813	$1,038
HHS	$17,674	$29,195	$718	$2,302	$1,666	$7,969
SSA	$14,253	$2,971	$986	$3,509	$2,495	$273
SBA	$13,240	$2,374	$662	$2,012	$1,778	$1,346
HUD	$10,307	$4,364	$189	$297	$178	$362
DOD	$8,150	$19,658	$351	$4,450	$3,872	$250
EX/IM[1]	$7,278	$1,640	$93	$1,926	$1,826	$0
AID[2]	$6,653	$666	$2	$582	$576	$0
Energy	$4,023	$5,620	$.10	$139	$106	$2,111
FATP[3]	$3,221	$922	$5	$1,560	$1,546	0
All Other	$18,262	$47,001	$1,650	$5,618	$4,579	$2,353
Gov't Total	$339,603	$159,607	$6,385	$64,881	$45,494	$16,073

[1]Export Import Bank
[2]Agency for International Development
[3]Funds Appropriated to the President

Amounts reported as write-offs represent the dollar amount of uncollectible receivables written off during FY 2007.

"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 Due From the Public – Fourth Quarter 2007, 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 & D – Treasury Offset Program & Cross-Servicing & Other Debt Collection Activities at FMS

Source – Department of the Treasury, Financial Management Service

E – HHS Debt Collection Center

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

F – Litigation at the Department of Justice

Source – Department of Justice, Office of Debt Collection Management

G – Education Student Loans

Source - Department of Education, Borrower Services-Collections