

FISCAL YEAR 2006 REPORT
TO THE CONGRESS

U.S. GOVERNMENT RECEIVABLES

AND

DEBT COLLECTION ACTIVITIES

OF FEDERAL AGENCIES



Department of the Treasury
July 2007

**FISCAL YEAR 2006 REPORT TO THE CONGRESS
U.S. GOVERNMENT RECEIVABLES AND
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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 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 *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, 2006, \$27.8 billion has been collected to pay delinquent debts through the Treasury Offset Program (TOP) and Cross-Servicing Program (Cross-Servicing) since the enactment of the DCIA in April 1996.
- The Federal Government collected \$164.4 billion in fiscal year (FY) 2006 on all of its non-tax receivables.
- In FY 2006, the Department of Justice (DOJ) collected \$3.6 billion in cash recoveries on delinquent debts owed to Federal agencies through its civil litigation program. DOJ has collected a total of \$15 billion through civil litigation in the last five fiscal years.

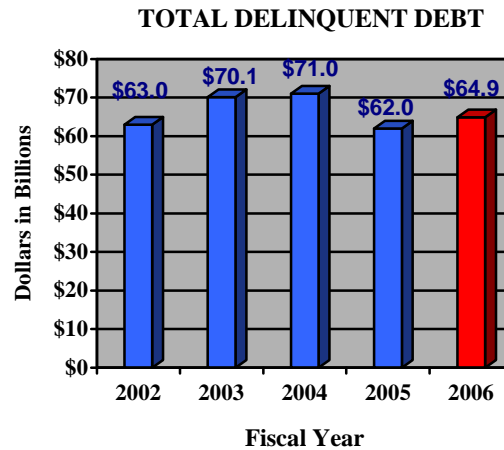
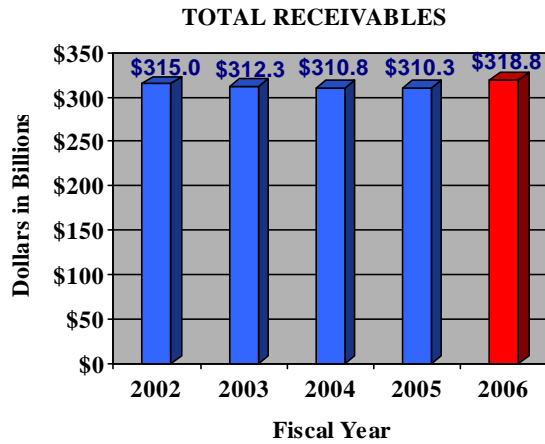
- In FY 2006, private collection agencies (PCAs) under contract with the Department of Education (Education), the Department of Health and Human Services (HHS) and the Department of the Treasury's Financial Management Service (FMS) had referrals of \$17.5 billion in delinquent Federal debt. These PCAs collected \$739.6 million in FY 2006, up 7 percent from the \$693.5 million collected in FY 2005.
- In FY 2006, the Department of Housing and Urban Development (HUD) completed loan asset sales of performing and non-performing loans totaling \$785 million in unpaid principal balances. These sales generated \$414 million in gross proceeds. In the last five fiscal years HUD has sold \$4.89 billion in loan assets, generating \$2.9 billion in gross proceeds.
- Total collections by FMS on delinquent debts through TOP and Cross-Servicing were \$3.34 billion in FY 2006. 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 \$3.1 billion during the last five years.

D – LEGISLATIVE AGENDA

In FY 2006, Treasury submitted for consideration two legislative proposals designed to increase delinquent debt collection:

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

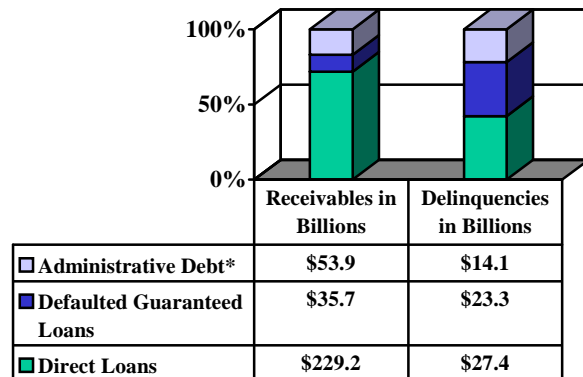


A - FISCAL YEAR-END DATA

1. *Receivables and Delinquencies*

- Total receivables increased by \$8.5 billion in FY 2006, from the amount reported at the end of FY 2005, after three consecutive years of slight declines. Total delinquencies increased by \$2.9 billion in FY 2006. However, this was mainly because of an unusually large amount of debt that was written off in the previous year. Compared to FY 2003 and FY 2004, FY 2006 delinquent debt decreased by \$6 billion. (See analysis on Page 7.) As previously stated in part I.B, Page 2, receivables and delinquencies as reported on the TROR do not include debts that have been written-off.
- At the end of FY 2006, Federal loan programs (direct and guaranteed) comprised 83 percent of total receivables, unchanged from the end of FY 2005. Federal loan programs comprised 78 percent of total delinquencies, up slightly from 76 percent at the end of FY 2005.

Distribution of Receivables and Delinquencies
as of 9/30/06



*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. As these receivables increase, normally delinquencies will correspondingly increase.

- The two agencies with the largest total receivables at the end of FY 2006 are Education (\$123 billion) and the Department of Agriculture (USDA) (\$103.9 billion). Receivables from these two agencies comprise 72 percent of the Government's total receivables (Education 39 percent and USDA 33 percent).
- Two types of Education receivables accounted for almost all of its receivables: Federal Direct Student Loans (\$101 billion), and Defaulted Guaranteed Student Loans (\$21.1 billion).
- Four program areas of the USDA accounted for over \$100 billion of its receivables: Rural Utilities Service (\$38.0 billion); Rural Development & Farm Service Agency (\$32.8 billion); Commodity Credit Corporation (\$19.1 billion); and Rural Development (\$11.7 billion).

Analysis of Receivables Data

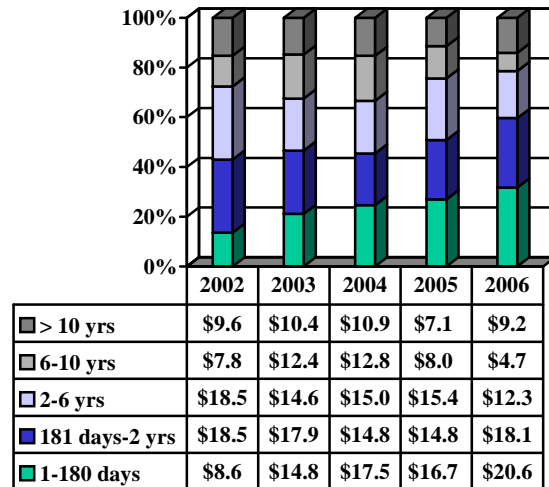
- Total receivables increased in FY 2006 after three consecutive years of slight declines. A previous FY 2002 peak in total receivables coincided with a reclassification of \$11.9 billion of defaulted guaranteed loan receivables by Education in FY 2002 that were formerly classified as written-off/CNC.
- FY 2006 receivables increased, in large part, because write-offs leveled off after a substantial increase in FY 2005. During FY 2006, Federal agencies wrote off \$10.1 billion in receivables, compared to \$16.1 billion in FY 2005 and a total of \$7.2 billion in each of the fiscal years 2003 and 2004.
- Education's direct student 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 \$71.8 billion at the end of FY 2001 to \$101 billion at the end of FY 2006, and by \$3.2 billion in FY 2006 alone.

Additional Delinquent Debt Data

- At the end of FY 2006, \$55.7 billion (86 percent) of the Government's delinquent debts were distributed among six agencies: Education, the Department of Defense (DOD), USDA, SBA, the Social Security Administration (SSA), and HHS.

Total delinquencies increased by \$2.9 billion since the last fiscal year. However, the increase was primarily in the youngest delinquent debts. Debts more than 2 years delinquent decreased by \$4.2 billion, from \$30.4 billion at the end of FY 2005 to \$26.2 billion at the end of FY 2006.

Aging of Government-wide Delinquencies



- Education was the agency with the largest amount of total delinquencies (\$38.6 billion), delinquencies 181 days to 2 years old (\$11.4 billion), and delinquencies between 2 years and 6 years old (\$4.8 billion).

- Several agencies' total delinquencies in FY 2006 changed significantly from the previous fiscal year. The chart to the right details these net changes.

Agency	Delinquencies (in millions)	
	FY 2006	Change from FY 2005
Education	\$38,591	\$3,640
SSA	\$3,263	\$399
DHS	\$1,085	\$602
AID	\$780	\$221
CFTC	\$507	\$315
SBA	\$3,154	(\$502)
FCC	\$529	(\$496)
SEC	\$219	(\$1,144)
EPA	\$211	(\$737)

- Education's delinquencies grew as a result of the growth of direct loan receivables. From FY 2005 to FY 2006, direct loan delinquencies increased by \$3.1 billion, while defaulted guaranteed loan delinquencies increased by only \$710 million.

- SBA's delinquencies decreased by \$502 million in FY 2006 due to its \$661 million increase in write-offs. It is noted that SBA has not conducted any asset sales since FY 2003. (See page 26.)

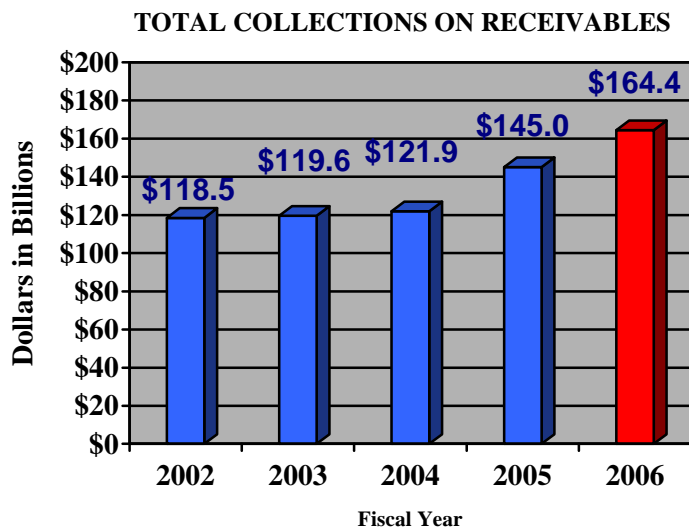
- A substantial increase in write-offs during FY 2006 at the SEC (\$1.1 billion) resulted in the substantial decrease in FY 2006 year-end delinquencies.

Analysis of Delinquent Debt Data

- There is a correlation between the \$2.9 billion increase in delinquencies during FY 2006 and the decrease in write-offs during the same period. While it is possible that agencies will continue to write off their older delinquent debts, it was expected that there would be a leveling off of write-offs after FY 2005 when many agencies implemented Write-Off/CNC for the first time. Accordingly, it should not be assumed that the large scale reduction in delinquencies that occurred in FY 2005 represents a trend that is likely to continue.
- As a result of the decline of delinquencies more than 2 years old by \$4.2 billion in FY 2006, the Federal Government’s portfolio of delinquent debt is less aged. The ratio of delinquencies less than 6 years old to total delinquencies increased from 76 percent at the end of FY 2005 to 79 percent in FY 2006. Also, the ratio of delinquencies less than 2 years old to total delinquencies increased from 51 percent at the end of FY 2005 to 60 percent in FY 2006.
- 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 \$38.6 billion at the end of FY 2006 (60 percent of the Government’s total delinquencies). Key factors in the increase of Education's total delinquencies during this period were the reclassification to delinquent status in FY 2002 of \$14.3 billion in receivables formerly classified as written-off/CNC and an increase of \$10.4 billion in direct loan delinquencies from FY 2001 to FY 2006. Since the total dollar value of Education’s direct loan portfolio continues to increase, it follows that the total dollar value of Education’s delinquencies will increase as well.

2. Collections

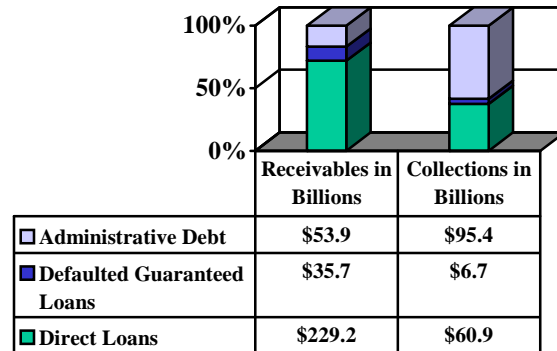
- Total collections on receivables in FY 2006 increased substantially in FY 2006 (by \$19.4 billion) over FY 2005 collections. (See chart to the right.)
- In FY 2006, collections on receivables increased in each of the three types of receivables over the previous fiscal year: Administrative debt (by \$12.2 billion); defaulted guaranteed loans (by \$1.2 billion); and direct loans (by \$6.0 billion).



- The seven agencies that reported the largest increases in collections in FY 2006 over amounts collected in FY 2005 are listed in the chart to the right. These seven agencies accounted for \$23.1 billion in increased collections in FY 2006.
- As the chart indicates, there is not always a direct correlation between the net change in collections and the net change in receivables at specific agencies.
- While the largest percentage of receivables is direct loans, most collections reported by the agencies fall under the category of Administrative debt (58 percent).

Agency	Collections (in millions)		Net Change in Receivables FY 2005 to FY 2006 (in millions)
	FY 2006	Change from FY 2005	
Education	\$36,584	\$9,423	\$4,045
HHS	\$24,625	\$7,664	\$2,044
Interior	\$12,951	\$2,229	\$306
Energy	\$5,826	\$1,329	\$32
DOD	\$11,890	\$980	\$593
Ex/Im Bank	\$2,655	\$834	-\$687
Treasury	\$2,270	\$637	\$136

Distribution of Receivables and Collections
as of 9/30/06



Analysis

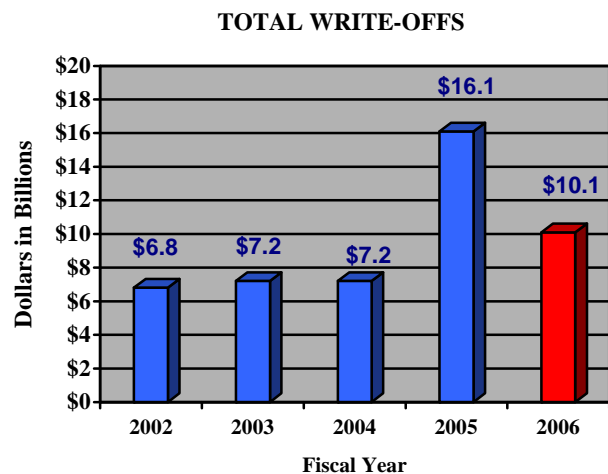
- Government-wide collections have steadily increased over the last several years due to increases in collections at Education. Education’s collections have grown from \$9.3 billion in FY 2001 to \$36.6 billion in FY 2006, including a \$9.4 billion increase in FY 2006. This increase parallels the increase in Education’s direct student loan portfolio; direct student loan collections in FY 2006 were \$33.1 billion, 91 percent of Education’s total collections during the fiscal year. Note: In 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 collections amount for the agency.
- While the increase in government-wide collections in FY 2006 greatly exceeds the increase in collections at Education alone, the variability of this statistic indicates that it cannot be concluded that the total increase in government-wide collections represents an established trend. Of the six other agencies that evidenced the largest increases in collections in FY 2006 over FY 2005, two reported decreases in collections in FY 2005 from FY 2004: DOD - \$1 billion and Export-Import Bank - \$619 million. Also, of the agencies with large increases in collections from FY 2004 to FY 2005, three reported decreases in FY 2006: USDA - \$2.6 billion; Tennessee

Valley Authority (TVA) - **\$536 million**; and Department of Homeland Security (DHS) - **\$461 million**.

- Collections as a percentage of year-end receivables vary greatly for the three types of receivables (Administrative debt – 177 percent; Defaulted Guaranteed Loans – 19 percent; and Direct Loans – 27 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 (65 percent), so a lesser rate of collections can be expected on these receivables. Direct Loans that are not delinquent (88 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 some volatility over the last five years (FY 2002 - \$73.6 billion; FY 2003 - \$68.3 billion; FY 2004 - \$70.6 billion, FY 2005 - \$83.2 billion; and FY 2006 - \$95.4 billion). This is evidenced in Administrative debt collections at agencies such as USDA, HHS, and TVA. Because of the FY 2003 decrease in this category of government collections, it is not yet possible to predict with certainty that government-wide 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 corresponding increases or decreases in year-end receivables.

3. *Write-offs*

- Total write-offs in FY 2006 decreased from FY 2005 by \$6 billion. However, this decrease occurred after an \$8.9 billion increase in FY 2005, attributable, to a great extent, to large, one-time write-offs in that year by the Federal Communications Commission (FCC) and the Department of Energy. The FY 2006 total is still more than \$2.8 billion higher than the totals in FY 2004 and FY 2003.



- Write-offs increased at many individual agencies in FY 2006. Among the more significant increases were those at the Export-Import Bank (\$1.2 billion), the Securities & Exchange Commission (SEC) (\$1.1 billion), the Environmental Protection Agency (EPA) (\$702 million) and SBA (\$661 million).

- 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 third quarter of FY 2004, OMB specifically started monitoring the Federal program agencies' write-off policies and practices. FMS published additional guidance on write-off during FY 2004, and provides ongoing training to the agencies on write-off policy. Additionally, OMB continues to monitor agency adherence to write-off policy. It should be noted that while OMB guidance *generally* requires write-off when debts are two years delinquent, agencies should not write off debts when material collections can be documented to occur after two years.

Analysis

There was a substantial increase in write-offs during FY 2005 as many agencies, in order to achieve compliance with OMB Circular A-129, began to write off their debts greater than 2 years delinquent and either close them out or place them in a CNC status. (Collection may continue on debts in a CNC status.) In addition, two agencies, the FCC and Energy, had certain very large debts in their portfolios that were appropriate for write-off and those agencies completed that process in FY 2005. It was expected that write-offs would level off in subsequent years as agencies continue this procedure each year for their debts as they age. The reduction of write-offs in FY 2006 is evidence of that trend.

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 \$318.8 billion in receivables at the end of FY 2006, \$7.2 billion represents unpaid interest, penalties and administrative costs.

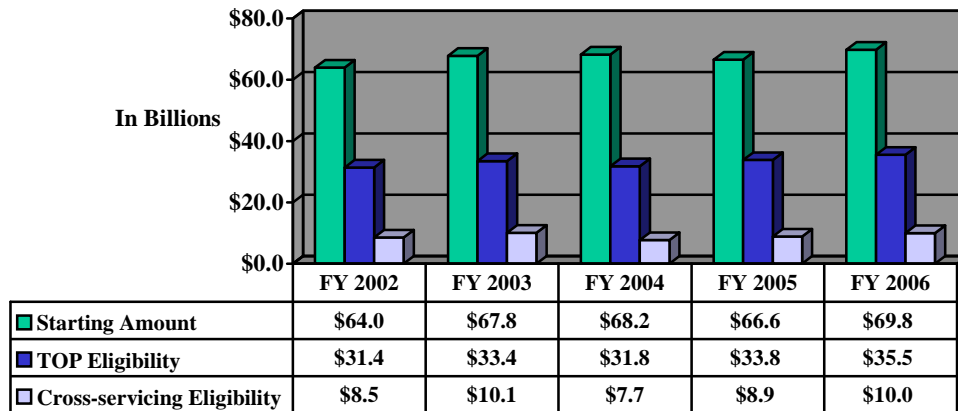
B - ANALYSIS OF MANDATORY REFERRAL TO TREASURY UNDER THE DCIA

- The DCIA specifically mandates that Federal agencies transfer non-tax 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 the analysis, delinquent debts reported as CNC are added to debts reported as more than 180 days delinquent to determine the "Starting Amount" for calculating the amounts eligible for referral.

- 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 to determine “TOP Eligibility” and “Cross-Servicing Eligibility.”

Mandatory Referral of Debt to Treasury



- At the end of FY 2006, debts eligible for referral to TOP increased by \$1.7 billion and debts eligible for Cross-Servicing increased by \$1.1 billion from amounts reported in FY 2005. During FY 2006, FMS and the reporting agencies continued to work cooperatively to improve the accuracy of these eligibility numbers.

Detailed data for 11 agencies with the largest dollar amounts of receivables in FY 2006 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, 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 (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 17 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 contract is used as part of its Cross-Servicing Program. Debts that are not collected or resolved, generally within 30 days after transfer to FMS for Cross-Servicing, are referred to a PCA 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.
- The Internal Revenue Service (IRS) initiated a limited program in September, 2006 with contract awards to a small number of PCAs.

2. Referrals

In FY 2006, \$17.5 billion in Federal non-tax debts were referred to PCAs for collection action. Referrals increased from the previous fiscal year mostly due to an increase in Education’s referrals back to a level closer to that of FY 2004. A decrease at the agency in FY 2005 was primarily caused by the transition in that year to new PCA contracts and contractors. During the transition

Referrals to PCAs (in millions)				
Agency	FY 2003	FY 2004	FY 2005	FY 2006
HHS	\$65	\$66	\$45	\$68
FMS	\$3,631	\$2,292	\$2,280	\$3,500
Education	\$10,679	\$14,256*	\$11,376	\$13,952
Totals	\$14,375	\$16,614*	\$13,701	\$17,520

*Indicates corrections from amounts reported in the FY 2004 Report.

period, only a limited number of accounts were referred to the new contractors, and the old contractors held on to previously assigned accounts for a longer period of time than normal.

3. Collections

- Total PCA collections were \$739.6 million in FY 2006, a 7 percent increase over FY 2005 collections. Total PCA collections have increased in each of the last four fiscal years.

Collections by PCAs (in millions)				
Agency	FY2003	FY2004	FY2005	FY 2006
HHS	\$9.5	\$7.5	\$10.1	\$9.6
FMS*	\$73.3	\$70.4	\$80.3	\$78.2
Education*	\$464	\$532.5	\$603.1	\$651.8
Totals	\$546.8	\$610.4	\$693.5	\$739.6

*Includes collections by administrative wage garnishment

B - TREASURY OFFSET PROGRAM (TOP)

1. Description

TOP is a debt collection program that includes both Offset and the Federal Payment Levy Program (FPLP).

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, 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 2006, payment types subject to offset included Office of Personnel Management (OPM) retirement payments, IRS tax refund payments, vendor payments (including vendor payments disbursed by DOD), Federal employee travel payments, Federal salary payments, and Social Security benefit payments.
- In FY 2006, the number of states and territories participating in the State Income Tax Offset program was 37, along with the District of Columbia. FMS is currently working with two more states, North Dakota and Connecticut, to bring them into the program in FY 2007.

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. FPLP includes levy of vendor, Federal employee salary, OPM retirement, and Social Security benefit payments. It is accomplished through a process almost identical to offset, that is by matching 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 2006, the collaborative efforts of the Federal agencies represented on the Federal Contractor Tax Compliance (FCTC) task force have resulted in the following: accelerated IRS notice and review process by the matching of tax debts in TOP with data on new contract awards; the completed or planned addition of "payment types" to FPLP (Type A, i.e., individual payments key-entered into a personal computer, completed; Automated Clearing House/Corporate Trade Exchange (ACH-CTX) and Fedwire, in progress; Corp of Engineers and Postal Service vendor payments, to be added in Summer, 2007); and the development of a regulatory, programming, and

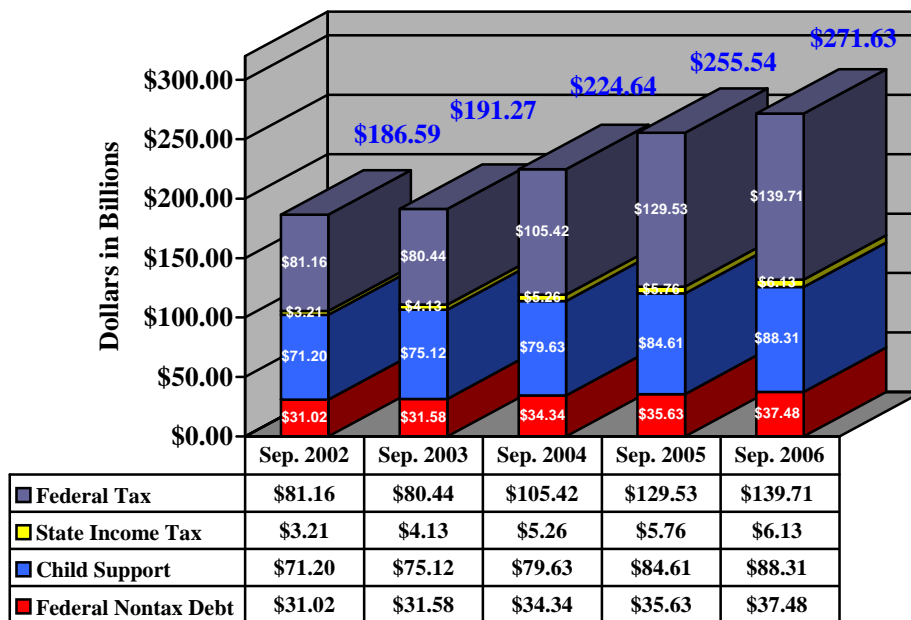
operational process to add a debt indicator flag on the Central Contractor Registration (CCR). This flag will require contracting officers to use payment methods that are subject to TOP rather than purchase cards. The task force is currently examining ways to levy Part A and B payments to Medicare providers.

Reciprocal Agreements with States

- In FY 2006, FMS prepared a regulation to implement a provision in the DCIA that authorizes states to enter into reciprocal agreements with Treasury to collect unpaid state debt by offset of Federal non-tax payments and the Federal government to collect delinquent non-tax debt by offset of state payments. The regulation was published in January, 2007. Three states, Maryland, New Jersey and Kentucky, will participate in a pilot program which is scheduled to begin in late Spring, 2007.

2. *Referrals*

TOTAL DEBT REFERRALS TO THE TREASURY OFFSET PROGRAM



- As of September 30, 2006, the largest component of TOP's delinquent debtor database was \$139.71 billion in Federal income tax debts, available for matching to identify potential levies. \$53.11 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's Office of Child Support Enforcement (OCSE), and FMS have resulted in more delinquent child support obligations being referred to TOP in each of

the last four fiscal years. Referrals of \$88.31 billion as of September 30, 2006, represent a 24 percent increase in referrals from September 30, 2002.

- Referrals of non-tax debts increased to \$37.48 billion as of September 30, 2006, an increase over last year's amount of \$35.63 billion. As of September 30, 2006, 100 percent of the non-tax debts eligible for mandatory referral to TOP have been referred. (See pages 10-11 for a discussion of non-tax debts eligible for referral to TOP.)
- Referrals of state income tax debts increased by 10 percent, from \$5.76 billion at the end of FY 2005 to \$6.13 billion at the end of FY 2006.

3. Collections

Total collections through TOP were \$3.2 billion in FY 2006. Since enactment of the DCIA in April 1996, \$27.6 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 2002	FY 2003	FY 2004	FY 2005	FY 2006
Administrative Offset*	\$84	\$88	\$109	\$123	\$144
Tax Refund Offset – Child Support (excluding tax rebates)	\$1,463	\$1,428	\$1,487	\$1,580	\$1,582
Tax Refund Offset – Federal Non-tax Debt (excluding tax rebates)	\$1,048	\$1,025	\$974	\$990	\$989
Tax Refund Offset – State Income Tax Debt (excluding tax rebates)	\$119	\$152	\$218	\$232	\$216
Tax Refund Offset – Tax Rebates***	N/A	\$207	--	--	--
Continuous Tax Levy	\$60	\$89	\$114	\$197	\$303
Total Collected	\$2,769	\$2,990***	\$2,902	\$3,123**	\$3,234

*Collection of Federal non-tax debts and child support debts by offsetting Federal non-tax 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 2006 by \$112 million over total collections in FY 2005, due, in large part, to increases in Tax Levy and Administrative Offset.
- Collections under the Federal Payment Levy Program (FPLP) in FY 2006 were \$303 million, a 54 percent increase over the \$197 million collected in FY 2005. The large increase reflects the continued maturation of the tax levy program in TOP and the efforts

of the multi-agency task force. IRS maintains control over which Federal tax debts can be collected through the levy process.

- In FY 2006, administrative offset collections totaled \$144 million, \$21 million more than the total collected in FY 2005.

C - CROSS-SERVICING AT FMS

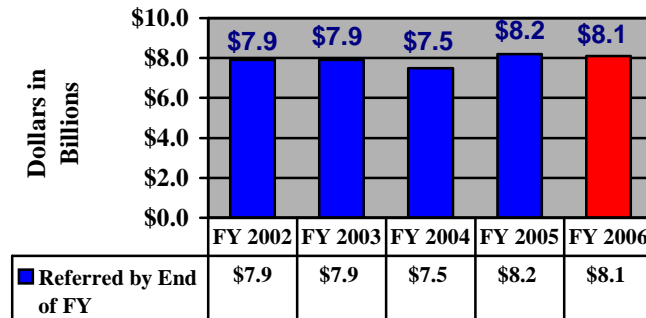
1. Description

- Cross-Servicing is the process whereby agencies refer Federal non-tax 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, referral of debts to DOJ for litigation, and administrative wage garnishment (AWG).
- AWG became available to Federal agencies in Cross-Servicing in FY 2001. Fifteen agencies currently utilize AWG in the program, and \$5.6 million was collected through AWG in FY 2006. FMS continues to encourage Federal agencies to authorize the use of this debt collection tool through Cross-Servicing.
- The FMS task orders with its PCAs were extended through June 30, 2007 to allow FMS sufficient time to award and implement new task orders. On March 12, 2007, FMS awarded five new PCA task orders under GSA's Financial and Business Solutions Schedule. The task orders were awarded for one year, with four one-year option periods available. FMS anticipates debt referrals under the new task orders to begin during the first week of July, 2007.
- Pursuant to legislation allowing access to the HHS Office of Child Support Enforcement's National Directory of New Hires (NDNH), FMS has developed requirements for a process whereby FMS would receive address and employer information, as well as verified and corrected, if necessary, name and Taxpayer Identification Number (TIN), for debtors that have been referred to Cross-Servicing. The information could be used by FMS and its PCAs to contact debtors to attempt to resolve the debt, or to initiate AWG when the debt cannot be otherwise resolved. FMS is working with HHS on plans for a test match in FY 2007 to determine the specific information that would be received so that a cost-benefit analysis can be performed.

2. Referrals

- The calculation of the amount of debts eligible for referral is described in this report in Section II-B, Page 10.
- At the end of FY 2006, \$8.1 billion in delinquent debts were at FMS for Cross-Servicing, a slight decrease in the amount at FMS at the end of FY 2005.

CROSS-SERVICING REFERRALS

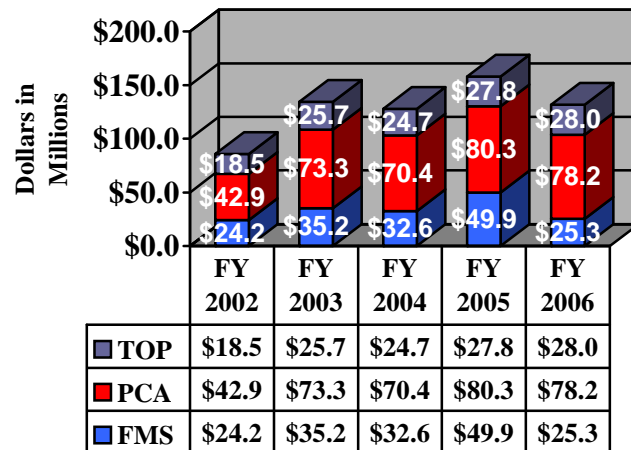


- As of September 30, 2006, 89 percent of all eligible debts were submitted to FMS for Cross-Servicing. (See Page 10 for a discussion of non-tax debts eligible for referral to Cross-Servicing.)

3. Collections

CROSS SERVICING & PRIVATE COLLECTION AGENCY (PCA) COLLECTIONS

- Since the inception of the Cross-Servicing Program, FMS and the PCAs have collected \$767.9 million.
- In FY 2006, FMS and its PCAs collected \$131.4 million while transitioning to FedDebt, FMS's new debt collection system.



- In addition to collecting debts, PCAs under contract with FMS also helped resolve delinquent debts by identifying those that are not collectible due to reasons such as bankruptcy or death. With the implementation of FedDebt in late September, 2005, FMS introduced a new Administrative Resolution (AR) category, "Entity Out of Business." Since the type of debt eligible for this AR category is commercial, the dollar value of debt resolved was substantially higher in FY 2006 (\$962 million) than in prior years (e.g., \$128 million in FY 2005) when a large volume of resolved accounts were consumer and often of lesser dollar value. Since the inception of the Cross-Servicing Program in 1998, PCAs have resolved debts valued at over \$1.45 billion.

D - OTHER DEBT COLLECTION ACTIVITIES AT FMS

1. 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 an initiative under the FMS debt program that is being employed to help agencies electronically identify delinquent debtors and potentially bar them from receiving Federal loans, loan insurance, or loan guarantees. 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.

2. Revised Treasury Report on Receivables

FMS completed a revision of the TROR form, an updated Instructional Workbook, and system development for the revised form. The TROR provides information on the status of Federal receivables and collection, write-off and close-out of delinquent Federal non-tax debts. The revised form provides more useful credit management and debt collection information for agency management and is easier for agencies to prepare. The TROR revision was developed through an inter-agency focus group made up of members from 15 Federal agencies, and the final product was reviewed by OMB. FMS implemented the revised TROR government-wide for first quarter, FY 2007 reporting.

3. Training Initiatives

Each year FMS develops a training plan that includes workshops and conferences, in its continuing effort to keep Federal agencies apprised of important developments regarding the DCIA and the debt program. From October 2005 through December 2006, FMS sponsored over 30 workshops and conferences open to all Federal agencies with approximately 1,600 agency participants in attendance. These training sessions covered topics such as general debt collection training (called “Debt Collection 101”), how to report on the TROR, and FedDebt implementation. Training was provided not only in Washington, DC, but throughout the country including in Atlanta, GA; St. Louis, MO; Albuquerque, NM; and Columbus, OH. FMS also provided specialized training sessions to twenty individual agencies, as requested by those agencies.

4. Response to Hurricane Katrina

The destruction brought on by Hurricanes Katrina, Wilma and Rita (KWR) created tremendous problems for many citizens, and the President directed Federal agencies to do all in their power to assist the victims of that disaster. On September 7, 2005, FMS issued a bulletin to agencies that participate in its Cross-Servicing Program soliciting their input on whether they wished to suspend collection action for 120 days for all debts of debtors

living in Federally designated disaster areas. In response to the bulletin, 14 agencies requested that we suspend collection action. Further, as a result of the circulation of the bulletin, Federal agencies not participating in the Cross-Servicing Program also considered whether or not temporary suspension of delinquent debt collection in the affected areas was appropriate. Agencies participating directly in TOP were contacted to determine what action they would take. Four agencies suspended collection action against individuals in the affected areas. Four other agencies reported that they would not suspend collection action, but would evaluate any offsets on a case by case basis.

Note: It is anticipated that KWR-related delinquent debt will be referred in FY 2007 by at least two agencies: FEMA and SBA.

5. *FedDebt*

- FedDebt, implemented in 2005, is part of FMS's Enterprise Architecture initiative, which ensures that all of FMS's systems are being developed, maintained, and operated under a single standard. FedDebt is a web-based system that improves the Federal agencies' access to FMS's debt collection operations through a single debt management interface. FedDebt also provides FMS with operational efficiencies so that similar functions that were managed by different areas within FMS's debt collection operations can be combined to provide better customer service.
- The current phase of the FedDebt system provides on-line access to the Federal agencies and the PCAs who previously did not have access to the Cross-Servicing system, and improves control over the cross-servicing of debts at FMS from the referral by the Federal agency through the debt collection process. The system also provides more flexibility in handling the wide variety of delinquent debts referred by the Federal agencies. In the future, FedDebt will be enhanced to provide single sign-on access to *both* the Offset (TOP) and Cross-Servicing lines of business.

6. *Reorganization of Debt Functions at FMS*

In order to streamline operations, improve efficiencies, and yield significant net savings over the long term, FMS completed a realignment of a major portion of its debt management business functions. This realignment took advantage of the implementation of FedDebt. As part of the realignment, certain operations were transferred from Headquarters in Washington, DC, to the Birmingham Debt Management Operations Center (BDMOC) in Birmingham, AL.

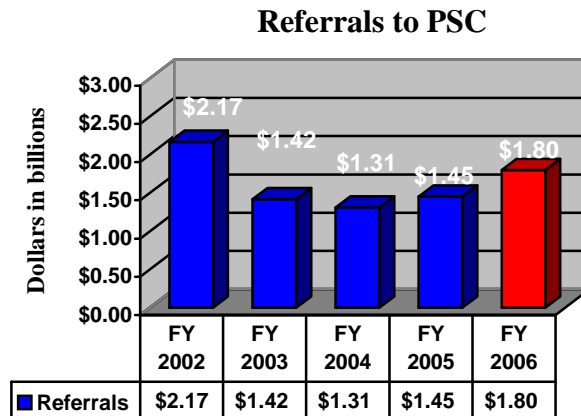
E – HHS’S DEBT COLLECTION CENTER

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.
- 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 May 2002 designation was renewed in May 2005, extending it five years. 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's conduit for referrals of delinquent debts to FMS for both TOP and Cross-Servicing.

2. Referrals to PSC

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

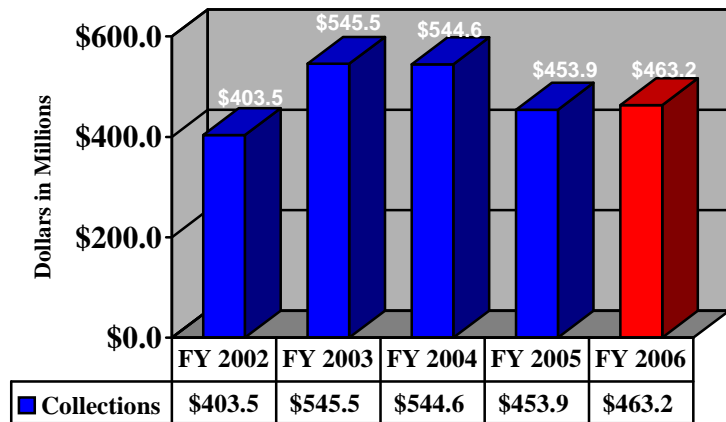


- PSC receivables do not include amounts referred to FMS for Cross-Servicing. PSC referrals of HHS delinquent debts to FMS for Cross-Servicing totaled \$3.97 billion at the end of FY 2006.

3. Collections at PSC

- Since the inception of its debt collection program in 1995, PSC has collected over \$3.7 billion.
- Collections increased by \$9.3 million in FY 2006 from FY 2005. The decrease in collections in FY 2005 from the FY 2004 amount was the result of the number of full monetary payments on disallowance debts which occurred in FY 2004.

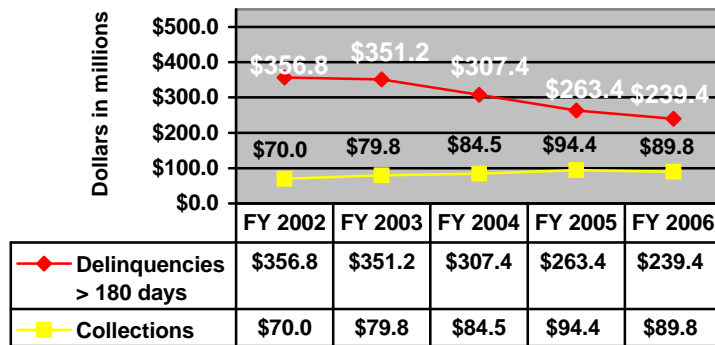
PSC Collections



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 33 percent, while annual collections have increased by 22 percent. A decrease in FY 2006 from FY 2005 was primarily due to full payment from nursing schools in FY 2005 at time of closing.

Health Profession Debt



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.
- 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.

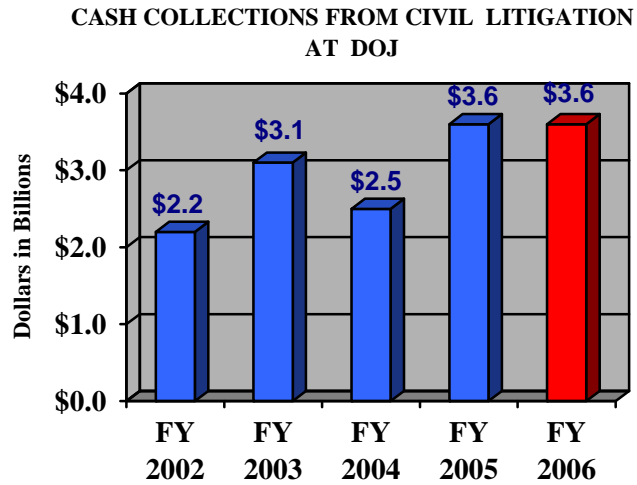
2. Referrals

- Federal creditor agencies determine when to refer debts to DOJ. For this reason, both the numbers of debts referred and their value can vary greatly from year to year. However, the average value of a debt referred has increased substantially in recent years.
- 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)
2002	8,443	\$3.0
2003	11,557	\$2.1
2004	7,165	\$2.5
2005	6,723	\$5.0
2006	7,913	\$6.1

3. Collections

- The amount DOJ collects in any fiscal year includes recoveries for debt referred in prior fiscal years.
- DOJ has collected \$15 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.



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 \$12.7 billion at FY 2002 year-end to \$20.7 billion at FY 2006 year-end; and collections have increased from \$1.33 billion in FY 2002 to \$2.31 billion in FY 2006.

Education’s Use of Debt Collection Tools (in millions)					
Collection Tools	FY 2002 Collections	FY 2003 Collections	FY 2004 Collections	FY 2005 Collections	FY 2006 Collections
Private Collection Agency	\$260	\$322	\$362	\$378	\$410
Litigation (DOJ)	\$30	\$27	\$22	\$18	\$16
Internal Offset	\$3	\$2	\$2	\$1	\$3
AWG (at Education and PCAs)	\$136	\$150	\$186	\$237	\$251
Treasury Offset	\$368	\$398	\$389	\$415	\$402
Other Tools at Education	\$68	\$59	\$59	\$50	\$51
Total Loan Consolidations (at Education and at PCAs)	\$365	\$290	\$206	\$197	\$224
Total Loan Rehabilitations (at Education and at PCAs)	\$102	\$369	\$587	\$786	\$954

- Recoveries from TOP decreased, by 3.1 percent, from FY 2005 to FY 2006. 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, which collected \$241 million of the \$251 million collected through AWG in FY 2006. 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 five 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 15

percent in FY 2006. The decline in costs is the direct result of reduced negotiated rates in the FY 2000 and FY 2004 PCA task orders and increased usage of lower cost PCA recovery tools such as loan rehabilitation.

- PCAs rehabilitated \$900 million in defaulted loans in FY 2006, up significantly from the \$786 million in FY 2005. 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).
- Education has continued its successful matching program with HHS’s National Directory of New Hire Database that, for FY 2006, resulted in the capture of new debtor location information on over 1.5 million accounts. Use of the New Hire Database led to an additional \$565.5 million in student loan recoveries.
- Due to contractual issues, BSC did not receive the software components to its updated system that were needed to participate in TOP salary offset. BSC is currently in negotiations to determine when a new system will be up and running. In the interim, Education uses all other available debt collection tools to collect debts owed by Federal employees.

B - HUD AND SBA LOAN ASSET SALES

Fiscal Year	Dept. of Housing and Urban Development		Small Business Administration	
	Unpaid Principal Balance	Gross Proceeds	Unpaid Principal Balance	Gross Proceeds
2001	\$623 million	\$432 million	\$2.4 billion	\$1.6 billion
2002	\$502 million	\$291 million	\$1.27 billion	\$871 million
2003	\$1 billion	\$510 million	\$651 million	\$444 million
2004	\$1.2 billion	\$777 million	0	0
2005	\$1.4 billion	\$908 million	0	0
2006	\$785 million	\$414 million	0	0
TOTALS	\$5.5 billion	\$3.3 billion	\$4.3 billion	\$2.9 billion

- HUD and SBA established Loan Asset Sales programs to sell performing and non-performing loans to the public. HUD’s Federal Housing Administration (FHA) has an active asset sales program with the objective of maximizing the recovery from the payment of insurance claims by selling multi-family and healthcare (formerly FHA-insured) mortgages to the private sector. FHA has also been conducting a demonstration in which it acquires and sells defaulted single-family mortgages. An evaluation is ongoing of the single-family sales program to determine its financial and mission success. The drop in unpaid principal and sales proceeds is due in large part to the success of the ongoing sales program in reducing and maintaining the multi-

family and healthcare portfolio. SBA's asset sales program included the sale of direct loans and defaulted guaranteed loans.

- SBA did not conduct asset sales during the period of FY 2004 through FY 2006. However, SBA anticipates publishing regulations in FY 2007 that clarify its authority to include business loans in public sales. The agency hopes to begin loan sales in FY 2008 in partnership with the Federal Deposit Insurance Corporation (FDIC).
- Over the last six fiscal years, SBA and HUD have sold \$9.8 billion in loan assets and collected \$6.2 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, 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 2006. The table groups all other agencies into a single category. At the end of FY 2006, 95 percent of the receivables belonged to the 11 agencies listed in the table below.

Federal Receivables and Delinquent Debt as of September 30, 2006 (in millions)						
Agency	Ending Balance	Collections	Write-offs	Delinquencies	Delinquencies > 180*	Currently Not Collectible
Education	\$123,004	\$36,585	\$652	\$38,592	\$22,777	\$351
USDA	\$103,945	\$26,155	\$931	\$3,745	\$3,288	\$618
SSA	\$13,662	\$2,896	\$1,124	\$3,263	\$2,244	\$9,070
HUD	\$11,226	\$4,970	\$169	\$506	\$417	\$217
SBA	\$11,012	\$1,708	\$1,161	\$3,154	\$2,886	\$1,804
DOD	\$8,951	\$11,890	\$309	\$4,889	\$4,460	\$237
EX/IM ¹	\$8,414	\$2,655	\$1,504	\$2,010	\$1,832	0
HHS	\$7,305	\$24,626	\$764	\$2,089	\$1,529	\$7,448
AID ²	\$7,141	\$729	\$1	\$780	\$751	\$0.6
Energy	\$4,127	\$5,826	\$2	\$149	\$106	\$2,108
FATP ³	\$3,579	\$1,183	\$37	\$1,447	\$1,432	0
All Other	\$16,456	\$45,198	\$3,396	\$4,328	\$4,776	\$1,266
Gov't Total	\$318,822	\$164,421	\$10,050	\$64,862	\$44,272	\$25,724

¹Export Import Bank

²Agency for International Development

³Funds Appropriated to the President

Amounts reported as write-offs represent the dollar amount of uncollectible receivables written off during FY 2006.

“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 2006, 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

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