FEDERAL DEBT COLLECTION PRACTICES

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

NOVEMBER 12, 1997

Serial No. 105–121

Printed for the use of the Committee on Government Reform and Oversight

U.S. GOVERNMENT PRINTING OFFICE

48–780 WASHINGTON : 1998

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-057299-1

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

DAN BURTON, Indiana, *Chairman*

BENJAMIN A. GILMAN, New York
J. DENNIS HASTERT, Illinois
CONSTANCE A. MORELLA, Maryland
CHRISTOPHER SHAYS, Connecticut
STEVEN SCHIFF, New Mexico
CHRISTOPHER COX, California
ILEANA ROS-LEHTINEN, Florida
JOHN M. McHUGH, New York
STEPHEN HORN, California
JOHN L. MICA, Florida
THOMAS M. DAVIS, Virginia
DAVID M. McINTOSH, Indiana
MARK E. SOUDER, Indiana
JOE SCARBOROUGH, Florida
JOHN B. SHADEGG, Arizona
STEVEN C. LATOURETTE, Ohio
MARSHALL "MARK" SANFORD, South Carolina
JOHN E. SUNUNU, New Hampshire
PETE SESSIONS, Texas
MICHAEL PAPPAS, New Jersey
VINCE SNOWBARGER, Kansas
BOB BARR, Georgia
ROB PORTMAN, Ohio

HENRY A. WAXMAN, California
TOM LANTOS, California
ROBERT E. WISE, JR., West Virginia
MAJOR R. OWENS, New York
EDOLPHUS TOWNS, New York
PAUL E. KANJORSKI, Pennsylvania
GARY A. CONDIT, California
CAROLYN B. MALONEY, New York
THOMAS M. BARRETT, Wisconsin
ELEANOR HOLMES NORTON, Washington, DC
CHAKA FATTAH, Pennsylvania
ELIJAH E. CUMMINGS, Maryland
DENNIS J. KUCINICH, Ohio
ROD R. BLAGOJEVICH, Illinois
DANNY K. DAVIS, Illinois
JOHN F. TIERNEY, Massachusetts
JIM TURNER, Texas
THOMAS H. ALLEN, Maine
HAROLD E. FORD, JR., Tennessee

BERNARD SANDERS, Vermont (Independent)

KEVIN BINGER, *Staff Director*
DANIEL R. MOLL, *Deputy Staff Director*
WILLIAM MOSCHELLA, *Deputy Counsel and Parliamentarian*
JUDITH MCCOY, *Chief Clerk*
PHIL SCHILIRO, *Minority Staff Director*

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

STEPHEN HORN, California, *Chairman*

PETE SESSIONS, Texas
THOMAS M. DAVIS, Virginia
JOE SCARBOROUGH, Florida
MARSHALL "MARK" SANFORD, South Carolina
JOHN E. SUNUNU, New Hampshire
ROB PORTMAN, Ohio

CAROLYN B. MALONEY, New York
PAUL E. KANJORSKI, Pennsylvania
MAJOR R. OWENS, New York
ROD R. BLAGOJEVICH, Illinois
DANNY K. DAVIS, Illinois

EX OFFICIO

DAN BURTON, Indiana

HENRY A. WAXMAN, California

J. RUSSELL GEORGE, *Staff Director and Chief Counsel*
JOHN HYNES, *Professional Staff Member*
ANDREA MILLER, *Clerk*
MARK STEPHENSON, *Minority Professional Staff Member*

CONTENTS

	Page
Hearing held on November 12, 1997	1
Statement of:	
Gray, John, Deputy Administrator, Small Business Administration; David Longanecker, Assistant Secretary for Postsecondary Education, Department of Education, accompanied by Tom Petska, Director of Debt Collection Service, Department of Education; Richard Keevey, Chief Financial Officer, Department of Housing and Urban Development; and Dale Sopper, Acting Deputy Commissioner, Social Security Administration	100
Hawke, John, Under Secretary, Department of the Treasury; and Gerald Murphy, Fiscal Assistant Secretary, Department of the Treasury	39
Letters, statements, etc., submitted for the record by:	
Davis, Hon. Danny K., a Representative in Congress from the State of Illinois, prepared statement of	30
Gray, John, Deputy Administrator, Small Business Administration:	
Information concerning private collection agencies	169
Information concerning write-offs	177
Number of FTE's directed at debt collection	174
Prepared statement of	104
Hawke, John, Under Secretary, Department of the Treasury, prepared statement of	42
Horn, Hon. Stephen, a Representative in Congress from the State of California, prepared statement of	3
Keevey, Richard, Chief Financial Officer, Department of Housing and Urban Development:	
Information concerning notices	175
Information concerning write-offs	177
Number of FTE's directed at debt collection	173
Prepared statement of	140
Longanecker, David, Assistant Secretary for Postsecondary Education, Department of Education:	
Number of FTE's directed at debt collection	173
Prepared statement of	124
Maloney, Hon. Carolyn B., a Representative in Congress from the State of New York:	
Grading schedule on Federal agencies	7
Prepared statement of	27
Murphy, Gerald, Fiscal Assistant Secretary, Department of the Treasury:	
Debt Collection contracts awarded	89
Information concerning the Treasury Offset Program	72
Prepared statement of	54
Petska, Tom, Director of Debt Collection Service, Department of Education, information concerning written notice	175
Sopper, Dale, Acting Deputy Commissioner, Social Security Administration:	
Information concerning benefit offset rates	176
Prepared statement of	155

FEDERAL DEBT COLLECTION PRACTICES

WEDNESDAY, NOVEMBER 12, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Maloney, and Davis of Illinois.

Staff present: J. Russell George, staff director and chief counsel; Mark Brasher, senior policy director; John Hynes, professional staff member; Andrea Miller, clerk; Matthew Ebert, staff assistant; and Mark Stephenson, minority professional staff member.

Mr. HORN. A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order.

One and a half years ago, Congress passed and the President signed into law the Debt Collection Improvement Act of 1996. This law changed the rules of the game for debt collection. Currently, the total of delinquent nontax debts is $50 billion. By providing new collection tools to agencies and incentives to increase collections and accountability, Congress hoped to increase the dismal performance of the Federal Government in collecting delinquent debts.

What results have been achieved so far? The Department of Treasury's Financial Management Service has spent between $20 and $30 million implementing the Debt Collection Improvement Act. This involves coordinating with Federal agencies, conducting awareness campaigns, drafting contracting documents and regulations, and working with agencies to refer their debts to the Treasury.

The Financial Management Service has only collected $2.8 million from these efforts. While it is an improvement from the $300,000 collected in April as of our last hearing, it is not enough. The Department of Treasury is still not covering its costs. I hope that as of our next hearing, 6 months from now, we have another improvement of at least one order of magnitude, and ideally two. That would bring us to collect about $300 million per year. We should be collecting billions every year—$50 million dollars is significant but we ought to set our sights considerably higher.

In order to get the real money and to begin collecting more than we spend, agencies need to implement three key provisions of the

Debt Collection Improvement Act. Asset sales need to accelerate. The positive experiences of the Department of Housing and Urban Development and the excellent returns they have had are eye opening. Further asset sales can dramatically increase collections. Regulations must be drafted, published, and implemented. Several key authorities from the Debt Collection Improvement Act will continue to be unavailable to agencies until regulations are published.

For example, wage garnishment, offset of benefit payments, and barring delinquent debtors from obtaining additional loans or benefits cannot be used as a collection tool unless these regulations are published. Would that it were otherwise.

The committee is disappointed at the absence of the Office of Management and Budget today. Its staff worked hard to help pass the Debt Collection Improvement Act and has been helpful in various troubleshooting problems. Acting Deputy Director for Management, Ed DeSeve, was unable to be with us. It is very important that the Office of Management and Budget focus agency attention on governmentwide problems. Its slowness is another reason to advocate a separate Office of Management, which we will shortly be doing. At our last hearing, I questioned Mr. DeSeve's predecessor, John Koskinen, about the level of support for this initiative at the Office of Management and Budget. He was unequivocal in stating the administration's support for improving debt collection. We hope the same message will be expressed by the Office of Management and Budget in both words and deeds in the near future.

Ultimately, success will be measured by dollars collected and accounts resolved. With that said, we welcome witnesses from several Federal agencies to discuss implementation of the Debt Collection Improvement Act. Although agencies are at varying stages in implementation, it is fair to say that everyone here can do better. And if there are additional laws you wish Congress to enact in this area, please let us know.

I now yield to Mrs. Maloney, the ranking Democrat on the committee, for an opening statement.

[The prepared statement of Hon. Stephen Horn follows:]

DAN BURTON, INDIANA
CHAIRMAN

BENJAMIN A. GILMAN, NEW YORK
J. DENNIS HASTERT, ILLINOIS
CONSTANCE A. MORELLA, MARYLAND
CHRISTOPHER SHAYS, CONNECTICUT
STEVEN SCHIFF, NEW MEXICO
CHRISTOPHER COX, CALIFORNIA
ILEANA ROS-LEHTINEN, FLORIDA
JIM M. McHUGH, NEW YORK
STEPHEN HORN, CALIFORNIA
JOHN L. MICA, FLORIDA
THOMAS M. DAVIS III, VIRGINIA
DAVID M. McINTOSH, INDIANA
MARK E. SOUDER, INDIANA
JOE SCARBOROUGH, FLORIDA
JOHN SHADEGG, ARIZONA
STEVE C. LaTOURETTE, OHIO
MARSHALL "MARK" SANFORD, SOUTH CAROLINA
JOHN E. SUNUNU, NEW HAMPSHIRE
PETE SESSIONS, TEXAS
MIKE PAPPAS, NEW JERSEY
VINCE SNOWBARGER, KANSAS
BOB BARR, GEORGIA
ROB PORTMAN, OHIO

ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515–6143

MAJORITY (202) 225–5074
MINORITY (202) 225–5051
TTY (202) 225–8852

HENRY A. WAXMAN, CALIFORNIA
RANKING MINORITY MEMBER

TOM LANTOS, CALIFORNIA
BOB WISE, WEST VIRGINIA
MAJOR R. OWENS, NEW YORK
EDOLPHUS TOWNS, NEW YORK
PAUL E. KANJORSKI, PENNSYLVANIA
GARY A. CONDIT, CALIFORNIA
CAROLYN B. MALONEY, NEW YORK
THOMAS M. BARRETT, WISCONSIN
ELEANOR HOLMES NORTON,
DISTRICT OF COLUMBIA
CHAKA FATTAH, PENNSYLVANIA
ELIJAH E. CUMMINGS, MARYLAND
DENNIS KUCINICH, OHIO
ROD R. BLAGOJEVICH, ILLINOIS
DANNY K. DAVIS, ILLINOIS
JOHN F. TIERNEY, MASSACHUSETTS
JIM TURNER, TEXAS
THOMAS H. ALLEN, MAINE
HAROLD E. FORD, JR., TENNESSEE

BERNARD SANDERS, VERMONT
INDEPENDENT

"Oversight of the Debt Collection Improvement Act of 1996"

November 12, 1997

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)

Chairman, Subcommittee on Government Management, Information, and Technology

One-and-one half years ago, Congress passed and the President signed into law the Debt Collection Improvement Act of 1996. This law changed the rules of the game for debt collection. Currently, the total of delinquent non-tax debts is $50 billion dollars. By providing new collection tools to agencies and incentives to increase collections and accountability, Congress hoped to increase the dismal performance of the Federal Government in collecting delinquent debts.

What results have been achieved so far? The Department of the Treasury's Financial Management Service has spent between $20 and $30 million implementing the Debt Collection Improvement Act. This involves coordinating with Federal agencies, conducting awareness campaigns, drafting contracting documents and regulations, and working with agencies to refer their debts to the Treasury. The Financial Management Service has only collected $2.8 million from these efforts. While it is an improvement from the $300,000 collected in April as of our last hearing, it is not enough. The Department of the Treasury is still not covering its costs. I hope that as of our next hearing, we have another improvement of at least one order of magnitude, and ideally two. That would bring us to collect about $300 million per year. 50 million dollars is significant, but we ought to set our sights considerably higher.

In order to get the real money and to begin collecting more than we spend, agencies need to implement three key provisions of the Debt Collection Improvement Act:

- **Administrative Offset must be fully implemented.** The Department of the Treasury needs to increase the volume of payments into the offset program; agencies need to refer all eligible debts for offset. Neither has happened. This is dramatically illustrated by the chart we have handed out. At the very least, agencies ought to refer debts for administrative offset to the Internal Revenue Service for Tax Refund Offset.

- **Asset sales need to accelerate.** The positive experiences of the Department of Housing and Urban Development and the excellent returns they have had are eye-opening. Further asset sales can dramatically increase collections.

- **Regulations must be drafted, published, and implemented.** Several key authorities from the Debt Collection Improvement Act will continue to be unavailable to agencies until regulations are published. For example, wage garnishment, offset of benefit payments and barring delinquent debtors from obtaining additional loans or benefits cannot be used as a collection tool until these regulations are published.

The committee is disappointed at the absence of the Office of Management and Budget today. Its staff worked hard to help pass the Debt Collection Improvement Act and has been helpful in troubleshooting problems. Acting Deputy Director for Management Ed DeSeve was unable to be with us today, as he is working on another priority. It is very important that the Office of Management and Budget focus agency attention on this government-wide problem. Its slowness is another reason for a separate Office of Management. At our last hearing, I questioned Mr. DeSeve's predecessor, John Koskinen, about the level of support for this initiative at the Office of Management and Budget. He was unequivocal in stating the Administration's support for improving debt collection. We hope the same message will be expressed by the Office of Management and Budget in both words and deeds in the near future.

Ultimately, success will be measured by dollars collected and accounts resolved. That said, we welcome witnesses from several Federal agencies to discuss implementation of the Debt Collection Improvement Act. Although agencies are at varying stages in implementation, it is fair to say that everyone here can do better.

Mrs. MALONEY. I thank the chairman for yielding, and I am very, very pleased that you are holding this oversight hearing on our Debt Collection Improvement Act of 1996. I, too, am very concerned with implementing this bipartisan legislation in a timely manner.

Although we don't have much to show for it, I firmly believe this legislation can dramatically improve the collection of delinquent debt throughout the Government. However, the problem does not appear to be our legislation but, rather, the Federal agencies' unwillingness to implement our legislation.

Two years ago, I released a report showing that businesses and individuals owe the Government $50 billion in past due debts. The Federal agencies asked the Congress for additional tools and methods to improve collecting this debt. The chairman and I responded by delivering that legislation. We gave broad new powers to Federal agencies to improve governmentwide collections. Two years later, I have released today a second report that, again, shows $50 billion in delinquent debt.

I feel, Mr. Chairman, like we are spinning our wheels. What has happened is that our Debt Collection Improvement Act, which became law in April 1996, has only collected $2.5 million out of the $50 billion in delinquent debt. That means in a year and a half, we have collected only $1 for every $20,000 that is owed. That is tremendously embarrassing.

And when I look at these dollars, I see teachers, I see police officers, I see services that we could be giving the American public if we brought in these dollars.

Today, I would like to focus on perhaps the two most important unimplemented components of the legislation: The administrative offset program and the cross-servicing program.

As you know, the Department of Treasury is now testing the Grand Treasury Offset Program, which would implement the administrative offset program. I have repeatedly asked for target dates for completion of this program. Since Treasury has not provided dates for me, I have put together my own suggested dates and I would like to submit them in the record, proposed target dates so that we could implement this program and start collecting this money.

Mr. HORN. Without objection, it will be in the record at this point.

Mrs. MALONEY. Thank you, Mr. Chairman.

For the administrative offset program and cross-servicing programs to work, the Federal agencies must refer their debts to Treasury. So far, most have not. As a result, I have put together this report on agency compliance with the law. Agencies that have not referred debts for administrative offset or for the cross-servicing receive an F grade. Agencies that have referred debt for one or the other receive a D grade. Agencies that have referred some debts for both programs receive a C grade. Since no agency referred all their debt to Treasury, no one received an A. And I would like

to put this grading schedule on Federal agencies into the record with the supportive documentation that supports these grades.

Mr. HORN. Without objection, it will be in the record at this point.

Mrs. MALONEY. Thank you, Mr. Chairman.

[The information referred to follows:]

14th District • New York

Congresswoman

Carolyn **Maloney**

Reports

1330 Longworth Building • Washington, DC 20515 • 202-225-7944
110 East 59th Street • 2nd Floor • New York, NY 10022 • 212-832-6531

FOR IMMEDIATE RELEASE
November 12, 1997

CONTACT: Terese Schlachter
202-225-7944

FIFTY BILLION BUCKS STILL OWED TO FEDERAL GOVERNMENT
Maloney Assigns Poor Marks To Agencies For Collecting Debt

Washington, DC -- November 12, 1997. Delinquent fines, student loans, royalties, and other debts to the U.S. government have rolled into a 50 billion dollar tab- and debtors are doing little about it. The numbers are the topic of hearings being held today in the Government Reform and Oversight Subcommittee on Government Management, Information and Technology. Congresswoman Carolyn Maloney released a report today, in conjunction with the hearings, which shows the break-down of the debt, and the degree to which the agencies are breaking the law.

The "Debt Collection Improvement Act" written by Maloney in 1996, calls for debts over 180 days old to be turned over to the Department of Treasury for collection. Thirty five agencies are in violation of this law. In the year and a half since the law has been in place, only 2.5 million dollars in delinquent debt has been collected.

"What I find most disturbing is the fact that the debt has increased from about 25 billion in 1985, to more than 50 billion in 1997. We've handed the government departments the tools to clamp down on people who owe them money- yet they continue to let the debt pile up," remarked Maloney. "50 billion dollars is twice this year's forecast for the national deficit! There is always a move to tighten purse strings...why are they not bringing in the money that's right under their noses!"

Maloney also issued a report card today, reflecting how well each agency has implemented the legislation.

Federal Agency Report Card	Grade
Department of Education	C
Department of Health and Human Services	C
Department of Veterans Affairs	C
Department of Energy	C
Department of Agriculture	D
Department of Housing and Urban Development	D
Department of Defense	F
Environmental Protection Agency	F
Export-Import Bank	F
Small Business Administration	F
Department of Treasury	F

DELINQUENT NON-TAX RECEIVABLES

Hon. Carolyn B. Maloney

This report discusses the results of a survey sent out on March 13, 1997 by Congresswoman Carolyn Maloney to all cabinet departments and certain selected independent agencies. The survey's purpose was to assess the total amount of delinquent non-tax receivables owed to the Government of the United States, and to gauge the effectiveness of the Debt Collection Improvement Act of 1996 (P.L. 104-134). Improving Federal debt collection has taken on renewed importance because of Congressional efforts to balance the budget and streamline government.

According to Maloney's survey, individuals, businesses and organizations owe the U.S. Government over $ 50 billion in non-tax delinquent debt.

These findings clearly show that the U.S. Government needs to do more to collect its money. Although collecting debt has proven difficult due to the complexity and nature of Federal programs, many departments and agencies can do better. They have recently received the necessary tools to collect their debt.

On April 26, 1996, the Debt Collection Improvement Act of 1996 (DCIA) became law as part of the Omnibus Appropriations Act for FY96 (PL 104-134). Rep. Maloney co-authored that legislation.

Delinquent debt can be any debt to the Federal government that is over 30 days past due. Debt where a modified payment schedule has been agreed to is not considered delinquent. Before a debt is referred for collection, there is a set of due process procedures the agency must follow, including notification in writing of the intent to seek collection through other means, and appeals process and/or negotiation of the debt.

Over the last decade, delinquent debt has increased from $23.9 billion in 1985 to $48.8 billion in 1994. In 1996 that level rose slightly to $50.4 billion. The greatest increase over this period was between 1985 and 1989 (23.9 billion to $40.4 billion)

Five agencies are responsible for the majority of non-tax debt owed to the Federal government: Housing and Urban Development; Agriculture; Veterans Affairs; Small Business Administration; and Education. Delinquent debt arises from numerous sources. At the Department of Agriculture, debt arises from farm loans, food stamp overpayments and commodities support programs. At Education, almost all comes from student loans. At the

Department of Interior, delinquent debt arises from audits of rents and royalties due for oil, gas, coal and other minerals extracted from Federal lands. At EPA, delinquent debt results from fines and penalties for pollution enforcement and clean up. At HUD, most debt arises from defaults on housing loans.

The Debt Collection Improvement Act of 1996 strengthens the government's ability to collect delinquent, non-tax debt by providing a number of tools for agencies to use. The Act also requires Federal agencies to transfer delinquent debt over 180 days old to the Department of the Treasury for collection. Treasury's Financial Management Service (FMS) has the lead responsibility for debt collection. The Act is intended to maximize collection of delinquent debt by ensuring quick action on recovery using all appropriate collection tools. It will minimize the costs of collection by consolidating collections at Treasury and reduce losses by requiring screening of potential borrowers, aggressive monitoring of accounts and information sharing among agencies. The Act also ensures that the public is informed of the government's debt collection policies and guarantees appropriate due process rights. The Act also encourages agencies sell debt when appropriate and to experiment with the use of private sector collection agencies. The major provisions of the Act are outlined below.

Administrative offset

The Act creates governmentwide administrative offset authority. Federal payments to individuals and companies would be offset against Federal debts. Veterans Affairs and means tested benefits are exempt to prevent hardship to beneficiaries. Due process standards under 31 USC 3716 still apply.

Salary Offset

The Act similarly allows Treasury to match Federal employee payroll records against delinquent debt. Any Federal employee with delinquent debt above $50 can have his or her wages garnished.

Access to Taxpayer Information Numbers

Federal agencies are required to obtain taxpayer identification numbers from persons doing business with the government, including recipients of credit, licenses and permits, benefits and contractors. This provision is essential to making the first two work.

Bars Delinquent Debtors from Receiving Federal Credit

Persons with delinquent non-tax debt are barred from obtaining Federal loans or loan guarantees. Agency heads have the authority to waive this provision and loans to disaster victims are not subject to this provision.

Tax Refund Offset

The disbursing officials at Treasury's FMS are authorized to conduct a tax refund offset program. This program and the administrative offset program will be combined at FMS to increase efficiency and prevent the unauthorized disclosure of taxpayer information.

Wage Garnishment

Wage garnishment of up to 15% of a delinquent debtor's disposable pay is authorized if the individual is not making required repayment in accordance with any agreement between an agency and the individual.

Credit Reporting

All debts owed to the Federal Government can be reported to credit bureaus.

Governmentwide Cross-Servicing

Federal agencies are authorized to make agreements with other agencies, which have been designated as "debt collection centers," to cross-service debts. Agencies seeking these services will have to pay for them, but the cost should be less than if the agency performed the service itself. The Act also requires the transfer of claims over 180 days delinquent to Treasury if adequate collection action is not being taken.

Gainsharing

Agencies that improve their debt collection over a previous year's baseline will be able to deposit a portion of the amount of improvement into a fund, and may use those monies to improve its debt collection process. OMB will set the baseline and Treasury will manage the fund.

Debt Sales by Agencies

Sales to the private sector of delinquent debt over 90 days old are authorized if the sale is in the best interest of the United States as determined by the Secretary of the Treasury.

Contracting with Private Attorneys

The Act makes permanent the Department of Justice's authority to contract with private attorneys to collect Federal debts.

The biggest obstacles to implementation of the law to date are the lack of compliance of agencies with requirements to refer delinquent debts to FMS for servicing and/or offset and the lack of compliance by FMS, USPS and DoD in matching payments against debts for offset. Agencies are reportedly reluctant to refer debt because of concerns about jobs, even though FMS reports that they are fully operational to begin the cross-servicing and offset provisions.

While Congress expects hundreds of millions of dollars to be collected every year by using these new tools, results to date have been very disappointing. Latest reports indicate that only about $2.5 million has been collected by the Treasury Department. Agencies have referred approximately $17 billion (including $8 billion in child support debts) for administrative offset and about $727 million for cross-servicing.

Outlined below is an agency-by-agency description of survey results. The majority of non-tax debt comes from the Department of Education, the Department of Agriculture, the Department of Health and Humans Services, the Department of Housing and Urban Development, the Department of Veterans Affairs and the Department of Energy. This list is limited to only those agencies which reported more than $ 100 million in delinquent receivables, although the complete list is included in the table.

DEPARTMENT OF AGRICULTURE

As of April 1997, the USDA was owed $8.7 billion in delinquent debt. These delinquencies consist mostly of farm loans, food stamp overpayments, unpaid insurance premiums, overpaid indemnities, utility loans, defaulted loan guarantees, defaulted direct credits, and operations to support programs for agricultural commodities. The Department estimates that 6.5 billion is uncollectible. $785 million has been referred to the Treasury Department for tax refund offset, but none for administrative offset or cross-servicing.

DEPARTMENT OF DEFENSE

The Department of Defense has a broad array of delinquent receivables ranging from education and hospital debts to travel, excess leave and damaged government property reimbursements. The total delinquent debt amount comes to $4.2 billion, of which $245 million is considered uncollectible. Delinquent debt includes $265 million from the Army, $2.1 billion from the Navy, $75 million from the Air Force, $586 million from the Defense Security Assistance Agency, and $898.5 million from other Defense Agencies. None of the Defense Department's debt has been referred to the Treasury for any collection.

DEPARTMENT OF EDUCATION

The Education Department reported having over $19 billion in delinquent receivables. The great majority, $18 .7 billion, are student loans, and consists of amounts arising from direct student loans, program reviews, audits, and college housing loans. So far, the majority of debt collected comes from gross guaranty agencies which collected over $1 billion in 1996. The Department has begun using the Treasury Department's collection facilities, with $9.6 billion referred for tax refund or administrative offsets in 1996.

DEPARTMENT OF ENERGY

The Energy Department's delinquent receivables are quite unique. The predominate source of delinquent receivables stem from companies who overcharged customers during the days of oil price controls in the 1970's. Of the Department's $2.355 billion in delinquent debt, $2.298 billion results from this source. These companies were penalized with petroleum pricing violations, but are presently in or on the verge of bankruptcy. $2.310 billion of the total amount of delinquent receivables owed to the Department are in bankruptcy or adjudication.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Department of Health and Human Services (HHS) consists primarily of the Public Health Service, the Health Care Financing Administration, and the Administration for Children and Family. The total delinquent receivables owed to HHS through agency programs is $4.1 billion of which over $3 billion is owed to HCFA. The Department has begun to utilize the Department of Treasury to collect money on behalf of the States under the Child Support Enforcement Program. As of the end of 1996, more than 5 million cases totaling over $38 billion were referred to Treasury for tax refund offset. This total does not include any debt owed directly to HHS, however the Department has begun to refer that debt as well.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Department of Housing and Urban Development (HUD) reported $2.3 billion in delinquent receivables. The largest sources of delinquent receivables are direct loans, defaulted guaranteed loans, and non credit loans. All of these relate to Federal housing and community development programs. HUD has written-off $4.2 billion in delinquent debt over the last 5 years. HUD's delinquency rates have increased from 13.03 percent in FY 1990 to 14.85 percent in FY 1994, and it considers 26 percent of outstanding receivables uncollectible.

DEPARTMENT OF THE INTERIOR

The Department of Interior's delinquent non-tax receivables total $438.4 million and primarily stem from audit findings, enforcement of laws and regulations and loans. Much of this debt is derived from the audits of rents and royalties due for oil, gas, coal, and other minerals extracted from Federally owned lands. It has written-off over $120 million in debt over the last 5 years and considers $175.5 million non-collectible. The Department has referred $14.3 million to Treasury for tax refund offset.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation (DOT) reported $159.3 million in delinquent receivables. The specific sources of debt are defaulted direct and guaranteed loans, grantee audit disallowances, oil pollution cost recovery and civil penalty assessments, overpayments, Freedom of Information requests, user fees and charges, fines and foreign governments. DOT considers $108.7 million uncollectible. DOT has not referred significant amounts of its delinquent debt to Treasury for collection. Only $1.2 million has been referred for tax refund offset.

DEPARTMENT OF THE TREASURY

The Treasury Department is owed $399.5 million in delinquent non-tax receivables. The sources of debt include mostly fines, fees and penalties relating to their programmatic jurisdiction including U.S. Customs Service duties and Financial Management Service loans. $313.7 million of their debt it over 180 days old.

ENVIRONMENTAL PROTECTION AGENCY

The Environmental Protection Agency (EPA) reported $701.5 million in delinquent non-tax receivables, of which 94% is in litigation or administrative appeal. These delinquent receivables include enforcement and clean up fines and penalties, direct loans for the clean up of asbestos in schools, cost recoveries for clean up of toxic sites, toxic substance user fees, vendor overpayments and unused airplane tickets. It considers $386.5 million uncollectible, and has not referred any debt to Treasury for collection.

EXPORT-IMPORT BANK OF THE UNITED STATES

The Export-Import (Ex-Im) Bank programs have $1.4 billion in delinquent receivables. The vast majority of these delinquent receivables consist of the principal, interest and fees relating to Ex-Im's direct loan program.

Most of Ex-Im's loans are made directly to foreign governments or to foreign entities in which the repayment of the debt is guaranteed by the government. The Bank does not write-off sovereign debt, unless there is action on the part of the U.S. Government to provide debt relief to a particular country. For loans to private institutions or individuals, the decision to write-off a delinquent loan is made on a case by case basis. Ex-Im pursues the collection of delinquent debt through its Claims and Recoveries Division which in the case of private obligors, works with attorneys operating in the country of the obligor.

SMALL BUSINESS ADMINISTRATION

The individuals, businesses and organizations involved in Small Business Administration (SBA) programs currently owe the SBA over $2 billion in delinquent receivables. The specific sources of delinquent receivables include overpayments, guarantee fixed fees, SBIC user fees, accrued and deferred interest, loans, judgements, notes, undisbursed expenditures and legal costs capitalized on judgements. The SBA has written-off on average close to half a billion per year over the last five years. It has referred only $31.2 million to Treasury for tax refund offset.

DEPARTMENT OF VETERANS AFFAIRS

The Department of Veterans Affairs delinquent receivables balance is $2.3 billion, mainly from defaulted loan guaranty debt, vendor loan debt, compensation and pension debt, medical care cost recovery debt, and education debt. It considers $1.9 billion uncollectible. The Department has referred $3.6 million to the Treasury Department for tax refund offset.

CONCLUSION

The U.S. Government is owed over $ 50 billion in delinquent non-tax receivables. In other words, individuals, businesses and organizations are late in paying one in every five non-tax dollars owed to our government. Many of these individuals and business are quite capable of paying, but they simply don't. Some even have debt that is decades old. When fully implemented, the Debt Collection Improvement Act will help enhance collection efforts and must be implemented fully and swiftly. Unfortunately, its implementation has been slow and spotty. Agencies must begin availing themselves of the tools of the DCIA. It can help achieve deficit reduction without resorting to reductions in important Federal programs or tax increases.

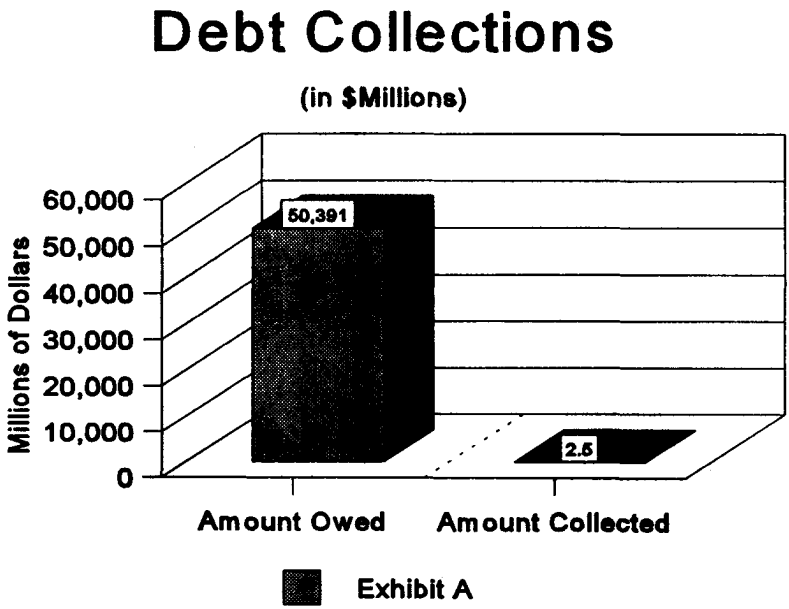
Appendix A

Federal Agency Report Card	Grade
Department of Education	C
Department of Health and Human Services	C
Office of Personnel Management	C
Department of Interior	C
Nuclear Regulatory Commission	C
Department of Energy	C
Department of Transportation	C
Department of Labor	C
Federal Communications Commission	C
Department of Veterans Affairs	C
General Services Administration	C
Department of Agriculture	D
Department of Housing and Urban Development	D
Agency for International Development	D
Federal Emergency Management Agency	D
National Science Foundation	D
Peace Corps	D
Social Security Administration	D
Railroad Retirement Board	D
United States Information Agency	D
Department of Commerce	F
Department of Defense	F
Department of State	F
Environmental Protection Agency	F
National Aeronautics and Space Administration	F
Commodity Futures Trading Commission	F
Export/Import Bank	F
Federal Deposit Insurance Corporation	F
Securities and Exchange Commission	F
Railroad Retirement Board	F
Pension Benefit Guaranty Corporation	F
Federal Trade Commission	F
Small Business Administration	F
Department of Treasury	**F**

This report card measures Federal agency compliance with the Debt Collection Improvement Act of 1996.

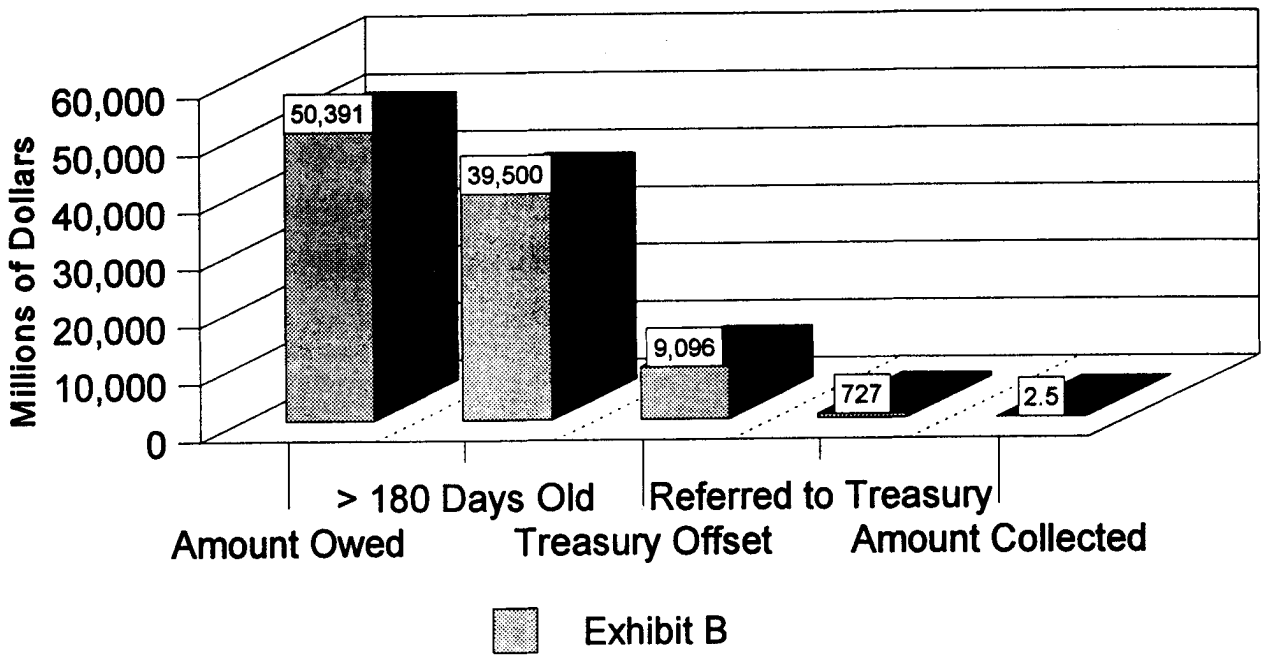
The Department of Treasury gets an F for failed leadership. Without the Department of Treasury's support, the effort to collect delinquent non-tax debt will not succeed.

Agencies receiving a C have some debts referred both for administrative offset and cross-servicing. The agencies receiving a D have referred some debts for either administrative offset or cross-servicing but not both.


Debt Collections
(in $Millions)
Millions of Dollars
60,000
50,000
40,000
30,000
20,000
10,000
0
50,391
2.5
Amount Owed
Amount Collected
Exhibit A

DCIA Implementation

(in Millions)



Proposed Target Dates

Administrative Offset - (GTOP) Grand Treasury Offset Program

Development	10/97	Done
Testing by the Federal Reserve Board	2/98	
Conversion from ITOP to GTOP	3/98	
Implementation	3/98	

Payment Files

Full salary offset implementation	3/98
NTDO - Postal/Defense Dispursing offset	3/98
SSA and RRB Benefits	6/98

TABLE ONE

Agency/Program	Delinquent Reciveables	DR>180days	Uncollectable
Agriculture	**8716.8**	**8314.1**	**6516.1**
Farm Serv.	2431.9	2408.2	2383.0
ComCredCorp	3118.8	2849.4	147.0
FoodConSer	687.0	664.6	503.4
ForServ	217.4	201.5	104.1
Risk Manage Ag	4.7	14.5	9.0
Rur Util Serv	1139.0	1084.4	1084.4
Rur Hous Serv	1076.0	1060.5	2248.9
Rur Bus. Coop	32.0	31.0	36.3
Commerce	**96.9**	**86.4**	**79.6**
Gen Admin	.02	na	na
ITA	.8	na	na
Census	.2	na	na
Min Bus Devel	11.7	na	na
NIST	1.1	na	na
NTIA	.4	na	na
Trav and Tour	.005	na	na
Pat and Trade	0	na	na
NOAA	64.4	na	na
EDA	15.7	na	na
Bur Ex Admin	1.9	na	na
Econ and Stat	.028	na	na
NTIS	.5	na	na
Defense	**4152.4**	**2697.7**	**245.3**
Air Force	75.4	52.4	65.0
Army	265.8	123.6	153.1
Navy	2102.8	1599.3	14.1
Defense Agencies	898.5	331.1	13.1
DSAA	809.8	591.3	0
Education	**19,156.0**	**18,755.6**	**15,788.4**
Guaranteed Loans	18,708.9	18,708.9	15,737.3
Direct Loans	396.2	.5	34.0
Institutional Receivables	47.3	43.2	16.3
Facilities Loans	3.5	3.0	.7
Energy	**2355.0**	**2329.0**[1]	**2456.1**[2]
HHS	**4077.2**	**3400.0**	**2148.0**
HCFA	3027.5	na	na
Pub Health Service	448.8	na	na
Admin for Child and Fam	394.7	na	na
Office of the Sec	216.2	na	na
Admin on Aging	.009	na	na
HUD	**2281.7**	**1617.9**	**3787.3**[3]
Interior	**438.4**	**381.6**	**175.5**
OSM	56.6	54.3	54.9
MMS	122.4	106.7	.1
BIA	123.1	101.6	91.8
BOR	105.3	97.7	12.2
Other	31.0	21.2	16.4

[1]2310 million in bankruptcy or adjudication.

[2]See Energy Response (Uncollectable > delinquent receivable)

[3]Allowance for uncollectible account.

Agency/Program	Delinquent Reciveables	DR>180days	Uncollectable
Justice	**91.1**	**63.9**	**22.8**
BOP	1.7	1.4	na
DEA	.052	.015	na
FBI	4.6	.4	na
INS	83.8	61.6	22.8
FPI	.5	.2	na
OBD	.0	.3	na
Labor	**69.8**	**45.8**	**46.4**
BLS	.312	.06	.016
ESA/Black Lung	4.1	3.8	4.1
ESA/Fed Empl Comp	11.8	9.4	9.3
ETA	.68	.013	44[4]
MSHA	13.9	2.7	1.5
OASAM	.007	.007	0
OSHA	24.6	17.2	19.5
PWBA	14.4	12.6[5]	12.2
State	**6.4**	**6.1**	**4.1**
Repatriation Loans	3.3	na	na
Emergency Medical	.2	na	na
Evac Loans	.04	na	na
Cuban Repat. Loans	.2	na	na
Salary Overpayment	.8	na	na
Non-State Travel	1.6	na	na
Travel	.8	na	na
Excess shipment	.008	na	na
Other	.3	na	na
Transportation	**159.3**	**142.3**	**108.7**
Direct Loans	.0657	.0657	na
Defaulted Guar. Loans	39.1	39.1	na
Non-Credit Receivables	120.0	103.1	na
Treasury	**399.5**	**313.7**	**na**
Veterans Affairs	**2265.6**	**1818.3**	**1916.4**
Compensation and Pension	332.4	270.5	na
Direct Home Loan/Active	259.6	120.2	na
Defaulted Home Loan	1171.3	1094.2	na
Med. Care Cost Recovery	308.5	187.7	na
Readjustment Benefits	79.6	71.0	na
Medical Care	74.3	49.0	na
General Fund Receipts	40.0	25.9	na
Department Totals	**44,266.1**	**39,972.4**	**33,294.7**

[4]"The report on Receivables for FY 1996 included $44 million as an allowance for uncollectible accounts. This allowance was developed by usinga calculation of debt that included debt that was referred to or being prepared for referral to DOJ."

[5]Of which 8.5 has been referred to DOJ for litigation.

Agency/Program	Delinquent Reciveables	DR>180days	Uncollectable
AID	**872.4**	**791.1**	**234.1**
EPA	**701.5**[6]	**630.0**	**386.5**
FEMA	**29.8**	**20.2**	**3.1**
GSA	**63.4**	**33.9**	**22.9**
NASA	**2.0**	**1.7**	**.9**
NSF	**.36**	**.36**	**.11**
NRC	**3.1**	**1.5**	**2.1**
OPM	**91.4**	**46.8**	**37.6**
SBA*	**2030.8**	**1552.2**	**2165.2**
SSA*	**663.1**	**314.5**	**1533.1**
CFTA	**4.5**	**4.5**	**4.2**
ExIm Bank	**1435.3**	**1152.6**	**2895.4**
FDIC	**na**	**na**	**na**
FTC	**4.5**	**4.5**	**4.2**
PBGC	**18.6**	**14.4**	**9.9**
RRB	**29.8**	**21.3**	**20.9**
SEC	**174.6**	**162.9**	**60.6**
Salary and Travel	18.9	15.2	na
Remedies Act Penalties	117.9	114.7	52.9
Insider Trading Penalties	37.8	33.0	7.7
Small Agency Totals	**6,125.2**	**4,752.5**	**7,380.8**
Grand Total All Agencies	**50,391.3**	**44,724.9**	**40,675.5**

[6]94% of this amount is in litigation or in administrative appeals process.

TABLE TWO

Agency	1992 Written Off/Collected	1993 WO/Col	1994 WO/Col	1995 WO/Col	1996 WO/Col	TRO	Prv.	1996 Collections Lit	SO	Admin Off	Other
Agriculture											
Farm Ser	1144.5/na	1085.4/na	770.3/na	573.8/na	665.2/na	37.6	0	62.6	.112	2.0	
Com Cred Corp	558.2/852.3	1263.5/1072.1	1146.4/123.8	225.8/558.6	160.3/1498.0	.508	.213	12.1	.007	1344.3	
Food Con Serv	.8/140.1	.6/159.9	43.3/170.5	43.5/147.8	39.0/177.3	40.0	.021	.051	.095	0	
For Serv	2.1/na	4.3/na	9.1/na	34.1/na	16.1/na	.025	.051	123.9	.001	0	
Risk Manag	4.7/2.3	2.4/3.0	4.0/4.4	1.1/1.2	2.7/2.3	.094	0	.110	.002	.308	
Rur Util Serv	0/58.8	0/4.7	14.0/2.2	0/2.2	981.8/1.4	0	0	1.2	0	.2	
Rur Housing	130.0/na	131.5/na	118.8/na	99.5/na	22.5/na	2.1	0	18.1	.196	.003	
Rur Bus Coop	1.6/na	6.0/na	1.3/na	.5/na	4.5/na	0	0	.160	0	0	
Commerce	135.1/na	60.9/na	16.9/na	2.2/na	1.0/na	.031	na	1.0	.005	0[1]	
Defense	[2]					22.3	3.6	80.7	1.9		1384.3
Air Force	196.2/360	25.9/339	156.0/385	12.3/341	12.4/417						
Army	57.8/32	20.2/20	40.2/22	33.2/89	29.8/90						
Navy	39.5/225	44.8/216	33.8/465	29.4/496	41.6/350						
Defense Agencies	313.3/21	110.7/71	237.7/272	23.7/466	33.4/378						
DSAA	0/99	3.4/41	0/36	0/30	0/148						
Education	954.5/143.8	3732.7173.7	2195.3/505.9	298.9/861.9	259.5/1060.9	216.3	714.4	8.8	15.5		78.8
Guaranteed Loans	943.9/640.0	3727.4/675.0	2168.0/750.0	291.4/879.0	253.7/1319.0	311.2			62.4		945.4
Direct Loans	0	0	0	.374	3.8						
Inst Receivables	6.9	7.0	26.3	6.5	2.0						
Facilities Loans	3.7	.3	1.0	.6	0						
Energy	38.9/na[3]	339.6	58.5	784.8	25.8						
HHS	363.5/na[4]	384.7	627.9	95.8	139.5	1.2	5.1	37.6	.037	573.5	

[1] Plan to refer 50 of delinquent debt by 5/8/97 and 100% by 9/30/97

[2] These are estimates. This information is not tracked by Departmental accounting methodes.

[3] "The Department's accounting system does not separately identify collections on delinquent receivables. Consequently, providing the total collections would not adequately reflect efforts on delinquent accounts."

[4] HHS supplied figures representing collection of total receivables and did not break out delinquent debt from that amount.

HUD	703.4/na [5]	778.2	678.3	589.0	616.2	10.0	1.1	1.5	.5	1.2	3240.0[6]
Interior	9.8	25.3	31.8	23.0	31.0	.084	2.1	3.7	.764	.295	561.8
OSM	9.2/na[7]	13.7	13.1	17.0	20.1	.035	0	.67	0	.25	5.1
MMS[8]	.05	.4	.27	1.4	.73	0	0	1.4	.005	0	553.2
BIA	0	5.0	13.2	3.5	4.2	.005	0	.28	.32	0	0
BOR	15	1.0	.365	.097	.061	.003	.026	.047	.044	.044	3.6
Other	.369	5.1	4.8	.942	5.86	.041	2.1	1.3	.394	0	.051
Justice	3.1/na[9]	6.2	3.5	2.9	16.7	.075	0	3.3	.16	.079	na
BOP	.003	.0004	.0009	.007	12.6						
DEA	.035	.093	.045	.84	.27						
FBI	na										
INS	2.8	6.1	3.5	1.9	3.7						
FPI	.094	.015	.027	.003	.03						
OBD	.13	0	0	.095	.021						
Labor	8.8/10.8	13.8/11.6	14.5/10.9	21.7/9.3	20.2/7.3	.059	2.1	1.3	na	2.5	6.0
BLS	0/0	0/0	0/0	0/0	0/0	0	0	0	0	0	0
ESA/Black Lung					4.9/na[10]	0	.00015	.863	0	.322	0
ESA/Fed Emp Comp	2.1/na[11]	1.6	2.6	3.0	2.5	.03	1.4	0	0	2.2	0
ETA	0/na	0	0	0	3.0	0	0	0	0	0	0
MSHA	1.5/5.0	5.7/6.2	3.8/4.8	8.1/3.9	5.6/3.2	.029	.005	.216	0	0	3.0[12]

[5] HUD does not track collection of deliquent receivables independent of collection of non-delinquent debt.

[6] Estimate of proceeds from the sale of delinquent mortgage notes in FY 1996.

[7] Not tracked independently by Interior

[8] Receivables are backed by surety bonds

[9] Justice tracks only total collections

[10] Total write-off, average of .9 /year. Delinquent debt collectibles not separable from total ollections.

[11] Non-separable from total collections

[12] In-house collections

Agency	1992 Written Off/Collected	1993 WO/Col	1994 WO/Col	1995 WO/Col	1996 WO/Col	1996 Collections TRO	Prv.	Lit	SO	Admin Off	Other
OASAM					0/.6[13]	0	.0002	0	0	0	.076
OSHA	4.0/5.3	5.2/5.1	7.0/5.7	8.4/11.0	9.9/6.5	.004	.5	.1	na	na	2.6
PWBA	.2/.3	.4/.2	.09/.2	1.1/.2	1.2/.6	0	.2	.2	na	na	.3
State	0/.4	.0002/.5	0/.6	0/1.1	.8/.7	.2	0	0	0	0	0
Transportation	54.5/87.7	108.6/62.0	168.5/73.0	210.8/59.3	30.5/51.8	.335	.098	1.9	.106	4.1	45.2[14]
Treasury			5.0	1.6	11.5						
Veterans Affairs	963.9/2277.2	884.2/2727.2	677.6/2515.2	789.3/2491.0	827.02330.3	19.3	13.1	6.7	10.5	220.8	
AID	94.9/99.6	571.5/375.2	154.1/169.3	32.4/38.3	.9/106.4	.007	0	0	0	.015	
EPA	.6/202.4	1.5/189.9	.7/179.9	26.4/265.7	1.0/263.4	.028	.027	172.2	0	0	0
FEMA	.2/.2	1.2/.4	.1/2.8	.1/3.1	.3/5.1	1.0	0	.3	.03	0	.3
GSA	5.0/60.3	2.0/223.0	9.2/202.1	2.1/252.2	15.6/281.0	.02	.115	.001	0	.157	0
NASA	.024/na	.03/na	.07/na	.07/na	.0008	0	0	0	.025	0	0
NSF	.007/.12	.18/.024	.002/.02	.05/.1	.01/.13	.002	0	0	.0003	.001	.13
NRC	.02/21.1	1.1/18.7	.5/18.1	.6/31.8	.4/24.7	0	.008	.003	0	0	0
OPM	5.3/45.9	5.8/41.8	4.3/58.5	11.4/47.5	3.8/62.3	.1	.1	6.9	0	9.0	46.2[15]
SBA	547.9/26.6	551.6/29.6	436.8/32.3	390.1/25.6	495.9/31.1	3.7	1.1	25.9	.3	0	0
SSA	336.5/1592	331.4/1661	400.5/1625	452.3/1717	450.7/1770	22.5	0	na	0	0	
CFTA	1.5/.015	.79/.16	27/.54	.68/.41	.95/1.02	.001	0	.022	0	0	0.
Exim Bank*											
FDIC											
FTC	1.0/.015	.8/.2	.3/.5	.7/.4	.9/1.0	.001	0	.02	0	0	0
PBGC	0/1.0	0/12.5	9.8/10.4	0/3.9	.15/5.6	0	.06	0	0	0	.05
RRB	1.7/	2.7/	3.1	6.1	7.1/15.8[16]	.7	.06	.5	.02	9.6	
SEC	0/	0/	1.0	.5	20.4/214.3[17]	na					

[13] Five-year total

[14] In-house collections

[15] Includes 10.9 million in annuity offsets.

[16] Five-year total estimate

[17] Five-year total

TABLE THREE

Agency/Program	Debt Referred to Treasury for: Tax Refund Offset	Admin Offset	Cross-Ser.
Agriculture	**785**	**0**	**0**
Farm Serv	561.9	0	0
Com Cred Corp	33.8	0	0
Food Con Serv	136.5	0	0
Forest Service	0	0	0
Risk Manage	5.4	0	0
Rur Util Serv	0	0	0
Rur Housing	47.4	0	0
Rur Bus Coop	na	na	na
Commerce	**8.0**	**0**	**0**
Defense	**0**	**0**	**0**
Education	**9648.1**	**9648.1**	**21.7**
Student Loads	9626.4	9626.4	0
Institutional Debt	21.7	21.7	21.7
Energy	**.12**	**0**	**.037**
HHS	**38,134.2**[1]	**93.9**	**.009**
HUD	**121.4**	**in progress**	**0**
Interior	**14.2**	**0**	**.731**
OSM	12.8	0	.611
MMS	0	0	0
BIA	.654	0	.120
BOR	.046	0	0
Other	.705	0	0
Justice	**.34**	**0**	**0**
Labor	**4.1**	**0**	**.121**
BLS	0	0	0
ESA/Black Lung	0	0	0
ESA/Fed Emp Comp	2.3	0	0
ETA	0	0	0
MSHA	.1	0	0
OASAM	0	0	0
OSHA	.3	0	.121
PBWA	1.4	na	na
State	**2.4**	**0**	**0**
Transportation	**1.2**	**0**	**.492**
Veteran Affairs	**306**	**0**	**0**
Department Totals	**49,003.24**	**9742.00**	**23.09**

Agency/Program	Debt Referred to Treasury for: Tax Refund Offset	Admin Offset	Cross-Ser.
AID	**.015**	**0**	**0**
EPA	**0**	**0**	**0**
FEMA	**6.0**	**16.3**	**0**
GSA	**0**	**0**	**0**
NASA	**0**	**0**	**0**
NSF	**.022**	**0**	**.022**
NRC	**0**	**0**	**.96**
OPM	**4.1**	**0**	**0**
SBA	**31.2**	**0**	**0**
SSA	**223.1**	**0**	**0**
CFTA	**0**	**0**	**0**
Exim Bank	**0**	**0**	**0**
FDIC	**na**	**na**	**na**
FTC	**0**	**0**	**0**
PBGC	**.005**	**0**	**0**
RRB	**8.7**	**0**	**0**
SEC	**24.3**	**0**	**0**
Small Agency Totals	**297.44**	**16.30**	**0.98**
Grand Total All Agencies	**49,300.68**	**9,758.30**	**24.07**

[1]38,007.2 was referred to the IRS Tax Refund Offset Program on behalf of States under the Child Support Enforcement Program.

Mrs. MALONEY. Last, I would want to mention two pieces of legislation that will focus on curtailing waste, fraud, and abuse in Federal benefit programs. My first bill, the Debt Collection Wage Information Act, would help locate delinquent debtors who move from one State to another to avoid paying their debt. I have estimated that this bill would bring in an additional $1 billion per year if fully implemented. It has been implemented in Massachusetts and they testified earlier before the committee that it had been very, very successful in implementing debt collection for their State.

My second piece of legislation is the Federal Benefit Verification and Integrity Act of 1997. This bill would allow Federal agencies to verify and confirm the accuracy of information provided by applicants of Federal benefits. Using this commonsense approach, Federal agencies can root out fraud and abuse before delivering the benefits.

The chairman of this committee is a former professor, former head of a school, and I think he would agree that with $50 billion out there and a $50 billion charge to go out and collect it, to bring in $2.5 million is embarrassing, to say the least. It is really outrageous. I truly believe that if I were running this program in Treasury I could bring in at least $10 million by falling off a log and just spending a minor amount of my attention and time focusing on it.

If this was the private sector and they didn't collect the money that was owed to them, they would be out of business. And we need to run Government more like a business as we strive to balance the budget and continue to invest in education and other important areas, and the environment and other areas that are important to our country.

Again, I thank the chairman for his leadership.

Mr. HORN. I thank the gentlewoman.

[The prepared statement of Hon. Carolyn B. Maloney follows:]

CAROLYN B. MALONEY
14TH DISTRICT, NEW YORK

1330 LONGWORTH BUILDING
WASHINGTON, DC 20515-3214
(202) 225-7944

COMMITTEES:
BANKING AND FINANCIAL SERVICES

GOVERNMENT REFORM AND OVERSIGHT

JOINT ECONOMIC COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515-3214

DISTRICT OFFICES

☐ 110 EAST 59TH STREET
2ND FLOOR
NEW YORK, NY 10022
(212) 832-8531

☐ 28-11 ASTORIA BOULEVARD
ASTORIA, NY 11102
(718) 932-1804

☐ 619 LORIMER STREET
BROOKLYN, NY 11211
(718) 349-1260

November 12, 1997

REP. CAROLYN B. MALONEY -- OPENING STATEMENT

HEARING ON THE IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT OF 1996

Thank you Mr. Chairman.

I am very pleased that you are holding this oversight hearing on our Debt Collection Improvement Act of 1996 (DCIA). I, too, am very concerned with implementing this bipartisan legislation in a timely manner.

Although we don't have much to show for it, I firmly believe this legislation can dramatically improve the collection of delinquent debt throughout the government. However, the problem does not appear to be our legislation, but rather the Federal agencies unwillingness to implement our legislation.

Two years ago, I released a report showing that businesses and individuals owe the Federal government $ 50 billion in past due debts. The Federal agencies asked the Congress for additional tools and methods to improve collecting this debt. The Chairman and I responded by delivering that legislation. We gave broad new powers to Federal agencies to improve government-wide collections. Two years later, I have released a second report that again shows $ 50 billion in delinquent debt. I feel like we are spinning our wheels.

What has happened is that our Debt Collection Improvement Act (DCIA), which became law in April 1996, has only collected $2.5 million out of the $ 50 billion dollars in delinquent debt. That means in a year and a half we have collected only $ 1 dollar for every $20,000 dollars that is owed. That's embarrassing.

Today, I would like to focus on perhaps the two most important unimplemented components of the legislation – the administrative offset program and the cross-servicing program. As you know, the Department of Treasury is now testing the Grand Treasury Offset Program (GTOP) which would implement the administratively offset program. I have repeated asked for a target date for completion. Since Treasury has not provided target dates for me, I have put together my own dates and I would like to submit it into the record.

For the administrative offset program and cross-servicing programs to work, the Federal agencies must refer their debts to Treasury. So far, most have not. As a result, I have put together this report on agency compliance with the law. Agencies that have not refer debts for administrative offset or for cross-servicing receive an F grade. Agencies that have referred debts for one or the other receive a D grade. Agencies that have referred some debts for both programs receive a C grade. Since no agency has referred all of their debts to Treasury, no one received an A.

Lastly, I would want to mention my two pieces of legislation that will focus on curtailing waste, fraud and abuse in Federal benefit programs. My first bill, the Debt Collection Wage Information Act would help locate delinquent debtors who move from one state to another to avoid paying their debt. I have estimated that this bill would bring in an additional $1 billion per year if fully implemented.

My second piece of legislation is the Federal Benefit Verification and Integrity Act of 1997. This bill would allow federal agencies to verify and confirm the accuracy of information provided by applicants of Federal benefits. Using this common sense approach, Federal agencies can route out fraud and abuse before delivering the benefits.

Thank you.

Mr. HORN. I now yield to the gentleman from Illinois, Mr. Davis, to make an opening statement.

Mr. DAVIS of Illinois. Thank you very much, Mr. Chairman. Let me thank you for convening this hearing regarding the Federal debt collection practices. I also want to thank our distinguished witnesses for taking time to share with us their expertise as it relates to this very touchy subject.

This hearing focuses on the implementation of the Debt Collection Improvement Act of 1996. The act authorizes agencies to refer delinquent debt to the Treasury Department's Financial Management Service.

The DCIA is important for several reasons. First, it strengthens the Government's ability to collect delinquent nontax debt by providing a number of tools for agencies to use. In addition, the act requires Federal agencies to transfer delinquent debt over 180 days old to the Treasury Department for collection. Interestingly, as we examine debt collection processes, we do so at a time when our economy is robust and many in our Nation are letting the good times roll in terms of spending.

However, personal bankruptcies, student loan defaults, and foreclosures on homes and farms are seriously on the rise. In fact, over the last decade delinquent debt has increased from $23.9 billion in 1985 to $48.8 billion in 1994. And in 1995 and 1996, the level rose to approximately $51 billion.

It is my hope that this hearing will address the issue of why the DCIA has been little used to date. In addition, I look forward to hearing why only 3 of the 16 regulations needed to implement the DCIA have been made final.

And finally, I am interested in hearing what procedures and processes have been put in place to ensure due process rights of individuals whom the Government will go after to collect outstanding debt. Therefore, I look forward to hearing from this distinguished panel of witnesses and, again, Mr. Chairman, I would like to thank you for the leadership that you have taken in leading us toward hopefully some real resolution to a difficult problem.

I thank you and yield back the balance of my time.

Mr. HORN. I thank the gentleman from Illinois for his kind comments.

[The prepared statement of Hon. Danny K. Davis follows:]

Danny K. Davis

STATEMENT OF DANNY K. DAVIS (IL)

"The Government Reform and Oversight Subcommittee on Government Management Information, and Technology"

Thank you Mr. Chairman for convening this hearing regarding "Federal Debt Collection Practices." I also want to thank our distinguished witnesses for taking

time to share with us their expertise as it relates to this issue.

This hearing focuses on the implementation of the Debt Collection Improvement Act of 1996 (DCIA). The DCIA authorizes agencies to refer

delinquent debt to the Treasury Department's Financial Management Service. The DCIA is important for several reasons, first, it strengthens the governments ability to collect delinquent,

non-tax debt by providing a number of tools for agencies to use. In addition, the Act requires federal agencies to transfer delinquent debt over 180 days old to the Treasury Department for collection.

Interestingly, we examine debt collection processes at a time when our economy is robust, and many in our nation are letting the good times roll in terms of spending. However, personal bankruptcies, student

loan defaults, and foreclosures on homes and farms are seriously on the rise. In fact, over the last decade delinquent debt has increased from $23.9 billion in 1985 to $48.8 billion in 1994. In 1995 and 1996 that level rose to

approximately $51 billion.

It is my hope that this hearing will address the issue of why the DCIA has been little used to date. In addition, I look forward to hearing why only 3 of the 16

regulations needed to implement the DCIA have been made final. Finally, I am interested in hearing what procedures have been put in place to ensure due process rights of individuals whom the government will go after to collect

outstanding debt. Therefore, I look forward to hearing from our distinguished witnesses.

Again, thank you Mr. Chairman for this opportunity.

Mr. HORN. Gentlemen, Mr. Secretary Hawke, Mr. Secretary Murphy, you know the routine here. We swear all witnesses. After we introduce you, your full statement is automatically entered in the record. We would sort of like you to look us in the eye and speak off the cuff, but we will in deference to your position and leadership role, we will give you all the time you need to get your statement out. So if you will stand, raise your right hands.

[Witnesses sworn.]

Mr. HORN. The clerk will note both witnesses have affirmed the oath.

Mr. Under Secretary Hawke, it is always a pleasure to have you back here. We know you are trying the best you can in some of these areas, and we would appreciate your opening statement.

STATEMENTS OF JOHN HAWKE, UNDER SECRETARY, DEPARTMENT OF THE TREASURY; AND GERALD MURPHY, FISCAL ASSISTANT SECRETARY, DEPARTMENT OF THE TREASURY

Mr. HAWKE. Mr. Chairman and distinguished members of the committee, let me say that I think that the opening statements of the members of the committee have focused on exactly the right issues. This program is one that is of tremendous importance.

We are disappointed with the progress to date in implementing the program. We think that there are some reasonable explanations for that. We are continuing to make a strong effort to get the program up and running, and we share all the objectives that the committee and the Congress have had in passing this legislation and conducting these oversight hearings.

In April of this year, Assistant Secretary Murphy and I testified before this subcommittee about the status of Treasury's effort to implement the act, and we continue to make progress in most areas, but the progress has not been what it should be or what it could be. And I think we should be very frank and forthright about that.

The number of delinquent debts that has been referred to us for the offset program has increased. It still, again, is not what it should be. We have entered into agreements with agencies for cross-servicing of debt and that needs to be increased. So far, the amount of debt that's been put into the cross-servicing program is very, very modest. We have awarded contracts to 10 private collection agencies for the collection of delinquent debts, and we plan to move ahead vigorously with that part of the program.

Let me just address three or four of the key issues that the committee has expressed an interest in. First, one of the significant shortfalls, I think, up to date has been our inability to get the tax refund offset program merged into the Treasury offset program. That has turned out to be far more complicated than we had thought.

The need to integrate the systems at IRS and FMS has been a challenge. Rather than move ahead with that on a basis where we might be creating implementation problems—and one must have in mind here the kind of experience that IRS has had with taxpayers' stories, which have been so prominent in recent months—a decision was made to delay that for 1 year. I think, all things considered, that was a reasonable decision to make under the circumstances,

rather than moving ahead with a program that might have such significant flaws in it that it would threaten public support and congressional support for the entire program.

We are moving ahead. While I have not yet seen Mrs. Maloney's suggested schedule for implementation. We are anxious to see that and to give you our views on whether we can meet the goals that you are suggesting for us.

On the question of referral of debts, I think the committee is very cognizant of the fact that we can only collect in the offset program what agencies have referred to us, and to date, only 17 agencies have referred delinquent nontax debt to us for the offset program.

In fairness, we don't yet have in the offset program all of the payment files from different agencies that are necessary to run that program effectively. To date, we essentially only have the OPM retirement payments and vendor payments in that system. The major payment programs have not yet been put into the system. So there has been tardiness, I think, on both sides.

We have been working with OMB to try to stimulate agency participation in the process, and Mr. DeSeve, I think, has been particularly helpful in that regard in getting the message out.

One of the issues that the committee has focused attention on, which I know is frustrating for the committee and is frustrating for us, is the pace of implementing regulations. There are a variety of different types of regulations that have to be put into place so that the system, when it is finally up and running, will be fully documented so that all participants in the system know exactly what the ground rules are.

The process of developing and clearing regulations has been far more complex and burdensome than I think we estimated at the outset. The number of levels of legal review that regulations have to go through before they can get put in final form, the number of offices that have to sign off on regulations, is significant. We hope to be able to accelerate that process, but we haven't even met the projections that we set for ourselves for putting implementing regulations in place.

I should say that, in fairness, the lack of a fully fleshed out set of regulations has not been the cause of delay in the program. We have put interim regulations in place and we are pushing ahead with the task of getting regulations through the process so that they can be put in place.

Another issue I know that the committee has been interested in is the question of the appointment of program agencies as debt collection centers. We have had a number of discussions about this at Treasury, and my view is that any agency that wants to be designated as a debt collection center should have a very high threshold of proof to satisfy before we should designate them as such. After all, we are dealing with a statute here that reflects a perception on the part of Congress that agencies have not done a good enough job in collecting debts, and we think that before we sign off on the appointment of an agency as a debt collection center they should make an extremely compelling case as to why that should be done and why the process of collecting their delinquent debts should not be separated from them and put in third party hands, as the act contemplates.

I know there are a number of other issues that the committee is interested in. I will try to do my best to answer the committee's questions. Mr. Murphy will be here to answer questions that involve a level of detail that I can't address. But I do want to say again, Mr. Chairman, Mrs. Maloney, and Mr. Davis, that we are not ignoring this statute. We think it is extremely important. We supported its enactment. We believe it is of tremendous importance to the integrity of our credit programs that we make vigorous efforts to collect what is owed to the Government.

Again, in fairness to the program, I think we have to recognize the complexities involved in taking hundreds of millions of payments that we make each year and matching them against lists of delinquent debtors in a way that both observes due process rights, avoids duplication, and avoids the kind of horror stories that we have seen in the context of the tax collection program.

We want to do this right. It is going to take more time than we had originally thought to get it done right. We still think that there is a lot of merit in the program and we are going to continue to work hard at achieving those objectives.

Thank you, Mr. Chairman.

Mr. HORN. Thank you, Under Secretary Hawke.

[The prepared statement of Mr. Hawke follows:]

Mr. Chairman and Distinguished Members of the Subcommittee, I am pleased to have this opportunity to discuss the Department of the Treasury's progress in implementing the Debt Collection Improvement Act of 1996 (DCIA). Your continued interest in this subject has been of great importance to us.

The DCIA legislation has seven key purposes:

1. To maximize collection of delinquent debts.
2. To minimize the costs associated with debt collection.
3. To reduce losses arising from debt management activities.
4. To ensure the public is fully informed of the Federal government's debt collection policies.
5. To ensure that debtors have appropriate due process rights.
6. To encourage agencies to sell delinquent debt, particularly those with underlying collateral.
7. To rely on the private sector to provide debt collection services to Federal agencies.

We at the Treasury Department are committed to these goals, and we are working hard to get this new program running effectively. We are also working closely with program agencies to make certain that DCIA implementation takes into account their concerns and operational difficulties.

On April 18th of this year, Fiscal Assistant Secretary Jerry Murphy and I testified before this Subcommittee about the status of Treasury's effort to implement the DCIA. While we continue to make progress in most areas, I want to say frankly that we are not satisfied with the extent or pace of our progress. The principal reason for this has been delay in the merger of the tax refund offset program with the broader Treasury Offset Program (TOP). This delay has complicated program roll-out in several areas, which I will discuss shortly. While overall progress has not been what it should be, our implementation efforts have been effective in several areas:

- The volume of delinquent debts submitted to TOP has increased. Currently there are 2.4 million referred debts totaling in excess of $17 billion in delinquent receivables. This represents an increase since our last hearing of half a million referrals and an additional $8.3 billion in receivables.

- FMS has entered into 24 Letters of Agreement with agencies to collect delinquent debt through cross-servicing. Over 29,000 cases with a dollar value exceeding $460 million have been referred.

- FMS has awarded contracts to 10 private collection agencies for collection of delinquent Federal debts. As is required by DCIA, Treasury will make maximum use of this key collection tool.

Mr. Murphy will detail these and other developments in his testimony.

Let me turn now to several questions that have been raised by the Subcommittee:

Tax Refund Offset. Our original plan was to merge the IRS' Tax Refund Offset Program into FMS' Treasury Offset Program effective January 1, 1998. Accomplishment of this merger requires the development of new software for TOP -- which we refer to as the Grand Treasury Offset Program or GTOP -- and a complex process of integrating existing IRS and FMS systems. In September, FMS and IRS jointly assessed progress toward this goal and determined that additional time was required to ensure that all aspects of the transition would go smoothly. A decision was made to delay the merger of the tax refund offset

program into TOP until January 1, 1999. In light of the magnitude of the tax refund offset program and the potential for serious problems and disruptions if the transition were not completed smoothly, I consider this decision to be reasonable on the part of both agencies. FMS and IRS have both worked hard to achieve what may have been a very aggressive and optimistic schedule, and they are continuing to work together closely with increased coordination between their respective Chief Information Officers and program organizations to ensure a successful merger by January 1, 1999.

I would like to point out that although we are now in a transition period for tax refund offset, we are continuing to move forward on the development of GTOP software, a comprehensive, integrated system that will allow us to increase the number and type of payments available for offset. Because we are approaching tax season, however, the primary focus of our effort has been to ensure that we have a successful interim process in place for IRS tax refund offset. This interim process represents a significant change from previous operations, involving additional opportunities for offset by data sharing between TOP and the tax refund

offset program. Currently, FMS and IRS are developing an amended plan with target dates for implementation of GTOP and merger of the tax refund offset program. I have asked Mr. Murphy to share that plan with you as soon as it is developed.

Referral of Debts. Progress in the referral of debts to FMS for TOP and mandatory cross-servicing has been disappointing. To date, only 17 agencies have referred delinquent non-tax debt to FMS. However, it is anticipated that implementation of this year's transition process for tax refund offset will increase the number of referring agencies to over 40. In an effort to accelerate this process, FMS, in partnership with the CFO Council and the Federal Credit Policy Working Group, is developing an Issue Resolution Plan that will help in developing Government wide solutions and policies to increase referrals under both programs.

In a related area, a June 1997 GAO report suggested that FMS incorporate several enhancements into the current process for reporting to Congress at least annually on Government-wide delinquent debt. These enhancements are intended to increase the reliability and consistency of reporting on delinquencies and credit receivables, and would provide information on agency efforts to collect delinquent

balances. In response, FMS has put together an action plan for revising Treasury reporting requirements, with a target implementation of summer 1998. An interagency team has already been assembled and agencies have been surveyed for feedback on current requirements as well as suggestions for improvement. We will continue to update this Committee on progress in this area over the next several months.

Implementing Regulations. At the April 18th hearing we provided the Subcommittee with target dates for the publication of regulations implementing the provisions of the DCIA. Frankly, the review and clearance process has taken longer than anticipated. However, FMS has succeeded in publishing those regulations necessary to proceed with the DCIA implementation schedule over the next six months. We are pushing ahead with the task of completing our regulatory agenda. Mr. Murphy will provide more specific details on the current status of regulation development.

Process for Approval of Federal Debt Collection Centers. It is the intent of the DCIA to improve on the collection of debt through maximum use of private sector expertise and a centralized approach to Federal debt collection. While the Act

contemplates a process by which program agencies might seek to be designated as debt collection centers, I believe that there should be a very heavy burden on an applicant agency to demonstrate that it qualifies. We have published high standards for approval, and we believe that the number of such centers should be kept to a minimum.

I would like to conclude this status report by emphasizing once more that Treasury is committed to provide a mechanism for effective administrative offset and to take a lead role, seeing that debts to the Federal government are collected in a timely and efficient manner. We clearly need to accelerate the pace of our implementation, but I am confident that we will get this task accomplished effectively.

Before closing, Mr. Chairman, let me say that, as you and some of the members of the subcommittee know, Virginia Harter has retired from FMS after more than 39 years of distinguished service to the Federal Government. I want to thank you for your kind remarks in the Congressional Record on her contributions to DCIA implementation.

Mr. Chairman, that concludes my testimony. I would now like to turn to Gerald Murphy, our Fiscal Assistant Secretary, who will discuss FMS's implementation of the DCIA in greater detail.

Mr. HORN. Let me just say, since the word offset is being used, some people will not understand what that is. Correct me if I am wrong. It is the interception or withholding of a payment due to a delinquent debtor. Do you have a better definition than that?

Mr. HAWKE. Yes.

Mr. HORN. I assume you do.

Mr. HAWKE. That's a good definition, Mr. Chairman. And what we really are doing—I hope everybody who looks at this program understands the complexity of this is trying to take computerized lists of payments that the Government makes, the hundreds of millions of payments that the Government makes every year, and match those against very large lists of debts that are owed to the Government. That's a process that is going to be done by a complex computer program, and if that program is not done carefully and tested carefully before it is put into operation, we run a risk of creating the kind of chaos that could undermine confidence in this whole program.

Mr. HORN. Well, we thank you, Under Secretary Hawke. I take it you will be able to remain with us?

Mr. HAWKE. Oh, yes.

Mr. HORN. Because we have a number of questions.

We now have the statement of Gerald Murphy, Fiscal Assistant Secretary. Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman, members of the committee. I would just like to elaborate a little bit on some of the items that Under Secretary Hawke mentioned.

In the area of the Treasury offset program, we are running an interim system, as you know, and we are attempting to develop a new software, designated GTOP, which will be much more robust and have capabilities that the current interim system does not have.

We had originally intended to complete the GTOP system and to merge it with the IRS tax refund offset system on January 1, 1998. And when I testified before you last April, I was truly committed to making that happen. As we went along in that process, however, we started finding complexities that had not yet been resolved and, in essence, we were walking a tightrope without a safety net because we had to make a decision at some point as to whether the GTOP system could be brought up, whether all the interfaces with other FMS systems could be worked out.

Mr. HORN. If I might interrupt, I established about 50 things like GTOP in this wonderful bureaucratic testimony. Could you explain that as we go for the average listener, including Members of Congress? That is the grand Treasury offset approach. Tell us how it works.

Mr. MURPHY. It seems to be a more robust system that will enable us—the primary thing that it will do is to enable us to put more payments into the matching process. As Mr. Hawke mentioned, at the moment we have basically OPM retirement and vendor payments that we are matching against the debts we have. With the more robust system, we will be adding salary payments in at a later point; we will be adding benefit points in at a later point, and we will be able to do a lot of the things that the interim system cannot do.

For example, some of the States are concerned in collecting child support through our interim offset system that we don't have the capability of recognizing if there is a wage garnishment already in place for an OPM retiree. We can't identify that under the present system, therefore, there is a risk that we may take a double hit if we offset one of those. The new system is supposed to be able to handle all of those kinds of things.

With those complexities, as Mr. Hawke mentioned, IRS and FMS jointly decided to defer the tax refund offset merger for 1 year. So that is now supposed to come up by January 1, 1999.

In some ways, you know, that puts us back a little bit. That slippage means that other things have been affected. But we needed to focus on making the tax refund offset program work well, because that is a program that, you know, is going to collect $1.75 billion hopefully in this coming year. And we had to make the decision, because we didn't want to risk a possible loss of that kind of revenue.

We are going to get some benefit out of this transitional period, though, because this year we are going to use an entirely different process. In the past, agencies have been submitting debts for offset to IRS under the tax refund offset program and separately transmitting debts to us for the interim offset Treasury program.

This year, they are all going to come in through the Financial Management Service. So instead of having 17 agencies reporting debts for offset, we are going to have 40 agencies reporting debts to us that we can run through our Treasury offset program, as well as the IRS tax refund program. So we expect to get a lot more debts into that program.

As has been pointed out, the cumulative collections under the Treasury offset program, to date, something over $790,000; not nearly what we want to have. But, again, it is a tribute to the fact that the interim system can only match against the OPM and the vendor payments.

In the area of cross-servicing, FMS has 24 letters of agreement with agencies. That's sort of our contract with the agency as to when they will refer debts for cross-servicing. We have 29,000 cases at the moment, with an excess of $460 million. And of those, we have collected over $1 million; $1.1 million. Cumulatively, we have collected more through that cross-servicing, and we have also—it doesn't show up in the numbers yet as dollars actually received, but we have also been able to enter into repayment plans with some of the debtors that cover an additional $2 million. That's going to be paid in installments.

There are also two key changes that we have adopted to make the offset program a little more efficient. One, we are using an automated lockbox process now which will do some electronic posting for us to eliminate some of the manual intensive work, and we are also accepting credit cards from debtors for some of the small payments which, again, we think will help us collect some additional amounts.

Mr. Hawke mentioned the private collection agency contract. We have 10 contractors. Those were awarded in September of this year. The contractors have 60 days to establish their system's compatibility to allow electronic transfer of the debt files between FMS

and the contractors. We have provided instructions to the Federal agencies and will be conducting a workshop with the agencies and the contractors to facilitate the use of the contract and answer any questions people have on implementing that particular tool.

In the area of regulations, the short answer, I guess, is that we have got three regs out. We have got three in clearance that we expect to be published within 30 days and we are still working on four, as you pointed out.

For the most part, we have been able to issue the regulations that needed to be out there in place, that would have held something up, but there are still these other areas that we definitely want to get out.

In addition, we are also going to be trying to improve the reporting to the Congress on receivables. As you know, the DCIA transferred the responsibility for reporting on receivables from OMB to Treasury, and last summer the General Accounting Office came out and recommended some improvements in reporting.

We have convened interagency task groups with agency representatives and they are currently looking at draft proposals. We would hope to get some new, better data to the Congress. We are hoping that this new reporting arrangement could be in place by next June depending on the agency system's capability to provide the data.

One area that Mr. Hawke just touched upon briefly is we do have an issue resolution plan with agencies who have been experiencing difficulties in meeting the requirements for offset and cross-servicing. A meeting was hosted by Ed DeSeve of OMB in September. The agencies came in, including Treasury. We identified their concerns and some of the difficulties that they have been experiencing and divided them up into three general categories. We have a task group assigned to each one of those issue areas, and I think that process will result in a greater understanding on the part of the agencies about the requirements and also on our part in terms of the difficulties that the agencies face. So we will be working very closely with them to try to resolve some of those issues.

There has been progress made in some of these areas. However, as we noted, and you certainly noted, that we haven't made the headway that we had hoped. In some cases, we were perhaps overly optimistic in terms of target dates and underestimating the complexity of some of these issues, but we are not satisfied with the results to date and we will be making every effort to get up the systems that will provide more revenue to the Federal Government.

As you know, Virginia Harter recently retired after 39 years in Government. She was the Assistant Commissioner for Debt Management Service. Mrs. Nancy Fleetwood has been appointed as the interim acting Assistant Commissioner and she brings some experience from being comptroller of the organization for several years, as well as a strong background in systems development. So we are confident that she will be providing strong leadership during this transitional period.

We also have Commissioner Morris and Deputy Commissioner Smokovich who will be continuing to remain active in the direction of the implementation of the program.

And my office will continue to take an active oversight role to assure that things remain on track. And to that end, I have detailed Mr. Dave Lebryk, who was recently selected as assistant fiscal assistant secretary, to assist FMS in the timely implementation of DCIA.

With those efforts, Mr. Chairman, I will conclude my summary and would be happy to respond to any questions.

Mr. HORN. Well, we thank you very much for that testimony.

[The prepared statement of Mr. Murphy follows:]

Mr. Chairman and Distinguished Members of the Subcommittee:

Good morning. I am pleased to be here to report the progress the Department of the Treasury has made in implementing the debt collection provisions of the Debt Collection Improvement Act of 1996 (DCIA).

First, I would like to thank the Chairman, the Ranking Minority Member and the other members of this Subcommittee for the opportunity to provide an update on our progress in implementing the DCIA.

As you are aware, Mr. Chairman, Treasury has a major interest in the successful implementation of the debt collection provisions of the DCIA. In 1995, Treasury initiated the proposal as part of Treasury's reinvention initiatives which became the Administration's version of the DCIA, and Treasury forwarded the original bill to Congress on June 23, 1995 for consideration. Treasury officials testified in favor of the legislation's passage before this Subcommittee in September 1995.

At the previous hearing on the implementation of the debt collection provisions of the DCIA which this Subcommittee held in April of this year, we detailed the progress we had made thus far. The following is a brief summary of that testimony:

- We discussed Treasury efforts to inform Federal agencies of the existence of the DCIA and their responsibilities under the DCIA.
- We reported that we established an interim operational centralized administrative offset process that has already begun offsetting a limited number of Federal payments to collect delinquent debts.
- We discussed the agreement between FMS and IRS to merge the tax refund offset program into TOP, and our work with HHS to develop procedures to include past-due child support debts in the offset process.
- We reported that we established a functional cross-servicing capability so that Treasury could collect the delinquent debts of other Federal agencies.
- We discussed our efforts to establish and maintain a schedule of debt collection contractors, as required by the DCIA.
- We detailed the work performed in establishing regulations and guidelines to implement the DCIA.

- We discussed our efforts to develop a public awareness campaign which would inform the public of Federal debt collection policies, and remind debtors of their obligations to repay Federal debts.

Today, Mr. Chairman, we are able to report additional progress in the implementation of the debt collection provisions of the DCIA.

In terms of the Treasury Offset Program, FMS is developing new software designated GTOP, which has greater capabilities than the current interim operating software. GTOP is needed to complete the implementation of TOP, because it will allow offsets to be taken against greater numbers and types of payments. We had anticipated having GTOP operational by January 1, 1998.

However, as Under Secretary Hawke has stated, IRS and FMS jointly concluded that the merger of the tax refund offset program with TOP could not be completed by January 1, 1998, in time for the 1997 tax refund offset year without risking the loss of approximately $1.75 billion in offsets collected annually by TRO. Instead, IRS and FMS have agreed to a transition process which allows for a significant change in the workflow this year, along with full transfer of functions next year.

This Transition Year Process will result in an increase in the number of participants in the interim Treasury offset program (ITOP) from 17 to over 40 agencies. As part of this process, several technical actions need to be accomplished before the GTOP software becomes operational and capable of supporting the tax refund offset process: (1) the GTOP software must be completed and tested by FMS, (2) changes must be made to the IRS system to enable interface with GTOP, (3) the interfaces between GTOP and the IRS system must be tested, and (4) the current FMS TOP software, ITOP must be phased out and replaced by GTOP. We are working to complete an amended plan for the full GTOP implementation, and we will share this plan with you upon its completion.

FMS and IRS issued a joint announcement on September 10, 1997 that implementation of the merger would be delayed, and held a workshop on November 4th for Federal agencies participating in Tax Refund Offset. This workshop was used to train agencies on the Transition Year Process. We emphasized that Treasury's primary objective at this stage is assuring that tax refund offset operates efficiently during the transition year.

With regard to increasing the delinquent debts referred by agencies, FMS currently has more than 2.4 million debts covering $17 billion in delinquent receivables in its TOP database. Nearly two million cases represent debts owed to Federal agencies and another half million are child support debts.

The agreement between IRS and FMS for implementation of Tax Refund Offset for calendar year 1998 represents a significant change to previous operations, requiring delinquent debt to be submitted to FMS for inclusion in TOP in order to participate in tax refund offset. Agencies will submit debt data to FMS and FMS will pass the data to IRS for Tax Refund Offset, converting it to IRS' format if necessary. This should substantially increase the number of debts in TOP. In addition, FMS has future plans to bring in additional delinquent child support debts.

As of October 31, cumulative collections in TOP totaled more than $793,347. Collections were made primarily from Civil Service Retirement payments and some vendor payments. FMS has plans to include additional payments in the TOP process, however this is contingent on the implementation of GTOP. Therefore we are committed to a phased process for implementing the GTOP software in the

1998 calendar year. Our plan for integrating GTOP will provide projected dates for incorporating salary payments, benefit payments, and payments made by non-Treasury disbursing officials such as those in the Postal Service and the Department of Defense.

As of September, FMS had entered into 24 Letters of Agreement with agencies to collect delinquent debt through cross-servicing. To date more than 29,000 cases having a dollar value in excess of $460 million have been referred to DMS for cross-servicing. Of these referrals, the cross-servicing program has collected more than $1.1 million and has established repayment plans for the collection of an additional $2 million. The Department of Education has referred over 24,000 debts with a dollar value in excess of $430 million.

FMS has made two key changes to their collection methods to facilitate more efficient debt collection. First, due to increased volumes of debts and collections, FMS is now using the automated lockbox process to post collections of debts to FMS' cross-servicing debt collection system. This allows payments to be posted

electronically without manual intervention. Additionally, FMS is now accepting credit cards to pay delinquent debt. This tool is expected to be very useful in collecting debts such as student loans and other small individual debts.

Consistent with the objective stated in the DCIA, FMS awarded its private collection agency (PCA) contract to collect delinquent debts owed to the Federal Government to 10 contractors in September of this year. The contractors will have 60 days to establish systems compatibility with FMS to allow electronic transfer of delinquent debt file data between FMS and the contractors. FMS has provided implementation instructions for the Federal agencies and will be conducting a workshop for Federal agencies and the awardees to facilitate use of the contract and address questions concerning implementation of this debt collection tool.

FMS has published interim regulations concerning Tax Refund Offset to Collect Past-Due Non-Tax Debt, and the Collection of Past-Due Child Support by Administrative Offset. FMS has also published a notice of proposed rule-making concerning the Taxpayer Identifying Number (TIN) Requirement on Payment Vouchers. In addition, three proposed rules have already been developed and are

in the clearance process. These include 1) the Federal Claims Collection Standards; 2) Administrative Wage Garnishment; and 3) the Offset of Federal Benefit Payments. We expect to publish all three of these proposed rules within the next 30 days.

FMS is also working on additional rules to implement the provisions of the DCIA. These include regulations to:

1. Implement Salary Offset as Part of TOP;
2. Offset Federal Payments (Other than Tax Refund and Federal Benefit Payments) to Collect Federal Non-tax Debt;
3. Offset Federal Payments (Other than Tax Refund and Federal Benefit Payments) to Collect Debts Owed to States; and
4. A comprehensive rule to cover non-Administrative Offset functions including cross-servicing, obtaining taxpayer identifying numbers from persons doing business with the Government, barring delinquent debtors from obtaining Federal loans or loan guaranties, public dissemination of debtor information, and debt sales.

DCIA legislaticn transfers responsibility for reporting on receivables due from the public from OMB to Treasury. In June of this year, GAO issued a report indicating that improved reporting was needed on delinquent debt and agency collection performance. In response, FMS convened an interagency task force in July to revise the Report on Receivables Due from the Public. This task force has developed an exposure draft currently under review by individual members of the task force and OMB. The task force anticipates having a final report by January 1998. Reporting under the revised format may begin as early as June 1998, contingent on the reporting agencies' ability to revise their systems so that data may be supplied in the new format.

Under Secretary Hawke mentioned FMS' Issue Resolution Plan for the Debt Collection Improvement Act of 1996, and I would like to provide some additional details. The Plan resulted from a meeting hosted by OMB in September. The meeting was attended by CFOs and Deputy CFOs of the Federal agencies, senior debt collection officials of the Federal agencies, and FMS officials. Agency representatives expressed concern with various aspects of the DCIA implementation effort. These concerns fell into three categories:

1. Debt collection issues on purchase card transactions;

2. Taxpayer Identifying Numbers; and

3. Treasury offset and cross-servicing of agency debts.

As a result of this meeting FMS and other agency officials formed an interagency steering committee with a separate working subgroup for each of the three primary issue areas. We anticipate that these work groups will result in greater understanding by agencies of their responsibilities under the DCIA, clearer identification of the volumes of debt to be referred by each agency, and establishment of definitive targets for agencies to achieve compliance with these DCIA requirements.

In order to establish accurate target volumes for referral, agencies will be asked to assess their delinquent debts against the provisions of DCIA that call for exceptions to the requirement for referral to Treasury. These provisions exclude debts that:

1. are in litigation or foreclosure;
2. will be disposed of under an Asset Sales Program;
3. are already referred to a private collection contractor;

4. are referred to a Debt Collection Center with Treasury consent; or

5. will be collected via internal offset within three years.

This analysis will be critical to determining what percentage of delinquent Non-tax debt can actually be referred to FMS for cross servicing.

Progress has been made since we last testified before this Subcommittee, and we take pride in our accomplishments to date, however we have not made nearly as much headway as we had hoped. Our goals for the future are to complete implementation of the DCIA at the earliest possible time and establishment of definitive targets for agencies to achieve compliance with these DCIA requirements.

As Under Secretary Hawke mentioned in his testimony, Assistant Commissioner Virginia Harter recently retired after 39 years of distinguished service to the Federal Government. Ms. Nancy Fleetwood has been designated interim Assistant Commissioner for Debt Management Services within FMS. Ms. Fleetwood brings several years of experience as Comptroller at FMS and has had significant experience in implementing financial management programs and systems. I am confident that she will provide the strong leadership necessary to insure continued

success in implementation of DCIA. In addition, serving as our senior management team within FMS, Commissioner Russell Morris and Deputy Commissioner Mike Smokovich will remain active in the direction of debt collection implementation policy.

My office will continue to take an active oversight role to assure that the efforts to implement the DCIA remain on track. To this end, I have detailed Mr. David Lebryk, recently selected as Assistant Fiscal Assistant Secretary, to assist FMS in the timely implementation of DCIA.

Thank you, Mr. Chairman. This concludes my remarks this morning. I appreciate the committee's continued interest in the success of the program and I would be pleased to address any questions regarding the implementation of this legislation or our debt collection efforts that you or other Members of the Subcommittee may have.

Mr. HORN. I think you know that we have high regard for the Financial Management Service and its competency and efficiency on the Department of Treasury. On these rounds, because of the complication of this subject, we will go 10 minutes, and if we aren't done then, we will go another 10 minutes each.

Let me open up with this, and we might as well start at home, your home. According to a recent Office of Management and Budget report, the nontax debts of the Department of Treasury are $513 million. Has the Treasury Department referred its own debt to Treasury's own offset program?

Mr. MURPHY. I believe the answer to that, Mr. Chairman, is that some of it has and some of it has not. We do keep a record. I don't think I have a copy, but we have a listing by bureau within the Department and we would be happy to furnish that for the record.

Mr. HORN. Let me just get straight the reporting relationships. Mr. Murphy is Assistant Secretary, reports to Under Secretary Hawke. To whom does Under Secretary Hawke report?

Mr. HAWKE. To the Secretary.

Mr. HORN. Directly to the Secretary?

Mr. HAWKE. Yes.

Mr. HORN. To whom does the Commissioner of Internal Revenue Service report?

Mr. HAWKE. To the Secretary.

Mr. HORN. Both of you report to the Secretary.

We haven't even gotten into the tax debt, which is what started me in this thing 3 years ago when I saw they had written off over $100 billion in debt, and that means the rest of us who pay our tax bills are sort of shortchanged. They told me, gee, we have $64 billion we can collect; besides the $100 billion they had written off.

It didn't start with this administration. It started back in 1990 under the Bush administration, but it has greatly accelerated in what we say is uncollectible in this administration, as I told the then-Commissioner.

And speaking of the Commissioner, I think you have picked an excellent person and the President has picked an excellent person to come in as Commissioner. We had written him to say, please, no more outstanding accountants, and no more outstanding economists, and no more outstanding tax lawyers. Get somebody who has run a large organization.

There are 102,000 employees at least in the Internal Revenue Service, and with that kind of debt that just goes unsought after, it disturbs a lot of Members of Congress regardless of party. This is like city management and picking up the garbage. It isn't Democratic or Republican. Just get it off the streets. And I think that is how Mrs. Maloney and I, Mr. Davis of Illinois and Mr. Davis from Virginia, on our side, feel about this. We have got to really focus in on it.

Because the average taxpayer—and as you know, I usually hold a hearing on IRS on April 14, and the average taxpayer gets very upset when he or she sees they pay their taxes. How come these other people get away with not paying their taxes?

And I know we have, thanks to Mr. Kolbe and Mrs. Johnson who heads the oversight Committee on Ways and Means, we are wait-

ing for them, really, to give us the authority, but maybe we can go ahead in a lot of ways without their authority.

I guess I would ask, has the Treasury Secretary and yourself, Mr. Hawke, and the President, ever thought of issuing an Executive order to these other agencies to say, get with it, get that debt over to the Financial Management Service, and let's go pick it up? The President has full authority, I am sure, to just tell his Cabinet officers, get going on this. Now, what is your answer to that?

Mr. HAWKE. Mr. Chairman, I can't say that the subject of an Executive order as such has been considered, but I can tell you that during the time that I served on the President's Management Council, on at least three occasions I brought this subject up in the context of meetings of representatives of all the agencies. Mr. DeSeve has communicated with the agencies at our urging and we have tried to do what we can in that regard.

I think, Mr. Chairman, that we have to have realistic expectations about this program, and I think one of the problems that we all have to come to grips with is the understandable concern about program agencies not wanting to interfere with their programs by being overly vigorous in the collection of debt. I spent 7 years as the chairman of a major law firm here in town and one of the biggest problems that we had in collecting delinquent fees from clients was that the lawyers who were in charge of those clients didn't want to offend their clients by engaging in vigorous debt collection activity. That's kind of a natural human failing.

I think the important thing is to separate debt collection from program responsibilities and to have an independent authority. That is the wisdom that's reflected in the Debt Collection Improvement Act. In order to realize that objective, it is important for the agencies to cut the cord and to refer those debts and to break the linkage between program responsibilities and debt collection responsibilities.

Mr. HORN. I completely agree with you. If I were an agency head, I would love to have the debt collection move over to Treasury; you be the bad people and the agency can happily go on pandering to the special interests that agencies reflect around this town.

Let me just say on that experiment we are having with IRS, one of those packages they put out to bid had a 5-year-old debt. My suspicious mind said, gee, are they trying to make this system fail? What have you heard on that front?

Mr. HAWKE. I think the point that is implicit in your question, Mr. Chairman, is exactly right. The older a debt becomes, the more difficult it is to collect. The number that has been used as sort of the baseline of Federal debt, $51 billion, is a number that deserves some examination. We calculate that over 87 percent of that amount is debt that's been outstanding and delinquent for over a year, and I think, as everybody involved in this business knows, once debt is outstanding for more than a year, it becomes, in many cases, more and more difficult to collect. A private standard may suggest that only 7 or 8 percent of debt that is that old is really collectible. So, I think we need to look carefully at the numbers.

Of course, in the case of student loans there may be something of the opposite. The longer the debt is outstanding, the more able the debtor may become to pay the debt. So we can't overly general-

ize about that. But of that $51 billion in outstanding debt, there may be as much as $45 billion that is over a year outstanding. And if 7 percent of that was collectible, that means we are only talking about $3 or $4 billion of that amount over a year delinquent that is really collectible.

Mr. HORN. Well, I agree on the student's ability to pay, but the fact is, when you don't follow up, and this is what I told the Commissioner that was in office 3 or 4 years ago, you are not organized to collect the debts. They don't make the phone calls on time and pretty soon everybody thinks in IRS that, oh, this is a grant. What debt? What do you mean? What do I owe? And students feel the same way. They need good counseling.

I must say, starting with President Carter, we finally got people in the Department of Education that started saying, "what are you doing in universities, what are you doing in the banks to really counsel students that this is a loan, this is not a grant; it is not the Pell grant?" That is what concerns me.

For the $51.3 billion delinquent nontax debt, of which we have $513 million in the Treasury, you could almost start overnight if Secretary Rubin issued an Executive order and said, get it over to the Financial Management Service.

Now, one of the things that we pointed out to the then-Commissioner, and I will point out to the new Commissioner but I am sure he knows the obvious, and the obvious is, there are private debt collectors in this United States that collect debt. And why are we fussing around not collecting it? And why don't we auction those packages off and see what people can do?

Mr. HAWKE. Well, we have, as I stated in my testimony, completed a procurement and have engaged 10 private debt collecting firms with nationwide capacity.

Mr. HORN. Is this one of these with the 5-year-old debt in the package? That bothered me. If this comes out of the appropriation language, which three of us urged, why this is separate from that, I take it, Mr. Brasher tells me.

What has been referred, in essence, in terms of debt?

Mr. MURPHY. It was just awarded September 30. And as I mentioned, the contractors have 60 days to demonstrate that they can connect with us to exchange the debt electronically and then another 30 days for a test. That should be up and—they should be operational February 1—yes; February 1. The old GSA debt collection contract, I think, expires January 31.

Mr. HORN. I notice, Secretary Murphy, on page 2 of your testimony, you say, "we discussed the agreement between the Financial Management Service and the Internal Revenue Service to merge the tax refund offset program into your Treasury offset program, and your work with Health and Human Services to develop procedures to include past-due child support debts in the offset process."

Now, past-due child support debts, I think, should be a fairly easy thing to get ahead of. Commissioner Adams, the commissioner of revenue in Massachusetts, told me that the day the law took effect that that gave him the power to raise millions of dollars in unpaid child support that had been specified by the courts of Massachusetts. When people go over the State line, he could access now the tapes on where people were working and all the rest of it. I just

wonder why the Federal side, which it should be fairly easy to put a garnishment or anything else on, or a lien, why the Federal side doesn't seem to be moving ahead on these deadbeat dad child support situations. What is happening?

Mr. MURPHY. Basically, the States have been participating for a number of years in the IRS tax refund offset program, and last year they collected over $1 billion in offsets against tax refunds.

We just started working with the States back in June. The first few States entered into the interim Treasury offset program. We have talked with all 50 States. At the moment, there were—this year there have been nine who were participating in the interim offset system. One or possibly two may withdraw because they weren't collecting that much because of the limited number of payments that we have in that system to match against and for the technical reasons I mentioned earlier about not being able to detect the garnishment and the possibility of a double hit.

But essentially that program is going to take off again when the GTOP system comes up and we have more Federal payments in that matching process to match against all those debts. The States submit something like $34 billion in delinquent child support debts to the IRS for offset. As I mentioned, they collected over $1 billion. But those debts could go in the Treasury offset system, too. But the IRS tax refund program is sort of mandatory participation. With our system, it is voluntarily and the States have to make their own determination as to how much it would cost them to change systems, to participate, and how much they expect to get out of it. So it is building but it will really pay off when we have the full robust system.

Mr. HORN. Thank you. My time is up. I yield 10 minutes to Mrs. Maloney, the ranking Democrat.

Mrs. MALONEY. Thank you, Mr. Chairman.

Unfortunately, even though Treasury is one of my favorite departments, and I think you do a good job on a lot of things, unfortunately Treasury got an F on our report based really on lack of leadership and lack of making this a priority. In our questionnaire to Treasury, they didn't even answer the question on the GTOP area and cross-referencing.

I would like to put this chart in the record, and it shows really very simply where we are. That $50 billion is owed. Roughly $40 billion is over 180 days old, meaning according to the law it should have been referred to Treasury. Yet, only $9 billion was referred to the Treasury offset program and only $727 million was referred to Treasury. It is no wonder that we collected only $2.5 million.

The two major components of the law have not been implemented at all. And I just would like to respectfully respond to some of Mr. Hawke's comments.

Earlier, you said that it was important to—most people didn't want to interfere with their programmatic work. I agree. That is why we put into place a referral to Treasury, whose mission it is to bring money into the Treasury. That is the prime mission of the Treasury Department. Educators want to educate people. The Agricultural Department wants to support more farmers and more growth in the farming industry. Treasury is supposed to bring the

revenues into the Treasury. And I must note that our report does not touch tax revenues. This is all nontax delinquent debt.

And there was a mention earlier that a lot of this debt was owed, and the law now, the departments can write off old debt that they deem uncollectible. And one of the goals of our legislation was for Treasury to come forward with some guidelines that gave some type of unified direction for writing off debt. If something is uncollectible, ask the agencies and have them write it off.

But right now I would really like to address my comments to Mr. Murphy, who really has more of the on-hands direct responsibility for the implementation of the program.

One of the things that I am having difficulty understanding, with the implementation of the Treasury Department's Grand Treasury Offset Program, which is absolutely critical to improving debt, you cannot improve debt collection until you implement this program, and, unfortunately, Mr. Murphy, you missed a great opportunity to merge this program with the tax refund offset program. I have been told that the FMS contractor for the offset program, the Treasury offset program, delivered the product completed; he completed his work on schedule last month. Why then was there a decision to delay implementing the Treasury offset program?

We cannot implement this law until we implement the Treasury offset program. And I would like to hear again why we are not moving forward? If you have a job to do, you get it done. If you don't want to do the job, you push it off in the corner, and that is what you have done by announcing that you are going to put off implementation for a year.

Mr. MURPHY. It is true that the contractor delivered a software package to us the end of October. That system, however, now needs to be tested and that is going to take some time, and we also have to be sure that that system is going to be able to interface with the other systems in FMS and with the systems in IRS.

I can't give you a timeline on that yet. That is something that we are working on. And in our response to Chairman Horn, our November 3 letter, we indicated that as soon as we develop that revised schedule we will certainly share it with you.

But that is a complicated process, and I don't—I agree with your main point. We missed an opportunity. But in retrospect, I believe very firmly that that was a good decision. I think we would have, without having a system fully tested before going in to that January conversion, I think we really would have put a lot of those tax refunds at risk.

Mrs. MALONEY. Well, I disagree. I think it was a very bad decision, and I think it was one that showed that you don't put debt collection on a high priority in your agency. And I simply do not understand how there could be a negative impact. FMS would have had ample time to test the program, and in the unlikely event that a merger failed, you could easily go back to the old system.

In addition, you would have the opportunity to learn from your mistakes. I don't see how the tax refund offset program would suffer. I really fail to see that. I feel that this was a delay tactic, and I would like to ask in writing for you to submit to the record how the tax refund offset program would suffer if you went forward with the merger and the testing.

You know, a lot of times when we are in Government, or in any job, you don't have the absolute perfect solution sitting in front of you. But you are certainly not going to go forward if you don't try, if you don't test, if you don't try to complete it. And by putting it off, you just shunted it off in the corner. You could have started testing it. If it didn't work, then go back to the old system.

And I would like to say that the failure of the tax refund offset merger is no reason to delay the implementation of the tax offset program. And it has been a year and a half since this bill passed, and I still haven't seen target dates coming out of your office, Mr. Murphy. Mr. Horn and I wrote you in September asking again for target dates.

Very respectfully, I would like to put again in the record, Mr. Chairman, our joint letter to Mr. Murphy requesting target dates of when you were going to implement this. And since you have not come back with target dates, I would——

Mr. HORN. Without objection, the letter will be put in at this point.

Mrs. MALONEY. I would like to put forward suggested target dates and if you can't meet these target dates then let us know what you think should be the target dates. And we are saying that testing, or, at least, I am saying, testing by the Federal Reserve Board by February 1998; conversion from the intermediate, you know, program, ITOP to the Grand Treasury Offset Program by March 1998; and implementation by March 1998, too. Can you comment or commit the Treasury to meet these deadlines?

Mr. MURPHY. At this point in time, I cannot commit to meeting those specific dates. We will, though, be happy to provide you with any written response to your question.

The one area which we may be perceiving a little differently, I, too, was initially of the opinion that we could wait right up until the last minute to make a decision as to whether to go or not go on the merger, assuming that we could always fall back to the system that IRS has run for years. I turned out to be mistaken about that and a decision had to be made much earlier as to whether IRS was going to work on programming for the new system or to program to keep the old system going. As a result of that, that's why I described it as we were walking a tightrope without a safety net. We didn't have a fallback, and the risk was just too great. And in retrospect, given, you know, where we are today, I think it was a good decision. But we would be happy to provide something for the record to you.

Mr. HORN. Without objection, it will be put in the record at this point.

[The information referred to follows:]

UNDER SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON
November 3, 1997

NOV 12 1997

The Honorable Stephen Horn
Chairman, Subcommittee on Government Management
Information and Technology
Committee on Government Reform and Oversight
U.S. House of Representatives
Washington, DC 20515-6143

Dear Mr. Chairman:

Thank you for your letter dated September 4, 1997 concerning the implementation of the Debt Collection Improvement Act of 1996 (DCIA). Treasury appreciates the support that you and the Subcommittee have shown concerning our efforts to implement fully all provisions of the DCIA.

In your letter you request information on the Treasury Offset Program (TOP), including 1) milestones and time frames for complete implementation; 2) plans to increase the volume and type of payments that can be offset; and 3) strategies for increasing the number of delinquent debts subject to offset under TOP. These issues are addressed in the enclosed narrative. The requested list of key milestones and time frames is dependent on our schedule for implementation of the Grand Treasury Offset Program (GTOP) software. This schedule is being revised as a result of the delay in the merger of the IRS tax refund offset program (TRO) and TOP. A revised implementation plan with milestones and time frames will be provided to your office in the near future.

In addition, your letter contained a request for the following information:

- Revised plans for the merger of TRO with TOP, including any outstanding issues and plans for resolution (Enclosures A & B).

- Status report on Federal agency compliance with the DCIA requirement to include taxpayer identification numbers (TIN) with payment files (by agency and dollar volume percentage of payments including TINs) (Enclosures A & C).

Page 2 - The Honorable Stephen Horn

- Description of cross-agency systems issues that have complicated the TRO-TOP merger and time lines for their resolution (Enclosure A).
- Status of DCIA regulations and anticipated effective dates (Enclosure D).
- Explanation of how DCIA authority to pay finder's fees to any person discovering unclaimed Federal property will be applied (Enclosures A & E).

The enclosed narrative and supporting documentation should fully address each of these issues. Thank you again for your continued interest and support in our efforts to implement DCIA.

Sincerely,

John D. Hawke, Jr.
Under Secretary for Domestic Finance

Enclosures

Enclosure A

INFORMATION REQUESTED BY
THE HONORABLE STEPHEN HORN

1) Increasing the Volume of Federal Payments Subject to Offset

As you are aware, FMS is developing the Grand Treasury Offset Program (GTOP) system to replace the current Interim Treasury Offset Progra (ITOP) system. ITOP was originally designed as a proof-of-concept pilot prior to passage of Debt Collection Improvement Act (DCIA), and while ITOP has been enhanced to allow offsets against multiple payment types, capabilities in this area remain limited. The GTOP system has been designed to allow implementation of Treasury Offset Program (TOP) for all Federal payment types, including tax refunds and ultimately those payments issued by Non-Treasury Disbursing Offices (NTDOs). These payment types will be phased into TOP beginning in 1998, and a schedule will be provided to your office as part of the TOP implementation plan.

As a matter of background, the primary requirements to complete the merger of the TOP and the tax refund offset program are technical. They consist of delivery and testing of the new offset software (GTOP) that FMS is having developed to complete the implementation of TOP; completing changes to the IRS system to enable merger with GTOP; testing of the interfaces between GTOP and the IRS system; and phasing out the current software (ITOP). Since merger plans are dependent on our schedule for implementing GTOP, we are working to develop an implementation schedule for each of these items as part of the TOP plan referenced in this letter.

2) Increasing the Volume of Delinquent Accounts Subject to Offset

The Office of Management and Budget (OMB) and FMS are working with the agencies through the CFO Council and the Federal Credit Policy Working Group to clearly identify which delinquent debts are to be referred to Treasury for offset and cross-servicing. OMB, FMS and the agencies will then set dates for the debts to be referred and OMB will monitor the compliance.

In order to further increase the number of debts in the TOP database, FMS and IRS have agreed to require agencies to submit all delinquent debts to FMS for participation in tax refund offset (TRO) for calendar year 1998. This will afford FMS an opportunity to add some or all these debt records to the TOP database over the course of next year, significantly increasing the total number of delinquent debts against which FMS can take offsets. This should substantially increase the number of debts in the TOP database. Currently, FMS has more than 2.4 million debts covering $17 billion in delinquent receivables. Of these, nearly two million cases represent debts owed to Federal agencies and another half million are child support debts.

3) Taxpayer Identification Numbers (TIN)

On September 2, 1997, FMS published a notice of proposed rule making which proposed to enforce the DCIA requirement to include TINs in payment certifications. A number of agencies have expressed concerns over timing.

On September 30, 1997, the Office of Management and Budget hosted a meeting of CFOs, Deputy CFOs, and senior debt collection officials to discuss agency concerns regarding the implementation of the DCIA. Prior to the meeting, agencies were requested to provide their questions, concerns, issues, and comments on the DCIA implementation process. A key area where agencies expressed concern was implementation of TINs. Issues raised included policies for waivers and exceptions, timing of the requirement, consistency with Prompt Pay guidelines and automated methods for looking up TIN information. It was agreed that the following strategies for implementation would be followed:

- Issue operating procedures and technical guidelines for including TINs on payment vouchers.
- Form a TIN work group to resolve issues and provide assistance to Federal agencies in implementing the requirements of DCIA.
- Through the Administrative Procedures Act process, address agencies' concerns on waivers and exceptions, and timing for implementation.
- Establish a liaison with the FAR Council and the Prompt Pay Work Group to ensure TIN requirements are consistent with the FAR and Prompt Payment guidelines.
- Work with the CFO Council Systems Committee and Electronic Processes Initiatives Committee (EPIC) Buying and Paying Task Force to identify an automated process for agencies to obtain TINs on customer accounts.

Agencies have been asked to comment on the status of their compliance with the DCIA requirement that payees' TINs be included with each certified payment voucher. FMS has begun monitoring this compliance and the percentage of compliance varies substantially by agency. The enclosed agency TOP implementation schedule and status report gives our best estimate of which agencies are providing TINs on vendor payments. The compliance ratio is provided as a function of annual payment volumes since this figure best illustrates agency responsiveness to the TIN provision of DCIA.

4) Merger of The Tax Refund Offset Program into TOP

In regard to the merger of tax refund payments into the Treasury Offset Program (TOP), we are enclosing a copy of the joint Financial Management Service (FMS) and Internal Revenue Service (IRS) announcement on tax refund offset processing. The announcement details the operational roles and responsibilities for FMS and IRS for tax refund offset during calendar year 1998. FMS and IRS staffs are working together to ensure that the tax refund offset program and collections on delinquent debt are operated effectively during the transition year.

Additionally, both FMS and IRS are working to finalize respective task lists for GTOP implementation and the merger of IRS' TRO program with TOP. Treasury's plans for the merger of the tax refund offset program into the TOP next processing season and for completing the implementation of the TOP are intertwined and interdependent.

5) Cross-Agency System Issues

FMS is also working closely with agencies to address any systems difficulties they might experience as they prepare to refer their delinquent debts. Systems compatibility is a matter of formatting electronic files and modifying agency systems to accommodate the data. FMS accepts debt data from an agency in either the agency's existing formats or the TOP format. Additionally, TOP is able to receive debt data in a batch or online mode.

6) Status of DCIA Regulations

As requested, enclosed is a status report on all DCIA regulations, including the date they were published in the Federal Register, if applicable.

7) Unclaimed Assets

The DCIA gives agencies the authority to enter into contracts for the recovery of unclaimed assets and to pay a fee for this service. Such contracts would be used when Treasury or the agencies have exhausted other methods for recovery. Without such contracts in place, fees or "rewards" have not been paid and any funds recovered by Treasury or the agencies generally have been returned to the General Fund of the Treasury. FMS is in the process of determining the best method to providing such a contracting vehicle.

We have reviewed the letter from Representative Dunn's constituent Mr. Arthur L. Mason, and we certainly agree that a few million dollars in unrecovered Federal monies is not trivial. Recognizing the need to effectively address this problem several years ago, the

Department of the Treasury began a program to actively seek out unclaimed assets belonging to the Federal government held by states and financial institutions. The enclosed recovered asset spreadsheet details our accomplishments by state from 1993 through the present.

The information provided by Mr. Mason was helpful and will further our efforts in this program. Using his information, we were able to update our list of state contacts, addresses and telephone numbers. In addition, we have recently started searching the Internet for unclaimed assets in order to obtain necessary claim information that has not been forthcoming from some States. The State unclaimed property site information provided by Mr. Mason may give us access to information necessary to file claims. We are responding to Mr. Mason, thanking him for his valuable information and providing a copy of our response to Representative Dunn.

Enclosure B

DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

*** * * UPDATE * * ***
TREASURY OFFSET PROGRAM
MERGER WITH TAX REFUND OFFSET PROGRAM

We wish to inform your agency of the current status of the planned merger of the Tax Refund Offset Program (TRO) into the Treasury Offset Program (TOP) under the Debt Collection Improvement Act of 1996. Agencies are required to submit their debt files to the Financial Management Service (FMS) for the purpose of Treasury offset of Federal payments to collect delinquent debt, including the offset of tax refunds. Agencies may, at their option, transmit and receive data for this purpose in either the tax refund offset or current treasury offset program formats through 1998. We will work with your agency to respond to any format question you may have.

Agencies have been advised by FMS to release their 60 day TRO and TOP offset notices in time to refer debt by January 1, 1998.

The offset of tax refunds payable after January 1, 1998 is governed by the newly published tax refund offset regulations (62 FR 34175, June 25, 1997), as well as applicable agency-specific regulations. A copy of the new rule is available for downloading from the FMS web site at *http://www.fms.treas.gov/regs.html.*

The IRS Acting Commissioner and the FMS Commissioner, at the recommendation of IRS and FMS Chief Information Officers, decided to delay transfer of the TRO from IRS to FMS for one year. Therefore, in 1998, the following processing elements will be put in place:

- ✓ Agencies will submit agency address changes to FMS for TOP and TRO.
- ✓ Agencies will transmit their debt files to FMS for TOP and TRO offset.
- ✓ FMS will forward agency debt records to the IRS.
- ✓ The IRS will match the debt records submitted to FMS with taxpayer records and initiate related offsets.
- ✓ If a debtor is owed a tax refund, the IRS (rather than FMS) will reduce the tax refund by the amount of the debt and generate offset notices to the debtor.
- ✓ TRO collection and offset information will be returned by FMS to the creditor agency, as well as TOP collection and offset information.
- ✓ IRS and FMS will conduct separate OPAC transmissions directly with the creditor agency for their respective offsets and reversals.
- ✓ Agencies will transmit their update files to FMS for TOP and TRO offset.

As of January 1999, it is expected that the process for offsetting tax refunds will be fully incorporated into the TOP. FMS will then handle the entire offset process for tax refunds as it does for all other eligible Federal payments under the fully merged system.

A workshop on tax refund offset for 1998 is scheduled for November 4, 1997, at IRS facilities in New Carrollton from 9 a.m. to 4 p.m. An announcement of the details of this workshop will be forthcoming shortly.

Released by the Internal Revenue Service and the Financial Management Service
September 10, 1997

Enclosure C

REGIONAL OPERATIONS - OPERATIONS DIRECTORATE
OP. IMPLEMENTATION SCHEDULE - AUGUST STATUS
VENDOR PAYMENTS
DATE: SEPTEMBER 15, 1997

REMAINING IMPLEMENTATION SCHEDULE

ALC	FPA	ANNUAL PAY VOL.	RFC	IMPLEM. DATE	% OF TIN COMPLY
36000765	V.A. (Canteen)	250,000	AFC	9/30/97	0%
58000001	FEMA	24,944	BFC	9/30/97	0%
16152001	Labor-ESA/OWCP/OFEC	110,820	PFC	9/30/97	29%
16154901	Labor-ESA/OWCP/OFEC	405,396	PFC	9/30/97	22%
16151201	Labor-ESA/OWCP/OFEC	415,428	PFC	9/30/97	24%
86090300	HUD - FHA	367,800	PFC	9/30/97	36%
16010005	Labor - Black Lung	859,368	PFC	9/30/97	5%
05000001	General Accounting Office	22,860	PFC	9/30/97	1%
16150701	Labor-ESA/OWCP/OFEC	85,164	PFC	9/30/97	28%
16150011	Labor-ESA/OWCP/OFEC	65,532	PFC	9/30/97	27%
16150001	Labor-ESA/OWCP/OFEC	133,392	PFC	9/30/97	32%
16150002	Labor-ESA/OWCP/OFEC	200,340	PFC	9/30/97	28%
20161401	U.S. Mint	4,608	PFC	9/30/97	0%
25000001	NCUA	7,200	PFC	9/30/97	2%
36000310	V.A. - Philadelphia	20,832	PFC	9/30/97	0%
36000335	V.A. - St. Paul	4,560	PFC	9/30/97	43%
16150003	Labor-ESA/OWCP/Lngshr	164,256	PFC	9/30/97	33%
16150012	Labor-ESA/OWCP/OFEC	93,156	PFC	9/30/97	32%
16150013	Labor-ESA/OWCP/OFEC	113,640	PFC	9/30/97	57%
16150016	Labor-ESA/OWCP/OFEC	271,440	PFC	9/30/97	22%
16150101	ESA/OWCP/OFEC	84,288	PFC	9/30/97	24%
36001200	Veteran's Affairs	2,525,772	AFC	8/30/97	10%
20080002	Treasury-IRS (WDC)	444,532	BFC	8/30/97	84%
75010098	HHS-ASPER/OHRM	66,276	PFC	8/30/97	96%
86010501	HUD-Cash & Credit Mgt	40,872	PFC	8/30/97	100%
16150050	Labor-ESA/OWCP/OFEC	34,248	PFC	8/30/97	31%
16150202	Labor-ESA/OWCP/OFEC	171,588	PFC	8/30/97	96%
16010006	Labor - Pension Benefit	4,116	PFC	8/30/97	29%
15080001	Justice (UNICOR)	52,070	BFC	7/30/97	0%
47001700	Justice (BP)	423,850	BFC	7/30/97	17%
69001104	DOT	890,000	KFC	6/30/97	33%
12400001	USDA/NFC	1,800,000	KFC	6/30/97	29%
11440001	Peace Corps	4,009	CFC	5/30/97	100%
80000701	NASA	20,346	CFC	5/30/97	95%
44000001	CNCS (ACTION)	42,000	KFC	5/30/97	57%
47000016	GSA	840,000	KFC	5/30/97	100%
TOTALS	36 ALCs	10,864,803			

IMPLEMENTED DURING SEPTEMBER OR PRIOR

ALC	FPA	ANNUAL PAY VOL.	RFC	% OF TIN COMPLY
27000001	FCC, Washington	33,357	SFC	58%
75030550	Dept. of HHS - PHA	13,524	PFC	95%
75030030	Dept. of HHS - PHA	5,584	PFC	96%
86011201	HUD-Cash & Credit Mgt	53,808	PFC	100%
86010001	HUD-Accounting Division	40,884	PFC	99%
20180009	Treasury- Check Claims	37,416	PFC	100%
86010701	HUD-Cash & Credit Mgt	109,464	PFC	100%
86010501	HUD, Cash & Credit	47,268	PFC	53%
95140001	Commodities Fir Trding	4,032	PFC	68%
86011101	HUD - Cash & Credit Mgt	60	PFC	100%
86010801	HUD - K.C. Reg Office	24,852	PFC	100%
91020001	Dept. of Education	61,020	PFC	54%
28040001	S.S.A.	72,756	PFC	85%
75050080	HCFA	2,940	PFC	100%
75060040	National Institute of Health	1,844	PFC	94%
15100438	GSA	375,615	AFC	98%
14060907	National Biological Srvc	27,840	SFC	91%
31000001	Nuclear Reg. Comm	14,356	BFC	70%
45010001	EEOC	7,494	BFC	51%
19000001	State	141,238	BFC	50%
49000001	National Science Fndtn	34,998	BFC	42%
50000001	Sec. & Exchng Comm	22,482	BFC	32%
14160006	Fish & Wldlf Ser.-Denver	133,188	SFC	91%
14160007	Fish & Wldlf Ser.-Denver	2,580	SFC	77%
15110001	Justice (DEA)	14,236	BFC	0%
15010004	Justice (Management)	112,632	BFC	65%
15020001	Justice (FBI)	72,492	BFC	73%
20030001	Treasury- Law Enfrcmnt	6,990	BFC	86%
75010001	DHHS	46,878	BFC	80%
75090421	HHS-CDC (Atlanta)	86,692	BFC	5%
75090527	HHS-CDC	12,620	BFC	62%
14060906	Federal Trade Comm.	9,180	SFC	64%
14200699	Bur.Indian Affairs-Alb., etc.	132,504	SFC	67%
89001602	Western Area Power Adm.	36,132	SFC	69%
14060905	BOR - Finance	62,832	SFC	94%
14060800	BOR - Job Corps	9,504	SFC	100%
14250001	Ofc of Trust Fund Mng.	864	SFC	90%
13010011	Commerce/OS (Fin Opr)	1,376	BFC	63%
13060001	Commerce (NIST)	28,050	BFC	42%
13140001	Commerce (NOAA)	13,206	BFC	70%
13140016	Commerce (Mgt Srv Ctr)	116,062	BFC	64%
89000001	DOE - HQ	33,470	BFC	70%
89185369	DOE - Oakridge	708	BFC	89%
80000004	NASA	25,832	AFC	80%
89001302	Department of Energy	21,647	AFC	90%
80000001	NASA-HQ	11,392	BFC	94%
80000024	NASA-Dryden	5,292	BFC	92%
80000501	NASA-Langley	11,492	BFC	93%
80004901	NASA-GCM	16,736	BFC	94%
82009002	Federal Maritime	506	BFC	15%
95410001	Federal Hsng Fin. Bd.	624	BFC	18%
63000001	NLRB	15,476	BFC	65%
01000001	Architect of the Capitol	7,990	BFC	55%
17010004	Inter-American Fndtn	780	BFC	53%
20740001	Treasury (OTS)	5,492	BFC	57%
86010201	HUD-Cash/ Credit Mgt.	62,724	PFC	95%
20710001	Treas.-Cmptrlr Crncy	51,756	PFC	91%
86010101	HUD-Cash/Credit Mgt.	37,260	PFC	100%
13100001	Commce-Patent&Trade	21,516	PFC	48%
86010300	HUD-Cash/Credit Mgt.	257,752	PFC	99%
86010401	HUD-Cash/Credit Mgt	78,720	PFC	100%
14110008	Bureau of Land Mgmt.	125,100	SFC	92%
24000001	OPM 1	47,325	CFC	0%
64000153	Armed Frc Rtrmt Home	5,634	BFC	90%
80004904	NASA-Kennedy	10,614	BFC	94%
80000002	NASA-Goddard	44,742	BFC	96%
68010015	EPA	170,000	KFC	100%
20010001	Treasury - Off.of Sec.	11,004	PFC	84%
11440001	Peace Corps	29,460	PFC	98%
14080001	D. Int.-US Geol. Surv.	121,284	PFC	97%
14100099	National Park Service	125,112	PFC	94%
14100098	National Park Service	612	PFC	100%
75060099	FDA- Rockville	39,000	PFC	93%
75080031	NIH	256,166	PFC	99%
20060800	Treasury - Customs	446,484	PFC	90%
20100001	Treasury - ATF	29,208	PFC	87%
89001401	Bonneville Power Ad.	199,080	SFC	95%
14090030	Bureau of Mines	7,716	SFC	84%
80001201	NASA	78,252	SFC	91%
20140001	Secret Service	15,000	PFC	86%
60009301	RRB	12,912	CFC	83%
16012016	Labor- Rprts & Analy.	91,956	PFC	44%
20100002	Treasury - ATF	6,012	PFC	71%
33010001	Smithsonian Institute	31,728	PFC	99%
73000001	SBA	215,196	SFC	52%
TOTALS IMPLEMENTED	65 ALCs	4,217,624		

NOTES:

Prepared by Regional Operations

DCIA - DEBT COLLECTION REGULATIONS REPORT

REGULATION	STATUS	DATE PUBLISHED IN THE FEDERAL REGISTER	COMMENTS
Federal Claims Collection Standards - Notice of Proposed Rulemaking	Clearance Process	11/30/97 (assuming clearance by Justice)	The Federal Claims Collection Standards are being co-promulgated by the Departments of Treasury and Justice. All clearance within Treasury has been completed, other than the Secretary's signature. Awaiting final clearance within Justice for publication. Final rule is expected to be published 4 months after the notice of proposed rulemaking (4/1/98).
Collection of Past-Due Child Support by Administrative Offset - Interim Rule	Published	7/7/97	Rule became effective on July 25, 1997. Comments were accepted until September 5, 1997. Final rule will be published after consideration of all comments.
Offset of Tax Refund Payments to Collect Past-Due Legally Enforceable Nontax Debt - Interim Rule	Published	6/25/97	Rule became effective July 25, 1997 for tax refunds payable after January 1, 1998. Comments were accepted until July 25, 1997. Final rule will be published after consideration of comments.
Taxpayer Identifying Number (TIN) Requirement on Payment Vouchers - Notice of Proposed Rulemaking	Published	9/2/97	Comment period closes on November 3, 1997. Final rule is anticipated to be published in March 1998.
Administrative Wage Garnishment - Notice of Proposed Rulemaking	Clearance Process	11/15/97	Final rule is expected to be published 4 months after publication of the notice of proposed rulemaking (3/15/98).
Offset of Tax Refund Payments to Collect Past-Due Support - Notice of Proposed Rulemaking	Draft Stage	12/31/97	HHS approval is required. FMS working on the final issues with HHS. Final rule should be effective six months after publication.
Offset of Federal Benefit Payments - Notice of Proposed Rulemaking	Clearance Process	12/15/97	FMS consulted with affected agencies including Social Security Administration, Railroad Retirement Board and Labor Department. Final rule is expected to be published May 1998.

REGULATION	STATUS	DATE PUBLISHED IN THE FEDERAL REGISTER	COMMENTS
Cross-Servicing -- Transfer or Referral of Delinquent Nontax Debts to Treasury and Debt Collection Centers*	Draft Stage	2/15/98	FMS is working on a draft to circulate for agency comments prior to publication of the proposed rule in the Federal register. Final rule is expected to be published in June 1998.
Obtaining Taxpayer Identifying Numbers from Persons Doing Business with the Government*	Draft Stage	2/15/98	FMS is working on a draft to circulate for agency comments prior to publication of the proposed rule in the Federal register. Final rule is expected to be published in June 1998.
Barring Delinquent Debtors from Obtaining Federal Financial Assistance in the Form of Loans or Loan Guarantees*	Draft Stage	2/15/98	FMS is working on a draft to circulate for agency comments prior to publication of the proposed rule in the Federal register. Final rule is expected to be published in June 1998.
Public Dissemination of Identity of Delinquent Debtors*	Draft Stage	2/15/98	FMS is working on a draft to circulate for agency comments prior to publication of the proposed rule in the Federal register. Final rule is expected to be published in June 1998.
Debt Sales*	Draft Stage	2/15/98	FMS is working on a draft to circulate for agency comments prior to publication of the proposed rule in the Federal register. Final rule is expected to be published in June 1998.
Salary Offset as part of TOP and Matching of Federal Employee Records for Salary Offset	Draft Stage	3/15/98	Final rule is expected to be published in July 1998. May be incorporated in the regulation described below.
Offset of Federal Payments (Other than Tax Refund and Federal Benefit Payments) to Collect Past-Due, Legally Enforceable Nontax Debt	Draft Stage	3/15/98	This regulation may include procedures for offsetting salaries. Final rule is expected to be published in July 1998.

*Current plans are to publish these sections concurrently as one document. FMS also is consulting with Federal Credit Policy Working Group.

REGULATION	STATUS	DATE PUBLISHED IN THE FEDERAL REGISTER	COMMENTS
Offset of Federal Payments (Other than Tax Refund and Federal Benefit Payments) to Collect Past-Due Debts owed to States	Draft Stage	3/15/98	Final rule is expected to be published in July 1998.
Credit card offset	Draft Stage	11/1/98	FMS will work with GSA, other affected agencies and the industry to determine the costs/benefits, the strategy, and the most efficient, effective technical approach to recovering delinquent debt through offset of payments made via credit card.

*Current plans are to publish these sections concurrently as one document. FMS also is consulting with Federal Credit Policy Working Group.

RECOVRED ASSETS SPREADSHEET 1993 - 2000

Saved as: Asset_97web2 dr\ A&P

	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL TO DATE
Alabama	$0.00	$0.00	$0.00	$5,844.32	$0.00	$0.00	$0.00	$0.00	$5,844.32
Alaska	$0.00	$3,037.61	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$3,037.61
Arizona	$0.00	$27,805.94	$0.00	$2,693.09	$66,915.36	$0.00	$0.00	$0.00	$97,414.39
Arkansas	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
California	$0.00	$218,894.77	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$218,894.77
Colorado	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Connecicut	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Delaware	$0.00	$14.57	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$14.57
DC Government	$10,655.00	$0.00	$6,090.61	$0.00	$0.00	$0.00	$0.00	$0.00	$16,745.61
Florida	$0.00	$15,564.57	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$15,564.57
Georgia	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Hawaii	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Idaho	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Illinois	$2,300.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$2,300.00
Indiana	$0.00	$11,297.81	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$11,297.81
Iowa	$0.00	$10,847.12	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$10,847.12
Kansas	$0.00	$0.00	$1,014.61	$0.00	$0.00	$0.00	$0.00	$0.00	$1,014.61
Kentucky	$0.00	$1,661.77	$379.21	$0.00	$0.00	$0.00	$0.00	$0.00	$2,040.98
Louisana	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Main	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Maryland	$0.00	$102,174.76	$20,592.18	$0.00	$45,822.32	$0.00	$0.00	$0.00	$168,589.26
Massachusetts	$0.00	$3,865.09	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$3,865.09
Michigan	$0.00	$0.00	$32,430.35	$0.00	$0.00	$0.00	$0.00	$0.00	$32,430.35
Minnesota	$0.00	$0.00	$42,807.10	$0.00	$0.00	$0.00	$0.00	$0.00	$42,807.10
Mississippe	$0.00	$2,310.44	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$2,310.44
Missouri	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Montana	$0.00	$19,058.92	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$19,058.92
Nebraska	$266.50	$0.00	$0.00	$0.00	$8,346.50	$0.00	$0.00	$0.00	$8,613.00
Nevada	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
New Hampshire	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
New Jersey	$0.00	$0.00	$0.00	$6,601.34	$0.00	$0.00	$0.00	$0.00	$6,601.34
New Mexico	$0.00	$1,830.13	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$1,830.13
New York	$0.00	$0.00	$61,356.00	$0.00	$0.00	$0.00	$0.00	$0.00	$61,356.00
North Carolina	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
North Dakota	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Ohio	$3,179.41	$66,897.36	$28,434.24	$19,418.72	$9,307.45	$0.00	$0.00	$0.00	$127,237.18

Oklahoma	$0.00	$21,082.91	$1,060.35	$241.43	$0.00	$0.00	$0.00	$0.00	$22,384.69
Oregon	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Pennsylvania	$0.00	$13,723.39	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$13,723.39
Rhode Island	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
South Carolina	$0.00	$9,535.94	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$9,535.94
South Dakota	$0.00	$338.25	$902.00	$0.00	$0.00	$0.00	$0.00	$0.00	$1,240.25
Tennessee	$394.50	$6.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$400.50
Texas	$0.00	$430,699.92	$258,691.12	$865.45	$239,836.56	$0.00	$0.00	$0.00	$930,093.05
Utah	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Vermont	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Virginia	$0.00	$57,557.45	$67,481.57	$0.00	$0.00	$0.00	$0.00	$0.00	$125,039.02
Washington	$0.00	$0.00	$0.00	$10,054.10	$0.00	$0.00	$0.00	$0.00	$10,054.10
West Virginia	$0.00	$3,827.16	$307.85	$0.00	$0.00	$0.00	$0.00	$0.00	$4,135.01
Wisconsin	$0.00	$0.00	$3,496.99	$0.00	$0.00	$0.00	$0.00	$0.00	$3,496.99
Wyoming	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	$16,795.41	$1,022,031.88	$525,044.18	$45,718.45	$370,228.19	$0.00	$0.00	$0.00	$1,979,818.11
Canada	$435.93								$435.93
									$1,980,254.04

Mrs. MALONEY. Thank you. I have been told that the Federal Reserve Board will have another group test for the Grand Treasury Offset Program, and I have heard that the Treasury control service staff are working only part time on this effort.

And I have been told that if it were a priority in Treasury, that many of the problems that you say are there would go away if you put the personnel and effort and focus on trying to accomplish it.

Mr. HAWKE. Mrs. Maloney, believe me, we share your devotion to getting this program up and running. As with all programs, there are competing claims for resources of agencies. We are trying to implement the electronic funds transfer provisions of the Debt Collection Act, but there is no excuse for unreasonable delay. We don't think the delay has reached the level of unreasonableness at this stage.

I do want to say, though, that I think the decision to delay the combination of the tax refund offset program was a responsible one. These are exceedingly complex computer systems that we are talking about, and the idea that we could simply merge them without adequate testing and retreat to the older model if it didn't work, I don't think realistically would be a good way to go.

Just imagine, for example, if the systems didn't mesh properly and we found that taxpayers were having their tax refunds offset at the same time as other Federal payments were being offset for the same debt. The kind of clamor that would arise in that situation would be similar to the kinds of complaints that taxpayers have made about IRS collection methods and would run the risk of undermining the basic public and political support for this entire program. I think it is much more important for the long-range health and success of this program that we go about this prudently and carefully and make sure that we have got systems that are reliable in place before we start implementing them.

They have not even started testing this. I will say the electronic funds transfer, which was under your realm, is being implemented, and I congratulate you for that. But to make the Treasury Offset Program work, the Treasury Department has to have an adequate payment file. Again, we have no target dates for the various payment files.

As a result, Mr. Murphy, I would like to provide you with suggested target dates for the Federal salary offset. That is simple. Why in the world should Federal employees get away with not paying the debts that they owe the Federal Government? I am suggesting by March 1998 that we should have that payment file in place and the non-Treasury disbursing offices, that of Postal and the Department of Defense, by March 1998 and the Social Security and the Retirement Railroad Fund by June 1998. I think they are reasonable.

We were serious about this bill. And even in your comment, Mr. Hawke, that maybe not all of this is, you are able to collect it, but even if you brought in 10 percent, that is $4 billion. To me, that is a lot of money. That is a lot of money that could be used for police officers, school teachers, for day care providers, or for environmental protection efforts.

I would like to ask Mr. Murphy, in those three areas, since you didn't reply to our letter, do you think that Treasury could meet those deadlines?

Mr. MURPHY. Again, with all due respect, it is all part of the same thing. Those payments will be scheduled into the GTOP system. So we have to test that system. We have to make sure the interfaces are there and then we will be scheduling implementation of the addition of salary payments and benefit payments and the like.

In regard to salary payments, I would just mention, there is a separate salary offset process that has been in existence for a number of years. So Federal employees are not getting away scot-free. But we have not brought this into the Treasury Offset Program yet.

Mrs. MALONEY. I have just been told that a lot of the States are pulling their child support debts out of the Treasury Offset Program because so few payments are currently being matched against the debts. You could argue that this is a State issue, but to the extent that we are federally sending funds to States for welfare and other child support programs, we certainly need and have a Federal responsibility to help States implement those.

Mr. HAWKE. Mr. Chairman, at the risk of burdening the committee's time, I think it is really important to have a realistic assessment of what this program is all about. We have $51 billion in unpaid debt to the Federal Government. Not all of that debt is owed by people who are recipients of Federal payments. The overwhelming number of regular payments that the Federal Government makes are retirement and benefit payments.

Salary payments and vendor payments also figure into the mix. But I think the public should understand that that $51 billion is not perfectly matchable against the universe of Federal payees. There are millions and millions of people out there who owe the Federal Government money who will never get into the offset program because they are not getting Federal payments that we can offset against. That is an important point to recognize.

Also you raised a question about the child support program. This is one that we have put a tremendous amount of energy into. But, once again, I think it is important to recognize the mismatch between what is owed and what is being paid. Again, the overwhelming number of Federal payments are Social Security benefit payments, retirement payments, and the like. Those recipients are not necessarily the same population of people who are subject to child support payments. They tend to be the older segment of the population. While the offset programs hold out the hope of bringing people in and getting collections from people who are Federal payees, we have to be realistic about the extent to which there really is going to be a match-up.

Mrs. MALONEY. My time is up. Very briefly, the offset program is a tool to bring in revenues that are owed the Federal Government. Many people abuse the system, as we well know. There is no reason why we cannot move forward to implement and put into effect this tool so that we do not continue giving loans, royalties, fines, and fees to people who are abusing the system.

Mr. HAWKE. We agree.

Mr. HORN. Mr. Davis, 10 minutes.

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. Hawke, I happen to believe that one of the biggest obstacles to implementing the program is to get the agencies to comply with the 180-day cross-services requirement. We have indicated that compliance has not been as great as we would like to see it. Do you have any suggestions or recommendations in relationship to how we could convince the agencies to comply with this requirement in a better way than what they have done?

Mr. HAWKE. The current amount that has been referred is $17 billion. As I said, we have tried through interagency mechanisms and through OMB to try to accelerate the pace of referrals from the program agencies. The chairman suggested that an Executive order be considered. Certainly that is something that is worthy of consideration. But I think the important thing here is that all of the participants in this program have to recognize the importance of separating the debt collection function from the program function and centralizing that process and using the ability to match up Federal payees with delinquent debtors. It is going to be in everybody's interest to get debts transferred. I think the agencies have to really be the first line of defense.

Mr. DAVIS. Even perhaps short of an Executive order, is there any individual, group of individuals, task group, or task force that has been designated by the administration perhaps to really spearhead implementation, to really shepherd this program implementation that you are aware of?

Mr. MURPHY. There are a couple of groups, the CFO Council and the Federal Credit Policy Working Group, who have been dealing with related issues. Treasury has the leadership responsibility. We need to do more. OMB has also participated in trying to resolve some of the issues that agencies have. Many of them are technical issues. They are systems capability, resource issues, and we are dealing with those.

As I mentioned, we have agencies that have identified problems that they have, and we have a task group set up to address each of these three areas. We are hoping that some of that will remove some roadblocks and help us move forward a little faster.

Mr. DAVIS. Maybe as a result of the technical complexity of the problem and what we are dealing with, I probably would be in agreement with the chairman that perhaps we would seek the President to issue an Executive order that would provide a different level of leadership and perhaps a different level of concern across the board. This might help to speed things up and make sure that the agencies recognize this as a priority as opposed to something that we are kind of doing after we have done some other things. You indicated that we had engaged 10 private contractors to be involved in the process. Are the contracts structured in such a way that their payment will come as a result of their effectiveness?

Mr. MURPHY. Yes, sir, that is correct.

Mr. DAVIS. So there are incentives and bonuses and all of those things that sometimes you do in order to make sure that people work as hard as they can, as effectively as they can, and as strategically as they can to get the job done?

Mr. MURPHY. Yes, sir. Strictly an incentive basis.

Mr. DAVIS. Could we get a list of those for the record in terms of who those companies are?

Mr. MURPHY. Certainly. Would be happy to provide it.

[The information referred to follows:]

NEWS RELEASE

Department of the Treasury
Financial Management Service
Washington, D.C. 20227
202/874-6750

FOR IMMEDIATE RELEASE
December 2, 1997

DEBT COLLECTION CONTRACTS AWARDED

The U.S. Department of the Treasury's Financial Management Service (FMS) recently awarded three more debt collection contracts, in addition to the ten contracts previously awarded to private sector companies in late September. Utilizing the talents of private debt collectors is a key component of Treasury's program to implement the Debt Collection Improvement Act of 1996.

Treasury will refer delinquent Federal obligations to the private firms for collection. Currently, the Federal government's non-tax delinquent debt portfolio totals over $50 billion. This portfolio includes unpaid obligations such as Federal education, housing, and business loans, and fines.

The debt collection contractors will be paid based on a percentage of monies recovered from the debts referred by FMS. The performance period for each of the contracts is one year, with three, one year options.

The thirteen companies awarded contracts by FMS are:

- Aman Collection Services, Inc.; Aberdeen, South Dakota
- Diversified Collection Services, Inc.; San Leandro, California
- Education Credit Services, L.L.C.; Fredericksburg, Virginia*
- Financial Collection Agencies, Wayne, Pennsylvania*
- Financial Management Control; Hollywood, Florida
- GC Services Limited Partnership; Houston, Texas
- Heard, Goggan, Blair & Williams; Houston, Texas
- National Credit Management Corporations; Hunt Valley, Maryland
- Nationwide Credit, Inc.; Marietta, Georgia
- NCO Financial Systems, Inc.; Fort Washington, Pennsylvania
- Payco-General American Credits, Inc.; Brookfield, Wisconsin
- Unger and Associates, Inc.; Dallas, Texas
- Van Ru Credit Corporation, Skokie, Illinois*

(Note: * denotes newly awarded contracts)

###

Mr. DAVIS. I would appreciate that. We have talked about the technical difficulty of merging and integrating, of getting the systems altogether and in place. Is there any new technology or different technology that is needed that we do not currently have that perhaps would be helpful in the process?

Mr. MURPHY. I am not aware of anything offhand that is not either available or being planned.

Mr. DAVIS. And so we, the equipment and technology is not an issue, is not a problem or is not perceived to be, and we think that we have got that?

Mr. MURPHY. Well, there is a healthy investment in equipment and systems to make these things work, of course. Adding tax debt, for example, under a continuous tax levy program sometime in the future is going to have a very large implication on the capacity of the systems needed to handle all the types of debts that we will try to collect.

Mr. DAVIS. I know that private agencies are oftentimes more effective at debt collection than any other sources that we have encountered. Have you encountered or heard of any difficulty with any of the agencies in terms of heavy-handed tactics or in terms of overbearing tactics dealing with individuals to whom they are trying to collect from?

Mr. MURPHY. Personally, I am not. I think the contract that, previous contracts that have been let and the current one, which we have just awarded, spell out pretty clearly what the contractors can do and so I am not aware of any egregious violations.

Mr. DAVIS. So we have built into the contract protection for the individuals to whom we are going to be trying to extract payment from?

Mr. MURPHY. I think we have attempted to protect the rights of debtors in all areas that we have been working on. Obviously, part of that may be perception. A person who owes money and is unable to pay may view it as harassment when they get a letter from us or they get contacted by a private collector. But I am not aware of any real type of violations of inappropriate behavior, which I think is the point of your question.

Mr. DAVIS. Do we have safeguards? Oftentimes, of course, people have the same names and there are similar names. I have known people who get kind of tied up and hung up because they were mistaken for their father or their father was mistaken for them or they were mistaken for somebody else who was Danny K. Davis. They just went through lots of changes to try and get that resolved. These kinds of discussions took place in the negotiations and as part of the requirement to protect, again, the rights of individuals and not violate those the way sometimes we have seen.

Again, I thank you very much.

I have no further questions at this moment, Mr. Chairman.

Mr. HORN. We thank you very much. I yield myself 10 minutes to round up a few questions here. Mrs. Maloney will then be next.

Under Secretary Hawke, I am curious, as I recall the authorizing committee for the Department of Education gave them the authority to use administrative wage garnishments to collect debts. It was using the authority shortly after enactment and it did not require any regulations. The garnishment authority in the Debt Collection

Improvement Act seemed to languish unused for nearly 2 years awaiting regulations. Do we really need regulations? Did the Department of Justice insist that you issue regulations? Where are we on that?

Mr. HAWKE. I cannot speak to the other agencies' programs, Mr. Chairman. I do know that the lawyers think it is important to have regulations in effect when you are doing things like wage garnishment. The potential for litigation is significant in these situations and not having a set of regulations against which agency contact can be measured, I think, would probably be a significant exposure in the program.

Mr. HORN. If I remember Cabinet departments, the general counsel's office and the general counsel usually report directly to the Secretary, Deputy Secretary, or the Under Secretary. They are the ones that prepare these regulations. Do you have any of the general counsel's staff physically officed with, say, the Financial Management Service, or do you strictly have to beg, borrow, and heaven knows what out of the general counsel of the Treasury?

I cannot understand why this cannot be done in a weekend, very frankly, if people are serious about it. I do not say it is the usual routine. We write laws here sometimes in 24 hours and they are pretty good ones and we get them passed. What is the problem?

Mr. HAWKE. FMS does have its own cadre of lawyers that report to the general counsel of the Department as a whole.

Mr. HORN. They do not report to you or they do not report to FMS? They report to the general counsel.

Mr. HAWKE. I suspect that they really have kind of dual reporting requirements. In their legal work, they are responsible to the general counsel of the department. They are employed at FMS.

Mr. HORN. When you recently sent up your strategic plans in this area, did you make any proposals where you would get better legal service and faster legal service than you seem to be getting?

Mr. HAWKE. I cannot answer that.

Mr. HORN. Well, I would sure suggest you look at it. If it is just a few lawyers that cannot seem to draft something very rapidly, this law now has been on the books 2 years. Before that we had a lot of help out of the chief financial officers. Everybody knew this was coming. I can only speak for the Eisenhower administration when I was in a Cabinet department. When we saw that law coming, we put our lawyers to work all during the implementation of any law. We were ready to go when it was finally signed by the President.

Mr. HAWKE. Let me just correct one point that I made. The Debt Collection Improvement Act apparently does require that regulations be published concerning the administrative wage garnishment tool. A proposed rule has been drafted and is in the clearance process now.

Mr. HORN. Does that mean it is going out in the Federal Register?

Mr. HAWKE. It will as soon as it finishes the internal clearance process.

Mr. HORN. When do you think that will be?

Mr. MURPHY. We were expecting those three that have already gone through the clearance or are in clearance would be out within

30 days. We have been optimistic before and wrong, but I think that is a reasonable timeframe.

Mr. HORN. As you know, the President made a radio address once on child support. We all agree with that. With the President taking to the airwaves saying he wanted the Federal Government to do something about that, that that one ought to also be right at the top of the priority list and if it is HHS that is failing to issue those regulations, then Treasury should to be giving them a nod or take over the whole function. In fact, that is where I am leading to. I do not understand, as we said earlier, if you were a Cabinet officer, I think it would be wonderful to get out the awful things you have to do to some of the clientele, stick them over in Treasury where they can confuse it with IRS collecting, since it is Treasury collecting, and maybe just the letterhead alone might get a few dollars in here.

Mr. HAWKE. That point is right on the mark. We have found that when collection letters go out on Treasury letterhead, they tend to get attention.

Mr. HORN. Right. I notice in the HUD testimony they want to offer you a center in Seattle. Is anybody looking at that, to have you take over their physical processing center in terms of collecting debts? They have got billions of them in HUD. Is that under way?

Mr. MURPHY. There has been discussions between the staffs on that proposal. Treasury has made no decision on it yet. I believe another meeting is scheduled with HUD for later this month.

Mr. HORN. Now, on the interim regulations that are in place allowing agencies to use all available debt collection tools, do those interim regulations include wage garnishment?

Mr. MURPHY. I am not sure I understand your question.

Mr. HORN. As I understand it, you have some interim regulations out there. I assume somebody signed off on it. Maybe I misread your testimony. But the question is, does that include wage garnishment or is that some separate regulation?

Mr. MURPHY. That is a separate regulation. The wage garnishment is one that is in clearance now and that we would expect to go out within 30 days as a notice of proposed rulemaking.

Mr. HORN. So, that would go out as a notice only by Christmas and then it would take effect the end of January?

Mr. MURPHY. It would probably take effect about 4 months later.

Mr. HORN. That would be about the time our hearing is going to be held again saying what have you done.

Mr. MURPHY. We have got March 1998. I hope it is done by then, sir.

Mr. HORN. And it just seems to me that if the lawyers are dragging their feet—you headed a law firm. You know what can happen—those are billable hours, presumably, in law firms when they drag their feet. This is wasting the taxpayers' time when they drag their feet in agencies. Maybe you can, with your legal skills from the private sector, confront the general counsel and say, you have a few angry Members of the Congress here that wonder why we are not doing more. If it is because of regulations not being issued, I have got to ask the question: the President goes on the air and says he wants to go do something about deadbeat dads, all of which

Mrs. Maloney and I concur in, and so Commissioner Adams phoned me because, as I mentioned earlier in the day, the law took effect.

He said, your law has made my day. I am going to collect millions in this area. So, go to Massachusetts and find out how they do it because they are doing it. I think all of us want that done. It is a good thing. I think the President must want it done. As I say, an Executive order should be what the Secretary of the Treasury is presenting him with, clearing it through OMB. Let us get the show on the road.

Mr. HAWKE. I can tell you that the deadbeat dads program has been given very high level consideration within the Treasury Department. Once again, I just want to sound a cautionary note about being realistic about what the potential is here. The extent to which we can get child support payments enforced against a population of hundreds of millions of Social Security annuitants and Federal retirees is something of a question. They are not necessarily the same people who have child support obligations outstanding.

Mr. HORN. Ten minutes to Mrs. Maloney.

Mrs. MALONEY. Mr. Chairman, first, I would like to followup really with a very important point that my colleague, Mr. Davis, brought up. That is to underscore that our legislation, which was supported by Treasury, called for full due process and includes full due process. If someone is contacted and it is a wrong contact, then the debt collector would be notified immediately and there are total repayment programs in place, particularly in the Department of Education. Many young people cannot afford to pay back their debts at certain times. This goes into consideration.

Our bill is aimed at those that are truly deadbeats, that have taken a loan or a payment from the Federal Government and have abused that payment. I just wanted to make that very clear. Also our bill only applies to nontax delinquent revenue. This is not personal taxes of people. This is nontax delinquent revenue, fines, fees, debts, and loans that were given to individuals that they then refused to pay back.

I would just like to ask Mr. Murphy, how many people are now testing the Treasury offset program? Are you testing it now?

Mr. MURPHY. I believe it was just received October 31. It has been so recently that I can't tell you whether someone is actually beginning to test or not, but that will begin shortly, if it has not already.

Mrs. MALONEY. And so it will begin testing. How many people will you have working on testing the program?

Mr. MURPHY. I do not have those numbers. I would be happy to provide something for the record if you care to.

Mrs. MALONEY. And the other program we were talking about, the Treasury control service, will they be working on this effort, too?

Mr. MURPHY. I don't know how it is going to break down. The original plan was to either have in-house testing or the Federal Reserve or some combination. And I have not been briefed on what final conclusion has been made there.

Mrs. MALONEY. Could you get that back to us?

Mr. MURPHY. Certainly.

Mrs. MALONEY. I have been told the Federal Reserve is already testing it and that the Treasury control service is not testing it. This is a resource that we could use that might be helpful to you.

I really wonder why, at the very least, the salary payments were not added to the Treasury offset program. That seems like it would be easy to do.

Mr. MURPHY. That program currently is operating through the Office of Personnel Management. It was sort of a stand-alone offset program, one of a number that we had.

Mrs. MALONEY. But our bill centralized it into the Debt Collection Act.

Mr. MURPHY. That is correct.

Mrs. MALONEY. And added greater authority and power to it. So that we are not reinventing the wheel, we are not duplicating. It appears that that would be a very easy item to add. Do you have an idea of how long it would take to add salary payments to the Treasury offset program?

Mr. MURPHY. We are not planning to try to add it to this interim offset program, which was not developed for it. But that will be phased in in our schedule to bring up the GTOP system.

Mrs. MALONEY. Could you let us know when you think you can add salary payments from the Federal employees to the system?

Mr. MURPHY. That will be included in the schedule.

Mrs. MALONEY. You mentioned in your testimony the issue resolution plan to improve the referral of debts to Treasury from other agencies. As we noted in our report, there has not been much followup from the agencies. Will you have specific target dates for when agencies will begin to comply with the law and refer debts to Treasury?

Mr. MURPHY. Yes. That is part of the process of entering into the letter agreements with the various Departments. The Departments had to go through some preliminary stages issuing regulations and notices and the like. They confirmed to us that they have met those requirements and then we sit down and negotiate a date for when they will actually be referring. We have, I think it was 24 letter agreements at the moment. We still do not have agreements with a number of other agencies.

Mrs. MALONEY. The law said after 180 days. I had to work with the chairman on that. He wanted 30 days, I think, to have it referred to Treasury. After 180 days it would be referred to Treasury. And still we have very, very few people complying with this. It seems to me it is simple. You have debt. You have 180 days to bring it in. All of us know that it is easier to bring new debt in as opposed to old debt, as Mr. Hawke pointed out. So, what are you doing? The agencies have 180 days. They should be told, bring it in at 180 days. If you can't bring it in, send it to us.

What is the letter agreement? It seems very clear in the law, after 180 days, it goes to Treasury. I do not understand what the letter agreement is about? Are you doing exemptions to the law? What is the letter agreement that then gives them more time? As you know from the report—where is that graph we had? Very few people—where is that graph, the one that we had? I will find it one of these days. It seems to me very——

Mr. HORN. Whenever you find it, it will be in the record.

Mrs. MALONEY. Here it is. You bring in $2.5 million because the two major components of our law have not been implemented. It appears that the easiest, that of just referring to Treasury, you have only referred or achieved in referring $727 million. I fail to understand? What is in the letter agreement? Does it give them more time to refer to Treasury?

Mr. MURPHY. It is strictly a date by which the agencies say that they will have the capability to provide all of this information to us. If we were dealing with a handful of debts, you could just walk them across the street and give them to us. When you are talking about large volumes, you are talking about systems needed to transmit data electronically and to get data back electronically, to update all your accounts and keep your records straight. So, it is those kinds of systems issues, identifying the TIN numbers for each person, meeting the format requirement for computer transfer. That is where we are trying to negotiate dates. No question, 180 days old, it is supposed to come to us. I agree.

Mrs. MALONEY. It appears that maybe we should just take a commonsense approach. Instead of having all the computer systems set up and looking at all the debt, if I were you I would be focusing at the new debt, the 180-day-old debt. I would have them send it over to me so we can send it out in one mailing on Treasury.

I talked to one of the people who used to work for you. They told me just by sending out a letter on Treasury stationery, you got something, a huge response back. But you are not going to be able to do that if you cannot get it moved over to Treasury. We are having a problem moving it over. Instead of trying to solve the whole problem, if you just would concentrate on the new debt, you might have more success in responding to bringing it in and responding to being successful.

I would not worry about the computer systems and all of the programs. I would say, send me your 180-day-old debt. I think you will see, since we added gain-sharing provisions that those agencies that were successful in bringing money in were able to keep part of the money, which makes sense, reward them for their effort. I think if you impose the 180-day deadline, you would see much more of an effort by the agencies to bring that debt in as opposed to—I just don't understand why it is so complicated.

Maybe we ought to approach it like we did the health plan, instead of trying to solve everything at once, take one aspect of it and implement it. If you could just get them to refer the debt to you within 180 days, so you could send out one letter, I bet you a lunch in any restaurant of your choice, any continent of your choice, I am so confident of winning this bet, that if you just would get them to send you the debt that is 180 days old and send out one letter, I am not even talking about a phone call, one letter, I think that this $2.5 million is going to be more near $5 or $10 million. But how do you expect to succeed? If you are going to create computer systems and double check them with everything else, you are never going to get anywhere.

Mr. MURPHY. You definitely have hit on the key for success is to promptly get all the debts when they turn 180 days old into a central place to be worked on, because that is truly going to be——

Mrs. MALONEY. We agree. Why don't you just call up the agencies and say, send it over? It is easy. You are Treasury.

Mr. MURPHY. I could make the call. I can't promise you it will turn around overnight.

Mrs. MALONEY. We intend to bring in all the agencies and ask them why they are not sending it over, but we are told that you are not even asking for it. You are asking for other things. What is your computer system like? You are asking for everything except, send me the debt. I am trying to make you look like the heroes and heroins of Government. You have a wonderful program in front of you. You are not going to tax anybody, you are not going to hurt anybody. You are only going to bring additional money into the Treasury that is owed the taxpayers, that is owed the citizens of this country so that we can help more students, so that we can help more farmers.

It is a wonderful, exciting program. I do not understand why you are not making it a top priority. I would like to respectfully ask a listing of who is working on it, how much personnel, how much from the Reserve, how much from the central control board and Treasury, which is usually the star in Government. You are usually the ones who are the best and the brightest. You get things done faster. I just do not understand why this simple project—I truly do believe, Mr. Hawke, if I went over and ran this program for you, you would see billions coming in. It is not that hard. It is not that hard if you look at it and focus on it.

Anyway, I was told that you did have a program in place that included radio, TV spots, print media, to publicize the Debt Collection Improvement Act. Then I found that someone pulled the plug. I think some of these successful doctors that are not paying back their student loans, they would pay up immediately if they felt there was going to be pressure. I mean people who can afford to pay back their loans. I am not talking about people who are still struggling.

Why did you pull the plug on advertising and making people aware of this program that is going to help citizens?

Mr. MURPHY. I do not believe we pulled the plug. We did reassess the timing to get the biggest payback on——

Mrs. MALONEY. Reassessed the timing? That is pulling the plug. I am asking for a minor payback, something more than $2.5 million. Are you taking the bet now with me on our lunch in the restaurant of your choice on the continent of your choice?

Mr. HAWKE. If we could get you detailed over to Treasury for a couple of months, I would be willing to take that bet.

Mrs. MALONEY. OK. Now, so you are going to move forward with this advertising campaign, Mr. Murphy? When?

Mr. MURPHY. We are deferring the advertising campaign to coincide with when we will have the more robust capability to show that we are actually offsetting more payments. To do it prematurely and not really have the full capability seemed to be probably not a wise use of those resources. So, it has been deferred and will be reassessed as to the timing.

Mr. HAWKE. Let me add to that. We have not pulled the plug on this at all. I want to stress again that we understand and are tremendously sympathetic with the sense of frustration that the mem-

bers of the committee have shown in this regard. Our progress has not been what anybody would want.

On the other hand, this is a program that is going to be in existence for a long, long time. It holds out the promise, over time, of being of great benefit to American taxpayers. It is exceedingly important that this be done right, that the education and advertising campaign be such that it does not create adverse reaction in the public and erode the support for the program.

We have seen in the context of the Internal Revenue Service what can happen when public confidence in a program is eroded. We do not want that to happen, for all the reasons that I think are clear.

To launch out on a program before we have got the computer systems adequately integrated and tested, to run the risk of duplication of our collection efforts really threatens to undermine support for the program. We want to get it done right and we are going to put the resources to work that are needed to get it done right.

Mrs. MALONEY. Very respectfully, I am not even talking about the computer system now. I am just talking about having debt that is 180 days old referred to Treasury and getting one letter out, just one. I am betting it will go to $10 million. I just would respectfully like to ask Mr. Murphy if he could send a letter to all the agencies and ask them to refer their debt within 180 days and then send one Treasury letter out and I think that this will jump to $10 million pretty fast.

You have got all these reasons why, that I do not agree with, that you have to put off all these other systems, et cetera, fine. But let us just move it over and comply with that one aspect of the law now. That is all I am saying. My time is up.

Mr. HORN. I thank the gentlewoman from New York.

I intend to give her a letter by the end of business today to cosign to the President to say, how about an Executive order in this area and let us move ahead.

I might add, Mrs. Maloney has had some very good training in this area. She was a member of the New York City Council. Actually, she is in great, good humor today. You should see what she did on the New York City Council to get debts collected. That is a lot tougher town than this town. I know who I am going to recommend to the President if Mr. Rubin ever decides to do something else because she also sits on the Banking Committee and she has got a lot of good experience.

Mr. Davis, do you have some questions?

Mr. DAVIS. Yes. Thank you, Mr. Chairman.

Mr. Murphy, does Treasury have the responsibility and the resources to assist other agencies to develop their debt collection centers or debt collection programs?

Mr. MURPHY. We have been providing what assistance we can, both in terms of written guidance and conferences and training conferences, but we do not really have the resources to build both our systems and theirs. We are spread pretty thin. We have got a lot on our plate. So, I would not want to be making any new commitments in terms of systems development outside of the ones we already have.

Mr. DAVIS. I guess what I was hoping was that you had a way of reviewing or suggesting to them that perhaps you have got more experience than they do. You have had more contact. You have had more interaction with the process and may have developed some nuances or expertise along the line that they could benefit from which would help them in the early stages which would prevent perhaps as many accounts reaching the 180 days as is currently happening.

Mr. MURPHY. We try to share the best practices. Treasury has developed many of the tools, and we have tried to share those with agencies and to provide training on how to use those. Quite frankly, some of the agencies have more experience than we do in certain areas. They are out there; they have been out there trying to collect this debt for quite a while. They have developed some good practices as well, which they have tried to share with others. So we are trying to learn from one another as to what works and what works best.

Mr. DAVIS. I know that we have not been or it does not appear as though we have been as aggressive as perhaps we can be and perhaps we ought to be. But what kind of complaints have you gotten from individuals in terms of people who may have felt that they have been unduly put upon?

Mr. MURPHY. The actual debtors?

Mr. DAVIS. Yes.

Mr. MURPHY. In the nontax debt area, I am not really personally aware of any specific cases. I am sure there may have been some. But we have really tried to go through a due process procedure where people are given notices in advance and sometimes second notices in advance before we even make a referral. And so we have tried to address that concern as best we can.

Mr. DAVIS. Could you check and see if we have got some and, if so, I would just be interested to know what kind of complaints we get and how people feel about what we are doing in terms of the methods that are used. And finally, what happens if we discover, for example, that we are getting a large number of complaints on some of the contractors or companies that we have engaged? Let us say down the line we discover or people started complaining that company X is doing whatever that is not in compliance or not the intent of the protections that were built in. What happens then?

Mr. MURPHY. I think the contractor would probably be removed. FMS will be doing some oversight of the 10 contractors under our new private collection agency contract. We will be assessing their performance and, to the extent that complaints come in, those would have to be addressed. If a contractor is violating the terms of the agreement, they could be potentially removed.

Mr. DAVIS. I am very pleased to note that. Because even though I think we must do everything humanly possible to try and collect the moneys that are owed, I think we also have to make sure to the best of our ability that we do not violate the rights of individuals as we pursue that. I appreciate that component.

The last thing I would probably say on this is, Representative Maloney, when you win the bet, make sure it is disclosed on your financial disclosure statement.

Mr. HORN. Mrs. Maloney has a short question for Under Secretary Hawke.

Mrs. MALONEY. I would just like to follow up on Mr. Hawke's statement that if I was a detailee in Treasury, we would bring the money in. I would like to offer if Mr. Hawke would give us one detailee from Treasury who has worked in debt collection to work with us on our committee, I believe we can bring that money in. We would have to interview that person to make sure they are committed and hard-working and passionate about helping the taxpayers, but I truly do believe that. I would like you to respectfully consider if this committee could have a detailee, just one, out of Treasury. I firmly believe that we can improve this dramatically.

Mr. HAWKE. Mrs. Maloney, we will work as closely as possible with the committee in trying to accomplish our mutual objectives here.

Mr. HORN. We thank you. Mr. Murphy has the responsibility for implementing this program; is that correct?

Mr. HAWKE. Mr. Murphy presides over the Financial Management Service and he has got, as he mentioned before, a member of his staff who is now stationed down there personally overseeing the program.

Mr. HORN. I think what you have heard here this morning, some of us said it in a very quiet way, others said it a little less quiet. The point is the same. At our 6-month hearing starting from this day we expect substantial results. You look at that chart over there, the lost potential of the Treasury offset program. The question is not simply going up from the bottom in terms of the total debts. That is fine, but to get that box also moving across on the payments as well as the debts. Here we have $43 million has been collected. The total payment volume is $856 million. And that dark side of the box in that little teeny-weeny corner reflecting the $39.5 billion, that box boils down to $8.9 billion, and we collected $43 million, as I look at that. We need to come across and to be going up on that particular chart within the 6-month point.

Mr. HAWKE. Those are, I believe, numbers of payments along the bottom axis there. I think one of the things we would like to do is to work with the committee to get an appropriate set of benchmarks. That $856 million in payments is not really a realistic target for the number of payments that are effectively subject to offset.

As you know, there is means testing in a number of those programs. Social Security payments only can be offset to the extent of 15 percent above $750 a month. So looking at a total of $856 million in payments is not necessarily the right number to be looking at. But we would like to work with you to come up with a set of standards that is meaningful and will adequately, properly measure progress against where we are now.

Mr. HORN. Well, we thank you. Mrs. Maloney has a comment to make on this.

Mrs. MALONEY. We can go back and forth, but I just know that we asked for standards and guidelines in our September letter. I think this clearly shows $2.5 million, the two major components not implemented at all. All of this revenue out there. I thank both of you for testifying and I look forward to working with you. And

I truly am sincere, Mr. Hawke. I feel if I had a good Treasury detailee working with the subcommittee, we could bring this money in. I really believe that.

Mr. HORN. We thank you for coming. We look forward to more optimistic results and delivery of results in what we are stressing is a performance results-oriented government at the 6-month mark. Hopefully that will be expedited. The lawyers will be doing their good deeds on writing regulations and the other agencies will be implementing.

What we are going to do now, and we thank you, is to merge panels II and III with the four agency witnesses. And go right down the line there.

We have Mr. Gray. Mr. Petska, could you identify yourself for the record?

Mr. PETSKA. Thomas Petska, Director of the Debt Collection Service, Department of Education.

Mr. HORN. And then we have Secretary Longanecker, Mr. Keevey, and Mr. Sopper.

Gentlemen, I think you know the routine. If you will rise and raise your right hands.

[Recess.]

Mr. HORN. The clerk will note that all five witnesses have affirmed.

What we will do is just take the order in which they are on the agenda. We will start with John Gray, Deputy Administrator of the Small Business Administration. We have read your statement. We do not want it read to us. It is filed automatically once we introduce you. We want you to look us in the eye and tell us the summary of your statement and where you are and where you are headed in this area.

Mr. Gray.

STATEMENTS OF JOHN GRAY, DEPUTY ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; DAVID LONGANECKER, ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION, ACCOMPANIED BY TOM PETSKA, DIRECTOR OF DEBT COLLECTION SERVICE, DEPARTMENT OF EDUCATION; RICHARD KEEVEY, CHIEF FINANCIAL OFFICER, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; AND DALE SOPPER, ACTING DEPUTY COMMISSIONER, SOCIAL SECURITY ADMINISTRATION

Mr. GRAY. Mr. Chairman, members of the subcommittee, my name is John Gray. I am the Associate Deputy Administrator for Economic Development at the Small Business Administration. I am responsible for providing overall direction for the SBA's credit programs and portfolio management. I have been in this position since late July, coming from a career in the banking industry.

I believe this is the first time that the SBA has been asked to appear before this committee and I am pleased to provide testimony on SBA's implementation of the Debt Collection Improvement Act, including our efforts to undertake and implement a loan asset sales program.

In the interest of time, I will not address each part of the act. Instead I will summarize SBA's implementation under three key

areas: referral of delinquent debt, designation of SBA as a debt collection center, and asset sales.

To start with, I would like to provide this committee with some background information on SBA's programs and debt collection capabilities. The SBA provides assistance to America's small businesses and entrepreneurs through a whole spectrum of technical assistance and microlending to business and real estate loans as well as venture capital investments.

SBA has moved from direct lending to small businesses to guaranteeing debt that is incurred by financial intermediaries, both regulated and nonregulated institutions. Additionally, the SBA serves as America's disaster bank. As of September 30, 1997, the total investment under SBA's financial assistance program amounted to $38 billion. Outstanding guarantees are valued at $29 billion, and total outstanding loans serviced by the SBA exceeded $9 billion. The SBA is moving rapidly into the 21st century both in organizational structure and in the role of oversight of our financial intermediaries. Debt and investment are originated by third parties, monitored and reviewed by the SBA, and serviced and collected by third parties.

The only exception to this is the SBA's origination of disaster home and business loans, which remains direct to individuals, businesses, and communities harmed by natural disasters.

Working with our financial intermediaries, the SBA lending program volume has increased by 65 percent between 1992 and 1997 and our staff levels have decreased by 34 percent during this same time period. Not only is that contrast indicative of the changing environment for the SBA, but also credit quality as measured by currency rate and loan losses have improved.

In fiscal year 1997, SBA had an increase in cash collections of 50 percent over the fiscal year 1993–95 averages while having purchases, which is the SBA default rate, decrease 4.38 percent in the same time period. These results were achieved through our liquidation improvement project, an intensive effort between our field offices and our lending partners which is managed by SBA. Even though I believe that the SBA has done and is doing a very, very credible job managing its credit exposure, SBA must rely more on programs such as asset sales, cross-servicing, and the Treasury Offset Program.

Specifically for cross-servicing, the DCIA provides that delinquent debt over 180 days be transferred to Treasury for debt collection purposes and for participation in administrative offset. The SBA has prepared the letter of agreement to Treasury for the purpose of initiating cross-servicing.

Under this agreement, SBA will refer to Treasury all accounts on which SBA has completed necessary foreclosure or litigation proceedings and which have a deficit balance remaining. In addition, SBA will promptly refer all loans at 180 days delinquency or sooner which could not be effectively collected through foreclosure on collateral or litigation against obligors. SBA has identified approximately $700 million in debt that can be referred as soon as procedural details and system requirements are worked out. We anticipate that that will happen by the middle of December.

In terms of the Treasury Administrative Offset Program, we refer to Treasury all delinquent accounts which are not being actively pursued through liquidation of collateral or litigation proceedings. Accounts which initially will be included for TOP are 22,000 accounts with indebtedness totaling $570 million. Holders of these accounts were notified in mid-October that their loans are candidates for offset.

We anticipate that these accounts will be referred in December 1997 or early January 1998. The DCIA envisions that a number of Federal agencies should be designated as collection centers for their own debt as well as that of other agencies. SBA firmly believes that it should be designated as a debt collection center because of its well-established experience in its loan collection activities.

On October 30, 1997, SBA sent a proposal to Treasury requesting designation as a debt collection center. A copy of that letter is attached to my written testimony and I will make no further comments on it.

Asset sales. The administration's fiscal year 1998 budget proposed the sale of all SBA-held business loan assets, including direct business loans and guaranteed business loans, that have defaulted and were subsequently purchased by the SBA. This includes all direct disaster loans over the period fiscal years 1998–2000. The total portfolio of these loans was estimated at about $9 billion last year.

Additionally, it is estimated that an additional billion dollars over the next several years will be added for a potential loan asset sale program in excess of $10 billion. In keeping with this budget proposal, SBA has begun to develop an asset sales program. We will seek to use asset sales as another management tool to take advantage of private sector expertise, minimize the cost of programs to the taxpayer, and still preserve the public policy objectives of the SBA.

SBA has been working toward the development of a plan and strategy to accomplish these sales in conjunction with the Office of Management and Budget and the Federal Credit Policy Working Group. I am pleased to report that we have completed our draft strategic plan. It has been improved internally, and it outlines the essential resources that we need and key steps to be taken by us.

We have also completed the preparation of statements of work to engage all necessary outside financial and technical advisors. It cannot be stressed strongly enough that SBA is aware of its unique relationship to small business owners and to disaster victims who receive our loans. The SBA has and will continue to move cautiously so that public policy issues are adequately and appropriately addressed in order to ensure that small business constituents are not harmed, especially those who have suffered loss due to natural disasters.

We will also need to work with our lending community and other stakeholders in our asset sales initiative in order to ensure success. This is a particularly important area because many of our financial intermediaries liquidate the collateral, with prior approval of SBA, as they retain an ownership position in the assets.

In summary, Mr. Chairman, we believe that SBA is on track to accomplish all key requirements of the DCIA. We are dedicating re-

sources to implement the legislation. We are working with Treasury and others to ensure that it is put into effect in a manner that makes sense and is in the best interest of small businesses that we serve.

Thank you for the opportunity to testify. I will be happy to answer any questions that you have.

[The prepared statement of Mr. Gray follows:]

Good morning Mr. Chairman and members of the Subcommittee. My name is John Gray, and I am the Associate Deputy Administrator for Economic Development at the Small Business Administration (SBA). I am responsible for providing overall direction for the SBA's credit programs, its portfolio management and surety bond programs, and business education and training programs. I have been in this position since late July, coming from a career in the banking industry.

I understand that this is the first time SBA has been asked to appear before this Committee, and I am truly pleased to provide testimony on SBA's implementation of the Debt Collection Improvement Act of 1996, including SBA's efforts to undertake and implement a loan asset sales program.

In the interest of time, I will not attempt to address each part of the Act, but instead summarize SBA's implementation under six key areas: (1) the referral of delinquent debt; (2) the designation of Federal agencies as debt collection centers; (3) the enhanced reporting of debt collection activity; (4) the collection of Taxpayer Identification Numbers (TINs); (5) the transition of Federal disbursements from paper checks to electronic payments; and (6) asset sales.

To start, I would like to provide this Committee with some background information on SBA's debt collection capabilities.

Over the Agency's 44 year history, SBA has been a recognized leader in Federal credit and cash management. SBA has undertaken many initiatives to enhance our ability to make and service loans. A few examples include:

- increasing efficiency and taking advantage of economies of scale through centralization of loan servicing in six centers across the country to manage current and early stage delinquent loans in our portfolio;
- processing and depositing 100 percent of collections on the same day they are received; and
- improving customer service and debt collection through installing electronic chronological records, automated messaging capability and autodial systems in our centers.

Our current pilot projects include establishing electronic transmission of collections and payment information from our borrowers, and disbursing loan proceeds and miscellaneous payments to borrowers, lenders, and vendors electronically.

SBA's servicing centers are responsible for current and early stage delinquent loans, and conducting rapid follow-ups by phone and letters if accounts become delinquent. Because of this Agency's mission to help small businesses start, stay in operation and grow, SBA's first recourse with past due loans is to attempt to get the account back into a paying status, if possible. If this effort fails, the loan is sent to the SBA field office nearest the borrower for foreclosure or litigation if there is worthwhile collateral or obligors who can be pursued.

We have established debt collection goals for each of the Agency's field offices as part of a nationwide Liquidation Improvement Project which began early last year. The field office goals are aimed at increasing cash collections from recovery actions and promoting the timely completion of loan liquidations, including disposing of acquired assets. SBA has also taken a number of other management actions designed to strengthen the Agency's liquidation efforts. We have:

- strengthened training for financial and legal staff;
- promoted a financial and legal "team" approach to liquidation;
- encouraged greater use of contractor assistance to supplement in-house resources;
- conducted in-depth reviews of recovery procedures at approximately 30 of SBA's 80 field offices;
- made significant upgrades to the automated systems supporting loan collection processes; and
- adopted "best practices" in SBA's newly rewritten loan servicing and liquidation procedural manuals, which we refer to as Standard Operating Procedures, or SOPs.

SBA begins aggressive collection action on accounts well before 180 days delinquency at its loan servicing centers, specialized litigation units, 80 district and branch offices, and a regional liquidation office located in southern California. SBA has over 130 Agency lawyers serving as Special Assistant U.S. Attorneys who help facilitate these actions which typically include summary and judicial foreclosure on personal and real property, as well as litigation against guarantors and other obligors. These loans are exempt from referral to Treasury under DCIA.

We aggressively use all available debt collection tools. For instance, for over a decade SBA has consistently used the IRS tax refund offset program, and has routinely employed private collection agencies to support the Agency's debt collection efforts. SBA also refers current and delinquent business debt to credit reporting bureaus, and uses credit bureau information in its loan underwriting decisions. In addition, SBA participates in Federal salary offset. Last year, SBA

was designated as a pilot agency for the new Treasury Offset Program (TOP), and we have been working with staff at Treasury to implement this procedure for our portfolio.

With this background on SBA's efforts, I will now address the specific implementation of the major provisions of the Debt Collection Improvement Act. First, let me state that SBA fully endorses the stated purposes of the DCIA. As an Agency, we have devoted substantial resources over many years to meeting the goals of the legislation, which is maximizing collection of delinquent debts and in the shortest period of time.

Referral of Delinquent Debt to Treasury

A. Cross Servicing The DCIA provides that delinquent debt over 180 days shall be transferred to Treasury for debt collection purposes ("cross servicing") and for participation in administrative offset.

SBA is prepared to send a letter agreement to Treasury for the purpose of initiating cross servicing. Under this agreement, SBA intends to promptly refer to Treasury all accounts on which SBA has completed necessary foreclosure or litigation proceedings, and which have a deficiency balance remaining. In addition, SBA will promptly refer all loans at 180 days delinquency, or sooner, which cannot be effectively collected through foreclosure on collateral or litigation against obligors. SBA has identified approximately $700 million in debt that can be referred as soon as procedural details and systems requirements are worked out, which we anticipate will be by the end of this calendar year.

B. Treasury's Administrative Offset Program (TOP) SBA will refer to Treasury all delinquent accounts which are not being actively pursued through liquidation of collateral or litigation proceedings. SBA is now preparing to publish in the Federal Register the appropriate

regulatory changes to participate in TOP. Publication should be completed this month. Accounts which will be initially included in TOP are 22,000 accounts with indebtedness totaling $570 million. Holders of these accounts were notified in mid-October that their loans are candidates for offset. We anticipate that these accounts will be referred in December 1997 or early January 1998. As indicated, SBA intends to promptly refer to Treasury for cross servicing and administrative offset all accounts which are not targeted for foreclosure or litigation.

Designation of Federal Debt Collection Centers

The DCIA envisions that a number of Federal agencies should be designated as collection centers for their own debt as well as debt of other agencies. SBA firmly believes that it should be designated as a debt collection center because of its well-established expertise in loan collection activities. In fact, in the legislative history of the DCIA, SBA was specifically mentioned as one of the Agencies envisioned as a Federal debt collection center.

On October 30, 1997, SBA sent a proposal to Treasury requesting designation as a debt collection center. A copy of that letter is attached. While we would be initially concentrating on our own debt, we would welcome the future opportunity to service the debt of other Federal agencies. We believe that leaving the servicing of SBA's loan portfolio with SBA makes the most sense both for our small business customers and also for the nation's taxpayers, particularly in light of SBA's extensive debt collection experience and the resources recently devoted to enhance the Agency's collection capabilities through our Liquidation Improvement Project.

Enhanced Reporting of Debt Collection Activity

SBA has regularly reported to Treasury, OMB and others on the status of its portfolio on such documents as SF-220, Schedules 8 and 9, and other more ad-hoc reporting methods employed over the years to enhance loan monitoring by the Central agencies. Some reporting is accomplished electronically with Treasury and OMB, and other reporting is in paper form. The recent "Debt Performance Indicators" worksheet handed out at the Federal Credit Policy Working Group (FCPWG) meeting and attached to the invitation to testify letter has been completed by SBA and forwarded to OMB. We are continually working to convert these reports to an electronic format wherever possible and tie the amounts to our official accounting records.

Collection of Taxpayer Identification Numbers (TINS)

SBA has been diligently working to build its databases of TINs for the many individuals and businesses with which it conducts business. We are on track to have these in place in ample time to ensure compliance with the Act.

Electronic Payments

SBA has been a leader in the Federal government in the use of Electronic Data Interchange (EDI) and Electronic Commerce (EC). SBA was one of the first pilot agencies to use the Electronic Certification System (ECS) with Treasury to transmit Treasury payment schedules electronically. We have worked closely with Treasury in modifying their accounting systems, such as the Federal Financial System (FFS) to support electronic payments. In addition, we have been actively involved in the development and implementation of standards and instructions for the Automated Clearing House system, Fedwire transfer systems and other similar programs. We are on schedule for meeting the January 1, 1998 DCIA target for all electronic payments.

Asset Sales

The Administration's FY 1998 budget proposed the sale of all SBA-held business loan assets, including direct business loans and guaranteed business loans that have defaulted and subsequently purchased by SBA, as well as all direct disaster loans, over the period FY 1998-2000. The total portfolio of these loans was estimated at about $9 billion last year. Additionally, it was estimated that another $1 billion would be added over the loans sales period, for a total loan asset sales program of $10 billion. In keeping with this budget proposal, SBA has begun to develop an asset sales program. Given the expanding loan volume of SBA over the past few years coupled with overall budget constraints, loan asset sales will be an effective credit management tool for the Agency. We will seek to use asset sales as another management tool to:

- take advantage of private-sector expertise;
- improve our loan documentation;
- better understand the value of our assets;
- preserve public policy objectives of the SBA;
- maximize net present value return;
- minimize the cost of loan programs to the taxpayer;
- utilize private sector expertise to assist with Agency goals; and
- allow more flexibility in allocating staff in areas of loan production and lender monitoring

Since the submission of the President's budget in February to the Congress, SBA has been working toward the development of a plan and strategy to accomplish these sales. Our first step was to turn to the Office of Management and Budget (OMB) and the FCPWG for assistance.

In response to our request for assistance, a special Asset Sales Advisory Group was formed to support SBA on this initiative. This group was comprised of representatives from Treasury, OMB, the Departments of Housing and Urban Development and Education, and the FDIC. SBA also assembled an internal working group. To date, we have a number of accomplishments to report.

- We have completed a draft Strategic Plan for asset sales outlining essential resources needed and key steps to be taken.
- We have completed the preparation of statements of work to engage outside financial and technical advisors, including:
  - program financial advisor
  - transaction financial advisor
  - due diligence advisors
  - legal services advisors
- We have completed the preparation of Commerce Business Daily (CBD) notices for advisory solicitations; and
- We have completed a preliminary design of an asset sales Internet website.

The progress to date has been undertaken with substantial input and cooperation from the FCPWG, other Federal agencies and consultants with hands-on experience with asset sales. In

particular, much emphasis has been placed on evaluating the different sales methods used to maximize the return for the taxpayers. It cannot be stressed strongly enough, that the SBA is very aware of its unique relationship to small business owners and to disaster victims who have received our loans. The SBA has, and will continue to move cautiously so that public policy issues are adequately and appropriately addressed in order to ensure that the small business constituents are not harmed, especially those who have suffered loss due to natural disasters. We will also need to work with our lending community and other stakeholders in our asset sales initiative in order to assure its success.

Legislative Proposals Relating to Debt Collection

The Administration is studying the merits of these bills but is not prepared to take a formal position at this time. The Administration is willing to work with this committee on legislation for the purpose of creating management tools needed to ensure program integrity, effective debt collection, and the protection of individual privacy rights.

Summary

Mr. Chairman, we believe that SBA is on track to accomplish all key requirements of the DCIA. We are dedicating resources to implement the legislation, and are working with Treasury and others to ensure that it is put into effect in a manner that makes sense, and is in the best interests of the small businesses we serve.

Thank you for the opportunity to testify today. I will be happy to answer any questions you may have.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

October 30, 1997

Virginia B. Harter
Assistant Commissioner, Debt Management Services
Financial Management Service
401 14th Street, SW, Room 446
Washington, DC 20227

Dear Ms. Harter:

Enclosed is a statement of capabilities summarizing the U.S. Small Business Administration's proficiency in debt collection activities. As you may be aware, SBA has performed the full range of loan servicing and collection activities on consumer and business debt for over 40 years.

We believe our proven experience amply demonstrates that this Agency should be designated a federal collection center as contemplated by the Debt Collection Improvement Act of 1996 (DCIA). Indeed, as quoted in the attached statement of capabilities, the legislative history of the DCIA anticipated such a designation for SBA. Consequently, we request that SBA be immediately designated as a collection center for its own debt. In the future, we will request that the Agency be considered for collection of the debts of other federal agencies. Although collection on behalf of other agencies would require additional resources and nominal systems modifications, SBA is uniquely positioned to undertake this responsibility.

If you would like to discuss any of these matters, please call me at 205-6657 or Arnold Rosenthal at 205-6484. Thank you for your consideration.

Sincerely,

John L. Gray
Associate Deputy Administrator
for Economic Development

U.S. Small Business Administration

Request for Designation as a Debt Collection Center

Statement of Capabilities

The U.S. Small Business Administration (SBA) actively seeks designation as a debt collection center for its own loans. To assist the Treasury Department's Financial Management Service (FMS) in its assessment of SBA, this document has been prepared using center designation criteria posted on the FMS Internet site. SBA has also addressed the minimum criteria for center designation as set forth by the Chair and ranking minority member of the Subcommittee on Government, Management, Information and Technology in a recent letter to Treasury Secretary Rubin.

I. SBA Capabilities for Debt Collection

The SBA is confident that it fully meets all Treasury Department criteria to be designated as a debt collection center for the Agency's loans. Using an agency with extensive loan recovery experience, such as SBA, as a debt collection center was expressly contemplated by the legislative history of the Debt Collection Improvement Act of 1996 (DCIA). Of particular note is a statement by Rep. Horn entered into the Congressional Record on April 25, 1996, which reads in part:

> "The Debt Collection Improvement Act...provides independent authority for all Federal non-tax debt to be collected by those Federal agencies that are proficient in debt collection and have been designated as debt collection centers. Agencies which currently run large debt collection operations and should be considered for designation as debt collection centers by the Secretary of the Treasury include...the Small Business Administration..." [emphasis added]

Indeed, we believe it would be wasteful and inefficient not to designate SBA as a collection center since the Agency has an extensive administrative structure to collect delinquent loans, and has had over 40 years experience in the full range of loan recovery activity and strategy. Moreover, as discussed below, SBA has just completed a comprehensive evaluation of collections, loan guaranty purchases and resource allocation within the Agency. In connection with the evaluation, SBA has adopted a number of new "best practices" in its revised procedural manuals, conducted on-site reviews of collection activity at almost 30 field offices, and designed and implemented basic and advanced training programs for the new streamlined procedures, practices and systems.

Because of SBA's internal capabilities for loan collection and liquidation, the Agency routinely begins aggressive liquidation action when appropriate on accounts well before 180 days delinquency. This action is carried out at SBA's 80 field office

locations and in six centralized loan servicing centers, two specialized litigation units and a regional liquidation office. SBA has over 130 SBA lawyers serving as Special Assistant U.S. Attorneys who facilitate these actions. Such actions may include summary and judicial foreclosure on personal and real property, as well as litigation against guarantors and other obligors (these procedures are exemptions from referral of accounts to Treasury under the DCIA).

II. SBA Debt Collection Structure

SBA is presently completing centralization of routine loan collection activities in seven large-scale servicing centers located strategically across the continental United States and in the Virgin Islands. Four centers handle a total of almost 190,000 consumer loans (SBA's disaster home loan portfolio). These loans may be unsecured or they may have collateral consisting of real estate and/or personal property. The Virgin Islands office is overseen by the Birmingham servicing center and handles approximately 5,000 disaster home and business loans.

The Santa Ana servicing center is co-located with a regional liquidation center that handles enforced collections on both consumer and business accounts. In addition, there is an SBA litigation unit at the Santa Ana servicing center location to handle judicial foreclosures, bankruptcies and other court proceedings. An additional litigation unit located in Philadelphia, with branches in Florida, handles debt collection and litigation throughout the eastern half of the country in conjunction with SBA's district offices and servicing centers.

Two additional servicing centers handle approximately 150,000 of SBA's commercial loans, representing about two-thirds of the Agency's loan portfolio originating from its disaster and major business loan programs. These are current or early stage delinquent loans, almost all of which are secured by real and/or personal property collateral and personal guaranties. SBA is presently completing the centralization into these two centers of all remaining current and early stage delinquent business loans now serviced by approximately 30 of its 80 district and branch offices. This centralization is targeted for completion by May 1998.

The loan servicing centers handle all account collection activity on loans directly serviced by SBA as well as coordination with SBA's participating lenders where a participant has a financial or other interest in a loan, and is servicing the account. Direct loan servicing activities include scheduled collection calls on past due accounts, issuance of a wide variety of letters, subordinations, collateral releases or substitutions, guarantor actions, reamortizations or similar restructurings, deferments, and assumptions or other loan transfers. On the approximately 100,000 lender serviced loans in the centers, SBA coordinates the above and other actions with several thousand participant lenders across the country.

When loans become severely delinquent and cannot be restructured to allow for continued payments by the borrower, the servicing centers generally take one of two

types of actions. First, if there is worthwhile collateral to pursue, or obligors who have repayment ability, the account will be returned to the SBA field office closest to the borrower for initiation of foreclosure or litigation, as appropriate. These actions are site-intensive and procedures may vary greatly in accordance with local law and custom. Therefore, decentralization at this point in the loan servicing process is conducive to greater overall recovery. In its collection processes, SBA routinely coordinates with local U.S. Attorneys' offices to obtain recoveries through litigation from account obligors. In most of these actions, SBA lawyers perform much of the casework in their capacity as Special Assistant U.S. Attorneys.

Under the second option, used primarily with small balance unsecured loans, or loans with no demonstrated recovery potential, SBA rapidly charges off the accounts and refers them to Treasury for participation in all the offset and collection processes used by Debt Management Services (DMS). SBA has recently completed changes to its automated systems to allow the mass referral to Treasury of these accounts, which have been referred in previous years to government contract collection agencies. Unsecured accounts will be referred to Treasury at 180 days delinquency, and secured accounts will be referred immediately upon completion of foreclosure and litigation procedures directed toward obtaining timely recovery from loan collateral and account obligors. Either category of loans may be referred sooner if, in SBA's determination, recovery could be more effectively pursued through the Treasury Department.

Prior to referral to Treasury, all affected obligors will receive appropriate notification. In this regard, on a monthly basis SBA routinely notifies all loan obligors on SBA-serviced accounts that in the event of default, SBA may foreclose, report to credit bureaus, refer to the Department of Justice or collection agencies, initiate administrative offset or use computer matching programs for purposes of debt collection or credit screening.

The SBA's loan servicing centers are highly automated and specialized, allowing a maximum level of efficiency. Borrower calls are made on a rapid follow-up basis using recently installed autodialing technology and on-line loan accounting information from interactive computer screens. This allows for immediate input of loan servicing comments and automated overnight mailing of a variety of collection letters. The effectiveness of servicing actions and the tracking of response times are monitored through automated systems.

SBA has recently established debt collection goals for each of its field offices as part of its national Liquidation Improvement Project (LIP). These goals are aimed at increasing cash collections from recovery actions and promoting the timely completion of loan liquidations including disposal of acquired assets. As part of the ongoing LIP effort, SBA has also taken the following management actions: (1) strengthened training for financial and legal staff; (2) promoted a team approach to liquidation; (3) encouraged greater use of contract assistance to supplement in-house liquidation resources; (4) conducted or scheduled in-depth reviews of liquidation procedures at almost 30 field offices; and (5) made significant upgrades to the automated systems

supporting loan collection processes. The Agency is already beginning to see improved recoveries as a result of the LIP initiative, and expects further improvements in FY 1998. Through the first 10 months of FY 1997, cash collections on seriously delinquent accounts have gone up almost 50% nationwide on an annualized basis compared with average collections over the prior three years.

III. Use of Debt Collection Tools to Collect SBA's Delinquent Loans

As indicated above, SBA aggressively pursues delinquent accounts through vigorous use of all available collection tools. The types of procedures used depend on the circumstances of the individual cases, the degree of delinquency and extent of cooperation from the borrower.

Payment Reminders Automated notices are generated and mailed to borrowers 15 days before each loan installment due date. These notices show how the borrower's last payment was applied (principal and interest) along with the current balance on the account. If a payment is not made within 10 days of the due date, a follow-up notice is automatically generated.

Automated Collection Calls SBA's immediate recourse on past due loans is to make frequent and timely telephone contacts with borrowers regarding the delinquency. In this regard, the Agency's Delinquent Loan Collection System (DLCS) loads accounts which are 10 days delinquent into a "queue" identified with a particular collector for follow-up. SBA's newly installed auto-dial systems then order and prioritize calling "campaigns" according to parameters established by local managers. When the auto-dialer reaches a borrower, it immediately transfers the call to a collector, and through the collector's computer screens, accounting information pertaining to the borrower's loan is displayed. The collector records in the on-line DLCS system the results of the call, and automatically arranges a follow-up contact through the DLCS scheduler if necessary.

Automated Message System (AMS) Using DLCS, SBA's collectors can also designate for mailing to the borrower any of a wide variety of letters in English or Spanish to document payment promises or other representations made by the borrower. These letters may be customized through the DLCS system and are mailed the next day from SBA's Denver Finance Center.

Computerized Records All significant account activity is stored in SBA's computer systems from the start of collection procedures through final resolution of the debt. This constitutes an electronic "file" of information about the debtor that is immediately retrievable for review and action, both by collectors and their supervisors. The systems operated at the servicing centers contain automated credit action formats for expedited account resolution. Account monitoring is done through a series of management reports including a weekly summary of loans past due, a weekly production report for collectors

and a monthly report on currency rate and portfolio aging statistics. Loan servicers have access to on-line systems containing public records for use in locating debtors and determining property ownership and lien positions.

Account Rehabilitation SBA has established procedures to enable its loan officers to reamortize or otherwise restructure problem accounts to keep them in a paying status. Intensive servicing units exist in some of the centers and are proposed for all the servicing centers to rapidly accomplish financial and legal review of seriously delinquent accounts. Those accounts which can be salvaged will be returned to a paying status and all others will be placed in liquidation for expedited recovery.

Liquidation of Collateral Once an account is identified as a candidate for liquidation, it is transferred by the servicing center to the SBA field office that is closest to the borrower, and consequently best acquainted with local and state legal requirements and practices. Loan collateral is located, catalogued and appraised, and then is disposed of through summary or judicial foreclosure processes as required by the jurisdiction in which the property is located. This type of enforced collection activity is site-intensive in nature and usually requires physical inspection of recoverable assets along with other local procedures. Judicial foreclosure is often handled by SBA attorneys in their capacity as Special Assistant U.S. Attorneys.

Litigation If a deficiency balance exists after liquidation of all worthwhile collateral, SBA may pursue through litigation uncooperative obligors with recovery potential. Preparation for litigation, including completing Claims Collection Litigation Reports (CCLRs), is addressed either at the servicing center level or at the local field office. As with judicial foreclosure, litigation is often handled by SBA attorneys functioning as Special Assistant U.S. Attorneys. This helps simplify preparation of appropriate pleadings and expedites other court processes since SBA attorneys are familiar with the Agency's loan programs and procedures.

Credit Bureau Reporting On a quarterly basis, SBA reports the status of all business loans to credit bureaus. All consumer accounts referred for tax refund offset are also referred to credit bureaus. SBA intends to expand the consumer reporting process to more frequent reporting including more delinquent accounts.

Collection Agency Referral SBA has been a strong advocate for referral to collection agencies of account balances on all loans after completion of foreclosure or litigation where these actions would result in worthwhile recovery. SBA refers unsecured loans or those with non-collectible obligors promptly after completion of restructuring attempts, if these attempts do not return a loan to a paying status. At present, $700 million of loans are ready for referral pending finalization of national collection agency contracts.

IRS Tax Refund Offset SBA has participated in tax refund offset for over a decade, starting with consumer accounts and then expanding to commercial loans. Systems modifications were completed several years ago to allow for the referral of guarantors and other personal obligors on business accounts. These individuals account for almost all recovery on commercial loans since the businesses themselves are either defunct or have operated at a loss for lengthy periods of time (thereby obviating payment of taxes).

Treasury Offset Program (TOP) SBA was one of the participants in Treasury's administrative offset pilot, and is now completing systems modifications needed to fully implement the program. The Agency has made excellent progress recently in collecting the Taxpayer Identification Number (TIN) on loans for its administrative accounting, and has a task group working to complete collecting TINs for all loans. SBA anticipates starting referrals under TOP in fiscal year 1998.

Federal Salary Offset In accordance with the provisions of the Computer Matching and Privacy Protection Act of 1988, SBA matches its delinquent loan obligors on an annual basis with the Postal Service and the Department of Defense.

1099-C Reporting After completing all collection activity, SBA reports to IRS the balance owing on designated accounts. This reporting program is being expanded to conform to recent regulatory changes by the IRS.

IV. SBA's Reporting Capability on Debt Collection Activity

The SBA has an excellent information system and a communications infrastructure to link with FMS and systems of other agencies. Currently, SBA can report the following data:

Information on the Status of Delinquent Portfolios
- gross receivables
- principal and interest that has been written off but is still being pursued
- accrued interest on delinquent debt, presumed uncollectible, but is still being pursued
- debt owed by debtors who cannot be located
- delinquent debts currently being repaid

Agency Collection Activities
- number of cases to which each debt collection was applied
- dollar amount of delinquent debts these cases represent
- number of cases for which the Agency was successful in applying debt collection tools
- amounts collected through each debt collection tool

- costs of using each debt collection tool

Additionally, the SBA is able to certify to Treasury the accuracy of the data contained in the Report on Receivables Due from the Public. Tracking the status of loans in the collection process takes place both through DLCS and the Liquidation/Litigation Tracking System (LLTS). Debts are routinely aged internally according to categories such as current (0 to 30 days), past due (31-60), delinquent (61 days and over) and liquidation. Additional categories are available through various reports both at the field office and servicing center level. In the centers, performance goals have been established for currency rate, delinquency reduction and cash collections. These goals are monitored on a monthly basis.

V. Summary

SBA presently has the full range of debt collection capabilities for all of its consumer and commercial accounts, and the Agency has necessary accounting and computer systems to provide for comprehensive reports on these activities. Consequently, SBA should be immediately designated as a collection center for its own debt, and should be considered in the future to be a collection center for the debts of other federal agencies.

Mr. HORN. We will withhold questions until we hear from all the witnesses.

I take it, Mr. Longanecker, you are the principal respondent and Mr. Petska is here to help you out. I hear you are a very distinguished career servant and you have been doing this for a long time. Maybe we can get a lot of lessons on other agencies for you somewhere this morning.

Go ahead, Secretary Longanecker.

Go ahead.

Mr. LONGANECKER. Thank you.

Mr. Chairman, I am the Assistant Secretary for Postsecondary Education, Department of Education, and I am joined today by Tom Petska, who is the director of our Debt Collection Service.

It is a distinct pleasure to be before this committee today. I appreciate this opportunity to discuss with you the success in the Department with implementing the Debt Collection Improvement Act and to discuss some of our ideas for the future with you, as well.

As you know, the Department of Education is the primary source for student loans in this country. This year, through our various programs, students and their parents will borrow more than $30 billion.

Since the inception of our three basic student loan programs, those are the original programs we now call the Perkins Student Loan Program, the old Federal Family Education Loan Program, and our wonderful new Direct Student Loan Program. Between those three programs, since the inception, we have made $285 billion worth of student loans; $184 billion of that remains outstanding, with $91 billion of that in repayment, $68 billion still with students who are enrolled in school and, thus, not yet in repayment on their student loans, and about $25 billion in default.

I might mention that since its inception just 3 years ago, in 1994, the Direct Loan Program has already made $20 billion worth of loans.

The Department has been making concerted efforts to reduce the student loan default rate with substantial success. Over the 5 years preceding this last year, the default rate was reduced from 22.4 percent to 10.7 percent, and later today the Secretary will be announcing that for the 6th year in a row that rate has gone down, this time slightly.

Credit for that substantial reduction must be shared broadly. You, in Congress, deserve much of the credit because of the two major pieces of legislation, the credit reform piece in 1989, and the amendments of 1992, which have given us the tools necessary to improve our collections.

Our partners in the FFEL program, particularly the guarantee agencies, have done a very good job of improving their collection on debt; and the Department, through its oversight of institutions, lenders and guarantors and, most significantly, through the Debt Collection Service, has really improved our performance.

As you know, student loans are inherently risky because the only collateral behind them is the mind being developed. We are working with borrowers who are generally unsophisticated in debt management, many of whom are academically at risk as well as being financially at risk. So some will default. When they do default, it

is our Debt Collection Service, which Tom Petska heads, that works to collect on those defaults, and we work very hard at that. Indeed, we have implemented many of the debt collection mechanisms that the Debt Collection Improvement Act calls for, and indeed, it works.

Over the past 6 years, the Department has collected almost $4.5 billion in defaulted loans, $3.2 billion of which has come through our partnership with the IRS, through the IRS offset of tax refunds, including one-half billion dollars this past year, 1997. We understand, I think, we are—we have referred more accounts to Treasury than any other agency.

We have also been quite successful in using private collection agencies which have been part of our history since 1979. Over the past 6 years, our private vendors have collected $766 million and our private/public partnership is recognized as a model for others to follow.

Through the Federal salary offset program, we have collected $33 million over the past 5 years from Federal employees who are in default on their student loans. And though we can't really document the dollar amounts, there are some other things that we have done which have also helped.

We believe that our reporting of delinquent student loan debt to credit bureaus helps; the use of electronic payments—91 percent of our payments are done electronically—helps. And our requirements that student loan borrowers provide their taxpayer identification numbers when applying for a loan, which we have had for some time, also helps to reduce defaults.

Five years ago we began administrative wage garnishment, and today we are garnishing the wages of over 53,000 borrowers. We have collected $34 million via wage garnishment since 1992, and we expect that amount to grow as we develop better tools for wage garnishment in the future. And indeed, with reauthorization of the Higher Education Act coming up, we might be back to talk to you about how you can help a little more in that regard.

We have also reduced defaults by preventing loans to prior defaulters. With the development of the National Student Loan Data Base, we have identified potentially $850 million worth of loans, potential loans, to students who are in default, who are requesting another loan. So we have been able to prevent them from borrowing, clearly reducing the logical default on those.

We are also working with Treasury in various ways, including a new joint venture which we began in July, with Treasury's FMS, to examine whether FMS would be an effective partner in the collection of defaulted student loans. In fact, we would like to expand our work with FMS through the use of the new enhanced Treasury offset program.

So we bring pretty good news to you here today on the collection of the default of student loans, but we are not satisfied with what we have done. We are considering initiatives to create some new collection tools, and we will be including these new ideas as part of our reauthorization of the Higher Education Act proposals. But these haven't been vetted throughout the administration, so it would be inappropriate to share them in detail with you at this

point. But we will want to work with you as we have been, as we are able to do that.

I want to thank you for the opportunity to share with you the progress we have made in improving debt collection in the Department and our plans for the future. As requested, we have also included in our testimony the debt performance indicators that you requested.

Thanks again for the opportunity to be here.

Mr. HORN. We thank you for your testimony and we thank you for the very good written statement you have presented us with.

[The prepared statement of Mr. Longanecker follows:]

Statement of David A. Longanecker, Assistant Secretary
Office of Postsecondary Education
to the
Subcommittee on Government Management, Information, and Technology
United States House of Representatives
Committee on Government Reform and Oversight

Hearing on
Implementation of the Debt Collection Improvement Act of 1996
and Legislative Proposals in the Debt Collection Area

2154 Rayburn
November 12, 1997

Mr. Chairman and Members of the Subcommittee,

I'm pleased to be here today to discuss with you the implementation of the Debt Collection Improvement Act of 1996 by the Department of Education and proposals we are considering to improve our debt collection efforts further. The Department has undertaken a broad range of activities over the past 20 years or so to improve all aspects of our loan programs, including debt collection, and we are committed to continuing to seek improvements in the future.

The Department of Education has been, for some time, the primary source of student loans. Our Direct and Federal Family Education Loan programs have allowed many millions of students to enroll in postsecondary education. Through the Direct Loan Program, in which Federal loans are disbursed directly to students by their institutions, we have made about $20 billion in loans since the program began in 1994. Through the Federal Family Education Loan (FFEL) Program, about

$245 billion in loans have been made since the program began in 1965. Under FFEL, loans are made to eligible students by participating lenders. Repayment of the loans is guaranteed by national or state guaranty agencies using Federal reserve funds. The guaranty agencies receive reinsurance and other funds from the Department. Of the approximately $285 billion in loans made to students and parents (including the $20 billion in loans made since 1959 through the Federal Perkins Loan Program), approximately $184 billion are outstanding. Of the outstanding amount, about $91 billion are in repayment, another $68 billion are held by students still in school, and almost $25 billion are in default.

The Department is, and has been, making concerted efforts to reduce the default rate on student loans and hence the amount that needs to be collected. I am proud to say we have had considerable success. The FFEL cohort default rate has declined from 22.4 percent in 1990 to 10.7 percent in 1994. And we recently determined that the default rate declined further to 10.4 percent in 1995 (see chart 1). This decline in the default rate throughout the 1990's has been brought about by the adoption of legislation and policies supported by both Congress and two Administrations.

Many parts of the Office of Postsecondary Education have contributed to our efforts to reduce defaults. The Guarantor and Lender Oversight Service (GLOS) helps to ensure that lenders and guaranty agencies comply with due diligence requirements and provide pre-claims assistance, among other efforts. The Institutional Participation and Oversight Service (IPOS) has, through its gatekeeping initiatives, tightened financial and administrative requirements that schools must

meet in order to participate in the loan programs. IPOS also ensures that borrowers receive counseling on managing and repaying their loans before they leave school. In addition, through the Default Management Division, IPOS has responsibility for taking actions against schools having excessively high default rates, including terminating their eligibility.

The vast majority of borrowers have repaid or are currently repaying their student loans. Some borrowers do default, however, and the Department is determined to see to it that those defaulters fulfill their obligations to repay their loans.

Our Challenge

Our challenge is to collect as much as possible on defaulted student loans. This challenge is considerable because student loans are inherently risky. The student loan programs were created by the Congress to make loans available to all eligible students to ensure their access to higher education. Credit worthiness is not a prerequisite. Because the student loans are unsecured, the government and private lenders have no collateral in the event of default. In addition, borrowers often relocate after leaving school, which can make it difficult to locate them.

When defaults do occur, despite our prevention activities, the Debt Collection Service (DCS) is the organizational unit within the Department that bears responsibility for collecting the defaulted student loans. DCS is also responsible for implementing most aspects of the Debt Collection Improvement Act of 1996.

Our Response

Over the past 20 years and more, the Department has undertaken a series of initiatives to reduce defaults and increase collections on student loans. Those actions have gone a long way toward improving the effectiveness of our collection efforts. In fact, over the period from the 1970's through the early 1990's, the Department implemented a number of the debt collection mechanisms that the Debt Collection Improvement Act calls for on a governmentwide basis. The Department's use of private collection agencies, tax refund offsets, wage garnishment, and several matching agreements with other federal agencies were all in place prior to enactment of the Debt Collection Improvement Act. The Department of Education is "living proof" that the requirements in the Act can yield measureable debt collection improvements when they are implemented by federal agencies. As an incentive to further develop and use cutting edge tools to improve collections, the Department is in the process of applying to become a Debt Collection Center. Let me highlight some of our accomplishments conforming with the major provisions of this useful legislation.

Over the past six years, the Department has collected almost $4.5 billion on defaulted loans (see chart 2). Working with the Treasury Department, the Department has realized substantial savings for taxpayers over the last decade or so. In 1986, the Department began referring to the IRS eligible debts that we had tried unsuccessfully to collect using other available tools. Using our data, the IRS has been offsetting federal income tax refunds and has collected about $3.2 billion over the past six years, including about $500 million in FY 1997 (see chart 3). In FY 1997, the Department provided Treasury with information on past-due student loan accounts valued at over

$10.6 billion, which the Treasury Department also uses to offset other Federal payments to defaulters. We also provided Treasury with 1,123 accounts on past due institutional receivables (mostly from postsecondary institutions) valued at about $380 million. The Department has referred more accounts to Treasury than any other Federal agency.

Using private collection agencies has been one of our most successful strategies. We have been contracting with private debt collection agencies since 1979. We currently have 15 debt collection contracts. Our contracts with collection agencies are performance-based, as measured by the percentage of defaulted loans on which the agencies collect. Over the past six years, private collection agencies have generated $766 million in collections. Moreover, the contracts we have awarded to collection agencies have been used as a model by at least one other federal agency.

The Department was also the first Executive Branch agency to work with the Internal Revenue Service (IRS) to match defaulted student loan records with IRS addresses. The Department began these matching activities 15 years ago. In addition, over ten years ago we implemented the Federal Salary Offset Program, by which we began to match to defaulted and delinquent student loan records with Federal employment records to identify and collect from Federal employees who are in default on their loans. We have found this matching activity to be quite effective and have collected $33 million over the past five years from Federal employees.

Another initiative we have undertaken is reporting delinquent student loan debt to credit bureaus.

The Department first undertook this activity over fourteen years ago. We believe credit reporting has been a contributing factor in both the reduction in the default rate on student loans and the increased amounts we have collected on defaulted student loans in recent years.

For the last fifteen years, the Department, under the authority of the Higher Education Act of 1965, has also required all student loan borrowers to provide taxpayer identification numbers. Without this step, our success in collecting on delinquent and defaulted student loans would have been significantly reduced.

Administrative wage garnishment, which we began using five years ago, has been another effective tool in improving our collections on student loans. Over 53,000 defaulted loans are now in garnishment status, and we have collected almost $34 million since 1992. The Department is conducting this activity under the authority of the Higher Education Act of 1965 (HEA). In order to improve the effectiveness of wage garnishment, we want to work with the Congress to develop legislation that would provide access to other Federal databases for employment information. We believe such access would allow us to expand the use of this tool.

We have also used our records of student aid recipients to deny additional aid under Title IV of the HEA to those borrowers with unresolved defaulted student loans. Over the period between the beginning of 1995 and the middle of 1996, the Department identified more than 125,000 student aid applicants as prior defaulters, helping to prevent these ineligible students from receiving about $300 million in loans. We are currently having discussions within the Department

on the issue of denying Title IV aid to prospective borrowers who are delinquent on other Federal debts. These discussions, which will be expanded to include Treasury Department officials, are focused on determining the best way for the Department to proceed with regard to full compliance with this provision, while considering the best interests of the taxpayer and the Department.

We have developed a working relationship with the Treasury Department in several areas. One joint venture began in July, when the Department of Education started a pilot program with Treasury's Financial Management Service (FMS). The program will test FMS's ability to collect defaulted student loans, with results expected by April 1998. We will examine FMS's overall recovery rate as well as its success on selected loan cohorts. We will use the data to develop strategies for further cooperation between FMS and the Department to improve collections on defaulted student loans.

Although our working relationship with Treasury has been successful on a number of projects, we need additional discussions with their Financial Management Service (FMS) to improve collections through the "other Federal payments to defaulters" program. Improving collections through this program requires the exchange of information between large and complex data systems. The Department has considerable experience in using such data systems and hopes to share its expertise with Treasury in developing mutually satisfactory solutions.

Although the Debt Collection Improvement Act has primarily focused on improving collections,

the Act also includes another tool which the Department has used to improve the efficiency of our operations, namely the use of electronic funds transfer. The Department is proud to report that 91 percent of its payments are now being made electronically. Recipients of those payments include institutions, businesses, and individuals.

Conclusion

Although we are proud of our accomplishments in increasing collections on defaulted student loans, we are always seeking methods to improve the effectiveness of our efforts. The Department is now considering initiatives to create some new collection tools. We will be including some of these new initiatives as part of our proposals to reauthorize the HEA, although the Administration is not ready to discuss the details. We will also be working in concert with other agencies with similar needs to develop improved collection tools that will be mutually beneficial.

I want to thank you for the opportunity to discuss the significant progress we have made in improving debt collection within the Department and our plans for further improvement. I also would like to mention that we have developed and are now using performance indicators, as required by the Government Performance and Results Act of 1993, for managing our programs. We have several indicators addressing default prevention and loan collections which are further helping us focus our efforts on preventing defaults and increasing collections. I am also now submitting the debt performance indicator table you requested and would be happy to answer any

questions you may have.

Attachments:

Chart 1 -U.S. Department of Education, Fiscal Year Cohort Default Rates
Chart 2 -U.S. Department of Education, Collections by Tool, FY92 -FY97
Chart 3 -U.S. Department of Education, Tax Refund Offset
Table -U.S. Department of Education, Debt Performance Indicators

CHART 1

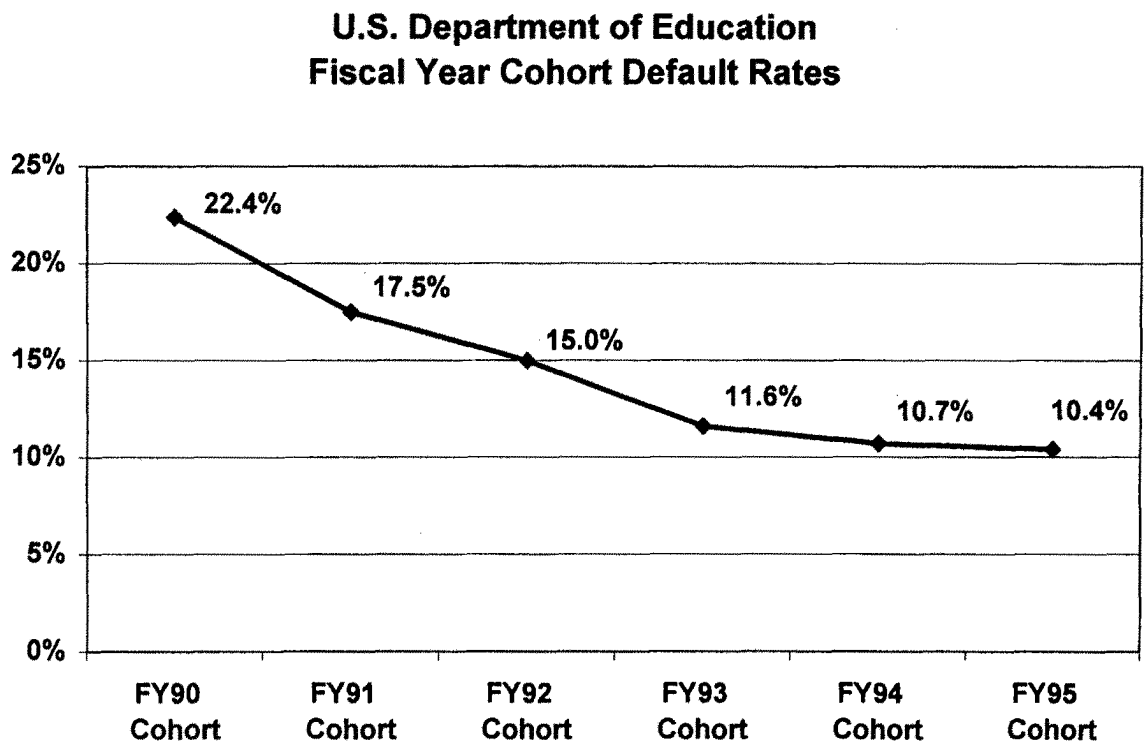

U.S. Department of Education
Fiscal Year Cohort Default Rates
25%
20%
15%
10%
5%
0%
22.4%
17.5%
15.0%
11.6%
10.7%
10.4%
FY90 Cohort
FY91 Cohort
FY92 Cohort
FY93 Cohort
FY94 Cohort
FY95 Cohort

CHART 2

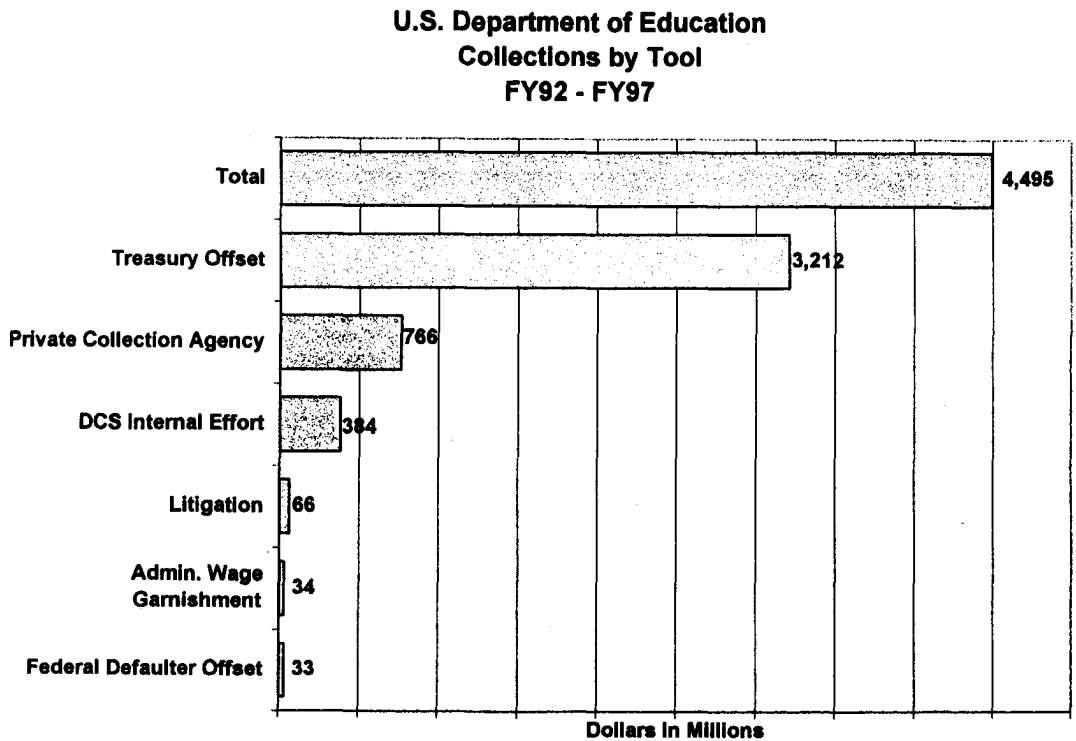
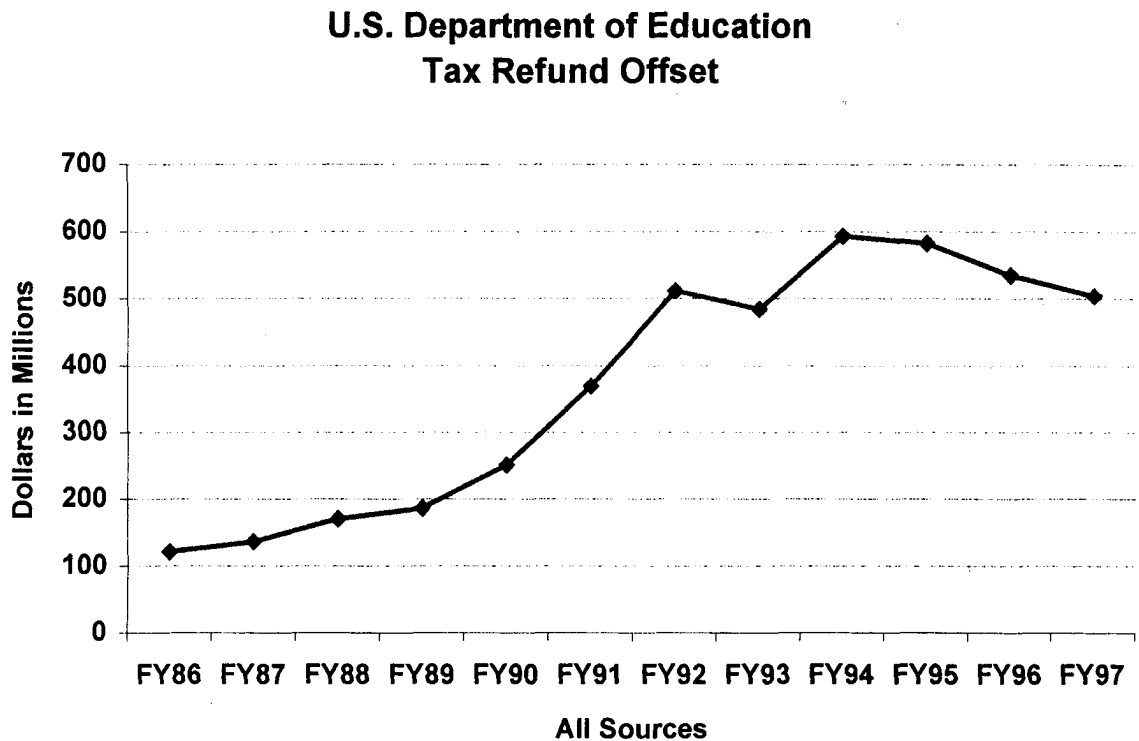

U.S. Department of Education
Collections by Tool
FY92 - FY97
Total
4,495
Treasury Offset
3,212
Private Collection Agency
766
DCS Internal Effort
384
Litigation
66
Admin. Wage Garnishment
34
Federal Defaulter Offset
33
Dollars in Millions

CHART 3


U.S. Department of Education
Tax Refund Offset
Dollars in Millions
700
600
500
400
300
200
100
0
FY86 FY87 FY88 FY89 FY90 FY91 FY92 FY93 FY94 FY95 FY96 FY97
All Sources

TABLE

U.S. Department of Education
Debt Collection Service
Debt Performance Indicators as of 9/30/96

FY1996 Delinquent Debt		Over 180 Days Delinquent		Debts in Bankruptcy		Foreign Debt		Adjusted 180 Day Del.		Referred to Treasury for Offset			
#	$	#	$	#	$	#	$	#	$	Unique TIN's	$	$ Collected	
3,717,276	9,168,656,322	2,902,991	7,467,865,165	48,965	120,553,594		-	2,854,026	7,347,311,571	--			Treasury Offset
										1,165,782	4,634,576,544	216,326,000	Tax Ref. DCS
										1,167,960	6,006,551,220	318,524,000	Tax Ref. 3rd Pty

Exempted Status for Cross Servicing											
At Private Collection Agencies			At DOJ or in Foreclosure			Collectible by Internal Offset			Scheduled for Sale		
#	$	$ Collected	#	$	$ Collected	#	$	$ Collected	#	$	$ Collected
1,715,284	4,451,765,149	136,017,859	73,559	181,451,915	8,812,000	83,295	208,762,336	25,241,141	-	-	-

Available for Cross-Servicing		Referred for Cross Servicing			Total $ Collected	In Formal Appeals Process		At a third party			To be sold		Statutory Impediment	
#	$	#	$	$ Collected	$	#	$	#	$	$ Collected	#	$	#	$
981,888	2,505,332,171	-	-	-	426,976,127	838,099	2,211,923,302	3,542,013.00	13,009,573,873	1,654,863,073	-	-	-	-

NOTES:

(1) Accounts in repayment totaling $575,874,215 are included in the FY 1996 Delinquent Debt category.

(2) With the exception of Referred to Treasury Offset, all number values reflect the number of debts.

(3) Tax Refund Offsets reflect offset collections during fiscal year 1996. Draft report indicated process year offsets, not fiscal year offsets.

(4) Collectible by Internal Offset includes administrative wage garnishment and federal defaulter debts.

(5) As of FYE1996 there were no referrals for cross-servicing.

(6) Total collected includes $40,579,127 collected through Department of Education internal efforts. Debt consolidations of $630,933,000 were not included in the value.

(7) In Formal Appeals Process includes student loan defenses such as investigations of disability, closed school claims, ability to benefit disputes, and requests for income contingent repayment plans.

(8) At Third Party represents student loans at guaranty agencies that have not been assigned to the Department of Education. Unless otherwise indicated, all categories reflect activity within the Department of Education.

(9) The Department of Education's Institutional Receivables values were available as of September 30, 1997 and are presented as a separate document. DCS will have fiscal year 1997 information by November 28, 1997.

11/4/97

OCT 29 1997

TABLE (cont.)

U.S. Department of Education Institutional Receivables
Debt Performance Indicators
($ in Thousands)

OCFO Indicators

FY 1998 Delinquent Debt		Over 180 Days Delinquent		Debts in Bankruptcy		Foreign Debts		Adjusted 180 Day Del		Referred to Treasury for Offset		
#	$	#	$	#	$	#	$	#	$	#	$	$ Collected
3,393	1,169,003	3,150	1,081,855	875	465,881			2,275	615,974	1,123	378,991	

At Private Collection Agencies			At DOJ or in Foreclosure			Collectible by Internal Offset			Scheduled for Sale		
#	$	$ Collected	#	$	$ Collected	#	$	$ Collected	#	$	$ Collected
5	87		7	21,721							

Available for Cross-Servicing		Referred for Cross-Servicing			Total $ Collected	In formal appeals process		At a third party[4]		To be Sold, but not Scheduled		Statutory Impediment	
#	$	#	$	$ Collected		#	$	#	$	#	$	#	$
2,263	594,166	1,123	378,991	9	9								

1) All data as of September 30, 1997
2) All numbers include receivables, claims, and accounts already written off and forwarded to Treasury for cross-servicing.
3) The data reported under "Referred to Treasury for Offset" is included due to the cross servicing program.
4) ED Institutional Receivables continues to forward all remaining delinquent debt to Treasury for cross servicing.

Mr. HORN. Richard Keevey is the Chief Financial Officer at the Department of Housing and Urban Development.

Welcome, Mr. Keevey.

Mr. KEEVEY. Thank you, Mr. Chairman, Mrs. Maloney, and Mr. Davis. I thought what I would do is just summarize for you what I think are the six major points that are covered in my rather lengthy testimony.

First, the current outstanding delinquent debt for HUD is $2.2 billion as of September 30, 1996. That's a decrease of $443 million from the prior year. Of that amount, $1.7 billion relates to FHA defaulted loans, and I will talk to you a little bit about that in a second.

Mr. HORN. That's the Federal Housing Administration?

Mr. KEEVEY. Yes.

Mr. HORN. Not the Farm Home Administration?

Mr. KEEVEY. That's right, Mr. Chairman.

Second, we do fully use the offset program, and we have referred about $135 million worth of debt to the Treasury, and that represents the majority of the debt that can be referred to the Department of Treasury.

Third, we are interested in cross-servicing as you mentioned earlier; we do have a proposal that we are airing out with Treasury Department that would transfer one of our centers, which is presently located in Seattle, over to the Department of Treasury. The staff there are experts, particularly in the title I recovery area. Almost all of our other debt we have consolidated and will move to the Albany site. The remaining debt, directly relevant to the provisions of the DCIA, that is there at Seattle, we are proposing that we would transfer, first, on a pilot basis, all of the remaining debt, plus the staff, to Treasury; and at the end of that year, evaluate how effective it would be. Treasury is reviewing this at the moment.

Fourth, I want to make the point that of the $2.2 billion of remaining debt, $300 million relates to mortgage-backed securities by the GNMA operation, and that will be recovered through FHA-insured or VA guarantees. So that will be an internal offset procedure that we are currently executing.

Fifth, we do have a very active sale of assets program, particularly as it has to do with the FHA. Over the past few years, we have sold over 115,000 defaulted loans with gross proceeds of $9 billion; and the remaining amount, yet to be done, will be part of a future sale that we hope to execute within a reasonable period of time.

The final point I would like to make is that HUD does fully use the Credit Alert Interactive Voice Response System, and that is a prescreening tool, to bar individuals who owe the Government money from getting new loans. It is a system that was pioneered by HUD several years ago, and it is available to all Federal agencies.

So, in summary, I would like to say that we are, I believe, in substantial compliance with the act and we have several very active programs under way, particularly the sale of assets, which has to do with FHA and the active pursuit of cross-servicing with Treasury.

Thank you, Mr. Chairman.

Mr. HORN. Well, we thank you. Again, that was a very thorough statement. We will have some questions when we get to that.

[The prepared statement of Mr. Keevey follows:]

Good Morning, Mr. Chairman and Members of the Subcommittee on Government Management, Information and Technology. I am Richard F. Keevey, Chief Financial Officer of the Department of Housing and Urban Development. On behalf of Secretary Cuomo and the Department, I appreciate this opportunity to come before you and the Subcommittee to report on HUD's implementation of the Debt Collection Improvement Act (DCIA).

In order to give you a better perspective of the Department's debt collection initiatives and its implementation of the DCIA, I would like to first present a description of the Department's debt portfolio. As of September 30, 1996, there was approximately $2,282 billion in delinquent debt due the Department (a decrease of $443 million from the balance of September 30, 1995). Of this amount, approximately $1,764 billion pertained to FHA receivables that resulted from defaulted insured loans. Because of this, our major debt collection initiatives (including asset sales) center around ways to service and dispose of these FHA receivables. I have attached charts that summarize the nature of HUD's delinquent debt (Exhibit "A") and the nature of HUD's delinquent debt in excess of 180 days old (Exhibit "B").

Before addressing the specific issues that were included as part of your invitation to the Secretary to participate in these hearings, let me first say that HUD is in substantial compliance with the major provisions of DCIA.

- we have addressed the administrative offset provision of the Act by referring FHA Title I debt (debt related to our manufactured housing and home improvement loan guarantee program) to Treasury for offset. This is the majority of the debt that could be referred.

- we are addressing the cross-servicing provisions of the Act by working with Treasury to transfer responsibility and staff of HUD's FHA existing Seattle Asset Recovery Center (ARC) to the jurisdiction of Treasury (this will be explained in more detail later).

- we have a successful asset sales program that has made us the leader in the federal government in this area.

- we pioneered the use of the Credit Alert Interactive Voice Response System (CAIVRS) as a pre-screening tool to bar individuals who owe the government money from obtaining new government loans or loan guarantees. A more detailed discussion of this system is included later in this text.

Now to address the specific issues raised by the Committee.

1. **Completion of chart.** - The chart included with your request has been completed and is included as our Exhibit "C". Highlights are:

- The adjusted debt over 180 days delinquent includes Single Family ($477 million) and Multifamily ($545 million) debt which is part of our asset sales program and will not be referred to Treasury for offset.

- The amount to be collected by internal offset is GNMA debt ($308 million), associated with our Mortgage Backed Securities Program, that will be collected from the FHA insurance or VA guarantees.
- We have participated in the Tax Refund Offset program since its inception in 1986.
- A statutory impediment currently exists which will prevent the Department from selling subsidized multifamily notes with an unpaid balance of $1.232 billion. The Department has sent language to the Committee of jurisdiction to permit the sale of subsidized Multifamily notes.

2. Implementation of Administrative Offset Program.

- HUD has referred $135 million to Treasury for inclusion in the offset program; as shown below:

Program	Cases Referred	Dollars
FHA Title I	15,518	$134.5 million
Admin Debt	103	$400 thousand

- The cases that were referred to Treasury for the administrative offset program are essentially the same cases that were sent to the Internal Revenue Service for the Tax Refund Offset Program.

- In addition to the debt that has already been referred to the offset program, we are currently clarifying the eligibility of delinquent debt associated with the Section 312 program for referral to the offset program: 2,700 Cases with a value of $23.5 million.

3. The status of regulations to implement DCIA is as follows:

- The Department's existing regulations governing debt collection and interagency agreements for the routine use of records under the Privacy Act of 1974, are adequate to permit our participation in the Treasury Offset Program.
- We have published an amendment to the Civil Monetary Penalties regulations, and published new inflation adjustment factors for these penalties, as required by DCIA.

4. Cross-Agency System issues.

The Department participates in government-wide system user groups that provide input to Treasury concerning systems changes or enhancements that are needed to implement the provisions of DCIA. While we currently have no major systems issues regarding implementing DCIA, we are awaiting

some technical guidance from Treasury (file formats, particular indicators or values to be used in a given situation) concerning Treasury's proposed rule on mandatory tax identification numbers. However, our understanding is that Treasury will address the concerns of all agencies after receiving all comments to this proposed rule.

5. Legislative Proposals pending before the subcommittee. HUD and the Administration is studying the merits of these bills but is not prepared to take a formal position at this time. As always, the Administration is willing to work with the Committee on legislation for the purpose of creating management tools needed to ensure program integrity, effective debt collection, and the protection of individual privacy issues.

I would like to use this opportunity to further discuss areas of debt collection where we believe the Department has an innovative and positive story to tell.

SEATTLE ASSET RECOVERY CENTER

To conform with the cross-servicing provisions of DCIA, HUD has proposed to the Treasury Department a unique approach to the collection of debt. Under this proposal, HUD would join Treasury in a pilot project in which one of HUD's debt

management facilities, the Seattle ARC, would operate as a Treasury Debt Collection Center and collect delinquent Title I and, eventually, all HUD debts would fall under the jurisdiction of the DCIA. The Seattle ARC will carry out Treasury responsibilities under the DCIA and take program direction from Treasury's Debt Management Service staff. HUD would turn over the total operation -- staff, equipment and space -- to Treasury. The pilot would run for less than a year and conclude with an evaluation of the Seattle ARC's success as a reimbursable debt collection center for Treasury.

This pilot was sent to the National Performance Review (NPR) for designation as a reinvention laboratory. This pilot program would promote one of the overall goals of NPR's reinvention laboratory effort: building models of interagency cooperation that promote savings and work efficiencies in the federal sector. Through the use of such a pilot, and the ultimate transfer of HUD staff to Treasury, strategic objectives are accomplished for both HUD and Treasury. HUD's Business Process Redesign of its Title I debt collection activities identified opportunities to gain efficiencies and free up staff by streamlining business processes and leveraging the provisions of the DCIA, such as cross-servicing. Further, DCIA requires Treasury to

establish Debt Collection Centers to service debt referred to Treasury by the various agencies. This potential transfer matches the skills in debt collection of current HUD staff in its Seattle ARC with the need for Treasury to establish Debt Collection Centers as required by DCIA.

ASSET SALES

HUD's asset sales program is a significant element of our compliance with DCIA. This program was started in 1994 and was designed to dispose of up to $11 billion of notes that resulted from defaulted loan guarantees. The mortgage loan sales program includes both single family and multifamily mortgages and is designed to:

(1) transfer the mortgages back to the private sector, where they can be more efficiently serviced and

(2) allow more of FHA's resources to be assigned to monitor the more than $400 billion worth of single family and multifamily mortgages the agency currently insures. More proactive monitoring of the FHA insured portfolio lowers the likelihood of defaults and claims in this critical inventory and, in the long run, reduces taxpayer exposure. Since 1994, HUD has sold over 115 thousand defaulted loans and received gross proceeds of over $7.5 billion.

CAIVRS

The DCIA states that "delinquent Federal debtors will be barred from obtaining Federal loans or loan insurance guarantees." HUD has addressed this provision of DCIA through its use of the Credit Alert Interactive Voice Response System (CAIVRS). CAIVRS is a Federal government interagency shared database, whose participants are users from HUD, USDA, VA, SBA, FDIC and the Department of Education. The purpose of the system is to alert participating Federal lending agencies when an applicant for benefits/loans has a Federal loan which is currently in default or foreclosure, or has had a claim paid by the reporting agency. CAIVRS was initially developed by FHA in 1987 to screen loan applicants for the Single Family Mortgage Insurance Program. It was later expanded to support the Title I Property Improvement/Manufactured Homes Insurance Programs and the Section 312 Rehabilitation Loan Program. Since 1987, over 24 million borrowers have been pre-screened through CAIVRS. Starting in 1993, the scope of CAIVRS was expanded to include the other agencies indicated above. As a result of this process, we understand participating Agencies have realized cash collections of delinquent debts.

In conclusion, let me emphasize:

- HUD is in substantial compliance with the provisions of DCIA;
- HUD has used its asset sales program as our primary method of disposing of FHA debt that resulted from defaulted loan guarantees in our multifamily and single family programs; and
- HUD will pursue the formal move of the Seattle ARC to Treasury.

I would welcome any questions at this time.

Exhibit A

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DELINQUENT RECEIVABLES

As of September 30, 1996, the Department is owed a total of $2,281,744,788 in delinquent receivables.

Account Code	Description	Direct Loans	Defaulted Guaranteed Loans	Non Credit Loans	Total Receivables
86 40701	FHA, Single Family		$1,000,854,054	$35,393,355	$1,036,247,409
86 40702	FHA, Multifamily		586,740,905	9,568,956	596,309,861
86 40703	FHA, Title I		176,005,229	1,363,786	177,369,015
86 40980	Low Rent Public Housing	$11,976,804			11,976,804
86 41150	Housing-Elderly and Handicapped	32,839,750			32,839,750
86 40420	Nonprofit Sponsor Association			7,705,830	7,705,830
86 42380	GNMA Mortgage Backed Securities			319,932,843	319,932,843
86 40150	Revolving Fund-Liquidating	74,988,359			74,988,359
86 90000	All Other			24,374,917	24,374,917
	Total	$119,804,913	$1,763,600,188	$398,339,687	$2,281,744,788

Source: Schedule 9 as of 9/30/96

EXHIBIT B

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DELINQUENT RECEIVABLES OVER 180 DAYS

As of September 30, 1996, the Department is owed a total of $1,617,904,858 in receivables delinquent more than 180 days.

Account Code	Description	Direct Loans	Defaulted Guaranteed Loans	Non Credit Loans	Total Receivables
86 40701	FHA, Single Family		$461,568,777	$15,671,493	$477,240,270
86 40702	FHA, Multifamily		537,055,759	8,667,374	545,723,133
86 40703	FHA, Title I		158,031,163	426,346	158,457,509
86 40980	Low Rent Public Housing	$11,930,546			11,930,546
86 41150	Housing-Elderly and Handicapped	14,522,302			14,522,302
86 4238	GNMA Mortgage Backed Securities			308,686,750	308,686,750
86 40420	Nonprofit Sponsor Association			6,937,789	6,937,789
86 40150	Revolving Fund-Liquidating	73,697,495			73,697,495
86 90000	All Other			20,709,064	20,709,064
	Total	$100,150,343	$1,156,655,699	$361,098,816	$1,617,904,858

SOURCE: Schedule 9 as of 9/30/96

EXHIBIT

U.S. Department of Housing and Urban Development
Debt Performance Indicators

FY 1996 Delinquent Debt		Over 180 Days Delinquent		Debts in Bankruptcy		Foreign Debts		Adjusted 180 Days Del.		Referred to Treasury for Offset			
#	$	#	$	#	$	#	$	#	$	#	$	$ Collected	
428,185	$2,281,745	303,611	$1,617,905	52,026	$279,766			251,585	$1,338,139	15,621	$134,999		*Treasury Offset*
										17,687	$159,905	$7,835	*Tax Refund*

Exempted Status for Cross Servicing											
At Private Collection Agencies			At DOJ or in Foreclosure			Collectible By Internal Offset			Planned for Sale (6)		
#	$	$ Collected	#	$	$ Collected	#	$	$ Collected	#	$	$ Collected
1,942	$22,866	$2,143	5,907	$516,771		95	$308,000		15,220	$2,884,000	

Available for Cross-Servicing		Referred for Cross-Servicing			Total $ Collected	In formal appeals process		At a third party*		To be Sold		Statuory Impediment (5)	
#	$	#	$	$ Collected		#	$	#	$	#	$	#	$
												835	$1,208,000

Sources: (1) For delinquency, bankruptcy, and foreign data = Report on Receivables Due From the Public (FY 1996); (2) for offset referrals = Treasury Offset and Tax Refund Offset reports;
(3) for private collection agencies, at DOJ, in foreclosure, internal offset, and sale data = agency as provided in CFO 5 year plan.
Notes: (1) Dollars in thousands: (2) Numbers of delinquent debts over 180 days old, bankruptcy and foreign debts estimated based on average receivables amount.
(3) Bankruptcy is not an exempted state; however, bankruptcy debts cannot be referred for cross-servicing or offset.
*(4) * At a third pary defined as other than the Department of Justice or a private collection agency, such as a guarantee agency.*
(5)Included in planned for sale, but requires Congressional action to sell subsidized loans. Includes performing and non-performing loans.
(6) Planned for Sale Includes performing and non-performing loans. Unpaid principle balance as of 9-30-97.

11/7/97 HUD-2.wk3

Mr. HORN. Our last witness is Dale Sopper, Acting Deputy Commissioner, Social Security Administration.

Welcome.

Mr. SOPPER. Thank you, Mr. Chairman.

Mr. Chairman, Mrs. Maloney, Mr. Davis, I would like to summarize my remarks and ask that my prepared statement be included in the hearing record.

Mr. HORN. It is automatically.

Mr. SOPPER. Attached to my statement for the record is the chart you requested on debt performance indicators.

Last year, the Debt Collection Improvement Act of 1996 provided the Social Security Administration with two new debt collection tools which had been available to other Federal agencies since 1982; that is, SSA is authorized to charge interest on overpayments and offset against Federal salaries in cases in which the Social Security overpayment was made to an individual over the age of 18 at the time the overpayment occurred, and the overpayment had been determined to be otherwise unrecoverable. These new tools, when implemented, will put SSA on an equal footing with other Government agencies.

Beginning in January 1998, SSA will participate in the Treasury offset program, which will offset an individual's debt against most payments issued by the Treasury Department. Also in January, 1998, SSA will begin referring information about debtors' delinquencies to consumer credit reporting agencies. These new authorities will be used only to recover OASDI, that is, Old Age, Survivors and Disability Insurance debts since there is no statutory authority to do so for debts which are incurred by recipients of supplemental security income payments.

We plan to improve collection of supplemental security income debts by expanding the use of the tax refund offset program for which there is no statutory exclusion.

We anticipate that the combination of these new collection tools will increase SSA's debt collections by $10 to $20 million, $6 million of which we expect to come from the expansion of the tax refund offset program to the Supplemental Security Income Program debt.

In your invitation to testify, you requested information on the status of regulations necessary to implement the Debt Collection Improvement Act. We are about to publish regulations that will govern the use of administrative offset and the use of consumer credit reporting agencies for OASDI debts, as well as revised regulations for the Old Age, Survivors and Disability Insurance Tax Refund Offset Program that address the conversion of the program from the Internal Revenue Service to the Financial Management Service.

Specific provisions of the Debt Collection Improvement Act of 1996 allow for the offset of Old Age, Survivors and Disability Insurance payments to recover debts owed to other Federal agencies. We are ready to work with the Treasury Department to implement this provision and are in the process of reviewing draft regulations that will put this provision into effect.

We are working with Treasury to ensure effective data exchange between agencies so that we are able to respond to inquiries that result from such offset.

Another provision of the Debt Collection Improvement Act calls for referral of debts to the Treasury Department for cross-servicing; that is, the Treasury Department acts as a debt collector for the agency. Debts are exempt from this provision if the debts have been referred to a debt collection center. We have submitted an application to the Secretary of the Treasury to be designated as a debt collection center for the purpose of collecting our own debts. We base this application on the existing debt collection centers that we have had in place since 1984 for recouping the debt that cannot be recovered through benefit offset. These centers use all of the techniques available to us. Therefore, at this point, we have not referred any debts for cross-servicing.

In conclusion, I would like to restate SSA's commitment to debt management and the implementation of the Debt Collection Improvement Act of 1996. The success of our debt management program is critical to the Social Security Administration's mission and to our goal to make SSA's program management the best in the business.

I would be happy to answer any questions you have.

Mr. HORN. Thank you very much, Commissioner. We appreciate your coming. We have a high regard here for the administration of the Social Security Administration that's 35 years standing.

[The prepared statement of Mr. Sopper follows:]

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to come here today to discuss the Social Security Administration's (SSA) ongoing efforts to improve its debt management program. We have a long-standing commitment to debt management and are continually engaged in projects that improve our performance.

The success of our debt management program is critical to SSA's mission and to our goal to make SSA's program management the best in business. Our debt management program consists of three interrelated pieces: prevention, detection, and resolution. We limit the amount of overpaid benefits through our debt prevention initiatives; we pursue the debts that do occur; and we maximize the return to the trust funds and the U.S. Treasury.

In 1997 alone we collected more than $2 billion, returning $1.5 billion to the Old Age, Survivors, and Disability Insurance (OASDI) trust funds, $437 million to Treasury's general revenues representing Supplemental Security Income (SSI) recoveries, and $74 million to the states representing recoveries of the state supplement to SSI payments.

The Current Debt Recovery Process

Before I discuss our strategies for implementing new debt collection authorities, I would like to describe our current general process for debt recovery under which we collect debt owed to us.

When an overpayment is detected in either the OASDI program or the SSI program, a notice is sent to the individual describing the reason for the overpayment, indicating how the overpayment can be repaid, and advising the individual of his or her due process rights.

If the individual is on the benefit rolls, the letter indicates that if the overpayment is not paid, recovery will be carried out through the offset of ongoing OASDI or SSI benefit payments, although only within the same program, i.e., we cannot enforce offset of an SSI debt by withholding an OASDI payment or vice versa. Because of the effectiveness of the benefit offset process, we can readily collect debts owed SSA when the debtor continues to be a beneficiary. In the OASDI program the rate of offset against benefits is 100 percent until recovery is completed. In the SSI program the rate of recovery against current benefits is limited to an amount equal to ten percent of the individual's monthly countable income, including the SSI benefit (the 10 percent rate that is established by

statute). Both of these recovery rates are negotiable if they would create a financial hardship. The subcommittee should be aware that some SSI beneficiaries leave the rolls, and debt collection becomes much more difficult in those situations.

If the individual is not on the benefit rolls, no offset is possible. The overpayment letter, requesting repayment of the overpaid amount, indicates that the debtor should contact SSA if unable to repay in full. In this circumstance we will negotiate an installment arrangement. For those who enter into an installment arrangement we send a monthly bill for the amount due. If the individual fails to respond to the initial notice, or does not remit a monthly payment, our billing system issues a reminder notice and then a past due notice.

If these notices do not result in recovery, SSA's debt collectors attempt telephone contact. At this point, an OASDI delinquent debtor will be considered for tax refund offset. If he or she meets the criteria, SSA will send a notice advising the individual that any income tax refund due could be used to recover the overpayment, and providing an opportunity for the debtor to protest.

In general, at any point in this process, if the individual exercises his or her due process rights, we suspend recovery efforts until the matter is adjudicated.

Improvement Initiatives

I should point out that SSA has, for many years, lacked the authority to use debt collection tools available to other agencies. SSA is working diligently to make in a short time the same improvements the other agencies have had years to achieve.

In discussing SSA's plans for implementing debt collection improvement, I would like to first provide a history of debt collection legislation and its relationship to SSA's debt.

The Debt Collection Act of 1982 (DCA) authorized Federal agencies to use aggressive debt collection tools to improve performance. The collection tools authorized by this act were administrative offset of the debt against most Federal payments due, notifying credit bureaus of the individual's indebtedness, offsetting the debt against the individual's Federal salary, charging interest on the debt, and using collection agencies. This act, however, exempted SSA, both the OASDI and SSI programs, from the provisions authorizing use of these collection tools.

The Deficit Reduction Act of 1984 included a provision which authorized the Tax Refund Offset program. This legislation precluded use of this collection tool to recover any debts under the OASDI programs.

In 1990, the Omnibus Budget Reconciliation Act of 1990 (OBRA) was passed which authorized SSA to use Tax Refund Offset to collect OASDI delinquent debts. SSA implemented Tax Refund Offset in 1992.

The Domestic Employment Reform Act (DERA), passed in 1994 gave SSA limited authority to use three of the collection tools that were originally contained in DCA. These tools were credit bureau reporting, administrative offset, and use of collection agencies. The authority was limited, however, to OASDI debts where the overpaid amount was paid to the individual after the individual turned age 18, and the debt was determined to be unrecoverable under regulations issued by the Commissioner of Social Security.

Last year, the Debt Collection Improvement Act of 1996 (DCIA) provided SSA with the remaining two authorities contained in DCA with the same restrictions as set forth in DERA. That is, SSA is authorized to charge interest on overpayments and offset against Federal salaries in cases in which an OASDI overpayment was made to an individual over the age of 18 at the time the overpayment occurred, and the overpayment has been determined to be otherwise unrecoverable.

I would like to emphasize that, because we lacked for many years the statutory authority to use these collection tools, SSA is now attempting to get on an equal footing with other Government agencies.

With the authority given SSA by OBRA 1990, SSA implemented tax refund offset to recover OASDI debts beginning with the 1992 tax refund year. In subsequent years SSA made refinements to the program. Since the initial implementation in 1992, Tax Refund Offset has provided SSA with more than $140 million in collections of past due OASDI debts.

Beginning in January 1998, SSA will participate in the Treasury Offset Program, which will offset an individual's OASDI debt against most payments issued by the Treasury Department. Also in January 1998, SSA will begin referring information about debtors' delinquencies to consumer credit reporting agencies. SSA will send a notice to the individual indicating that the debt will be referred to the Treasury Department for offset against Federal payments under the Treasury Offset

Program, and also advising the individual that we will report the delinquency to a credit reporting agency. The notice will also inform the debtor of their protest rights.

These new authorities, administrative offset and credit bureau referrals, will be used only to recover OASDI debts, since there is no statutory authority to do so for SSI debts. We plan to improve collection of SSI debts by expanding the use of the Tax Refund Offset program, for which there is no statutory exclusion. On an annual basis, we recover more than $20 million through the Tax Refund Offset program. We anticipate that the combination of these new collection tools will increase SSA's debt collections by an estimated $10 to $20 million, $6 million of which we expect to come from the expansion of tax refund offset to SSI.

Because of the differences in the statutory authorities governing how we can utilize the different debt collection authorities, we will refer 356,713 qualified cases worth $575 million for tax refund offset only. Of the tax refund offset-only cases, 277,518 cases worth $452 million are SSI cases and the remaining 79,195 cases worth $123 million are OASDI cases. Some of the OASDI cases were previously submitted for the 1997 tax refund offset program and some are being submitted for the first time.

When we implement Treasury's Offset Program for offset against Federal payments, in January 1998, we will initially refer 55,509 OASDI cases worth $282 million in overpayments. We will at the same time be referring these cases to the Internal Revenue Service (IRS) for inclusion in the 1998 tax refund offset program.

Once we have completed implementation of these current projects, we will begin efforts to implement the remaining statutory debt collection authorities available to us, namely, federal salary offset, use of collection agencies, and interest charging. We expect to begin these efforts in the next few months.

Regulations

In your invitation to testify you requested information on the status of regulations necessary to implement the Debt Collection Improvement Act. As I mentioned earlier, SSA is diligently implementing authorities other agencies have had for many years. We are about to publish regulations that will govern the use of administrative offset and the use of consumer reporting agencies for OASDI debts,

along with the definition of unrecoverable debt as required by statute. We will also issue revised regulations for the OASDI tax refund offset program that address the conversion of the program from the IRS to the Financial Management Service.

Specific provisions of the Debt Collection Improvement Act of 1996 allow for the offset of OASDI payments to recover debts owed to other Federal agencies. We are working with the Treasury Department to implement this provision and are in the process of reviewing the draft regulations that will put this provision into effect. We are working with Treasury to ensure effective data exchange between agencies so that we are able to respond to inquiries that result from offset.

Treasury Cross Servicing

Another provision of DCIA calls for referral of debts to the Treasury Department for cross servicing; that is, the Treasury Department acts as a debt collector for the agency. Debts are exempt from this provision if the debts have been referred to a debt collection center. We have submitted an application to the Secretary of the Treasury to be designated as a debt collection center for the purpose of collecting our own debts. We based this application on the existing debt collection centers that we have in place for recouping the debt that cannot be recovered through benefit offset. These centers use all of the techniques available to us. Therefore, at this point we have not referred any debts for cross servicing.

Pending Legislation

In your letter of invitation you asked that we comment on legislation pending before the subcommittee, specifically H.R. 2063, the "Debt Collection Wage Information Act of 1997" and H.R. 2347, the "Federal Benefit Verification and Integrity Act."

The Administration is studying the merits of these bills but is not prepared to take a formal position at this time. The Administration is willing to work with this committee on legislation for the purpose of creating management tools needed to ensure program integrity, effective debt collection and the protection of individual privacy rights.

- Conclusion

In conclusion, I would like to restate SSA's commitment to debt management and the implementation of the relevant provisions of the Debt Collection Improvement Act of 1996. We have been conscientiously collecting Social Security-related debt since the beginning of the program. Since SSA was first authorized to participate in the tax refund offset program for OASDI, we have continuously been expanding and enhancing the use of authorized debt collection tools as they have become available to us. We will continue to implement the debt collection authorities available to us, so that we will be on an equal footing with other agencies. Thank you for the opportunity to testify before you today.

Debt Performance Indicators

FY 1996 Delinquent Debt		Over 180 Days Delinquent		Debts in Bankruptcy[1]		Foreign Debts		Covered Under DCIA		Referred for Treasury Offset[2]		
#	$	#	$	#	$	#	$	#	$	#	$	$ Collected
99,457	330,653	55772	185,385					55772	185,385	55,509	282,010	

Exempted Status for Cross Servicing[3]											
At Private Collection Agencies			At DOJ or in Foreclosure			Collectible By Internal Offset			Scheduled for Sale		
#	$	$ Collected	#	$	$ Collected	#	$	$ Collected	#	$	$ Collected

Available for Cross Servicing		Referred for Cross Servicing			Total $ Collected	In Formal Appeals Process		At a Third Party		To Be Sold, But Not Scheduled		Statutory Impediment	

[1] SSA does not maintain separate reporting on bankruptcy. These debts are included in the level of outstanding debt.
[2] Referral will begin in January 1998. 55,509 cases worth $282 million will be referred. An additional 356,713 cases worth $575 million will be referred for tax refund offset. Referrals to TOP exceed the value in "Covered Under DCIA" because SSA refers debts as soon as they meet the statutory and regulatory requirements for referral, which can be earlier than 180 days, and also because we refer some debts that have already been written off.
[3] SSA has a pending application to be designated as a debt collection center for the purpose of recovering its own debt. This would exempt SSA from cross servicing.

Mr. HORN. Let me start just down the line with the Associate Deputy Administrator of SBA, the Small Business Administration.

Based on the latest information we have from the Financial Management Service and the Treasury, SBA has not referred any delinquent debt for administrative offset, but SBA's chart, provided to the committee with your testimony, lists $218 million as being referred.

Could you explain to me what the gap is between FMS? Is the check in the mail or the debts in the mail? What have we got here?

Mr. GRAY. It is the IRS offset, I was just informed.

Mr. HORN. The IRS offset?

Mr. GRAY. Offset.

Mr. HORN. Not the FMS then?

Mr. GRAY. Correct.

Mr. HORN. OK. Well, that untangles some of it.

Your testimony noted that SBA will refer $700 million for collection action to Treasury at the end of the year, and in May your Administrator Alvarez sent Mrs. Maloney and me a letter promising to begin referrals in June 1997.

Now, obviously that didn't occur. Or did it?

Mr. GRAY. It did not occur.

Mr. HORN. Yes. And I realize you weren't around in June. You are new at the job. Are you now responsible for ensuring that the referrals do operate on schedule? Is that part of your portfolio?

Mr. GRAY. Yes, it is, and I am comfortable making that commitment today.

Mr. HORN. OK. Let me ask you: Would authority to administratively offset Federal payments and garnish wages increase the marketability of your Federal loan portfolio? Your testimony says you are a recovering banker, so, I assume you might have a few opinions on that.

Mr. GRAY. Yes, I believe it will. One of the issues that we are trying to address internally is to make sure that the information provided to Treasury is adequate and thorough, and that would stand as well to provide to anybody who would be purchasing these loans from us. Coming from the private sector, it is really the information that creates the value for those assets; and we are working very diligently on that.

Mr. HORN. Do you feel then that bankers who purchase those loans would want such tools and be willing to pay a premium for them?

Mr. GRAY. If there were a history where you could show that there really was a return, the answer is absolutely "yes."

Mr. HORN. Do we have that history anywhere?

Mr. GRAY. Not yet.

Mr. HORN. You are going to provide it.

How about your neighbor next door here, Education?

Mr. GRAY. I will defer to my neighbor.

Mr. HORN. That it works?

Mr. LONGANECKER. Well, we have had pretty substantial success in collection on defaulted student loans, but we still found much reluctance in studies we have done in the past about whether we could actually market those as an asset.

Mr. HORN. Mr. Gray, if I understand it, and you probably weren't around when they formulated this, but maybe you have had a chance to look at it, Members of Congress on the authorizing committee, the Appropriations subcommittees, and our own investigating committees on oversight have been reviewing the various strategic plans agencies have submitted. And the strategic plan for the Small Business Administration lists five general goals. The goal closest to debt collection is, "transform SBA into a 21st century, leading edge financial institution."

If debt collection is not a chief focus of the agency, you may find that partnering with the Financial Management Service in Treasury is an attractive option to have another agency, whose principal focus is debt collection, perform this function. If you were here this morning, I think a lot of us agreed that the obvious—that when you are trying to serve a certain number of clientele in a segment of our economy, you serve small business, agriculture serves farmers, and on and on.

It might be best if you let somebody else collect the debt, and you will still be the nice guys and gals, and you let them worry about collecting it.

What are SBA's feelings on this?

Mr. GRAY. There are really two kinds of debt for us. One is the debt that is made to a small business or an entrepreneur or a victim of disaster, where their ability to repay the agency is compromised for a period of time, that is, after a disaster, and they have a tough time paying us back. With that kind of debt, we have the ability within the agency to defer repayment for a period of time.

The same with small businesses. At some point, the debt becomes—it is clear that you can't defer it; you can't work it out. The small business doesn't have that ability, and at that point, it has to be referred directly to another debt collection agency or to the Treasury. Because we do have a real public purpose decision, we are trying to make sure that our systems are clear about who, and with whom, we are working and the purpose of that.

I think that, internally, we recognize that and we can manage that.

Mr. HORN. Mr. Keevey, let me turn to HUD on delinquent debt. Much of that $1.8 billion that is noted is reported as exempt from cross-servicing because it is scheduled for sale, as I understand it. Is that correct?

Mr. KEEVEY. That's correct, Mr. Chairman.

Mr. HORN. What does this debt consist of and what is the status of those pending sales?

Mr. KEEVEY. They consist mostly of FHA single family and multifamily defaulted loans, and as I mentioned in my testimony, we have a very active program. We have received gross proceeds of over $7.5 billion. The program has been temporarily suspended because of problems with the financial advisor.

There is an intent to renew this program once that issue is straightened out, and it is the intent of the Department to sell the remaining single family and multifamily debt.

Mr. HORN. Is it going to be referred for administrative offset, any of that debt?

Mr. KEEVEY. No, sir.

Mr. HORN. Why not?

Mr. KEEVEY. I think this is the most effective way of dealing with the debt. We have an ongoing, viable program, where this debt can be sold; and we think this is the way to do it, Mr. Chairman.

Mr. HORN. What has been the history in terms of the percent of your debt that you have actually collected, and what's the markdown, in essence, once you get through with the process?

Mr. KEEVEY. With the FHA?

Mr. HORN. Yes.

Mr. KEEVEY. I think the numbers that we had were, $9.5 billion was written down to $7.5 billion through the sale process.

Mr. HORN. I notice on, I guess it would be page 10 of your 11-page statement, that you say we have completed the preparation of statements of work to engage outside financial and technical advisors, including—now, you just sort of referred to that. How many advisors are we talking about and is that a real block in your collection efforts?

Mr. KEEVEY. Where are you reading, Mr. Chairman?

Mr. HORN. Well, maybe I have got the wrong one; that might be SBA. I am sorry, because I thought I marked the same thing for you. That's the next one.

How about it, Mr. Gray, in looking at your selection or desire to get program financial advisors, transactional financial advisors, due diligence advisors, legal services advisors and all that; are they not in place at SBA?

Mr. GRAY. They are not in place.

Mr. HORN. So, this would be a new effort?

Mr. GRAY. That's correct.

Mr. HORN. OK. How difficult is it to get these? Are you simply going out on the private market and hiring them or what?

Mr. GRAY. Well, we have two efforts undergoing right now. One is an internal SBA procurement through the traditional—and I believe very well run—procurement system at the SBA. We are working on the other with both Treasury and HUD on a GSA schedule, and we hope to have that in place the next 12 months or so.

Mr. HORN. OK. On Social Security, I notice on page 5, you note that another provision of our legislation called for referral of debts to the Treasury Department for cross-servicing, and the Treasury acts as the debt collector for the agency.

I am curious. You say you have submitted an application to the Secretary of the Treasury to be designated a debt collection center for the purpose of collecting your own debts. I guess I am curious as to whether you are doing as well as you should, because, in a sense, from the Social Security Administration's standpoint of good public relations, again, we make the point, why not just let Financial Management Service and Treasury collect it? Why do you worry about collecting it? Why don't you just turn it over to them?

Mr. SOPPER. Well, Mr. Chairman, let me say that since 1981 Social Security, in response to OMB direction, has been concerned about the recovery of debts owed by either Old Age, Survivors and Disability Insurance recipients or supplemental security income recipients.

We currently, Mr. Chairman, for individuals in benefit status, collect over 90 percent of the outstanding debt, whether that's for the Old Age, Survivors, and Disability program or the supplemental security income program. The only reason we don't get 100 percent is because in some cases, Mr. Chairman, the collection is not accomplished before the recipient dies or the individual requests a waiver of the debt. But we have an excellent record, I think, in that regard.

We began, as I said, in 1981, to set up our own debt collection program before some of the statutory authorities that your committee and the Congress has made available to us were even in existence. And we recognized the problem that Under Secretary Hawke noted, that is, the conflict between the program agency and the debt collection responsibility. And for that reason, when we set up our own debt collection centers in 1984, we placed those separate and apart from the program people who are in our field offices dealing, day to day, with the beneficiaries.

Through those debt collection centers, we have approximately 260 people that do that work. We use all of the tools that debt collection organizations make use of in terms of skip-tracing techniques, phone calls, et cetera and we think we do a pretty good job of this, and that's why we have petitioned Secretary Rubin to be exempt from this overall Government debt collection activity.

Mr. HORN. Thank you. I now yield 10 minutes to Mrs. Maloney for questioning.

Mrs. MALONEY. Thank you, Mr. Chairman.

Mr. Gray, I see from your testimony that you plan to refer $700 million to Treasury for cross-servicing and $570 million for the administrative offset program by January 1998. That's great news. Do you still intend to do that?

Mr. GRAY. Yes, we do.

Mrs. MALONEY. OK. And how have you determined what debt to refer to Treasury and what debt not to refer to Treasury of your $1.5 billion that is over 180 days past due?

Mr. GRAY. The majority of that debt is either in litigation, foreclosure, or deferral, where there is a public purpose to work with either the small business or the individual affected. And so, we have adequately addressed that debt or it is in litigation and we need to resolve the litigation.

The remaining dollars that have been proposed to be referred to Treasury, and will be referred to Treasury, are those where no greater collection efforts can be made either in litigation or in foreclosure or resolving the collateral.

Mrs. MALONEY. As Mr. Gray pointed out, debt that is involved in litigation is exempt, yet debt that is planning to go into litigation is not exempt. Do any of those dollars have debt that you are planning to go into litigation on?

Mr. GRAY. Clearly, there would be. What would happen is, if you were trying to do a workout on a real estate loan before you file foreclosure, you try to make it work.

Mrs. MALONEY. Make it work.

Mr. GRAY. So for that period of time, clearly, it would be in the best judgment of the lending officer, or in many cases, the banks

that are financial intermediaries are making some of those decisions.

Mrs. MALONEY. And I understand that you have applied to be a debt collection center in SBA and to centralize debt collection there. And are you aware, or are you ready to take debt from other agencies and process it, if you are, in fact, a debt collection center?

Mr. GRAY. The answer is "yes."

Mrs. MALONEY. And I have read in your testimony, you said that you have $10 billion in your loan asset program. How much of that is delinquent, if any?

Mr. GRAY. Well, the majority of that—$1.7 billion is delinquent.

Mrs. MALONEY. $1.7 billion is delinquent?

Mr. GRAY. Yes.

The reason I smiled at the question is, the Government defines delinquency and private industry defines delinquency somewhat differently. If you were a bank, it would be greater than that because it is in deferment or you are working it out. Because the SBA has such a clear public purpose with its small businesses, a lot of those loans have been rewritten or extended so as not to adversely affect the small business.

Mrs. MALONEY. OK. Thank you very much.

And I would like to ask David Longanecker—and congratulations on your very good news that you reported today in the report that you put forward from your Department, unrelated to this hearing, on the fact that your delinquency rate is yet lower than before. I thank the Department of Education for taking the lead in referring debt to the Department of Treasury, and I gave your agency one of the highest grades on my report card, a C.

Can you tell me when you plan to refer the rest of your debt to Treasury for administrative offset and cross-servicing? That you have referred more and done more than any other agency.

Mr. LONGANECKER. I thought I would come in and see if I could talk you into a B. We think we could do better, but we think we are doing pretty well. We began a pilot with Treasury in July to figure out how best to collect the maximum amount.

Our goal is to make sure—in fact, it was interesting here today. Maybe I would be better liked in the higher education community if we just gave all of the debt and didn't try so hard to collect it. But, in fact, we have been very vigorous in trying to collect the debt. We want to work with FMS to find the best balance, so that we are maximizing the return to the Federal Government of our debt program.

Mrs. MALONEY. I congratulate you. You really have been a model not only in collecting debt, but in sensitive workouts with students.

What is your policy for writeoff of bad debt? Do you write off bad debt after a serious period of time?

Mr. LONGANECKER. Death and disability.

Mrs. MALONEY. Pardon me?

Mr. LONGANECKER. Essentially death and disability are the only two provisions.

Mrs. MALONEY. Death and disability?

Mr. LONGANECKER. We don't write off debt at the present time. We consider them there.

I might mention, too, and I would just like to say, it is nice for me, as an Assistant Secretary, to come and take the glory for something we do well at the Department; but it is really the Debt Collection Service, Tom Petska and the staff that work with him, that have done this. They really are a remarkable crew and are awfully fine public servants.

Mrs. MALONEY. But every agency needs leadership, and certainly the leadership coming from the Department of Education is reinforcing and supporting Mr. Petska in his work. So I congratulate you on that.

I would like you to look at the two bills that I mentioned in my testimony and get back to me, whether you support them or whether they would help you. One is the Debt Collection Wage Information Act, and it is designed to help locate student debtors who move out of State to avoid paying debt. It was modeled after the Massachusetts model.

The second one that I have introduced would allow your agency to verify information submitted to the Education Department on loan applications and other applications for Federal assistance.

Mr. LONGANECKER. We will do that. We will do that in the—I mean, we are working obviously with the Office of Management and Budget and with Treasury in terms of trying to have a consolidated effort. So, we will do that and we will do that as quickly as possible in concert with our sister agencies.

Mrs. MALONEY. I think that student loans are critically important. They are part of the investment that we need to make in the future of our country, and I congratulate you for making those investments and handling them and managing them well, so that we have money for more investments in our young people. And I thank you for your fine record.

Now I would like to go to Mr. Keevey at HUD. HUD has $1.3 billion in delinquent debt which is over 180 days old, and in a letter that I received from your Department, I was told that they would transfer it to Treasury in 4 to 6 months, and that was over 7 months ago.

Can you tell me where these debts are?

Mr. KEEVEY. The majority of that debt would not be under our proposal to transfer to Treasury. A large part of that debt relates to defaulted loan guarantees of the Federal Housing Administration, and the way in which we get rid of that debt, if you will, is through sale of assets.

Mrs. MALONEY. So, you sell assets?

Mr. KEEVEY. Yes. And that has been going on over the past 4 years.

Mrs. MALONEY. Uh-huh.

Mr. KEEVEY. We have sold over 115,000 defaulted loans, about $7.5 billion worth.

Mrs. MALONEY. How do you sell them? Do you do them by competitive bid—advertise and competitive bid? How do you sell your assets?

Mr. KEEVEY. Yes. That's done by—and I think I alluded to it in my testimony—a financial advisor and due diligence and all of that process that is necessary for a competitive sale, the Department has put it on hold. There have been some irregularities related to

the financial advisor to the Department, and the financial advisor was removed by the Secretary and the program is being looked at by the inspector general in terms of the process of how that was accomplished by the financial advisor. But the goals of the program remained solid and intact, and it is our intent to continue that once this review is completed.

Mrs. MALONEY. I also understand——

Mr. KEEVEY. OK.

Mrs. MALONEY [continuing]. From your testimony that you are working with the Department of the Treasury on a pilot debt collection center.

Mr. KEEVEY. That's correct.

Mrs. MALONEY. And, in fact, this pilot was approved by Vice President Gore as a national performance review initiative for designation as a reinvention laboratory. I want to understand how that works.

In other words, your laboratory will be an arm of the Treasury Department. Will you then turn over this collection center to the Treasury or is it still under HUD?

Mr. KEEVEY. Our proposal is, we had done a review of business process reengineering, if you will, of how we were administering debt in HUD. And the lion's share of the debt that is in our Seattle office is the lion's share of the debt that we would normally refer to Treasury anyway. So, our proposal to them was, we would transfer the center and the staff over to you to administer the debt. We would do it with a pilot program for 9 months to a year, with the people reporting to Treasury even though they would remain on our payroll.

Assuming it would all be a workable endeavor during 9 months—and we had every reason to expect it would be—then we would transfer the center and the people over to Treasury. That is our proposal to Treasury. Treasury is now reviewing that, and we are expecting, I think, a meeting later on this month to hopefully finalize it.

From our point of view, we think it is a good thing to do. We don't need to have that center as part of debt collection. It would mostly be the debt that we cannot service, as contrasted to the FHA debt and as contrasted to the GNMA debt, where it makes perfectly good sense for us to handle it either through the sale of assets that I described or through the GNMA process where we get our money back from the VA or from FHA.

Mrs. MALONEY. Well, I find the proposal interesting, and it is certainly a new way of looking at an old problem, and I congratulate you for coming up with this idea, and I hope it works.

Mr. Chairman, I have no further questions.

Mr. HORN. I yield 10 minutes to the gentleman from Illinois, Mr. Davis.

Mr. DAVIS of Illinois. Thank you very much, Mr. Chairman.

Mr. Gray, in your testimony, you noted that SBA routinely uses private collection agencies to bolster its efforts. What has been the result of those efforts?

Mr. GRAY. Measured on an economic basis, I know that it is under 18 percent cost to the agency. I would have to get back to you on a detailed basis for that.

[The information referred to follows:]

On commercial accounts, we have recovered an additional one-half of one percent of the debt referred from the actions of the collection agencies. On consumer accounts referred, the collection agencies have recovered just over 6 percent of the amount referred. From the amounts recovered, the collection agencies retain a fee ranging from approximately 18 percent to 32 percent.

Mr. DAVIS of Illinois. As one agency, what are some of the problems that you have encountered, or that SBA has encountered trying to implement the act?

Mr. GRAY. It has really been a systems problem, to make sure that the information that we are able to transfer to Treasury is adequate and pure, so that mistakes aren't made when they go into collection activity. It is the same problem we had in referring to our own outside debt collection agencies.

Mr. DAVIS of Illinois. And so once a system's problems are corrected or come online, then you think that there will be substantial improvement in the ability to actually collect?

Mr. GRAY. I am not convinced that by referring them to a different set of collection agencies that the performance will be improved. It certainly is another way to do that, and I think we are going to monitor it and measure ourselves and measure the effort at Treasury.

One of the difficulties that all the Federal agencies have is understanding the true value of their debt and what really is collectible. And that's a real effort that we are trying to undertake, along with Treasury.

Mr. DAVIS of Illinois. Thank you.

Mr. Longanecker, it seems that the Department of Education has had reasonable and good success using all of the methods that you employ.

What has been the experience with the private agencies?

Mr. LONGANECKER. Tom Petska asked, if that question were asked, if he could respond to it, so I would like to ask him to do that.

Mr. PETSKA. Thank you. We have had excellent experience with our collection agencies, and if I heard your question earlier, Mr. Davis, you were concerned about collection agencies being perhaps overzealous in collecting debt. I have employed a couple of tools to guard against that.

First, in our contracts we have a requirement that collection agencies comply with the Fair Debt Collection Practices Act. When we review their performance, we note any violations of the Fair Debt Collection Practices Act. And all the debt collection agencies know me personally—the managers of those agencies know me personally and know that I have given my personal fax number to the Legal Services Corp., and if persons are having problems and they have a complaint about a collection agency, they bring it to Legal Services Corp. Those complaints come directly to me.

Mr. DAVIS of Illinois. Have you had any inquiries from any of the other agencies seeking information or assistance or just simply saying, well, you seem to be doing it pretty well; can you share with us your techniques?

Mr. PETSKA. We share through the Federal Credit Policy Working Group, and we have had direct relations with the Department

of the Treasury—been able to help them out with their—a private collection agency contract.

Mr. DAVIS of Illinois. Thank you very much. And I, too, would like to congratulate the Department of Education. It seems to me that not only have you taken an area where loans are risky in terms of individuals who need them and acquire them, but it seems to me that you have developed an approach to try to recoup those resources, and you are doing a good job at it.

Mr. LONGANECKER. Thank you.

Mr. DAVIS of Illinois. Mr. Keevey, I know that HUD sells its assets in delinquent loans and foreclosures. It has seemed to me that it has been a system that always took a long period of time to do that. Has there been any streamlining or expediting of that process lately?

Mr. KEEVEY. I don't know the history, although I can tell you that when the active pursuit of this process was really initiated in 1994, there was a large amount of receivables on HUD's books related to these defaulted loans, and over the course of 3 years, we did 115,000 defaulted loans.

So I think my looking at it tells me it has been pretty streamlined and we have a very active program under way to do that.

So there may have been in the past, but I am not aware personally that the process of slowness has been an impediment to the program.

Mr. DAVIS of Illinois. So you are satisfied that it is moving right along?

Mr. KEEVEY. Yes.

Mr. DAVIS of Illinois. At a pace that is good?

Mr. KEEVEY. As I mentioned in my testimony, that it is in abeyance at the moment, pending some internal reviews, but once that is concluded, we will continue to execute the remaining portfolio that's out there.

Mr. DAVIS of Illinois. Thank you very much.

Mr. KEEVEY. You are welcome.

Mr. DAVIS of Illinois. I have no further questions, Mr. Chairman.

Mr. HORN. I thank the gentleman. I have a few windup questions here. Let me ask a few specifics and then we will get to the windup.

Let me ask education, as I recall here, you, without question, have the most effective debt collection program currently being operated in the Federal Government, and I know that took a long time to achieve, as I think all of you who have worked on it know. It probably took improvements over 20 years.

I mentioned earlier when there was an Assistant Secretary in the Carter administration, he was the first one I knew that really took this seriously in terms of student loans, student advice and so forth. So there has been a building on that since the late 1970's.

And as I look at that operation, you obviously have a potential for being a real model. Yet, in terms of a core agency function, I note with interest, it is not listed in the U.S. Department of Education's seven priorities in their strategic plan. On the other hand, debt collection is a core Treasury mission, with one bureau, the Financial Management Service, devoted to that function.

Now, the obvious: Should the collection functions of the Department of Education and Financial Management Service be combined in any way? What is your thinking on that?

Mr. LONGANECKER. Well, if that's the best way to collect student loans, we would be amenable to that and that's why we are doing the pilot to see how that goes.

I actually do believe that in priority three, that's where we generally try to include the Debt Collection Service, it is where we are trying to provide the best service possible to students and to provide educational opportunity. Within that rubric is where we include the Debt Collection Service.

But more specifically to your point, our effort here is simply to assure the maximum return on this debt that is outstanding. And we would like to be a partner in that, or if we are not the most effective component, we have no aversion to basically providing that to another entity or finding the right partnership. Whatever works best is what we are interested in. We have no——

Mr. HORN. OK.

Mr. LONGANECKER [continuing]. Interest in collecting other agencies' debt. We do have a lot of interest in collecting the debt on students.

Mr. HORN. Well, as you know, Agriculture, with some of the financial services, prides itself on running a pretty good operation.

Mr. LONGANECKER. Yes.

Mr. HORN. And a number of other agencies have used theirs.

Mr. LONGANECKER. Yes. I get my paycheck from Agriculture, actually.

Mr. HORN. OK, there's an example. Ever been late?

Mr. LONGKNECKER. No, sir.

Mr. HORN. You get it on time, right?

Mr. LONGANECKER. Usually, that's right.

Mr. HORN. Usually. OK. That's a hedge there.

They don't increase the amount every month; is that it?

Mr. LONGANECKER. No, they don't do that, no.

Mr. HORN. In a May briefing, your staff demonstrated that using relatively conservative assumptions, widespread use of wage garnishment from deadbeats who are delinquent on student loans, but gainfully employed, would be extremely effective.

What would the challenges be in a widespread program of wage garnishment? Mr. Petska.

Mr. LONGANECKER. That's a tough question. I will ask Tom to address it.

Mr. PETSKA. Yes. I really think that we need to be very mindful of the privacy data that we are exchanging when we get into an effort like that. Everything we do is dependent on the correct Social Security number. Everything we do is dependent on—and I don't want to incur the wrath of Mrs. Maloney, but I think systems are a key element to what we do.

I was really pleased to hear Treasury emphasize that systems are key to what we do.

So we need—with such a program, we need to get the systems right so we are protecting the rights of those individuals, not only the ones who we were garnishing their wages, but the others whose records are part of those data systems we are matching.

Mr. HORN. Now, you haven't had any problem using the Social Security number, I take it?

Mr. PESTKA. We know that some of the numbers in our system are incorrect Social Security numbers, and we are having discussions currently with the Social Security Administration to create a program which will check those numbers. And we might have to come back and ask for legislation when we know numbers are wrong and we do not have correct numbers, but we are not prepared to do that at this time without first working with the Social Security Administration.

Mr. HORN. Let me ask, Mr. Sopper, on that, I know there is a concern about privacy. I heard that from the IRS Commissioner 3 or 4 years ago, and I said, you know, give them the address, give them the amount they owe, put it out to private collectors, and let's see what happens. And there was great worry about the use of the Social Security number. Everybody else seems to use it. Every university in America, practically, uses it to register students, and so it goes.

So is there any problem there on the use of Social Security, or interconnection, to check if this person of this name at this address is—and maybe help Social Security find a lot of the phonies that are in their system when you can sell them in MacArthur Park in Los Angeles for $25 and maybe 100 people have bought that number? So what do you know about that in terms of debt collection in other parts of the Federal Government?

I assume you use it as an identifier, obviously, in your own agency.

Mr. SOPPER. Well, yes, we do, Mr. Chairman. I am not familiar with the particular problem that Mr. Gray or his colleagues may be having with SSN's and their debt collection activities. And if he is talking with people in the agency, hopefully we can resolve for them whatever problem there is. We do have the ability to do enumeration verification for the employer community, and if such a service was needed by SBA in connection with its debt collection activities, I am sure we could arrive at some kind of an amicable solution to help them out. I am just personally not aware of it.

As you know, Mr. Chairman, for our claims paying purposes, the Social Security number is key to everything we do. There is a great sensitivity, however, about the use of the number beyond its stated statutory purpose, and there are people on all sides of this issue as soon as this becomes a point. So I would not want to say that we ought to just use the number in any kind of a universal way for all kinds of activity. I think that's a very significant question we have to be cautious about approaching.

Mr. HORN. Let me ask one general question of all of you, and let's start with Social Security. How many full-time positions do you have directed at your debt collection effort? Do you happen to know that? If not, file it for the record.

Mr. SOPPER. I had told you earlier we have 260 people in our debt collection centers. Actually, the correct number is 239 people who work strictly on debt collection, following up on delinquent debt.

There are other people, other work years in the organization that are dedicated to such things as processing waiver requests, devel-

oping systems changes, and I will have to give you an estimate of that then, Mr. Chairman.

Mr. HORN. That 239 full-time equivalent?

Mr. SOPPER. Yes, those are work years, 239 work years that do debt collection only.

Mr. HORN. OK.

How about HUD, Mr. Keevey?

Mr. KEEVEY. I don't know the total number, Mr. Chairman. People dedicated toward FHA debt collection activities are 150.

Mr. HORN. Are how many?

Mr. KEEVEY. Are 150.

Mr. HORN. For FHA?

Mr. KEEVEY. Yes. But I should get you a better answer.

[The information referred to follows:]

For the rest of the Department it is 4 FTE's.

Mr. HORN. Fine.

How about you, Mr. Longanecker?

Mr. LONGANECKER. The Debt Collection Service has 235 employees. We have some dedicated staff in our Office of General Counsel and our Office of Chief Financial Officer—I don't know the numbers there——

Mr. HORN. And they are full-time?

Mr. LONGANECKER [continuing]. That are full-time working with us, or dedicated—we have FTE. I can't think of people who are——

Mr. HORN. Why don't you just file them for the record.

Mr. LONGANECKER. That's fine.

Department of Justice also provides us with a lot of assistance in the individual litigation.

Mr. HORN. Full-time team over there?

Mr. LONGANECKER. No, no.

Mr. HORN. Just generally, what they would provide any other department?

Mr. LONGANECKER. We will try to provide some estimates of that for you.

[The information referred to follows:]

The Debt Collection Service has 236 full time equivalent (FTE) employees. In addition, there are 11.5 FTE's in our Office of Chief Financial Officer and 3.5 FTE's in our Office of General Counsel, for a total 251 FTE's dedicated to our collection effort. Additional assistance from the Department of Justice in performing individual litigations is difficult to quantify but would, perhaps, translate into a few more FTE's.

Mr. HORN. Mr. Gray on SBA, small business?

Mr. GRAY. Throughout the Nation in all of our 69 district offices and in central headquarters, we have in excess of 700. But remember, those were also doing workouts on all the loans and that would also include about 125 lawyers that process foreclosures and litigation.

We will get those.

Mr. HORN. Those are 125 on your payroll?

Mr. GRAY. Yes.

Mr. HORN. Or contract private lawyers?

Mr. GRAY. No, they are on our payroll.

Mr. HORN. On your payroll, 125 lawyers and roughly what on debt collection?

Mr. GRAY. Approximately 700.

Mr. HORN. Seven hundred. OK. You might check those.

[The information referred to follows:]

Across the SBA, there are approximately 700 employees engaged in the full range of debt collection activity including servicing, working-out and liquidating both disaster and regular business loans. Approximately 125 attorneys, as noted above, have been hired by their Agency to support its loan portfolio management activity.

Mr. HORN. Now, what I am interested in, since we had a discussion previously with the Treasury officials, we all know, if we can get out within 60 days to remind people that they have got a debt, there is more likelihood of them taking it seriously and of the Government collecting it to save us taxpayers a lot of money. If we could not only get a surplus under what we have done in this Congress, but also get the debts that are owed, this should help a lot of things.

Mrs. Maloney has named a whole series of things that want for help. And I will start with the $5.3 trillion national debt and infrastructure and a few other things that should be in there somewhere.

Now, what I am curious about is, how many of you have given notice at the 60-day mark, or before, even earlier?

Mr. GRAY. We give a 10-day notice after delinquency, which would be 30 days from payment date. So if a loan payment was due May 1——

Mr. HORN. Yes.

Mr. GRAY [continuing]. On June 10, they would have a letter if they were delinquent as of the end of May.

Mr. HORN. OK. And have you found that has been effective, doing that 10-day notice?

Mr. GRAY. Oh, absolutely.

Mr. HORN. What did they do before that? Was it a longer number or is this a new proposal or has SBA always done that?

Mr. GRAY. We have historically had very good loan servicing, and this falls into that area.

Mr. HORN. OK.

Education, what is the earliest you notify the debtor?

Mr. LONGANECKER. In delinquency?

Mr. HORN. That they are in default.

Mr. LONGANECKER. Ours is a little different program because our students come out of school and they are in school for a while. So we have entrance and exit counseling for the students. Once they come out of school, they are in 6-month deferment. But if they go into delinquency—as soon as they go into delinquency, there are various stages that the law is set up for due diligence by the lenders.

Then, if they do go into default, there is also preclaims assistance provided by the guaranty agencies. Then the guaranty agencies do due diligence. Then it comes to Tom and his crew, and they do due diligence as well.

So we are—there is an awful lot of notification going out; and in the new Direct Student Loan Program, we are in regular contact with the students from the time—well, in fact, we are in touch with them all the way through school and then once—if they move into delinquency status, we increase our contact with them.

Mr. HORN. Well, I remember, having run a university, that the financial aid offices mushroomed over the last 30 years——

Mr. LONGANECKER. Yes.

Mr. HORN [continuing]. When you have 25, 30 million to administer, and that there was—a lot of it was the financial counseling that was made to the students. So they knew, hey, this is a loan, not a grant.

Mr. LONGANECKER. Absolutely. Right.

Mr. HORN. But, is there a different range of due diligence across the education programs, or could you say that you certainly contact them within 60 days of the delinquency?

Mr. LONGANECKER. Oh, yes.

Mr. HORN. Or default?

Mr. LONGANECKER. Do you remember the requirement?

Mr. PETSKA. Yes. I am trying to recall the due diligence requirements in our Federal Family Education Loan Program regulations, but I believe the requirement is within the first 10 days, if not sooner.

Mr. HORN. OK. Why don't you just file the rest for the record? I am just curious what the range is here.

[The information referred to follows:]

Lenders must send at least one written notice to the borrower within 10 days of delinquency, (i.e. within 10 days of the due date of the first missed payment). After this initial contact, there may be no more than a 45 day gap in collection activity.

Mr. HORN. Mr. Keevey, in terms of HUD, how many days does it take to get a notice out?

Mr. KEEVEY. I don't know, Mr. Chairman. The majority of the debt, as we talked about, is the FHA defaulted loans, and there is a whole process that they go through working up to the ultimate sale of the assets. So I would not be able to give you an accurate answer here. I will have to get that for you.

Mr. HORN. OK. Do the best you can.

Mr. KEEVEY. Yes.

[The information referred to follows:]

For Title I claims and other generic FHA debt that is in a billing status, an initial delinquency letter is generated by the computer system and mailed to debtors whose payments are four days overdue. If the payment remains delinquent, the case is subject to autocall action at 10 days. The computer system also provides 9 discretionary collection letters that servicers can send out based on the particulars of the case.

For Single Family cases the computer system produces a delinquency tracking report after the 16th day grace period for payments on a FHA mortgage. HUD staff receive this report on the 17th day and use it to prepare 30-day delinquency letters or to take other mortgage action. This policy applies to servicing or mortgages that have been assigned to HUD and have not been sold in an asset sale.

For newly paid claims or assigned debts, an initial demand letter is mailed on the day that the case is loaded into the computer system.

Mr. HORN. And Social Security?

Mr. SOPPER. Mr. Chairman, we notify individuals immediately upon the detection of the debt, and then we give them 60 days due process, which is required by statute, under which they can either contest the debt or request waiver.

Assuming they do not, we begin to exercise collection efforts. Moreover, if we have established a repayment arrangement with someone, after the 31st day on which there has been no activity on that, we consider that debt also delinquent.

And I would just like to add, Mr. Chairman, that to the extent that we ultimately have to terminate collection activity, we continue to refer those terminated cases for 10 years to the Tax Refund Offset Program. And as you also know, Mr. Chairman, the Social Security Act provides that if an individual who has a debt with us in the future ever comes back on the rolls, we can use benefit offset to collect that amount of the debt from them.

Mr. HORN. On the point of benefit offset, what is the minimum that you process? Now, obviously, sometimes there has been an overpayment by accident. Sometimes, with that crazy earnings limitation we have had and, thank heavens, are phasing out, people had their checks held up and then they had outside income and all of that. I hope we are getting away from that as fast as we can.

But what's the minimum person? I don't think we want to harm people that only get $500 a month. So where does it start?

Mr. SOPPER. The minimum is $10, Mr. Chairman. The statute provides that, initially, we can take all of the benefit, but as you know, in some cases, whether it is a Title II beneficiary on retirement benefits or, more likely, someone receiving Supplemental Security Income, for them to take all the benefit would impose an undue hardship on them. So $10 is the minimum that we can collect.

Mr. HORN. OK. What would you say is the median for your collections in these areas?

Mr. SOPPER. On benefit offset, Mr. Chairman?

Mr. HORN. Yes.

Mr. SOPPER. I will have to give you that for the record, if that's OK.

Mr. HORN. Let's have it. Without objection, it will go in at this point.

I thank you very much for coming. We have one question before we close.

[The information referred to follows:]

The average benefit offset rate for recovery of overpayments varies by program. For the Old Age, Survivors and Disability Insurance program, it is approximately $180 per month. For the Supplemental Security Income program, it is approximately $50 per month. Present law limits the amount of offset in the Supplemental Security Income program to 10 percent of an individual's income.

Mrs. MALONEY. I would like to ask all of you the question that I asked Mr. Longanecker earlier about your write-off policy; and I would like to know—because a lot of this debt is very old debt, do you have a policy at which point you write off old debt and just forget about it?

The board of—the Education Department said it was death and disability. I would just like to ask your write-off policy, Mr. Gray.

Mr. GRAY. We write off the debt after 180 days, but that doesn't mean we don't try to collect it. We just don't recognize a principal balance on our books.

Mrs. MALONEY. But when do you—like in our report, we are collecting—$50 billion is owed. Is there some point where you say, this is uncollectible, and you just write it off completely, off your books? Or do you always carry it?

Mr. GRAY. The principal balance is written off. When we actually put it in a file and don't look at it again, I don't know. I will have to get back to you on that.

Mrs. MALONEY. OK.

[The information referred to follows:]

Write-off and charge-off are two terms which differ in meaning under Treasury guidelines and SBA procedures, but they are sometimes used interchangeably thereby creating confusion. The SBA charges off loans after all cost-effective foreclosure and litigation activity has been completed. For unsecured loans of small dollar value, such as disaster home loans, we emphasize that charge-off be done rapidly after 180 days delinquency for transfer of the account to Treasury for inclusion in all offset programs for a period of up to 10 years. On other loans with worthwile collateral, recovery procedures are accomplished as expeditiously as possible by SBA and then the accounts are charged-off for transfer to Treasury.

SBA's debts are written-off after further collection work is legally prevented by events such as bankruptcy discharge, compromise or statute of limitations prohibitions. After write-off, debts are reported to IRS in the 1099C program and all collection efforts cease. These accounts are still carried in SBA's electronic files for record keeping purposes, but the accounts are closed from a recovery standpoint.

Mrs. MALONEY. I would like to ask Mr. Keevey.

Mr. KEEVEY. I would say very little of it do we try to write off on the basis that we have another mechanism to get it back on the defaulted loans when we go through the sale of assets. The same thing exists in the GNMA situation where we have another insurer to go to to get the money back, that is from the VA or FHA.

For those that are remaining, which is a very small part of the Department, we normally wait 180 days and then start looking at a process to see whether there is an opportunity or a lost opportunity to get the money back.

[The information referred to follows:]

The Department does have a write-off policy with the following circumstances (and others) when a recommendation to write off debt can be made: Receivables are legally without merit; assets can not be substantiated by evidence; costs of asset recovery will exceed anticipated recovery amounts; and debtor cannot be located.

Mrs. MALONEY. And, Mr. Sopper, when do you write off?

Mr. SOPPER. Mrs. Maloney, we follow the Federal claims collection standards for write-off; and that is to say, we make write-off determinations when we are unable to locate the debtor or the debtor is unable to pay. In terms of the write-off, you can have either write-off due to waiver, in which case the debt is forgiven forever, or we write off because further collection activity would no longer be effective.

As I mentioned earlier to the chairman, even in those cases where we have written off the debt and suspended collection activity, we still make use of tax refund offset and ultimately, if possible, benefit offset.

Mrs. MALONEY. Earlier Mr. Gray made an important point when he said that the SBA has a policy purpose that goes beyond collection, that of a billion new jobs, saving jobs, helping foster the economic growth of the country. The board of education department has a policy purpose in investing in our young people and helping them gain an education.

Would you share with us your due diligence policy? How do you determine—in other words, oftentimes young people cannot repay the debt. I noticed in one of your reports, sometimes it is 10 years, even longer, before someone can repay a debt for legitimate rea-

sons. I wish you would share with us the balance that you use in helping to make these decisions that continue the policy of investing in education but also the sensitivity of a person's particular personal problems or situations.

Mr. LONGANECKER. To the extent that it is policy, we try to help people. The Student Loan Program Act of 1993 really helped us because it provided an avenue that we can provide to students now, even if they are at this point in their life not able to accept a substantial debt burden. That is the opportunity of income contingent repayment on their student loan program. Through that program, we are pretty sure that that education will pay off over that person's working life. So they may not be able to pay a substantial amount now but they can basically rehabilitate their debt, get out of default, get into repayment, be paying a fairly modest amount now. We know that over the life of those loans, most of them will repay everything they owe.

Mrs. MALONEY. I will reconsider and give you a B.

Mr. HORN. Or an incomplete, as the case may be.

I have appreciated all of you taking the time to do this. I assume you are all involved with either the chief financial officer's operation and others that have common problems, because I would hope that the success stories in the agencies, and each of you has some aspect of it that is a success story, would be shared with the other agencies, that we can get this not only from the top down in Treasury, where we have felt they are a little slow, but from the grass-roots coming up.

I think it is tremendously important for each agency to be in the lead here because responsibility is key in our society. If we let people get away with deadbeats, picking the other taxpayers' pockets, like 95 percent of the taxpayers get their pockets picked, you can solve the problem.

I think it is very important that what your experiences have been be shared with others. I assume you are doing that in some of the working groups that exist within the administration. Am I correct, or is nobody even paying attention to you? Well, we are. We thank you.

I am going to thank the staff for putting this hearing together, Russell George, chief counsel and staff director for the Subcommittee on Government Management, Information, and Technology; Mark Brasher, to my left, your right, senior policy director in charge of this area, and he happened to nurse our little loan improvement debt collection bill through the Congress; John Hynes, professional staff member; Andrea Miller, our clerk who, we regret to say, will be leaving us to go to Pennsylvania, and we appreciated her help that we have had over the last year or so; Matthew

Ebert, the new clerk and staff assistant; and then for the minority, Mark Stephenson, professional staff member; Mark Guiton; Jean Gosa, clerk for the minority, and the court reporters are Rebecca Eyster and Mindi Colchico.

Thank you all.

With that, the hearing is adjourned.

[Whereupon, at 1:04 p.m., the subcommittee was adjourned.]

○