WHAT IS THE FEDERAL GOVERNMENT DOING TO COLLECT THE BILLIONS OF DOLLARS IN DELINQUENT DEBTS IT IS OWED?

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

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WHAT IS THE FEDERAL GOVERNMENT DOING TO COLLECT THE BILLIONS OF DOLLARS IN DELINQUENT DEBTS IT IS OWED?

TUESDAY, JUNE 15, 1999

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

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Biggert, Walden, Ose, Turner and Owens.

Staff present: J. Russell George, staff director and chief counsel; Randy Kaplan, counsel; Matt Ryan, senior policy advisor; Matthew Ebert, policy advisor; Bonnie Heald, director of communications; Grant Newman, staff assistant; Paul Wicker, Justin Schleuter, and John A. Phillips, interns; Faith Weiss, minority counsel; and Earley Green, minority staff assistant.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order. Today we will examine the Federal Government's attempts to collect delinquent debts.

The amount of delinquent nontax-related debt owed to the Federal Government is staggering. At the end of fiscal year 1998, the government was owed $60 billion in bad debt. As the chart illustrates, that's chart 1, more than $46 billion of this amount had been delinquent for over 180 days.

Today's hearing is about financial responsibility. In many instances the Federal Government is the lender of last resort. However, this does not discharge a loan recipient's obligation to repay the debt to the taxpayers. The fact that there is a large amount of bad debt suggests that many Federal loan recipients are not taking this responsibility seriously. The fact that the majority of this debt is more than 180 days overdue suggests that too many agencies and departments in the executive branch of our government are not acting as quickly as they should to collect these debts.

The majority of this outstanding debt is unpaid student loans from programs administered by the Department of Education. The total value of the student loan portfolio is $153 billion, all invested for a good cause, but there's a commitment there to return what was loaned. Of this amount, $27 billion is in default, $18.2 billion of which is more than 180 days overdue.

There are a variety of other programs with large amounts of unpaid debts. The Department of Agriculture, for example, administers credit programs that have given rise to more than $6 billion in delinquent debts. The Department of Housing and Urban Development and the Small Business Administration are each owed more than $2 billion in overdue loans.

To combat this problem, the Debt Collection Improvement Act was signed into law in 1996. This law authorized a number of programs and created a variety of tools designed to improve the Federal Government's dismal record in collecting delinquent debts. The act centralized responsibility for debt collection in the Department of the Treasury. Under the act, Federal departments and agencies are required to refer debt that is more than 180 days delinquent to the Department of the Treasury for collection.

The Treasury Department's Financial Management Service operates two programs aimed at collecting this delinquent, nontax-related debt. Under the offset program, Federal payments are intercepted to satisfy delinquent debts owed to the government. For example, if an individual defaults on a loan from the Federal Government, portions of other Federal payments made to that individual, including salary and benefit payments, can be withheld to repay the debt.

As the next chart, chart 2, shows, as of September 30, 1998, $31.2 billion of bad debts were eligible for referral to the Treasury Department for collection. Of that amount, that $31.2 billion, of that, only $22.2 billion were actually referred for collection. This leaves $9 billion of eligible delinquent debt that is not being referred.

The Treasury Department also operates a program, called cross-servicing, in which the Department can collect delinquent debts directly by contacting the debtor and by referring the debts to private collection agencies.

As you can see from the next chart, chart 3, Federal departments have done a very poor job referring eligible debts to this Treasury program. Of the $8.1 billion in debts that were eligible for cross-servicing, only $2.4 billion were referred to that program. Delinquent loans totaling nearly $6 billion are not being referred for cross-servicing, as was mandated by the Debt Collection Improvement Act of 1996.

Two of today's witnesses represent departments that are the poorest performers in referring debts for cross-servicing. Chart 4, the Department of Housing and Urban Development has sent Treasury only $222 million of the $1 billion eligible for that collection program. Chart 5, the Department of Agriculture has sent Treasury a measly $5 million of the $1.3 billion eligible for that collection program. Today we will ask why the departments are not using these collection processes to reclaim the billions of dollars owed to the taxpayers.

Over the past two Congresses, this subcommittee has held a series of hearings focusing on debt collection and the implementation and compliance with the Debt Collection Improvement Act. At a June 5, 1998, subcommittee hearing, we learned that despite the tens of millions of dollars allocated to operate the debt collection program, total collections amounted to little more than $2 million,

which is disgraceful, frankly. At that hearing we also learned that the Treasury Department was struggling to implement a computer system that would increase the types of Federal payments that could be intercepted to satisfy delinquent debts. The Treasury Department ultimately scrapped a $5 million system that failed to meet expectations.

In January 1999, the Financial Management Service successfully merged its Treasury offset program with the tax refund offset program, which was previously administered by the Internal Revenue Service. By adding tax refunds to the types of Federal payments that can be intercepted, the Financial Management Service has been able to increase the amount of delinquent debt collected.

Chart 6, total collections to date, however, remain only a fraction of the total amount of overdue debt owed to the Federal Government. We must ensure that all eligible Federal payments, including salary and benefit payments, are incorporated into the offset system. Federal departments and agencies must also make every effort to see that eligible delinquent debt is referred to the Treasury Department in a timely manner.

We welcome witnesses from several Federal agencies to discuss debt collection and the implementation of the Debt Collection Improvement Act.

And before we lead to the witnesses, I would ask the gentleman from Texas, the ranking member, Mr. Turner, for his opening statement.

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

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INDEPENDENT

"What is the Federal Government Doing to Collect the Billions of Dollars in Delinquent Debts it is Owed?"

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)
Chairman, Subcommittee on Government Management,
Information, and Technology
June 15, 1999

A quorum being present, the hearing of the House Subcommittee on Government Management, Information, and Technology will come to order. Today, we will examine the Federal Government's attempts to collect delinquent debts.

The amount of delinquent non-tax-related debt owed to the Federal Government is staggering. At the end of fiscal year 1998, the Government was owed $60 billion in bad debts. More than $46 billion of this amount had been delinquent for over 180 days. Today's hearing is about financial responsibility. In many instances the Federal Government is the lender of last resort. However, this does not discharge a loan recipient's obligation to repay the debt. The fact that there is a large amount of bad debt suggests that many Federal loan recipients are not taking this responsibility seriously. The fact that the majority of this debt is more than 180 days overdue suggests that too many agencies and departments in the executive branch of our government are not acting as quickly as they should to collect these debts.

The majority of this outstanding debt is unpaid student loans from programs administered by the Department of Education. The total value of the student loan portfolio is $153 billion. Of this amount, $27 billion is in default – $18.2 billion of which is more than 180 days overdue.

There are a variety of other programs with large amounts of unpaid debts. The Department of Agriculture administers credit programs that have given rise to more than $6 billion in delinquent debts. The Department of Housing and Urban Development and the Small Business Administration are each owed more than $2 billion in overdue loans.

To combat this problem, the Debt Collection Improvement Act was signed into law in 1996. This law authorized a number of programs and created a variety of tools designed to improve the Federal Government's dismal record in collecting delinquent debts. The Act centralized responsibility for debt-collection in the Department of the Treasury. Under the Act, Federal departments and agencies are required to refer debt that is more than 180 days delinquent to the Department of the Treasury for collection.

The Treasury Department's Financial Management Service operates two programs aimed at collecting this delinquent non-tax-related debt. Under the offset program, Federal payments are intercepted to satisfy delinquent debts owed to the Government. For example, if an individual defaults on a loan from the Federal Government, portions of other Federal payments made to that individual – including salary and benefit payments – can be withheld to repay the debt.

As of September 30, 1998, $31.2 billion of bad debts were eligible for referral to the Treasury Department for collection. Of that amount, only $22.2 billion were actually referred for collection. This leaves $9 billion of eligible delinquent debt that is not being referred.

The Treasury Department also operates a program, called cross-servicing, in which the department can collect delinquent debts directly by contacting the debtor and by referring the debt to private collection agencies. Federal departments have done a very poor job referring eligible debts to this Treasury program. Of the $8.1 billion in debts that were eligible for cross-servicing, only $2.4 billion were referred to the program. Delinquent loans totaling nearly $6 billion were not being referred for cross-servicing, as was mandated by the Debt Collection Improvement Act.

Two of today's witnesses represent departments that are the poorest performers in referring debts for cross-servicing. The Department of Housing and Urban Development has sent Treasury only $222 million of the $1 billion eligible for that collection program. The Department of Agriculture has sent Treasury a measly $5 million of the $1.3 billion eligible for that collection program. Today we will ask why the departments are not using these collection processes to reclaim the billions of dollars owed to the Government.

Over the past two Congresses, this subcommittee has held a series of hearings focusing on debt collection and the implementation and compliance with the Debt Collection Improvement Act. At a June 5, 1998, subcommittee hearing, we learned that despite the tens of millions of dollars allocated to operate the debt collection program, total collections amounted to little more than $2 million. We also learned that the Treasury Department was struggling to implement a computer system that would increase the types of Federal payments that could be intercepted to satisfy delinquent debts. The Treasury Department ultimately scrapped a $5 million dollar system that failed to meet expectations.

In January 1999, the Financial Management Service successfully merged its Treasury offset program with the tax refund offset program, previously administered by the Internal Revenue Service. By adding tax refunds to the types of Federal payments that can be intercepted, the Financial Management Service has been able to increase the amount of delinquent debt collected. Total collections to date, however, remain only a fraction of the total amount of overdue debt owed to the Federal Government. We must ensure that all eligible Federal payments, including salary and benefit payments, are incorporated into the offset system. Federal departments and agencies must also make every effort to see that eligible delinquent debt is referred to the Treasury Department in a timely manner.

We welcome witnesses from several Federal agencies to discuss debt collection and the implementation of the Debt Collection Improvement Act.

Mr. TURNER. Thank you, Mr. Chairman.

First, I want to commend you for your leadership in the area of Federal debt collection. Your persistence in trying to recover for the taxpayer sums rightfully owed to the government and to the taxpayers of this country is commendable.

I want to also mention the hard work that Congresswoman Carolyn Maloney has put in on this issue since the time that she held the position that I now hold as ranking member of this subcommittee.

As a result of your collective efforts and the efforts of many people who are gathered here in this room today, the Federal Government is beginning to reap the benefits of a more centralized debt collection system. Within the last 2 years, the Federal Government centralized debt collection activities at the Financial Management Service have begun to work more efficiently. For example, the centralized Financial Management Service has grown—collections have grown from $1.7 million in fiscal year 1997 to $2.5 billion in fiscal year 1999 after the tax refund offset system merged with the Treasury administrative offset system.

Clearly, there have been significant improvement in our debt collection efforts. As we know, however, there are many challenges still facing us and many agencies still have debt that can be referred to the Financial Management Service for collection.

With that, I want to reserve the balance of my time, Mr. Chairman, so that Mrs. Maloney, when she arrives, will have the opportunity to make a statement on this issue.

Mr. HORN. Fine. We're delighted.

[The prepared statements of Hon. Jim Turner and Hon. Greg Walden follow:]

OPENING STATEMENT OF THE HONORABLE JIM TURNER
GMIT: OVERSIGHT OF FEDERAL DEBT COLLECTION ACTIVITIES
June 15, 1999 (version #4)

I would like to commend the Chairman for his leadership in the area of federal debt collection. Through his legislative and oversight activities, Chairman Horn has worked diligently to provide the federal government with more tools to better collect its debt. I should also mention the leadership and dedication of Carolyn Maloney, who has continued in her partnership efforts with Chairman Horn since she held the position of Ranking Member of this Subcommittee.

As a result of their efforts, and of the efforts of many people in this room today, the federal government is beginning to reap the benefits of a more centralized debt collection system. Within the last two years, the federal government's centralized debt collection activities at the Financial Management Service ("FMS") have begun to work more efficiently. For example, collections have grown from $1.7 **million** in fiscal year 1997 to $2.5 **billion** in fiscal year 1999 after the tax refund offset system merged with the Treasury administrative offset system. Clearly, there has been improvement in the government's collection efforts.

However, as we will hear, many challenges remain in this area, and many agencies still have debt that can be referred to FMS for collection activities. With that, I will turn the remainder of my time over to Congresswoman Maloney so that she may further elaborate on this issue.

Mr. Walden's Statement
Subcommittee on Government Management,
Information and Technology
June 15, 1999

Mr. Chairman, thank you for your ongoing leadership in federal debt collection issues. I think I can speak for all American taxpayers in voicing my appreciation for your pursuit of responsible, effective debt collection policies.

I would like to speak for a moment about the importance of ensuring that federal agencies create incentives for debt collection contractors to obtain voluntary payments from the debtor before instituting involuntary collection actions such as wage garnishment or litigation against that debtor. I say this because I have learned that, under the Department of Education contract for example, a contractor has a greater incentive to collect a debt through involuntary administrative wage garnishment procedures rather than through voluntary payments from the debtor. This is because the methodology used by the Department of Education to evaluate the performance of its contractors, allocate accounts among contractors, and pay bonuses is weighted in favor of wage garnishment and de-emphasizes voluntary collections. The preparation of cases for litigation is also given substantial weight. As the gentleman from California and I have discussed, I would like to see the Department of Education alter its approach to give voluntary collections greater emphasis over coercive methods. In my view, the performance of a debt collection contractor in achieving netback collections for the government should receive at least 75 percent, if not more, of the weighting in the evaluation methodology and the preparation of cases for litigation or wage garnishment should receive no more than 20 percent

combined. These reforms would help the federal government do a better job of collecting its debts in an efficient, fair, and voluntary manner. I look forward to working with the Chairman, the Administration, and Members of the Minority to continue to address these issues and make federal debt collection more voluntary and more effective. Thank you, Mr. Chairman.

Mr. HORN. Let us begin then with the first panel of witnesses. We have on panel one, Donald Hammond, the Fiscal Assistant Secretary, U.S. Department of the Treasury; and Richard Gregg, the Commissioner of Financial Management Services of the U.S. Department of the Treasury.

The routine here, for those that are not familiar with it, including the future witnesses sitting in the audience, are that we swear in all witnesses as they assume their chairs. Their full statement is automatically put into the record when we call on them, and we will then prefer that they will sort of look us in the eye and summarize their statement, and then we can have more opportunities for dialog on both sides of the aisle here in asking questions.

So, Mr. Hammond, Mr. Gregg, if you will stand, raise your right hands.

[Witnesses sworn.]

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

We will start with Donald Hammond, the Fiscal Assistant Secretary of the Treasury.

STATEMENTS OF DONALD HAMMOND, FISCAL ASSISTANT SECRETARY, U.S. DEPARTMENT OF THE TREASURY; AND RICHARD GREGG, COMMISSIONER OF FINANCIAL MANAGEMENT SERVICES, U.S. DEPARTMENT OF THE TREASURY

Mr. HAMMOND. Thank you, Mr. Chairman.

Mr. Chairman and Ranking Member Turner, thank you for the opportunity to discuss the Department of the Treasury's progress in implementing the Debt Collection Improvement Act of 1996.

Chairman Horn, your continued support and strong interest in our efforts to carry out this important program has been of great value to us, and I would like to reiterate our firm commitment to the successful implementation of the DCIA, along with its continued support from the highest levels within the Treasury Department.

Today I will discuss some of the program's more significant recent accomplishments and a few challenges that lie ahead. To collect the debts referred by the program agencies, Treasury's Financial Management Service applies a variety of debt collection tools, including administrative offset, tax refund offset, cross-servicing, private collection agencies, credit bureau reporting, and referrals to the Department of Justice.

Collectively, administrative offset and tax refund offset comprise the offset program. Offset is a program whereby Federal payments are reduced or "offset" to satisfy a payment recipient's overdue Federal debt.

Cross-servicing is a program consisting of a variety of collection tools which include Treasury demand letters, telephone calls to debtors and the use of 1 or more of the 12 private collection agencies on governmentwide contract.

In close consultation with Federal agencies over the last several months, FMS has updated its evaluation of the Federal Government's debt portfolio eligible for referral to Treasury for offset and cross-servicing. This analysis is a followup to the Price Waterhouse

study completed last year which revealed that over 47 percent of the government's delinquent debt was more than 4 years old.

Based on industry standards and private sector benchmarking, Price Waterhouse determined that once the debt collection program is fully implemented, FMS could expect to collect between $864 million and $1 billion annually.

Although much work remains to complete the full implementation of the program, FMS has made significant progress in increasing collections above the highest Price Waterhouse estimates, in large measure due to the increased collections that we've experienced from the tax refund offset program.

This year's analysis revealed that as of the end of fiscal year 1998, $60 billion in nontax delinquent debt was held by the respective agencies and owed to the Federal Government, compared to $51.9 billion for fiscal year 1997; and $46.4 billion of that total is more than 180 days delinquent, compared to the comparable figure of $47.2 billion for fiscal year 1997. As a result of exemptions and other requirements of the DCIA, of the $46.4 billion of debt that is more than 180 days delinquent, $31.2 billion is eligible for referral to Treasury for offset, and $8.1 billion is eligible for referral to Treasury for cross-servicing. To date, $22.5 billion, or 72 percent, has been referred for offset and $2.3 billion, or 28 percent, has been referred for cross-servicing.

During the past year, one of the most important accomplishments was the merger of the tax refund offset program with the Treasury offset program. The merger, which was implemented in January 1999, streamlined and improved overall operations.

As a result of the tremendous teamwork between FMS, IRS, and the Federal Reserve system, the new system is showing dramatic results. Calendar year tax refund offset collections as of May 26, 1999, totaled more than $2.4 billion, an increase of $643 million over last year's figures. The increase reflects collections of nontax Federal debt over—increased over $414 million, and an increase in child support collections of an additional $230 million over where we were last year.

Treasury also plays an important role in collecting delinquent child support obligations owed to or being enforced by States and territories. Delinquent child support obligations currently are matched against tax refund payments and at the State's option against vendor payments and OPM retirement payments.

As of the end of May, more than $1.2 billion in tax refund offsets have been collected for child support this calendar year, exceeding total collections for all of 1998. Our challenge over the next year is to increase the number of States that fully participate in the administrative offset program.

We have also made tremendous headway in putting in place the regulatory framework necessary to facilitate implementation of the DCIA. This past year, FMS has published 10 regulations, including all regulations necessary to fully implement the offset program.

Finally, I would like to briefly mention the great strides made to strengthen the relationships with the various Federal agencies. This has been a significant point of emphasis at FMS. As of April 30, 1999, agencies have referred approximately 63 percent of the debt that is eligible for offset in cross-servicing. To increase refer-

rals and further strengthen agency compliance, FMS has implemented an outreach effort designed to assist more than 50 agencies in analyzing their debt eligible for transfer for offset and/or cross-servicing.

This past year, we focused our attention on the successful merger of the Treasury offset program with the tax refund offset program and making the needed improvements to the tax refund offset process due to the importance of this program for overall collections. With this effort complete, we are now channeling our efforts to the expansion of the administrative offset program, to include State income tax debt, Federal tax levy and additional payment streams.

Although we clearly have much left to do, we have made significant, measurable progress in fulfilling our responsibilities under the DCIA, including a comprehensive regulatory framework, a common tax refund offset and Treasury offset system, increased child support referrals and collections and successful establishment of the cross-servicing program, including implementation of the private collection agencies.

In light of future system enhancements, new program developments and agency outreach efforts, which Commissioner Gregg will discuss in greater detail in his testimony, we fully expect this upward trend in collections and referrals to continue leading to a vibrant debt collection program at FMS which will serve all Federal agencies.

[The prepared statement of Mr. Hammond follows:]

Department of the Treasury

Oral Statement of Donald V. Hammond
Fiscal Assistant Secretary

Before the
Subcommittee on Government Management, Information and Technology
of the
House Committee on Government Reform

June 15, 1999

Mr. Chairman, Ranking Member Turner and Members of the Subcommittee, thank you for the opportunity to discuss the Department of the Treasury's progress in implementing the Debt Collection Improvement Act of 1996 (DCIA). I ask that the subcommittee include the submitted text of my written statement in the record.

Chairman Horn, your continued support and strong interest in our efforts to carry out this important program has been of great value to us, and I would like to reiterate our firm commitment to the successful implementation of the DCIA along with its continued support from the highest levels within Treasury.

Today, I will discuss some of the program's more significant recent accomplishments, and a few challenges that lie ahead. To collect the debts referred by the program agencies, Treasury's Financial Management Service (FMS) applies a variety of debt collection tools, including administrative offset, tax refund offset, cross-servicing, private collection agencies, credit bureau reporting and referrals to the Department of Justice. Collectively, administrative offset and tax refund offset comprise the Offset program. Offset is a program

whereby Federal payments are reduced or "offset" to satisfy a payment recipient's overdue Federal debt.

Cross-servicing is a program consisting of a variety of collection tools which include Treasury demand letters, telephone calls to debtors, and the use of one or more of the 12 Private Collection Agencies (PCAs) on the Government-wide contract.

In close consultation with Federal agencies over the last several months, FMS has updated its evaluation of the Federal government's debt portfolio eligible for referral to Treasury for offset and cross-servicing. This analysis is a follow-up to the Price Waterhouse study completed last year which revealed that over 47% of the Government's delinquent debt was more than four years old. Based on industry standards and private sector benchmarking, Price Waterhouse determined that once the debt collection program is fully implemented, FMS could expect to collect between $864 million and $1 billion annually. Although much work remains to complete the full implementation of the program, FMS has made significant progress in increasing collections above the highest Price Waterhouse estimates in large measure due to the increased collections from the Tax Refund Offset program.

This year's analysis revealed that as of the end of FY 98, $60 billion in non-tax delinquent debt was held by the respective agencies and owed to the Federal government, compared to $51.9 billion in FY 97; and $46.4 billion of the total is more than 180 days delinquent, compared to $47.2 billion in FY 97. As a result of exemptions and other requirements of the DCIA, of the $46.4 billion in debt that is more than 180 days delinquent, $31.2 billion is eligible for referral to Treasury for offset, and $8.1 billion is

eligible for referral to Treasury for cross-servicing. To date, $22.5 billion, or 72%, has been referred for offset and $2.3 billion, or 28%, has been referred for cross-servicing.

During the past year, one of the most important accomplishments was the merger of the Tax Refund Offset program with the Treasury Offset Program. The merger, which was implemented in January 1999, streamlined and improved operations. As a result of the tremendous teamwork between FMS, IRS and the Federal Reserve System, the new system is showing dramatic results. Calendar year Tax Refund Offset collections, as of May 26, 1999, totaled more than $2.4 billion, an increase of $643 million over last year's figures. The increase reflects collections of non-tax Federal debt up over $414 million in just the past year and child support up an additional $230 million.

Treasury also plays an important role in collecting delinquent child support obligations owed to, or being enforced by, States and territories. Delinquent child support obligations currently are matched against tax refund payments and, at the State's option, against vendor payments and OPM retirement payments. As of the end of May, more than $1.2 billion in tax refund offsets have been collected this calendar year which exceeds total collections for all of 1998. Our challenge over the next year is to increase the number of States that fully participate in the administrative offset component.

We have also made tremendous headway in putting in place the regulatory framework necessary to facilitate implementation of the DCIA. FMS has published 10 regulations since the last hearing, including all regulations necessary to fully implement the offset program.

Finally, I would like to briefly mention the great strides made to strengthen the relationships with the various Federal agencies. This has been a significant point of emphasis at FMS. As of April 30, 1999, agencies have referred approximately 63% of the debt that is eligible for offset and cross-servicing. To increase referrals and further strengthen agency compliance, FMS has implemented an outreach effort designed to assist more than 50 agencies in analyzing their debt eligible for transfer to FMS for offset and/or cross-servicing.

This past year we focused our attention on the successful merger of the Treasury Offset Program with the Tax Refund Offset program and making needed improvements to the Tax Refund Offset process due to the importance of this program for overall collections. With these complete, we are now channeling our efforts to the expansion of the administrative offset program, to include state income tax debt, federal tax levy, and additional payment streams.

Although we clearly have much left to do, we have made significant, measurable progress in fulfilling our responsibilities under the DCIA; including a comprehensive regulatory framework, a common Tax Refund Offset and Treasury Offset system, increased child support referrals and collections, and successful establishment of the cross-servicing program, including private collection agencies. In light of future system enhancements, new program developments, and agency outreach efforts, which Commissioner Gregg will discuss in greater detail in his testimony, we fully expect this upward trend in collections and referrals to continue leading to a vibrant debt collection program at FMS which will serve all Federal agencies.

EMBARGOED UNTIL 10 A.M. EDT
Text as Prepared for Delivery
June 15, 1999

Treasury Fiscal Assistant Secretary Donald V. Hammond
Subcommittee on Government Management, Information and Technology
of the
House Committee on Government Reform

Introduction

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to discuss the Department of the Treasury's progress in implementing the Debt Collection Improvement Act of 1996 (DCIA). Chairman Horn, your continued support and strong interest in our efforts to carry out this important program has been of great value to us, and we would like to reiterate our firm commitment to the successful implementation of the DCIA. Continued support from the highest levels within Treasury are further evidence of this commitment.

In my testimony today, I will discuss some of the program's more significant accomplishments since the last hearing, and a few challenges that lie ahead. As background, the DCIA provides that any non-tax debt or claim owed to the United States that is 180 days delinquent, with certain exceptions, will be referred by the program agency to the Department of the Treasury for collection. To collect these debts, Treasury's Financial Management Service (FMS) applies a variety of debt collection tools, including administrative offset, tax refund offset, cross-servicing, private collection agencies, credit bureau reporting and referrals to the Department of Justice.

Administrative offset and tax refund offset are collectively referred to as the Offset program. Offset is a program whereby Federal payments are reduced or "offset" to satisfy a payment recipient's overdue Federal debt. A payee's name is matched against a Treasury database of delinquent debtors for automatic offset of funds. Offset funds are then used to satisfy payment of the delinquent debt to the extent allowed by law. Current payment types subject to

RR-3201

offset include Office of Personnel Management (OPM) retirement, Internal Revenue Service (IRS) tax refunds, vendor payments, and some Federal salary payments.

Cross-servicing is a program consisting of a variety of collection tools that are applied once agencies refer their debt to Treasury. These tools include Treasury demand letters, telephone calls to debtors, and the use of one or more of the 12 Private Collection Agencies (PCAs) on the Government-wide contract which function concurrently with the Offset program.

Government Debt Portfolio

In close consultation with Federal agencies over the last several months, FMS has updated its evaluation of the Federal government's debt portfolio eligible for referral to Treasury for offset and cross-servicing, as well as the amount of referred debt that is collectible by Treasury. This analysis is a follow-up to the Price Waterhouse study completed last year assessing the Federal Government's delinquent debt portfolio. That study revealed that over 47% of the Government's delinquent debt was more than four years old, placing it in a category of debt that is the most difficult to collect. Based on industry standards and private sector benchmarking, Price Waterhouse determined that once all payment streams are incorporated into the Offset Program and all eligible debts have been referred, FMS could expect to collect between $864 million and $1 billion annually. Although much work remains to complete the full implementation of the administrative offset program, FMS has made significant progress in increasing collections above the highest Price Waterhouse estimates. As I will discuss more fully, this is due in large measure to the increased collections from the Tax Refund Offset program.

This year's analysis revealed that as of the end of FY 98, $60 billion in non-tax delinquent debt was held by the respective agencies and owed to the Federal government, compared to $51.9 billion in FY 97; and $46.4 billion of the total is more than 180 days delinquent, compared to $47.2 billion in FY 97. While the DCIA requires Federal agencies to refer debts more than 180 days delinquent to Treasury for offset and cross-servicing, certain debts are not eligible for referral to Treasury for either offset or cross-servicing because of various exemptions under the DCIA or otherwise required by law. As a result of these exemptions and requirements, of the $46.4 billion in debt that is more than 180 days delinquent, $31.2 billion is eligible for referral to Treasury for offset, and $8.1 of the $31.2 billion is eligible for referral to Treasury for cross-servicing. To date, $22.5 billion, or 72%, of the amount eligible for referral for offset, has been referred, leaving a balance of $8.7 billion. Of the $8.1 billion eligible for referral for cross-servicing, $2.3 billion, or 28%, has been referred, leaving a balance of $5.8 billion.

MERGER OF THE TAX REFUND OFFSET AND TREASURY OFFSET PROGRAMS

During the past year, we have made significant progress in a number of areas. One of the most important, as well as the most challenging and successful, was the merger of the Tax Refund Offset program with the Treasury Offset Program. The merger, which was implemented in January 1999, streamlined and improved operations by providing a single point of contact for agencies to simultaneously refer debts for both tax refund offset and other administrative offset programs. As a result of the tremendous teamwork between FMS, IRS and the Federal Reserve System, the new system is showing dramatic results. Calendar year Tax Refund Offset collections, as of May 26, 1999, totaled more than $2.4 billion, which is an increase of $643 million over last year's figures for the same time period. In fact, we are well ahead of the $2.028 billion in total collections reported for the entire 1998 calendar year. The increase reflects collections of non-tax Federal debt up over $414 million in just the past year and child support up an additional $230 million. This dramatic increase can be attributed to several factors: system enhancements such as matching on both social security numbers on joint tax returns; system flexibility that allows creditor agencies to add or update debt records on a continuous basis; increased debt referrals; and, an increase in the average amount and number of tax refunds.

CHILD SUPPORT

Treasury also plays an important role in collecting delinquent child support obligations owed to, or being enforced by, States and territories. Delinquent child support obligations currently are matched against tax refund payments and, at the State's option, against vendor payments and OPM retirement payments. As of the end of May, more than $1.2 billion in tax refund offsets have been collected this calendar year which exceeds collections during this same period in 1998 by more than $230 million and exceeds total collections for all of 1998. In order to further improve the collection of delinquent child support obligations, Treasury participates in an inter-agency task force on child support collection and meets frequently with officials from the Office of Child Support Enforcement, Department of Health and Human Services. Our challenge over the next year is to increase the number of States that fully participate in the administrative offset component.

REGULATIONS

We have made tremendous headway in putting in place the regulatory framework necessary to facilitate implementation of the DCIA. FMS has published 10 regulations since the last hearing, including all regulations necessary to fully implement the offset program. Included in these regulations are a final regulation for implementation of administrative wage garnishment, a final regulation outlining the requirements for transfer of debts to Treasury for collection, and a final regulation barring delinquent debtors from obtaining Federal loans, loan insurance or guarantees.

OUTREACH EFFORTS

Finally, I would like to briefly mention the great strides made to strengthen the relationships with the various Federal agencies. This has been a significant point of emphasis at FMS. As of April 30, 1999, agencies have referred approximately 63% of the debt that is eligible for offset and cross-servicing. Our challenge over the next year is to improve this number by increasing referrals and strengthening agency compliance. To accomplish this, FMS has implemented an outreach effort designed to assist more than 50 agencies in analyzing their debt eligible for transfer to FMS for offset and/or cross-servicing. In addition, the President's Council on Integrity and Efficiency is working with the Offices of Inspector General of several CFO agencies to review their progress in implementing the provisions of the DCIA. The reviews are focussed on assessing compliance with debt referral requirements, accuracy of portfolio management and reporting, and agency measures for minimizing accrual of new delinquent debt.

CLOSING

Full implementation of the DCIA is a complex undertaking requiring coordination with numerous Federal and State agencies, development of new systems, and their integration with existing debt and payment systems. The Price Waterhouse report emphasized the potential for significant collections through comparing each debt mechanism: 1) Tax Refund Offset; 2) Cross-servicing; and 3) Administrative offset. Based on an analysis of this data, it was shown that the Tax Refund Offset process had the greatest potential to increase collections. In addition, Congressional guidance emphasized that efficiencies could be gained through a merged offset program. We therefore focused our attention on 1) The successful merger of the Treasury Offset Program with the Tax Refund Offset program; 2) Making needed improvements to the Tax Refund Offset process; and 3) Establishing the cross-servicing program and the Private Collection Agency Contract. With the Tax Refund Offset merger now complete and the PCA Contract in place, we are channeling our efforts to the expansion of the administrative offset program, to include state income tax debt, federal tax levy, and additional payment streams.

Although we clearly have much left to do, we have made significant, measurable progress in fulfilling our responsibilities under the DCIA. The regulatory framework to implement DCIA is in place, Tax Refund Offset and Treasury Offset collections have increased dramatically and operate under a common system, child support referrals and collections have significantly risen, and cross-servicing program enhancements, including PCA collections, have yielded steadily increasing results. In light of future system enhancements, new program developments, and agency outreach efforts, which Commissioner Gregg will discuss in greater detail in his testimony, we fully expect this upward trend in collections and referrals to continue leading to a vibrant debt collection program at FMS which will serve all Federal agencies.

Mr. HORN. Mr. Gregg.

Mr. GREGG. Mr. Chairman and distinguished members of the subcommittee, good morning. I am pleased to report the progress made by the Financial Management Service in implementing the Debt Collection Improvement Act of 1996.

First, I would like to thank the chairman and Ranking Member Turner for your continued support and encouragement; and I welcome this opportunity to provide an update on our progress in implementing the DCIA.

Our most significant accomplishment and certainly our most challenging task was the successful merger of the tax refund offset and the Treasury offset programs.

Mr. Chairman, in April 1996, in your remarks on the House floor in support of the DCIA, you described the intent of Congress that "FMS should perform both the tax refund offset and the administrative offset programs and that by merging these two programs the Department of Treasury would streamline and improve its operations." Based on this guidance and the anticipated benefits of the merger, this undertaking was given top priority by Treasury.

Originally, FMS and IRS planned to merge the two programs in January 1998 in time for the 1998 tax filing season. Instead of a full merger in 1998, IRS and FMS jointly developed a 1-year transition plan with a revised merger date of January 1999.

Following an incredible display of teamwork among IRS, the Federal Reserve, and FMS, and much hard work, the merger was successfully completed and the first offsets began on January 18, 1999.

Although that was only 5 months ago, the fruits of our labor are already evident. Total tax refund offset collections for calendar year 1999 through May 26th of this year are almost $2.5 billion already $643 million more than the amount collected in the same period in 1998 and already far exceeding the $2.028 billion collected for all of 1998.

Tax refund offsets have two components, Federal nontax and child support collections. As of May 26th, child support collections from tax refund offsets totaled more than $1.2 billion, an increase of more than $230 million over the same period in 1998; and Federal nontax collections also totaled over $1.2 billion, an increase of more than $414 million over the same period in the previous year.

Notable progress has been made in the area of cross-servicing. As of April 30, 1999, cross-servicing collections, fiscal year to date, totaled $11.6 million, an increase of $8.3 million over the same period last year. When debts are referred for cross-servicing, FMS sends a demand letter on Treasury letterhead, followed by a phone call to the debtor. Since its inception, FMS has brought in $13.3 million in collections and $55.6 million in repayment agreements.

If these collection efforts are unsuccessful, then at 30 days the debt is referred to 1 of the 12 private collection agencies [PCAs]. To insure that an appropriate balance is maintained between the aggressive pursuant of collections and the fair and equitable treatment of debtors, FMS monitors each PCA. Although the PCA contract has only been in place for a little more than a year, there have been no substantiated debtor complaints and collections have been steadily increasing.

In February 1999, PCA collections exceeded $1 million in 1 month for the first time. Collections for March and April 1999, increased to $1.3 million and $1.7 million respectively. As of April 30, 1999, PCAs were responsible for $6.9 million of the $11.6 million collected through cross-servicing so far in fiscal 1999. In addition, repayment agreements totaling more than $23 million have been established through the collection efforts of the PCAs.

Now, I would like to discuss some of the enhancements that FMS is making to strengthen the use of current collection tools and increase future collections.

Administrative offset is one of the areas where FMS has placed considerable emphasis. We have successfully expanded the TOP system to be able to handle the increased volume of debts and payments as the administrative offset program continues to grow.

Significant groundwork has been laid in 1999 to increase the number of payments and the debt types that are included in the offset program. In 2000, FMS will implement SSA benefit offset and expanded Federal salary offset. Implementation of these initiatives will significantly increase the volume of payments eligible for offset.

FMS also remains firmly committed to increasing debt referrals to TOP and continues to work with the Federal creditor agencies to assist them in fully complying with the DCIA.

FMS is also working in conjunction with State governments to make the tax refund offset program available to the States to collect delinquent State income tax debt as required by the Internal Revenue Service Restructuring and Reform Act of 1998. Changes will be made to the Treasury offset program so that the State income tax debt program will be available in January 2000.

In addition, FMS is working with the IRS to implement the continuous tax levy program. This was authorized by the Taxpayer Relief Act of 1997. Under this authority, delinquent tax debts are matched against eligible Federal payments and the levy of 15 percent is assessed until the debt is collected. Initially, IRS will refer approximately 5 million delinquent tax debts to FMS for collection. Tax levy is targeted for implementation in the summer of 2000.

In order to improve the government's debt portfolio and encourage Federal agencies to refer their debt to Treasury, FMS is working with creditor agencies to help them analyze their debt and better manage their debt portfolios. As part of this effort, we are identifying and resolving any barriers to refer eligible debts to Treasury, establishing agency referral schedules, developing a compliance plan and tracking mechanism, and working with the agencies to assess the value and collectability of delinquent nontax debt.

As evidenced by the numbers, FMS has come a long way since the enactment of the DCIA. While much remains to be done, we are pleased with what has been accomplished so far.

Mr. Chairman and Ranking Member Turner, this concludes my remarks. I would be happy to answer any questions that you may have. Thank you.

Mr. HORN. Well, thank you very much, Commissioner.

[The prepared statement of Mr. Gregg follows:]

Department of the Treasury

Statement of Richard L. Gregg
Commissioner, Financial Management Service
Before the
Subcommittee on Government Management, Information and Technology
of the
House Committee on Government Reform

June 15, 1999

INTRODUCTION

Mr. Chairman and distinguished members of the Subcommittee: Good morning. I am pleased to report the progress made by Financial Management Service (FMS) in implementing the debt collection provisions of the Debt Collection Improvement Act of 1996 (DCIA).

First, I would like to thank you, Mr. Chairman, Ranking Member Turner, and the other members of this Subcommittee for your continued support and encouragement. I welcome this opportunity to provide an update on our progress in implementing the DCIA. Treasury and FMS have made significant progress in implementing the DCIA since the last hearing on June 5, 1998. Although Assistant Secretary Hammond touched on some of these accomplishments in his testimony, I would like to review them in greater detail, describe future program enhancements and finally, recap some of the challenges we face.

During last year's testimony, we expressed a need to reassess our approach, establish priorities, and focus our attention on first implementing those programs that would provide the greatest possible return on investment. These strategy changes have enabled us to move the debt collection program forward, resulting in increased collections.

MERGER OF THE TAX REFUND OFFSET AND TREASURY OFFSET PROGRAMS

Our most significant accomplishment, and our most challenging task, was the successful merger of the Tax Refund Offset and Treasury Offset Programs. Mr. Chairman, in April of 1996, in remarks on the House floor in support of the DCIA, you described the intent of Congress that "FMS should perform both the Tax Refund Offset and the administrative offset

programs [and that] by merging these two programs, the Department of the Treasury [would] streamline and improve its operations." Based on this guidance and the anticipated benefits of the merger, this undertaking was given top priority status by Treasury.

Originally, FMS and IRS planned to merge the two programs in January 1998, in time for the 1998 tax-filing season. Instead of a full merger in 1998, IRS and FMS jointly developed a one-year transition plan with a revised merger date of January 1999. Following an incredible display of teamwork among IRS, the Federal Reserve System and FMS, and much hard work, the merger was successfully completed and the first offsets began on January 18, 1999. Although that was only five months ago, the fruits of our labors are already evident. Total Tax Refund Offset collections for calendar year 1999, through May 26th of this year, are almost $2.5 billion -- already $643 million more than the amount collected during the same time period in 1998 and already exceeding the $2.028 billion collected for all of 1998. ***(Chart 1)*** Tax Refund Offsets have two components, Federal non-tax and child support collections. As of May 26, 1999, child support collections from Tax Refund Offsets totaled more than $1.2 billion, an increase of more than $230 million over the same period in 1998. Federal non-tax collections totaled over $1.2 billion, an increase of more than $414 million over the same period in the previous year. This dramatic increase can be attributed to a number of factors, including:

1) System enhancements we made that allow offset matching on both social security numbers on joint tax returns; 2) An increase in debt referrals of $10 billion for child support and Federal non-tax debt, from $58.8 billion in 1998 to $68.3 billion in 1999; 3) System flexibility that allows creditor agencies to add and update debt records on a continuous basis; and 4) An

increase in the average amount and number of tax refund payments.

CROSS-SERVICING/PRIVATE COLLECTION AGENCIES

Notable progress has also been made in the area of Cross-Servicing, which represents a variety of tools used to collect delinquent debt referred by Federal agencies. As of April 30, 1999, cross-servicing collections, fiscal year to date, totaled $11.6 million, an increase of $8.3 million for the same period last year. When debts are referred for cross-servicing, FMS sends a demand letter on Treasury letterhead, followed by a phone call to the debtor. Since its inception, FMS has brought in $13.3 million in collections and $55.6 million in repayment agreements.

If these collection efforts are unsuccessful, then, at 30 days, the debt is referred to one of twelve Private Collection Agencies (PCAs). PCAs use a variety of effective tools in collecting debt that has been referred to them. The PCAs have extensive ability to locate delinquent debtors and utilize collection strategies tailored to agency-specific requirements. To ensure that an appropriate balance is maintained between the aggressive pursuit of collections and the fair and equitable treatment of debtors, FMS monitors each PCA. In addition, FMS conducts on-site reviews to ensure PCA compliance with all applicable State and Federal laws, physical and personnel security guidelines, directives pertaining to resolution of complaints and collection strategies, and system requirements. Although the PCA contract has only been in place for a little more than one year, there have been no substantiated debtor complaints and collections have been steadily increasing. In February 1999, PCA collections exceeded $1 million in one month for the first time. Collections for March and April 1999 increased to $1.3

million and $1.7 million respectively. As of April 30, 1999, PCAs were responsible for $6.9 million of the $11.6 million collected through cross-servicing in FY 1999. In addition, repayment agreements totaling more than $23 million have been established through the collection efforts of the PCAs; when combined with the efforts of the Birmingham Debt Management Operations Center, this brings the total to $78 million. ***(Chart 2)***

FUTURE ENHANCEMENTS/NEW COLLECTION TOOLS

Now, I would like to take a few minutes to discuss several of the enhancements that FMS is making to strengthen the use of current collection tools and increase future collections. Administrative Offset is one of the areas where FMS has placed considerable emphasis. We have successfully expanded the TOP system to be able to handle the increased volume of debts and payments as the administrative offset program continues to grow. Significant groundwork has been laid in 1999 to increase the number of payment and debt types that are included in the offset program. In 2000, FMS will implement cycled SSA benefit offset, and expanded Federal salary offset. Implementation of these initiatives will significantly increase the volume of payments eligible for offset. FMS also remains firmly committed to increased debt referrals to TOP, and continues to work with Federal creditor agencies to assist them in fully complying with the DCIA.

FMS has also been working in conjunction with State Governments to make the Tax Refund Offset program available to the States to collect delinquent State income tax debt as required by the Internal Revenue Service Restructuring and Reform Act of 1998. Changes will be made to the Treasury Offset Program so that the State income tax debt program will be available in

January 2000. In addition, FMS is working with the IRS to implement the continuous Tax Levy program. The continuous Tax Levy program was authorized by the Taxpayer Relief Act of 1997. Under this authority, delinquent tax debts are matched against eligible Federal payments and a levy of 15% is assessed until the debt is satisfied. This will allow IRS to capitalize on the automated Treasury Offset Program to levy Federal payments for collection of delinquent tax debt. Initially, IRS will refer approximately 5 million delinquent tax debts to FMS for collection. Tax Levy is targeted for implementation in the summer of 2000.

In summary, during the next year, considerable effort will be devoted to increase the types of payments that can be offset. In addition, FMS will dramatically expand the amount and categories of debt in our debt collection program. These enhancements to centralized debt collection will require major changes to FMS' automated systems and extensive work by numerous Federal agencies and those States participating in the State income tax offset program. While this work will press forward, it should also be recognized that we will be unable to implement major systems enhancements between October 1, 1999, and March 31, 2000, to minimize Y2K risks.

AGENCY REFERRALS

In order to improve the Government's debt portfolio and encourage Federal agencies to refer their debt to Treasury, FMS is working with creditor agencies to help them analyze their debt and better manage their debt portfolios. As part of this effort, we are identifying and resolving any barriers to referral of eligible debts to Treasury, establishing agency referral

schedules, developing a compliance plan and tracking mechanism, and working with agencies to assess the value and collectability of delinquent non-tax debt.

To further assist agencies, FMS has revised the Treasury Report on Receivables, which includes quarterly receivables reports from Federal agencies and is used to manage the Federal receivables portfolio. These revisions were made not only to satisfy the requirements of the DCIA, but also to provide a more accurate report of the government's debt portfolio. The revised report identifies debts eligible for referral to FMS and tracks collection efforts by agencies. The enhanced Report on Receivables was implemented in April of 1999 with an Internet-based application providing on-line access and real time information for Treasury and creditor agencies.

CONCLUSION

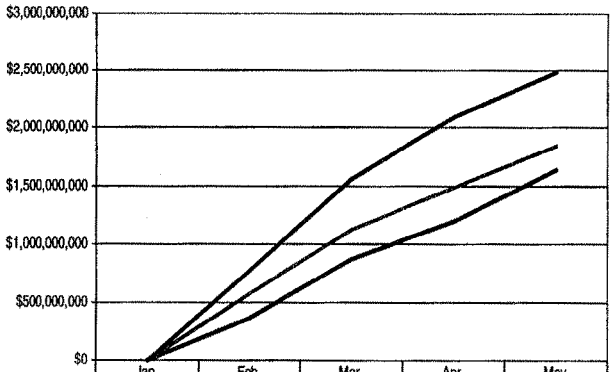
As evidenced by the numbers, FMS has come a long way since enactment of the DCIA. While much remains to be done, we are pleased with what we have accomplished so far. Collections have increased tremendously since the Tax Refund Offset merger, PCA collections have more than doubled, and referrals are on a steady rise as we continue to make great progress in the area of agency outreach. We also have a deliberate and extensive plan for expanding the debt collection program over the next year. Fueled by system enhancements, new program developments, the inclusion of additional payment streams and debt types, and a continued focus on maintaining strong, reciprocal relationships with the various Federal agencies, we are confident that the upward trend in collections and referrals will continue.

Mr. Chairman, Ranking Member Turner, and other distinguished members of the

subcommittee, thank you again for your continued interest in the success of this extremely important program. At this time, I would be pleased to address any questions that you or the other members of the Subcommittee may have.

Treasury Tax Refund Offset (TRO) Collections
By Calendar Year

Through Cycle 21 - May 26, 1999

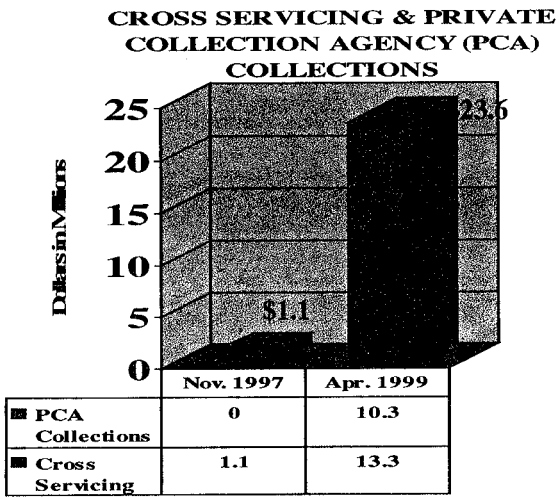


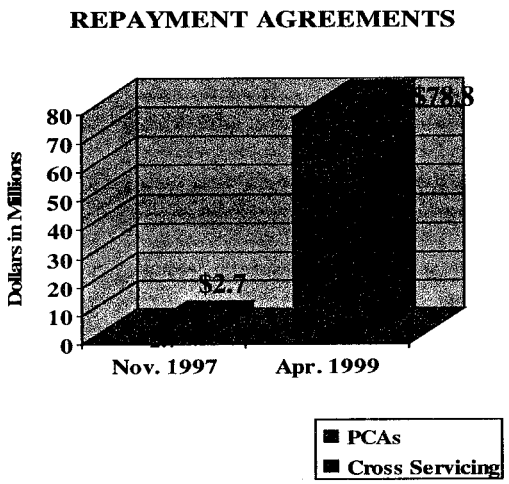
	Jan.	Feb.	Mar.	Apr.	May
1997	$0	$362,645,233	$868,329,895	$1,196,014,980	$1,628,745,486
1998	$0	$568,071,527	$1,117,196,635	$1,480,638,775	$1,834,187,968
1999	$0	$764,795,117	$1,555,645,135	$2,093,681,068	$2,477,694,748

Child Support & Federal Non-Tax Collections by Calendar Year through Cycle 21

	Federal Non-Tax	Child Support	Total
1997	$ 613,333,860	$1,015,411,625	$ 1,628,745,485
1998	$ 796,264,287	$1,037,923,681	$ 1,834,187,968
1999	$1,210,665,081	$1,267,029,667	$ 2,477,694,748

Cross-Servicing Performance Summary





Mr. HORN. We are going to have questions 10 minutes per individual. There's Mr. Turner and myself. We will have one or two show up. This is a very complicated issue, and it's going to take us each 10 minutes to get involved with some of the questions.

We appreciate very much what the Treasury is trying to do in terms of the various departments, but I would like to see where we are and where we might be because we had, at the time the Debt Collection Improvement Act became law, which Mrs. Maloney and I worked on together, only $2 billion of approximately $8 billion of debt eligible for cross-servicing referral for collection.

Now, in light of the referral record, what efforts are being undertaken by your particular agency, to Mr. Gregg, to encourage agencies to refer their debts? Give me a feel for who the most reluctant agencies are to turn it over and what do you think the reason for not turning it over is.

Mr. GREGG. One of the things that we've been doing for the last year, and we put a lot of emphasis on this, is to make sure we understand if there are any hurdles in having more cross-servicing debt referred to us. Another thing we've done is to work to simplify the automated systems.

Initially, I think there were some hurdles. We had a different system for the offset program and a different system for cross-servicing and that made it somewhat difficult for some of the agencies to come in. It wasn't a really streamlined process. We have worked to simplify and improve those systems. I think that has helped. I don't think we have barriers there any more.

The other thing we've done is work hard with each of the agencies. Recently we've had commitments from many of the agencies on how they plan to improve over the next year, and that's something that we have certainly been encouraging. I think it has the attention of the agencies, and we're making some progress.

Mr. HORN. Have you ever had the situation where the Secretary of the Treasury picked up the telephone and called one of the recalcitrant Cabinet secretaries in this area, who probably doesn't even know what's going on in some of these areas. Has anybody in Treasury, either the Secretary, Under Secretary, said, "hey, what's going on over there fellows? You know, we've got a program here. We would like to look good."

Mr. HAMMOND. There certainly have been instances where the Under Secretary, especially when Under Secretary Hawke was in that position, has made personal phone calls to key agency officials to discuss compliance with the debt collection program. The Secretary has shown a very keen interest in the overall management of this program.

But I think what we have tried to do is establish very strong working relationships with the agencies and involve very high-level political support where necessary.

I might add that Deputy Secretary Summers is particularly interested in the debt collection program and has a special focus on child support.

Mr. HORN. I'm delighted to hear that. I know Secretary Rubin was one of the few secretaries that cared a lot about the administration of these programs.

Now, Under Secretary Hawke is still in this role?

Mr. HAMMOND. No, Under Secretary Hawke has moved on to be the Comptroller of the Currency at Treasury, and the new Under Secretary, Gary Gensler, is very committed as well to the debt collection program.

Mr. HORN. Well, I'm glad to hear it, and we look forward to working with both of the new appointees.

I guess I need to know some of the reasons, in your judgment—we will ask the agencies, obviously—as to why they're not referring it. What do you think is the reason for that?

Mr. GREGG. As I said before, I think partly it had been systems in the cross-servicing area, and I think we've worked through that. I think in other cases it's just trying to sit back and figure out what's best for a particular program. Some of these are very complicated. And unlike the offset program where it runs through and is matched against payments, cross-servicing is turning it over to FMS for collection.

I think in some cases there have been some complications with the debt and trying to figure out whether or not that's the best thing for the program.

I think a third thing is that agencies have been in some cases reluctant to say that they can't do it as well as FMS can do it. And that's something that I think that we've largely overcome, but it's been a bit slower than I would have liked.

Mr. HORN. If I were an agency head, I would be so delighted that you're collecting the debts I couldn't tell you how delighted I'd be.

Now, if I were an agency head I would try not to be the heavy, and you know if you're in agriculture, you want to help farmers. I understand that. I've been a farmer. It's a tough existence.

No. 2, if you're over in HUD, you want to not sit down on somebody and squash them. You would like somebody else to face up to getting the debt collected.

Now is that a motive here or what? Or are you just too charitable to your fellow agencies?

Mr. GREGG. I think if you look at the increase that we've had in the offset program, that would tend to suggest that certainly there's a wish to protect constituents because those debts are also being collected.

I think on the cross-servicing, again, in some cases there is concern that it is done right, and we've certainly found this past year in the tax refund offset program that it is heavy lifting to deal with all of the phone calls that we have received over this past year—in handling the calls and doing a good job.

I think in some cases agencies want to make sure that we do that right, and that's fair. We've received over 1.5 million telephone calls through our Birmingham debt collection center since the beginning of this fiscal year primarily as a result of tax refund offset. And we have to be prepared, and I think we are, to handle those calls and everything else that goes along with the program and do a good job.

Mr. HORN. Well, that's commendable.

Mr. Secretary, how many of those debt programs depend upon recapturing the debts so they can then give further loans? Is there any situation where the more you can bring back in loans you've already put out and get them to pay it off, you could then recycle

them? Certainly with some of the student aid funds and universities where you have had that experiment, it depends on collection to help the next wave through.

Mr. HAMMOND. Right. There are some programs, in essence, that work like a resolving fund where, in essence, the payment activity is necessary to fund it, but I think primarily what you find is that the impact of delinquencies and nonrepayment affects the subsidy rate under credit reform. And, therefore, it becomes a factor in the size of next year's program as you look at the amount of appropriation necessary to support the program.

Obviously, the higher level of delinquencies that you have and lack of repayment, the higher the subsidy amount and more appropriation is needed. In today's environment that is a very real issue as far as managing the program as appropriations become more and more difficult to obtain.

Mr. HORN. Well, just thinking along that line, it would seem to me that unless there's an incentive to get that debt so the next group of people can be eligible and have money available that maybe we ought to just tighten up at this end.

Now, I realize a lot of these subject matter authorization committees are really parts of the department, not necessarily the oversight agency, to be charitable about it. I would think maybe that's an incentive if we can get somebody to face up to that. If you don't collect the debt, you don't get more money, but collect the debt, you will have the money.

Mr. HAMMOND. Yes, I think it's obviously a very difficult and also a very complicated issue as you look at guaranteed programs versus direct funding type of situations where there may be no upfront outlay of Federal funds but there certainly is a commitment of Federal credit. I think as people walk through the framework of Federal credit reform, it gives a real opportunity to take a hard look at the costs of these programs and reflect delinquencies and repayment within the overall appropriation.

But I really think every program certainly has unique characteristics that you would want to look at before you put some sort of overall rule in place in that regard.

Mr. HORN. Let me ask you, Commissioner Gregg. Have we established performance goals for the rate of collection of referred debt within FMS?

Mr. GREGG. Yes, we have, Mr. Chairman. As Don alluded to earlier, actually we have exceeded it as a result of the increase that we've had in the tax refund offset collections this year, and that's good. On the other hand, we need to continue to make sure that program works properly, given the huge amounts. But that doesn't mean that we're pausing because of the need to deal with more cross-servicing activity and to have more debt referred so that they can go get into our collection stream and then to the PCAs and also to do more with the administrative offset program, and we're certainly focused on doing just that.

Mr. HORN. Do you feel that your performance goals are being achieved? And, if not, what else do you need to do?

Mr. GREGG. Overall, what we did is set a dollar performance goal; and we have, in fact, exceeded that this year and even next year's goal. But we need to get down to doing more with bringing

in the administrative offset program. And to do that what we envisioned for the next year is to bring in some additional major payment streams like additional salary payments. We are doing some of that now, but we need to expand that, and we also need to include benefit payments as part of the offset program.

On the other hand, we will also be working to increase the amount of the debts that are eligible. We have two major additions that will be coming in next year, the State tax debt that will begin with five States, beginning in January of next year; and we have the tax levy, which is a very large program, and working with IRS we're planning to implement that in the summer of 2000.

Mr. HORN. Thank you.

Eleven minutes for the ranking member to ask questions, Mr. Turner of Texas.

Mr. TURNER. Thank you, Mr. Chairman.

Just to followup, Commissioner, regarding the tax levy debt program. You mentioned earlier that the way that works is you had a 15 percent—describe how that program will work.

Mr. GREGG. It's been around for a long time, and it wasn't part of the Debt Collection Improvement Act. But what we will do is to work with the IRS, and they will certify to us that these tax debts are due and that the taxpayer has received notice that they are delinquent. They will then refer those debts to us.

And I think the original plan is to begin with consumer debt totaling roughly 5 million debts and refer that to us for collection. We will then match that against the payments that we make, whether it's salary or benefit payments, and impose a 15 percent levy, on the payments until the amount that's due is collected.

Mr. TURNER. It's a one-time 15 percent?

Mr. GREGG. Yes.

Mr. TURNER. One area I wanted to spend a little bit of time on, I don't know which one to ask you, but I wanted to get a full description of your experience with the private collection agencies. And perhaps it would be helpful for you first just to describe what that—your relationship is with the private collection agencies, what kind of contract you have, what kind of reimbursement does it provide for the private agency.

And then in your earlier comments, Commissioner, you made some reference to a referral time to the private collection agency after 30 days, and I was a little unclear on how that worked. That seemed like a pretty short period of time before you turned it over to a private collection agency. But if you would, describe your experience, how that works and whether you think it's a good thing or not.

Mr. GREGG. The use of private collection agencies was strongly encouraged by this subcommittee, and we have made a very effective use of them. The contract is a 1-year contract with three 1-year options for renewal. The way that it works is in the cross-servicing areas, what we wanted to do is, looking at debt collection as a whole, make the best use and best return for the American taxpayer.

If debts are referred to us from the creditor agencies, we, within FMS, work that debt for 30 days. That isn't very long but sometimes, as Congresswoman Maloney pointed out on numerous occa-

sions, just getting a letter on Treasury letterhead helped, and, in fact, it has helped.

We work that debt. We basically contact the debtor and try to give them a call. We also send the letter out. And if we're unsuccessful within the 30-day time period, then we pass that on to the private collection agencies; and in many cases we have been successful.

We've collected, since we started this a little over a year ago, about $13.3 million within our Birmingham office where we have an office that handles this for us and another $56 million in repayment agreements. Again that's within FMS. At that point, it goes to the PCAs.

Mr. TURNER. Tell me why the 30 days. It does seem like that's an awful—you write a letter, you make a phone call, and if the payment hasn't shown up in your office in 30 days from what, from the date you initially began the effort?

Mr. GREGG. Yes.

Mr. TURNER. Which is the issuance of the letter?

Mr. GREGG. I think the reason is that we wanted to make maximum use of private sector organizations that do this for a living and have a lot of expertise. So we have a contract with 12 PCAs who are in fact expert at this and so we wanted to have an opportunity to make one more effort from the government to collect. But if we're unsuccessful, we turn it over to them fairly quickly, and 30 days is quick.

Mr. TURNER. So if you send the letter on day 1, you made a phone call on day 7, and you don't receive any payment on day 30, you turn it over to the private collection agency. And what if on day 32 you get a check in the mail from the debtor? Who gets credit for the receipt of the payment?

Mr. GREGG. My attorneys may correct me on this, but I think in that case it would come back to FMS, and we would, "take credit for it." The contract with the PCAs is a performance-based contract. They receive 23 percent of what they collect.

And, also, there's a provision in there for a 2 percent bonus depending on how well they do, and all the debts are referred to the PCAs based on a calculation that distributes the debt randomly to the PCAs, so that no one gets any favoritism on what's referred to them. It's based on a formula.

The debt is then worked by the PCAs, and to accept that collections are made, then it goes into the government.

Mr. TURNER. So the standard fee is 23 percent, plus a 2 percent bonus?

Mr. GREGG. Yes, and not all the PCAs get the bonus. It again is based on performance.

Mr. TURNER. Is there a standard measure of performance that makes the PCAs eligible for the 2 percent or is that a negotiated thing with each of the PCAs?

Mr. GREGG. It's standard, and it's based on a combination of criteria. And they're all aware of what the standard is, and I think they get monthly reports on how well they're doing.

Mr. TURNER. And do you have enough experience with the PCAs now to be able to distinguish the ones that seem to be doing a good job from those that are not?

Mr. GREGG. There are certainly some that have done quite a bit better than others. And I'm not sure exactly why that is, but it has been noticeable.

Mr. TURNER. And do you have discretion to then shift the referrals to the more successful PCAs, or are you doing that?

Mr. GREGG. Under the contract, we continue referring with the exception of the bonus, based on what the contract provides and the criteria for that. I think at the time when we extend the contracts, that will have to be something that we look at, to see what approach we want to take going forward.

I might add one other comment, Mr. Turner. At FMS, we've spent a considerable amount of resources and time making sure that the right levels of performance are provided by the PCAs in terms of how they treat the individuals, and I must say that they've done very well. We have the ability to monitor phone calls, and we track that very carefully. We did that from the very beginning of the program. And at least from my perspective, the handling of the debt is being done very well by the PCAs, and I'm certainly satisfied with the use of them.

Mr. HAMMOND. If I might just add to that, just from a departmental standpoint, we certainly would become aware of high volumes of complaint activity, and I can't remember the last time I saw a congressional or a constituent letter reflecting on a complaint dealing with a private collection agency in their approach under the debt collection program. I think it's gone as smoothly as one could certainly have imagined.

Mr. TURNER. How long a contract does the PCA have with you?

Mr. GREGG. I believe it is a 1-year contract with three 1-year options for renewal.

Mr. HAMMOND. Yes, three 1-year renewal options at the end.

Mr. TURNER. And so your agreement with all of them that you contract with is that your referrals of the debt will be random so that no agency gets any preference over what referral they get?

Mr. HAMMOND. The mix of the debt is random. The percentage of the amount of debt that you get after the initial period starts to be based on performance. So what you find is that there's no preference given for one type of debt over another. That is always a random assignment. But as you become better at collecting debt, you get a higher percentage of the overall referral.

Mr. TURNER. So if your performance is good, you will get more referrals. If your performance is not, you may drop off the map in terms of business?

Mr. HAMMOND. They all continue to get referrals but top performers get more.

Mr. TURNER. How do you become eligible for the 2 percent bonus?

Mr. GREGG. Again, there are criteria that are based strictly on performance. I think there are four or five elements of that and that's known to the PCAs and we provide them information. So there should be no surprises.

Mr. HAMMOND. My understanding, it's mathematical—as Dick had mentioned. It's an actual computation based on performance and a weighting of factors.

Mr. TURNER. OK. Thank you, Mr. Chairman.

Mr. HORN. Well, thank you very much. That's a very good line of questioning.

I now, without objection, will yield to the gentleman from Oregon, Mr. Walden. We always try to accommodate Members' situations. He's got to be in three places over the next 20 minutes. So go ahead.

Mr. WALDEN. Thank you, Mr. Chairman.

Mr. HORN. And his statement will be after Mr. Turner's opening statement in the record.

Mr. WALDEN. Thank you very much, Mr. Chairman. And thank you to members of the subcommittee as well for that.

This is an issue that I have developed some interest in since coming to Congress. Having been a small business owner for 13 years, I have watched on that arena of the issue as well.

Mr. Chairman, I want to thank you for your ongoing leadership in Federal debt collection issues. I think I can speak for all Americans in placing my appreciation for your pursuit of responsible debt collection policies.

I would like to speak for a moment about the importance of insuring Federal agencies create incentives for debt collection contractors to obtain voluntary payments from the debtors before instituting involuntary collection actions such as wage garnishment or litigation against that debtor. I understand the importance of taking those steps as well.

I say this because, under the Department of Education contract, for example, a contractor has a greater incentive to collect a debt through involuntary administrative wage desistement procedures rather than through the voluntary payments from the debtor. This is because the methodology used by the Department of Education to evaluate the performance of its contractors, allocate accounts among contractors and paid bonuses is weighted in favor of wage garnishment and deemphasizes voluntary collections.

The preparation of cases for litigation is also given substantial weight. As the gentleman from California and I have discussed, I would like to see the Department of Education alter its approach to give voluntary collections greater emphasis over coercive methods. In my view, the performance of the debt collection contractor in achieving net-back collections for the government should receive a higher percentage than 75 percent or so of the weighting and evaluation methodology, and the preparation of cases for litigation or wage garnishment should receive no more than 20 or 25 percent defined.

These reforms would help the Federal Government I think do a better job of collecting its debts in an efficient and voluntary manner. I look forward to working with the chairman and the administration, members of the minority of this committee to continue addressing these issues and making Federal debt collection more voluntary and more effective.

Thank you, Mr. Chairman. And if either of the witnesses would like to address those issues or not.

Mr. HORN. Would you want to respond to that?

Mr. HAMMOND. I would be happy to begin.

First, well, we do have—under the private collection agency contract is value awarded for voluntary payment agreements, and our

experience to date has shown that they've been used quite extensively. In fact, at this point we have two to one voluntary repayment agreements from the PCA side to actual collections through the collection actions themselves.

But perhaps even more significantly, during that 30-day period before debts are referred to the private collection agencies, we found that we've entered into, as Dick mentioned, $56 million worth of voluntary repayment agreements, taking the debt completely off the table and then eliminating it from referral to the PCA at this point.

So while we've collected about $23 million both between our own center and through the PCAs in actual debt collection actions, we have an additional $80 million in voluntary repayment agreements. It's obviously a very important part of our program.

One of the features we offer as part of that is the capability for them to enter into what we call a debit relationship where, in essence, the payment is paid out of their checking account on a recurring basis every month. Once they set up the agreement, then they really don't have to worry about it anymore. And we've had some good success with that as well.

Mr. WALDEN. Mr. Gregg.

Mr. GREGG. The only other comment I would make, and this varies from creditor agencies to creditor agencies, but in some cases they actually give us some discretion to settle at less than 100 cents on the dollar. Depending on the circumstances, such as the age of debts. So we have some discretion there again with the view toward trying to get what makes most sense to the government done as opposed to saying, well, this is what you owe and this is what you've got to pay.

Mr. WALDEN. Thanks, Mr. Chairman. That's the point I would make, is that the extent that—voluntary agreements—sometimes I found in my own business in 13 years, you can go a long way if you can sit down and sometimes settle these things without going through the formalized collection process, and sometimes even if you get the judgment, it's worthless, frankly.

Now, the Treasury Department has a little more power than the average small business in making those judgments work out, but clearly it seems to me that if we can incent companies to do those voluntary approaches through how their contracts work, as opposed to just rewarding litigation more, I think we would all benefit more. That's the point I wanted to make.

Thank you, Mr. Chairman.

Mr. HORN. Thank you very much.

I now yield 11 minutes to the gentlewoman from Illinois, Mrs. Biggert, the vice chairman of the subcommittee.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Both of you in your testimony talked about child support, and I would like to go into that a little bit more.

I think that having served in the Illinois Legislature and havng seen the problems that we had with trying to collect, it seems like you made great strides in this past year in debt collection, and I wondered how it worked in combination with the States. If you could just go over the process a little bit?

Mr. HAMMOND. Let me give you a quick overview. I would be happy to walk through how we interact.

The States deal with the Health and Human Services Department's Office of Child Support Enforcement and through that mechanism refer debts to HHS which, in turn, refers them to us, noting what programs they want to participate in. By HHS regulation, all States are required to submit their child support delinquencies for tax refund offset and States have the option but are not required to send their child support debts in for other administrative offset collection through the offset program.

So our system actually differentiates by the type of payment going through, whether or not an eligible child support debt can be offset, for example, from a tax refund or alternatively from a Federal salary payment. And that type of differentiation goes on within the system itself.

We currently obviously have all 50 States participating in the tax refund offset program, and that's been a very active program for a number of years, but just with the enhancements this year alone, we've collected an additional $230 million over what we did the last year.

Mrs. BIGGERT. What do you mean by—what enhancements have been possible?

Mr. HAMMOND. For example, we now match both Social Security numbers on a joint tax return, whereas previously the system only looked for the primary Social Security number. So, in essence, by—people had the opportunity, I think, to avoid the tax refund offset by switching the order or sequencing on the return. That no longer is the circumstance.

In addition, we allow for more active debt management of the file. It used to be for tax refund offset you had to submit one file by a certain date, and that was the file you were left with for the season. You're now allowed to weekly update that file and bring in additional debts, and we found that that flexibility has allowed us to bring in more information as well.

Mrs. BIGGERT. In your statement, you said that the challenge over the next year is to increase the number of States that fully participate in the administrative offset——

Mr. HAMMOND. Right.

Mrs. BIGGERT [continuing]. Components. About how many States really do fully participate right now?

Mr. HAMMOND. Right now we have 22 States that are participating in the administrative offset program. It's a very difficult program for us to bring up, and so it has gone a little slower than we would have liked.

Primarily, the complexity comes from the fact that child support has been a very active debt collection field for some time. So, for example, when we bring a Federal retiree's Federal retirement payment into the offset program, that retirement payment already may be garnished at the State level. We have to make sure that for those obligations that where there's already an existing garnishment that we don't come in and offset again, in essence collecting the same debt twice. We've had to go through and redesign our systems to be able to accommodate that.

We're now in a position to do that. And as we get more and more payment streams brought into the Federal offset system, then what we will have is more and more additional State interests in participating.

Mrs. BIGGERT. It seems that so much of the problem is that States have not been able to find somebody. But if you can find them through the tax return, then the next year does the State then—do they notify where this person is so that they can pursue them, so you might get that double payment?

Mr. HAMMOND. I would have to defer to HHS. But I believe that HHS does a very active job of both checking residences off the tax files, as well as they now have the data base of new hires that they've been developing which allows them to basically—allows them to track people based on changes in employment.

And from that circumstance, if someone were to frequently change jobs to avoid paying child support obligations, the new hire data base in essence facilitates that capability for HHS to find them.

Mrs. BIGGERT. So there really is interaction between the States—I know we pass bills that we could go into the State and have the ability to send the letters in to collect theirs. So really that might not even be so necessary now that there seems to be the national——

Mr. HAMMOND. Well, I think this is a program where the more effort that you can bring to bear on the collection of the child support, the more success you have. It's very complicated because of the interstate aspects of it and people with a high level of mobility. I think the more cooperation you have and the more resources available to deal with this—because it certainly is a very large national issue.

Mrs. BIGGERT. When a debt is collected, is there a deduction or a fee? Since it's not a private agency doing that, is there a fee for that?

Mr. HAMMOND. There is a—what we call an offset fee or a transaction fee, which is deducted from the amount collected and then, depending upon the nature of the debt, can either be added on to the debt that's outstanding or can be paid, you know, just from the collection that—before it's passed through.

It's a flat dollar fee for the offset program, and I believe it's currently about $6 an offset—I'm sorry, about $7.50.

Mrs. BIGGERT. So that would be monthly?

Mr. HAMMOND. If someone were a retiree and, for example, you were offsetting, let's say, $100 a month out of someone's retirement payment, then each month there would be a $7.50 charge.

One of the things that we've been looking at is how to deal with recurring payments for something like that, a child support debt, where the debt may be large and you're going to see an ongoing series of offsets.

Mrs. BIGGERT. How would that compare to a private agency?

Mr. HAMMOND. I would suspect it's dramatically cheaper, but it's not really a fair comparison, because I'm not sure any private agency really has the same type of offset capability given the stream of payments that we have available to us.

Mrs. BIGGERT. OK. Then according to the Treasury's fiscal year 1998 accountability report, the Department of Education and the HHS were granted waivers from a Debt Collection Improvement Act cross-servicing provision.

Mr. HAMMOND. Right.

Mrs. BIGGERT. And, in addition, the December 1996, Federal Debt Collection Center Designation Policy Procedures and Standards states that, after 1 year, Treasury will review the agency's debt collection operations to determine whether the continuation of the waiver is warranted.

When will the review take place for education and HHS?

Mr. GREGG. I'm not sure exactly. Both of those were authorized fairly recently, I believe. But we are committed to review those.

I must also say that in the approach that we've taken in granting those authorizations for debt collections status we've been pretty careful with them. And I think in the case of HHS, it was for a specific category of debts; and for Education, it was based on their overall performance.

But we've had requests from other agencies, and we've looked at those pretty hard with the view of whether or not in our view it made sense to authorize them as debt collection centers, even for their own debts, because of the opportunities for some of the programs that we have. So we've taken a fairly stringent view on authorizing those.

Mrs. BIGGERT. But HHS was granted a waiver for servicing their own debts and yet denied a governmentwide debt collection center designation?

Mr. GREGG. Yes, that's correct.

Mrs. BIGGERT. Why was that?

Mr. GREGG. I think it was not for all of their debts either, I don't believe. But it was for some category. And it was based on our view of their knowledge of the program and we thought it would be better for debt collection as a whole, rather than sending that to us. But we didn't feel that they necessarily had the expertise governmentwide to do that and so we denied them for a broader cross-servicing.

Mrs. BIGGERT. Thank you. I yield back the balance of my time.

Mr. HORN. Thank you very much.

The gentleman from Texas, Mr. Turner, 10 minutes.

Mr. TURNER. Thank you, Mr. Chairman.

Can a private child support collection agency that operates, many of them, in our States, can they access your offset program after they've gotten a judgment or some kind of court order?

Mr. HAMMOND. The short answer would be no. I assume when you say private you're talking about the situations where they've contracted with the State in essence to collect or take more aggressive action within the State for the State-administered child support obligations.

The offset program, those same debts, depending upon how the State allocates them, could in fact be in the offset program, but they would not be to the credit of the subcontractor or the contractor for the State. It would simply be collected on behalf of the State through the offset program. But you can have concurrent debt collection activities taking place. That's why it's very important to

have systems that are robust enough to update the status of the debt on a regular basis, because people do pay or, in addition, there may be additional judgments in making the debt even larger. But you want to have that information as current as possible in the system.

Mr. TURNER. So the State operating a child support collection activity has access to the offset program, but a private agency does not?

Mr. HAMMOND. Well, the private agency—I guess I'm a little bit confused. If the State were, for example, to have sold its delinquent child support obligations, I'm not sure if any States are in a position to do that, then they would not—in that circumstance, they would not have access to the offset program, because they would be privately held.

If, on the other hand, those debts were still considered debts administered by the State, whether the State had contracted out the work to, you know, similar to our contract with private collection agencies, then referral into the offset program through HHS would still be available.

Mr. TURNER. I guess what I need to have you comment on, what's the public policy reason for making the distinction—obviously, you have a lot of leverage with the offset program in collecting child support. Would it be advisable from a public policy vantage point to allow further collections of child support through the offset program?

Mr. HAMMOND. It actually raises some very difficult policy issues, surprisingly, having to do with access to confidential tax information. There are some very strict requirements on the IRS, in addition to, anyone else who handles taxpayer information. And since the primary source of child support collections through the offset program are tax refund offsets, there are some very difficult issues related to sharing information related to—in essence, someone's tax status at the same time that collection action is being taken by a private debt collector.

IRS works very diligently with HHS on trying to deal with these issues, but as more and more States contract out their child support activity, the issues get more and more complicated.

Mr. TURNER. If a private child support collection agency gets an order for garnishment of wages, they obviously can collect somebody's who is earning a salary. Is there any way under current law that they can get the income tax refund that may be due to the debtor?

Mr. HAMMOND. If the private collection agency is acting on behalf of the State, I believe that they can participate through the offset program fully. If—and I realize this is a distinction I'm having a little trouble with this morning, to be honest with you, is knowing who actually owns that debt, and I think there's a fact pattern here as to whether, if the debt is owned by the private collection agency, they do not have the same rights as coming in and participating at the Federal law as if the debt is still owned by the State, even though it may be being serviced by a private collection agency.

So I think there's a level of legal distinctions here that I would have to understand more fully before I could probably answer the

question. We could certainly get more information and provide you a followup answer after the hearing.

Mr. TURNER. Commissioner, do you have any thoughts on this subject?

Mr. GREGG. I think Don covered it about as well as I could. Really, when debts are referred to us for child support, we deal really with HHS. And I don't fully understand how much of that is coming in through State agencies and how much is coming in from private collection agencies. We will have to look into that and get back to you.

Mr. HORN. Without objection, your answer will be inserted at this point in the record.

[The information referred to follows:]

According to the Office of Child Support Enforcement (OCSE), it does not receive information from its state agencies as to whether referrals are processed through the state or a private collection agency. All referrals are received by OCSE through a single point of entry and are not distinguished by the criteria requested.

Mr. HORN. If I might ask one question following on this.

When we got into this bill in 1996, I had long discussions with the IRS. And when I said "since you aren't organized to collect, why don't you use private bill collectors?" Well, privacy was the answer. And I don't see that. Because all we're asking is that you tell me what they owe the U.S. Government and then give them the address and let them get the debt. And, if there's a problem on their taxes or anything like that, fine, you then refer them to the experts in the IRS if it's an income tax situation.

Now, I don't know what is so complicated about that. There's a debt owed, knock on the door, try to get them into a payment plan. And you don't have to get into the details or the tax collector doesn't have to know that. All they know is the final amount owed the Federal Government. What's wrong with that statement?

Mr. HAMMOND. Not being an attorney, I'm sure I won't give it all the justice that it deserves. But the IRS has a provision in the Internal Revenue Code, section 6103, which has to do with the release and handling of confidential taxpayer information. How that provision is interpreted and applied is something that tends to be extremely more complicated than it might initially appear on its face.

That is something that is administered by the attorneys over at the Internal Revenue Service; and they have, and rightfully so, given that it carries personal penalties attached to the release of that information, been very conservative and judicious in how they interpret it, that language.

Mr. HORN. Well, I just wonder, once it gets into your process, it's a debt of the United States. They don't have to know whether the taxes are paid or anything else. And they don't really know that. It's a debt.

Mr. HAMMOND. And for most debt streams that works exactly like that. Unfortunately, with child support, there are different treatments of the collected debt. If it's offset against a tax refund payment, it gets a different allocation structure. So it has to actually be identified within the output as to whether or not it came from a tax refund or say a Federal salary payment, and that adds

another level of complexity to the actual collection of child support obligations.

Child support may, just as an aside, may be the single most complicated program that I've come across in a long time as far as the different rules and allocation structures. It even depends whether or not the debt is owed by the delinquent parent directly or whether or not the State-administered TANF benefits in the interim in which case then the State is titled to reclaim before the family. And there's a very complicated allocation and categorization process attached to it.

Mr. TURNER. I guess that's how we first got into Federal involvement. Collecting child support was the justification offset, the welfare payments being made to the custodial parent. But it does seem to be worthwhile at least explore the idea of giving a custodial parent access to our system of offsets for tax payments, whether they be a welfare mother or be a nonwelfare mother.

Mr. HAMMOND. I believe most custodial parents—most States offer custodial parents the opportunity to bring judgments into the State system by paying a processing fee and then have it included in the amount referred by the State to HHS.

From our standpoint, we wouldn't necessarily see that distinction, but the State when they got the collections back would know where to allocate the various payments back.

Mr. TURNER. Let me turn to another subject.

I notice that one of the departments that has not yet made referrals to you of delinquent debt is the Department of Defense. What are the complexities involved with Department of Defense debts? I've been told there's about $1.4 billion in delinquent debts that is eligible for cross-servicing and $900 million that's eligible for offset. What's the explanation from your vantage point of the lack of progress in working with the Department of Defense?

Mr. HAMMOND. I believe it's a couplefold; and, like anything involving the Department of Defense, it's somewhat complicated. But I believe it can really be boiled down to an issue of primarily those debts, as I understand it, are contract-related obligations and therefore have to be viewed in the overall administration of the contract. They may in many cases be, for example, contract overpayments or claims related to contract nonperformance.

And then, in addition, the capability of interfacing with the Department of Defense's systems to allow for the effective referral of that information is, of course, always an issue.

Mr. TURNER. Commissioner, do you have any comments on it?

Mr. GREGG. I think in the cross-servicing area, there's a sizable amount that we're talking about with the Department of Defense right now on whether or not that is actually eligible to be referred to us for cross-servicing. We hope to have an answer to that before too long. But it's a significant amount; and depending on how that is finally resolved, these figures will either look a lot better or they will look as they are right now.

Mr. TURNER. All right. Thank you, Mr. Chairman.

Mr. HORN. Do you have any more questions? Feel free.

Mr. TURNER. No, I'm fine.

Mr. HORN. Mrs. Biggert, do you have any other questions?

Mrs. BIGGERT. No.

Mr. HORN. I have one last question. The rest, if you don't mind, we will submit to you and you can answer them at your leisure.

The last question is this. Under the Debt Collection Improvement Act of 1996, it required that there would be a report no later than April 1999, on a one-time basis to Congress on the collection services provided by the Treasury and the other entities collecting on behalf of the Federal agencies. When do you expect to provide the report to Congress?

Mr. HAMMOND. That report is currently going through clearance at the Treasury Department. I would like to say that was the most efficient process in the world. Sometimes it can take a little longer than we would all hope. We would expect to have it to you very shortly.

Mr. HORN. We understand that.

Well, we thank you. You've been excellent witnesses. I think we've learned a lot this morning as to what is happening in the process, and we appreciate you coming.

Mr. GREGG. Thank you, Mr. Chairman.

Mr. HORN. Thank you very much.

Mr. HAMMOND. Thank you.

Mr. HORN. Now, we will ask panel two to come forward: Mr. Thomas Pestka, the Director of Debt Collection Service, the U.S. Department of Education; Sally Thompson, Chief Financial Officer, U.S. Department of Agriculture; and she's accompanied by Richard M. Guyer, the Director of the Fiscal Policy Division. Saul Ramirez, Deputy Secretary, U.S. Department of Health and Human Services; accompanied by David Gibbons, Director of Office of Budget, and Victoria L. Bateman, Comptroller, Federal Housing Administration.

So if all of the ones I named will stand and see if we can get them around the table here or sit right behind the principals.

[Witnesses sworn.]

Mr. HORN. The clerk will note six heads have shaken positively.

OK. Thank you for coming; and we will start with Mr. Pestka, the Director of Debt Collection Service for the U.S. Department of Education.

Mr. Pestka.

STATEMENTS OF THOMAS J. PESTKA, DIRECTOR, DEBT COLLECTION SERVICE, U.S. DEPARTMENT OF EDUCATION; SALLY THOMPSON, CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF AGRICULTURE; RICHARD M. GUYER, DIRECTOR, FISCAL POLICY DIVISION; SAUL RAMIREZ, DEPUTY SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; DAVID GIBBONS, DIRECTOR, OFFICE OF BUDGET; AND VICTORIA L. BATEMAN, COMPTROLLER, FEDERAL HOUSING ADMINISTRATION

Mr. PESTKA. 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. The Department has undertaken a broad range of activities to continually improve collection efforts in the Office of Student Financial Assistance, Debt Collection Service.

We are committed to expanding our efforts. Last year, in recognition of our performance, the Department of the Treasury granted

the Office of Student Financial Assistance a waiver to service its own student loan debts—as a debt collection center.

Also last year, the Office of Student Financial Assistance was designated the government's first performance-based organization. Under the performance-based organization, we expect continued refinement of our debt collection efforts and the realization of greater operating efficiencies as new authorities are implemented.

One performance-based organization priority will be to enhance collaborative efforts with schools, guaranty agencies and lenders to reduce the likelihood of default by borrowers in both the guaranteed and direct student loan programs. Efforts will also be made to emulate best in business practices by the private sector to improve our understanding of our portfolio and begin tailoring our collection efforts, recognizing the varying needs of different portfolio segments.

The Department of Education has been the primary source of federally funded student loans. Students have received about $300 billion in loans since the enactment of the Higher Education Act of 1965. The vast majority of student loan borrowers have repaid or are currently repaying their loans. However, some borrowers default on their loans.

Our challenge is to collect as much as possible on defaulted student loans. The challenge is considerable because student loans are inherently risky. Creditworthiness is not a prerequisite for student loan eligibility. The government and private lenders are left with no collateral in the event of default. Student loan borrowers frequently relocate after having left school. This creates a problem with servicing and collecting student loans.

The Department has undertaken many initiatives to improve collections on defaulted loans. From the late 1970's through the 1990's, the Department implemented a number of collection mechanisms that were subsequently required of all agencies by the Debt Collection Improvement Act.

I would like to highlight some of our recent collection efforts. For Treasury's 1999 offset year, the Department and the student loan guaranty agencies referred $16 billion in past-due receivables to Treasury for offset. For the first 8 months of fiscal year 1999, the Department's offsets are approaching $700 million. This represents the most successful year ever by the Department. Treasury offsets have totaled $1.8 billion since fiscal year 1997.

Since 1979, the Debt Collection Service continued to expand its partnerships with private collection agencies. Partnering with private collection agencies has been one of our most successful initiatives. We now have 17 private collection agencies under contract. Our most recent contract has several performance-based evaluation measures.

Since fiscal year 1997, private collection agencies have generated $405 million in collections. The Debt Collection Service also recognizes significant collections from accounts that are serviced by our regional services in partnership with our public inquiry contractors. These collections totaled $242 million since fiscal 1997.

Administrative wage garnishment has become an effective tool in performing our collections on student loans. We began using it 4 years ago. About 100,000 defaulted loans are now in garnishment

status. In order to maximize the effectiveness of wage garnishment, we want to continue to work with Congress to develop legislation as proposed in the President's budget that would provide access to other Federal data bases, such as the National Directory of New Hires for borrower employment information. We believe such access will allow us to expand the use of wage garnishment and ultimately generate significantly greater collections for the government.

The Department of Education has analyzed defaulted student loan sales over the past 10 years and has found that defaulted student loan sales are not in the Department's fiscal interest.

During the past year, the Department let an advisory contract through GSA's new financial asset services contract. The financial advisors spent several months evaluating our collection strategies. The most interesting proposal involves expanding student loan collection recoveries through highly specialized servicing arrangements. The Department and the Debt Collection Service are presently evaluating this proposal.

There continues to be an interest in the Department of Education to enable defaulted borrowers to begin making repayments through a variety of flexibility repayment options. The consolidation and rehabilitation loan programs were instituted to meet these objectives. The private collection agencies have been instrumental in assisting student loan borrowers to reschedule over $1 billion in defaulted indebtedness over the past 5 fiscal years.

This concludes my remarks. I would be glad to answer any questions.

Mr. HORN. You don't have to conclude it just because the red light went on. We allow—you are probably—if that's your conclusion, you're the most efficient witness we've ever had. Either that or the clock is crazy, which is possible.

Mr. PESTKA. I timed this thing several times last night, and I have a summary, but it's superfluous.

Mr. HORN. OK. Fine.

[The prepared statement of Mr. Pestka follows:]

Statement of Thomas Pestka, Director
Debt Collection Service
Office of Student Financial Assistance Programs
Department of Education
to the Subcommittee
on Government Management, Information, and Technology
United States House of Representatives Committee on
Government Reform and Oversight

June 15, 1999

Hearing on Implementation of and Compliance with
the Debt Collection Improvement Act of 1996

Mr. Chairman and Members of the Subcommittee,

I'm pleased to be here today to discuss with you the implementation of and compliance with the Debt Collection Improvement Act of 1996 (DCIA) by the Department of Education, Office of Student Financial Assistance Programs (OSFAP). The Department has undertaken a broad range of activities over the past two decades to continually improve our debt collection efforts, and we are committed to expanding and refining our efforts even further in the future. Last year, OSFAP was designated the Federal Government's first Performance-based organization (PBO). Under the PBO, we expect continued refinement of our debt collection efforts and the realization of greater operating

efficiencies as OSFAP authorities are implemented. One of the OSFAP's priorities will be enhancing collaborative efforts with postsecondary schools, guaranty agencies, and lenders to reduce the likelihood of default by borrowers in both the guaranteed and direct student loan programs.

I am the Service Director of the Debt Collection Service (DCS) in the OSFAP. DCS is the organizational unit with the operational responsibility for the collection of defaulted student loans and the implementation of the DCIA. DCS provides specialized debt management services for the defaulted student loan portfolio assigned to the Department of Education. DCS is headquartered in Washington, D.C. with regional offices in San Francisco, Chicago and Atlanta. Our DCS regional employees oversee contractor operations and perform dispute resolution, hearings, and claims adjudication

Our Challenge

For many years now, the Department of Education has been the primary source of federally supported student loans. Our William D. Ford Federal Direct Loan (Direct Loans) and Family Federal Education Loan (FFEL) programs have enabled many millions of students to afford to go to college. Through those programs, students have received about ***$300 billion*** in loans since the enactment of the Higher Education Act

of 1965 (HEA). The vast majority of student loan borrowers have repaid, or are currently repaying, their loans. However, some borrowers default on their loans. The Department is determined to prevent defaults, and if they occur, to see defaulters fulfill their obligations to repay their loans.

Our challenge in DCS is to collect as much as possible on defaulted student loans. This challenge is considerable because student loans are inherently risky. Student loans must be made available to borrowers who might otherwise not be able to obtain credit in the private sector to ensure their access to higher education. Thus credit-worthiness is not a prerequisite for eligibility for a student loan. Because the loans are unsecured, the government and private lenders are left with no collateral to collect against in the event of default. Student loan borrowers frequently relocate after leaving school, which often makes it difficult to contact them for the purpose of servicing and collecting loans. All of these factors combine to make student loan collections uniquely challenging.

Our Response

The Department has undertaken many initiatives to improve collections on defaulted loans. Those actions, including the implementation of the DCIA, have gone a long way toward improving the effectiveness of collecting unpaid student loans. In recognition of our past and continuing success, on November 5, 1998, the Department of Treasury's

Under Secretary for Domestic Finance, John D. Hawke, Jr. granted the Debt Collection Service a waiver to service its own student loan debts.

From the late 1970's through the 1990's, the Department implemented a number of the debt collection mechanisms that were subsequently required of all agencies by the DCIA. The use of private collection agencies, treasury offset and administrative wage garnishment, federal salary offset, credit bureau reporting and the requirement of taxpayer identification numbers have been in place at the Department of Education for a long time. I will highlight some of our accomplishments that conform to the major provisions of the DCIA. For the thirty-two months from October 1, 1996 to May 31, 1999 DCS has collected over ***$2.5 billion*** in defaulted student loans.

Private Collection Agencies

Since 1979, DCS has continued to expand its relationships with private sector partners to maximize collections. Using private collection agencies has been one of our most successful decisions. We presently have 17 private collection agencies under contract. Our most recent contract has several performance-based evaluation measures. The private collection agencies are evaluated and rated according to the overall service they perform, as well as their ability to collect the defaulted student loan debt. The collection

agencies that perform best across all of these categories receive additional incentives, both monetary and new account placements.

Over the past thirty-two months, private collection agencies have generated ***$405 million*** in collections. (See Chart) More than ninety percent of these collections represent borrowers making regular monthly payments on their defaulted student loans, or borrowers satisfying their obligations in full. As the private collection agencies additionally refer student loan accounts for litigation, they make a significant contribution to the successes at the Department of Justice (DOJ). DOJ remittances to the Department of Education have totaled ***$34 million*** (See Chart) during the same period of time. DCS also realizes significant collections from accounts that are managed by our regional offices. DCS' regional office collections total a commanding ***$242 million*** (See Chart) since October 1, 1996.

The Department of Education continues to be strongly interested in enabling defaulted borrowers to repay their loans, and offers a variety of different loan repayment options. Loan consolidation, loan rehabilitation, and income contingent repayment plans are all options that are available to defaulted student loan borrowers and are less punitive than traditional collection activities. DCS' private collection agencies have also been

instrumental in assisting student loan borrowers to reschedule over one billion dollars in defaulted indebtedness over the past five fiscal years.

Treasury Offset

The Department began referring eligible debts, those we previously tried to collect using all other available tools, to the IRS in 1986. For Treasury's 1999 offset year, the Department and Guaranty Agencies collectively referred over ***$16 billion*** in past-due student loan accounts and institutional receivables to Treasury for offset. For the first eight months of fiscal year 1999, the Department offsets are nearly ***$700 million***. This represents the most successful year ever for the Department. Treasury Offsets have totaled ***$1.8 billion*** (See Chart) during a thirty-two month period.

Administrative Wage Garnishment

Wage garnishment has become an effective tool in improving our collections on student loans. We began using this HEA authority four years ago and there are about 100,000 defaulted loans now in garnishment. In order to maximize the effectiveness of wage garnishment, we want to continue to work with the Congress to develop legislation, such as proposed in the President's budget, that would provide access to other Federal databases for borrower employment information. The Department believes such access

will allow us to expand the use of this tool and ultimately generate significantly greater collections to the Government.

Federal Salary Offset

The Department was the first Executive Branch agency to work with IRS to match delinquent and defaulted student loan records with IRS addresses. The Department began these matching activities over 15 years ago. In addition, we match defaulted student loan records with Federal employment records to identify and collect from Federal employees who are in default on their loans. We have found these matching activities to be quite effective and have collected ***$20 million*** (See Chart) since fiscal year 1997 from Federal employees.

Credit Bureau Reporting

Another of our long standing measures is reporting delinquent student loans to credit bureaus. The Department began this activity 17 years ago. After all due process procedures have been observed, and a borrower has been given sixty days to respond to the notification of the intention of referral, DCS reports the debt to the appropriate credit repositories on a monthly basis. We believe credit reporting has been a contributing factor in both reducing the student loan default rate and increasing the amounts we have

collected on defaulted student loans in recent years.

Taxpayer Identification Numbers

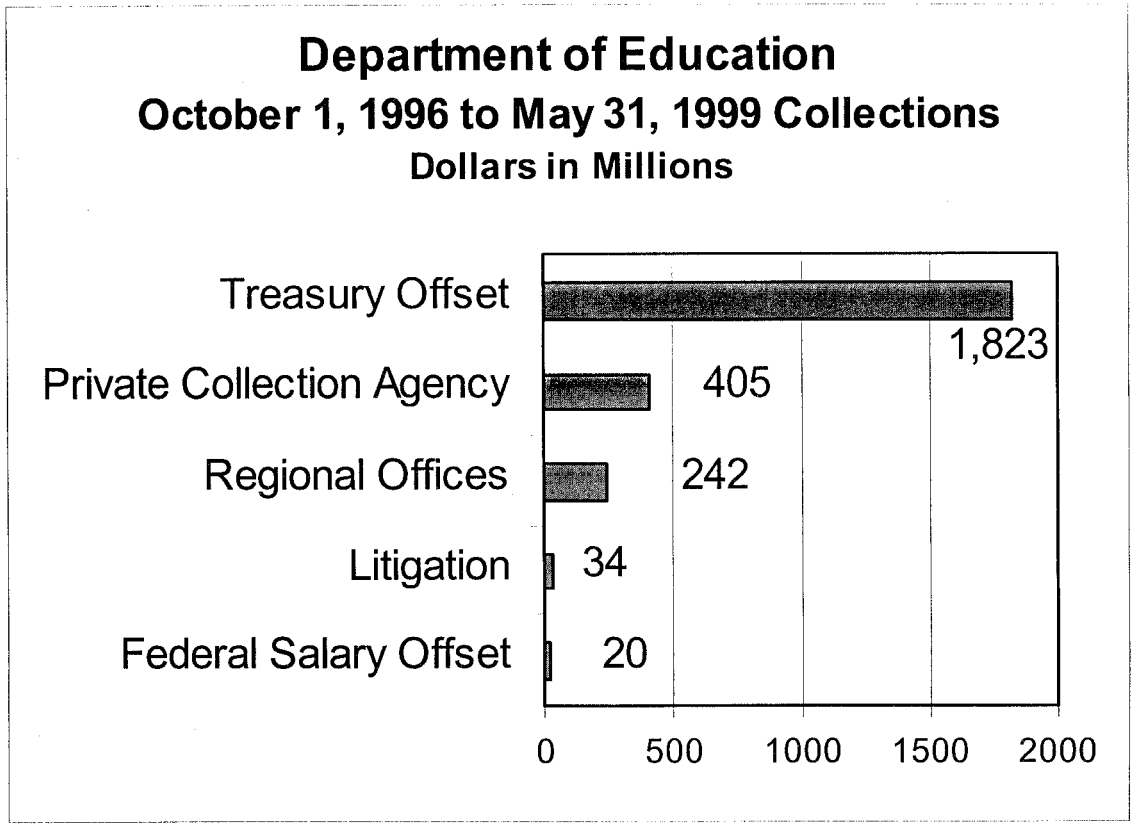
The Department has also required all student loan borrowers to provide taxpayer identification numbers for more than 15 years. Without this safeguard, our success in collecting on delinquent and defaulted student loans would have been significantly hampered.

Current Initiatives

During this past year, the Department let a new advisory contract through GSA's new financial asset services contract. The financial advisors spent several months evaluating DCS' present collection strategies and has proposed several unique collection and disposition strategies. The most interesting proposal involves expanding student loan collection recoveries through specialized servicing arrangements. DCS is presently evaluating these proposals in collaboration with other offices within the Department.

Our Summary

I believe the steps we have taken in compliance with the DCIA have made a significant contribution to the recovery of defaulted student loans. We continually evaluate state-of-the-art collection techniques and alternative servicing arrangements to ensure we are


Department of Education
October 1, 1996 to May 31, 1999 Collections
Dollars in Millions
Treasury Offset
Private Collection Agency
Regional Offices
Litigation
Federal Salary Offset
1,823
405
242
34
20
0
500
1000
1500
2000

Mr. HORN. We now have the distinguished Chief Financial Officer of the Department of Agriculture, Sally Thompson.

Thank you for appearing again.

Ms. THOMPSON. Mr. Chairman and members of the subcommittee, thank you very much for inviting me here to share with you some of the perspective and the progress that the Department of Agriculture have made in trying to implement the Debt Collection Act.

Mr. Chairman, I would especially like to thank you for the attention that you have focused on helping the Federal agencies to improve their debt collection. And I assure you that Under Secretary Dan Glickman's leadership we are making significant progress to improve our debt collection and trying to get a clean opinion on our financial statements.

I would like to give you just a brief overview of our loan portfolio and then give you some perspective on the activities that we've had with the Treasury offset program with write-offs, with tools that we're using and end with some of the issues around cross-servicing.

As you know, our mission is to serve the underserved in rural America through farm loans, through utility loans, through rural—trying to find affordable housing. Our three biggest loan portfolios are in rural housing, with about $30 billion; in rural utilities, with about $40 billion; and then our farm loans, not only in rural America, but also with our farm credit—foreign credit to foreign countries.

In addition to that, we have about a $20 billion guaranteed loan portfolio as well. All of that adds together for about $100 billion in our total loan portfolio, or about 38 percent of all nontax debt for the Federal Government.

So you can see it's imperative that we get our house in order so that not only that USDA gets a clean opinion, so that the Federal Government can also get a clean opinion.

However, as I look at the Federal debt and the delinquency, the Federal Government has about a 22 percent delinquency rate, where the Department of Agriculture has about 6 percent. But that 6 percent, as you mentioned in your opening comments, represents about $6 billion of delinquent debt. However, $4.4 billion of that is not eligible for either offset or for cross-servicing, because they're either foreign debt, in foreclosure, in bankruptcy, in litigation, or at Treasury. However, that does leave $1.6 billion in delinquent debt that is available for the offset program.

Of that, I'm pleased to be able to tell you that we have referred that offset program, $1.3 billion of it, but that does leave $300 million, and while on a $100 billion loan portfolio, that's a very small percentage, to the average taxpayer, that's a lot of money. And we're working very hard. We improved what we were turning over for offset in fiscal year 1998 by 65 percent, and then so far for fiscal year 1999 we've improved that another 22 percent. So, as I said, the Secretary and certainly all of the people involved with the loan portfolios in the Department of Agriculture are working very hard; and we will continue to work hard for the rest of this fiscal year and for fiscal year 2000 to get to as close to 100 percent as we can.

In addition to that, of course, we're using many of the tools that the Treasury mentioned in their testimony. We're at a 99 percent compliance with taxpayer identification numbers, which, when the loan is made, which means if it does go delinquent, it does become part of that 6 percent, it's much easier to track.

We're also turning them all over, all of the debt, to the credit bureaus, so that also there's a record of those. We're using civil monetary penalties, and we are also using the private collection agencies now that some of the barriers, the legislative barriers, have been lifted for us.

We are in the process of implementing in the next few months the salary offset and wage garnishments as well for tools.

Another tool that we have used since 1996 is in reporting all write-offs to the IRS we have reported $2.5 billion; and what this does, as you know, is to create what's called a 1099(c), which is in effect income to the borrower for forgiven debt. This is very important because the borrower cannot get additional credit until this debt has been satisfied, and some of the effect that we have seen on that is that they are paying off some of the debts so they can get some of the new loans that have been available.

And then, of course, we're also using the borrowing of—borrowing of delinquent debt, which means we will not give a loan to a debtor that has an outstanding delinquent debt unless it's in the case of food stamps or emergencies.

I will close by just very quickly talking about the cross-servicing. We have $1.3 billion that was eligible for cross-servicing. However, over 50 percent of that represents food stamps, and the detail of that belongs at the State.

However, the changes in the systems that Treasury has made just recently that they mentioned to you will allow the computers to talk to each other, which means we're hoping to be 80 percent compliant with cross-servicing in fiscal year 2000.

Hopefully, we're through the year 2000 glitch, the Y2K, getting our computers up to date, Treasury's computers up to date. The States are working on that, and so we're looking forward to fiscal year 2000 when we can become at least 80 percent compliant with cross-servicing.

So you can see we've been working very hard at this. We are making progress. There's still work to be done. But, again, I can assure you that USDA is providing a very high priority to this and that Secretary Glickman is behind this 100 percent.

Thank you very much, Mr. Chairman.

Mr. HORN. Give him my best. One of my favorite presiders over the House when he was here.

[The prepared statement of Ms. Thompson follows:]

STATEMENT OF
SALLY THOMPSON
CHIEF FINANCIAL OFFICER
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY
OF THE
HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
DEBT COLLECTION AND CREDIT MANAGEMENT
June 15, 1999

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to share with you the Department of Agriculture's (USDA) progress implementing the Debt Collection Improvement Act of 1996 (DCIA).

I would like to thank you, Mr. Chairman, especially, for the attention you have focused on getting government agencies to improve their debt collections. I assure you that, under Secretary Dan Glickman's leadership, we are improving our success solving USDA's credit-related challenges.

First, I want to give the Subcommittee a brief profile of the components that make up our credit program. Then, I would like to focus on the actions we are taking to capitalize on current successes and the actions we are implementing to improve our performance where we face significant challenges.

USDA's Credit Programs

USDA helps farmers, ranchers, and rural communities using several programs many, of which include credit initiatives that finance:

- water and waste systems,
- decent, affordable housing,
- electric and telephone utilities,
- rural businesses,
- farm ownership and operations, and
- emergency disaster assistance and relief.

This extensive list of lending programs makes USDA the Federal government's single biggest provider of Federal credit and federally backed credit. Our $104 billion in receivables represents 38 percent of the $273.5 billion in non-tax debt owed to the Federal government. USDA's delinquency rate of approximately 6 percent is far below the overall Federal delinquency rate of 22 percent.

$4.4 billion of the $6 billion in delinquent debt owed USDA, almost 3/4, is either in foreign debt, in foreclosure, in litigation, in bankruptcy, or under statutory limitation that restrict actions we can take on these debts. The remaining $1.6 billion is eligible for the Department of Treasury's administrative offset and cross-servicing program.

While we have used several tools to increase the collection of delinquencies, we are continuing to work with the Office of Management and Budget (OMB) and the Federal Credit Policy Working Group, to make sure we are fully exercising all of our debt-collection tools.

Treasury's Administrative Offset Program

Thus far this fiscal year (FY), USDA has referred 65 percent more debt for administrative offset than in FY98, going from $774 million in FY98 to $1.277 billion in FY99. We have also increased collections to $88.7 million for the period January 1 to May 7, 22-percent more than the amount collected during the same period in 1998.

Cross-servicing of Delinquent Debt

We expect to become 80-percent compliant with DCIA's cross-servicing requirements during FY00. Currently, USDA has $1.3 billion eligible for cross-servicing, half of which is debt that state agencies administer, such as food-stamp payments. USDA continues to work with Treasury to finalize systems necessary to transfer electronically delinquent debt from USDA to Treasury for cross-servicing.

This statement reflects the improvements that USDA has made in collecting delinquencies. It also represents our pledge to you, Mr. Chairman, and the Committee that this issue commands the highest priority and attention at USDA.

Mr. HORN. Mr. Ramirez, glad to have you here, Mr. Secretary.

Mr. RAMIREZ. It's good to be here, sir. Thank you very much.

Mr. HORN. Remember you're under oath when you say it's good to be here.

Mr. RAMIREZ. Absolutely.

Good morning, to you, sir, and Ranking Member Turner and the rest of the distinguished members of the subcommittee.

On behalf of Secretary Cuomo and the Department, I appreciate the opportunity to come before you and report on HUD's implementation of the Debt Collection Improvement Act.

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 overall debt portfolio as of September 30, 1998. I'm proud to say that was the first year that we've got an unqualified opinion on our financial statements for the Department of Housing and Urban Development.

Our total receivables due the Department as of September 30th, totaled $13.9 billion. The largest portion of total receivables related to old debts from our elderly and disabled section 202 direct loan program. However, it is primarily our FHA single family, multifamily and title I debt that comprises the bulk of our delinquent debt.

I would like to draw your attention to exhibit A which has a couple of charts, as the next few comments I make will be referring to said chart. In fact, it will show the total amount of debt which was eligible for referral to the Treasury for administrative offset and for cross-servicing.

This exhibit shows a total debt eligible for referral to the Treasury for offset amounting to $300 million as of September 30, 1998, and that $240 million of this amount, or 80 percent of what was eligible, was actually referred.

The $300 million reported as eligible for offset excludes $645 million, which represents accelerated FHA multifamily debt delinquent over 180 days. This accelerated debt should not have been included in the information reported to Treasury as of September 1998, as we erroneously reported the total unpaid balance instead of just the amount that was delinquent over 180 days.

Second, we added another column to this chart, the intergovernmental and nonprofit debt, to reflect debt that should be excluded from what was eligible for Treasury offset and cross-servicing. About $314 million or, 88 percent of the $358 million amount in this category, related to defaults in portfolios of issuers by Ginnie Mae and backed securities; and the entire defaulted portfolio, consisting of mortgages issued or guaranteed by FHA or VA, is collectible from these agencies and therefore not referred to Treasury for offset and cross-servicing.

Regarding the FHA multifamily in foreclosure figure of $255 million, and this is the top chart on exhibit A, we refer to $123.5 million as actually in foreclosure, and the remaining $131 million will either go to foreclosure or will be sold. We excluded the latter $131 million from referral eligibility because of the unique "non-recourse" feature of FHA's multifamily mortgage loans. The government may not go after personal assets of the borrowers for these

multifamily mortgage loans, and therefore it would be a zero sum gain to refer them to Treasury.

Finally, exhibit A's bottom chart shows $123 million, or 45 percent, of the $274 million eligible was referred to Treasury for cross-servicing. I might add that of the $151 million not referred, $109 was referred as of March 31st, thus bringing it up to 85 percent as a proportion of eligible debt that was referred to them. As a result, as mentioned by our colleagues at Treasury, of the automated system enhancements that have allowed us now to communicate with each other more effectively, our cross-servicing referral backlog for title I notes have been cleared substantially.

Now I would like to focus my comments on what we have done to substantially comply with the major provisions of the DCIA. FHA manages credit risk using a variety of means. One is to require that all borrowers have acceptable credit history, sufficient assets to close the mortgage loan and sufficient income to repay the mortgage, all per traditional underwriting methods. In addition, FHA has approved an automated underwriting system that now assigns an approval rating based on the borrower's characteristics, such as credit score, debt-to-income ratio, loan-to-value ratio; and, as a result, this method has been demonstrated to prove much more effective in controlling credit risk and enhancing traditional underwriting methods.

HUD has developed a new consumer protection measure to reduce the number of families who default on FHA-insured mortgages and to remove poorly performing lenders from the FHA program. Under this initiative, which we call our Credit Watch, we identify lenders with an above-average number of defaults and foreclosures involving FHA-insured mortgages.

We've also addressed the administrative offset and cross-servicing provisions of the act by referring debt to Treasury for offset and cross-servicing when appropriate. We refer all new cases that meet this criteria by having a constant dialog with Treasury to refer said eligible delinquent debts.

In the past, we have successfully used the asset sales program that has made us the leader in the Federal Government in this area. And we're in the process of designing and implementing and enhancing a new asset disposition program to comply with the new statutory requirements.

We've also pioneered the use of the Credit Alert Interactive Voice Response System, a prescreening tool to bar individuals who owe the government money from obtaining new government loans or guarantees.

The Taxpayer Identification Number Implementation Report and Certification for fiscal year 1998 shows that HUD has included the taxpayer ID numbers on certified payment vouchers for 99.8 percent of all payees. We expect 100 percent compliance by the end of December 1999.

I am pleased to close my report to the subcommittee by saying that the work that we've done, in conjunction with Treasury, has truly met the spirit and the intent of the Debt Collection Improvement Act.

HUD considers this efficient management of debt collection and its process an important part of executing our public trust function.

We look forward to enhancing that function with Treasury and with the guidance of this subcommittee and continuing to work in these efforts.

I would be glad to answer any questions that you may have or other committee members may have. Thank you very much.

Mr. HORN. Thank you, Mr. Secretary.

[The prepared statement of Mr. Ramirez follows:]

STATEMENT BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

JUNE 15, 1999
WASHINGTON, DC

BY

SAUL N. RAMIREZ, JR.
DEPUTY SECRETARY

Good Morning, Mr. Chairman and Members of the Subcommittee on Government Management, Information and Technology. I am Saul Ramirez, Deputy Secretary 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, 1998.

Summary of Debt Portfolio

Total receivables due the Department as of September 30, 1998 totaled $13.9 billion. The largest portion of total receivables relates to old debt from our Elderly and Disabled Section 202 direct loan program. However, it is primarily our FHA Single Family, Multifamily and Title I debt that comprises the bulk of our delinquent debt.

Debt Referred To Treasury

I would like to draw your attention to Exhibit A which shows the total amount of debt which was eligible for referral to Treasury for administrative offset, and for cross-servicing. This exhibit shows that total debt eligible for referral to Treasury for offset totaled $300 million as of September 30, 1998, and that $240 million of this amount - 80% of what was eligible -- was actually referred.

The $300 million reported as eligible for offset excludes $645 million which represents accelerated FHA multifamily debt delinquent over 180 days. This accelerated debt should not have been included in the information reported to Treasury as of September 1998 as we erroneously reported the total unpaid principal balance instead of just the amount of delinquent debt due and payable at that time.

Second, we added another column to this chart, "Intra-governmental and Non-Profit Debt," to reflect debt that should be excluded from what was eligible for Treasury offset and cross-servicing. About $314 million, or 88% of the $358 million in this category, relates to the defaulted portfolios of issuers of Ginnie Mae Mortgage Backed Securities. The entire defaulted portfolio, consisting of

mortgages insured or guaranteed by FHA or VA, is collectible from these agencies and is therefore not referred to Treasury for offset and cross-servicing.

Regarding the FHA Multifamily "In Foreclosure" figure of $255 million (top chart of Exhibit A), $123.5 million is actually in foreclosure, and the remaining $131 million will either go to foreclosure or be sold. We excluded the latter $131 million from referral eligibility because of the unique "non-recourse" feature of FHA's Multifamily mortgage loans. The Government may not go after the personal assets of the borrowers for these Multifamily mortgage loans, and therefore nothing can be gained by referring them to Treasury.

Finally, Exhibit A's bottom chart shows that $123 million (45%) of $274 million eligible was referred to Treasury for cross-servicing. Of the $151 million not referred, $109 million was referred by March 31, 1999, bringing to 85% the proportion of eligible that has been referred. New programming of an automated system allowed a cross-servicing referral backlog of FHA Title I notes to be cleared.

Let me say that HUD is in substantial compliance with the major provisions of DCIA.

- FHA manages credit risk using a variety of means. One is to require that all borrowers have an acceptable credit history, sufficient assets to close the mortgage loan, and sufficient income to repay the mortgage--all per traditional underwriting methods. In addition, FHA has approved an automated underwriting system that assigns an approval rating based on borrower characteristics, such as credit score, debt-to-income ratio, and loan-to-value ratio. This method has been demonstrated to be much more effective in controlling credit risk than traditional underwriting methods.

- HUD has developed a new consumer protection measure to reduce the number of families who default on FHA-insured mortgages and to remove poorly performing lenders from the FHA program. Under the initiative, HUD will use a new computerized system called Credit Watch to identify lenders with an above-average number of defaults and foreclosures involving FHA-insured mortgages.

- We have addressed the administrative offset and cross-servicing provisions of the Act by referring debt to Treasury for offset and cross-servicing when appropriate. We refer all new cases that meet the criteria, and we will discuss with Treasury how to refer remaining eligible delinquent debt.

- In the past, we have successfully used an asset sales program that has made us the leader in the Federal Government in this area, and we are in the process of designing and implementing a new asset disposition program to comply with new statutory requirements.

- 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.

- The Taxpayer Identification Number Implementation Report and Certification for FY 1998 shows that HUD had included the Taxpayer ID numbers on certified

payment vouchers for 99.8% of all payees. 100% compliance is expected by December, 1999.

HUD has been pleased to work closely with the Department of Treasury to implement the Debt Collection Improvement Act. HUD considers the efficient management of the debt collection process as an important public trust function, and I want to thank you for the opportunity to discuss our efforts.

I would welcome any questions at this time.

Department of Housing and Urban Development
Debt Referred to Treasury As of September 30, 1998

Exhibit A

Schedule of Debt Referred to Treasury For Offset

Program	Total Delinquent Debt over 180 Days	Debt Reported As Accelerated	ALLOWABLE EXEMPTIONS In Bankruptcy	In Foreclosure	In Adjudication	Intra-governmental and Non-Profit Debt (3)	Eligible for Referral to Offset by Agency	Referred For Offset As of 9/30/98
Single Family	482,442,901		47,454,679	97,012,434	319,630,094		18,345,694	0
Multifamily	969,706,369	645,811,260 (1)	60,758,928	254,718,299 (2)	7,738,909		678,993	0
Title I	336,156,412		82,398,979	345,597	15,749,137		239,662,699 (3)	239,662,699
Low Rent PH	12,744,972		-	-	-	12,744,972	-	0
Hsng - Eld & Disabld	23,598,597		-	-	-	23,598,597	-	0
Non-Profit Spsnr Assoc	7,777,192		-	-	-	7,777,192	-	0
GNMA MBS	314,249,484		-	-		314,249,484	-	0
Revolving Fd - Liquidtng	51,689,423		3,720,415	22,427,036	8,572,388	-	16,949,584	0
All Other	24,625,209		-	-	-	-	24,625,209	0
Total	2,224,970,579	645,811,260	194,333,001	374,503,365	351,690,528	358,370,245	300,262,179	239,662,699

(1) - At 9/30/98 all the delinquent debt over 180 days was inadvertently accelerated in error on the Schedule 9 receivables report. Consequently, it is removed here.

(2) - Of the $254.7 million, $123.5 million is in foreclosure and $131 million will go to foreclosure or be sold.

(3) - Represents GNMA debt which is due from other Federal agencies, and debt due from non-profit organizations and Housing Authorities.

Schedule of Debt Referred to Treasury For Cross-Servicing

Program	Eligible for Referral to Offset	At DOJ	Eligible for Referral for Cross-servicing	Referred For Cross-servicing As of 9/30/98
Single Family	18,345,694	9,418,788	8,926,906	0
Multifamily	678,993	11,566	667,427	0
Title I	239,662,699	7,602,635	232,060,064	(4) 123,000,000
Low Rent PH	-	-	-	0
Hsng - Eld & Disabld	-	-	-	0
Non-Profit Spsnr Assoc	-	-	-	0
GNMA MBS	-	-	-	0
Revolving Fd - Liquidtng	16,949,584	8,768,363	8,181,221	0
All Other	24,625,209	-	24,625,209	0
Total	300,262,179	25,801,352	274,460,827	123,000,000

(4) - As of March 31, 1999, all eligible Title I debt had been referred for cross-servicing.

Mr. HORN. We will begin with Mrs. Biggert. I yield 10 minutes to the gentlewoman from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Most of my questions probably go to Mr. Pestka. One of my involvements during this Congress is in the Bipartisan Results Caucus, and the Results Caucus is dedicated to improving government by working with the Federal departments and agencies to eliminate waste, fraud, and mismanagement. The caucus works with agencies and departments that have been deemed at high risk by the General Accounting Office.

One of the programs that has been listed is the Student Financial Aid Program. So as part of my work with this caucus, I will be focusing on this Department, and I look forward to working with you and your staff to remove this program from the high-risk list. So I do have a few questions to ask.

And, again, in my role in the Illinois General Assembly, I did deal with the Student Assistance Commission, and I can remember when there was a changeover from the banks actually doing the loan program to the Federal Government. As I recall, it must have been, what, 199——

Mr. PESTKA. 1995.

Mrs. BIGGERT. 1995. And there was some consternation there that the government was taking over something that the banks had been quite successful doing. I don't know—I assume that you were here then.

Mr. PESTKA. I was here then. I've been here for a while.

Mr. HORN. Sitting there before this committee.

Mrs. BIGGERT. Yes. Since I wasn't here, I don't know the background of that. But have you found that to be effective?

Mr. PESTKA. The new program has actually made the bank program more efficient, I think. What we see now is a great deal of competition in the form of good customer service to the students by the banks and by the Department. So I think it has worked out in favor of the students.

Mrs. BIGGERT. Has there been less default on the loans?

Mr. PESTKA. I don't think so. We projected that the direct loan program would be—since the terms and conditions to the student are the same as in the guaranteed program, we projected that defaults would be about the same, and our projections have turned out to be true.

Mrs. BIGGERT. Has there been an increase in the number of loans?

Mr. PESTKA. Loan volume has increased dramatically in the 1990's. We're lending in the neighborhood in both programs combined in excess of $40 billion per year.

Mrs. BIGGERT. Are there—how many students are turned down for a loan program?

Mr. PESTKA. Turned down? None. Students aren't turned down. Student loans are virtually an entitlement. As long as you're attending an eligible institution and go through the process, you receive your loans.

Mrs. BIGGERT. That hasn't changed?

Mr. PESTKA. No.

Mrs. BIGGERT. OK. But you are using the private collection agencies then to be an effective debt tool, a collection tool?

Mr. PESTKA. Yes. We do at the Department, and you will find that the guarantee agencies in the Federal Family Education Loan Program also use private collection agencies.

Mrs. BIGGERT. So you have—what—18 private collection agencies right now?

Mr. PESTKA. Right now, we have 17 under contract.

Mrs. BIGGERT. And what performance measures does the Department use to evaluate the effectiveness of these contractors?

Mr. PESTKA. We look at dollars collected, No. 1. We give 50 percent weight to dollars collected that could be—for the most part voluntary payments. Then we look at litigation, we look at wage garnishment, and we also look at administrative resolutions, since some of these debts should be forgiven and not collected. There are provisions in the Higher Education Act for loan forgiveness, and we pay the contractors to administer the closeout of those loans. So we strike a balance.

We also look at customer service, and we close accounts based on all of these measures. We do a triennial placement to collection agencies. And the best way to describe our program is, we run a horse race between the collection agencies, and a new race starts every 4 months, so the collection agency on the bottom can bring themselves up and get up on top if they work hard enough.

Mrs. BIGGERT. Within the contract, is a fee set that might differ from contractor to contractor?

Mr. PESTKA. They bid their fees, and they are slightly different, but roughly they average about 23 percent.

Mrs. BIGGERT. Do you have any evaluation from the student who might have been contacted by the collection agency? Is there a followup in how they were approached to collect the debt?

Mr. PESTKA. We collect complaints, and we're one of the rating factors, and we do take accounts away from collection agencies if there are complaints, and that weighting factor is in their evaluation process. So we do look at customer complaints very carefully.

Mrs. BIGGERT. Would there be any suggestions that you would have for changing the way that this is done?

Mr. PESTKA. The overall approach to collections or the use of private collection agencies?

Mrs. BIGGERT. Well, first of all, overall use and then by the private collection agencies.

Mr. PESTKA. Yeah—the overall approach to collections—we're trying to collect the most dollars at the lowest costs. So we're always looking for new ways to do the work. Some of the collection agencies in this room might—representatives in this room might understand that we're always try to drive those collection agency commissions down.

And student lending, the students are responsible for paying the collection agency's fee, so the benefit is to the student borrower.

But, overall, we're looking for an approach where we could combine a lot of our efforts and achieve the same revenue stream or achieve a greater revenue stream at lower costs. And that's one of the things that the GSA contractor that I spoke of that was looking at for us on our behalf and will be exploring new and different

ways to do collections. We might try a pilot program in the future to explore some of these alternatives.

Mrs. BIGGERT. About how long does it take a student to pay off a loan—10 years, 15 years?

Mr. PESTKA. The standard repayment term is 10 years, but we have—with greater student debt now, we have extended repayment plans that could go as long as 30 years.

Mrs. BIGGERT. Thank you.

Then for Mr. Ramirez, if I might.

Mr. RAMIREZ. Yes, ma'am.

Mrs. BIGGERT. In 1994 through September 1997, the Department had sales of multifamily loans and sales of single family loans, and I guess it amounted to 13 sales and you sold 1,093 multifamily and 98,640 single family loans, which resulted in quite a good saving of $2.2 billion budget. Why did you choose to discontinue these sales?

Mr. RAMIREZ. There was a period in which we evaluated the entire portfolio of our multifamily operation. In fact, we're in the process of, for the first time in the history of the Department and as a result of our 1996 HUD 2020 reform effort brought to bear by Secretary Cuomo, going out and inspecting the physical condition all of these properties, as well as for financial soundness to get a better handle on our investments and/or subsidies in these properties.

There was a period in which they were discontinued. We are working to reinstate the loan sale program for our multifamily mortgage loan operation, now that we've got—and already referring to our Enforcement Center—those projects that are deficient. And, they work either to reinstate them, because many times these loans are better to be reinstated and less costly to us then going through the whole foreclosure process and sale—but in instances where the property is in poor condition or it has been abandoned or is in accelerated delinquency, we do institute foreclosure process. We have a couple of hundred already that are being worked on around the country by our Enforcement Center. We see that growing as we continue through our reform and actual execution of our efforts.

Mrs. BIGGERT. Would that be true of the single family loans?

Mr. RAMIREZ. The single family loans, what we have done there is, we have now gone to a single contractor form of disposition in our sales. We just put our contracts into effect around the country; and, as a result, we anticipate creating greater efficiencies in that regard and creating a higher return when we do have to go to foreclosure, recognizing that we are helping some of the most low and moderate income families that have moved into homeownership. So, we make every effort first to try to remedy their delinquency, but if that does not work, we do move into foreclosure.

Mrs. BIGGERT. Thank you.

Thank you, Mr. Chairman.

Mr. HORN. Thank you. And I now yield 10 minutes to the gentleman from New York, Mr. Owens.

Mr. OWENS. Thank you, Mr. Chairman.

I do recall a hearing we had a few years ago that certainly aroused my interests in the whole debt collection process. I was

particularly concerned at that time about the Farmers Home Loan Mortgages.

I understand that the name of that has been changed. Is that still under—is it included in your figures here?

Ms. THOMPSON. Yes, it is, sir.

Mr. OWENS. What is it called now?

Ms. THOMPSON. FSA, Farmers Service Agency. And it's about $7 billion of farm loans, and that includes also some foreign debt as well.

Mr. OWENS. At this point it's $7 billion, the total outstanding loans for that thing?

Ms. THOMPSON. Yes.

Mr. OWENS. I recall the figure $14 billion in delinquencies at the hearing previously. Were the figures wrong at that time or has there been a drastic change in the new methods of collection?

Ms. THOMPSON. We did write off, you know, everything that was over the 18—2 years.

Mr. OWENS. Can you explain the term write-off? What is a write-off?

Ms. THOMPSON. OK. A write-off means that—while we're still carrying it on the books, it's no longer collectable. We then have turned it over to the IRS who has create what had they call a 1099(c), which means that it's income to the borrower which must be paid back before they can get an additional loan with the Federal Government.

Mr. OWENS. Can you give me the amount of the write-offs in the last few years?

Ms. THOMPSON. Since 1996, about $2.5 billion.

Mr. OWENS. $2.5 billion was written off?

Ms. THOMPSON. Yes.

Mr. OWENS. How about in the last 5 years?

Ms. THOMPSON. I don't have the number. I can give it to you.

Mr. OWENS. The figure $14 was very—really, it's not something that sticks out in my mind.

Ms. THOMPSON. I don't know where the number $14 billion has come from. I don't know what year you are talking about. I can get that you.

Mr. OWENS. Do you have any idea how much has been outstanding in Farmers Home Loan Mortgages at given moment in the last 20 years?

Ms. THOMPSON. In the last 20 years? No, but I would be glad to get you a complete reconciliation and go back as far as you would like.

Mr. HORN. Without objection. It would be put in the record at this point.

Ms. THOMPSON. In how much? Are you just interested in the farm loans? I can get you the whole portfolio.

Mr. OWENS. At that time we had a big chart, much more detailed information than we have here. I suppose in my files it is somewhere, but it just struck me that there was a tremendous amount of outstanding loans and delinquent loans in the Farmer Home Loan Mortgages, and overall the amount of outstanding delinquencies for the Department of Agriculture was much higher than it is here.

So what else—you had write-offs in other areas in addition to the Farmers Home Loan Mortgages? These other categories have write-offs, too, in addition to Farmer Home Loan Mortgages? These other catagories have write-offs, too?

Ms. THOMPSON. No. I think what probably is also in that $14 billion number, but I will certainly reconcile it, was what is now in the rural housing area. We split that out. And in the rural housing, we have about a $30 billion loan portfolio. Now, when you take——

Mr. OWENS. How much of that has been written off recently?

Ms. THOMPSON. That $2.5 billion is a total since 1996 for all of our loans in all of our portfolios.

Now, I can get you the breakdown of that in a schedule to reconcile that. And I will go back before the Department was reorganized to reconcile that $14 billion number to show you how it got split between housing and farm loans.

Right now, if you look at the net, that's a gross number, but when you put the interest rate and the subsidy rate in that in terms of the housing, it's about $20 billion. You know, in other words, it goes from 30 to 20, when you look at the net. If I look at what we have loaned since 1991 when the Debt Collection Act came in, in housing it's been about $7.4 billion.

So I would have to go back, as I said, to pull out those numbers and reconcile it before the reorganization. I would be more than happy to do that.

Mr. HORN. And that would be by Department internal unit, right?

Ms. THOMPSON. Yes.

Mr. HORN. OK. So the rural utility service would be one of those units?

Ms. THOMPSON. Yes, they would be.

Mr. HORN. OK.

Ms. THOMPSON. And they're together. If you take the water and the waste and telephone, electric, all combined together, it is about a $30 billion portfolio.

Mr. OWENS. In this $40 billion portfolio, are there limits in what an individual entity can borrow? Are there large entities there? You say rural housing, you think of families. Are we talking about corporations and large industries who borrow large amounts of money?

Ms. THOMPSON. No, most of that is in individual families. We do have some multifamily in there.

But, oh, yes, as I started out by conversation, we serve the underserved; and we're only there where the private sector isn't. And most of our borrowers, in fact, all of them, are low to moderate income. The interest rate on them is determined by their actual tax returns that they have filed with us, and they file those every year with us as well as the IRS.

Mr. OWENS. Hasn't your outstanding loan portfolio increased a great deal in the last 5 years?

Ms. THOMPSON. In some of the emergency loan area, yes, where we've had floods.

Mr. OWENS. Not the rural housing though?

Ms. THOMPSON. Not in the rural housing. Some of the guarantee has increased in the rural housing, and that's probably——

Mr. OWENS. Guaranteed?

Ms. THOMPSON. Guaranteed loans, which says we aren't making the direct loan. The lender makes the direct loan like the bank. But, like FHA, we guarantee a portion of it.

Mr. OWENS. How many delinquencies and what percentage of delinquencies would you have with the guaranteed program?

Ms. THOMPSON. Well, since in that guaranteed loan portfolio we've only made $3 billion since 1991, our delinquency is less than 6 percent.

Mr. OWENS. Now, at the hearing previously, there was a description of the process by which loans are handled, and there were credit committees consisting of nonstaff people in various parts of the country. A credit committee had to pass on a loan. Is that still the process where you have these credit committees consisting of lay people, locally appointed people who do that?

Ms. THOMPSON. In some types of loans, yes.

Mr. OWENS. Do those credit committees determine when a loan is delinquent? Can you—when is a loan delinquent? What is delinquency?

Ms. THOMPSON. Delinquency is when you miss 30 days and you——

Mr. OWENS. Only 30 days.

Ms. THOMPSON [continuing]. And miss a payment. Now, in some of the farm loans—yes, sir, on the housing loans that is the case. Some of the way the loan documents are written, like on the farm loans, payments are only due once a year.

Mr. OWENS. They're not delinquent unless you miss—your yearly payment comes due and you miss it, that's a whole year?

Ms. THOMPSON. If you think about a farm loan where the income comes in when you sell your crop——

Mr. OWENS. Sure.

Ms. THOMPSON [continuing]. So the loans are set up that that's when the payment is due.

Mr. OWENS. Who passes on information that a loan is delinquent? Are there lay committees followed in that, too? Does a committee determine when somebody is delinquent or is that strictly a staff automatic process?

Ms. THOMPSON. Actually, we have a very sophisticated computer center out in St. Louis and all of that information is in that computer system. And we have a large loan servicing staff out there, and every payment is entered into the system, and we have a history——

Mr. OWENS. Local lay committees cannot intervene in the system and hold back——

Ms. THOMPSON. No, they cannot.

Mr. OWENS [continuing]. And hold back the level of delinquency on any loan?

Ms. THOMPSON. No, I won't say that doesn't ever happen, but that isn't the process in place. There's always a case that sometimes that may happen, but the loan payments go into a central place now.

Mr. OWENS. One of the revelations that I'm remembering is that there are a number of millionaires, people who had considerable amounts of money who were delinquent and large amounts of

money, and they also sat on committees that made decisions. And some of those people who were delinquent was getting additional loans. What is the practice now? If you're declared delinquent or if you're written off, is there any way you can continue to get any kind of loan from the Department of Agriculture?

Ms. THOMPSON. No, sir. The only time that you would be eligible for a loan once your loan is either written off or it's been turned over to Treasury, which means that it's 180 days delinquent, would be in an emergency situation. With that emergency package that was just passed in the last session of Congress where we had some floods and some national disasters and some of the freezing weathers in the Dakotas and then, of course, some of the farm prices, we have waived some—because the legislation put it that way, we have waived some of those stands where we said we would not give a delinquent borrower additional funds.

We also waived that in the case of food stamps. A large part of our portfolio also includes food stamps.

Mr. OWENS. So the credit loan committees, are they changed with every political administration? Are they appointed by a process that sheers them from politics?

Ms. THOMPSON. The whole process obviously has been changed, both with the Debt Collection Act—that puts some things pretty black and white out there. Also, under Secretary Glickman's leadership, we have certainly tightened up the loopholes. We've—and certainly improved our computer systems. We have a ways to go. I would certainly tell you that.

Mr. OWENS. Are the committees appointed by county, State or what jurisdiction?

Ms. THOMPSON. Well, again, it depends upon the type of the loan that you're talking about. Farm loans are with the county. If you remember, we have a large group that are not Federal employees, but they're actually county employees in the county offices that are taking the loan applications and processing them.

Mr. OWENS. Just one last question. I just wanted to make certain that these committees have minimum influence now——

Ms. THOMPSON. Yes.

Mr. OWENS [continuing]. On the debt collection process and the delinquency process and that is——

Ms. THOMPSON. That's right.

Mr. OWENS. That's what I was trying to establish.

Ms. THOMPSON. The bank collection process is severely limited.

Mr. HORN. Thank you. Those are good questions, and we look forward to your entry into this point. And, without objection, it's in.

Ms. THOMPSON. Thank you, Mr. Chairman.

Mr. HORN. The gentleman from California, Mr. Ose, 10 minutes.

Mr. OSE. Thank you, Mr. Chairman.

I think my questions are primarily related to exhibit A on Mr. Ramirez's documentation.

Mr. RAMIREZ. Yes, sir.

Mr. OSE. If I understand the testimony correctly, we have loans outstanding that are directly made in some cases? We have loans outstanding where we provide the insurance?

Mr. RAMIREZ. Guarantees.

Mr. OSE. Guarantees. We have nonrecourse loans. We have recourse loans. We do have recourse loans.

Mr. RAMIREZ. Yes, yes, we do, yes, sir.

Mr. OSE. OK. And the single family—I always like to go where the big numbers are——

Mr. RAMIREZ. Sure.

Mr. OSE [continuing]. Where they just have a big impact, where there's a big number. And the four that come to mind under this exhibit are the single family, multifamily, title I and the Ginnie Mae mortgage-backed securities, if I understand your acronym correctly.

Mr. RAMIREZ. That is correct, sir.

Mr. Ose. The multifamily loans—having been in the real estate business, those are typically made to partnerships and the like where you're dealing with a general partner who has for a 15-year term, for instance, consented to provide market rate or below housing for a certain percentage of the units in the project.

I've got to tell you, $1 billion worth of delinquent debt in that category, with a quarter billion in foreclosure, I mean, that's going to get my attention. And I'm trying to figure out, again having been in the business of real estate and understanding how you structure partnerships and the debt that you use to create your projects, how is it that we accelerate or reduce the duration of the delinquency and get to the foreclosure so that we can recover the money that we've got outstanding and use in the second or third or fourth project somewhere else?

Mr. RAMIREZ. First, let me refer back to—I'm sorry.

Mr. OSE. I'm looking for a legislative remedy. Is there some tool that we can give you that accelerates that, having the borrower going in default and then having to mess around with it?

Mr. RAMIREZ. I would ask our FHA Commissioner to make a more specific recommendation to you as to the type of legislative relief that we could seek in that regard.

I did want to clarify the billion dollars number of over 180 days, that's $645—almost $646 million of that is total loan value. That was shown as accelerated——

Mr. OSE. Correct.

Mr. RAMIREZ [continuing]. And not the debt itself. Recognizing that, that all of these units are providing housing to some of the most low and moderate income families out in our country, we make every effort to try and reinstate by working with the property owners.

As I mentioned in my earlier comments, some of the things that we've done—borrowing led to legislative relief—is tighten up our inspection process by inspecting our entire portfolio both for physical and financial condition, and then finding where properties have been abandoned. If there is an accelerated deterioration of the property or an acceleration of the delinquency, they're now sent to an enforcement center that can accelerate that foreclosure process under our guidelines or work toward remedying the situation and bringing it current, bringing in a new general partner, a voluntary relinquishing of assets and such. In the past, that didn't happen.

Mr. OSE. That is where I wanted to get to. From my experience dealing with low and very low income housing, typically those

loans are made at a severely discounted rate from the market. And I must admit, I find it interesting, at the least, when the borrower comes back and then testifies or writes that at the discounted rate they cannot make the mortgage payment and, as a consequence, they have to have a renegotiation, blah, blah, blah.

What I would argue for is, as the lender, having made that loan for the specific purpose of encouraging someone to enter into a contract to provide low or very low income housing, that we get a little more ruthless relative to those borrowers and say, no, we're going to go ahead and move with foreclosure, because what we're concerned about is you deferring maintenance to preserve your returns on capital and the like or entering into some side agreements where tenants have to pay you cash for an extra bonus to stay in the place.

If the purpose of the housing in the program is to—excuse me, if the purpose of the program is to create the housing and the borrowers comes back and says after the fact that the deal is unsatisfactory, that's not my problem. And I've got to tell—that's just not my problem.

And what I'm trying to get to is a clear understanding that in instances where it is pure business, I mean, this is a business proposition——

Mr. RAMIREZ. Sure, absolutely.

Mr. OSE [continuing]. From the other side, from the borrower's standpoint, why are we granting any forbearance or relief or extensions whatsoever when, in fact, we have the ability to take those properties and run them for the purpose that we've funded them?

Mr. RAMIREZ. You're right. You're absolutely correct and on the mark with recognizing that, on the borrower's side, it is a business transaction.

There is another factor that comes into play, and that is the residence and making sure that that particular complex or project is not lost and, as a result, reduce the availability of where there is already a scare market for low and moderate income families.

To give you an example of what we've done over the last several years, we actually were up to about 2,300 properties in the multifamily category that were Secretary—held mortgages, in essence. We've reduced that to a little over 1,100 and, as a result, have reduced unpaid balances and kept units out in the market by a total of $5 billion as a result of us being more aggressive on the business side.

What slows that down at times is making sure that on the ground we're not creating a situation that will result in putting families out of housing as a result of our aggressive tactic in trying to deal with bad borrowers.

So I would just conclude by saying that I will be glad to refer your initial to the FHA Commissioner question as to whether there is any additional legislative relief that could be provided to us to help deal more expeditiously with the unscrupulous borrowers and property owners that are out there and property owners more expeditiously to the Commissioner and I will be glad to send you a response, sir.

Mr. OSE. I'm not suggesting they're unscrupulous. I'm saying they made a deal, and they can't live with it, and it's not my problem.

Mr. RAMIREZ. Somewhere, I will tell you, as a result of us coming out and inspecting these properties, we have found the exception, a small percentage, but some that are in there examining the operation.

Mr. OSE. Mr. Chairman, if I could, I will submit that in writing to the committee.

Mr. RAMIREZ. I will be glad to get that to you, sir.

Mr. HORN. Since everybody has had 10 minutes except me, I will only ask two questions of this panel, and all the rest of them will be sent to them.

Mr. OSE. Mine's still green.

Mr. HORN. Go ahead. We're having a lunch with the Secretary of the Treasury, too. So we ought to go.

Mr. OSE. Mr. Chairman, I will yield the balance of my time to you.

Mr. HORN. We have a vote coming up. So go ahead if you would.

Mr. OSE. My second question has to do with the single family thing, the HUD single family, either guarantees or direct loans.

I have purchased property that HUD owned by virtue of foreclosure or transfer from a borrower. I've paid—I mean, I've availed myself of the 2 percent discount for cash and all of that sort of stuff. The problem that I found on each of those structures is that when I went in to actually take possession of the property—the structures, by and large, were unoccupied for 9 to 12 months. The heating and air conditioning had been turned off. Some of the walls had warped. The doors had warped. The floors had warped. We had rodent infestations. And I've got to tell you, I mean I guarantee you, I flat guarantee you that the second time I bought a HUD property, I discounted what I was willing to offer it to reflect those flaws in the acquisition process.

And it gets me back to my point about the multifamily. Is there some way, legislatively, we can give you the remedy to shorten the duration between possession by virtue of transfer from a lender under the insurance—under an insurance claim or outright default and foreclosure? Is there some way to shorten that duration legislatively so that we get these properties back on the market?

Mr. RAMIREZ. Well, again, on the legislative piece itself, I will be referring to the Commissioner, and then I will be responding in writing to the committee.

One thing that we have done administratively to help accelerate the disposition of these properties that we do take over is that we've now contracted the disposition or the management and marketing of these properties. One of the problems that we had was when we took over that the properties sat in disrepair for several months, longer than the industry standard to turn around a sale. And so we've incentivized it with a management and marketing contract with several contractors around the country to handle that.

We're into, I guess, the third month of that contract that was finally executed. We're starting to see results. We anticipate a quicker disposition of the property, a higher rate of return as a re-

sult of not creating an opportunity for additional discounting on those properties and preserve more of our investment in those properties as a result of the foreclosure, Congressman.

Mr. OSE. I thank the chairman.

Mr. HORN. I thank you for that helpful line of questioning. That gets down to a lot of substance.

Let me just raise a few questions here, and then all the rest are going downtown. And from both the Democratic and Republican sides—and I have about 20 more I could ask. So you're all under oath in answering those questions, and thank you for your helpfulness if you will do that.

But, Ms. Thompson, I do want to ask you this. In your testimony you stated that only $1.6 billion of agriculture's $6 billion of delinquent debt is eligible to be referred to the Treasury for collection. I guess I'm asking how much of this difference is attributable to loans made or guaranteed under programs administered by the rural utility service.

Ms. THOMPSON. Well, that's a good question. I remember last year in my testimony when I was here we were talking about 15 properties that were of particular interest to you in the rural electric ones, and so I got you a very specific update on those. And most of those were under——

Mr. HORN. You might get that microphone a little closer.

Ms. THOMPSON. Most of those were under a lot of the nuclear power plants, cooperative; and I'm pleased to tell you that, without any restructuring, we have 11 of the 15 that are improving in their payment. They aren't quite current yet, but they are catching up. Two of them we did restructure but without any write-off to them. One is—we have two that we merged so that they could afford to make payments, and then we have one in bankruptcy.

But of the 15 that you're particularly concerned about—so those dollars that were related to those 15 are in that 4.4. I will get you the specific dollar amount on those.

Mr. HORN. OK. Have discussions been held within the Department on an exemption for the rural utility service from the Debt Collection Improvement Act? Any discussions been held like that?

Ms. THOMPSON. There are some, yes, and we have a proposal at Treasury right now. We've got the three entities that are involved with these, Justice Department, the Treasury and the Department of Agriculture, and they're all sitting down, and there's a proposal on the table to exempt some of those. And they're going to work that out together, and then they will sign a letter, all three of them, to you.

Mr. HORN. I guess I would ask, what's the basis and status for the exemption? Is Rural Utility Service covering up something?

Ms. THOMPSON. No, sir, it's not. And we talked about some complications, Treasury did. Whether you're talking about DOT or child support, well, in these rural utilities and electrics out there in rural America, there's some real complicated issues. A lot of them are particularly—this will be increased as the competition increases for rural—you know, you open up for utility companies, but nobody wants to go to my little town in Colby, KS, you know, to provide electricity. It's just not profitable. So you've got some of those.

Mr. HORN. I'm all for Colby, KS, just as I am for San Juan Bautista, CA, where I grew up on a farm.

Ms. THOMPSON. Right.

Mr. HORN. But I guess I would ask, what was the predecessor name of the rural utility service?

Ms. THOMPSON. You know, I've been there a year——

Mr. HORN. Was it Rural Electrification?

Ms. THOMPSON. Rural Electric, yes, yes.

Mr. HORN. I assume Rural Utilities took over what Rural Electrification was. It was a very needed program when I grew up in the 1930's in the Depression.

But, what got me into this whole debt collection thing was my outrage when they had given a loan to a person I believe in Sonoma, CA, several million dollars, he defaulted on the loan. He moved to Santa Barbara, CA, one of my favorite cities. We would all like to live there if we could afford it. He then goes back, they give him another loan, I think it was a 7-story office building, and he also had his mansion there.

Now, farmers, I want to help. I knew what it is to grow up on a farm. And I'm not keen on people that are looking for things to do when they've done all the farmers and, you know, 60 Minutes from time to time has had loans for ski lifts and everything out of this group, and I think we have a little problem there.

So, I hope they're not going to be exempted from that exception, because the whole purpose of this was to get the debts collected and my outrage at millions lost.

With that, I'm going to have to adjourn the meeting.

I would like to thank the staff in the meantime: Russell George, the staff director, chief counsel; to my immediate left, Randy Kaplan, our counsel; Matt Ryan, senior policy advisor; Matthew Ebert, policy advisor; Bonnie Heald, director of communications; in the corner, our staff assistant, Grant Newman; and Paul Wicker, intern; and Justin Schlueter, intern; and John Phillips, intern.

And we have for the minority, Faith Weiss, minority counsel; and Earley Green, minority staff assistant, and Cindy Sebo as court reporter.

With that, we are adjourned; and we can vote.

[Whereupon, at 12:17 p.m., the subcommittee was adjourned.]

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