Government Debt Collection Management and Performance

Doing more with less
All federal agencies are responsible for generating operational cost savings.\(^1\) To achieve more with less, CFOs must identify and analyze not only program costs but also public burden, tax receipt returns, and cross-program funding effects. To facilitate such efforts, the Office of Management and Budget (OMB) has directed most executive agencies to use shared service solutions for future financial system modernizations.\(^2\) OMB has established a process through which it and the Department of the Treasury can expand and improve federal shared service providers’ capacity. OMB also has directed federal agencies to explore both private and public shared service center solutions as ways to further enhance operational efficiencies.

One of the most challenging aspects of federal program management is improving the efficiency of revenue recovery efforts. Government agencies and affiliated entities all must manage receivables portfolios that include delinquent and defaulted loans, tax liabilities, benefit overpayments, fines, and fees. At the end of FY2013, total delinquent nontax debt stood at $212.5 billion, nearly double what it had been at the end of FY2009 ($107.5 billion). Also, delinquent nontax balances grew three times faster than delinquent collections between FY2007 and FY2011.\(^3\)

Historically, collections shared services (such as Treasury BFS) have been a second line of defense / back-up system for when agency-directed, specialized collection operations failed to recover aging debts. Today, however, one of OMB’s objectives is to develop a marketplace where both public and private providers may offer government agencies standard, multitenant financial solutions as the primary approach. Federal agencies’ revenue recovery efforts are a logical beneficiary of such a structure.

### Administrative foundation for federal master servicing of nontax receivables

**Statutes**
- Debt Collection Improvement Act
- Federal Claims Collection Act
- Agency statutes
- Fair Debt Collection Practices Act
- DATA Act

**Agency regulations**
- Bureau of Fiscal Service Regulations (31 C.F.R. Part 285)
- OPM Salary Offset Regulations (5 C.F.R. Part 550)
- Federal Claims Collection Standards (31 C.F.R. Part 900-904)
- OMB Circular A-127

**Agency/federal guidance**
- Managing federal receivables
- Agency policies
- Guide to the Federal Credit Bureau Program

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### Alternative recovery approaches: PCAs and PSSPs

The private collection agency (PCA) market is large and diffuse. More than 4,000 PCAs directly and indirectly employ nearly a quarter of a million people. In 2013 alone, PCAs recovered approximately $55 billion in revenue, which, while substantial, reflects only a fraction of the more than one billion accounts and $756 billion placed that year. The receivables PCAs collect cover a dozen major industry sectors, though approximately 40% of total volume is from health care services and another 25% is from federal and private student loan defaults.\(^4\)

Private shared service providers (PSSPs), or “master servicers,” have enhanced the traditional PCA outsourcing model by integrating individual PCAs into vendor networks and streamlining the coordination of those groups to provide creditors with even greater operational savings and revenue recovery results.

The process improvements — operational standardization, more rapid information flow, greater scale economies, and stronger risk management — align well with advantages and outcomes that OMB expects can be passed to federal agencies through a functioning provider marketplace.

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\(^1\) Presidential Executive Order from June 13, 2011, “Delivering an Efficient, Effective and Accountable Government.”
<table>
<thead>
<tr>
<th>Accounts receivable management master servicing infrastructure</th>
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</thead>
<tbody>
<tr>
<td><strong>Policies and procedures</strong></td>
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<tr>
<td>• Established change control process</td>
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<tr>
<td>• Current and relevant policies and procedures</td>
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<tr>
<td>• Desktop aids and training guides that reflect current procedures</td>
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<tr>
<td><strong>Technologies</strong></td>
</tr>
<tr>
<td>• End-to-end default systems with seamless account transfers</td>
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<tr>
<td>• Advanced call center technologies</td>
</tr>
<tr>
<td>• Interfaces enabling seamless two-way communication channels</td>
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<tr>
<td>• Real-time imaging system, data retrieval, and integration</td>
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<tr>
<td><strong>Decision tools</strong></td>
</tr>
<tr>
<td>• Contact center agents able to determine best loss mitigation option for borrowers</td>
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<tr>
<td>• Authority delegated to employees</td>
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<tr>
<td>• Customer segmentation and psychological matching</td>
</tr>
<tr>
<td>• Recovery decision processing that implements optimal recovery path from diverse options available</td>
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<tr>
<td><strong>Reporting</strong></td>
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<tr>
<td>• Operational dashboards that display real-time key performance indicators (KPIs)</td>
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<td>• Accurate and timely management decisions</td>
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<tr>
<td>• Exception reporting</td>
</tr>
<tr>
<td>• Process controls</td>
</tr>
<tr>
<td>• Staff performance monitoring</td>
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<tr>
<td><strong>Vendor surveillance</strong></td>
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<tr>
<td>• Vendor management programs</td>
</tr>
<tr>
<td>• Clear and up-to-date service level agreements (SLAs) to monitor performance</td>
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<tr>
<td>• Performance scorecards</td>
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<td>• Detailed and regular vendor risk assessments</td>
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Figure 1: PSSP best practices encourage default remedies, reduce handling times, increase agent skills, and improve the borrower experience
Improving government debt collection efforts with PCA portfolios

When compared to PCAs, first-party (in-house) collections services attached to government agency creditors enjoy a number of regulatory and operational benefits, including a less onerous regulatory framework, better access to consumer data, greater enforcement authority, and the opportunity to realize internal economies of scale. They also benefit from access to legacy agency data without needing to harmonize it for cross-agency sharing purposes.

Yet government agency creditors also incur substantial direct costs as a result of loan collection, loan loss, and litigation activities. Not only are these costs difficult to assign accurately — which can be a challenge from a budget management perspective — but in-house collection efforts also expose agencies to differing levels of reputational risk that may adversely impact operational structure and revenue recovery. In addition, budget challenges can make it difficult to invest in new outreach and payment processing technologies or to efficiently adjust performance-oriented staffing levels.

Outsourcing helps agencies and firms better manage these uncertainties and risks, and also can bring other benefits:

- Allows firms greater flexibility to scale in specialized labor and technological expertise, typically boosting and accelerating service quality.
- Tends to lower operational and recruitment costs, and lets creditors focus more on their core processes and activities.
- When coupled with performance-based contracting, enables creditors to shift certain operational and regulatory risks off their own balance sheets while minimizing the cost through a competitive placement infrastructure.

There are a number of outsourcing benefits to using PSSPs, including specialized operational expertise, technology access, and portfolio performance optimization. Injecting private sector subject matter expertise into the government operations model allows agencies to quickly leverage proven past performance. Private sector collection offers government creditors ready access to cost-cutting and efficiency-enhancing technology, including behavioral data analytics, state-of-the-art predictive dialers, consumer communication modes and online payment solutions. At the same time, account assignment within and across a portfolio of private collectors improves revenue recovery while driving partner vendors to maximize revenue recovery and minimize program costs.

Federal and state compliance requirements make it an option for federal agencies to use PCAs for collections functions. It’s an option that may reduce operational and reputational risk, ensure performance success via explicit SLAs with KPIs, and provide a governance structure that minimizes agency and operational risk.

Challenges to outsourcing, particularly in the case of a portfolio of vendors, include managing hidden acquisition costs and streamlining overall coordination. The costs of searching for, negotiating with, and contracting with vendors are significant, as are policing costs via audits. Plus, the ability to effectively leverage a roster of vendors requires being able to manage performance tracking, data exchange, dynamic account placement and re-placement, and individual vendor compliance.

Coordination and acquisition both can be costly, which is why PSSPs can be so valuable. Agencies outsource to save costs and improve revenue recovery. When a PSSP steps in and streamlines vendor acquisition and overall management, government agency creditors can benefit from additional cost savings and operational efficiencies through the PSSP’s economy of scale.

Figure 2: PSSP best practices encourage default remedies, reduce handling times, increase agent skills, and improve the borrower experience

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1. Fedasseyu and Hunt (2014), “The Economics of Debt Collection: Enforcement of Consumer Credit Contracts.” By distancing creditors from debt collection activities, PCAs that simultaneously service multiple creditors may have stronger incentives to pursue more intense debt collection activities and subsequently generate higher revenue recovery rates than in-house collectors.
Certainly, government agencies can optimize their own in-house collection functions. Revenue recovery performance, however, still can be adversely affected by internal transaction costs, task-coordination activities, and higher costs and operational complexities — even when using a governmental cross-agency shared service. Provided that the fees paid for third-party collection via PCAs do not exceed the cost of collecting the debt itself, it makes good financial sense for government agencies to take a deeper look at outsourcing such activities through a PSSP.\(^7\)

**Using a proof of concept trial to validate the predicted benefit**

Shifting to a PSSP structure can be a substantial commitment. One way for government agencies to evaluate the benefit of employing such a solution is to implement a proof of concept that can yield comparative results. Creating a low-cost, low-impact pilot program that employs uniform measurement and data standards enables agencies to develop detailed and context-relevant indicators to benchmark performance against their in-house collection systems. An initial proof of concept can establish success metrics, KPIs, and SLAs that all can be validated against actual internal costs and constituent satisfaction metrics across a range of operational cycles.

Once a PSSP’s value has been established, the agency and the PSSP can develop uniform standards and implement a common technology platform. A platform delivered through a cloud implementation can serve the agency’s entire enterprise and lay the foundation for a cross-agency shared services platform supporting a government-wide collections operation.

**Case study: U.S. Department of the Treasury and Bureau of the Fiscal Service (BFS)**

Treasury, through BFS, borrows money needed to operate the federal government, accounts for the resulting debt, and provides reimbursable support services to federal agencies for the collection of nontax debts owed to the United States. BFS’s legislative mandate for collections is outlined in the Debt Collection Improvement Act (DCIA) of 1996. Federal nontax debts may arise from a number of sources, including direct or guaranteed loans; overpayments to federal employees, contractors, or benefit recipients; and unpaid fees, fines, and penalties. If the United States cannot collect debt owed to it, it must eventually terminate its collection efforts and realize the loss. The more debt the United States collects, the less it must borrow or tax to fund government services.

Federal agencies have a legal responsibility to collect debts owed to the United States, as required and authorized by various laws. (See “Administrative foundation for federal master servicing of nontax receivables”, earlier.)

Agencies can refer their debts to BFS for collection. Per the Agency Debt Collection Manual, agencies must service and collect debts — including defaulted guaranteed loans they have acquired — in a manner that best protects the value of the assets. BFS provides additional mechanisms to ensure effective fiscal stewardship. These servicing activities for nontax obligations can be carried out by the agency, by BFS as an agent for the agency, by a third party (such as a private lender or a guaranty agency), or by a private sector firm.

**Federal collection tool options**

<table>
<thead>
<tr>
<th>Tool Type</th>
<th>Example</th>
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<tbody>
<tr>
<td>Installment payments</td>
<td>Treasury offset</td>
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<tr>
<td>Non-centralized offset</td>
<td>License revocation</td>
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<td>Late charges</td>
<td>Credit bureau reporting</td>
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<tr>
<td>Cross servicing</td>
<td>Barring delinquent debtors</td>
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<tr>
<td>Private sector collections firm</td>
<td>Administrative wage garnishment</td>
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\(^7\) For more on the challenges of comparing in-house and third-party collection approaches, see the U.S. Government Accountability Office’s September 2010 study on the Internal Revenue Service’s evaluation of its private debt collection program: [http://www.gao.gov/assets/320/310079.pdf](http://www.gao.gov/assets/320/310079.pdf)
Unless otherwise exempt, the DCIA requires federal agencies to transfer any nontax debt that is over 180 days delinquent to Treasury/BFS for debt collection action (31 C.F.R. Part 285). Agencies also may refer debts that are less than 180 days delinquent. BFS, as the agent for individual agency portfolio management, then assists the agency in improving credit management and recovery, realizing administrative savings, and/or initiating prepayment.

BFS can leverage both private and public sector tools to process and manage its portfolio of delinquent and charged-off debt. These tools include:

- Demand letters
- Internal agency offset
- Treasury Offset Program (TOP)
- Administrative wage garnishment
- Contracting with private collection agencies.

Private sector contractors providing various types of asset services — including loan servicing, asset management, and debt collection — are available through the General Services Administration’s Multiple Award Schedule for Financial Asset Services. For collection efforts to be successful, it is critical that agencies promptly refer eligible delinquent debts to Treasury. Since enactment of the DCIA, Treasury’s role as a revenue asset recovery center of excellence has grown considerably. In FY2015, BFS has collected more than $11 billion per month.

Navient (NASDAQ: NAVI) is the nation’s leading loan management, servicing, and asset recovery company. A leading provider of asset management and business processing solutions, Navient has dedicated more than 40 years to financing higher education. The company brings a unique set of capabilities across every aspect of lending, servicing, and asset recovery and has achieved industry-leading scale, servicing 12 million customers and more than $300 billion in assets.

Navient Portfolio Management (NPM) is an asset recovery management (ARM) master servicer providing an ecosystem that offers:

- Collection agency contracting and management
- Big data predictive analytics
- Systematic inventory management
- Risk management and auditing
- Reporting

With more than $20 billion of charged-off and/or defaulted assets under management, NPM leverages a network of third-party collection agencies to collect more than $1.1 million every business hour on behalf of public and private sector clients. In 2014 alone, Navient recovered more than $2.4 billion. Today, it manages one-fifth of all federal student loans. Navient’s clients hold the top six positions in the U.S. Department of Education’s collection rankings. Two success stories are outlined on the next page, showing how Navient helped improve outcomes for not-for-profit student loan guarantors.

About Navient

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For more information about NPM, please contact:

**Public Sector**
Kerry Trahan, Vice President
(703) 984-6669
kerry.trahan@navient.com

**Private Sector**
Eric Johnson, Senior Director
(317) 348-9119
eric.johnson@navient.com

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8https://www.fiscal.treasury.gov/fsservices/gov/debtColl/dms/debt_home.htm
9http://www.gsa.gov/portal/category/26247
10http://www.gsa.gov/portal/category/26247
Background

Collections approach prior to engaging NPM: Internal team supplemented by third-party PCA vendors
Scope of NPM’s support: ARM master servicing of defaulted federal student loan portfolio
Contract period with NPM: 2012 to present

Improved outcomes, working with NPM

<table>
<thead>
<tr>
<th></th>
<th>Louisiana Office of Student Financial Assistance (LOSFA)</th>
<th>Oklahoma College Assistance Program (OCAP)</th>
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<tbody>
<tr>
<td>Improvements in</td>
<td><img src="chart1.png" alt="" /></td>
<td><img src="chart2.png" alt="" /></td>
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<tr>
<td>U.S. Department</td>
<td>Prior to NPM: 25th to 1st</td>
<td>Prior to NPM: 27th to 1st</td>
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<td>of Education’s</td>
<td>Partnering with NPM: 4th to 2nd</td>
<td>Partnering with NPM: 5th to 3rd</td>
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<td>collection rankings</td>
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<td>Improvements in</td>
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<tr>
<td>liquidity rates</td>
<td>Prior to NPM: 26.80% to 29.44%</td>
<td>Prior to NPM: 28.23% to 30.28%</td>
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<tr>
<td></td>
<td>Partnering with NPM: 37.05% to 37.01%</td>
<td>Partnering with NPM: 34.96% to 35.23%</td>
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<tr>
<td>Incremental</td>
<td>• 2013: $1.83M</td>
<td>• 2013: $2.20M</td>
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<tr>
<td>revenue produced</td>
<td>• 2014: $1.88M</td>
<td>• 2014: $2.53M</td>
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<td></td>
<td>• TOTAL: $3.71M</td>
<td>• TOTAL: $4.73M</td>
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About the author

Carlo Salerno, PhD, is an economist in the greater Washington, D.C., area and an internationally recognized expert on college access and affordability issues. His career has spanned corporate, government, and entrepreneurial work, developing policy solutions and corporate tools that support novel approaches to higher education financing challenges. He writes about college financing for *Forbes* and *Inside HigherEd*. Find Carlo online: @EDAnalyst linkedin.com/in/carlosalerno