



March 2007

Re: FY 07 Collection Costs on Defaulted Loans held by Department of Education and Managed by Borrower Services – Collections Group

The collection cost charged on a payment on a defaulted FFELP loan held and collected by the Department does not exceed 24% of the interest and principal satisfied from that payment.

Currently, the Department places approximately 95% of the defaulted FFELP loans it holds with private collection agencies (PCA) for recovery. The Department incurs a contingent fee charge for a voluntary payment or garnishment recovery on these debts. The Department applies 19.36% of each such voluntary payment or AWG recovery to defray the cost incurred for that contingent fee. The remaining 80.64% of the payment is applied to principal and interest accrued on the debt as of the date on which the payment is credited to the debt.

Thus, for a \$100 payment/recovery, the collection costs are 19.36%, and the Department applies 19.36% of that recovery (\$19.36) to defray that cost. The remainder (\$100.00 - \$19.36 = \$80.64) is applied to interest and principal. The amount applied to collection costs (\$19.36) is 24% of the amount (\$80.64) applied to interest and principal.

Stated in terms of the formula in 34 CFR 30.60 referenced in 34 CFR 682.410(b)(2):

$$\text{debt (principal \& interest)} \times \frac{1}{1 - \text{collection cost (19.36\%)}} = \text{total charge}$$

$$\$80.64 \text{ (principal \& interest)} \times 1.24 = \$100.00 \text{ total payment.}$$

Therefore, the amount *applied* to collection costs for a defaulted borrower payment may not exceed 19.36% of that payment - the limit of what would be applied if the account were held by the Department of Education.

The Department of Education assumes that each Guaranty Agency will make this change at their normal annual update time.

830 First St. N.E., Washington, DC 20202
www.FederalStudentAid.ed.gov
1-800-4-FED-AID