

## THE HEAVY COSTS OF THE GOVERNMENT'S PARTNERSHIP WITH DEBT COLLECTION AGENCIES

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### Overview of Federal Direct Loan Debt\*

Of the total outstanding Direct Loans, about \$1 out of every \$5 is past due.

<b>Total Direct Loans</b>	<b>\$686</b> BILLION
<b>Delinquent Direct Loans</b>	<b>\$89</b> BILLION
<b>Direct Loans in Default</b>	<b>\$38</b> BILLION

\*Source: U.S. Department of Education, Federal Student Loan Portfolio (June 2014).

Note: Numbers have been rounded. Direct Loans are student loans made by the U.S. Department of Education. The government went to 100% Direct lending in 2010.

### Commission Paid to Debt Collection Agencies by Activity

Tom has a Direct Loan and owes \$10,000. The Department of Education has assigned his loan to Collection Agency XYZ. The table below shows the amount of money Collection Agency XYZ will earn for each type of debt collection activity.

#### Amount of commission based upon the amount and type of payment

COLLECTION ACTIVITY	PAYMENT AMOUNT	COMMISSION EARNED
Tom makes a voluntary student loan payment	\$150	16% of Tom's payment (\$24 per \$150 payment)
Administrative Wage Garnishment	\$150	14% of the payment (\$21 per \$150 payment)
Loan Rehabilitation	9 monthly payments of \$5/month*	\$1300
Loan Consolidation	As little as \$0 if borrower selects income driven repayment	\$250
Total and Permanent Disability Loan Cancellation	N/A	\$150

\*The payment amount is calculated using the new rehabilitation formula discussed later and assuming an income of \$1000 per month. The commission is earned once the nine payments have been made. The nine payments can be spread out over a ten-month period.

### Comparison of a Borrower's Monthly Rehabilitation Payment Under the Balance Sensitive Repayment Formula and the New Formula Implemented July 1, 2012

*Under the old system, prior to July 2012, Brenda's payment was based upon her loan balance, for example:*

If Brenda's balance is:	Her monthly payment will be:
\$5000	\$64.50
\$10,000	\$114.00
\$20,000	\$200
\$30,000	\$261
\$50,000	\$380

*After 2012, Brenda's payment is based upon her income, for example:*

If Brenda's income is:	Her estimated monthly payment will be:*
\$10,000	\$5
\$25,000	\$94
\$50,000	\$406
\$75,000	\$719

*\*Assuming family size of 1.*

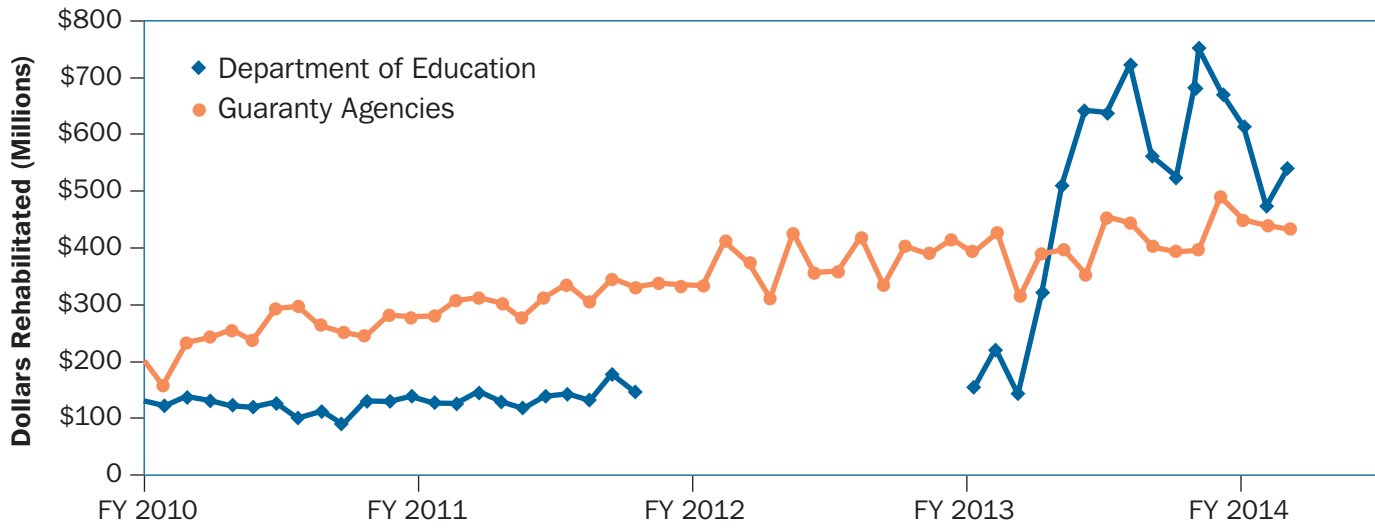
## Competitive Performance and Continuous Surveillance (CPCS) Scoring Criteria

The Department of Education's evaluation rubric for ranking and allocating accounts.

CATEGORY	DEFINITION	HIGHEST POSSIBLE SCORE IN CATEGORY
Dollars Collected Percentage	Gross amount of dollars collected divided by the average balance of the accounts placed with the contractor for the past four quarters	70
Account Servicing Percentage	The sum of the total accounts approved for administrative resolution and the payments received on non-administrative resolution accounts divided by the total inventory of contractor accounts	20
Administrative Resolution Percentage	The percentage of accounts resulting in a non-cash resolution, including discharges for disability, death, etc.	10
Small Business Subcontracting <sup>29</sup>	The extent to which a collection agency subcontracts work out to small businesses	5
Service Quality	A variety of performance factors, including accuracy, bounced checks, and customer satisfaction.	Undefined and unused

### VOLUME OF STUDENT LOAN REHABILITATIONS OVER TIME BY LOAN HOLDER

Prior to 2012, rehabilitations by both guaranty agencies and the Department of Education's debt collectors remained fairly consistent. However, after the Department policy change in July 2012, which amended the contract to pay debt collectors the full commission rate for rehabilitation payments based upon the borrower's income instead of only paying for rehabilitation payments based upon the loan balance, Department rehabilitations skyrocketed. The guaranty agencies had no such policy change and no such spike in rehabilitations.

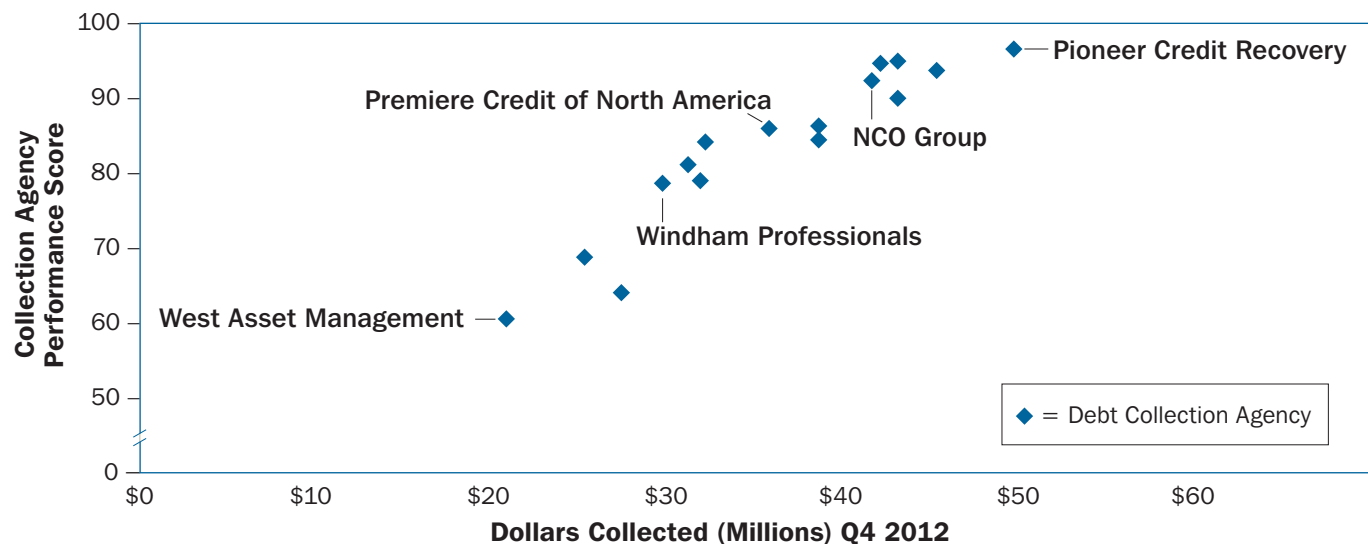


Source: U.S. Department of Education.

Note: Department of Education data was not available for September 2011 to October 2012.

### Relationship between Performance Score and the Dollar Amount Collected by Department of Education Debt Collectors (Small Businesses Excluded)

There appears to be a strong correlation between the overall evaluation score given by the Department of Education and the amount of money a collection agency is able to collect. (See Appendix A for details.)



Source: U.S. Department of Education (NCLC Freedom of Information Act Request).

### Relationship between Performance Score and the Number of Complaints for Department of Education Debt Collectors (Small Businesses Excluded)

There is no discernible relationship between the number of complaints about a collection agency and the overall evaluation score given by the Department of Education. (See Appendices A and B for details.)



Source: Complaints: Federal Trade Commission (2012); Better Business Bureau Complaints (Mar 17, 2011–Mar 16, 2012). Scores: U.S. Department of Education (NCLC Freedom of Information Act Request). One collection agency, FMS Investment Corp., was omitted due to missing complaint data.