May 2008

To: All Guaranty Agencies
Re: FY 08 Collection Costs on Defaulted Loans held by Department of Education and Managed by Borrower Services – Default Resolution Group

Each year the Department calculates the maximum collection cost, which can be charged by a Guaranty Agency for regular payments based on contingency fees incurred by the Department for doing collections. (34 CFR 30.60(b) - (d))

The Department incurs a contingent fee charge for "regular payments", which includes a voluntary payment or garnishment recovery on FFEL debts. Excluded from regular payments are recoveries from the Treasury Offset Program, recoveries by the Department of Justice, or recoveries from the Federal Salary Offset Program since all of these payments are from internal government agencies. Recoveries from loan rehabilitations and loan consolidations are also excluded since regulations already state specific maximum collection cost rates that can be assessed for these recoveries.

The collection cost charged on a regular payment for a defaulted FFELP loan, held and collected by the Department, does not exceed 24.34% of the interest and principal satisfied from that payment. The Department applies 19.58% of each such voluntary payment or AWG recovery to defray the cost incurred for that contingent fee. The remaining 80.42% 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 19.58%, and the Department applies 19.58% of that recovery ($19.58) to defray that cost. The remainder ($100.00 - $19.58 = $80.42) is applied to interest and principal. The amount applied to collection costs ($19.58) is 24.34% of the amount ($80.42) applied to interest and principal.

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

$$\text{debt (principal \& interest)} \times \frac{1}{1 - \text{collection cost (19.58\%)}} = \text{total charge}$$

$80.42 (principal & interest) x 1.2434 = $100.00 total payment.

Therefore, the amount *applied* by a guaranty agency to collection costs for a defaulted borrower payment may not exceed 19.58% of a regular payment - the limit of what would be applied if the loan 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.**