



F E D E R A L  
S T U D E N T A I D  
*We Help Put America Through School*

**“As-Is” DMCS**  
**Business Functions**



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## **New Debts**

The New Debts Account Setup process is comprised of two primary processes:

Loading New Debts onto DMCS  
Servicing New Debts

### **Loading New Debts onto DMCS**

The New Debts Subsystem receives and processes loan data from the following sources:

Lenders -- for defaulted FISL loans  
Guaranty Agencies (GAs) – for defaulted FFEL loans (includes Stafford Subsidized, Stafford Unsubsidized, PLUS, and Consolidation)  
Direct Loan Servicing – for Direct Loans (includes Stafford Subsidized, Stafford Unsubsidized, PLUS, and Consolidation)  
Schools – for defaulted and non-defaulted (i.e., Closed School) Perkins loans and grant program overpayments (POVRs)

New Debts from each of the above sources are subject to a series of manual and system edits prior to loading the debts into DMCS. The following sub-paragraphs provide a high-level overview describing how each of the New Debt loan types are loaded to DMCS.

### **FISL Loans**

All Lenders submit their defaulted FISL accounts to ED-SLPC via hardcopy using ED Form 1249 (Request for Collection Assistance under Federal Insured Student Loan Program).

These FISL accounts must be manually entered into DMCS by SLPC personnel via the D100 series of screens.

SLPC personnel also image collateral documentation associated to the borrower's debt (i.e., promissory notes, indemnification agreements, judgments, etc.). Note that it is not a requirement for all collateral documents to be imaged before loading a FISL debt into DMCS. The submission of supporting paper documents by Lenders usually lags behind the actual debt loading into DMCS.

Edits are performed against FISL loans and are then loaded into DMCS if all edits are passed. SLPC has key entry functions that aid in ensuring that the data is entered correctly and accurately (i.e., fields that must contain alpha or numeric fields, certain numeric fields must add up to total what was entered in another field). There is also a Dollar check to verify that the amounts entered actually equal the final summed total on the form. If any of the required data is not provided, the account is rejected

For approved FISL claims, a weekly batch process is run to provide payments to Lenders for reimbursement of defaulted loan amounts.

Once the new FISL debt is loaded into DMCS, hardcopy results (processing reports, error reports) are mailed to the Lender.

### **FFEL Loans**

There are 3 instances in which accounts come from GAs to DMCS:



Mandatory/Voluntary Assignment – mandatory assignments are handled via an agreement between GAs and FSA as to when and how defaulted loans at the GAs will be allocated to FSA.

GA Special Offset Assignment – this was a one-time IRS offset that occurred in 1995-1996. It has not been performed again since that time.

GA Closure Assignment – When a GA closes, a portion of the defaulted portfolio is turned over to DMCS for collection while another portion usually gets distributed equally across the remaining GAs.

All defaulted FFEL loans are submitted to DMCS by Guaranty Agencies (GAs). Most GAs submit their accounts on magnetic media. However, some smaller GAs still submit FFEL accounts via hardcopy. In addition to the FFEL loan data inputs, GAs must also submit the following documents to ED-SLPC via hardcopy:

Mandatory Assignment Transmittal Form

Assignment Letter

Media Selection Form (if GA wants ED to transmit return data via computer tape/disk.

Debts that come in via magnetic media (i.e., tape) are loaded into DMCS via the FALCON system. Hardcopy GA inputs must be manually entered into DMCS by SLPC personnel via the D100 series of screens.

A series of preliminary edits are performed against the FFEL defaulted loan inputs. If errors exceed a predetermined “threshold”, the entire tape and/or hardcopy files are rejected and returned to the GA (for re-submission) along with an error report generated by SLPC. If accepted, a request is made to the GA by SLPC to obtain the collateral documentation related to the FFEL defaulted loan inputs. Collateral documentation can include promissory notes, indemnification agreements, judgments, payment history information, any applicable litigation documents, and the original loan application.

Note: It is not a requirement for all collateral documents to be imaged before loading a FFEL debt into DMCS. For additional details on imaging and document warehousing, refer to the “Imaging and Document Warehousing” paragraph at the end of Section I (Loading New Debts).

The GA submits the collateral documentation to SLPC. SLPC assembles a collection packet.

Another series of various manual & system edits are performed against the FFEL defaulted loan inputs. If errors are encountered, SLPC returns the collateral documentation (along with an error report) to the GA for correction/re-submission.

Manual edits include online verification comparing certain promissory note (p-note) fields with the loan records. In some cases, the manual edits are bypassed completely. In other cases, only the verification that the SSN is correctly listed on the manifest (which accompanies the magnetic media input) is required. The decision to bypass some or all of the manual verification steps is controlled by ED.

Data, which passes all edit criteria, is then loaded into the DMCS database.

Once the new FFEL debt is loaded into DMCS, the “GA Load Database Report” (containing processing results) is returned to the GA via hardcopy.

### **Direct Loans (DL)**

All defaulted DL loans are submitted to DMCS by the Direct loan Program (DL Loan Servicing) via EFT. These DL accounts that are transferred to DMCS via EFT require no manual intervention. The only requirement is that DMCS must receive/process the debt's image files from DL before the accounts can be worked in DMCS.

There are currently a number of issues with the transferring of images between the two systems that is amounting



to potentially huge losses for DMCS in terms of collected debt. Note: this imaging requirement only applies to Direct Loans. It is not a requirement for documents related to the other loan types (FFEL, Perkins, FISL, etc) to be imaged before working a debt on DMCS. Currently, there is a task order being developed to remove this requirement for the image to be transferred with the account before loading.

Various system edits are performed against Direct Loans and are then loaded into DMCS if all edits are passed. Records in error are rejected and electronically transmitted back to the servicer for resubmission, along with the appropriate error code(s) generated.

Name mismatch errors are researched and corrected by the Student Loan Processing Center (SLPC) personnel via CICS on-line screens.

Once the new DL debt is loaded into DMCS, processing results and reports are returned to the Direct Loan Program via EFT or hardcopy.

### **Perkins Loans and POVRs**

All defaulted Perkins (aka NDSL) loans and Grant Program Overpayments (POVRs) are submitted to DMCS-SLPC by Schools via hardcopy. Schools complete ED Form 553 (Perkins Loan Program Assignment Form) for defaulted Perkins loans.

SLPC Personnel must manually enter hardcopy School inputs into DMCS via the D100 series of screens.

SLPC personnel also image collateral documentation associated to the borrower's debt (i.e., promissory notes, indemnification agreements, judgments, etc.). Note that it is not a requirement for all collateral documents to be imaged before loading Perkins loan debts and POVRs into DMCS.

Various manual & system edits are performed against the defaulted Perkins loans and POVRs.

Data, which passes all edit criteria, is then loaded into the DMCS database.

Once the new Perkins debt or POVR is loaded into DMCS, processing results and reports are returned to the school via hardcopy.

### **Non-defaulted Perkins Loans due to Closed Schools**

When a school closes for any reason, the department becomes responsible for portfolios outstanding at the school. These loans are called "Closed School" loans. As long as regular payments are made and do not go into arrears, borrowers receive 'Non-default' bills and letters; otherwise, the loans are accelerated and become 'Defaulted' and are processed in the same manner as any other defaulted debt.

SLPC inputs the Perkins Loan Program Assignment into the 553-P Worksheet.

SLPC then manually enters the loan information from the 553-P into a clipper database application.

SLPC prints a screen shot of the account from the database application and manually enters the information into DMCS via FALCON.

### **Imaging and Document Warehousing**

During the account setup process, SLPC Personnel review any documents that come with the account to identify documents that must be retained to support the validity of the debt. Documents will fall into 3 categories:



image and warehouse/maintain hardcopy (Important),  
image and destroy hardcopy, or  
destroy hardcopy (dupes, insignificant account information, junk sent over with debts, etc.)

When documents are imaged, they are fed into a feeder file. All files imaged through SLPC can be found on the W202 screen. Files imaged by PIC will not be seen on this screen. The only way to determine if PIC has imaged files for certain loans is via Notepad.

Any documents outside of the initial image files, that are worked from PIC or the regions that need to be imaged are imaged on the PIC image system. There is a work order in place to enable SLPC to view and receive critical image files from PIC in order to serve as the central repository for all critical documents (i.e., death certificate, discharge notice, etc.) The Regions can currently view images on PIC's image system.

There are exceptions to the imaging process. HEAF accounts (Higher Education Assistance Foundation) were all stored on Microfiche. There is no paperwork and they do not make hardcopies of these debts due to lack of picture quality. Once again, the W202 lets users know how the borrower documentation is stored.

One other exception is the New York GAs. Some of the time they send hard copies, but most of the time they send things in Microfilm format. There is also no way of knowing what is on any particular reel of Microfilm without the Index and SLPC does not have an Index of these films. They have to access the NY GA's system index to determine where to find a particular borrower's debt information.

### **Servicing New Debts**

“Servicing New Debts” is the second component of the New Debts Account Setup process. It immediately follows the loading of New Debts into DMCS. After loading a New Debt into DMCS, SLPC sends an Initial Contact Notice (N03 Letter) to the borrower requesting payment of debt. DMCS also conducts a check to see if the borrower's account is already with a PCA. If yes, the debt is assigned to a PCA as part of the weekly collection agency account adjustment file. If the borrower's account is not already with a PCA, FSA-Debt Collections attempts to collect on the debt.

Upon successful delivery of the N03 Letter, the borrower can respond by sending a payment to NPC or by calling PIC to discuss a payment plan or request a loan discharge. If the borrower refuses to pay and a minimum of 60 days has passed since the date the new debt was loaded, the debt is eligible for reporting to the credit bureau. At this point, the account could be assigned to a PCA or an “in-house” FSA collection tool/technique (such as TOP, AWG, FDP, Consolidation, Rehabilitation, Compromise, Litigation, etc.) may be utilized. If and when a borrower agrees to payment plan, billing cycle information is updated in DMCS and a bill (coupon) is sent to the borrower until the account is “paid-in-full/satisfied-in-full”.



## **PCA Assignment & Reporting**

### **PCA Reporting Summary**

Collection Agency Reporting provides the Department of Education with a management system for default accounts. Upon request, accounts meeting selection criteria are selected from the DMCS database. Eligible accounts are assigned for uniform random transfer to collection agencies. Transfer media are either tape or EFT. Monthly performance reporting enables the Department of Education to monitor the accounts assigned to collection agencies. Daily processing allows for account adjustment, account recall, or account return to the Department of Education from the collection agencies via file transfers of tape or EFT. Account and debt extract files are created and are input into the monthly reporting function and account transfer process. Once the accounts are transferred to a collection agency, the borrowers will be notified via a transfer letter format.

Commission reporting and periodic data exchange provide the Department of Education and the collection agencies a means to monitor accounts assigned to collection agencies as well as accounts being recalled or returned. Through daily processing, collection agency accounts can be recalled or returned to the Department of Education and necessary account adjustments can be made. The DMCS database is updated at various stages during processing to reflect current account status.

### **Account Transfer**

Account transfer is a parameter driven process with 3 major programs that search for accounts to transfer to PCA's. Programs look for excluded owner codes, accounts that are paid off, accounts that are with DOJ, etc.

Collection agency account transfer is run on request at least six times per year. The account selection and transfer process consists of the following steps:

Preliminary Account Selection, which performs a 'first cut' of the accounts potentially eligible for transfer;  
Secondary Account Selection, which performs a 'final cut' of the accounts eligible for transfer; and  
Account Distribution, which distributes accounts selected for transfer equitably among collection agencies.

Account transfer files are sent via tape. The data provided in the tape transfer files includes the account record, co-maker account (optional), debt record(s), payment records (optional), and reference records (optional). Transfer media requirements vary between PCA's (cartridge or round reel tape). PCA's will be eligible for commission on an account seven days (fourteen days for old contracts) after its transfer.

Accounts will be transferred after ED has performed at least minimum collection activity on all accounts. Accounts may have been worked on by one or more private collection agencies. ED does not distinguish an account by the number of times that it has been placed with a collection agency or make transfers based on the default date of the loan. However, an account will not be transferred to that same PCA twice. The only common characteristic is that each account be categorized as delinquent and the minimum balance (principal, interest, penalty fees, fees, administrative costs) transferred is at least \$150.00.

ED will base account assignments on PCA performance evaluations conducted. Failure to achieve a competitive level of performance may result in no additional account transfers until performance level reaches the competitive range.

### **Performance Evaluation**



Approximately every four (4) months the Government will evaluate each PCA using the following performance measures and assign up to the maximum points indicated:

<b>Performance Measures</b>	
Dollars Collected Percentage	70 pts.
Account Servicing Percentage	20 pts.
Administrative Resolutions	10 pts.
<b>Bonus</b>	
Customer Service	20 pts.

Approximately four (4) months after the initial transfer of accounts, the Government will calculate the first Competitive Performance & Continuous Surveillance (CPCS) ranking for each PCA. During the first and second CPCS evaluation periods each PCA will receive comparable account assignments at the discretion of the Government. At the conclusion of the second CPCS evaluation period, and for subsequent CPCS evaluation periods, account placements will be based upon the contractor’s individual performance.

**Account Recall**

The PCA will have 12 months after the account assignment to achieve the following for each account:

- Payment in full
- Satisfied in full
- Satisfactory repayment arrangements (Including Rehabilitation and Consolidation)
- Administrative resolution
- Administrative Wage Garnishment
- Litigation

ED will recall accounts if none of these six goals are achieved within the twelve-month period.

Account recall is initiated by changing the account’s location code. In addition, every month ED recalls the accounts that have balances of less than \$25. Accounts that have never been paid and accounts that are 90-274 days delinquent are recalled at ED’s discretion.

**Account Return**

The PCA’s are required to work an account to the level of effort as specified in the contract before the PCA returns the account to ED. However, they may not return an account prior to six months from the date of the transfer, unless the account balance is resolved.

Any account that has been settled-in-full, paid the amount quoted in the TOP Offset Notice (Principal and Interest), or worked to the level of effort set forth in the contract will be returned within thirty calendar days. Changes in these timeframes will be made only with the approval of ED.

Accounts returned for Administrative Resolution will be returned via electronic file transfer (EFT) on a weekly basis. If the PCA chooses to return all administrative resolutions the accounts must be sorted by return type. (All deaths together, all disabilities together, all dischargeable Chapter 7s together, and all Chapter 13s together). The PCA will submit a transmittal form and a SSU (Single Sheet Update) form with supporting documentation. If ED determines that the PCA has met contract requirements, the monitor will approve the transmittal and return it to them. The PCA will fax the transmittal and forward the records to ED via EFT within two days. If the monitor



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disapproves the transmittal, the PCA will be informed of the errors, which must be resolved before resubmitting the data to ED.

### **Accounts in Repayment**

The PCA will retain accounts that are in repayment as long as they have a current contract with ED. If the PCA does not have a current contract with ED, they may retain accounts that are in repayment for an additional 24 months. Accounts will be recalled when there are no payments for 90 days.

The PCA will work these accounts in accordance with the terms and conditions of the contract and will provide billing and or collection activities for the in-repayment accounts as long as they are assigned to them. The PCA will be paid for any accounts resolved via the administrative resolution process, during the retention period.



## **Administrative Wage Garnishment (AWG)**

The Administrative Wage Garnishment (AWG) Subsystem is a part of the Debt Management and Collections System (DMCS). Data pertaining to borrowers and their employers is collected through the collection agencies/PIC and entered into the AWG database using the online screens. Once the data is on the database, letters are generated to notify the borrowers and employers of wage garnishment actions. The system also tracks the borrower's employment status and movement to new employment. It also maintains a history of status changes for garnished accounts and debts. The collection agencies/PIC are allowed to update the AWG database via an electronic transfer file. It also maintains the collection agency data to be synchronized with the Department of Education's (ED) AWG data.

The AWG Subsystem processes data that is collected and entered by collection agencies/PIC (e.g. employer, salary, and address information). The data is subjected to various system edits and is rejected by AWG if certain edit criteria are not met. Data that has passed all the edits is loaded to the AWG data base area and tracked through the system for the generation of letters to the borrowers and their employers.

### **FIN Maintenance**

Employers are tracked using Federal Identification Numbers (FINs). If an employer's FIN is not known a pseudo fin code is created to proceed with AWG and allow the actual FIN to be supplied by the employer. Employer FIN Reconciliation only reconciles pseudo FINs to actual FINs.

To determine borrower eligibility, the user shall:

- 1) Verify correct borrower name, SSN, and home address
- 2) Verify correct employer payroll address, telephone number, and FIN
- 3) Determine if borrower is a Federal employee, seasonal worker or self –employed. If borrower is a Federal employee or self-employed, he /she is not a candidate for AWG.
- 4) Verify that account has been with the PCA for a minimum of sixty (60) days
- 5) Verify the Letter History or Collector Notepad on the ED-DMCS shows previous successful contact
- 6) Verify no agreed payment arrangements made within 60 calendar days
- 7) Verify no open borrower disputes
- 8) Verify there are no split accounts (all debts shall be in same location code).
- 9) Verify attempts (see below) to contact at work and home after employment has been verified
- 10) Verify that the borrower has been employed at least 12 months if involuntarily separated from previous employer

### **Initiating AWG**

The collection agency/PIC leaves at least 2 messages at the borrower's place of employment no less than 5 business days before initiating AWG, as well as, at least 5 attempts at the borrower's home at different times. In addition, the collection agency/PIC is required to send the complete letter series to the borrower offering the chance to enter into voluntary payments before initiating AWG.

If the customer fails to respond or refuses to pay and the account has been qualified as an AWG Candidate (per the criteria above), the PCA shall begin the garnishment. A *notice of proposed wage garnishment due to debt owed to U.S. Government* letter is automatically sent to the borrower. This letter gives the borrower the opportunity to contact the collection agency/PIC to enter into Voluntary Payment or to request a hearing before the AWG process begins. The borrower has 30 days (actually given 36 days due to mailing time) to respond.



If borrower does not respond to the initial letter within 36 days, a *Final notice of wage garnishment for debt owed to U.S. Government* letter is sent to the borrower. At the same time, an *Order for withholding of employee wages for debt owed to U.S. Government* letter is sent to the employer. The employer has 36 days to respond. When an order is sent to an employer they are asked to supply their FIN, the amount they are going to garnish and person to contact if any questions arise. This is done by submitting the EAWW (Employer Acceptance of Wage Withdrawal) form to ED. The SLPC will use the input/verification screen to update this information. This is a double-keyed screen – SLPC personnel type in data and have it verified by someone else. If there is no payment made by the employer within 36 days, *second order for withholding of employee wages due to debt owed to U.S. Government* letter is sent to the employer. If there are any problems with the account, the account could be forced to stop wage garnishment, at which point, a *notice of cancellation of order for withholding wages* letter is sent to the employer. This also occurs when the account balance reaches \$75.00 or less. Once a borrower is paid in full however, the account is not removed from AWG.

If an employer payment has been received in the last 45 days, the account is monitored for payment received. If no payment is received within a 45 days period a *late payment letter* is sent to the employer. If a payment is received within 36 days after the letter is sent the account is monitored for payments received. If no payments are received within 36 days the employer is considered non-compliant (see *Non-Compliant Employer* for detailed process).

At any point during the AWG process a defaulted borrower may request a hearing. If a hearing is requested after 36 days of sending the *notice to borrower of proposed wage garnishment due to debt owed to U.S. Government* letter, the hearing request is considered untimely and the status will remain unchanged and garnishment will proceed throughout the hearing process (see *Hearing Process* for detailed process)

If the borrower does respond within 36 days, the borrower will most likely either enter into voluntary payment or will request a hearing and AWG will be suspended.

### **Voluntary Payment**

If the borrower contacts the collection agency/PIC to make voluntary payment arrangements, after the first notice has been sent, the account will be monitored for payments received comparing with the total expected amount. If any of the payments are not received within 61 days of their due time, and if the account balance is greater than \$200, a final notice is sent to the borrower and an order for withholding is sent to the employer for failure to adhere to repayment terms.

### **Hearing Request**

If the borrower requests a hearing within 36 days of the *notice of proposed wage garnishment due to debt owed to U.S. Government* letter, and it is considered a timely hearing request, the wage garnishment is suspended until the outcome of the hearing.

The PCA has 29 days to gather the supporting documentation from Borrower and either forward the documentation to PIC or to the AWG Hearings Branch in Atlanta based on whether the borrower's request was for an in-person/phone review or a written review.

If the borrower's request was for a written review, the PCA will forward the documentation gathered from the borrower to PIC. PIC has 8 days to prepare an initial written decision based on the supplied documentation. PIC then sends the initial decision to the Hearings Branch in Atlanta for review. A loan analyst will review PIC's decision. If the loan analyst feels a change should be made to PIC's initial decision, he/she will send the decision back to PIC to make the necessary changes. The loan analyst will determine whether the borrower's objection is overruled, sustained, or a hardship agreement will be made.



If the borrower requests an in-person or phone review, the PCA will send the supporting documentation directly to the Hearings Branch in Atlanta. A loan analyst will speak with the borrower to determine if they have additional statements or information to provide. Afterwards, the loan analyst will perform a written review rendering a decision. The loan analyst will determine whether the borrower's objection is overruled, sustained, or a hardship agreement will be made.

If the decision goes against the borrower and no payments are made 15 days after the decision, the AWG process will begin. The borrower can enter voluntary payment if they are eligible.

If the decision goes with the borrower the collection agency will stop wage garnishment.

If a hardship agreement is decided an expected payment amount is established. The borrower can enter voluntary payment if they are eligible. If the hardship agreement is overruled, wage garnishment will continue. If the account balance is greater than \$200, an *order for withholding at a reduced amount* can be sent to the employer. If no payment is received within 36 days, a second notice of withholding letter is sent to the employer.

### **Hearings Process**

Based on the outcome of the hearing several things could happen. The borrower could choose to go with the voluntary payment option, request hardship forms, or claim legal exclusion. A favorable decision for the borrower could be made and a stop wage garnishment put on the account. Also, a hearing could be scheduled. The decision from the hearing could be one of three things, the borrower is either overruled, sustained, or a stop wage garnishment is issued.

Collection agencies/PIC are to first determine the timeliness of all hearings before proceeding.

A hearing request is considered timely when the borrower requests a hearing within 36 days of the notice to borrower of proposed wage garnishment due to debt owed to U.S. Government letter date. A hearing request is considered untimely when the borrower requests a hearing after 36 days of the notice to borrower of proposed wage garnishment due to debt owed to U.S. Government letter date.

There are several reasons why a borrower may request a hearing. The following are actions collection agencies/PIC take depending on the reason for a hearing request:

### **Death or Disability Claim**

If the borrower / family member has filed or submitted proof positive of Death or Disability Claim, the collection agency should submit the account to the Contract Services Branch (CSB) for Administrative Resolution (ARC) with appropriate documentation.

### **Bankruptcy Claim**

If the borrower has filed bankruptcy, the collection agencies/PIC shall determine the timeliness and dischargeability of the request and submit the account to CSB for Administrative Resolution. If the bankruptcy is non-dischargeable and bankruptcy closed, the collection agency/PIC should submit the account on the AWG IMF to the internal AWG Hearings Branch along with a copy of the Bankruptcy Calculator and the documentation submitted by the borrower for timely requests. If untimely submit to the AWG Hearings Branch along with a copy of the Bankruptcy Calculator and the documentation submitted by the borrower.

If the bankruptcy is non-dischargeable and bankruptcy is still open, the collection agency/PIC should submit on an AWG IMF to the AWG Hearings Branch along with a copy of the Bankruptcy Calculator and the documentation submitted by the borrower.



### **Closed School Discharge**

The collection agency/PIC should send the appropriate discharge application based on type of closed school dispute. The applications, along with the appropriate cover letter, are available on the collection agency/PIC Website. The collection agency/PIC should also attempt to obtain documentation to support disputes of debt(s).

### **Balance Disputes**

The collection agency/PIC should first determine the timeliness of the hearings request. The next step is to attempt to obtain documentation to support disputes of debt(s). A minimum of two (2) phone attempts on separate days should be made and the appropriate letter, requesting documentation to support the claim, should be sent

### **Financial Hardship**

In order to complete the AWG calculator, the collection agency/PIC must obtain copies of the last two (2) pay stubs, copies of current monthly billing statements (rent, utilities, etc.), copies of Medical bills, copies of Emergency bills, copies of other sources of income and expenses. The collection agency/PIC will review the AWG Calculator findings and attempt to establish a reasonable and affordable repayment plan based on the findings of the calculator. The borrower is given a minimum of 15 days to submit the first payment. If not paid by the agreed due date, the collection agency/PIC shall follow-up to determine reason for non-payment (broken promise). If excuse is reasonable, allow a 2<sup>nd</sup> opportunity to pay. If the borrower will not agree to the reduced amount or if the calculator indicates the borrower can afford to pay the 10%, forward the account on the Hearing IMF with documentation and hardship calculator attached to the AWG Hearings Branch.

The Department of Education has 60 days to process all hearings from the time a borrower requests a hearing. Once a loan analyst from the Hearings Branch in Atlanta receives the information from a collection agency/PIC, the Hearings Branch has the remaining days, not to exceed 60, to make a decision. If a decision is not reached within 60 days, AWG must be put on hold until a decision is reached.

If a borrower wants to pay and financial hardship is not an Issue, the collection agency/PIC will perform the following actions:

- Obtain a copy of current Pay Stubs
- Determine 10% Disposable Pay
- Establish Repayment schedule and Billing
- Move into VPY Status in AWG Subsystem
- Send Repayment Agreement Letter
- Monitor Receipt of Payment
- Follow-up if payment is missed.

*If the request for hearing is untimely, the collection agency/PIC shall perform the above tasks, but will not stop the garnishment.*

If the hearing request is timely the borrower is allowed 28 days to submit evidence to support their objection(s). On the 21<sup>st</sup> day the collection agency/PIC shall forward the documents and evidence received with their recommendation to PIC attached to the AWG Hearing Branch Internal Mail Form (IMF). If documentation not received, forward AWG Hearings Branch IMF to the AWG Hearings Branch with block checked documents not received or returned,

### **Stop Wage Garnishment**



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If the manual stop wage garnishment (SWG) occurs, the Department of Education suspends wage garnishment. If the outstanding balance was greater than or equal to \$200.00 the account will be eligible for other collection processes. The account could also be returned to the AWG process. Only Ed personnel can cancel wage Garnishment.

If the automatic stop wage garnishment occurs, a letter to the employer to stop wage garnishment is sent out.

### **Non-Compliant Employers**

An AWG Non-Compliant Employer (NCE) account is one in which the Administrative Wage Garnishment (AWG) process has been initiated by the collection agency/PIC, and the employer has failed to comply with the Administrative Wage Garnishment withholding orders. An Administrative Wage Garnishment NCE litigation package will be prepared for these accounts.

An NCE package consists of account documents that are sent to the Department of Justice, Civil Division, for litigation against a non-compliant employer.

If the borrower has failed to honor their repayment agreement or the final notice has been sent to the borrower and an order for withholding was sent to the employer, or the final notice has been sent to the borrower and an order for withholding at a reduced amount is sent to the employer and no payment is received within 36 days, a *second order for withholding of employee wages sent to employer due to debt owed to U.S. Government* letter is sent to the employer. If a payment is received within 36 days of the late payment letter, the account will continue to be monitored for payments. If no payment is received within 36 days, the Employer is considered Non-Compliant, which will appear on a report for non-compliant employers. If a payment is received while in this status the account is monitored as before. If an employer has been non-compliant and has only one account in AWG, which is less than \$3,000, action will not be taken. However, if an employer has been non-compliant and has multiple accounts less than \$3,000, AWG Branch Chief in Atlanta can choose to take action.



## **Treasury Offset Program (TOP)**

### **Pre-Certification/Certification Process**

The annual Treasury offset process begins with the preparation of the address request tape by ED, which is sent to Treasury beginning in May. This tape contains information on defaulted student loan borrowers selected from the DMCS database and merged with like records submitted by GAs.

The SSN's provided by ED are matched against the address file at IRS. If a match occurs, the address is written to the Treasury match tape. If there is no match, a code is written to indicate this on the Treasury match tape. Treasury then sends the address match tape to ED and this information is used to update the DMCS database in the June – July timeframe; Those accounts for which Treasury has no address are also recorded in DMCS. If no address is returned from Treasury, ED will use the most recent address already existing from the DMCS database.

Borrowers that meet the selection criteria for offset are sent 65-day notices beginning in July. Treasury then verifies all potential offset accounts and returns all unprocessables. After the 65-day notices are sent, the borrowers have the opportunity to request and examine ED's records of the loan, arrange a repayment plan, and request a hearing indicating the reasons and providing documentation to support their objection to offset. PIC is responsible for requesting and sending copies of the borrower's records, establishing repayment plans, and forwarding Request for Review documents to the Chicago Service Center. ED submits all qualified debts to be certified by Treasury in December. Treasury then verifies all potential offset accounts and returns all unprocessables.

### **Offset Process**

After an account has been certified for offset, the borrower then has the opportunity to file for a hardship hearing. Once the valid accounts are certified by Treasury, the Federal offset subsystem must inform Treasury of account balance adjustments (i.e., payments, refunds, and adjustments to refunds) on a weekly basis. Treasury sends ED a record of the offset date and amount, which is used to update DMCS database also on a weekly basis. ED credits or debits the accounts for the offsets or reversals that are held by ED. For GA held accounts, ED forwards the tape to the respective GA so they may credit or debit the account. If an account is offset by Treasury, Treasury may refund part or all of the monies offset for such reasons as injured spouse or bankruptcy. If this happens, a reversal record is sent by Treasury and applied to the appropriate account on DMCS or sent to the appropriate GA for application through ED. Additionally, the following on-line and reporting processes support the on-going annual offset:

1. Federal offset account look-up and removal
2. Sub agency address data maintenance
3. Weekly reporting

The accounts that ED certified to Treasury in 1998 and after are permanently certified with Treasury until the account is paid in full or decertified by ED or the GA.

### **De-Certification Process**

Accounts can be decertified from TOP when an account is paid in full, under the \$25 dollar minimum, or an account has been discharged (i.e. bankruptcy, death, disability).

### **Re-Certification Process**



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If a new debt is loaded onto the system after the borrower has already been certified for offset, the borrower will be re-certified for the new debt and will be sent an additional 65-day notice. This “cleanup” process, which occurs in October, identifies all new debts that are eligible for offset.

### **Treasury Offset Fee**

A processing fee is charged for each offset transaction. The amount of the fee is different each year. This fee amount can be discharged if the offset is later determined to be erroneous (i.e. injured spouse claim).



## **Federal Defaulter’s Program (FDP)**

Social Security Number computer data matches are performed with DOD and USPS and matches are loaded to DMCS.

If the account does not meet certain criteria (i.e. currently in repayment), the certification processes bypasses the account. If the account meets all of the criteria and the account is currently with a PCA, the account is recalled from the PCA and the pre-certification process begins.

After an account has been pre-certified, the notification process begins. A 65-day notice is sent to both the borrower’s home and work address indicating the Department’s intent to refer the account to the borrower’s employing agency for salary offset if satisfactory repayment arrangements are not made.

If the borrower does not respond within 65 days, a letter will automatically be sent to the borrower’s federal employer requesting to offset the federal employee’s wages equal to 15%.

If it is determined that the federal employee still is employed by the federal agency, offset continues until the frozen balance is paid in full. If the federal agency refuses to offset the employee’s wages, the employer is considered a non-compliant employer. *Currently, there is no process to resolve non-compliant federal agencies.*

If it is determined that the federal employee no longer is employed by the federal agency, the agency is requested to send in the employee’s current employer information. The borrower’s account will then be transferred to a PCA.

If a borrower requests a hearing, FDP continues throughout the hearing process (*see Hearings Process*).

If the borrower responds within 65 days, he/she either requests a hearing (*see Hearing Process*) or makes payment arrangements with PIC. If the borrower makes payment arrangements, he/she will receive a payment arrangement agreement; however, no automatic check is performed to see if borrower is still in repayment according to terms. First payment must be received within 65 days (70 days are actually provided). Subsequent payments must be received within 45 days of each previous payment (30 days due, 15 days grace period). Otherwise, FDP will continue. (*Note: No bill or payment coupons are sent to the borrower. It is up to the borrower to continue payments*)

### **Hearings Process (Manual)**

If a borrower requests a hearing within 65 days of the Notification letter, FDP is suspended. If the borrower requests a hearing after 65 days, FDP continues throughout the hearings process. The borrower must submit a written (only) hearing request to PIC. PIC gathers all supporting documentation and information from the borrower including the reason for the hearing. If more information is needed, PIC may contact the borrower.

PIC performs a written review and renders an initial decision before sending the request to Region 5 (Chicago) for review.

A loan analyst in Region 5 reviews PIC’s initial decision and render a final decision. The loan analyst will send the decision to the borrower. Several results can occur:

#### **Borrower enters into Voluntary Payments**

If the borrower agrees with the decision and begins voluntary payment, payment must be received within 15 days after receiving decision. The payments must be equal to at least 15% of the borrower’s disposable income. Otherwise, FDP will continue.



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Hardship Adjustment

If the borrower wants to enter into voluntary payment but is unable to pay 15% of their disposable income, a hardship adjustment will be made. A hardship adjustment is considered taking any % that is less than the standard 15% normally taken during FDP.

FDP is executed/continued

If the borrower is denied a hardship adjustment and refuses to enter into voluntary payments equal to 15% of their disposable income, FDP will continue. If the 65-day notice has expired, the notice to the borrower's employer must be triggered manually.

If the hearing decision goes against the borrower, the borrower has until the end of the 65-day period or within 30 days of the initial decision to go before the Administrative Law Judge to appeal the decision.



## **Discharge**

### **Types of Discharges**

All loans received under programs authorized by Title IV, of the Higher Education Act can be canceled for various reasons including: (1) Death, (2) Total and Permanent Disability, (3) False Certification, (4) Unpaid Tuition Refund, (5) Full-Time Teaching, (6) Military Service, (7) Bankruptcy, and (8) Closed School.

### **Discharge Request/Approval Process**

Borrowers are required to meet specific criteria, as well as provide completed applications and in some cases documentation to support their discharge claim to the organization that currently holds the loan (PCA, ED, etc.). The agency that holds the loan investigates the discharge claim and uses set parameters to determine if the loan is dischargeable. Chicago services death and disability discharges, while San Francisco handles all other discharge claims (except Closed School).

### **Discharge is Approved**

If the loan is dischargeable, the borrower will no longer be obligated to make any payments on the loan. All or some of the monies paid on the loan will be refunded to the borrower, including amounts paid for late fees or collection charges. All damaging credit history assigned to the loan will be deleted and the borrower's Title IV Eligibility will be reinstated.

### **Discharge is Denied**

If the discharge is invalid, the borrower is responsible for all accrued interest, collection fees, outstanding principle, and all other costs associated with collecting the debt.

### **Appeal Process**

For discharges that were denied by an agency other than ED, the borrower can appeal the ruling and request that ED review the decision (except for Closed Schools and Unpaid Tuition Refund).

### **As Is Existing Description:**

#### **Death**

In the event of the borrower's death, the obligation of the borrower and any endorser to make any further payments on the loan is discharged. To verify a borrower's death, the servicing agency must have either the original death certificate or a certified copy of the death certificate.

#### **Summary of Death Requirements**

Borrower must submit either an original death certificate or a certified copy of the death certificate. When the SSA death tape is received on the Accounting Subsystem, the accounts are sorted by region and any matches from the Social Security Administration (SSA) Death Tape and DMCS are discharged.



### **Total and Permanent Disability**

If the holder of the loan determines that the borrower has become totally and permanently disabled, the borrower's obligation, and the obligation of any endorser of the loan, to make any further payments on the loan is discharged. The borrower cannot be considered totally and permanently disabled on the basis of a condition that existed at the time the borrower applied for the loan, unless the condition has substantially deteriorated later, so as to render the borrower totally and permanently disabled.

### **Summary of Disability Requirements**

FSA must receive one of the following within 90 days of the physician's signature to determine disability status:

ED Form 1845 (Physician's certification of borrower's total and permanent disability)

Letter from Veteran's Administration (VA) containing

Diagnosis of disability

Percentage of disability

Borrower's ability to gain willful employment

Date of onset of disability

Date borrower ceased employment due to the disability

Physician's signature/date

### **False Certification**

For Federal Direct or a FFEL Program Loan received after January 1, 1986, the borrower may qualify for a False Certification discharge, if the borrower (or the student for whom a parent received a PLUS loan) was falsely certified by an eligible school. The borrower's eligibility is considered to have been falsely certified if the school--  
Admitted the student on the basis of ability to benefit from its training and the student did not meet the applicable requirements for admission on the basis of ability to benefit; or  
Signed the borrower's name without authorization on the loan application or promissory note.

### **Ability to Benefit**

In order to permit a student to borrow a Federal Direct or FFEL Program Loan, schools are required to certify that student borrowers who lack a high school diploma or GED have the ability to benefit from the training offered by the institution.

False certification of a borrower's eligibility occurs, for example, if the school failed to test such a student's ability to benefit or conducted testing in an improper manner. Schools may satisfy the ability to benefit requirements, for example, by testing students or offering courses in remedial education. Borrowers who have a physical, mental, or legal status or condition at the time of enrollment that would legally bar employment in their field of study may also be eligible for False Certification loan discharge. Misrepresentations, by the school, on the other hand, regarding the school's educational program or its financial or administrative capability, including the school's placement services or the quality of the school's facilities, faculty, or equipment are not part of the process of "certification" of the student's eligibility to borrow and do not entitle the borrower to False Certification loan discharge.

### **Summary of ATB Requirements**

FSA will send an Ability to Benefit application if borrowers meet ALL of the following four criteria:



a. Loan was disbursed under Federal Family Education Loan (FFEL) Program (GSL, SLS, PLUS, Stafford). FDSLs. FISL, NDSL, and Perkins are not eligible.  
Loan disbursed all or in part on or after 01/01/86. (Allow 2 months leeway due to uncertainty of date on system.)  
Borrowers state either of the following:  
They had no high school diploma or GED upon entering school, did not receive GED within one year of completion of program, and school did not properly test their Ability To Benefit from education paid for by the loan  
OR  
They had a physical or mental condition, age, or criminal record that, under state law, prohibited them from obtaining employment in their field of study. Borrowers must present a copy of the state statute that barred employment.  
Borrowers claim that they were unable to find employment in field of study. If borrowers completed the program, they must document that they sought employment and were not hired specifically because of quality of education offered by the school.

### **Unauthorized Signature**

If a borrower claims that he or she did not sign the application, promissory note, loan check, or electronic funds transfer authorization, the borrower may qualify for an unauthorized signature discharge.

### **Summary of Unauthorized Signature Requirements**

FSA will send an Unauthorized Signature Discharge application to the borrower.  
If borrower does not have a copy of the promissory note FSA will offer to send them a copy of the promissory note (W202).  
To be eligible for loan discharge due to unauthorized signature, borrowers must meet the following criteria:  
Submit a sworn statement under penalty of perjury. (The “Application to Discharge Loan-Unauthorized Signature” ordered from PIC will satisfy the sworn statement requirement;  
Must provide five different samples of authentic signatures that were made by borrower on personal or professional business transactions (copy of tax return, cancelled check, business contract, etc.), and that have the date of the signature on them. The signature on the Discharge Application can count as one of the five;  
Two of the five signatures must have been made within one year of the disputed signature.

### **Unpaid Tuition Refund Discharge**

An unpaid school refund claim is a claim by a borrower that the student withdrew from the school without completing the course, but the school failed to issue a refund, or failed to make a proper refund, of unused tuition, to the holder of his or her loan. Borrowers who did not receive proper funds credited to their loan accounts with lenders are eligible to receive a cancellation of that portion of their loan debt corresponding to the amount of tuition refund owed but not paid. Schools fail to pay refunds for a number of reasons, including school closure and administrative error.

### **Summary of Unpaid Tuition Refund Requirements**

Refunds Owed after July 1994 through October 2000

Students attending up to 60 percent of the course are owed a tuition refund equal to the percentage of the course that was not completed.

Students attending 60 percent or more of the course are not entitled to a tuition refund.

Students attending less than 50 percent of the course are owed a refund of school charges equal to the percentage of the program not completed rounded down to the nearest tenth percent (e.g. a student completing 43% of the course would be entitled to a 50% refund of charges.)



Students attending six months or more of the program are not entitled to a school refund.

Students completing 50 percent or more of the course are not entitled to a school refund.

Refunds owed before June 5, 1989

Base the refund calculation on the school's cancellation policy, or if not known; the minimum Cancellation/Refund standards used by the school's Accrediting Association. The standards of the major vocational school accreditors are summarized in the attached Accrediting Association Standards table.

Students attending less than 60 percent of the loan period are entitled to a pro-rata refund of institutional charges for the loan period.

Students attending 60 percent or more of the loan period are not entitled to a school refund.

### **Full-Time Teaching**

If you have a loan or multiple loans from the Federal Direct Loan Program or the Federal Family Education Loan program (FFEL), you may be eligible for deferment if you're teaching full-time in a teacher shortage area. [These loans include Federal Stafford Loans, Federal PLUS Loans, Federal Consolidation Loans, and loans offered in earlier years through the Guaranteed Student Loan Program.] NEW: If you took out your first Stafford Loan after October 1, 1998, you may be eligible for cancellation for teacher service.

### **Military Service**

Recipients of a National Defense Student Loan may receive partial cancellation of their loan for their service in the United States Armed Forces if the loan was disbursed after April 13, 1970 and full-time active service began after June 30, 1970.

Recipients of a the Perkins Loan may receive partial cancellation of their loan for their service in the United States Armed Forces if his/her military service was for a full year in an area of hostilities.

Borrower's who believe they are eligible for discharge due to military service must send a copy of the DD24 (discharge form) and letter of explanation to the agency servicing the loan.

### **Bankruptcy**

(See Bankruptcy Requirements Document.)

### **Closed School Discharge**

(See Closed School Discharge Requirements Document.)



## **Rehabilitation/Consolidation Processes**

Consolidation and Rehabilitation are repayment options that aid borrowers in paying off their defaulted loans. Both of these options have certain conditions that must be met before the borrower can take advantage of the benefits or rewards that accompany them.

Consolidation is much easier for a borrower to meet the conditions for than Rehabilitation. Accounts can also be consolidated at any time. It is the borrower's right to pursue consolidation on their own, with lenders (e.g. Sallie Mae, Direct Loans, etc.), if they desire. If a borrower's accounts have not been assigned to a PCA, there are no proactive attempts by PIC to contact the borrower at any time to get them to enter into consolidation. However, if the borrower calls and requests information pertaining to consolidation or to consolidate, then PIC will aid them in this process.

If a borrower's account are with a PCA, after 3 consecutive timely payments have been made, the PCA will usually alert them, via letter and/or call, that they are now eligible for consolidation (the PCA receives a commission - 10% for Direct and 12% for FFEL - on any outstanding principle and interest that are consolidated). If the borrower decides to consolidate at this point, their accounts are then recalled from the PCAs to be consolidated.

If an account has at least one Direct Loan, then they are automatically eligible for consolidation with Direct Loans upon meeting requirements. Often times PCAs will use Fast-Track consolidation to help them expedite the transfer of accounts to Direct Loans for consolidation. This process enables the PCAs to fill out all of the necessary paperwork and send it to the borrower for their signature. This ensures that the data is up to date and correct before it is sent to Direct Loans.

If an account does not have a direct loan, then it is up to the borrower to contact an outside lender to setup a FFEL consolidation or to directly contact Direct Loans to set up a Federal Direct Loan Consolidation (if a borrower requests that their loans be consolidated, ED cannot legally deny them regardless of loan type). It is important to note that POVRs are not eligible for either consolidation or rehabilitation.

For loans that are consolidated via Federal Direct Loan Consolidation, Direct Loans transfers money to pay off the loans on DMCS via Form 1081. For loans that go through FFEL Consolidation, the lender actually writes a check to pay off the outstanding balance on the loan(s). Upon receiving the payoff via Form 1081 or check, a U29 letter is sent to the borrower notifying them that their loan(s) owed to ED have been paid in full and that future contact concerning their new loan (new promissory note) should be made with their new lender. In addition, their credit history is updated to reflect 'Paid Collection Amount' with a zero balance.

### **Rehabilitation Overview:**

Rehabilitation is much more difficult for the borrower to obtain. Loan Rehabilitation is a designed to allow the borrower an opportunity to rehab their defaulted loan(s) and rebuild their credit history. The program is authorized by Section 4287(a) of the HEA, 1992. This requires the borrower to make 12 consecutive timely payments at an agreed upon amount (at least 1.2% of total balance for PCA to receive commission). After 12 consecutive timely payments have been made, the borrower will be alerted if at a PCA (if not assigned to PCA, then they will not be contacted by PIC following 12 consecutive payments), via letter and/or call, notifying them that they are now eligible for rehabilitation (the PCA receives a commission - 15% for both Direct and FFEL - on any outstanding balances that are rehabilitated).

For direct loans, if the borrower's loans are with the PCAs, they will be recalled automatically to DMCS and all direct loans that meet the rehabilitation criteria will be sent from DCMS directly to Direct Loans. Upon successful



transfer of loans to Direct Loans, a W36 letter will be sent to the borrower notifying them that Direct Loans will now be servicing their loan(s) and that their credit history has been reinstated as current – default record has been erased.

For FFEL and/or FISL loans, a signed agreement, from the borrower must be obtained prior to rehabilitating the loans. Following the 12<sup>th</sup> consecutive payment, the FFEL and/or FISL accounts that are at the PCAs are then recalled to DMCS and the PCA’s paperwork is sent to PIC. Borrower’s who have not yet returned a signed agreement will be sent an X10 letter that they must sign and return prior to having their account rehabilitated. Those borrowers who chose to have their accounts rehabilitated are then prepared for the ‘Rehab Sale’, which allows a borrower to have defaulted FISL and FFEL loans purchased by Sallie Mae and taken out of default status.

Every two weeks accounts in Location Code ED165 and PCA accounts with Collector Code GA165 (only GSL and FISL loans are to be handled this way—do not move Direct or Perkins Loans into location ED165) will be systematically analyzed to determine if they are eligible for FFEL rehab (i.e., were 12 consecutive monthly payments made, does the account meet the minimum balance, are there judgment loans, etc.). Accounts that meet all requirements for Rehab will be included in the next scheduled sale, and the sales will now be done electronically and bi-weekly. The new and improved system will include in the electronic sale file all of the pertinent information needed by Sallie Mae from the corresponding ED screen (This data should include all of the information included on the current Data Element Sheet).

Once the file has been created, it will be forwarded to the Loan Servicing Branch, Chicago for review. LSB will annotate all accounts that it rejects from the Loan Rehabilitation Sale for any reason. LSB cannot change data on the file. It can only reject an account from the sale. The file is then forwarded to SLMA after the audit is completed. Upon successful sale of loans to Sallie Mae a W06 letter will be sent to the borrower notifying them that Sallie Mae will now be servicing their loan(s) and that their credit history has been reinstated as current – default record has been erased.



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## **Direct Debit**

The Direct Debit program offers eligible borrowers the option to grant their bank the authority to deduct loan repayments from a personal checking or savings account on a set schedule. Direct Debit facilitates timely payments, eliminates postage expenses, and presents several payment options to borrowers. Borrowers have the ability to specify the exact amount to be deducted each period as long as it is equal to, or greater than, the original repayment agreement.



## **Compromise**

Compromises are a form of repayment offered to borrowers who have expressed an inability to pay an account in full. Compromises are not to be offered as the first option in collection negotiations and FSA personnel may only discuss compromise settlements after negotiation of the borrower’s ability to pay has progressed. There are two types of compromise agreements, (1) non-discretionary and (2) discretionary.

### **Non-Discretionary**

#### Waiver of Fees

To satisfy the account in full, the contractor can offer the borrower the opportunity to pay the principal and the interest on the account.

#### 50% Interest and Fees Waived

To satisfy the account in full, the PCA is able to offer the borrower the opportunity to pay the principal and 50% of the interest.

#### 10% of Principal and Interest

To satisfy the account in full, the PCA is able to offer the borrower the opportunity to pay 90% of the principal plus interest.

#### Discretionary

All discretionary settlements require prior approval from ED.

#### Discretionary

The PCA’s personnel may only discuss a discretionary compromise after following the progression of non-discretionary settlements. All discretionary settlements require prior approval from ED.

<u>Type of Compromise</u>	<u>Borrower Pays</u>	<u>Account Eligibility</u>
1. Waiver of fees	Principal and Interest (P & I)	All debts
2. 50% Interest + Fees	All principal and 50% interest	All debts except FDSLs loaded to ED-DMCS after 10/1/96
3. 10% P&I	90% P & I	All debts except FDSLs loaded to ED-DMCS after 10/1/96
4. Discretionary		All debts except FDSLs loaded to ED-DMCS after 10/1/96

### **Borrower’s Responsibility for Non-Discretionary Agreements**

If all documents are not submitted or completed within the specified timeframe, the compromise will be rejected.



**Payment must be made by certified funds.**

Payment must be received within 90 days of the date of the compromise confirmation letter.

**Borrower’s Responsibility for Discretionary Agreements**

If all documents are not submitted or completed within the specified timeframe, the compromise will be rejected.

Provide verification of total household income: current pay stubs equal to one month’s salary, copies of the most current 1040 and W2s, and a financial statement.

Letter from borrower explaining why they can’t pay the account in full.

Payment must be made by certified funds.

Payment must be received by the due date as stipulated in the compromise agreement letter.

**PCA’s Responsibility for Non-Discretionary Agreements**

The PCA must issue an approved compromise agreement letter to the borrower with the amount and the date the payment is due.

The first line of any compromise agreement will be documented on the L102 screen exactly in one of the following two ways: Every character up to and including the dollar sign must be entered exactly as shown below (i.e., the text inside the quotation marks do not include the quotation marks); our program will be scanning the notepad for this exact sequence of characters.

For regular compromises, the compromise amount must begin in position 20 (i.e., the first number of the comp amount must be the 20<sup>th</sup> character on the notepad entry.

**PCA’s Responsibility for Discretionary Agreements**

Submit the Compromise Request Form along with the supporting documents listed above. A copy of this form follows this section.

Submit a current credit report.

Annotate the ED-DMCS system (L102) with the borrower’s compromise offer and that the supporting financial documentation was referred to the monitor for review.

**Approved Compromises**

If the account is Satisfied in Full, the system will do the following:

- recall the account
- post the CO transaction
- send the SIF letter

FSA will prepare a tape of all approved compromised accounts and forward it to NPC for processing.

**Processing Compromise Payments**

The NPC will ensure all conditions set forth in the compromise are met before processing. Also, NPC will use a discretionary amount of \$5.00 and a discretionary time of 5 working days of due date in reviewing a compromise. If all conditions are not met or if no compromise is recorded, the NPC will contact the Collection Agencies or Region to make the determination whether to process the payment or return it to the originator. The Collection Agency or Regional personnel will indicate whether the payment is to be processed or returned.

If the payment instrument is not within \$25 of the balance, the payment will be held until the student’s liability is sorted according to the Location Codes specified in the processing procedures.



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### **Compromise is Rejected**

If the compromise is rejected, the borrower is responsible for all accrued interest, collection fees, outstanding principle, and all other costs associated with collecting the debt.

### **FSA Rejects a Compromise Approved by the PCA**

Unapproved compromises represent a special kind of adjustment. In this situation, the Department recovers from the PCA the amount of net collections lost to the Department by the compromise—that is, the difference between what the Department realized in net collections from the compromise minus what the Department would have realized had the normal compromise guidelines been followed.

### **Offsets and Compromises**

An offset will count toward the compromise if it is effective after the compromise agreement date (from the L102) and it is effective before the compromise due date (effective on the R103). For compromises approved 3/17/00 or later, ED will refund an offset that overpays the agreed upon compromise amount.



## **Closed School Discharge**

Federal Direct or FFEL Program Loans received on or after January 1, 1986, borrowers may qualify for a Closed School discharge if the school closed while the borrower was in attendance, or the borrower withdrew from the school, or had an approved leave of absence, not more than 90 days prior to the date the school closed. All Closed School Discharge applications are mailed to SLPC for review. The SLPC then mails their recommendation to ED for the final approval. If the loan is discharged, all damaging credit history assigned to the loan will be deleted and the borrower’s Title IV Eligibility will be reinstated. If the discharge is invalid, the borrower is responsible for all accrued interest, collection fees, outstanding principle, and all other costs associated with collecting the debt. If a GA or Lender rejects the closed school discharge, this decision is final and the student cannot seek an appeal through ED.

### **Summary of Closed School Requirements**

Borrower must complete a closed school discharge application (OMB has approved two Closed School Discharge applications: one for SLS or Stafford borrowers and one for PLUS borrowers).

Failure to submit the Closed School Discharge form within 60 days will result in continued collection.

Borrower must submit a sworn statement, which must contain:

A sworn statement that they meet criteria of a school discharge (1) the loan is disbursed all or in part on or after January 1, 1986 (2) the loan was disbursed under the FFEL program (3) the student was in attendance when the school closed, on an approved leave of absence or withdrew within ninety days of the closure date (4) the student was not able to complete the program of study – either at the original school, through a teach-out, or through transferring credits or hours to another school.

Statement must be made under penalty of perjury, signed, and dated. It need not be notarized.

Whether the applicant made a claim with any third party (i.e. a tuition recovery program) and if any payment was received from such a claim.

The borrower agrees to provide other documentation that is reasonably available that shows the student meets the qualifications for discharge.

The applicant agrees to cooperate with the Secretary in enforcement actions.

The applicant agrees to transfer the right to recovery from a third party to the Secretary.

FSA will verify the following before sending a discharge application:

Is the loan(s) made under the FFEL program?

Is any part of the loan(s) disbursed after 1/1/86?

Was the student enrolled when the school closed, on an approved leave of absence, or withdrew within 90 days?

Did the student complete the program of study?

Check L-102 Notepad and L-117 Tracking Screen to see if previous activity occurred.

FSA sweeps the database to locate accounts eligible for closed school discharge using the criteria of 120 days between the separation date and the closure date of the school.

A representative can use the following codes on the L117 screen as an indicator for why the loan was denied:

Denial Code	Denial Reason
71	Leave of Absence could not last period of time claimed
	Different Closure Date
	Program was terminated but the school remained open
	Student transferred academic credit
	Program completed through a teach out
	Loan is not a FFEL
	Student withdrew more than 90 days prior to closure

#### 91.1.4 DMCS Replacement – “As-Is” Business Functions



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Student completed program but did not receive diploma  
Loan disbursed prior to 1/1/86  
Student completed program of study  
Student provided different withdrawal date  
Student attended different school or branch of the school



## **Bankruptcy**

*Since 1981, ED has contracted for the services of Private Collection Agencies (PCA) to support collection, litigation preparation and administrative resolution activities on debts maintained by ED. PCAs are paid a flat rate for processing bankruptcy claims.*

Borrowers file for bankruptcy by submitting a bankruptcy application and List of Creditors (Schedule A-3-which lists the debts the debtor seeks to have discharged) to the U.S. Bankruptcy Courts. The borrower then serves FSA with a bankruptcy complaint and other documentation supporting their claim. FSA sorts all incoming bankruptcy documentation and assigns it to a processor. For bankruptcy claims, FSA suspends all collection activity on the account effective immediately upon the filing of, and lasting until the conclusion of the bankruptcy proceeding (Automatic Stay Period). All bankruptcy claims filed after October 8<sup>th</sup>, 1998 are not eligible for discharge, except if hardship is granted.

### **Chapter 13 GSL Accounts**

For all Chapter 13 GSL accounts, the account is transferred from FSA to the Educational Credit Management Corporation (ECMC). ECMC becomes the holder and owner of the loans. FSA mails monthly all of the bankruptcy documentation and transfer tapes to ECMC for Chapter 13 GSLs. Payments mailed to FSA after the transfer will be forwarded to ECMC.

### **Bankruptcy Trial**

Bankruptcy trials are conducted at the U.S. Bankruptcy Courts. After the court rules on the bankruptcy claim, the decision is forwarded to the party that was served with the complaint and to the borrower.

### **Adversary Process**

During or after a bankruptcy trial, the borrower is allowed to file an adversary claim stating they are unable to pay on the specific student loan debt. If the account is being processed by ECMC/PCA, the accounts are to be returned to the SFSC. SFSC performs an audit on the account and forwards all supporting documentation to the U.S. Attorney for litigation. The ruling on the adversary claim is determined by the U.S. Bankruptcy Courts. If the borrower disagrees with the outcome of the trial, the borrower can appeal to the U.S. District Court.

### **Court Denies Bankruptcy Discharge/Adversary Claim**

If the bankruptcy petition was dismissed, the borrower is responsible for all accrued interest, collection fees, outstanding principal, and all other costs associated with collecting the debt.

### **Court Approves Bankruptcy Discharge/Adversary Claim**

If the debt(s) are dischargeable, the borrower will no longer be obligated to make any payments on the loan and the borrower's Title IV eligibility will be reinstated. While borrowers are eligible for additional aid, they may be declined due to high credit risk.



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## **1098 & 1099 Tax Forms**

FSA produces the 1098 and 1099 tax forms as part of the year-end accounting process. 1098 forms are sent to borrowers who have paid interest on their student loans during a tax year. The borrower will claim the interest on their income tax return using the 1098 form (thus decreasing the amount owed to the IRS). 1099 forms are sent to borrowers whose debt(s) have been written off during a tax year. The borrower will claim the write off on their income tax return using the 1099 form (thus increasing the amount owed to IRS). FSA sends the 1098 and 1099 tax forms to the borrower no later than January 31<sup>st</sup> to allow a one-month reconciliation period before the forms are to be sent to the IRS. Tapes with the necessary data for the 1099s and 1098s are sent to the SLPC where they are printed and mailed to the borrower.



## **Litigation**

The Department and guaranty agencies also pursue recovery of defaulted student loan debts through litigation. If a borrower refuses to voluntarily repay their student loan, and all other collection attempts have failed, the borrower may be sued in State or Federal District Court for the outstanding balance plus attorney's fees and court costs. In addition, if the borrower disagrees with an ED decision or ruling, the borrower may elect to sue the Department of Education.

### **Litigation Requirements**

- Minimum principal balance of \$1000 for Private Attorney Pilot Project (PAPP) and \$2,500 for regular DOJ offices (contact monitor for removal of all fees).
- Home address verification within last 30 days must match L101 Screen and CBR.
- Must include employment verification within 30 days for all referrals including PAPP.
- No referrals with judgments, bankruptcies, pseudo SSNs, payments posted within 60 days or unresolved disputes. No borrowers that are federal employees, living on reservations or living in foreign countries.
- No TOP posted in the last two years.
- The account must have been on ED's system a minimum of three years.
- No accounts 15 years old or older (based on the disbursement date), with no payments.

### **Litigation Packages**

Litigation Packages are the primary evidence of debt used by FSA's Attorneys during the Litigation process. This package contains various forms of supporting documentation, which will assist in FSA proving their case.

PCAs also produce litigation packages at a flat rate, which are sent to the SFSC for approval. The following documentation is prepared by PCAs and submitted in the litigation packages:

- Completed Claims Collection Litigation Report (CCLR).
- Completed Certificate of Indebtedness (COI) in duplicate.
- CBR within 30 days.
- Computer printouts of account collection records within 30 days.
- Copies of all promissory notes, Student Loan Applications for Insurance Payments and assignment documentation with certified stamp signed and dated on each.
- Must send complete collection letter series and all correspondence from borrower with responses.
- Copies of first and last demand letters sent to borrower. Final demand letter must allow at least 5 days for payment after letter deadline.
- Must show phone attempts at home and at work (minimum of 5 at home and 2 at work at different times of the day or night).

### **Litigation Proceedings**

During the litigation proceedings, the Department of Education provides administrative support to the District Attorneys (research, audits, copies of original documents, etc.).

### **Court Rules in Favor of FSA**

If the U.S. District Court rules in FSA's favor, the borrower is responsible for all accrued interest, collection fees, outstanding principal, and all other costs associated with collecting the debt. In some cases DOJ will attempt to



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collect on the debts prior to returning them to FSA. If this is the case, DOJ will send financial transactions via diskette to NPC for any payments received from the borrower.

#### **Court Rules in Favor of the Borrower**

If the loan is dischargeable, the borrower will no longer be obligated to make any payments on the loan. In some instances, all or some of the damaging credit history assigned to the loan will be deleted and the borrower's Title IV Eligibility will be reinstated.



## **Posting**

### **Loading Financial Transactions**

Financial transactions are loaded into DMCS via batch and online facilities. Batch facilities include OCR, FALCON, and tape processors. DMCS financial transactions can be categorized into three main processes: (1) Establish Receivables, (2) Receiving Payments, and (3) Account Maintenance.

### **Online Posting Structure**

Posting transactions are comprised of the following:

Transaction Type - Represents a financial transaction (i.e. AA – Account Adjustment, CO – Compromise)

Transaction Reason - Provides a detailed reason for the Transaction Type (i.e. BA – Bankruptcy, DS - Disability).

Document Type - There are two forms of documents associated with posting: (1) Cash and (2) Non-Cash documents (i.e. SF215 – Deposits, POSADJ – Account Adjustments).

### **Posting Financial Transactions**

After financial transactions are loaded into DMCS, the nightly batch process of posting to the borrower's account occurs. Posting calculates and applies remittances, interest accrued, and all other financial transactions to the account. Transactions are applied to balance categories in various sequences, depending on the transaction type. Below are the 8 balance categories:

#### **Balance Categories**

- Principal
- Interest
- Administrative fees
- Other fees
- Collection Agency fees
- Penalties
- TOP fees
- Cash Back out

#### **Posting supplies data to the Subledger**

The posted financial transactions are retrieved from the DMCS database and translated to Journal Vouchers. These journal voucher records are then posted to the Subledger.

#### **Transaction Types**

Posting is categorized by the various transaction types associated with the financial transaction. Below are the transaction types, reasons and documents related to posting:

**TRANSACTION TYPE: AA — Account Adjustment**

DOCUMENT TYPES: SF215, SF5515, SF1081, SF1097, and ACCADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
AD	FRB Error
AW	FRB Error
BN	FRB Error
BP	FRB Error
CC	Collection Fees Lawsuit
CI	Interest Lawsuit
CN	Loan Consolidation
DA	FRB Error
DS	FRB Error
EF	Eliminate Fees
FA	FRB Error
FS	FRB Error
GA	GA Payments
LE	Manual Check to Lender
LN	Lender Payments
N	Negative
NB	FRB Error
NO	FRB Error
ON	FRB Error
OP	FRB Error
OT	Other
P	Positive
PB	FRB Error
PO	FRB Error
RA	Refund Adjustment
SD	FRB Error
SF	FMS Fee Error
ST	Student Refund
SW	FRB Error
VI	Variable Interest Rate
WA	FRB Error
WS	FRB Error



**TRANSACTION TYPE: AD — Administrative Fee**  
DOCUMENT TYPE: ACCADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason

**TRANSACTION TYPE: BN — Bounced Check**  
DOCUMENT TYPE: SF5515

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
FC	Foreign Check
FS	FRB Error
IF	Insufficient Funds
UF	Uncollected Funds
WG	Wage Garnishment

**TRANSACTION TYPE: BS — Bounced Check/Stop**  
DOCUMENT TYPE: SF5515

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
CA	Closed Account
IF	Insufficient Funds
NE	Not Endorsed
OT	Other
PS	Payment Stopped
RM	Refer to Maker
SD	Stale Date



**TRANSACTION TYPE: CA — Cancel**

DOCUMENT TYPE: ACCADJ

TRANSACTION REASON	DESCRIPTION
H1	Head Start 15% National Direct
H2	Head Start 15% Perkins
L1	Full Time Law Enforcement Officer 15% (1 <sup>st</sup> and 2 <sup>nd</sup> Year)
L2	Full Time Law Enforcement Officer 20% (3 <sup>rd</sup> and 4 <sup>th</sup> Year)
L3	Full Time Law Enforcement Officer 30% (5 <sup>th</sup> Year)
M1	Military 12.5% National Defense
M2	Military 12.5% National Direct or Perkins
N1	Nurse/Medical Technician 15% (1 <sup>st</sup> and 2 <sup>nd</sup> Year)
N2	Nurse/Medical Technician 20% (3 <sup>rd</sup> and 4 <sup>th</sup> Year)
N3	Nurse/Medical Technician 30% (5 <sup>th</sup> Year)
T1	Teaching 10% National Defense
T2	Teaching 15% Low Income National Defense
T3	Teaching 15% Handicapped National Defense
T4	Teaching 15/20/30% Low Income National Direct or Perkins
T5	Teaching 15/20/30% Handicapped National Direct or Perkins
T6	Teaching 20% Low Income Direct or Perkins
T7	Teaching 30% Low Income Direct or Perkins
T8	Teaching 20% Handicapped Direct or Perkins
T9	Teaching 30% Handicapped Direct or Perkins
UF	Uncollected Funds
UL	Unable to Locate
UN	Unenforceable
V1	Volunteer 15%/20% Peace Corps Perkins
V2	Volunteer Domestic National Direct
V3	Volunteer Peace Corps Perkins

**TRANSACTION TYPE: CF — Collection Agency Fee**

DOCUMENT TYPE: ACCADJ and POSADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason



**TRANSACTION TYPE: CO — Compromise**  
DOCUMENT TYPE: ACCADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason

**TRANSACTION TYPE: CR — Collection Agency Fee Reversal**  
DOCUMENT TYPE: POSADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason

**TRANSACTION TYPE: CX — Check Cancellation**  
DOCUMENT TYPE: SF1081 and SF1098

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
DP	Duplicate Debt
OT	Other
RP	Repurchase
ST	Student Refund
WA	Wrong Amount
WL	Wrong Lender
WS	Wrong School

**TRANSACTION TYPE: DP — Directed Payment**  
DOCUMENT TYPE: SF215, SF1081, and ACCADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
DI	Directed Payment Debtor Instructions
LR	Directed Payment Lender Refund
SR	Directed Payment School Refund
WG	Wage Garnishment



**TRANSACTION TYPE: ER — Establish Receivable**

DOCUMENT TYPE: NEWDEBT

TRANSACTION REASON	DESCRIPTION
Blank	No Reason

**TRANSACTION TYPE: FF/IR — Federal Offset Fee**

DOCUMENT TYPE: POSADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason

**TRANSACTION TYPE: FR/IJ — Federal Injured Spouse Claim**

DOCUMENT TYPE: SF1081, ACCADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason

**TRANSACTION TYPE: IA — Interest Accrual**

DOCUMENT TYPES: ACCADJ and POSADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
BA	Bankruptcy
CA	Collection Agency Fees
CB	Chargeback
CN	Loan Consolidation
CS	Closed School
DE	Death
DI	Debtor Instructions
DJ	Department of Justice
DP	Duplicate Debt
DR	Debt Returned
DS	Disability
FA	FRB Error
FC	Foreign Check
FD	Federal Defaulter
FS	FRB Error
H1	Head Start 15% National Defense
H2	Head Start 15% Perkins
IC	Inability to Collect
IF	Insufficient Funds
IS	TOP Offset
LE	Manual Check to Lender
LR	Lender Refund
L1	Full Time Law Enforcement Officer 15%
L2	Full Time Law Enforcement Officer 20%
L3	Full Time Law Enforcement Officer 30%
M1	Military 12.5% National Defense
M2	Military 13.5% Perkins
N1	Nurse/Medical Technician 15%
N2	Nurse/Medical Technician 20%
N3	Nurse/Medical Technician 30%
OT	Other
PF	Paid in Full
PO	FRB Error
PS	Problem School
RH	Loan Rehabilitation
RM	Refer to Maker
RP	Repurchase
SD	Stale Date
SF	FMS Fee Error



TRANSACTION REASON	DESCRIPTION
SR	School Refund
ST	Student Refund
TC	Too Costly
TG	Transitional Guaranty Agency
TP	Treasury Offset
T1	Teaching 10% National Defense
T2	Teaching 15% Low Income National Defense
T3	Teaching 15% Handicapped National Defense
T4	Teaching 15/20/30% Low Income National Direct or Perkins
T5	Teaching 15/20/30% Handicapped National Direct or Perkins
T6	Teaching 20% Low Income Direct or Perkins
T7	Teaching 30% Low Income Direct or Perkins
T8	Teaching 20% Handicapped Direct or Perkins
T9	Teaching 30% Handicapped Direct or Perkins
UF	Uncollected Funds
UL	Unable to Locate
UN	Unenforceable
VI	Variable Interest Rate
VO	Volunteer Payment
V1	Volunteer 15%/20% Peace Corps Perkins
V2	Volunteer Domestic National Direct
V3	Volunteer Peace Corps Perkins
WG	Wage Garnishment



**TRANSACTION TYPE: RP — Repurchase**  
 DOCUMENT TYPE: SF215, SF1081, and ACCADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason

**TRANSACTION TYPE: RG — Regular Payment**  
 DOCUMENT TYPE: SF215, SF1081, SF1098, ACCADJ

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
CN	Loan Consolidation
DJ	Department of Justice
FD	Federal Defaulter
FO/IS	Federal Offset
RH	Loan Rehabilitation
VO	Volunteer Payment
WG	Wage Garnishment
DD	Direct Debit

**TRANSACTION TYPE: RS — Refund from Suspense**  
 DOCUMENT TYPE: SF1081, SF0197 and SF1166

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
IS	TOP Offset

**TRANSACTION TYPE: SB — Bounced Check/Stop Second Bounce**  
 DOCUMENT TYPE: SF5515

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
CB	Chargeback
PF	Paid in Full
WG	Wage Garnishment

**TRANSACTION TYPE: ST — Student Refund**

DOCUMENT TYPE: SF1166

TRANSACTION REASON	DESCRIPTION
Blank	No Reason
CS	Closed School
IR	TOP Offset
PF	Student Refund

**TRANSACTION TYPE: WO — Write Off**

DOCUMENT TYPE: ACCADJ, POSADJ

TRANSACTION REASON	DESCRIPTION
BA	Bankruptcy
CN	Loan Consolidation
CS	Closed School
DE	Death
DP	Duplicate Debt
DR	Debt Returned
DS	Disability
GA	GA Payments
IC	Inability to Collect
OP	Overpayment
OT	Other
PF	Paid in Full
PS	Problem School
RH	Loan Rehabilitation
RP	Repurchase
SL	Statute of Limitations
TC	Too Costly
TG	Transitional Guaranty Agency (TGA)
UL	Unable to Locate
UN	Unenforceable



**Payment Posting Order**

The below table illustrates the payment sequences for the various transaction types.

--- Payment can apply in any sequence  
 N/A Not Applicable

Tran Type	Principle	Interest	Administrative Costs	Other Fees	Collection Agency Fees	Penalty Fees	TOP Fees
AA	---	---	---	---	---	---	---
AD	N/A	N/A	1	N/A	N/A	N/A	N/A
BN	---	---	---	---	---	---	---
BS	---	---	---	---	---	---	---
CA	1	N/A	N/A	N/A	N/A	N/A	N/A
CF	N/A	N/A	N/A	N/A	1	N/A	N/A
CO	---	---	---	---	---	---	---
CR	N/A	N/A	N/A	N/A	1	N/A	N/A
CX <sup>a</sup>	---	---	---	---	---	---	---
DP	---	---	---	---	---	---	---
ER	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FF	N/A	N/A	N/A	N/A	N/A	N/A	1
FR	1	2	N/A	N/A	N/A	N/A	N/A <sup>b</sup>
IA	N/A <sup>c</sup>	1	N/A	N/A	N/A	N/A	N/A
LS	1	N/A	N/A	N/A	N/A	N/A	N/A
PE	N/A	N/A	N/A	N/A	N/A	1	N/A
RI	N/A	N/A	N/A	N/A	N/A	N/A	1
RP	7	6	3	4	5	2	1
RG	---	---	---	---	---	---	---
RS	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SB	---	---	---	---	---	---	---
ST	---	---	---	---	---	---	---
WO	---	---	---	---	---	---	---

- a - In most cases it only increases principle
- b - Could be reduced for 100% Injured Spouse claims
- c - Could apply to principal if negative interest

**Posting Functions**

Account Adjustment – can increase or decrease any balance category on an account or debt balance. This transaction will invoke interest accrual on all debts on an account during posting. The IA transaction will increase interest. This transaction is also used for FRB errors. If the FRB error has an effect on an account or debt it will



invoke the interest accrual on all debts on the account during posting.

**Administrative Fee** – Will increase the Administrative fee on an account or debt. This transaction will invoke interest accrual on all debts on an account the IA transaction will increase interest.

**Bounced Check** – This transaction will increase any balance category on an account or debt, based on how the original payment was applied. It will invoke posting to increase the penalty fee on an account or debt. This transaction will invoke interest accrual on all debts on an account the IA transaction will increase interest.

**Bounced Check Stop** - This transaction will increase any balance category on an account or debt, based on how the original payment was applied. It will invoke posting to increase the penalty fee on an account or debt. This transaction will invoke interest accrual on all debts on an account the IA transaction will increase interest.

**Cancellation** – This transaction will decrease balance category 1 on any account or debt. This transaction will invoke interest accrual on all debts on an account the IA transaction will increase interest.

**Collection Fee** – This transaction is invoked by posting when some payments are received and the account or debt is in a location code with a collection agency. This will increase collection fees on any account or debt. NOTE if a FDP or TOP payment is received there is no CF charged to the account or debt.

**Compromise** – This transaction will decrease any balance Category. This transaction will invoke interest accrual on all debts on an account during posting. The IA transaction will increase interest.

**Collection Fee Reversal** – This transaction will decrease collection fees. This transaction is invoked by posting when a BN, BS, or SB is applied to an account or debit that has a location code with a collection agency. This transaction will invoke interest accrual on all debts on an account during posting. The IA transaction will increase interest.

**Check Cancellation** – This transaction will increase any balance category on an account or debt. (In most cases it only increases principal).

**Directed Payment** – This transaction will decrease any balance category on the account or debt as directed. This transaction will invoke interest accrual on all debts on an account during posting. The IA transaction will increase interest.

**Establish Receivable** – This transaction is not processed by posting and has no effect on the account or debt. This transaction is used to send the receivable to FMS for all new debts, as they are loaded into the system.

**Federal Fee** – This transaction will increase TOP fees. This transaction is created by posting when there is a RG FO (TOP) transaction, which will invoke the Federal Fee to be charged.

**Federal Reversal** – This transaction will increase principal and interest. If the amount of the FR is equal to the RG FO that was the original transaction, then posting process will also invoke the RI transaction and decrease TOP fees. This transaction will invoke interest accrual on all debts on an account during posting. The IA transaction will increase balance category interest.

**Interest Accrual** – This transaction will increase interest. This transaction is always invoked by posting when any other transaction is applied to an account or debt. This transaction may also be requested by the annual Interest accrual process when there is not another transaction being applies to the account or debt.

**Lender Supplement Transaction** – This transaction will decrease balance category 1. This transaction will invoke interest accrual on all debts on an account during posting. The IA transaction will increase interest.



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**Penalty Fee** – This transaction will increase penalty fees. This transaction is invoked by posting when a BN, BS is applied to an account or debt.

**Reversal of Federal Fee** – This transaction will decrease TOP fees. This transaction is invoked when a FR transaction is processed by posting and is equal to the original RG FO.

**Repurchase** – This transaction will decrease any balance category.

**Regular Payment** – This transaction can decrease any balance category. This transaction will invoke interest accrual on all debts on an account during posting. The IA transaction will increase interest. NOTE the transaction reason is what will be determined if the transaction will decrease a balance category and in what order.

**Refund from Suspense** – This transaction is used to refund money received that does not belong to ED. This transaction is not processed by posting and does not affect the account or debts. The accounting and the request of a check are sent to FMS.

**Second Bounce** – This transaction will increase any balance category on an account or debt, based on how the original payment was applied. This transaction will invoke interest accrual on all debts on an account during posting. The IA transaction will increase interest. NOTE there is not a fee on a second bounce.

**Student Refund** – This transaction will increase the account or debt balance.

**Write Off** – This transaction will decrease any balance category on an account or debt. This transaction will invoke the interest accrual on all debts on an account during posting. The IA transaction will increase interest.



## **DMCS Financial Management & Accounting**

The Debt Collections Financial Management & Accounting process involves the combination of several internal subsystems to generate the required accounting for posted financial transactions that are ultimately sent to FSA's Financial Management System (FMS). These subsystems include:

Subledger (SBL) - provides a facility for capturing the accounting associated with the daily financial transactions that are posted to the DMCS database.

Warehouse (WHD) – provides a facility for processing and maintaining DMCS payment requests received from Subledger as well as payment requests for Interest Payments and FISL claims. The Warehouse also generates check and EFT payment files that are forwarded to FSA-FMS.

Financial Information System (FIS) – provides a facility for summarizing collection and payment records received from Subledger.

Funding Subsystem (FND) – provides a facility for maintaining appropriation, apportionment, and allotment information used for “funds-checking”.

Credit Reform (CRM) – provides a facility for performing credit reform distributions to financial transactions prior to sending them to FSA-FMS.

Financial Transactions are loaded into DMCS via batch and online facilities. Batch facilities include OCR, FALCON, and tape processors. DMCS financial transactions can be categorized into three main processes:

Establish Receivables (NEWDEBT doc type)

Direct Loan assignments

FFEL GA assignments

FISL claims

Perkins Loan assignments

Overpayments of Pell and SEOG grants

Closed School Non-defaulted Perkins Loans

Receiving Payments

Checks (SF215)

Inter-Agency and Intra-Agency Transfers (SF1081/SF1098)

Bounced Checks (SF5515)

Credit Card

Direct Debit

Maintain Accounts

Manual Adjustments (ACCADJ)

Accrue Interest, Charge Fees (POSADJ)

Refunds Due (SF1166)

Suspense Refunds (SF1166)

Batch Control and Post Control records for the financial transactions are created and balanced.

The financial transactions are posted to the borrower's account via a nightly batch process. As transactions are posted to the DMCS database, interest is accrued as applicable.



Note: “ER” (Establish Receivable) transactions for New Debts are loaded directly to the Subledger bypassing the Posting process.

The posted financial transactions are retrieved from the DMCS database and translated to Journal Voucher records. These journal voucher records are then posted to the DMCS Subledger. During the Subledger process, note that Credit Reform distributions (as applicable) are made to FFEL loans and Direct Loans by loan program, cohort year, and school type. Credit Reform is not performed against FISL loans, Perkins loans, or program overpayments.

The current Account Code Classification Structure (ACCS) for these journal vouchers are comprised of Transaction Interface Records (TIRs) and Financial Interface Records (FIRs) as shown below. A lookup is made to a table using the FIR/TIR combination to obtain the applicable general ledger accounts to be debited and credited.

The FIR record contains the following data fields:

- Common account number (CAN)
- Transaction code (TC)
- Object class (OC)
- Reverse code (RC)

The TIR record contains the following data fields:

- Document type
- Transaction type
- Transaction reason
- Balance category
- Loan Program
- Destination (FMS GL or Subledger)
- Backout Indicator (tells if cash is affected)

Note: The above TIR/FIR ACCS structure within the Subledger is based upon an obsolete account code structure that was used by ED-CFO prior to their implementation of their Oracle-based financial management system. Beginning in October 2001, both ED-CFO and FSA-FMS converted to a new financial management system and Oracle-based ACCS structure.

The Subledger retrieves all journal voucher (JV) records and translates each JV record into a DMCS SUBTRAN record using the detail in the FIRs/TIRs. Two types of DMCS SUBTRAN records are created by the Subledger: a) SUBTRAN collection records and b) SUBTRAN payment records.

For each DMCS SUBTRAN payment record created, the Subledger also generates a Warehouse (WHD) request. These SUBTRAN payment records and warehouse requests are both sent to the Warehouse. The Warehouse also receives SUBTRAN payment records and warehouse requests from two other sources: a) Interest Payments (via ED Form 799, expected to be retired in Oct '02), and b) FISL claims (via ED Form 1207).

The Warehouse compares each SUBTRAN payment record with its corresponding Warehouse request to ensure the amount totals are equal. Based on the payment request date, the Warehouse then creates “check” (\*.chk) and “eft” payment files that are forwarded to ED-CFO (via FSA-FMS) for payment processing. (Note: Prior to the creation of these check and EFT payment files, the Warehouse accesses the Funding (FND) subsystem to verify sufficient funds are available.)

The SUBTRAN payment records (includes DMCS payments, Interest payments, and FISL claims), along with the DMCS SUBTRAN collection records, are sent to the Financial Information Subsystem (FIS). FIS summarizes all the collection and payment SUBTRAN records by “transaction type and day” for Level-2 transactions and by



“document number” for Level-1 transactions. (Note: FIS accesses the Funding (FND) subsystem to verify sufficient funds are available.)

DMCS reporting of cash receipts is a two-tiered process as shown below:

Level 1 Unapplied Transactions – this level of reporting is the initial recording of an “unapplied receipt”

Level 2 Applied Transactions – this level of reporting “applies” the cash receipt to a specific student and a specific debt level.

The summarized collection and payment SUBTRAN records resulting from FIS are sent to the Credit Reform (CRM) subsystem. CRM processes all the SUBTRAN records and creates two accounting output files → a collection file (\*.col) and a disbursement file (\*.dsb). These accounting files (\*.col and \*.dsb) are sent to FSA-FMS for processing into the FMS General Ledger (GL) and Accounts Payable (AP) modules.

Note: During this step, the Credit Reform Subsystem (CRM) performs distributions (by cohort year) to SUBTRAN records associated with Interest Payments and FISL claims. DMCS collection SUBTRAN records are not processed through this credit reform routine).

It is also important to note that not every financial transaction is passed to FSA-FMS. Certain financial transactions are defined as "FIS Only" and are only maintained in the Subledger. Examples include -> a) fees and charges; b) interest accrual on some loan types.

FSA-FMS receives the accounting (from Step 8) & payment (from Step 6) files, translates the information into the new FSA Oracle-based ACCS accounting structure, and loads it into FMS. This information is then ultimately consolidated to ED-CFO's FMSS.

Note: Currently, FSA-FMS forwards the payment (\*.eft, \*.chk) files to ED-CFO to certify the payment file. ED CFO will send the files to Treasury for payment. Upon receipt of the Treasury confirmation, FSA-FMS Oracle will be updated through the Oracle Federal Administrator with the Treasury Confirmation Date. The point to note here is that FSA-FMS Oracle is not making any payments → the FMS general ledger is simply being updated with sufficient detail to meet federal reporting requirements (SF 224, FACTS II etc).

FSA-FMS returns the Treasury payment check numbers to DMCS. These check numbers are then updated in the Warehouse (WHD) subsystem.



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## **Financial Information Subsystem**

The Financial Information Subsystem (FIS) is a component of the FFEL Support System. FIS maintains the Management Information Data Accounting System (MIDAS) table, creates the MIDAS file and report; and performs the extracting, restoring, and archiving of the SUBTRAN records which are the records created by the subsystem process.

The Debt Collection (DMCS), Warehouse (WHD), Federally Insured Student Loans (FISL), Guarantee Agency Funds (GAF), Interest Payments (IP), and National Direct Student Loans (NDSL) subsystems write accounting information to SUBTRAN records on the database. MIDAS financial transactions are extracted from the SUBTRAN area, and a MIDAS file and report are created.

### **FIS Functions**

The major functions of FIS are described below. These functions are performed by various batch job streams:

- Maintains, updates, and prints the MIDAS table.
- Extracts financial information for processing by the MIDAS system.
- Archives and restores SUBTRAN records.



## **Funding Subsystem**

The Funding (FND) subsystem is one component of the Support system. The FND subsystem is only used for Interest Payments and FISL Claims. The FND subsystem provides the Department of Education users with several functions that are used to maintain, track, and report on funding activity. Funding information is created and updated through both on-line and batch functions. The on-line function is used to create, update, delete, and inquire about appropriation, apportionment, and allotment information. Funding information is also updated via batch processing.

Batch updating of funding information occurs in two separate functions. The first batch update function occurs during the processing of warehouse transactions. The second batch update function processes all other funding related transactions that do not pass through the warehouse function. One final function associated with the FND subsystem is the generation of management reports. These reports are used by the Department of Education to monitor funding information.

### **Description**

The FND subsystem is used to control and monitor the funds associated with common accounting numbers (CANs). Appropriation, apportionment, and allotment information is entered and maintained via the on-line function. In batch mode, transactions are applied using the Department of Education approved criteria that is found on the Midas table. This Midas table information indicates (1) whether the transaction is for funding or reporting and (2) if it is an add or a subtract to the allotment and/or total record (used for reporting). In addition, an audit trail of each on-line and batch transaction is maintained by the FND subsystem.

### **FUND Functions**

The functions of the FND subsystem are to:

- Interface with the Warehouse Management Information Summarization (WHD) subsystem.
- Provide on-line creation, update, delete, and inquiry capability for appropriation, apportionment, and allotment information.
- Provide a help facility for each FND on-line screen (field and screen help).
- Update the funding database via batch transactions.
- Generate management reports.



## **NSLDS Interface**

The National Student Loan Data System (NSLDS) is the U.S. Department of Education's central, integrated database for student aid. NSLDS stores Title IV data that is received from schools, guaranty agencies, and many internal FSA systems such as DMCS. NSLDS supports ED in a variety of operational and research functions meant to improve the administration and delivery of student aid through Title IV aid programs. Specifically, the three main goals of NSLDS are:

- To improve the quality and accessibility of student aid data
- To reduce the burden of administering Title IV aid
- To minimize abuse within the aid programs through accurate tracking of funds appropriated to assist the postsecondary students for whom the programs were designed

Weekly data passed from DMCS to NSLDS includes information about the following:

- The Federal Family Education Loan Program
- The Federal Direct Loan Program (FDLP)
- Federal Perkins loans (including National Direct Student Loans, National Defense, and Income Contingent Loans)
- Federal Pell Grants
- Overpayments from the Federal Pell Grant, Federal Supplemental Educational Opportunity (FSEOG), and FFELP Loan programs
- Demographic and enrollment data on Title IV recipients

### **NSLDS Interface**

The NSLDS Interface Subsystem within DMCS supports the delivery of the following information to NSLDS on a weekly basis:

Loan portfolio data of all Debt Collections loaded into DMCS.  
Lender information from the FFEL database.

The primary source of DMCS data is the Account/Debt extract files created in the Management Operations Reports (MGT) Subsystem. Loan level data is extracted from these files and formatted per NSLDS specifications. DMCS "status" information is processed to determine the corresponding NSLDS "loan status". Payments data required by NSLDS is then appended to the extracted data. The "Identifier" fields required by NSLDS are then populated and the file is passed to the NSLDS "Delta" process that is executed on the FFEL mainframe computer. The "Delta" process compares the new extract with last week's extract and sends only the changed records to NSLDS.

The source for Lender data in DMCS is provided via Form 799. The Lender data required by NSLDS is extracted from the FFEL system and formatted per their specifications. The output is then delivered to NSLDS via a separate lender tape.



## **IRS Skip Tracing**

IRS Skip tracing is a monthly process used by the Department of Education and other external requestors (including guaranty agencies (GAs) and schools) to help locate defaulted borrowers. Requests are received in the form of magnetic media or hardcopy listings. Hardcopy listings from external requestors are manually keyed into DMCS by SLPC personnel. The IRS Skip Trace generates skip trace records from the DMCS database on a monthly basis. The defaulters selected from the database are merged with records from the external requestors (i.e., GAs, schools) onto one tape, which is sent to IRS. The IRS attempts to match data using the Social Security number and the first four characters of the defaulter’s last name with information on its master file. One tape file is received back from the IRS containing matches with addresses and non-matches with only Social Security numbers. ED currently sends about 150,000 address requests (note: the number of address requests sent to the IRS is based on an inter-agency agreement and not a system limitation; number of requests can be expanded in the future) on a tape each month including those requested by schools and other agencies. Addresses returned by the IRS are entered into the database and sent back to the Requestor.

Accounts selected from the DMCS database that are eligible for IRS Skip tracing include the following:

Accounts not in Repayment

Accounts where no Skip Tracing has been conducted for more than a year

New accounts added since last Skip Tracing request.

Borrower address is flagged as “undeliverable”



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## **Pre-Claims/ Skip Tracing/Mailing Subsystem (D-PRE)**

The Pre-Claims/Skip Tracing/Mailing Subsystem performs three primary functions within DMCS:

Pre-Claims processes external pre-claims assistance requests from Lenders and produces letters that are intended to notify borrowers of impending default status. The text of the letters informs the borrowers that, if payment is not made to the lending institution, the delinquent loan will be turned over to Department of Education. The pre-claims process accepts input from hardcopy, diskette, or tape. Pre-claims letters that are returned as “undeliverable” initiate the skip trace process required to obtain the borrower's current address from the United States Postal Service (USPS).

Skip Trace processes tapes or hard copy requests from ED-Regions, guarantee agencies (GAs) and lenders to create postmaster letters and postmaster/relative postcards. This is a process in which lenders submit requests for postal skip tracing via ED Forms 1249 and 1249-1. Postal skip trace letters or cards are generated and mailed by the SLPC. Requestors are informed of new addresses obtained from the U.S. Postal Service.

Mailing processes and ships all letters and postcards from pre-claims and skip trace files. The letter and postcard print jobs are submitted by the FFEL Processing Center. Mailing also includes processing change of address information from the USPS. This information can be in the form of 3547 post cards or an Address Correction Service (ACS) tape file.



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## **Credit Bureau Reporting (D-CBR)**

Department of Education is legislatively mandated to report defaulted borrower accounts to a national credit bureau. Accounts are eligible for credit bureau reporting after the borrower has been notified of Department of Education’s intent to report his/her account to a credit bureau, and the borrower has not made a payment or formally disputed the debt within 60 days of the notification.

The Credit Bureau (CBR) Subsystem selects delinquent accounts based on sixty-day notice selection parameters. Sixty days following the sixty-day notice (or Final Demand Letter), this subsystem will refer these accounts to credit bureaus for credit reporting. In order to allow the maximum amount of flexibility to the Department of Education, the subsystem provides for the exclusion of accounts from this process via input parameters. The Credit Bureau subsystem also provides capability for the Department of Education personnel to transfer "co-makers" to the credit bureaus. This subsystem also provides reports that summarize the number of accounts/debts reported to the credit bureau.

Currently, there are 3 National Credit Bureaus that receive borrowers’ debt status information from DMCS. DMCS continues Credit Bureau reporting for a period up to 7 years with the exception of NDSL debts. NDSL debts are not subject to this 7-year reporting limitation.



## **NPC**

The National Payment Center (NPC) is located in Greenville, TX, and currently is managed by Raytheon. NPC receives and processes repayment remittances from student borrowers. The monies are deposited at the Federal Reserve Bank the same day as received. Payments are posted to the students' accounts the same day. Major responsibilities of NPC include:

- Collect payment from the post office – open mail, data entry and microfilm all payment instruments as they are processed through the Optical Character Reader (OCR).
- Maintain the receipt of borrower payment
- Provide special handling for checks drawn on foreign banks and checks with special endorsements or instructions
- Research unidentified payments
- Deposit payment directly into the Federal Reserve Bank (FRB).
- Provide copies of payments received upon request
- Process AWG forms
- Forward correspondence received to Collections regional offices

## **Check Payment Processing**

### **Automated Check Processing**

If the Coupon is included and everything was okay during the manual check, a representative feeds the coupons and checks into the OCR machine. The OCR reads the nicr lines (this includes info. such as borrower's address at the bottom of the coupon), groups the payments into batches (builds batch controls of 200, creates a post control (Total \$s in batch) and a batch control (detail \$s from individual checks), endorses/stamps the back of the check, and codes the check with the amount on the bottom right corner of the check. The checks are then microfilmed for storage.

### **Manual Check Processing**

Payments that must be processed manually include those payments that were pulled during the manual review process because they did not include a coupon with the payment or the OCR machine could not process a check. In addition, any FDP and/or Treasury checks (that are not for a single borrower), splits, multiple payments, and restrictive endorsement (i.e. "PIF", "Final Payment") are processed manually. Upon entering the payment information manually, the checks are still run through the OCR machine on a different cycle that groups them in batches, encodes/stamps the back of the check, and codes the check with the amount on the bottom right corner of the check. In addition, all checks and/or coupons that are run through the OCR machine are also microfilmed for storage.

The Processing Coordinator will assign a deposit ticket (SF215) for the Treasury checks and one for all other payments to be deposited.

The Pre-Posting Report will generate for that day's SF215. For each batch, this report will list all batch dollar amounts and number of payment instruments in each batch. For the SF215, this report will list the total dollar amount and number of payment instruments for the SF215 document. The total dollar amount will be verified and entered into the Post Control Record. The Processing Coordinator will initiate the Post Control balance to ensure all batches are accounted for. Once balanced, the SF215 and FRB cash letter will be completed using the Pre-Posting Report.



## Special Check Processing

### Foreign Checks

For foreign checks, an SF215 will be prepared for each payment instrument and forwarded to Citibank via certified mail, along with the Deposit of Foreign Checks Letter.

Upon receipt of the completed SF215 from Citibank, copies will be pulled from the folder and the U.S. equivalency will be posted to the student's account, using the On-line Payment Screen (A110). The date the payment was initially received by NPC will be entered on-line, using the effective date.

### Post Dated Checks

Payment instruments or payment instruments with correspondence that are received with comments such as "Do not cash until," or "Void if cashed before," are postdated, if the date specified is after the current date. All postdated payment instruments that exceed the six months limit must be returned with a cover letter to the originator via regular first class mail. The Collector Notepad Screen (L102) will also be used to annotate Postdated Checks including Instrument Type, Dollar Amount and date to be deposited.

### Unacceptable Payment Instruments

Payment instruments with wrong payee, no signature, no endorsement for third party payee, or differing written versus numeric dollar amounts are considered unacceptable. Unacceptable payments will be returned to the originator.

### Multiple and Split Payments

Multiples are transactions involving more than one check per coupon and/or account, whereas Split Payments are transactions involving one check, which is to be divided between more than one account.

Multiples will be processed through the OCR. With Multiples, one check will be placed with the coupon for processing through the OCR. ??????

Split Payments also include DOJ 1081s, SF1081s, and Treasury checks. The SF1081 is a Voucher and Schedule of Withdrawals and Credits received from the DOJ or government agencies. This form is used to transfer funds between agencies. The DOJ 1081 listing is a computerized report of payments that have been received and deposited by the DOJ and must be posted to student accounts. Treasury checks will be received from the Treasury Department with a listing from which the students' accounts will be updated.

Split, Rehabilitation, Consolidation, and Treasury payments will be batched separately, coded with the proper document origin, instrument type, and reason code.

### Directed and Repurchase Payments

Payment instruments received with correspondence which states lender refund, school refund, or debtor instructions are referred to as Directed Payments. Payment instruments received with correspondence which states repurchase, paid claims being reinstated, or similar wording are referred to as Repurchase Payments.

Directed Payments and Repurchase Payments must have a Post Control Record. If the Post Control Record does not exist from the document type and document number, the Processing Coordinator will enter the information on the Post Control Record Screen (A100).

The Directed Payment Screen (A115) and the Loan Repurchase Screen (A125) will require the debt number to



ensure payment is directed to a specific debt.

## Request for Refund

Requests for refunds must be received in writing and contain a signature before being processed. A request for refund can be received from a debtor, the originator of the payment instrument, government agencies, and other Department of Education personnel. DOJ or Treasury Check (TC) payments submitted to NPC in error may be refunded without a written request. Payments processed by the NPC in error may also be refunded without a written request. A copy of the Phone Log outlining communication with the Attorney General's Office or the payment originator (if an incorrect payee) or a Treasury Check payment and a copy of the suspense report will be submitted as supporting documentation for DOJ, TC, and incorrect payee refunds.

Requests for refunds from an account will be researched and documentation, along with the original request, will be forwarded to the appropriate region.

Requests for refunds from suspense will be researched and entered on-line through Customer Information Control System (CICS). They will then be forwarded to the on-site Department of Education (ED) Monitor to be validated or canceled. Requests for refunds from government agencies will be researched and entered on-line through CICS for a hardcopy SF1081 to be generated and forwarded to ED Finance.

Requests for refunds from other ED agencies will be researched and entered on-line through CICS for a hardcopy SF1097 to be generated.

A copy of GSWHD713 - Treasury Check Tape Report (Appendix Figure 53) will be obtained from the 799 Processing Coordinator for voucher number verification.

## RETURNED CHECKS/COLLECTION CHARGES/VOUCHERS OVERVIEW

Returned checks and debit/credit charges are received from the Federal Reserve Bank (FRB), Department of Justice (DOJ), and Citibank Worldlink.

When returned checks are received from FRB for NSF, insufficient funds, uncollectible funds, or no endorsement, the check will be redeposited for a second time. If a check bounces once, do not send a copy to the regions. If the check is returned a second time, return original check, in lieu of a copy thereof, to the originator instead of to the regions. The contractor shall update the Collector Notepad (L102) with a tickle message and a tickle date that the check has bounced twice.

DOJ returned checks will be transferred to NPC in the form of a DOJ 1081. The returned checks will be listed at the end of the listing and identified by a negative amount.

Citibank Worldlink will process foreign checks by presenting them a second time, if they are returned unpaid after the first presentation for non-sufficient funds. Other non-payment checks (checks returned unpaid for reasons other than non-sufficient funds) will be charged against the Treasury's General Account, after being presented the first time. Citibank Worldlink will mail a tracer each month to the collection bank, if the collection process is not complete within thirty (30) days. Any check which proves uncollectible after 120 days will be charged back to the depositor by Citibank Worldlink. The amount of checks returned as uncollectible, returned item fees, exchange fees, tracers, and/or any other subsequent collection charges incident to the collection of foreign checks assessed after the dollar credit has been given in the Treasury's account, will be charged back to the depositor through Citibank Worldlink's execution of a debit voucher, SF5515. In addition, a \$2.00 fee will be charged by Citibank Worldlink for any deposits received which are less than the minimum limitations set by Treasury. Copies of the SF5515 will be forwarded to NPC.



A debit voucher with a debit adjustment or a deposit ticket with a credit adjustment may be received, indicating a check was lost in the initial deposit. The indemnification statement will be signed and dated by the Processing Coordinator or NPC Manager, as specified by FRB. The indemnification statement, with the appropriate copies, will be included in the next day's deposit. A copy of all reference material forwarded to FRB will be maintained at NPC for future reference.

Situations may arise that cause a need for a chargeback to individual student accounts. The end result is that subsequent to the posting of the credit card payment to the individual student account, the chargeback must be made to the FFELP (Federal Family Education Loan Program) system. The detail that supports the chargeback is sent to the regional office, researched, and then faxed to the NPC.

### **DIRECT DEPOSIT OVERVIEW**

Copies of payments deposited directly at Washington Headquarters and/or Regional Offices will be forwarded to NPC for processing. Upon receipt, the header sheet will be stamped with the date of receipt and the number and total amount of the payment instruments will be verified. If a discrepancy occurs, the appropriate personnel at Headquarters or Regional Office will be contacted. A file folder labeled with the effective date and the batch number will be set up for each batch of payments. The folders will be filed by effective date and batch number in sequential order. The payments will be entered via the CRT, using the CICS Payment Entry Screen (A110). Upon receipt of the Daily Posting Report, the amounts on the Detailed Batch List Report will be verified against the Daily Posting Report. Debit vouchers will be handled under Section 15.

Defaulted students will be notified, via a form letter of the correct address to mail future payments.

On a monthly basis, Headquarters will send NPC a copy of the Accounting and Financial Management Service (AFMS) Deposit Tracking System Log for those payments deposited by Headquarters (Washington, D.C.). The document number and the document amount will be verified against the entries in the Detailed Batch List Reports. If a discrepancy occurs, the Processing Coordinator will be notified, and in turn, notify the ED On-Site Monitor.

### **PAYMENTS POSTED TO SUSPENSE OVERVIEW**

#### **Payment Posting and Suspense Refunds/Payments**

During the payment posting process, the system attempts to post payments to accounts based on the SSN. If an SSN is not supplied or is incorrect, the payment does not get posted right away and the account will go into pre-suspense. Two FTEs work solely on accounts entered in pre-suspense. NPC researches incorrect or missing SSNs daily in an attempt to match payments with the correct borrower. Research entails performing a name search on the system and verifying that the SSN was not miskeyed.

In the case of a suspense, the NPC attempts to research the account. If they are able, the NPC attempts to contact the borrower asking them if they need a refund, do they want to post to a certain account, should it have gone to a different collector, etc. Annette Derrick has the final approval for all suspense refunds.

When an account enters into suspense NPC has two days to begin to take action contractually; however, there is a dedicated group that begins this process immediately.

Suspense accounts are researched on an on-going basis.

Regulations do not allow for IRS skip tracing. Unidentified payments are searched using Alpha and Numeric Lookups, contacting schools, sending letters, phone calls, and matching against NSLDS. (SLPC/NPC Doc.)

The Posting Process allocates payments to proper accounts and distributes each payment over multiple debts within an account. The Suspense Match is the first program in the Posting Process. The purpose of the Suspense Match Process is to match suspense transactions with Debt Management Collection System (DMCS)



accounts.

The Suspense Report Program will run after the Posting Program and produce the Daily Suspense Report. The NPC will use this report to research and match Unidentified Payments to valid accounts. Occasionally, a payment is received at the NPC before the account is established on the data base. The payment will be flagged as suspense until a matching account record is located. The Suspense Match Program will examine suspense transactions and change the flag to "Ready-to-Post" when a data base account match is found. The Posting Program, which will run immediately after the Suspense Match, will post all transactions which are flagged "Ready-to-Post." The Posting Program will also post any payment transactions that have been resolved by a Research Specialist. The Research Specialist will enter "Y" for Ready-to-Post for all such payments, by using the on-line Suspense History and Remove Screen (A200).

The Unidentified Payments Report Program produces the Unidentified Payment Report. This report will be initiated at the request of the user. This report will list all payments currently residing in suspense within a designated date range. The user will have the option to sort the payments by data fields, i.e., Name, Account Number, Dollar Amount, Instrument Type, etc. The NPC will use this report to perform research of previously suspended payments. The sort capability will enable the NPC to sort payments by priority item.

The NPC Research Specialists will research suspense payments, using the Daily Suspense Payment Report. The Research Specialist will locate the payment document from either the microfilm of payment instruments or the batch file folders for DOJ 1081s, Direct Deposits, and SF1081s. Once the researcher finds the supporting document for the payment detail record, the account numbers between the instrument and the record will be compared. If a correction is necessary, the account number will be corrected on the on-line Suspense History and Remove Screen (A200) and "Y" will be indicated for Ready-to-Post.

If the payment instrument in suspense is to be posted to multiple accounts, when the listing is received the Manual Payment Clerk will create the batch (see Multiple and Split Payments Processing Procedures). The Research Specialist will enter and balance listing of payments on Payment Screen (A110). Once the batch has been entered and balanced the system will delete that payment instrument from the batch it was originally deposited in and re-balance that batch.

The system will also automatically pull that payment instrument out of suspense once the batch is balanced.

If there are any accounts on the listing which are not in the data base they will be posted to suspense and resolved as a regular suspense item the following day or after posting has ran.

If the Research Specialist is unable to find a correct account number, the name and address will be entered on the on-line Suspense History and Remove Screen. Comments will also be added to indicate what attempts have been made to resolve the item.

Payments are also received from debtors whose schools have closed. These Closed School Accounts are not immediately input into the data base due to the time required for the Department of Education to research and compile all debt data from the closed school. During this interim period, debtors will send payments to the NPC and they will go to suspense. The Research Specialist will note on the on-line Suspense History and Remove Screen (A200) that the account is from a closed school. These items will be picked up by the Suspense Match Transfer once the claims are input into the data base.

The following day a QC Audit will be performed on the Research process from the prior day. If the account number the payment is to be posted to is a closed account, a File Maintenance Request Form will be completed and sent to the appropriate region and the suspended payment will be updated with the correct account number.

In cases where an item cannot be resolved, the NPC will send a letter to the originator of the payment instrument.



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## ENTER AND BALANCE POST CONTROL OVERVIEW

### Payment Posting

First, payments are deposited, the same day as received, directly to the Federal Reserve Bank. This occurs 6 days per week. Second, payment information is posted to borrower accounts during overnight batch processing. Postings run nightly Monday through Friday.

No matter when posting is done, the effective date will say the payment was posted the day the check is sent to the Federal Reserve Bank via courier.

Note: If a GA or DL loan payment comes to the NPC, the check will be processed and the payment will be placed in suspense. Representatives will work with the agencies and borrower to ensure that the payments are posted to the borrower's account on the right system.

NPC does not interface with Treasury.  
No files are to be rejected.

The three Regional offices are responsible for Program Overpayments (out of scope).  
(SLPC/NPC Doc.)

The Posting Control Screen program is used for entering and updating any of the vouchers or tickets needed for applying financial transactions to the system.

The system requires that all deposit tickets and vouchers, along with their Document Numbers, be entered through this screen each day prior to any payment processing.

The user has the capability to perform several functions with this screen. These functions include inquiry, entry of new records, update of non-key fields, update of the key fields, the deletion of records, and the balancing of the entire document.

The primary purpose of the inquiry function is to prepare the screen for use by the update and delete functions. The user enters the Document Type, Document Number, and Document Date (if not today's date) and presses the ENTER key. The program will re-display the screen with either the data found by obtaining the requested record or with messages pertaining to why the record was not found. If a successful inquiry is made, the user can continue to the other functions.

To add a new record, the user starts with a blank Post Control Screen and keys in the Document Type, Document Number, Document Date (if not today's date), Document Origin, and Total Document Amount. The Total Document Amount is required for all documents except Deposit Tickets (SF215s). The Posting Status is a system generated field. Finally, the user will place an "X" in the Add option and press the [ENTER] key. The program will return with a message, indicating whether the new record was added successfully or not.

To delete a record, the user enters the Document Type, Document Number, and Document Date and then presses the ENTER key. The program will re-display the screen with either the data found by obtaining the requested record or messages pertaining as to why the record was not found. If a successful inquiry is made, the user places an "X" in the Delete option and presses the ENTER key. The program will return with a message, indicating whether the record was deleted successfully or not. Posting Control records cannot be deleted if batches still exist within them. Batches must be individually deleted through the Batch Control Screen.

To update non-key fields (Total Document Amount or Document Origin), the user enters the Document Type, Document Number, and Document Date and then presses the ENTER key. The program will re-display the screen with either the data found by obtaining the requested record or messages pertaining as to why the record



was not found. If a successful inquiry is made, the user changes the desired field, then places an "X" in the Update option, and presses the ENTER key.

The program will return with a message, indicating whether the record was updated successfully or not.

To update key fields (Document Type, Document Number, or Document Date), the user enters the Document Type, Document Number, and Document Date and then presses the ENTER key. The program will re-display the screen with either the data found by obtaining the requested record or with messages pertaining as to why the record was not found. If a successful inquiry is made the user changes the Document Type and/or the "Document Number" fields, then places an "X" in the Update option, and presses the ENTER key. The program will return with messages, indicating the result of the update. For key field updates, all existing batches will be relinked to the new or alternate Posting Control Record and the old Posting Control Record will be deleted. The updates to the Post Control Record are only allowed prior to Posting.

To balance a document, the user enters the Document Type, Document Number, and Document Date and then presses the ENTER key. The program will re-display the screen with either the data found by obtaining the requested record or with messages pertaining as to why the record was not found. If a successful inquiry is made, the user places an "X" in the Balance option and then presses the ENTER key. The program will return with a message, indicating whether the document is in balance or not.

The Posting Control Entry/Update program requires two sources of input: The DMCS database and the on-line screen fields from the Posting Control screen. From the Posting Control Screen, the user enters the Document Type, Document Number, Document Date, Document Origin, and Total Ticket Amount. The user also selects whether to enter or update a record. The purpose of the Posting Control Entry/Update program is to create and modify the Posting Control Record. The data fields on the screen correspond directly to the fields in this record. The Post Status is a display only field. All other fields may be entered and updated.

The Batch Control Record is needed when the user changes a key field on the Posting Control Record. The old Posting Control Record is not actually modified. All of the Batch Control Records that belong to the old Posting Control Record are unhooked from it and relinked to the new Posting Control Record. The old Posting Control Record is then deleted.

#### **CREDIT CARD PAYMENTS OVERVIEW**

NPC receives credit card payments that will be processed and posted to students' accounts. The requests are collected by the regional offices. The regional offices will notify NPC of an incoming fax transmission of the credit card payment listing. After the fax is received, the payment listing will be batched, entered, and balanced on-line.

The following day, after the student account update program has been run, a Daily Suspense Report will be received by NPC, listing all the unidentified payments that were posted to Suspense. A Research Specialist will perform error resolution in order to identify these payments and post to the appropriate account.

Once error resolution has been completed by the Research Specialist, any remaining unidentified payments still residing in Suspense will be reported back to the originating regional office for further investigation.



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## **Letters (D-LET Subsystem)**

The Letters subsystem, used by ED-Regional offices and Collection Agencies, is a group of on-line and batch IDMS programs designed to automatically generate letters for all debts the borrower has on the DMCS system. In the DMCS, various situations require the need to generate correspondence to debtors (i.e., request for debtor information, request for repayment or payment of student loan). Letter text contained on letters is generated and maintained via the on-line Letter Text Maintenance screen.

The Letter Maintenance Screen (B110) within DMCS allows Department of Education (ED) authorized users to create and maintain letter template records. Authorized collection agency users may create and maintain letter template records for their assigned letter codes. Letter templates contain “variables” that capture borrower information at the account level and in some cases pertain to a specific debt. The Letter Maintenance Screen is used to display and modify existing letter templates, add new letter templates, and approve or reject new/modified letter templates. New or modified letter template records remain in a pending status until approved by ED Headquarters personnel.

If a letter is returned as undeliverable, the address bar code is scanned into DMCS. Records are extracted from letter history to prevent subsequent letters from going out and address is marked as undeliverable. These undeliverable addresses will also trigger a skip trace request to the IRS to obtain the borrower’s latest SSN and Address information.



## **Billing**

Billing statements are generated on a monthly basis for all debtors who have made repayment arrangements. Bills and associated reports, for borrowers who are in repayment, are automatically produced for a given billing cycle. Borrowers are established on one of four (1-4) billing cycles based on the due date entered by the collector. If a gratuitous payment is received before a borrower is set up on a billing cycle the bill cycle will be set based on the date on which that payment was received.

**Billing Groups** - Borrower’s payment date determines which cycle he/she is in

Cycle	Payment Date
0	No Cycle*
1	15 <sup>th</sup> – 21 <sup>st</sup>
2	22 <sup>nd</sup> – 28 <sup>th</sup>
3	1 <sup>st</sup> – 7 <sup>th</sup>
4	8 <sup>th</sup> – 14 <sup>th</sup>

\* Borrower is not in a Billing Cycle. This is triggered if the borrower is 120 days past due, 3 times the regular payment amount past due, or has more than 25 debts.

## **Bill Types**

- One Page Domestic – Borrower lives w/ in the US and has fewer than 7 debts
- One Page Foreign - Borrower lives outside of the US and has fewer than 7 debts
- Two Page Domestic - Borrower lives w/ in the US and has seven or more debts
- Two Page Foreign - Borrower lives outside the US and has seven or more debts