

## Attachment C

### PCA Commissions Reduction

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Currently, PCAs are paid commissions based upon the methods used to collect the debt. Restructuring commission fees by the major loan programs (i.e. Direct and FFEL) can dramatically reduce the total costs. The savings may be achieved by lowering the commission paid for collecting Direct Loans to closer to the commission rates paid by Guaranty Agencies (GA) to PCAs for collecting their defaulted loans.

The new technology will provide the opportunity for FSA to lower the PCA commission fees paid on collected dollars. Faster access to data, through increased assignment frequency, will allow PCAs to begin collecting sooner, while the debts are newer. In addition, improved data integrity will result in less time being spent reconciling transmissions and dealing with inaccurate information.

Total cumulative savings from the reduction in Direct Loan commissions is expected to be \$137.6 million from FY04 through FY08. Savings are calculated as the difference between forecasted baseline commissions and forecasted revised commissions.

The breakdown between the amount of Direct and FFEL loans collected was estimated based upon a model provided by Mike Bryant, which details the total amount collected by PCAs for each loan program and collection method. Direct Loans as a percentage of total dollars collected is expected to rise from 53% in FY04 to 59% in FY08.

#### PCA Commissions Reduction - Example

	2004	2005	2006	2007	2008	Total
Total Dollars Collected	\$973.9	\$1,090.7	\$1,199.8	\$1,319.8	\$1,451.7	\$6,035.8
Total Commissions Paid	\$153.4	\$169.1	\$183.0	\$194.7	\$212.7	\$912.8
Current Average Rate	15.75%	15.50%	15.25%	14.75%	14.65%	
<b>Impact of paying an average rate of 13% for Direct Loan recoveries</b>						
Direct Loan % of Total	53%	56%	57%	58%	59%	
DL Dollars Collected	\$516.1	\$610.8	\$683.9	\$765.5	\$856.5	\$3,432.8
DL Commissions Paid (avg%)	\$81.3	\$94.7	\$104.3	\$112.9	\$125.5	\$518.6
DL Commissions Paid (13%)	\$67.1	\$79.4	\$88.9	\$99.5	\$111.3	\$446.3
<b>Potential Savings</b>	<b>\$14.2</b>	<b>\$15.3</b>	<b>\$15.4</b>	<b>\$13.4</b>	<b>\$14.1</b>	<b>\$72.4</b>

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The estimated commission percentage paid by Guaranty Agencies was derived from information gathered by FSA in FY00. The average GA rates by collection method were applied to the FY01 dollars collected by FSA to calculate an average rate.

### Average GA Commissions

<b>Collection Method</b>	<b>FSA \$ Collected by PCAs in FY01</b>	<b>GA Average Commission Rates</b>	<b>Commission \$ at GA rates</b>
Regular	\$ 229.7	14.20%	\$ 32.6
AWG	\$ 122.1	14.50%	\$ 17.7
Loan Consolidation - Direct	\$ 136.7	7.67%	\$ 10.5
Loan Consolidation - FFEL	\$ 268.8	8.56%	\$ 23.0
Loan Rehabilitation	\$ 39.1	11.81%	\$ 4.6
<b>Totals:</b>	<b>\$ 796.4</b>	<b>11.10%</b>	<b>\$ 88.4</b>