

CREDIT AND DEBT MANAGEMENT
OPERATING STANDARDS AND PROCEDURES HANDBOOK

CHAPTER 8 BILLING AND COLLECTION

Section 1.0 General

The purpose of this chapter is to ensure that billing and collection practices relating to loans result in timely issuance of billings, facilitate prompt payment of amounts due, ensure efficient collection and/or deposit of receipts, and contain adequate financial management controls.

For procedures to be followed for billing and collecting general or trade accounts receivable, see the Department's [Cash Management Policies and Procedures Handbook, Chapter 2, "Billings and Collections."](#) This chapter is devoted primarily to billings and collections relating to loan debts.

Section 2.0 Recording and Billing of Receivables

.01 Recording Receivables

Loans receivable are to be recorded within three working days of receipt of evidence by the accounting or finance officer that the payment was received by the borrower and the necessary contractual documents were properly executed, or of notification of change in loan terms and/or conditions. Loan officers shall notify the accounting or finance officer within three working days of receiving notice of the above.

.02 Preparation of Bills

Billings on all loans receivable are to be prepared in accordance with loan repayment terms. Billings should be prepared by the accounting or finance office, and dated 15 calendar days before the scheduled payment due date. Billings should not be discontinued on a loan receivable unless the loan has been written-off, closed out, or recommended for litigation by the Department (see [Chapter 10](#) of this [Credit and Debt Management Handbook](#)).

.03 Remittance Schedule

Prior to the initial billing, the borrower will be provided with a payment remittance schedule or booklet showing the dates and amounts due, unless the loan agreement specifically provides for the terms and conditions of repayment.

.04 Information on Bills

Billings will include, at a minimum, the following data:

- a. Date of bill;
- b. Billing period;
- c. Outstanding balance;
- d. Current and previous amounts due with information on principal, interest, late payment penalties, and administrative charges, if any, shown separately;
- e. Payment due date;
- f. Warning of administrative, interest, and penalty charges on late payments, including the amount of interest due if paid after the due date;
- g. Mailing address for the remittance (lockbox post office box number, if applicable);
- h. Instruction to include bill number and Taxpayer Identification Number on the remittance for ease of identification of loan to be credited;
- i. Applicable guidance for use of [Electronic Funds Transfer \(EFT\)](#) procedures or lockbox address; and
- j. A statement as follows regarding credit reporting: “FOR YOUR INFORMATION: Pursuant to [OMB Circular A-129, ‘Managing Federal Credit Programs,’](#) the status of all commercial debts serviced by (name of organization unit) will be reported to credit reporting agencies under contract with the Department of Commerce.”

.05 Mailing

Bills should be mailed no later than ten days before the scheduled payment due date.

Section 3.0 Late Charges

.01 Imposition of Late Charges

The Treasury Financial Manual ([I TFM 6-8025.20](#)), prescribes that payments of amounts owed the U.S. Government by organizations, businesses, and individuals are expected to be made in accordance with the terms of the arrangement for payment stated in the contract, agreement, or notification of indebtedness.

If payment is overdue, late charges will be applied and collected (see [Chapter 9, Section 2.0](#), for information regarding identification of delinquencies). Late charges are amounts accrued and assessed on delinquent debt and include additional interest, penalty charges, and administrative charges. Interest is assessed on principal only (not on interest, administrative charges, and penalties), except in those cases where a debtor has defaulted on a previous repayment agreement or a judgment has been obtained. Except where late charges are prohibited by law, notification of the application of late charges for late payments will be provided by organization units in all contracts, agreements, or other formal payment arrangements. Therefore, if late charges are not part of an existing loan, grant, cooperative or contract agreement, efforts should be made to modify the agreement. Late charges cannot be imposed if the modification is not made to an existing agreement. All new loans, grants, cooperative agreements, and contracts are to include a provision notifying the recipient of late charges.

.02 Additional Interest

Additional interest is the charge assessed on delinquent debts in order to compensate the Government for the time value of money owed and not paid when due. The minimum annual rate of interest to be charged is the [Department of the Treasury's "Current Value of Funds Rate"](#) for the quarter in which the debt became delinquent, unless otherwise stated in the original agreement or prohibited by statute. This rate is subject to change each quarter; however, the rate initially charged on any delinquent debt will remain fixed for the duration of that indebtedness. Revised rates are published in the Federal Register and in a Treasury Financial Manual Bulletin. The current rate may be obtained from Treasury's Website.

Interest charges for non-performing loans will continue to accrue and be recorded for 180 days past the due date or whenever the workout group declares a loan

officially in default, whichever occurs first. (For additional guidance, see the Department's Accounting Principles and Standards Handbook, Section 6.03 of [Chapter 8, "Interest Receivable"](#)).

.03 Penalty Charges

In addition to interest, organization units shall assess a penalty charge, not to exceed six percent a year, on any portion of a debt that is delinquent for more than 90 days. While this charge might not be calculated until the 91st day of delinquency, it shall accrue from the date that the debt became delinquent.

.04 Administrative Charges

Organization units shall assess against a debtor charges to cover administrative costs--processing and handling--incurred as a result of the debt becoming delinquent. Within the Department, these administrative charges have been determined to be \$25 (see Department [Cash Management Policies and Procedures Handbook, Chapter 2, Section 6.06](#)). This amount is subject to revision periodically by the Department.

.05 Disposition of Late Charges

Amounts received by an organization unit, as a result of applying late charges, shall first be applied to outstanding penalty charges and administrative charges; second to additional interest; third to financing interest; and, fourth to outstanding principal. Unless an organization unit has statutory authority to otherwise account for and retain these collections; the collection of late charges, additional interest, penalties and administrative charges collected should be credited to the miscellaneous receipts account.

.06 Reporting Late Charges

In accordance with Treasury requirements, organization units are required to report the amount of late charges collected on the Treasury's ["Report on Receivables Due from the Public."](#)

.07 Waiver of Late Charges

The imposition of late charges, whether additional interest, penalty charges or administrative charges, may be waived by the responsible organization unit collection official whenever:

- a. Debt is paid within thirty days of the date of delinquency;
- b. Such charges become prohibitively high;
- c. The administrative costs of billing for and collecting a late charge exceed the amount of the charge;
- d. A debt (regardless of the amount) owed to the United States is being considered for compromise pursuant to the [Federal Claims Collection Act of 1966 \(4 CFR 103\)](#); or
- e. It is determined that these charges would be against equity and good conscience or not in the best interest of the United States.

Section 4.0 Recording, Depositing, and Posting of Receipts

.01 General Policy

It is the policy of the Department to conduct its activities in a manner which will enhance, to the maximum practicable extent, the cash position of the Federal Government. All organization units of the Department shall collect promptly all funds owed by organizations or individuals outside the Federal Government and deposit these funds without delay into the U.S. Treasury.

All funds are to be collected by [EFT](#). Where it is not feasible for EFT, each organization unit must use lockboxes where cost-beneficial in collecting such receipts, or require wire transfers from debtors when cost-effective through the [Treasury Fedwire Deposit System \(FDS\)](#), (see [I TFM 5-4500](#)). Treasury has established a national network of several [lockboxes](#) for collecting and processing Government agency receipts. These lockboxes are strategically located by Treasury to minimize mail and collection float. Consequently, the funds are collected and deposited to the Treasury much sooner than would otherwise be the case. A Department request must be submitted to Treasury to establish a lockbox

arrangement. Similarly, the FDS is appropriate for receipts of large payments. For organization units to use this system, a letter and accompanying questionnaire must be completed and forwarded through the Director, OFM, to the Treasury.

Further guidance for securing either lockbox services or wire transfer services is provided in Chapters 2 and 3, respectively, of the [Department's Cash Management Policies and Procedures Handbook](#).

.02 Handling of Collections

The finance or accounting office is the sole organization within each organization unit authorized to collect funds and to deposit them to the credit of the Department of the Treasury. Procedures issued by each organization unit will provide that all remittances are to be sent directly to the appropriate finance or accounting office unless that office employs an outside collection mechanism approved by Treasury: i.e., lockbox or EFT.

.03 Deposit of Funds

Pursuant to Treasury Department requirements ([1 TFM 6-8000](#)), organization units must adopt procedures to facilitate the preparation and dispatch of deposits to the depository. Treasury regulations require that an agency achieve same day deposit of monies. Where same day deposit is not cost-effective or is impractical, next day deposit of monies must be achieved. Finance or accounting offices collecting less than \$5,000 daily may accumulate the collections until they total \$5,000 and then make a deposit. However, a deposit will be made by Thursday of each week, regardless of the amount accumulated.

.04 Lockbox Facilities

Good cash management requires that whenever economically justifiable, lockbox facilities be used by organization units in the collection of receipts from debtors. These services are particularly important in regard to loan payments, where the monthly payments to the Government generally involve substantial sums of money. To ensure usage by the debtors, the lockbox address must be appropriately identified on all billings.

.05 Posting of Receipts

To facilitate prompt reporting, the collection must be posted to the applicable loans/accounts receivable subsidiary account within two working days of receipt so that the current account status will be available to the servicing officer.

.06 Reporting Requirements

A monthly report on billings and collections will be prepared by the accounting or finance officer and submitted to each loan, grant, and contract office not later than fifteen working days after the end of the month. For suggested format, see Exhibit 8-1.

Section 5.0 Loan Status Reporting

.01 Report Requirement

It is imperative that an accurate, timely, and usable loan status report be available to program managers, loan officers, and workout groups for proper management and servicing of loans and reporting of receivables. These periodic reports must, however, be supplemented by information on billings and collections (Section 4.06, above) to enable timely collection activities by the loan officer and workout group members.

.02 Supplemental Information

The loan status report will provide supplemental information, which at a minimum, contains the following data:

- a. Name of the borrower and participating financial institution or the loan number;
- b. Original dollar value of loan;
- c. Extent of loan guarantee (percentage participation);

- d. Outstanding balance of the loan;
- e. Payment history;
- f. Current amount due;
- g. Aging by Treasury's required aging category;
- h. Date of next billing; and
- i. Risk rating.

.03 Risk Assessment

Organization units shall establish procedures for assessing the risk inherent in each loan in their portfolio(s) (i.e., new loans, refinancing, rescheduling) and require that primary lenders conduct similar assessments of guaranteed loans.

Organization units will rank their loans and loan guarantees (as well as related accounts receivable) by degree of risk. The risk rating shall reflect changes in the borrower's financial position, and changes in the status of collateral or security. Organization units will maintain documents on the methods and data used to develop the risk ratings and the loss estimates.

.04 Frequency of Report

Loan status reports will be prepared by the accounting or finance officer as often as the organization unit's resources permit, but not less than once a month. However, updated account information will be available to users of the report within three working days of receipt of payment.

.05 Circulation of Report

Loan status reports will be provided to respective program officials, loan officers, and workout group members. Daily contact by phone between the accounting or finance officer and these individuals may be necessary if there is new information which should be brought to their immediate attention.

.06 Delinquent Accounts

Loan status reports will identify delinquencies within ten working days after the payment due date.

Section 6.0 Loan Guarantees

.01 Collections and Collateral

In the case of guaranteed loans, either a servicing lender is responsible for both the collateral and the payment servicing or the collateral security is serviced within the Department while the loan payments are billed and collected by the lender. In either case, the status of the loan is typically not known to the organization unit until a problem occurs and the lender either demands payment under the guarantee or requests permission to grant an extension.

.02 Watch List

Each organization unit loan officer should maintain a watch list of potential problem cases. At a minimum, this should include all cases where permission has been granted to the lender to extend payment dates. In addition, servicing activities (such as receivables collection) may uncover problem cases that are not formally noted as having payment problems on the original loan. Each watch list should be submitted monthly to the organization unit workout group(s). This group will evaluate servicing activities and will anticipate increased redemption activity from these lists.

.03 Types of Disbursements

There are four types of Federal disbursements involved in the operation of a loan guarantee program:

- a. Payment of the guaranteed portion of principal and interest, in accordance with the loan agreement (not to exceed 80 percent on any new guaranteed loan unless otherwise provided by law).
- b. Payments needed to protect the Government's interest in the collateral;

examples include placement of collateral insurance, and payments for security of the collateral.

- c. Advances to the client when viewed in the Government's best interest. Examples include payment of advances to preserve desirable financing or to enable a more favorable disposition of the collateral, advances for needed insurance, and advances for needed repairs when seen to be in the best interest of the Government.
- d. Payment of the Government's share of special servicing and liquidation expenses, e.g., attorney fees, auctioneer fees, appraisals, and expert witnesses.

.04 Default

Of the four types of disbursements mentioned above in Section 6.03 the first is a default. The loan must be referred to the organization unit workout group(s) for rescheduling, litigation, liquidation, or other appropriate action. The second and third types of disbursements are clearly indicative of servicing problems and should be included in watch list reports to the organization unit workout group(s).

.05 Establishing Receivables

Receivables established as a result of these four types of disbursements should be accounted for separately from other organization unit receivables and included in the category of direct loans. Typically, these collections will be dependent on servicing activities or litigation.