CREDIT AND DEBT MANAGEMENT
OPERATING STANDARDS AND PROCEDURES HANDBOOK

CHAPTER 7. LOAN BILLINGS AND COLLECTIONS

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 collection of non-loan activity (i.e., sale of goods/services, grants, cooperative agreements, audit-based debt, fines, penalties, and administrative costs) see the Department's Cash Management Policies and Procedures Handbook, Chapter 2, "Billings and Collections."

When there is a loan agreement and other relevant documents (i.e. promissory note, security documents, covenants, payment schedules, etc.), these documents will generally be the primary source of information regarding loan billings and collections.

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 of loan agreements or documentation related to audit-based debt, fines or penalties 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 agreement repayment terms and/or other relevant documents, or other payment 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 or other 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

Information on bills should be in conformity with the loan agreement and other relevant documents.

Billings should 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 procedures at https://fiscal.treasury.gov/eft/vendor-guidance.html or lockbox address; and

j. A statement as follows regarding credit reporting: "FOR YOUR INFORMATION: Pursuant to revised OMB Circular A-129 Revised, Policies for Federal Credit Programs and Non-tax Receivables 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 Mailings

Bills should be mailed in accordance with the loan agreement and other relevant documents, and no later than ten days before the scheduled payment due date.

Section 3.0 Interest, Penalties, and Costs

.01 Interest, penalties, and costs are normally to be assessed in accordance with the loan agreement and other relevant documents. 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 loan agreement, contract, agreement, or notification of indebtedness. Interest, penalties and costs are normally to be assessed in accordance with the loan documents.

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 Electronic Funds Transfer (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, see V TFM, Chapter 3000 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 group 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 the U. S. Treasury's requirements (I 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 Federal 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 receivable subsidiary account within two working days of receipt so that the current loan 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 office no later than fifteen working days after the end of the month.

Section 5.0 Loan Status Reporting

.01 Report Requirement

It is imperative that an accurate, timely, and usable loan status report be made available to program managers, loan officers, and workout groups for proper management and servicing of loans and reporting of receivables. These periodic reports must 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 Reports

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 Reports

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 and/or other relevant documents (i.e. promissory note, security documents, etc.).

b. Payments needed to protect the Federal 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 Federal 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 Federal government.

d. Payment of the Federal government's share of special servicing and liquidation expenses, e.g., attorney fees, auctioneer fees, appraisals, and expert witnesses.

.04 Referral to Workout Group or Watch List

If the first of the four types of disbursements mentioned above occurs, 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).

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.