



Department of Veterans Affairs

Financial Policy

Volume XII

Debt Management

Chapter 2

Benefit Debts

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0201 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policies relating to the collection of benefit debts owed to VA as a result of participating in VA-administered benefit programs.

The term "benefits," as used in this chapter, excludes any benefit associated with being a federal employee (e.g., federal health benefits and overpayment of pay and allowance).

This chapter discusses how VA, in the performance of its debt management duties will:

- Adhere to all applicable laws, regulations, authorities, and guidance that govern VA debt management activities and the collection of benefit debts;
- Identify the type of benefit debts and how they may occur;
- Actively pursue the collection of benefit debts;
- Advise debtors of their due process rights;
- Apply interest fees, administrative charges, and penalties when applicable;
- Terminate collection activities on debts when all available collection efforts have been exhausted;
- Report on debt collection activities for the Treasury Report on Receivables (TROR); and
- Not issue a loan under VA's Loan Guaranty program to any individual who has a debt with VA that is over 90 days delinquent unless the debt has been waived.

Types of benefit debts include but are not limited to:

- Compensation Program;
- Pension Program;
- Education;
- Homeless Per Diem Grants;
- Medical Care and Services;
- Life Insurance;
- Loan Guaranty; and
- Vocational Rehabilitation and Employment.

For more detailed information on the types of VA Benefit Programs, see Appendix A - Examples of VA Benefit Debt Types.

0202 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed 5-year review	OFP (047G)	Reorganized chapter layout	February 2021
Chapter Number	Chapter number changed from 6 to 2	OFP (047G)	Reorganized chapter	February 2021
0203 Definitions	Updated definitions	OFP (047G)	Updated and added definitions for clarity	February 2021
0204 Roles and Responsibilities	Updated and streamlined roles and responsibilities	OFP (047G)	Streamlined for clarity related to policy	February 2021
0205 Policies	Reformatted policies into separate sections.	OFP (047G)	Improved flow and order of information stated	February 2021
0207 Rescissions	Rescinded Volume XII – Chapter 6, Benefit Debts	OFP (047G)	Reorganized chapters	February 2021
0208 Questions	Added and updated mailboxes for VHA, DMC, and FSC	OFP (047G)	New mailbox addresses	February 2021
Appendix A	Examples of VA Benefit Debt Types	OFP (047G)	Reorganized for clarity	February 2021
Appendix B	Offset Scenarios	OFP (047G)	Reorganized chapter layout	February 2021
Appendix C	Principi Decision Memo	OFP (047G)	Added for clarity	February 2021

0203 Definitions

Administrative Costs – A fixed amount which can be added to a debt for each full or partial 30-day period that the debt is delinquent.

Benefit Debt – Debts arising out of participation in a VA benefit program (e.g., compensation, education, pension, medical etc.) under the authority of Title 38 of the U.S. Code.

Close-out – A classification after write-off, also referred to as a Discharge of Indebtedness, when the agency has determined that no further debt collection action will be taken and the debt will be discharged, in accordance with 31 C.F.R. § 903.5, 38 C.F.R. § 1.944, and OMB Circular No. A-129. A non-benefit debt close-out of \$600 or more must be reported to the Internal Revenue Service (IRS) per 26 U.S.C. § 6050P.

Compensation – A monthly payment made by VA to a Veteran due to a service-connected disability, or to a surviving spouse, child, or parent of a Veteran due to the service-connected death of the Veteran occurring before January 1, 1957 per 38 U.S.C. § 101.

Compromise – Governed by 31 U.S.C. § 3711, a compromise is an offer and acceptance of a partial payment in settlement and full satisfaction of the offeror's indebtedness as it exists at the time the offer is made. It is a final settlement, binding on the parties to the compromise, unless procured by fraud, misrepresentation of a material fact, or mutual mistake of fact.

Debt – Money or property owed to VA.

Debtor – A person, company, or other organization that owes money.

Delinquent – Delinquency occurs when payment is not made by the due date specified in the initial billing notice.

Dependency and Indemnity Compensation (DIC) – A monthly payment made by VA to a surviving spouse, child, or parent (A) because of a service-connected death occurring after December 31, 1956, or (B) pursuant to the election of a surviving spouse, child, or parent, in the case of such a death occurring before January 1, 1957, per 38 U.S.C. § 101.

Discharge of Indebtedness – In accordance with 31 C.F.R. § 903.5, and 38 C.F.R. § 1.944, a “discharge” of a debt (also referred to as a “close-out” of the debt), is the classification of a write-off determination action that concludes a debt is no longer collectible.

Due Process – Providing debtors with notice of intended debt collection actions and the opportunity to dispute the debt or amount, request a waiver when applicable, or negotiate a compromise of the debt.

Enforced Collection – The referral of a delinquent debt to the Office of General Counsel (OGC) or the Department of Justice (DOJ) for collection by securing a judgement against the debtor through litigation.

Non-Benefit Debts – Any debt not arising as a result of participation in a VA benefits program administered under authority of Title 38 of the U.S. Code. Examples include

salary overpayments; the recovery for the value of lost Government property, such as: lost keys, books, and equipment.

Non-Service-Connected – With respect to disability or death means such disability was not incurred or aggravated, or the death did not result from a disability incurred or aggravated, in line of duty in the active military, naval, or air service per 38 U.S.C. § 101.

Notice of Indebtedness (NOI) – Written communication sent by VA providing the debtor with notification of the existence and amount of the debt, payment remittance information, accrual of interest, penalties, administrative costs, and due process rights. A NOI is sometimes referred to as a demand letter.

Offset – The collection of a debt, in part or in full, from monies a debtor is currently receiving or may receive in the future from the Government.

Pension – A monthly or other periodic payment made by VA to a Veteran because of service, age, or non-service-connected disability, or to a surviving spouse or child of a Veteran because of the non-service-connected death of the Veteran per 38 U.S.C. § 101.

Salary Offset – Mechanism used to collect a debt under 5 U.S.C. § 5514, by deduction(s) at one or more officially established pay intervals from the current pay account of any VA employee.

Service-Connected – With respect to disability or death means such disability was incurred or aggravated, or the death resulted from a disability incurred or aggravated, in line of duty in the active military, naval, or air service per 38 U.S.C. § 101.

Suspension of Collection – Temporary delay of collection actions on a debt.

Termination of Collection Action – A decision, under the guidance of the Federal Claims Collection Standards 31 C.F.R. § 903, to cease active collection action on a debt when it appears that no person liable on the claim has the present or prospective ability to pay a significant amount of the claim or the cost of collecting the claim is likely to be more than the amount recovered.

Treasury Cross-Servicing Program (CS) – A consolidated government-wide program operated by the Bureau of Fiscal Service's Debt Management Services fulfilling the requirement of the Debt Collection Improvement Act of 1996. The program consists of collection tools including Treasury demand letters, telephone calls to debtors, administrative wage garnishment (AWG) and the use of Private Collection Agencies (PCAs).

Treasury Offset Program (TOP) – A centralized offset program, administered by the Bureau of the Fiscal Service's Debt Management Services (DMS), to collect delinquent debts owed to federal agencies and states (including past-due child support).

Waiver – A decision that conditions exist which should result in cancellation, forgiveness, or non-recovery of a debt owed, including interest and other late payment charges assessed on such debts under the applicable statutes and implementing regulations 38 C.F.R. § 1.955, through 38 C.F.R. § 1.969, and 38 C.F.R. § 17.105.

Write-Off – An accounting action that results in reporting the debt as having no value on the agency’s financial and management report. Write-off may occur before, concurrently with, or after the agency determines that collection action should be terminated. A write-off must be classified as either Currently Not Collectible (CNC) or as a close-out per OMB Circular No. A-129 guidance.

0204 Roles and Responsibilities

Committee on Waivers and Compromises (COWC) is the decision-making panel composed of one or more members, making decisions on a request for a waiver or compromise. The Committee is under the direction of and has authority vested in the Director of the office of jurisdiction. The Committee will have independent decision-making authority. For more information please refer to VA Financial Policy Volume XII Chapter 11.

Debt Management Center (DMC) is a franchise fund (fee-for-service) organization of VA. DMC offers a wide range of debt management services including debt resolution activities, (waivers, compromises, etc.) and is responsible for debt referral to the Treasury Cross-Servicing program.

Office of General Counsel (OGC) is authorized, in matters within the jurisdiction of VA's General Counsel, delegated or otherwise assigned, to conduct investigations, examine witnesses, take affidavits, administer oaths and affirmations, and certify copies of public or private documents.

Board of Veterans’ Appeals (BVA) reviews benefits claim determinations made by local VA offices and issues decisions on appeals of those determinations. For more information on BVA, refer to 38 U.S.C. § 7103, to § 7104.

Veterans Benefits Administration (VBA) issues initial NOI.

Veterans Health Administration (VHA) issues initial and subsequent debt notices and collects debts.

0205 Policies

020501 General Policies

- A. VA will take collection action to recover monies owed from debts arising out of participation in a VA benefit programs.
- B. VA will adhere to debt collection standards specified in laws, regulations, and guidance. Refer to VA Financial Policy Volume XII Chapter 1, Debt Collection Standards.
- C. Benefit debts occur when a payment amount exceeds the beneficiary's eligibility amount according to authorizing laws or related regulations. (See Appendix A for more details.) Upon discovery of a benefit debt, VA will establish an accounts receivable in the appropriate system in accordance with VA Financial Policy Volume V Chapter 6, Accounts and Interest Receivables.
- D. VA will promptly demand, in writing, payment of the benefit debt by providing an initial Notice of Indebtedness (NOI) to the debtor, per 38 U.S.C. § 5314, and 38 C.F.R. §§ 1.910 - 1.929. For more information regarding NOI's Refer to VA Financial Policy Volume XII Chapter 8, Notice of Indebtedness-Billing-Invoicing.
- E. A person will not be eligible for a VA Loan Guaranty if they have a delinquent debt (over 90 days) with VA unless it has been waived by VA's Chief Finance Officer (CFO) or Deputy Chief Finance Officer (Dep CFO), as delegated by the Secretary of VA, per 31 U.S.C. § 3720B.

020502 Collection Activities

- A. VA will use all available collection tools to recover outstanding benefit debts, specifically VA will:
 - Offset against future payments made to the debtor, by virtue of their participation in a benefits program, under any law administered by VA, per 38 U.S.C. § 5314, and 38 C.F.R. § 1.912a;
 - Refer eligible delinquent benefit debts over 120 days to TOP per 31 U.S.C. § 3716;
 - Refer eligible delinquent benefit debts over 180 days to the Treasury CS Program under the authority of the Debt Collection Improvement Act (DCIA);
 - Refer eligible debts to OGC for enforced collection; and/or
 - Compromise, terminate, or write-off of benefit debts.
- B. For more information on TOP, CS, and enforced collection, refer to VA Financial Policy Volume XII Chapter 14, Treasury Offset Program, Treasury Cross Servicing, and Enforced Collection (Litigation).
- C. For more information on compromising debts, refer to VA Financial Policy Volume

XII Chapter 11B, Compromise of Debt.

- D. For more information on termination of collection action and write-off, refer to VA Financial Policy Volume XII Chapter 13, Termination of Collection Action and Reporting Discharge of Debt to IRS.
- E. For more information on debt collection activities, refer to VA Financial Policy Volume XII Chapter 10, Collection of Debts.

020503 Apply Interest Fees, Administrative Charges, and Penalties When Applicable

- A. In accordance with 31 C.F.R. § 901.9, VA will:
 - Charge interest from the date of delinquency;
 - Assess administrative costs incurred for processing and handling delinquent debts; and
 - Charge a penalty, pursuant to 31 U.S.C. § 3717(e)(2), not to exceed six percent a year on the amount due on a debt that is delinquent for more than 90 days.
- B. Compensation and Pension benefit debts are exempt from these charges in accordance with the Principi Decision Memo. See Appendix C - Principi Decision Memo.
- C. For more information on the calculation of interest, administrative charges and penalty fees refer to VA Financial Policy Volume XII Chapter 9, Interest, Administrative Costs, and Penalty Charges.

020504 Termination of Collection Action, Write-Off, or Close-Out

- A. VA will terminate collection activity and write-off benefit debts when all available collection efforts have been exhausted, and the criteria for termination and write-off have been met per The Federal Claims Collection Standards 31 C.F.R. § 903.
- B. VA will close-out / discharge a debt when it has been determined that it is no longer cost effective to pursue any type of collection activity.
- C. For more information regarding debt termination, write-offs, and close-out, refer to VA Financial Policy Volume XII Chapter 13, Termination of Collection Action and Reporting Discharge of Debt To IRS.

020505 Reporting a Debt

- A. VA will provide reports on benefit debt collection actions as required by 31 U.S.C. § 3719, and incorporate the required data into the quarterly Treasury Report on

Receivables (TROR).

- B. For more information regarding reporting debt to Treasury, refer to VA Financial Policy Volume XII Chapter 15, Treasury Report on Receivables.

0206 Authorities and References

[5 U.S.C. § 5514, Installment Deduction for Indebtedness to the United States](#)

[5 U.S.C. § 5584, Claims for Overpayment of Pay and Allowances, and of Travel, Transportation and Relocation Expenses and Allowances](#)

[26 U.S.C. § 6050P, Returns Relating to the Cancellation of Indebtedness by Certain Entities](#)

[26 U.S.C. § 6402\(d\), Collection of Debts Owed to Federal Agencies](#)

[31 C.F.R. § 901.6, Suspension or revocation of eligibility for loans and loan guaranties, licenses, permits, or privileges](#)

[31 C.F.R. § 901.9, Interest, Penalties, and Administrative Cost](#)

[31 C.F.R. § 903, Standards for Suspending or Terminating Collection Activity](#)

[31 C.F.R. § 903.5, Discharge of Indebtedness; Reporting Requirements](#)

[31 U.S.C. § 3711, Collection and Compromise](#)

[31 U.S.C. § 3716, Administrative Offset](#)

[31 U.S.C. § 3717, Interest on Penalties and Claims](#)

[31 U.S.C. § 3719, Reports on Debt Collection Activities](#)

[31 U.S.C. § 3720A, Reduction of tax refund by amount of the debts](#)

[31 U.S.C. § 3720B, Barring delinquent Federal debtors from obtaining Federal loans or loan insurance guarantees](#)

[38 C.F.R. §§ 1.910 – 1.929, Standards for Collection of Claims](#)

[38 C.F.R. §§ 1.940 – 1.945, Standards for Suspending or Terminating Collection Action](#)

[38 C.F.R. §§ 1.950 – 1.970, Referrals to GAO, Department of Justice or IRS](#)

[38 C.F.R. § 14.636, Payment of fees for representation by agents and attorneys in](#)

[proceedings before Agencies of Original Jurisdiction and before the Board of Veterans' Appeals](#)

[38 C.F.R. § 17.105, Waivers](#)

[38 C.F.R. § 21.9695, Overpayments](#)

[38 U.S.C. § 101, Definitions](#)

[38 U.S.C. § 2011, Grants](#)

[38 U.S.C. § 3323, Administration](#)

[38 U.S.C. § 5302, Waiver of Recovery of Claims by the United States](#)

[38 U.S.C. § 5314, Indebtedness Offsets](#)

[38 U.S.C. § 7103, Reconsideration; Correction of Obvious Errors](#)

[38 U.S.C. § 7104, Jurisdiction of the Board](#)

[38 U.S.C. Chapter 31, Training and Rehabilitation for Veterans with Service-Connected Disabilities](#)

[Debt Collection Improvement Act \(DCIA\)](#)

[Education Programs](#)

[Federal Benefits for Veterans, Dependents, and Survivors, Chapter 6, Home Loan Guaranty](#)

[Homeless Per Diem Grants Program](#)

[Life Insurance Program](#)

[OMB Circular A-129](#)

[The Federal Claims Collection Standards 31 C.F.R. § 903](#)

[Title 38 of the U.S. Code, Veterans' Benefits](#)

0207 Rescissions

VA Financial Policy Volume XII Chapter 6, Benefit Debts

0208 Questions

Questions concerning these financial policies should be directed as shown below:

VHA	VHA CFO Accounting Policy (10A3A) (Outlook)
VBA	VAVBAWAS/CO/OPERATIONS (Outlook)
DMC	VAVBASPL/DMC/BDEV (Outlook)
All Others	OFP Accounting Policy (Outlook)

Appendix A: Examples of VA Benefit Debt Types

A. Compensation Program

1. The Compensation Program awards benefits to Veterans, spouses, and other related beneficiaries based upon the Veteran's service in the military. Benefits may be awarded for disability resulting from a disease or injury incurred or aggravated during active military service, or as the result of death from service-connected disabilities. Compensation may be awarded for post-service disabilities, if the disabilities are determined to be related to the Veteran's service.
2. Compensation debts would include overpayments of the following:
 - Disability Compensation;
 - Dependency and Indemnity Compensation (DIC);
 - Spina Bifida Monthly Allowance;
 - Children of Women Vietnam Veterans Born with Birth Defects Compensation;
 - Attorney Fees - (38 C.F.R. § 14.636);
 - Adaptive and/or Automobile Grants; and
 - Clothing Allowance

B. Pension Program

1. The Pension Program awards needs-based benefits to wartime Veterans. Pension overpayments occur when amounts paid to a VA pension beneficiary exceed the beneficiary's entitled benefit amount.
2. Pension debts include overpayments of the following:
 - Non-Service Connected Disability Basic Pension;
 - Survivors' Pension;
 - Burial Benefits; and
 - Enhanced or Special Monthly Pension (Aid & Attendance or Housebound)

C. Education

Education Programs provide benefits to Veterans, Servicemembers, and certain Veterans' dependents. Education Programs provide assistance to enroll beneficiaries in educational institutions or training establishments that offer licensing and certification. The benefit awarded varies based on the program in which the beneficiary is enrolled. Tuition and fees may be paid directly to the beneficiary or the school. Under the Post-9/11 Educational Assistance benefit payments are paid directly to the schools.

1. Education Programs include, but are not limited to, the following:

- Post-9/11 Educational Assistance;
 - Montgomery GI Bill – Active Duty;
 - Montgomery GI Bill – Selected Reserve;
 - Reserve Educational Assistance Program;
 - Survivors' and Dependents' Educational Assistance;
 - Post-Vietnam Era Veterans' Educational Assistance Program;
 - National Call to Service;
Education Program – Chapter 34 (This program has expired; however, there are still outstanding debts being collected by DMC.);
 - Veteran Retraining Assistance Program (This program expired on March 31, 2014; however, there may still be outstanding debts requiring collections.);
and
 - Veteran Employment through Technology Education Courses (VETTEC) Pilot Program.
2. Education Program Overpayments may include:
- Direct payments to individuals for housing allowance, books and fees, tutorial assistance, licensing or certification test charges, and/or a monthly benefit based on training time depending upon the type of training in which the beneficiary is enrolled and the benefit program under which beneficiary is being awarded benefits;
 - Payments to schools for the individual's tuition and fees, assuming proper certification is made regarding the pursuit of a program of education. For collecting overpayments made on behalf of the eligible individual directly to the school, debts are established against the individual if the beneficiary attended the term as certified by the school, and against the school if the beneficiary did not attend as certified (38 U.S.C. § 3323, and 38 C.F.R. § 21.9695); and
 - Yellow Ribbon is a matching program, payable under Chapter 33 that provides assistance to individuals whose net charges exceed the amount of tuition and fee benefits payable. Institutions of higher learning (degree-granting colleges and universities) may enter into a voluntary agreement with VA in order to pay for up to one-half of the unpaid net tuition and fee charges, and VA will match the same amount as the institution.

For additional information on Education Debts, refer to VBA link: Education Programs.

D. Homeless Providers Grant and Per Diem Program

VA's Homeless Providers Grant and Per Diem Program is offered annually (as funding permits) by the Department of Veterans Affairs Health Care for Homeless Veterans (HCHV) Programs to fund community agencies providing services to homeless Veterans per 38 U.S.C. § 2011. The purpose is to promote the

development and provision of supportive housing and/or supportive services with the goal of helping homeless Veterans achieve residential stability, increase their skill levels and/or income, and obtain greater self-determination. Per diem payments are the daily costs of caring for each homeless Veteran, as estimated by the entity, and reported to VA.

1. Grants: Limit is 65% of the costs of construction, renovation, or acquisition of a building for use as service centers or transitional housing for homeless Veterans. Renovation of VA properties is allowed, acquiring VA properties is not. Recipients must obtain the matching 35% share from other sources. Grants may not be used for operational costs, including salaries.
2. Per Diem: Priority in awarding the Per Diem funds goes to the recipients of Grants. Non-Grant programs may apply for Per Diem under a separate announcement, when published in the Federal Register, announcing the funding for "Per Diem Only."

Refer to VA's Homeless Per Diem Grants Program website for additional information on this topic.

E. Loan Guaranty

1. The Loan Guaranty Program provides assistance to Veterans, certain spouses, and Servicemembers to assist them in buying, building, refinancing, remodeling, repairing, or adapting a home for personal occupancy.
2. Veterans whose loans were closed after December 31, 1989, usually have no liability to the government following a foreclosure, except in cases involving fraud, misrepresentation, or bad faith, such as allowing an unapproved assumption, per Federal Benefits for Veterans, Dependents, and Survivors, Chapter 6, Home Loan Guaranty. However, for the entitlement to be restored or used again, any loss suffered by VA must be paid in full. Benefit payments can be withheld if the debtor defaults on the loan guaranty.
3. Loan Guarantee debts include defaulted direct loan, loan guaranty, and guaranteed fund.

For additional information on Loan Guaranty Debts, refer to Federal Benefits for Veterans, Dependents, and Survivors, Chapter 6, Home Loan Guaranty.

F. Medical Care or Services

1. Medical Care or Services are furnished to a Veteran for the treatment of a non-service connected (NSC) disability or condition when the Veteran or VA is eligible to receive payment for such treatment from a third-party.

2. Veterans who receive health care at VA facilities (or non-VA facilities for which VA has paid for treatment rendered) on an inpatient or outpatient basis or for extended care services and medications may be required to pay fees referred to as co-payments.
3. Medical Care debt is an amount owed to VA resulting from medical program activities. VA identifies and records medical care debt through an automated or manual process. Once the debt is established, a receivable is created in the accounting system and a Notice of Indebtedness (NOI) and/or health care claim is issued to the responsible individual or party.
4. Health care claim NOIs and bill generation for third-party receivables follow two different processes, and the claims are submitted according to industry standard 837 HIPA transaction or via standard industry approved medical claim form. For more information on the NOI, refer to VA Financial Policy Volume XII Chapter 8, Notice of Indebtedness.

Please refer to VA Financial Policy Volume XII Chapter 4, Medical Care Debt for more specific information on this type of debt and associated processes.

G. Insurance

The Insurance Program offers life insurance to Veterans, servicemembers, and servicemembers' dependents through the following programs:

- Servicemembers' Group Life Insurance;
- Veterans' Group Life Insurance;
- Family Servicemembers' Group Life Insurance;
- Servicemembers' Group Life Insurance Traumatic Injury Protection;
- Service-Disabled Veterans' Life Insurance;
- Veterans Mortgage Life Insurance; and
- Servicemembers' Traumatic Injury Protection

Insurance debts include advanced Payment of Insurance Premiums National Service Life Insurance or Veteran's Mortgage Life Insurance. For more information see Life Insurance Program.

H. Veteran Readiness and Employment Service

1. The Vocational Rehabilitation and Employment (VRE) Program is authorized by Congress under 38 U.S.C. Chapter 31. The VRE Program assists Veterans with service-connected disabilities to prepare for, obtain, and keep suitable employment. For Veterans with service-connected disabilities so severe that they cannot immediately consider work, VRE offers services to improve their ability to live as independently as possible. Currently, DMC is responsible for the

collection of all Vocational Rehabilitation and Employment debts on active or inactive cases specific to Veteran debt.

2. VRE debts include overpayments of the following:
 - Tools and supplies;
 - Subsistence; and
 - Training.

Appendix B: Offset Scenarios

If...	Then...
The debtor, within the time period specified in the NOI, disputes, in writing, the existence or amount of the debt in accordance with 38 C.F.R. 1.911(c)(1).	VA will not commence a benefit offset until the dispute is reviewed, as provided in §1.911(c)(1) and unless the resolution is unfavorable to the debtor.
The debtor requests a waiver of collection in writing within the time period specified in the NOI,	VA will not commence a benefit offset until an initial decision has been made on the waiver request
Note: VA may commence the benefit offset prior to a decision on the waiver request if collection of the debt would be jeopardized by deferral of the offset. In such case, notification pursuant to 38 C.F.R.1.911(d) will be made at the time offset begins or as soon thereafter as possible.	
A current VA employee has a benefit debt,	VA will advise the employee in writing of the existence and amount of the debt and inform him or her of available rights and remedies.
Note: The notification will indicate the employee has 30 days to pay the debt in full or arrange a satisfactory repayment plan within this time limit or the appropriate payroll activity will be notified to offset current salary. When collecting a benefit debt by periodic offset from VA salary or benefit payments, the amount withheld should be sufficient (subject to statutory limits) to liquidate the debt within the period that such pay or benefit payment is expected to continue.	
A current Veteran-employee has already voluntarily entered into a repayment agreement with VA and payments under such agreement are current (i.e., the debtor has made timely payments every month for the prior 12-month period),	The offset will not be made from final salary, lump-sum leave payment, CSRS or FERS.
The individual eventually reneges on the repayment agreement,	VA will institute its normal collection actions, commencing with a Notice of Indebtedness (NOI), explaining the nature and amount of the debt and the due process rights available.

Appendix C: Principi Decision Memo

In a July 1992 decision, VA's then Deputy Secretary, Anthony Principi, decided the VA would not charge interest on compensation and pension debts.

This decision continues to be VA policy and is reported annually in VA's notes to its Consolidated Financial Statements.

See original Principi Decision Memo on the following pages.

DECISION PAPER

AUDIT OF INTEREST CHARGES ON DELINQUENT
DEBTS DUE FROM THE PUBLIC
Report No. 7AM-M02-073
Issue Date: May 22, 1987

Issue:

Should the Department charge interest and administrative costs on compensation and pension-related debts?

Finding:

Federal law (Veterans Rehabilitation and Education Amendments of 1980; P.L. 96-466, § 605(a); 38 U.S.C. § 5315 (formerly § 3115)) requires that VA charge interest and administrative costs on compensation, pension and other benefit related debts. VA has not instituted procedures to comply with these requirements.

Recommendation:

Revise and implement procedures to charge interest at the prescribed rate on compensation, pension, and other benefit debts.

VBA Position:

The Veterans Benefits Administration is opposed to charging interest on compensation and pension-related debts for the following reasons:

- Most C&P debtors live at or near the poverty level and are elderly with no resources to pay the debts much less interest charges.
- Interest charges would lead not to a reduction in the pension debt load but to an increase as interest charges and administrative costs are added to the amounts already unpayable. The end result would be not only an increased debt total but also increased mental and financial burdens for elderly, disabled, and destitute veterans.
- The Department is already able to recoup a high percentage of compensation and pension debts by withholding overpayments from on-going payments.
- Charging interest on C&P debts would defeat the purpose for which the benefit is being paid. In pension cases, the veteran needs the pension to meet the basic necessities of life. In compensation cases, the disabled veteran may not be able to make a living without the compensation payment.

- Interest charging is intended to coerce debtors to liquidate debts on a timely basis or suffer a monetary penalty. Because most C&P debtors would be unable to pay debts, the "threat" of charging interest would serve no practical purpose.
- Interest charging is inconsistent in relation to similar benefit programs such as Social Security.
- Implementation of interest charging would cost the Department approximately \$835,000 over a 23-month period. Based on current and projected levels of collections and the increased debt load caused by the addition of interest charges, implementation of the program would not be cost-effective for the Department.

VBA has developed, and the Department has submitted, legislative proposals to exempt VA from the requirement in successive Congresses. Implementation of the law has been avoided on the grounds that pending legislation would remove the requirement.

OIG Position:

We disagree with continuing to propose legislation to exempt C&P debts from interest charges for the following reasons:

- Recipients of compensation or pension overpayments have use of these funds with a cost to the Government (imputed interest) until the funds are repaid. This practice, in effect, provides an interest free loan that is not equitably available to others.
- The "threat" of charging interest - to coerce debtors to liquidate debts on a timely basis - could induce an increase of cash collections above the current 11 percent rate. In addition, by not charging interest, the Department loses the ability to encourage quick repayments.
- Interest charging would not unfairly burden veterans unable to pay C&P debts. Existing waiver and compromise procedures provide for nonpayment of debts when it is against equity and good conscience.
- VBA's \$835,000 implementation cost over a two-year period is a one-time cost. VBA's November 1991 cost benefit analysis projects interest accruals of nearly \$5 million annually in succeeding years.

More importantly, the language of the law is clear in the requirement that these charges be levied. The initial legislative requirement was established in 1980. The unsuccessful attempts to obtain legislative relief in successive Congresses should be accepted and the requirement implemented. There has also been

increased opposition to VA's legislative initiative within the Administration, making legislative relief less likely to occur. The Department of Education formally opposed the VA proposal on the grounds that it could establish a precedent that could adversely affect Government-wide collection provisions.

The Chief Financial Officer's position (copy attached) is a concurrence with our position and also includes the statement that VA should begin to assess interest and administrative costs on delinquent C&P debts as required by law. The CFO position paper also indicates that the Departmental decision should take into consideration the fact that the legislative proposals to date have not been approved. We agree that administrative costs should also be assessed.

Another factor to consider is that the GAO has issued five reports since 1986 recommending that the VA implement procedures to charge interest and administrative costs on C&P debts. The latest report (July 1991) did not include a recommendation to the Secretary but rather to the OMB, recommending that OMB direct VA to assess interest and administrative costs on C&P debts.

The decision options outlined below also address interest charging on loan guaranty debts. VBA has agreed to revise the current interest rate on loan guaranty debts to the government-wide rate as recommended by the audit report. However, no action has been taken since the report was issued in 1987. VBA's plan is to develop two projects simultaneously to charge interest on both C&P and loan guaranty debts if required to do so. If the final decision is that the Department will not charge interest on C&P debts, a timetable for implementing loan guaranty interest charging should be required.

Deputy Secretary's Decision:

Option 1:

_____ Implement the recommendation to revise and implement procedures to charge interest at the prescribed rate on compensation and pension (C&P) debts. Administrative costs should also be assessed.

_____ Provide a time-phased implementation plan to the OIG for charging interest and administrative costs on both C&P and loan guaranty debts. Interest charging should begin no later than October 1, 1994 unless sufficient justification can be provided for a later date.

Option 2:

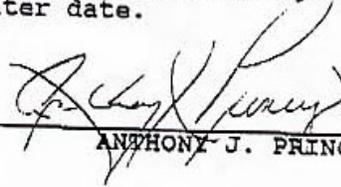
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Do not implement interest charging on C&P debts.

Provide a time-phased implementation plan to the OIG for charging interest and administrative costs on loan guaranty debts. Interest charging should begin no later than October 1, 1994 unless sufficient justification can be provided for a later date.

7/8/92

DATE



ANTHONY J. PRINCIPI