



Department of Veterans Affairs

Financial Policy

Volume XII

Debt Management

Chapter 9

Interest, Administrative Costs, and Penalty Charges

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0101 Overview 2

0102 Revisions 2

0103 Definitions..... 3

0104 Roles And Responsibilities 4

0105 Policies..... 4

0106 Authorities And References 5

0107 Rescissions 5

0108 Questions..... 6

Appendix A: Computation Of Interest, Administrative, and Penalty Costs. 7

Appendix B: Late Payment Charges By Calendar Year..... 9

0101 Overview

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures for charging interest, administrative costs and penalties on debts owed to VA.

Key points covered in this chapter:

- VA has the authority to charge interest and administrative costs on benefit debts in accordance with 38 U.S.C. § 5315.
- VA has the authority to charge interest, administrative costs, and penalties on non-benefit debts in accordance with 38 C.F.R. § 1.915 and 31 C.F.R. § 901.9.
- VA will not charge interest and late payment fees on debts that meet a certain criteria or if the debts have been waived, compromised, or collection action has been terminated;
- VA will review debt collection fees for interest and administrative costs annually and make changes to the rates, if applicable;
- VA will assess penalty charges as established by statute; and
- VA will deposit collections of interest and other late payment charges into the appropriate General Fund Receipt account.

0102 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	March 2018
Appendix B	Replaced all CY 2019 rates with CY 2020 rates	OFP (047G)	Annual requirement	February 2020
Appendix B	Replaced all CY 2018 rates with CY 2019 rates	OFP (047G)	Annual requirement	January 2019
Appendix B	Replaced all CY 2017 rates with CY 2018 rates	OFP (047G)	Annual requirement	January 2018
Appendix B	Replaced all CY 2016 rates with CY 2017 rates	OFP (047G)	Annual requirement	January 2017

0103 Definitions

Administrative Costs - A fixed amount assessed on a debt for each full or partial 30-day period that the debt is delinquent.

Compromise - means the settlement or forgiveness of a debt under 31 U.S.C. 3711, in accordance with standards set forth in the FCCS and applicable Federal law.

Current Value of Funds Rate (CVFR) - The Treasury Current Value of Funds Rate is used to calculate interest on overdue Federal Government receivables and to determine the effectiveness of taking cash discounts (I TFM 6-8040.40) on Government payments. Interest charged is simple interest at the rate in effect at the time the debt becomes overdue. The rate of interest remains fixed for the duration of the indebtedness (I TFM 6-8025.20). See Treasury's Cash Management Regulations (I TFM Chapter 6-8000) for more information.

Delinquent - In the case of most administrative debts, delinquency occurs when payment is not made by the due date specified in the initial billing notice (usually 30 calendar days from the date the notice is mailed) or an applicable agreement (including a post-delinquency payment agreement), unless other satisfactory payment arrangements have been made.

Federal Accounts Receivable - Receivables which arise from claims against another Federal entity. Federal accounts receivable may result from the performance of services and/or the delivery of goods between Federal entities.

Interest – The rate charged on an outstanding debt on a United States Government claim owed by a person that is equal to the average investment rate for the Treasury tax and loan accounts for the 12-month period ending on September 30 of each year, rounded to the nearest whole percentage point. Late payment interest charges are reimbursements to the Government for the loss of the Government's ability to invest a timely recovered debt for the period of time the payment is late.

Notice of Indebtedness – A demand letter as defined by 31 CFR 901.2.

Penalty Charges – A fee charged on any portion of a debt (including employee debts) more than 90 days past due in addition to late payment interest charges and administrative costs.

Treasury Cross-Servicing Program - A referral program consisting of collection tools, including Treasury demand letters, telephone calls to debtors, the use of private collection agencies (PCAs) on the Government-wide contract, Administrative Wage Garnishment (AWG), credit bureau report and referral to the Treasury Offset Program (TOP).

Treasury Offset Program (TOP) - A centralized offset program, administered by Treasury's Bureau of the Fiscal Service Debt Management Services, to collect delinquent debts owed to Federal agencies and States in accordance with 31 U.S.C. § 3720A - Collection of debts owed to Federal agencies - 26 U.S.C. § 6402(d) - Reduction of tax refund by amount of debt, and other applicable laws.

Waiver - A decision that conditions exist, under applicable statutes ([38 U.S.C. §5302](#), [5 U.S.C. §5584](#)), and implementing regulations ([38 C.F.R. Parts 1.955 - 1.969](#), and [38 C.F.R. §17.105](#)) that warrant the forgiveness of debt including interest and other late payment charges assessed on such debts.

0104 Roles And Responsibilities

The Assistant Secretary for Management/Chief Financial Officer (VA CFO) oversees all financial management activities relating to the direction, management, and administration of interest, administrative costs, and penalty charges.

Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants, and Other Key Officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

The Debt Management Center (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.

0105 Policies

- A. VA will charge interest and administrative costs on its debts. In addition to interest and administrative costs, VA will charge penalties on non-benefit debts. An exception to this rule is medical care receivables established under 38 U.S.C. §1729 (Medical Care Collection Fund). VA will not charge interest, administrative costs, or penalties on third party medical care receivables. Please note, in a July 1992 decision, VA's then Deputy Secretary decided that 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 the Consolidated Financial Statements
- B. VA will notify debtors via the Notice of Indebtedness (NOI) if interest, administrative costs and penalties will be added to the debt at a specified interval and rate from the date of the NOI unless payment in full is received within a specified period of time. Refer to Volume XII, Chapter 8, Notice of Indebtedness (Billing/Invoicing), for the required information related to debt or demand letters and the due process notice, which VA will provide to debtors.

- C. VA will apply interest on delinquent debts owed to the United States at the minimum annual interest rate equal to the U.S. Department of the Treasury's (Treasury) CVFR, published annually by the Secretary of the Treasury.
- D. VA will assess administrative costs incurred for processing and handling delinquent debts arising out of participation in a VA benefit, medical care, or home loan program and all other debts (38 C.F.R. § 1.915(a)). The calculation of administrative costs should be based on actual costs incurred or upon estimated costs for collection of similar debts as determined by each Administration's Chief Financial Officer (CFO) and the DAS for Finance (Austin Financial Services Center and the DMC).
- E. Unless otherwise established in a contract, repayment agreement, or by statute, VA will charge a penalty, pursuant to 31 U.S.C. § 3717(e) (2), not to exceed 6.00 percent per annum on the amount due on non-benefit debts delinquent for more than 90 days. This charge will accrue from the date of delinquency.
- F. VA will deposit interest, administrative costs, and penalty charges to the appropriate General Fund Receipt accounts.
- G. Interest and administrative costs collected on loan guarantee benefit debts will be deposited into the Financing accounts.
- H. VA will refund interest and administrative costs to the debtor, if applicable, when the debt is waived or cleared by an administrative action after collection.

0106 Authorities And References

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

[38 U.S.C. § 5315, Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States](#)

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

[38 C.F.R. § 1.915, Interest, Administrative Costs and Penalties](#)

0107 Rescissions

Volume II, Chapter 1A, Interest, Administrative Costs, and Penalty Charges, December 2010 and updated January 2017.

0108 Questions

Questions concerning these financial policies and procedures should be directed:

VHA	VHA CFO Accounting Policy (10A3A) (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
DMC	VAVBASPL/DMC/BDEV (Outlook)
FSC	VAFSCEnterpriseSupport@va.gov
All Others	OFP Accounting Policy (Outlook)

Appendix A: Computation Of Interest, Administrative, and Penalty Costs.

Interest Computation:

Interest is computed in 30-day periods as simple interest, using a 360-day year based on the rate equal Treasury’s CVFR, published annually by the Secretary of the Treasury in the *Federal Register* and available on the Bureau of Fiscal Service Debt Management Services, <https://www.fiscal.treasury.gov>.

1. Interest will accrue from the date of initial notification but will not be assessed until 31 days from the date of the notification.
2. Example of how interest will be computed:

The initial demand letter is dated July 1; the principal amount owed is \$1,000; the CVFR is 3.00 percent; and payment was not received timely (by July 31). On August 1 (31 days after the date on the demand letter, and 1 day after the payment due date), another demand letter is sent. This letter informs the debtor that the debt is delinquent and interest is now owed in addition to the principal. Interest is computed and assessed from the date of the initial demand letter (July 1) through the payment due date of the first letter (July 31) as follows:

INTEREST						
July 1 through September 1						
Principal	x	Rate	x	Time	=	Interest
\$1,000		.03		30/360	=	\$2.50

If payment of the principal amount plus interest of \$2.50 is not received by the due date of the second letter (August 31), then interest is computed and assessed on September 1 from the date of the initial demand letter (July 1) through the payment due date of the second letter (August 31), as follows:

INTEREST						
July 1 through September 1						
Principal	x	Rate	x	Time	=	Interest
\$1,000		.03		60/360	=	\$5.00

VA components may request an exception to this rule. All requests are to be sent in writing to VACO (047GC1) including a full explanation of the reason(s) for the need of a variance.

Administrative Cost Computation:

1. Example of how administrative costs will be computed, assuming the initial demand letter is dated July 1; the rate of monthly administrative costs (set each year by the Assistant Secretary for Management) is \$1.85 for benefit debts; the debt is subject to administrative charges; and payment was not received timely (by July 31).
2. On August 1 (31 days after the invoice date, and 1 day past the payment due date), the next demand letter is sent. This letter informs the debtor the debt is delinquent and that administrative costs are now owed for each full or partial 30-day period the debt is delinquent and that in addition to the interest and principal, administrative costs are computed and assessed as follows:

ADMINISTRATIVE COSTS August 1 through August 31					
<u>Amount per 30 day period</u>		<u>Number of Periods</u>	=		<u>Amount</u>
\$1.8	x	1	=		\$1.8

Penalty Cost Computation:

1. Following is an example of how penalty charges will be computed, assuming the initial demand letter is dated July 1; the debt principal amount is \$1,000; and the penalty charge rate is 6.00 percent per annum. While the penalty is not assessed until the debt is delinquent for more than 90 days (121 days from the date of the initial demand letter), it accrues from the date the debt became delinquent (31 days from the date of the first demand letter).
2. On November 1 (123 days after the date on the initial demand letter), penalty charges are computed and assessed as follows:

PENALTY COSTS As of November 1						
Principal	x	Rate	x	Time	=	Amount
\$1,000		.06		90/360	=	\$15.00

Appendix B: Late Payment Charges By Calendar Year

By December 1 of each calendar year, VHA and VBA are required to submit annual cost/benefit administrative cost analyses of their debt collection activities to the Debt Management Center (DMC). The purpose of the cost analyses is to establish minimum debt amounts for collection efforts and to determine the amount of interest and administrative costs to be added to delinquent debts. In order to establish accurate fees and charges that will be assessed on delinquent debts, cost analyses should be conducted using generally accepted accounting principles and, at a minimum, should include all direct and indirect costs. These costs include, but are not limited to:

- Personnel costs;
- Space;
- Overhead;
- Correspondence, phone costs;
- Cost of credit reports;
- Supplies and services;
- Equipment;
- Depositing collections;
- Reconciling accounting records;
- Preparing reports; and
- Contract Costs.

The Office of Community Care (OCC) provides the relevant data for VHA, and the DMC provides the relevant data for VBA. OCC and DMC use the applicable annual costs associated with debt collection responsibilities and the number of cases to determine the administration's monthly cost-of-collection charge.

DMC will also receive by December 1, a confirmation from the Office of General Counsel (OGC) on the litigation referral fee to be charged with any modification to the fees that will be assessed for the next calendar year. The litigation referral fee is assessed on all delinquent debts referred to VA District Counsel (DC) or the Department of Justice (DOJ) for enforced collection through litigation.

By December 15 of each calendar year, DMC will review the analyses and determine the appropriate late fees and charges to be assessed on delinquent debt for the next calendar year. DMC will assist in the publication of the new rates in VA Financial Policy. Such charges will include interest, administrative charges, litigation referral fees, and penalty charges; administrative charges are broken down into a monthly cost-of-collection charge and a litigation referral charge.

Below is an example of the cost analysis done by DMC to determine Administrative Costs:

Department of Veterans Affairs
Interest, Administrative Costs, and Penalty Charges

February 2020
Volume XII – Chapter 9
APPENDIX B

Income Statement							
For the Month Ended September 2017							
Debt Management Center							
		Month		YTD	FY 17	Percentage of	
INCOME		Actual	Plan	Actual	Plan	YTD Actuals	vs.
Sales to VA		\$ 2,257,610	\$ 2,499,030	\$ 30,378,319	\$ 31,185,809		FY 17 Plan
Billing Holiday		-	-	-	-		
Sales to OGA		-	-	-	-		
Billing Holiday		-	-	-	-		
GROSS EARNINGS		\$ 2,257,610	\$ 2,499,030	\$ 30,378,319	\$ 31,185,809	97.41%	
OPERATING EXPENSES	BOC						
Salaries and Benefits	11xx-13xx	\$ 1,775,639	(b) \$ 1,687,424	\$ 20,251,978	\$ 20,421,475	99.17%	
Travel	21xx	2,641	10,424	188,238	125,000	150.59%	
Transportation of Things	22xx	-	-	-	-	0.00%	
Rent, Communication & Utilities	23xx	119,926	124,586	1,625,478	1,468,168	110.71%	
Printing & Reproduction	24xx	-	-	-	-	0.00%	
Depreciation	2599	-	-	-	-	0.00%	
Contractual Services	25xx except 2599	730,999	704,804	5,283,621	8,457,692	62.47%	
Supplies & Materials	26xx	3,822	9,875	109,014	118,500	92.00%	
Expensed Equipment	31xx	1,937	25,000	182,189	300,000	60.73%	
Expensed Structures	32xx	-	-	-	-	0.00%	
Asset Loss/Gain	31xx	-	-	-	-	0.00%	
TOTAL OPERATING EXPENSES		2,634,964	2,562,113	27,640,518	30,890,835	89.48%	
EARNINGS FROM OPERATIONS		\$ (377,354)	\$ (63,083)	\$ 2,737,801	\$ 294,974	928.15%	
Average number of accounts managed in FY 2017 =		553,080					
To determine the Administrative Cost of Collection Charge you divide the total cost of the administrative charges by the average number of accounts managed.							
This will give you the yearly administrative cost per account. Divide that number by 12 to get the monthly amount.							
27,640,518 / 553,080 = 49.97 (Yearly amount)							
49.97 / 12 =		\$4.16					

A. Rates for the Current Calendar Year (2019):

1. Interest. The annual interest rate to be assessed on debts established in calendar year 2020 is 2.00 percent. This interest rate, which is set by the Department of the Treasury, will be assessed on all debts resulting from participation in a VA benefit program or from the provision of medical care under Title 38 U.S.C., unless an exception is granted. Such debts include VA benefit overpayments, loan defaults, and medical care debts—both eligible and ineligible. This interest rate will also be assessed on non-benefit debts, such as salary, travel, or vendor. The equivalent monthly rate is .166 Percent (.00166) and the daily rate is .0056 percent (.000056).
2. Monthly Administrative Cost-of-Collection Charge. The monthly administrative cost of collection to be charged on applicable VBA benefit debts during calendar year 2020 will be \$4.07. For all other debts subject to administrative charges, the charge will be \$1.64. These rates are effective January 1, 2020.
3. Litigation Referral Fee. The one-time litigation referral fee in calendar year 2020 for claims referred to District Counsel/U.S. Attorneys for enforced

collection is \$307.01. The fee is assessed on all debts referred for litigation that are subject to administrative cost charges.

4. **Penalty Charge.** A 6.00 percent penalty charge will be assessed on any portion of a non-benefit debt that is more than 90 days past due (121 days from the date of the initial demand letter), in accordance with 31 U.S.C. § 3717(e) (2). The penalty charge accrues from the date the debt becomes delinquent, which is 31 days from the date of the initial demand letter. This charge is not assessed on VA benefit debts, including those debts arising from the provision of medical care to eligible veterans. The equivalent monthly penalty charge rate is 0.50 percent (.005) and the daily rate is .0167 percent (.0001666).

B. Table of Current and Prior Calendar Year (CY) Late Payment Charges:

CY	Interest ^{2,3}	Monthly Administrative Cost-of-Collection Charge	Litigation Referral Fee	Penalty Charge
2020	2.00%	\$4.07 (VBA) \$1.64 (All Other)	\$307.01	6.00%
2019	1.00%	\$4.03 (VBA) \$1.94 (All Other)	\$301.58	6.00%
2018	1.00%	\$4.16 (VBA) \$1.93 (All Other)	\$293.36	6.00%
2017	1.00%	\$4.23 (VBA) \$1.90 (All Other)	\$288.46	6.00%
2016	1.00%	\$3.22 (VBA) \$1.87 (All Other)	288.46	6.00%
2015	1.00%	\$3.09 (VBA) 1.87 (All Other)	\$288.46	6.00%
2014	1.00%	\$3.30 (VBA) 1.87 (All Other)	\$288.46	6.00%
2013	1.00%	2.24 (VBA) 1.87 (All Other)	288.46	6.00%
2012	1.00%	2.32 (VBA) 1.87 (All Other)	288.46	6.00%
2011	1.00%	1.89 (VBA) 1.83 (All Other)	288.46	6.00%
2010	3.00%	1.85 (VBA) 1.76 (All Other)	288.46	6.00%
2009	5.00% 1/1/08- 6/30/08	2.12 (VBA) 1.70 (All Other)	288.46	6.00%
2008	4.00%	1.78 (VBA) 1.65 (All Other)	288.46	6.00%
2007	2.00% 1/1/06- 6/30/06	1.73 (VBA) 1.60 (All Other)	288.46	6.00%

² As noted above, the interest rate assessed on late payment of VA debts is established annually by the US Treasury, and is based on the CVFR. The CVFR will vary based on prevailing economic conditions – and so the rate was much higher from 2006 through 2009 than it is at present.

³ Home loans are subject to the CVFR interest rate as are other benefit-related loans, in accordance with 38 U.S.C. 5315, *Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts due the United States*. Prior to the implementation of this statute in the early 1980s, VA used a flat 4% for interest on home loans (per VA Administrator's Decision 825 (September 2, 1949)). While the 4% rate does not apply to new loan activity, there are a few older loans for which the 4% rate is still in effect.