



Department of Veterans Affairs

Financial Policy

Volume XII

Debt Management

Chapter 10

Collection of Debts

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1001 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policies relating to collection actions taken to recover debts owed to VA.

Key points covered in this chapter:

- Debt can be collected by accepting payments in regular installments after verifying a debtor's inability to pay in one lump sum;
- Debt will be collected by offsetting federal payments or salary whenever possible;
- Capital grants must be recovered in accordance with 38 C.F.R. § 61.67;
- Government-wide contracts or private collection services can be used to collect VA debt;
- Collateral can be liquidated through the sale of security instruments or foreclosure; and
- Uncollectible debt can be referred to another Federal or State agency.

1002 Revisions

Section	Revision	Office	Reason for Change	Effective Date
All	New Chapter	OFP (047G)	Provide policy on collection of debt	February 2021

1003 Definitions

Administrative Costs – Administrative costs are the average costs incurred for processing and handling delinquent debts. Administrative costs are recalculated and updated annually by VA.

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.

Compensation – A monthly payment made by VA to a Veteran due to 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 partial payment in settlement and 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.

Debt Collection – The process of pursuing repayment of a debt owed to VA.

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

Disposable Pay – The part of the debtor's compensation (including, but not limited to, salary, bonuses, commissions and vacation pay) from an employer remaining after the deduction of health insurance premiums and any amounts required by law to be withheld. For purposes of administrative wage garnishments, “amounts required by law to be withheld” include amounts for deductions, such as social security taxes and withholding taxes, but do not include any amount withheld pursuant to a court order. “Disposable pay” is also described in the Wage Garnishment Worksheet (SF-329C).

Dispute – Right of a debtor to contest the legitimacy of debt, both as to the existence and the amount.

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 the delinquent debt to Office of General Counsel (OGC) or Department of Justice (DOJ) for collection by securing a judgment against the debtor through litigation.

Military Service Debt – Uncollected portion of the amount of any indebtedness associated with the Veteran's participation in a plan prescribed in subchapter I or II of 10 U.S.C. Chapter 73.

Non-Judicial Foreclosure – Foreclosure of property without getting a court order first. This type of foreclosure is only available for deeds of trust with power-of-sale clauses.

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, and 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, Definitions.

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.

Security Instrument – The mortgage, or deed of trust, that secures the promissory note or assumption agreement (7 C.F.R. § 3555.10).

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 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).

Vendor – Per 5 C.F.R. Part 1315, vendor means any person, organization, or business concern engaged in a profession, trade, or business and any not-for-profit entity (including State and local governments and foreign entities and foreign governments).

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.

1004 Roles and Responsibilities

Secretary of VA is authorized to compromise debts under 38 U.S.C. § 3720, and Federal Claims Collection Act (31 U.S.C. § 3711). 38 U.S.C. § 3720 authorizes the compromise of debts due to the United States, regardless of the amount, that results from payment of a claim under the guaranty or insurance of loans, liquidation of direct loans, liquidation of loans acquired under 38 C.F.R. § 36.4318. The Federal Claims Collection Act authorizes compromise of debts not exceeding \$100,000, exclusive of interest and other late payment charges, arising out of VA activities.

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.

District Counsel (DC), formally known as Regional Counsel, 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.

Debt Management Center (DMC) is a franchise fund (fee-for-service) organization in VA. DMC is responsible for referring all delinquent vendor debts over 120 days to the Treasury for submission to TOP. This responsibility is in addition to any other debt-related duties DMC performs in accordance with any Service Level Agreement (SLA).

Chief of the Local Finance Activity is responsible for ensuring that compliance with the policies and appropriate procedures are followed for the administration of VA's debt collection activities. Any reference to Chief of the Local Finance Activity also includes the: Director of the Debt Management Center (DMC), Director of the Financial Service Center (FSC) where appropriate, as well as Chief Fiscal Officers in VA Medical Centers, Chief Finance Officers in Regional Offices, and Chief Fiscal Officers in the Consolidated Patient Account Centers (CPAC).

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.

Agent Cashier is an officer or employee of the Federal Government who is designated as a cashier by an approving official and is authorized to collect and disburse cash.

1005 Policies

100501 General Policies

- A. Chief of the Local Finance Activity will take aggressive collection action on a timely basis to collect debts arising from its activities.
- B. Before taking further collection actions, VA will provide the debtor a written NOI to advise the debtor of their due process rights regarding the nature and amount of the debt and to inform about the required time to repay or respond.
- C. Whenever feasible, VA will collect the debt in one lump sum. VA will collect debt in the form of money or, when a contractual basis exists, VA may demand the return of specific property or the performance of specific services.
- D. VA will collect interest, penalties, and administrative costs on delinquent debts along with the original debt amount, unless an exception is granted.

- E. VA may collect the debt through offset, installments, and liquidation of collateral; and may refer the debt to contractors or another Federal or State agency for collection action.
- F. VA will compare costs incurred for collection and amounts collected in accordance with 38 C.F.R. § 1.921, to establish minimum debt amounts below which collection efforts will not be taken. For debts to be collected, VA will aggressively collect against debts and will promptly undertake follow-up activities as necessary.
- G. VA may compromise debts below \$100,000.

100502 Collection of Debt in Installments

- A. If a debtor is financially unable to pay a debt in one lump sum, Chief of the Local Finance Activity may accept payment in regular installments. An installment payment plan is also referred to as a repayment plan.
- B. Repayment plans should be reasonable to the size of the debt and the debtor's ability to pay. Repayment plans should not extend beyond three years per 38 CFR 1.914.
- C. VA should obtain financial statements from debtors who represent that they are unable to pay in one lump sum and independently verify such representations whenever possible in accordance with 38 C.F.R. § 1.914
- D. If VA agrees to accept payments in regular installments, VA should obtain a legally enforceable written agreement from the debtor in accordance with 38 C.F.R. § 1.914.
- E. Security for deferred payments should be obtained in appropriate cases. However, VA may accept installment payments if the debtor refuses to execute a written agreement or to give security in accordance with 38 C.F.R. § 1.914.

100503 Collection of Interest, Administrative Costs, and Penalties

- A. Chief of the Local Finance Activity will assess interest, administrative costs, and penalties on delinquent debts in accordance with 38 C.F.R. § 1.915, and 31 C.F.R. § 901.9.
- B. Secretary of the Treasury determines the annual interest rate to be charged on delinquent debt.

- C. In accordance with 31 USC § 3717 a debt that is delinquent for more than 90 days will be charged a penalty of not more than six percent per year. See, Interest and penalty on claims.
- D. VA will base the calculation of administrative costs on actual costs incurred or on estimated costs for the collection of similar debts.
- E. Any interest, penalties, and/or administrative costs of collection will be added to the total debt amount, and debtors will be notified of the additional charges through delinquent debt notices.
- F. For more information on the collection and deposit of interest, administrative costs and penalties on delinquent debts, refer to VA Financial Policy Volume XII, Chapter 9 – Interest, Administrative Costs, and Penalty Charges.

100504 Collection of Debt by Offset

- A. Offset of VA benefit payments for debt collection will commence promptly in accordance with the time period specified in the NOI ,unless the debtor, within the time period specified in the NOI, communicates in writing to:
 - Dispute the existence or amount of the debt;
 - Request a waiver of the collection; or
 - Request a hearing on the waiver request.

For more information see 38 C.F.R. § 1.912a.

- B. VA will pursue collection action once an adverse initial decision is reached on the debtor's request for waiver and/or the debtor's informal dispute concerning the existence or amount of the benefits debt. However, if deferral of offset jeopardizes debt collection, an offset may commence before the resolution of a dispute or a decision on a waiver request.

VA will collect military service debts by offset against current or future compensation or pension benefit payments to the debtor. The offset should not exceed 15% of the net monthly compensation or pension benefit payment. VA will only recoup the debt when the military service owed the debt has:

- Determined the amount of the indebtedness of the veteran;
 - Certified to VA that due process has been provided to the Veteran in accordance with the procedures prescribed in 31 U.S.C. § 3716; and
 - Requested collection of the total amount due.
- C. VA will take collection action to recover monies owed from vendors in accordance with 31 U.S.C. § 3711. In general:

1. VA will issue a NOI to the vendor which will initiate the collection process.
2. VA will refer all delinquent vendor debts over 120 days to DMC for submission to TOP in accordance with 31 U.S.C. § 3716.
3. Agent Cashier will process deposits received for vendor debt along with other DMC receivables. For more information on the processing of DMC receivables, refer to VA Financial Policy Volume VIII, Chapter 3 – Agent Cashier Accountability Policy.

For more information on the collection of vendor debt, refer to VA Financial Policy Volume XII, Chapter 5 – Vendor Debts.

- D. VA will collect employee debt by offset against salaries of current employees of VA, or any other agency, for debts owed to VA.

Agent Cashiers will process deposits received for employee debt along with other DMC receivables. For more information on the processing of DMC receivables, refer to VA Financial Policy Volume VIII, Chapter 3 – Agent Cashier Accountability Policy.

For more information on the collection of employee debt, refer to VA Financial Policy Volume XII, Chapter 3 – Employee Debt.

100505 Collection of Debt through Liquidation of Collateral

- A. VA will liquidate security or collateral in accordance with 38 C.F.R. § 1.913, through the exercise of a power of sale of the security instrument or a nonjudicial foreclosure if the debtor fails to pay the debt within 180 days after demand.
- B. If a bankruptcy petition has been filed by a debtor, VA will seek legal advice from VA's General Counsel or District Counsel concerning the impact of the Bankruptcy Code to determine the applicability of the automatic stay before liquidating collateral.

100506 Recovery of Capital Grants

- A. VA will recover capital grant amounts, in accordance with 38 C.F.R. § 61.67, should a Grantee fail to comply within 3 years after the date of withdrawal from a grant program with the requirements set forth in the grant agreement or has failed to have successfully passed final inspection.
- B. VA will issue a notice of intent to recover funds from the grant recipient before taking any collection action.

- C. VA may terminate any action to recover funds within 30 days of receiving written notice from the recipient of a grant who submits documentation demonstrating why funds should not be recovered. Reasons not to recover funds can be different in every case and are evaluated based on several factors including Equity and Good Conscience. For more information on terminating any collection action see VA Financial Policy Volume XII, Chapter 13 – Termination of Collection.

100507 Settlement and Waiver of Claims

- A. In accordance with 31 C.F.R. § 902.1, VA has the authority to compromise debts that in exclusion of interest, penalties, and administrative costs are less than \$100,000 in value, except for hospital costs and medical care. VA will refer debts exceeding \$100,000, excluding interest and other late payment charges, to the Department of Justice (DOJ) for termination approval.
- B. The head of the Agency may compromise, settle, waive and release claims less than \$300,000 arising as a result of hospital costs and medical care and treatment furnished in accordance with 28 C.F.R. § 43.3. VA will refer debts exceeding \$300,000, excluding interest and other late payment charges, to DOJ for termination approval.
- C. For more information on the waiver of debt, refer to VA Financial Policy Volume XII, Chapter 11A – Waiver Requests.

100508 Referral of Uncollectible Debt

- A. VA may refer an uncollectible debt to another Federal or State agency for the purpose of collection action in accordance with 38 C.F.R. § 1.920.
- B. VA will provide written certification to the referred agency that includes the debt amount and actions taken by VA and the debtor before the uncollectible debt was referred to another agency.
- C. For more information on the referral of delinquent debts to the Department of Treasury for debt collection, and to the referral of debts to VA DC or DOJ for enforced collection action, refer to VA Financial Policy Volume XII, Chapter 14 – Treasury Offset Program, Treasury Cross Servicing and Enforced Collection (Litigation).

100509 Contracting for Collection Services

- A. VA has the authority to contract for collection services to recover delinquent debts.

- B. VA may enter into contracts for locating and recovering assets, such as unclaimed assets; and for debtor asset and income search reports.
- C. VA will retain the authority to resolve disputes, compromise claims, suspend or terminate collection and refer the matter for litigation.
- D. VA may use government-wide contracts or private collection contractors to obtain debt collection services in accordance with 38 C.F.R. § 1.917.
- E. VA may utilize collection service contracts that are based upon a fixed-fee or contingent-fee.
- F. VA will deposit recovery amounts for Loan Guaranty debts into the Loan Guaranty Revolving Fund and all other debts in Treasury as miscellaneous receipts.
- G. VA will credit amounts collected from debt payments to the appropriation initially charged with the related expenditure, regardless of whether the appropriation is in a current or expired status. For appropriations in a closed status, amounts collected must be deposited as miscellaneous receipts in the General Fund Receipt Account. Refer to Volume II, Chapter 7D, Guidelines to Avoid Augmenting an Appropriation for details on crediting amounts involving a current, expired or closed appropriation.
- H. Any interest, administrative costs, or penalty charges that are collected from a debt payment will be deposited in Treasury as miscellaneous receipts.
- I. For information on how to record recovered overpayments, see section 070502 “Receipt of Funds” in VA Financial Policy Volume II, Chapter 7D – Guidelines to avoid augmenting an appropriation for more information.

1006 Authorities and References

[5 C.F.R. § 1315 – Prompt Payment](#)

[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](#)

[7 C.F.R. § 3555 – Guaranteed Rural Housing Program](#)

[10 U.S.C. Chapter 73 – Annuities Based on Retired or Retainer Pay](#)

[26 U.S.C. § 6402\(d\) – Authority to make credits or refunds](#)

[28 C.F.R. § 43.3 – Settlement and waiver of claims](#)

[31 C.F.R. § 901.9 – Interest, penalties, and administrative costs](#)

[31 C.F.R. § 902.1 – Scope and application](#)

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

[31 U.S.C § 3711 – Collection and compromise](#)

[31 U.S.C § 3716 – Administrative offset](#)

[31 U.S.C. § 3717 Interest and penalty on claims](#)

[31 U.S.C. § 3720 – Collection of payments](#)

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

[38 C.F.R. § 1.10 - § 1.995, General Provisions](#)

[38 C.F.R. § 17.105, Waivers](#)

[38 C.F.R. § 36.4318 – Servicer tier ranking—temporary procedures](#)

[38 C.F.R. § 61.67 – Recovery provisions](#)

[38 U.S.C. § 101 Definitions](#)

[38 U.S.C. § 5302 – Waiver of recovery of claims by the United States](#)

[Title 38 of the U.S. Code – Veterans’ Benefits](#)

[VA Financial Policy Volume VIII, Chapter 3 – Agent Cashier Accountability Policy](#)

[VA Financial Policy Volume XII, Chapter 3 – Employee Debt](#)

[VA Financial Policy Volume II, Chapter 7D – Guidelines to avoid augmenting an appropriation](#)

1007 Rescissions

None.

1008 Questions

Questions concerning these financial policies should be directed as follows:

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