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# Transition of Servicing Defaulted Federal Student Loans to the Department of the Treasury: Background and Observations

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# Transition of Servicing Defaulted Federal Student Loans to the Department of the Treasury: Background and Observations

As of December 31, 2025, the Department of Education’s (ED’s) portfolio of defaulted federal student loans comprises loans of about 7.8 million borrowers (about 18% of all federal student loan borrowers) owing \$179 billion. To collect on defaulted federal student loans, the federal government may negotiate a repayment agreement with borrowers, report the loan default to consumer reporting agencies, initiate administrative wage garnishment (AWG) against borrowers, offset borrowers’ federal payments through the Treasury Offset Program (TOP), and/or refer a borrower’s case to the U.S. Department of Justice for civil litigation, among other actions. Borrowers may resolve the default through mechanisms such as payment in full, loan rehabilitation, and loan consolidation.

ED’s Office of Federal Student Aid (FSA) is the primary entity that administers the Higher Education Act (HEA) Title IV federal student loan programs. Prior to policies implemented by ED in response to and following the COVID-19 pandemic (e.g., a pause in most debt collection activities), FSA and its contracted private collection agencies (PCAs) serviced defaulted student loans by using the above-described tools and assisting borrowers to resolve their loan default. FSA and its contractors significantly decreased their debt collection activities because of the COVID-19-related policies. Additionally, in the midst of the COVID-19-related collection pause, FSA cancelled its contracts with PCAs but did not transition servicing of defaulted student loan debt to a new set of contractors as planned.

The Department of the Treasury’s (Treasury’s) Bureau of the Fiscal Service (Fiscal Service) provides centralized delinquent debt collection via its Cross-Servicing Program (CSP) for most other federal agencies. Fiscal Service and its contractors attempt to collect on many types of federal delinquent nontax debts and use similar tools as those FSA might use to collect on defaulted federal student loans.

On March 19, 2026, ED and Treasury entered into an interagency agreement (Treasury-ED IAA) “to promote innovation and process improvements in pursuit of more effective federal student aid administration.” The IAA contemplates a three-phase approach to pursuing this objective. In Phase 1, Treasury is to assume responsibility for servicing ED’s defaulted federally held student loans through Fiscal Service’s CSP gradually, and FSA is to pay Fiscal Service fees relating to the cost of its services. (The other two phases are not addressed herein.)

As part of their rationale for entering into the IAA, ED and Treasury have stated that ED is “ill-equipped” to manage the student loan portfolio, whereas, in their view, Treasury has expertise in “managing highly complex financial and information technology systems” and in collecting on delinquent and defaulted debts for other federal agencies. Opponents of the effort argue that Treasury “lacks expertise in the highly unique and complex federal student loan system” and that Fiscal Service may not be adequately resourced for the transition.

Available data indicate that should all ED-held student loans that are 180 days delinquent (the length of delinquency typically required for other federal agencies to refer loans to the CSP) be referred to the CSP, Fiscal Service may see an 85% increase in the number of delinquent debts and an almost 400% increase in the dollar amount of delinquent debts for which it may be responsible for servicing. While these increases are notable, the extent to which they may pose a challenge for Fiscal Service is unclear for several reasons, including that the IAA contemplates a graduated approach to referral of defaulted student loans to Treasury, which may enable Treasury to gradually gain experience in servicing defaulted student loans before increasing the scope of future operations.

Few evaluations of Treasury’s collection of delinquent debts and the CSP are publicly available. A 2016 interim report for a pilot program between FSA and Fiscal Service, under which Fiscal Service serviced a sample of defaulted federal student loans, showed some indications that it was less successful than FSA-contracted PCAs in resolving or collecting on such debts. Report findings indicate that federal student loans are unlike other debts typically serviced by Fiscal Service and that Fiscal Service’s general collection operations may not have been sufficiently tailored to address those unique products. Although Fiscal Service had planned some operational changes to improve its performance under the pilot program in light of the interim report’s findings, the pilot was ended earlier than planned and any final results from program are unavailable.

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## Introduction

The U.S. Department of Education’s (ED’s) Office of Federal Student Aid (FSA) was established in 1998 pursuant to Section 141 of the Higher Education Act (HEA) and is a discrete management unit “responsible for managing the administrative and oversight functions” supporting HEA Title IV federal student aid programs, including the Pell Grant and the Direct Loan programs.<sup>1</sup> In FY2025, FSA oversaw the provision of approximately \$133.1 billion in Title IV aid to approximately 9.2 million students attending institutions of higher education (IHEs).<sup>2</sup> The Direct Loan Program represents the single largest source of federal financial assistance to support students’ postsecondary educational pursuits. As of December 31, 2025, approximately \$1.7 trillion in HEA Title IV student loans borrowed by about 45.3 million individuals were outstanding.<sup>3</sup> ED’s portfolio of defaulted federal student loans comprises loans of about 7.8 million borrowers totaling \$179 billion.<sup>4</sup>

On March 19, 2026, ED and the U.S. Department of the Treasury (Treasury) entered into an interagency agreement (Treasury-ED IAA)<sup>5</sup> under which Treasury is to assume responsibility for or review tasks required to carry out aspects of the HEA Title IV federal student financial aid programs on an unspecified timeline. ED and Treasury entered into the IAA “to promote innovation and process improvements in pursuit of more effective federal student aid administration.”<sup>6</sup> The Treasury-ED IAA contemplates a three-phase approach to pursuing these objectives.

- **Phase 1:** Treasury is to service FSA’s defaulted federally held student loans through its Cross-Servicing Program (CSP, discussed later in this report’s “Fiscal Service’s Cross-Servicing Program” section).
- **Phase 2:** Treasury is to “assume responsibility for administrative operations for servicing [FSA’s] non-defaulted debt, to the extent practicable, following Treasury’s assessment of the portfolio and its operations.”<sup>7</sup>
- **Phase 3:** Treasury is to review the programmatic and policy requirements governing students’ eligibility for federal financial assistance, including administration of the Free Application for Federal Student Aid (FAFSA) and IHEs’ eligibility to participate in HEA Title IV programs.

This report focuses on Phase 1 of the Treasury-ED IAA. It begins by describing FSA’s current procedures for servicing and collecting on defaulted student loans. The report then describes the

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<sup>1</sup> For example, compared with most other federal department subunits, the Office of Federal Student Aid (FSA) is designed as a performance-based organization with statutory features designed to shield FSA leadership from political pressures. Higher Education Act (HEA), §141(a)(1). For additional information on FSA, see CRS Report R46143, *The Office of Federal Student Aid as a Performance-Based Organization*.

<sup>2</sup> See “Student Aid Overview,” in U.S. Department of Education (ED), *FY2027 Department of Education Justification of Appropriation Estimates to Congress*, pp. 3-4.

<sup>3</sup> ED, FSA, Federal Student Aid Data Center, “Portfolio by Location,” accessed May 5, 2026, <https://studentaid.gov/data-center/student/portfolio>.

<sup>4</sup> ED, FSA, Federal Student Aid Data Center, “Default Portfolio by Location,” accessed May 5, 2026, <https://studentaid.gov/data-center/student/portfolio>.

<sup>5</sup> See U.S. Department of the Treasury (Treasury) and ED, *Interagency Agreement for the Procurement of Services for the Federal Student Assistance Programs*, March 19, 2026, <https://www.ed.gov/media/document/ed-treasury-interagency-partnership-113468.pdf> (hereinafter Treasury-ED IAA).

<sup>6</sup> Treasury-ED IAA, p. 1.

<sup>7</sup> Treasury-ED IAA, p. 2.

details of Phase 1 delineated in the Treasury-ED IAA. It concludes with some initial observations and considerations relating to transitioning defaulted federal student loans servicing to Treasury as envisioned in Phase 1. Descriptions and analyses of FSA and Treasury functions in this report are based on publicly available information.

## FSA Servicing of Defaulted Student Loans

FSA is the primary entity that administers the Direct Loan program (the largest of the federal student loan programs). FSA also administers aspects of the Federal Family Education Loan (FFEL) program, the Perkins Loan program, and the Health Education Assistance Loan (HEAL) program.<sup>8</sup>

The Debt Collection Improvement Act (DCIA) generally requires federal agencies to transfer nontax debts that are 180 days or more delinquent to Treasury's Bureau of the Fiscal Service (Fiscal Service) for centralized debt collection (i.e., referral to Fiscal Service's CSP).<sup>9</sup> Since 2001, the Secretary of the Treasury has granted FSA an exemption from this requirement.<sup>10</sup> This exemption was granted pursuant to Treasury-established criteria for evaluating an exemption request, which considered whether (1) the requested exemption was the best means to protect the federal government's financial interest, (2) transfer of the debt to Treasury would interfere with the federal student loan programs' goals, and (3) the exemption would be consistent with the purposes of the DCIA.<sup>11</sup> Thus, FSA is currently responsible for collecting delinquent and defaulted federal student loan debt assigned to or held by ED.

In general, when a federal student loan borrower has not made loan payments for 270 days after the payment due date, the borrower is considered in default on their loan(s).<sup>12</sup> Borrowers who default on their federal student loans may be subject to various consequences, including voluntary and involuntary debt collection. *Voluntary debt collection* generally refers to processes through which a borrower agrees to make payments on their defaulted loan and includes default resolution through means such as loan rehabilitation, loan consolidation, or payment in full.<sup>13</sup> *Involuntary debt collection* refers to the federal government taking action to collect payment from a borrower

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<sup>8</sup> As of December 31, 2025, outstanding Direct Loans totaled \$1.5 trillion, representing debt borrowed by or on behalf of 38.7 million individuals; outstanding Federal Family Education Loan (FFEL) program loans totaled \$160 billion, representing debt borrowed by or on behalf of 6.7 million individuals; and outstanding Perkins Loans totaled \$2.8 billion, owed by 900,000 individuals. (ED, FSA, Federal Student Aid Data Center, "Federal Student Aid Portfolio Summary," FY2026 Q1, accessed May 5, 2026, <https://studentaid.gov/data-center/student/portfolio>.) As of February 29, 2024, outstanding Health Education Assistance Loan (HEAL) program loans totaled about \$421 million, owed by 6,500 individuals. (CRS communication with ED staff, April 1, 2024.)

<sup>9</sup> 31 U.S.C. §3711(g). Regulations require federal agencies to refer eligible debt to the Bureau of Fiscal Service (Fiscal Service) for cross-servicing no later than 120 days of delinquency if the agency relies on the Cross-Servicing Program (CSP) for the offset of federal payments (e.g., offset of federal tax refunds) on the agency's behalf. 31 C.F.R. §285.12(c)(2).

<sup>10</sup> The exemption applies to delinquent and defaulted federal student loan debt assigned to or held by ED (e.g., Direct Loan program loans and FFEL program loans, Perkins Loans, and HEAL program loans that have been purchased by or assigned to ED). Letter from Donald V. Hammond, Acting Under Secretary for Domestic Finance, to James R. Lynch, Chief Financial Officer, Student Financial Assistance, ED, May 11, 2001.

<sup>11</sup> U.S. Government Accountability Office (GAO), *Debt Collection Improvement Act of Treasury's Centralized Efforts to Collect Delinquent Federal Nontax Debt*, GAO-12-870R, September 13, 2012, p. 41, <https://www.gao.gov/assets/gao-12-870r.pdf>.

<sup>12</sup> See, for example, 34 C.F.R. §685.102(b).

<sup>13</sup> For additional information on the consequences of default on student loan borrowers, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*.

without the borrower's consent through means such as administrative wage garnishment (AWG),<sup>14</sup> referral to the Treasury Offset Program (TOP)—administered by Fiscal Service<sup>15</sup>—and referral to the U.S. Department of Justice (DOJ) for civil litigation.

Most collection activities on defaulted ED-held student loans, including AWG and referral to TOP, were suspended from March 2020 to the present because of policies implemented in response to and following the COVID-19 pandemic.<sup>16</sup> Prior to March 2020, ED's servicing of defaulted student loans generally worked in the following manner.<sup>17</sup>

1. Upon default (at least 270 days of a borrower not making scheduled loan payments), a student loan account would remain with a servicer for about 90 days. During this time, servicers would perform some debt collection functions, such as sending demand letters, notifying borrowers when they had defaulted on their loans, performing skip-tracing activities, and attempting to enter into repayment arrangements for defaulted loans.<sup>18</sup>
2. If a loan was more than 360 days delinquent, the account would be transferred from the loan servicer to FSA's Default Resolution Group (DRG), which would provide options for borrowers to resolve their default status (e.g., loan rehabilitation, consolidation). The DRG operates and maintains the Debt Management and Collection System (DMCS), the collection platform used to manage defaulted ED-held student loans. Both the DRG and DMCS are managed by an FSA contractor. If the default was resolved, the loan would be assigned by FSA to a servicer for loan servicing.
3. If the default was not resolved within 60 days of being transferred to the DRG (i.e., was delinquent for 420 days), the loan would typically be assigned to an FSA-contracted private collection agency (PCA). A PCA would first attempt to determine whether the loan was eligible for an administrative resolution (e.g., determine whether the loan was eligible for discharge due to the borrower meeting loan forgiveness or discharge requirements). If this option was unavailable, a PCA would utilize voluntary collection options to attempt to resolve the default. If those options did not work, the PCA could seek to collect on the defaulted loan by using involuntary collection methods such as AWG,

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<sup>14</sup> Under administrative wage garnishment (AWG), up to 15% of a borrower's disposable pay may be garnished to repay their defaulted student loan. For additional information on AWG, see 34 C.F.R. Part 34.

<sup>15</sup> Under the Treasury Offset Program (TOP), up to 100% of a borrower's federal income tax return and, in general, up to the lesser of 15% of a borrower's monthly Social Security benefit or the amount that their Social Security benefit exceeds \$750 may be offset to repay their defaulted student loan. Additionally, up to 15% of the disposable pay of a borrower who is a current or former federal employee may be offset. For additional information on TOP, see Treasury, Fiscal Service, "Treasury Offset Program," accessed March 26, 2026, <https://fiscal.treasury.gov/top/>.

<sup>16</sup> For additional information on these policies, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*; and ED, "U.S. Department of Education Delays Involuntary Collections Amid Ongoing Student Loan Repayment Improvements," press release, January 16, 2026, <https://www.ed.gov/about/news/press-release/us-department-of-education-delays-involuntary-collections-amid-ongoing-student-loan-repayment-improvements>.

<sup>17</sup> This description applies specifically to Direct Loans, as they make up the largest portion of ED's student loan portfolio. Initial procedures for collecting defaulted loans under the FFEL, Perkins Loan, and HEAL programs may vary from this description. Once any of these loan types are held by ED, the collection procedures described here generally apply to those loan types. For additional information on ED's servicing of defaulted Direct Loans prior to the COVID-19 pandemic, see CRS Report R44845, *Administration of the William D. Ford Federal Direct Loan Program*.

<sup>18</sup> In skip-tracing, a servicer attempts to locate a borrower whose contact information is no longer current. This could include contacting individuals identified in the borrower's loan file (e.g., a relative or school attended by the borrower) and using national change of address search services.

referring the loan for federal offset to TOP, or recommending litigation. PCAs also performed other tasks, such as skip-tracing activities.

In cases where a loan remained with the DRG and was not assigned to a PCA, the DRG would perform many of the debt collection activities typically performed by PCAs.<sup>19</sup>

The DMCS processed all payments made by borrowers on their defaulted loans through Treasury’s National Payment Center, regardless of whether a loan had been assigned to a PCA. It also reported loan statuses to the National Student Loan Data System and to consumer reporting agencies.<sup>20</sup>

If a default was resolved, FSA would assign the loan to a servicer for loan servicing.

4. If a default was not resolved after placement with a PCA, FSA could require the PCA to return the loan to the DRG for transfer to a new PCA.

In November 2021, in the midst of the COVID-19-related collection pause, FSA cancelled its contracts with PCAs as “one part of a long-term strategy to improve defaulted federal student loan collections.”<sup>21</sup> FSA stated that in the short-term following the cancellation of the PCA contracts, it would utilize the DRG and DMCS to manage defaulted student loans.<sup>22</sup> In the long-term, FSA planned to, but did not, transition defaulted debt servicing work to a new set of contractors.<sup>23</sup> Defaulted debt servicing has since remained with DRG.<sup>24</sup>

**Table 1** details the amount of defaulted federally held student loans FSA and its contractors collected or resolved in FY2019 (the last full fiscal year prior to the beginning of the COVID-19-related student loan debt collection pause) and in FY2025 (the first fiscal year following the end of the COVID 19-related policies and subsequent policies to curtail student loan debt collections) and the percent change, by collection or resolution method.

**Table 1. Amounts of Defaulted Federal Student Loans Collected or Resolved by FSA and Its Contractors, by Collection or Resolution Method**  
FY2019 and FY2025

	FY2019 (\$ in millions)	FY2025 (\$ in millions)	Percentage Change <sup>a</sup>
<b>Cash Collection Method<sup>b</sup></b>			
Litigation via Department of Justice	\$11.94	\$8.40	-30%
Voluntary Borrower Payments <sup>c</sup>	\$756.66	\$184.72	-76%
Administrative Wage Garnishment	\$1,341.00	\$0.51	-100%
Treasury Offset Program	\$4,452.92	\$366.46	-92%

<sup>19</sup> For example, a loan was not assigned to a private collection agency (PCA) if the amount owed on the loan was less than \$500.

<sup>20</sup> ED, “Privacy Impact Statement for the Debt Management and Collection System (DMCS),” November 4, 2019.

<sup>21</sup> Owen Doherty, “ED Ends Contracts with Student Loan Debt Collection Companies,” National Association of Student Financial Aid Administrators, November 8, 2021, [https://www.nasfaa.org/news-item/26358/ED\\_Ends\\_Contracts\\_With\\_Student\\_Loan\\_Debt\\_Collection\\_Companies](https://www.nasfaa.org/news-item/26358/ED_Ends_Contracts_With_Student_Loan_Debt_Collection_Companies).

<sup>22</sup> Maximus Federal Services is the contractor currently managing the Default Resolution Group (DRG) and DMCS.

<sup>23</sup> Doherty, “ED Ends Contracts with Student Loan Debt Collection Companies.”

<sup>24</sup> Treasury-ED IAA, p. 4.

	FY2019 (\$ in millions)	FY2025 (\$ in millions)	Percentage Change <sup>a</sup>
<b>Total Dollars Collected</b>	<b>\$6,562.52</b>	<b>\$560.09</b>	<b>-91%</b>
<b>Resolution Method<sup>d</sup></b>			
Loan Consolidation	\$2,257.56	\$94.37	-96%
Loan Rehabilitation	\$9,801.24	\$7,984.36	-19%
<b>Total Dollars Resolved</b>	<b>\$12,058.80</b>	<b>\$8,078.73</b>	<b>-33%</b>

**Source:** CRS communication with U.S. Department of Education, April 10, 2026.

**Notes:**

- a. Figures have been rounded.
- b. Figures include cash payments made by borrowers.
- c. Figures exclude payments made by borrowers as part of loan rehabilitation agreements. In loan rehabilitation, a borrower may resolve their loan’s default by making 9 “reasonable and affordable” monthly payments within 20 days of the due date during a period of 10 consecutive months and according to a loan rehabilitation agreement between the Secretary of Education and the borrower. 34 C.F.R. §385.211(f).
- d. Figures represent the outstanding balances of loans resolved out of default.

As shown in **Table 1**, the dollar amount of defaulted student loans collected or resolved by FSA and its contractors decreased markedly from FY2019 to FY2025. Some of these decreases are likely the result of the various COVID-19-related policy changes (e.g., COVID-19 debt collection pause) and subsequent ED policy changes, such as implementation of the “on-ramp” to repayment policy<sup>25</sup> and the continued cessation of AWG and TOP.<sup>26</sup> From these data alone, it is not readily apparent why resolution through loan consolidation saw a larger decrease than resolution through loan rehabilitation. Some of the ED policies that may have led to decreased amounts of defaulted student loan collections, such as cessation of the use of AWG and TOP, remain in place to date.

As a point of reference, on September 30, 2019 (i.e., the end of FY2019), \$167.7 billion in federally held student loans were in default; on September 30, 2025, that figure was \$117.3 billion.<sup>27</sup> As of December 31, 2025, the amount of federally held student loans that were in default had increased to \$179 billion.<sup>28</sup>

<sup>25</sup> The on-ramp to repayment followed a nearly three-year COVID-19 student loan payment pause. The on-ramp policy ran from October 1, 2023, to September 30, 2024. Under the policy, borrowers who missed monthly payments were not considered delinquent on their loans and, thus, could not default on their loans.

<sup>26</sup> For example, in April 2025, ED announced it would resume using TOP following the end of the COVID-19-related collection pause and the on-ramp the repayment policy. (ED, “U.S. Department of Education to Begin Federal Student Loan Collections, Other Actions to Help Borrowers Get Back into Repayment,” press release, April 21, 2025, <https://www.ed.gov/about/news/press-release/us-department-of-education-begin-federal-student-loan-collections-other-actions-help-borrowers-get-back-repayment>.) Then, in January 2026, ED announced it would temporarily pause the use of involuntary debt collection practices such as AWG and TOP to “enable the Department to implement major student loan repayment reforms” authorized under the FY2025 budget reconciliation law (P.L. 119-21). ED, “U.S. Department of Education Delays Involuntary Collections Amid Ongoing Student Loan Repayment Improvements.”

<sup>27</sup> The decrease in amount of student loan debt in default from FY2019 through FY2025 may be due, at least in part, to various COVID-19-related policy changes made by ED, such as the Fresh Start Initiative. For additional information on these policies, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*.

<sup>28</sup> ED, FSA, Federal Student Aid Data Center, “Defaulted Portfolio by Location.” For information on the potential causes of this increase in student loan defaults, see CRS In Focus IF13113, *The Potential Increase in Federal Student Loan Defaults in Fall 2025 (“Default Cliff”)*. Loan amounts collected and resolved in **Table 1** should not be divided by outstanding defaulted loan amounts presented here to derive a percentage of defaulted loans that were collected or resolved (e.g., a collection rate), as the data presented in Table 1 and here represent different time periods (an entire fiscal year in Table 1, compared with a single point in time here) and, thus, potentially different cohorts of borrowers.

## Fiscal Service's Cross-Servicing Program

The DCIA generally requires federal agencies to transfer nontax debts that are 180 days or more delinquent to Fiscal Service for centralized debt collection via the CSP.<sup>29</sup> As such, Fiscal Service attempts to collect on many types of federal delinquent nontax debt—including fines, overpayments, other federal direct loans, and guaranteed loans—referred from various federal agencies through actions similar to those FSA might use to collect on defaulted federal student loans. Through the CSP, Fiscal Service may use collections tools such as sending demand letters, negotiating payment agreements, reporting delinquent debt to consumer reporting agencies, garnishing wages, offsetting eligible federal payments through TOP, and referring debts to DOJ for litigation.<sup>30</sup> Fiscal Service may internally service the delinquent debt or refer the debt to a PCA for servicing.

PCAs that service delinquent debts referred to them via the CSP may take a variety of steps to collect on the debt, including skip-tracing, sending demand letters, negotiating payment plans, determining whether a debt is eligible for an administrative resolution, and initiating AWG.<sup>31</sup> If one PCA is unable to collect or resolve a debt, Fiscal Service may refer the debt to another PCA, attempt to collect the debt internally, suspend collection, or return the debt to the agency that originally referred it to the CSP.<sup>32</sup> These tasks are similar to those that FSA-contracted PCAs might have taken to collect on defaulted federal student loan debt.

Fiscal Service currently contracts with the following PCAs:

- The CBE Group, Inc.,
- ConServe, Inc.,
- Pioneer Credit Recovery, Inc.,
- Coast Professional, Inc., and
- Transworld Systems, Inc.<sup>33</sup>

Of these, Conserve, Inc.; Pioneer Credit Recovery, Inc.; and Coast Professional, Inc. were previously FSA-contracted PCAs.<sup>34</sup>

Before referring delinquent debt to the CSP, an agency must take a number of steps, including certifying that the agency is transferring to the CSP valid and legally enforceable debt, informing

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<sup>29</sup> 31 U.S.C. §§3701-3720E. See also Treasury, Fiscal Service, “Cross-Servicing,” accessed March 30, 2026, <https://fiscal.treasury.gov/debt-management/cross-servicing>.

<sup>30</sup> 31 C.F.R. §285.12; and Treasury, Fiscal Service, “Cross-Servicing.” For additional information, see CRS In Focus IF11671, *Overview of the Treasury Department's Federal Payment Levy and Treasury Offset Programs*.

<sup>31</sup> Treasury, Fiscal Service, “Private Collection Agencies,” accessed March 30, 2026, <https://fiscal.treasury.gov/debt-management/cross-servicing/private-collection-agencies>.

<sup>32</sup> Treasury, Fiscal Service Notice ID 2033H626N00002, *Default Resolution Agency Service Education Debt*, March 20, 2026, <https://sam.gov/workspace/contract/opp/24f27159cea746dab2f8eaa19a55a2b7/view>.

<sup>33</sup> Treasury, Fiscal Service, “Private Collection Agencies.”

<sup>34</sup> Transworld Systems, Inc. and CBE Group, Inc. had been awarded FSA-contracts; it appears that those contracts were never implemented due to litigation. See ED, FSA, “Private Collection Agency Contracts,” <https://studentaid.gov/data-center/business-info/contracts/collection-agency>; and Tim Bauer, “Department of Education Announces Award of New Debt Collection Contracts,” *insideARM*, December 10, 2016, <https://www.insidearm.com/news/00042429-breaking-news-department-education-announ/>.

the CSP of what tools it may use to collect the debt, making a written demand to the debtor, and providing the debtor with any required due process.<sup>35</sup>

## The Treasury-ED Interagency Agreement

As described earlier, the Treasury-ED IAA contemplates a three-phase approach under which Treasury is to (1) service FSA’s defaulted federally held student loans through Fiscal Service’s CSP; (2) “assume responsibility for administrative operations for servicing [FSA’s] non-defaulted debt, to the extent practicable, following Treasury’s assessment of the portfolio and its operations”; and (3) review the programmatic and policy requirements governing students’ eligibility for federal financial assistance, including administration of the FAFSA, and IHEs’ eligibility to participate in the HEA Title IV programs.<sup>36</sup>

In a press release about the Treasury-ED IAA, Treasury and ED stated that ED is “ill-equipped” to manage the size and complexity of the federal student loan portfolio and that the partnership between Treasury and ED will “draw on Treasury’s expertise in managing highly complex financial and information technology systems and in collecting delinquent and defaulted debt for federal agencies.”<sup>37</sup>

The agencies stated that Treasury was selected for the partnership because ED and Treasury have a history of partnership in managing the HEA Title IV programs.<sup>38</sup> Aspects of this history include

- Treasury disburses funds to ED for the making of federal student loans;
- ED uses TOP for involuntary debt collections;
- ED leverages Treasury data for aspects of student aid administration (e.g., income verification for income-driven repayment plans and the FAFSA);
- both agencies have contracted with an overlapping set of PCAs; and
- Treasury chairs the Financial Literacy and Education Commission, through which ED educates borrowers on student loan debt.<sup>39</sup>

### Phase 1 of the Treasury-ED IAA

Broadly speaking, in Phase 1, Treasury is to assume responsibility for servicing FSA’s defaulted federally held student loans in exchange for FSA paying it a fee for the costs Treasury incurs. According to the IAA, Treasury is to develop a plan, in coordination with ED, to refer all eligible

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<sup>35</sup> 31 C.F.R. §285.12; and see Section 5030—Creditor Agency Responsibilities of the *Treasury Financial Manual*, at Treasury, “Chapter 5000 Collecting Delinquent Nontax Debt Through The Treasury Cross-Servicing Program,” <https://tfx.treasury.gov/tfm/volume1/part3/chapter-5000-collecting-delinquent-nontax-debt-through-treasury-cross-servicing>. Due process requirements may vary by type of collection action to be taken but generally require that an agency notify a debtor of the nature of the debt and the intention of the agency to take an action, as well as explain any debtor rights to dispute the action. See, for example, Treasury, Fiscal Service, *CY2026 Agreement to Certify Federal Nontax Debts for Centralized Receivables, the Cross-Servicing Program, and the Treasury Offset Program*, pp. 5-6, <https://fiscal.treasury.gov/system/files/files/debt-management/debt-cert-agreement.pdf>.

<sup>36</sup> Treasury-ED IAA, p. 1.

<sup>37</sup> ED and Treasury, “Fact Sheet: Department of Education and Department of the Treasury Federal Student Assistance Partnership,” March 19, 2026, p. 1, <https://home.treasury.gov/system/files/136/Fact-Sheet-Department-of-Education-and-Department-of-the-Treasury.pdf> (hereinafter ED and Treasury, “Fact Sheet”).

<sup>38</sup> ED and Treasury, “Fact Sheet,” p. 2.

<sup>39</sup> ED and Treasury, “Fact Sheet,” p. 2. ED is also a member of the Financial Literacy and Education Commission. Treasury, “Financial Literacy and Education Commission,” accessed April 23, 2025, <https://home.treasury.gov/policy-issues/consumer-policy/financial-literacy-and-education-commission>.

federally held defaulted student loans to the CSP.<sup>40</sup> The plan is to “take into consideration operational capacities of the [DRG], existing [ED] contracts and resources, and Fiscal Service, including whether Fiscal Service has procured the services of private collection agencies for the student loan portfolio.”<sup>41</sup> ED is to “fully support Treasury’s efforts to gain familiarity with the defaulted federal student loan portfolio and the associated servicing requirements.”<sup>42</sup>

Additionally, “to the extent allowed by law,” Treasury is to assume operational responsibilities for FSA’s DRG and is to “commit resources to provide oversight, direction, and planning as quickly as practicable.”<sup>43</sup> DRG is to refer defaulted federally held student loans to the CSP.

The IAA contemplates a tiered approach to the referral of defaulted federally held student loan debt to the CSP. It states that Fiscal Service and FSA will coordinate “to determine whether any student loan debts can be immediately referred to Cross-Servicing on a pilot basis” and that Fiscal Service and the DRG will coordinate to develop a plan for the DRG to refer all eligible debt to the CSP.<sup>44</sup>

In the IAA, ED acknowledges that Treasury “intends to revoke” FSA’s existing exemption from referral of defaulted federally held student loan debts to the CSP, which has been in place since 2001.<sup>45</sup>

### **Responsibilities to Be Performed by Each Party Under Phase 1**

The Treasury-ED IAA specifies that, subject to available appropriations, ED will make payments to Treasury to cover the costs of Treasury’s services under the IAA. The IAA also contains a table delineating how Fiscal Service, FSA, and the DRG will “share collection responsibilities” and states that Fiscal Service and the DRG will work to identify a “detailed workflow to ensure a robust understanding of the roles and responsibilities of each party.”<sup>46</sup> Example responsibilities to be assigned to Fiscal Service, FSA, and the DRG include the following:

- **Fiscal Service** is to (1) develop form letters and send written communications to defaulted student loan borrowers; (2) refer student loan debts referred to the CSP to PCAs, to TOP, and to DOJ for litigation; (3) advise borrowers who believe they may be eligible for loan forgiveness or a defense to repayment<sup>47</sup>; (4) work with borrowers to develop payment plans for the purposes of resolving the default (e.g., for the purpose of loan rehabilitation); and (5) initiate AWG.

Fiscal Service may perform these tasks through its employees, through one or more contractors, through agreements with other federal agencies or Treasury offices, or through one or more fiscal agents.<sup>48</sup>

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<sup>40</sup> In general, defaulted student loan debts eligible for referral include only those that have been certified by ED as legally enforceable and that have no bars to collection. They exclude student loan debts subject to settlement agreements between ED and third parties, judgments, and other actions. Treasury-ED IAA, p. 14.

<sup>41</sup> Treasury-ED IAA, p. 6.

<sup>42</sup> Treasury-ED IAA, p. 6.

<sup>43</sup> Treasury-ED IAA, p. 6.

<sup>44</sup> Treasury-ED IAA, p. 13.

<sup>45</sup> Treasury-ED IAA, p. 7.

<sup>46</sup> Treasury-ED IAA, pp. 14-16.

<sup>47</sup> Generally, in a defense to repayment, a borrower’s liability to repay an eligible federal student loan is discharged if the borrower successfully asserts certain acts or omissions (e.g., misrepresentation) by the IHE for which the loan was borrowed that relates to the making of the loan.

<sup>48</sup> Treasury-ED IAA, p. 17.

- **FSA** is to (1) along with Fiscal Service, “address litigation resulting from student loan collection efforts”; (2) respond to congressional, media, and Freedom of Information Act requests; and (3) pay Fiscal Service fees relating to the cost of its services.<sup>49</sup>
- **The DRG**, under Treasury’s oversight, is to (1) “establish the existence of a debt” under 31 U.S.C. §3701(b)(1); (2) conduct skip-tracing activities; (3) provide borrowers with general due process notifications; (4) refer appropriate student loans to the CSP; (5) process, adjudicate, and approve or reject a borrower’s rehabilitation application as well as approve proposed repayment agreements; and (6) conduct credit bureau reporting.

### **Funding of Phase 1 Under the Treasury-ED IAA**

FSA incurs various costs in its efforts to collect on defaulted student loan debt. These costs can include, for example, fees paid to Fiscal Service for TOP and the costs of FSA employees and contractors. The HEA authorizes FSA to charge federal student loan borrowers collection costs associated with their defaulted loans.<sup>50</sup>

The IAA states that FSA will authorize Fiscal Service to “assess as costs on student loan debtors that have been referred to the [CSP] any reasonable amounts that Fiscal Services charges FSA.”<sup>51</sup> If collection costs exceed amounts that FSA “would like to have assessed on student loan debtors,” FSA is to provide instructions to Fiscal Service and is to be responsible for covering all collection costs, subject to appropriations.<sup>52</sup> The IAA states that Treasury will not commence or continue work under the IAA “in the absence of appropriate funding.”<sup>53</sup>

### **Duration of and Modifications to the Treasury-ED IAA**

The IAA stipulates that it is effective as of the date of the last signature of the agencies’ representatives and until terminated by the parties; it does not set forth a specific timeline for when any of the phases, including Phase 1, are to be implemented.<sup>54</sup>

Finally, the IAA states that Treasury and ED may modify the terms of the IAA, so long as the modifications are in writing and agreed to by both agencies.<sup>55</sup>

### **Implementation of Phase 1 of the Treasury-ED IAA**

The timing, steps, and resources needed to implement Phase 1 of the IAA are unspecified. However, ED and Treasury have taken some steps to define these aspects of Phase 1. On April 3, 2026, ED and Treasury signed a memorandum of understanding under which seven ED employees are to be detailed to Treasury, and two Treasury employees are to be detailed to ED.<sup>56</sup>

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<sup>49</sup> These three activities are the entirety of the activities FSA is to undertake as delineated in the interagency agreement (IAA) table.

<sup>50</sup> HEA, §484(b)(1). See also 34 C.F.R. §30.60.

<sup>51</sup> Treasury-ED IAA, p. 5.

<sup>52</sup> Treasury-ED IAA, p. 5.

<sup>53</sup> Treasury-ED IAA, p. 5.

<sup>54</sup> It is unclear what date this is, as no specific dates are listed next to the agencies’ representatives’ signatures. The IAA itself is dated March 19, 2026.

<sup>55</sup> Treasury-ED IAA, p. 17.

<sup>56</sup> Letter from Principal Deputy Assistant Secretary Mason Champion, U.S. Department of the Treasury, Office of Legislative Affairs, to Senator Elizabeth Warren April 16, 2026.

The seven ED employees to be detailed to Treasury are to manage the DRG, and their responsibilities during their detail include “continuing to manage day-to-day operations of FSA’s defaulted loan functions, as well as implementing a scaled transition of servicing [FSA’s] defaulted loans through Treasury’s Cross-Servicing program.”<sup>57</sup> The responsibilities of the Treasury employees to be detailed to ED include “supporting planning for migrating responsibilities to Treasury as appropriate and allowed by law.”<sup>58</sup>

Additionally, on March 20, 2026, Fiscal Service published a request for information to obtain industry input on a draft solicitation for so-called “default resolution agent” services to support Fiscal Service’s servicing of defaulted federal student loans.<sup>59</sup> Items on which Fiscal Service sought industry input include

- which potential contract bidders may be interested in and capable of servicing defaulted federal student loans (e.g., sending demand letters, performing skip-tracing, negotiating loan rehabilitation agreements, initiating AWG);
- factors and suggestions Fiscal Service might consider in establishing a compensation structure; and
- “insights related to defaulted student loan debt collection” that could be shared for consideration as Fiscal Service prepares its solicitation for default resolution agent services.<sup>60</sup>

The deadline for submitting responses was April 21, 2026.

## **Observations on Transitioning Servicing of Defaulted Federal Student Loans to Treasury**

ED and Treasury entered into the IAA “to promote innovation and process improvements in pursuit of more effective federal student aid administration.”<sup>61</sup> While the Administration maintains that Treasury is “well positioned to provide operational support” to ED’s management of the HEA Title IV federal student aid programs,<sup>62</sup> some opponents of the effort argue that “Treasury lacks expertise in the highly unique and complex federal student loan system” and that Fiscal Service may not be adequately staffed for the transition.<sup>63</sup>

This section provides some initial observations and issues Congress may consider regarding a transfer of defaulted federal student loan servicing to Treasury. In doing so, this section explores two factors: the potential volume of defaulted student loan debts to be serviced by Treasury and selected aspects of relevant Treasury experience in servicing delinquent debts. The textbox,

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<sup>57</sup> CRS communication with ED, April 20, 2026.

<sup>58</sup> CRS communication with ED, April 20, 2026.

<sup>59</sup> Treasury, “Debt Resolution Agency Services Education Debt,” Notice ID 2033H626N00002, March 20, 2026, <https://sam.gov/workspace/contract/opp/24f27159cea746dab2f8eaa19a55a2b7/view>.

<sup>60</sup> Treasury, “Debt Resolution Agency Services Education Debt,” pp. 1-2.

<sup>61</sup> Treasury-ED IAA, p. 1.

<sup>62</sup> ED and Treasury, “Fact Sheet,” p. 1.

<sup>63</sup> Letter from Sen. Elizabeth Warren, ranking member, Committee on Banking, Housing, and Urban Affairs et al., to Linda McMahon, Secretary of Education, and Scott Bessent, Secretary of the Treasury, April 1, 2026, [https://www.warren.senate.gov/imo/media/doc/letter\\_from\\_senator\\_warren\\_dems\\_to\\_education\\_department\\_and\\_treasury\\_department\\_on\\_treasury-ed\\_interagency\\_agreement.pdf](https://www.warren.senate.gov/imo/media/doc/letter_from_senator_warren_dems_to_education_department_and_treasury_department_on_treasury-ed_interagency_agreement.pdf). See also Michael C. Bender, “Student Loan Office to Leave the Education Department,” *New York Times*, March 19, 2026.

below, summarizes some additional factors that might impact federal agencies, including Fiscal Service’s capacity to service defaulted federal student loans. These factors are then discussed in more detail with respect to the loan volume to be serviced and Treasury’s previous experience in servicing defaulted federal student loans. This section does not attempt to compare and contrast Treasury’s capacity to service defaulted federal student loans with ED’s.

#### **Factors That May Impact Servicing of Defaulted Federal Student Loans**

- Number of defaulted loans
- Dollar amount of defaulted loans
- Number of borrowers with defaulted loans
- Borrower characteristics
- Complexity of a loan’s terms and conditions
- Expertise and experience in loan program administration
- Available systems and infrastructure

## **Volume of Debts to Be Serviced**

One way to conceptualize Treasury’s potential capacity to service defaulted federal student loans is to consider whether the transfer of such functions from ED to Treasury may significantly increase the volume of loans Fiscal Service may be tasked with servicing and, if so, whether such an increase might result in a larger workload for Fiscal Service. Concerns might be raised that such increases may strain Fiscal Service’s current infrastructure and systems and potentially require additional staff or resources to meet an increased workload. Such concerns may be based in part on the approximately 40% reduction in the number of Fiscal Service employees that occurred between September 2024 and February 2026.<sup>64</sup> Indications that Fiscal Service may plan to outsource certain aspects of its CSP functions might be a mitigating factor of such concerns.<sup>65</sup>

The Treasury Report on Receivables and Debt Collection Activities (TROR) is “the federal government’s primary means for collecting data on the status” of delinquent and nondelinquent debt owed to the United States.<sup>66</sup> Federal agencies are required to report a variety of data to Treasury to facilitate production of the TROR, including, for example, the number and dollar amount of debts owed to the agency, the status of such debts (e.g., whether they are delinquent and by how many days), and whether such debts are exempted from referral to the CSP.

**Table 2** shows the number and dollar amount of federal nontax debts referred to Treasury (or a designated debt collection center)<sup>67</sup> for cross-servicing and the number and dollar amount of

<sup>64</sup> Office of Personnel Management, Federal Workforce Data, “Workforce Size & Composition,” accessed April 24, 2026, <https://data.opm.gov/explore-data/analytics/workforce-size-and-composition>. This decrease in Fiscal Service employees is attributed, at least in part, to administrative actions intended to reduce the size of the federal workforce, such as a reduction in force.

<sup>65</sup> See Eric Katz, “Treasury eliminates offices and outsources work, with more layoffs coming,” *Government Executive*, April 10, 2025, <https://www.govexec.com/workforce/2025/04/treasury-eliminates-offices-and-outsources-work-more-layoffs-coming/404472/>.

<sup>66</sup> Treasury, “Treasury Report on Receivables (TROR): Introduction,” accessed April 1, 2026, <https://fiscaldata.treasury.gov/datasets/treasury-report-on-receivables/treasury-report-on-receivables-full-data>.

<sup>67</sup> The DCIA authorizes the Secretary of the Treasury (the Secretary) to designate executive departments and agencies as “debt collection centers.” At their discretion, the Secretary may refer federal nontax debt to such a debt collection center for “servicing, collection, compromise, or suspension or termination of collection action.” 31 U.S.C. §§3711(g)(3)-(4). Debts that are referred to a debt collection center are temporarily exempt from referral to Fiscal (continued...)

potentially eligible (generally, legally enforceable debt that is 180 days delinquent) loan debts attributed to ED that are exempted from the CSP by Treasury.

Phase 1 of the Treasury-ED IAA contemplates ED referring defaulted FSA federally held student loans to Treasury for cross-servicing. In general, federal student loans are considered to be in default after 270 days of nonpayment.<sup>68</sup> Thus, the estimates presented in **Table 2** likely overestimate the number and dollar amount of loans that could be transferred to Treasury for cross-servicing in Phase 1 of the IAA, as they include all debts that are at least 180 days delinquent.<sup>69</sup> That is, the column labeled “Department of Education Loan Debt Exempted from Cross-Servicing” in **Table 2** represents a potential upper limit of the number of amount of debts ED might immediately assign to Treasury for cross-servicing. Additionally, the estimates presented in **Table 2** may include debts owed under credit programs operated by ED other than HEA Title IV student loan programs; however, HEA Title IV student loans likely comprise the majority of the number and dollar amount of ED direct loans and defaulted guaranteed loans that are exempted from referral to the CSP.<sup>70</sup>

**Table 2. Federal Nontax Debts Referred for Fiscal Service Cross-Servicing and Department of Education Loan Debt Exempted from Fiscal Service Cross-Servicing**  
as of March 31, 2026

	Federal Nontax Debts Referred for Cross-Servicing by Fiscal Service <sup>a</sup>	Department of Education Loan Debt Exempted from Cross-Servicing <sup>b</sup>
Number	3,000,000	36,000,000
Amount	\$56,000,000,000	\$237,000,000,000

**Source:** CRS analysis of Treasury Report on Receivables, March 2026.

**Notes:** Debt means “any amount of funds or property that has been determined by an appropriate official of the Federal Government to be due to the United States by a person, organization, or entity other than another Federal agency, and which the Federal Government is entitled to receive immediately. The definition does not include tax debt.” U.S. Department of the Treasury (Treasury), Bureau of the Fiscal Service, *Instructional Workbook for Preparing the “Treasury Report on Receivables and Debt Collection Activities”: A Supplement to the Treasury Financial Manual Volume 1-Part 2-Chapter 4100*, updated November 2018, pp. 49-50.

a. Includes debt referred to a Treasury-designated collection center.

Service’s CSP. Treasury, Bureau of the Fiscal Service, *Instructional Workbook for Preparing the “Treasury Report on Receivables and Debt Collection Activities”: A Supplement to the Treasury Financial Manual Volume 1-Part 3-Chapter 5400*, updated November 2018, pp. 49-50.

<sup>68</sup> Although the Debt Collection Improvement Act requires agencies to refer debt to Treasury for cross-servicing when it is 180 days delinquent, ED has stated that because the HEA and implementing regulations “do not permit enforcement proceedings on such debt until default occurs (i.e., 270 days delinquent),” such debt is considered by Treasury to be ineligible for referral for cross-servicing “since such debt is not legally enforceable.” ED, FSA, “Treasury Report on Receivables Data Call Specifications for Non-Default Loan Servicers,” January 7, 2022.

<sup>69</sup> As of December 31, 2025, \$18.3 billion of FSA federally held student loans were 181-270 days delinquent. ED, FSA, Data Center, “Portfolio by Loan Status (DL, FFEL, ED-Held FFEL, ED-Owned),” FY2026 Q1, accessed May 5, 2026, <https://studentaid.gov/data-center/student/portfolio>.

<sup>70</sup> Approximately \$225.7 billion of FSA’s federally held student loans were delinquent for more than 180 days as of December 31, 2025. CRS analysis of ED, FSA, Data Center, “Portfolio by Loan Status (DL, FFEL, ED-Held FFEL, ED-Owned)” and “Portfolio by Delinquency Status (DL, ED-Held, ED-Owned),” FY2026 Q1, accessed May 5, 2026, <https://studentaid.gov/data-center/student/portfolio>.

- b. Includes all direct loans that are 180 days delinquent and defaulted guaranteed loans reported by the U.S. Department of Education (ED). It is unclear whether reported data include both consumer and commercial loans. Consumer loans are debts that were “originated for a personal activity,” including “loans made to an individual to attend and educational institution.” Commercial loans are those that were “originated for a business activity, regardless of whether the debtor is an individual or business.” (Treasury, Bureau of the Fiscal Service, *Instructional Workbook for Preparing the “Treasury Report on Receivables and Debt Collection Activities”*: A Supplement to the Treasury Financial Manual Volume 1-Part 2-Chapter 4100, p. 49). ED reported 25 delinquent commercial debts totaling about \$13 million as of March 31, 2026. (Treasury Report on Receivables, March 2026.)

**Table 2** indicates that should all of FSA’s Direct Loans that are 180 days delinquent and federally held defaulted guaranteed student loans be referred to the CSP, Fiscal Service could see an increase of approximately 36 million of delinquent debts and about \$237 million in the dollar amount of delinquent debts for which it may be responsible for servicing. While this would represent a large increase in the number and dollar amount of debts that may be referred to the CSP, it is unclear the extent to which such an increase could pose challenges for Fiscal Service.

Additionally, the TROR provides information on the number of discrete debts eligible for referral to the CSP but does not contain information on the number of individuals who owe such debts. Thus, it is possible that a single individual could have multiple delinquent debts, owed to one or more federal agencies, referred to Treasury for cross-servicing. Student loan borrowers often borrow multiple loans over the course of their postsecondary education (e.g., an individual may borrow one or more federal student loans in each academic year of their postsecondary education); thus, the number of ED debts exempted from cross-servicing does not represent the number of individuals whose debts are exempted from cross-servicing.<sup>71</sup>

The number of individuals whose defaulted debts would be serviced by Treasury may be an important factor in evaluating whether increased debt referrals from ED might strain Treasury’s capacity. Some tasks associated with servicing of defaulted debts do not necessarily require increased work as the number and dollar amount of an individual’s defaulted student loans increase. For example, in skip-tracing, a creditor or its agent attempts to locate a borrower whose contact information is no longer current. This could include contacting individuals identified in the borrower’s loan file and using national change of address search services. The creditor need not necessarily repeat skip-tracing steps for each individual loan owed by the same borrower.

Complexity of and agency experience with the terms and conditions of the debt to be collected also may impact Treasury’s capacity to service defaulted federal student loans, regardless of loan volume to be serviced. Some observers have argued that Treasury has experience with involuntary collection tactics, such as TOP, but is not well-versed in the resolution options available for federal student loans, such as loan rehabilitation.<sup>72</sup> Such a lack of expertise may make it difficult for Treasury to efficiently and accurately service defaulted federal student loans, though ED has indicated that it is working with Treasury to automate resolution procedures, which may mitigate efficiency concerns.<sup>73</sup>

The Treasury-ED IAA also contemplates a graduated approach to the referral of defaulted federally held student loan debt to Fiscal Service for cross-servicing. While the IAA does not

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<sup>71</sup> As of December 31, 2025, ED reported that 1.82 million student loan recipients were at least 180 days delinquent on their FSA federally held student loans and that 7.7 million student loan recipients were in default on their loans. ED, FSA, Data Center, “Portfolio by Loan Status (DL, FFEL, ED-Held FFEL, ED-Owned)” and “Portfolio by Delinquency Status (DL, ED-Held, ED-Owned),” FY2026 Q1, accessed May 5, 2026, <https://studentaid.gov/data-center/student/portfolio>.

<sup>72</sup> Rebecca Carballo, “Treasury’s first bite of a \$1.7T student loan headache,” *Politico*, April 25, 2026, <https://www.politico.com/news/2026/04/25/treasury-student-debt-education-00887826>.

<sup>73</sup> Carballo, “Treasury’s first bite of a \$1.7T student loan headache.”

provide details on this approach (e.g., it does not specify which types of federally held student loans or how many might be initially transferred to Treasury for cross-servicing), a phased approach to referral may enable Treasury to gradually gain experience in servicing defaulted federally held student loans before increasing the scope of future operations. Such an approach, as opposed to referring all defaulted federal student loans to Treasury at once, may position Treasury for greater success in servicing defaulted federal student loans.

## Selected Aspects of Relevant Treasury Experience in Servicing Delinquent Debts

Few evaluations of Treasury's collection of delinquent debts and the CSP are publicly available.<sup>74</sup> However, one such evaluation is directly relevant to Treasury's potential capabilities to service defaulted federal student loan debt.

In February 2015, Fiscal Service and FSA initiated a planned two-year pilot program to give Fiscal Service direct experience in servicing defaulted federal student loans usually serviced by FSA via its PCAs.<sup>75</sup> Under the pilot program, FSA referred to Fiscal Service for collection a generally representative sample of 16,242 defaulted federal student loans representing 5,729 borrowers with a balance of about \$80 million. Fiscal Service followed the processes and guidelines provided by FSA as if Fiscal Service were an FSA-contracted PCA and modified its processes to service the loans.

In 2016, after one year of the pilot program, Treasury published a report with initial findings. The findings showed that Fiscal Service was less successful than FSA-contracted PCAs in resolving or collecting on student loan debts. For example, Fiscal Service resolved 4.14% of loans referred to it, whereas FSA-contracted PCAs resolved 5.46% of loans in the study's control group.<sup>76</sup> The FSA-contracted PCAs had higher collection rates and recovery rates across all metrics evaluated in the report.<sup>77</sup>

Fiscal Service stated that it believed the differences in collection and recovery rates between the pilot and the control groups were driven by a number of factors, including the following:

- **Collections timing.** Fiscal Service "proceeded relatively slowly" through collection procedures, choosing to postpone the use of AWG for most borrowers for the first 11 months of the pilot program. It observed that issuance of AWG notice letters resulted in an increase in the volume of calls from borrowers to inquire about ways to avoid AWG and seemed to hypothesize that initiating AWG sooner in the pilot program might have resulted in higher collection and recovery rates.

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<sup>74</sup> For example, the most recent examination by GAO that directly addresses the topic identified by CRS was published in 2012. See GAO, *Debt Collection Improvement Act of Treasury's Centralized Efforts to Collect Delinquent Federal Nontax Debt*, GAO-12-870R.

<sup>75</sup> Treasury, *Report on Initial Observations from the Fiscal-Federal Student Aid Pilot for Servicing Defaulted Student Loan Debt*, July 2016, p. 1 (hereinafter Treasury, Fiscal Service-FSA Pilot Program Report).

<sup>76</sup> Student loan debts were considered resolved if the loan's outstanding balance was retired, the borrower rehabilitated or consolidated the loan, or an administrative resolution was completed. Treasury, Fiscal Service-FSA Pilot Program Report, pp. 3-4.

<sup>77</sup> The *collection rate* was defined as dollars collected divided by the balance of loans referred to Fiscal Service or an FSA-contracted PCA. The *recovery rate* was defined as the dollars collected plus the value of loans rehabilitated or consolidated divided by the balance of loans referred to Fiscal Service or an FSA-contracted PCA. Treasury, Fiscal Service-FSA Pilot Program Report, p. 4.

- **Call frequency.** Fiscal Service called borrowers in the pilot group no more than once per week, which was “likely less frequent than the standard practice of [FSA-contracted] PCAs,” but which allowed Fiscal Service’s call center agents to focus on borrower engagement and follow-up.
- **Different and additional collection tools used by PCAs.** FSA-contracted PCAs used customized tools, including different “systems designed to manage the ... borrower relationship required to complete the rehabilitation program and customized digital capabilities such as self-service portals” that supported student loan collections. Fiscal Service did not use such tools, as it had not needed them in the CSP, and the cost and time required to develop such tools were prohibitive for purposes of the pilot program.<sup>78</sup>

Fiscal Service observed that several other factors impact defaulted student loan collection compared with other federal debt collection. For example, Fiscal Service found that student loan borrowers were difficult to engage using Fiscal Service’s traditional contact methods—U.S. mail and telephone calls—as student loan borrowers provide the federal government with their contact information at the time they apply for a loan. In some instances, the contact information had changed, but borrowers had not provided updated information to FSA by the time a borrower’s loan defaulted. Fiscal Service also observed that the number and complexity of available voluntary debt resolution options (e.g., rehabilitation, consolidation) resulted in its calls to student loan borrowers being “materially longer” compared with calls regarding the other debts it services, that the student loan rehabilitation process is “difficult to complete,” and that student loan borrowers faced numerous challenges in transitioning from default to active repayment.<sup>79</sup>

Taken together, these initial findings from the pilot program may indicate that federal student loans are unlike other debts typically serviced by Fiscal Service, that student loan borrowers may exhibit unique characteristics compared with other federal debtors, and that, at the time, Fiscal Service’s general debt collection operations may not have been sufficiently tailored to address these unique products and borrowers.

As described in its initial findings report, after noting some of the issues confronting Fiscal Service in its servicing of defaulted federal student loans, Fiscal Service made or planned some operational changes to improve its performance. Although the pilot program was to end in December 2017, it concluded in October 2017, “due to Treasury implementing a new system.”<sup>80</sup> It is unclear whether a final report on the pilot program was completed; thus, final results from the program and information on Fiscal Service’s operational changes in light of their initial findings are unavailable.

Fiscal Service might leverage this previous experience and lessons learned to tailor its debt collection activities to the unique issues posed by the federal student loan portfolio. Doing so may result in its resolving or collecting defaulted federal student loans at a higher rate than under the

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<sup>78</sup> Treasury, Fiscal Service-FSA Pilot Program Report, pp. 4-5.

<sup>79</sup> For example, Fiscal Service observed that while borrowers who had rehabilitated their loans had the option of enrolling in an income-driven repayment plan (which may offer low monthly payments to borrowers after exiting default), the process to enroll in such a plan could be complex for borrowers to navigate (e.g., they were required to submit income documentation they had submitted previously to enter into a rehabilitation agreement). Treasury, Fiscal Service-FSA Pilot Program Report, pp. 5-8. ED recently published amendments to Direct Loan program regulations that might address some of these concerns. For example, the regulations are to enable ED to create “a single application for rehabilitation agreements for Direct Loans that also includes the option to sign up for an eligible [income-driven repayment plan].” ED, “Reimagining and Improving Student Education—Federal Student Loan Program Final Regulations,” 91 *Federal Register* 23777, May 1, 2026.

<sup>80</sup> CRS communication with ED, March 25, 2026.

pilot program. Additionally, student loan terms and conditions have changed since the pilot program in 2015, which may impact Treasury's servicing of defaulted federal student loans. For example, effective July 1, 2027, federal student loan borrowers would be permitted to rehabilitate their loans twice instead of once. The extended availability of this option may enable some borrowers to resolve their defaulted student loans more easily than before. Other developments in federal student loans may have the opposite effect. For example, following the years-long COVID-19-related policies and subsequent policies to curtail debt collections, some borrowers may have become disconnected from the student loan system, which may make engaging with them difficult.

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