



## IMPORTANT FACTS ABOUT THE ASSESSMENT OF COLLECTION COSTS

### 1. Did you know?

- When a student owes any amount to the school, college or university, the institution becomes a creditor. As a creditor attempting to collect non-federal debt, the institution must follow all consumer financial laws (state and federal) that limit or restrict assessment of collection costs which also **includes internal collection costs**.
- Non-federal debt includes student debt such as tuition, institutional loans, or account receivables.
- Collection costs must be specifically defined in the promissory note/financial agreement (electronic or signed) between the institution and the debtor, or the costs must be otherwise permitted by federal and/or state law. Further, collection costs include any charge or fine related to the collection of a debt, including internal collection costs placed by an institution.
- As a third-party collection agency, GRC may not attempt to collect an amount which is not accurate or cannot be validated. GRC must follow all federal and state laws.

### 2. The controlling law in the collection of non-federal debt is state law.

- The law that applies is the law of the consumer's state of residency at the time the institution or collection agency is attempting to collect the debt.
- Many states have specific laws limiting the amount of collection costs which may be assessed to a consumer who resides within the state.
- Schools may include a choice of law provision in their written agreements for student debt. **However**, the residency state is not required to adhere to the laws of another state and may enforce their specific state laws.

### 3. How does this affect my Institution?

- For non-federal accounts, (for example tuition, institutional loans or account receivables) collection costs will be determined by the provisions of the written financial agreement and also as permitted by the controlling state law.
- The controlling law is the state of residence of the consumer. Therefore, even with a written financial agreement, the institution may be limited in the amount of collection costs that may be assessed to the consumer.
- The following territories and states currently prohibit or limit the amount of collection costs being assessed:

California	North Carolina
Connecticut	North Dakota
Guam	Puerto Rico
Hawaii	South Carolina
Kansas	West Virginia
Louisiana	Wisconsin

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### Example #1 - Collection Costs Pre-Defined Cap (Consumer lives in KS)

The laws in the State of Kansas establish the maximum assessment of collection costs at 15% of the outstanding principal and interest balance.

The executed promissory note/written financial agreement must contain explicit language that permits the institution to assess collections costs. Once this requirement is met, then the consumer's state of residence at the time GRC is attempting to collect the non-federal debt on behalf of the institution establishes additional collection costs thresholds.

\$1,000.00	Principal (P) and interest (I) placed with agency for collection
<u>+150.00</u>	Collection costs – client assesses 25% but state limits to 15% assessed to the consumer based on the consumer's state of residency (15% of P & I)
\$1,150.00	Total balance placed for collection and paid in full
<u>(\$ 250.00)</u>	Agency commission rate is 25% of P + I (\$1,000 * 25%)
<u>§ 900.00</u>	Balance returned to the institution

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### Example #2 - Collection Costs Pre-Defined Cap (Consumer lives in CT)

The laws in the State of Connecticut establish the maximum assessment of collection costs at 15% of the outstanding principal and interest balance.

The executed promissory note/written financial agreement must contain explicit language that permits the institution to assess collections costs. Once this requirement is met, then the consumer's state of residence at the time GRC is attempting to collect the non-federal debt on behalf of the institution establishes additional collection costs thresholds.

\$1,000.00	Principal (P) and interest (I) placed with agency for collection
<u>+150.00</u>	Collection costs – client assesses 25% but state limits to 15% assessed to the consumer based on the consumer's state of residency (15% of P & I)
\$1,150.00	Total balance placed for collection and paid in full
<u>(\$ 250.00)</u>	Agency commission rate is 25% of P + I (\$1,000 * 25%)
<u>§ 900.00</u>	Balance returned to the institution

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### Example #3 - Removal of Collection Costs (Consumer moves into CT from CA)

Facts:

1. The laws in the State of California prohibit the assessment of collection costs;
2. The laws in the State of Connecticut contain a maximum assessment of collection costs at 15%;
3. The executed promissory note/written financial agreement contains explicit language that permits the institution to assess collection costs.

Therefore, the account activity would be as follows:

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\$1,000.00	Principal (P) and interest (I) placed with agency for collection
+ 0.00	Collection costs not assessed as prohibited by California
<u>+150.00</u>	Collection costs reassessed when consumer moves to Connecticut
\$1,150.00	Total balance placed for collection and paid in full
<u>(\$ 250.00)</u>	Agency commission rate is 25% of P + I (\$1,000 * 25%)
<u>\$ 900.00</u>	Balance returned to the institution

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#### Example #4 – Collection Costs Pre-Defined Cap (Consumer lives in WI and attended a State school in WI)

Facts:

1. Consumer's address is Wisconsin
2. Consumer attended a State School located in Wisconsin
3. Then, permissible to assess collection costs based upon the executed promissory note/written financial agreement which in this example contains explicit language that permits the institution to assess at the agency commission rate.

Therefore, the account activity would be as follows:

\$1,000.00	Principal (P) and interest (I) placed with agency for collection
<u>+250.00</u>	(25% of P + I)
\$1,250.00	Total balance placed for collection and paid in full
<u>(\$250.00)</u>	Agency commission rate is 25% of P + I (\$1,000 * 25%)
<u>\$1,000.00</u>	Balance returned to the institution

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#### Example #5 - Collection Costs Pre-Defined Cap (Consumer lives in WI & did *NOT* attend a State school in WI)

Facts:

1. Consumer's address is Wisconsin
2. Consumer did not attend a State School located in Wisconsin
3. School is not located in Wisconsin
4. The executed promissory note/written financial agreement contains explicit language that permits the institution to assess at the client's commission rate. However, the state of Wisconsin laws prohibit the assessment of collection costs

Therefore, the account activity would be as follows:

\$1,000.00	Principal (P) and interest (I) placed with agency for collection
<u>+ 0</u>	Collection costs not assessed as prohibited by Wisconsin
\$1,000.00	Total balance placed for collection and paid in full
<u>(\$250.00)</u>	Agency commission rate is 25% of P + I (\$1,000 * 25%)

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\$ 750.00 Balance returned to the institution

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Example #6 – Collection Costs Pre-Defined Cap (Consumer lives in WV and attended any school in WV)

Facts:

1. Consumer's address is West Virginia
2. School is located in West Virginia
3. Then, follow the executed promissory note/written financial agreement contains explicit language that permits the institution to assess at the agency commission rate.

Therefore, the account activity would be as follows:

\$1,000.00	Principal (P) and interest (I) placed with agency for collection
+ <u>250.00</u>	(25% of P + I)
\$1,250.00	Total balance placed for collection and paid in full
<u>(\$250.00)</u>	Agency commission rate is 25% of P + I (\$1,000 * 25%)
<u>\$1,000.00</u>	Balance returned to the institution

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Example #7 - Collection Costs Pre-Defined Cap (Consumer lives in WV and did NOT attend any school in WV)

Facts:

1. Consumer's address is West Virginia
2. School is not located in West Virginia
3. Then, the State of West Virginia prohibits the assessment of collection costs

Therefore, the account activity would be as follows:

\$1,000.00	Principal (P) and interest (I) placed with agency for collection
+ <u>0.00</u>	(25% of P + I)
\$1,000.00	Total balance placed for collection and paid in full
<u>(\$250.00)</u>	Agency commission rate is 25% of P + I (\$1,000 * 25%)
<u>\$ 750.00</u>	Balance returned to the institution



## Why are you providing this information to my institution now?

- As you have undoubtedly observed, there has been a change in the regulatory climate in which all financial institutions operate. In order to both ensure our utmost compliance with such regulations and to limit the risk of regulatory action or litigation directed at our clients and ourselves, we have upgraded our processes to ensure our clients are compliant in our joint recovery endeavors.

## So what do I have to do?

- You must ensure your written promissory notes/financial agreements contain specific terms and conditions for the assessment of collection costs. You will continue to acknowledge your assessment through the account placement process.
- At the time of account placement, GRC will also evaluate the collection cost laws in conjunction with your account placement attestation along with the consumer's state of residence.
- The Placement Acknowledgement will reflect the addition or removal of these collection costs. This will enable you to validate the accuracy of these assessed collection costs on your behalf.
- As your consumers change their state of residence, you must re-evaluate and apply the specific collection costs requirements for that particular state.

## What happens to my current inventory?

- GRC will assist you in adjusting the assessment of collection costs as we are notified of a consumer's change of address. Once the consumer's state of residency changes and is validated, then all subsequent payments will be applied per the new state of residence.
- **As we are notified that a consumer moves from state to state, the collection costs will be adjusted as necessary.**
- As adjustments are made to the consumer's account, GRC will promptly send a report which will identify the impacted accounts. **You will need to add or remove collection costs on the impacted accounts in your system of record and/or Billing Service to reconcile your balance.**

**These documents are not to be construed as legal advice; please be sure to consult with your legal counsel regarding this matter.**

If there are additional questions, you may contact your Client Services Representative.