

APPENDIX E. INTEREST, PENALTIES, AND ADMINISTRATIVE CHARGES

- E.1 Interest, administrative charges, and penalties will be assessed on all overdue payments, except as otherwise provided in 14 CFR 1261.412(g), (h), and (i) or a specific statute.
- E.1.1 Interest, Administrative Charges, and Penalties. Interest is assessed on principal only, not on interest, administrative charges, and penalties, except when a debtor has defaulted on a previous repayment agreement or a judgment has been obtained, in which case, interest shall be applied to the outstanding amount of unpaid interest, principal and related administrative charges. The minimum annual rate of interest to be charged is established by Treasury as an average of the current value of funds to Treasury and is published in the Federal Register each year by October 31, with an effective date of January 1. If revised, the new rate will be published in a Treasury Financial Management (TFM) Bulletin on or around the end of the first month of the calendar quarter, and is to be applied to overdue payments arising during the succeeding calendar quarter. The current rate may be obtained from the TFM Service's web site. Interest shall accrue from the date on which a notice of the debt and the interest requirements is first mailed or hand delivered to the debtor, using the most current address available. If a bill is mailed before the debt is actually due, it should include the required notification, and interest may not start to accrue before the debt is actually owed. A higher rate of interest may be assessed if a determination has been made that a higher rate is necessary to protect the U.S. Government. The assessed rate will remain fixed for the duration of the indebtedness, unless a different rate is prescribed in an agreed-to repayment schedule.
- E.1.2 Administrative Charges. Administrative charges should cover the additional costs incurred in processing and handling delinquent debts. The amount charged should be based on actual costs incurred or on cost analyses, which established average actual additional costs. Centers shall determine the average cost of collecting delinquent accounts by identifying Center direct and indirect costs incurred in collecting debts from the time they become delinquent until the time collections are made or agency collection efforts cease. For those accounts that are successfully litigated, the Department of Justice post-judgment cost should be determined separately and added to the average cost of collection previously determined. Center costs incurred prior to an account becoming delinquent should not be included in the fee determination since there is no statutory authority to recover these costs.
- E.1.3 Penalty Charges. The penalty charge, not to exceed 6 percent per annum, will be assessed on any portion of a debt more than 90 days delinquent, including any interest and administrative costs, unless such charges are specific. The penalty charge will accrue from the date that the debt became delinquent. All charges for late payment will accrue until final payment is received. Penalty payments shall be assessed unless a statute, regulation required by a statute, loan agreement, or contract prohibits charging interest, or assessing charges, or explicitly fixes the interest rate or charges. Penalty

payments shall be reported to the Internal Revenue Service to ensure that debtors are prevented from using such penalty payments as a business expense, thereby reducing their tax liability. Amounts received as partial or installment payments will be applied first to accrued penalties, then to accrued administrative charges, then to accrued interest, and finally to the principal, unless otherwise provided in a statute or regulation.