

STATE OF CALIFORNIA

KATHLEEN CONNELL,  
CONTROLLER OF CALIFORNIA

---

OFFICE OF STATE CONTROLLER  
PERSONNEL/PAYROLL SERVICES DIVISION  
300-Capitol Mall  
P.O. Box 942850  
Sacramento, CA 94250-5878

Date: May 16, 2000

PAYROLL LETTER # 00-007

To: All Agencies/Campuses in the Uniform State Payroll System

From: Ralph Zentner, Chief  
Personnel/Payroll Operations Bureau

Re: NEW GARNISHMENT DEDUCTION ORGANIZATION CODE

This Payroll Letter is to announce the establishment of a new garnishment Deduction/Organization Code, 339-008, that will identify and automatically compute and withhold 10% of disposable earnings for Defaulted Student Loan garnishments issued by collection agencies.

#### BACKGROUND

If a student loan authorized under the Higher Education Act of 1965: 20 U.S.C. Section 1095a becomes delinquent, the loan is turned over to the U.S. Department of Education or the California Student Aid Commission. If the student loan is not able to be recovered, the U.S. Department of Education and the California Student Aid Commission are authorized to turn collection of the loan over to a collection agency.

#### CURRENT PROCESS

Defaulted Student Loans are currently processed as Deduction/Organization Code 339-007. The withholding amount is calculated by the agency/campus at 10% of disposable earnings unless the employee provides written consent to withhold a higher amount.

An Earnings Withholding Order (EWO) for an Ordinary Money Judgement is also processed as Deduction/Organization Code 339-007. A Defaulted Student Loan can be simultaneously withheld with an EWO for an Ordinary Money Judgement as long as the total amount withheld does not exceed 25% of disposable earnings. With both garnishments applied as Deduction/Organization Code 339-007, the payroll system is unable to withhold both simultaneously as separate deductions. As a result, the agency/campus must request a single withhold amount and remit the proper amount to each levying officer.

#### NEW PROCESS

Effective with the May 2000 pay period, Defaulted Student Loans should be processed as Deduction/Organization Code 339-008. The payroll system will automatically compute 10% of

disposable earnings, unless a specific amount is entered on Salary Garnishment, STD. 639. A Defaulted Student Loan and an EWO for an Ordinary Money Judgement may be simultaneously withheld within the payroll system as long as the amount to withhold does not exceed 25% of disposable earnings.

The priority order for withholding garnishments is based on the effective date. For example, if the effective date for the Defaulted Student Loan is May 16, 2000, and the effective date for the EWO for an Ordinary Money Judgement is May 20, 2000, and both are established as a percentage amount to withhold, the payroll system will withhold 10% for the Defaulted Student Loan and 15% for the EWO for an Ordinary Money Judgement. If the effective date of the EWO for an Ordinary Money Judgement is May 16, 2000, and the effective date for the Defaulted Student Loan is May 20, 2000, and both are established as a percentage amount to withhold, the payroll system will withhold 25% for the EWO for an Ordinary Money Judgement and nothing will be withheld for the Defaulted Student Loan. If both garnishments are established for a specific amount to be withheld, the payroll system will withhold the amount entered in section 11D on Salary Garnishment, STD. 639.

Our procedures do not permit a Defaulted Student Loan and an EWO for an Ordinary Money Judgement to have the same effective date and permits only one Defaulted Student Loan to be established at a time. (NOTE: The State Controller's Office is currently determining if more than one Defaulted Student Loan may be established at a time and will notify agencies/campuses if any changes are necessary to established procedures). In addition, a Defaulted Student Loan and an EWO for an Ordinary Money Judgement may not be withheld at the same time as an EWO for taxes. Please refer to the Payroll Procedures Manual or Payroll Letter 96-01, for background information and instructions to assist in complying with CCP 706.023.

The Defaulted Student Loan will be identified on the earnings statement as "DEFSTUDLOAN" and will not be subject to the \$1.00 administrative fee. The Defaulted Student Loan will be automatically withheld from all payments except, Payment Types 4, 6, I, K, N, P, and T.

#### FORM COMPLETION

When submitting Salary Garnishment, STD. 639 for a Defaulted Student Loan issued from a collection agency, highlight "Federally Guaranteed Student Loan Higher Education Act of 1965: 20 USCA Section 1095a" in section 8E and check the corresponding box if the amount to be withheld is 10% of disposable earnings and enter the total amount of the garnishment in column 9. If a specific amount is to be withheld, complete section 11D. If faxed, circle "Federally Guaranteed Student Loan Higher Education Act of 1965: 20 USCA Section 1095a". Highlighting or circling the above reference statement will identify this as a Defaulted Student Loan to the State Controller's Office.

If a Defaulted Student Loan has been established in the payroll system as Deduction/Organization Code 339-007, it must be re-established as Deduction/Organization Code 339-008. To re-establish it as Deduction/Organization Code 339-008, submit one Salary Garnishment, STD. 639 to cancel the Deduction/Organization Code 339-007, and submit a Salary Garnishment, STD. 639 to establish a Deduction/Organization Code 339-008. When re-establishing the Defaulted Student Loan as Deduction/Organization Code 339/008, it is important that the correct balance amount remaining to satisfy the garnishment be entered on Salary Garnishment, STD. 639. This is necessary to prevent under or over withholding.

A new Salary Garnishment STD. 639 with a specific section for Defaulted Student Loans will be issued in the coming months.

#### CONTACTS

Revisions to the Payroll Procedures Manual are forthcoming. Please use the following contacts for assistance.

Payroll Letter	(916) 327-3926
Lynn Black	CALNET 427-3926

Document Processing	(916) 323-0553
Garnishment Unit	CALNET 473-0553

RZ:LB/PMAB