

GAO

Fact Sheet for Congressional
Requesters

October 1989

**SUPPLEMENTAL
STUDENT LOANS**

**Who Borrows and
Who Defaults**





United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-237438

October 17, 1989

The Honorable Edward M. Kennedy
Chairman, Committee on Labor
and Human Resources
United States Senate

The Honorable Pat Williams
Chairman, Subcommittee on Postsecondary
Education
Committee on Education and Labor
House of Representatives

This report responds to your request for information on the Supplemental Loans for Students (SLS) program. This program provides market rate loans to postsecondary students in addition to, or in lieu of, other financial aid, such as Stafford loans (formerly called guaranteed student loans) and Pell grants. This information should be useful in deciding whether changes in student eligibility provisions for the SLS program should be included in the fiscal year 1990 budget reconciliation act. Specifically, you requested data on the volume of loans made to students attending proprietary (trade) schools and other postsecondary education institutions as well as information on the extent of borrowing by freshmen¹ as opposed to students in their second or a subsequent year of schooling. In addition, you wanted to know the amount of SLS defaulted loans.

On October 5, 1989, we briefed your offices on the preliminary results of our analysis. This fact sheet summarizes the information provided.

Background

Loans under the SLS program are made by a lender, such as a bank, credit union, or savings and loan association. Before students can receive an SLS loan, their schools must first determine their eligibility for a Stafford loan and/or Pell grant, both of which have more stringent eligibility requirements. If students are eligible for aid from either or both of these programs, it is intended they should first receive that assistance, which may reduce the amount they can borrow under the SLS program.

¹Many proprietary student borrowers go to schools with programs of instruction of 1 year or less and would, therefore, be classified as freshmen.

guaranteed. For example, the 1989 default data for these two agencies represent the number and dollar volume of SLS loans guaranteed in 1989 that also entered default status during fiscal year 1989. As a result, these agencies' default statistics are understated because they exclude SLS loans guaranteed in previous years that defaulted in fiscal year 1989.

The 1989 data we received do not include activity for the full fiscal year because most of the agencies responded before the end of the year. As agreed with your offices, we will obtain these agencies' complete fiscal year 1989 data and provide these more comprehensive figures at a later date.

Loan Volume

Over \$3.2 billion in SLS loans were guaranteed by the nine guaranty agencies during the last 3 years. In addition:

- Loan volume went from \$564 million in fiscal year 1987 to \$1.347 billion in 1988, and dropped slightly to \$1.294 billion in 1989.
- The amount of loans to freshmen borrowers increased from 40 percent of SLS loans in fiscal year 1987 to about 63 percent in fiscal year 1989. During that same period, loan volume to proprietary school borrowers increased from 55 percent to about 60 percent.

Appendix II contains further detail on the loan volume activity.

Loan Defaults

The nine agencies reported that students have defaulted on \$310.6 million in SLS loans during the 3-year period. In addition:

- Loan defaults increased from \$14 million in fiscal year 1987 to \$50 million in 1988, and to \$247 million in 1989.
- Loan defaults from freshmen borrowers increased from 12 percent of all defaults in 1987 to 85 percent in 1989. Similarly, defaults from proprietary school borrowers increased from 12 percent of SLS loan defaults in 1987 to 86 percent in 1989.

Appendix III contains further detail on the loan default activity.

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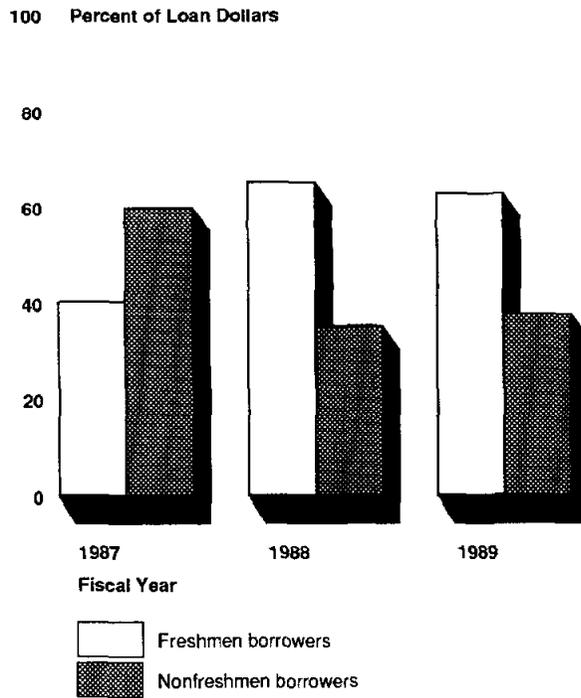
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Abbreviations

GAO	General Accounting Office
SLS	Supplemental Loans for Students

SLS Loan Volume Activity

Figure II.I: Majority of SLS Loan Volume Is for Freshmen Borrowers



Appendix II
SLS Loan Volume Activity

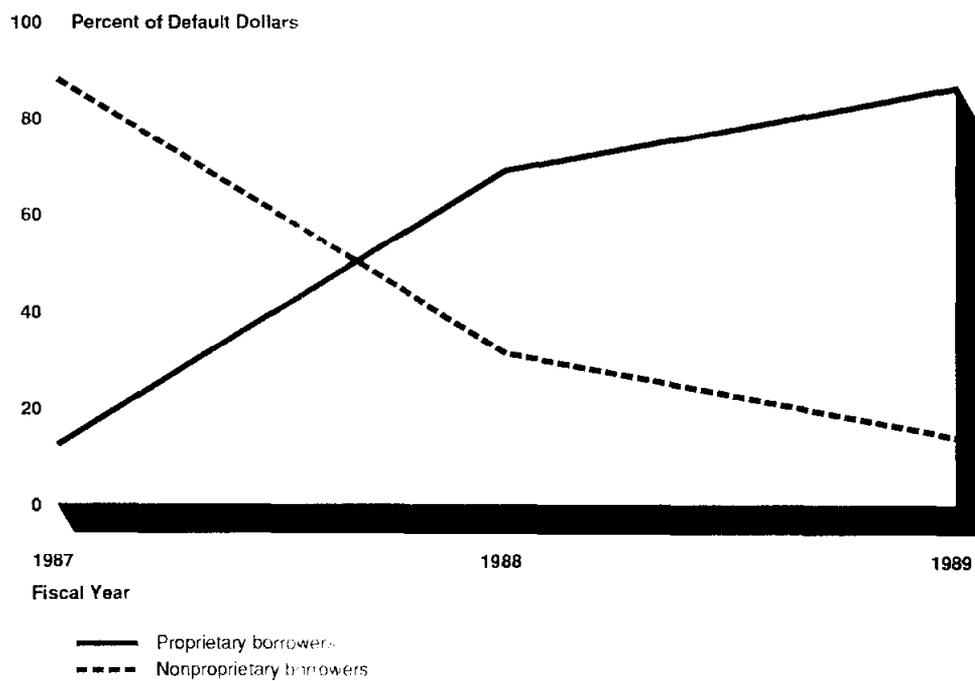
Table II.1: SLS Loan Volume for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989)^a

Fiscal year 1987	Proprietary schools		Nonproprietary schools		Total dollars
	Dollars	Percent	Dollars	Percent	
Freshmen	\$193,506,248	34.30	\$33,312,387	5.90	\$226,818,635
Nonfreshmen	117,412,208	20.81	219,918,122	38.98	337,330,330
Totals	310,918,456	55.11	253,230,509	44.89	564,148,965
Fiscal year 1988					
Freshmen	778,389,910	57.77	98,392,674	7.30	876,782,584
Nonfreshmen	85,602,996	6.35	384,983,882	28.57	470,586,878
Totals	863,992,906	64.12	483,376,556	35.88	1,347,369,462
Fiscal year 1989					
Freshmen	706,034,143	54.55	103,441,082	7.99	809,475,225
Nonfreshmen	64,004,730	4.95	420,797,829	32.51	484,802,559
Totals	770,038,873	59.50	524,238,911	40.50	1,294,277,784
Grand totals for 1987-89					
Freshmen	1,677,930,301	52.34	235,146,143	7.34	1,913,076,444
Nonfreshmen	267,019,934	8.33	1,025,699,833	32.00	1,292,719,767
Grand totals	\$1,944,950,235	60.67	\$1,260,845,976	39.33	\$3,205,796,211

^aThe percentages are computed by dividing the individual dollar amounts for proprietary and nonproprietary borrowers by the total dollar volume

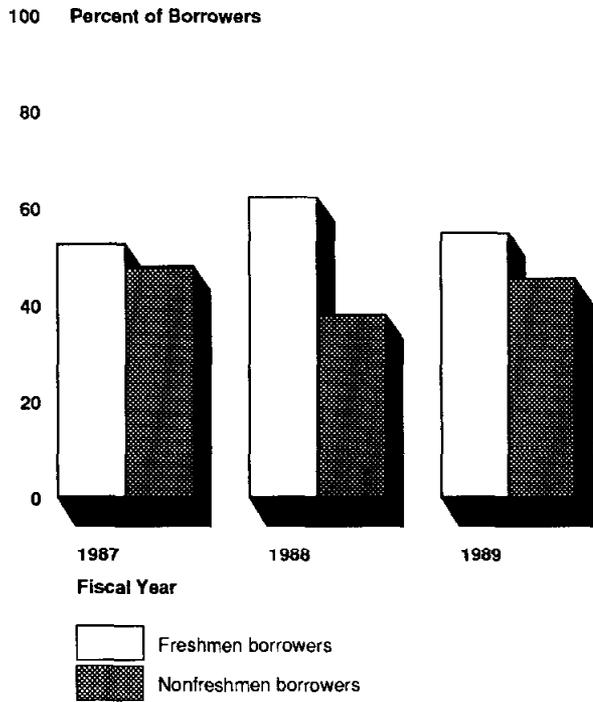
Appendix III
SLS Loan Default Activity

Figure III.2: Defaults From Proprietary School Borrowers Have Increased Significantly



Borrowers Who Received Only SLS Loans

Figure IV.1: Majority of SLS Only Borrowers Are Freshmen



**Appendix IV
Borrowers Who Received Only SLS Loans**

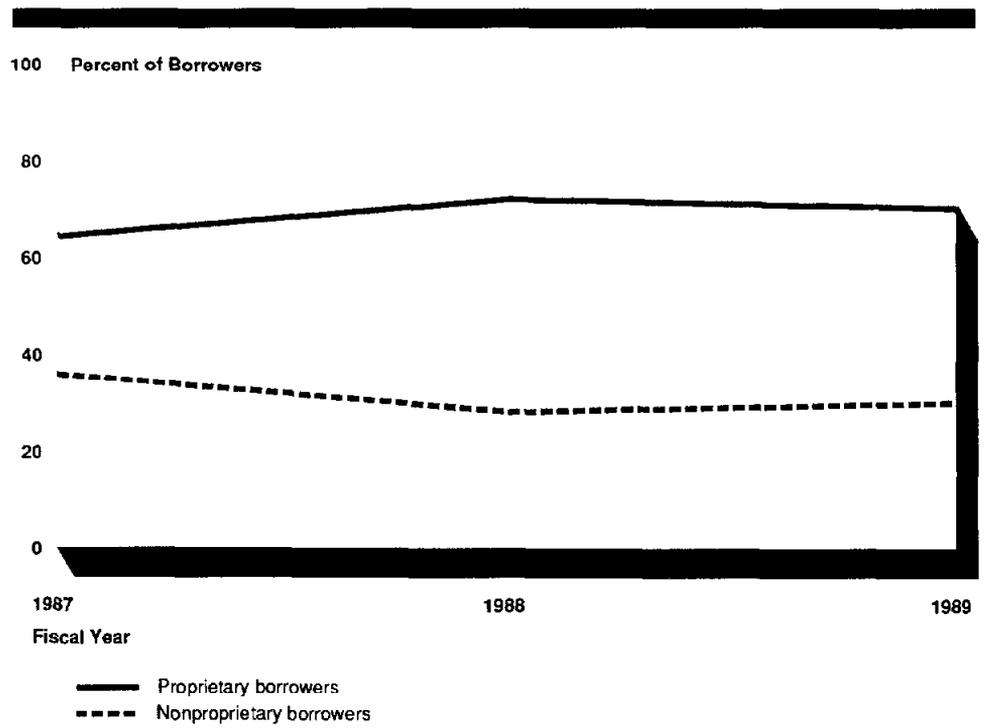
Table IV.1: SLS Only Borrowers for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989)^a

Fiscal year 1987	Proprietary schools		Nonproprietary schools		Total students
	Students	Percent	Students	Percent	
Freshmen	42,455	44.75	7,137	7.52	49,592
Nonfreshmen	6,798	7.17	38,480	40.56	45,278
Totals	49,253	51.92	45,617	48.08	94,870
Fiscal year 1988					
Freshmen	104,147	53.07	17,750	9.04	121,897
Nonfreshmen	17,863	9.10	56,486	28.78	74,349
Totals	122,010	62.17	74,236	37.83	196,246
Fiscal year 1989					
Freshmen	55,288	43.09	14,951	11.65	70,239
Nonfreshmen	8,271	6.45	49,808	38.82	58,079
Totals	63,559	49.53	64,759	50.47	128,318
Grand totals for 1987-89					
Freshmen	201,890	48.13	39,838	9.50	241,728
Nonfreshmen	32,932	7.85	144,774	34.52	177,706
Grand totals	234,822	55.99	184,612	44.01	419,434

^aThe percentages are computed by dividing the individual number of students for proprietary and non-proprietary schools by the total number of students. In addition, the total number of students may be a duplicated count because a student could have received an SLS loan in one or more years.

Appendix V
Borrowers Who Received SLS and
Stafford Loans

Figure V.2: Majority of SLS and Stafford
Loan Borrowers Attend Proprietary
Schools



**Appendix V
Borrowers Who Received SLS and
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Table V.1: SLS and Stafford Loan Borrowers for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989)^a

Fiscal year 1987	Proprietary schools		Nonproprietary schools		Total students
	Students	Percent	Students	Percent	
Freshmen	52,763	56.60	5,161	5.54	57,924
Nonfreshmen	7,051	7.56	28,242	30.30	35,293
Totals	59,814	64.17	33,403	35.83	93,217
Fiscal year 1988					
Freshmen	161,208	64.02	16,895	6.71	178,103
Nonfreshmen	19,723	7.83	53,967	21.43	73,690
Totals	180,931	71.86	70,862	28.14	251,793
Fiscal year 1989					
Freshmen	206,332	62.82	23,089	7.03	229,421
Nonfreshmen	23,496	7.15	75,531	23.00	99,027
Totals	229,828	69.97	98,620	30.03	328,448
Grand totals for 1987-89					
Freshmen	420,303	62.41	45,145	6.70	465,448
Nonfreshmen	50,270	7.46	157,740	23.42	208,010
Grand totals	470,573	69.87	202,885	30.13	673,458

^aThe percentages are computed by dividing the individual number of students for proprietary and non-proprietary schools by the total number of students. In addition, the total number of students may be a duplicated count because a student could have received an SLS and Stafford loan in one or more years.

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Related GAO Products

Guaranteed Student Loans: Comparisons of Single State and Multistate Guaranty Agencies (GAO/HRD-89-92, July 11, 1989).

Guaranteed Student Loans: Analysis of Student Default Rates at 7,800 Postsecondary Schools (GAO/HRD-89-63BR, July 5, 1989).

Guaranteed Student Loans: Lenders' Interest Billings Often Result in Overpayments (GAO/HRD-88-72, Aug. 31, 1988).

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO/HRD-88-112BR, June 14, 1988).

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, Feb. 2, 1988)

Guaranteed Student Loans: Potential Default and Cost Reduction Options (GAO/HRD-88-52BR, Jan. 7, 1988).

Guaranteed Student Loans: Analysis of Insurance Premiums Charged by Guaranty Agencies (GAO/HRD-88-16BR, Oct. 7, 1987).

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs (GAO/HRD-87-76, Sept. 30, 1987).

Defaulted Student Loans: Private Lender Collection Efforts Often Inadequate (GAO/HRD-87-48, Aug. 20, 1987).

Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures (GAO/HRD-86-111BR, July 17, 1986).

Major Contributors to This Report

Human Resources Division, Washington, D.C.

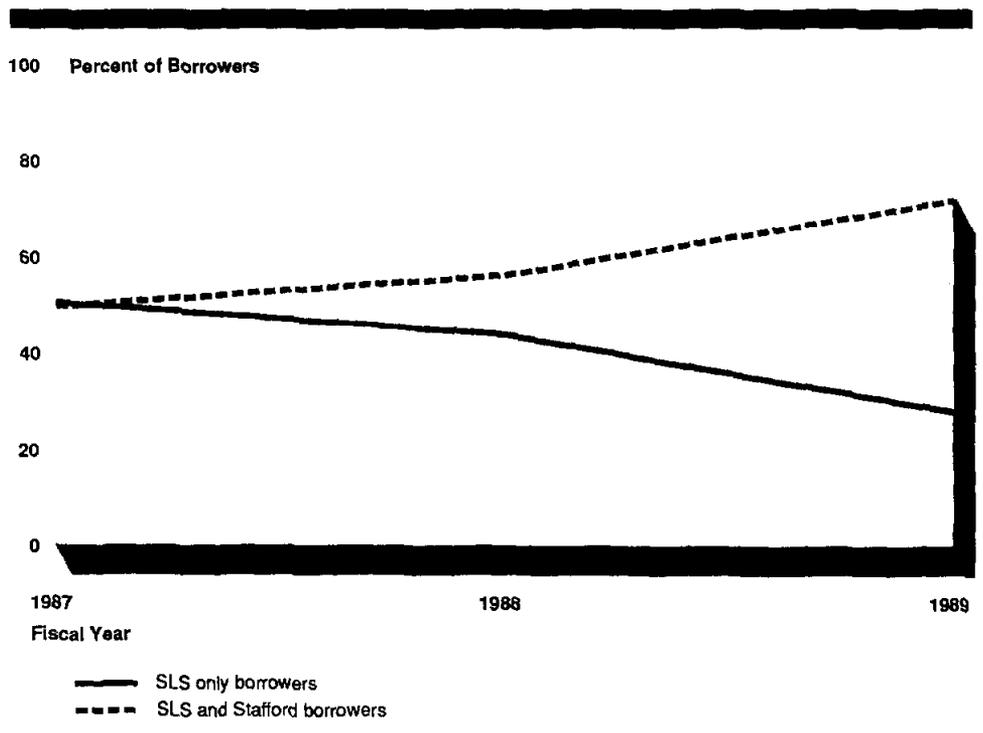
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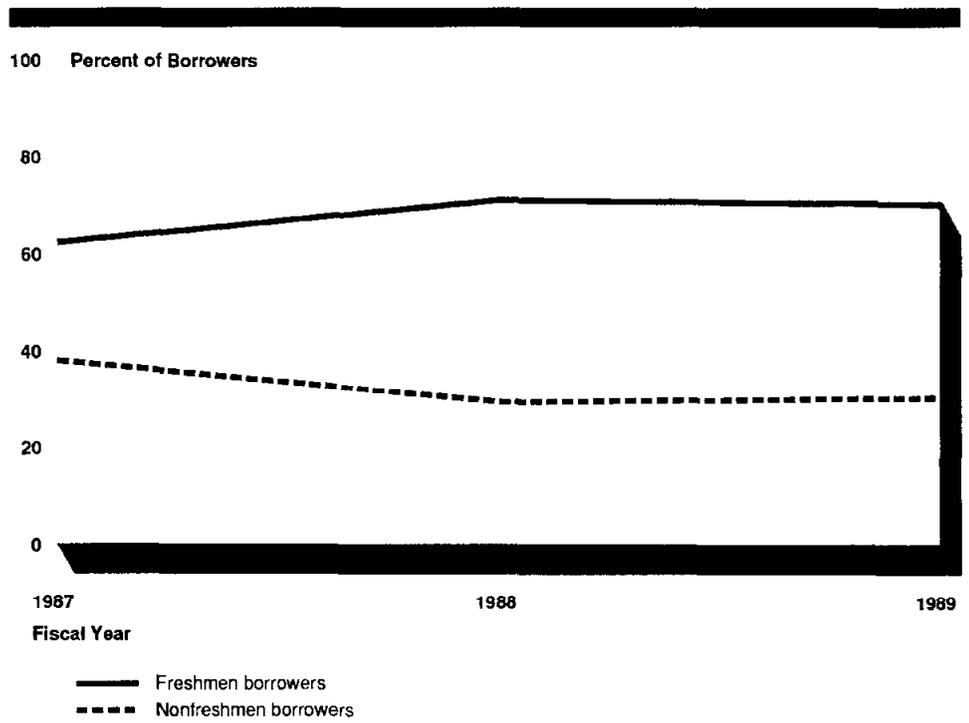
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Borrowers Who Received SLS and
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Figure V.3: Most Borrowers Are
Receiving Both SLS and Stafford Loans



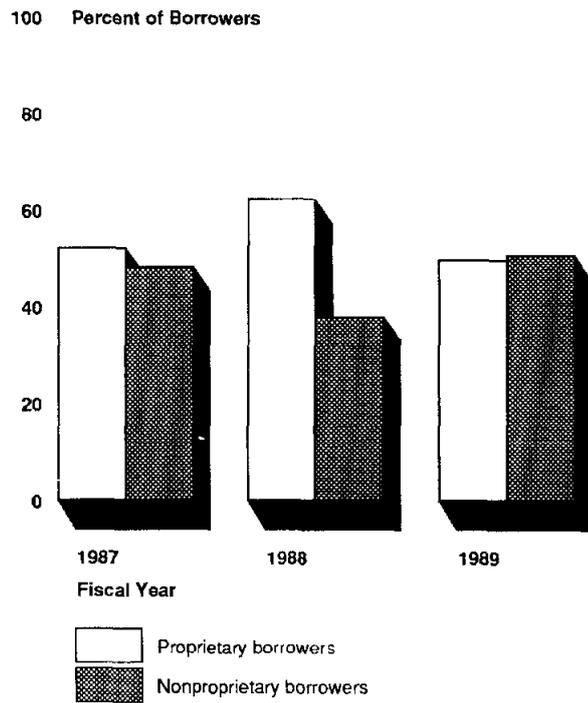
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Figure V.1: Majority of SLS and Stafford Loan Borrowers Are Freshmen



Appendix IV
Borrowers Who Received Only SLS Loans

Figure IV.2: More SLS Only Borrowers
Are Now Attending Nonproprietary
Schools



**Appendix III
SLS Loan Default Activity**

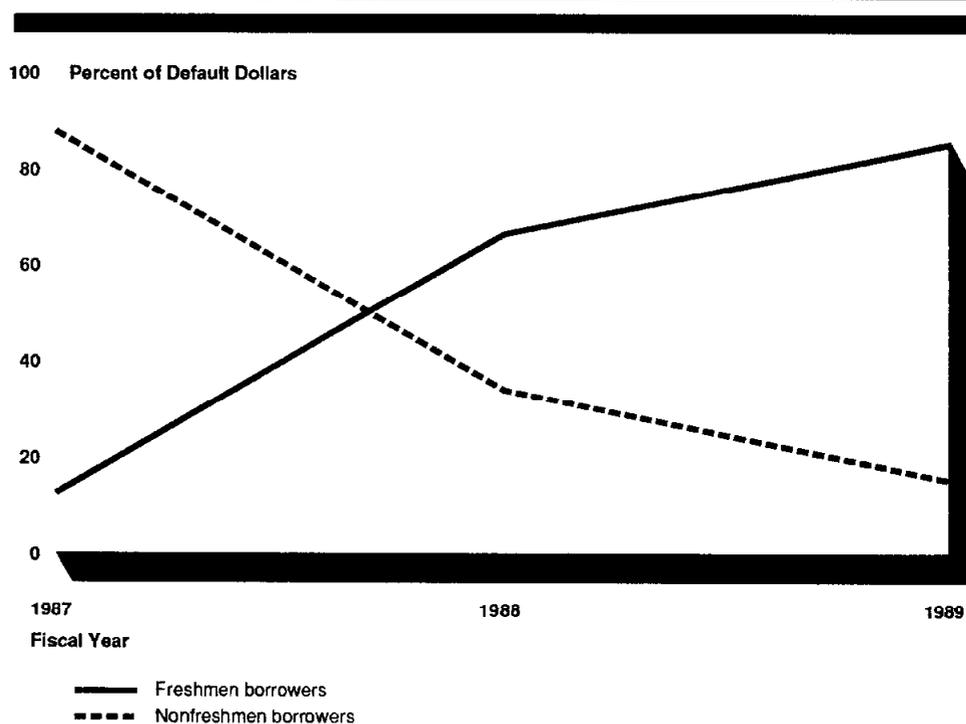
Table III.1: SLS Loan Defaults for Nine Guaranty Agencies (Fiscal Years 1987, 1988, and 1989)^a

Fiscal year 1987	Proprietary schools		Nonproprietary schools		Total dollars
	Dollars	Percent	Dollars	Percent	
Freshmen	\$1,329,132	9.64	\$378,923	2.75	\$1,708,055
Nonfreshmen	358,763	2.60	11,714,123	85.00	12,072,886
Totals	1,687,895	12.25	12,093,046	87.75	13,780,941
Fiscal year 1988					
Freshmen	30,423,151	60.64	2,824,296	5.63	33,247,447
Nonfreshmen	4,082,848	8.14	12,837,598	25.59	16,920,446
Totals	34,505,999	68.78	15,661,894	31.22	50,167,893
Fiscal year 1989					
Freshmen	196,806,671	79.80	12,634,613	5.12	209,441,284
Nonfreshmen	15,434,079	6.26	21,756,299	8.82	37,190,378
Totals	212,240,750	86.06	34,390,912	13.94	246,631,662
Grand totals for 1987-89					
Freshmen	228,558,954	73.59	15,837,832	5.10	244,396,786
Nonfreshmen	19,875,690	6.40	46,308,020	14.91	66,183,710
Grand totals	\$248,434,644	79.99	\$62,145,852	20.01	\$310,580,496

^aThe percentages are computed by dividing the individual dollar amounts for proprietary and nonproprietary borrowers by the total dollar volume

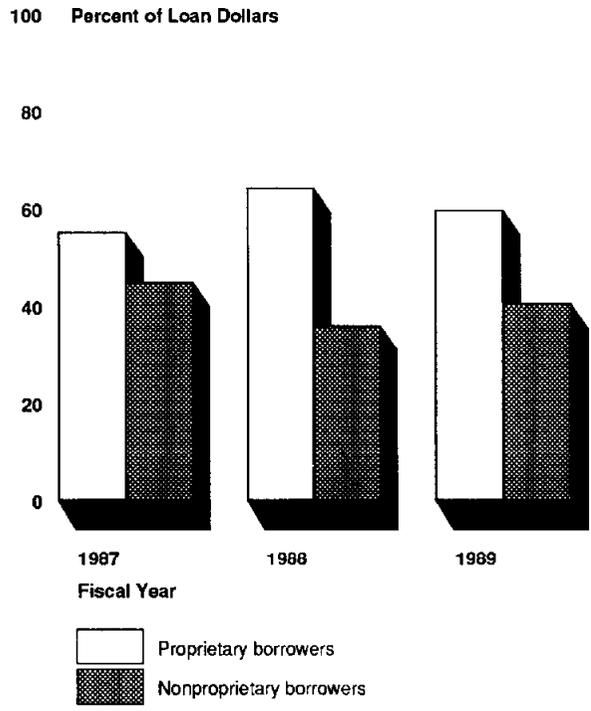
SLS Loan Default Activity

Figure III.1: Defaults From Freshmen Borrowers Have Increased Significantly



Appendix II
SLS Loan Volume Activity

Figure II.2: Majority of SLS Loan Volume Is for Proprietary School Borrowers



Eleven Largest Guarantors of SLS Loans in Fiscal Year 1988

Guaranty agency	SLS loan volume
Higher Education Assistance Foundation, St. Paul, Minnesota	\$937,122,706
United Student Aid Funds, Inc., Indianapolis, Indiana	232,255,974
California Student Aid Commission, Sacramento, California	212,014,509
New York State Higher Education Services Corporation, Albany, New York	144,147,946
Texas Guaranteed Student Loan Corporation, Austin, Texas	125,113,255
Nebraska Student Loan Program, Inc., Lincoln, Nebraska	67,846,658
Colorado Student Loan Program, Denver, Colorado	33,639,805
Pennsylvania Higher Education Assistance Agency, Harrisburg, Pennsylvania	25,745,684
Ohio Student Loan Commission, Columbus, Ohio	24,014,467
Great Lakes Higher Education Corporation, Madison, Wisconsin	21,204,075
Massachusetts Higher Education Assistance Corporation, Boston, Massachusetts	18,578,487
Total	\$1,841,683,566

Source: FY 1988 Guaranteed Student Loan Programs Data Book, Department of Education.

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Students With SLS Loans Only

There were 419,434 student borrowers who received only SLS loans during the 3 years compared to 673,458 who received both SLS and Stafford loans. Comparisons also showed that:

- From fiscal year 1987 to fiscal year 1989, the number of students receiving only an SLS loan increased from 94,870 to 128,318, while the number receiving both SLS and Stafford loans increased from 93,217 to 328,448.
- Almost 70 percent of the students receiving both kinds of loans in 1989 were freshmen, and 9 out of 10 of these freshmen attended proprietary schools.

Appendixes IV and V contain further detail on which borrowers received only SLS loans or both SLS and Stafford loans, respectively.

As agreed with your offices, we did not obtain written comments on this report from the Department of Education or other interested parties. We are sending copies of this report to other congressional committees, the Department of Education, and other interested parties. Should you wish to discuss its contents, please call me on 275-5365. Major contributors to this report are listed in appendix VI.



William J. Gainer
Director, Education
and Employment Issues

Under the SLS program, graduate and certain undergraduate students (generally those responsible for their own financial support) may borrow up to \$4,000 per year, to a maximum of \$20,000. Eligibility for SLS loans, in comparison to Stafford loans and Pell grants, is not based on a borrower's financial resources. SLS loans have variable interest rates, adjusted annually to take into account changes in Department of the Treasury borrowing rates. For the 1988-89 award year the interest rate was 10.45 percent. Repayment of these loans must generally begin within 60 days of the last loan disbursement for each year a loan is received.

These loans, like Stafford loans, are made by lenders who are insured against default by guaranty agencies, who are in turn reinsured by the Department of Education. According to the Department, the volume of SLS loans increased from \$711 million in fiscal year 1987 to \$2 billion in fiscal year 1988. The Department estimates the volume to be about \$2 billion in fiscal year 1989.

Objectives, Scope, and Methodology

In discussions with your offices we agreed to obtain the requested information for fiscal years 1987, 1988, and 1989 from the 11 guaranty agencies that guaranteed the largest loan volumes in fiscal year 1988.

According to the Department of Education, these 11 agencies guaranteed² over 90 percent of the SLS loans during that year. (These agencies and their loan volume statistics are shown in app. I.) Two agencies—the New York agency and the Great Lakes Higher Education Corporation—were unable to provide the requested data within the needed time frames. Therefore, we limited our analysis to the other nine agencies. We did not verify the accuracy of the data submitted by the guaranty agencies.

The agencies provided default data in one of two ways. Seven agencies provided data on default claims paid by the agencies to the lenders during each of the three fiscal years, regardless of when the SLS loan was guaranteed. The Colorado and Nebraska agencies provided data on the number and dollar volumes of SLS loans guaranteed during each of the three fiscal years, and on those loans that defaulted in the same year

²Loan volume reported by the Department reflects the commitments made to lenders by guaranty agencies to insure loans. Net loans guaranteed reflect adjustments that may occur, such as when loan amounts received are less than the amounts guaranteed or loans are canceled by lenders because borrowers did not enroll in school. The loan volume information we received from the guaranty agencies is based on net loans guaranteed by each agency, which may be less than the Department's figures.

