



REPORT TO THE CONGRESS

Office Of Education Should Improve Procedures To Recover Defaulted Loans Under The Guaranteed Student Loan Program B-117604 (7)

Office of Education
Department of Health, Education,
and Welfare

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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DEC 30, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-117604(7)

C To the President of the Senate and the
Speaker of the House of Representatives

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✓ This is our report entitled "Office of Education Should
Improve Procedures to Recover Defaulted Loans Under the
Guaranteed Student Loan Program " This program, adminis- 55
tered by the Office of Education, Department of Health, Edu- 2 2
cation, and Welfare, is authorized by title IV, part B, of the
Higher Education Act of 1965 In view of the liability of the
Government if defaults occur in the repayment of these loans,
our review was primarily to ascertain whether claims-
collection operations were in accordance with the Federal
Claims Collection Act of 1966

Our review was made pursuant to the Budget and Ac-
counting Act, 1921 (31 U S C 53), and the Accounting and Au-
diting Act of 1950 (31 U S C 67)

Copies of this report are being sent to the Director, Of-
fice of Management and Budget, the Secretary of Health, Educa-
tion, and Welfare, and the Commissioner of Education,
Department of Health, Education, and Welfare

James B. Stacks

Comptroller General
of the United States

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D I G E S T

WHY THE REVIEW WAS MADE

The Guaranteed Student Loan Program enables students attending colleges or vocational schools to finance part of their education by borrowing. In cases of default the Office of Education (OE), Department of Health, Education, and Welfare, (which administers the program) is liable for unpaid balances of loans. Because of the potential liability of the Federal Government, the General Accounting Office (GAO) evaluated OE's

- efforts to recover debts arising out of student defaults,
- debt-collection operations, and
- refund policies

FINDINGS AND CONCLUSIONS

As of January 31, 1971

- Over 1 million loans amounting to nearly \$1 billion had been insured under the program
- 5,920 loans were in default, of which 751--about 12 percent--were due to death or disability (in which case neither the estate nor the student had to pay)
- 3,049 of the loans in default were unprocessed in OE, that is, no collection action had been taken. As of September 30, 1970, there were 704 unprocessed claims. (See p 11)

As of September 30, 1971, 15,427 loans were in default and 8,963 had not been processed. (See p 10)

Inadequate collection staff

The rapid buildup of unprocessed defaults is clear evidence that the Claims and Collection Section of OE is inadequately staffed. (See p 13)

Improvements needed in debt-collection operations

GAO noted that improvements were needed in the following categories

- Failure to proceed against all liable parties Collection action was being taken against the student borrower and not against co-signers, such as parents or spouses (See p 14)
- Possible legal impediment A cosigner on the promissory note usually does not sign the installment note. If default occurs and if the promissory note has been surrendered to the borrower (which frequently happens), there appears to be no right of the Government to proceed against the cosigners of the promissory note (See p 15)
- Demand letters not forceful enough The form collection letters used by OE are not sufficiently forceful to impress the debtor of his legal obligation to repay (See p 16)
- Failure to obtain financial information OE should obtain financial statements from debtors for evaluation of any proposed plan of payment and for use in subsequent collection efforts (See p 16)

Bankruptcy cases

OE has not attempted to ascertain the ultimate disposition of bankruptcy cases. Such information would assist OE in determining whether additional collection action should be taken. No collection action has been taken against cosigners who were not joint participants in the bankruptcy proceedings and who were, therefore, not released from liability (See p 18)

Lack of refund policy

An important deficiency in the entire program is the absence of a uniform policy setting forth the conditions under which participating schools will make tuition refunds--in cases of death, dropout, etc --and to whom refunds should be made. In some cases no refunds are made unless inquiries are sent directly to the schools, in other cases schools make refunds directly to students (See p 19)

The Department of Health, Education, and Welfare (HEW) feels that refunds are assets of a student's estate in the event of his death, and it does not require that such refunds be used to reduce the indebtedness to the Federal Government (See p 19)

In some cases tuition fees were in excess of the amount obtainable by the student on an insured loan, and the student obtained another loan from the same lender on condition that this additional loan be guaranteed by the school. The refunds paid by the schools were applied first to satisfy the private loans, and, if there were any amounts remaining, they were used to settle the Government insured loans. GAO believes that refunds should first be applied toward reduction of the Federal loan (See p 20)

RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that HEW

- Take all necessary action to assign required employees to the debt-collection section of OE (See p 12)
- Take prompt action to improve claims-collection operations (See p 17)
- Establish a national refund policy (See p 20)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Health, Education, and Welfare agreed with GAO HEW's budget for fiscal year 1972 includes 52 additional positions for claims-collection activities (See p 12) HEW said that it would improve collection procedures and that every effort would be made to establish a nationwide tuition refund policy as soon as possible (See pp 17 and 20)

MATTERS FOR CONSIDERATION BY THE CONGRESS

In view of recent and anticipated budgetary restraints, this report is to inform the Congress of the rapid buildup of unprocessed default claims under the student loan program and of the necessity for improved claims-collection operations It is also to call attention to the absence of a national refund policy for educational institutions participating in the Guaranteed Student Loan Program in connection with defaulted loans as well as loans involving students who have died or who have become totally and permanently disabled

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CHAPTER 1

INTRODUCTION

The Guaranteed Student Loan Program, established pursuant to title IV, part B, of the Higher Education Act of 1965¹ comprises two components--(1) loans insured by a State or a private nonprofit agency and (2) loans insured by the Federal Government when students or lenders do not have reasonable access to a State or a private nonprofit program. Both of these components enable a student attending an institution of higher education or a vocational school to finance part of his education by borrowing. Our report covers only those loans insured by the Federal Government.

A student may obtain a loan directly from a bank, credit union, savings and loan association, or any other participating lender. A loan is repayable commencing 9 to 12 months after the date on which the student leaves school or ceases to carry the prescribed academic work load. The repayment period may not exceed 10 years, exclusive of any deferment period.

To obtain a loan from a lender, the student and his family submit an application to the school or college which must certify (1) that the applicant is enrolled or has been accepted for enrollment, (2) that he is in good academic standing, (3) that his estimated educational expenses are reasonable, and (4) the amount of other financial aid made available by or through the institution. The completed application first goes to the lender, and, if he agrees to make the loan, the application is next sent to the Office of Education for a commitment to insure the loan. The funds may then be disbursed by the lender directly to the student or, in some instances, to the school or college.

Under the act a loan made by an eligible lender shall be evidenced by a promissory note or other written agreement

¹Higher Education Act of 1965, as amended, 20 U S C. 1071 through 1087, and regulations published in the Federal Register, October 31, 1970, vol. 35, no. 213, p. 16888.

and shall be made without security and without endorsement, except that, if the borrower is a minor and if the note or written agreement would not, under applicable local law, create a binding obligation, an endorsement may be required.

As of August 31, 1970, there were loan commitments of over \$743 million. These commitments increased by \$91 million in September 1970 and continued to increase at an average \$36 million a month through January 31, 1971, at which time over 1 million loans, amounting to nearly \$1 billion, had been insured by the Federal Government under the Guaranteed Student Loan Program. The accumulated loan total and guarantee commitments by months, from September 1, 1970, through January 31, 1971, are shown on the chart on the following page.¹

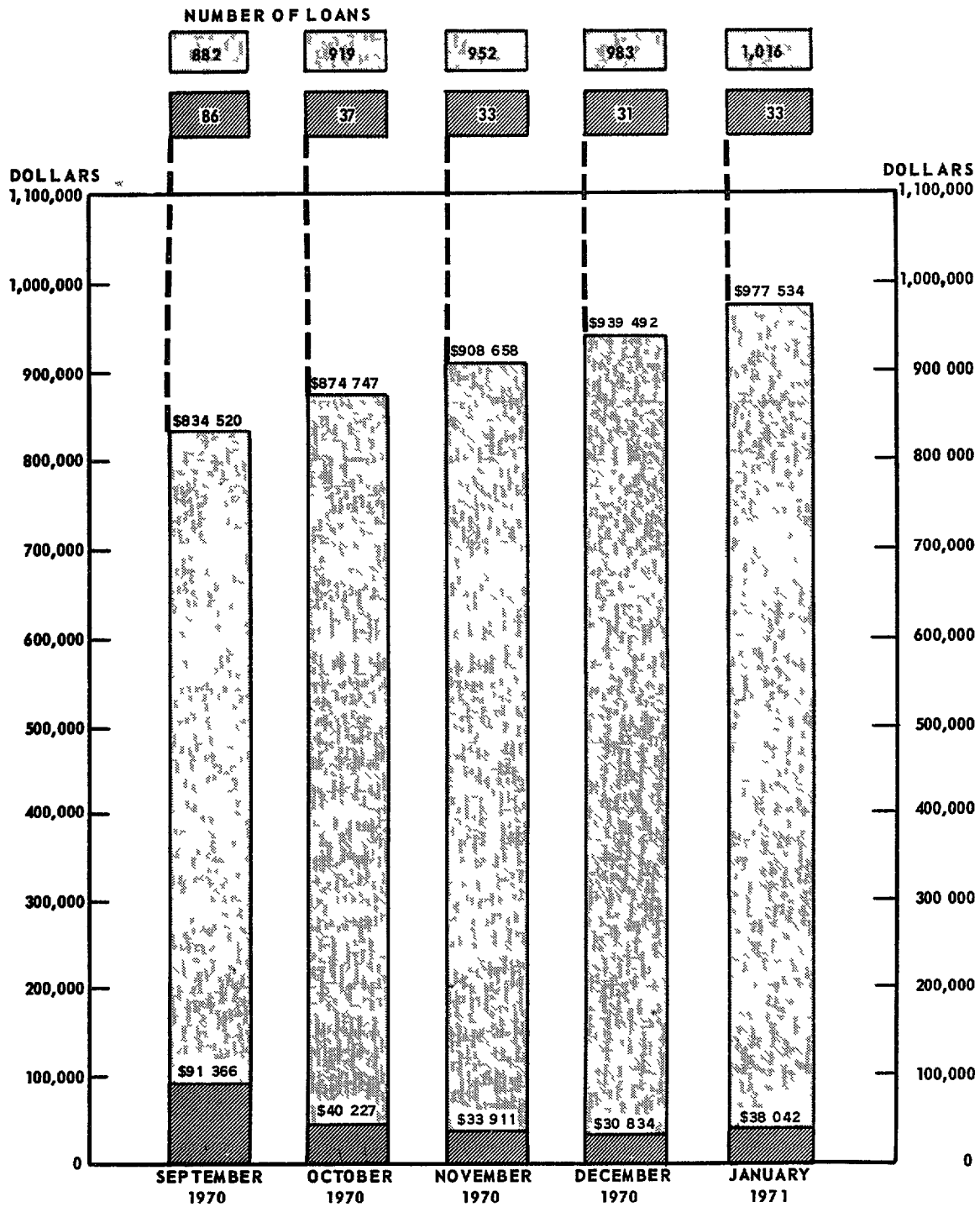
The act provides that the Government's liability on any loan insured by OE be 100 percent of the unpaid balance of the principal amount of the loan. OE's obligation to pay interest shall terminate (1) upon default by the borrower or (2) upon a determination of the death or total and permanent disability of the borrower.


OE will reimburse the lender for loss on an insured loan only if the loan (1) is determined to be in default or (2) is canceled in accordance with the law and regulations. "Default" means the failure to make an installment payment when due or to comply with other terms of the note or other written evidence of agreement. Such failure must be cured either by payment or by other appropriate arrangements in 120 days if repayment is by monthly installments and in 180 days for less frequent installments.


A claim for reimbursement for loss on an insured loan shall be filed on a form provided by OE and may be made (1) at such time as the lender determines that the loan cannot be collected, or (2) after such time as the lender ascertains that the borrower has died or has become totally and permanently disabled, or (3) upon notification that the borrower has been adjudicated a bankrupt.

¹The figures shown on all of the charts in this report were furnished by OE.

LOAN COMMITMENTS



 CUMULATIVE SINCE INCEPTION

 MONTHLY

NUMBER OF LOANS & DOLLAR AMOUNTS
SHOWN IN THOUSANDS

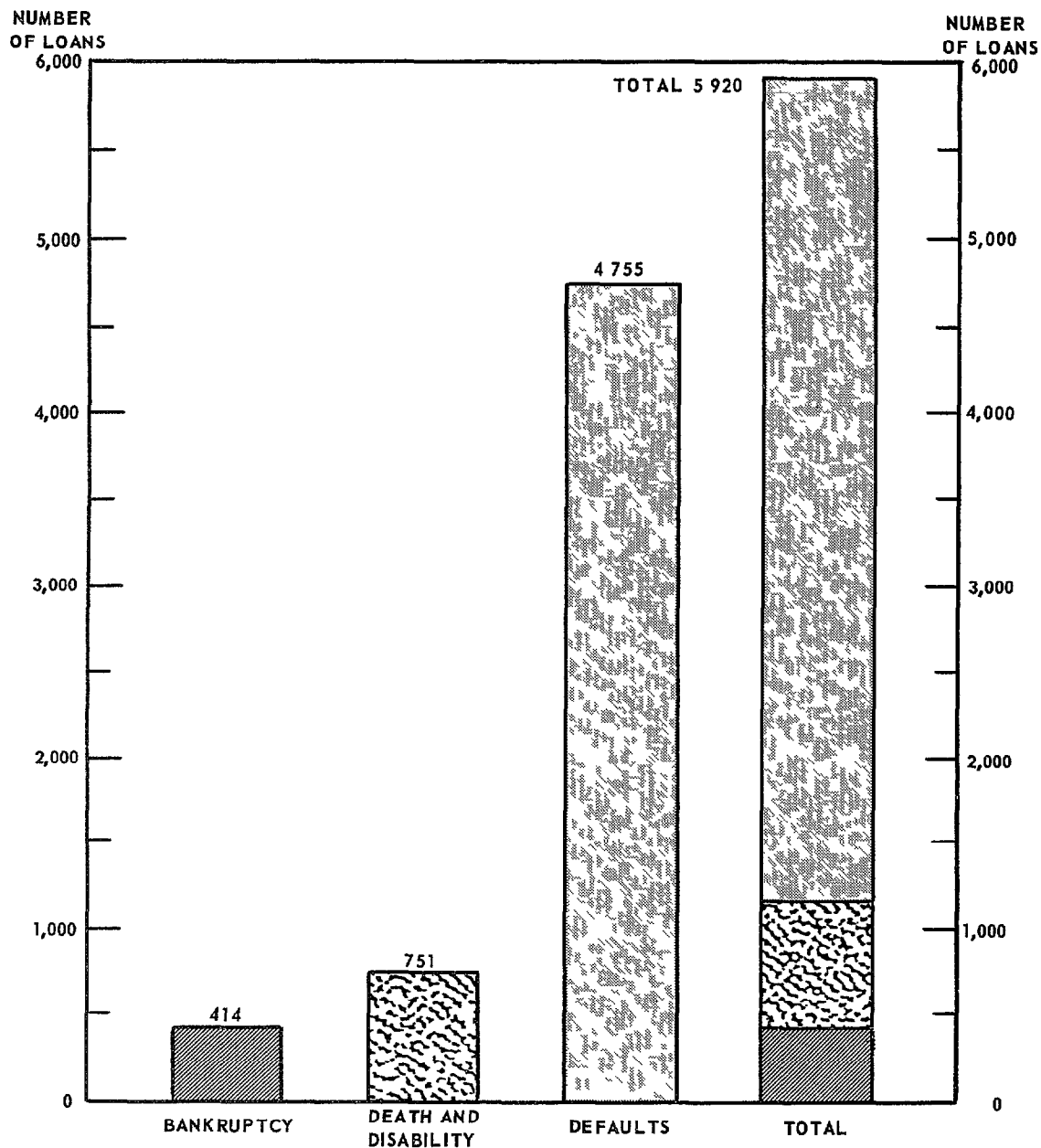
A lender must use due diligence in attempting to effect collection. A written demand for payment must be made on the borrower and upon any endorser on a defaulted loan not less than 30 days nor more than 60 days prior to filing a claim with OE, and all claims must be supported by the required documents.

Upon payment to the lender by OE of the amount of the loss resulting from default on a student loan, the United States becomes subrogated to all of the rights of the holder of the obligation upon the insured loan and is entitled to an assignment of the note or other evidence of the insured loan.

As of January 31, 1971, OE had paid a total of \$5,039,088 on 5,920 defaulted and canceled loans, as shown below.

414 claims (7%) due to bankruptcy, amounting to \$435,528
751 claims (13%) due to death or disability, amounting to \$776,174
4,755 claims (80%) due to defaults, amounting to \$3,827,386

The law does not require that collection action be taken on claims due to death or disability.



As of September 30, 1971, payments had increased to a total of \$13,272,750 on 15,427 defaulted and canceled loans, an aggregate increase in 8 months of \$8,233,662 on 9,507 claims. The increase in defaults since inception of the program is shown below.

<u>Period</u>	<u>Number of claims paid</u>	<u>Amount</u>
Fiscal years 1968 and 69	237	\$ 203,385
Fiscal year 1970	1,798	1,493,320
" " 1971	9,507	8,034,250
" " 1972		
(July, Aug., Sept.)	<u>3,885</u>	<u>3,541,795</u>
Total	<u>15,427</u>	<u>\$13,272,750</u>

CHAPTER 2

INADEQUACY OF RESOURCES ALLOCATED

TO THE COLLECTION EFFORTS

The Federal Claims Collection Act of 1966 (31 U S C 952) and the implementing Joint Standards, promulgated by the Comptroller General and the Attorney General of the United States pursuant thereto, impose primary responsibility for collection of debts due the United States on the agency whose operations give rise to such indebtednesses

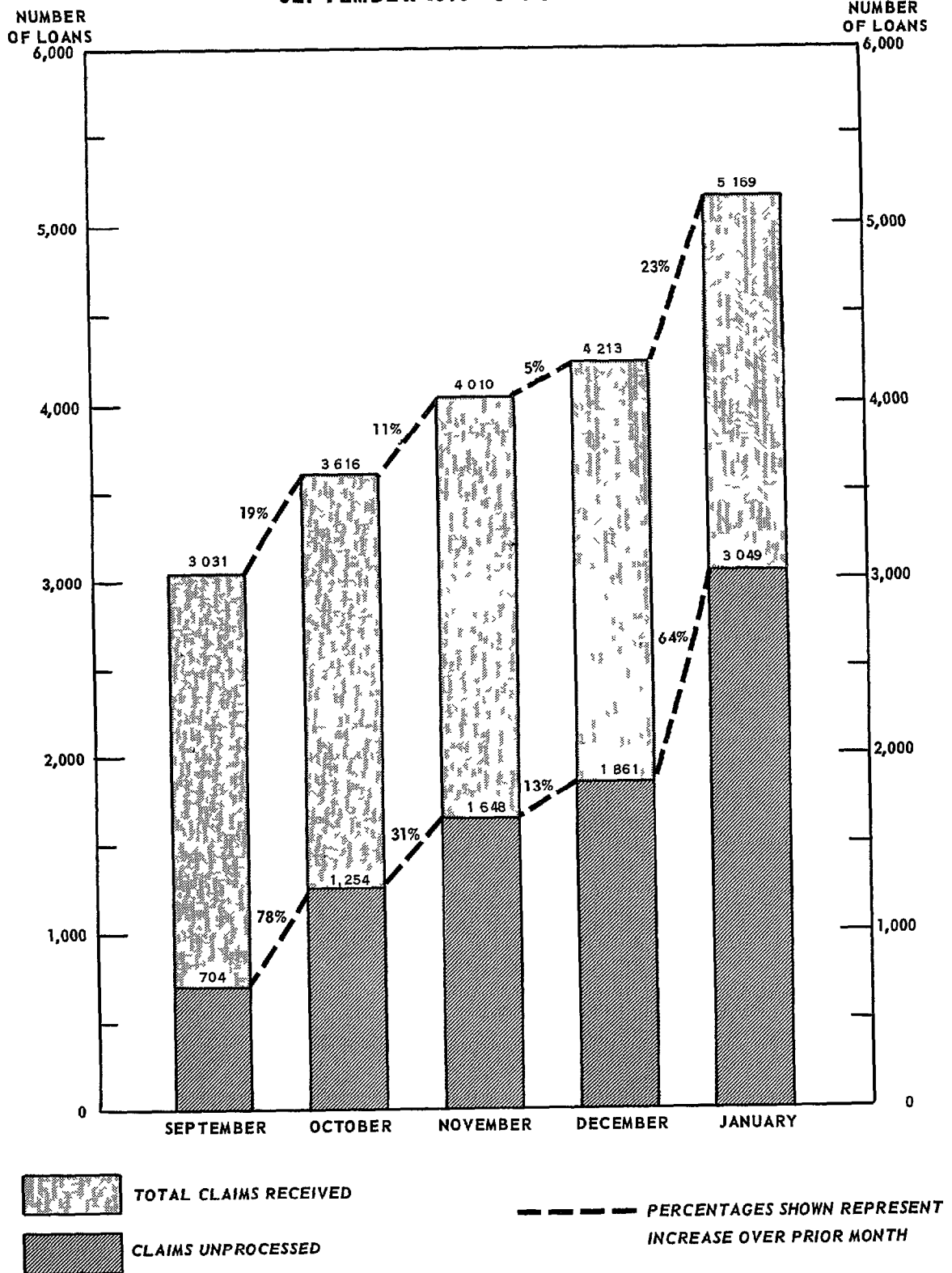
At the time of our review beginning in December 1970, three employees were assigned to handle collection operations in the Insured Loans Branch of OE. Our review showed that the work performance of these employees was very good. We concluded that, in view of the rapid buildup of defaulted loans under the Guaranteed Student Loan Program and in view of the large number of these loans on which the branch had been unable to initiate any collection action, the resources assigned to the collection efforts were inadequate.

As illustrated on page 11, the number of loans in default increased from 3,031 in September 1970 to 5,169 in January 1971. During the same period the number of these loans that were unprocessed, i.e., those on which no collection action had been taken by OE, rose from 704 to 3,049.

As noted previously on page 9, the loans in default further increased to 15,427 as of September 30, 1971. Of these 15,427 claims, 8,963 had not been processed. Thus, during the 8-month period ended September 30, 1971, the total number of loans in default and the number unprocessed almost tripled.

The timely processing of these claims is of utmost importance. Under the Federal Claims Collection Act and the implementing Joint Standards, those claims which cannot be satisfactorily resolved by the agencies are to be promptly reported to GAO for further collection action and referral to the Department of Justice, if necessary. As of August 31, 1971, however, no referrals had been made in connection with the loans.

NUMBER OF LOANS IN DEFAULT SEPTEMBER 1970 - JANUARY 1971



The chart on page 13 presents further analyses of loans in default as of January 31, 1971. In addition to showing that 59 percent of the defaulted loans had not been processed, the chart shows that payments were being received in only 8 percent of the cases.

Also it should be noted that the average amounts of the individual defaulting loans have been increasing yearly, as shown by the following table

<u>Period</u>	<u>Approximate amount of each loan</u>
Fiscal years 1968 and 1969	\$696.00
Fiscal year 1970	781.00
Fiscal year 1971	809.00
July 1971 (fiscal year 1972)	867.00
Aug. 1971	891.00
Sept. 1971	911.00

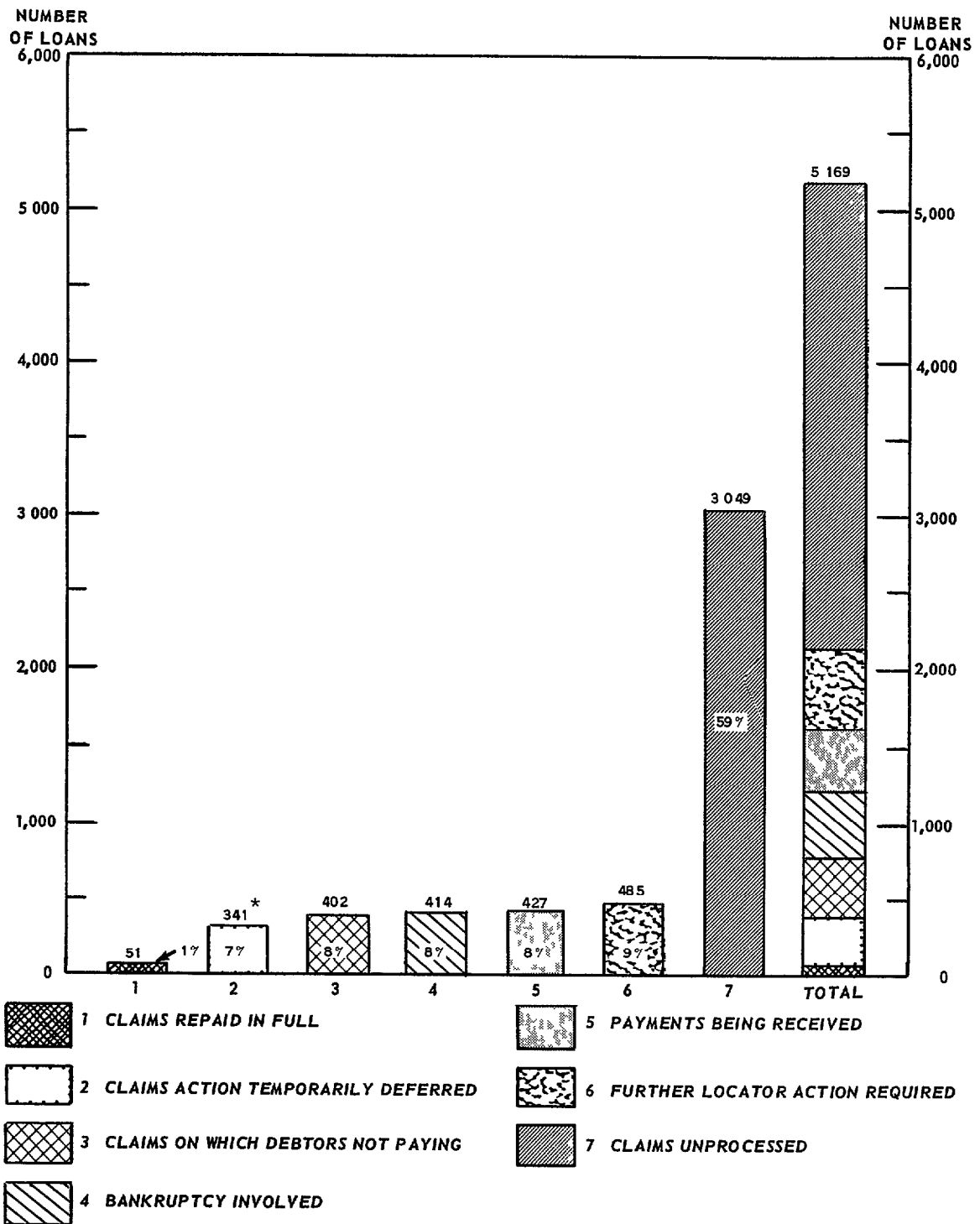
RECOMMENDATION TO THE SECRETARY
OF HEALTH, EDUCATION, AND WELFARE

We recommend that the Secretary take the necessary action to assign required employees to the debt-collection section of OE

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HEW concurred in our recommendation and advised us that its budget for fiscal year 1972 includes 52 additional positions to administer claims-collection activities. Of these 52 positions 41 will be assigned to collection activities in the 10 regional offices of HEW and 11 will be assigned to the Washington, D C , office. An increased staff, in this instance, should result in a much improved collection operation

STATUS OF LOANS IN DEFAULT **AS OF JANUARY 31, 1971**



* COLLECTION ACTION ON 341 CLAIMS WAS TEMPORARILY DEFERRED BECAUSE THE STUDENTS HAD RETURNED TO SCHOOL OR THEY WERE SERVING IN THE MILITARY SERVICE OR THE PEACE CORPS

CHAPTER 3

IMPROVEMENTS NEEDED IN CLAIMS-COLLECTION OPERATIONS

Although written claims-collection procedures have not been formulated as yet by OE, we did examine the HEW General Administration Manual, Chapter 4-70, Claims Collection Procedures, issued November 1, 1968. We suggested certain changes, and we were assured by HEW that appropriate action would be taken. We noted that OE had established an effective working arrangement with the Internal Revenue Service to assist in locating debtors.

In addition to the delays we noted in the processing of claims, we noted that improvements were needed in claims-collection operations in the following categories.

1. Failure to proceed against all liable parties--Section 103.6 of the Joint Standards contemplates simultaneous collection actions being taken against jointly and severally liable parties. Our examination of 219 defaulted loans, exclusive of those involving bankruptcy, death, and disability cases, shows that, at the time of our review, collection action was being taken only against the student borrower. In 78 of the 219 cases, the promissory notes had been cosigned by parents, spouses, or others. In 13 of the cases, the student borrower was under 21 years of age and his parents had not cosigned the note.

The HEW Office of General Counsel has informed us that, since there are many differences in State laws, appropriate guidelines for OE will be issued in connection with the liability of parents for educational debts of a minor. Guidelines also will be issued concerning a spouse's liability for educational debts.

OE is now making demands on those parents or others who have cosigned the notes with the student borrower. Pending the issuance of guidelines, however, demand is not now made on the parent of a minor unless the parent has cosigned the note. This results

in collection action being taken on a piecemeal basis since demand would not be made simultaneously on all liable parties. Prior to referring a claim to GAO for collection assistance, the administrative office must take collection action against everyone who is liable for the debt.

2. Possible legal impediment--The promissory note (OE form 1164) contains the terms and conditions for insured student loans. At the time of repayment, an attempt is made by the lender to have a student execute a note (OE form 1171), which provides for installment payments.

The installment note contains the following statement.

"The undertaking of the maker is in satisfaction of his existing obligation to repay sums advanced to him by the lender as evidenced by the promissory note(s) executed by the maker and dated _____ the repayment of which has been insured by the U.S. Government ***. The obligation of the maker hereunder is subject to the terms and conditions of such promissory note(s)."

Instructions to lenders for filing claims, which were issued by OE, provide that, if the lender is unable to obtain a signed installment note (OE-1171) from the student, he may attach a schedule of payments to the promissory note (OE-1164) and inform the student of the payment schedule.

We were informed by OE that, upon execution of an installment note by a student borrower, many States require the lender to surrender the original promissory note to the borrower. Our review confirmed this. In addition, a close examination of these installment notes showed that they seldom contained the signature of a cosigner, even though the promissory note had a cosigner.

If default occurs in the payment of the installment note and if the promissory note has been surrendered to the borrower, the Government apparently has no right to proceed against the signers of the promissory note.

3. Demand letters not sufficiently forceful--The form collection letters used by OE are not sufficiently forceful to impress the debtor of his legal obligation to repay his debt. Specifically the letters do not request payment in full or in part but merely request that the debtor propose a plan of repayment. Neither do the letters set forth the fact that, if payment is not received, the claim may be referred to GAO for referral to the Department of Justice, if necessary.

We have furnished OE with copies of our various form collection letters and card forms for locating debtors whose addresses are unknown, a procedure which we have found to be effective in our collection activities. OE representatives have indicated that they would consider the use of such material in future revisions of their form letters and card forms.

4. Failure to obtain financial information from debtor--Claims-collection procedures of HEW provide for obtaining financial information from (1) a commercial credit report, (2) an agency investigative report which shows a debtor's assets, income, etc., or (3) a debtor's own statement made under penalty of perjury. Current financial information is required under the Joint Standards for use in evaluating any plan of payment proposed by a debtor. This information serves as a basis for consideration of any offer in compromise submitted by the debtor and provides a basis for other determinations, such as terminating collection action or referring the debt to GAO.

It has not been the practice of OE to request financial information from debtors at the time demand for payment is made. This method, however, has proved to be very effective in GAO's collection efforts,

and it also eliminates the expense of obtaining a commercial credit report.

RECOMMENDATIONS TO THE SECRETARY
OF HEALTH, EDUCATION, AND WELFARE

The Federal Claims Collection Act of 1966 and the implementing Joint Standards provide that administrative agencies take timely and aggressive collection action on all debts due the United States. We therefore recommend that the Secretary of Health, Education, and Welfare urge the Office of General Counsel and OE to take prompt action to

1. Issue instructions or guidelines concerning the liability of all parties so that piecemeal collection action may be avoided.
2. Protect the interest of the United States when State laws require that the original promissory note be surrendered upon execution of an installment note. The substitution of an installment note omitting the signature of a cosigner on the promissory note could be prejudicial to the United States since apparently it will prevent the Government from proceeding against the cosigners.
3. Make appropriate changes to strengthen the demand approach since an effective collection program is dependent in part on the manner in which request for payment is made.
4. Obtain financial statements from debtors whenever practicable. We suggest the use of a form similar to that utilized by GAO, a copy of which was furnished to OE.

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HEW concurred in our four recommendations for improving collection operations.

CHAPTER 4

ADDITIONAL ACTION NEEDED IN BANKRUPTCY CASES

Our examination of 30 bankruptcy cases shows that no attempt has been made to ascertain the ultimate disposition of bankruptcy cases. Such information is necessary if the Government's interest is to be protected. A debtor may file a petition in bankruptcy, but, unless he is discharged in bankruptcy, there is no legal release of his obligation to pay his debt. Further, in proceedings for Wage Earners' Plans under chapter XIII of the Bankruptcy Act, as amended (11 U.S.C. 1001), the debt is not released and, should the debtor fail to remain under the plan until final payment is made to the Government, regular collection proceedings should again be instituted. We have furnished OE a copy of the letter we have used successfully to elicit information as to whether additional collection action is required or if the claim may be closed.

In 16 cases 12 spouses and four parents were cosigners of the notes, but in only three cases were the cosigners joined in the bankruptcy proceedings. No collection action was taken against the cosigners. Unless a cosigner is a joint participant in a bankruptcy proceeding, the filing of a petition by the signer of the note will not excuse the cosigner from liability. In five cases it appeared that the lender did not file proofs of claim. OE has agreed to file proofs of claim in these five cases and to review its action in the other 25 cases.

We called attention to the fact that an erroneous payment of \$1,000 had been made to a lender on the assumption that the student borrower was bankrupt, whereas her parents were the bankrupts. OE has agreed to contact the lender for refund of \$1,000 and to ascertain the status of the loan. Also OE plans to investigate a similar case involving a payment of \$500 to a lender since it is not clear from the record whether the bankrupt was the father or the son. If the father is the bankrupt, appropriate action will be taken against the son (borrower).

We have been assured that all bankruptcy cases will be carefully processed in the future so that appropriate collection action will be taken against all proper parties.

CHAPTER 5

NATIONAL REFUND POLICY NEEDED

An important deficiency in the entire federally insured student loan program is the absence of a uniform tuition refund policy setting forth the conditions under which educational facilities participating in the program will make refunds and the parties to whom such refunds should be made.

Studies made by the Accreditation and Institutional Eligibility Staff, OE, show a diversity of refund policies by both school-accrediting agencies and schools. Some accrediting agencies, in instances in which minimum policy standards have been established, do not require that the accredited schools have refund policies or that the existence of a refund policy be acknowledged or published in the school catalog or in enrollment agreements.

OE employees emphasized this diversity of refund policies by calling to our attention a number of cases in which former students contacted lenders or OE after they had left school and alleged that they were entitled to tuition refunds. When the schools were informed of the situation, some of them made refunds for application to the loan indebtedness but others did not, for a variety of reasons. In many cases schools were making refunds directly to students instead of remitting the amount involved to the lender or to OE.

The present law provides that, if the borrower dies or becomes totally and permanently disabled, the Commissioner of Education discharge the borrower's liability by repaying to the lender the balance owed on the loan. We understand that, because of this statutory provision, HEW has taken the view, in the case of deceased student debtors, that tuition refunds due from schools are assets of a student's estate and that such refunds are not required to be applied to reduce the loan indebtedness.

Although permanent and total disability or death relieves the student and/or his estate from liability, it is our view that provisions should be made which would require that any refunds due should be applied to reduce the borrower's obligation under the loan.

We noted certain cases in which tuition fees were in excess of the amount obtainable by the student on an insured loan. The student then obtained another loan from the same lender on condition by the lender that this additional loan be guaranteed by the school. When the borrowers terminated their student status, the refunds paid by the schools were applied first to satisfy the loans guaranteed by the schools, and, if there were any amounts remaining, they were used to settle the Government-insured loans. The unpaid balances on the Government-insured loans were then claimed by the lenders (after appropriate collection action was taken against the student borrowers without success) and OE satisfied the Government guarantees by reimbursing the lenders. We understand that OE is now taking steps to correct this situation.

RECOMMENDATION TO THE SECRETARY
OF HEALTH, EDUCATION, AND WELFARE

We recommend that, to the maximum extent practicable, a national refund policy in the Guaranteed Student Loan Program be established. Such policy should set up uniform conditions and procedures under which tuition refunds would be made by educational institutions and should require specifically that any refunds due, regardless of the reason therefor, be applied first to reduce the outstanding loan indebtedness or to reimburse the Government in the event the Government previously has paid the lender under its guarantee obligation.

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HEW concurred in our recommendation and advised us that a nationwide refund policy proposal was under consideration in OE and that every effort would be made to effect this policy as soon as possible.

CHAPTER 6

SCOPE OF REVIEW

Our review was directed to the claims-collection operations of OE in Washington, D.C., in connection with loans insured by the Federal Government under the Guaranteed Student Loan Program.

We were concerned with (1) the potential liability of the Government because of defaults by students in the payment of their insured loans, (2) the resources allocated to recover debts arising out of defaults by students in the payment of their loans, (3) the efforts made by OE to collect the amount paid to lenders when default occurred, and (4) whether collection efforts are in compliance with the:

1. General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies.
2. Regulations issued jointly by the Comptroller General and the Attorney General of the United States under section 3 of the Federal Claims Collection Act of 1966. These regulations, referred to as Joint Standards (4 CFR 101-105), provide for the administrative collection, compromise, termination of agency collection action and referral of debt claims to GAO.



DEPARTMENT OF HEALTH, EDUCATION AND WELFARE
WASHINGTON D C 20201

OFFICE OF THE SECRETARY

JUL 30 1971

Mr. James M. Campbell
Director, Claims Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Campbell

The Secretary has asked me to reply to your letter dated June 25, 1971, pertaining to the General Accounting Office draft report to the Congress entitled "Need for Improved Collection Procedures on Claims Paid Under the Federal Insured Student Loan Program." The enclosed comments set forth the actions taken or planned on the matters discussed in the report.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "J. B. Cardwell", is written over the typed name.

James B. Cardwell
Assistant Secretary, Comptroller

Enclosure

APPENDIX I

Department of Health, Education and Welfare Comments Pertinent to the Draft of Report to the Congress of the United States by the Comptroller General of the United States on the Need for Improved Collection Procedures on Claims Paid Under the Federal Insured Student Loan Program

OVERVIEW OF GAO REPORT

GAO's report indicates that they believe the Department needs to strengthen its policies and procedures in administering the collection of defaulted loans paid under the Federal Insured Student Loan Program in the Office of Education. To accomplish this, they offer recommendations calling for the Department to (1) provide the necessary resources to the Claims and Collections Section (11) provide guidelines and directions through the Office of Legal Counsel to strengthen the collection procedures, and (111) establish a nationwide refund of tuition policy for all schools eligible to participate in the program.

Our specific comments on each of GAO's recommendations follow.

GAO RECOMMENDATIONS

1 That the Secretary take all necessary action in the immediate future to assign such additional personnel as required to the Claims and Collections Section of the Office of Education to enable it to carry out its responsibility

DEPARTMENT COMMENT

We concur in the recommendation and as stated in the report have requested in our 1972 budget submission 52 additional positions to administer claims-collections activities. Of these 52 positions, 41 will be assigned to collection activities in the 10 regional offices of the Department, and 11 will be assigned to the Washington, D C office. This increased staff should result in a much improved collection operation.

2 That the Secretary of Health, Education and Welfare urge the Office of General Counsel and the Office of Education to take prompt action to,

a Issue instructions concerning the liability of all parties

b Protect the interest of the United States when State laws require that the original promissory note be surrendered upon execution of an installment note

c Make appropriate changes to strengthen the demand approach

d Obtain financial statements from debtors whenever practicable

DEPARTMENT COMMENTS

We concur in these recommendations.

The Office of General Counsel is exploring these matters and preparing appropriate instructions for guidance. As soon as these are completed, they will be adopted and instructions will be issued to participating lenders promptly.

Also, we are making changes in the collection approach and obtaining, when possible, financial statements from defaulted borrowers.

3 That the Secretary request the Commissioner of Education to either formulate a refund policy under his existing authority, or seek enactment of legislation to accomplish such purpose

DEPARTMENT COMMENT

We concur with this recommendation

A nationwide refund policy proposal is under active consideration in the Office of Education at the present time. Every effort will be made to effect this policy as soon as possible.

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
HAVING RESPONSIBILITY FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HEALTH, EDUCATION, AND WELFARE		
Elliot L. Richardson	June 1970	Present
Robert H. Finch	Jan. 1969	June 1970
Wilbur J. Cohen	Mar. 1968	Jan. 1969
John W. Gardner	Aug. 1965	Mar. 1968
COMMISSIONER OF EDUCATION.		
Sidney P. Marland, Jr.	Dec. 1970	Present
Terrel H. Bell (acting)	June 1970	Dec. 1970
James E. Allen, Jr.	May 1969	June 1970
Peter P. Muirhead (acting)	Jan. 1969	May 1969
Harold Howe, II	Jan. 1966	Dec. 1968
Francis Keppel	Dec. 1962	Jan. 1966

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