

REPORT BY THE

# Comptroller General

OF THE UNITED STATES

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## The Government Can Be More Productive In Collecting Its Debts By Following Commercial Practices

Each year Federal departments and agencies write off as uncollectible millions of dollars owed the Government by individuals and organizations.

Debt collection in the Federal Government is a slow and expensive process, but it has significant potential for improvement.

By adopting certain private sector practices, the Federal Government can better collect its debts and recover billions of dollars.



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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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The Honorable Russell B. Long  
~~Chairman~~, Senate Committee on Finance

The Honorable Robert Packwood  
~~Ranking Minority Member~~, Taxation and  
Debt Management Generally Subcommittee  
Senate Committee on Finance

In your letter of April 5, 1977, you asked us to make several studies comparing the per unit or per capita cost of several services performed by the Federal Government with the cost of comparable services provided by private companies. This report deals with the Federal Government's debt collection practices, and it suggests how the Federal debt collection process can be substantially improved.

This report contains recommendations to the departments and agencies involved with debt collection activities to substantially improve their debt collection practices. We discussed our findings with agency officials and included their comments where appropriate.

Copies of this report will be sent to the Senate and House Committees on Appropriations, the Senate Committee on Governmental Affairs, and the House Committee on Government Operations.

*Frederic A. Steals*  
Comptroller General  
of the United States



COMPTROLLER GENERAL'S  
REPORT TO THE CHAIRMAN,  
SENATE COMMITTEE ON FINANCE,  
AND THE RANKING MINORITY  
MEMBER, SUBCOMMITTEE ON  
TAXATION AND DEBT MANAGEMENT  
GENERALLY, SENATE COMMITTEE  
ON FINANCE

THE GOVERNMENT CAN  
BE MORE PRODUCTIVE IN  
COLLECTING ITS DEBTS  
BY FOLLOWING COMMERCIAL  
PRACTICES

D I G E S T

In response to a congressional request, GAO has studied Government debt collection practices and compared them with the practices followed by commercial firms. GAO concluded that in many cases the Government could collect more of its debts faster by following certain commercial practices.

THE DEBT COLLECTION PROBLEM  
AND ITS MAGNITUDE

Debt collection is a matter of concern because the number of debts owed the Government is increasing rapidly. According to Department of the Treasury figures, as of September 30, 1977, \$118 billion was owed the Government; of this total about \$84 billion is owed to Federal agencies that are included in the Federal budget. In 1 year, from October 1, 1976, to September 30, 1977, the amount increased from about \$69 billion to about \$84 billion--an increase of 21 percent. Included in this total are amounts due for student loans, overpayments of supplemental security income benefits and veterans educational assistance, as well as a vast array of amounts due for royalties and sales of various goods and services.

Much of this amount will of course be paid routinely, but a large and growing part will require some type of collection action, and a significant amount will be written off as uncollectible.

Of 12 Federal agencies GAO checked in a recently completed review, only 3 had established allowances for uncollectible

accounts (debts they do not expect to collect). Most just write off debts when they cannot collect them. Nine major agencies wrote off approximately \$428 million of uncollected debts in fiscal 1978. (See p. 4.)

Overall figures are not available on the number and value of claims written off by agencies. However, examples follow which will provide insight into the magnitude of the Government's collection problems.

- According to information reported to the Treasury Department, the estimated allowance for bad debts was \$3 billion as of September 30, 1977, a 35-percent increase since 1976. This figure is probably understated; the Treasury, for example, said that some agencies do not report uncollectibles at all.
- In 1978, three agencies (Small Business Administration, Veterans Administration, and Farmers Home Administration) wrote off \$274 million as bad debts, a 60-percent increase compared to 1976 figures.
- Many debts result from overpayments by the Federal Government. For example, the Social Security Administration reported \$1.5 billion in overpayments as of September 30, 1978. It estimated that it would not collect one-third of this amount. It should be noted, however, that the agency is authorized to, and will, grant relief for part of this amount. During 1978, it wrote off \$108 million as uncollectible.
- The Veterans Administration reported overpayments of more than \$400 million as of September 30, 1978. In 1978, most of the \$93 million written off by this agency stemmed from overpayments.
- The Office of Education has over \$4 billion in receivables. About \$1 billion of this amount is in default and the rate is increasing rapidly.

Failure to collect amounts of this magnitude increases both the tax burden and the budget deficit. But it costs more than money. When debts are not collected, people are given benefits they did not earn or are not entitled to; self-help programs are converted into grant programs without authority of the Congress; and as word spreads that it is possible to avoid paying, fewer people will pay voluntarily, which means agencies must devote more time to collection.

Debt collection has not kept pace with the increasing number of debts for two major reasons. One, many agencies have not been aggressive in pursuing collection; some appear not to have enough resources. Two, present collection methods are expensive and slow compared with commercial practices and are not cost effective in dealing with debtors who delay or try to avoid paying.

#### UNIT COST COMPARISONS

GAO was not able to clearly compare the cost of Federal and commercial debt collection because comparable data is not readily available. One indicator of the differential, however, is the debt size that is considered cost effective to pursue to the point of obtaining a court judgment. Several commercial firms said it was cost effective to pursue collection to the point of obtaining a court judgment on debts as small as \$25. The Government generally does not seek judgment on debts of less than \$600.

The difference in cost and time expended for the Government versus the private sector to maintain and pursue collection of an account is also an indicator of the variance between the two sectors' procedures.

One Federal agency with a large collection activity spent an average of \$8.72 to maintain and pursue collection of an account from the time it was determined to be delinquent until the debt was collected, written

off, or referred to GAO or the Department of Justice.

A large retail firm reportedly spent less than \$3.50 for the same functions. Federal collection is also slower. Commercial firms told GAO they were generally able to pursue collection to the point of seeking a court judgment within 5 months. The Federal Government normally takes a year, and frequently longer.

THE GOVERNMENT SHOULD ADOPT CERTAIN  
COMMERCIAL PRACTICES

Based on commercial experience and the results achieved by a State agency in New Jersey in collecting Federal- and State-backed student loans, GAO concluded that agencies can collect more debts faster and at less cost by implementing certain commercial practices that make sense and seem adaptable to the Government. These include:

- Reporting to credit bureaus, where appropriate, loans when incurred, debts being paid in installments, and delinquent debts and loans.
- Using the debtor locator service offered by credit bureaus and other firms to help find delinquent debtors.
- Making greater use of automation in the debt collection process, including automated preparation of demand letters.
- Improving the content of demand letters by clearly outlining (1) when payment is due and that interest at a specified rate will be charged thereafter, (2) what action will be taken if payment is not received, and (3) that they must provide evidence available to them to support assertions that they do not owe the debt, that the amount is wrong, that they have paid, or that they are not able to pay.

Use of private debt collection agencies may also be warranted to collect debts that agencies write off without pursuing legal action. However, since most agencies are not authorized to use private debt collectors, their use needs to be further evaluated.

#### Affecting credit ratings

Federal agencies rely primarily on persuasion, offset, and legal action to collect delinquent debts. These inducements work in many cases but are not adequate or cost effective in dealing with many debtors who delay or try to avoid paying.

To collect unsecured debts, commercial firms rely primarily on aggressive collection action backed by the consequences of adversely affecting the debtor's credit rating. Also, a State agency in New Jersey has reported considerable success in using this approach to collect student loans.

GAO believes that, if properly used, reporting data on debts to the credit bureau network could improve Federal collection. Agencies would, of course, have to exercise care in reporting debts that debtors will not pay. They should exercise the same care as they do in deciding whether to take legal action.

To gain experience, GAO believes it would be best to begin reporting debts to the credit bureau network incrementally beginning with overpayments and student loans at the Veterans Administration and the Office of Education. The Office of Education is making arrangements to report, or have student loans reported, to credit bureaus. GAO plans to work with the Veterans Administration to test this in collecting educational assistance overpayments.

#### Using commercial debtor locator service

Agencies use commercial debtor locator services infrequently, partly because they often

have not found them helpful. GAO believes the degree of success would increase if Federal agencies made arrangements to obtain a nationwide (rather than regional) search, and if they arranged to be notified when debtors later apply for credit. GAO is recommending that the Office of Education and the Veterans Administration see if and under what circumstances more extensive use of these services would be cost effective.

#### Employing private debt collectors

Employing private debt collectors would require a change in legislation because Federal agencies are now precluded from using them, except when given legislative authority. The Office of Education has that authority and is proceeding to use private collectors on a test basis. Private collectors should, however, be used only after exhaustive collection action. GAO plans to monitor this test and examine the merits of proposing legislation to allow Federal agencies to employ independent collectors for debts they administratively write off.

#### Automating agency debt collection systems

Commercial firms GAO questioned attributed their low collection costs to automation and the interchange of information with credit bureaus. GAO believes use of these techniques could reduce costs in the Federal Government, too. The Internal Revenue Service has a fully automated collection system; other Federal agencies use automation in varying degrees, but more should be done.

#### RECOMMENDATIONS TO DEPARTMENTS AND AGENCIES

GAO recommends that the heads of departments and agencies listed in appendix V:

- Assess the cost and benefit of automating their collection process, including the preparation of demand letters.

--Review their demand letters to assure that debtors are being told clearly (1) how much is owed, (2) when payment is expected, (3) what action will be taken if payment is not received, (4) that an interest charge will be added for all debts if the money due is not repaid within a reasonable time, unless precluded by statute, and (5) when necessary, that available evidence must be provided to support any assertions that they do not owe the debt, that the amount is wrong, or that they have paid or cannot pay.

--Take steps to include on application forms an authorization by an individual to allow the agency to report to credit bureaus the amount that person will receive upon approval by the Government.

RECOMMENDATIONS TO THE SECRETARY OF  
HEALTH, EDUCATION, AND WELFARE AND  
THE ADMINISTRATOR OF VETERANS AFFAIRS

GAO recommends that the Secretary and the Administrator take action on their student loans and educational assistance overpayments as follows.

--Report to credit bureaus loans when incurred, loans and overpayments being paid in installments, and the failure of debtors either to pay or to agree to pay amounts owed when due.

--Make arrangements, at least on a test basis, to use the debtor locator services offered by credit bureaus and other firms and evaluate the cost benefit of these services.

--Include on application forms an authorization by an individual to allow the agency to report to credit bureaus the amount that person will receive upon approval by the Government.

GAO AND AGENCY COMMENTS

In making these recommendations GAO recognizes that the Office of Education is considering

making arrangements for reporting student loans to the credit bureau network. The recommendations express GAO's support and desire to see these actions carried through.

GAO will initiate action to revise the Federal Claims Collection Standards (issued jointly by the Attorney General and the Comptroller General) to allow other agencies to use these procedures.

The Department of Health, Education, and Welfare concurred in writing (see p. 39 ) and the Department of Justice concurred orally with the findings, conclusions, and recommendations in this report. GAO has received no comments from the Veterans Administration.

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ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare



## CHAPTER 1

### INTRODUCTION

On April 5, 1977, Senators Russell Long and Robert Packwood asked us to make several studies comparing the per unit or per capita cost of several services performed by the Federal Government with the cost of comparable services provided by private companies. This report deals with the Federal Government's debt collection efforts and suggests how the Federal collection process can be improved.

#### SCOPE OF REVIEW

From previous reviews at individual departments and agencies, we have reported that Federal billing and collection practices need improvement. (See app. I for a list of these reports.) In this review, we compared and evaluated debt collection cost and effectiveness in the private and public sectors to determine whether a significant improvement could be achieved in Federal debt collection by using commercial practices.

We held a series of interviews with key officials involved in debt collection from the following organizations:

- A major national debt collection trade association.
- One of the largest debt collection firms in the United States.
- Major credit bureaus.
- Major retail establishments.
- The New Jersey Department of Higher Education, Office of Student Assistance.
- Major Federal agencies with large-scale collection activities.

We reviewed the overall debt collection procedures prescribed for Federal agencies and checked on how those procedures were being implemented by selected agencies. We focused particularly on the Veterans Administration and the Office of Education, Department of Health, Education, and Welfare (HEW). We discussed our proposals for improving the Federal debt collection system with responsible officials from those two agencies and the Department of Justice.

We received written concurrence from HEW (see p. 38 ) and oral concurrence from Justice on the findings, conclusions, and recommendations in this report. We did not receive any comments from the Veterans Administration.

While our study focused primarily on the Office of Education in HEW and on the Veterans Administration, we see no reason why our proposals for improving debt collection would not be applicable to other Federal agencies having substantial uncollected receivables, particularly those receivables that are unsecured. In this regard, we used information obtained in a recently completed review--"The Government Needs To Do A Better Job Of Collecting Amounts Owed By the Public" (FGMSD-78-61, Oct. 20, 1978)--along with data from previous reports in preparing this report. (See app. II for a list of agencies covered in this and prior reviews.)

#### AUTHORITY FOR COLLECTING DEBTS

The major legislative authority concerned with debt collection in the Federal Government is the Federal Claims Collection Act of 1966 (31 U.S.C. 951). This act imposes primary responsibility for collecting debts due the Government on the agencies whose operations give rise to such indebtedness.

The act requires the Comptroller General and the Attorney General of the United States to issue joint regulations implementing the law. These regulations (4 CFR 101-105), entitled the Federal Claims Collection Standards, require agencies to (1) issue appropriate internal regulations and adopt cost-effective collection practices, (2) take aggressive collection action, (3) collect amounts due, where possible, by offset against payments or compensation due from the Federal Government, (4) attempt to reach settlement of claims on a compromise basis, when appropriate, (5) suspend or terminate collection action when conditions warrant, and (6) refer claims of \$600 or more, which cannot be collected, compromised, or offset and on which collection action cannot be suspended or terminated, to us or to the Justice Department for consideration of litigation.

The authority of the act was intended to reduce the amount of litigation previously required to collect claims and to reduce the volume of private relief legislation in the Congress. Claims involving fraud and misrepresentation and involving conduct in violation of anti-trust laws were exempted from the act.

## CHAPTER 2

### DEBT COLLECTION GOALS ARE

#### NOT BEING ACHIEVED

The goals in collecting debts due the Government are to recover the amount due promptly, keep the amount of debts written off to a minimum, and hold the cost of collection as low as possible. These goals are not being fully achieved. The amount of uncollected debts is dramatically increasing, particularly in agencies with receivables resulting from overpayments and unsecured loans. Further, large amounts are being written off as uncollectible and we project that the amount will grow rapidly unless Federal agencies become more effective in collecting debts. By private industry standards the Government's collection efforts are more costly and time consuming, which to some degree is understandable, but we believe both the time and cost can be reduced.

This state of affairs is attributable to several inter-related factors, some of which Federal agencies cannot totally control. For instance, benefit and loan programs where the beneficiaries can potentially become debtors have become increasingly available. Also, many debtors are not voluntarily paying amounts they owe the Government. Some may not have or earn enough money to pay, or would have difficulty doing so. Nonetheless, the fact remains that the money is owed and that many Federal agencies--particularly those with overpayments and unsecured loans--have not been effective in collecting debts. A major reason is that they have not attempted to be timely or aggressive in collecting, as prescribed by the Federal Claims Collection Standards. However, even some who have been diligent in their collecting have been frustrated in their efforts to locate debtors and in getting them to pay.

We believe that collection of Federal debts can be made more effective and efficient by adopting certain collection practices that have proved successful in private industry, including:

- Reporting debt information to credit bureaus, where appropriate.
- Using the credit bureau debtor locator service.

--Improving the content and automating the preparation of demand letters.

--Making greater use of automation.

Use of private debt collection agencies may also be warranted to collect debts administratively written off, but this requires further evaluation. Most Federal agencies are presently precluded by law from using private debt collectors.

AGENCY COLLECTION EFFORTS ARE NOT  
KEEPING PACE WITH THE INCREASE IN DEBTS

As documented in our previous reports, the inventory of uncollected debts has become enormous and is quickly growing larger. According to Department of the Treasury figures, as of September 30, 1977, \$118 billion was owed the Government. Of this total about \$84 billion is owed to Federal agencies that are included in the Federal budget. This amount increased 21 percent from a reported \$69 billion in 1976. Much of this amount will of course be paid routinely, but a large and growing part will require some type of collection action, and a significant amount will be written off as uncollectible.

Of 12 Federal agencies we checked in a recently completed review, 1/ only 3 had established allowances for uncollectible accounts. Most just write off debts when they cannot collect them. We have documented that nine major agencies wrote off approximately \$428 million of uncollected debts in fiscal 1978, as shown on the next page.

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1/"The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public," FGMSD-78-61, Oct. 20, 1978.

<u>Agency</u>	<u>Amount written off</u> <u>(000 omitted)</u>
Small Business Administration	\$152,544
Department of Commerce: Economic Development Administration	10,692
Department of Agriculture: Farmers Home Administration	29,142
Food Stamp Program	1,085
Commodity Credit Corporation	9,523
Department of Housing and Urban Development: Federal Housing Authority	11,088
Interstate Commerce Commission	12,763
Veterans Administration	93,161
Department of Health, Education, and Welfare: Social Security Administration	<u>108,026</u>
Total	<u>\$428,024</u>

Overall figures are not available on the number and value of claims written off by Federal agencies. However, we have some information that will provide insight into the magnitude of the Government's collection problems. For example:

--According to information reported to the Treasury Department, the estimated allowance for bad debts was \$3 billion as of September 30, 1977, a 35-percent increase since 1976. This figure is probably understated; Treasury advised us, for example, that some agencies do not report uncollectibles at all.

--In 1978, three agencies--Small Business Administration, Veterans Administration, and Farmers Home Administration--wrote off as bad debts \$274 million, a 60-percent increase compared to 1976 figures.

--Many debts result from overpayments by the Federal Government. For example, the Social Security Administration reported \$1.5 billion in overpayments as of September 30, 1978. It estimated that it would not collect one-third of this amount. It should be noted, however, that the agency is authorized to, and will, grant relief for part of this amount. During 1978, it wrote off \$108 million as uncollectible.

--The Veterans Administration reported overpayments of over \$400 million at September 30, 1978. In 1978, most of the \$93 million written off by this agency stemmed from overpayments.

--The Office of Education has over \$4 billion in receivables. About \$1 billion of this amount is in default and the rate is increasing rapidly.

CERTAIN RECEIVABLES TEND TO BECOME  
DELINQUENT AND REQUIRE COLLECTION

Some types of receivables are more likely to become delinquent than others. Federal agencies that sell goods and services do not normally have many delinquent receivables because they have contract stipulations requiring advance payments or payment bonds. One exception is when the contract arrangements are loosely written and do not clearly spell out what is to be done and who is to pay. However, agencies with receivables resulting from overpayments and unsecured loans have a high proportion of delinquent receivables that require collection action, and our review was directed primarily at those agencies.

To get an understanding of the magnitude of the problem, we checked a cross section of the following six Federal programs known to have large amounts uncollected. They are:

- Guaranteed Student Loans (Office of Education, HEW), \$402 million.
- Direct Student Loans (Office of Education, HEW), \$600 million.
- Veterans Educational Loans (Veterans Administration), \$2 million.
- Veterans Education Assistance (Veterans Administration), \$462 million.
- Food Stamps (Department of Agriculture), \$55 million.

--Supplemental Security Income (Social Security Administration, HEW), \$442 million.

Together, these six programs had an estimated \$1.9 billion in defaulted loans and overpayments. Most of this total has accumulated in the past 5 to 7 years. For example, the Veterans Administration's uncollected overpayments for educational assistance increased from \$8.4 million in 1970, to \$298 million in 1975, to \$462 million as of June 30, 1977. 1/

The Office of Education, Department of Health, Education, and Welfare, has similarly accumulated increasing amounts of defaulted education loans. The balance of uncollected guaranteed loans (loans made by banks but guaranteed by the Government) increased from approximately \$52 million in 1974 to \$403 million in 1977. Over half of the 400,000 defaulted guaranteed student loans acquired by the Office of Education from 1968 through 1977 were acquired in the last 2 years. The Office of Education's reimbursements to lending institutions because of student defaults totaled about \$149 million in fiscal 1977, an increase of about \$43 million over the prior year. However, amounts collected by the Office of Education during fiscal 1977 totaled only \$8.7 million, a decrease of \$1.3 million from the prior year. 2/

The Office of Education also has problems in its Direct Student Loan Program. In February 1978, the Secretary of HEW stated that as of June 30, 1977, an estimated 700,000 students had defaulted on direct loan notes, involving about \$600 million. 3/ Because the program works on a revolving fund principle, each defaulted loan results in a dollar-for-dollar reduction in the amount of aid available.

Because legislation has been passed that authorizes an estimated \$1.5 billion for student loans, debt collection in this area must be brought under control immediately to prevent dilution of the objectives of such programs and to prevent the appearance of these loans becoming grant programs. If debtors get the impression that these are grant programs, they are not very likely to pay the loan when it becomes due.

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1/HRD-78-45, see app. I.

2/CD-77-1, see app. I.

3/HRD-78-94, see app. I.

To help reduce the problem, the Education Amendments of 1976 gave the Office of Education authority to use private debt collectors in collecting defaulted guaranteed student loans.

UNIT COST DIFFERENTIALS REVEAL THAT  
AGENCY DEBT COLLECTION PRACTICES  
ARE EXPENSIVE AND SLOW

We were not able to fully compare the cost of Federal and commercial debt collection procedures because we could not get complete cost data. Only one Federal agency we visited had developed records on the cost of collecting accounts, and most of the commercial companies we contacted were reluctant to give us such data. However, as an indication of the difference, the Federal agency reported spending about \$8.72 per account in 1976 to maintain and pursue collection of an account from the time it was determined to be delinquent until the debt was collected, written off, or referred to us or Justice. <sup>1/</sup> (This figure did not include part of its data processing costs or the costs incurred by us or Justice.)

During this same period, one of the largest commercial collection agencies said it cost them an average of about \$3.50 for the same functions, including all data processing costs. We learned that it costs one of the largest retail firms less than \$3.50 for the same functions. Admittedly these figures are not fully comparable, but they do give an indication of the existing cost differential.

As another indication of the difference, private industry officials said they consider it cost effective to attempt collection for debts of as little as \$25 to the point in the debt collection process when a decision is made on seeking a court judgment. Before seeking a court judgment, another cost benefit analysis would be required to determine the amount below which the cost of litigation would exceed the value of the debt. This cutoff has reportedly remained the same since 1970. They attribute this low cutoff to the effective use of computers and the use of a system for interchanging information on debtors with credit bureaus. In contrast, Federal agencies can and do administratively write off debts up to \$600 (that is, they are not sent to us or Justice), which is up from \$200 in 1970. This does not mean that Federal agencies do not pursue collection

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<sup>1/</sup>This includes locating and corresponding with a debtor and, when necessary, obtaining evidence of ability to pay.

of small debts--the cutoff simply acknowledges that the process used to pursue collection beyond writing demand letters is expensive.

Federal collection action not only costs more but takes longer than in private industry. Officials from the commercial firms contacted said they were generally able to pursue collection to the point of obtaining a court judgment within 5 months. In the Federal Government it takes a minimum of 1 year to pursue collection to the point of obtaining a court judgment and frequently takes longer. One exception is the Veterans Administration, where the minimum time is reduced to 10 months because they have special authority to send directly to Justice those debts arising from overpayment of education benefits.

Because of legal and institutional constraints placed on Federal collectors and extensive documentation requirements, they cannot meet the cost effectiveness record of private industry. But processing time and costs can be reduced by adopting and implementing those private collection practices that make good sense and are adaptable to Government.

FAILURE TO AGGRESSIVELY PURSUE  
AND COLLECT DEBTS COSTS MORE  
THAN JUST MONEY

Failure to collect debts due the Government has several adverse effects. Most obviously it depletes the money the Department of the Treasury has available to pay obligations incurred by the Federal Government. This means that the Treasury must borrow the additional money it needs and pay interest. Overall, this has the effect of increasing the budget and the Federal deficit because expected funds did not materialize.

Extensive delays in completing collection also contribute to increased losses due to bad debts as well as increased administrative costs. As Government receivables age, they become increasingly difficult to collect and as the backlog increases, an additional administrative burden results. In this respect, we were told that the Office of Education has received approval and is in process of hiring 700 additional people to collect its delinquent loans, which now total over \$1 billion.

Failure to aggressively pursue and obtain collection has the added effect of giving certain people benefits they did not earn or more benefits than they were entitled to. It

also gives the appearance of converting self-help programs into grant programs without congressional authority. For example, when an education loan is not paid, the loan in effect becomes a grant to the borrower. Further, as word spreads that repayment can be avoided with little chance of repercussions, the number of debtors who pay voluntarily could decrease and Federal agencies would have to devote even more time and money to debt collection. Further, it is unfair to the taxpayer and the honest citizen who pays his debts to the Government to allow other debts to go uncollected. This inequity is especially important when the individual owing the debt has the ability to pay.

THE INCREASE IN UNCOLLECTED DEBTS  
IS CAUSED BY FACTORS OTHER THAN  
POOR COLLECTION PRACTICES

In fairness to Federal agencies it must be recognized that the increase in uncollected debts is attributable to factors other than just poor debt collection practices.

- Funding has been growing for benefit and loan programs where beneficiaries can potentially become debtors through their own actions (for example, by not informing Government officials of changes in eligibility or by taking out a loan).
- Many loans are high risk and are given when a person cannot obtain money from commercial sources.
- Rules have been changed allowing advance payment before beneficiaries fulfill the requirements (e.g., students receive money before attending class) which has led to numerous overpayments.
- The use of offset has limitations due to legal restrictions in many programs. Where offset is legal, there is no cost beneficial method under existing procedures to determine Government-wide whether a debtor is receiving Federal benefits.
- Federal agencies have not done all they could to keep debts as low as possible that arise from overpayments.

As we pointed out in previous reports, some agencies do not have adequate procedures for identifying irregularities and for promptly stopping payment when those irregularities are confirmed.

We believe that the amount of uncollected debts will continue to increase and the Federal Government will continue to lose or write off many debts that could be collected unless agencies take more aggressive collection action, and certain commercial practices are adopted to help locate debtors and get them to pay.

## CHAPTER 3

### IMPROVING DEBT COLLECTION BY

#### REPORTING DEBTS TO CREDIT BUREAUS

The Federal Government relies primarily on persuasion, offset, and legal action to collect unsecured debts. These methods are effective in many cases, but for a number of reasons they are not fully adequate when debtors delay or try to avoid paying.

In contrast to the Federal Government, commercial firms place primary reliance in collecting unsecured debts on aggressive collection action backed by the consequence of adversely affecting the debtor's credit rating. Appropriate use of this method has potential for use by the Federal Government. Based on private industry experience and the results achieved by one State agency in collecting student loans, we believe that reporting indebtedness to the credit bureau network can help Federal agencies collect from debtors who are delaying or trying to avoid paying.

Of course, care must be exercised to ensure accuracy in reporting delinquent debts (including defaulted loans) that debtors will not pay. Agencies should exercise the same care as in deciding to take legal action.

#### COLLECTION BY OFFSET CAN BE EFFECTIVE BUT HAS LIMITATIONS

The Federal Claims Collection Standards require Federal agencies to collect debts by offset when feasible. Offset involves deducting the amount owed from other payments and from compensation the debtor is due from the Federal Government. Compared with legal action, offset has two advantages: (1) the administrative processing costs are lower and (2) no statute of limitations prevents offset after 6 years.

With proper arrangements, collection through offset can be accomplished rather efficiently. Because of this, and the fact that it is often viewed as a less "painful" way of collecting, it should generally be used as a first alternative--where authorized--to obtain collection when a debtor cannot be persuaded to pay voluntarily and the deduction can be made promptly and without contingencies. For example, offset may not be appropriate when collection is contingent on a student's returning to school and applying for further benefits.

But collection by offset has some limitations which negate its usefulness in many cases. One, there are legal restrictions on using offset in many programs, and even when legal, there is no cost-effective way under existing procedures to make a Government-wide check to see if a debtor is receiving Federal payments. Additionally, many debtors, such as students, are not receiving pay or compensation from the Federal Government, thus making offset impossible.

These limitations on the use of offset increase the need for an inexpensive alternative to induce debtors to pay. One alternative is to report debts to the credit bureau network. (See p. 16.)

Although not generally done, offset against Federal income tax refunds could be effective for collecting debts of small amounts not warranting legal action. Collection of non-tax debts by offset against tax refunds due debtors is currently being studied and will be the subject of a separate report.

#### LEGAL ACTION IS A NECESSARY OPTION BUT AS A LAST RESORT

Legal action, which may lead to seizure of property and bank balances and garnishment of wages, can be very effective in convincing and forcing debtors to pay. The problem is that such action often is not practical and Justice is reportedly becoming overloaded with the number of referrals. Worse, rather than being used as a last resort, legal action is often the only resort since persuasion frequently is not successful and offset is not possible.

One problem with legal action is that it is expensive and slow. Thus, collecting relatively small debts is not cost effective. Currently, debts under \$600 are normally not sent to Justice for legal action. Also, the statute of limitations requires initiating a lawsuit within 6 years. Further, to avoid fruitless legal action the Department of Justice requires agencies to have extensive evidence that a debtor can pay before it will take legal action. Agencies often have difficulty obtaining such evidence and write off debts because they cannot.

Another reason legal action is not productive is that U.S. attorneys, who pursue collection for the Department of Justice, reportedly do not have enough staff to pursue collection of all the debts agencies forward. Additionally, Justice believes the court systems are already overburdened and that other ways are needed to induce people to pay.

One way to do this is to report debt information to credit bureaus.

REPORTING DEBTS CAN IMPROVE  
FEDERAL DEBT COLLECTION

Private industry officials said that the single most powerful motivation for an individual to pay a debt was the stigma of having his credit rating reflect that he has not paid debts on time. The vast majority of Americans rely on credit to buy the things they need. Industry and credit bureau people we questioned said that when faced with the loss of credit, the majority agree to pay their bills. They said that debts for those who do not pay are turned over to professional collectors or referred to their lawyers for legal action, or both.

Commercial firms affect a debtor's credit rating in two ways: (1) they report to a credit bureau the amount charged or loaned and (2) they report any failure to pay the amount owed. The first way is intended to limit the amount of additional credit the person may be given because firms will be alerted that the person may be overextended and may not be able to pay. Reporting a debtor's failure to pay may foreclose any future credit until the debtors agrees to pay, since firms granting credit are warned that the person may not be able or willing to pay.

The Government should also report  
data on debts to credit bureaus

For reasons that are not entirely clear, Federal agencies and their agents (banks, universities, etc.) normally do not report or make information available to credit bureaus on loans, except mortgages, nor report a debtor's failure to pay delinquent debts, including defaulted loans. The practice of not reporting debts, other than mortgages, to credit bureaus apparently has simply evolved over the years since Federal regulations are silent on this matter.

Information on mortgages is generally public information and is reported or available to credit bureaus. We have some evidence that a very few banks have infrequently made information on guaranteed student loans available to credit bureaus. The Office of Education is making arrangements to report, or have its agents report, information on student loans to credit bureaus.

We further believe, based on our understanding of the law and of the procedures for notification to debtors, agencies

may, for legitimate purposes, share with credit bureaus data on loans made and delinquent debts and remain in compliance with the Privacy Act of 1974 (5 U.S.C. 552a).

The privacy act allows an agency to disclose a record containing personally identifiable information about a person without that person's prior written consent where disclosure is for a routine use. Routine use is the use of a record for a purpose that is compatible with the purpose for which the record was collected. We believe that an agency could conclude that reporting delinquent debt information is compatible with the purpose for which the information was collected because one of the purposes of collecting the information is to assist the Government in collecting debts owed. Collecting debts owed is the obvious anticipated result of reporting delinquent debt information to the credit industry.

Agencies would have to publish the proposed reporting of this information in the Federal Register in order to establish this as a routine use. We also suggest that agencies notify individuals that their debts are going to be reported to the credit industry.

In addition, we suggest that agencies take steps to include in their application forms an authorization by individuals applying for benefits. The authorization would state that the agency or its agent would be reporting to the credit industry that the individual incurred a loan or debt. If this were done, the agencies would have complied with the privacy act since the act allows the disclosure of records with an individual's prior consent. In any event, based on our present understanding of the law, the connection between reporting information when the loan is made and later collecting the debt may be sufficient to justify the release of the information as a routine use without prior consent.

We believe it is appropriate to report debts to credit bureaus, both to collect from debtors who are trying to avoid paying, as well as to make it more difficult for debtors to overextend themselves on credit and thus enable them to repay their outstanding debts to the Government. Agencies have an obligation to take all appropriate actions to recover money due the Government.

It should also be noted that when individuals are prompt in making payments to the Government and this data is recorded at the credit bureaus, their credit rating can be enhanced, providing them with additional credit.

Of course, Federal agencies must always take reasonable steps to collect a debt and make sure it is valid before reporting it as delinquent to the credit bureau network. They should exercise the same care as in deciding to take legal action. However, there would be no dollar limitation on reporting or need to obtain evidence of ability to pay.

#### THE CREDIT BUREAU NETWORK

The credit bureau network consists of about 40 credit bureaus. Each credit bureau services regional or local areas, with the biggest bureaus providing coverage of wide geographic areas with affiliates. Subscribers to these credit bureaus input credit data without charge and pay for credit information they obtain. A nationwide search for credit information on an individual could require contacting several credit bureaus. Since entering data can be done free of charge, Federal agencies could report data to as many credit bureaus as deemed necessary to be effective.

#### BENEFITS FROM REPORTING DEBTS TO CREDIT BUREAUS

Four benefits can be realized from appropriately reporting information on debts to credit bureaus. It can help

- keep debtors from becoming so overindebted they cannot pay,
- convince debtors to pay since future credit may be cut off,
- locate debtors who otherwise elude identification, and
- identify, when appropriate, program applicants and Federal employees who owe the Government money.

#### Protecting debtors from becoming overindebted

When the Government assumes responsibility for providing citizens with financial assistance in the form of loans which must be repaid, it should protect its interest in later collecting amounts due by protecting the person from becoming so overindebted he cannot repay. (Debts being paid in instalments are also considered loans.)

One way to help protect Government loan holders from getting overindebted to the point of not being able to repay the Government is to follow the commercial practice of reporting to the credit bureau network any loans when incurred and any debts being paid in installments. This will usually limit the amount of credit a person will be given commensurate with his income because commercial firms, and perhaps other organizations, will be alerted that the person may be overextended and not able to pay. For example, a person making \$10,000 a year who owes \$3,000 in Government loans will not normally be given the same amount of credit as a person with equal income who owes only \$300 for items charged in the last month.

The Government must protect itself in this way because many of its debtors, particularly its student debtors, have limited experience in managing their finances. This safeguard will help keep borrowers from getting so deep in debt they have to default on their Government obligations.

#### Convincing debtors to pay

As we have pointed out, many agencies are having trouble getting debtors to voluntarily pay debts when due. Some debtors appear to believe they can avoid paying, and it seems that certain others view their debts as benefits that do not have to be repaid. For example, in a recent review, Veterans Administration officials in several regions said that many veterans view the agency's loan program as an entitlement and not an obligation to be repaid. <sup>1/</sup> The collection methods now used (persuasion, offset, and legal action) have not been fully effective in convincing such debtors to pay.

Reporting delinquent debts that debtors will not pay to the credit bureau network can have the effect of foreclosing any future credit until the debtor agrees to pay. Commercial experience has shown that when debtors find they cannot buy the things they want on credit, many come forward and pay or resolve the debt. We believe that many who owe the Government money would also pay or properly resolve the debt if they knew it would be reported as delinquent to credit bureaus.

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<sup>1/</sup>HRD-78-112, see app. I.

Locating debtors who  
elude being found

Another problem many agencies have is finding debtors and getting them to respond to demand letters. Agencies do not have good figures on the extent of the problem, but according to a Veterans Administration survey of 783 borrowers who defaulted on their student loans, 652 (83 percent) could not be located or did not respond to the agency's payment notices. 1/

We believe that reporting those people's debts to the credit bureau network as delinquent would help "surface" the debtors. When their credit rating suffers because of their loan delinquency and begins limiting their ability to buy the things they want, we believe it is quite likely they will come forward to resolve their debt. This could involve proving they do not owe it, proving they cannot pay, or agreeing on some payment plan. When agreement is reached on a payment plan, an agency would properly report the debt as outstanding--like a loan--but not delinquent.

Our belief that this procedure will work is based on the fact that the majority of debtors will sooner or later get a job and join the vast majority of other Americans who rely on credit to purchase many of the things they desire, such as homes, cars, furniture, and appliances.

Identifying persons who owe  
the Government money

When agencies have authority to exercise discretion in granting loans and other benefits to applicants, they generally need information on the individual's financial condition. As part of this, agencies need to know if the individual owes money to the Government. Further, the Federal Claims Collection Standards require agencies seeking debt repayments, when faced with any inexcusable, prolonged, or repeated failure of debtors to make such payments, to seriously consider suspending or revoking privileges, such as eligibility for a loan.

As mentioned previously, Federal agencies currently have no effective way to see if program applicants or Federal employees owe the Government money. As a result, some persons

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1/HRD-78-112, see app. I.

(we have no idea how many) are receiving benefits to which they might not otherwise be entitled.

To effectively screen such persons, a file of those persons who owe the Government money would have to be established. Such a file would, in effect, exist if loans and delinquent debts were reported to the credit bureau network. An agency would have only to obtain a credit report to learn if a person applying for benefits had a defaulted Government loan or owed a delinquent debt. Similarly, agencies could selectively screen their own employees, and all incoming employees, to see if they owe any delinquent Federal debts.

#### SOME QUESTION THE EFFECTIVENESS OF REPORTING GOVERNMENT DEBTS

Some Federal collection officials said they did not think that affecting credit ratings would be effective because many of the persons indebted to the Government are not able to pay. We realize that at any given time some debtors will not be able to pay their debts, perhaps because they have incurred too many or because they do not have jobs. However, our evidence shows that a high percentage of debtors are able to pay--they just are not voluntarily doing so. For example, in a sample of 613 debts which were written off because the debtors had not been located, 414 of the debtors (67 percent) had jobs and were paying taxes.

#### Reporting debts to credit bureaus has proven successful for a State agency

The potential effectiveness of reporting debts to the credit bureau network is illustrated by the results reported by the New Jersey Office of Student Assistance (See app. IV.) Officials from this agency said they have been reporting certain indebtedness from Government-backed loans to a nationwide credit bureau network since 1976. According to agency data this procedure has been highly successful as an incentive both in preventing students from defaulting on their loans and in collecting defaulted loans. As shown by its statistics from 1976 to 1978, the agency has realized:

- A 13-percent decrease in claims paid to lenders for defaulted loans. This decrease is in the face of a 36-percent increase in the number of loans made and a 60-percent increase in the amount guaranteed.
- A 93-percent increase in the number of payments received on defaulted loans.

--A 100-percent increase in the dollar amount collected on defaulted loans.

--A 79-percent increase in the number of defaulted loans paid in full.

These achievements reportedly did not require any additional administrative help in the agency's prevention and collection activity.

#### CONCLUSIONS

Reporting information on delinquent debts to credit bureaus would not always be effective or appropriate. However, based on private industry experience and the results achieved by the State agency in New Jersey, we think such reporting would be effective and proper in the majority of cases where people have jobs and are able to pay. It has the added advantage of being inexpensive.

To gain experience in implementing this procedure, we believe it best to begin reporting debts to the credit bureau network incrementally starting with the educational assistance overpayments and defaulted student loans at the Veterans Administration and the Office of Education. Those debts currently present a major collection problem. The Office of Education is considering making arrangements to begin doing so for its student loans. We plan to work with the Veterans Administration to implement this procedure to collect education assistance overpayments.

#### RECOMMENDATIONS

We recommend that the Secretary of Health, Education, and Welfare, and the Administrator of Veterans Affairs take action on their student loans and educational assistance overpayments to report to the credit bureau network loans when incurred, loans and overpayments being paid in installments, and the

failure of debtors to pay amounts owed when due. 1/ In addition, we recommend that they take steps to include on application forms an authorization by an individual who is applying for a benefit to allow the agency to report to credit bureaus the amount that person will receive upon approval by the Government. Based on results of these efforts, we plan to initiate appropriate revisions to the Federal Claims Collection Standards.

In making these recommendations, we recognize that the Office of Education is considering making arrangements for reporting debts to the credit bureau network. These recommendations express our support and desire to see the actions carried through.

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1/We were informed that VA has expressed concern that referral of debt information may be precluded by the confidentiality provisions of 38 U.S.C. 3301. We view subsection (c) of that section as sufficient authority to permit administrative determinations to refer debt information, assuming compliance with the Privacy Act (5 U.S.C. 552a), and we understand that certain referral actions taken by VA suggest that section 3301 has not been treated as an absolute prohibition of the referral of debt information. However, should VA determine that disclosures should not be made without amendment to 38 U.S.C. 3301, we would not object to the amendatory legislation.

## CHAPTER 4

### EMPLOYING PRIVATE DEBT COLLECTORS

Thousands of debts have been written off as uncollectible because debtors could not be located, the agency could not find out if the debtor could pay the debt, or further collection was not considered economical. Commercial firms typically give debts to private debt collectors before considering them totally uncollectible. Most Federal agencies are not authorized to use private debt collectors, but, their use to collect the debts that agencies write off without pursuing legal action merits further study.

#### COMMERCIAL FIRMS USE INDEPENDENT DEBT COLLECTORS FOR DEBTS DIFFICULT TO COLLECT

When debtors are faced with loss of credit and still refuse to pay, commercial firms classify them as recalcitrant debtors. These debtors usually cause the firms to do extensive administrative work in attempting to collect the debt. The costs associated with these actions are high; therefore, firms often find it more economical to turn over their collection to a private collection agency. Normally, commercial collection agencies would receive a fee ranging from 25 to 50 percent of the amount collected.

Officials at the American Collectors Association, one of the largest professional collector organizations, said that members collected as many as 33 percent of the debts turned over to them between 1962 and 1976. For 1976, the member firms collected about 26 percent. They pointed out that these accounts are from the most recalcitrant debtors, and that client firms have taken exhaustive collection actions prior to forwarding the cases to the member collection firms. Officials of two retail establishments we visited confirmed that they do take exhaustive measures to collect before writing off a claim or submitting it to a collection agency.

#### PRIVATE COLLECTORS HAVE BEEN USED TO COLLECT STUDENT LOANS

Colleges and universities have for several years used private firms to collect student loans financed by Federal funds under the Office of Education's direct loan program. In a recent review we found that colleges that used private collectors, collected more defaulted loans than colleges that pursued collection themselves. 1/

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1/HRD-78-94, see app. I.

THE OFFICE OF EDUCATION IS PREPARING  
TO USE PRIVATE DEBT COLLECTORS

The Office of Education has legal authority to use commercial collection agencies to collect guaranteed student loans. The Office is in the process of awarding contracts to commercial debt collection agencies to collect debts on a test program basis. We plan to monitor the results achieved. Also, we have told Office of Education officials that private collectors should be used only after it has made exhaustive efforts to collect, including reporting debts to credit bureaus.

USE OF PRIVATE DEBT COLLECTORS  
MUST BE AUTHORIZED BY LAW

We have held that the Federal Claims Collection Act of 1966 (31 U.S.C. 951-953) precludes agencies from employing commercial collection agencies to collect debts unless specifically authorized by law. We have also taken the position as a matter of policy that collection of debts owed to the Government should be handled by Federal departments and agencies. We continue to believe that in general this is a sound policy. There may, however, be merit in using private debt collectors to collect debts which are not economical for Federal agencies to pursue--those which agencies have administratively written off without pursuing legal action. Independent collectors usually have the advantage of being located where they can personally contact the debtor to explain the nature of the debt and possible repayment arrangements. Most agencies perform debt collection from regional and national centers, making personal visits very expensive.

The Fair Debt Collection Practices Act of 1977 has provided safeguards for eliminating the abuses in debt collection as well as protecting the privacy of debtors. This action has alleviated some concerns which led to our past opposition to using commercial collection agencies. However, private collectors should be used only after exhaustive collection measures are taken.

ACTION BEING TAKEN

We are examining the merit of proposing legislation allowing agencies to employ independent debt collectors to collect debts that agencies administratively write off. We are going to monitor the experience of the Office of Education and examine in greater depth the results experienced by universities that have used private collectors for Government-backed student loans.

## CHAPTER 5

### DEBT COLLECTION COULD BE IMPROVED

#### BY USING THE CREDIT

##### BUREAU DEBTOR LOCATOR SERVICE

Finding people who do not voluntarily pay the Government the amounts they owe is a problem for many agencies, particularly those dealing with students. Agencies have accumulated a large backlog of delinquent debts and have written off several hundred million dollars in debts because they could not locate debtors.

Agencies locate debtors in a variety of ways, but they have not made full use of the nationwide debtor locator service provided by the credit bureau network. This service is inexpensive and should have potential for use in the Federal Government along with other methods now used.

##### FINDING DEBTORS IS A PROBLEM

One technique debtors use to avoid paying debts is to elude being found. They move and do not leave a current address.

Statistics on how big this problem is cannot be developed because agencies do not keep records of the number of debtors they cannot locate nor how many debts they have written off for this reason. However, we determined in previous audits that agencies have written off several hundred million dollars in debts because they could not learn the debtor's current address or obtain a response to demand letters. Further, officials from seven agencies we visited said that finding debtors is a big problem. The Veterans Administration, for example, said that it anticipated making about 250,000 requests of the Internal Revenue Service for locator assistance in fiscal 1977. We understand that, in the past, at least 25 Federal agencies have obtained locator assistance from the Internal Revenue Service.

##### Agencies use a variety of methods

Federal agencies and their agents locate some debtors by checking with parents, schools, banks, and other organizations that might be involved. They also check with various Federal and State offices that have registers for such things as vehicles, licenses, taxes, etc. Agencies commonly use a postal tracer.

While each method can be effective, many debtors have not been located using them. One problem is that those sources that some Federal agencies consider to be the best no longer fully cooperate. Only about one-fourth of the States will currently give out information from vehicle and drivers license registers. The Internal Revenue Service, considered one of the best and least expensive sources, now will not give out taxpayer addresses to other agencies except under restricted conditions. When these conditions are met, it provides the information for 10 cents.

The Tax Reform Act of 1976 allows disclosure of taxpayers' addresses to agency officials for collection of Federal claims, but redisclosure is restricted to persons having access under the act. The Internal Revenue Service has refused to furnish current addresses to Federal agencies if they have given the addresses to others, such as colleges, banks, and credit companies. The effect of the Tax Reform Act on debt collection is currently being studied and will be the subject of a separate review.

#### DEBTOR LOCATOR SERVICE COULD HELP FIND MORE DEBTORS

One source that Federal agencies seem to have made limited use of is the credit bureau debtor locator service. Because millions of Americans have credit records, the service can be a good source which is readily available. The service has proven useful for commercial firms, and at least one Federal law enforcement agency uses it to locate people.

Credit bureaus offer three types of locator services. One, they publish a 50-cent locator report consisting essentially of a person's name, phone number, address, and place of employment. (This information can also be obtained from a credit report which costs from \$1.50 to \$5.00.) Two, some other commercial firms offer an investigative service which assigns a professional to locate the debtor. This service costs as little as \$6 a search and up to \$50 and \$100 depending on the scope and time spent finding the person. Three, if a debtor is listed on credit bureau records as delinquent and not located, a credit bureau will notify the organization that is requesting the service of that fact when the debtor applies for credit. This service is automatic when an agency shares debt information with a credit bureau.

As discussed in chapter 4, we maintain that the Federal Claims Collection Act precludes agencies from employing commercial collection agencies to collect debts unless specifically authorized by law. However, the act does not prohibit

agencies from using the services of commercial collection agencies to locate debtors since the Federal agencies remain responsible for the actual collection of the debt. In fact, the Federal Claims Collection Standards cite the use of credit agency "skip locate" reports as a possible source of assistance in locating missing debtors.

Agency officials gave several reasons for not using the credit bureau industry to locate debtors. They did not know they could use such services or they had no arrangements for doing so. They thought they had to have a person's address to obtain information from the credit bureau system. They used regular credit reports and locator reports but did not find them very useful; for example, addresses were often not current and "no record" reports were too often received.

In checking the latter complaint, we found that most often the regional coverage the agencies were getting was only of a few States. This was due in part to not having arrangements to obtain data from the various credit bureaus. Also, a weakness in obtaining reports on a one-time basis is that the initial search may not be successful because the debtor has not established credit or is not making payments (thus his credit address may not be accurate). However, it is possible that a debtor will later apply for or reestablish credit. When this happens and a subscriber has arranged in advance for this service, the subscriber is automatically given a delinquent debtor's location.

#### ARRANGEMENTS FOR OBTAINING LOCATOR DATA

To effectively use credit bureaus to find debtors, Federal agencies must be able to obtain nationwide coverage which would require making arrangements to obtain credit data from several credit bureaus. To provide uniformity and reduce administrative costs, it might be best if contractual arrangements were made or coordinated by one agency.

#### CONCLUSIONS

We cannot predict how many debtors might be located by using the credit bureau locator service. But it is a reasonably inexpensive source that appears to warrant use along with other methods based on cost saved and results achieved. However, because of the poor results achieved by some agencies, the value of this service needs to be further evaluated.

We believe it would be most practical for the Government to evaluate this procedure by having the Veterans Administration and the Office of Education implement it. Obtaining locator information would be a natural extension of the arrangements the agencies would make to report debts to the credit bureau network.

#### RECOMMENDATION

We recommend that the Secretary of Health, Education, and Welfare, and the Administrator of Veterans Affairs take action on their defaulted student loans and delinquent educational assistance overpayments to arrange to use the debtor locator service offered by credit bureaus and other firms and to evaluate the cost benefit of these services.

## CHAPTER 6

### A SYSTEMATIC APPROACH IS NEEDED FOR PREPARING AND SENDING DEMAND LETTERS

In this and previous reviews, we identified a number of deficiencies in the practices that agencies use to prepare and follow up on demand letters (requests to debtors for payment of debts). Remedies for these deficiencies are discussed below. As discussed in earlier sections of this report, these factors also contribute to other problems which create an ineffective debt collection environment.

#### DEMAND LETTERS MUST BE SENT PROMPTLY

One goal in debt collection is to recover the amount due as promptly as possible. This requires that agencies identify delinquent accounts promptly, quickly send demand letters and methodically follow up on the letters. Many Federal agencies are not taking these actions systematically.

We have identified the following problems in collection practices:

- Delinquent accounts were not being promptly identified so collection action could be initiated.
- The intervals between demand letters frequently exceeded 30 days (the interval specified by the Federal Claims Collection Standards) and in many cases followup letters were not ever sent.
- Collection actions were not adequately documented to show what steps had been taken or that the debtor was given due process protection.
- Delinquent debts were not promptly referred to us or Justice after agency efforts were exhausted.
- Agencies did not know their collection costs, and therefore, they did not have an adequate basis for deciding when to terminate their collection effort.
- Debtors are seldom told to provide evidence which they should be able to supply when claiming that that they do not owe the debt or that the amount cited by the agency is in error.

The examples below further describing correction problems were noted in this and prior GAO reviews.

The Department of Housing and Urban Development's Federal housing debts were over 2 years old before the first collection effort took place. A Veterans Administration regional office we checked was delinquent in sending initial as well as followup demand letters to debtors. A randomly selected sample of 100 Office of Education guaranteed student loans at a Department of Health, Education, and Welfare regional office showed that the first demand letter was seldom sent promptly after the loan became due. In 83 percent of the cases, 2 months elapsed before the first demand letter was sent, and in 28 percent of the cases more than a year had elapsed. The Office of Education is now automating the preparation of demand letters and taking other steps to improve its performance.

The Social Security office responsible for collecting overpayments for retirement and survivors insurance and disability insurance was not promptly following up after initial notices of overpayment were sent. Of 117 randomly selected overpayment cases, 49 case files--or 42 percent--contained no indication that followup action had been taken. These 49 cases had been dormant for more than 1 year. 1/

In a recent review of the food stamp program, we reported that the Government was losing over \$500 million annually because of overissued food stamps. The problem was compounded because overissuance cases were not regularly evaluated to determine whether the collection effort was appropriate and few or no attempts were made to recover the overpayments.

DEMAND LETTERS SHOULD TELL DEBTORS  
WHEN AND WHAT ACTION WILL BE TAKEN

According to private sector officials we talked with, one of the primary tenets in debt collection is to tell the debtor specifically how much is owed, when payment is expected, and what action will be taken if payment is not received. We think this not only makes sense but believe that the debtor needs to know this to decide that paying is in his or her best interest.

Although it is difficult to generalize about the content of agency demand letters, we noted in reviewing sample letters

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1/B-117604, see app. I.

that they were not as specific as those used by the private sector when describing the actions that would be taken. Also, some agencies do not assess an interest charge for late payment.

As pointed out in a previous review, Federal agencies have widely divergent practices for assessing interest charges when payments are not timely. Although a few agencies charge high rates of interest on delinquent debts, other agencies charge little or no interest. The Treasury Department requires agencies to establish charges for late payments in all contracts and other formal payment agreements. However, some agencies have not implemented this requirement. We also recommended that the Treasury Department change its guidelines to impose interest on all debts not paid within 30 days of the date of the invoice unless extenuating circumstances exist. Treasury agreed and is amending the guidelines to provide for interest charges on delinquent payments. 1/

Once the debtor has been informed of the debt, and payment is not forthcoming, the debtor should be told specifically in the final demand letter, if not earlier, what action will be taken if payment is not made by a given date and, that, interest of a certain percentage will be added for each day the debt remains outstanding.

DEBTORS MUST PROVE  
THAT THEY DO NOT OWE DEBTS

Debtors frequently claim they do not owe the debt, that the amount is erroneous, that they have paid it, or that they cannot afford to pay. Such claims are easy to make. Showing they are valid is another matter. Both parties--the debtor and the Government--have responsibility for producing proof of debt.

In reviewing agency correspondence we found that agencies often appeared to assume the entire burden for checking and doublechecking assertions made by debtors. Debtors were seldom told that unless they provided substantiating evidence, the debt would be considered valid and the next step in the collection process would be taken. This approach is in contrast with the private sector where the customer, or the one allegedly owing the debt, must present evidence to show that the company is in error. This is a reasonable approach since in many cases only the debtor can produce the necessary evidence.

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1/FGMSD-78-61, see app. I.

We do not question the fact that the Government must take all reasonable steps to verify that the debts are owed and the amount is correct. Federal agencies also need to check the validity of debtor claims which appear legitimate, but they need not and should not assume sole responsibility for doing so. Debtors must be told that they have to provide evidence available to them to support their appeals.

#### AUTOMATION OF DEMAND LETTERS CAN REDUCE COSTS

One way to reduce debt collection is to automate the preparation of demand letters. Automation is usually economical when an agency has a substantial volume of collection actions. Each of the commercial agencies we checked with had automated the recordkeeping for its accounts receivable and debt collection process.

A number of agencies have automated the preparation of demand letters for all or parts of their debt collection activities. These agencies include the Veterans Administration, the Internal Revenue Service, the Small Business Administration, and the Air Force, Army, and Navy. We believe there are other Federal agencies that could save money by using computers or other automated equipment to prepare their demand letters. Each agency with a substantial volume of collection actions should evaluate whether automation would be economical.

#### RECOMMENDATIONS TO DEPARTMENTS AND AGENCIES

We recommend that the heads of departments and agencies identified in appendix V:

- Review their demand letters to ensure that debtors are being clearly told (1) how much is owed, (2) when payment is expected, (3) what action will be taken if payment is not received, (4) that interest will be charged for all debts unless precluded by statute if the money due is not paid within a reasonable time, and (5) when necessary, that available evidence must be provided to support assertions that they do not owe the debt, that the amount is wrong, or that they have paid or are not able to pay.
- Assess the cost and benefit of automating their collection process (see ch. 7), including the preparation of demand letters.

## CHAPTER 7

### DEBT COLLECTION CAN BE

### IMPROVED BY AUTOMATION

The efficiency and effectiveness of agency collection efforts could be improved by using automated processing as the majority of commercial companies have done. Having an automated debt collection process would not only eliminate much of the paper now being generated, but would make the Federal debt collection process more uniform, systematic, and cost effective.

At least one Federal agency we know of--the Internal Revenue Service--has a fully automated collection system comparable to that being used in private sector companies. Thus, the techniques and expertise exist to develop a workable automated system.

Although there would be some initial development costs, we believe these start-up costs would be reduced somewhat since many Federal agencies already have part of their collection systems automated or are beginning to do so. Further, for some agencies automation is essential now to efficiently handle the large volume of collections they must process. In the long run we believe many agencies could reduce their unit costs for debt collection by automation.

The following are some of the significant practices from the private sector which we believe could be incorporated into the Federal system to make it operate more efficiently and effectively.

- Providing for each agency to obtain nationwide credit reports and debtor location information from the commercial credit industry, through telecommunication arrangements (e.g., teletype machines) where the volume warrants. Some agencies now obtain such reports, but usually by mail and they often get only regional coverage.
- Recording, on an appropriate computer storage medium, pertinent historical material on how the debt was incurred, Federal collection actions, and debtor appeals.

- Notifying the debtor by a computer-generated letter of the steps in the Federal debt collection process and the consequences of nonpayment of a debt. The steps include such things as reporting debt delinquency information to credit bureaus and taking legal action.
- Notifying the credit bureaus through computer-generated reports of loans made and delinquent debts.
- Promptly referring the case to the Justice Department when the demand cycle is completed which includes screening debts warranting legal action when debtors do not respond to agency efforts or make arrangements to pay.
- Calculating the interest charge on the debt at a rate not less than that at which the Federal Government borrows funds.

RECOMMENDATION TO  
DEPARTMENTS AND AGENCIES

We recommend that the heads of departments and agencies identified in appendix V assess the cost and benefit of automating their debt collection process.

RECENT GAO REPORTS ON DEBT COLLECTION

FGMSD-78-61 Oct. 20, 1978	Department of the Treasury and Office of Management and Budget
	Government needs to do better in collecting amounts owed by the public.
HRD-78-112 May 11, 1978	Veterans Administration
	Improvements needed in VA's educational loan program.
HRD-78-94 May 2, 1978	Office of Education, HEW
	Status of Office of Education's National Direct Student Loan funds at selected post secondary education institutions.
HRD-78-45 Feb. 16, 1978	Veterans Administration
	Further action needed to resolve Veterans Administration's educational assistance overpayment problem.
FGMSD-77-66 Feb. 3, 1978	Department of the Interior
	Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.
CED-78-14 Dec. 12, 1977	Department of Housing and Urban Development and Department of Defense
	The unnecessary practice of requiring DOD to pay mortgage insurance premiums on Wherry and Capehart family housing properties owned by DOD and insured by HUD.

FGMSD-77-89  
Oct. 21, 1977

National Aeronautics and Space  
Administration

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system

CED-77-134  
Oct. 7, 1977

Department of Agriculture

Letter report to the Secretary of Agriculture concerning improving FmHA's practice of charging either a standard fee or nothing for credit reports for evaluating the credit history of loan applicants

FGMSD-77-46  
Sept. 16, 1977

Department of Defense

Weaknesses in billing and collection for foreign military sales

FGMSD-77-41  
Sept. 15, 1977

Civil Service Commission

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

FGMSD-77-33  
Sept. 8, 1977

Department of Housing and Urban  
Development

Millions of dollars in delinquent mortgage insurance premiums should be collected by HUD

FGMSD-77-32  
Sept. 6, 1977

Social Security Administration

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

FGMSD-77-31  
Aug. 30, 1977

Department of the Treasury

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

HRD-77-131  
Aug. 23, 1977

Social Security Administration

Supplemental security income overpayments to Medicaid nursing home residents can be reduced.

FGMSD-77-30  
Aug. 17, 1977

Department of Labor

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

CD-77-1  
Aug. 11, 1977

Department of Health, Education,  
and Welfare--Office of Education

Collection efforts not keeping pace with growing number of defaulted student loans.

FGMSD-77-29  
July 27, 1977

General Services Administration

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

APPENDIX I

APPENDIX I

CED-77-112  
July 18, 1977

Department of Agriculture

Food Stamp Program's overissued benefits not recovered and fraud not punished.

FGMSD-77-42  
July 11, 1977

Forest Service

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

FGMSD-77-45  
June 25, 1977

Energy Research and Development Administration

Review of ERDA's accounting system for accounts receivable, including related billing and collection practices.

FOD-76-7  
Apr. 16, 1976

Small Business Administration

Need for improvement in Small Business Administration's financial management.

B-114589  
Mar. 19, 1976

Veterans Administration

Educational assistance overpayments, a billion dollar program--a look at the causes, solutions, and collection efforts.

B-117604  
Apr. 4, 1975

Social Security Administration

Lengthy delays in processing of overpayments under Part-A of the Medicare program may result in losses of millions of dollars.

B-117604  
Oct. 11, 1973

Department of the Army

Improvements have been made but problems still exist in claims.  
(Army Finance Support Agency)

AGENCIES COVERED IN THIS AND PRIOR GAO REVIEWS  
OF COLLECTION OF FEDERAL ACCOUNTS RECEIVABLE

Department of Agriculture  
Forest Service

Department of Defense  
Defense agencies  
Foreign military sales

Department of Health, Education, and Welfare  
Office of Education  
Social Security Administration

Department of Housing and Urban Development

Department of the Interior  
Bureau of Reclamation  
Bureau of Land Management  
Geological Survey

Department of Labor

Department of the Treasury  
Bureau of Government Financial Operations  
Bureau of Customs

Civil Service Commission

Energy Research and Development Administration

General Services Administration

National Aeronautics and Space Administration

Veterans Administration



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20201

Mr. Gregory J. Ahart  
Director, Human Resources  
Division  
United States General  
Accounting Office  
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "The Government Can Be More Productive in Collecting Its Debts By Following Commercial Practices." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Thomas D. Morris".

Thomas D. Morris  
Inspector General

Enclosure

Comments of the Department of Health, Education and Welfare  
on the GAO Draft Report to the Congress of the United States  
entitled "The Government Can Be More Productive in Collecting  
its Debts by Following Commercial Practices" -- (FGMSD-78-59)

Overview

The Department concurs with the thrust of GAO's recommendations and appreciates the opportunity to comment on the draft before its publication. We have limited our comments on GAO's recommendations to the Department's Guaranteed Student Loan Program because it was specifically identified in the report.

The findings of the report suggest that the Department needs to improve its debt collection practices especially in the areas of unsecured loans and overpayments. These areas have also been of considerable concern to the Department. As a result, the Department initiated a major effort last fiscal year to control and reduce the backlog of defaults which have accumulated in the Guaranteed Student Loan Program. This effort has produced a number of improvements in the collection process.

Collections during FY 1978 totaled \$15.8 million as compared to \$9.6 million in FY 1977. During FY 1979, collections are expected to total in excess of \$20 million. In this context, collections totaled \$4.5 million for the first two months in FY 1979 alone. In addition, at the present time nearly 57,000 accounts are in repayment status as compared to 24,000 accounts as of October 1, 1977. This means that during the past 14 months we succeeded in placing into repayment nearly two and one half times as many accounts as had been placed in such category since the program was enacted in 1965. Although we still have a sizable default backlog, we believe that we have stemmed its growth and are in control of the problem. In fact, we are committed to reducing this backlog to a respectable minimum during the next two years.

We believe that the GAO recommendations for improving collection procedures, particularly those dealing with reporting of loans to credit bureaus, have merit and will facilitate our efforts to further improve our collection efforts across all appropriate programs, including the National Direct Student Loan Program. However, we also feel that certain issues must be resolved before we can fully implement GAO's recommendations. First, it is not clear whether the Department has statutory authority to refer, or have referred, debtor information to private credit bureaus for the purpose of coercing debtors to repay their obligations. Second, we are concerned whether the above actions, combined with use of the debtor locator service, are consistent with provisions of the Privacy Act. These issues are of particular concern to the Department and are being referred to the Office of General Counsel for legal opinion.

Specific CommentsGAO Recommendation

GAO recommends that the Secretary of Health, Education, and Welfare and the Administrator of Veterans Affairs take action on their student loan and educational assistance overpayments to report to the credit bureau network loans when made, loans and overpayments being paid in installments and the failure of debtors to pay amounts owed when due. In addition, arrangements should be made on a test basis, to use the debtor locator service offered by credit bureaus and other firms and evaluate the cost benefit of these services.

Department Comments

We concur with the recommendations but believe certain basic issues must be resolved first. They are: (1) whether statutory authority exists to refer defaulted loan and overpayment information to credit bureaus, and (2) whether the use of debtor locator services offered by credit bureaus and other firms are consistent with provisions of the Privacy Act. Both of these issues are being referred to the Department's Office of General Counsel for a legal opinion. As soon as that opinion is available, we will provide GAO a copy of our legal analysis.

GAO Recommendation

GAO recommends that the heads of departments and agencies:

- Improve the content of demand letters to (1) advise debtors who do not agree to pay or are delinquent what action will be taken if payment is not made and that interest will be charged for each day the debt is delinquent, and (2) tell debtors that they must provide evidence to support assertions that they do not owe the debt, that the amount is wrong, that they have paid, or are not able to pay.
- Assess the cost and benefit of preparing their demand letters automatically.

Department Comments

We concur. In fact, it is our view that we have already fully complied with this recommendation with respect to the Guaranteed Student Loan Program. Specifically, in October 1977, we initiated a program to issue demand letters to all defaulters on a consistent and regularly scheduled basis. The information provided to the debtor is consistent with the GAO recommendation and clearly advises the debtor of the actions that will be taken if payment is not made.

It should be further noted that in view of the high volume of demand letters that must be generated, we have, during the last year, implemented an automated letter writing system. As an example of current level of activity, we will generate and mail more than 150,000 computer generated letters and billing statements during the month of December alone.

We believe that our high rate of success in placing defaulters into repayment status and to significantly increase the dollars collected during the past year could not have been accomplished without our actions to fully automate the demand letter process.

#### GAO Recommendation

GAO recommends that the heads of departments and agencies assess the cost and benefit of automating their debt collection process.

#### Department Comments

We concur and believe that we have already complied with the GAO recommendation for Guaranteed Student Loan (GSL) collection activities. Specifically, during the past year, we have perfected the automated billing system to a point where we believe it to be comparable in efficiency to similar billing systems in the commercial sector. Under this system, each paying account receives a monthly bill. Delinquency letters are mailed when the payment is 7, 14, 28, and 42 days overdue. Payments received are also entered into the system and are tracked automatically.

In view of the large volume of transactions, we believe that the GSL collection effort can only be supported by means of an efficient and automated debt collection system.

**State of New Jersey**

**DEPARTMENT OF HIGHER EDUCATION  
OFFICE OF STUDENT ASSISTANCE  
1474 PROSPECT STREET  
P. O. BOX 1417  
TRENTON, NEW JERSEY 08625**

May 3, 1978

Mr. Herbert Millstein, Assistant Director  
U. S. General Accounting Office  
FGMS - NPG, Room 6027  
441 "G" Street, N. W.  
Washington, D. C. 20548

Dear Mr. Millstein:

I appreciated your telephone call the other day regarding the possible benefits to be derived from reporting to a nationwide credit data network certain indebtednesses resulting from government backed loans. This is an idea my claims and collection manager, John DeFeo, and I have been espousing for some time. It is a policy of the NJHEAA to report all defaulted student loans to a credit data agency; and we encourage our participating lenders to report all Guaranteed Student Loans at the time they are made. Let me tell you why.

Guaranty agencies are not primary credit granters per se and are not in the mainstream of daily credit transactions. Therefore, it is important that these educational loans, which represent sizeable sums of money, are properly recorded within the credit community so that they may be taken into consideration by creditors prior to the extension of further credit. Remember, student loan holders, for the most part, are young and have had little or no experience in the field of finance. They must consciously guard against and, in many cases, be helped to keep from becoming over-indebted. Most students, fortunately, have honorable intentions about repaying the loan; but many procrastinate about beginning repayment in the belief that their earnings will be higher five or ten years from now and, therefore, will be in a better position to repay the loan. In reality, however, a person's standard of living tends to increase with his salary and his indebtedness tends to increase in proportion to his increased income. The goal, therefore, should be to get the individual to plan his student loan repayment budget before he gets into further debt, not after.

Repayment of indebtedness, especially a student loan, must remain a top priority. However, there is a tendency when the student leaves school for repayment of the loan to slip down the priority scale to number three, four, five or even lower, behind the payments on a new car, a stereo, a T.V., appliances and/or a personal loan. The student will do all he can

Mr. Herbert Millstein

- 2 -

May 3, 1978

to avoid repossession of these tangible items even to the point of defaulting on his student loan. There are some who suggest extending repayment of the student loan as a matter of policy, but that is merely relegating repayment to a lower priority. When you allow an individual to become so heavily indebted that he must seek help from a counseling service, or worse yet, declare bankruptcy, you have performed no service for that individual. Even worse, his character has been tarnished in his own eyes because of wanting to repay the loan but not being able to do so. You may have caused him mental anguish, marital difficulties (even divorce) and, in general, cheated this individual, as well as society who will eventually be asked to pick up the tab. In short, as much emphasis should be placed on monitoring the total indebtedness of an individual while it is occurring as is placed on collections after the individual has defaulted on his loans.

In December 1975, we began to give increased attention to monitoring total indebtedness by using the services of a credit data agency. Our experience to date has been most successful and can be documented by the figures in the enclosed summary report. The decrease in claims paid to lenders for defaulted loans and the very substantial increase in the number of payments received and dollar amount collected on defaulted loans can be directly attributed to the effectiveness of using this service; for during this time frame, there was no increase in the number of persons employed in the default prevention and collection activity of our agency. What can't be measured is the number of students who are repaying their loan to the original lender as the result of a report from the credit data agency. In my opinion, the decrease in claims purchased by this agency is testimony to the fact that it is playing a very significant role. Also enclosed you will find several case histories which typify our recent experiences.

I trust that this information is helpful and responsive to your needs. Should you wish further clarification or have any questions, please feel free to call John or me.

Sincerely yours,



William C. Nester, Director  
New Jersey Higher Education  
Assistance Authority

WCN:mbf  
Enclosures

## NEW JERSEY HIGHER EDUCATION ASSISTANCE AUTHORITY

Summary Per Fiscal Year Ending June 30

	<u>1976</u>	<u>1977</u>	<u>1978*</u>	% Increase/(Decrease)		
				<u>1976 vs. 1977</u>	<u>1977 vs. 1978</u>	<u>1976 vs. 1978</u>
<u>Loan Volume</u>						
Number of Loans	41,144	49,937	56,000	21.4%	12.1%	36.1%
\$ Amount Guaranteed	\$65,463,452	\$84,510,200	\$105,000,000	29.1%	24.2%	60.4%
Average Loan	\$ 1,591	\$ 1,692	\$ 1,875	6.3%	10.8%	17.9%
<u>Defaults</u>						
\$ Amount Claims Paid	\$ 8,549,654	\$ 8,381,900	\$ 7,448,923	( 2.0%)	(11.1%)	( 12.9%)
Number of Payments	11,560	18,283	22,343	58.2%	22.2%	93.3%
\$ Amount Collections	\$ 551,607	\$ 929,321	\$ 1,105,384	68.5%	18.9%	100.4%
Number of Paid-In-Fulls	183	293	328	60.1%	11.9%	79.2%

45

\*Based on Actual 9-Month Figures Projected to 12 Months

5/3/78

## NEW JERSEY HIGHER EDUCATION ASSISTANCE AUTHORITY

EXAMPLE A. Irregular Monthly Payments

Address at loan disbursement: New Jersey  
 Address at time of mortgage application: Virginia  
 Date of default: April 1976  
 Amount of default: \$2,865.13  
 Payments through 7/31/77: \$450.00  
 Scheduled payments: \$50.00 monthly

**Summary:**

Mortgage inquiry - 8/77 Subject applied for a FHA mortgage in excess of \$30,000 through a mortgage corporation in Maryland. As a result of the account having been reported to a credit bureau, the mortgage company contacted this Agency in writing for purposes of updating the account.

**Conclusion:**

The defaulted loan was paid in full on January 26, 1978 with a final payment of \$2,107.79.

EXAMPLE B. No Payments (Monthly)

Address at loan disbursement: New Jersey  
 Address at time of credit inquiry: Maryland  
 Date of default: October 1972  
 Amount of default: \$1,151.88  
 Scheduled payments: \$50.00 per month, no payments received  
 Date of credit inquiry: February 1978

Subject was frequently moving and many times mail would be returned as "address unknown".

**Summary:**

Subject applied for additional credit and as a result this Agency was contacted for purposes of updating the account.

**Conclusion:**

Payment in full in the amount of \$1,588.06 (principal and interest) received on April 27, 1978.

## NEW JERSEY HIGHER EDUCATION ASSISTANCE AUTHORITY

EXAMPLE C. Skip Located, Payment Initiated

Address at loan disbursement: New Jersey  
Address at time of default: Georgia-"skip"  
Reported as "Subscriber unable to locate"  
Scheduled Payments: \$40.00 monthly with no payments  
made through 3/31/78  
Summary:

Subject applied for additional credit at which time we were notified of his new address in Florida. We contacted this individual who is now working as a supervisor in that same area who agreed to \$40.00 monthly payments with the first payment received on April 24, 1978.

EXAMPLE D. Credit Card Denial

Address at loan disbursement: New Jersey  
Address at time of payment in full: New Jersey  
Date of default: July 1969  
Amount of default: \$4,317.88

## Summary:

Subject obtained employment with a large corporation in New York City at \$25,000 per annum. As a result of his position, he needed a credit card which was denied because of the defaulted educational loan. After the denial the subject made continual payments to the Higher Education Assistance Authority with the final payment of \$1,968.81 paying his account in full on April 7, 1978.

DEPARTMENTS AND AGENCIES THAT WERE ISSUEDRECOMMENDATIONS IN THIS REPORT

Department of Agriculture

U.S. Civil Service Commission

Department of Defense

Department of Energy

General Services Administration

Department of Health, Education, and Welfare

Department of Housing and Urban Development

Department of the Interior

Department of Justice

Department of Labor

National Aeronautics and Space Administration

Department of the Treasury

Veterans Administration

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