

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations, a record of which is kept by the Distribution Section, Publications Branch, OAS
COMPTROLLER GENERAL OF THE UNITED STATES

090488

~~4/1/73~~



WASHINGTON, D.C. 20548

RELEASED

74-0620

B-117604(7)

NOV 5 1973

C The Honorable Samuel L. Devine
House of Representatives

R Dear Mr. Devine:

Your letter of August 8, 1973, requested further information concerning defaulted loans under the Guaranteed Student Loan Program administered by the Office of Education (OE), Department of Health, Education, and Welfare (HEW). This report covers only those loans insured 100 percent by the Federal Government.

The following table shows, for fiscal year 1968 through the first 2 months of fiscal year 1974, the dollar volume and the number of commitments for these loans.

<u>Fiscal year</u>	<u>Dollar volume (millions)</u>	<u>Number of commitments</u>
1968	\$ 66,555	82,549
1969	217,607	248,489
1970	353,788	365,388
1971	483,899	487,135
1972	708,164	691,874
1973	654,616	599,085
1974 (2 months)	131,355	105,205
Total	<u>\$2,615,984</u>	<u>2,579,725</u>

Your requests for information and our replies follow.

"(A) A report by month of purchase showing the number of loans purchased (defaulted) and the total amount of the loans"

In our letter to you dated February 26, 1973, we furnished a breakdown for fiscal years 1968 and 1969, 1970, 1971, and 1972 for the total number of loans in default and the total amount paid under the guaranty for these loans. We also furnished a breakdown for loans by categories (payment defaults, defaults due to bankruptcy, and defaults due to death or disability). As you know, the law does not require that collection action be taken on claims due to death or disability.

~~904632~~ 090488

So that all figures may be readily available to you, we are showing below those included in our letter of February 26, 1973, as well as those for fiscal year 1973. OE furnished all these figures.

<u>Fiscal year</u>	<u>Number</u>	<u>Total amount paid under guaranty</u>
1968 and 1969	237	\$ 203,385
1970	1,798	1,493,320
1971	9,507	8,034,250
1972	18,911	17,759,054
	30,453	27,490,009
1973	35,366	34,486,310
Total	65,819	\$61,976,319

Defaults by Categories

<u>Fiscal year</u>	<u>Payment defaults</u>		<u>Defaults due to bankruptcy</u>		<u>Defaults due to death or disability</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
1968 and 1969	60	\$ 41,752	41	\$ 37,483	136	\$ 124,150
1970	1,348	1,052,213	155	157,626	295	283,481
1971	8,357	6,758,068	497	541,439	653	734,743
1972	17,411	16,000,266	711	889,120	789	869,668
Total	27,176	\$23,852,299	1,404	\$1,625,668	1,873	\$2,012,042

<u>Fiscal year 1973</u>	<u>Payment defaults</u>		<u>Defaults due to bankruptcy</u>		<u>Defaults due to death or disability</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
July	947	\$ 973,086	42	\$ 43,248	63	\$ 64,871
Aug.	1,274	1,233,475	62	76,490	69	51,599
Sept.	1,736	1,697,315	99	109,739	117	121,889
Oct.	3,675	3,598,685	151	212,779	149	146,309
Nov.	3,879	3,845,657	164	191,391	158	170,882
Dec.	2,372	2,455,972	103	118,477	99	106,701
Jan.	1,993	1,844,577	80	100,577	69	80,271
Feb.	1,839	1,832,609	88	99,231	52	50,810
Mar.	4,060	3,706,279	148	190,277	134	136,817
Apr.	2,980	2,691,891	159	185,491	104	118,744
May	2,810	2,747,844	111	143,190	101	119,666
June	5,099	4,797,988	220	253,158	160	168,325
Total	32,664	\$31,425,378	1,427	\$1,724,048	1,275	\$1,336,884

OE shows the purchase of these loans by months. However, while the claims were approved during the months shown, funds were not always available in the Student Loan Insurance Fund. This caused delays in the actual processing of the claims.

"(B) The number of loans and total amount of loans assigned to each regional office for collection, the staff and grade of each staff member assigned to actually collecting defaulted loans"

The number and total dollar amount of payment defaults assigned for collection to each regional office through June 30, 1973, are shown below. Defaulted loans involving bankruptcies or death and disability loans are not assigned to regional offices.

<u>Region</u>	<u>Number</u>	<u>Amount</u>
I (Boston)	329	\$ 257,545
II (New York City)	1,583	1,010,619
III (Philadelphia)	787	617,283
IV (Atlanta)	3,542	2,389,221
V (Chicago)	2,778	2,236,707
VI (Dallas)	9,083	6,075,800
VII (Kansas City)	983	776,826
VIII (Denver)	2,311	1,822,732
IX (San Francisco)	13,761	11,334,110
X (Seattle)	1,138	835,895
<u>Total</u>	<u>36,295</u>	<u>\$27,356,738</u>

On July 31, 1973, OE had a total of 22 employees in 10 regional offices assigned to collecting defaulted loans. But they spend only an estimated 57 percent of their time actually collecting. The rest of their time is devoted to other HEW and OE duties.

Following is a breakdown of the regional offices' staffing.

<u>Region</u>	<u>Total staff</u>	<u>Positions</u>	<u>Grade</u>
I (Boston)	-	Vacancy	GS-7 to GS-12
II (New York)	1	1	GS-7
III (Philadelphia)	-	Vacancy	GS-7 to GS-12
		Vacancy	GS-6
IV (Atlanta)	5	1	GS-12
		2	GS-11
		2	GS-5
		Vacancy	GS-7
V (Chicago)	2	1	GS-11
		1	GS-6
		Vacancy	GS-11
VI (Dallas)	4	1	GS-13
		1	GS-12
		1	GS-9
		1	GS-6
		Vacancy	GS-7 to GS-12
VII (Kansas City)	1	1	GS-12
VIII (Denver)	2	1	GS-7
		1	GS-6
IX (San Francisco)	5	1	GS-12
		2	GS-7
		2	GS-6
		Vacancy	GS-7
X (Seattle)	2	1	GS-11
		1	GS-5
Total	<u>22</u>	<u>29</u>	

"(C) Report by lending institutions by the Office of Education region, showing the number of loans purchased and the total amount of the loans, plus the number and amount of loans collected on"

OE informed us that:

"The Guaranteed Student Loan system contains some reports with detail to the lender level but as a matter of policy, data on individual lenders is not released. Lenders have been assured of the confidentiality of this data and the continued growth of the program and lender participation depends on the maintenance of this policy."

"(D) The written procedures covering the handling of defaulted student loans from the receipt of the application to purchase through the assignment to a specific staff for collection until the loan is paid in full"

OE has a detailed procedures manual and a handbook for regional collectors but lacks sufficient personnel to implement fully these procedures. Because of this personnel shortage, OE has modified parts of the procedures. These modifications and the Higher Education Act of 1965 serve as the regulations OE uses in handling student loans. However, OE has been forced to abandon computerized first-demand letters because of the high volume of responses.

We are enclosing copies of the tables of contents only, but, if you would like copies of the procedures manual and the handbook, we shall furnish them. They cover the processing of defaulted loans from the application to purchase (form 1207) until the loan is paid in full.

While the procedures manual contains preclaim assistance information, OE cannot follow the preclaim procedure because of the lack of resources. The preclaim collection program was considered very successful in preventing defaults.

"(E) Whether the interest continues to accrue after purchase by the Office of Education and how the individual records are updated, if they are"

OE is not liable for interest due on defaulted loans which were disbursed prior to March 1, 1973. Interest starts to accrue on defaulted loans when OE pays a lender.

Two types of records (payment cards and an automated system) of defaulted loans are maintained. Payment cards are not prepared until a remittance has been received and are not updated to reflect accrual of interest. There are, therefore, many more defaulted loans than payment cards. The automated system carries a complete record of principal, accrued interest, and payments. However, OE is having problems with it. For example, erroneous input sometimes results in a payment being recorded incorrectly, thereby increasing rather than reducing a debt.

We have been working with the Division of Insured Loans and the Division of Automatic Data Processing at OE to isolate specific problems, to determine their causes, to identify

feasible solutions, and to help initiate corrective action. OE has initiated action to solve many of the identified problems, and we believe that diligent efforts to continue these actions can result in a successful system.

"(F) How are payments applied relative to the amount being applied to interest and principal? Is a payment first applied to principal or interest?"

When a debtor begins repaying his loan, 100 percent of his remittance is applied to the outstanding principal. After the principal has been repaid, further remittances are applied to the accrued interest.

"(G) What is the reason for the payment application policy?"

This policy of applying remittances to liquidate the principal before applying them to interest arose from several sources.

1. OE's interpretation of the legislative history of the Higher Education Act of 1965.
2. The application-of-remittance policy, discussed in the legislative history of the act, applied to reinsured loans. It was felt that, for uniformity, this policy should also apply to federally insured loans.
3. The General Counsel of OE has held that the Commissioner of Education has a right to adopt this policy under his implied powers and under General Counsel's interpretation of the Higher Education Act of 1965.

"(H) What is the anticipated percent of recovery on loans as of your audit date?"

OE has not established a reasonable anticipated recovery rate on defaulted loans. It was using a 55-percent rate, based on Federal Housing Administration experience in administering the title I Housing Insurance Fund, to compute estimated losses on loans receivable. OE used this figure because it felt that similar factors were involved in operating the title I Housing Insurance Fund and the Student Loan Insurance Fund.

However, our report to the Congress, entitled "Examination of Financial Statements of the Student Loan Insurance Fund, Fiscal Years 1971 and 1972" (B-164031(1), June 8, 1973),

criticized OE's use of the 55-percent rate to compute losses because the two loan programs are not sufficiently similar to justify the expectation of identical loss rates and because the loss rate was not based on the experience of the Guaranteed Student Loan Program.

OE is trying to develop a system for establishing an anticipated recovery rate on defaulted loans. Therefore, we cannot answer your question.

"(I) What is the total collected to date on these loans?"

A July 31, 1973, monthly report on collection activity shows that, under the Federal Insured Loan Program, principal amounting to \$3,507,148 and interest amounting to \$17,252 were collected from July 1, 1968, through July 31, 1973. A breakdown of these sums, by fiscal year, follows.

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>
1969 and 1970	\$ 24,015	\$ 50
1971	205,119	718
1972	589,140	3,071
1973	2,425,888	12,550
1974 (July only)	<u>262,986</u>	<u>863</u>
Total	<u>\$3,507,148</u>	<u>\$17,252</u>

"(J) What amount is outstanding (thirty days or more)?"

Records at OE show that as of July 31, 1973, it paid \$64,022,227 on 67,955 defaulted loans. These figures are composed of:

	<u>Number</u>	<u>Amount</u>
Payment defaults	61,718	\$57,004,655
Bankruptcies	2,972	3,522,073
Death or disability	<u>3,265</u>	<u>3,495,499</u>
Total	<u>67,955</u>	<u>\$64,022,227</u>

Because OE collected \$3,507,148 as of July 31, 1973, the amount outstanding more than 30 days on the payment defaults is \$53,497,507 (\$57,004,655 less \$3,507,148).

- - - -

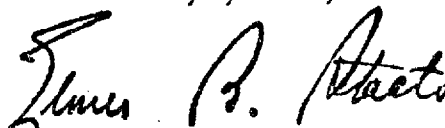
In addition to answers to your specific questions, we are furnishing information on OE's tuition-refund policy. This policy would (1) establish the conditions under which educational facilities participating in the Guaranteed Student Loan Program would make refunds and (2) list the parties to whom refunds should be made. In a December 1971 report (B-117604(7)) to the Congress, we recommended that the Secretary of HEW either formulate a tuition-refund policy under his existing authority or seek enactment of legislation to accomplish this purpose.

In our February 26, 1973, letter to you, we mentioned that a national tuition-refund policy had not yet been formulated but that a proposal for enforcing a pro-rata tuition-refund policy had been approved by OE and was in the Office of the Secretary of HEW for review and approval.

We have now been informed that, as a result of complexities which have arisen and questions which have been raised by the OE Office of General Counsel, the matter is now undergoing an intensive review by the Commissioner of Education.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General
of the United States

Enclosures - 2

GUARANTEED STUDENT LOAN PROGRAM PROCEDURESTABLE OF CONTENTS

	<u>Procedure number</u>
Section I - Claims:	
Pre-Claim Assistance	1
Federal Claims - Disability	2
Federal Claims - Defaults	3
Federal Claims - Death	4
Federal Claims - Bankruptcy	5
Examination of Disability Claims - State Agencies	6
Processing Guarantee Agency Claims	7
Standard Form 1166 Preparation	8
Check Number Assignment	9
Section II - Collections:	
Defaulter Follow-Up	10
Tickler File Review	11
Default Claim Review	12
Death Claim Review	13
Bankruptcy Claim Review	14
Processing Collection Checks - Federal	15
Processing Collection Checks - State Agencies	16
Processing Returned Checks	17
Student Query Response	18
Maintaining Certificate of Deposit Register	19
Section III - National Direct Student Loan (NDSL)/ Cuban Loans:	
Establishing Repayment Schedule (NDSL)	20
Posting Collections (NDSL)	21
Collection Efforts (Cuban Loans)	22
Establishing Repayment Schedule (Cuban Loans)	23
Posting Collections (Cuban Loans)	24
Ledger Cards (Cuban Loans)	25
Defaulter Follow-Up (Cuban Loans)	26
Section IV - Controls and Services:	
Receiving and Recording Federal Claims	27
Distribution of Mail	28
Control of Collection Checks	29
Federal Claims - Batch and Control	30
Claims File Maintenance	31
State Claims - Batch and Control	32
Federal Collections - Batch and Control	33

FEDERAL INSURED STUDENT LOAN COLLECTOR'S HANDBOOKTABLE OF CONTENTS

<u>Topic</u>	<u>Page number</u>
Introduction	1
Program Operation	1
The Insurance Fund	3
The Claims Process	4
Establishing the Default Account	9
Washington Office Function	9
Collection Office Function	10
Collecting the Account	12
Collection Correspondence	14
Collection by Telephone	15
Outside Contact	20
Collection from Co-Signers	21
The Deferred Account	22
The Paid in Full Account	23
Defaults Which Require Special Handling	24
Suspended Action Account	24
Compromise Account	24
Charged Off Account	24
Judgment Account	25
Bankruptcies	25
Skip Tracing	26
Suggested abbreviations	27
Appendix	28