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

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B-117604(7)

FILE

The Honorable Samuel L. Devine
House of Representatives

Dear Mr. Devine:

In your letter of October 11, 1972, you requested information concerning the Office of Education's (OE's) progress in resolving the problems pointed out in our report entitled "Office of Education Should Improve Procedures to Recover Defaulted Loans Under the Guaranteed Student Loan Program" (B-117604(7), Dec. 30, 1971). Our present review, as did our previous review, covers only those loans insured by the Federal Government. We found that progress has been made.

The following table shows, for fiscal year 1968 through the first quarter of fiscal year 1973, the dollar volume and the number of commitments for these loans.

Fiscal year	Dollar volume	Number of commitments
1968	$ 66,555,455	82,549
1969	217,606,700	248,489
1970	353,788,310	365,388
1971	483,898,839	487,135
1972	708,163,745	691,874
1973 (3 mos.)	187,428,859[a]	167,824[a]

[a]Preliminary data based on oral reports; subject to change when OE-prepared figures are received.

STATUS OF LOANS IN DEFAULT

In December 1971 we reported that, of the 5,169 loans in default as of January 1971, 3,049--or 59 percent--were unprocessed, i.e., OE had not attempted to collect these debts. On October 31, 1972, there were 38,837 defaulted loans for which the United States had paid $35,819,494. The table below shows these figures by fiscal years.

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Fiscal year		Number	Total paid under guaranty Amount
1968 and 1969		237	$ 203,385
1970		1,798	1,493,320
1971		9,507	8,034,250
1972		18,911	17,759,054
1973:			
July	1,052		$1,081,205
Aug.	1,405		1,361,564
Sept.	1,952		1,928,943
Oct.	3,975		3,957,773
		8,384	8,329,485
Total		38,837	$35,819,494

The following table shows the 38,837 defaulted loans by categories. The law does not require the collection of claims due to death or disability.

Fiscal year	Payment defaults		Defaults due to bankruptcy		Defaults due to death or disability	
	Number	Amount	Number	Amount	Number	Amount
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
1973:						
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
Total	34,808	$31,354,860	1,758	$2,067,924	2,271	$2,396,710

In recent months OE has taken numerous steps to improve its collection operations. New employees added to the Washington, D.C., office and to the regional offices have enabled OE to reduce greatly its backlog of student-loan debts. Our previous report mentioned a backlog of more than 3,000 unprocessed cases. There are now no cases over 30 days old in the Washington office awaiting demand action--a significant decrease in the backlog. The additional employees in the regional offices also provide more opportunity for personal contacts with debtors--a definite advantage in debt collection operations.

OE has purchased several pieces of equipment which should facilitate its collection work. The most important of these, we believe, is an "electronic file," which contains cases and indicates when collection actions are due. This file thus is a tickler system which insures timely followup actions.

OE's new contracts for sending demand letters and for obtaining credit reports should also improve collection operations. A contract with a credit bureau will also provide a system for tracing unlocated debtors.

The computerized demand service, which will start in the spring of 1973, will issue a series of demand letters for each claim. This service will provide 4-1/2 months of continuous followup action. If the debtor responds to one of these letters, a "stop" will be placed in the demand cycle and his letter will be answered by collection personnel. Every 15 days OE in Washington will receive a printout from the computer firm indicating the status of each account.

The graph on page 13 of our prior report indicated that, of the defaulted loans, only 1 percent had been repaid in full and only 8 percent were being repaid. The following table shows a great increase in collections. OE expects even more improvement in the next calendar year.

Collections Made by OE on
Defaulted Federal Insured Loans

Fiscal year	Number of payments		Principal		Interest	
1969 and 1970		415		$ 24,015		$ 50
1971		2,543		205,119		718
1972		7,347		589,140		3,071
1973:						
July	1,052		$ 70,675		$ 420	
Aug.	1,359		70,758		690	
Sept.	1,409		168,187		242	
Oct.	1,433		118,944		1,301	
		5,253		428,564		2,653
Total		15,558		$1,246,838		$6,492

Through October 1972, the Washington office has assigned 21,674 defaulted loan cases to the regional offices for collection. The 10 regions have reported the number of payments they have received and the amounts they have collected, as follows:

Regional office	Number of defaults assigned	Payments received Number	Payments received Amount
I (Boston, Mass.)	179	9	$ 257
II (New York, N.Y.)	722	64	5,327
III (Philadelphia, Pa.)	385	9	3,733
IV (Atlanta, Ga.)	1,860	504	112,117
V (Chicago, Ill.)	1,394	519	37,421
VI (Dallas, Tex.)	5,377	323	31,963
VII (Kansas City, Mo.)	569	117	10,214
VIII (Denver, Colo.)	1,484	287	27,713
IX (San Francisco, Calif.)	9,043	1,111	60,469
X (Seattle, Wash.)	661	174	18,880
	21,674	3,117	$308,094

IMPROVEMENTS MADE IN CLAIMS-COLLECTION OPERATIONS

1. Section 103.6 of the Joint Standards issued by the Comptroller General and the Attorney General of the United States pursuant to section 3 of the Federal Claims Collection Act of 1966 contemplates simultaneous collection actions being taken against jointly and severally liable parties. On page 14 of our December 1971 report, we pointed out that an examination of 219 defaulted loan cases, exclusive of those involving bankruptcy, death, and disability, showed that collection action was being taken only against the student borrower.

   We recommended that the Secretary of Health, Education, and Welfare (HEW) urge that the office of General Counsel and OE promptly "issue instructions or guidelines concerning the liability of all parties" to avoid "piecemeal collection action."

After the report was issued, the Secretary of HEW informed us that he could not concur in this recommendation because the legislation contemplated a single maker and permitted "endorsement only in cases where the borrower's infancy would preclude his entering into a legally binding commitment."

On September 20, 1972, we replied that we concurred in the view that the act permits an endorsement only in cases in which the borrower's infancy would preclude his entering into a binding commitment. We emphasized, however, that we found nothing in the act or in the legislative history indicating an intent on the part of the Congress to relieve any cosigner or endorser of liability arising from his act of obligating himself on a note. We also replied that we believed that the notes of

students who had reached their majority and which contained signatures of endorsers were improperly insured. We further stated that demands need not be made on these endorsers even though the Government had insured the loans and had made good on its guaranty. We recommended that guidelines be issued promptly which set forth the requirements necessary to insure a loan properly. This matter is presently being considered by the Office of General Counsel of HEW.

2. On page 15 of our report, we discussed a possible legal impediment which would exist if an installment note were executed and if State law required that the lending institution surrender to the borrower his original promissory note. We pointed out that:

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

OE procedures now require that the "original copy of all promissory notes connected with the claim are to be included in the [OE] file" of the debtor. The new procedures also require that the note be assigned to the United States Government.

3. On page 16 of our report, we stated that the collection letters used by OE were not sufficiently forceful to impress the debtor of his legal obligation to repay his debt.

OE has contracted with a computer firm to provide computer-issued demand letters and is currently composing these letters. Although OE revised its demand letters after our previous report was issued, we believe that, with the exception of the first demand letter, the language of these letters is still not sufficiently forceful. We have been assured that the language of the new letters will be more aggressive.

4. On page 18 of our report, we stated that OE was taking no collection action against cosigners in bankruptcy cases. Unless a cosigner is a joint participant in a bankruptcy proceeding, the filing of a petition by the signer of the note will not excuse the cosigner from liability.

OE now takes action against a cosigner in a bankruptcy case unless he has been joined in the bankruptcy proceedings.

We also stated in our report that OE formerly did not ascertain the ultimate disposition in bankruptcy cases. OE now determines this information promptly and files proofs of claims immediately if a lender has failed to do so.

5. In our December 1971 report, we recommended that the Commissioner of Education either formulate a tuition refund policy under his existing authority or seek enactment of legislation to accomplish this purpose. We had found that there existed a diversity of refund policies used by school-accrediting agencies and schools.

HEW admitted that the Commissioner of Education does set standards which schools must meet to qualify for national recognition; however, HEW felt that it was doubtful that these standards could legitimately compel institutions to comply with uniform standards and procedures governing tuition refunds.

As the result of several studies, in early 1971 the Bureau of Higher Education proposed additional legislative requirements concerning institutional eligibility for national recognition. This suggested legislation included a proposal for enforcement of a pro-rata tuition refund policy.

A national refund policy for tuition has not yet been resolved, but we understand that a proposal for this policy has been approved by the Office of Education and is now in the Office of the Secretary of HEW for review and approval.

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

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States