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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-164031(1)

NOV 5 1976

The Honorable
The Secretary of Health,
Education, and Welfare

Dear Mr. Secretary:

We are currently surveying the Office of Education's National Direct Student Loan (NDSL) program, authorized by part E of title IV of the Higher Education Act of 1965, as amended. This program provides for the establishment of loan funds at institutions of higher education so that they can make long-term, low-interest loans to qualified students who need financial assistance to pursue a course of study on at least a halftime basis. Participating schools are responsible for making and collecting the loans.

Our survey is being conducted at the Office of Education's (OE's) headquarters, HEW regional offices, and participating institutions. As part of the survey, we inquired into the method OE used to compute the loan delinquency rate under the NDSL program. This letter apprises you of our concern with the method used and proposes an alternative which we believe more meaningfully assesses the NDSL delinquency problem.

NEED TO RECONSIDER METHOD FOR
COMPUTING LOAN DELINQUENCY RATE

Generally, students are required to begin repaying their loans after they have been out of school for 12 months. When a scheduled payment has not been made for more than 120 days, the loan is considered to be delinquent and the school which made the loan is required to pursue repayment until the loan is collected. While the loan recipients bear the ultimate responsibility for delinquent loans, the institutions administering the loan program can influence the pattern of repayment. The Education Amendments of 1972 provided that NDSL program loans overdue for 2 years could be assigned to OE for further action. Proposed regulations implementing this provision, however, have not been finalized. Therefore, schools continue to carry all past-due loans made since the program's inception as collectible and delinquent.

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Delinquency rates are one indication of a loan program's effectiveness and therefore have been of concern to the Congress, the higher education community, and OE. The method used to compute the delinquency rate for the NDSL program can significantly affect the perceived need for corrective action at the Federal and institutional levels.

The current OE method for computing the NDSL program delinquency rate is shown in enclosure I. OE has historically defined delinquent principal as

"* * * that principal amount which should have been repaid by borrowers at a given date but has not been repaid, minus all past due amounts on accounts which are 120 days past due or less."

The delinquency rate has been defined as "* * * the percentage obtained by dividing the delinquent amount by the total amount that was scheduled for collection as of the same date."

Under this method, the base for the rate is the total amount due and collectible, including the loan amounts already repaid or canceled. Since these amounts are such a large part of the base, the rate is relatively insensitive to change.

Further, OE's current method does not include the entire principal amount outstanding on already delinquent accounts, but includes only the amounts overdue. We believe this distorts the true delinquency rate for the NDSL program, because loans which have been delinquent for long periods are not likely to be repaid, and this is not taken into account.

In our opinion, a better method for computing the NDSL delinquency rate for management purposes would be achieved by using as a base the total amount loaned which is in repayment status. This method (see enc. II) would exclude those loans which have been fully repaid or canceled (retired), but would recognize partial amounts paid or canceled on loans in repayment status. In addition, it would consider the entire principal amount outstanding on delinquent accounts, rather than only past-due amounts. Using only past-due amounts in the computation reflects only the amount that is already delinquent, without giving consideration to the total which may become delinquent if current borrower behavior persists.

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The HEW Audit Agency, in its audit guide for the NDSL program, outlines two methods to be used in computing a school's delinquency rate. The first method is similar to our proposed one, except that it excludes all collected and canceled amounts, not just amounts for fully retired loans. An OE program official told us that the Audit Agency method presents a somewhat distorted measure of the actual delinquency rate, because it does not consider amounts collected or canceled on current loans. The second method proposed by the Audit Agency differs in that it uses past due amounts rather than the principal amount outstanding. Both, nevertheless, exclude repaid and canceled loan amounts from the computation.

We also contacted commercial banking officials, and they agreed that repaid and canceled loans should not be part of a delinquency computation under any loan program. Moreover, the officials advocate using outstanding loan balances on past-due accounts in computing the delinquency rate, because they believe the longer an account is delinquent the less likely is ultimate collection.

In order to show a trend in the NDSL program delinquency rate, we calculated the rate for fiscal years 1973, 1974, and 1975, using OE's and our proposed methods. We used preliminary data for fiscal years 1974 and 1975 because final data was not available. OE program officials told us that final data for the 2 years should not vary significantly from the preliminary data; therefore, any variations in the computed delinquency rates for those 2 years should be small.

Using our proposed method for computing delinquency for the NDSL program, we calculated a fiscal year 1973 delinquency rate of 16.8 percent, compared to OE's published rate of 10.5 percent. For fiscal years 1974 and 1975 we calculated rates of 18.4 and 20.6 percent, respectively. Using the OE method, the comparable rates would have been 10.4 and 10.9 percent. One can see that the delinquency rates are significantly higher for all 3 years when our proposed method of computation is used, and the trend is upward.

CONCLUSIONS AND RECOMMENDATIONS

Our proposed method of computing delinquency rates under the NDSL program is a more accurate and meaningful measure of the operation of the program. We therefore recommend that OE begin computing the delinquency rate for the NDSL program by using the method described in enclosure II. If it is decided that using the current OE method still provides meaningful

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data for OE's management of the NDSL program, we believe that this method should be used only in addition to our proposed method, especially in any correspondence with persons and organizations outside of OE.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this letter to the House and Senate Committees on Government Operations; the Senate Committee on Labor and Public Welfare; the House Committee on Appropriations; the House Committee on Education and Labor; the Subcommittee on Labor and Health, Education, and Welfare, Senate Committee on Appropriations; and the Director, Office of Management and Budget. Copies are also being sent to the Assistant Secretary for Education; the Assistant Secretary, Comptroller; and the Commissioner of Education.

Sincerely yours,


Gregory J. Ahart
Director

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OE'S DELINQUENCY RATE COMPUTATION

	Fiscal year <u>1973</u>	Fiscal year 1974 (note a)	Fiscal year 1975 (note a)
	—————(millions)—————		
A. Cumulative principal amount collected and canceled	\$757.8	\$ 988.0	\$1,207.7
Plus			
B. Principal amount in past-due status (note b)	103.0	129.6	164.8
Plus			
C. Principal amount in deferred status (estimated)	<u>6.0</u>	<u>5.0</u>	<u>9.9</u>
Equals			
D. Total amount due and collectible	<u>\$866.8</u>	<u>\$1,122.6</u>	<u>\$1,382.4</u>
E. Principal amount past due on delinquent loans (note b)	<u>\$ 90.7</u>	<u>\$ 116.5</u>	<u>\$ 151.0</u>
F. Delinquency rate (E ÷ D)	10.5%	10.4%	10.9%

a/Unedited data furnished by OE.

b/Item B shows the amount of principal past due on all accounts for which payments have been missed; item E represents only those accounts past due more than 120 days.

GAO'S PROPOSED DELINQUENCY RATE COMPUTATION

	Fiscal year <u>1973</u>	Fiscal year 1974 (<u>note a</u>)	Fiscal year 1975 (<u>note a</u>)
	—————(millions)—————		
A. Total face value of loans made	\$2,814.3	\$3,293.7	\$3,688.1
Less			
B. Face value of loans fully retired	262.9	373.9	497.5
Less			
C. Face value of loans to students still in school	693.0	771.1	815.8
Less			
D. Face value of loans in grace period	266.6	262.1	295.5
Less			
E. Face value of loans in deferred status (note b)	<u>31.0</u>	<u>75.9</u>	<u>79.8</u>
Equals			
F. Total principal loaned in repayment status	<u>\$1,560.8</u>	<u>\$1,810.7</u>	<u>\$1,999.5</u>
G. Principal outstanding on delinquent accounts	<u>\$ 262.3</u>	<u>\$ 332.7</u>	<u>\$ 412.7</u>
H. Delinquency rate (G ÷ F)	16.8%	18.4%	20.6%

a/Unedited data furnished by OE.

b/Estimated for FY 1974 and FY 1975.