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ABSTRACT

This report examines the extent to which correspondence schools participate in the Stafford Student Loan Program and the rates at which students from these schools default on their student loans. It is revealed that the average borrower default rate for students attending correspondence schools was more than double the rate, 42.2 percent versus 18.3 percent, for all schools participating in the Stafford program during fiscal years 1987-89. Thirty correspondence schools were eligible to participate during this period and their students received about \$743 million in student loans. However, 16 of these schools (accounting for 91 percent of the \$743 million in loan volume) no longer participate in the program. It is noted that if these 16 schools are excluded, the average default rate for correspondence schools drops to 27.8 percent. Appendices include the loan volumes for students attending correspondence schools between fiscal years 1987-89; and student loan default rates for correspondence schools that participated, including those that no longer participate, in the Stafford Loan Program in fiscal years 1987-89. (GLR)

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GAO

United States General Accounting Office

Fact Sheet for the Chairman, Committee
on Labor and Human Resources,
U.S. Senate

March 1992

STAFFORD STUDENT LOAN PROGRAM

Correspondence Schools' Loan Volume Declines Sharply



HE 025-417

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Human Resources Division

B-244646

March 13, 1992

**The Honorable Edward M. Kennedy
Chairman, Committee on Labor
and Human Resources
United States Senate**

Dear Mr. Chairman:

This report responds to your request for information on correspondence schools' participation in the Stafford Student Loan Program.¹ Correspondence schools that participate in the Stafford program are generally proprietary (for-profit) trade schools that offer postsecondary education to individuals choosing to further their education through home study. You asked that we determine the (1) extent that correspondence schools participate in the Stafford program and (2) rates at which students from these schools default on their student loans.

On August 2, 1991, we briefed your office on the preliminary results of our analysis. This fact sheet summarizes and expands on the information provided at that meeting.

Results in Brief

The average borrower default rate for students attending correspondence schools was more than double the rate—42.2 percent versus 18.3 percent—for all schools participating in the Stafford program during fiscal years 1987-89. Thirty correspondence schools were eligible to participate during this period and their students received about \$743 million in student loans. However, 16 of these schools (accounting for 91 percent of the \$743 million in loan volume) no longer participate in the program. If these 16 schools are excluded, the average default rate for correspondence schools drops to 27.8 percent.

Background

Correspondence schools typically mail course materials to their students who mail completed lessons back to the school for reviewing and grading. Their courses of study vary and include subjects such as airline and travel agent training, truck driving, and radio announcing. Some correspondence schools, such as those offering heavy equipment and truck driving courses, augment their home study course work with resident training.

¹This program, authorized by title IV of the Higher Education Act of 1965, as amended, includes Stafford loans; Supplemental Loans for Students (SLS); Parent Loans for Undergraduate Students (PLUS); and consolidated loans. In this report we refer to all of these as loans made to students.

Correspondence schools, like other schools participating in federal student aid programs, must be (1) licensed by a state agency, (2) accredited by an agency recognized by the Secretary of Education, and (3) determined eligible and certified by the Department of Education. The Accrediting Commission of the National Home Study Council is the Department-recognized accrediting agency for these schools. A school that loses its accreditation is no longer eligible to participate in federal student financial assistance programs. The Department also can limit, suspend, or terminate a school's participation if it violates program requirements. Schools also can withdraw from the program.

Scope and Methodology

We obtained and analyzed information from the National Home Study Council and the Department of Education to determine the extent to which correspondence schools participate in the Stafford program. The Council provided information on which schools it accredits and the Department provided student loan volume data for borrowers enrolled in these schools during fiscal years 1987 through 1990.

We also obtained default rate information for fiscal years 1987-89 from the Department to determine the extent correspondence school students default on their student loans. The Department calculates an annual cohort default rate for all schools having at least 30 Stafford and/or SLS borrowers who entered repayment in a given fiscal year and defaulted either in that same year or by the end of the next fiscal year. For example, the 1988 cohort represents borrowers who entered repayment in fiscal year 1988 and subsequently defaulted by the end of fiscal year 1989.

The Department's loan volume and default rate data were the most recent information available at the time of our review. We did not verify the accuracy of the Department's data. For the schools that were not participating in the program as of September 15, 1991, we obtained information from the Department on the reasons why they no longer participate.

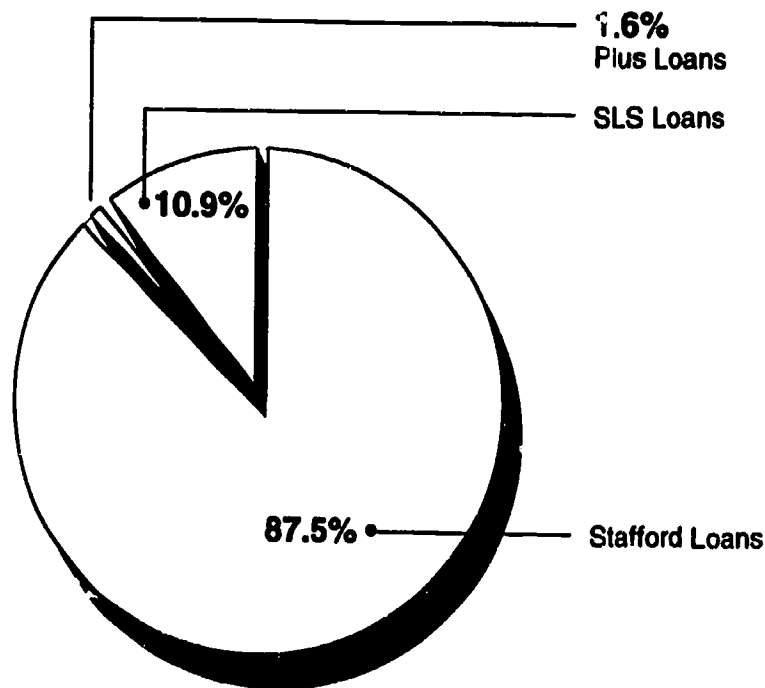
We conducted our review between May and August 1991 in accordance with generally accepted government auditing standards. Other selected GAO products concerning student loans and defaults are listed opposite the inside back cover of this fact sheet.

Correspondence School Participation Is Declining

Of over 8,000 schools that were eligible to participate in the Stafford program in fiscal year 1989, 30 were correspondence schools. About \$743 million in Stafford loans, PLUS loans, and SLS loans were received by students at these 30 schools during fiscal years 1987-89. This amount represents about 2 percent of the \$34 billion in loans made to all borrowers during those fiscal years.

Figure 1 shows that about 88 percent of the \$743 million in loans were Stafford loans. Appendix I shows, for each kind of loan, the amounts received by students at the 30 schools.

Figure 1: Student Loans Received by Correspondence School Students
(Fiscal Years 1987-89)

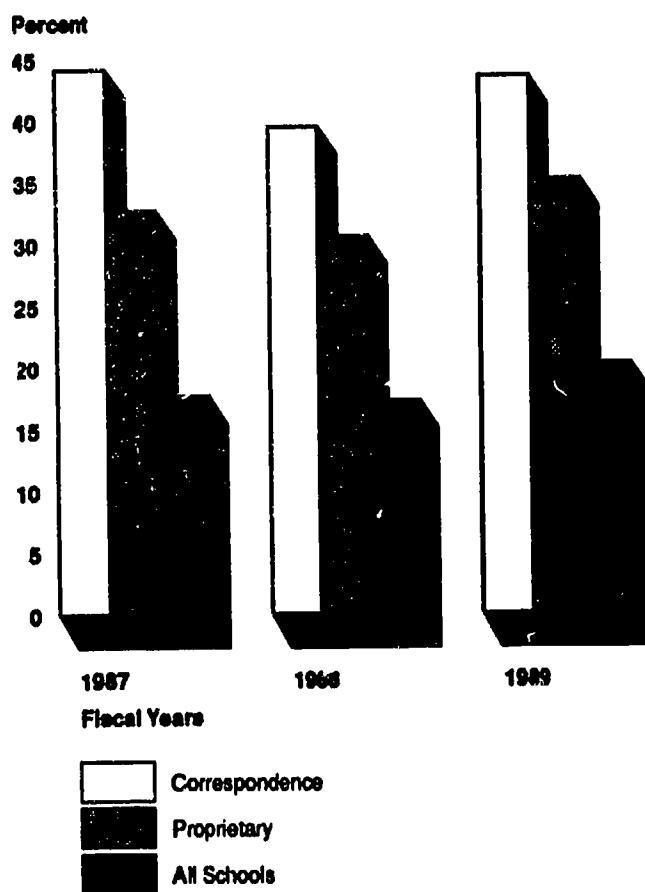


Fourteen schools that were still eligible as of September 15, 1991, accounted for about \$68 million (9 percent) of the \$743 million in loans made during fiscal years 1987-89. The remaining 16 correspondence schools are no longer participating in the Stafford program. These 16 schools accounted for about \$675 million (91 percent) of the \$743 million in loans made to correspondence school students for fiscal years 1987-89. The 16 schools no longer participate because they went out of business, lost their accreditation, or voluntarily withdrew from the Stafford program. Department of Education program officials told us that sanctions they levied or planned to levy against some of these schools have also contributed to fewer correspondence schools participating.

Correspondence Schools Had Higher Than Average Loan Default Rates

The average default rate for students attending correspondence schools was 42.2 percent—more than double the average default rate of 18.3 percent for students from all schools participating in the Stafford program during fiscal years 1987-89. (See fig. 2.)

Figure 2: Average Default Rates by Kind of School (Fiscal Years 1987-89)^a



^aThe default rates for all schools and proprietary schools include the defaulted loans of students attending correspondence schools.

The 16 schools no longer participating as of September 15, 1991, had an average default rate of 43.8 percent during fiscal years 1987-89. (See app. II.) If these 16 schools are excluded, the average borrower default rate for correspondence schools for that 3-year period drops to 27.8 percent. (See app. III.)

As agreed with your office, we did not obtain written comments on this fact sheet from the Department of Education or other interested parties. We did, however, discuss its contents with Department program officials, who agreed with its findings. We incorporated their comments where appropriate.

We are sending copies of this fact sheet to other congressional committees, the Secretary of Education, and other interested parties. Should you wish to discuss its contents, please call me on (202) 512-7014. Other major contributors to this fact sheet are listed in appendix IV.

Sincerely, yours,



Linda G. Morra
Director, Education and
Employment Issues

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Abbreviations

PLUS Parent Loans for Undergraduate Students
SLS Supplemental Loans for Students

Loan Volumes for Students Attending Correspondence Schools (Fiscal Years 1987-89)

Dollars in thousands

| School | Kind of loan | | | Total |
|---|--------------|-------|--------|------------------|
| | Stafford | PLUS | SLS | |
| USA Training Academy, Inc. | \$190,634 | \$837 | \$21 | \$191,492 |
| American Career Training Travel School | 128,200 | 318 | 1,629 | 130,147 |
| Superior Training Services | 104,696 | 677 | 13,681 | 119,054 |
| United Schools, Inc. | 78,514 | 2,599 | 34,895 | 116,008 |
| County Schools, Inc. | 66,917 | 567 | 2,039 | 69,543 |
| National Training, Inc. | 21,656 | 154 | 2,677 | 24,487 |
| National Training Systems, Inc. | 13,819 | 145 | 4,612 | 18,576 |
| International Aviation and Travel Academy | 8,442 | 1,892 | 4,915 | 15,249 |
| Columbia School of Broadcasting | 5,034 | 965 | 8,825 | 14,824 |
| Northwest Schools | 9,064 | 691 | 4,198 | 13,953 |
| Andover Tractor Trailer School, Inc. | 10,337 | 63 | 1,314 | 11,714 |
| Southeastern Academy, Inc. | 6,303 | 2,631 | 317 | 9,251 |
| Southern Career Institute | 2,857 | 0 | 1 | 2,858 |
| Executive Security International, Ltd. | 348 | 22 | 661 | 1,031 |
| Hospitality Training Center, Inc. | 710 | 2 | 303 | 1,015 |
| Cleveland Institute of Electronics, Inc. | 810 | 0 | 32 | 842 |
| California College for Health Sciences | 309 | 3 | 450 | 762 |
| MTA School | 583 | 39 | 35 | 657 |
| National Learning Process Center | 362 | 7 | 254 | 623 |
| Hollywood Scriptwriting Institute | 334 | 0 | 142 | 476 |
| Global Academy | 92 | 40 | 21 | 153 |
| Hemphill Schools | 3 | 0 | 0 | 3 |
| Trans World Travel Academy | 3 | 0 | 0 | 3 |
| United Training Institute, Inc. | 3 | 0 | 0 | 3 |

(continued)

**Appendix I
Loan Volumes for Students Attending
Correspondence Schools (Fiscal Years
1987-89)**

Dollars in thousands

| School | Kind of loan | | | Total |
|--|------------------|-----------------|-----------------|------------------|
| | Stafford | PLUS | SLS | |
| Career One Home Study Corporation | 0 | 0 | 0 | 0 |
| International Correspondence Schools | 0 | 0 | 0 | 0 |
| ICS Center for Degree Studies | 0 | 0 | 0 | 0 |
| Stenotype Institute of Jacksonville, Inc. | 0 | 0 | 0 | 0 |
| Wilma Boyd Career Schools | 0 | 0 | 0 | 0 |
| Worldspan Travel Academy | 0 | 0 | 0 | 0 |
| Totals | \$650,030 | \$11,652 | \$81,042 | \$742,724 |

Source: Department of Education.

Student Loan Volumes and Default Rates for Correspondence Schools No Longer Participating in the Stafford Program As of September 15, 1991 (Fiscal Years 1987-89)

Dollars in thousands

| School | Loan volume | Borrower default rate (in percent) | | | |
|--|------------------|------------------------------------|------|------|----------------------|
| | | 1987 | 1988 | 1989 | Average ^a |
| USA Training Academy, Inc. | \$191,492 | 57.8 | 53.5 | 48.5 | 54.2 |
| American Career Training Travel School | 130,147 | 19.3 | 26.9 | 36.8 | 31.7 |
| Superior Training Services | 119,054 | 35.7 | 45.0 | 56.4 | 44.7 |
| United Schools, Inc. | 116,008 | 28.9 | 30.4 | 38.5 | 33.2 |
| County Schools, Inc. | 69,543 | 51.9 | 37.2 | 47.6 | 46.1 |
| National Training Systems, Inc. | 18,576 | 51.4 | 28.7 | 59.2 | 47.3 |
| Northwest Schools | 13,953 | 17.7 | 13.7 | 31.3 | 22.1 |
| Andover Tractor Trailer School, Inc. | 11,714 | 32.2 | 39.7 | 58.2 | 48.9 |
| Southern Career Institute | 2,858 | 7.3 | 13.9 | 19.7 | 18.0 |
| MTA School | 657 | 26.8 | 21.7 | 57.1 | 28.4 |
| National Learning Process Center | 623 | 0.0 | 0.0 | 34.5 | 34.5 |
| Global Academy | 153 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hemphill Schools | 3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Career One Home Study Corp. | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ICS Center for Degree Studies | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| International Correspondence Schools | 0 | 25.0 | 0.0 | 0.0 | 20.0 |
| Total | \$674,781 | | | | |
| Average default rates | | 45.4 | 40.8 | 45.6 | 43.8 |

^aThe 3-year average default rate was computed by aggregating the number of borrowers for fiscal years 1987-89 and dividing that number into the cumulative number of defaulted borrowers for those 3 years.

Source: Department of Education.

Student Loan Volumes and Default Rates for Correspondence Schools Participating in the Stafford Program As of September 15, 1991 (Fiscal Years 1987-89)

Dollars in thousands

| School | Loan volume | Borrower default rate (in percent) | | | |
|---|-----------------|------------------------------------|------|------|----------------------|
| | | 1987 | 1988 | 1989 | Average ^a |
| National Training, Inc. | \$24,487 | 23.7 | 32.2 | 42.0 | 34.7 |
| International Aviation and Travel Academy | 15,249 | 39.7 | 33.7 | 27.1 | 32.0 |
| Columbia School of Broadcasting | 14,824 | 37.2 | 25.1 | 14.8 | 25.6 |
| Southeastern Academy, Inc. | 9,251 | 0.5 | 4.6 | 8.2 | 5.7 |
| Executive Security International, Ltd. | 1,031 | 0.0 | 0.0 | 0.9 | 0.9 |
| Hospitality Training Center, Inc. | 1,015 | 66.7 | 36.4 | 21.7 | 25.4 |
| Cleveland Institute of Electronics, Inc. | 842 | 27.7 | 30.2 | 29.1 | 29.1 |
| California College for Health Sciences | 762 | 16.0 | 13.0 | 8.9 | 13.3 |
| Hollywood Scriptwriting Institute | 476 | 17.5 | 33.0 | 13.9 | 22.7 |
| Trans World Travel Academy | 3 | 0.0 | 0.0 | 0.0 | 0.0 |
| United Training Institute, Inc. | 3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stenotype Institute of Jacksonville, Inc. | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Wilma Boyd Career Schools | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Worldspan Travel Academy | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | \$67,943 | | | | |
| Average default rates | | 30.0 | 22.0 | 27.1 | 27.8 |

^aThe 3-year average default rate was computed by aggregating the number of borrowers for fiscal years 1987-89 and dividing that number into the cumulative number of defaulted borrowers for those 3 years.

Source: Department of Education.

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Major Contributors to This Fact Sheet

**Human Resources
Division,
Washington, D.C.**

**Joseph J. Eglin, Jr., Assistant Director (202) 512-7012
Christopher C. Crissman, Advisor**

Seattle Regional Office

**Charles M. Novak, Regional Education Issue Area Manager
Charles H. Shervey, Evaluator-in-Charge
Susie Anschell, Evaluator
Stanley G. Stenerson, Evaluator**

Related GAO Products

Student Loans: Characteristics of Defaulted Borrowers in the Stafford Student Loan Program (GAO/HRD-91-82BR, Apr. 26, 1991).

Defaulted Student Loans: Analysis of Defaulted Borrowers at Schools Accredited by Seven Agencies (GAO/HRD-90-178FS, Sept. 12, 1990).

Supplemental Student Loans: Legislative Changes Have Sharply Reduced Loan Volume (GAO/HRD-90-149FS, Aug. 3, 1990).

Financial Problems in the Stafford Student Loan Program (GAO/T-HRD-90-52, July 27, 1990).

GAO Views on the Stafford Student Loan Program (GAO/T-HRD-90-13, Feb. 20, 1990).

Supplemental Student Loans: Who Borrows and Who Defaults (GAO/HRD-90-33FS, Oct. 17, 1989).

Guaranteed Student Loans: Analysis of Student Default Rates at 7,800 Postsecondary Schools (GAO/HRD-89-63BR, July 5, 1989).

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO/HRD-88-112BR, June 14, 1988).

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, Feb. 2, 1988).

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs (GAO/HRD-87-76, Sept. 30, 1987).

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