OTHER STUDENTS NEED MONEY: AN APPROACH TO THE ADMINISTRATION OF REVOLVING LOAN FUNDS

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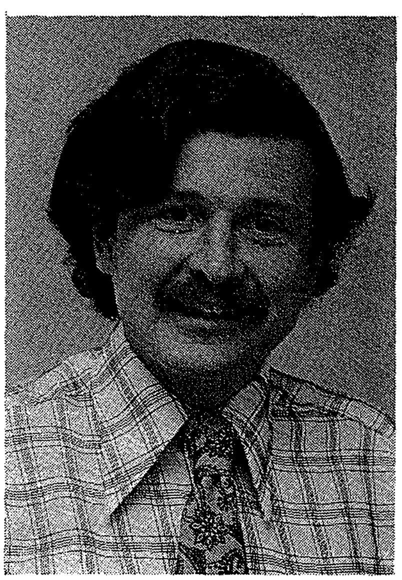
For too long financial aid officers, and postsecondary educational administrators in general, have not focused on the revolving nature of student loan funds. Widespread opinion has been that additional capital will somehow be raised for the purpose of aiding needy students. The first source of this capital was the National Direct Student Loan (NDSL) program; second, the various Health Professions Loan Programs; third, the cornucopia of Federally Insured and State Guaranteed Loans. Indeed, the introduction of the Student Loan Marketing Association has increased the liquidity of the latter source of funds and this must provide satisfaction and reassurance to all concerned with student financial aid. Nonetheless, the National Direct Student Loan and the Health Profession Loan Programs are still important segments of the financial aid officers' resources and require professional financial aid stewardship. It is this writer's conviction that they have not received this stewardship and unless they do a resource of considerable importance to students and institutions will be lost shortly.

To put it bluntly, many aid officers have taken the position that while they will request additional NDSL and Health Professions Funds from the Federal Government, the collection of these funds is not their function, nor even of particular interest to them. Van Dusen and O'Hearn, in their seminal work,



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"Design for a Model Financial Aid Office," argue strongly that loan billing and collection are the responsibility of the burser's office.[1] Their opinion is widely shared by financial aid officers. They point out that in a survey conducted by the Bureau of Applied Social Research, 73 percent of financial aid officers felt that the business office should be responsible for loan collection.

Since delinquency rates for rotating loan funds are so high, perhaps 73 percent of business officers feel loan billing and collection is a financial aid office responsibility. It must be apparent that on many campuses the financial aid officer thinks that the Business Office is handling the loan collection responsibility, and the Business Office often has neither the personnel nor the knowledge to carry out this function properly. Consequently, the delinquencies continue to rise in number and aggregate total value.

John F. Swift, Jr. in "Collecting National Defense/Direct Student Loans" expresses an opinion contrary to Van Dusen and O'Hearn.[2] Swift identifies two factors in the problem of loan billing and collection to support his position. First, the Business Office does not have the time to collect NDSL loans. In fact University resources, though scarce, can always be devoted to worthy purposes. A Business Officer can hire a collection officer if compelling reasons are advanced. However, the second problem that Swift identifies is the lack of the knowledge of the rotating loan programs. Here is it less reasonable, though certainly not impossible, for the Business Officer to carry out the function of loan billing and collection. It is the Aid Officer, with his detailed knowledge of the rotating loan programs, who is in a better position to evaluate deferments, cancellations and other unique provisions of these loans, than the Business Officer. The Financial Aid Officer is the only one who has the ability to make reasonable professional judgments based on the need of the borrower; therefore, the responsibility for collecting funds lies properly within the Financial Aid Office.

The Financial Aid Officer is in a better position to appreciate the significance of loan default than any other fiscal manager on campus because it is the Aid Officer who knows the current need of students for these scarce resources. It is the Aid Officer who is in the best position to balance the conflicting requests of a delinquent student borrower for further deferments in the repayment of his loans against the requests of the new student for additional financial aid.

It is the aid officer who has the value of accrued experience. In the past some aid officers have found themselves making loans to students who have already demonstrated fiscally irresponsible behavior. A student who is delinquent in repaying his tuition is likely to be delinquent in repaying his loan. After attempting to collect loans from difficult borrowers, some aid officers have con-

1 William D. Van Dusen, John J. O'Hearne, *A Design for a Model College Financial Aid Office*. New York: College Entrance Examination Board, 1973. p. 41.

2 John S. Swift, Jr., "Collecting National Defense/Direct Student Loans: Is it a Financial Aid Office Responsibility?" The Journal of Student Financial Aid, Feb. 1976, Vol. 6, No. 1, pp. 28-32.

cluded that if a loan is going to end up being a grant in five years then it should be a grant now. If no grant funds are available presently, the student should leave school. It is more fair to the students who pay their bills and the alumni who pay their loans on time to deny an irresponsible student a loan, even if that means the student must cease his studies, than it is to allow him to continue. Furthermore, there is no point in knowingly entering into a loan relationship with a student when that relationship will result in the additional effort for a default and delinquency in the future. Ben Franklin said, "Experience keeps a dear school, but fools will learn in no other." Many aid officers, including the author, have had to corroborate Dr. Franklin. The aid officer who has made loans which could not be collected is in the best position to make more loans.

Collecting for a rotating loan can be enjoyable. Georgetown University, where this author has hung his professional hat for two years, currently administers a "loan arranger" prepayment campaign. Most borrowers do not understand that their loan payments of principal and interest go to form the principal for new loans to students. In a very real sense, the financial aid officer is just a "loan arranger" between previous borrowers and current students. Once a year alumni at Georgetown are encouraged to prepay the entire amount of their loan to help out the current generation of students. They receive a mailer with the picture of the silver bullet and the mask. Who is that man? It's the loan arranger! In the event that a loan is above $500, a premium is offered for the repayment. In the last two years, Georgetown University beer mugs have been sent to previous borrowers who have prepaid loans of $500 or more. Less than 20 beer mugs have been sent but borrowers have been educated in the nature of a revolving loan fund and hopefully this will contribute to a reduction in student loan delinquency and default. Finally, so much of the work in counseling delinquent borrowers is rather distasteful, that this is one activity which is done because it is just plain fun. The cost of the premium is the same as the cost of billing the student for a year, and the loan billing agency includes the "loan arranger" mailer with the regular billing, so the extra cost involved is minimal.

The conduct of exit interviews is hardly a new concept. Yet only in the last two years has Georgetown taken the hard line approach that a diploma will not be granted until the exit interview has been completed. Beginning in January before the May graduation, a list is circulated to the offices of the several deans requesting that students come for exit interviews. A flexible schedule is set up for these interviews and students are invited to attend a series of group meetings. At the conclusion of these group meetings a second list is circulated to the deans and additional letters are sent to students. Individual interviews are held for these students. For the remaining hard core interview evaders, letters are sent to their campus and home addresses. This function is staffed through graduation day, and by the day of graduation itself this year, eight of the ten schools at Georgetown University had 100% participation in the exit interview process for the Revolving Loans and for the Georgetown University Federally Insured Student Loan Program as well. The other two schools had 98% participation.

Georgetown utilizes two separate billing agencies, one for the Federally Insured Loan Program, and one for the National Direct and other Rotating Loan Programs. It should be emphasized that these agencies perform best when they deal with a cooperative borrower. The uncooperative borrower, regardless of his reasons, is going to require special efforts from the institution itself.

In the early years of the revolving loan programs the attitude of the University toward student loan accounts in general may have been charitably described as cavalier. The attitude prevailed that if students were irresponsible there was simply not much that the institution could do. In order to counteract this attitude, monthly Delinquency Status Reports are now generated and sent to the President, Vice Presidents, Deans and other key administrative officers throughout the University. These reports pinpoint the delinquency rate by account and identify several other factors related to delinquency, such as unknown address and size of the overall portfolio. These reports are circulated monthly to identify the exact status of the situation at the current time.

When a loan is identified as delinquent by the billing agency, a special effort is made in the Office of Financial Aid to contact the borrower and encourage him to bring his account up to date. These contacts are in writing and may also be made by telephone. A series of four letters is sent to the delinquent borrowers. In the event that these are not successful, the names of the borrowers are circulated to the Deans, the Executive Director of the Alumni Association and the Director of Development for additional advice. Frequently some additional information is available which allows the problem to be settled in some way other than litigation. However, if none of these officers is able to be helpful, the account is referred to the University's attorney. A recent study shows that 36% of the people who previously would not respond to Georgetown's letters respond in some fashion when the attorney sends a letter. In the event that this step is not successful, the loans are placed with a collection agency. Georgetown has used as many as five different collection agencies at various times. On the advice of the collection agencies themselves, and in order to facilitate communication between the agencies and Georgetown, new loans are now placed with only two of the five agencies.

In the event that the agencies are not successful, Georgetown University has resorted to litigation to collect some debts. Debts are generally placed with a Georgetown alumnus who is practicing law in the vicinity of the borrower. In this way, one alumnus contacts another alumnus to settle a debt to alma mater. Occasionally, other attorneys who are not Georgetown graduates are used if they seem to have unusual competence in the field.

In rare instances a case has gone to litigation, a difficult procedure because of the ill will that litigation causes. In addition, there is sometimes embarrassing mishandling of the loan billing on the University's part. Nevertheless, Georgetown has proceeded to litigation and, even though the University's billing effort may not have been perfect in the eyes of the court, the borrowers' responses have so far been found to be even less adequate. Litigation has often resulted in settlement in favor of the University. Such a settlement has to be in favor of the conscientious alumni who have repaid their loans and the current students who need these funds. As the University's willingness to litigate becomes more well known, a decline in delinquency is expected.

It can be argued that placement with an attorney and with an agency is expensive. Rates for both forms of service are at least 33% and sometimes as high as 50% of the loan itself. Nonetheless, 66% of something is better than 100% of nothing and the placement is an essential element of the collection work.

So far the improvements have been based on administrative remedies. New and better resources for collecting loans have been devised. The next effort is a more serious study of the characteristics of delinquent borrowers. Are men more likely to default than women? Is the size of the loan a predictor of the likelihood of default? Are students in a particular academic field more likely to default? Research will be devoted to these and related questions so that the needs of current students may be better met and equity for conscientious borrowers served.

There is bad news and good news for student loans now. The bad news is that some borrowers are cavalier about their educational loan responsibilities and educational institutions have had difficulty adjusting their procedures and assignment of responsibility to accommodate them. This paper has suggested the institutional assignment of loan collection responsibility to the financial aid office as a partial remedy for that problem. The good news is that there is still time to remedy the problems with rotating loan funds before they are lost to future generations of students.