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SUGGESTIONS FOR IMPROVING STUDENT LOAN BILLING PROCEDURES AND COLLECTION TECHNIQUES

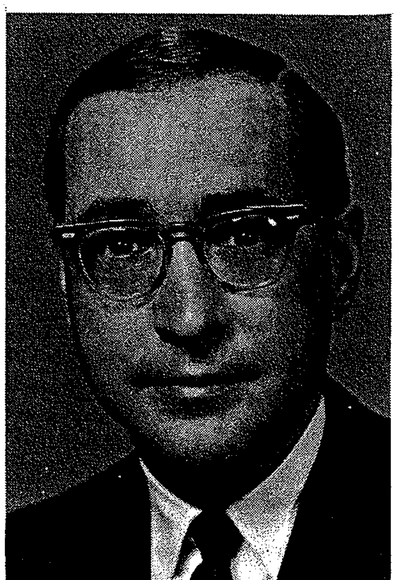
Alan P. Maynard

Introduction

Loan administration breaks down into three areas:

1. Accounting and recordkeeping
2. Collections
3. Reports

It should be recalled that in 1970, the National Association of College and University Business Officers (NACUBO) received a grant from the Office of Education to conduct workshops throughout the country on Accounting, Recordkeeping, and Reporting for Federally Funded Student Financial Aid Programs. These conferences were motivated by a number of reasons; not the least of which was the lack of adequate records found in so many colleges and universities by Government authorities and reflected in institutional annual reports in the form of poor and dubious statistics.



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The lack of written procedures, inadequate controls, unreconciled accounts, incorrect interest and teacher cancellation computations, the absence of audit trails, too few personnel devoting time to program administration — all these were evident in far too many schools and were the cause of unreliable reports and badly managed programs. While there may be a tendency among well-trained accountants to concentrate on keeping good records from which to produce reliable reports, often at the expense of the collection effort, collections are just as dependent upon good records as reports, and no evaluation of the collection effort at a particular institution can be made independently of those records and procedures. If colleges and universities, therefore, are having difficulty with collections, it behooves them to look at every phase of their recordkeeping to be sure that it is accurate, reliable, and accessible before proceeding further.

Unique Characteristics of Student Loans

Assuming that the accounting function is as it should be, collections in and of themselves present a very special matter and should be carefully distinguished from the kinds and types of problems faced by commercial lending agencies. Essentially the difference is simple: Commercial lenders make loans based on record; colleges and universities base their loans on faith — faith in the future potential earning power of the educated borrower. Consider how in granting loans to students all credit extension norms are violated:

1. Education loans are granted to minors or barely majors.
2. Generally the borrower is without any credit record.
3. Those who borrow are without income.
4. Colleges loan to persons unknown to the community.
5. Larger amounts are loaned to persons with the more disadvantaged backgrounds.

In the granting of student loans, there is little resemblance to the commercial loan transaction other than the signing of the note and the exchange of money. The basic differences will require extraordinary diligence on the part of the lender if the collection program is to be successful. And, if the basis upon which the loan is made is at variance with most normal credit procedures, the collection process itself will vary from a number of standpoints which are presented below:

1. The average personal loan is collectible within 30 to 45 days. Because education loans do not become collectible until graduation or withdrawal and may be coupled with deferments for continued education, Armed Forces, Peace Corps, and VISTA, as many as ten or more years might elapse between the time that the original loan has been granted and the time that the collection process begins. Such a time gap might possibly extend the life of a loan as much as twenty years.

2. Cancellations and deferments are possible in most government-sponsored funds. These provisions tend to produce bad psychological effects upon the borrower when either expire and cash is required. There are no such provisions in loans granted by banks or other commercial lending agencies.

3. While for the most part banks deal with borrowers who reside locally, educational institutions may deal with borrowers from throughout the nation, as well as abroad.

4. Education borrowers are one-time borrowers. They have little need to establish good credit records with the school from which they obtained a loan especially in an age when confidentiality of records is a principle so meticulously adhered to by educational institutions. When people borrow from banks, however, they usually want to establish good credit records so that future borrowing needs will not be jeopardized.

5. Lastly but certainly not least important, colleges and universities are newcomers to the lending business. For example, at Brown University in 1947, $27,700 was loaned; in 1957, $67,000 was loaned; in 1973, $1,000,000 was loaned; and present projections under the Federally Insured Loan Program show Brown loaning as much as $1,400,000 this year. Except for the element of inflation, banks on the other hand have had nothing like this percentage of increase. At stake, then, is a sizeable amount of money against a backdrop of alumni relations and development programs. Commercial lending agencies, especially the banks, are not exactly out to ruin their image by using harsh collection tactics; but what is much easier for a corporation, which exists partially for the purpose of lending and collecting, is a great deal more difficult for a philanthropic institution dedicated to the pursuit of wisdom.

Taking all of these factors into account, thereby recognizing the peculiarities of the education loan, it should be apparent to the officer responsible for loan collections that he is faced with a new and unique situation in which the odds are against a low delinquency rate; and in order to keep bad debts at a minimum, he will need to use all the tools at his disposal in a special and innovative way.

Initial Collection Procedures

The collection of a loan begins at the time that it is offered and continues in a series of steps between then and the time of the first bill. Financial Aid packages usually include scholarship, loan, and job. Often the loan and the job are offered as alternatives. In a number of instances, it is assumed that the recipient will accept the scholarship, but the student is asked to indicate by return postcard whether or not he or she will accept the loan and/or the job. Regardless of the procedure, it is important that a general statement concerning loans be included in every loan offer. While it may be true that larger universities dealing with a variety of funds are unable to indicate the exact fund from which the loan, if accepted, will be made, a statement including: (a) general source of loan funds, (b) interest rates, (c) deferment and cancellation provisions, (d) grace periods, and (e) repayment terms should be sent with the offer so that it might be assumed that the student knows from the beginning precisely what is involved. All who have dealt with student borrowers know that it has not been unusual to find students who, in spite of all efforts to inform them, still do not have the vaguest idea of what loans are all about.

Following this attempt to disseminate facts and figures, the next step in a good collection program is to have an entrance interview with first-time borrowers. Because most institutions simply do not have the personnel to conduct such interviews on an individual basis, a group conference might be scheduled at which time loan notes and other necessary papers are signed and explained in something like the following manner:

1. An introduction of self and staff.
2. Explanation of repayment terms, including deferments and cancellations.
3. Explanation of interest charges in detail.
4. A general discussion on debt limitation including some reference to budgeting.
5. A time to read loan notes before signing.
6. An explanation of truth-in-lending statement.
7. Finally, a note of caution regarding the obligation to advise the appropriate officer of the college or university before leaving for whatever reason.

This group approach has been tried at Brown on a selective basis with anticipation of extending it to all new borrowers in general. Our experimentation with this procedure has been successful, at least to the point of getting a good reaction from students who attended.

A caveat should be added about the loan note itself. Many schools are careless about constructing their notes and fail to provide some of the provisions allowed by the government to facilitate the collection process. In many instances, notes are (a) not kept in a safe place, (b) not revised as the result of changes in the law, and (c) do not contain some of the suggested clauses such as: (1) payment of collection costs, (2) provisions for collecting the entire debt in the event of an installment default, (3) responsibility for address changes, (4) fines for late payments and (5) a provision for endorsement where possible. While it is true that a court of law may, in final judgment, not honor all of these provisions, it is unwise not to protect the institution insofar as that is legally possible.

The next step must be to send an annual reminder of indebtedness to each student as long as he remains in school, giving the total of loans granted to date, the source of funds, and a repeat of repayment information already mentioned. Not only does this procedure keep the borrower appraised of the debt and its terms, but it also serves an audit function. Upon receiving these statements, it would be unusual if at least one student did not present himself at the appropriate office protesting the amount of the loan, only to discover that either he was mistaken or a bookkeeping error had been made.

Exit Collection Procedures

While the procedures already identified are of prime importance to the collection process, what takes place at termination of enrollment is undoubtedly crucial. Before covering that subject, however, some other considerations must be introduced. Recently student loan administrators have been hearing that the withholding of transcripts, degrees, and diplomas for unpaid bills and loans may be under fire and that if there hasn't already been a ruling on such matters locally, there may soon be one. It can only be hoped that this will not happen, as it will make the collection process just that much more difficult. A second aside is to encourage all loan collection personnel to work out with registrars, if needed, a rapid transit system of communication for keeping the collector appraised of borrower terminations. This will probably result in seeing all terminations, but better that, than none. Nothing is more frustrating than finding in an account review someone who left school a year ago without notice being received.

With respect to the exit interview itself, at Brown University the student loan staff has chosen with success the group approach for the following reasons: (1) to conduct personally any more than 100 individual interviews becomes too time consuming and the interviewer is apt to rush through an interview just to get on to the next; (2) because many students fail to keep appointments, a day's schedule can be fragmented in such a way that nothing of any value is accomplished — multiply this by the number of days it takes to see all student borrowers and substantial time has been wasted; (3) more time may be spent with each group conference than may be allotted to individuals, thereby allowing for more detailed explanations; (4) questions raised by one student often inform others of facts about which they had failed to consider — in other words, group conferences allow for group interaction, a valuable by-product.

A letter should be sent to all borrowers eight weeks before graduation in which they are requested as a graduation requirement to make an appointment for a loan conference. Appointments are requested so that the number attending any one conference can be kept to a maximum of thirty and the loan files pertaining to each borrower present can be available. It is often necessary to send a number of notices to students before they respond in order to complete the loan conferences before June graduation. Obviously it is a threat of "no degree" and not any particular loan officer's persuasive oratory that accounts for attendance.

The "loan conference", a label which is preferable to the "exit interview", takes approximately one hour to conduct. In many ways, its format is not dissimilar to the entrance conference previously described so that the following agenda will not be entirely new to either the loan officer or the borrower:

1. An introduction of yourself and staff.
2. Personal folders are distributed containing for each student: (a) the amount of debt listed on repayment schedules with copy requesting the minimum payment (students are asked to make individual appointments if they foresee acceleration or special circumstances), (b) truth-in-lending statements with copy, (c) information sheets, and (d) a Loan Repayment Manual.
3. Students are first requested to complete information sheets listing home addresses, name of parents, and their address, other education loans

and their source, future plans insofar as known, social security number, driver's license number, and state, and personal references.

4. After a complete explanation of all loan provisions including repayment terms, computation of interest charges compared to commercial interest rates, deferment and cancellation options, and billing procedures, students are asked to sign repayment schedules and the truth-in-lending statements.

5. A detailed explanation of personal budgeting follows after which borrowers are requested to return everything, except a copy of the truth-in-lending statement, a copy of the repayment schedule, and the Loan Manual.

Generally it has been found that the atmosphere of such meetings is good. While a number of expressionless faces will listen and leave immediately following the conclusion of a conference, many more will remain and ask more questions. One such student was overheard saying, "You know, this is the first time in four years that I felt my feet touch the ground."

It may be important here to note the procedural philosophy which follows this interview. Even though many of the graduating students enter graduate or professional schools, all students are set up for billing and are treated as if they were in collection status. This method is particularly important when dealing with thousands of accounts and when these accounts are most likely to be computerized. There is always the danger that if a student is coded for "no bill" on the basis of what he has declared, that you will not receive the necessary deferment when you should and will not make contact with him for many months following a due date. This same principle should be followed even after the submission and approval of a deferment. In some way, adjusted, of course, for the bookkeeping system used, deferred accounts should be automatically coded for the next bill so as not to lose the account in the morass of paper work.

All manuals recommend a letter be sent at least three months prior to the first billing date. If this is impossible, it is important at a minimum that a letter be sent with the first bill. It should once again spell out payment requirements and deferment provisions. It is also economical, from the standpoint of letter writing, to enclose blank deferment and teacher cancellation requests so that unnecessary correspondence need not be engendered.

Follow-Up Collection Procedures

To be successful at collections, a routine billing system is mandatory. While many institutions are still billing the old federal accounts on an annual basis where they are still in collection status and not delinquent, certainly no one should be billing any of their newer accounts on a frequency less than quarterly, bi-monthly, or monthly, the latter being preferable. If such billing is an absolute impossibility, then it is strongly urged that consideration be given to the use of payment coupons similar to those used by banks for personal loans. The benefits of this approach are: (1) the borrower becomes used to paying on a monthly basis as he does with most other bills; and (2) it allows for a much quicker follow-up on accounts. It is generally recognized that more frequent bills in smaller amounts stand a much better chance of being paid than bills sent less frequently for amounts not easily worked into one's budget.

The most usual complaint about following the procedures outlined above is the inability to implement them as a result of the shortage of student loan staff at institutions. This, for the most part, is a serious situation and generally reflects the lack of knowledge and concern by top administrators for what has to be done.

The following suggestions are made with the hope of proving helpful in utilizing the resources available. An extraordinary amount of time is spent in the collection process communicating with the borrower. Much time can be saved by the institution's thoughtful consideration of the kind of material which they want to disseminate. Special emphasis should be placed on the kind of information most generally questioned. This is the rationale which went into so many loan manuals published and prepared by schools engaged in lending. The more information that can be disseminated in this fashion, the less need there is for an exchange of correspondence with the borrowers. When a borrower does write, an answer may be shortened by reference to a paragraph or section of the manual.

Concerning information which generally is used in transmittal of bills, deferment requests, and related procedures, a great deal can be done with prepared forms and letters. Such forms and letters might be made part of a procedural manual developed to assist clerical staff in loan administration and thus relieve the loan administrator of many routine functions. Because of frequent use, loan officers will want to have some of these letters printed; others, where needed in unpredictable quantities, may be put on "mag-card" tapes if that capability is available; and still others, used rarely, may be prepared and placed in the manual so that the clerk may simply copy it when the occasion arises. While manuals, printed forms and letters are costly, in the last analysis, they are time savers.

Some Related Observations

Finally, the time is at hand for those charged with the responsibility to collect loans to protest some of the policies of the Federal Government which complicate the work of collections unnecessarily and make what is already a difficult job even more difficult. It can be readily acknowledged that colleges and universities are not doing as well as they could in the administration of long-term loans. More colleges than not are probably doing an adequate job of recordkeeping, but too many are devoting too little time and staff to the growing problem of collections. One of the major problems is that students are borrowing too much from too many sources. How many loan officers are counselling students concerning debt limitations? Or, are they simply allowing students to borrow to the legal limit without exercising any judgment as to whether a particular student will be able to repay when the day of reckoning comes?

Having acknowledged these shortcomings, loan administrators are also deeply concerned about the following three aspects of government-sponsored loans:

(a) Time limitations are generally unrealistic and some leeway should be given colleges and universities to extend repayment periods with a minimum amount of red tape.

(b) The government ought to standardize its loan regulations. No matter what precautionary steps are taken by way of good communication with borrowers, it is very difficult to make present regulations clear. Couple with this, the dilemma of the student with money to be repaid to the banks as well as to the University.

(c) One final complaint with the government is the frequent changes in its report forms. For those using data processing systems, much of what is required can be gathered easily if the loan officers can anticipate for what to program; but if the questions vary annually, then excessive time is expended in accumulating the requested information.

In conclusion, then, every effort should be made to impress the authorities with the urgent need for reform on their part in exchange for greater diligence and vigilance on the part of the loan administrator. Many of the procedures which have been set forth as desirable in this article are in accord with the diligence needed. If student loan administrators are to approach federal authorities, they must do so with the improvements which such procedures afford.