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John S. Swift, Jr.

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COLLECTING NATIONAL DEFENSE/DIRECT

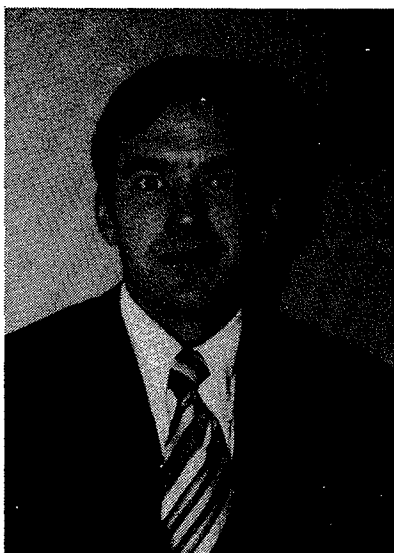
STUDENT LOANS: IS IT A FINANCIAL AID

OFFICE RESPONSIBILITY?

John S. Swift, Jr.

Defaults and delinquencies on Federally Insured Student Loans and Guaranteed Student Loans (FISL and GSL) and National Defense/Direct Student Loans (NDSL) are on the increase. Statistics, whether national, state or those generated from the Federal Tri-partite applications all indicate this. Yet as a financial aid officer, are you fully aware of the situation on your campus? Or do you presume that loan collection lies in the business office's line of duty?

One indication you have that your delinquency rate is excessive is whether your request for NDSL funds was decreased over what you requested on your tri-partite application. This year, the panels which reviewed the application for federal funds reduced the level of lending and the federal contribution of colleges showing an increased rate of delinquency. The federal government's growing concern over the numbers of delinquent loans is being transmitted through such action as the panel's reducing the loan program at colleges where the amount of "bad paper" is on the increase.



John Swift has been Director of Admissions and Financial Aid at the Cleveland Institute of Art since May, 1972. Prior to that he was the Director of Financial Aid at Macalester College in St. Paul, Minnesota. Professional activities have included serving as a trainer for the Ohio Association of Student Financial Aid Administrators and panel member at the Midwest meeting of the College Entrance Examination Board. Currently he is Chairperson for the Directors of Financial Aid of the Union of Independent Colleges of Art.

If you have had the opportunity to read the new GLP regulations as published in the *Federal Register*, you will realize the tightening up of some of the areas of control of the loan programs. This is partially in reaction to the delinquent default rate in the FISL program. It is felt by some that similar, more restrictive rules will be attached to the operating guidelines of the NDSL program. A vice president of Wachovia Services, Inc., commented that "Colleges are going to have to take more responsibility for the collection of the loans they make. In the next few years, regulations are going to be tightened up regarding this area."

All this may not yet be of great concern at your college, but odds are that with the current economy, your delinquency rate is on the rise. Do not think someone else in your college is making a great effort to collect those loans. A billing service and/or a collection agency may be utilized, but the effectiveness of either could be questioned. And just meeting the "letter of the law" as it relates to diligence may not suffice either. Because the field has a high rate of turnover, you may not be aware that in 1967, the federal government put together the "100 List." This was a listing of the nation's one hundred colleges with the greatest number of delinquent NDSL accounts. My institution was one of this "select" group. One of the conditions for its removal from the list was a federal audit of program and procedures.

Currently there is an indication that another "100 List" may be assembled. This was strongly hinted at during last fall's tri-partite application briefing. The natural ramifications of such a listing could mean that many colleges would find their loan programs being carefully reviewed and possibly reduced or eliminated entirely.

Too often apathy and the attempt to transfer responsibility for loan collection are the mode of operation of the programs. The use of computers, a billing and/or collection agency are the methods colleges use to collect their loans. The problem of poor collections is increased by the fact that the financial aid officer often thinks that the business office is handling their responsibility. But the business office often has neither the time nor the knowledge to carry out this function properly. Consequently, delinquencies continue to rise in number and the blame is placed on the business office by the financial aid office and vice-versa.

At the end of Fiscal Year 1974, 40% of borrowers who should have been paying their loan were delinquent. We were well on our way to making the "100 List" a second time. At the close of the year I was given the responsibility for resolving the billing and collection problems. I inherited a situation where a billing service had been hired to "take care of it all." In the last three years, it and two other collection agencies had been utilized with minimal success.

Initially, I did not plan to take over the collection for our NDSL program. However, the delinquency rate apparent from our fiscal operations report and tri-partite application threatened to hurt our funding requests. I was appalled that it was so high. Eighteen percent of the principal out-

standing was past due, and delinquent. No one had taken the time to pursue these accounts and attempt to solve the problems necessary to collect these funds.

The process I introduced to reduce our delinquency rate as well as to improve our loan program (and especially our collections) is time consuming. It might be said that such procedures are unrealistic for a large institution, where the personnel are not available to carry out the job. I feel that the cost of hiring someone can be easily off-set by the potential amount of money that can be collected. What is more, handling accounts that are delinquent is not just a matter of collecting money but involves public relations on behalf of the college. The odds are that you will have some accounts where the debtor is not responsible for the collection costs. Also, most agencies take one-third of the sum collected. A college employee can save money even as an added-on staff person. But in a smaller operation such as ours, it is probably necessary for one person to take the time to follow through on clearing such accounts.

I began my effort by reviewing every NDSL account file for correct information relative to what the billing agency listed via computer print-outs. I then isolated those listed as delinquent and carefully reviewed each account to see what specific actions had been taken, and what might need to be done. Among other things, I discovered that some accounts were being billed by the billing service as well as being pursued by both collection agencies, all at the same time. This situation caused me to review carefully the results that both collection agencies reported. Both had been serving us for a period of years — enough time for them to get results. After reviewing the files, I terminated the services of one, (this was done via certified mail, listing the accounts they had) and suspended the other (which was ultimately terminated also). I felt that neither agency had been successful, and that if normal bills did not bring payments, the college should take some other action before turning to a collection agency.

In trying to collect these loans, the first step I took was to make a list of each person whose account was delinquent. This went to the registrar who indicated when and why each person left the college. Then public relations/development was asked to provide a current address and any other useful information. Using this material, an address listing provided by the billing service, and information contained in the file, direct contact of each borrower was begun. Personal contact takes time, but is well worth it. Besides permitting the discovery that the borrower is too often unclear about the rules of the program and feels that the billing service is impersonal and often wrong, such contact helps build positive alumni feelings and kindles renewed interest in those who dropped out. It also expedites the clearing of accounts and the solving of problems.

Problems identified included everything from no bills received for years, teacher cancellation yet to be granted, postponements for military service and further schooling, to two individuals being billed who had never attend-

ed the college! Most common, and one of the largest problems related to the billing and collection process, is the need for constant updating of addresses. Through this direct contact method I clarified and removed from delinquency status close to 40 percent of the accounts listed as delinquent on our fiscal operations report for FY 1974. Those people whom I could not reach by phone, but had a current phone number, I wrote (certified mail with return card) asking them to call or write me. Treatment of those who were contacted but failed to commence payment was carried out through a series of letters (all certified) reminding them first of what they needed to do, or had agreed to do, and then getting progressively tougher until the last letter informed them that they were being turned over to a collection agency.

This process may sound simple, but it is not. The number of accounts I began trying to collect was fifty-three. During the Fall, seven more were added, bringing the total to sixty. For three months, I spent two days a week, as well as evenings, reaching people and clearing up their accounts. While accounts over the ensuing months continue to "go delinquent," the time consumption is down to a few hours a week. But the entire program of billing and collection requires constant review. You must be sure that the information used to generate bills is continuously correct. The use of a professional billing and/or collection agency does not remove from the college the responsibility of collecting the loans. Such agencies can be of assistance, but before contracts are signed, careful consideration of the company and the services they offer is necessary in order to minimize problems that may come up later.

I could describe specific procedures I used but rather than doing that, let me comment about two areas that are of prime importance when collecting loans. One is the treatment of the borrower, and the other is the general knowledge, skill and procedure to follow.

Beginning with the last item, one should know and have handy when contacting borrowers, the rules of the NDSL program, including all changes and updates. You should know about the loan notes the borrower has signed, and what type of exit interview was held. You should be familiar with the system your billing program uses. The person selected to do this work should be familiar with financial aid. (A financial aid officer who has attended a loan collection workshop would be ideal.) Initially, the approach that should be used with each delinquent account should be one of problem solving.

Treatment of the borrower should be friendly and personal. Bending over backwards pays off, for it wins over a person often on the defensive concerning his loan. A tough line approach should not be used if at all possible. Most borrowers are not purposely attempting to avoid payment, some will not pay until it is brought emphatically to their attention that it is an obligation. By being helpful, friendly, sending needed forms promptly, and working to clear up problems, I found that about 25 percent of the delinquencies could be taken care of relatively easily and quickly.

As important as it is to work with each delinquent account on a personal basis, it is equally vital to get the support in collections of the entire college community, from trustees on down. Often reluctance to help trace delinquent accounts can be found because of fear that it will bring bad publicity, will alienate alumni, or in some other way hurt the institution. Support can be rallied through the fact that outstanding loans represent money that the college could be using to operate. Without the loan funds being repaid, students cannot receive assistance to attend the college. An alumnus who does not pay his loan cannot be expected to be a future donor or interested alumni. Once your administration sees how important it is to retrieve these funds, you should freeze each debtor's files. References and transcripts should not be issued on behalf of a person owing money. The alumni office should help search for those people for whom you need a current address. Trustees who are lawyers might provide legal advice. Even faculty who were closely acquainted with the person owing the loan might be able to help you reach an otherwise "dead" account.

Not only did I enlist the entire college in my efforts to collect our delinquent NDSL accounts, I instituted a more effective exit interview system. Besides reaching each student as he leaves the Institute, we have begun granting an NDSL only after the recipient is interviewed. The loan note is sent to the borrower for him to review and sign before fall (or winter) registration. Upon arriving on campus, the loan is not finally processed until each borrower talks to someone in the aid office about the fact that the loan must be repaid, and the specific terms of the note. Students who in the past received a loan have all college services suspended until they have had an exit interview.

All of this may sound like a lot of work, and it is. Yet annually, millions of dollars are not available to reloan because colleges are not making a really sincere effort to collect the loans past due and delinquent. Catching up on the accounts which have become delinquent is the hardest job because of the time it takes. But once you are current, keeping ahead of borrowers whose accounts become delinquent is not as difficult or as time consuming. The hurdles, in the order in which they exist, are to accept the situation, to coordinate collection, and to begin contacting those in arrears. The rewards are well worth the time and the cost.