

STATEMENT OF ERNEST L. BOYER, COMMISSIONER OF EDUCATION,
BEFORE THE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
AND HUMAN RESOURCES OF THE HOUSE COMMITTEE ON GOVERNMENT
OPERATIONS -- JUNE 13, 1979

Mr. Chairman, Members of the Subcommittee,

I am pleased to join you today to discuss the Student Financial Assistance Programs administered by the Office of Education.

Last July, Secretary Califano appeared before this Subcommittee to describe the problems we had found in the administration of these programs when we entered office, to summarize the steps that we had taken during the previous eighteen months to improve the operation and administration of these programs, and to describe a series of new initiatives. Today, I would like to bring you up to date on the progress we've made since the Secretary's testimony.

First, I must underscore an essential point that the Secretary made when he testified before you last July. The Federal student assistance programs are absolutely crucial. They have helped millions of Americans benefit from higher education. There have been problems in the administration of these programs, yet -- overall -- the achievement of equal educational opportunity has been one of this nation's outstanding success stories. It's true that when we took office the student aid programs were in terrible shape administratively.

- o Organizationally, the programs were scattered throughout OE.
- o The default backlog in the NDSL and GSL programs was shocking.
- o No effective collections program was in place.
- o We had no effective procedure to verify the information on BEOG application forms before awarding grants.

In short, this was one of the toughest problems we inherited.

Mr Chairman, I'm convinced dramatic progress has been made. And these gains are the result of aggressive, determined administration by the Secretary, by my office and, most importantly, by the leadership and staff of the Bureau of Student Financial Assistance.

Obviously we have not solved all the problems, but I think you will agree with me that we have made giant strides in the past two years and we are determined to continue to review these programs and be good stewards of the public trust.

Now I'd like to describe each program improvement in more detail.

Basic Educational Opportunity Grants (BEOG)

As you know, the BEOG program is an entitlement program. Eligible students receive a foundation grant to help them defray the cost of education. These grants are based on

family income and the cost of college attendance, although awards may not exceed one-half the actual cost of attendance. The maximum award for the past academic year was \$1600 and the maximum awards for the next academic year will be \$1800.

We have just completed the first full year using our new tightened computer editing and validation process of BEOG applications, and the results have been remarkable:

- o We received 3.9 million applications for 1978-79 BEOG awards. Of these, 1.7 million -- approximately 40 percent -- were rejected by the computer as having incomplete or inconsistent information. These applications were not processed until students provided verification or corrected data. Ultimately, approximately 500,000 applications were rejected by the system.
- o In addition to this first-cut screening process, 120,000 applications were selected for detailed validation. Students were required to document their basic grant application data before they received payment. Eighty percent of these applications were selected on the basis of pre-established criteria in much the same way that tax returns are selected by the IRS for auditing; 20 percent were selected randomly. Of this group, approximately 42,000 students made corrections to their applications after they were notified that they were selected for

validation. Among those who were selected on the basis of our pre-selected criteria, awards decreased by an average of \$150. Among those who were selected at random, awards decreased by about \$60. We expect to validate approximately 300,000 applications next year.

Obviously, not all of the problems with Basic Grant application data are a result of deliberate attempts to mislead or defraud the Government. Indeed, the vast majority of students made unintended errors or were simply confused by the forms they had to fill out. Consequently, we believe the form should be simplified to reduce error. We were able to make some minor changes in this coming year's application form. However, we expect to have a substantially improved form in use for the 1980-81 school year. This form will not only serve as the Federal BEOG application, but it will also be used by aid application processors who participate in the Multiple Data Entry system. This is especially important since 80 percent of all BEOG applicants apply for a BEOG grant on a non-Federal form.

The Secretary also indicated that we would introduce a series of matches in the Basic Grant program to ensure that the information supplied on BEOG applications is complete and accurate.

- o This year, for example, all Basic Grant applications were compared with Social Security and Veterans

Administration files to ensure that students accurately report these benefits. As a result of these comparisons, Social Security and VA recipients who were identified as not reporting their awards accurately are being required to have their BEOG grant validated by their schools' financial aid officer.

- o A review of our matching of BEOG and AFDC recipients gives early indications that receipt of AFDC does not influence BEOG award size. We are continuing to work with the Inspector General's office on this.
- o As a result of our initial match to identify possible multiple BEOG grant recipients, 5 cases were referred to BSFA Compliance Division. We are in the process of incorporating this checking procedure in our regular review process.
- o This year we will follow up on last year's statistical match of students receiving BEOG grants at schools where they had defaulted on a GSL loan. In addition, we have submitted legislation to close the loophole that permits students who have defaulted on a loan or owe a BEOG refund to receive a BEOG at other schools.

For the 1978-79 academic year, these and other improvements in the management of the Basic Grant program resulted in dramatic reductions in program expenditures. While we cannot attribute specific dollar savings to each type of

improvement made, overall, the program cost \$700 million less than originally projected. We believe these cost estimates are useful since they were developed in the same manner as those for 1977-78. These procedures were reviewed by a number of groups including the Congressional Budget Office and were accurate within about \$100 million.

Guaranteed Student Loan Program

The Guaranteed Student Loan Program insures low interest loans made to students by commercial lenders or, in some cases, by educational institutions. It also reinsures loans insured by State guarantee or non-profit agencies in 31 States. Undergraduates may borrow up to a total of \$7,500; graduate students up to a total of \$15,000. Students may repay loans over a 10-year period at a maximum of 7 percent interest. In addition, the Federal government subsidizes interest costs to lenders and students.

Last December, the President established a goal of eliminating the unworked backlog of defaulted guaranteed student loans by the end of 1980. We expect to meet this goal and our progress towards it has quickened. The number of dollars collected and the number of borrowers who are in repayment or who have completed payment has increased substantially. The total number of loans in default has decreased from 357,182 as of September 1978 to 283,382 as of May 31, 1979 and we hope to

reduce the number of loans in default to 200,000 by the end of the current fiscal year. During the first eight months of Fiscal Year 1979, collections totaled \$26.3 million dollars and we expect to more than double the FY 1978 total of \$15.7 million by the end of FY 1979. The GSL default rate, which stood at 13.7% in October 1977, now stands at approximately 9%.

Other highlights include:

- o The number of accounts in repayment status increased from 24,000 on October 1, 1977 to more than 103,000 as of May 31, 1979.
- o Since June 30, 1978, the number of defaulted accounts paid in full has increased from 15,655 to 41,963.
- o In addition, a total of 40,316 accounts have been closed due to death, disability or bankruptcy and 21,472 accounts have been written off.
- o We have reduced the number of new claims submitted to the Office of Education for payment. In the first six months of the current fiscal year, we received 37,538 claims for payment of defaulted loans. This compared with 60,217 claims during the same period last year.

We are also experimenting with the use of private collection firms in the collection of defaulted GSL loans. Contracts for collection services in the San Francisco and Atlanta regions were awarded on January 29, 1979. Under these contracts,

loans which Federal collectors have failed to bring into repayment are referred for action by the private firm. Referral of defaulted loans to these organizations has begun. To date, more than 28,000 loans have been referred to the contractors and more than \$150,000 has been collected.

The HEW Inspector General is conducting an evaluation of the effectiveness of these collection contracts in comparison with the effectiveness of Federal collectors. This evaluation has already begun and we expect to have preliminary results by December 1979.

Also, I'd like to mention that Operation Cross-Check, which seeks to identify through computer matches Federal employees who have defaulted on a guaranteed student loan and to bring them into repayment, has resulted in a total value of loans in repayment of \$4.1 million.

National Direct Student Loan Program (NDSL)

The NDSL program provides funds to 3400 institutions for the purpose of making low interest loans to needy students. The loans are made from a revolving fund at each institution which is created with 90 percent Federal funds and a 10 percent contribution by the institution.

This campus-based program has been less susceptible than the federally administered GSL program to Federal intervention.

We have, however, recently taken a number of actions which we believe will improve the administration of this program in a substantial way.

- o . New regulations provide that institutions with a default rate of greater than 10 percent or which have not reduced their default rate by at least 10 percent over the last two years receive fewer new Federal dollars for their institutional loan funds. In the award process for the 1979-80 academic year, 950 institutions received fewer funds than they would normally be entitled to. The aggregate penalty for these institutions was \$90 million. For the following academic year, new regulations will provide no additional NDSL funds to institutions which do not meet performance standards set by HEW. This action was prompted by data which indicated that the overall default rate in the NDSL program increased from 16.9 percent as of June 30, 1977, to 17.7 percent as of June 30, 1978.

In addition to tightening the NDSL regulations, we have streamlined our procedures for turning over defaulted loans from institutions to the Federal Government for collection. Since new procedures were announced on February 12, 1979, we have received approximately 40,000 NDSL loans for collection. We have turned over 20,000 of these to our regional offices and to date we have had substantial success in bringing students into repayment. For example, during the first eight

weeks of this program, over \$20,000 was collected on 2,966 notes turned over to the Boston office.

Actions Affecting all Programs

In addition to specific efforts which we have made to improve individual programs, we have also undertaken a number of initiatives which affect the administration of all of our student assistance programs:

- o Program reviews have been conducted at 744 institutions since the start of the new Fiscal Year October 1, 1978 and over \$9.2 million in liabilities have been identified through those reviews. An additional 256 reviews are scheduled to be conducted by September 30, 1979. This compares to the entire Fiscal Year 1978 when 481 reviews were conducted and \$6.3 million in liabilities were identified. The institutions to be reviewed are selected on the basis of 18 criteria designed to identify those schools with the greatest potential for management problems. Therefore, the program reviews are deliberately targeted on the most difficult types of problems.
- o We have made vigorous use of our Limit, Suspend, and Termination authority. To date we have signed 23 limitation agreements and we have initiated 26 termination actions. A total of 7 schools have exhausted their appeals and have been terminated from participation in all OE student assistance programs.

- o All institutions participating in the campus-based and Basic Grant programs are now required to submit audits every two years. (The audit requirement for the BEOG program became effective in FY 1979 so schools subject to this have two years to submit audits.) Since October 1, 1213 audits of campus based programs have been received and 648 resolved and closed. Audit exceptions have resulted in the identification of liabilities totaling \$621,000.
- o The management of the Bureau of Student Financial Assistance has been strengthened significantly. For example, in many areas, productivity standards have been established for individual performance. These standards, which take into account the amount of time necessary to do a top quality job, are used to assess the efficiency of organizational units.

Improvement of the student financial assistance programs has been a first priority of the Office of Education. I believe that our record thus far is a remarkable achievement -- perhaps unmatched in government administration. We recognize, however, that although we have made substantial progress, much remains to be done. We are committed to finishing the job and putting these programs on a sound administrative footing.

Thank you, Mr. Chairman, for giving me an opportunity to describe these important programs. I will, of course, be responsive to any questions you may have.