DOCUMENT RESUME

ED 328 167 HE 024 221

TITLE	Stafford Student Loans. Millions of Dollars in Loans Awarded to Ineligible Borrowers. Report to the Chairman, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate.
INSTITUTION	General Accounting Office, Washington, DC. Information Management and Technology Div.
REPORT NO	GAO/IMTEC-91-7
PUB DATE	Dec 90
NOTE	34p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877 (first 5 copies, free, 5+ copies, $2.00 ea., 25% discount on orders of 100+ copies).
PUB TYPE	Reports - Research/Technical (143)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	College Students; Databases; Evaluation Methods; Federal Programs; Financial Audits; Higher Education; Information Needs; Investigations; *Loan Default; *Money Management; Paying for College; *Student Loan Programs
IDENTIFIERS	*Guaranteed Student Loan Program; *Stafford Student Loan Program

ABSTRACT

This report presents the results of an investigation which evaluated the Department of Education's data base on Stafford Loans and discusses how the Department can use the information to prevent loan abuses. The investigation's findings reveal that loan defaulters may have obtained about $109 million in new loans, and that students received millions of dollars in loans over the legal loan limits. Areas where the Department could do more to prevent abuse are highlighted, and the inadequacy of data available to identify abuse is discussed. Also, suggestions are made for interim measures to improve the internal controls in the program. Finally, recommendations designed to help curb the abuses, as well as comments from the Department of Education concerning the evaluation, are presented. Appendices provide information on: (1) the objectives, scope, and methodology of the investigation; (2) problems related to missing, questionable, and erroneous data; (3) comments from the Department of Education; and (4) a list of the major contributors to the report. Tables provide data from examples of four students who have exceeded annual loan limits. (GLR)

United States General Accounting Office

GAO

Report to the Chairman, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate

December 1990

STAFFORD STUDENT LOANS

Millions of Dollars in Loans Awarded to Ineligible Borrowers

GAO/IMTEC-91-7

GAO

United States
General Accounting Office
Washington, D.C. 20548

Information Management and
Technology Division

B-240703

December 12, 1990

The Honorable Sam Nunn
Chairman, Permanent Subcommittee
on Investigations
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

In response to your request, we are reporting to you on the Department of Education's data base on Stafford Student Loans (formerly called Guaranteed Student Loans). This report evaluates the data base and discusses how the Department can use the information in this data base to prevent loan abuses.

The Stafford Loan Program[1] provides loans to vocational and college students. This program has been identified by the Comptroller General as an area with the potential for mismanagement, fraud, and abuse due to internal control weaknesses. It is estimated that in fiscal year 1990 student loan defaults will cost about $2.4 billion, or more than 54 percent of total program costs. In response to this problem, we looked at the data base to determine whether students who have defaulted on Stafford loans were obtaining new loans and whether students were obtaining loans that exceeded legal loan limits.

GAO reviews are underway on other aspects of the Department's student loan programs. Details on our objectives, scope, and methodology are included in appendix I.

Results in Brief

The Department maintains a data base on Stafford Student Loans. However, it does not check the information in the data base for completeness or accuracy. Most significantly, the Department does not require that the data base be used to (1) identify student loan defaulters who are trying to obtain new loans or (2) determine whether borrowers have exceeded legal loan limits.

Our analysis of the Department's data base showed that loan defaulters may have obtained about $109 million in new loans, and students have

[1]This program includes three kinds of loans: (1) Stafford Loans, (2) Parent Loans or Undergraduate Students (PLUS), and (3) Supplemental Loans for Students (SLS). This report discusses Stafford loans only, the largest of the three, in terms of dollars and numbers of participating students.

received millions of dollars in loans over the legal loan limits. We were unable to determine the exact amount of such loans because the Department's data are so unreliable. However, it is certain that because of inadequate internal controls, significant abuses exist. The abuses are costing the federal government millions of dollars annually in federal interest subsidies and additional defaulted loans.

In commenting on a draft of this report, the Department said that the data base was not designed to be used to prevent abuses. In fact, however, the Department's own procedures call for using it for that purpose. The Department plans to install a new data system in 1993, but until then attention must be given to (1) making the current data base as accurate and complete as practical, and (2) using the current data base to more effectively manage the program.

Background

The Department of Education administers five student aid programs under Title IV of the Higher Education Act of 1965, as amended. The Stafford Student Loan Program is the largest of these, having underwritten and subsidized $93 billion in student loans over the last 25 years. From 1983 to 1989, the amount of loans made and defaults under this program increased dramatically. Loans increased from about $7 billion annually to about $12 billion—a 71-percent increase; defaults rose from $445 million to about $1.9 billion—an increase of over 318 percent. The federal government's contingent liability for outstanding student loans as of September 30, 1989, is about $48.5 billion. The Stafford loan process involves five parties: the student borrower, the school, the lender (e.g., banks and credit unions), the guaranty agency, and the Department of Education.

Stafford loans are based on financial need. A student typically obtains a Stafford loan application at school and the school determines and verifies the student's eligibility based on income and estimated cost of education. The student applies to and receives a loan from a participating lender. One of 47 state or private nonprofit guaranty agencies guarantees the loan against default. The guaranty agency is the middleman between the Department and the lender, insuring the loan made by the lender to the student and assuring that the lender and schools meet program requirements.

The Department pays the interest due while the student is in school. When the student begins repaying the loan, the payment includes interest (currently 8 percent) and principal; however, the Department continues to pay an interest subsidy to bring the interest rate near market level. The Department also reimburses guaranty agencies for most of the defaulted loans they paid to lenders and for some of their administrative costs.

The Department relies on schools to assure that students are eligible for loans and do not abuse the system. Federal law and regulations state that students who have defaulted on a loan may not receive another loan (unless they arrange to repay their defaulted loans) and cannot receive more than a certain loan amount each year.

As part of its monitoring of the program, the Department each year collects Stafford loan information from guaranty agencies and consolidates this information into the Stafford loan data base, commonly referred to as the tape dump. This data base is maintained by a contractor for approximately $900,000 a year and is primarily for the internal use of the Department. The contractor edits the data base's information to check whether guaranty agencies are reporting complete data. For fiscal year 1988, the Department required guaranty agencies to report 95-percent-complete data for 10 data fields the Department considered critical, such as students' social security numbers and loan amounts guaranteed. However, these edit checks can only determine data completeness, not accuracy.

The Department primarily used information in the data base for trend analysis (i.e., the number of students obtaining loans). Department officials said that information in the data base is not regularly provided to guaranty agencies because the Department did not believe there was a serious problem with defaulters obtaining new loans or students exceeding loan limits.

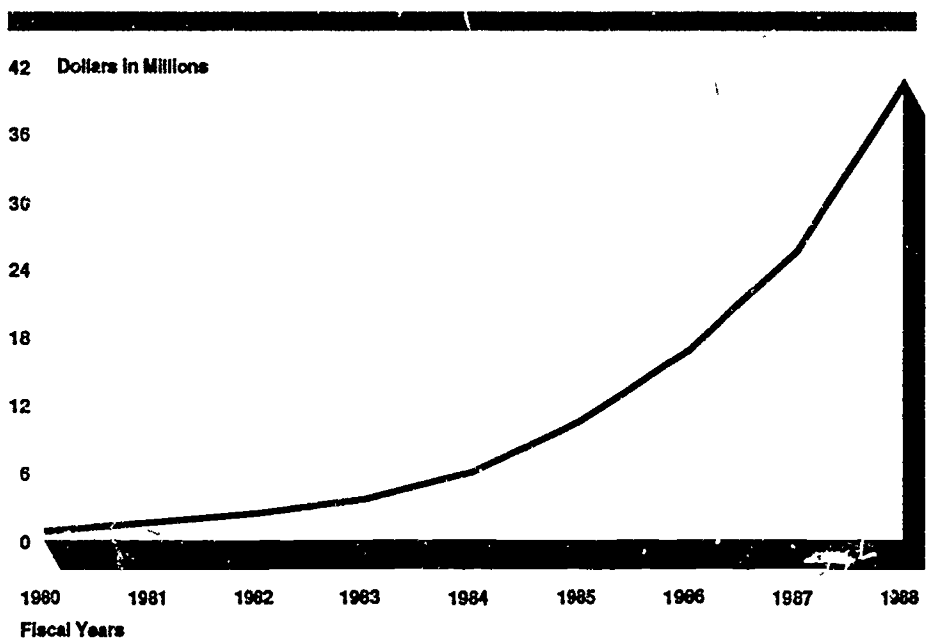
The 1986 amendments to the Higher Education Act authorized the Department to develop a National Student Loan Data System (NSLDS)—a computer system that would make national student loan data accessible to guaranty agencies. But because the 1986 amendments contained a provision that the Department could not require guaranty agencies to use the system before guaranteeing new loans, the system was not developed. The 1989 Budget Reconciliation Act, however, allows the Department to require guaranty agencies to use such a system before approving new loans. The Department plans to develop the new system by 1993; the guaranty agencies will have to use this system before guaranteeing new loans.

Defaulters Are Obtaining New Loans

By using various computer programs, we analyzed over 30 million files in the Department's Stafford loan data base, which contains information gathered since 1965. These data showed that about 32,000 students had defaulted on loans totaling over $54 million and later received new loans worth over $109 million. In addition to paying for defaulted loans, the government could spend up to $65 million in interest subsidies over the life of these new loans.[2]

Moreover, as figure 1 shows, in the last few years loans to students who have defaulted on earlier loans increased—from about $800,000 in 1980 to about $40.2 million in 1988.

Figure 1: Growth of Dollar Value of New Loans Obtained by Prior Defaulters



Because this information is based on the data contained in the Department's data base, and some of these data are missing or inaccurate, the actual abuse could differ from these figures. A detailed discussion of the data problems we identified is contained in appendix II.

[2]This estimate was developed on the basis of the current interest rate of 8 percent and the special allowance rate of 3.25 percent and assumes students will stay in school 4 years and take 6 years to repay their loans.

In order to get some estimate of the accuracy of the Department's loan data, we obtained loan documents for 79 students who the data base showed as in default when they obtained new loans.[3] However, of this group, only 54 students (68 percent) were in default on Stafford loans when they were guaranteed new loans.

Students Are Obtaining Loans in Excess of Limits

Defaulters obtaining new loans is a significant problem. The problem of students obtaining loans for more than the annual or total limits doesn't appear significant, but still needs to be controlled. Unchecked, this type of abuse has the potential to become a major problem, costing the government millions of dollars annually.

Title IV of the Higher Education Act of 1965, as amended, states that students are limited as to how much they can borrow in any one academic year and in total. For instance, college freshmen and sophomores can get up to $2,625 a year, while juniors and seniors can get up to $4,000 a year. Graduate and professional students can receive up to $7,500 a year. Total Stafford loan limits are $17,250 for undergraduates, and $54,750—including the $17,250 obtained as an undergraduate—for graduate and professional students. In addition, students can get more than one loan during a school year if they advance in grade level, for example from being a freshman to a sophomore.

We used computer programs to analyze the Department's data base. Our analyses showed that up to $5 million in loans could have been made to students in excess of their annual limits from September 1987 through August 1988. Consequently, these abuses cost the government money in interest subsidies. At current interest rates, $5 million dollars in excess loans could cost the government $1.8 million in subsidies over the life of those loans.[4]

As in the case of defaulters, the data base is sometimes missing or has inaccurate information. Some examples of abuse, however, are clear cut. For instance, one graduate student received a $7,500 Stafford loan, the maximum amount allowed for one year. That student also received loans from three other guaranty agencies. These loans totaled $27,500 for that

[3]We limited our detailed review of defaulted borrowers to 79 cases because to review a larger sample would have required work at 40 guaranty agencies. Appendix I describes our methodology for selecting the 79 cases.

[4]This estimate was also developed on the basis of the current interest rate of 8 percent and the special allowance rate of 3.25 percent, and assumes students will stay in school 4 years and take 6 years to repay their loans.

year. This student has already defaulted on $20,000 worth of loans (the $7,500 loan mentioned in this example, as well as $12,500 in earlier loans).

The Department's data show that students exceeding federal loan limits has not yet become a significant problem, but left unchecked this abuse can continue and become worse. The case of the graduate student mentioned above shows how someone can exceed loan limits by applying to different guaranty agencies. Until NSLDS is developed, giving guaranty agencies access to each other's data, students can continue to exceed loan limits undetected.

The Department Could Do More to Prevent Abuse

Two problems are hampering the ability of the Department and the guaranty agencies to prevent loan abuses. First, the Department's automated systems do not allow guaranty agencies to access the data base on Stafford loans. Second, the data base is poorly monitored and maintained; often files on students contain suspect data or data are missing.

The Department plans to develop NSLDS and require the guaranty agencies to use it before guaranteeing loans. However, the Department estimates that the new system will not be operational until 1993. Until then, the Department needs to detect and halt abuse by improving its current data base and requiring the guaranty agencies to use it before they guarantee loans.

Data Are Inadequate

In reviewing the Department's data base, it was hard to tell how often abuse was occurring because the data were inadequate. These data, which the guaranty agencies provided to the Department, are not thoroughly checked for accuracy and completeness. For instance, data were sometimes missing, such as the date a loan was declared in default and the date a loan was approved. As a result, we could not determine if 30,000 Stafford loans totaling about $71 million, which were obtained by defaulted borrowers, were approved before or after they had defaulted on other Stafford loans. Further, suspect data were included; for instance, several different names were sometimes listed with the same social security number. We found about 6,100 of these types of cases affecting nearly $21 million in loans.

The Federal Managers' Financial Integrity Act (FIA) (Public Law 97-255) requires agencies to establish systems of internal control to ensure that obligations and costs comply with applicable law, and that assets are safeguarded against waste, loss, or unauthorized use. Federal agencies are supposed to annually report material weaknesses in these controls and the status of corrective actions until these weaknesses are corrected.

The weaknesses and abuses discussed in this report are clear evidence that critical internal controls are missing—students in default can receive new loans and some students receive loans in excess of the limits set forth in the law. The Comptroller General's internal control standards state that with regard to the recording of transactions and events, such transactions are to be promptly recorded and properly classified.[5] The Department is not meeting this standard. The Department's FIA reports showed that while certain aspects of the Stafford Loan Program have been identified as having weaknesses in internal controls, the data base has not been reported under the act. This needs to be done.

Interim Measures

To improve the internal controls in the program, the Department should correct the information in its data base, identify students who have defaulted on loans, and require guaranty agencies to review their student loan data before guaranteeing new loans. The Department's data showed that 80 percent of defaulters wait 1 year or more after defaulting before obtaining new loans. Accordingly, this historical data, even with its shortcomings, could be used to prevent most defaulters from obtaining new loans. Further, by using the address on the new application, agencies may be able to track defaulters who have moved, and try to collect on defaulted loans.

The Department could also analyze its data to develop criminal cases against those who default. The Stafford loan application states that students who provide false or misleading information are subject to prosecution under the United States criminal code. Prosecuting these cases could deter others. After completing our review, we turned over to the Department's Inspector General documents on 50 of the 54 students who had defaulted on loans, but claimed on a later loan application that they had never been in default.[6]

Since 1984, the Department has put out an annual cross match report on students who have obtained loans from more than one guaranty agency.

[5] Standards for Internal Controls in the Federal Government, GAO (Washington, D.C.: 1983).

[6] The applications for four of the students did not clearly indicate whether the students had declared their previous defaulted loans.

The report is supposed to help guaranty agencies identify students who may have obtained loans in excess of loan limits. The report, however, does not contain information on the borrower's academic year periods, loan balances, and whether loan funds were actually disbursed.

Most guaranty agencies we spoke to said they do not use this report because it does not contain complete, accurate, or timely information. However, one agency said it had used the report to recover $146,000 in 1989. It said that from 1985 to 1989, it prevented the disbursement of $936,000 by identifying students who tried to get or did get excessive loans from several agencies. By improving the data base and requiring that the guaranty agencies check it before guaranteeing loans, the Department could also begin to address the problem of loans being provided over the annual limits.

Conclusions

The Stafford Loan Program, as the largest government program for student loans, provides money that is vital to many students' education. But this program does not have an information system in place to ensure that the government's interests are protected. As evidence of this, in fiscal year 1990 more than half of the federal funds for this program, some $2.4 billion, went to repay defaulted loans. The Department of Education has failed to ensure that program abuses are identified and prevented.

The Department is running a multibillion-dollar commercial-type loan operation with a data system that contains incomplete, inaccurate, unreliable information. It does not have adequate systems of internal control to ensure that federal assets are safeguarded against waste and loss. As a result, students who default are able to obtain new loans and some borrowers are obtaining more money than they are entitled to. While the total impact of such abuses cannot be accurately determined because the data are so poor, we believe that a significant problem exists.

The Department of Education plans to have a new data system running in 1993. This system is supposed to detect and prevent abuse. In the meantime, however, the Department needs to do much more to ensure that the information in its current data base is as accurate and complete as practical, and to make this information available to guaranty agencies. A great deal is at stake. If the abuses remain unchecked, they will continue to corrode the financial aid system and students who are eligible for loans may not be able to get the money they need to finance their education.

Recommendations

To help curb these abuses, we recommend that the Secretary of Education

- direct guaranty agencies to (1) ensure that their student-loan data are as accurate and complete as practical, with special emphasis given to data on defaulted borrowers, and (2) provide updated information to the Department; and
- report the ability of ineligible borrowers to obtain loans as a material internal control weakness under the Federal Managers' Financial Integrity Act.

Since updating this information will take time, we also recommend that the Secretary take immediate action to

- analyze the data it now has and, until NSLDS is developed and implemented, provide to guaranty agencies on a periodic basis the data needed to prevent defaulters from obtaining new loans. This information should also be used to stop and recover federal interest payments on loans obtained by defaulted borrowers; and
- develop a more comprehensive annual report that gives guaranty agencies the data they need to more efficiently detect loan limit abuses. In addition, require guaranty agencies to use the report.

We also recommend that the Office of Inspector General follow up on the data and documents we provided on defaulters who have obtained new loans, and take appropriate action.

Agency Comments and Our Evaluation

In its October 17, 1990, comments on a draft of this report, the Department of Education did not disagree that student defaulters were obtaining new loans or that students were obtaining loans in excess of legal loan limits. It plans to report a material weakness under FIA, namely that borrowers can receive loans for which they are ineligible. However, the Department stated that we had misinterpreted the basic concept and intent of the guaranty agency tape dump. It said that the tape dump was initially intended to be used primarily as an annual source of data for analysis of program trends.

We do not believe that we have misinterpreted the concept and intent of the tape dump. While the tape dump may not have been initially designed to prevent ineligible borrowers from receiving loans and to track down defaulters, the Department's own procedures clearly show that the intent and use of the tape dump has changed. For example, its

1988 tape dump procedures state that tape dump information is necessary so that the Department and guaranty agencies can

"identify possible violations of loan limits by borrowers who obtain loans guaranteed by more than one agency, [and track down] defaulted borrowers by obtaining information from other agencies who have guaranteed loans for the same borrowers."

The Department generally disagreed with our recommendation that it require guaranty agencies to report complete and accurate data. We recognize the Department's concern that correcting millions of automated loan records could cost a great deal of time and money. However, our report cites examples in which significant amounts of critical loan data are missing, incomplete, and inaccurate. Since these data are going to be the foundation for the Department's new system, we continue to believe that it is important for the most critical data in the tape dump to be as accurate as possible.

The Department also generally disagreed with our recommendations to use the tape dump to prevent defaulters from obtaining new loans and detect loan-limit abuses. The Department states that the tape dump is not an effective vehicle for preventing these loan abuses. We agree that NSLDS should be better able to prevent loan abuses than the current tape dump process. However, the Department plans to wait until NSLDS is developed in 1993 before taking aggressive corrective action on these abuses. In the meantime, the Department needs to identify borrowers who are illegally receiving new loans in order to protect the government's interest.

Detailed Department of Education comments and our evaluation are contained in appendix III.

As agreed with your office, unless you publicly announce this report's contents earlier, we plan no further distribution until 30 days from the date of this letter. At that time we will send copies to the Secretary of Education and other interested parties, and will make copies available to others upon request. This work was performed under the direction of

Frank Reilly, Director, Human Resources Information Systems, who can be reached at (202) 275-3195. Other major contributors are listed in appendix IV.

Sincerely yours,

Ralph V. Carlone

Ralph V. Carlone
Assistant Comptroller General

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Abbreviations

FIA	Financial Integrity Act
GAO	General Accounting Office
IMTEC	Information Management and Technology Division
NSLDS	National Student Loan Data System
PLUS	Parent Loans for Undergraduate Students
SLS	Supplemental Loans for Students
SSN	social security number

Objectives, Scope, and Methodology

Because of recent interest in the Department of Education's student loan programs, the Chairman, Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, asked that we report to him on our ongoing review of the Stafford Student Loan Program. Our review objectives were to determine the extent to which students who have defaulted on Stafford loans were obtaining new loans and the extent to which students were obtaining loans that exceeded legal loan limits. We performed our work at the Department of Education's headquarters and Office of Inspector General in Washington, D.C. We also contacted 11 guaranty agencies and obtained loan documents and policies and procedures for guaranteeing Stafford loans.

We obtained and reviewed documentation related to the Department's automated data base. To achieve our objective, we relied extensively on computer-processed information contained in that data base. Our review of the information in the data base and the results of our detailed sample analysis showed data problems (i.e., questionable and incorrect data) that cast doubt on the data base's validity. However, when these data are viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations in this report are valid.

We obtained and reviewed our prior reports, those of the Office of Inspector General, and Departmental reports that identified deficiencies in the Department's automated data base. We also reviewed Education's Federal Managers' Financial Integrity Act reports. We obtained and analyzed over 30 million computerized Stafford loan records to identify potential abuses, namely defaulted borrowers obtaining new loans and students exceeding loan limits. Our work was performed in accordance with generally accepted government auditing standards, from September 1989 to June 1990.

Methodologies for Identifying Stafford Loan Abuses

To identify defaulted borrowers who obtained new loans and borrowers who had exceeded loan limits, we obtained and analyzed the Department's fiscal year 1988 computerized data base for Stafford loans, commonly referred to as the tape dump. The tape dump is a cumulative record of the active loans guaranteed by each guaranty agency since November 1965, which the Department requires the agencies to update annually. We used the data base as of September 30, 1988 (fiscal year 1988 tape dump) because it contained the latest information available.

Defaulted Borrowers

The Department directed guaranty agencies to classify borrowers who have defaulted on their loans as either (1) defaulted, unresolved; (2) defaulted, written off or compromised; (3) defaulted, paid in full; (4) defaulted, in repayment; or (5) defaulted, assigned to Education. Each one of these classifications was identified by a loan status code, such as DF for defaulted, unresolved.

Initially we compiled data on all borrowers who were classified as defaulted, unresolved; defaulted, written off or compromised; and defaulted, assigned to Education for collection because these borrowers were presumably not eligible to obtain new Stafford loans. This totaled about 2 million students. However, federal regulations do not clearly state whether defaulted borrowers who are classified as written off or compromised are ineligible to obtain new loans. Because students who have repaid their defaulted loans and students who are repaying their defaulted loans are generally eligible to obtain new loans, we excluded these loans from our data base of defaulted borrowers.

After we had built our defaulter data base, we used the defaulters' social security numbers (SSN) to identify other Stafford loans these borrowers had also obtained, about 230,000 loans. Then, using the loan status dates for defaulted loans (the dates the loans were declared in default) and the loan guaranteed dates for other loans (the dates the loans were guaranteed) we identified all borrowers who had obtained new loans after they were declared in default. From this process we identified 31,977 students who obtained 44,130 new loans totaling about $109 million. Already, 6,700 of these borrowers who defaulted on their first loans have obtained and defaulted on subsequent loans totaling about $19 million.

We initially planned to obtain and review loan documents for statistically valid samples of these borrowers in order to project the accuracy of the tape dump data. That is, we planned to verify whether borrowers were actually in default when they obtained a new loan, by doing two samples. In one sample of 300 students, we looked for borrowers who had the same SSN and last names for both their defaulted loan and new loan, and in one sample of 100 students we looked for borrowers who had the same SSN, but different last names for both loans. We found, however, it would have required substantial time, staff resources, and travel costs to complete both samples because we would have been required to contact 40 guaranty agencies.

We therefore limited our samples to three guaranty agencies: two multistate agencies and one single-state agency. These three collectively held about 44 percent of the defaulted loans and new loans in the above samples and were the designated guaranty agencies for nine states, the District of Columbia, and the Pacific Islands. These agencies are (1) the Higher Education Assistance Foundation, which is the designated guaranty agency for Kansas, Minnesota, Nebraska, West Virginia, Wyoming, and the District of Columbia; (2) United Student Aid Funds, which is the designated guaranty agency for Arizona, Hawaii, and Nevada, and the Pacific Islands; and (3) the state of California.

We requested and obtained from these three agencies loan documents for 79 students—66 names from the sample of 300 borrowers and 13 names from the sample of 100 borrowers. To determine if these borrowers were in default on Stafford loans and later obtained new loans, we asked the three guaranty agencies to provide documents on these borrowers. For defaulted loans we requested copies of the borrowers' loan application forms, default claim forms filed by the borrowers' lenders, and copies of any default notices and collection letters sent to the borrower. For new loans, we requested copies of the borrowers' loan application forms, notices of loan guarantees by the guaranty agencies, and checks or other documentation showing that loan funds were actually disbursed.

The above samples are not statistically valid for projecting to the total universe of about 32,000 defaulted borrowers who were shown to have obtained new loans totaling about $109 million. We believe, however, the results indicate that the Department has a significant problem.

Borrowers Exceeding Loan Limits

We used the present Stafford total loan limits of $17,250 for undergraduate students and the $54,750 overall total to identify all students who potentially exceeded total loan limits regardless of when they obtained their last loan. This methodology most likely understates the number of students who exceeded total loan limits because before October 1986 total loan limits were substantially less. We chose this methodology because total loan limits have changed several times since the student loan program began in 1965. Identifying students who exceeded previous total limits, on the basis of the dates of their last loans, would have required costly and complex computer analyses.

To determine students who potentially exceeded annual loan limits, we first identified all students who obtained loans from September 1, 1987, through August 31, 1988, where (1) the loans were for classes (academic year or semester) with the same ending dates, and (2) the loans exceeded the students' loan limits based on their academic level. We chose this period because it represents a typical academic year, including summer school, for most colleges and universities.

Using the data in the tape dump we performed further analyses. Table I.1 shows examples of four students who potentially exceeded annual loan limits based on the above criteria.[1]

Table I.1: Examples Where the Data Base Indicated That Four Students Had Potentially Exceeded Annual Loan Limits

Student	Academic Level	Class Began	Class Ended	Guaranteed Date	Amount Guaranteed	Loan Status Code	Loan Status Date	Total Loans	Loan Limit	Excess
1	2	09/87	05/88	10/87	$2,625	ID	06/88			
	2	09/87	05/88	02/88	$1,500	ID	06/88	$4,125	$2,625	$1,500
2	1	09/87	05/88	10/87	$2,625	ID	06/88			
	2	09/87	05/88	02/88	$1,500	ID	06/88	$4,125	$2,625	$1,500
3	3	09/87	05/88	08/87	$2,900	PF	03/88			
	3	09/87	05/88	10/87	$1,100	ID	11/88			
	3	09/87	05/88	04/88	$1,450	ID	11/88			
	3	09/87	05/88	05/88	$1,450	ID	11/88	$6,900	$4,000	$2,900
4	4	09/87	05/88	05/87	$4,000	ID	11/88			
	4	09/87	05/88	06/88	$2,000	ID	11/88	$6,000	$4,000	$2,000

According to the Department's tape dump instructions, the beginning and ending class dates should refer to the specific school period covered by the loan, for example one year or one semester. Accordingly, we initially identified all students such as examples 1, 2, 3, and 4 as students who potentially exceeded annual loan limits because they obtained loans that exceeded their loan limits for what appears to be the same academic year.

In the above table, student 1 appears to have exceeded the annual loan limits. However, student 2 was entitled to obtain a second loan during the same class period because this student had progressed to a higher academic level during the loan period. Student 4 may have been entitled

[1]The annual loan limit for academic levels 1 and 2 (i.e., freshman and sophomore) is $2,625, and for levels 3 and 4 (i.e., junior and senior), $4,000. Guaranteed date refers to the date a loan was guaranteed. Loan status code refers to students' status, such as still in school (ID) or the loan has been paid in full (PF).

to obtain a second loan during the same class period because the definition of one academic year depends on several variables that are not included in the information available in the data base.[2] We eliminated cases such as these in determining students who exceeded annual loan limits.

We also found that several guaranty agencies had based annual loan limits on the students' unpaid principal balance of all loans obtained during the loan period. Student 3 is an example where this apparently occurred. The table shows that this student exceeded the loan limit by $2,900. However, using the unpaid principal balance criteria, the student did not exceed loan limits, because the first loan of $2,900 was paid off before obtaining the third and fourth loans. A Department official said that the unpaid principal balance rule applies to the total loan limits but not annual loan limits. Therefore, we did not eliminate cases such as these in determining students who exceeded loan limits.

To find students who potentially exceeded total loan limits, we identified all students who obtained loans that exceeded the undergraduate and total loan limits based on their academic levels.

[2]Definitions of academic year are cited in 34 C.F.R. 668.2 and 34 C.F.R. 682.401(b)(2)(iii).

Problems Related to Missing, Questionable, and Erroneous Data

Missing Data

The number of defaulted students who obtained new loans could be substantially different than indicated by the Department's data. First, only about 30 million of the 43 million Stafford loans made by the Department are stored in computerized format. As a result, we were able to analyze only about 70 percent of the total Stafford loans made.

Second, the Department records contained 30,000 loans totaling about $71 million obtained by defaulted borrowers for which we could not determine whether the loans were obtained before or after the students were in default. This is because one of two data fields was missing, either the loan status date, which identifies the date a loan was declared in default, or the loan guaranty date, which identifies the date a loan was obtained.

Questionable and Erroneous Data

On the basis of the poor quality of data we examined, there is some question whether about 6,100 of the 32,000 students had in fact defaulted and later obtained new loans. For these 6,100 students, who obtained new loans totaling about $21 million, the SSN was the same for the defaulted and new loan, but the students' last names were not the same for both loans. The examples in table II.1 illustrate this condition.

Table II.1: Examples Showing Same Social Security Numbers for Borrowers With Different Names

Social Security Number	Last Name	First	Birthdate	Loan Status and Date
111-11-1111	Jones	Mary	10–18–66	Default 09-8-84
111-11-1111	Jones-Smith	Mary	10–18–66	In School 09-9-87
222-22-2222	Johnson	John	02–05–40	Default 09-11-83
222-22-2222	Baker	Nancy	02–19–45	In School 09-20-86

The examples show both the defaulted and new loans were obtained under the same SSNs, 111-11-111 and 222-22-222, but under different last names. We believe for the first example the two individuals are most likely the same person, on the basis of (1) an assumption that Mary Jones married after obtaining and defaulting on her first loan and obtained the new loan under her married name, and (2) the first name and date of birth are the same. However, for the second example, there is no reason to believe the two parties are the same person because while the social security number is the same, the personal data are significantly different.

Our analysis of the 6,119 cases showed that for 3,300 cases the students' first names and birthdates were the same, and for 1,119 cases both the first names and the birthdates were different. For the remaining 1,700 cases, either the first names were the same and the birthdates were not, the birthdates were the same but the first names were not, or data for one of these fields were missing. For the 3,300 cases where the birthdates and first names were the same, both borrowers were most likely the same person, and for the 1,119 cases where the birthdates and first names differed, two different individuals may have been involved.

Included in the 32,000 defaulted borrowers were about 3,800 who obtained new loans, totaling about $12.3 million, from the same guaranty agencies who had guaranteed their defaulted loans. Several guaranty agencies said they first review their computer loan data to determine if loan applicants have ever defaulted on loans they have guaranteed before giving the students new loans. Therefore, these students may not have actually been in default when they obtained their new loans.

Detailed Sample Analysis

In order to get some estimate of the accuracy of the Department's computerized loan data, and how much abuse has occurred, we obtained loan documents for 79 students who the Department's data showed were in default when they obtained new loans. On the basis of our review of these loan documents, we concluded that of the 79 students:

- 54 (68 percent) were definitely in default on Stafford loans when they were guaranteed new loans.
- 19 (24 percent) were eligible to obtain new loans because they had either settled or arranged to repay their defaulted loans.
- One obtained the new loan before defaulting on the first loan.
- Three students had not defaulted on loans and obtained new loans because although the defaulted loans and the new loans were obtained under the same SSN, they were apparently obtained by different individuals.

For the remaining two students, we could not determine if they had defaulted and obtained new loans because the guaranty agency holding the loans did not provide us with the documents needed to make this determination.

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Although we randomly selected the 79 students, the sample is not large enough to accurately project the actual number of defaulted borrowers who obtained new loans. Nevertheless, our review verified that 68 percent of students in our sample were actually in default when they obtained new loans, and clearly indicates both that substantial abuse has occurred and that the Department's data base is unreliable.

Comments From the Department of Education

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION

OCT 17 1990

Ralph V. Carlone
Assistant Comptroller General
Information Management and Technology Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Carlone:

Thank you for the opportunity to review GAO draft report, "Stafford Student Loans: Millions of Dollars of Ineligible Loans are Being Awarded," GAO/IMTEC 90-92, dated September 14, 1990.

Attached is the Department of Education's response to the draft report.

If you have any questions, please contact Valerie Hurry of the Division of Quality Assurance on 708-9453.

Sincerely,

Leonard L. Haynes

Leonard L. Haynes III

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Department of Education Response
to
General Accounting Office Draft Report GAO/IMTEC 90-92 --
Stafford Student Loans:
Millions of Dollars of Ineligible Loans are Being Awarded

Prior to responding to the specific recommendations of this report, we would like to make some general observations regarding the findings. A number of findings and recommendations appear to indicate that GAO has misinterpreted the basic concept and intent of the guarantee agency tape dump. Although the GAO report refers extensively to a Stafford Student Loan "Data Base," to ED's knowledge, the tape dump was the only system reviewed by GAO. Further, clarification is needed regarding the name of the Higher Education Act, Title IV, Part B programs. ED defines those programs as the Guaranteed Student Loan Programs, which include the Stafford Loan Program, the PLUS Program, the Supplemental Loans for Students (SLS) Program, the Federal Insured Student Loan Program, and the Consolidation Loan Program. GAO appears to refer to these programs as the Stafford Student Loan Programs.

The guarantee agency tape dump is a system for collecting selected information on each Stafford, PLUS, and SLS loan which is currently outstanding or which was closed (cancelled, paid in full, or filed as a death, disability or bankruptcy claim) in the fiscal year covered by the tape dump. The tape dump, developed in the late 1970's, was initially intended to be used primarily as an annual source of data for analysis of program trends, and the data elements requested reflect that purpose. ED did not expect that every guarantee agency would have historically collected all the data elements requested, because each guarantee agency's system was designed to meet the needs of that individual guarantee agency.

ED collects information on approximately 30 million loans each year from the guarantee agencies through the tape dump. The information is received on computer tape because the receipt, review, and analysis of 30 million paper forms containing the same information is neither practical nor feasible. The tape dump system is a way of collecting information, and the detailed information is consolidated onto one set of tapes and stored in a tape library. It is not itself a database system which is available for interactive review and correction, though summary-level databases can and have been designed to process some of the information from it. It is not a financial system used in the collection or payment of Federal funds and therefore does not fall under the provisions of the Federal Managers' Financial Integrity Act. It is a system which was developed to provide summary program data and was therefore not designed to be used to prevent the making of loans to ineligible borrowers. It is also

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used currently as the basis for calculation of the annual cohort default rates for the Secretary's Default Reduction Initiative.

See comment 1

GAO Recommendation #1: Direct guaranty agencies to (1) ensure their student loan data are accurate and complete with special emphasis given to data on defaulted borrowers and (2) provide updated information to the Department.

Department of Education Response: Contrary to the suggestion in the report that ED performs only limited editing on the tape dump, ED edits all fields on a guarantee agency's tape dump submission for accuracy and completeness. The statement in the report that ED edits only the ten data fields it considers critical is not accurate. After the edits are completed, guarantee agencies are provided with a report of ED's analysis and are required to take steps to correct future tape dump submissions.

Each year, ED reviews the tape dump in light of annual program goals and needs, and identifies fields on the tape dump from which accurate data would contribute the most to meeting these goals and needs. ED concentrates its correction efforts on these few fields. For the fiscal year 1989 tape dump, ED concentrated on the ten data fields referred to in the GAO report. These fields concerned data needed for the operation of ED's School Default Initiative, one of ED's top priorities for the past few years. For FY 1989, agencies which had data in these selected fields which was not at least 95 percent accurate were required to correct and resubmit the data until it was acceptable. Thus, guarantee agencies have been, and will continue to be, required to ensure their tape dump data is accurate and complete. Where necessary, agencies are required to resubmit annual tape dump submissions until acceptable data is provided.

It is ED's goal to have as accurate data as possible. However, in ensuring accuracy, ED must consider other factors such as the time and cost involved in correcting millions of automated loan records which date back over 20 years. In order to guarantee absolute accuracy, an agency would be required to review each system record against paper or microfilmed documents. This would be an effort of massive proportions, and it would not be cost effective.

See comment 2

GAO Recommendation #2: Report the lack of accurate and complete data in the Stafford loan data base as a material internal

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control weakness under the Federal Managers' Financial Integrity Act.

Department of Education Response: We do not concur with this recommendation. Tape dump data quality has not had sufficient negative impact on the activities for which it was intended to be used to classify it as a material weakness.

We will, however, report a material weakness in Section 2 of the FMFIA which describes the ability of borrowers to receive loans for which they are ineligible due to prior defaults or having reached statutory loan limits. ED has long realized that this is a weakness of the loan programs, but was prohibited by statute from requiring edits of new loans through a national system until the law was changed in December, 1989. The development of the National Student Loan Data System will be listed as the corrective action for this material weakness.

See comment 3.

GAO Recommendation #3: Analyze the data that it (ED) now has and, until the National Student Loan Data System is developed and implemented, provide to guaranty agencies on a periodic basis the data needed to prevent defaulters from obtaining new loans. This information should also be used to stop and recover Federal interest payments on loans obtained by defaulted borrowers.

Department of Education Response: ED has, in the past, reduced the likelihood of ineligible or excess borrowing by providing tape dump data to each guarantee agency on their borrowers who also have loans guaranteed by other agencies. ED does this on an annual basis in its tape dump "cross match report subsystem." If a guarantee agency requests its cross match data on computer tape, it receives all tape dump data about their borrowers which other guarantee agencies submitted. If the agency requests a paper printout, it receives matching information only on those borrowers for whom the guarantee agency guaranteed loans in the most recent fiscal year. All matching records and all tape dump data is not provided on the printout because the printout would be too long to be of practical use.

The cross match report has not been fully effective in eliminating excess and ineligible loans in part because it is based on static tape dump data which only reflects the GSL Programs at a single point in time, September 30 of one fiscal year. It takes at least 6 months for the guarantee agencies to submit acceptable tape dump data, for ED to use it to prepare and distribute the cross match report, and for guarantee agencies to incorporate the information into their computerized loan

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guarantee processing systems. During this time, the status of many borrowers changes and the entire file is generally out of date and therefore unreliable as a loan guarantee screening device. These changes include: (1) Repurchases of defaulted loans by lenders, which routinely occur as a result of processing errors or other circumstances; (2) Defaulters who subsequently meet the repayment criteria and resume eligibility for Title IV financial aid; (3) Rehabilitation of loans, under which a defaulted loan or loans for which a borrower has made 12 consecutive monthly payments may be sold to a participating lender, in which case the borrower is no longer considered to be a defaulter. Using the tape dump data to screen loan guarantee applications would result in the rejection of large numbers of guarantees which would, upon further investigation, be found to be valid based on actions which had occurred after the tape dump data was provided to ED. As no correction or update mechanism is available for the tape dump, the guarantors would continue to have erroneous data until the next year's submission--a period of approximately 18 months since the data was current.

To have an effective screening program which only rejects borrowers who are truly ineligible, the data provided to the guarantee agencies must be current. Since the tape dump is not a dynamic system, it is not an effective vehicle for such an activity.

ED agrees, however, that screening loan guarantee applications to prevent ineligible borrowers and excess borrowing is an appropriate program objective, and to meet this objective, ED is developing the National Student Loan Data System (NSLDS). The NSLDS will be designed to permit immediate, interactive updates, so that corrections can be made as errors are discovered.

See comment 4.

GAO Recommendation #4: Develop a more comprehensive annual report that gives guaranty agencies the data they need to more effectively detect loan limit abuses. In addition, require guaranty agencies to use the report.

Department of Education Response: The static tape dump data is not the most appropriate vehicle to identify ineligible borrowers and excess borrowing. However, in the cross match report, a guarantee agency can receive all the information ED has available on an agency's borrowers who have loans guaranteed by other agencies. ED agrees that more information could be collected and effectively used. This is why ED is developing the NSLDS. ED has, and will continue to issue appropriate guidance, including necessary regulations, to guarantee agencies on the use of GSL

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data from other guarantee agencies which is, or becomes available, through the tape dump or the NSLDS.

See comment 5.

GAO Recommendation #5: The Office of Inspector General follow up on the data and documents we (the General Accounting Office) provided on defaulters who have obtained new loans, and take appropriate actions.

Department of Education Response: The Office of Inspector General is currently following up on the data and documents provided to it by GAO. All the documentation has been provided to the applicable regional offices for attention as warranted.

Additional Comments:

The report should reflect the following--

See comment 6.

1. For several years Congress failed to enact ED-proposed legislation to repeal the restriction on the NSLDS. Legislation was not passed until December 1989. The December 1989 legislation requests the Department to reach consensus on the design of the NSLDS with all GSL constituencies prior to NSLDS implementation, which is a time-consuming process.

See comment 7.

2. Page 2 of the draft report should reflect a range of $74-$109 million as the possible amount of new loans received by ineligible students.

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GAO Comments

1. Our report did not intend to suggest that the Department only edits ten data fields on a guaranty agency's tape dump. Our report has been clarified to state that all data fields are edited. However, these data fields are edited only to determine whether the field contains data, not whether the data are accurate. As discussed in our letter, we found incomplete data fields on 30,000 loans totaling about $71 million, which were obtained by defaulted borrowers. In addition, loan documentation reviewed for 79 students reported as defaulted showed that 19 borrowers were eligible to obtain new loans when, in fact, the tape dump listed them as ineligible. It may be costly to ensure that all loan data are accurate and complete, but we believe that, at a minimum, the Department needs to ensure loan data on all defaulted borrowers are as accurate and complete as practical. Because the tape dump will be the foundation for the Department's planned NSLDS, it is imperative that the Department ensure that these data are accurate and complete.

2. Since the Department had not reported a material internal control weakness regarding ineligible borrowers, it was our intention that it do so. As a result, we concur with the Department's decision to report this weakness. Our recommendation was clarified accordingly.

3. We found that the major reason the cross match report has not helped prevent excess and ineligible loans is that most guaranty agencies we contacted were not using the report. It is true that using the tape dump data, upon which the cross match reports are based, to screen loan applicants could delay approval of new loans for eligible applicants who have repaid their defaulted loans. Our analysis of Department data showed, however, that about $40.2 million in loans may have been given to ineligible students in 1988. Moreover, our review of 79 defaulted borrowers who later obtained new loans showed about 68 percent were in default when they obtained new loans. Therefore, because NSLDS will not be developed until 1993, we continue to believe that the Department must act now to use the tape dump data and give guaranty agencies the data needed to identify ineligible applicants.

4. We agree with the Department that the tape dump is not the best way to identify ineligible borrowers or excess borrowing. Nevertheless, it is the only method available until NSLDS is developed. The Department's cross match report has proved useful in preventing loan limit abuses. For example, one guaranty agency said it used the report to prevent the disbursement of $936,000 in excess loans. The Department agreed that more information could be collected and used. We, therefore, continue to

believe that the Department should develop a more comprehensive annual report until NSLDS is developed.

5. The Office of Inspector General is taking the recommended action.

6. Although until last year the Department couldn't require guaranty agencies to screen loans before approving them, the act and federal regulations did not prohibit the Department from requiring guaranty agencies to review loans after they were approved. Screening loans after approval would have identified defaulted borrowers who had obtained loans and borrowers who had exceeded legal loan limits. Then the loan could be cancelled and immediate repayment demanded.

The 1989 legislation asks the Department to consult with a representative group of guaranty agencies, eligible lenders, and eligible institutions to develop a mutually agreeable proposal for the establishment of NSLDS. Because of this, we recognize that developing NSLDS could be a time-consuming process. This is why we recommend that the Department use the tape dump to prevent the types of abuses this report identified until the new system can be developed.

7. Our report accurately states that the Department's data base showed that ineligible students received $109 million in additional loans. The report further recognizes that the actual amount of loans obtained by defaulted borrowers could be greater or less than $109 million. For example, in our letter, we state that the amount could be greater than $109 million because, due to missing data, we could not determine whether $71 million in additional loans received by defaulted borrowers were obtained before or after they had defaulted on their other Stafford loans.

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Related GAO Products

GAO Views on the Stafford Student Loan Program (GAO/T-HRD-90-15, Feb. 20, 1990).

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).

Guaranteed Student Loans: Potential Default and Cost Reduction Options (GAO/HRD-88-52BR, Jan. 7, 1988).

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

The Guaranteed Student Loan Information System Needs a Thorough Redesign to Account for the Expenditure of Billions (GAO/HRD-81-139, Sept. 24, 1981).

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