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HUMAN RESOURCES DIVISION

August 28, 1981

RELEASED

B-204030

The Honorable G. V. Montgomery  
Chairman, Committee on Veterans' Affairs  
House of Representatives



Dear Mr. Chairman:

Subject: Veterans Administration Education Loan Program Should Be Terminated: Legislative Action Taken (HRD-81-128)

In a February 25, 1981, meeting with your office, we discussed our followup review on our May 1978 report 1/ on the Veterans Administration's (VA's) education loan program. We said that, on the basis of our limited work to date, we questioned the need for the program and concluded that the program should be terminated. Your office was interested in our review and by letter dated February 27, 1981, you asked that we conduct our review on behalf of your Committee.

To provide you with information on the program in anticipation of hearings, we agreed to expand our work to provide more geographic coverage and to focus on determining whether (1) eligible veterans and dependents 2/ were reporting all available resources and (2) veterans were also eligible for the Department of Education (ED) financial aid programs, and if such aid would satisfy their financial needs. Our work was conducted at the VA central office, Washington, D.C.; one central, three eastern, and four western regional offices out of a total of 58 offices; and 14 schools within these offices' jurisdiction.

Since the issuance of our May 1978 report, the Congress and VA took a number of actions to help correct the problems we noted. Our limited followup work disclosed that these changes improved VA's administration of the education loan program. For example,

1/"Improvements Needed in VA's Education Loan Program" (HRD-78-112, May 11, 1978).

2/Loan recipients also include spouses, widows, and dependent children. In this report, we have used the term "veteran" to refer to all loan recipients.

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Public Law No. 95-476 provided additional authority to limit program participation to veterans attending high-cost schools. With the strengthening of the criteria used in defining allowable expenses for determination of financial need, loans awarded decreased from 28,908 in fiscal year 1978 to 7,761 in fiscal year 1980--a significant drop in program participation. Furthermore, the dollar value of loans disbursed dropped from \$35.8 million to \$6.7 million. A VA study notes that about 50 percent of the reduction appeared attributable to the new guidelines.

Although overall program administration improved as a result of these changes, VA continued to experience severe problems with loan defaults. According to VA data, the cumulative loan default rate increased from 44 percent as of December 31, 1977, to 65 percent as of September 30, 1980. The default rate on matured loans for fiscal year 1980 was even higher--81 percent.

In addition, we found that:

- Thirty-nine percent of the veterans in a judgmental sample of 389 loans awarded by eight regional offices in fiscal year 1980 failed to report financial assistance applied for or received under other financial aid programs. If they had done so, 18 percent of the loans (representing 28 percent of the dollar value of the loans sampled) would not have been awarded.
- The financial needs of 99 percent of the sampled veterans could probably have been met through the maximum ED financial aid package.
- According to ED officials, the availability of student loans was high, and veterans should have had no problems in obtaining such loans.
- On the basis of data provided by VA, we estimate that it cost VA 70 times more per loan dollar disbursed to administer its loan program than it cost ED to administer the Guaranteed Student Loan program.
- A December 1980 internal study on the loan program by the Department of Veterans Benefits offered three options to VA. One option was to terminate the program.

Seven of the eight VA regional directors we interviewed told us that the program should be terminated. VA regional officials

interviewed also believed that the VA education loan program duplicates and overlaps ED's financial aid programs. (See enc. I for more information.)


On August 13, 1981, the President signed the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), which provides that no VA education loan may be made after September 30, 1981, except for (1) veterans continuing their full-time training in the first 2 years after the expiration of the G.I. Bill delimiting period, and (2) veterans enrolled in flight training on August 31, 1981, and for as long as such veterans are continuously thereafter enrolled in an approved flight training program.

The Congressional Budget Office estimates that the above action will result in savings of \$15 million in outlays only, in fiscal years 1982-84.

Because the loan program, although significantly reduced, will continue, we are making recommendations to the Administrator of Veterans Affairs to strengthen program administration.

As requested by your office, we have not obtained written agency comments on this report. Also, as arranged with your office, we are providing a copy of this report to the Administrator of Veterans Affairs. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

  
Gregory J. Ahart  
Director

Enclosure

VETERANS ADMINISTRATION EDUCATIONLOAN PROGRAM SHOULD BE TERMINATED:LEGISLATIVE ACTION TAKENINTRODUCTION

The Veterans and Dependents Education Loan Program, administered by the Veterans Administration (VA), was established by the Vietnam Era Veterans' Readjustment Assistance Act of 1974 (Pub. L. No. 93-508). Under the program, any eligible veteran 1/ or dependent 2/ is entitled to receive a loan of up to \$2,500 per academic year if he or she:

1. Is attending an educational institution on at least a half-time basis and is enrolled in a
  - course leading to a standard college degree, or
  - non-college-degree course which requires 6 months or longer to complete, leading to an identified and predetermined professional or vocational objective.
2. Enters into an agreement with VA providing for repayment of the loan, with interest, beginning 9 months after the veteran ceased to be at least a half-time student, and ending 10 years later.

A veteran no longer eligible for educational benefits because his or her delimiting date 3/ has passed is eligible to receive a loan for 2 years after the delimiting date if he or she

- is enrolled full time in an approved program of education,
- was enrolled full time when the delimiting date passed,  
and

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1/"Eligible veterans" refers to any veteran who served on active duty after January 31, 1955, and before January 1, 1977, and in some specified situations, even after January 1, 1977. For a more detailed explanation refer to the statutory definition found in 38 U.S.C. 1652(a).

2/Loan recipients also include spouses, widows, and dependent children. In this report, we have used the term "veteran" to refer to all loan recipients.

3/The date after which the veteran is no longer eligible to receive educational benefits—normally 10 years after release from active military duty.

--has remaining education entitlement. 1/

Public Law No. 94-502 makes VA education loans available to post-Vietnam era veterans. 2/ However, loans are not available to veterans (including post-Vietnam era veterans) pursuing a program of correspondence, apprenticeship, or on-the-job training.

The amount of the loan, up to the authorized maximum, is determined by subtracting the total amount of financial resources available to the veteran that could reasonably be expected to be expended for educational purposes from the actual cost of attending the institution.

The VA education loan program is administered by the Department of Veterans Benefits in Washington, D.C., and 58 regional offices.

The loan fund is financed by transfer from (1) readjustment benefits and (2) collection of fees, principal, and interest.

In May 1978, we reported that the primary purpose of the VA education loan program, as stated in the legislative history, is to provide an additional source of financial aid to students attending high tuition institutions who would otherwise be financially unable to pursue a program of education at such schools. Furthermore, we reported that the program was not meeting congressional intent because about 72 percent of the loans had been made to veterans attending schools charging low or no tuition. In addition, we reported that VA had no assurance that loans were based on demonstrated financial need because it was accepting expenses cited by the veteran which might not be education related. We also discussed VA's limited success in collecting matured loans and the reported default rate of 44 percent.

We recommended that the Congress amend the program authorizing legislation to give the Administrator authority to limit program eligibility to veterans attending high tuition institutions, in accordance with congressional intent as stated in the legislative history.

We also recommended that the Administrator of Veterans Affairs

--define, in detail, what types of expenses can and cannot be used to justify a VA education loan;

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1/Veteran did not use all of his or her entitlement to educational assistance before his or her delimiting date.

2/Each person entering military service on or after January 1, 1977.

--establish criteria to limit the amount of education-related expenses used to justify a loan; and

--require that all resources available to the applicant be reported and considered in determining financial need.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

We began a limited followup review of the program within the jurisdictional boundaries of our Los Angeles regional office to determine if VA had implemented the recommendations made in our 1978 report. We briefed the office of the Committee on our limited work to date and subsequently the Chairman requested that we conduct our review on behalf of the Committee. We agreed to expand our review to provide more geographic coverage and to focus on determining whether (1) veterans were reporting all available resources and (2) veterans were eligible for the Department of Education (ED) financial aid programs, and if such aid would satisfy their financial needs.

Our review was conducted at the VA central office in Washington, D.C., and at VA regional offices having jurisdiction over schools where a substantial number of veterans were enrolled. We selected Phoenix, Arizona; Los Angeles, San Francisco, and San Diego, California; St. Petersburg, Florida; Atlanta, Georgia, Boston, Massachusetts; and Muskogee, Oklahoma. These regions not only represented the geographic areas requested by the Committee Chairman, but also represented areas in which 43 percent of the 7,761 loans disbursed in fiscal year 1980 were made.

We visited 14 postsecondary schools (9 colleges or universities and 5 technical schools) in these regions to determine if veterans were reporting all available resources and whether they were eligible for the ED loan programs. We selected a judgmental sample because of the large number and wide geographic distribution of schools, which would have made a random sample uneconomical and unfeasible because of the short time frame we had to complete our review. We did select schools within each region whose students had the highest number of loans. Since this was not a random sample, the results cannot be projected to total loans. To determine if all available resources were reported as required, we examined the 389 loans approved in fiscal year 1980 by eight regional offices. We compared the loan and grant resources reported in the veterans' loan applications with the financial aid records maintained by 13 of the 14 schools visited.

We discussed the program with VA central office and regional office officials to get their opinions on the need for the program, the reasons for the high-default rate, and the affect of program revisions on loan activity. We interviewed school officials to determine whether other student loan programs could satisfy veterans' financial needs.

At VA central office, we

- compared VA guidelines issued before and after our 1978 report to determine if the recommended changes had been made,
- analyzed VA reports to determine changes in loan activity and the default rate since our prior review,
- reviewed an internal VA study to determine VA's proposed solutions to the program's problems.

At each of three VA regional offices (Los Angeles, Phoenix, and San Diego), we selected random samples of 30 loans approved in fiscal year 1980, and 30 loans defaulted in the fourth quarter of fiscal year 1980. We reviewed the claim folders and collection activity cards to determine VA adherence to guidelines established in response to our prior report.

We also talked to ED officials about the availability of ED student loans, and we obtained cost data on program administration to compare it with the cost of administering the VA loan program.

VOLUME OF LOANS LOW, DEFAULT RATE HIGH:  
PROGRAM SHOULD BE TERMINATED

VA acted to correct many of the problems noted in our 1978 report on the education loan program. However, because of severe problems that still plagued the program and the availability of student financial aid from ED, we believed VA's education loan program should be terminated.

Our review showed that:

- The level of program participation had dropped tremendously.
- The loan default rate continued to increase.
- A significant number of veterans would have been ineligible for loans or would have received smaller loans if they had reported all resources as required.
- VA regional offices were not following the guidelines for determining veterans financial needs.
- The financial needs of most veterans could have been met by ED financial aid programs.
- An internal VA study concluded that the loan program should be terminated.

Program participation dropping

VA's education loan program never reached the predicted level of activity. In the original budget justifications, VA predicted that over 140,000 loans valued at almost \$175 million would be disbursed during fiscal years 1978-80. However, as shown in the following table only about 48,000 loans valued at about \$50 million were disbursed during the 3-year period.

<u>Fiscal year</u>	<u>Loans disbursed</u>		<u>Dollar value</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
			(million)	
1978	60,440	28,908	\$ 76.6	\$35.8
1979	63,320	11,315	83.0	8.1
1980	<u>17,900</u>	<u>7,761</u>	<u>15.2</u>	<u>6.7</u>
	<u>141,660</u>	<u>47,984</u>	<u>\$174.8</u>	<u>\$50.6</u>

VA's budget submission for fiscal year 1981 showed that the large decline in program activity from fiscal year 1978 was primarily the result of a decrease in the number of persons in training and changes to program guidelines better defining allowable education-related expenses. The changes in the program guidelines were made in response to our 1978 recommendations.

VA central office predicted that the level of activity would continue to drop because (1) most Vietnam era veterans that intend to take advantage of their educational benefits have probably already done so, (2) the number of eligible veterans has declined, and (3) the new criteria on high-cost schools had not yet been fully implemented in fiscal year 1980.

The April 1980 guidelines limiting program participation to veterans enrolled in high-cost schools were issued in response to our 1978 report recommendations and additional authority provided under Public Law No. 95-476. The guidelines, which were made effective retroactively to March 7, 1980, defined a high-cost school as one with tuition and fees of at least \$700 per academic year.

Although the guidelines had been in effect for only a short time, statistics provided by VA indicate that they had already affected program participation. A 1980 VA Department of Veterans Benefits internal study stated that in the last 2 quarters of fiscal year 1980, 3,156 loans for \$2.9 million were disbursed. By comparison, in the last 2 quarters of fiscal year 1979, 4,309 loans for \$3.3 million had been disbursed. This shows a reduction of 26.8 percent in the number of loans. The report stated that about 50 percent of this reduction appeared to be attributable to the new high-cost school guidelines.



Further evidence of the impact of the new guidelines is found by comparing loan volume in November 1980 with the same month in 1979. VA reported that the number of loans approved declined 42.7 percent nationwide. For the same periods, California, which had previously shown large loan volume at low- and no-tuition schools, showed a 70.8-percent decline.

#### Default rate increasing

In our 1978 report, we recommended that VA improve its collection procedures by (1) notifying veterans more promptly of their repayment obligation, (2) clarifying instructions regarding the type and timing of followup action when the initial repayment notice is not answered, (3) instructing regions to collect on defaulted loans by offset against current benefits whenever possible, and (4) developing strongly worded collection letters specifically tailored to the loan program.

Although VA issued guidelines that improved its collection procedures, the default rate continued to increase and constituted a major problem in the program. The increasing default rates exceed acceptable limits. For fiscal years 1979 and 1980, the VA education loan program default rates on matured loans were 65.8 and 81.1 percent, respectively. At the end of fiscal year 1980 the defaulted loan value was \$30,186,097. VA regional directors reiterated to us the sentiments expressed in our 1978 report—that is, many veterans view the loan program as an entitlement and not an obligation to be repaid.

Public Law No. 96-466, approved October 17, 1980, provided VA the mechanism to more aggressively pursue debt collections by authorizing VA attorneys to bring suit in any court of competent jurisdiction to recover any indebtedness owed to the United States by a veteran by virtue of such veteran's participation in a benefits program administered by VA. A memorandum of understanding between the VA and the Department of Justice limits the VA's authority to litigation of debts of \$1,200 or less. Public Law No. 96-466 further authorizes VA to report delinquent and terminated accounts to consumer reporting agencies, if veterans fail to respond appropriately to reasonable administrative efforts to collect the debts. No defaulted loan cases had been referred to the VA district counsels at the time we completed our fieldwork.

Although VA has been provided with additional authority to pursue debt collection, VA central office and regional officials doubt that it will serve to prevent defaults or reduce the default rate because there is an apparent lack of intent by many veterans to repay their loans.

Veterans were not reporting all  
available resources to VA

In our 1978 report, we recommended that VA require that all financial resources available to a veteran be reported on the loan application and that VA consider these resources in determining the need for the loan.

Our followup review showed that while VA required that all resources available to a veteran be reported and considered, it had no assurance of compliance with the requirement. A school official must sign the school certification statement on the loan application. One of the items that the school official certifies is that the resource data provided by the veteran and shown on the loan application "have been reviewed and appear accurate and reasonable." We found, however, that school departments providing assistance to the veterans in processing loan applications were not always coordinating with the school financial aid departments. Consequently, not all information regarding other loans and grants applied for was being reported on the application. Because VA did not require the veteran to submit a copy of his or her Federal income tax return with the application, as does the need-based ED Pell Grant program (formerly Basic Educational Opportunity Grants), VA had no assurance that all other income was being reported.

In our sample of loans approved at eight VA regional offices during fiscal year 1980, veterans applying for 150 of the 389 loans (39 percent) had not reported other resources received, primarily those from ED financial aid programs. If the veterans had reported these resources, 18 percent of the sampled loans would not have been made, and 28 percent of the dollar value of the sampled loans would not have been disbursed.

The problem of unreported resources was most severe at colleges and universities where the financial aid department and the department providing assistance to veterans were separated. Officials from eight of the nine colleges and universities visited told us that there was no coordination between the two departments. Veterans' available resources were not fully reported in 126 (48 percent) of 260 loans sampled for veterans enrolled at colleges and universities. If all the resources had been reported, 23 percent of the sampled loans would not have been made, and 35 percent of the dollar value of the sampled loans would not have been disbursed.

Unreported resources were not as severe a problem at technical schools because the same school personnel generally helped veterans obtain VA loans and other financial aid. Still, veterans did not report all available resources in 19 percent of the 129 loans sampled. If they had reported such resources, 7 percent would have been ineligible and 15 percent of the dollar value would not have been disbursed.

One technical school official commented that some veterans "conveniently" wait until their VA loan application has been submitted to notify the school that other aid has been approved. At another technical school, officials instructed veterans to apply for VA loans before they applied for other types of financial aid. Thus, the other financial aid was never reported, and VA could not consider the resources in determining veterans' financial needs.

Guidelines for determining financial need were not being followed

Our May 1978 report stated that VA had neither provided its regional offices with adequate criteria for evaluating veterans' financial needs nor adequately defined allowable education-related expenses. Our report pointed out that many of the loans were justified and approved on the basis of such questionable expenses as gifts, entertainment, charitable contributions, car payments, and home improvements. We recommended that VA define, in detail, what types of expenses can and cannot be used to justify a loan, and establish criteria to limit the amount of education-related expenses used to justify a loan.

VA issued guidelines that addressed these issues as of August 1, 1978. These guidelines specify that only school-related expenses that are attributable to the student will be included on the loan application. Such expenses include (1) books and supplies, (2) noninstitutional room and board provided the veteran is a commuting student and the expenses stated do not exceed room and board at the school, and (3) actual commuting expenses not to exceed 12 cents per mile for a round trip of 110 miles. Other expenses that may be included are health insurance and miscellaneous school-related expenses, such as typing of research papers. To determine the extent of adherence to the new guidelines, VA central office reviewed 204 loan applications approved by adjudicators after August 1, 1978. Of these, 103 (50.5 percent) were either in error or adjudicated without adequate development.

To check the implementation of the guidelines, we selected random samples of 30 loans approved in fiscal year 1980 at each of three regional offices. We found one or more errors in 54 of the 90 loan cases reviewed. For example, at one regional office a clothing expense of \$200 was allowed on eight different loan applications in our sample. At another regional office, we noted an incorrect allowance for books; and other school-related expenses, without proper justification, were allowed on 11 loan applications sampled.

ED student aid programs could satisfy  
veterans' financial needs

ED offers a number of financial aid programs that could meet the needs of most veterans currently receiving aid under VA's education loan program. According to ED officials, the availability of student loans is high, and veterans should have no problems in obtaining these loans. Also, based on ED data, ED's Guaranteed Student Loan program was less expensive to administer, and it had a much lower default rate than the VA program.

To help students finance their postsecondary education and training, ED offers student financial aid programs--Pell Grants, Supplemental Educational Opportunity Grants, College Work-Study, National Direct Student Loans, and Guaranteed Student Loans. With the exception of the Guaranteed Student Loan program, 1/ these financial aid programs are similar to VA's loan program in that they are based upon the student's financial need. In fiscal year 1980, eligible undergraduates could receive loans or grants totaling up to \$7,050, not including college work-study funds.

To be eligible for aid under ED programs the student must be enrolled at least half time as a regular student in an eligible program at a college, university, vocational school, technical school, or a hospital school of nursing.

The financial needs of 352 of the 357 2/ veterans whose loan applications we reviewed could have been satisfied with a financial aid package using only ED loan and grant programs. Because the unmet needs of four of the other five applicants were under \$350 the inclusion of an ED or VA work-study program probably would have satisfied their financial needs.

Both VA regional officials and school financial aid officials said that ED programs could probably satisfy the financial needs of veterans, without the VA education loan program. 3/ Also ED's student financial aid pamphlet indicates that there are many other sources of student aid besides ED programs, such as State, colleges, community agencies' foundations, corporations, and unions.

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1/This program was modified by the Omnibus Budget Reconciliation Act of 1981.

2/This number differs from the number shown on page 3 because we excluded 32 loans to veterans attending summer schools where we did not have enough data to determine total financial needs.

3/Although ED programs have been modified by the Omnibus Reconciliation Act of 1981 we continue to believe that the programs, as modified, will meet the financial aid requirements of most veterans.

The Guaranteed Student Loan program appeared to offer a better alternative to the VA program. Also ED fiscal year 1980 data showed that the Guaranteed Student Loan program was less expensive to administer per loan and dollar disbursed than was the VA program. On the basis of data provided by VA on its costs to administer its program for fiscal year 1980, we estimate that it was 27 and 70 times more expensive to administer its program, per loan and dollar disbursed, respectively than ED's program. Also, the Guaranteed Student Loan program's 12-percent default rate was about five times lower than the 63-percent default rate of the VA education loan program (based on the dollar value of cumulative defaulted loans).

VA study on options available  
for education loan program

A December 12, 1980, Department of Veterans Benefits internal study on its education loan program offered three options available to VA. The study cited the decreasing loan volume, the increasing default rate, the apparent lack of intent by a large number of veterans to repay their loans, the undesirable situation of having a program requiring enforced collection, and the eligibility of veterans for ED loan programs as the basis for the following options:

- Continuing the loan program in its present form, accepting its high-default rates, but vigorously pursuing collection of defaulted loans.
- Reforming the loan program by requiring credit worthiness, leading to a very small program which would duplicate existing loan programs.
- Terminating the program.

The study concluded that:

"\* \* \* a default rate of 64.8% 'exceeds the limits of good business practice.' This rate should be called to the attention of the Congress with a recommendation that it terminate the loan program. This is the most viable option open to us."

In a March 31, 1981, statement before the Subcommittee on Education, Training and Employment, House Committee on Veterans' Affairs, VA's Chief Benefits Director said that VA cannot continue to support a program in which money provided for education expenses is really being used to support a lifestyle and to pay for goods and services not even remotely connected to the pursuit of an education. The Director said that if money loaned out is being used for purposes not related to getting an education, it must be seriously questioned whether or not the program is a success.

LEGISLATIVE ACTION TAKEN

On August 13, 1981, the President signed the Omnibus Budget Reconciliation Act of 1981 (Pub. L. No. 97-35), which provides that no VA education loan may be made after September 30, 1981, except for (1) veterans continuing their full-time training in the first 2 years after the expiration of the G.I. Bill delimiting period, 1/ and (2) veterans enrolled in flight training on August 31, 1981, and for as long as such veterans are continuously thereafter enrolled in an approved flight training program. 2/

The Congressional Budget Office estimates that the above action will result in savings of \$15 million in outlays only, in fiscal years 1982-84.

CONCLUSIONS

In February 1981, we informed your office that, on the basis of our limited work to date, we questioned the need for the VA education loan program and concluded that it should be terminated.

Through the enactment of Public Law No. 97-35, the Congress has taken action which will significantly reduce program participation.

Although program participation will be limited, the problems noted in our review will continue and we believe VA should take steps to strengthen program administration. For example, one of the items that is certified by the school is that the resource data provided by the veteran and shown on the loan application "have been reviewed and appear accurate and reasonable." We found however, that school departments providing assistance to the veterans in processing loan applications were not always coordinating with the school financial aid departments. Consequently, not all information regarding other loans and grants applied for was being reported on the application. Our sample showed that 18 percent of the loans would not have been made if veterans had reported these resources.

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1/Loan eligibility requirements for veterans continuing their full-time training after expiration of the G.I. Bill delimiting period is discussed in the introduction.

2/In connection with the two exceptions, the term "veterans" refers to eligible veterans as discussed in the introduction. No loans may be made to spouses, widows, and dependent children under the VA education loan program after September 30, 1981.

To better assure itself that all resources regarding other loans and grants applied for are reported, VA should require that schools' financial aid officers certify the resource data on the loan application.

Also, because it is difficult for VA to verify the existence of any other income which should be considered, VA should require that a veteran submit a copy of his or her latest Federal income tax return with the loan application.

RECOMMENDATIONS TO THE  
ADMINISTRATOR OF VETERANS AFFAIRS

We recommend that the Administrator direct the Chief Benefits Director to:

- Require that schools' financial aid officers, or officials in similar positions, certify the resource data on veterans' VA loan applications.
- Require that veterans submit copies of their Federal income tax returns with their loan applications.
- Periodically review a sample of approved loan applications to insure adherence to VA guidelines.