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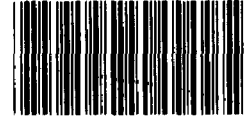
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HUMAN RESOURCES  
DIVISION

B-200138

FEBRUARY 7, 1983

The Honorable Charles H. Percy, Chairman  
Subcommittee on Energy, Nuclear  
Proliferation, and Government Processes  
Committee on Governmental Affairs  
United States Senate



120599

Dear Mr. Chairman:

Subject: Noncitizen Student Loan Defaults  
(GAO/HRD-83-29)

At your request, we have reviewed defaults under the National Direct Student Loan (NDSL) program by noncitizens at six institutions of higher education in the Chicago area. Generally, defaults by noncitizens accounted for only a small part of the total defaults at the schools visited and consequently had a relatively insignificant impact on NDSL default rates. This report provides information on the eligibility of noncitizens for loans and the results of our work at the six institutions.

OBJECTIVES, SCOPE, AND METHODOLOGY

According to your July 30, 1982, letter, certain Illinois colleges and universities have experienced problems in collecting student loans from noncitizens, particularly those who no longer reside in the United States. You asked us to determine what authority permits such loans to noncitizens, what discretion schools have in making such loans, how many noncitizen students have loans, and how many are in default.

We performed our work by (1) reviewing laws and regulations on student aid programs, (2) interviewing officials of the Department of Education (ED) and the Department of Justice's Immigration and Naturalization Service (INS), and (3) reviewing records on noncitizens with NDSL defaults at six postsecondary institutions in the Chicago area and at INS' Chicago District

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Office. We selected schools in the Chicago area at your request and in coordination with your Subcommittee's office. The six schools, described in enclosure I, included one public 2-year college, four public universities, and one private university. In an effort to include schools most likely to have experienced problems with noncitizen student loan defaults, we chose schools that had heavy prior involvement in the NDSL program, had a relatively high number of defaults, were known to have experienced problems with noncitizens, or had a relatively high ratio of noncitizens in the student population.

Obtaining the requested information at some schools was difficult because (1) data on noncitizens are not normally maintained in summary form, (2) the original financial aid and admission records on older loans were not readily available, and (3) our time frame for completing the work was short. Thus, our methodology differed slightly at each school visited. We were able to determine how many noncitizens were in default at each school; however, at only two schools were we able to determine the number of noncitizens who had received loans or had loans outstanding.

A major concern of the schools participating in the NDSL program is an August 1982 change in the regulations which (1) prohibits schools with a default rate of more than 25 percent from receiving additional Federal contributions to the program and (2) may cause reductions in Federal contributions for those with a default rate of more than 10 percent. At each school visited, we calculated the effect of noncitizen defaults on the school's overall default rate as of June 30, 1982.

#### NONCITIZEN ELIGIBILITY FOR FEDERALLY SUPPORTED STUDENT AID

ED administers five major programs of student financial assistance under title IV of the Higher Education Act of 1965 (20 U.S.C. 1070 et seq.). In addition to NDSL, the programs are the Pell Grant Program, the Supplemental Educational Opportunity Grant Program, the College Work-Study Program, and the Guaranteed Student Loan (GSL) Program. During school year 1982-83, these programs will generate an estimated \$10.9 billion in student assistance, with actual Federal appropriations of \$6.57 billion.<sup>1</sup> Enclosure II provides more detail on the scope of these programs.

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<sup>1</sup>Since student aid programs are forward-funded, the appropriations for fiscal year 1982 are for student aid in school year 1982-83.

The act is silent on citizenship requirements for persons otherwise eligible for student aid. However, ED program regulations clearly permit financial aid to citizens, permanent residents, and others who are in the United States for other than a temporary purpose. In its implementing guidelines, ED lists the following groups as being eligible under the regulations:

1. A U.S. citizen or national.
2. A U.S. permanent resident alien.
3. A permanent resident of the Trust Territory of the Pacific Islands or the Northern Mariana Islands.
4. A person officially designated by INS as (a) an adjustment applicant, (b) a refugee, (c) a conditional entrant, or (d) an indefinite parolee.
5. A person granted asylum in the United States.
6. A person who has documentation from INS to show he or she is in the United States for other than a temporary purpose.

Persons who are in the United States illegally or who have valid student visas are prohibited from receiving aid under these rules.

Students seeking financial aid must show on their applications that they are either a U.S. citizen or an eligible non-citizen. A person claiming to be a U.S. citizen is not required to provide verification unless school officials believe that he or she is not telling the truth. An eligible noncitizen is expected to provide documentation. The most common documentation is the Alien Registration Receipt Card (INS Form I-151 or I-551), commonly known as the "green card." Persons in valid possession of such a card or whose applications for residency have been accepted by INS are eligible for most of the benefits available to U.S. citizens.

Evaluating a school's verification procedures for citizen/noncitizen eligibility is difficult because there are no specific requirements on the types of documentation the school must maintain. Some schools maintain a photostatic copy of the green card or other such documentation in a student's file. Others may show only the person's alien registration number. In some cases, there is no documentation other than an indication that the student was an eligible noncitizen. Also, there is always the possibility that a student can claim citizenship falsely or present illegal documents. Financial aid personnel have limited resources to detect such situations.

## NDSL COLLECTIONS

An institution's NDSL program operates as a revolving fund. Funds available for loans to students include yearly Federal capital contributions, institutional matching funds (at least one-ninth of Federal contributions), and amounts repaid by former borrowers. While the school has some discretion in how these loans are made, there is no distinction concerning eligibility between citizens and qualified noncitizens.

The school is responsible for collecting NDSLs. Repayment begins at the end of a grace period, which starts after the borrower leaves school. A borrower is in default after the loan has been delinquent for 120 days (borrower paying monthly) or 180 days (borrower paying quarterly). The school is expected to make a diligent attempt to collect the loan. In addition to its own collection efforts, a school may use billing agents and collection agencies.

After a loan has been in default for 2 years, the school may "assign" it to ED for collection. The school receives none of the funds eventually collected on assigned loans by ED and its collection contractors.<sup>2</sup> Loans assigned to ED are not considered defaults for the purpose of computing a school's NDSL default rate.

The NDSL program has historically been plagued by a high level of defaults. As mentioned earlier, to help resolve this problem, ED issued new NDSL regulations on August 1, 1982, making institutions with a default rate of more than 25 percent ineligible for continued Federal contributions. Schools with a default rate greater than 10 percent, but not more than 25 percent, face a possible reduction in their Federal contributions.

## FINDINGS AT SIX CHICAGO SCHOOLS

Our primary objective in this review was to determine whether noncitizens were defaulting on NDSLs at a rate disproportionate to that of U.S. citizens. A high noncitizen default rate might penalize schools with an otherwise acceptable collection history by raising their overall default rates above the 25-percent ceiling.

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<sup>2</sup>At one time, schools could "refer" loans to ED, receiving up to 80 percent of the funds eventually collected. ED has not accepted referrals since June 30, 1981.

We had great difficulty in obtaining information on non-citizens at most of the six schools visited, because institutions did not normally maintain such summary statistics. In most cases, we had to review individual student aid and collection files for all persons with NDSL defaults in order to identify noncitizen defaulters. Some loans had been in default since the 1960s. The following table shows the number of non-citizens, including those now known to be living outside the United States, in relation to all NDSL borrowers in default at the schools visited:

<u>Institution</u>	<u>Borrowers in default as of June 30, 1982</u>	<u>Non-citizen</u>	<u>Noncitizens now living outside the United States</u>
Chicago City-Loop	1,565	39	1
Governors State	668	63	24
Northeastern Illinois	1,217	46	0
Northern Illinois	1,651	36	7
Illinois-Chicago	2,077	130	15
Roosevelt	<u>1,536</u>	<u>60</u>	<u>1</u>
<b>Total</b>	<b><u>8,714</u></b>	<b><u>374</u></b>	<b><u>48</u></b>

To determine the impact of noncitizens on NDSL default rates as computed by the ED formula,<sup>3</sup> we recomputed the rates as of June 30, 1982, for each of the schools visited to show the rate if (1) all noncitizen defaults had been assigned to ED for

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<sup>3</sup>The ED formula for computing the NDSL default rate is as follows:

$$\text{Total principal outstanding in default for 120 or 180 days} - \left( \begin{array}{l} \text{Assignments and} \\ \text{referrals to ED +} \end{array} \begin{array}{l} \text{Loans on which} \\ \text{borrower has shown} \\ \text{intent to repay} \end{array} \right)$$

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Total amount lent - Amounts owed by borrowers still in school or grace period

collection or (2) the schools had never made loans to the non-citizens identified. The results of this analysis are shown in the following table:

<u>Institution</u>	<u>NDSL default rate (percent)</u>		
	<u>Actual June 30, 1982</u>	<u>Noncitizen loans assigned</u>	<u>Noncitizen loans not made</u>
Chicago City-Loop	17.99	17.01	17.24
Governors State	35.99	31.33	34.78
Northeastern Illinois	11.29	10.48	10.94
Northern Illinois	9.11	8.81	8.84
Illinois-Chicago	11.71	10.02	10.22
Roosevelt	23.97	22.82	23.18

\* In general, the effect of noncitizen defaults on NDSL default rates was not significant at the schools visited. Even if noncitizen loans were assigned or not made, the reduction in the default rate would have been less than 2 percentage points at every school except Governors State University. The effect was even less significant when the relatively small numbers of borrowers who had left the United States were considered. A complete statistical analysis of our findings at each school is contained in enclosure III.

The only institution that believed it had a substantial problem was Governors State. While admitting that the effect on its overall NDSL default rate was small, school officials believed there was a definite trend toward more noncitizen defaults that deserves attention. We agree that the school has a potential problem, since more than 90 percent of the noncitizens in a repayment status at the time of our review were either delinquent or in default. If this trend continues among students not yet in a repayment status, the problem could become more serious in the future. We have discussed Governors State's situation with both INS' and ED's Inspector General officials. Both agencies are continuing investigations of certain activities among noncitizens at the school.

We did not analyze noncitizen borrowers who had defaulted on GSLs at the six schools because information on such defaults was not readily obtainable. However, we checked with the State guarantee agency to determine whether noncitizen borrowers with

NDSL defaults also had GSL defaults. We found 34 such overlaps, as shown in the following table:

<u>Institution</u>	<u>Noncitizen borrowers with both NDSL and GSL defaults</u>
Chicago City-Loop	0
Governors State	17
Northeastern Illinois	1
Northern Illinois	1
Illinois-Chicago	7
Roosevelt	<u>8</u>
 Total	 <u>34</u>

Where data were available from the six schools, we checked alien registration numbers of noncitizens with INS records. We identified five cases in which noncitizens had received financial aid by using alien registration numbers that INS showed as having been issued to other persons. Since this indicates possible fraud, the INS and ED Inspectors General plan to investigate these cases further. These agencies are also involved in a nationwide investigation of aliens illegally obtaining student aid.

#### OBSERVATIONS AND CONCLUSIONS

We are not able to make general conclusions on the effect of noncitizen defaults from our limited work. However, we believe the effect of noncitizen defaults on overall default rates was not significant at the schools visited. Noncitizen loans made up a small portion of total loan volume, and noncitizens with defaulted loans did not appear to be leaving the country in significant numbers.

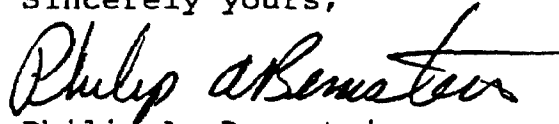
The effect of noncitizen defaults on individual schools could be lessened by allowing schools to assign such loans to ED as soon as they go into default rather than waiting 2 years. In a previous report,<sup>4</sup> we recommended that the 2-year restriction on assignments be removed for all loans. ED officials said they would propose this for legislative action soon.

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<sup>4</sup>"Stronger Actions Needed to Recover \$730 Million in Defaulted National Direct Student Loans" (HRD-81-124, Sept. 30, 1981).

As requested by your office, we did not obtain written comments from the Departments of Education or Justice on this report. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from its issue date. At that time we will send copies to ED and Justice and to the colleges and universities included in our review.

Sincerely yours,



Philip A. Bernstein  
Director

Enclosures - 3



INSTITUTIONS VISITED BY GAO

<u>Institution</u>	<u>Type</u>	<u>Support</u>	<u>Location</u>
Governors State University	University	Public	Park Forest South, Illinois
Chicago City College-Loop Campus	2-year	Public	Chicago, Illinois
Northern Illinois University	University	Public	DeKalb, Illinois
Northeastern Illinois University	University	Public	Chicago, Illinois
University of Illinois at Chicago (note a)	University	Public	Chicago, Illinois
Roosevelt University	University	Private	Chicago, Illinois

a/Formerly University of Illinois-Chicago Circle.

STUDENT FINANCIAL ASSISTANCE PROGRAMSTITLE IV, HIGHER EDUCATION ACT OF 1965

<u>Program</u>	<u>Description</u>	Fiscal year 1982 <u>appropriations</u>  (millions)
Pell Grant	Grant program providing the foundation of financial aid for needy undergraduate students. Grants range from \$200 to \$1,900 a year, depending on school costs and family income.	\$2,419.0
Supplemental Educational Opportunity Grant	Campus-based grant program for undergraduate students with need. Grants range from \$200 to \$2,000 a year.	355.4
National Direct Student Loan	Campus-based program providing 5-percent loans to needy undergraduate and graduate students. Maximum loans may not exceed \$6,000 for undergraduates and \$12,000 for graduates (including amounts borrowed as undergraduates). Federal/school cost sharing is on a 90:10 basis.	193.4
College Work-Study Program	Campus-based program providing employment designed to help needy students meet the cost of education. Federal/school cost sharing is on an 80:20 basis. Students receive at least minimum wage for work on campus or with approved organizations.	528.0
Guaranteed Student Loan	Program providing federally guaranteed loans of up to \$5,000 a year to lower and middle income students by commercial lending institutions, State agencies, and certain schools. Aggregate amount of loans may not exceed \$15,000 for undergraduates and \$25,000 for graduates (including amounts borrowed as undergraduates).	3,074.0
Total		<u><u>\$6,569.8</u></u>

SUMMARY STATISTICS ON NONCITIZENSWITH NDSL DEFAULTS - AS OF JUNE 30, 1982

<u>Governors State University</u>	<u>All students</u>	<u>Citizens</u>	<u>Non- citizens</u>
1. All NDSL borrowers	1,446	1,331	115
2. Borrowers whose loans have been retired	204	204	-
3. Borrowers whose loans are still subject to collection (1 - 2)	1,242	1,127	115
4. Borrowers in default, not including assignments and referrals to ED:	370	335	35
Percent of all loans (4 ÷ 1)	25.59	25.17	30.43
Percent of active loans (4 ÷ 3)	29.79	29.72	30.43
5. Borrowers in default, including assignments and referrals to ED:	668	605	63
Percent of all loans (5 ÷ 1)	46.20	45.45	54.78
Percent of active loans (5 ÷ 3)	53.78	53.68	54.78
6. Actual default rate (using ED formula)	35.99	34.78	46.95
7. Default rate without noncitizens	34.78	-	-
8. Default rate if noncitizens in default were assigned to ED	31.33	-	-

<u>Northeastern Illinois University</u>	<u>All students</u>	<u>Citizens</u>	<u>Non-citizens</u>
1. All NDSL borrowers	3,557	(a)	(a)
2. Borrowers whose loans have been retired	1,099	(a)	(a)
3. Borrowers whose loans are still subject to collection (1 - 2)	2,458	2,347	111
4. Borrowers in default, not including assignments and referrals to ED:	439	397	42
Percent of all loans (4 ÷ 1)	12.34	(a)	(a)
Percent of active loans (4 ÷ 3)	17.86	16.92	37.84
5. Borrowers in default, including assignments and referrals to ED:	1,217	1,171	46
Percent of all loans (5 ÷ 1)	34.21	(a)	(a)
Percent of active loans (5 ÷ 3)	49.51	49.90	41.44
6. Actual default rate (using ED formula)	11.29	10.94	40.45
7. Default rate without noncitizens	10.94	-	-
8. Default rate if noncitizens in default were assigned to ED	10.48	-	-

a/Data are not available without extensive review of all borrower files.

<u>Chicago City College - Loop Campus</u>	<u>All students</u>	<u>Citizens</u>	<u>Non-citizens</u>
1. All NDSL borrowers	2,318	(a)	(a)
2. Borrowers whose loans have been retired	459	(a)	(a)
3. Borrowers whose loans are still subject to collection (1 - 2)	1,859	(a)	(a)
4. Borrowers in default, not including assignments and referrals to ED:	466	447	19
Percent of all loans (4 ÷ 1)	20.10	(a)	(a)
Percent of active loans (4 ÷ 3)	25.07	(a)	(a)
5. Borrowers in default, including assignments and referrals to ED:	1,565	1,526	39
Percent of all loans (5 ÷ 1)	67.52	(a)	(a)
Percent of active loans (5 ÷ 3)	84.19	(a)	(a)
6. Actual default rate (using ED formula)	17.99	(a)	(a)
7. Default rate without noncitizens	17.24	-	-
8. Default rate if noncitizens in default were assigned to ED	17.01	-	-

a/Data are not available without extensive review of all borrower files.

<u>University of Illinois at Chicago</u>	<u>All students</u>	<u>Citizens</u>	<u>Non-citizens</u>
1. All NDSL borrowers	7,084	(a)	(a)
2. Borrowers whose loans have been retired	2,553	(a)	(a)
3. Borrowers whose loans are still subject to collection (1 - 2)	4,531	(a)	(a)
4. Borrowers in default, not including assignments and referrals to ED:	639	549	90
Percent of all loans (4 ÷ 1)	9.02	(a)	(a)
Percent of active loans (4 ÷ 3)	14.10	(a)	(a)
5. Borrowers in default, including assignments and referrals to ED:	2,077	1,947	130
Percent of all loans (5 ÷ 1)	29.32	(a)	(a)
Percent of active loans (5 ÷ 3)	45.84	(a)	(a)
6. Actual default rate (using ED formula)	11.71	(a)	(a)
7. Default rate without noncitizens	10.22	-	-
8. Default rate if noncitizens in default were assigned to ED	10.02	-	-

a/Data are not available without extensive review of all borrower files.

<u>Northern Illinois University</u>	<u>All students</u>	<u>Citizens</u>	<u>Non- citizens</u>
1. All NDSL borrowers	16,314	(a)	(a)
2. Borrowers whose loans have been retired	8,139	(a)	(a)
3. Borrowers whose loans are still subject to collection (1 - 2)	8,175	(a)	(a)
4. Borrowers in default, not including assignments and referrals to ED:	932	908	24
Percent of all loans (4 ÷ 1)	5.71	(a)	(a)
Percent of active loans (4 ÷ 3)	11.40	(a)	(a)
5. Borrowers in default, including assignments and referrals to ED:	1,651	1,615	36
Percent of all loans (5 ÷ 1)	10.12	(a)	(a)
Percent of active loans (5 ÷ 3)	20.20	(a)	(a)
6. Actual default rate (using ED formula)	9.11	(a)	(a)
7. Default rate without noncitizens	8.84	-	-
8. Default rate if noncitizens in default were assigned to ED	8.81	-	-

a/Data are not available without extensive review of all borrower files.

<u>Roosevelt University</u>	<u>All students</u>	<u>Citizens</u>	<u>Non-citizens</u>
1. All NDSL borrowers	4,218	(a)	(a)
2. Borrowers whose loans have been retired	1,887	(a)	(a)
3. Borrowers whose loans are still subject to collection (1 - 2)	2,331	(a)	(a)
4. Borrowers in default, not including assignments and referrals to ED:	1,053	1,003	50
Percent of all loans (4 ÷ 1)	24.96	(a)	(a)
Percent of active loans (4 ÷ 3)	45.17	(a)	(a)
5. Borrowers in default, including assignments and referrals to ED:	1,536	1,476	60
Percent of all loans (5 ÷ 1)	36.42	(a)	(a)
Percent of active loans (5 ÷ 3)	65.89	(a)	(a)
6. Actual default rate (using ED formula)	23.97	(a)	(a)
7. Default rate without noncitizens	23.18	-	-
8. Default rate if noncitizens in default were assigned to ED	22.82	-	-

a/Data are not available without extensive review of all borrower files.