

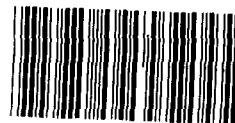
GAO

Report to the Acting Director, Bureau for
Refugee Programs, Department of State

February 1987

LOANS TO REFUGEES

Status of Efforts to Improve Refugees' Transportation Loan Repayments



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National Security and
International Affairs Division

B-217679

February 27, 1987

Mr. Robert Funseth
Acting Director, Bureau for Refugee Programs
Department of State

Dear Mr. Funseth.

We have reviewed efforts by the Department of State and the voluntary agencies to implement the recommendations in our report Stricter Enforcement of Refugees' Transportation Loan Repayments Needed (GAO/NSIAD-85-56, March 8, 1985) and to determine the present status of refugee loan collections. The recommendations were intended to improve and thereby reduce the cost of the State Department's refugee transportation loan program. This report summarizes the results of our assessment

The Department of State has the primary authority and responsibility for managing and funding certain refugee assistance programs, including refugees' transportation to the United States. The State Department finances the transportation of the refugees from temporary asylums overseas to the United States through a revolving loan fund administered by the Intergovernmental Committee for Migration (ICM), an international organization based in Geneva, Switzerland. In accordance with agreements with the State Department, ICM makes all the transportation arrangements, issues interest-free promissory notes to cover the refugees' costs, and is reimbursed by (1) loan repayments collected by voluntary agencies and (2) U.S. government funds deposited in ICM's revolving fund.

Many refugees have not repaid their loans, and thus the program has proved costly to the U.S. government in recent years. From the time the program started in 1951 through December 1985, more than \$255 million had been disbursed in loans, but only about \$58 million, approximately 23 percent, had been repaid. According to the terms of the promissory notes, at least \$144 million loaned to refugees prior to January 1982 should have been repaid by December 1985. The low loan repayment rate resulted from a number of factors over the years, including State Department's lack of encouragement of the voluntary agencies to collect and the refugees to repay the loans, inefficient collection methods, missing addresses of refugees with outstanding loan balances, and the lack of enforcement of ICM's promissory notes. In recent years, the poor collection rates have been a major factor requiring the

State Department to contribute about \$30 million annually to supplement ICM's revolving fund. Improved refugee transportation loan repayments would reduce this cost to the U.S. taxpayer in future years.

To address the loan repayment rate, we recommended in our 1985 report that the Secretary of State take steps to strengthen the enforceability of the promissory notes and ensure that refugees repay their loans. These steps included the assignment by ICM of refugees' defaulted notes to the State Department for collection when necessary. We added that, if current loan terms are not enforceable, the Department consider changing the nature of its loan program so that loans are made by the State Department to the refugees. We also recommended that the State Department maintain ongoing efforts to improve collections by the voluntary agencies responsible for loan collection.

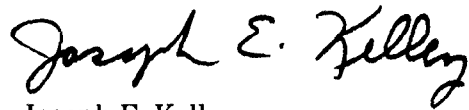
The State Department agreed with our recommendations and has taken steps to strengthen loan enforcement. The State Department has developed a revised promissory note, which has been translated into 13 languages and is now being used worldwide. The Department believes the new note is legally binding and provides for ICM to assign loans that are in default to the State Department for collection. Also, ICM agreed recently to assign loans in default to the Department for collection. The State Department is now developing criteria by which ICM will determine which loans in default will be assigned to the Department.

The State Department and voluntary agencies have taken some steps to improve loan collection procedures. However, there has been limited overall progress in locating refugees with overdue loans, and there has been only a small increase in the overall collection rate. Although annual loan repayments increased from \$9.6 million in 1983 to about \$13 million in 1985, that amount represents only 3.0 percent of cumulative loan disbursements and only a 0.2 percent increase over the 1984 pace of collections.

We recognize that there may not have been adequate time for the changes made by the voluntary agencies to have had a significant effect on the collections in 1985. Nevertheless, many refugees entering the United States are not repaying their loans, and voluntary agencies continue to have difficulty in locating them. Consequently, the State Department needs to maintain its efforts to improve loan repayments with emphasis on (1) working with ICM to develop criteria for assigning defaulted loans to State, and (2) assisting the voluntary agencies in locating refugees and collecting loans.

These matters are discussed in more detail in appendix I.

Sincerely yours,

A handwritten signature in black ink that reads "Joseph E. Kelley". The signature is written in a cursive style with a large, prominent "J" and "K".

Joseph E. Kelley
Associate Director

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Abbreviations

GAO	General Accounting Office
ICM	Intergovernmental Committee for Migration
INS	Immigration and Naturalization Service
IRC	International Rescue Committee
USEP	U.S. Escapee Program

Status of Efforts to Improve Refugee Transportation Loan Repayments

Background

Under the refugee transportation loan program, the movement of refugees from temporary asylums overseas to the United States is financed through a revolving fund administered by the Intergovernmental Committee for Migration (ICM), an international organization headquartered in Geneva, Switzerland. In accordance with agreements with the Department of State, ICM makes travel arrangements and pays the transportation costs of the refugees' travel to the United States from the revolving fund. While still overseas, the refugees sign interest-free promissory notes with ICM, which stipulate arrangements for them to repay outstanding loan balances through specified U.S. voluntary agencies within 42 months after their arrival in the United States. If the refugee cannot make the scheduled repayments, he or she can notify the voluntary agency and seek a modified repayment schedule. The voluntary agencies retain 25 percent of the repayments they collect to cover collection expenses. The ICM revolving fund is replenished primarily by (1) loan collections remitted to ICM by the voluntary agencies and (2) contributions from the State Department's annual appropriations.

Refugee transportation loans began in 1952 when the Mutual Security Act of 1951 (Public Law 165) authorized the President to support the freedom and maintain the economic stability of Europe by providing assistance to escapees (refugees) fleeing from Eastern Europe. In 1962, the Department of State described the evolution and intent of the transportation assistance provided refugees through the then-titled U.S. Escapee Program (USEP) by saying:

"It is USEP policy to provide only such aid as is not available from other governments and agencies and to place as much responsibility as possible for support on the escapees themselves. In earlier years, USEP made grants to ICEM [subsequently changed to ICM] for each escapee's transportation, thus freeing the escapee of the burden of debt in his new country. Since January 1961, the escapee has been asked to sign a note for this cost wherever this procedure is feasible. The cost of USEP loans will be capitalized by payments to an ICEM revolving loan fund. As escapees begin to repay their loans, it should eventually be possible for the revolving loan fund to cover most of the costs of future escapee transportation loans and for USEP to reduce substantially its payments to the fund."

Loan repayment rates have varied over time. In a 1955 report, a special committee of the House Committee on the Judiciary cited low collection as a cause for a projected loss of about half a million dollars and noted the need to improve the administration of the revolving fund. In 1966, the Department of State stated that the collection rates on loans issued between 1961 and 1965 averaged about 28 percent. Subsequently, the State Department reported that the rate of repayment for the European

Program from 1970 through 1974 ranged from 57 to 70 percent, but the rate sharply decreased thereafter.

The Department of State recognized in 1981 that transportation loan repayments were in a downward trend and that voluntary agencies generally were not actively attempting to collect the loans. Concerns also arose as to the enforceability in the United States of the repayment terms of the promissory notes being administered by ICM. The State Department initiated efforts to improve voluntary agencies' collections and, in 1983, renegotiated its Memorandum of Understanding with ICM, requiring ICM's best efforts to ensure that (1) refugees who sign promissory notes also agree to repay the established amount to the sponsoring voluntary agency and (2) voluntary agencies establish and maintain an acceptable collection system.

Prior GAO Recommendations

In our March 1985 report Stricter Enforcement of Refugees' Transportation Loan Repayments Needed (GAO/NSIAD-85-56), we noted that most refugees were not repaying their transportation loans for various reasons, including the lack of encouragement by the State Department of the voluntary agencies to collect and refugees to repay the loans, inefficient collection methods by voluntary agencies, missing addresses of refugees with outstanding loan balances, and the lack of enforcement of the terms of the loans due mainly to the administrative language of the loan agreement. Numerous voluntary agency and refugee assistance officials believed that loan repayment terms were reasonable and that most refugees could repay. However, nearly half of all refugees with outstanding loans were neither making payments nor requesting deferrals of such payments.

We recommended that, in addition to maintaining ongoing efforts to encourage voluntary agencies' collection efforts, the Secretary of State take a number of steps to (1) strengthen the enforcement of the promissory notes and (2) ensure that refugees repay their loans. Specifically, we recommended that the Secretary

- determine whether the current language of the promissory notes legally binds refugees to repay these loans;
- if the notes are considered legally binding, seek an agreement with ICM to assign its defaulted notes to the State Department for collection; and
- if the notes are not considered legally binding, revise future notes to ensure their legal effectiveness and allow them to be assigned to the Department of State for collection

We further recommended that, in the event that existing and future promissory notes can neither be made binding obligations nor assigned to the Department for collection, the State Department should consider changing the nature of its loan program so that it directly administers the loans.

The Department of State agreed with our recommendations and the need to improve loan collections

Objectives, Scope, and Methodology

Our objectives were to determine if the recommendations in our March 1985 report have been implemented and to what extent refugee loan collections have improved. We obtained and analyzed information from the State Department concerning the status of the implementation of our recommendations and statistical data on loan repayments. The six major voluntary agencies that provided us with 1984 collection data contained in the prior report also furnished us with updated data on the number of refugees who were repaying their loans.¹ We contacted representatives of three of these agencies to learn what steps they have taken to improve loan collections. Some of the voluntary agencies advised us that 49,602 loans outstanding in 1984 had not been included in the data provided us at the time of our initial review. Therefore, certain 1984 statistics in this report differ from those in our prior report. We performed our work in accordance with generally accepted government auditing standards. Our review was performed between April and November 1986 in Washington, D.C.

Actions to Implement GAO Recommendations

The Department of State and the voluntary agencies have taken or are planning actions to increase refugee transportation loan repayments, including those needed to implement the recommendations in our March 1985 report.

Actions Taken by the Department of State

In response to our recommendations, the State Department has revised the language in the promissory note to include a provision that ICM can alternatively refer or assign notes in default to the United States (State Department) for collection. The State Department has taken the position

¹These six major voluntary agencies are the American Council for Nationalities Service, Church World Service, Hebrew Immigrant Aid Society, International Rescue Committee, Lutheran Immigration and Refugee Service, and the United States Catholic Conference. International Rescue Committee data, which represents only 8 percent of the total, was updated to May 1985. All the other voluntary agencies' data was updated to April 1986.

that, if ICM refers a note to the Department for collection, it remains a debt owed to ICM, and the Department can only act as an agent of ICM in attempting to collect the loan. However, State also believes that if ICM assigns a debt to the Department for collection, it becomes a debt owed to the U.S. government.

The Department of State believes it can more effectively collect assigned loans than those referred to it for collection. The Department said that if ICM assigns a defaulted loan to it for collection, the Department has several avenues through which loan repayment can be encouraged. The Department believes, for example, that it can obtain assistance from the Internal Revenue Service, other federal agencies, and various credit bureaus in cases where social security numbers of refugees are known.

On November 18, 1986, ICM advised the Department that it will assign defaulted loans to State after assignment criteria and procedures have been developed by State and approved by ICM. The State Department is developing criteria for ICM to use in determining which loans in default are feasible for assignment to the Department for collection.

The State Department is also continuing its efforts to improve loan collections by voluntary agencies. It is seeking an agreement with the Immigration and Naturalization Service (INS) under which INS can be another source from which voluntary agencies can obtain addresses of refugees owing transportation loans. Such an agreement would help voluntary agencies in their efforts to cope with the large number of missing addresses. The State Department contemplates the implementation of such an agreement soon. However, both State and INS are studying the Freedom of Information Act implications of voluntary agencies getting addresses from INS files.

The Department of State is considering the development of a procedure that would require former refugees who wish to sponsor family members coming to the United States to disclose whether they hold unpaid transportation loans and, if so, whether the repayment schedules are up to date. The information could be verified through inquiries into voluntary agencies' records of outstanding loan balances.

The State Department also adopted a new policy, effective January 1, 1987, requiring each voluntary agency applying for entry into a cooperative agreement with the Department of State under the refugee initial reception and placement program to furnish information on its refugee transportation loan collection program. Such information is to include a

description of the voluntary agency's loan billing and collection procedures and actions they took in 1986 and plan for 1987 to improve loan collections and the overall refugee repayment rate. This requirement, in accordance with Public Law 99-605, approved November 6, 1986, is one of a number of pieces of data that the State Department plans to evaluate before entering into future cooperative agreements with individual voluntary agencies. The Department of State also has discussed with the voluntary agencies ways they can improve loan collections. These discussions have helped prompt the voluntary agencies to take the actions noted below.

Actions Taken by Voluntary Agencies

Officials of some of the voluntary agencies involved in the program told us they have made certain changes in their collection procedures and other efforts to improve loan collections. For instance, an official of one of the largest voluntary agencies said that the agency had initiated the following steps. It had

- installed a new computer system that will help analyze 59,000 inactive transportation loan cases to determine why they are inactive,
- provided branch offices with lists of delinquent accounts of refugees with known addresses so that these offices can contact the refugees and initiate additional collection actions; and
- made plans to obtain addresses of non-paying refugees from local offices' listings of refugees applying as sponsors for relatives coming to the United States.

Another voluntary agency official said that his agency has taken the following actions to improve loan collections:

- A printout has been made of the names of all persons 3 months delinquent or more, and telephone calls have been made to those whose phone numbers were known or could be found
- Requests for new addresses have been included on billing statements for use by the refugees to inform the voluntary agency if they move
- Attempts are being made to obtain addresses of refugees from their local sponsors.

In other attempts to obtain missing addresses, voluntary agencies have exchanged addresses from affidavits of relationship filed by former refugees when they apply to sponsor relatives seeking to come to the United States. According to the State Department, about 2,000 new

addresses of former refugees owing loans have been identified from the affidavits since this practice began a few months ago

Since mid-1985, representatives of the voluntary agencies, ICM, and the Department of State have also discussed the following potential actions to increase loan collections.

- Voluntary agencies could advise refugees who are being billed but are not paying that their names may be sent to a credit bureau if loans are not repaid.
- Voluntary agencies could attempt to obtain some of the unknown addresses of refugees from credit bureaus.

Little Change in Collections

While the State Department and voluntary agencies have taken actions since our prior report to improve collection procedures, loan collections continue to be limited. Collections increased only slightly during the past 2 years and, as of December 1985, only 22.9 percent (\$58.4 million) of all the transportation loans made since the program's inception in 1951 (\$254.7 million) had been repaid, as shown in table I.1.

Table I.1: Cumulative Loan Disbursements and Related Repayments

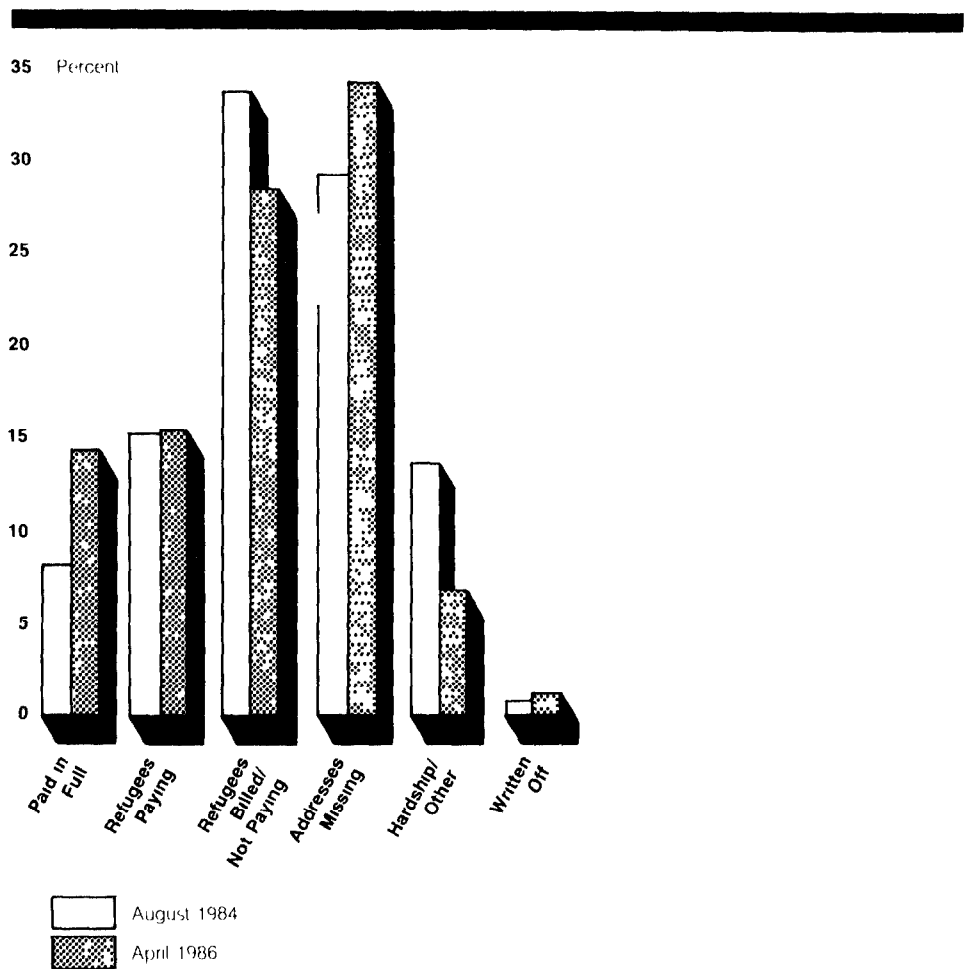
Calendar year	Cumulative loan disbursements	Cumulative repayments	Percent of loans repaid	Increase over prior year
1982	\$175,959,277	\$24,538,465	14.0	•
1983	200,012,988	34,157,855	17.1	3.1
1984	228,634,486	45,460,567	19.9	2.8
1985	254,701,614	58,429,627	22.9	3.0

As of April 1986, based on a universe of 283,751 loans being administered by the six major voluntary agencies, refugees holding 28.3 percent of the loans outstanding were not honoring bills sent to them by voluntary agencies, and those holding 42.1 percent of the loans were neither being billed nor paying. This includes over 96,690 loans with outstanding balances (34 percent of total loans) that were not being billed to refugees because of missing addresses. This percentage is up from August 1984 when nearly 29 percent were not billed because of missing addresses. Also, as of April 1986, about 7 percent of the loans were not being billed because of hardship or reasons other than missing addresses, and about one percent were written off. In contrast, as of August 1984, 11 percent were not being billed due to hardships and reasons other than missing addresses, and 0.7 percent were written off. The

**Appendix I
Status of Efforts to Improve Refugee
Transportation Loan Repayments**

six major agencies, in April 1986, were billing and receiving payment on only 15.4 percent of the loans with outstanding balances, compared with 15.1 percent in 1984. These statistical comparisons are shown in figure I.1.

Figure I.1: Status of Refugee Transportation Loans as of August 1984 and April 1986



Source: Data GAO obtained from the major voluntary agencies in the program, which maintained records on 263,845 loans in August 1984 and 283,751 loans in April 1986

Loan payments have increased only slightly since August 1984. Only \$58.4 million of the \$254.7 million had been repaid as of December 1985. Based on the terms of the loans outstanding, all of the loans issued prior to January 1982, totalling \$144 million, should have been paid in full. Previously discussed actions taken by the voluntary agencies to improve loan collections subsequent to the issuance of our report in March 1985

may not have had sufficient time to have a significant effect on the collections even by late 1985.

Projected Costs of the Transportation Loans

If the loan program is to (1) become or move closer to being self-sustaining and (2) operate at a significantly lower cost to the U.S. government, improvements in loan collections are necessary. As stated in our March 1985 report, low loan collections have required the State Department to transfer over \$30 million from annual appropriations into the ICM transportation loan accounts in fiscal years 1983 and 1984 and \$29 million in 1985. The Department's budget estimate for 1986 was approximately \$46.3 million. The Department also estimated that \$10 million in loan repayments would be collected in 1986. If these estimates materialize, the U.S. government must again provide more than \$30 million to keep the refugee transportation loan program operational.

Conclusions

We believe that the Department of State and the voluntary agencies have made increased efforts to improve the collection of refugee transportation loan repayments. Improvements have been made in the collection process, and steps have been taken to strengthen the enforcement of the refugees' loan repayment obligations. The Department of State and ICM have reached an agreement whereby ICM will assign defaulted loans to the State Department for collection, and the Department has worked to develop ways for voluntary agencies to obtain correct addresses for refugees who have not repaid their loans.

Nevertheless, many refugees entering the United States are not repaying their transportation loan debts, and voluntary agencies continue to have difficulty in locating them. Consequently, the State Department needs to maintain its efforts to improve loan repayments, with emphasis on (1) working with ICM to develop criteria for assigning defaulted loans to State and (2) assisting the voluntary agencies in locating refugees and collecting outstanding loans.

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