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STUDENT LOAN PROGRAM

The Higher Education Act of 1965 established the guaranteed student loan program in order to enable financially needy students to attend college or vocational school. Under this program, a student can borrow up to $5,000 for undergraduate college or voca tional education, and up to $10,000 for graduate or professional study. The student doesn't have to start paying any principal or interest until nine months after leaving school. Then he repays at three percent interest over five to ten years.

All loans are made by banks or other private lending institutions, and are backed by a Federal Government guarantee. The Government pays the administrative costs, all the interest while the student is in school, and approximately half the interest cost during the repayment period.

The joker is that the Government is also liable for repayment of the principal of the loan in case of the student's death, disability, bankruptcy, or default. The default rate is currently running at 19 percent for student loans administered by the Federal Government. Defaults occur when students refuse to honor their debts or refuse to repay because they feel the school did not give the service it promised.

It is now apparent that the high rate of defaults, the fraud, the waste, the inefficiency, and the bureaucratic bungling in the guaranteed student loan program are so gross as to cast doubt on the validity of the entire program. Of the estimated $8 billion in

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Federal student loan guara:utees to date, it is now alleged that $1 billion is lost.

The General Accounting Office cannot determine exactly how much money has or will be lost because HEW records are inaccurate, unorganized• or nonexistent. Files are not maintained geographically, by subject matter, or by schooJ, When a new student loan is granted, there is no way to determine whether the student already has a loan outstanding or has defaulted on a previous loan. HEW cannot verify the accuracy of lender billings, and many lenders continue to bill the Government for the full interest charges after the student has left school.

With 19,000 institutions eligible for loan guarantees, millions of student applicants, and no effective checking on either, the situation is tailor-made for ripoffs by fly-by-night promoters. One outfit in California, called the West Coast Schools, pyramided a student loan operation involving 26 banks, credit unions, and savings and loan associations before it went out of business leaving the taxpayers holding the bag with $8 million in guaranteed loans. When questioned, the school president took the Fifth Amendment 28 times. One assistant took the Fifth 23 times, and another, 19 times.

One of the major defects in the system is that student loans are guaranteed 100 percent by the Federal Government. The lending institutions thus have no incentive to try to collect. When a student defaults, the lender just fills out some papers and gets paid in full by HEW. By contrast, the Small Business Administration guarantees only 90 percent of its loans so the banks have an incentive to collect from the borrowers instead of from the taxpayers.

When it started, the guaranteed student loan program sounded like a free ticket to fulfillment of the American dream. After ten years, it looks like just another device to take the American taxpayers for a costly ride.

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