

Measures Heard SB 87 (Public Hrg) SB 89 (Public Hrg) SB 90 (Public

SENATE COMMITTEE ON EDUCATION

January 31, 1991 Hearing Room 343 3:00 p.m. Tapes 9 -10
MEMBERS PRESENT: Sen. Shirley Gold, Chair Sen. Bill McCoy, Vice-Chair
Sen. Joan Dukes Sen. Peter Brockman Sen. Ron Grensky Sen. Paul Phillips
Sen. Cliff Trow STAFF PRESENT: Jan Barga, Committee Administrator
Angela Muniz, Committee Assistant

WITNESSES: JEFF LEE, Director, Oregon Scholarship Commission JANICE
ZAGORIN, Collections, Oregon Scholarship Commission

These minutes contain materials which paraphrase and/or summarize
statements made during this session. Only text enclosed in quotation
marks report a speaker's exact words. For complete contents of the
proceedings, please refer to the tapes.

TAPE 9, SIDE A

005 CHAIR GOLD: Calls the hearing to order at 3:05 p.m.

OVERVIEW OF SB 87. SB 89. SB 90:

JEFF LEE, Executive Director, State Scholarship Commission: Provides an
overview of the Scholarship Commission. Agency provides grants to
students in higher education. Receives about 50,000 applications a year.
-Need grant program: Most of students are eligible for grants on a need
basis, but because of funding the agency can only provide 15,000 grants
a year. -Cash award program: Awarded on academic ability and need. About
750 grants given per year. This year's budget has cut many of the state
programs the scholarship commission works with. Has accepted 17
additional programs to administer this year. These will provide 260
students with about \$265,000 of private fund sources. The grant programs
are about 20% of the work the agency does. The other 80% is in loan
program administration. -Stafford loan program: Provides guaranteed
state loans to lenders. -Supplemental student loan: Loans in addition to
the Stafford loans. -Plus program: Parental loans for undergraduate
students. Senate Committee on Education January 31, 1991 - P - e 2

The three programs provide aid to about 37-39,000 students in the state.
The program is financed by money generated by program or through federal
dollars. The commission acts as an administrative agency for the federal
program. It provides about half of all government-sponsored financial
aid. There are about \$600 million in outstanding loans. The agency has
purchased \$62 million in defaults. A default is when a loan from a
lending institution is 180 days past due. At that point the commission
buys the loan and begins collection on the loan.

127 SEN. PHILLIPS: If you start collecting after 180 days, how much is
the cost of collection versus the rate of return?

LEE: Required by federal law to collect the loans and give 70% of the
money collected on the loan to the federal government. The federal
government reinsures the loan after the agency buys it. The agency keeps
30% of the amounts collected and has been able to maintain all of
collection staff and pre-claim collection work out of the 30%
collection.

SEN. PHILLIPS: How much is actually delinquent in the state?

LEE: At 180 days, \$62 million dollars is delinquent.

154 SEN. PHILLIPS: What is the recovery rate of 32 collection workers for \$62 million in what period of time? LEE: Recovery rate is 46% which is the second or third best in the nation. Corrects that there are 42, not 32, collection workers. SEN. PHILLIPS: What is the percentage of cost versus the collection? Can you break the 30% from the federal government into dollars? LEE: Can't break it down to figures. It costs less to collect it than the 30% the agency keeps because the guarantee fund is growing. SEN. PHILLIPS: Would like a cost-benefit analysis of the process. 200SEN. DUKES: Why doesn't the bank also do collection services after 180 days. LEE: The federal law prescribes the banks' collection process and requires them to sell it at 180 days to the guarantor. If they keep the loan after 180 they lose the guarantee that the loan will be repaid. SEN. DUKES: So banks are never out any money for making a student loan. LEE: They are out administrative costs during that period, but yes they get 100 % of principle and interest back. If did not have that guarantee, lenders would not make large loans to students. SEN. DUKES: Is there any way to screen better? We want to give financial aid so kids can go to school, but the regular lending process wouldn't be lending to them. Are there any common denominators of defaulters?

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LEE: Other agencies have looked into the common denominator of the high defaulters. Studies indicate there are groups of people who are higher default rate groups than others. But these sometimes break out by race or sex. Problem is that we are dealing with a group of young people who have not established credit. Oregon has a lower default rate than most states and a higher collection rate. The loss rate is not that bad.

280 SEN. DUKES: Cost of collection is going to be relatively high because it is a state agency. Why isn't it done by the private sector?

LEE: About half of the states collect themselves and the other half give it to private agencies. Oregon does some work with private agencies. For example, it uses a private agency to collect on uncooperative, out-of-state borrowers. Oregon has a better collection rate than those states buying collection services. SEN. DUKES: Why does Oregon do its own collecting?

LEE: We started out that way and we do a better job than most other states so we keep doing it.

313 SEN. MCCOY: What is your recovery rate, 60% or 46%? What percentage would you improve on with the legislation, the 46% or the 60%? Have you factored in the downturn in the economy? LEE: On the old loans, loans several years old, recovery is lower. Most of \$62 million in defaults was purchased during the last four years. Recovery rate will be about 70% of old loans. Hasn't factored in the downturn in the economy. SEN. TROW: You are collecting enough to pay for the cost of the collection and accruing monies to pay for workers. LEE: Federal government allows the agency to keep 30% for expenses, but must use all

of the 30%. If the agency didn't spend it all, it could only keep what was spent. Money can be used for purchase of claims, pre-claim work and supplemental pre-claim work. 359SEN. TROW: So you don't make any money, but it pays for itself. If you didn't do the collections who would? LEE: We would have to farm it out to private collection agencies. We are obligated to see that "due diligence" is completed by whoever does the collecting - private or state. "Due diligence" are the standards set by the federal government on actively collecting loans. If state or private collector misses a required action, then the federal government can take back the money it gave in reinsurance. in reinsurance. 400SEN. TROW: Do you get a lot of complaints about the tactics used by your collectors? LEE: Naturally there are some complaints, but not about improper collection tactics. SEN. GRENSKY: What does reinsurance mean? Senate Committee on Education January 31, 1991- P - e 4

435 LEE: Example: The agency pays a bank all the principle and interest on a loan. If it follows federal requirements on how it was purchased and reporting what the banks did, then submits the loan to federal government and they reinsure the agency. They give the agency back what it spent on the bank.

SEN. GRENSKY: There's no risk to the state then because the federal government is going to pay you the money regardless of whether you collect or not.

TAPE 10, SIDE A

020 LEE: There's no risk to the state unless it doesn't provide due diligence. If it doesn't do that then the federal government can ask for its reinsurance money back.

SEN. GRENSKY: Federal government doesn't ask for money back very often, though.

LEE: It does happen quite a bit. One agency went broke because of lack of due diligence, among other things. PUBLIC HEARING - SB 87. SB 89. SB 90:

050 LEE: SB 87: Asks for access to information. Already get current addresses through DMV. Intensifying work on garnishment of wages. Because of due diligence requirements, the agency must go to litigation on loans at a certain point in time, unless it has reason not to. Wants some information so don't have to go to litigation. Welfare recipients, for example, are one of the few exceptions the federal regulations allow from due diligence. Looked at other states to see what was being done in collections. SB 89: Checks with lottery commission to look for winners. The bill should be amended for winners of \$500 or more.

110 SEN. DUKES: Can't you garnish lottery winning already?

JANICE ZAGORIN, Collections, State Scholarship Commission: One state agency has been able to garnish lottery funds. Needs to know winners that have defaulted on loans. Wants to establish communication so can simply match winners with defaulters.

SEN. DUKES: Thinks Department of Revenue can garnish lottery funds. Have you considered going through the Department of Revenue?

ZAGORIN: We would have to assign accounts to the revenue department for

them to do that. The agency has its own collections organization. The agency already participates in the offset program for state tax refunds through the revenue department.

SEN. DUKES: There must be some reason why you don't go through the Department of Revenue?

LEE: According to an study done 20 years ago, the charges that the revenue department places on its collection services is more than the 30% retained. Also, if the loan was assigned to anyone else, they would have to meet due diligence requirements. Those requirements may be different from Department of Revenue's approach. Senate Commiltoe on Education January 31,1991- Page 5

159 SEN. TROW: When looking at what other states have done, do you think in terms of invasion of privacy? LEE: Is concerned about it, but has mixed emotions. On one hand, if students can't pay loans back, they shouldn't be put through attacks, but they also could be thumbing their noses at us. Doesn't release information to anyone. Privacy is a concern, but has an obligation to collect the loan.

SEN. TROW: How does it work? What about a guy who has three kids, can't keep a job and has other debts? If he buys a lottery ticket and wins \$1,000 will you jump in and take that money away from his kids? Is the garnishment automatic?

LEE: Collection on loans is never automatic. Makes decisions when can get the information. Doesn't insist family such as the one described make a payment. Just asks is that families keep in contact with the agency so it can be aware of when financial circumstances improve.

208 SEN. TROW: Is there room for discretion on your part?

LEE: Yes and we exercise it often.

SEN. TROW: How much do you have to win before it is reported?

ZAGORIN: \$500 is the amount where winners must report their Social Security numbers and the agency could make a match.

SEN. PHILLIPS: Have you done any studies about privatizing part of you collection service? If not, why? Could you get me information about merging with the department of revenue.

LEE: Part of program is privatized already. The agency has access to the attorney general's office that wouldn't be accessible with private sector. SB 90: Want to reduce agency's costs of garnishing wages. Looked at other state agencies to see opportunities they have for continuous garnishment. Haven't been garnishing much because attorney general doesn't have the staff to do the work it generates.

290 SEN. GRENSKY: The objective is to get repaid. What objections do you have to letting the private sector do this? Collection agencies can do a better job, so why should it stay with the state?

SEN. LEE: Some loans shouldn't stay with the state and those already are contracted out to private agencies. State is in some jeopardy with the federal government if it doesn't do some things right with due diligence requirements and this can be hard to monitor when contracted out. There are advantages to doing it as a state agency.

360 SEN. GRENSKY: Everyone should pay their debts. But you are given a preference over other agencies and creditors if allowed continuous garnishment. Why should you be given this preference?

LEE: Not an advantage. Other state agencies already use the continuous garnishment.

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CHAIR GOLD: Will continue to hear bills at the next meeting. Submits testimony from Oregon Student Lobby, Adult and Family Services and the Employment Division for the record (EXHIBITS A, B and C). Adjourns the hearing at 4:00 p.m.

Submitted by: Reviewed by:

Angela Muniz Jan Barga Assistant Administrator

EXHIBIT LOG:

A - Testimony on SB 87, SB 89, SB 90 - Lynn Pinckney, OS� - 1 page B
- Testimony on SB 87 - Sherwin Cullison, AFS - 5 pages C - Testimony on
SB 87 - Steve Tegger, Employment Division - 2 pages

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