

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 53rd LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON EDUCATION & CULTURAL RESOURCES

Call to Order: By Chairman Royal Johnson, on January 26, 1993,
at 8:00 a.m.

ROLL CALL

Members Present:

Rep. Royal Johnson, Chair (R)
Sen. Don Bianchi, Vice Chair (D)
Rep. Mike Kadas (D)
Sen. Dennis Nathe (R)
Rep. Ray Peck (D)
Sen. Chuck Swysgood (R)

Members Excused: none

Members Absent: none

Staff Present: Taryn Purdy, Legislative Fiscal Analyst
Skip Culver, Legislative Fiscal Analyst
Doug Schmitz, Office of Budget & Program Planning
Amy Carlson, Office of Budget & Program Planning
Jacqueline Brehe, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: HB 277; SB 77; AND OFFICE OF THE
COMMISSIONER OF HIGHER EDUCATION

Executive Action: NONE

HEARING ON HB 277

Tape No. 1:A:000

Opening Statement by Sponsor:

REP. BOB GERVAIS, House District 9, Browning, presented HB 277, EXHIBIT 1, and explained that the bill had been introduced in the last session and passed. He said Dr. Hutchinson would make the formal presentation.

John Hutchinson, Commissioner of Higher Education, pointed out that one of the OCHE budget modifications was for the continuation of the Office of the Director of American Indian and Minority Achievement. Two tracks had been taken in an attempt to

get funding for the office: HB 277 and a budget modification. He said this testified to the importance of the office. He distributed EXHIBIT 2 and noted that the first page summarized the activities of the office, which he reviewed.

Dr. Hutchinson referred the committee to the second page of EXHIBIT 2 which showed the increased enrollment of Native American students in the Montana university system (MUS) and the increased completion rate. He said he believed the office played a significant role in the increase in completion rate and the enrollment rate. He noted the office developed and designed intervention strategies to prevent Native American students from dropping out. The graph on page 3 of EXHIBIT 2 illustrated the decline in the number of Native American children as they progressed through grades K-12. He noted that six percent of the children in grade 12 were Native Americans while only three percent of college students were Native Americans. He noted that one of the purposes of the office would be to increase participation of Native Americans in the higher education system. He noted the importance of the office to the Native American community and requested funding for the office be continued.

Proponents' Testimony:

Kathleen Fleury, Coordinator of Indian Affairs, supported the continuation of the program and said it was critical to the Native American population in Montana.

Francis Belgarde, Executive Director, Helena Indian Alliance, supported HB 277 and said he felt Montana had taken a step forward in terms of the education of the Native American population when it adopted article 10 of the Montana Constitution: "Equality of education is guaranteed to each person of the state". He said that passage of HB 277 would help insure the guarantee took place.

Questions From Subcommittee Members and Responses:

REP. RAY PECK asked if the federally funded Talent Search program performed a similar function to the office being created by HB 277. Renee Dubay, Director of Talent Search, OCHE explained that the Talent Search program involved 950 primarily Native American students in grades 7-12. It assisted about 250 of them each year in enrolling in post-secondary education. She expressed support for the tracks program because it kept track of the students in the MUS and helped insure the students completed their education. She noted the two programs (Talent Search and American Indian/Minority Achievement) were related but did not overlap. REP. PECK asked if Talent Search was directed totally at Indian students. Ms. Dubay responded that the program was targeted at low income first generation college students.

REP. MIKE KADAS requested more information on the budget of the

office proposed in the bill. Dr. Hutchinson answered that the total personal services costs on an annual basis consisted of \$35,000 for the director, \$14,600 for a secretary, \$12,000 for a 0.5 FTE computer technician and \$14,600 in fringe benefits. The remainder of the budget was for operating expenses and travel with the total annual budget being \$87,800.

SEN. CHUCK SWYSGOOD asked why it was necessary to have a bill if the office was covered in a budget modification. Dr. Hutchinson said his office was not sure of the success of the modification, so they decided also to run a bill. If the bill was successful, the mod would be withdrawn. SEN. DON BIANCHI asked if it would be better to have a modification so that the cost of the office was built into the base. Dr. Hutchinson said that would be his preference. CHAIRMAN ROYAL JOHNSON asked where the office would be located. Dr. Hutchinson said it would be in the same building as OCHE.

Closing by Sponsor:

REP. GERVAIS noted the importance of education to the Native American community citing examples from his own family. He said it was important for the children to have role models to show them the benefits of remaining in school. He mentioned that education was an important step in breaking the welfare cycle. He noted that programs such as the one in HB 277 were critical in keeping Indian children in school.

CHAIRMAN JOHNSON closed the hearing and opened the hearing on SB 77.

HEARING ON SB 77

Tape No. 1:A:635

Opening Statement by Sponsor:

SEN. SWYSGOOD, District 37, Dillon, stated that SB 77 was the continuation of HB 142 which established the Joint Committee on Postsecondary Education Policy and Budget in 1992. He said the committee was composed of four legislators (bipartisan and bicameral), two regents, the commissioner of higher education and a representative chosen by the governor. He said the meetings were quite productive with many areas of concern being addressed. Last session appropriated \$60,000 to the committee. The request in this bill was \$11,400.

Proponents' Testimony:

Dr. Hutchinson made five points in his testimony of support. He said the committee was unique in its composition which encompassed both members of the legislature and the academic community. Secondly, he said the committee was responsive both in its origin and in its function. He noted that the committee dealt with substantive issues such as duplication, transfer of

credits, tuition policy, nursing education, enrollment policy and telecommunications. The fourth point made was the committee worked hard on the issues and allowed the legislature a fairly direct communication channel to the Regents. The last point made was that during this difficult time in Montana, the committee allowed communication between the legislature and the Regents to continue. He noted that \$11,400 was a modest request for the important work accomplished.

Todd Mitchell, Montana Associated Students, said his organization was in favor of anything that would promote dialogue between the legislature and the Regents without compromising the Constitutional rights of the Regents.

Questions From Subcommittee Members and Responses:

REP. PECK asked if it was necessary to add the appropriation to the bill or to add it to the fiscal analyst's budget. **SEN. SWYSGOOD** said it could be handled either way. **REP. PECK** noted that it might be less disconcerting to the House if the appropriation were put in the LFA budget. **REP. KADAS** remarked that section 10 of the bill terminated the committee on July 1, 1995. **SEN. SWYSGOOD** said that without a continuing appropriation, the committee automatically terminated every two years, but said he hoped there would be an ongoing need for the dialogue. **REP. KADAS** voiced concern that there might be a better way to increase the communication between the legislature and the Regents than the proposed joint committee. **SEN. SWYSGOOD** noted that he had his own apprehensions about the committee at first. He said that with the initial "growing pains" out of the way, the committee could concentrate on its functions. He noted that when the committee made recommendations to the Regents who were on the committee, the recommendations were brought to the full Board for its debate and consideration. He said that he would be the first to do away with the committee if it were ineffective.

SEN. BIANCHI noted the original bill appropriated \$60,000, while the present bill only appropriated \$11,400. He asked if it were sufficient. **SEN. SWYSGOOD** said he felt it was sufficient to cover the operations of the committee. The original appropriation included funding for outside consultants which were later deemed unnecessary. He noted that the committee would next focus its attention on a study of the nursing programs in Montana.

SEN. BIANCHI asked for more information on the present status of nursing programs in Montana. **Dr. Hutchinson** stated that there were a number of different types of programs including LPN programs (vo-tech centers), associate degree nursing programs (Northern Montana College and Miles Community College) and baccalaureate programs (MSU, NMC and Carroll College). He said coordination of all the programs was essential and noted that it was still unclear whether there were enough nursing seats to cover the need by the end of the century.

Tape No. 1:B:000

REP. PECK noted that REP. KADAS felt that section 10 of the bill implied some uneasiness the legislature had with the committee. He felt it was common practice. SEN. SWYSGOOD said he used a structure similar to the original bill which included a termination date.

REP. KADAS informed the committee that he had a bill that had similar objectives which was presently in the House Education Committee and would eventually be forwarded to the Education Subcommittee. He requested the committee to hold action on SB 77 until it became clear his bill would or would not be coming before the committee. CHAIRMAN JOHNSON said the committee would hold the bill until REP. KADAS' bill came down unless there were objections from committee members. There were no objections.

CHAIRMAN JOHNSON inquired as to the attendance record of the joint committee members. SEN. SWYSGOOD said it was quite good and depended somewhat on the areas being addressed. He said the Regents, the OCHE and the governor's representative were always present. There were at least two or three of the four legislators at every meeting. CHAIRMAN JOHNSON informed the committee of a suggestion by the former speaker of the house that all the bills dealing with "pet projects" be dealt with together at the end of the session. He asked for SEN. SWYSGOOD'S response. SEN. SWYSGOOD said this bill had a higher priority because of the complexity of the university system. He argued for the usefulness of such an interim committee.

SEN. NATHE mentioned that there was an alternative method for funding the joint committee. He said it could be added to the large appropriations bill as a line item in the education portion.

REP. PECK asked where the budget was for the current administrative study. Dr. Hutchinson explained that the study budget was not part of this bill. It was being paid for partly with funds from the OCHE budget and partly with funding coming from university units with appropriated funding. REP. PECK asked if the joint committee could appropriately become involved in the tuition question. Dr. Hutchinson answered that the committee had been involved with tuition discussions and it had influenced the decisions on those questions. He felt it was an area in which the committee would be even more involved in the future.

Closing by Sponsor:

SEN. SWYSGOOD noted that his was the first committee to utilize the METNET to hold down the costs of the meetings. He spoke to the effectiveness of the system.

CHAIRMAN JOHNSON closed the hearing.

HEARING ON OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

Tape No. 1:B:650

WICHE AND WAMI PROGRAMSInformational Testimony:

Rod Sundsted, Associate Commissioner for Fiscal Affairs, OCHE, distributed EXHIBIT 4 listing the number of students in the WICHE program from 1975 through 1993. He said there were two issues to discuss. In the veterinary medicine WICHE area, OCHE had requested ten new slots. The LFA was funding nine. The second issue was an error on the part of the OCHE. He said the LFA narrative on the dentistry program listed six continuing slots for FY95; In actuality there were seven. Adding the extra dentistry slot would cost \$13,900 in FY95 and would not affect FY94.

Mr. Sundsted referred the committee to EXHIBIT 4 and noted that the number of students in the WICHE program had dropped from 160 in 1975/76 to 102 in 1992/93. The LFA current level proposal directed that it go to 98 slots in 1994 and 91 slots in 1995, unless the dentistry slot was added back.

Questions, Responses, and Discussion:

CHAIRMAN JOHNSON asked if there were any requirements on the students to return to Montana to practice. Mr. Sundsted answered that there was a bill that was being worked on this session which addressed the problem. In addition, last session the Rural Physicians Incentive Program was initiated in which part of the debt of education would be paid off for students returning to Montana to practice. REP. PECK said he visited the WAMI program and noted the contribution of the state to their education was indicated on the tuition bills which the students receive. He said it made a significant impression on the students. He said the return rate was rising.

CHAIRMAN JOHNSON said it was his understanding that, of all the graduates of the WAMI program, only 43 were practicing in Montana. SEN. SWYSGOOD remarked that in 1987-89 SEN. HAMMOND and he had tried to introduce legislation to get students to return to Montana but it had failed. He added that the decline in the support of the program was due to the elimination of the Educational Trust Fund. As a result, the program had to rely on the general fund.

Dr. Hutchinson said that the Rural Physicians Incentive Program had already been successful in returning six physicians to practice in rural areas of Montana. He noted that the University of Washington Medical School emphasized rural medicine and had the highest rate of physician placement in rural communities of any medical school in the country. He added that OCHE was attempting to set up residency programs for family practice in

Montana because physicians tend to stay in the areas where they do their residency.

STUDENT AID PROGRAMS

Informational Testimony:

Bill Lannan, Director, Montana Guaranteed Student Loan Program (MGSLP), presented written testimony regarding the background, present functioning and appropriation requests for the student aid programs available in Montana. EXHIBIT 5

Questions, Responses, and Discussion:

REP. KADAS remarked that under the tuition indexing plan tuition would increase fairly significantly and the potential for further increase in the future was likely. He voiced concern for the ability of students to meet the demand. He said the result would be to limit enrollment based on income. He asked if the present student aid structure was adequate to meet the needs. **Dr. Hutchinson** said it was his personal opinion that both the state and the nation have acted irresponsibly in moving away from grant support and more toward loans thus increasing the debt burden for students. Regarding the current aid program, he said there was limited scholarship aid available but there was adequate access to loans. He said he would like to see the state student aid package increased, but did not have a proposal for this session.

REP. PECK asked if all the state work-study money had been utilized. **Mr. Lannan** explained that all of it had been allocated to the campuses and a small portion did revert at the end of the year. The campuses make the awards to students, but some students may not use all of the award. **REP. PECK** asked if excess WICHE and WAMI funds could be transferred to the state work-study funds. **Mr. Lannan** noted that the student aid matching funds were line itemed on work-study. **REP. PECK** referred to E 43 of the LFA Budget Analysis and noted that \$55,945 of excess WICHE and WAMI funds had been transferred to the OCHE administration program and used to pay the pay-out costs of an administrator. He voiced his strong objection to such a practice.

Tape No. 2:A:000

CHAIRMAN JOHNSON asked how much of the federally funded Paul Douglas Teachers' Scholarship program was used for administration. **Mr. Lannan** replied that no administrative allowance was received, but administration was minimal. **CHAIRMAN JOHNSON** requested more information on defaulted loans. He also asked what the acceptable balance between loans and grants was, if the present balance was unacceptable. **Mr. Lannan** said he would cover defaulted loans in the following presentation. He said that there should be equal amounts of grants and loans available to students.

MONTANA GUARANTEED STUDENT LOAN PROGRAM (MGSLP)Informational Testimony:

Mr. Lannan presented written testimony EXHIBIT 6 and a packet of information EXHIBIT 7 regarding the history of the program, the evaluation report on the program and the justifications for the budget requests and modification requests.

Tape No 2:A:802

Arlene Hannawalt, Operations Manager, MGSLP, presented written testimony EXHIBIT 8 which gave additional background material on MGSLP and described the positions presently earmarked for elimination. She also described the need for the two budget modifications being requested.

Tape No. 2:B:520

Questions, Responses, and Discussion:

SEN. DENNIS NATHE asked for the percentage of the student body which was borrowing money from MGSLP. Ms. Hannawalt said currently 40% of the students attending Montana institutions borrowed from the program. Another 60% were eligible for the unsubsidized loan program. SEN. NATHE commented that the unsubsidized loan program was the expanded Stafford loan program. He asked if by unsubsidized it meant that the financial need requirement had been removed. Ms. Hannawalt said yes and added that the Department of Education did not pay the interest on the loan while the student was in school. Mr. Lannan added that much of the borrowing was being done by students going out of state to professional and graduate schools.

SEN. NATHE asked if money was lent to Montana residents even when they went out-of-state. Mr. Lannan replied affirmatively.

CHAIRMAN JOHNSON asked for additional information on who the agency was trying to remain competitive with and for comment on the rapid growth of their program in light of the competition. Mr. Lannan answered that when the program was first started there was an organization out of Minnesota (Heath) which tried to come in and provide the guaranteed agency service for Montana borrowers. The organization attempted to do so in other areas of the country also. They eventually went bankrupt. An agency from North Dakota had tried to enter Montana also. Ms. Hannawalt added that the main competitor was the United Student Aid Fund which was the national guarantor in 18 other states.

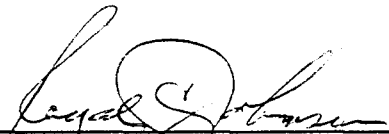
CHAIRMAN JOHNSON asked if services were the main competitive edge MGSLP had over the competitors. Mr. Lannan replied that the competition marketed themselves as having good service, but the best testimony to the quality of the service with MGSLP was the loyalty of the schools and the lenders. He noted the reduction in defaults which had occurred.

SEN BIANCHI asked how the interest rates on the student loans were set. **Mr. Lannan** explained that the interest rates were controlled by Congress. There were variable interest rates for the parental loans and the unsubsidized loans which would float with the treasury bills. The regular Stafford loan program had an interest rate of eight percent for the borrower after he went into repayment when he finished school. After four years, the interest rate went to 10%. **SEN. BIANCHI** asked if negotiations occurred for the rate of payment, etc. **Mr. Lannan** said the agency did not enter into negotiations unless the borrower defaulted at which time a repayment schedule was negotiated.

CHAIRMAN JOHNSON asked if the reauthorization of the agency was similar to other federal reauthorizations which were done every few years. If so, he asked what would happen if Congress did not reauthorize the program. **Mr. Lannan** said the reauthorization for the next five years had just occurred.

ADJOURNMENT

Adjournment: 11:00 a.m.



REP. ROYAL JOHNSON, Chair



JACQUELINE BREHE, Secretary

jb/

HOUSE OF REPRESENTATIVES

EDUCATION

SUB-COMMITTEE

ROLL CALL

DATE

1-26

NAME	PRESENT	ABSENT	EXCUSED
REP. ROYAL JOHNSON, CHAIRMAN	✓		
SEN. DON BIANCHI, VICE CHAIRMAN	✓		
REP. MIKE KADAS	✓		
SEN. DENNIS NATHE	✓		
REP. RAY PECK	✓		
SEN. CHUCK SWYSGOOD	✓		

**American Indian/Minority Achievement
Montana University System
1991-1993**

- Initiated and managed the first ongoing program to collect and analyze ethnic and racial data in the Montana University System
- Worked with OPI, college registrars and tribal and reservation leaders to establish the Montana Native American Tracks Program
- Led the MUS Colleges and Universities in the establishment of Minority Achievement and Ethnic Diversity planning and program implementation
- Participated in organization and presentation of "Meeting the Challenge" the Montana White House Conference on Indian Education
- Facilitated the full participation of the tribal colleges in the development of a Montana-wide College Core Transfer Curriculum; provides ongoing liaison functions with the tribal colleges
- Developed Montana University System-wide Draft Regent's Policies for Research based upon Racial and Ethnic Data

House BILL NO. *277*

INTRODUCED BY

Andrews, Samuel, Steve
Condy, James, Linda, Linda, Yellowtail

A BILL FOR AN ACT ENTITLED: "AN ACT APPROPRIATING MONEY TO THE COMMISSIONER OF HIGHER EDUCATION TO FUND AMERICAN INDIAN/MINORITY ACHIEVEMENT."

WHEREAS, American Indians comprise approximately 6% of Montana's population; and

WHEREAS, less than 3% of American Indian students are enrolled in the Montana University System; and

WHEREAS, by the year 2000, a high school diploma will provide an opening to only 49% of the available jobs; and

WHEREAS, between 1993 and the year 2000, one-third of the new jobs created will be filled by college graduates; and

WHEREAS, Montana's economic future depends upon a well-educated work force.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Appropriation.** There is

appropriated from the general fund to the commissioner of higher education \$175,648 for the biennium ending June 30, 1995, to fund the staff and operation of the director of American Indian/ minority achievement. The director shall:

(1) use the money to improve the recruitment and retention of American Indians in higher education by:

(a) continuing the data collection and analysis begun by the Montana tracks program;

(b) serving as a consultant to the Montana university system campuses and vocational-technical centers to develop plans for recruitment and retention; and

(c) serving as a liaison between the Montana university system, tribal governments, and tribal colleges;

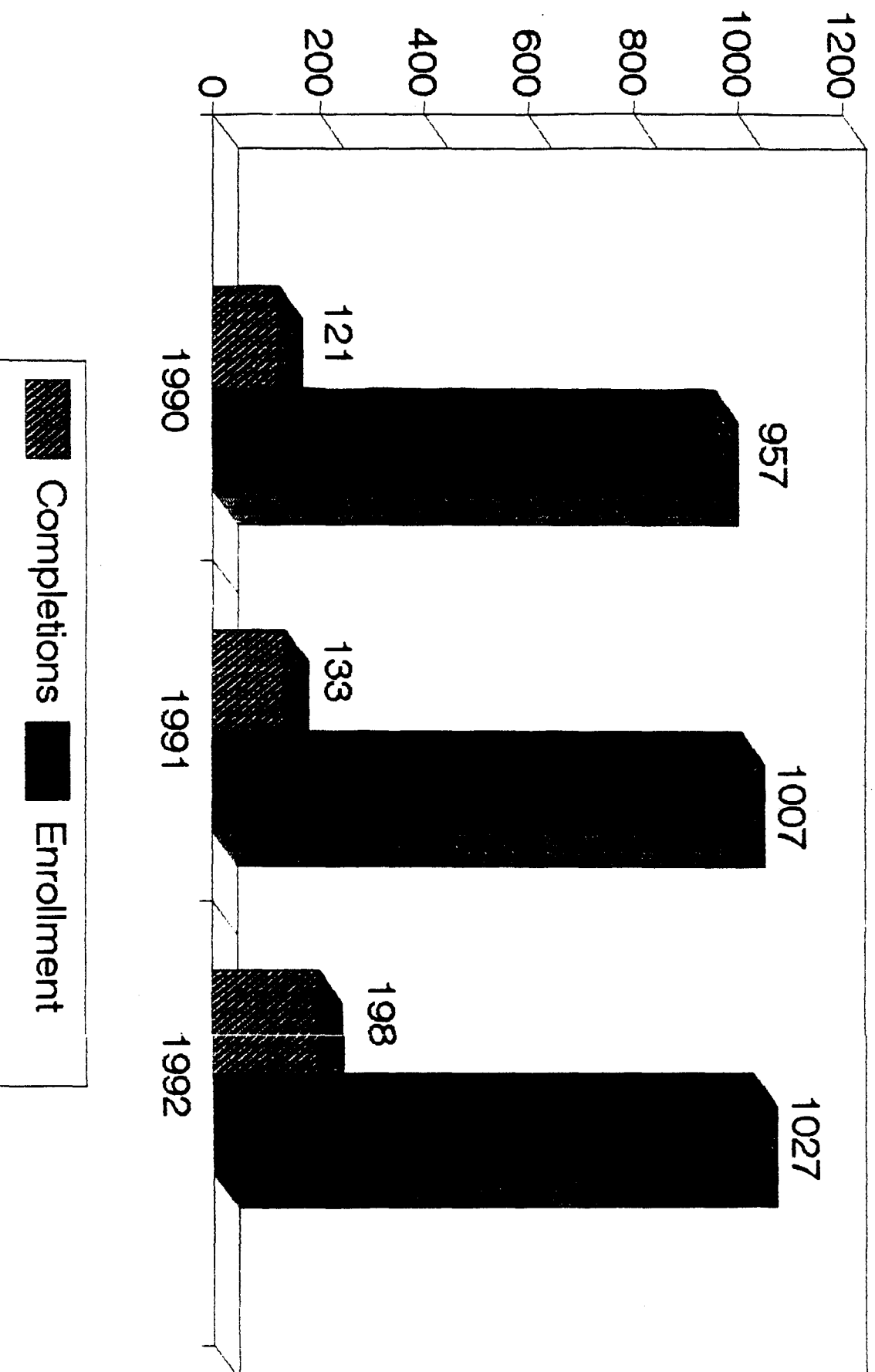
(2) provide a report to the 55th legislature on the accomplishments of and data collected by the program during the 1995 biennium.

-End-

Montana Legislative Council

Native American Achievement - MUS

Enrollment and Completions



Native Americans in the K-12 Pipeline

1992-93

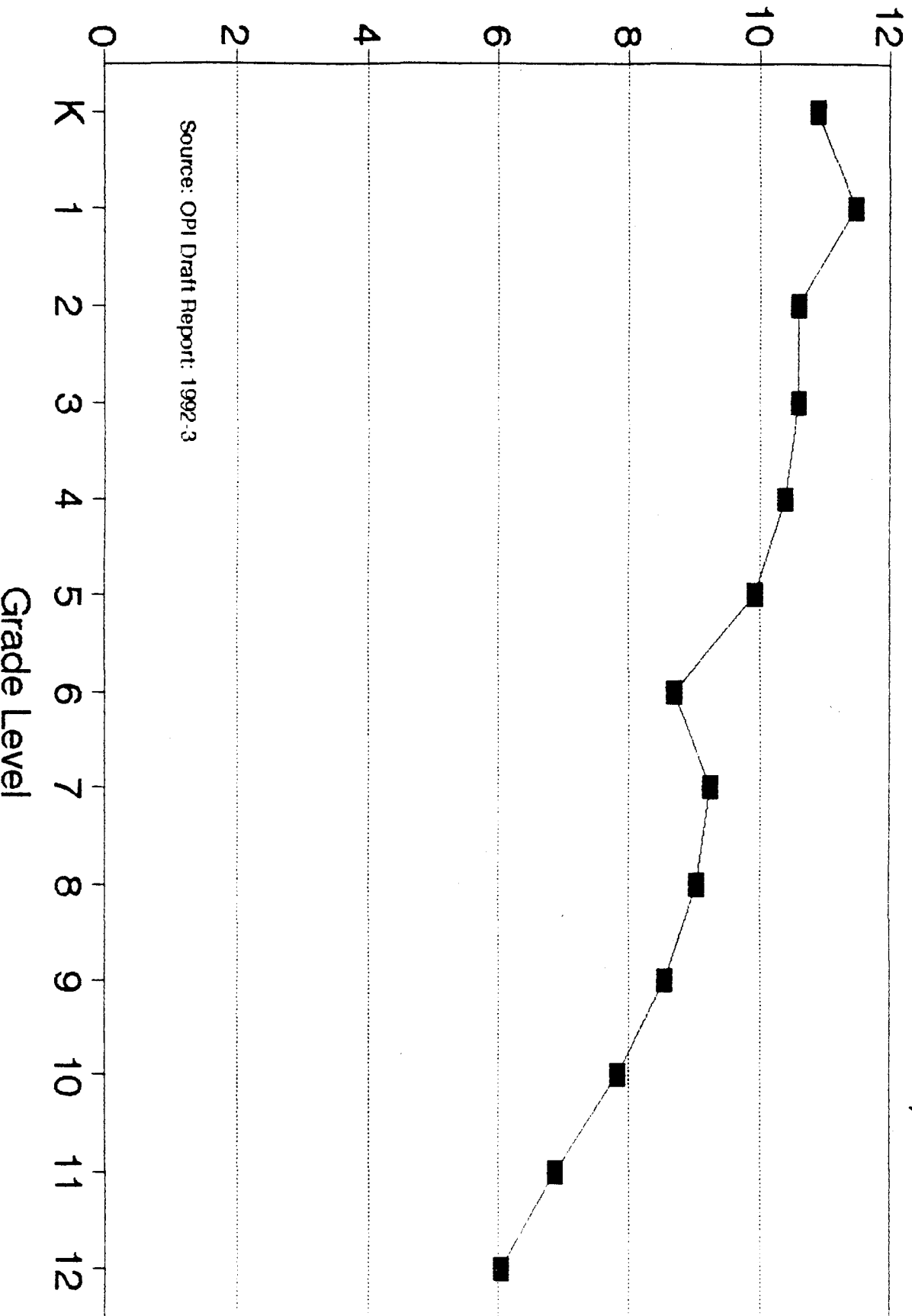


EXHIBIT 2
DATE 1-20-93
BY

SENATE BILL NO. 77

INTRODUCED BY SWYSGOOD

BY REQUEST OF THE JOINT COMMITTEE ON POSTSECONDARY
EDUCATION POLICY AND BUDGET

A BILL FOR AN ACT ENTITLED: "AN ACT CONTINUING THE JOINT
COMMITTEE ON POSTSECONDARY EDUCATION POLICY AND BUDGET; AND
PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A TERMINATION
DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. Section 1. Definitions. As used in

[sections 1 through 8], the following definitions apply:

(1) "Committee" means the joint committee on
postsecondary education policy and budget created in
[section 2].

(2) "University system" means those units listed in
20-25-201 and the vocational-technical centers designated in
20-16-106.

NEW SECTION. Section 2. Joint committee on

postsecondary education policy and budget -- appointment and
composition. (1) There is a joint committee on postsecondary
education policy and budget.

(2) The committee is composed of:

(a) two members of the senate, appointed by the

committee on committees on a bipartisan basis, and two
members of the house of representatives, appointed by the
speaker of the house on a bipartisan basis;

(b) two regents appointed by the chairman of the board
of regents;

(c) the commissioner of higher education; and

(d) a representative from the executive branch
appointed by the governor.

(3) Legislative appointments must be made before final
adjournment of a regular session.

(4) All other appointments must be made prior to the
first committee meeting following adjournment of a regular
session.

NEW SECTION. Section 3. Term of office. (1)

legislative appointments to the committee are for 2 years. A
legislative member of the committee shall serve until the
legislator's term of office is ended.

(2) Appointments of members of the board of regents to
the committee are for 2 years or until the expiration of the
members' terms on the board of regents, whichever occurs
first.

(3) The commissioner of higher education's appointment
to the committee is continuous.

(4) The appointment of an executive branch
representative to the committee is for 2 years.

NEW SECTION. Section 4. Vacancies. (1) A legislative vacancy occurring during a legislative session must be filled in the same manner as the original appointment.

(2) A legislative vacancy occurring when the legislature is not in session must be filled by the selection of a member from the appropriate house and political party by the remaining members of the committee.

(3) All other vacancies must be filled in the same manner as the original appointment.

(4) An appointment to the committee under this section is for the unexpired term of the original member.

NEW SECTION. Section 5. Officers -- quorum --

meetings. (1) The committee shall select one of its members as presiding officer and may elect other officers it considers necessary.

(2) A simple majority of the committee constitutes a quorum to do business.

(3) The committee shall meet at least quarterly.

NEW SECTION. Section 6. Compensation. (1) Legislative members are entitled to receive compensation and expenses as provided in 5-2-302.

(2) Members appointed by the board of regents are entitled to:

(a) \$50 for each day in which a member is actually and necessarily engaged in the performance of committee duties;

and
(b) travel expenses, as provided for in 2-18-501 through 2-18-503.

NEW SECTION. Section 7. Staff assistance. The legislative fiscal analyst shall provide staff assistance to the committee. The legislative fiscal analyst has the same authority of investigation and examination on behalf of the committee as provided under 5-12-303.

NEW SECTION. Section 8. Powers and duties of committee. (1) The committee may:

(a) organize and adopt rules to govern its proceedings; and

(b) exercise the investigatory powers of a standing committee under Title 5, chapter 5, part 1.

(2) The committee shall:

(a) provide information to the board of regents in the following areas:

(i) annual budget allocations;

(ii) annual goal statement development;

(iii) long-range planning;

(iv) outcome assessment programs; and

(v) any other area that the committee considers to have significant educational or fiscal policy impact;

(b) periodically review the success or failure of the university system in meeting its annual goals and long-range

1 plans;

2 (c) periodically review the results of outcome
3 assessment programs;

4 (d) develop mechanisms to ensure strict accountability
5 of the revenues and expenditures of the university system;

6 (e) study and report to the legislature on the
7 advisability of adjustments to the mechanisms used to
8 determine funding for the university system, including
9 criteria for determining appropriate levels of funding;

10 (f) act as a liaison between both the legislative and
11 executive branches and the board of regents;

12 (g) encourage cooperation between the legislative and
13 executive branches and the board of regents; and

14 (h) report its activities, findings, recommendations,
15 and any proposed legislation to the legislature.

16 NEW SECTION. Section 9. Effective date. [This act] is
17 effective on passage and approval.

18 NEW SECTION. Section 10. Termination. [This act]
19 terminates July 1, 1995.

-End-

5/13
1-26-95

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for SB0077, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act continuing the Joint Committee on Postsecondary Education Policy and Budget during the 1995 biennium.

ASSUMPTIONS:

1. The committee will hold eight one-day meetings in the 1995 biennium.
2. Travel costs are based on the current members of the committee and the assumption that new members appointed will incur approximately the same travel costs.
3. The budget for this committee will remain with the Office of the Legislative Fiscal Analyst and is contained in a biennial appropriation.
4. There is no fiscal impact on the Office of the Commissioner of Higher Education.

FISCAL IMPACT:

Expenditures:

	Current Law	Proposed Law
	<u>FY94</u>	<u>FY94</u>
General fund	\$0	\$11,400

Revenues:

There is no revenue generated due to this bill.

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1-26-93

Dave Lewis
DAVE LEWIS, BUDGET DIRECTOR
Office of Budget and Program Planning
DATE 1-9-93

Charles Swygood
CHARLES SWYGOOD, PRIMARY SPONSOR
Fiscal Note for SB0077, as introduced
DATE 1-11-93
SB 77

MONTANA UNIVERSITY SYSTEM

Total WICHE Students Supported by Field 1975/76 Through 1992/93

<u>Year</u>	<u>Dental</u> <u>Hygiene</u>	<u>Dentistry</u>	<u>Medicine*</u>	<u>Occupational</u> <u>Therapy</u>	<u>Optometry</u>	<u>Physical</u> <u>Therapy</u>	<u>Podiatry</u>	<u>Public</u> <u>Health</u>	<u>Veterinary</u> <u>Medicine</u>	<u>TOTAL</u>
1975/76	13	18	52	4	24	7	2	0	40	160
1976/77	5	16	52	6	29	9	3	0	38	158
1977/78	8	17	46	5	34	6	2	0	43	161
1978/79	6	21	37	6	33	7	1	0	47	158
1979/80	0	20	40	5	34	3	0	1	46	149
1980/81	0	20	39	6	37	0	0	0	49	151
1981/82	0	16	37	4	25	0	0	2	48	132
1982/83	0	13	39	3	24	0	3	4	48.5	134.5
1983/84	0	14	42	1	24	0	4	2	51	138
1984/85	0	9	48	2	23	0	3	1	51	137
1985/86	0	6	51	5	22	0	4	2	50	140
1986/87	0	8	47	4	17	0	3	1	48	128
1987/88	0	9	40	4	15	0	3	1	45	119
1988/89	0	8	32	3	15	0	3	2	43	106
1989/90	0	10	29	7	18	0	4	2	43	113
1990/91	0	10	28	9	19	0	5	4	43	118
1991/92	0	10	25	8	17	0	3	4	41	108
1992/93	0	11	25	4	15	0	3	4	40	102

* Includes Osteopathic Medicine

4
1-26-93

Jackie Brehe

January 25, 1993

Mr. Chairman, Members of the Subcommittee:

For the record, my name is Bill Lannan, Director of the Guaranteed Student Loan Program (MGSLP). In addition to MGSLP, I administer the State Student Incentive Grant Program (SSIG), Carl Perkins Loan Program, Supplemental Education Opportunity Grants (SEOG), Paul Douglas Teacher Scholarship (PDTS), and the Montana Work Study Program for the University System office. With the exception of the Paul Douglas Teacher Scholarship, the Commissioner's Office does not award funds directly to students. Instead, allocation of federal and/or state funds are made to the educational institutions, who then award the funds to eligible students. Campus financial aid offices include these awards as part of the student's "financial aid package". Decentralization reduces administrative costs in the Commissioner's office and places the funds at the disposal of offices with trained personnel.

The cost of attendance at public postsecondary institutions has increased in excess of 80% over the past ten years. In constant 1990 dollars the increase was about 30%. During this same period the personal income per capita has increased 70% in current dollars and 18% in constant 1990 dollars. During this period federal appropriations have not kept pace.

517
1-26-93

When one considers the cost of education, the major contributing factors are tuition and fees, board and room, books and supplies, and other living expenses. In Montana, tuition and fees have increased 48-1/2% for resident students and 82% for non-resident students in the past six years. Simply stated, Mr. Chairman and members of the committee, on the average, the amount of aid available has declined relative to the number of students in need.

From my earlier testimony this morning, needy students rely more and more on loans. In the long run, excessive borrowing may come back to haunt our society for the lack of either spendable income or defaulted loans. For this reason alone, I support other sources of financial aid for students, namely, grants and work. Somehow we need to come back to a reasonable balance between loans and grants or, put another way, grants and self help. I consider work study and loans to be self help.

In July of 1992, Congress passed PL 102-325 which reauthorized the Higher Education Act. In that law the matching ratio for the Carl Perkins Loan Program and SEOG was increased to 25%. Prior to that the Perkins Loan match was 9:1 and the SEOG was 15%. The SEOG program has had an annual 5% increase in matching requirements since fiscal 1989. The ratio went to 5%, then 10%, and finally to 15% FY 1992. The increased matching requirement is the reason Carl Perkins Loan Program is recommended for a general fund increase. The amount of federal funds allocated to the University System campuses is difficult to project.

EXHIBIT 5B
DATE 10-26-92
SB.

The SEOG allocation to the campuses for FY 94 and 95 are unknown at this time. I recommended an amount to cover the increase in the matching requirements plus a slight increase in federal funds. In 1993 the federal allocation to the campuses was \$1,053,129. For 1994 and 1995 I estimated SEOG federal allocation to be \$1,100,000 each year. The Carl Perkins allocation to the campuses for 1993 was \$620,244. The required match for FY 1993 for SEOG was \$185,846; however, the general fund appropriation was only \$162,646. The overmatch for Carl Perkins (after subtracting \$11,617 WICHE short fall) in the amount of \$10,737 was reallocated to the campuses for the unmet need for SEOG. We were able to cover all but ^{\$12,463}~~\$122,463~~ of the required match. For 1994 and 1995 I estimated \$690,000 and \$720,000 of new federal capital contribution. This would require \$230,000 for FY 94 and \$240,000 for FY 95. Since we do not have an actual amount for either of these two years, I do not recommend adjusting the amounts up or down for the next biennium at this time.

Let me indicate that if the general fund appropriation does not cover one program, any remaining funds from the other would be used to cover as much of the short fall as possible. I request your support for the General Fund recommendations for Carl Perkins Loan and SEOG match for the 1994-95 biennium as

SEOG	\$366,667 for FY 94 and \$366,667 for FY 95
Carl Perkins	\$230,000 for FY 94 and \$240,000 for FY 95

EXHIBIT 5C
DATE 1-26-93
BY

The participating campuses for SEOG are the six units of the Montana University System, three public community colleges and five vocational technical centers. Participating campuses for Carl Perkins are the six units of the Montana University System.

The SSIG program is funded on a one-to-one ratio. The appropriation for the past few years has been \$220,000. I recommend you continue that amount for the next two years. I do not know what the federal allotment will be for either year of the next biennium but I do not expect it to surpass \$220,000. The participating postsecondary institutions are the Montana University System, public community colleges, vocational technical centers, three private colleges, and tribal colleges who have indicated a desire to participate. The private colleges and tribal colleges receive no general fund appropriations.

The Paul Douglas Teachers Scholarship program is funded entirely with a federal grant from the Department of Education. We do not know from year to year what our grant will be but the \$85,000 funding level should meet our requirement. If we receive a larger allocation, we will go through the budget amendment process.

The Montana Work Study Program was authorized by the Montana Legislature in 1974. The program went without funding for a few years but as enrollments increased and federal funds declined, coupled with increased costs of education, the Legislature saw fit to fund the program. The program continues to be very successful.

EXHIBIT 5-7
DATE 1-26-93
SB

Participating institutions are the University System, public community colleges and the vocational technical centers. For FY 93 the general fund appropriation was \$496,790. For the next two years we recommend \$500,000 each year. Participating postsecondary institutions are Montana University System, public community colleges and the vocational technical centers.

This ends my formal testimony. If you have any questions, I will try to answer them. Thank you.

EXHIBIT 57E
DATE 1-26-93
SE

January 25, 1993

Loekie Bruhe

Mr. Chairman and Members of the Committee

My name is Bill Lannan, Director of the Montana Guaranteed Student Loan Program (MGSLP). With me today are Arlene Hannawalt, Operations Manager, and Rose Harmon, Accounting and Finance Manager, to assist with this presentation and to answer questions.

For your information and reference, a packet of information explaining and supporting the testimony presented has been distributed. Briefly, I want to point out the importance and impact of the student loan program, justify the budget request including the two modifieds, support the restoration of the personnel services reduction as required under Section B of HB 2, 52nd Legislature, and request the maintenance of staff positions identified for deletion because of vacancy during the December 11, 1992 pay period.

Title IV of the Higher Education Act authorized states to administer and manage the Federal Family Education Loan Program, formerly identified as the Guaranteed Student Loan Program. Public Law 102-325 enacted in July of 1992 reauthorized the Higher Education Act, which, among other modifications, changed the name of the program. The state statutes governing MGSLP are found in Title 20 Chapter 26 Part 11. MGSLP is under the Board of Regents, and their chief executive officer, the Commissioner of Higher Education. MGSLP has approximately 40 people in full or part-time employment.

EXHIBIT 64
DATE 1-26-93
SB

Most are permanent staff, some positions are temporary. All employees, including supervisors and administrators, are directly involved with the operation of the program. Simply stated, we process applications for loans which are entered in a data base, maintain borrower status and update borrower files in a timely manner, assist lenders and borrowers who have problems during repayment, respond to parents, borrowers, schools, lenders, congressional delegation, legislators and the general public on issues and problems affecting financial aid in general and student loans in particular. A more detailed sketch can be found in Exhibit A (History).

Rather than take up your valuable time going into the details of MGSLP's operation, we stand ready to answer your questions and invite you to the office on the second floor of the Higher Education Complex at 2500 Broadway to visit the operation and explore first hand the data entry, skip tracing, collections, customer service, check disbursement, claim review and other activities that go on.

I want to give a brief genesis of the Guaranteed Student Loan Program and then attempt to clarify questions or perceptions concerning the relationship between GSL and the Commissioner's Office as well as the campuses of the University system. If you are interested in more detail, I refer you to Exhibit A in your packet entitled "History of the Montana Guaranteed Student Loan Program, January 1993.

EXHIBIT 614
DATE 1-26-93
SB

The 1979 legislature authorized the Board of Regents to establish a guarantee agency. By June 1980, United Student Aid Funds in Indianapolis was awarded a contract to provide full servicing for the agency after reviewing and interviewing several servicers. USA Funds provided an employee to come to Montana and assist the agency in preparing necessary forms and documents required to implement the loan program. In addition, workshops were scheduled around the state to train lenders and educational institutions in the intricacies of their respective responsibilities. Lenders were contacted and signed agreements with the agency. At one time 160 lenders were participating. The first director was hired in 1980 and there was one administrative aide. As the workload increased and federal regulation demanded, additional staff were employed. In 1987, when I became director, there were four employees. USA Funds was providing 100% of our student loan servicing.

In 1987, the Board of Regents directed the guarantee agency to do a feasibility study to explore the possibility of developing a service center in Montana as opposed to having all our processing done in Indianapolis. We explored three scenarios. (1) Continue contracting for full servicing, (2) install a software system for our mainframe computer so we could become totally independent of a third party servicer, or (3) contract with a vendor to provide hardware and software services to allow the guarantee agency to service their own data base via distributive processing mode.

EXHIBIT 6C
DATE 1-26-93
SB

Deloitte & Touche (formerly Touche Ross and Associates) provided the technical expertise evaluating the three options. The conclusion recommended a distributive processing center be established in Helena to service the guarantee agency's portfolio. The guarantee agency issued a Request for Proposal, evaluated responses, and negotiated a contract with USA Funds that would allow the Montana Guaranteed Student Loan Program to gradually implement the Center's role over a period of three years. The number of employees are at the level anticipated back in 1987.

Prior to implementation of the Montana GSL Program, Montana students had little or no access to student loans. Congress recognized in the early '70s that the existing Federally Insured Student Loan Program (FISL) was not working. Congress proceeded to amend the Higher Education Act that authorized states to establish a state Guaranteed Student Loan Program. The change essentially decentralized the FISL program and brought the services of a loan guarantor closer to schools, lenders and borrowers. As an aside, the FISL program involved banks, savings and loans, and credit unions making student loans guaranteed by one national guarantor - the federal government. The demise of the FISL program in Montana became evident when a few banks that had been making loans decided to withdraw because the Department of Education did a lousy job serving schools and lenders. This lack of student loan access precipitated the Commissioner's office exploration of the feasibility of establishing a guarantee agency.

EXHIBIT 6 D
DATE 1-26-43
SB

Neither the FISL nor the Guaranteed Student Loan Program replaced the National Direct Student Loan Program (NDSL), which has been renamed the Carl Perkins Loan Program. As a matter of fact, NDSL replaced what many of you may have known as the National Defense Student Loan Program which had its genesis during the Dwight D. Eisenhower presidential era. The name changed and the loan program has evolved over the years. Carl Perkins loan program is still a campus based program where the loan capital comes from the Department of Education and nonfederal match. As you know, Montana legislatures have been appropriating funds to match new federal capital contributions every biennium for as long as I can remember. I want to emphasize that the Carl Perkins Loan Program (formerly NDSL) is still operating and is not related to the GSL program - now called Federal Family Educational Loans. No state general fund dollars are appropriated for the administration of the Guaranteed Student Loan Program or pending guaranteed student loans. All operating funds are derived from several sources. (See Exhibit A - History)

Briefly, (1) Guarantee fees charged to each borrower,
(2) Administrative cost allowance,
(3) 30% of collections,
(4) Supplemental pre-claims,
(5) Reinsurance claims,
(6) Interest earned on reserves,
(7) Services provided to lenders.

EXHIBIT 6-E
DATE 1-26-77
SB

All operating costs are paid from these revenues and in addition, excess revenues flow into a reserve account dedicated to the continued financial viability of the guarantee agency.

Prior to 1980 the main source of federal financial assistance to Montana students was through grants or employment. Student loans represented a minor part of the financial aid package for students. The National Direct Student Loan, or NDSL, and the Federal Insured Student Loan (FISL) were minor contributors. Once MGSLP began operating and lenders became more acquainted with the program, the demand for guaranteed student loans increased. During the first full year of operation October 1, 1980 through September 30, 1981 MGSLP guaranteed 7,000 loans amounting to 12.5 million dollars. The average loan was about \$1,700.

During 1991-92, MGSLP guaranteed 26,410 loans in the amount of \$76.6 million, with an average loan of \$2,899. During the late seventies an imbalance between grants and loans began to occur nationally. At that time grants represented 79% of available aid being awarded. This percentage fell to 45% in 1988 and rose modestly to 48% in 1991.

Congress has attempted to reverse that trend. Up until now they have been unsuccessful. As a matter of fact, the gap may get broader during the coming years because a new loan program called the Unsubsidized Stafford Loan was recently implemented.

EXHIBIT 6F
DATE 1-26-93
SB

Why has there been such a dramatic increase on the reliance of student borrowing? In the past ten years the maximum Pell grant award, the largest federal grant program, has declined in constant dollars from \$2,641 in 1981 to \$2,241 in 1991 or 17%. The cost of education at public universities has increased 27% in constant dollars over that same period while the per capita personal income has increased only 18%. Simply stated, grants have not kept a proportional increase with the cost of education, parents have not had the available financial resources to pay the student's unmet need, and there have been increases in the number of eligible students requesting financial aid.

This is a roundabout way of saying Montana postsecondary students and institutions will continue to require the services of the Guarantee Agency and the private lending community for the next several years. We believe our loan volume will increase to approximately \$100 and \$112.5 million in 1994 & 1995, respectively. There may be a decline in lender participation, but we expect that because of additional regulations imposed by reauthorization. This decline will not affect the availability of student loans to students or parent borrowers. MGSLP's challenge is to deliver the larger loan volume to more students with a minimal increase in staff. We will have to be more efficient and rely more on new technologies.

EXHIBIT 66
DATE 1-26-93
33

From the material presented by the Legislative Fiscal Analyst and the Office of Budget and Program Planning, you will note that MGSLP's current level for 1992 and 1993 are \$1,725,867 and \$1,792,265, respectively. For the coming biennium MGSLP's request is supported by both LFA and OBPP. The bottom line differs by \$2,676 for FY '94 and \$2,490 for FY '95. In addition, two modified budget requests were submitted for which we request your support and approval.

For both modifications, the guarantee agency has sufficient revenues to fund the increased expenditures, and still maintain a financially viable reserve. Again, Mr. Chairman and members of the committee, there are no state general fund dollars requested for these modifications.

EXHIBIT 64
DATE 1-26-93
SB

Modification 1 Public Law 102-325 will change the regulations on the way we have operated in the past. A brief outline of those changes are: Increased oversight of lenders and schools participating in the loan program, increased loan volume due to the creation of the Unsubsidized Stafford Loan program and an increase in loan limits for student and parental borrowers, plus major changes in the treatment of borrower bankruptcy, loan consolidation, deferments and status management. In addition, MGSLP recently extended our servicing agreement with United Student Aid Funds. During this current year we have had a 30% increase in our servicing fee for the 12 month period from November 1, 1992 through October 30, 1993, and an additional 5% increase from November 1, 1993 through October 30, 1994. Since our contract will expire in 1994, MGSLP must prepare a Request for Proposal (RFP), receive responses and award a new contract.

This process will require preparation and evaluation of bid responses. I expect an increase in servicing costs. Going through the bid process opens up the possibility of receiving a competitive price, but carries with it the potential of having to convert from the present servicer to a new servicer. Conversion costs will be part of the bid evaluation and will be considered. In essence, this modification will increase our total costs. I support this request.

Modification 2 is simply a request to include for the next biennium the budget amendments approved by the Board of Regents for FY 92 and 93 for increased staff and expenses. Both budgets addressed increases in supplies, equipment, and communications and computer upgrade. Also included in the two budget amendments was an accounting adjustment in the way we account for collection costs. I urge your support for this modification as well.

I want to call on Arlene Hannawalt to address the FTE need for the guarantee agency. She will cover the 5% FTE reduction as a result of the July '92 Special Session, the potential reduction of FTEs vacant during the December 11 pay period and the increase requested for the 94-95 biennium.

Following her presentation, I will complete our testimony and we will try to answer your questions.

Arlene...

EXHIBIT 6-I
DATE 1-26-93
SB

EXHIBIT 7A
DATE 1-26-93
SB _____

Office of the Legislative Auditor

State of Montana



Report to the Legislature

September 1992

Financial Audit

Fiscal Year Ended June 30, 1992

Guaranteed Student Loan Program Commissioner of Higher Education

We issued an unqualified opinion on the financial statements of the program and our report contains no recommendations.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

January 26, 1993

Exhibit 7A, "Financial Audit: Guaranteed Student Loan Program", is 12 pages long. The original is stored at the Historical Society at 225 North Roberts Street, Helena, MT 59620-1201. The phone number is 444-2694.

EXHIBIT 7B
DATE 1-26-93
SB

MONTANA GUARANTEED
STUDENT LOAN PROGRAM
REPORT ON EVALUATION OF SERVICE
OCTOBER 1990

January 26, 1993

Exhibit 7B, "Montana Guaranteed Student Loan Program", is 6 pages long. The original is stored at the Historical Society at 225 North Roberts Street, Helena, MT 59620-1201. The phone number is 444-2694.

Montana Guaranteed Student Loan Program
FY94-95 Budget Requests
Summary Sheet

A. Cuts Required by Legislature

3 1/2 FTE = 5 positions identified by MGSLP

- * **Claims Reviewer** – Determines if default claim should be purchased from lender and, if so, the purchase price.
- * **Accounting Administrative Aid** – Provides support for the Accounting Unit; processes defaulted borrowers' payments.
- * **Data Entry Operator** – Enters applications and status changes.
- * **Administrative Clerk** – Position used to hire temporary employees to assist with peak workloads from July through October.
- * **Administrative Clerk** – Permanent part-time position; verifies essential data entered by data entry operator.

B. Effects on MGSLP if cuts are implemented

- * **CANNOT meet statutory responsibilities.**
PL102-325 (signed by the President on July 23, 1992)
 - created new middle-income loan program, which may dramatically increase volume.
 - decreased turn around time allowed to process default claims.
 - increased types of default claims lenders file.
 - increased guarantee agency oversight responsibilities.
- * **REDUCED quality and quantity of services provided to schools, lenders and borrowers.**

C. MGSLP anticipates additional 12 FTE needed to handle increase in service

- * Unsubsidized Stafford Loan Program created effective 10/1/92, 60% of students will be eligible for new loan funds.
- * Two major lenders may sign contract to use MGSLP disbursement service, which will double volume.
- * Increase oversight of schools and lenders – 70% of lenders have not been reviewed in the last three years; 20% never reviewed.
- * Increase the number of default accounts being handled internally from 20% to 60% – using state income tax offset and wage garnishment.
- * Revise all brochures, pamphlets, manuals, and forms to conform to new Federal Regs
- * Upgrade software to comply with new federal regulations.
- * Initiate electronic processing between schools, lenders, guarantee agency, and Department of Education.

MGSLP's OPERATING BUDGET IS FUNDED BY PRIVATE CAPITAL AND FEDERAL FUNDS
NO GENERAL FUND DOLLARS ARE APPROPRIATED

MONTANA GUARANTEED STUDENT LOAN PROGRAM
1994-1995 BIENNIUM
JUSTIFICATION FOR RESTORATION OF FTE

EXHIBIT 7D
DATE 1-26-98
SB _____

Section B of HB2, 52nd Montana Legislature mandated that all state agencies reduce their FTE budgets by 5 percent. As a result, MGSLP was subject to selecting two FTE positions for elimination. During the 53rd Legislative Session it was proposed that all staff positions vacant during the December 11, 1992 payperiod be eliminated. This proposal would require MGSLP to eliminate three additional positions. In total, MGSLP would have to cut 3 1/2 FTE positions to meet legislative requests.

With these reductions, MGSLP will be unable to process the current volume of loan applications; recoveries received on defaulted accounts; and default and bankruptcy claims filed with the agency by the lending institutions. In addition, PL 102-325 (July 1992) established new federal regulations which created a new loan program; increased the volume of bankruptcy claims filed with MGSLP; and made due diligence requirements for the guaranty agency more stringent. Current staff levels are not adequate to meet the increased workload due to PL 102-325; reducing FTE's would further impair the agency's ability to meet its statutory responsibilities. MGSLP respectfully asks that it be exempt from these mandatory cuts in personnel. The growth in services provided by the agency, as well as the increasing loan volume that is administered by the agency, has exceeded the workload capacities of all staff members currently employed. A reduction in workforce at this time would be detrimental not only to the quality of service and volume of loans MGSLP could handle, but would also place MGSLP in jeopardy of noncompliance with federally mandated obligations. MGSLP does not use any state general fund dollars to operate. MGSLP's revenue sources are derived from private capital and federal subsidies.

The five positions, totaling 3 1/2 FTE, earmarked for elimination are a claims reviewer, accounting administrative aide, data entry operator, and two applications administrative clerks. The duties these persons perform are essential to the continued operations of the agency and could not be transferred to other persons in the agency without severely impacting the workload capacity of those persons.

Claims Reviewer

The claims reviewer is responsible for examining default, bankruptcy, death, and disability claims submitted by the lending institutions to the guaranty agency for purchase. This position also handles defaulted borrower appeals and appeals against mandatory tax offsets and wage garnishments; lender and school trainings, and technical assistance to lenders and schools. There is a cyclical pattern to the volume of claims the agency receives for review; during peak seasons the claims review unit may receive a backlog of 50 claims that need to be reviewed in short order.

Currently, the agency employs three claims reviewers. The training a claims reviewer must receive before performing their duties is very intense and time consuming. For this reason, it is not practical for another untrained staff person to squeeze a claims reviewer's duties into their workload during peak operating times. With passage of PL 102-325, federal regulations have decreased the time allowed for reviewing a claim for purchase from 90 days to 45-60 days depending on the type of claim. Lenders are now required to immediately submit bankruptcy accounts to the agency for purchase, whereas in the past a lender would hold many of its bankruptcy accounts until they were

discharged. Federal regulations have also made the lenders' due diligence requirements more stringent and all claims submitted for review prior to purchase must be thoroughly examined for lenders' compliance with federal requirements. This review requires a greater amount of time and has increased the amount of technical knowledge required of a claims reviewer. Claims that are NOT reviewed, processed for purchase by the agency, or returned to the lender within the allowed timeframe; or claims that are not reviewed properly place MGSLP at risk of being assessed fines by the U.S. Secretary of Education, or at risk of losing reinsurance on the purchased claims, which in turn negatively impacts the reserve fund of the agency.

Accounting Administrative Aide

The accounting unit of MGSLP has one support administrative aide, which due to attrition, was vacant during the December 11, 1992 payperiod. This position's responsibilities include preparing the initial record of payments received by the agency. The agency provides an in-house collection service for defaulted student loans, and approximately 60 percent of the default claims held by the agency are placed in in-house collections. By placing accounts into in-house collections, rather than with out-of-state collection agencies experienced in student loan collections, MGSLP saves 11 to 13 percent in collection costs. The volume of recovery checks received by the agency is impacted by the number of accounts in in-house collections. Each payment must be logged-in and ultimately entered to the accounting records. In order to maintain adequate internal controls and segregation of duties, no other person in the accounting unit can perform the logging-in function.

The administrative aide also performs all secretarial functions for the accounting unit and purchases all office supplies. Due to heavy workloads on all personnel in the agency, there is no one else available to provide these services for the accounting unit.

Data Entry Operator

MGSLP employs two persons in a job-share situation to enter student loan applications in the database and update the borrowers' status. These two permanent persons are able to enter the volume of new applications received by the agency during non-peak seasons. Again, because of attrition, 1/2 of the FTE available for a data entry operator was vacant during the December 11, 1992 payperiod. The volume of applications received by the agency during non-peak seasons is too great for 1/2 FTE to enter. Industry standards require that applications be entered within a short turn-around time. Most out-of-state competitors set two days as the maximum timeframe for entering a loan application to the database and guaranteeing a loan. MGSLP strives to maintain a 48-hour turn-around, which many of our lenders request. MGSLP needs a minimum of two half-time employees to enter applications on a regular basis.

Temporary Applications Administrative Clerk

MGSLP has always had an additional FTE available in the applications area to allow for hiring part-time temporaries to come in and help with data-entry, filing, and status up-dates during the peak loan application seasons. Because

the majority of schools start their academic terms in the fall, July through October are typically MGSLP's peak months for processing loan applications. During this time 300 applications per day may be sent to the agency for guarantee before students can get their loan funds. During the non-peak seasons an average of 50 applications is received each day. The agency only fills this temporary position during times of peak workloads. Frequently, because a peak season impacts all positions in the agency, there is no one available from the agency to assist in the data entry operations. To have this position eliminated would greatly hinder MGSLP's ability to readily process loan applications and would hurt our competitiveness with out-of-state guaranty agencies.

Applications Administrative Clerk

The clerk in this 1/2 FTE position manually verifies the information entered in the MGSLP database. Currently, MGSLP's system has no automatic edits in place to verify much of the entered data. With the creation of a new loan program by PL 102-325, to be administered in Montana by MGSLP, the volume of information that must be verified has increased. The quality assurance provided by this position is essential to minimize MGSLP's exposure to erroneous information being processed on our database. MGSLP could be assessed fines by the Secretary of Education for not maintaining a correct and complete database. Again, the workload of other staff members would not allow us to place these duties with another position.

EXHIBIT 7E
DATE 1-26-93
SB

History
of the
Montana Guaranteed Student Loan Program
by
Bill Lannan, Director

January 1993

The purpose of this report is to provide a background to the reader on the Montana Guaranteed Student Loan (GSL) Program. In addition to this basic description of the program, the reader is directed to the U.S. Codes Title IV of the Higher Education Act Part B and the current regulation 34 CFR 668 and 34 CFR Parts 682 and 683.

Federal legislation was enacted by Congress in 1965. Most, if not all federal student aid programs are contained in Title IV of the Higher Education Act of 1965. Subsequent amendments to the act have been made by almost every Congress since. After Congress authorized the fifty states to establish state guarantee agencies, the 1979 Montana legislature adopted the laws included in Title 20, Chapter 26, Part 11, MCA. The Board of Regents of Higher Education was delegated the authority to establish the program and provide for the guarantee of loans and the administration of the program. Hereinafter, the term "agency" or "guarantee agency" shall mean the Board of Regents of Higher Education.

A number of entities or institutions play a role in the student loan program. They are, first of all, the Board of Regents or guarantee agency. Second, the private lending community who provides the capital and makes the student loan. In Montana there are about 100 lenders representing banks, savings and loan associations and credit unions. Third, the postsecondary educational institutions throughout this nation enroll the students who may be eligible for student loans. A very important partner in the Guaranteed Student Loan Program is the secondary market. Almost all Montana lenders sell their loans to Montana Higher Education Student Assistance Corporation (MHESAC). The secondary market provides liquidity to the originators of student loans, i.e., banks, savings and loans, and credit unions. MHESAC portfolios include 90% of all Montana Guaranteed Student Loans in repayment. In order for a school to be eligible, it is required to request participation from the U.S. Department of Education and satisfy the educational, administrative and fiscal requirements of the Department. Finally, there are the students who borrow money from the lender to pay educational expenses to attend postsecondary institutions. Because the student borrower normally has no assets or collateral, the guarantee agency provides a "guarantee" to the lender. If the student defaults, the agency will pay the lender the outstanding principal and interest.

A brief scenario would be, a student enrolls in an educational institution and needs additional resources. The student's intent is to borrow money from his/her local banker to pay some of the educational costs. If the student

~~SB~~
believes he/she is eligible to borrow under federal subsidized and/or unsubsidized Stafford Loan (formerly GSL) program, the student completes a financial needs analysis form and loan application. An independent servicer processes the financial needs analysis form and submits the results to the educational institution. The educational institution reviews the needs analysis and determines if the student is eligible to borrow. Eligibility depends on the student's and/or parents' financial resources; the cost of education (tuition, fees, board and room, books, travel, miscellaneous living expenses, etc.); and any other assistance or financial aid the student will receive. Effective July 1, 1993, a first year student can borrow up to \$2,625 per academic year, second year students can borrow \$3,500 per academic year. Upper division undergraduates or third and fourth year students can borrow up to \$5,000 per academic year. Effective October 1, 1993, graduate and professional students can borrow up to \$8,500 per academic year. There are also aggregate limits for undergraduate and graduate student borrowers. An undergraduate student may borrow an aggregate of \$23,000 and a graduate or professional student may borrow \$65,500 in aggregate, including the undergraduate loan. After the school determines student eligibility and the maximum amount a student may borrow, the student takes the application to a participating lender who agrees to loan the money. The lender then sends the application to the guarantee agency for processing.

In processing the borrower's application the guarantee agency determines whether the borrower is eligible, i.e. no outstanding defaulted loans, the educational institution is a participating school, and the lender is an eligible lender. If all eligibility criteria are met, the guarantee agency issues the lender a "notice of guarantee" which insures the lender against loss of outstanding principal and interest in the case of a prospective default. Upon receipt of the notice of guarantee, the lender can send the student a check for the amount of the loan. The loan check is normally mailed to the educational institution in multiple disbursements over the academic year to be delivered to the student. The student is obligated to use the funds for educational purposes only. As long as the borrower is in school and qualified for a subsidized loan, the Department of Education pays interest accruing on the student loan. Upon graduation or when the student borrower officially withdraws from school, the loan enters a grace period six months after which the borrower begins making payments of principal and interest. The interest is 7, 8 or 9 percent or a variable rate, depending on the date the borrower first borrowed. Borrowers taking out their first Stafford loans after October 1, 1992, pay a variable interest rate.

If the student was not eligible for a subsidized Stafford loan the student may have qualified for the unsubsidized Stafford loan. In that case, the student, not the Department of Education, pays the interest that accrues while the student is in school.

In addition to the Stafford loan, an independent borrower can borrow under the Federal Supplemental Loans for Students (SLS), or the parent of a dependent student can borrow under the Federal Parental Loans for Undergraduate Students (PLUS). Neither of these programs provide interest subsidy while the student is in school and the loan enters repayment 60 days after disbursement. SLS and PLUS borrowers are entitled to deferment of principal while the student is in school but the interest accruing during this time must be paid or capitalized.

A more detailed discussion on how the guarantee agency operates follows. An obvious question would be how does the guarantee agency get the funds to

administer the student loan program and pay the lenders for defaulted loan claims. Under section 20-26-1106 MCA the state is not obligated to appropriate any money to pay student loan defaults nor can the guarantee agency obligate the credit of the state. Other sources of funds must be available. Section 20-26-1105 MCA establishes a guaranteed student loan account into which all money designated for the guaranteed student loan program is credited. There are seven sources of funds:

- 1) The insurance fee, or guarantee fee, charged to each borrower on a Federal Stafford, SLS or PLUS loan. The fee is 3% of the principal amount of the loan.
- 2) An administrative cost allowance (ACA) the Department of Education pays the guarantee agency for administration of the program. That allowance constitutes 1% of the loans guaranteed by the agency and is paid on a quarterly basis.
- 3) The supplemental pre-claims unit is reimbursed \$50 from the Department of Education on each loan satisfactorily brought current providing that the loan is at least 120 days delinquent, before the delinquency is resolved.
- 4) Interest earned on the investment of funds not necessary for the program operations. These funds are invested by the State Board of Investments.
- 5) Reinsurance claims paid to the agency by the Department of Education to reimburse the agency for purchasing defaulted student loan claims from lenders. The agency and the Department of Education have entered into an agreement whereby the Secretary of Education agrees to reimburse the guarantee agency for losses resulting from the death, bankruptcy, or total and permanent disability of a borrower. Losses resulting from the default of borrowers are reimbursed at 100%, 90% or 80%, depending on the annual default rate characteristic of the guarantee agency. If the guarantee agency's annual default rate is 5% or less, the reimbursement is 100%; less than 9% and more than 5% the reimbursement is 90%; greater than 9% the reimbursement is 80%.
- 6) Recoveries from defaulted borrowers. The guarantee agency is obligated to collect principal and interest from defaulted borrowers. Through the efforts of the guarantee agency's collection practices or through the utilization of collection agencies, recoveries are received from student loan defaulters. Normally, the guarantee agency is entitled to keep 30% of the money recovered through collections to help pay collection costs; it returns 70% of the recoveries to the Department of Education. In addition, federal and state income tax offsets are also used on defaulted borrowers, as well as wage garnishments.
- 7) Initially, federal advances were made to the guarantee agency when the program was starting up in order to establish reserve funds. These advances, extending over a five-year period, amounted to \$734,173 from 1980 to 1985. In 1988, The guarantee agency returned all advances to the Department of Education. Interest on these federal advances are held in a restricted reserve fund used for purchase of nonreinsured loans.

Table 1 illustrates the annual default rate calculated on the federal fiscal year, October 1st through September 30th. The annual default rate is defined as claims paid for the fiscal year divided by the loans in repayment on October 1st of each year. Please note that the guarantee agency "hit the trigger" during the 1985, 1986 and 1987 fiscal years. The 90% reimbursement rate is calculated on the reimbursement claims submitted after the date(s) the agency's annual default rate exceeds 5%. The 90% reimbursement rate effected the agency's reserves for 2 weeks in 1985, slightly more than 3 months in 1986 and about 2 months in 1987.

In 1987, the Department of Education began charging the guarantee agency a reinsurance fee. The reinsurance fee is 1/4 of 1% of the loans guaranteed during the fiscal year. However, if during the year, an agency's annual default rate is in excess of 5%, the reinsurance fee jumps to 1/2 of 1% of the loans guaranteed during the fiscal year. In 1987, the reinsurance fee for the guarantee agency was \$166,952 for the entire year even though the annual default rate exceeded 5% only for the months of August and September.

TABLE 1

Annual Default Rate		
Fiscal Year End		Reimbursement
<u>September 30th</u>	<u>Default Rate</u>	<u>Received</u>
1980	*	100%
1981	*	100%
1982	*	100%
1983	*	100%
1984	*	100%
1985	5.28%	90%
1986	6.04%	90%
1987	6.68%	90%
1988	4.22%	100%
1989	4.99%	100%
1990	4.83%	100%
1991	3.66%	100%
1992	3.14%	100%

* During the first five years of operations, the guarantee agency was in a grace period where the federal government reimbursed all claim payments at 100% regardless of the agency's default rate.

The next obvious questions is what expenses does the guarantee agency incur? The simplest way to describe expenses is to briefly describe the duties of the guarantee agency in administering the program.

1. General Administration

General administration of the program entails the management and accounting of the agency's records; filing the necessary reports to the Department of Education or the State of Montana; and marketing the student loan program to lenders, schools and students or parent

borrowers. In addition, the agency assists in training lenders and educational institutions of their obligations to the student, the guarantee agency, the Department of Education and each other to ensure the integrity of the loan program; it performs compliance reviews of the lenders and schools to ensure each entity's strict adherence to the laws and regulations governing the program; and other duties as prescribed by the Department of Education or the Board of Regents.

2. Application Processing

Application processing entails processing student loan applications; issuing notices of guarantee to lenders; disbursing checks to student borrowers for those lenders participating in the guarantee agency disbursement service; collecting the guarantee fee or insurance fee from the borrowers through the lenders; answering lender, school and student inquiries relative to loan applications in process; and in some cases correcting errors on rejected applications. A toll free 800 number is provided to enable borrowers to call and check on the status of their loans.

3. Managing the Data Base

Managing the student loan data records entails making the necessary adjustments to the data base resulting from graduation, withdrawal, name and/or address changes, loans paid in full, and school transfers. Maintenance of loans in repayment may require filing deferments for eligible borrowers in an authorized deferment period.

4. Assists Lenders with Delinquent Loans

Upon request, the guarantee agency provides assistance to lenders on delinquent borrowers. When a borrower's account becomes 60-90 days delinquent, the lender requests the guarantee agency to act as a third party to intervene with the borrower. The purpose of this intervention is to try and prevent the borrower from defaulting. This is accomplished through verbal and written communications.

5. Supplemental Pre-Claims Assistance

When an account reaches 120 days of delinquency the loan is transferred to the Supplemental Pre-Claims personnel who perform more extensive counseling activities than in paragraph 4 above.

6. Claims Management

When the lender submits a claim to the guarantee agency on a defaulted, deceased, disabled, or bankrupt borrower, it must be examined to ensure the lender has followed the guarantee agency's and federal regulations in servicing the loan.

Failure by the lender to perform proper due diligence activities results in the loss of the guarantee on the loan. Failure on the part of the guarantee agency to properly examine a lender's claim and improperly purchases a claim results in loss of reinsurance from the Department of Education.

7. Collections

When a loan is defaulted the guarantee agency has the responsibility to continue to collect the money from the defaulter. The collection activities can be accomplished by the guarantee agency itself and/or turned over to collection agencies. In addition the agency has the authority to offset the borrowers' federal and state income tax returns, to garnish the borrower's wages or to obtain a judgement against the borrower.

8. Bankruptcies, Legal Actions, Fraud and Abuse

Normally student loans are not dischargeable through bankruptcies. In some bankruptcy cases, the guarantee agency will have to actively protest the discharged file and specific documents with the court. In other default cases, the guarantee agency can take legal actions against borrowers who are able to pay but do not, or student borrowers who are abusing or attempting to defraud the program. The guarantee agency has a paralegal and attorney available to assist with in-state cases.

The administration of the Guaranteed Student Loan Program can be provided by employees of the guarantee agency or in some cases by third party servicing organization. From 1980 through 1987, the guarantee agency contracted with United Student Aid Funds, Inc. (USA Funds) located in Indianapolis, Indiana, to fully service the loan administration functions. In 1987, the Board of Regents directed the guarantee agency to study the feasibility of bringing some of those functions to Montana. The purpose of the Regents' request was to bring the servicing closer to the clients, i.e., student borrowers, schools and lenders, and to provide jobs to Montanans in Helena. The guarantee agency consummated a servicing contract with USA Funds to provide remote processing in Helena so the various servicing functions could be phased in over a period of time. The first phase, applications processing, commenced in April 1988. By March 1990, all day-to-day functions were being performed in Helena. Attachment A indicates the date each phase of the program was implemented.

A compliance audit has been performed by the Legislative Auditors Office every two years and a financial audit each year. Effective July 1, 1994, the compliance audit must be performed each year instead of every two years.

Attachment A

History of Montana Guaranteed Student Loan Program

Status Management	March 1989
Customer Assistance	October 1988
Fee Billing	April 1989
Pre-Claims Activity	October 1989
Claim Processing	October 1989
Post Claim Activity	February 1990
Accounting, Recoveries, Fiscal Reports	February 1990
Paralegal	October 1990
Supplemental Pre-Claims	February 1991

As stated previously, full servicing is now being conducted in the Helena office. The guarantee agency has received positive response from schools, lenders and borrowers endorsing the move of the servicing function from Indianapolis to Helena. This is reflected in the attached Customer Survey conducted in October 1990 by Anderson ZurMuehlen & Company, Certified Public Accountants.

GSL—Total Claims Received

1/1/91 – 12/30/92

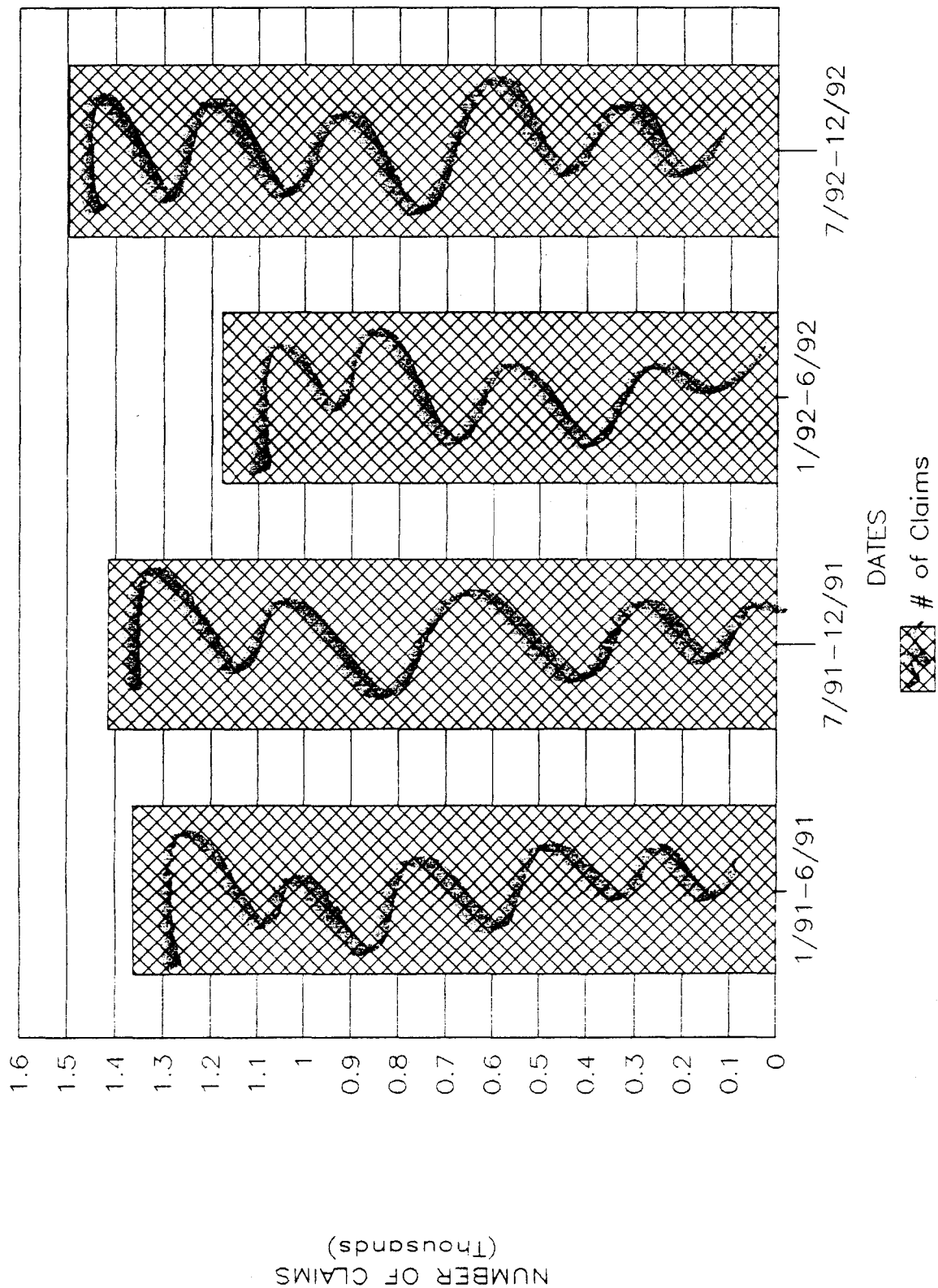


EXHIBIT 7F
 DATE 1-26-93
 SB _____

GSL Total Monthly Claims

January 1992 - January 1993

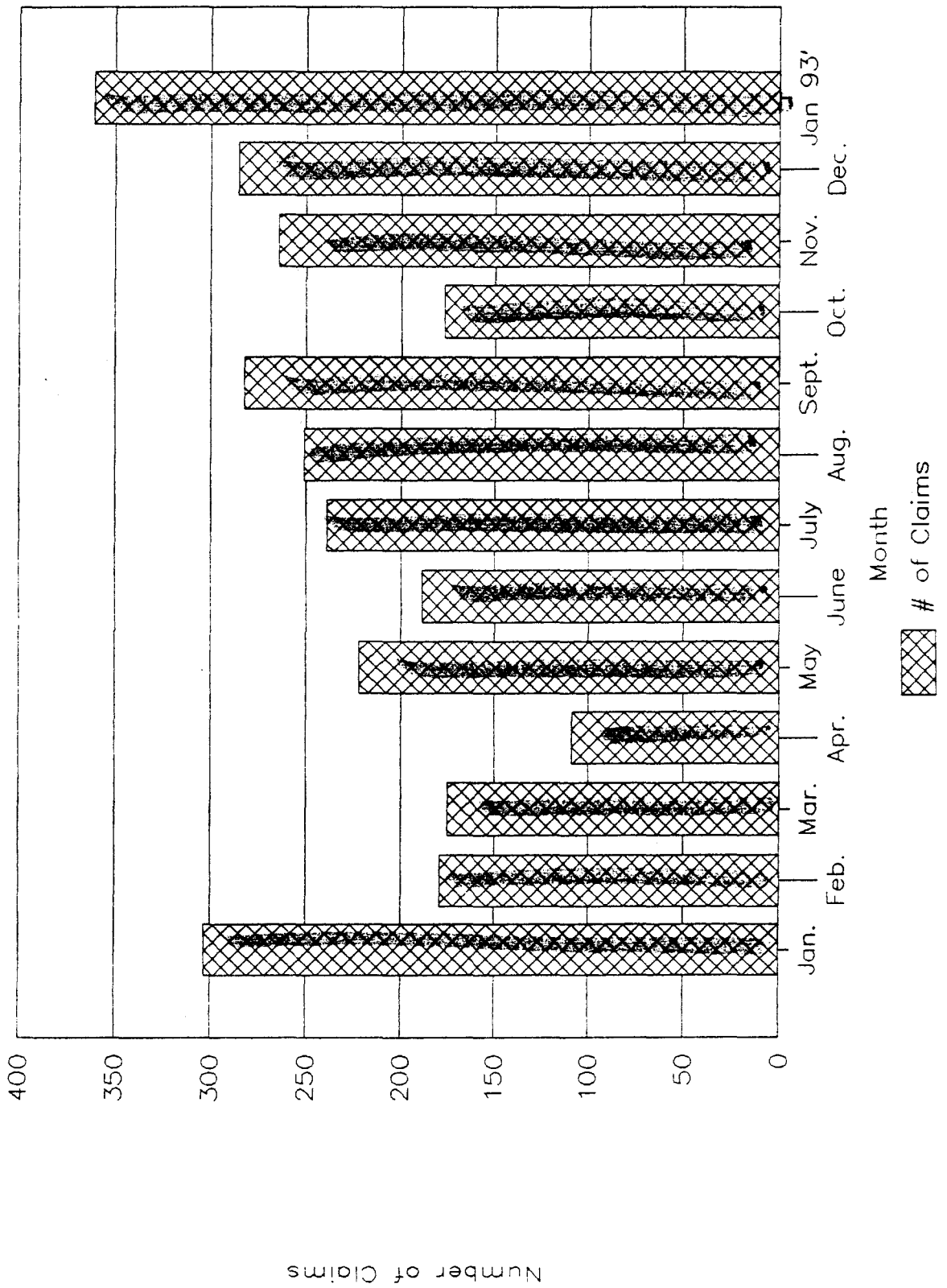


EXHIBIT 7F
DATE 1-26-93
SB _____

GSL Projected Loan Applications

1991-92 Actual/1993-95 Projected

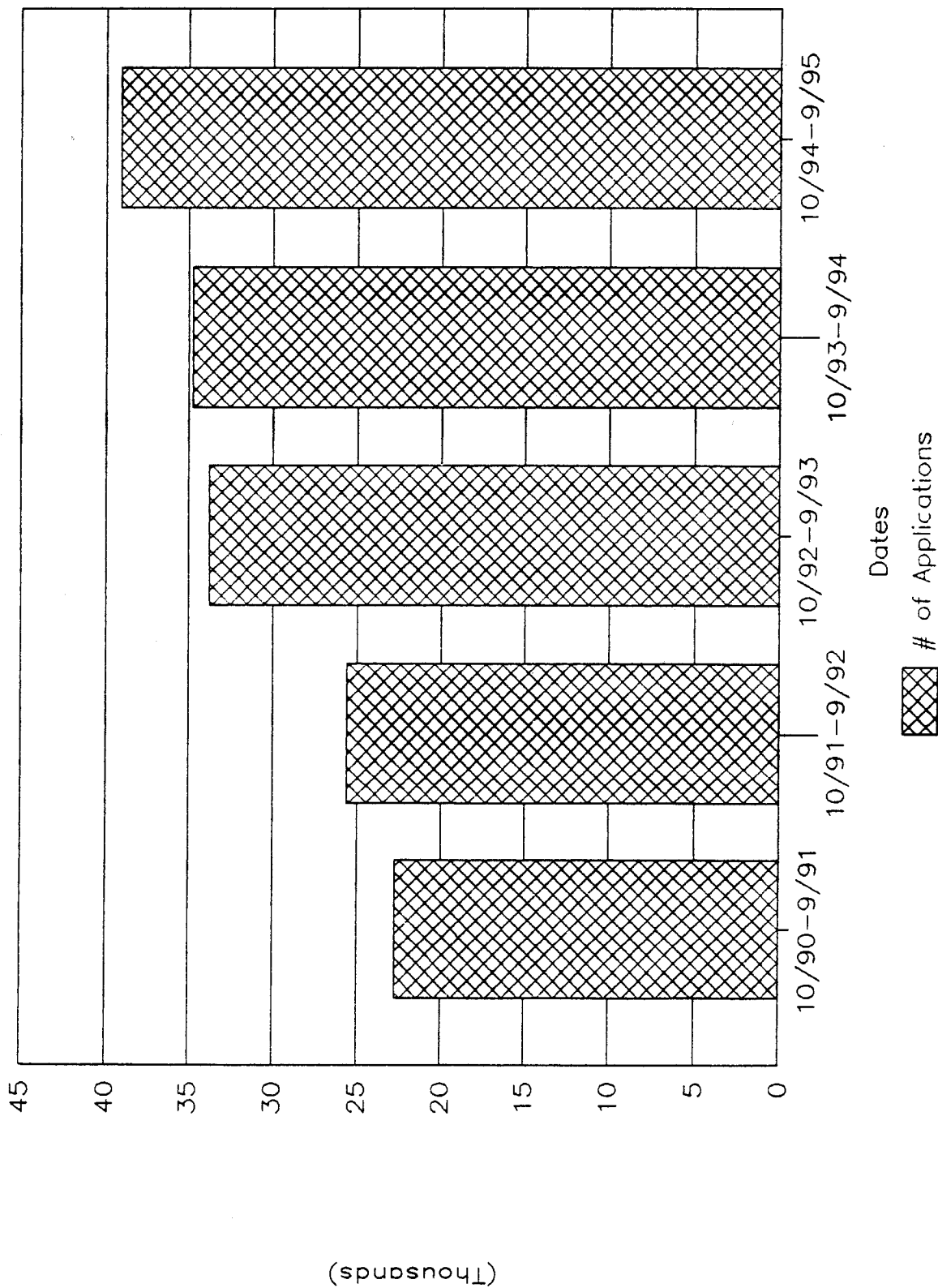


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GSL Projected Loan Volume (\$)

1990-91 Actual/1993-95 Projected

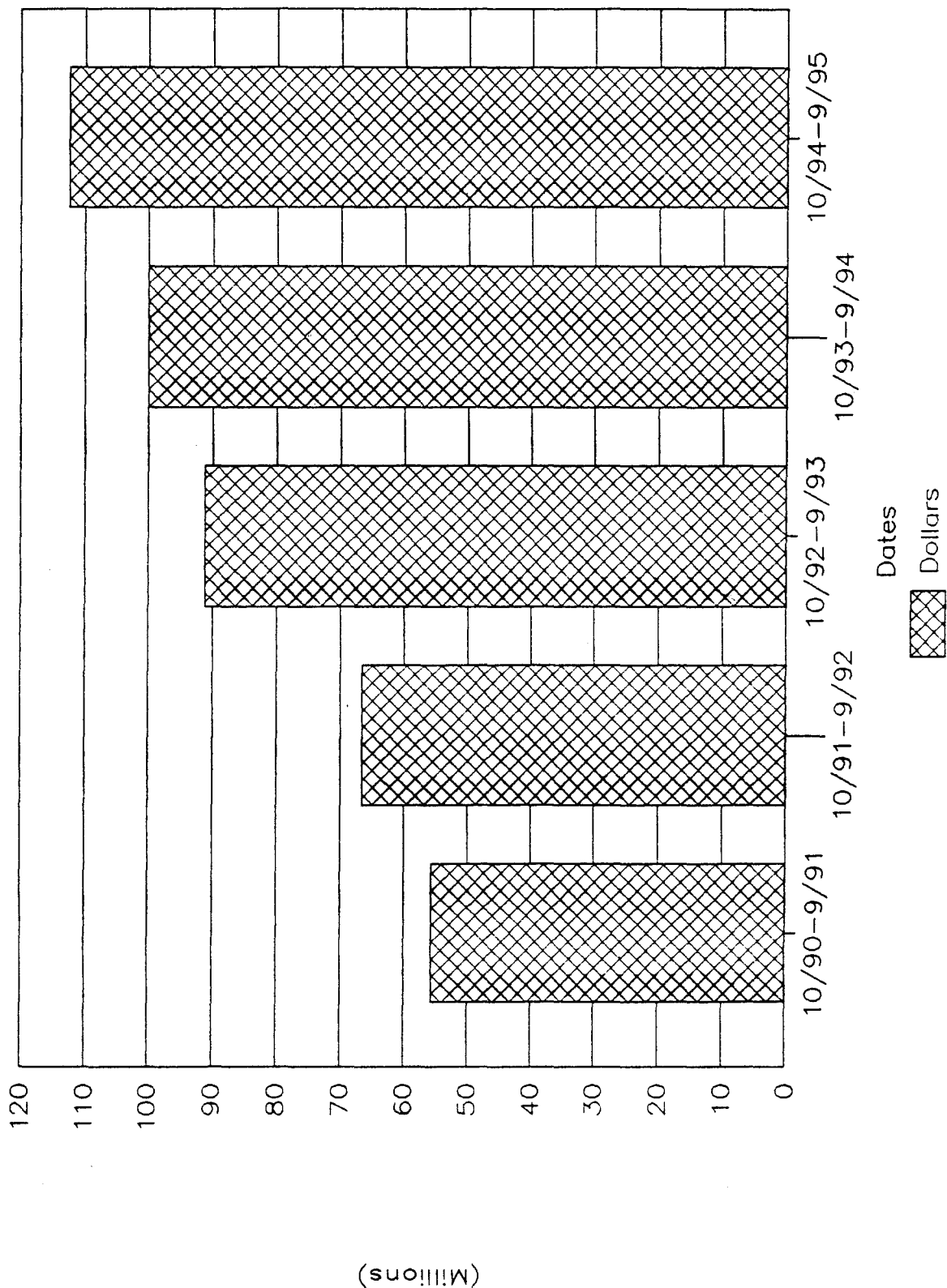


EXHIBIT 7F
 DATE 1-31-93
 SB

Customer Service Calls

July 1991 to November 1992

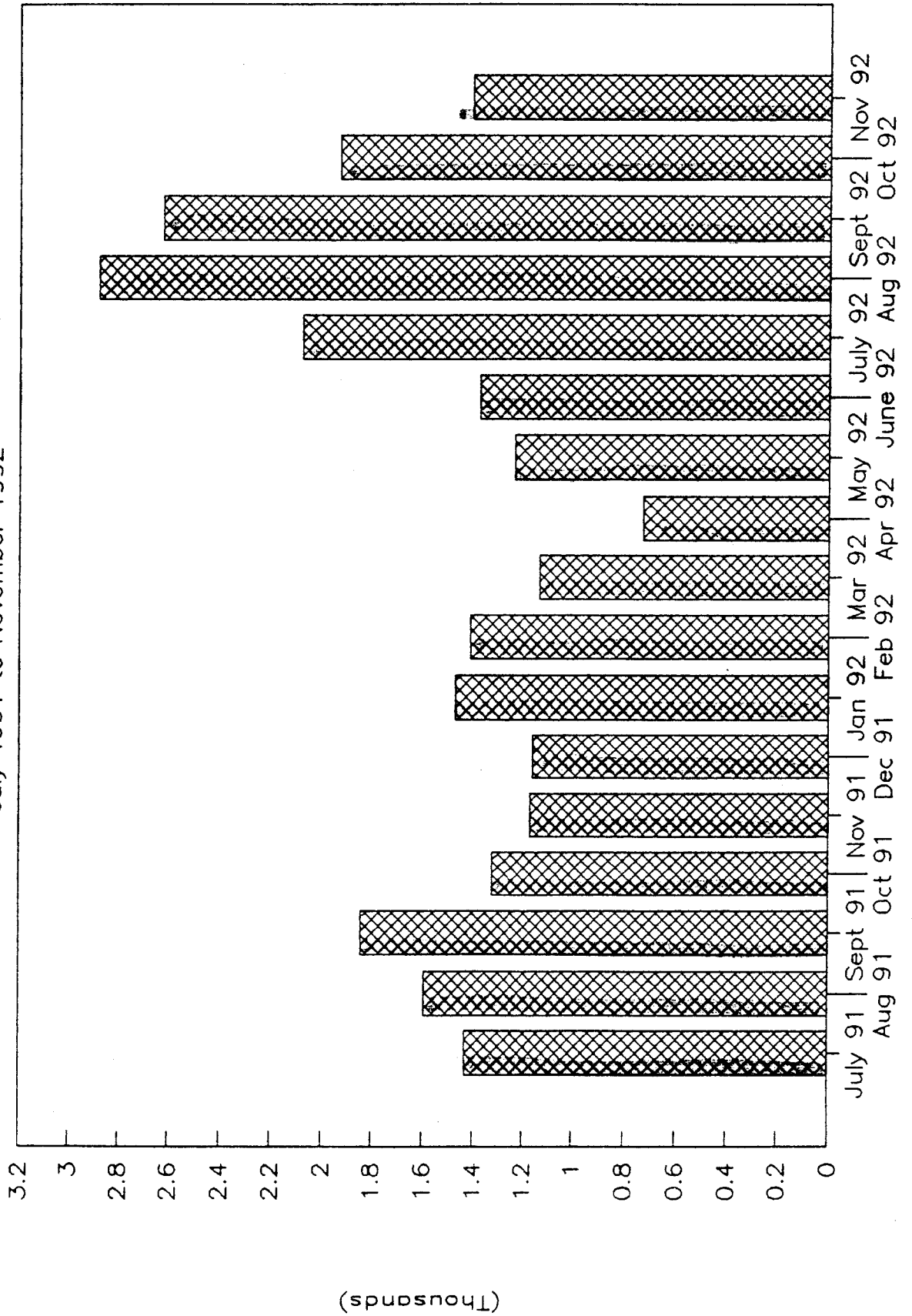


EXHIBIT 7F
 DATE 1-24-92
 SB

SPA Accounts Assigned

August 1991 - December 1992

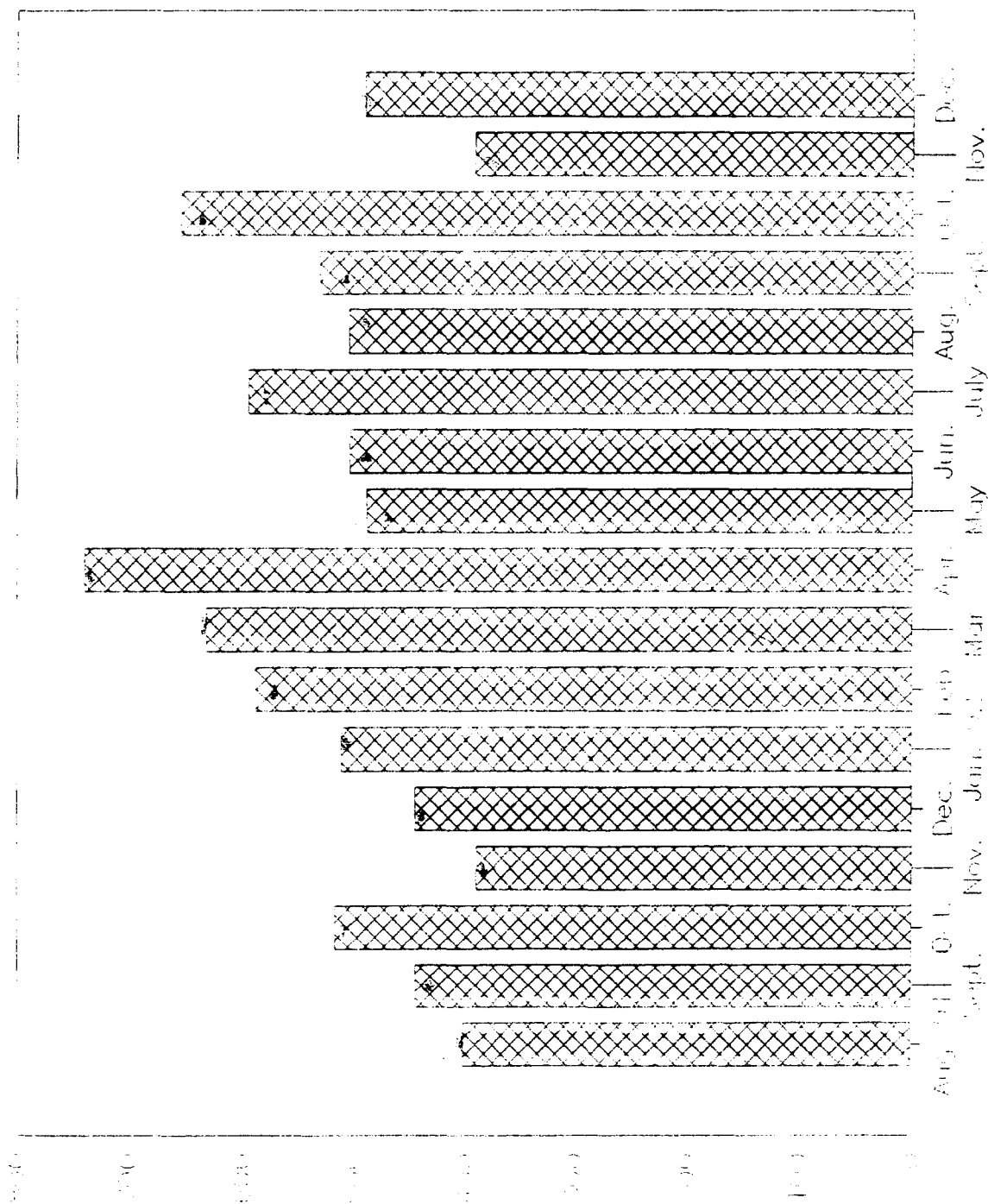


EXHIBIT 7F
 DATE 1-26-93
 SB

SPA Accounts Brought Current

August 1991 - December 1992



EXHIBIT 7F
DATE 1-21-93
SB _____

SPA Accounts (\$)

August 1991 - December 1992



GSL - Revenue Sources (\$)

1991-92 Actual/1993-95 projected

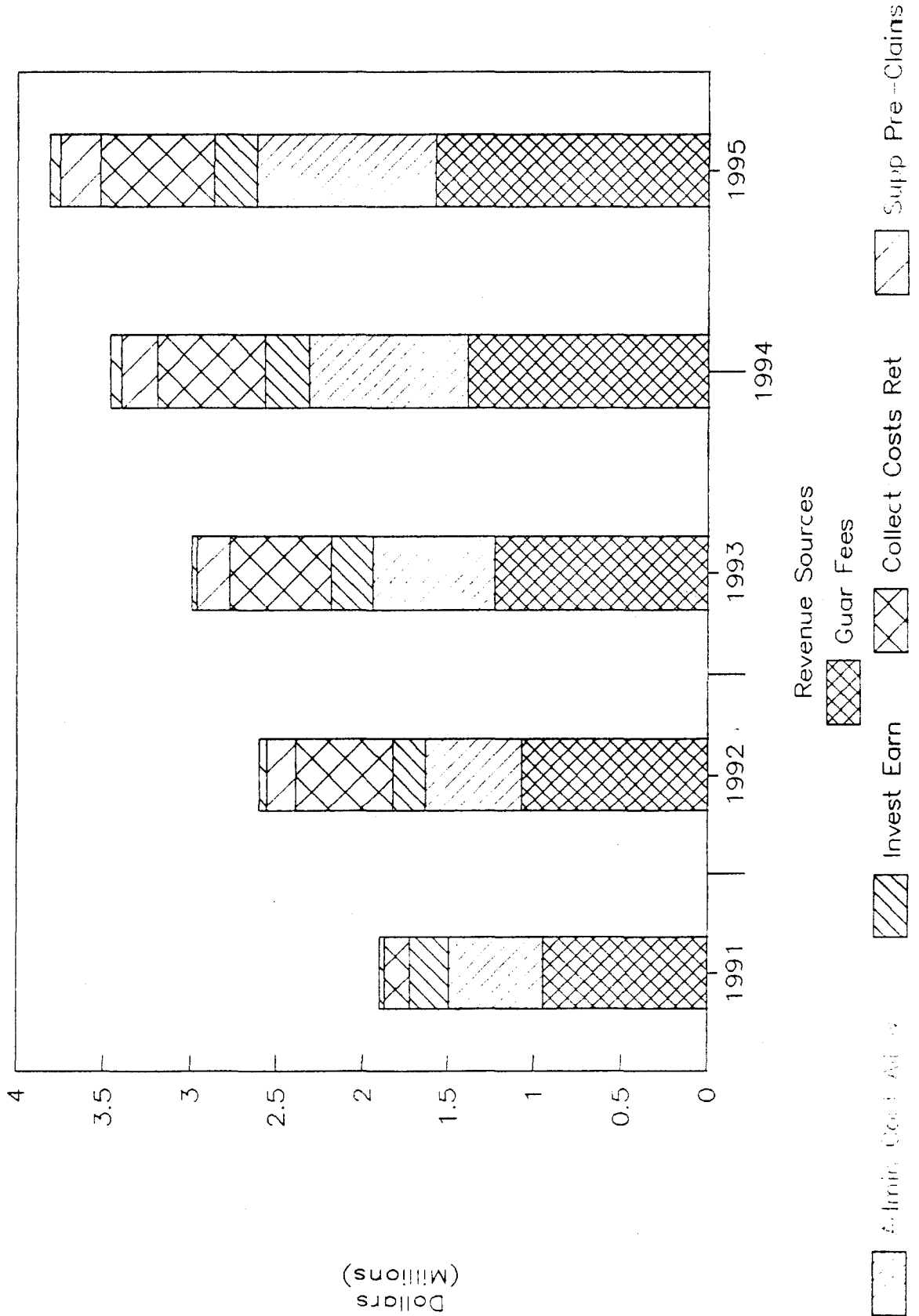


EXHIBIT 76
DATE 1-26-93
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MONTANA GUARANTEED STUDENT LOAN PROGRAM
1994-1995 BIENNIUM
MODIFIED BUDGET REQUEST 2

The Guaranteed Student Loan Program (GSL) has received authorization from both the Board of Regents and the Legislative Finance Committee for two budget amendments for fiscal year 1993. This modified budget request encompasses these two budget amendments. The expenditures authorized by the amendments and the services provided by GSL which initially justified these amendments will continue into the 1995 biennium. The justification for the two budget amendments is attached.

GSL received authorization for four additional FTE in one of the 1992 budget amendments. Federal legislation enacted in fiscal year 1992 and GSL's addition of collection and electronic data storage services necessitates maintaining authorization for these FTE into the 1995 biennium.

The contracted services increase included in this mod are:

Contracted Service with MHESAC	\$ 83,744
MUSENET Dues	21,000
Reinsurance Fees	32,500
Contracted Service with USAF	<u>71,759</u>
Total contracted service	<u>\$209,003</u>

An additional \$2,000 is estimated for supplies and materials for the additional employees and the services which they provide.

GSL estimates that these additional services will require \$68,975 in additional communications expenses.

The rent estimated for the new facility is included in the current level budget request and therefore not included in this mod. However, the estimated utilities expense of \$4,890 is included in this mod since GSL will inhabit considerably more space than the base level budget allows.

GSL will continue to upgrade its computer capabilities in order to maintain the image document storage system and computer access for all employees. GSL requires an additional \$50,000 to maintain the system and provide upgrades as needed.

The accounting adjustment is a necessary GAAP (generally accepted accounting principle) entry for proper recording of collection expenditures and will continue into the 1995 biennium.

The budget authority requested in mod 2 is shown in detail in the Budget Worksheet -- Import Skeleton included with the attached justification.

EXHIBIT 76
 DATE 7-26-93
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Page 1

OFFICE OF BUDGET & PROGRAM PLANNING
 EXECUTIVE BUDGET SYSTEM
 BUDGET WORKSHEET -- IMPORT SKELETON

5102 COMMISSIONER OF HIGHER EDUCATI	Import	E1212002.IMP	Run Date === >	09/03/93
12 GUARANTEED STUDENT LOAN PROGRA	Export	E1212002.FRN	Run Time === >	07:47:14
12002 GSL MOD 2	Worksheet	E1212002.WK1	Version === >	2.24.1

P	Act	Obj	Actual	Request	Request	Factor C	Factor C	Inf Req	Inf Req	Bud			
Agcy	S	Contl	Ent	Exp	FY 92	FY 94	FY 95	FY 94 I	FY 95 I	FY 94	FY 95	Lev	Entity/object Description
<hr/>													
51021212002	00000	0000			0	400	400	1.0000	0	1.0000	0	400	400 ML
51021212002	00000	1100			0	63,131	63,131	1.0000	0	1.0000	0	63,131	63,131 ML
51021212002	00000	1113			0	0	0	1.0000	0	1.0000	0	0	0 ML
2nd Level	11--				0	63,131	63,131			63,131	63,131		
51021212002	00000	1400			0	9,877	9,961	1.0000	0	1.0000	0	9,877	9,961 ML
51021212002	00000	1500			0	9,120	9,120	1.0000	0	1.0000	0	9,120	9,120 ML
51021212002	00000	1600			0	0	0	1.0000	0	1.0000	0	0	0 ML
51021212002	00000	2102			0	209,003	209,003	1.0000	0	1.0000	0	209,003	209,003 ML CONTRACTED SERVICES
2nd Level	21--				0	209,003	209,003			209,003	209,003		
51021212002	00000	2299			0	2,000	2,000	1.0000	0	1.0000	0	2,000	2,000 ML SUPPLIES & MATERIALS
51021212002	00000	2399			0	68,975	68,975	1.0000	0	1.0000	0	68,975	68,975 ML COMMUNICATIONS
51021212002	00000	2699			0	4,890	4,890	1.0000	0	1.0000	0	4,890	4,890 ML UTILITIES
51021212002	00000	2799			0	50,000	50,000	1.0000	0	1.0000	0	50,000	50,000 ML REPAIR & MAINTENANCE
51021212002	00000	2838			0	350,000	350,000	1.0000	0	1.0000	0	350,000	350,000 ML COLLECTION EXPENSE
51021212002	03400	0000			0	766,996	767,080	1.0000	0	1.0000	0	766,996	767,080 ML GUARANTEED STUDENT LOAN ADMIN

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Page 2

OFFICE OF BUDGET & PROGRAM PLANNING
 EXECUTIVE BUDGET SYSTEM
 BUDGET WORKSHEET -- IMPACT SKELETON

5102 COMMISSIONER OF HIGHER EDUCATI
 12 GUARANTEED STUDENT LOAN PROGRA
 12002 GSL MOD 2

Import E1212002.IMP
 Export E1212002.PRN
 Worksheet E1212002.WK1

Run Date == > 09/08/92
 Run Time == > 07:47 AM
 Version == > 2.20.2

P	Act	Obj	Actual	Request	Request	Factor C	Factor C	Inf Req	Inf Req	Bud	
Agcy & Cntl	Ent	Exp	FY 92	FY 94	FY 95	FY 94 I	FY 95 I	FY 94	FY 95	Lev	Entity/object Description

Summary Table

51021212002 00000 0000	0	400	400			400	400				
51021212002 00000 11--	0	63,131	63,131			63,131	63,131				
51021212002 00000 1400	0	9,877	9,961			9,877	9,961				
51021212002 00000 1500	0	9,120	9,120			9,120	9,120				
51021212002 00000 1600	0	0	0			0	0				
1st Level 1---	0	82,128	82,212			82,128	82,212				
51021212002 00000 21--	0	209,003	209,003			209,003	209,003				
51021212002 00000 2299	0	2,000	2,000			2,000	2,000				
51021212002 00000 2399	0	68,975	68,975			68,975	68,975				
51021212002 00000 2699	0	4,890	4,890			4,890	4,890				
51021212002 00000 2799	0	50,000	50,000			50,000	50,000				
51021212002 00000 2838	0	350,000	350,000			350,000	350,000				
1st Level 2---	0	684,868	684,868			684,868	684,868				
51021212002 03400 0000	0	766,996	767,080			766,996	767,080				
Total Program	0	766,996	767,080			766,996	767,080				
Differences	0	0	0			0	0				

January 30, 1992

ITEM 74-901-R0192 Budget Amendment FY92, FY93
Montana University System
Guaranteed Student Loan Program

On January 2 the Legislative Finance Committee recommended approval for the Guaranteed Student Loan (GSL) Program budget amendments for fiscal years 1992 and 1993. Both because of recent federal legislation and because of enhancements to the services provided by GSL, four new positions will be required by the GSL Program beginning January 1, 1992. These four positions are:

Administrative Aide - Recent federal legislation allows guarantee agencies to garnish wages of employed borrowers who have defaulted on their student loans. An administrative aide is needed to handle the clerical duties involved in recovering from these defaulted borrowers.

Accounting Clerk - GSL has recently purchased in-house collection software. The accounting clerk will assist with the accounting necessary to service accounts in-house.

Collection Specialist II - The collection software has enabled the Guaranteed Student Loan Program to service accounts in-house, thereby reducing the cost of contracting with outside private collection agencies. GSL is allowed to retain 30% of the loan amounts recovered. During the first 90 days in which borrowers' loans are in default status, a collection specialist can analyze the accounts to determine which borrowers have available assets. This will increase GSL's revenues by increasing the recoveries from defaulted borrowers.

Imaging Technician - In April of 1991, the guarantee agency began document storage through an optical disk storage or "imaging" medium. GSL now images all promissory notes and student loan applications. These documents can be retrieved within minutes on an image capable PC. The imaging technician is needed to ensure that documents are properly stored and filed on the optical disk storage system.

The in-house collection software will enable the Guaranteed Student Loan Program to retain more of the 30% collection costs allowed by the federal government. GSL is currently paying private collection agencies 22-25% of the collections costs allowed. In fiscal year 1991, \$510,000 in collection costs were available to GSL, of which \$150,000 was earned by GSL. The in-house collections software will significantly improve the percentage that GSL will retain.

Effective March 1, 1991 federal legislation authorized the Department of Education to pay guarantee agencies \$50.00 for each account successfully prevented from going into default. GSL estimates that this legislation will allow GSL an additional \$180,000 in annual revenues. The Pre-Claims Assistance Unit, which performs the necessary counseling to borrowers, accesses the needed documents and information quickly and efficiently through the imaging medium.

Additional operating expenses will be necessary in order to accommodate the added employees. Total estimated expenses for each fiscal year are:

	<u>FY92</u>	<u>FY93</u>
Administrative Aide	\$ 8,346.01	\$17,342.00
Accounting Clerk	8,346.01	17,342.00
Collection Specialist II	11,556.66	23,714.28
Imaging Technician	7,701.02	16,059.88
Equipment	2,500.00	
Supplies/Materials	1,000.00	2,000.00
Communications	1,000.00	2,000.00
Travel (training)	<u>1,000.00</u>	
TOTAL	<u>\$41,449.70</u>	<u>\$78,458.16</u>

Budget Amendment Certification

- A. GSL will provide additional loan collection services as a result of the expenditures to be permitted under this budget amendment.
- B. These services are necessary in order to provide effective loan servicing function to the State of Montana.
- C. GSL has no other reasonable alternative.
- D. This budget amendment makes no ascertainable present or future significant commitment for increased general fund support.

Criteria for Evaluating the Effectiveness of the Additional Services

- A. Review FY92 SBAS records to determine that expenditures were made in substantial compliance with GSL's approved operating plan.
- B. GSL will undergo an annual financial compliance audit to determine that their expenditures are in compliance with Federal and State regulations.
- C. An evaluation of the effectiveness of the collection software will be performed at the end of each fiscal year. The FY92 evaluation will be available to the Fiscal Analyst by August 1, 1992.

March 19, 1992

ITEM 74-902-R0392

Budget Amendment FY92, FY93
Montana University System
Guaranteed Student Loan

Program

The Guaranteed Student Loan (GSL) Program is seeking budget amendments for FY92 and FY93 in the amounts of \$610,239 and \$813,788 respectively. An explanation of the additional services to be provided is attached. In summary, GSL will provide the following additional services each year:

	<u>FY92</u>	<u>FY93</u>
Contracted Service with MHESAC	\$ 79,756	\$ 83,744
MUSENET	21,000	21,000
Reinsurance Fees	20,000	32,500
Contracted Service with USAF	43,975	71,759
Communications	63,786	66,975
Collection Costs (acctng adj)	381,722	350,000
Computer Upgrade		50,000
Additional Rental Space		132,920
Utilities on Additional Space	<u> </u>	<u>4,890</u>
 Total Additional Services	 <u>\$610,239</u>	 <u>\$813,788</u>

Because loan guarantee volume is higher than originally budgeted, revenues will also increase significantly. GSL is estimating that its additional revenues for FY92 will be \$856,985 and an additional \$1,002,937 for FY93. GSL has traditionally run an efficient operation as is evidenced by its fund balance of over \$1,000,000 as of June 30, 1991.

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BUDGET AMENDMENT CERTIFICATION

- A. The Guaranteed Student Loan Program will provide additional services as specified in the attached document.
- B. These services are necessary in order to efficiently serve the student loans needs of Montana students and lending institutions.
- C. No other reasonable alternative exists to provide these services. The Guaranteed Student Loan Program cannot provide these services within its existing funding level.
- D. The budget amendment makes no ascertainable present or future significant commitment for increased general fund support.

The Guaranteed Student Loan Program will provide these services in FY92 and FY93 and will reflect these revenues and expenditures in all accounting and budgetary documents (including SBAS and the FY93 and FY94 Regents approved operating budgets). These documents, along with GSL's financial statements, will be provided to the Fiscal Analyst no later than October 1, of fiscal years 1992 and 1993.

Montana Guaranteed Student Loan Program
Budget Amendment for Fiscal Years 1992 and 1993

The Guaranteed Student Loan (GSL) Program is currently seeking budget amendments for fiscal years 1992 and 1993 for additional spending authority in its operating expenditures. GSL anticipates that revenues earned in each year of the current biennium will be more than sufficient to cover the increased spending authority. A summarization of additional revenues in excess of the requested increase in spending authority is shown in Table 1 on page 4.

CONTRACTED SERVICE EXPENDITURES: After the 52nd Legislature adjourned, GSL entered into a contract with the Montana Higher Education Student Assistance Corporation (MHESAC). Under this contract, GSL will reimburse MHESAC for a portion of the personnel expenses for seven employees who provide services that directly benefit GSL. If GSL did not enter into this contract, GSL would cease to receive the services these employees provide. Since GSL is a highly automated organization, the services of these people is vital to GSL's successful operations. These employees include the Receptionist, Mail Clerk, Image Scanning Technician, Image Technician, Computer Specialist, Computer Specialist Senior, and the Computer Center Manager. The reimbursement rate is based on periodic time utilization studies. The current rates for reimbursement are as listed.

	Percent
Computer Center Manager	33%
Computer Specialist Senior	25
Computer Specialist	50
Image Technician	50
Mail Clerk	50
Receptionist	35
Image Scanning Technician	50

The total cost to GSL under this contract will be \$79,756 in fiscal year 1992 and \$83,744 in 1993, with 5 percent inflation factored in.

NETWORK SYSTEM: GSL also participates in MUSENET, the University System's networking system. MUSENET enables all units of the Montana University System to communicate and share information via the DEC system. MUSENET will allow GSL to electronically transmit loan disbursement information, student status confirmation reports, enrollment verification reports, and other information vital to the integrity of the guaranteed student loan program, thereby reducing data entry and information processing time at both GSL and the other units of the University System. The cost to GSL for participation in MUSENET was not factored into the base from which our fiscal year budgets for 1992 and 1993 were developed as MUSENET was not operational at that time. The current year charge for MUSENET is \$21,000. This amount will also be expended in fiscal year 1993.

Additional budget authority is needed by GSL to cover certain operating expenditures that are directly related to the volume of loans guaranteed by the agency. During the initial budgeting process for the fiscal years 1992 and 1993, GSL estimated that the volume of loans guaranteed would be approximately \$52,000,000. As of the end of February, 1992 GSL had already guaranteed \$53,337,972 in student loans. A more realistic estimate of the volume of loans guaranteed during fiscal year 1992 is closer to \$60,000,000. Prior years' experience also indicates that the volume of loans guaranteed in each subsequent fiscal year has increased by approximately \$5,000,000. GSL is anticipating that fiscal year 1993 will follow the same trend and loans guaranteed during this fiscal year will be close to \$65,000,000. GSL anticipates a shortage of budget authority for operating expenditures in each fiscal year due to this increase in loan volume. Operating expenditures most affected are reinsurance fees, contracted service fees, and communication fees.

REINSURANCE FEE EXPENDITURES: GSL must pay the U.S. Department of Education a reinsurance fee for loans guaranteed under the guaranteed student loan, supplemental loans for students (SLS), and parental loans for students (PLUS) programs. This fee is charged at the rate of 0.25 percent of loans guaranteed during the fiscal year as long as the amount of default reinsurance claims paid by the Department of Education to the guaranty agency in that fiscal year does not exceed five percent of the loans in repayment at the end of the previous federal fiscal year. In fiscal year 1992 GSL anticipates it will incur additional reinsurance fees of \$20,000 due to the increased volume of loans guaranteed over the dollar amount originally budgeted. In fiscal year 1993 the additional requirement will be \$32,500. GSL does not anticipate that default purchases in either year will exceed five percent of the loans in repayment.

CONTRACTED SERVICE FEES TO SERVICER: The increased loan guarantee volume for both fiscal years 1992 and 1993 affects the amount of servicing fees GSL must pay to United Student Aid Funds (USA Funds), GSL's student loan database servicer. USA Funds assesses GSL fees on the total dollar amount of loans guaranteed, volume of loans outstanding, lenders' requests for assistance, and processing of claim payments and collections. All these items are intimately related to the volume of loans guaranteed. Even though the per unit cost to GSL for servicing Montana's guaranteed student loans in-house has decreased since GSL began full servicing in 1990, the increased loan volume has resulted in an increased charge payable to USA Funds. In fiscal year 1992 GSL's loan guarantee volume will increase approximately 15 percent over the amount originally budgeted. GSL will require additional spending authority for contracted services at this same rate, or \$43,975. In fiscal year 1993 GSL estimates the additional contracted service fees to be \$71,759, due to a 25 percent increase in loan volume over the amount budgeted.

COMMUNICATION EXPENDITURES: Communication fees are also closely linked with the loan guarantee volume and the volume of loans outstanding. GSL's operations, and the integrity of the entire guaranteed student loan program, depend on the ability to communicate with a large number of student loan borrowers situated all over the country, lending and educational institutions, the Department of Education, and numerous other support organizations involved in the student loan industry. In fact, federal regulations governing the guaranteed student loan program require that direct telephone contact be made with borrowers on a regular basis. Currently, GSL serves over 88,000 student loan borrowers, a 31 percent increase in the number of borrowers served since

1990. Borrowers and others are contacted primarily by telephone and through frequent follow-up correspondence by mail. GSL anticipates that in fiscal year 1992 an additional \$63,786 will be necessary to cover the increased telephone and postage costs it is incurring to satisfy communication requirements. In fiscal year 1993, the increased spending authority for communications is anticipated to be \$66,975, with inflation factored in.

NEW FACILITY: GSL is also requesting additional spending authority for fiscal year 1993 for rent expenditures. In July, 1992 GSL will occupy new office facilities with MHESAC and the Commissioner of Higher Education Office. The new facilities are necessary to house the increased staff size of GSL since bringing full student loan servicing to Montana. The current facilities GSL occupies have been sold and are not available to GSL after September, 1992. When original budget requests were submitted, GSL did not have any information on the square footage it would occupy in the new facility nor the cost per square foot, as the planning stages for the new complex had not advanced that far. GSL now has information that it will occupy 15,209 square feet, an additional 11,406 square feet over the 3,803 square feet GSL currently occupies. The cost per square foot that GSL pays in rent will also increase \$1.24 annually. GSL will require an additional \$132,920 to cover its rent expenditures in the new facility. GSL also anticipates that expenditures for utilities in the new facility will exceed those budgeted for the current facility based on the additional square footage GSL will occupy. Utility expenditures are expected to be an additional \$4,890 over the amount budgeted for 1993.

COMPUTER UPGRADE: After moving into the new facility in July, 1992, MHESAC, with whom GSL shares computer mainframe and software, anticipates that the computer system will need to be upgraded to handle the additional ports that have become necessary with increasing staff sizes and student loan servicing. GSL's share of the computer upgrade is expected to cost \$50,000 more than the amount originally budgeted for computer costs.

ACCOUNTING ADJUSTMENT: GSL is requesting additional budget authority for an accounting adjustment in the method it uses to record revenues and expenditures related to collection costs. Additional spending authority of \$381,722 in fiscal year 1992 and \$350,000 in fiscal year 1993 will be necessary to cover expenditures for collection costs paid to outside collection agencies. GSL has always incurred these costs, but for financial reporting purposes they have been netted against retained collection cost revenue received from the U.S. Department of Education. Revenues are projected to be \$520,733 and \$500,000 respectively for each fiscal year. The Department of Education allows GSL to retain an amount equal to 30 percent of GSL's gross collections on defaulted student loans to defray GSL's costs for collecting on the loans. When GSL places a loan with an outside collection agency, it pays that collection agency between 22-25 percent of the total collections brought in by that agency. Due to the large dollar volume in collection cost expenditures and in revenues received from collections it is more informative for GSL to report these revenues and expenditures at their gross amount instead of netting them together. GSL's request for additional budget authority for collection costs would enable GSL to make this accounting adjustment.

REVENUE SOURCES: GSL will also experience additional revenues in fiscal years 1992 and 1993 as a result of the increased volume of loans guaranteed. Guarantee fees are earned at a rate of 3 percent of loans guaranteed and amortized to revenue over an eight-year period. The increased volume of loans guaranteed in fiscal years 1992 and 1993 will result in additional revenues from guarantee fees of approximately \$121,352 and \$276,395 respectively. In August, 1991 GSL also began collecting Supplemental Pre-claims Assistance payments from the Department of Education at the rate of \$50.00 for each account successfully prevented from going into default. Supplemental Pre-claims Assistance payments to the guaranty agency are the result of legislation enacted March 1, 1991 and this revenue source was not included in GSL's original budget request. These payments will increase GSL's total additional revenues \$134,900 in 1992 and \$96,542 in 1993 above the revenue amounts from these same sources that will be required to cover additional personnel and operating expenditure authority granted to GSL in a previous budget amendment. GSL will also receive an additional \$80,000 in fiscal year 1992 and \$130,000 in fiscal year 1993 in Administrative Cost Allowances from the Department of Education as a result of the increased volume of loans guaranteed.

The additional revenues GSL will receive in fiscal year 1992 and 1993 is more than sufficient to cover the additional spending authority GSL is requesting. The additional authority is necessary to continue servicing the increased volume of student loans in the manner that is required by federal regulations.

TABLE 1
EXCESS ADDITIONAL REVENUES OVER EXPENDITURES

	1992	1993
Additional Revenue:		
Guarantee fees	\$121,352	\$276,395
Supplemental pre-claims assistance	134,900	96,542
Administrative cost allow.	80,000	130,000
Retained collection cost	<u>520,733</u>	<u>500,000</u>
Total additional revenue	\$856,985	\$1,002,937
Additional Expenditures:		
Contracted Services with MHESAC	\$ 79,756	\$ 83,744
MUSENET	21,000	21,000
Reinsurance fees	20,000	32,500
Contracted Services with USA Funds	43,975	71,759
Communications	63,786	66,975
Collection costs	381,722	350,000
Computer upgrade		50,000
Rent		132,920
Utilities		<u>4,890</u>
Total additional expenditures	<u>\$610,239</u>	<u>\$813,788</u>
Excess additional revenues over expenditures	<u>\$246,746</u>	<u>\$189,149</u>

MONTANA GUARANTEED STUDENT LOAN PROGRAM
1994-1995 BIENNIUM
MODIFIED BUDGET REQUEST 1

On July 23, 1992, President Bush signed Public Law 102-325, which reauthorized the Title IV, Part B federal student loan program. Upon its signing, numerous changes in the student loan program came into being that will have a significant impact upon the operations of the Montana Guaranteed Student Loan Program (MGSLP). The most notable change was the formation of a new student loan program, the unsubsidized Stafford student loan program, which must be administered by the guaranty agencies. This new program is intended to provide student loan assistance to middle income families that do not qualify for need-based aid. Approximately sixty percent of the students attending Montana educational institutions will qualify for this new program.

In addition, Public Law 102-325 placed an increased burden on guaranty agencies to monitor and review the operations of the institutions participating in the student loan program. The guaranty agencies will also be subject to closer scrutiny by the federal government and are now required to receive annual financial and compliance audits by an independent, qualified third party.

MGSLP also plans to increase the size of its escrow disbursement service and its in-house collection service and will need additional funding authority to facilitate these plans. Currently, forty lenders contract with MGSLP to disburse student loan proceeds to the students. Two of MGSLP's largest lenders currently use an out-of-state guaranty agency's disbursement service. They have approached MGSLP asking to be admitted to its service. MGSLP will need additional staff to accommodate these lenders as well as meet the needs of the lenders presently using the service for the unsubsidized loan program.

MGSLP's in-house collections unit has been working with only 20% of the defaulted borrowers whose loans are purchased by the agency. MGSLP's goal is to increase this volume to at least 60%. Additional staff will be required to reach this goal. MGSLP's in-house collection efforts cost approximately 10% less than what it costs to contract with outside collection agencies for the same service.

Both the escrow disbursement service and the in-house collections units generate income for the agency. Increasing the service that MGSLP provides in these areas is to the agency's fiscal benefit.

Creation of the unsubsidized loan program is expected to increase the annual loan volume guaranteed and administered by MGSLP by \$25,000,000 in FY94 and at least \$31,250,000 in FY95. The impact that this increase in loan volume will have (over the anticipated loan volume in the four loan programs already administered by MGSLP) is staggering.

CONTRACTED SERVICES:

Consulting and professional fees paid by MGSLP to United Student Aid Funds, its out-of-state student loan database servicer, and to the Montana Higher Education Student Assistance Corporation (MHESAC), which provides MGSLP with its in-house computer staff, is expected to increase \$92,601 in FY94 and \$117,141 in FY95 over the current levels with the addition of the unsubsidized loan program. MGSLP has started looking for an alternative to contracting with its current student loan software servicer and has entered into a consortium with other state guaranty agencies to evaluate possible alternatives. The consortium is looking at developing a software which would be owned by the participating guarantee agencies. MGSLP plans to participate in the development of this software in efforts to curb its rising software costs and to acquire a student loan system that better meets its needs. Development of this software system requires an initial large expenditure. In FY94 MGSLP will require \$150,000 to assist in the development of this student loan software and in FY 95 approximately \$100,000 will be needed to cover conversion costs.

MGSLP is required to pay the Department of Education a reinsurance fee equal to 0.25% of the net amount of unsubsidized loans guaranteed. Additional funding for reinsurance fees payable is estimated to be \$58,684 in FY94 and \$85,292 in FY95.

MGSLP also anticipates that the recent changes in federal regulations and creation of a new loan program will increase the need for the agency to provide more educational information to the participants in the programs. MGSLP requests additional authority for printing educational publications. The total additional authority needed is \$10,434 and \$13,531 for FY94 and FY95, respectively. Public Law 102-325 changed the name of the program to the Federal Family Educational Loan Program. All forms and brochures must be revised to reflect this name change.

COMMUNICATIONS & SUPPLIES:

MGSLP communications and supplies budgets will also be impacted by the increased loan volume of the unsubsidized loan program. MGSLP relies heavily on telecommunications and a large volume of mail is sent daily to schools, lenders, and borrowers. MGSLP anticipates a need for additional funding authority in communications of \$79,047 and \$114,361 in FY94 and FY95, respectively. The need for communications will increase as a result of the number of questions and confusion over new regulations and the new loan program, as well as from the additional loan volume guaranteed. Additional funding authority for supplies of \$12,079 in FY94 and \$15,703 in FY95 is being requested to allow MGSLP to acquire the tools needed to administer the new loan program.

PERSONNEL:

MGSLP will require additional authority to meet its staffing needs to process and administer the large volume of loans created by the unsubsidized loan program; to conduct quality assurance reviews of program participants; and to enlarge the services provided by the disbursement service and post-claims units. MGSLP is requesting an additional nine FTE's in FY94 and three FTE's in FY95. The following is a detailed description of the additional staff needs.

Budget Requests for FY94:

1. Program Officer I - Supervise Compliance Area
2. Program Specialist II - Conduct Lender Compliance Reviews
3. Computer Specialist II - Coordinate electronic interfacing between the guaranty agency, schools, and lenders. Maintain and update collection software, and provide technical assistance to guaranty agency staff
4. Two Accounting Technicians - Escrow Disbursement Clerks
5. Program Specialist I - Supervise the Escrow Disbursement Service Unit
6. Administrative Aide II - Support person to update brochures, manuals, and forms on Desktop Publishing
7. Administrative Aide II - Support for application processing and status management units.
8. Administrative Aide II - Support person for document preparation, storage and retrieval on the imaging system.

JUSTIFICATION:

Program Officer I

MGSLP is responsible for ensuring that participating schools and lenders comply with federal and state regulations governing the student loan programs. Public Law 102-325 signed by President Bush on July 23, 1992 requires guaranty agencies to strengthen their oversight of lenders and educational institutions. The Montana state Legislative Auditors during a recent performance audit of the agency also recommended that MGSLP improve its compliance reviews of participating institutions. The Legislative Auditors specifically stated that MGSLP has a need for a supervisor in the compliance review area because of the risk exposure this unit has. Program reviewers currently work with minimal supervision. There is no one in the agency available to review their workpapers or properly train them in conducting compliance reviews.

Program Specialist II

Currently, approximately 95 lenders and 38 educational institutions actively participate in the Federal Family Education Loan programs. Federal regulations require that the top ten lenders, loan servicers, schools, and the secondary market be reviewed annually. MGSLP has established a goal to review every lender participating in the Montana Federal Family Education Loan Program at least once every two years. To accomplish this task requires the addition of another program reviewer to MGSLP staff.

Computer Specialist II

MGSLP currently contracts with the Montana Higher Education Student Assistance Corporation (MHESAC) for computer assistance. MGSLP uses an automated software system that manages its loan portfolio. The student loan industry is moving towards electronic transmission of information and funds between all participating entities and federal regulations are mandating that a national database be developed to facilitate this exchange. This mandate necessitates that MGSLP set up electronic interfaces between the schools, lenders, guaranty agency, and Department of Education. The volume of requests for computer programming and technical assistance within the agency necessitates that MGSLP have a full-time staff person to provide these services to the agency. Special computer projects will continue to be contracted with MHESAC.

Program Specialist I

Currently, MGSLP has one person that supervises the application processing unit, the status management unit, and the disbursement service unit. With the signing of Public Law 102-325, the responsibilities in the application processing and status management areas will be increasing. The volume of new loans being processed by the agency is expected to increase at least 150% and the federal government has placed more burden, and risk, on the guaranty agencies for maintaining accurate database information. With a database that is expected to reach 100,000 borrowers by FY94, the responsibilities for one person to monitor and oversee these areas, as well as supervise a growing escrow disbursement unit, is overwhelming. MGSLP needs to divide the application processing/status management/disbursement service unit into two units to relieve the pressure on the one supervisor and will need to hire an additional supervisor to oversee the disbursement service unit.

Accounting Technicians

The two largest lenders participating in the Montana Federal Family Education Loan program have asked MGSLP to act as their escrow disbursement agent. Adding these two lenders to its disbursement service would double the volume that MGSLP escrow service currently handles. One and one-half FTE process the current volume of disbursements. The major benefit MGSLP will receive by signing an escrow agreement with these lenders is assurance that these lenders continue to use MGSLP as their loan guarantor. Educational institutions benefit from the escrow service as well as the lenders because it minimizes the number of entities the financial aid officers need to work with to resolve questions. Loan guarantees are a major revenue source for MGSLP. Loan guarantees with the Montana agency ensures the servicing of student loans will remain in-state providing better service to Montanans and the educational institutions they attend.

In addition, Public Law 102-325 authorized a new unsubsidized loan program to commence October 1, 1992. This program is intended to provide educational loan assistance to middle income families that do

not qualify for need-based aid. Approximately sixty percent of the students attending Montana educational institutions will qualify for this loan program. It is anticipated that the loan volume from this program will be \$25,000,000 in FY94 and increase to \$31,250,000 in FY95 as more individuals learn about it. The increased loan volume from the unsubsidized loan program will impact the disbursement service greatly. Not only will the lenders currently on MGSLP disbursement service have a larger volume of loans, but other lenders may not be able to handle disbursing their own loans and may choose to join the MGSLP disbursement service. MGSLP is requesting two additional disbursement clerks to handle the increased volume in the disbursement service resulting from the addition of Montana's two largest lenders to the service and the new unsubsidized loan program.

Three Administrative Aide II's

As a result of the new unsubsidized loan program, MGSLP will need additional personnel support in the application processing unit. As stated above, the volume of applications processed by the agency will increase significantly as well as the number of borrowers maintained on MGSLP database. An additional person will enable MGSLP to process the incoming applications and maintain status updates on its database.

New federal regulations will increase the responsibilities of MGSLP to publish educational brochures describing the different loan programs, program regulations, and default management. MGSLP also publishes information to assist schools during entrance and exit counseling to student borrowers. With the change in federal regulations, new training manuals for program participants and staff will need to be developed and all forms used by the agency will need to be updated to reflect the new regulations. These duties necessitate a full-time staff person.

In April 1990, MGSLP began maintaining documents for permanent storage on optical disk. The volume of documents requiring storage has increased dramatically necessitating an additional staff person to assist in preparing the documents for imaging and electronically filing the documents. Federal regulations require documents to be maintained for five years after the loan is paid in full. The average loan has a life of ten years (two years in promissory status, eight years in repayment). This means MGSLP must store documents for fifteen years on average. In FY92 there were 86,000 borrowers on the guaranty agency's database. Loan documents for these borrowers are currently being imaged and electronically filed. It is anticipated that by FY94 there will be 100,000 borrowers on the guaranty agency's database for which documents need to be maintained and stored.

Budget Requests for FY95:

Personnel:

- * Administrative Aide II - Support for post-claims unit.
- * Claims Investigator - Collect Defaulted Accounts
- * Program Assistant III - Customer Assistant

Justification

Administrative Aide II

MGSLP is requesting an additional support person to assist in the post-claims unit of the agency. By FY95, borrowers under the new unsubsidized loan program may be entering default status. The dramatic increase in number of borrowers in the student loan program will undoubtedly translate into an increase in borrowers entering default regardless of all efforts expended to eliminate defaults. The increase in defaulted accounts will necessitate an additional default management support staff member.

Claims Investigator

As the number of defaulted borrowers increase due to the increase in loans guaranteed under the unsubsidized loan program; and as the guaranty agency continues to increase in-house collection activities on defaulted borrowers, an additional claims investigator will be needed. The Department of Education authorizes the guaranty agency to retain 30% of all recoveries to cover its collection costs. The agency's cost of providing in-house collection services amounts to approximately 12% of the gross recoveries received. When defaulted accounts must be assigned to outside collectors, the cost to the agency is 22-28% of the gross recoveries. It is to the agency's benefit to use its in-house collectors to pursue recovery of defaulted loans.

Program Assistant III

The increased volume of student loan borrowers created by the unsubsidized loan program will require the addition of a customer assistant to provide information and assistance to the borrowers, schools, and lenders served by the student loan program. The recently enacted new federal regulations will create many new questions for the participants in the student loan program. The new law has made the program more complex and confusing. The customer assistant is the primary contact person for people with questions or concerns. MGSLP expects that the volume of inquiries received by the agency will increase dramatically.

TRAVEL:

The additional responsibility that the federal government has placed on guaranty agencies to monitor and review program participants will have an impact on MGSLP's travel budget. MGSLP requires additional authority for travel expenditures in order to increase the number and quality of on-site compliance reviews of schools and lenders participating in the program. In addition, MGSLP is adding two FTE's to its staff that will be integrally involved with the reviews. Additional travel authority of \$12,971 will be necessary to meet its obligation for school and lender reviews in FY94 and \$15,967 in FY95.

The supervisor of the post-claims unit is also required by federal regulations to review outside collection agencies which the agency contracts with. These reviews must be done biennially. MGSLP is preparing to contract with another outside collection agency on the west coast to increase the geographic proximity of contracted collection agencies to debtors across the nation. In order to satisfy its collection agency review requirements. Travel costs associated with reviewing the new collection agency will be around \$5,000 in FY94.

The Computer Specialist II, which MGSLP has requested additional FTE authority for, will be required to spend approximately 10% of his/her time traveling to other institutions setting up electronic links between these institutions and the agency. This person will also attend one workshop per year on maintaining the agency's collection software. The total cost of this person's travel is expected to be \$2,000 in FY94 and \$7,000 in FY95 due to the workshop being held in a high-cost city located out-of-state.

Total additional travel authority required is \$19,971 in FY94 and \$22,967 in FY95.

CAPITAL EXPENDITURES:

Additional funding authority is required in FY94 and FY95 for capital expenditures. The addition of new staff persons will necessitate that the agency acquire computer equipment and furniture to accommodate them. A listing of furniture and equipment needed in each fiscal year follows.

Capital Expenditures for FY94:

Computer Equipment	\$67,500
Thirteen Image Capable Terminals @ \$5,000 each for nine new employees and to replace four outdated P.C.'s Color Printer @ approximately \$2,500	
Furniture	\$13,200
Photocopier	\$5,000
Six files cabinets @ \$250 each for \$1,500	
Three office desks @ \$550 each for \$1,650	
Chairs:	
Three Task Chairs @ \$350 each for \$1,050	
Fourteen Sled Based Chairs @ \$200 each for \$2,800	
Four tables @ \$300 each for \$1,200	
Total capital expenditures in FY94	<u>\$80,700</u>

Capital Expenditures for FY95:

Computer Equipment

\$39,226

Replace six outdated terminals with image
capable P.C.'s.

Acquire additional laser printer

The budget authority requested in mod 1 is shown in detail in the Budget
Worksheet -- Import Skeleton which follows.

Page 1

OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
BUDGET WORKSHEET -- IMPORT SKELETON

5102 COMMISSIONER OF HIGHER EDUCATI	Import	E1212000.IMF	Run Date === >	09/08/92
12 GUARANTEED STUDENT LOAN PROGRA	Export	E1212000.FRN	Run Time === >	07:45 AM
12000 GSL MOD 1	Worksheet	E1212000.WK1	Version === >	2.20.2

F	Act	Obj	Actual	Request	Request	Factor	Factor	Inf	Inf	Bud			
Agcy	6	Cntl	Ent	Exo	FY 92	FY 94	FY 95	FY 94 I	FY 95 I	FY 94	FY 95	Lev	Entity/object Description

51021212000100000	0000		0	900	1,200	1.0000	0	1.0000	0	900	1,200	ML	
51021212000100000	1100		0	171,674	226,168	1.0000	0	1.0000	0	171,674	226,168	ML	
51021212000100000	1113		0	0	0	1.0000	0	1.0000	0	0	0	ML	
2nd Level	11--		0	171,674	226,168					171,674	226,168		
51021212000100000	1400		0	26,857	35,687	1.0000	0	1.0000	0	26,857	35,687	ML	
51021212000100000	1500		0	20,520	27,360	1.0000	0	1.0000	0	20,520	27,360	ML	
51021212000100000	1600		0	0	0	1.0000	0	1.0000	0	0	0	ML	
51021212000100000	2102		0	242,601	217,141	1.0000	0	1.0000	0	242,601	217,141	ML	CONTRACTED SERVICES
51021212000100000	2104		0	58,684	85,292	1.0000	0	1.0000	0	58,684	85,292	ML	INSURANCE
51021212000100000	2190		0	9,027	11,707	1.0000	0	1.0000	0	9,027	11,707	ML	PRINTING/PUB & GRAPHIC
51021212000100000	2191		0	1,407	1,824	1.0000	0	1.0000	0	1,407	1,824	ML	PRINTING/OTHER PROVIDER
2nd Level	21--		0	311,719	315,964					311,719	315,964		
51021212000100000	2299		0	12,079	15,703	1.0000	0	1.0000	0	12,079	15,703	ML	OFFICE SUPPLIES
51021212000100000	2399		0	79,047	114,361	1.0000	0	1.0000	0	79,047	114,361	ML	COMMUNICATIONS
51021212000100000	2499		0	19,971	22,967	1.0000	0	1.0000	0	19,971	22,967	ML	TRAVEL
51021212000100000	3106		0	67,500	39,226	1.0000	0	1.0000	0	67,500	39,226	ML	MULTI USER COMPUTERS
51021212000100000	3112		0	13,200	0	1.0000	0	1.0000	0	13,200	0	ML	FURNITURE
2nd Level	31--		0	80,700	39,226					80,700	39,226		
51021212000103400	0000		0	722,567	797,436	1.0000	0	1.0000	0	722,567	797,436	ML	GUARANTEED STUDENT LOAN ADMIN

Page 2

OFFICE OF BUDGET & PROGRAM PLANNING
 EXECUTIVE BUDGET SYSTEM
 BUDGET WORKSHEET -- IMPDET SKELETON

5102 COMMISSIONER OF HIGHER EDUCATI	Import	E1212000.IMP	Run Date ==>	09/08/92
12 GUARANTEED STUDENT LOAN PROGRA	Export	E1212000.FRN	Run Time ==>	07:45 AM
12000 GSL MOD 1	Worksheet	E1212000.WK1	Version ==>	2.20.2

P	Act	Obj	Actual	Request	Request	Factor C	Factor C	Inf Req	Inf Req	Bud	
Agcy & Cntl	Ent	Exp	FY 92	FY 94	FY 95	FY 94 I	FY 95 I	FY 94	FY 95	Lev	Entity/object Description

Summary Table

51021212000100000 0000	0	900	1,200		900	1,200					
51021212000100000 11--	0	171,674	226,168		171,674	226,168					
51021212000100000 1400	0	26,857	35,687		26,857	35,687					
51021212000100000 1500	0	20,520	27,360		20,520	27,360					
51021212000100000 1600	0	0	0		0	0					
1st Level 1---	0	219,051	289,215		219,051	289,215					
51021212000100000 21--	0	311,719	315,964		311,719	315,964					
51021212000100000 2299	0	12,079	15,703		12,079	15,703					
51021212000100000 2399	0	79,047	114,361		79,047	114,361					
51021212000100000 2499	0	19,971	22,967		19,971	22,967					
1st Level 2---	0	422,816	468,995		422,816	468,995					
51021212000100000 31--	0	80,700	39,226		80,700	39,226					
51021212000103400 0000	0	722,567	797,436		722,567	797,436					
Total Program	0	722,567	797,436		722,567	797,436					
Differences	0	0	0		0	0					

Mr. Chairman and Members of the Committee

My name is Arlene Hannawalt, and I am the Operations Manager for the Montana Guaranteed Student Loan Program.

The Montana Guaranteed Student Loan Program operates within a highly competitive environment -- not from private industry within the State of Montana, but from not-for-profit organizations outside the State. Several of these organizations have become "national guarantors" and are reaching into other states coveting the schools and borrowers.

If Montana cannot provide our schools and borrowers the quality of service they need, the schools and borrowers will go elsewhere. This has happened in other states such as North Dakota, Oregon, Washington, Colorado, Idaho, and many of the states in the East.

As Bill has told you, in response to the needs of Montana schools, borrowers, and lenders, the operations for the MGS LP were brought to Helena in 1988, with the final phase being implemented in 1990. However, federal regulations continue to change, increasing the services we must offer our clients and the cost of operations.

Section B of HB 2 mandates that all state agencies reduce their FTE budgets by 5 percent. As a result, MGS LP was subject to selecting two FTE positions for elimination. More recently, three additional positions which were vacant during the December 11th payroll have been identified for elimination. In total, MGS LP will have to cut 3 1/2 FTE positions to meet these legislative requests (2 full time and 3 permanent part time positions).

With these reductions, MGS LP will be unable to process the current volume of loan applications; the recoveries received on defaulted accounts; and default and the bankruptcy claims filed with the agency by lenders. MGS LP maintains a database in excess of 86,000 borrowers. We provide service and information to 95 lenders and over 600 schools. We processed over 25,000 loan applications in 1992 for Montana residents and non-residents attending 38 Montana schools and over 500 out-of-state schools. Forty percent (40%) of the students attending Montana institutions borrow loans using Montana's guarantee.

In July 1992, the President signed PL 102-325 that established new federal regulations which created a new loan program; increased the volume of bankruptcy claims lenders file with MGS LP; and made lender due diligence requirements more difficult for the guaranty agency to monitor. Our current staff levels are not adequate to deliver the increased services. Reducing FTE's would further impair the agency's ability to meet its statutory responsibilities. MGS LP respectfully asks that it be exempt from these mandatory cuts in personnel. We use no general fund dollars and we have sufficient revenue from operations to provide a program that is efficient and effective. The growth in services provided by the agency, as well as the increasing loan volume that it administers, has exceeded the workload capacities of all staff members. A reduction in workforce at this time will be detrimental not only to the quality of service

EXHIBIT 8
DATE 1-26-93
SB

and volume of loans MGSLP can handle, but will also place MGSLP in jeopardy of noncompliance with federally mandated obligations.

The five positions, totaling 3 1/2 FTE, earmarked for elimination are a claims reviewer, accounting administrative aide, data entry operator, and two applications administrative clerks. The duties these persons perform are essential to the continued operations of the agency. The duties can not be transferred to other persons in the agency without severely impacting employee workload.

It is our objective to operate MGSLP with as few staff persons as possible. Temporaries are used where ever possible to maintain a lean staff and yet respond to customer needs. Exhibit B gives detailed information on the duties performed by the positions earmarked for elimination. I plan to give you a summary description of the positions.

Claims Reviewer

The claims reviewer position identified for elimination in HB 2 is responsible for examining default, bankruptcy, death, and disability claims submitted for purchase by lending institutions to the guaranty agency. This position also handles defaulted borrower appeals against mandatory tax offsets and wage garnishments; assists in lender and school trainings, and provides them technical assistance. As Graph 1 shows, the volume of claims received has been relatively constant even though the number of borrowers is increasing. However, as Graph 2 shows, in January 1993, claims received increased significantly due to new regulations which require lenders to file Chapter 7 bankruptcy claims to the guarantee agency. The loans are not normally dischargeable in bankruptcy, but now the guarantee agency, not the lender, must protest the discharge.

Graph 2 also shows the cyclical pattern to the volume of claims the agency receives for review and purchase. The increase in bankruptcy claims and the agency being short one claim reviewer, has created a current backlog of 200 claims.

The agency employs three claims reviewers. One is on maternity leave so it is up to the other two to process the claims in a timely manner. A claims reviewer receives intensive training, lasting from 3 to 6 months, before being allowed to work claims without constant supervision. For this reason, it is not practical for staff persons trained in other areas to act as a backup during peak operating times nor is it feasible to use temporaries.

Claims that are not reviewed and purchased properly place MGSLP at risk of being assessed fines by the U.S. Secretary of Education, or of losing reinsurance on the purchased claims. Claims not reinsured by the Department of Education must be purchased from the agency's reserve fund.

The other FTE identified in HB 2 is the

Accounting Administrative Aide

The accounting unit has one support administrative aide, which due to attrition, was vacant on the date specified. This position records payments received by the agency. The administrative aide also performs all secretarial functions for the accounting unit and purchases all office supplies. It is a vital position and requires a full time employee. We cannot afford to eliminate either of these two positions.

Three other positions have been earmarked for elimination because the positions were vacant during the December 11th payroll. They are a temporary applications administrative clerk, a permanent part time Data Entry Operator, and a permanent part time Administrative Clerk. MGSLP needs these positions.

Temporary Applications Administrative Clerk

The number of loan applications received daily varies radically, from 300 during peak cycles to 50 a day during low cycles. MGSLP needs an FTE in the applications unit which can be used to hire part-time temporaries to help with data-entry, filing, and status up-dates during the peak loan application cycle. The majority of schools start their academic terms in August or September. July through October are typically MGSLP's peak months for processing loan applications. To have this position eliminated would greatly hinder our ability to readily process loan applications and would hurt our competitiveness with out-of-state guaranty agencies. We cannot afford to eliminate either of these two positions.

Data Entry Operator

Graph 3 shows the number of applications our agency receives each year, yet only 1 FTE is employed to enter data. We can accomplish this by employing two persons in a job-share situation. They enter student loan applications and update changes in the database. These two permanent persons handle the volume of new applications during non-peak seasons. Again, because of attrition, one of the permanent part time positions was vacant during the selected pay period. The volume of applications received during non-peak seasons is too great for one part time employee to enter. It is imperative that we be allowed to maintain this position.

Applications Administrative Clerk

The administrative clerk is a 1/2 FTE position that manually verifies vital information keypunched in the database. Currently, our system has no automatic edits to verify the social security number, the spelling of the borrower's name, the school and lender name, and the dollar amount the borrower requested. With the creation of the new Unsubsidized Stafford loan for middle income

families the volume of information that must be verified has increased. MGSLP could be assessed fines by the Secretary of Education for not maintaining a correct and complete database. It is essential that the data entered be verified. We ask you to allow us to retain these three positions.

MGSLP has included two modified budget requests we feel are needed to comply with new federal regulations and increased servicing costs. Exhibits C and D, prepared by Rosemary Harmon, give detailed explanations of these modified budget requests.

MODIFIED BUDGET REQUEST 1

To summarize the first modified budget request for the 1994-95 biennium, the formation of the unsubsidized Stafford student loan program, which must be administered by the guaranty agencies, will greatly impact our program. This new program provides student loan assistance to middle income families that do not qualify for need-based aid. Approximately sixty percent (60%) of the students attending Montana educational institutions will qualify for this new program. Graph 4 shows the effect the new loan program is projected to have on our volume. The unsubsidized loan program is expected to increase our annual loan volume by \$25,000,000 in FY94 and \$31,250,000 in FY95. The impact that this has, over and above our normal volume is staggering.

In addition, the guarantee agency has incurred a thirty percent (30%) increase in servicing fees from United Student Aid Funds, and our in-house computer costs have gone up due to our increased volume. Consulting and professional fees paid to USA Funds, our software servicer, and to the Montana Higher Education Student Assistance Corporation (MHESAC), which provides MGSLP with its in-house computer staff, is expected to increase \$92,601 in FY94 and \$117,141 in FY95 over the current levels.

As Bill stated in his opening remarks, MGSLP has started looking for an alternative to contracting with the current student loan software servicer and we have entered into a consortium with some other state guarantee agencies with problems similar to ours, to evaluate possible alternatives. One alternative is to issue a Request for Proposal. Another is to share development costs of a software with other state guarantee agencies. The consortium is looking at developing a software which would be owned by the participating guarantee agencies. MGSLP hopes to participate in the development of this software in an effort to curb our rising software costs, and to acquire a student loan system that better meets our needs. Development of this software system will require an initial large expenditure. In FY94 MGSLP will require \$150,000 to assist in the development of this student loan software. If MGSLP does change its software vendor in FY 95, approximately \$100,000 will be needed to cover conversion costs.

To comply with the new federal regulations and recommendations made by the legislative auditors in a recent performance review, MGSLP is requesting an additional nine FTE's in FY94 and three FTE's in FY95. The positions needed are:

Budget Requests for FY94:

1. Program Officer I - Supervise Compliance Area
2. Program Specialist II - Conduct Lender Compliance Reviews
3. Computer Specialist II - Coordinate electronic interfacing between the guarantee agency, schools, and lenders. Maintain and update collection software, and provide technical assistance to guaranty agency staff
4. Two Accounting Technicians - Escrow Disbursement Clerks
5. Program Specialist I - Supervise the Escrow Disbursement Service Unit, and three administrative aides.

Administrative Aide II - Support person to update brochures, manuals, and forms on Desktop Publishing

- . Administrative Aide II - Support for application processing and status management units.

Administrative Aide II - Support person for document preparation, storage and retrieval on the imaging system.

JUSTIFICATION:

Program Officer I

The program officer will be a Supervisor for Compliance Area. MGSLP is responsible for ensuring that participating schools and lenders comply with federal and state regulations governing the student loan programs. Under new federal regulations, guarantee agencies must strengthen their oversight of lenders and educational institutions. The Montana state Legislative Auditors, during a recent performance audit of the agency, also recommended that MGSLP improve its oversight. The Legislative Auditors specifically stated that MGSLP needs a supervisor in the compliance review area because of the liability this unit has. Program reviewers currently work with minimal supervision. There is no one in the agency available to review their workpapers and Program Reviewers often must be sent out-of-state for training.

Program Specialist II

To improve the oversight of lenders, the guarantee agency needs another Program Reviewer. Approximately 95 lenders and 38 educational institutions actively participate in our loan programs. Seventy percent (70%) of the lenders have not been reviewed in the last three (3) years. Twenty percent (20%) have never been reviewed. Only ten percent (10%) are reviewed on a regular basis. In a recent performance review by the Legislative Auditors it was recommended that all lenders be reviewed on a regular basis. MGSLP agrees with that recommendation. To accomplish timely reviews of all participating lenders another program reviewer is needed.

Computer Specialist II

MGSLP is a totally automated agency, yet we do not have a full time staff person to help with our computer needs. The student loan industry is moving towards electronic transmission of information and funds between all participating entities. Federal regulations are mandating that a national database be developed to facilitate this exchange. This mandate requires MGSLP to set up electronic interfaces between the schools, lenders, guarantee agency, and Department of Education. In addition, staff are constantly in need of technical assistance and computer programming. We desperately need a computer specialist to respond to our computer needs.

MGSLP has an escrow service for its lenders. The escrow service simplifies the student loan program for schools, borrowers, and lenders. One of the major thrusts in federal regulations has been standardization and simplification. Montana is one of the few guarantee agencies that has been on the cutting edge of simplification by providing an escrow service to lenders. The major advantage has been that schools do not have to deal individually with the 40 separate lenders who use this service, but only with the guarantee agency, in tracking down anticipated funds.

Two of MGSLP largest lenders, which have a student loan volume equal to the forty lenders on MGSLP disbursement service, have approached MGSLP asking to be admitted to the service. In addition, the new unsubsidized Stafford loan program commenced on October 1, 1992. The increased loan volume from this program will greatly impact the disbursement service. MGSLP will need 1 supervisor and 2 additional accounting technicians if we are to provide our service to the two regional lenders and to continue to meet the needs of the lenders presently using the service.

Program Specialist I

The person who currently supervises the escrow service also supervises the application processing unit and the status management unit. This is too much responsibility for one person to monitor. MGSLP needs to divide the application processing and status management from the disbursement service unit. We need to hire a separate supervisor to oversee the disbursement service.

Accounting Technicians

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For the last four (4) years the two largest lenders participating in the Montana loan program have asked us to expand the escrow disbursement service. In our previous location this was impossible. Adding these two lenders to the disbursement service would more than double the current volume of disbursements (over \$20 million). But, it would be very beneficial to our clients and borrowers. The major benefit MGS LP will receive is assurance that these lenders will continue to use Montana as their loan guarantor. The major benefit borrowers and schools will receive is the disbursements will be handled locally instead of in Indianapolis.

Three Administrative Aide II's

As our volume increases, the need for support staff increases. MGS LP needs additional personnel support in the application processing unit. As stated above, the volume of applications processed by the agency will increase significantly as well as the number of borrowers maintained on our database. An additional person is needed to help process the incoming applications and maintain status updates on the database.

A problem created by the new federal regulations signed into law July 23, 1992, is that we need to publish educational brochures describing the new loan programs, changes in program regulations, and information about default management. The guarantee agency also publishes information to assist schools during required entrance and exit counseling to student borrowers. With the change in federal regulations and the change of the program's name, new training manuals for program participants and staff need to be developed. All forms used by the agency need to be updated to reflect the changes. We need a full-time staff person to accomplish these tasks.

In April 1990, MGS LP had to decide what to do about the volumes of paper that must be retained. It was decided to begin maintaining documents for permanent storage on optical disk. Federal regulations require documents to be maintained for five years after the loan is paid in full. This means documents must be retained for an average of fifteen years. In FY92 there were 86,000 borrowers on the guaranty agency's database. Loan documents for these borrowers are currently being imaged and electronically filed. It is anticipated that by FY94 there will be 100,000 borrowers on our database for which documents need to be maintained and stored. A new FTE is needed to help file these documents.

Budget Requests for FY95:

In 1990 the guarantee agency began handling on a case-by-case basis, defaulted borrower accounts where the borrower was having a difficult time establishing a repayment arrangement with the collection agency. This proved the need for Montana residents to

have an opportunity to deal with the Helena office before their account was turned over to an outside collection agency. In addition, regulations passed by the 1990 Montana legislature have given the guarantee agency increased authority in locating missing borrowers, or skips as we call them. The guarantee agency has the authority to attach funds such as state tax returns or lottery winnings on borrowers who have defaulted on their loans. New federal regulations have given us additional authority to garnish wages.

It is projected that by fiscal year 95, MGSLP will need three additional staff people to handle the increased volume. These positions are:

- * Administrative Aide II - Support for post-claims unit.
- * Claims Investigator - Collect Defaulted Accounts
- * Program Assistant III - Customer Assistant

Justification

Administrative Aide II

MGSLP is requesting an additional support person to assist in the post-claims unit of the agency. By FY95, some of the borrowers under the new unsubsidized loan program may be entering default status. The dramatic increase in number of borrowers in the student loan program will undoubtedly translate into an increase in borrowers entering default regardless of all efforts expended to eliminate defaults. If this projection is true an additional administrative aide to help manage the claim files.

Claims Investigator

As the number of defaulted borrowers increase and as the guaranty agency continues to increase in-house collection activities, an additional claims investigator will be needed. The Department of Education authorizes the guaranty agency to retain 30% of all recoveries to cover its collection costs. When defaulted accounts must be assigned to outside collectors, the cost to the agency is 22-28% of the gross recoveries. It is in the agency's benefit to use its in-house collectors to pursue recovery of defaulted loans.

Program Assistant III

Finally, the increased volume of student loan borrowers created by the unsubsidized loan program require the addition of a customer assistant.

The recently enacted federal regulations create many new questions. The new law has made the program more complex and confusing. The customer assistant is the primary contact person for the majority of people with questions or concerns. Graph 5 shows the current phone volume handled by 1 FTE with backup support from staff in that unit. MGSLP expects that the volume of inquiries will increase dramatically over the next two years requiring the addition of another FTE to handle customer calls.

1994-1995 Biennium
Modified Budget Request 2

The second modified budget request, marked Exhibit D, covers the cost of adequately staffing the post-claims collection unit. Because MGSLP has more avenues available to it to locate defaulted borrowers it has proven to be beneficial to handle newly defaulted accounts in house for a minimum of 90 days before turning the accounts over to a collection agency. This gives the borrower the opportunity to work out repayment arrangements with the Helena office. Borrowers who refuse to pay but have the means to pay are turned over to a collection agency if the in-house unit is unsuccessful in establishing a repayment arrangement. It is the agency's goal for FY94 to handle 60% of newly defaulted accounts at least 90 days, and in FY95 100%. We have purchased a collection software and trained Collection Specialist.

The revenue to cover the operating costs comes from the recoveries received from defaulted borrowers and from revenue generated from our supplemental pre-claims assistance (SPA) unit. When a borrower becomes delinquent on his/her loan the lender requests the guarantee agency's assistance in bringing the borrower current. The Department of Education pays the guarantee agency \$50 for each account that was successfully prevented from defaulting. Graph 6 shows the number of accounts that were assigned to the SPA unit that were eligible for payment if brought current. Graph 7 shows the number of accounts that were successfully brought current. Graph 8 shows the monthly fees the guarantee agency has been paid by the Department of Education for successfully preventing a default.

By servicing our loans in Helena, the Montana guarantee agency has been successful in reducing our default rate from 6.68% in 1987, to 3.14% in 1992. We have increased our collections on defaulted loans from \$633,000 in 1988, to \$1.9 million in 1992. At the same time we have been very responsive to Montana residents' needs, and to the needs of the schools and lenders that participate in our program. I have given you a copy of a survey conducted by Anderson Zurmuehlen & Co, (Exhibit E) which evaluates the service the Montana Guaranteed Student Loan Program provides against the service provided by a national guarantor who used to provide this service for Montana. We had the survey taken after the Montana Guaranteed Student Loan Program began performing the services in Helena.

As I stated earlier, today Montana operates in an environment where out-of-state corporations are actively marketing our clients. To remain competitive we must offer electronic processing and servicing of loan applications, electronic data transmissions, and electronic funds transfers. We must have a streamlined operation with fast turn-around of information and funds. We must have staff who can respond quickly to customer needs.

In addition, in the last four years the Montana Guaranteed Student Loan Program has provided 40 new jobs in Helena. We have improved the tax base of Lewis and Clark County and the State of Montana. These new employees have bought homes, cars, appliances, and major consumer goods, improving the economy for this state. We use no general fund dollars. Graph 9 shows the sources of our revenue. We take our fiduciary responsibilities seriously. We believe accountability and stewardship are our watchwords. If we are to survive in the competitive environment in which we operate, we must have the appropriations and staff to provide the services our clientele demands.

Exhibit C and D outline these requests and the related expenditures. These expenditures are based on our projections. If our projections do not materialize, we will not fill the requested positions. We have proven this in the past when MGSLP brought full servicing of the student loan program to Helena. Positions were added only as needed. The budget process requires us to project our future needs and request them during the legislative process to give you an opportunity to evaluate our requests. We respect the budget process and hope you will grant our requests.

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

EDUCATION

SUBCOMMITTEE

DATE 1-26-93

DEPARTMENT (S)

DIVISION

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