

ADMINISTRATION AND ACCOUNTING FOR STUDENT LOAN FUNDS

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ADMINISTRATION AND ACCOUNTING FOR STUDENT LOAN FUNDS

By

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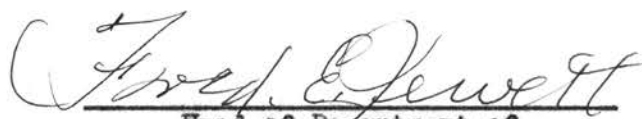
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Dedicated to

MY WIFE

(Whose untiring efforts and sacrifice
of personal pleasures have made this
work possible.)

PREFACE

During the past decade the demand for college trained employees has increased to such an extent that most personnel directors require it. In order to meet such a demand, the youth of today must find some means of obtaining a higher education. Student loan funds have been established for such a purpose and have become an integral part of every major educational institution during the last few years.

This thesis is written for the purpose of helping student loan fund administrators better their present systems in administering and accounting for funds. The procedure described herein does not represent solely the ideas of the writer. In the main it is the system in use at the Oklahoma Agricultural and Mechanical College supplemented by material obtained personally by the writer from the University of Oklahoma, the University of Tulsa, the University of Missouri, and the University of Michigan.

A debt of gratitude is hereby acknowledged to the following persons who have furnished valuable material for this thesis:

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The writer is also indebted for the inspiration and help afforded him under the direction and guidance of Dr. Henry G. Bennett, President of the Oklahoma Agricultural and Mechanical College.

Stillwater, Oklahoma.

Dale Fenton.

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Chapter I

BUSINESS PRINCIPLES

"A LOAN is a grant of money to be returned, within a specified time or at the option of the borrower, with or without a fixed rate of interest and with or without some form of security."¹

Student loan funds in the strict sense of their meaning have been established for use by students who otherwise could not take advantage of the opportunities offered them in higher educational institutions. Although scores of loan funds over the country have been in existence for many years, it is only recently that any thought has been given to the proper administration of such funds. Of the funds operated some have been completely depleted; others have been at a standstill; while others have managed to keep alive and continue to help worthy students.

Student loan funds have been set up not only to test the assumption that student character is a safe basis for credit but to teach and train the student with actual practice the value of taking care of business obligations. By the time he has been graduated from his college work, he has already received a valuable experience in business procedure.

Purposes for which these funds may be used by the student can be grouped under one heading, "necessities." Any expense of attending school for which a student must spend his money, is worthy of consideration for a loan. A few of these purposes may be enumerated as tuition, books, board, room, clothing, doctor bills, laundry, fraternity expenses, interest, insurance premiums, and the like.

¹Harmon Foundation, Survey of Student Aid Sources in New Jersey, p. 17.

The administration of these funds has not been what it should have been during the past years. Much time and thought has been given to this subject by the Harmon Foundation, a membership corporation operating under the laws of the State of New York for the purpose of making loans to students in universities. This fact is indicated in its survey of student aid sources in New Jersey.

"It was Mr. Harmon's deep conviction that a great wrong was being committed annually by college and organization administrators who, through the indefinite arrangements at the time of making a loan and lack of an adequate follow-up system, are permitting young men and women to go out into business and professional life with a childish or totally wrong impression of the principles which govern financial obligations."²

"Colleges and universities must, therefore, administer at least some of the student loans, but there exists no unanimity of opinion as to how they can best do this. Past experience does not prove a valuable source from which to draw, so it is necessary to turn to organizations other than the universities and colleges. The most fruitful field from which to draw, as this thesis indicates throughout, are those of commercial and investment lending. Higher educational institutions need to work out new policies and develop a system for the administration of student loans. Such policies and systems can be built by taking over the most effective elements to be found in commercial and investment banking; in the Harmon plan; in systems used in Europe; and also by making use of the principles which are set forth in this study as the results of an inquiry conducted by the Student Loan Information Bureau."³

Mr. Boyd C. Stephens, Cashier of the University of Michigan, stated, "It is apparent that student loan funds over the country are being placed on a more business-like basis, which should result in an increased efficiency in their operation."

The fact that funds are being placed on a more business-like basis is brought out in the results of several visits with administrators of

²Harmon Foundation, Seven Years' Experience with Student Loans, p. 12.

³L. J. Chassee, A Study of Student Loans and Their Relation to Higher Educational Finance, p. 109.

loan funds throughout the vicinity of Oklahoma Agricultural and Mechanical College. At the University of Missouri, funds are handled from a strictly impersonal point of view. The administration has assumed methods similar to those of a bank in forcing borrowers to comply with the terms of their loans. The administrator of loan funds at the University of Oklahoma does not employ the impersonal point of view but finds that kindness and perseverance obtain the best results. The University of Tulsa uses the semi-personal principle. That is, if the borrower pays no attention to notices or payments, the endorser is asked for payment. If neither the borrower nor the endorser takes care of the loan, then it is placed in the hands of an attorney for collection. The funds at the Oklahoma Agricultural and Mechanical College have been operated on a semi-personal principle during the past three years and the results have proven it to be the best policy. Although a few borrowers have been threatened with a law suit, none have been filed. A threat is sometimes as good as the suit itself.

Mr. Charles W. Ward, Student Loan Officer at Northwestern University, in a speech before the Association of University and College Business Officers meeting held at Evanston, Illinois, May 17, 1935, gave valuable information in the administration of their loan funds.

An excerpt follows:

"The borrower is given to understand that the loan involves an obligation, not less, but more, much more serious than an ordinary commercial loan involving profit to private parties. Not only is he told that, but he signs a written statement, 'An Understanding Between the Borrower and the Loan Officer' agreeing to that view of the obligation.

"Borrowers have been given a new conception of the significance of our loan funds. They had assumed that the funds belonged to the

University, a big \$50,000,000 institution; and being dreadfully hard up as all of them are, especially in these times, they said to themselves, 'Shucks, I guess the University can get along without my little \$200 for awhile.'

"But when, after being told over and over, they came to realize that these loan funds do not really belong to the University except as trustee; that the money had been given by generous donors for the use of needy students, and for no other purpose; that money not repaid promptly in these times would result in some student, who now had a right to the use of the money, being compelled to drop out of school; that failure to repay the money at all, robbed a whole chain of needy students for the next hundred years or more--when they got those facts clearly in mind, they felt differently about the whole matter."

Mr. Ward's method of handling one of the many obstacles in the administration of student loans is representative. New alibis, new excuses, and new problems arise daily and must be met with well thought out business principles that retain the goodwill of the borrowers.

"As Mr. Harmon talked with many college presidents and deans, he became increasingly convinced that the unsatisfactory situation from the business man's point of view at least, was not due to any inherent defect or lack in student character, but to the failure on the part of college administrators and organizations concerned with student assistance to develop their service from a constructive angle. Too frequently student aid seems to be a case of just a necessary evil. He felt it was time that we should cease to treat this part of our educational system like an unfortunate step-child and that it should enjoy all the care and consideration now being directed toward other phases of education."⁴

The value of establishing sound credit early in life is proven by the following returns from borrowers who have repaid their loans to the Harmon Foundation, which issues a Certificate of Honorary Membership upon completion of the loan according to its stipulated terms.

"One young man stated that he had floated a loan in a bank in the city where he was working, on the strength of his Certificate from the Harmon Foundation. Another borrower wrote: 'If I had to

⁴Harmon Foundation, Seven Years' Experience with Student Loans, p. 9.

choose between my degree and my certificate, I would invariably choose the latter. The first indicates scholastic attainment, whereas the latter indicates character development--honesty, truthfulness, and labor.'⁵

The following chapters in this thesis will discover the actual administration and accounting for student loan funds. It is the purpose of the work to set forth both the principles which should apply and the procedure which is needed. To illustrate the necessary procedure, forms have been included. The majority of those shown are in use at the Oklahoma Agricultural and Mechanical College. Forms from other institutions will also be used, because of their superiority in content or make-up.

⁵Harmon Foundation, Seven Years' Experience with Student Loans, pp. 18-19

Chapter II

SOURCES OF STUDENT LOAN FUNDS

Student loan funds are primarily funds to be held in trust and to be used for purposes specifically stated in the trust agreement.

"Trust funds arise mainly out of gifts or deposits. Each fund must be accounted for in such a manner as to preserve its complete autonomy. All may be grouped together for balance sheet purposes, provided suitable accounting is maintained to show fully the operations and condition of each fund."¹

The usual source of loan funds is from some philanthropist or private individual who requests that a certain sum of money from his estate be given to a college or university as a trust fund. However, there are many other sources, the most of which are in use throughout the country at the present time. Some of these sources may be enumerated as:

1. Philanthropists
2. Private individuals
3. Banks and other Financial Organizations
4. College Alumni Groups
5. Community Funds
6. Churches and Sectarian Organizations
7. Civic Clubs
8. Foundations and Student Aid Organizations
9. Fraternal Organizations
10. Federated Women's Clubs
11. Parent Teachers Association
12. Patriotic Organizations

¹Lloyd Morey, University and College Accounting, p. 140.

Philanthropists and private individuals probably constitute the source of the most widely known loan funds in Oklahoma. The Lew Wentz Foundation consists of funds donated by Mr. Lew H. Wentz who established student loan funds at the Oklahoma Agricultural and Mechanical College, the University of Oklahoma, the University of Tulsa, Southeastern State Teachers College, and Cameron Agricultural College.

An example of banks and other financial organizations fund is the American Bankers Association Loan Fund which is available to students in Schools of Business who make a certain grade average and rating in their respective schools.

College Alumni Groups, Community Funds, Churches and Sectarian Organizations, Civic Clubs, Foundations and Student Aid Organizations, Fraternal Organizations, Federated Women's Clubs, Parent Teachers Association, and Patriotic Organizations can all be grouped under one heading, "Organizations."

Organizations may raise money by special assessment or organization fee on members, to be used as loans. Many of them assign a portion of their annual dues for such purposes. Other methods of securing funds for setting up student aid are voluntary subscriptions by members, conducting annual campaigns, or holding benefit dances and bridge parties. Some organizations set aside a certain percentage of sales or assign the income from trust funds already in existence.

Perhaps some of the most well-known funds of the above type are the Rotary Club Loan Fund and the Lions Club Loan Fund. Both of these funds have helped many students continue their education. Others of the Fraternal Organization funds are the Knight Templar Loan Fund and

the Royal Arch Mason Loan Fund.

All student loan funds may be classified in three distinct types:
(1) Restricted; (2) Revolving; and (3) Semi-Restricted.

RESTRICTED FUNDS

Restricted funds are the type in which the principal of the fund is invested in high class securities and the income from those securities is used only for loans. All loan funds in existence at the University of Missouri are of this type. All principal has been endowed by different individuals during the years and has been invested in Municipal bonds, County and City bonds, Government bonds, and other high class securities. Only the income from these securities is loaned to students. The funds can never deplete themselves through loans, since no principal is used for that purpose. When these funds are set up, the donor usually makes certain stipulations and requirements which must be met by the administrator of such funds. For instance, at the University of Missouri, one fund has been established for the benefit of Boone County students only. A certain percentage of the income from principal is to be used to increase that principal and the balance is to be loaned. Another deviation from this type would be a certain percentage of the income set aside in a separate account to absorb any losses occurring from non-collection of loans made from the balance of the income.

REVOLVING FUNDS

In this type of fund both principal and interest accumulations are available for loans. In some cases the income may be added to the principal, or may be used to provide an annuity for the donor or a designated beneficiary according to the terms of the gift. At the University of

Oklahoma all money from various sources is placed in one General Loan Fund. The donor of such funds may request specific uses for his money, in which case the borrower is told that he is borrowing from a certain fund (such as Phi Beta Kappa Fund) but no separate balance is kept for that fund. By this method, Phi Beta Kappa students may borrow more money than is set up by the Phi Beta Kappa Fund since it all comes from the General Loan Fund.

All funds at the Oklahoma Agricultural and Mechanical College are set up as revolving funds in which both principal and interest is available for loans.

SEMI-RESTRICTED FUNDS

A part of the principal in this type of fund is invested in high class securities, the income from which is used to take care of losses from loans. Although this is not a common type of fund, it is in use in certain sections of the country.

All student loan funds, regardless of source or type, contain certain eligibility requirements.

"If there are limitations as to sex, marriage, creed, nationality, race, citizenship, place of residence, type of school or specific institution, these should be clearly stated. It is also necessary to know what restrictions there are as to classification of student, such as grammar school, high school student, freshman, sophomore, junior, senior, graduate, special, extension, handicapped. Young people who do not come within the general qualifications will then be spared the disappointment of later rejection. Time on the part of the loan administrators will also be saved. Those who have had experience with student aid activities are almost uniformly agreed that a loan fund should have a very specific outline of rules of administration. These are helpful to the loan committee in maintaining a standard of performance; to the borrower in acquainting him exactly with what will be expected of him."²

²Harmon Foundation, Trends and Procedure in Student Loans, p. 80.

Chapter III

SELECTING THE RISK

"Careful selection of borrowers is the key to successful operation of a loan fund. It is the strategic time to impress the borrower with the importance to himself, above all else, of having a clean record in handling his loan in a business-like manner. It is the time to get facts and all information pertaining to the individual that may be needed to determine his fitness for a loan and to be of possible use to him later by the way of advice in his life planning.

"It includes the assembling of evidence about him in the same manner that a bank or business concern would follow were they considering him for a financial accommodation, or a position involving responsibility and trust."¹

In order to make a careful selection of borrowers from any loan fund it is necessary to have application blanks. Probably no two funds or institutions use the same application; that is, containing the same detailed information in similar consequence.

"Most loan officers are either on the academic or administrative staff. To assist them, therefore, in getting a clear picture of the applicant in his various aspects, and to facilitate putting information in organized form for the Foundation, the application and reference blanks gradually have been made more detailed. They are designed to reveal the individual in his relationships in his home locality; at his college; in his self-help work and in such financial obligations as he may have already undertaken.

"Most college loan chairmen object to this intensive procedure and argue that it involves 'too much red tape.' They feel that it is a burden on their time and that the students have to go through too much 'rigmarole' to get a loan. As one leading chairman naively put it, 'When our students see all they have to do to qualify they prefer to go to parents, relatives, local or other sources for their loan.' Those officers feeling this way obviously do not realize that if the requirements do nothing else, they prevent borrowers who have other channels of aid from using the fund and leave the money to assist those who are not so fortunate. Further, they do not appreciate that if a young person without collateral has an opportunity to borrow on his character it is worth taking several hours if necessary to plot out the various facts concerned with his case and

¹Harmon Foundation, Trends and Procedure in Student Loans, pp. 80-81.

show that he understands the requirements he will be expected to meet if a loan is granted."²

Form 1, shown on page 88, is the application in use at the Oklahoma Agricultural and Mechanical College. It contains all pertinent information necessary and helpful in selecting borrowers as risks for student loans. Although the blank may not be perfect in every respect, it has grown out of eleven years of successful operation of the funds at the institution named.

In order to give a clear understanding of Form 1, each section of the application will be explained in the order in which it appears. In all application blanks, regardless of the kind, whether it is for loan funds, social security, or what not, the name of the fund, the purpose of the blank, and the instructions for filling it in should be clearly stated. These will give the applicant some understanding as to what the initial requirements are. Also, at the beginning of the application, the student should indicate for what period of the school year he is borrowing and the amount of his request.

STUDENT IDENTITY

The first group of questions should show the applicant's name in full, in which school or college he is registered and his present classification, the date of his first entrance at the institution from which he is applying and the years attended there, and the month and the year he plans to graduate. It should also show his age, sex, and whether single or married. If the applicant is married, he should show his spouse's name and whether or not they have children. His weight, height,

²Harmon Foundation, Trends and Procedure in Student Loans, pp. 11-12

and health, together with his birthplace and date of birth are very important to the loan officer in summing up the applicant. Two addresses should be given - the local college address and phone number, and the permanent address. This information, with a snapshot of the applicant, will give the loan officer an idea as to whether or not a loan can be granted from the eligibility standpoint.

FINANCIAL OBLIGATIONS

A space should be provided for the applicant to list his present indebtedness showing to whom he owes it, the amount, the date it was contracted, the due date, the interest rate, whether or not a promissory note was given, and the relationship of the creditor to himself. He should also indicate what arrangements have been made to pay these obligations. A space should also be provided to show whether the applicant has ever given his note for money advanced. If so, all information regarding name of creditor, the amount advanced, the relationship of the creditor, the interest rate, the date contracted, the due date, and the date paid, should be indicated. All of this data concerning the present and past financial obligations of the applicant will indicate to the loan officer whether or not the borrower has been negligent in letting his bills accumulate without some means of paying them, and his promptness in taking care of other obligations for which promissory notes were issued.

FINANCIAL RESOURCES

It is important to the loan officer to know exactly what financial resources the applicant may have to start with. The applicant should be asked if there is some source other than the loan fund from which he can

receive financial assistance at this time. He should also indicate what amount of money he receives through the school year from sources other than personal labor, and the source. A space should be provided for him to show what amount of money he now receives or expects to receive from personal labor per month, the kind of work, and where it is done. This information will easily show whether or not the student is extravagant in his living. If he receives more money than is necessary for his standard of living then there is no need for a loan.

Some times applicants have real or personal property owned by themselves or held in trust for them. It is well to have a complete description of such property, together with the market value, annual income, and whether or not he receives the income. A description and value of all properties owned by the applicant's parents will assist the loan officer in determining their worth and ability for helping the student by other means than loan funds.

A question should be asked as to whether or not the applicant now carries life insurance; if so, how much, the amount of the annual premium, the name of the company or companies, the name of the beneficiary, the year it was taken out, whether all premiums have been paid to date, if he has borrowed on the policy and how much and if it is repaid, and if he has ever been refused life insurance and if so, why. At times, it is possible and to the applicant's advantage to borrow funds from his insurance rather than from loan funds. In this case the loan officer can show the student how borrowing from his insurance will provide the necessary funds without receiving aid from the loan fund.

It is also helpful to know if the applicant has ever been financially

interested in any business and if so, the nature of that business. The loan officer can ascertain by talking with the student just how successful he was in conducting that business and sum up, more or less, what success he will have in future dealings with the loan fund. The applicant should also indicate if he owns an automobile, its make and value, and whether it is at school or at home. Students who own and drive cars for pleasure only should not be allowed to borrow funds for other expenses.

Information regarding employment on a regular salary or during vacation is very important. The applicant should indicate details of such employment showing the period, the salary, how much was saved, and by whom employed. If he is graduating or leaving college permanently at the end of the semester or year he should indicate whether or not he has a position promised and where it is. This information will give the loan officer an insight into the ability of the applicant to make arrangements for future necessities.

"Part-time work during the school year and effective use of summer vacations not only are an indication of character stability but have a distinct relationship to the amount of loan assistance needed. Students who are doing self-help work will usually plan their finances more carefully than those who are trying to get through college without performing labor of any kind."³

BUDGET

"In times as distressing from the economic point of view as these are, when nations and business are having almost insurmountable difficulties in balancing budgets, the importance of individual budgeting is appreciated with a good deal more clearness. Nowhere, is need for this more evident than in the self-financing of education. Very few young people have been taught to handle their financial affairs along clear-cut business lines. They think

³Harmon Foundation, Trends and Procedure in Student Loans, p. 85.

of money just as something with which to pay bills as long as it lasts. They do not realize that currency has been devised not as an end but simply as a means of exchange, and that in arriving at a true picture of one's assets and liabilities it is possible to include services in kind which can be estimated in dollars and cents according to the cash value of the work involved.

"The importance of budgeting is stressed increasingly by those in charge of loan fund administration. They have come to realize how helpful it is, when properly understood, in training a borrower to have a real understanding of the power within him to stand squarely on his own feet, using his services in lieu of actual money."⁴

Line 27 in Form 1 is an outline of a budget form in which is included most every item necessary for filling in a complete budget of income and expenses for one full school year. This outline is in such complete detail that any student, regardless of whether or not he has had budgeting experience, can understand it. For comparative purposes, on the part of the student as well as the loan administrator, the applicant is required to make a budget of actual income and expenses for the preceding school year along with the present school year. A comparison of this kind will enable the student to see whether or not he is budgeting the present year as economically as last year and to adjust his finances accordingly.

On the receipt side (left side) of the budget, spaces are provided for summer vacation earnings and previous savings, estimated earnings during the school year, advances from parents, guardians, or friends, and advances from college scholarships, free tuition, etc. Two or three blank lines are provided for receipts from sources other than student loan assistance. Students who are working for room or board should estimate the money value of the work performed and show it as receipts in

⁴Harmon Foundation, Trends and Procedure in Student Loans, p. 87.

the budget, since it would be actual income to them were they being paid in money rather than necessities. A total of all receipts listed in the budget will now show how much money has been received or is going to be received to pay necessary expenses of attending school.

The expense side (right side) of the budget is constructed similar to the receipt side. All expenses should be estimated for both the last and the present school years, indicating the amount needed for enrolment fees, board, room, books and supplies, clothing, recreation or amusement, health, organizations, traveling expenses, insurance premiums, and incidentals. A space is provided for borrowers who have dependents and for those who may have notes due before the school year is ended. Several blank lines are left for any other items of expense not listed. A total of all these expenses will indicate the amount of money necessary to keep the applicant in school for the year. Should the student be working for his board and room, then the amount shown as expense for board and room on the expense side will be equal to the amount shown on the receipt side as estimated money value of board and room. Although the same items could be left out of both sides, they should be included in order to give the applicant a better understanding as to the cost of his education for the year.

Should the total of the income exceed the total of the expenses, it will be evident that the applicant is not in need of extra funds for attending school. On the other hand, the excess of the expenses over the income will indicate the amount of money necessary to balance the budget. The amount necessary to balance the budget is the amount for which the student should make application through loan funds.

In order to give the student a clearer understanding of his budget of time and money he should be asked how many semesters he plans to be in school the present year and whether or not he has planned his budget for the same number of semesters. Some loan funds require each borrower to keep an accurate written account of all expenditures while in college. In this case, he should be asked whether or not he will be willing to keep such a record and whether he has ever carefully budgeted his expenses before.

"He, who budgets his time and abilities as well as his money is the person who looks the situation over in advance and, therefore is a good deal more certain to find opportunities to help himself. It is just as essential for students operating on little or no cash to make out a budget before applying for loan assistance as it is for those who pay their bills with money. Young people who have learned to budget as part of their student loan experience frequently write that that training is of invaluable assistance in adjusting themselves in a satisfactory financial way, after they start working."⁵

FINANCIAL PLAN

Each student or applicant should have some idea as to his plan for finances after leaving college. In order to give the loan officer some idea as to what this plan is and what past experience the applicant has had regarding financial assistance, he should be asked if he has ever made application for a loan before; if so, from what source and whether or not it was granted. If the previous application for a loan was not granted, the reason should be clearly stated. It is helpful also to ask how the student's previous college years have been financed. He should state his reasons for seeking assistance and what immediate use will be made of this money if the loan is granted. A loan officer will have a

⁵Harmon Foundation, Trends and Procedure in Student Loans, p. 88

better understanding between himself and the borrower if the question is asked, "How do you expect to repay your loan if granted and when do you expect to begin repaying it?" The student should also indicate his plans for financing the remainder of his attendance in college should he not graduate at the close of the present school year, and whether he expects to apply for further assistance from this or any other loan fund, and if so, to what extent.

ACADEMIC ATTAINMENTS AND PLANS

A summary of the applicant's academic attainments and plans will show in what preparatory schools he prepared for college, whether or not he attended college elsewhere (showing places and years attended), and his intentions regarding postgraduate work after completing his course at this institution. The student should also indicate what vocation or profession he expects to follow after completing his college work. Although the loan officer obtains a complete transcript of the applicant's high school and college work from the Registrar, it is a good plan to have the student indicate the subject, credit, and grade for each course taken during the preceding term. It not only serves as a check against the student's honesty but allows the loan officer a quick reference as to the applicant's scholastic attainments. Although high scholastic standing is not a basic requirement for loan funds, it is important in determining the quality of a good risk. It would not be desirable to lend money to a student who could never graduate nor one who would be dropped from the college rolls because of poor grades. If the low scholastic record is due to too much work for self-support, the reason should be evident.

ATHLETICS, SOCIAL, AND STUDENT ACTIVITY ATTAINMENTS

It is important to include in the application questions regarding athletics, social and student activity attainments. Information regarding such activities indicates the student's capacity for managerial or executive duties and suggests whether he is the following type or a leader. Facts as to membership in lodges, fraternities, societies, or organizations gives an index as to initiative, social awareness, and general morale of the student. The question regarding religious preference should be optional with the student.

FAMILY IDENTITY, STABILITY AND RELATIONS

This group of questions consists of information regarding the applicant's family and their financial circumstances. It is important to know how many brothers and sisters the student has and whether or not any of them are enrolled at this institution. A table giving the name, address, occupation, income, marital status, and relationship of each brother and sister will show the resourcefulness of the student's family. It is very important to indicate whether the applicant has dependents, and to what extent they are dependent, showing their names and addresses. Complete information regarding the applicant's parents will give an idea of the environment from which he comes, as well as provide data for future use if necessary. Data such as name, age, occupation, address, number of years in present city, and his last address, if place of residence has been changed within a year of this date, should be given complete for each parent or guardian.

REFERENCES

It is desirable for each applicant to give at least four references

from his home town, showing their names, approximate ages, addresses, and occupations.

"The Foundation does not regard ministers as a rule, as the best references. Their business in life is to look on the optimistic side of human nature and hope and believe in the best outcome. The very qualities that make a man a good minister are apt to militate against his ability to pick a good financial risk. He may inwardly feel that a given individual has certain weak traits, but he wants to give him the chance to make good. While this may be a desirable attitude in scholarship assistance, it is not a good policy in granting the average student loan which is to be administered on business terms. Bankers, business men, and professional men usually make very good references. Frequently if they feel that the applicant has any weak spots, they will indicate them, thus giving the lending organization an idea as to what dangers must be guarded against."⁶

As shown by the above quotation, it is much more desirable for the applicant to give as references for his loan a banker, a physician, and two merchants. A business man will usually see the importance of teaching the applicant the true business principles and will point out his weaknesses as well as his strong points. Form 2 is an example of a reference letter written to each home town reference given by student loan applicants at the Louisiana University and A. & M. College. The letter is made up in such a way that it utilizes both sides of the paper. The front side explains to the reference why such a letter is written and infers a pledge by the reference to assist in obtaining repayment of the loan if necessary. The back of the letter is made up of questions regarding the applicant to be filled in and signed by the reference. This type of letter will obtain the information needed because of direct questions. It has proved to be better adapted to student loan funds than a letter written by the reference

⁶Harmon Foundation, Seven Years' Experience with Student Loans, p. 15.

in his own words. Too often, a letter written wholly by a reference is so general in content that it does not convey any information that can be used in selecting the risk.

Many differences of opinion are present among student loan fund administrators regarding the significance of obtaining and writing reference letters. At the University of Tulsa, references are required of the applicants, but are considered worthless as indications for making loans and are seldom if ever written to for recommendations. The loan officer of the University of Missouri requires that the applicant give references but they are not usually written for any information. The primary use of the reference is in locating the student after graduation and helping to collect when necessary. The University of Oklahoma and the Oklahoma Agricultural and Mechanical College both use references and place much stress and confidence in the material received from them.

Line 58 in Form 1 asks for the names of three faculty members from this institution with whom the applicant has had work, and specifically asks for his Dean, Advisor, and one other professor. Form 3, made up similar to Form 2 but with different content, should be mailed to the faculty references given. The information contained therein will give the loan officer a better insight into the student's attitudes and experiences on the campus. For instance, while a student is attending college and attempting to round out his education in such a way that will enable him to become a better citizen and increase his earning power later in life, there is possibly no place more adapted to studying his general attentiveness and habits than in the classroom. The faculty member is in a position to report on the student's capacity, his intellectual curiosity, attendance, and

general attitude toward coordinating his academic work with immediate employment problems. He can be rated for his promptness, industriousness, disposition, resourcefulness, personality, sense of responsibility, and truthfulness, all of which are very helpful and necessary in selecting a risk for student loans.

Some loan officers write reference letters to high school superintendents of the applicants. It seems that this procedure has little value in that the student has been out of high school for two or three years, or even longer, his superintendent has lost contact with him and must write his letter only from past records in the school, or from conversation with someone who happens to remember him. Then, too, school superintendents, like ministers, are inclined to take the most optimistic point of view and rather than write anything against the student's character, he will attempt to give the applicant a chance to make good.

One medium from which few loan funds obtain information regarding its applicants and their parents is a credit investigating organization.

"So impressed has the Foundation been with the helpful service in follow-up work by a credit investigating organization, that it is convinced this same type of examination might be of much greater assistance when young people are under consideration as prospective borrowers. The usual recommendations would continue to have their place, but the credit report would be quite free from the possibility of bias which may easily occur in the case of references from family or personal friends. A report of this nature could cover the loan applicant's need; his reputation for industry; thrift; and as a social individual at home and in the community. Further than that, it should include information on his parents and near relatives--their attitude toward debt, and whether they are financially able to help him with his education."⁷

One of the most common and easily accessible types of this organization is the local retail merchants association. For a small membership fee and

⁷Harmon Foundation, Trends and Procedure in Student Loans, p. 62.

report charge, the loan officer can obtain confidential information regarding his applicants, their parents, and near relatives, regardless of their home town. This kind of a report would bring the loan officer up-to-date data which would never otherwise be brought to his attention.

If the applicant has ever borrowed from any other fund, the loan officer of that fund should be written for his experiences with the student. Perhaps the loan is still outstanding, or was not taken care of on time, or was settled by law suit. All of this information is very necessary in assisting the loan officer select a risk.

Line 58, in the application form shown, asks the student to list each course for which he is registered and the name of the instructor in each. If the application is being filed before enrollment, he is asked to give the same information for the preceding term. This information not only shows how many hours the student is taking but indicates what type of work he is attempting and what instructors may be contacted for up-to-the-minute data.

The applicant is asked to present in addition to the application a statement on a separate sheet of paper giving briefly his life history and plans for the future. This statement is of little help in selecting the risk, since practically all of the information that could be given in the statement is asked for and answered in the application blank.

Although it is doubtful whether the applicant remembers any of the pledges he makes when he asks for a loan, it is always a good plan to include them just before he writes his signature. Most pledges on most applications include a certification of correctness of answers, a promise to use the loan toward no other than the necessary expenses of continuing the

applicant's education, an agreement to abide by the rules of the administration, an understanding that it is a loan drawing interest, a promise to answer promptly letters relating to the loan, a promise to keep the loan fund informed of his address and the address of his parents, and to make every effort to repay the loan as promptly as possible. Most of this information can be used to good advantage in collecting the loan should the borrower become negligent.

LETTER.

A blank space should always be left in the application in order to give the applicant a chance to give any additional statement which would help the loan officer in considering his application for a loan. At times there are particular circumstances which are not explained in the application that would warrant the granting of the loan, which otherwise would be overlooked.

Also included in the application (Form 1) is a pledge by the parents, and/or brother, sister, or guardian which states that the answers in the application are correct to the best of their knowledge, information, and belief, and that they promise to use their moral and financial support in helping the applicant to perform any contract made with the lending organization. While it is evident that a promise and pledge of this type are very necessary, the authenticity of signatures is sometimes doubtful. In most organizations the application is given the applicant and he is told to have his parents, or relatives, sign it in the proper place. It would be possible for the applicant to forge signatures which could not be proven genuine by the loan officer. Form 4 would be a much better manner of obtaining the parents' signatures and promise and would also provide additional infor-

mation of helpful nature.

"Having a statement from the parents of a student before granting a loan cannot be too strongly emphasized. When parents know in advance of a business obligation, they are a good deal more certain to assist in making collections if necessary."⁸

SELECTING THE RISK.

"I feel that in the action of the Loan Committee is the crucial time in our loan work. If the loan officer feels sorry for the student because he is having a hard time, glosses the interview over, and does not impress upon him the value to himself, above anything else, of handling his loan as a serious business obligation, seeds of self pity, and what I call a 'poverty complex' are likely to be sown."⁹

Practically all loan funds have one or more committees which must approve the loan before any actual notes or contracts are drawn up. The past experience of some of the larger funds have proven very helpful in this procedure.

Loans at one of the larger universities were formerly approved by a committee composed of faculty members. This plan proved unsatisfactory in that too much sympathy appeared and loans were not made on business principles. Later all funds and administration were transferred to the Office of the Secretary which works under a highly centralized plan. The Secretary can approve loans without committee action, even the same day they are applied for. This plan is seldom carried out because of impressing the student of the necessity of investigation. This is a one-man loan fund organization and has not proven highly satisfactory among other funds.

"The first requisite for better analysis of student credit is to take the matter out of the hands of faculty members and place it under the direct supervision of the business officers of the university.

⁸Harmon Foundation, Trends and Procedure in Student Loans, p. 87.

⁹Mary Beattie Brady, letter, 4-22-29.

This statement is warranted by past experiences. Lending money to students is a business proposition which should be done according to modified business standards.

"The second step in this analysis is to estimate the individual. This consists of two parts: present character and the promise of future ability to 'cash in' on his educational investment. Credit can be wisely extended only to the student who can show some evidence of reliability and determination of purpose. His past record, not academic, but his dealings in other matters is the fairer basis upon which to estimate his reliability. His academic record is what keeps him in or puts him out of the institution. The class work is no accurate measure of his business principles. His academic standing is of importance, but this information can be made available to the business officers by the faculty and at that point the authority of the faculty should cease so far as the loan is concerned.

"The other factor in analyzing the student as a credit risk is his ability to cash in later. In extending credit to an individual or corporation the all important point is whether the borrower will be in a position to repay the loan when due or be at least as good a financial risk as when the loan was made. The first, character and definiteness of purpose, is but a basis upon which to estimate the second. The student, for instance, who has no definite plan for financing himself and is doing nothing to help pay his expenses could hardly be considered as a good risk."¹⁰

As indicated by the above quotation, the faculty committee on student loans is desirable, but should be used only for approving the loan in so far as academic standing is concerned. Since the granting of a loan is a business proposition, it should be handled on a business basis, and the business officers of the college or university are the proper persons to form a committee and approve loans to students.

"In selecting risks, therefore, it is essential that the loan representative who actually interviews the applicant shall have in mind the methods under which business operates and shall inculcate in the borrower a healthy sense of his obligation for the prompt repayment of his loan when the period of liquidation begins. Where loan systems for students have failed in the past, it is safe to say that the student, with no previous training in business procedure, received his loan assistance knowing vaguely that it would be paid back if he was forced to it, but his temporary sensitiveness to an

¹⁰Student Loan Information Bureau, A Study of Student Loans, pp. 65-66.

obligation quickly vanished in the busy round of studies and extra-activities."¹¹

Some institutions use, in addition to a faculty committee, a student committee composed of students who are borrowers or have been borrowers from the loan fund. Their recommendations usually cover the attitude of the applicant in the classroom, on the campus, or in other habitats of students. This plan has proved satisfactory except that in the larger institutions, the committee members cannot possibly know each applicant personally and will not usually put in enough time to investigate him thoroughly.

The actual decision, then, is brought down to the business officers of the institution in making and granting loans.

"No mechanical device can be put forward and no set of rules can be established to guide those who are to decide which students are to be granted loans. The proper selection of the risk is something that can come only as the result of experience in dealing with students. The student's present needs, future ability, and willingness to pay are the deciding factors. His present needs can be determined by the analysis of his statement as to his present financial circumstances. His present income consists of what he is able to receive from home without depriving other members of his family of a just share of the family income. If his family is in comfortable circumstances, there is no reason why the institution should help him financially. If his family is not able or is unwilling to assist him, he is then eligible for a loan, provided that his probable future success warrants it. Here lies the difficulty. His future financial success is hard to estimate, but if a student has a reasonable amount of intelligence, initiative, good health, and possesses a reputation for integrity, and for reliability, there is no reason why he should not get a loan if he needs the money. His intelligence can be judged by his academic standing; his enterprise by what he is already doing to help himself; his health can be ascertained; and his integrity and reliability can be judged by his past performances both in his home community and the university community. These are the measures which are available to those who must select the risk. They are not fool proof, but if used with caution and discretion, they are valuable and furnish sufficient data on which to take a chance. There will be misjudgments and con-

¹¹Harmon Foundation, Seven Years' Experience with Student Loans, p. 16.

sequent losses, of course, but the losses can be reduced to a minimum. There will be further losses due to deaths, but losses due to deaths and the force of circumstances will constitute a very small part of the total money loaned."¹²

SECURITY.

"The administration of student loans differs from commercial loans in still another respect. The student does not have a fixed line of credit, but has possibilities which are difficult to evaluate. He can get endorsements, but not always bankable endorsements; he has no collateral, and his character is not yet definitely formed. Though these are the fundamentals of credit, still the very foundation of credit is faith in another and this is the very element upon which the student can claim credit and upon which credit must be extended to him. This is the one security which he has to offer--a promise to make good and not to break the trust placed in him. The one security, then, which the student has to offer is himself."¹³

There are many forms of security used in the administration of student loan funds. Although ideas and requirements differ among the many systems in operation today, the most common forms of security are:

1. Honor basis.
2. Parent or responsible relative endorser, regardless of financial standing.
3. Collateral security.
4. Responsible endorser.
5. Life insurance.
6. Group life insurance.
7. Group guarantee.
8. Loan sponsorships.

HONOR BASIS.

Probably more loan funds operate on this basis unintentionally than

¹²L. J. Chassee, A Study of Student Loans and Their Relation to Higher Educational Finance, pp. 97-98.

¹³Ibid, p. 67.

any other form of security. Although they may require responsible endorsers, or life insurance, or other bases, seldom do they collect from the security given, but depend wholly upon the borrower for repayment. If the borrower does not repay his loan, then it is considered worthless.

However, the true idea of the honor basis in making loans, is to instill in the borrower's mind that his loan is made strictly upon his own merits and he is expected to repay in a like manner. Under this plan also would fall the loan fund that requires an endorser only if the borrower is a minor. When the borrower reaches his majority, the endorser is relieved of all responsibility. This plan is in effect in the Harmon Foundation.

"In the event that the student is a minor, an adult must endorse the note. This is for moral reasons only, as the borrower is required to affirm his own contract immediately upon becoming of age."¹⁴

Student loans made at the University of Missouri are operated under this basis. The loan administrator at that institution feels that endorsements take away the sense of responsibility from the borrower.

"The next most widely used guarantee is the personal note of the student. This places him on his own honor. He accepts it as a moral obligation to the institution and feels that he is dealing on a very high plane. The institution places confidence in him that spurs him on to do the right thing. If he fails to pay, he has broken a high trust. This is a more powerful and honorable weapon to hold before him than the threat (which he knows will not be carried out) of collecting from his endorser. The note of honor where properly used has been the most effective way of administering loans."¹⁵

PARENT OR RESPONSIBLE RELATIVE ENDORSER.

The parent or responsible relative endorser, regardless of financial standing, is by far the most widely used kind of security in making student

¹⁴Harmon Foundation, Seven Years' Experience with Student Loans, p. 15.

¹⁵L. J. Chassee, A Study of Student Loans and Their Relation to Higher Educational Finance, p. 69.

loans.

"The guardian or parent guarantee is of questionable worth even where the borrower is a minor. It shifts the responsibility from the student at a time when he should be acquiring independence. There is nothing of soundness in all the other forms of guarantee with the exception of an endorsed note and but little good can be said of this. Since the institutions seldom press the endorser in case of default, the requirement of such an endorsement is superficial and burdensome. No reason can rightfully be assigned for such a guarantee since it is a foregone conclusion that it will not be made use of.

"On the other hand, it is harmful in that it denotes lack of confidence in the student and insincerity on the part of the institution. To put it more direct, the institution is simply bluffing the student. It is just as dishonest on the part of the institution to fail to carry out parts of the agreement which it requires as it is for the student to fail to pay when he is able to do so. This phase of student loans has been most lacking in principles. This form of guarantee is the most widely used of any and, as presently administered, is perhaps the most incredible one."¹⁶

This type of endorsement sometimes leaves the idea in the mind of the borrower that "Mama and Papa" should pay for his education, and he therefore lets them pay it. Student loans at the University of Oklahoma and the Oklahoma Agricultural and Mechanical College require the parent or guardian endorsement, together with life insurance, which will be discussed separately.

COLLATERAL SECURITY.

Few students have tangible property of any kind which might be used as collateral security. For this reason, few student loan funds, if any, use this kind of security in making loans.

RESPONSIBLE ENDORSER.

Although this type of security is used at several institutions, it has not proved its practicality. It is quite embarrassing for a student to ask

¹⁶L. J. Chassee, A Study of Student Loans and Their Relation to Higher Educational Finance, p. 69.

some responsible business man to endorse his note for a loan. On the other hand, many business men, who could furnish bankable endorsements, hesitate to stand good for a long term note that does not fall due for several years. Many things could happen to both the borrower and the endorser before such an obligation would be paid. Funds at the University of Tulsa are operated on this plan and their experiences indicate that it is exceedingly difficult for their students to obtain good financial endorsements.

LIFE INSURANCE.

The use of life insurance as security for student loans has its advantages and its disadvantages. Those in favor of life insurance advocate that if the student on his insurance program, it protects his family as well as the loan fund, and it builds up a reserve to fall back on in later life. All of these advantages, so to speak, are from the student's standpoint, and do not help the loan fund except in case of death. While it is true that every man should have an insurance program, to require a student to furnish a life insurance policy as security places quite a hardship upon him at a time when he is living as cheaply as possible and must even borrow money to do that. It is true that insurance is an investment, but if the insured must borrow money to pay his premiums, then he is actually paying interest on his investment. The family, as well as the loan fund, is protected for any losses due to death. The average age of students who borrow from loan funds to complete their education is between 20 and 25. In order to take out a life insurance policy the applicant must pass a rigid physical examination. This proves that the applicant is in perfect health at the time he borrows, and his chances of dying within the next 5 years are very small. A life insurance policy will build up

a reserve after a certain number of years if the premiums have been paid each year during that period. Experience in student loans shows that those borrowers who keep up their loan payments also keep up their insurance premium payments, but those who fail to repay their loans also let their insurance policies lapse. In these cases all protection to family and loan fund is lost through delinquent payments.

Life insurance is required as security by some loan funds. The usual procedure is to allow the insured to name whomever he chooses as beneficiary in the policy. An assignment blank (furnished by all insurance companies) is then filled in and recorded by the insurance company in favor of the specified loan fund. These assignments should not be made for a stated amount of the loan but should read, in substance, "---hereby assigns all his rights and interests to the _____ Loan Foundation, 'As its interests may appear'". This will allow the assignment to be flexible enough to cover any amount of principal and interest up to the face of the policy. In addition to keeping a file of all policies and assignments, it is necessary to maintain a card tickler file in order to keep a close check on the payment of premiums by the insureds. Each time a premium is due on each policy, an inquiry must be sent to the insurance company asking whether or not that premium has been paid. If it has not, then another reminder must be sent the borrower asking him to take care of it. After the lapse period has passed, another inquiry must be sent to the company in order to ascertain the present status of the policy. If the policy has now lapsed, another notice is sent to the insured asking him to reinstate his insurance policy. Little can be done at this point if the borrower does not reinstate his policy.

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Some loan funds reserve the right to advance any premium on a borrower's policy and add that amount to the principal of his loan. If a borrower fails to keep his insurance up and fails to make repayments on his loan, then why should the loan foundation make further advancements to him? It is just the same as making a second loan to a person who has refused to pay his first one.

The University of Tulsa, the University of Oklahoma, and the Oklahoma Agricultural and Mechanical College all require life insurance as security on student loans. The administrators of student loans at the University of Tulsa have never collected a loan through insurance because of death. At the University of Oklahoma, only two death claims have been paid in the eleven years existence of its student loan funds. The loan funds at the Oklahoma Agricultural and Mechanical College have been in existence for eleven years and during that time only one death claim has been paid from insurance policies held as security on student loans. The loan officers at both the University of Tulsa and the University of Oklahoma feel that life insurance is a useless expense to the borrower and causes more trouble and expense to the loan fund than gain realized.

GROUP LIFE INSURANCE.

This type of life insurance security has recently come to the front and is at present in use in most of the leading banking institutions of the country. Where life insurance is required as a guarantee against death of the insured, it is much cheaper and much more easily handled than the ordinary life insurance assignment. The plan is usually taken out in one insurance company and covers each borrower as long as his loan is outstanding. Premiums are payable monthly and may be paid by either the loan fund or the

borrower. It is strictly a term insurance plan and covers only the amount of the borrower's loan plus interest.

GROUP GUARANTEE.

This plan of security on student loans has been created by the Harmon Foundation and is at present used by them.

"The group responsibility protection against loss has been provided in the form of a cooperative or group guarantee. The group furnishing this guarantee consists of all the borrowers in a given fund in a given year. While the student receives the maximum amount of his loan to use at the time his earning power is at a low ebb, and is accepted on the basis of his need, and character reputation as attested by his college and home town references, he promises to pay back three items: (1) the principal of his loan; (2) interest on his loan and unpaid balances as he liquidates his principal, at the rate of six per cent per annum beginning from the date of the loan; (3) a guarantee fund based on each hundred dollars borrowed. This last is paid in as part of his installment payments, and is held until the books have been closed for all the members of the borrowing group.

"For instance, all the borrowers in the school year 1928-29 in the Harmon Loan Fund, are members of a group and losses are deducted from the guarantee fund paid in, and any unused money is returned pro rata to the individual borrowers. Thus the fund is protected by the borrowers themselves at actual cost. The contention is sometimes raised that this places the burden of loss on the good members and it is they and not the black sheep who must suffer. The Foundation's reply is that this is the case in the purchase of almost any service or commodity which one may buy. The costs from all sources together with the required profit are charged up in the ultimate price to the consumer. In mutual insurance the excess cost of losses is borne by the members of the group in the form of reduced earnings on their premiums."¹⁷

One loan officer, when questioned regarding this type of security, answered that it worked a hardship on the borrower, actually increasing the cost of borrowing to himself, and penalizes him for the failure of others to pay their loans. Then, too, some few of the borrowers might take the attitude that if they did not pay their loans, they would be taken care of without loss to the lending fund.

¹⁷Harmon Foundation, Seven Years' Experience with Student Loans, pp 10-11.

LOAN SPONSORSHIPS.

The Loan Sponsorship Plan, at the present time in use at Northwestern University, seems to be the most workable type of security yet devised.

"A device which we have already found very helpful but the full effect of which has not yet been felt is what we call our 'loan sponsorships'. Previous to the reorganization of our procedure we required endorsers of most notes. In practice that was very unsatisfactory. The only students eligible to borrow from the funds are those that cannot get funds elsewhere. They have little or no earning power while in school, and under the terms of most of our loans, complete repayment is not demanded for six years after the student's graduation or withdrawal. In the case of underclassmen or of those who might go on through professional school it might be ten or twelve years before the note need be repaid. Any financially responsible man would lend or even give the money rather than commit his estate to such an obligation for so long a time. The result was that irresponsible endorsers were accepted, and such unbusinesslike procedure tended to give the impression that after all the transaction entailed no very serious obligation.

"We have discontinued asking endorsements, and instead are requiring two sponsorships for each loan. The sponsor assumes no legal obligation, but it is agreed between the sponsor, borrower, and loan officer, that the sponsor does assume a moral obligation to follow the whole transaction through till the loan is repaid in full. In case of delinquency or default, the sponsors are notified and are expected to get after the borrower and see that he does his duty. It is reasonable to expect any student worthy of a loan to get two first class sponsors."¹⁸

References given by the applicant for a loan and written for recommendations by the loan fund have an implied sponsorship when they recommend him for that loan. Most references are interested enough in the borrower to lend any assistance necessary in collection. In the sponsorship plan, each sponsor is required to sign a definite obligation to follow the transaction through.

From the discussion given, regarding all eight forms of security for student loans, one would reach the conclusion that the honor basis is best.

¹⁸Charles W. Ward, Cooperation in Student Loan Fund Administration, p. 83.

It places the borrower on his own honor and he accepts it as a moral obligation to his school to do the right thing. It is recommended that borrowers who are not of age, obtain a responsible endorser. Immediately upon reaching their majority, the borrowers can sign an acknowledgement releasing the endorsers of all responsibility.

DUE DATES.

"Perhaps all of us have had the discomfort of paying at some time or another for the proverbial 'dead horse'. It is not a comfortable matter when 'great holes' are torn in one's pay envelope as soon as it is received. If, however, the payment of the indebtedness may be spread over a longer period of time and the installment made small enough so that there is no appreciable diminution in the budget for general savings and operating expense, the feeling of burden should be eliminated. The trouble in the United States, at least as far as student tradition is concerned, is to feel that any debt is a millstone around one's neck. Ignorance of the uses of money results in being slaves to money and utterly unable to cope with conditions which have to be prefinanced, without the feeling of being weighed down by debt."¹⁹

Formerly, student loans, like bank and real estate loans, were made to fall due in total on a certain future date. In recent years the installment plan of buying and repaying has altered all of this and student loans as well as bank and real estate loans are being repaid on the installment plan. With but few exceptions loan funds throughout the country are setting up their accounts in such a way that will enable borrowers to repay their loans in small monthly amounts to include both principal and interest. Although this plan probably extends the term of repayment a little, it allows the borrower a much more satisfactory method of paying for his education.

The due date of the first installment may and does vary at the different institutions according to their regulations. Usually the first installment will fall due anywhere from one month to one year from the date of graduation. At the University of Tulsa, the University of Oklahoma, and

¹⁹Harmon Foundation, Seven Years' Experience with Student Loans, p. 17.

the Oklahoma Agricultural and Mechanical College, all first payments fall due three months after the borrower graduates or leaves school. At the University of Tulsa and the University of Oklahoma, payments are set at from \$5 to \$10 each month. At the Oklahoma Agricultural and Mechanical College payments vary from \$10 to \$20 per month. At the University of Missouri payments begin falling due six months after graduation with varying amounts of from \$5 to \$10 per month. On loans made to Freshmen, the total amount is due in one year and must be renewed annually while the borrower is in school.

The repayment plan at the Northwestern University is as follows:

"Most of our loans are for long terms, providing that there shall be no interest charged while the student remains in school, but interest at 6% after the borrower leaves school. Repayment is to be made in six annual installments. However--and this is important--when a loan is made, the borrower agrees orally that the terms of his note shall be taken as stipulating maximum terms and that while he is under no further legal obligation, he is under a moral obligation to repay the money as soon as possible.

"This view is readily accepted, and when the borrower graduates I proceed at once on the assumption that he will repay the loan much sooner than the terms of the note stipulate. I recommend and urge budget provision for monthly payments, emphasizing that in effect this gives the borrower 6% interest on his savings, and that the money repaid at once becomes available to other students who need help. This results in a much more rapid turn over than would result otherwise. To increase the speed of turnover by 50% would have the same effect as increasing our loan funds to the same extent."²⁰

It would seem, then, that the best time for the first installment to fall due would be three months after the borrower leaves school. The majority of college graduates are successful in receiving employment by that time and have become adjusted to their new surroundings enough to start setting aside a stated amount from each monthly salary check and

²⁰Charles W. Ward, Cooperation in Student Loan Fund Administration, p. 83.

applying it on their student loans. For those in the teaching field, who usually do not begin their work until September of each year, the first installment on their loan must come from their first salary check. This plan has proved very satisfactory among the loans funds using it.

The final due date of the entire loan will depend upon the amount of each payment, the due date of the first payment, and the total amount of the loan.

INTEREST RATE.

The interest rate charged on student loans varies from nothing up to the highest allowed legally in the state where the fund is operated. Some institutions do not charge interest while the borrower is in school, but the loan begins drawing interest immediately after graduation. Most loan funds, however, collect a small rate of interest on the outstanding balance of the loan.

"Those who make loans without interest insist that it is hard enough for students to pay back anything. They say, therefore, that the principal only, ought to be returned to keep the fund intact. Those opposed to this semi-charitable, and certainly paternalistic, method, hold that it tends to pauperize the borrower, and discounts the economic value of higher education. They also feel that it gives borrowers an incorrect idea of the way in which they will be expected to function in adult life. Some who favor interest point out that it makes young people realize that it costs money to borrow. Consequently, they will be eager to pay their loans as quickly as they are able and thus relieve themselves of accumulating interest.

"The overhead of operating loan funds is usually not charged to the fund, or even estimated. If this were done, the real cost of handling student loans would undoubtedly convince many student loan officers of the desirability of a normal interest charge.

"The borrower returns his loan as his earning power is on the upgrade, and the comparatively little extra that each person pays on a normal rate of interest can be used to increase the service."²¹

²¹Harmon Foundation, Trends and Procedure in Student Loans, p. 90.

The interest rate on all funds at the University of Tulsa, the University of Oklahoma, and the Oklahoma Agricultural and Mechanical College is 6%. Loan funds at the University of Missouri have two methods of calculating the interest, depending from which fund the borrower obtains a loan. On most funds, however, the interest rate is 4% beginning with the date of the note. A few funds are operated without charging the borrower any interest while he is in school, but a rate of 4% after graduation.

"A great many loan funds that have been established for students either eliminate interest or touch it gingerly, giving impression that it is something exorbitant to ask and out of order as far as student aid is concerned. The Foundation takes the point of view that if students are to be properly prepared to meet the conditions of adult life, they should face their own obligations squarely. Anyone knows that the cost of administering small loans is proportionately very much greater than that of large loans. Six per cent is the going rate of interest in the United States. In fact, in small loans it is even more, as is clear from even casual study of the procedure in well recognized companies specializing in small loan business. When the principal of a fund is invested in student paper, it must carry itself and, if possible, the capital should gradually be increased from interest accumulations. Interest charges on student loans are further justified because of the length of time that the debt is outstanding. We usually value the more that which we have paid for. Simply returning money which was used to buy a valuable product is not paying for the service. There must be some additional fee. Another argument in favor of interest is that it impresses the cost of the loan on the borrower and encourages him to make payment more quickly."²²

From the above standpoints it would seem that student borrowers should be charged interest on their loans in order to operate successfully.

Harmon Foundation, Seven Years' Experience with Student Loans, pp. 16-17.

Chapter IV

ACCOUNTING FOR THE FUND

The methods of accounting for student loan funds will vary according to the necessary requirements maintained at different institutions. While some include their loan fund accounts with the regular institutional accounting, others operate as a separate organization and maintain a set of books entirely apart from the institutional records. This plan may not be suited to those funds that make only a few loans each year, but where the fund is large, and thousands of dollars are handled annually, there is a distinct advantage in maintaining separate books. Reports can be drawn up and edited annually in the regular institutional report.

Regardless of whether or not the accounts are kept with the institutional records, the same procedure will apply. In order to clarify the procedure, however, the following explanation of accounting for student loan funds will apply to a fund for which the accounts and books are maintained separately.

INTERNAL CHECK.

One of the more important requisites of administering and accounting for student loan funds is a good system of internal check. Duties pertaining to the administration should be divided among the different employees in such a way that the handling of cash and other data by separate individuals will serve as a balancing and checking formula. For instance, in opening mail from which cash will be received, it is a good plan for one person, usually the mail clerk, to make a list of all receipts. This list may be used by another clerk in writing loan

receipts. The list together with the duplicate of all receipts written will form a permanent record of the loan fund. Another plan for internal check would be for one clerk to write all checks while another enters them on the notes. A balancing list by both clerks will prove that all checks and entries have been made correctly. In administering student loan funds, as well as other public funds, it is always desirable that all employees responsible for the actual handling of cash be placed under surety bonds. Premiums on such bonds as usually paid out of loan fund money.

BOOKS OF ORIGINAL ENTRY.

As with most accounting systems it will be necessary to have several memorandum records and books of original entry, such as

1. Note Register.
2. Note Register of Renewals.
3. Contract Register.
4. Check Register.
5. Cash Receipts Register.
6. General Journal.

Each of the above registers and journals may be in a separate book, or may be all included in one book. The volume of loans will determine which to use.

NOTE REGISTER.

In Chapter III, methods of selecting the risk were discussed but no papers or records were drawn up after that risk was selected. Form 5 is the type of note in use at the Oklahoma Agricultural and Mechanical College and is fairly representative of the kind used at most insti-

tutions, except that opposite the note is a statement of advancements, receipt of which is evidenced by the signature of the maker. These notes should be entered in the note register and numbered consecutively. Illustration 1 on the following page gives the headings usually desirable in keeping a permanent record of all notes made. The note register is a memorandum record and is not used as a posting medium.

NOTE REGISTER OF RENEWALS.

As the title indicates, this record should be used for only those notes which are renewed. The plan in use at the Oklahoma Agricultural and Mechanical College in numbering a renewed note is to give it the same number originally received from the Note Register, with the letter "R" affixed, such as No. 233R. In this way the number of the original note is not lost and can be located, when necessary, very quickly. Like the Note Register, the Note Register of Renewals is a permanent memorandum record and is not used as a posting medium. Illustration 2 on the following page gives the column headings desirable for this record.

CONTRACT REGISTER.

At the same time a note is made with the borrower, a contract should be drawn up similar to the one shown as Form 6. This contract sets forth the terms of agreement between the borrower and the loan fund. It is made in duplicate (one copy for the loan fund and one copy for the borrower) and is signed by the borrower's sureties as well as himself. The Contract Register is a permanent record in which all contracts are entered and numbered consecutively. The number is placed on

(Illustration 1)
Note Register

Number	Maker	Date	Maturity	Rate	Amount
:	:	:	:	:	:

(Illustration 2)
Note Register of Renewals

Date	Number	Maker	Extension Date	Amount
			From To	
:	:	:	:	:

(Illustration 3)
Contract Register

Number	Maker	Date	Amount
:	:	:	:

the contract as well as the note which provides a space for it. As well as a permanent record, the Contract Register is used as a posting medium which will be explained later in this chapter.

CHECK REGISTER.

Where the loan fund maintains a separate bank account, all advancements should be made by check. Should the cash balance of a fund be handled by the financial office of the institution, then this register would be called a Requisition Register and all advancements would be made by requisition. In either event, when an advancement to the borrower is made, it is entered not only on the Check Register but on the note as well. Since checks may be drawn for few purposes other than advancements when connected with a loan fund, there is need for only two columns in the Check Register. Columns may be headed as "Advancements" and "Miscellaneous Debits" as shown in Illustration 4 on the following page. The Check Register is a posting medium which will be explained in this chapter.

CASH RECEIPTS REGISTER.

For all cash received as payments from borrowers, receipts similar to Form 7 should be used. These receipts should be written in triplicate; the original is for the borrower, the second copy for the borrower's permanent file in the loan fund office, and the third copy is bound permanently in the receipt book. All receipts are numbered consecutively and all numbers must be accounted for. Since cash received as repayment of loans is either principal or interest, or both, it is necessary to include in the Cash Receipts Register a column for each. Cash may be received as a donation to the principal of the loan fund.

(Illustration 4)
Check Register

Date	To Whose Order	Number	Amount for		Explanation
			Advance-	Miscellaneous	
			ments	Debits	
:					

In this case the entry is made in the General Journal since a regular receipt form is not used. Illustration 5 on the following page indicates the column headings desirable in a Cash Receipts Register. This register is used as a book of original entry. Postings will be explained later in this chapter.

GENERAL JOURNAL.

The General Journal, as in most types of accounting systems, is used for making entries that cannot be entered in any of the other books of original entry. All entries made in the General Journal are posted directly to the respective accounts in the general ledger. Illustration 6 on the following page is the form usually used.

GENERAL LEDGER.

The General Ledger of a student loan fund is like the general ledger of most any accounting system in that it is a control ledger. All accounts therein are merely control accounts and are used in bringing about a balance of the whole system. The accounts usually used in connection with student loan funds may be listed as follows:

1. Notes Receivable.
2. Expense Account.
3. Loan Encumbrances.
4. Cash (Bank Account).
5. Investments.
6. Change.
7. Contracts for Loans.
8. Foundation Account.
9. Interest Account.
10. Surplus.

(Illustration 5)
Cash Receipts Register

Receipt	Maker	Date	Note Number	Paid Principal	Paid Interest
:	:	:	:	:	:

(Illustration 6)
General Journal

Date	Accounts	L.F.	Debit	Credit
:	:	:	:	:

In the discussion, which follows, each account will be shown in "T" account form with possible debits and credits, their sources, and corresponding entries.

NOTES RECEIVABLE

Notes Made	:	Notes Paid
(Total of principal paid out as shown on Check Register. Corresponding credit to Cash).	:	(Total of principal received as shown on Cash Receipts Register. Corresponding debit to Cash).
	:	
	:	

The balance shown by the Notes Receivable account indicates the total principal on notes outstanding as of a certain date. Changes in this account come about through the making of new loans or the repaying of old loans. A loan is actually not a receivable until it has been advanced. The Check Register is a record of all advancements, therefore, the total checks issued as advancements on loans become notes made and are debited to the Notes Receivable account. All receipts issued in payment of principal or interest are entered in the Cash Receipts Register, therefore, a total of the paid principal column will be credited to the Notes Receivable account. This account is a control of the notes receivable subsidiary ledger which will be explained later in this chapter.

EXPENSE ACCOUNT

Salaries	:	Closed to Interest Account
Printing and Supplies	:	(Charged against interest in-
Premiums on Bonds	:	come for the year. Correspond-
(Individual posting from Miscellaneous Debits column in	:	ing debit to Interest Account).
Check Register. Corresponding	:	
credit to Cash).	:	

A student loan fund may or may not use the Expense Account. Usually, all expenses of student loan funds are borne by the institution, leaving increases due to interest to be added to the loanable principal. At other institutions, salaries are taken care of by the institution, but expenses such as printing, supplies, premiums on bonds, etc., must be paid out of the earnings of the funds. The latter is the system used in this explanation. A glance at the Miscellaneous Debits column in the Check Register will indicate the items of expense to be charged to the Expense Account. The Expense Account remains open until the end of the fiscal period at which time the balance is closed to Interest Account as will be shown in the explanation of closing entries.

LOAN ENCUMBRANCES

Contracts Made (Total contracts made as shown on Contract Register. Corresponding credit to Contracts for Loans.)	:	Advances on Contracts (Total new loan advances as shown by Check Register. Corresponding debit to Contracts for Loans). Cancellations and Reductions (General Journal closing entry for loans not completed at end of fiscal period. Corresponding debit to Contracts for Loans).
	:	

The Loan Encumbrances account is a record account in which the balance indicates the amount of loans contracted for but not advanced. In other words, if the loan fund contracts to lend \$5,000 and up to date has advanced only \$4,000, the balance of this account will be \$1,000. A total of the amount column on the Contract Register will be the amount contracted for a certain period and should be debited to this account. A total of the advancement column on the Check Register will indicate the advancements for the same period and should be credited to the Loan

Encumbrances account. Each year there will usually be some borrowers who will not withdraw all of the money contracted for. Others may make contracts and then cancel them before withdrawing any funds. In order to remove such cancellations and reductions from the books, it will be necessary to credit Loan Encumbrances and make a corresponding debit to Contracts for Loans for the total amount cancelled or reduced. The balance of the Loan Encumbrances account indicates to the Loan Officer the amount of cash he must keep in reserve for present contracts.

CASH (BANK ACCOUNT)

Cash Received	:	Cash Expended
(Total of all cash received as shown by Cash Receipts Register. Corresponding credits to Notes Receivable, Interest Account, and Foundation Account).	:	(Total of all cash expended as shown by Check Register. Corresponding debits to Notes Receivable and Expense Account).
	:	
	:	

This account may be called "Cash" if all available money for loans is kept in one depository. Should the funds be kept in several banks or depositories, the account title should be the name of the bank or depository. All money received should be debited and all money expended should be credited to Cash. Posting of cash received may be made either from the deposit tickets or from a total of both the Paid Principal and the Paid Interest columns in the Cash Receipts Register. Should the cash received come from donations then the entry would originate in the General Journal as explained under "Cash Receipts Register" on page 47. Posting to the credit side of the Cash account will originate in the Check Register and is a total of the Advancements column and the Miscellaneous Debits column.

INVESTMENTS

	:
Investments	: Sale of Investments
(Individual posting from Miscellaneous Debits column in Check Register. Corresponding credit to Cash).	: (Individual postings from General Journal. Corresponding debit to Cash).
	:
	:

Although few funds have any available cash for investments, there are certain periods when all the money is not used for loans and would lie idle were it not invested. The debit to investment from the Check Register will be found in the Miscellaneous Debits column and is posted as an individual item. The corresponding credit to Cash is included in the total of advancements and miscellaneous debits columns in the Check Register. The sale of investments is a General Journal entry in which Cash is debited and Investments credited for the book value. Any income from investments should be credited to the Interest Account.

CHANGE

	:
Cash for Change	:
(Individual posting from Miscellaneous Debits column in Check Register. Corresponding credit to Cash).	:
	:
	:

In all loan fund operations, certain borrowers repay their loans at the general loan fund office. In order to make change quickly and conveniently, it is necessary to keep a small amount of cash on hand for this purpose. Since all expenses and all advancements are made by check, this "Change" account will retain the same balance at all times. The debit is posted from the Miscellaneous Debits column in the Check

Register and the corresponding credit is posted in total to the Cash account. Since the account does not change in status, no credit entries are given. A debit to Cash and credit to Change would close or reduce the account and would originate in the General Journal.

CONTRACTS FOR LOANS

Advances on Contracts (Total new loan advances as shown by Check Register. Corresponding credit to Loan Encumbrances). Cancellations and Reductions (General Journal closing entry for loans not completed at end of fiscal period. Corresponding credit to Loan Encumbrances):	: : : : : : : : : :	Contracts Made (Total contracts made as shown on Contract Register. Corresponding debit to Loan Encumbrances).
--	--	---

Contracts for Loans is a reciprocal account to Loan Encumbrances and has exactly the same balance at all times. A total of the advancement column on the Check Register will indicate the advancements for the period and should be debited to the Contracts for Loans account. A total of the amount column on the Contract Register will be the amount contracted for the same period and should be credited to this account. As explained under Loan Encumbrances on page 49, any cancellations and reductions should be debited to Contracts for Loans and credited to Loan Encumbrances. Both Contracts for Loans and Loan Encumbrances, since they are reciprocal, are merely record accounts and may be closed at any time without affecting the total net worth of the fund.

FOUNDATION ACCOUNT

:

: Donations Received

: (Individual postings from

: General Journal. Correspond-

: ing debit to Cash).

:

In setting up a loan fund, the source of money is indicated by the Foundation Account. Some institutions prefer to use the name of the donor for the title of this account but it makes little difference. A donation of funds is entered in the General Journal as a debit to Cash and a credit to Foundation Account. It is recorded in the General Journal since the cash received was not for principal or interest and no official loan fund receipt was issued.

INTEREST ACCOUNT

	:
Expense Account Balance	: Interest Received
Balance closed to Surplus	: (Total interest received as
(General Journal entries used	: shown by Cash Receipts Register.
in closing books at end of per-	: Corresponding debit to Cash).
iod. Corresponding credits to	: Interest on Investments
Expense Account and Surplus).	: (Income from investments as
	: shown by General Journal entry.
	: Corresponding debit to Cash).
	:

The Interest Account is a Net Worth account since it is an accumulation of earnings on principal. Usually this account indicates the amount of interest received for a certain fiscal period. At the end of that fiscal period, it is closed to Surplus. The credit to Interest Account is a total of interest received in the Cash Receipts Register. The credit for interest on investments originates in the General Journal with a corresponding debit to Cash. Since expense of the fund must be paid out of earnings, the Interest Account is debited

for the total Expense Account balance for the period. The balance remaining is considered net earnings for the period and is closed to Surplus. These closing entries are discussed later in the chapter.

SURPLUS

	:	
Loans written-off	:	Accumulated Interest - Net
(General Journal entry. Cor-	:	(General Journal closing entry.
responding credit to Notes	:	Corresponding debit to Interest
Receivable).	:	Account).
	:	

The Surplus account is actually the net income received for past periods, since its only source is the Interest Account. Closing entries are made from the General Journal in which Interest Account is debited for its balance and the Surplus account credited for the same amount. Debits to Surplus are made for any loan written-off as worthless. A corresponding credit is made to Notes Receivable.

CLOSING ENTRIES.

At the end of the fiscal period, it is always necessary to clear the books and make ready for a new period. Few entries are necessary but they should be made in the General Journal in order to keep a complete record of the changes that have occurred. The first entry would be as follows:

Dr.	Contracts for Loans
Cr.	Loan Encumbrances
	(To remove cancellations and reductions for the fiscal period)

The second closing entry should be:

Dr.	Interest Account
Cr.	Expense Account

(To close expense against the
income for the period)

In order to ascertain the net earnings from interest, it is necessary to deduct the amount of expense from the interest income. The above entry closes the Expense account for the fiscal period.

The final closing entry should be:

Dr. Interest Account

Cr. Surplus

(To close net earnings to Surplus)

The balance of the Interest account, before the above entry, indicates the net earnings for the period and should be closed to Surplus in order that the Surplus account will reflect the Fund's increase during its lifetime.

SUBSIDIARY LEDGERS.

Student loan funds deal in loans only and therefore the most important record is an individual note receivable record. The Notes Receivable Account in the General Ledger shows a balance of notes receivable outstanding but it is necessary to have the same information in detail concerning each borrower. In order to keep this record, a subsidiary ledger is setup for Notes Receivable. The information may be kept in different manners and may be posted by different methods, but perhaps the most successful and simple is the system in use at the Oklahoma Agricultural and Mechanical College. On the back of Form 5 is a statement of repayments. By using this side as a ledger sheet, a running balance of principal can be kept. The notes are placed in alphabetical order and entries are made on them by hand, each time a receipt is written for the borrower.

Legally, all payments on a note must be entered on that note. If a supplementary ledger is kept for borrowers, it would necessitate the posting of each receipt two times: once on the note and once on the ledger. By using the notes themselves as a ledger one extra posting is saved. A total of the outstanding balances on the notes should balance with the Notes Receivable control account in the General Ledger and at the same time prove all posting for the period.

Some may say that when a loan is paid in full, the return of the note to the borrower destroys all record of repayment for the Fund. This may be true if paid notes were returned, but seldom does the borrower ask for his note if he receives a receipt showing that his loan has been paid in full. Those borrowers that request their notes should receive them, but not until a copy is made for the Foundation's permanent files.

ACCRUED INTEREST.

All student loan funds are operated on a cash basis. Therefore, interest is not recorded until it is received. A survey of this question at the University of Oklahoma, the University of Missouri, the University of Tulsa, and the Oklahoma Agricultural and Mechanical College showed that no interest was accrued on the books. The interest is due when the note is due and if not collected, the books do not reflect the status of the interest. Although it is not a general practice, in renewing a note it may be desirable to include accrued interest with the face of the note. In this case Notes Receivable would be debited for the increased amount and Interest Account credited. When this is done, the Interest Account does not reflect the true amount of inter-

est received for any one period. A better plan would be to enter on the face of the note the fact that so much unpaid interest is due on that loan and should be collected first.

REPORTS.

Student loan funds, as with all organizations keeping a complete set of books, require periodical reports. It depends entirely upon the governing board just what type of reports are required and whether or not they are to be in detail. The best report for any organization is the simplest report that includes all information necessary to reflect its true status.

Where a loan fund is large enough to have several employees with specific duties, it is well to furnish the Loan Officer with monthly reports on the operations and standing of funds. A simple, yet effective, statement of operations is shown in Illustration 7 on the following page. All figures are fictitious and do not reflect the status of any fund. All information given on the Operations Report is easily obtained from the general ledger accounts.

Illustration 8, on the following page, is a simple balance sheet taken directly from the general ledger as of a given date (usually the last day of the month). The Operations Report and the Balance Sheet comprise statements which may be utilized monthly by the Loan Officer in checking on the performance of his funds. It will be noticed in Illustration 8 that Loan Encumbrances and Contracts for Loans accounts are offset under Resources and are included only for the purpose of showing how much the Fund has obligated itself to the borrowers for advancing further payments.

(Illustration 7)

OPERATIONS REPORT
For the Month Ending April 30, 1938

Cash on hand first of month		\$ 5,000.00
Receipts for the month:		
Principal	\$ 1,500.00	
Interest	<u>250.00</u>	<u>1,750.00</u>
Total		\$ 6,750.00
Disbursements for the month:		
Loans	\$ 1,400.00	
Expense	<u>50.00</u>	<u>1,450.00</u>
Cash on hand last of month		\$ <u>5,300.00</u>

(Illustration 8)

BALANCE SHEET
As of April 30, 1938

RESOURCES:

Cash in bank		\$ 5,300.00
Cash in office		25.00
Notes Receivable		14,620.00
Loan Encumbrances	\$ 3,355.00	
Less Contracts for Loans	<u>3,355.00</u>	<u>.00</u>
Investments		<u>6,000.00</u>
Total Resources		\$ <u>25,945.00</u>

NET WORTH:

Foundation Account		\$ 15,000.00
Surplus		9,800.00
Interest Account	\$ 1,245.00	
Less Expense Account	<u>100.00</u>	<u>1,145.00</u>
Total Net Worth		\$ <u>25,945.00</u>

All institutions file annual reports with their respective governing Boards. Included in these financial reports are tables and exhibits showing the status and operation of all funds for the year past. Included also should be an exhibit showing the operations of all loan funds for the same period. Illustration 9, which is on a following page, is the usual heading used in presenting this information. The data is easily obtainable from the ledger accounts explained in this chapter.

In addition to the above Illustration 9 with the regular institutional reports, the executive committees of student loan funds may require detailed information in order to check on the effectiveness of their operations. In making an annual report of this kind, forms may be setup to present the information requested by committees. Illustrations 10 to 16, inclusive, presented on the following pages, may be written in any form acceptable to the Loan Officer.

AUDIT.

Each student loan fund should be audited annually by a disinterested accountant, and his report included with the annual reports to the executive committee. This audit will not only protect the Fund but will give the Loan Officer a thorough check on operations for the accounting period.

(Illustration 9)

Exhibit No. __

STUDENT LOAN FUNDS, 1938

Fund	: Balance	: Additions	: Additions	: Return of	: Deductions	: Balance
	: 1-1-38	: from	: from	: Principal	: (Loans &	: 12-31-38
	:	: Gifts	: Interest	:	: Expense):	:
	:	:	:	:	:	:
	:	:	:	:	:	:

(Illustration 10)

NOTES OUTSTANDING
As of December 31, 1938

Name of Borrowers	Total Borrowed	Present Balance	Due Date	Year Loan Made
:	:	:	:	:
:	:	:	:	:

(Illustration 11)

STATEMENT OF GROWTH
Year, 1938

Foundation Account, 1-1-38	\$	xx,xxx.xx	
Surplus Account, 1-1-38		<u>x,xxx.xx</u>	
Total Net Worth, 1-1-38	\$		xx,xxx.xx
Additions:			
Gifts	\$	x,xxx.xx	
Interest Income		<u>x,xxx.xx</u>	<u>x,xxx.xx</u>
Total	\$		xx,xxx.xx
Deductions:			
Expense Account	\$	xxx.xx	
Losses written-off		<u>xxx.xx</u>	<u>xxx.xx</u>
Total Net Worth, 12-31-38	\$		<u>xx,xxx.xx</u>

Distribution of Net Worth

Foundation Account, 12-31-38	\$	xx,xxx.xx	
Surplus Account, 12-31-38		<u>x,xxx.xx</u>	
Total Net Worth, 12-31-38	\$		<u>xx,xxx.xx</u>

(Illustration 12)

COLLECTION RECORD

Comparison of Principal and Interest Collected by Months
For the Year, 1938

Month	Cumulative Total	Principal	Interest
January	xxx.xx	xxx.xx	xx.xx
February	xxx.xx	xxx.xx	xx.xx
March	xxx.xx	xxx.xx	xx.xx
April	x,xxx.xx	xxx.xx	xx.xx
May	x,xxx.xx	xxx.xx	xx.xx
June	x,xxx.xx	xxx.xx	xx.xx
July	x,xxx.xx	xxx.xx	xx.xx
August	x,xxx.xx	xxx.xx	xx.xx
September	x,xxx.xx	xxx.xx	xx.xx
October	x,xxx.xx	xxx.xx	xx.xx
November	x,xxx.xx	xxx.xx	xx.xx
December	<u>x,xxx.xx</u>	<u>xxx.xx</u>	<u>xx.xx</u>
Totals	<u>x,xxx.xx</u>	<u>x,xxx.xx</u>	<u>xxx.xx</u>

(Illustration 13)

GENERAL SUMMARY OF OPERATIONS
For the Year, 1938

Total amount loaned during lifetime of the Fund	\$ <u>xx,xxx.xx</u>
Total amount repaid during lifetime of the Fund	<u>xx,xxx.xx</u>
Total amount outstanding as of December 31, 1938	\$ <u><u>xx,xxx.xx</u></u>
Per cent of total loans paid	xx.xx%
Total number of loans made during lifetime of the Fund	xxx
Total number of students helped during lifetime of the Fund	xxx
Total number of students paid in full during lifetime of the Fund	xxx
Total number of student not paid in full as of December 31, 1938	xx
Total number of students paid in full during the year, 1938	xx

(Illustration 14)

DISTRIBUTION OF BORROWERS BY FUND, SEX, AND CLASS
For the Year, 1938

<u>Fund</u>	<u>Total</u>		<u>Graduate</u>		<u>Senior</u>		<u>Junior</u>	
	<u>Boys</u>	<u>Girls</u>	<u>Boys</u>	<u>Girls</u>	<u>Boys</u>	<u>Girls</u>	<u>Boys</u>	<u>Girls</u>
General Loan Fund	XX	XX	X	X	X	X	X	
Self-Help Fund	XX		X		X			
Another Fund		XX		X				X
Another Fund	XX	X	X		X	X	X	
Another Fund	XX	XX	X	X	X	X	X	X
Totals	XX	XX	X	X	X	X	X	X
Totals by Classes	XX		XX		XX		X	

(Illustration 15)

STATEMENT OF LOANS ADVANCED
For the Year, 1938

Name	:	Fund	:	Class	:	Amount Advanced
	:		:		:	
	:		:		:	

(Illustration 16)

STATEMENT OF LOANS PAID IN FULL
For the Year, 1938

<hr/>				
Name	:	Amount	:	Date Paid
	:	of Loan	:	
<hr/>				
	:		:	
	:		:	

Chapter V

COLLECTIONS

The test of successful administration and methods in handling student loan funds is in their repayment. It has been found that there exists no certainty of system in the collection of student loan funds. In most institutions, very little attention has been given to this side of the question. Those institutions that have attempted to collect have done so only after the loan has been overdue for a long time and the borrower has grown callous toward his obligation. Oftentimes, he has found it good business to let his college loan remain unpaid while he invests his money in other ventures that pay a larger return than his loan costs. Experience has proved that the longer a loan is allowed to lapse the more difficult it is to collect.

A sound system of collection must take the matter in hand soon enough so that loans will be paid when due. This is one side of the student loan question where business principles may be employed. Many institutions have failed to regard their student loans as business obligations and consequently have not handled them in a business-like manner.

"Their appeals for the payment of loans overdue have not been sufficiently exacting and have often taken an apologetic form. Some institutions have looked upon a rigid system of collection of outstanding funds as below their dignity and strangely enough have seemed to prefer seeking funds from outside sources to collecting debts that are rightfully due to them. So lacking in sound principles is this that under our present economic and commercial organization it can persist only to the detriment of higher education. It is mockery for an institution to teach principles which it does not practice, for while on the one hand it attempts to instill ideals into youths, at the same time it undermines these teachings by its business dealings with the student body.

"An effective system must be exacting, precise, and prompt. It must be sympathetic only when the circumstances warrant sympathy. The borrower must be approached at the right moment, which is just before the loan falls due. The longer the payment lapses the more hardened he becomes to his obligations and the more difficult it is to collect."¹

Since many student loan funds administered today are lacking in a definite collection procedure, it would seem that such an outline should be fixed and operated according to business principles. The first step in such a procedure is to instill firmly in the mind of the borrower all the terms of his contract and see that he lives up to them. In other words, ample provisions should be made for the collection of a loan at the time it is advanced.

GRADUATE STUDY

As a whole, Loan Officers should be very lenient with those students who wish to continue their education and do graduate study. The best plan is to allow the borrower to make a renewal note by paying the interest to date on the renewed note. It is even permissible to make the borrowers further loans during their graduate work. The University of Oklahoma and the University of Tulsa loan funds do allow the borrower to renew his loan in order to enter graduate study, but they cannot make further loans to him since their requirements state that funds can be used only to help juniors and seniors. Loan funds at the University of Missouri and the Oklahoma Agricultural and Mechanical College allow their borrowers to renew old notes and even make new loans under these circumstances.

¹L. J. Chassee, A Study of Student Loans and Their Relation to Higher Educational Finance, p. 105.

Oftentimes, a student who continues his education through graduate work without any intervening period after finishing his undergraduate studies, takes his earlier indebtedness with little concern. This attitude is due to the unbusiness-like way in which his loans were extended. The tendency, through church and charitable influence in higher education, seems to "pet" the poor student. He feels sorry for himself and takes the attitude that his education may be taken as he pleases, providing he pays back sometime in the future.

If a student enters graduate work and renews his loan, it is all the more important that his loan be placed on a business basis and operated strictly according to business principles. It is very difficult for the average student, who has had a large loan outstanding for a number of years, to realize the importance of returning that money as quickly as possible. He is inclined to take the point of view that as long as his loan continues to draw interest at the specified rate and that it will be paid in full some day, the loan fund should be satisfied. The best plan, then, would be to allow the graduate student to renew his obligation, but to deal a little more strictly with him than you would have otherwise.

DELINQUENCY

If a borrower fails to make one payment after the due date has passed, then his loan becomes delinquent and some arrangements should be made to bring his account up to date. Of course, as long as there are student loan funds, there will be delinquent borrowers among those who do not take the proper attitude toward repayment. However, steps can be taken that will correct this attitude if they are started soon

enough. That time is immediately after the first payment becomes delinquent. Almost every borrower can tell in advance whether or not he will be able to meet the installment due on time. If he finds that payment cannot be made, he should take the matter up with the Loan Officer and make provisions for it. The following excerpt is in practice by the Harmon Foundation and indicates the proper attitude to be taken with delinquent borrowers.

"The Foundation endeavors to meet the special needs of individual borrowers through the provision for deferred payment or extensions, if the borrower takes the initiative in bringing his case up for review before the date for payment arrives. Where the debtor shows that he is thinking in terms of self-responsibility and indicates an appreciation of the serious nature of his obligation, there is an inclination to meet him half way, even though this involves an adjustment of the due dates. Borrowers, however, who call for help and offer bad times, illness, etc., only when they are dunned, cannot receive this same consideration."²

Perhaps the reason for most delinquencies in student loan administration is the failure on the part of the Loan Officer to impress upon the borrowers the responsibility placed upon them in living up to every part of their contract. A student loan is a business proposition and the borrower should be made to understand it as such. Mrs. Mary Beatrice Brady, Secretary of the Harmon Foundation, indicates that most delinquencies are due to what they term "character failures". The borrowers feel sorry for themselves, think they have had a hard time because they have had to work their way through school, or borrow to get through, and expect student loan obligations to be considered in a different category than any other obligation. It has been found that, where a very strict, business-like attitude exists from the time the

²Harmon Foundation, Seven Years' Experience with Student Loans, pp. 20-21.

loan is sought, borrowers are much more likely to meet payments on time and have less difficulty establishing themselves in organizations which pay at least a reasonable living wage.

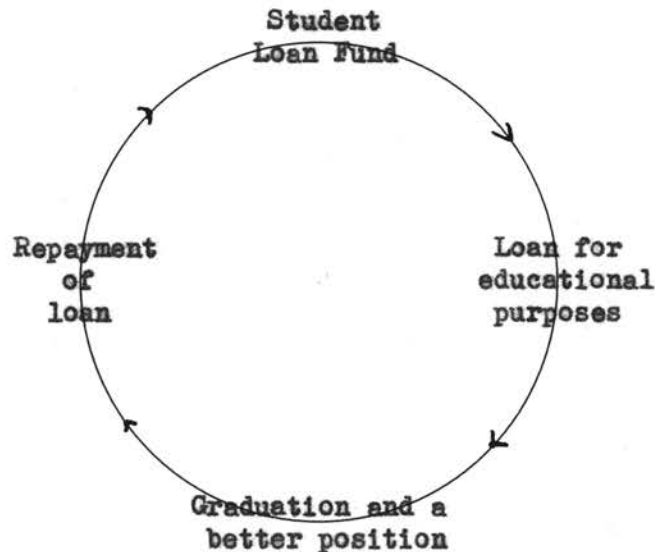
COLLECTIONS

Mr. Percy H. Johnston, President, Chemical National Bank of New York City said, "Character and credit go hand in hand through business life, and I think it is obvious to everyone that the strict performance of contracts is the most certain road to success." If each borrower could be made to understand that a certain amount of his success in life depends upon his adhering to the strict performance of every contract made, it would not be necessary to use the term "collect" in speaking of student loan administration.

The majority of student loans should not be collected, they should be administered in such a manner that will impress the borrower with the seriousness of such an obligation. If all efforts of this kind fail, then there is nothing left for the Loan Officer to do but to enforce the privileges afforded him in the contract by forcing collection. On the other hand, to insist upon a borrower doing what, under his circumstances, is not reasonable to expect him to do, is as bad as failing to be insistent when he is not doing his best. Sympathy and help when a borrower is sick or out of a job will establish a relationship which will enable the administrator to make collections later.

It is highly desirable that student loan funds operate in a cycle in which all concerned are benefitted. The money is loaned to the student enabling him to obtain a college education which will allow him a better place in the business world which will in turn make it easier

for him to repay his loan. His repayment goes right back into the same cycle again with another borrower who is attempting to complete his college education. The following chart indicates graphically the usual cycle found in a well-operated student loan fund.



The greatest service rendered by any Loan Officer is to help the student help himself after graduation. A very personal relationship between the loan office and the borrower is most effective in student loan fund collection procedure. The purpose of student loans is the welfare of the boy or girl and the loan office exists for them, not they for the loan office. For a borrower to affix his signature to a written promise and afterwards contemptuously or indifferently ignore or repudiate it, and be able to "get away with it" would be detrimental to that borrower. A loan so administered would be worse than no loan to any student. However, it makes a difference whether the loan officer's interest is in the money or the borrower. If the former,

he is just a collector, if the latter, an educator and a benefactor.

The preceding discussion has been more or less concerned with the borrower who takes the proper attitude toward his loan and attempts to do the right thing. If he lays his "cards on the table", the Loan Officer knows the circumstances and can govern himself accordingly. The borrower who fails to answer notices or letters is the one who should receive other treatment. A discussion of this type of borrower follows later in this chapter.

FOLLOW-UP

The follow-up plan is merely the organization of data and materials in the loan office in such a way that the borrower can be constantly reminded of his obligation. Of course, there is no need of a follow-up system for the borrower who meets his payments regularly and on time. The borrower who is always late with payments, or delinquent, is the one affected.

There are probably as many follow-up systems as there are student loan funds. Some of them are very effective and some of them are a waste of time and money. The Northwestern University loan office uses a system whereby the Loan Officer can obtain a check on the borrower's attitude toward his loan while he is still in attendance. Their "Pre-payment Fee Agreement" requires that the borrower pay one dollar every six months while he is in school. This device serves several purposes. It keeps the borrower aware of his loan, it enables the loan officer to note what degree of responsibility the borrower evidences, and the first dollar paid after a borrower reaches his majority validates the contract.

The importance of follow-up in student loan fund administration is to impress the student with the necessity of paying his loan according to contract and to help him obtain a credit standing that will be of benefit throughout his lifetime. In other forms of installment business, there is usually something tangible to take back in case of default. In loans administered strictly on character, there is nothing for which a writ of replevin may be served, or no mortgage that can be foreclosed. Borrowers must be made to realize that the credit rating they obtain from prompt liquidation of their loan obligation is worth far more than money secured as a gift or on easy terms.

A good follow-up system must be constructive and operated from the point of view of the borrower. This type of system involves handling the borrower so that he gets an insight on himself and into a mood to act on suggestions. He will soon be in the frame of mind to want to repay his loan.

In order to carry on a successful follow-up system in student loan funds, the Loan Officer must have a clear cut view of the difficulties of borrowers. He must be somewhat of a psychologist in the understanding of human nature. He must, in his own mind, place himself in the position of the borrower and ascertain what reactions he would receive from the same letter he is about to send the borrower.

The system of follow-up in use at the Oklahoma Agricultural and Mechanical College has been in operation for a number of years and has proved itself successful in the collection of payments from delinquent borrowers. The first essential part of such a system is to collect all data concerning each borrower on one card in such a way that it can be

accessible when needed. Nothing is more burdensome than to have to trace data from four or five different files in four or five different places. Form 8, found on page 102, contains all information regarding the borrower's marital status, school from which graduated, dates and amounts of loans, parents or guardian and their addresses, note endorsers, their relations and addresses, present employment, position, firm and salary; a complete record of correspondence both to and from him; installment payments and due dates of those payments; and a complete record of all repayments made by him by months and years.

A standard size letter file drawer is used in filing these cards by divisions. The divisions necessary are: Delinquent, January, February, March, April, May, June, July, August, September, October, November, December, Regular Session, and Summer Session.

A small blocked-off square will be noticed in the left-hand center of the card (Form 8). In the small space labeled "Monthly Notice" is written "yes" or "no", depending on whether or not the borrower is to receive regular monthly notices for payments due. Some borrowers are so regular with their payments that it is not necessary to send them notices of any kind. Opposite the item "Monthly Payment" is written the amount the borrower is to send each month. This figure should be written in pencil in order that it may be changed from time to time as the amount of payment varies. Opposite the last item "Monthly Due Date" is written the day of each month on which the borrower is to make his payment. It is practically impossible to make all payments due on the first day of each month, since all employees are not paid on that date. This figure is also written in pencil in order to take care of

changes in payment dates.

As soon as a loan has been made, and all advancements on the note have been given to the borrower, this card is filled in from the data already collected, and placed behind the division month on which the first payment falls due. If the first payment is to be for \$10 and falls due on October 1, then when the notice clerk is ready to mail notices for payments, the entire October file of cards is checked and all marked "yes, 1st" will be sorted out and Form 9, illustrated on page 103, filled in and mailed. These first notices should be sent at least three days in advance of the due date in order that the borrower may make arrangements to meet the payment on time. It is a disadvantage to the borrower to receive his notice too far ahead. He may be careless and forgetful and mislay it. Should the loan fund office not receive payment from the borrower by the 10th of the same month, a second notice, similar to Form 10 on page 104, should be mailed him. If a payment is not received by the 20th of the same month, then a third notice letter, typewritten personally, should be mailed to the borrower. A letter similar in content to Form 11 on page 105 may be used for this notice. In order to make sure that no borrower will receive the same letter twice, twelve such letters may be written and a different one used for each month. The effectiveness of a personal letter is lost if the borrower suspects that it is a form. Continuing the illustration, if the borrower does not answer with a remittance or a note of explanation by October 30, the card is immediately transferred to the front of the file and behind the division marked "Delinquent". These delinquent cards comprise the follow-up program. Each month from then

on, each delinquent borrower should be written a personal letter. These letters are the ones in which the Loan Officer must use diplomacy and tact in convincing the borrower that a wrong is being committed by his not making payments according to schedule. Let us say that the above borrower was written a personal letter in November and another in December. On December 20 the borrower informed the Loan Officer that he was now in a position to begin regular payments on his obligation and would start sending \$10 each month on February 10. His card is immediately marked to conform and is placed ahead in the February division of the file. When the notice clerk sends first notices for those payments due February 10, the borrower will again receive a reminder of his promise for sending the \$10.

The above procedure describes the detail to be taken if payment is not received on due date. Assuming the same borrower's payment now falls due on February 10, an attempt will be made to trace it through the various steps when regular payments are made. On February 12 the loan office receives the \$10 remittance promised by the borrower. An official receipt is written and mailed, notation is made on the card that payment was received, the amount is entered on the back under "repayment record", and the borrower's card is now transferred one month ahead and placed behind the division "March". The procedure is duplicated each month from there on until the loan is repaid in full, at which time the card is removed from the file and placed permanently in the borrower's personal folder.

The divisions "Regular Session" and "Summer Session" contain the cards of those borrowers who are still enrolled in school during either

of the sessions and are, of course, not expected to make repayments.

FORCING REPAYMENT

A successful plan for bringing delinquent loans up to date is in use at both the University of Missouri and the Oklahoma Agricultural and Mechanical College. Once or twice each year a collector is sent out over the state and surrounding states to interview and obtain data on delinquent borrowers. Information may be received from the borrower himself, from his parents or relatives, from his employer, and from local sources such as the Chamber of Commerce, the Retail Credit Association, or the borrower's banker. Those borrowers who have become callous with their obligations to the loan fund and have not made satisfactory arrangements for repayment are the ones called upon. The psychological effect upon the borrower when a visit is made him by the collector is that the loan fund means business and he had better begin repayment. The results of these trips are very encouraging and seldom does the collector meet with discourteous treatment from any of those contacted.

There are several very effective plans within reach of all institutions but they are seldom used. For instance, a graduate, regardless of his field of work, always desires to have his diploma and transcript of grades. In some instances the transcript of grades may mean a better position or perhaps a promotion. All institutions have the privilege of withholding all borrowers' diplomas and transcripts until satisfactory arrangements have been made for repayment of their loans. Under these circumstances it is quite certain that a borrower will hasten to make satisfactory arrangements in order to have his tran-

scripts released. For those students who are still in residence at the institution and who ignore statements and letters, it is a good plan to exclude them from attending classes until all requirements have been fulfilled.

Legal aid is sometimes used by loan funds in collecting delinquent accounts. In certain cases it is very desirable. The attitude taken by borrowers who have been allowed to let their obligations run for a number of years is, "What if I do not pay my loan, the loan fund will not do anything about it. Others have failed to repay so why should I make a sacrifice to repay mine?" A few lawsuits will soon reach those delinquent borrowers and they will see what could happen to them.

"While occasionally resort to legal aid is necessary, it is expensive as a means of collecting relatively small amounts due from people scattered all over the country, and consequently, when used is more valuable for moral effect with other borrowers than in actual collections."³

A bank will immediately resort to legal means for collections from one of its borrowers who does not make satisfactory arrangements for repayment. Every loan fund should be operated on a modified scale of the same principles as a bank and should when necessary use legal means in collection.

LOSSES

Officers of any kind of lending organization will agree that regardless of how carefully loans are made, there will inevitably be losses. However, they will also agree that a careful study of all losses in the past will help in their reduction for the future.

³Harmon Foundation, Trends and Procedure in Student Loans, p. 19.

"REASONS FOR LOSSES IN THE PAST:

- A. Loan Funds have not been properly administered.
 - 1. Lack of definite agreements with borrowers.
 - 2. Student was not made to realize the obligation he was undertaking--the institution failed to develop a clear-cut sense of responsibility.
 - 3. The risk was not properly selected.
 - 4. There were no systematic collections.
 - 5. The charging of no interest or too low interest.
- B. The institution failed to 'see the student through'. Loans were made in the early part of the college career and additional loans were refused, which kept the student from finishing his education.
- C. The institution failed to realize how a right kind of loan policy can be made a means of character building."⁴

The above reasons for losses are more or less theoretical and are based on the fact that the making of the loan is where the real loss originated. While some losses may occur from these reasons, it is quite evident to most loan officers who have had a number of years experience that there are many other reasons for losses which do not originate from the administration of the loans. For instance, a student may die or become physically or mentally disabled after leaving college. Other reasons might be State Rehabilitation student unable to carry on work, bankruptcy, criminal record after leaving college, foreign students returned home, students who cannot be located, and poor financial circumstances.

The Cashier of the University of Michigan classifies the following reasons for losses in student loan funds as "Doubtful Collection Reasons".

⁴L. J. Chassee, A Study of Student Loans and Their Relation to Higher Educational Finance, p. 112.

DOUBTFUL COLLECTION REASONS:

1. Professional men unable to build up a practice.
2. Persons who failed to graduate and hold small paying jobs as laborers or clerks. They feel that they received no benefits from the college education.
3. Persons, ambitious and intelligent, but who lack some qualities necessary in securing and holding a position.
4. Persons who borrowed too heavily for their education and who appear to have become discouraged in their efforts to repay large loans.
5. Negroes and foreigners whose opportunities for securing positions are limited.
6. Foreigners who have returned to their homes and show little interest in the loans.
7. Lazy, shiftless persons who are content to live off their parents or who work just enough to live.
8. Persons who deliberately evade the obligation and whose circumstances make legal action useless.
9. Those holding some grievance against the Institution and who retaliate by refusing to repay their loan.
10. Persons partially disabled, thus reducing their future earning power.

Every loan fund that has been in existence for any length of time has loans which are considered worthless. Each of those worthless borrowers can, no doubt, be classified as to one or more of the above reasons. There is little that can be done with that type of borrower.

Total losses, although considered as such, are not written off against Surplus at the University of Oklahoma or the University of Tulsa, but are carried on the books from year to year. At both institutions, loans are placed in the hands of attorneys for collection where it is found that the borrower is in a position to pay. Their experiences have

been that where the lawsuit is pressed, the borrower will usually make satisfactory arrangements for repayment before it comes to court.

The system in use at the University of Michigan for writing off losses is quite satisfactory and can be put into operation by most Funds of any size. Excess cash is invested in securities until needed and the interest earned on those investments is credited to an account called Reserve for Uncollectible Loans. All loans considered worthless are charged to this account. Charged off loans, if collected, are then credited back to the account. By this method no individual loan fund suffers a loss.

In a wisely conducted bank, worthless loans must be charged off after a certain period of time. Therefore, if a student loan fund is to be conducted in business principles the same as other lending institutions, losses should be written off in one manner or another.

Chapter VI

INVESTMENT OF SURPLUS CASH

There are always certain periods during the lifetime of any student loan fund in which request for loans is much less than the amount of cash available for advancements. During these periods the surplus cash lies idle in the fund and is neither helping students complete their education nor earning any interest for increasing the fund. It is advisable, then, to invest this money in securities which will bring income into the loan fund.

Investment may be in negotiable bonds, savings accounts, mortgages, or state, county, or school district non-payable warrants. Care should be taken, however, to choose the type of security that can be easily turned back for cash, should the demand for more student loans increase to such an extent that more cash is needed. Other possible types of investment would be certificates of deposit or Postal Savings, although the rate of interest is very small. The University of Oklahoma invests surplus cash in State non-payable warrants, while the University of Tulsa invests in a savings account at their bank. Surplus cash for the Oklahoma Agricultural and Mechanical College student loan funds is invested in certificates of deposit.

It is very important in investing student loan funds for the Trustees to look closely into the matter of their responsibility in handling such investments. The provisions set up in the establishment of the fund must be carefully followed. If the loan fund does not have special provisions for investments, then statutory provisions would apply. Nothing should be done which would tend to endanger the fund; on the other hand every effort

should be made to secure the largest return consistent with the security of principal.

Most institutions have several loan funds operated under the same provisions. Surplus cash available for investment from several of these various funds should be pooled and invested as a whole. Of course, such investments cannot be allocated to the individual funds, but must be treated as investments of the group. The income therefrom can be allocated to the various funds on the basis of their respective investments.

The type of records used will vary according to the type of investments. It should be kept in mind that the best record is the one that gives complete information regarding the transaction and one that can be understood by any person unfamiliar with it.

Chapter VII

CONCLUSION

Funds operated as a financial aid for worthy students have become one of the major divisions in our higher educational institutions of today. The need for such assistance has proved itself in the growth of student loan funds during the past few years. Such funds are usually operated as revolving funds and in order to keep all resources intact throughout the years to come, it becomes quite necessary that loan officers be constantly on the look out for improved methods of administration and accounting as applied to student loan funds.

Heretofore many books and articles have been written on the administration of student loan funds, but little has been said regarding the accounting and collection of such funds. This arrangement appears to be more or less one-sided. While it is true that the proof of success lies in the administration of loan funds, success can be measured better if a loan has been accounted for and collected.

In private industry and in governmental functions, care has been taken to establish not only exacting administrative policies but provisions for very elaborate systems of accounting and financial reporting. These facts indicate that proper methods of accounting are essential for every business, regardless of size. In the administration and accounting for student loan funds they are of even greater importance, since they must be depended upon to prove the integrity and efficiency of those upon whom the responsibility of management has been placed.

Since student loan funds are separate entities and have a distinct place in our educational systems of today, it is evident that steps must

be taken to operate them as such. For too long, loan administrators have considered the operation of loan funds as a part-time job and have attempted loan fund operations in addition to regular institutional activities. If and when such a loan officer finds time to give the loan funds a little attention, his mind is divided with other duties so that real consistent loan policies and efforts cannot be carried out. Even the smallest commercial banking house would not think of employing a merchant as its president and financial officer. His time would be divided and he could not put forth full-time efforts for the betterment of the bank. Student loan funds are not unlike a bank except for long term obligations. Banking policies and principles should be carried on through the efforts of full-time employees.

Some institutions include all loan fund accounts and records with their regular institutional systems. This practice is not only cumbersome but causes unnecessary delay in obtaining pertinent information from time to time. In government operations separate systems are maintained for each unrelated fund. Student loan funds are separate and distinct from other education activities and should be operated under their own system of accounts. Periodical statements may be easily added to the institution's regular annual reports.

In general, student loan funds should be administered with the same ethical considerations that would be found in a wisely conducted bank. The controlling officer should have a dual purpose in mind: first, to educate the student in the values of business principles and early credit ratings; and second, the collection of loans. Both purposes are requisites for the successful operation of student loan funds.

APPENDIX

Forms 1 to 11, inclusive, which follow, are in use at the present time and are included here merely as suggestions in the administration of student loan funds. Each form and its use has been explained in the body of this thesis.

THE
LEW WENTZ FOUNDATION
OF THE
OKLAHOMA AGRICULTURAL AND MECHANICAL COLLEGE
STILLWATER, OKLAHOMA

Name _____
Home Address _____
Applicant's No. _____

PERMANENT STUDENT LOAN FUND

APPLICATION

NOTICE

- I. Before filling out blank:
 - 1. Read contents carefully
 - 2. Obtain necessary information
 - (a) from family
 - (b) from college catalog and other sources
 - 3. Understand each question
 - 4. Read and understand rules of the Foundation
- II. *Answers must be written by the applicant with pen and ink in own handwriting*
- III. All blanks must be filled in and answers made full and clear

The Lew Wentz Foundation of the Oklahoma Agricultural and Mechanical College is established to help young men and young women to obtain an education at the Oklahoma Agricultural and Mechanical College.

Education is to enrich life by giving it vision, definiteness, efficacy, power, and beauty: it gives vision through widening the range of one's knowledge; it gives definiteness by enabling one to set up for himself worthy purposes in harmony with his capacities and interest; it gives efficacy through specific knowledge, skill, and attitude; it gives power through the development of latent ability in many directions: and through the inculcation of wisdom; it gives beauty by quickening one's responsiveness to and appreciation of the aesthetic elements of all that one experiences. The Oklahoma Agricultural and Mechanical College believes in a well-rounded education which fits one for life, for citizenship and for useful employment.

The Foundation is endeavoring to aid young men and young women by offering them a straight business proposition which will give them a training in how to transact business; how to budget their expenses; how to live economically; how to bear their own burdens; how to meet their obligations squarely and fairly; and how to establish a reputation that is above reproach. It loans on the faith of the character of those who borrow from it. See Rules and Regulations.

FINANCIAL RESOURCES

14. Is there some source other than the loan fund from which you can receive financial assistance at this time? _____
15. What amount of money do you receive through the school year from sources other than personal labor? _____ Source? _____
16. What amount do you now receive or expect to receive by personal labor per month? _____ Kind of work? _____ Where? _____
17. List of real and personal property, if any, owned by you or held in trust for you:

Description	Market Value	Annual Income	Do you have the Income	Name of Trustee and other Information

18. List and describe all properties owned by your parents:
1. Farm Properties:
 - Total number of acres _____ Value of land and improvements \$ _____
 - Number of acres in cultivation _____ Value \$ _____
 - Number of acres in timber _____ Value \$ _____
 - Number of acres barren or non-productive _____ Value \$ _____
 - Condition and value of improvements _____ Value \$ _____
 2. Town or city property:
 - Size of lot _____ Value \$ _____
 - Improvements _____ Condition _____ Value \$ _____
 3. Bonds, notes, other securities or money:
 - Approximate value of all properties \$ _____ What debts, if any; Secured \$ _____ Unsecured \$ _____
19. If you have life insurance, give the following:
- Life Insurance—Amount \$ _____ Annual premium \$ _____
- (a) Name of Company _____
 - (b) Name of Beneficiary _____
 - (c) Year insurance was taken _____
 - (d) Have you paid all the premiums to date? _____
 - (e) Have you ever borrowed on the policy? _____
 - (f) If so, how much? \$ _____ Is it repaid? _____
 - (g) Have you ever been refused life insurance? _____ If so, why? _____
20. Have you ever been financially interested in any business? _____ Kind of business? _____
21. Have you an automobile? _____ Is it at school? _____ Its make? _____ Value \$ _____
22. Have you ever been employed or earned a regular salary? _____ Give details _____
23. Were you employed during vacation? _____ Where? _____

37. How do you expect to repay your loan if granted?
38. When do you expect to begin repaying the loan?
39. In case you do not graduate at the close of the present school year what is your plan for financing the remainder of your attendance in College?
40. Do you expect to apply for further assistance from this or any other loan fund, and if so, to what extent? (State fully) \$

ACADEMIC ATTAINMENTS AND PLANS

41. In what preparatory schools did you prepare for college?
42. Have you attended college elsewhere? Give name and years attended
43. If you propose to enter on postgraduate work, when do you plan for same?
44. What vocation or profession do you expect to follow after completing your college work?
45. College grades last term:

SUBJECT	CREDIT	GRADE

ATHLETICS, SOCIAL, AND STUDENT ACTIVITY ATTAINMENTS

46. Give a brief resume of your college activities—in athletics, student organizations, college offices—or any real effort you have made in furthering the interests of the college community
47. Of what lodges, fraternities, societies or organizations are you a member, and in what town and state is your membership registered?

Name of Organization	Town	State
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Religious preference

FAMILY IDENTITY, STABILITY AND RELATIONS

48. How many brothers have you? How many sisters?
- Are any of them enrolled in this institution?

59. Indicate accurately the courses for which you are registered and the name of the instructor in each. If this application is being filed before enrollment give this information for the preceding term.

Subject	Course and Number	Instructor

60. On a separate sheet give a statement in which you sketch briefly your life history and your plans for the future.

I certify to the correctness of the foregoing answers, and promise to use the loan granted me toward no other than the necessary expenses of continuing my education.

I have read carefully the rules for administration of the Lew Wentz Foundation and agree to abide by the same.

I understand that this is to be a loan, to be repaid by me at 6% interest according to written contract.

If I become a borrower from this Foundation I promise not to borrow from any other source without the consent in writing of the Foundation.

If the loan is made to me, I further promise:

To answer promptly letters relating thereto.

To keep the college informed of my address and the address of my parents as long as any part of my indebtedness to the Student Loan Fund remains unpaid.

To carry my insurance policy in force until my loan is paid in full.

To make every effort to return the loan as promptly as possible so that other students may receive the benefit of loans from the fund.

Signed _____

(Form 2)

THE STUDENT LOAN FUND
of the
Louisiana State University and A. & M. College
Baton Rouge, Louisiana

Date _____

To _____

_____ has applied to our committee for a loan to assist him in completing his course of study at Louisiana State University.

Such loans are awarded only to students of proven ability and established character who will probably not be able to finish their college careers without such assistance. Preference is given to deserving students who will not make the loan a complete substitute for part-time work, or to those whose college grades or health would suffer without such assistance.

This individual has referred us to you as being familiar with the personal circumstances of the applicant and his family. Will you be good enough, therefore, to furnish the information requested on the reverse side, and in addition, write us your estimate of the applicant's character, especially as regards reliability, initiative, cooperation and persistence?

Where the basic character is sound a frank statement regarding family traits, personal peculiarities, faults and immaturities will be constructively helpful to those concerned in the loan administration in advising the borrower most wisely for his own present and future welfare.

An addressed return envelope is enclosed for your reply, which will be treated confidentially, and will not involve financial responsibility.

However, in case we experience difficulty in obtaining repayment of this loan when due, we shall feel privileged to call upon you for the exercise of such influence as you may be able to bring to bear on the borrower to secure such repayment, and we trust that you will regard your recommendation of this applicant as a pledge to assist us to that extent.

Promptness in replying to this communication will be of great help to the applicant in securing this loan.

Very sincerely yours,

Secretary Loan Fund Committee

Form 2 (BACK)

REFERENCE INFORMATION

How long have you known applicant _____ When did you last see
him _____ What has been the nature of your acquaintance
_____ If related in any way, state how _____

Have you had any financial dealings with applicant _____ If so, were
they completely satisfactory _____ Is he conscientious or careless _____
Is he prompt or does he have to be followed up _____ Do you think
the applicant will treat a loan for educational expenses as a strict-
ly business proposition or will he expect "other" obligations to come
first _____

Would you extend aid to the applicant on character as a good "moral
risk" or would you require collateral or endorsers _____

If you were asked to make a personal loan to applicant would you
consider him a good business risk _____

Would you employ applicant, or take the initiative in recommending
him to business people for employment _____

Has applicant's family planned for him or has he assumed responsibility
for working out the solution of his own problems _____

Does he plan in advance or wait for something to turn up _____

Is he resourceful _____ Does he under or over-estimate his ability

What do you think would be the maximum indebtedness he
should undertake before beginning to repay _____

Is applicant's personality immediately winning or does it have to
"grow" on one _____ Does he know how to "handle" himself or
does he need personal counselling _____ What outstanding abili-
ty or characteristic do you think the applicant has that should be
developed for his future success _____ What weaknesses or in-
efficiencies should be corrected _____

Has he had any recent illness or operation _____ If so, what _____

Does he have any physical handicap that should be watched carefully

What kind of a family background does applicant have _____

Might he inherit any tendencies which his advisers should know about
in order to render the most helpful assistance _____

Are the family in poor, moderate or comfortable circumstances _____

Are they interested in his education efforts _____

Do you know if they have helped applicant _____ If not, could they _____

Are his family considered financially reliable _____ Do they pay their
bills or are they chronically in debt _____ Has there been a re-
cent radical change in their financial status _____ If so, what _____

ADDITIONAL REMARKS:

(Use extra paper if necessary)

Signature of Reference

Date _____

Occupation and Official Position

(Form 3)

THE STUDENT LOAN FUND
of the
Louisiana State University and A. & M. College
Baton Rouge, Louisiana

Date _____

To _____

_____ wishes to obtain a student loan.

Evidence of capacity to become a good business risk, satisfactory record as a student and essential stability of character, as well as need, are necessary for a recommendation to receive loan assistance.

In order to advise the applicant and prescribe financial aid wisely, it will be of great assistance to have confidential information from you concerning your opinion of this applicant as to efforts as a student, general standing, and as suggested on the reverse side of this blank, in regard to practical application and general reliability.

While facts are desired if you can give such, if not, your general impression will be helpful. If, for instance, you question the applicant's sense of honor, a more careful check will be made with other sources of information. Unsupported opinion will not alone disqualify an applicant.

An addressed return envelope is enclosed for your reply, which will be treated confidentially, and will not involve financial responsibility.

Promptness in replying to this communication will be of great help to the applicant in securing this loan.

Very sincerely yours,

Secretary Loan Fund Committee

(over)

Form 3 (BACK)

REFERENCE INFORMATION

1. I have known the applicant for _____ years.
Generally _____ In connection with academic work only _____
2. Applicant has been in my classes _____ during _____
(name course) (years)
3. I regard applicant's student capacity as brilliant _____
average _____ poor _____
4. In my opinion applicant shows intellectual curiosity to a marked _____
_____ average _____ slight _____ degree
5. Is applicant making an effort to coordinate his academic work with
the immediate employment problems he will face after graduation _____
Is he advising with you as to the work for which he is fitting himself _____
Is his work in your department a definite preparation for occupational plans _____.
6. Applicant's attendance, general attitude, and work coming under my
observation are excellent _____ average _____ fair _____ poor _____
7. In my opinion, the applicant should be rated as follows:

	: Very Good	: Good	: Fair	: Poor
Promptness	:	:	:	:
Industriousness	:	:	:	:
Disposition	:	:	:	:
Resourcefulness	:	:	:	:
Personality	:	:	:	:
Sense of responsibility	:	:	:	:
Truthfulness	:	:	:	:

ADDITIONAL REMARKS:

Signature of Reference

Date _____

Official Position

(Form 4)

THE STUDENT LOAN FUND
of the
Louisiana State University and A. & M. College
Baton Rouge, Louisiana

Date _____

To _____

_____ has applied to our committee for a loan to assist in the completion of a course of study at Louisiana State University.

Such loans are awarded only to worthy students of proven ability and established character who will probably not be able to finish their college careers without such assistance, and preference is given to deserving students who will not make the loan a complete substitute for part-time work, or to those whose college grades or health would suffer because of overwork if such assistance were not obtained.

Will you be good enough to furnish the information requested on the reverse side, and in addition, if you wish, write us concerning any circumstances which would be helpful to use in considering the applicant? Information is requested from parents in order to advise students most wisely and constructively regarding their financial needs, and plans for future employment in relation to the repayment of college indebtedness.

An addressed return envelope is enclosed for your reply, which will be treated confidentially, and will not involve financial responsibility.

Promptness in replying to this communication will be of great help to the applicant in securing this loan.

Very sincerely yours,

Secretary Loan Fund Committee

(over)

Form 4 (BACK)

REFERENCE INFORMATION

1. My occupation is _____
2. I am employed by _____
Address _____
(Street) (City) (State)
3. My total annual income is \$ _____
4. _____ individuals (including myself) are totally dependent upon me for support and _____ are partially dependent upon me.
5. In case no loan is made, I believe the applicant will be obliged to withdraw from college. will not
6. I ~~do~~ ^{do not} approve of the applicant's request for a loan, because _____

7. As far as I know, applicant has received so far toward college expenses, the following financial assistance.

Amount	Date	Loan or Gift	From Whom Received	Remarks
:	:	:	:	:
:	:	:	:	:
:	:	:	:	:
:	:	:	:	:
:	:	:	:	:
:	:	:	:	:
:	:	:	:	:

ADDITIONAL REMARKS:

Date _____

Signature of Parent or Guardian

THE LEW WENTZ FOUNDATION
 OF THE
 OKLAHOMA AGRICULTURAL AND MECHANICAL COLLEGE
 Stillwater, Oklahoma
 PERMANENT STUDENT LOAN FUND

C O N T R A C T

Name _____
 Home address _____

THIS AGREEMENT, made in duplicate this _____ day of _____, 19____, between the Lew Wentz Foundation of the Oklahoma Agricultural and Mechanical College, a Student Loan Trust Fund, operating under the laws of the State of Oklahoma hereinafter called the Foundation, party of the first part, and _____ of _____, hereinafter called the Student, party of the second part.

WHEREAS the Student desires to obtain _____ Dollars (\$ _____)

during the college year 19____-19____, in installments not to exceed the following sums and for the period herein below stated, namely:

	\$ _____ February
\$ _____ September	\$ _____ March
\$ _____ October	\$ _____ April
\$ _____ November	\$ _____ May
\$ _____ December	\$ _____ June
\$ _____ January	\$ _____ July

to enable _____ to obtain a college education at the Oklahoma Agricultural and Mechanical College (and it is agreed that the Student is not required to accept any installment at any monthly period but may pass the same by at his election if not needed) and

WHEREAS said Student has been regularly enrolled at the Oklahoma Agricultural and Mechanical College for a period of not less than one regular college year of three terms, or two regular terms and one summer term, or two semesters, or one semester and one summer term and has obtained, during said period, or by transfer from some other recognized educational institution, not less than 45 term hours of college credit or 30 semester hours of college credit, and whereas said Student is and has been working to help defray his own expenses while obtaining such education, and

WHEREAS the Foundation, as is evidenced by its execution of this contract, has agreed to loan to the student a sum of money not exceeding the sum above stated, and for the purpose and upon the conditions herein stated, said loan or loans to be evidenced by the promissory negotiable notes of the Student, dated contemporaneously with the making of each loan and drawn payable to the order of the Foundation at its office at the Oklahoma Agricultural and Mechanical College, Stillwater, in lawful money of the United States of America, in sums shown on Schedule of Payments (page 3), beginning on the 1st day of _____, 19____, and on the first day of each month thereafter until the aggregate of the principal sum of said notes, together with interest* thereon from date at the rate of six per centum per annum is fully paid, such installments to be applied first to the payment of accrued interest and thereafter upon the principal of said notes as they respectively mature, and

Agreement No. _____

(*October 1st is the annual interest date and interest on all unpaid notes is due and payable at that time.)

(Form 7)

STUDENT LOAN FUND No. _____
 of the
 Oklahoma Agricultural and Mechanical College
 Stillwater, Oklahoma
 Stillwater, Oklahoma, _____, 19_____

Received from _____
 of _____
 the sum of _____ DOLLARS (\$_____)
 being repayment on student loan as follows:

Note No.	Principal	Interest	Total
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Student Loan Fund of the Oklahoma
 Agricultural and Mechanical College

Secretary

Student Loan Fund of the Oklahoma
 Agricultural and Mechanical College

Secretary

Student Loan Fund of the Oklahoma
 Agricultural and Mechanical College

Secretary

(Form 9)

Student Loan Funds

Oklahoma
Agricultural and Mechanical College
Office of the President
STILLWATER

Dear Borrower:

An installment on your student loan will be due on the date and for the amount shown below.

	Amount Due	Date Due
┌	└	
└	┌	

A larger payment than the amount shown above will save you interest and at the same time make available funds for other worthy students.

Please send this notice with your remittance. Any change of Address should be indicated below:

 (Number and Street)

 (City) (State)

(Form 10)

Student Loan Funds

Oklahoma
Agricultural and Mechanical College
Office of the President
STILLWATER

Dear Borrower:

An installment on your student loan was due as shown below:

	Amount Due	Date Due
┌		└
└		┌

Your loan was granted with the understanding that it would be repaid according to schedule. Please bring your account up to date promptly. If this remittance has already been sent, kindly disregard this notice.

Attach this notice to your remittance. Any change of address should be indicated below:

(Number and Street)

(City) (State)

Form 11

Dear _____:

The October 1 installment on your loan is now more than twenty days past due. Is it inconvenient for you to send remittances on this date each month?

Won't you please let us know promptly what arrangements you can make to bring your payments up to date again.

Very truly yours,

C a s h i e r
Student Loan Funds

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* * *

Dale Fenton

Typist