

AGENDA ITEM SUMMARY

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Advantage Missouri Loan Disposition
Coordinating Board for Higher Education
June 8, 2017

DESCRIPTION

The Advantage Missouri Loan Program was established in 1998 to provide forgivable loans to students in approved educational programs who became employed in the state in certain occupational areas of high demand. For each year of employment, one year of the loan would be forgiven. Pursuant to legislative action, the last loan was issued in 2005. Of the \$8 million loan total, \$5.2 million remains unpaid.

The MDHE issued letters to each borrower near and at the conclusion of their grace period to remind them of their repayment obligations. Beyond that correspondence, however, borrowers that failed to respond to these notices have not been contacted for collections or to determine whether they met the loan forgiveness requirements. When a State Auditor's Report brought the issue to light in August 2016, MDHE staff initiated a review of the paper files to determine which loans were eligible for collection and develop a collection strategy.

The review concluded that 1,295 of the 1,341 outstanding loans are barred by the statute of limitations. The total balance of the time-barred debts is \$4,850,000. The total balance of 56 timely accounts is \$350,000. All 1,341 are in default.

Collection of time-barred debts is strongly discouraged by the U.S. Consumer Financial Protection Bureau and rejected as a matter of policy by the Missouri Attorney General's Office. Litigation and threats of litigation on time-barred debts are prohibited by the Fair Debt Collection Practices Act. Even modest suggestions of enforcement (or enforceability) of time-barred debt have been held by federal courts to violate the Fair Debt Collection Practices Act. MDHE staff, therefore, recommends cancellation of the 1,295 time-barred debts.

MDHE staff further recommends cancellation of the 56 defaulted debts that are not time-barred (due largely to efforts at repayment over the years). This approach avoids assigning less favorable treatment to the handful of borrowers who demonstrated good faith effort to repay. MDHE will issue a form 1099-C to each borrower whose debts are cancelled as required by the Internal Revenue Service.

STATUTORY REFERENCE

Sections 173.775 to 173.796, RSMo – Establishing Advantage Missouri forgivable loan program

RECOMMENDED ACTION

It is recommended that the Coordinating Board for Higher Education direct the department to cancel the remaining debts under the Advantage Missouri program.

ATTACHMENT(S)

None