



UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202-_____

Mr. Dennis Obergfell
President
National Association of State Student
Grant and Aid Programs
150 West Market Street
Suite 500
Indianapolis, Indiana 46204
Dear Mr. Obergfell:

Your letter to Secretary Richard W. Riley regarding the Paul Douglas Teacher Scholarship Program and the feasibility of transferring loan collection and student tracking responsibilities to the Department of Education has been referred to my office for response. I am responding on his behalf and I will convey the Department's position regarding the Paul Douglas Teacher Scholarship Program and the administrative responsibilities of the State Education Agencies (SEAs) that comprise your Association.

When each State agreed to participate in the Paul Douglas Teacher Scholarship Program, they entered into a participation agreement with the Department of Education. That agreement contained assurances that each SEA would administer the teacher obligation and repayment provisions as a condition for accepting funds under the program. The State's participation was not conditioned upon the receipt of the administrative cost allowances, the ability to recover such costs from Douglas funds recovered during the life of the program or the availability of government contracted vendors to perform these tasks. The absence of separate Federal administrative funds to support the SEA'S operation of the Douglas Program thus does not provide a basis to terminate the State's obligations.

Each SEA will need to continue to monitor the enrollment and eligibility of its continuing scholars (if any), the compliance of scholars with their teaching and repayment obligations, and all other applicable statutory and regulatory requirements, including those pertaining to record-keeping and collection and litigation. You should note that the State is permitted to retain reasonable collection charges and late fees to defray the actual cost of collections litigation on delinquent and defaulted loans, provided the State follows the requirements of 34 CFR Part 682 governing those activities and costs. The Commission will also need to continue to submit annual performance reports accounting for funds collected and disbursed under these requirements.

With respect to non-performing accounts, please note that a letter was sent to all SEAs Douglas participants on September 27, 1994, authorizing each SEA agency to handle uncorrectable debt in accordance with each individual State's receivable policy. A copy is enclosed for your reference. That authority superseded the guidance that was given to States in the Douglas Administrative Model Manual. While administrative cost allowances are not provided by the Department, Section 422B(d)(1) of the Higher Education Act of 1965, as amended by the Higher Education Amendments of 1998, Public Law 105-244, authorizes a guaranty agency to support "other student financial aid related activities, as selected by the guaranty agency" with the Operating Fund required by those amendments. This should provide you with the flexibility and resources to continue to meet your obligations to the Paul Douglas program.

If you have any additional questions or concerns, please feel free to contact us.

Sincerely,

Margarita Benitez
Director
Institutional Development and
Undergraduate Education Service