University of Missouri System
Accounting Policies and Procedures

Policy Number: **APM – 65.10**

Policy Name: **<u>Allowance and Write-off for Uncollectible Student Loans</u>**

General Policy and Procedure Overview:

In the process of providing education and related services to students, the University charges for the education and services provided. Many students choose to pay for those charges incurred over an extended period of time after signing a promissory note. Occasionally the student does not pay back the amounts owed to the University. This policy applies to the University's portfolio of loans made to students for tuition, fees, book, supplies, fines, housing, etc. The expectation is that the student will have a payment schedule on which they will make regular installment payments. Generally Accepted Accounting Principles (GAAP) direct that the University record a reasonable estimate of the amounts that will not be collected and periodically evaluate and write off any loans determined to be uncollectible. This policy provides guidance to the University in calculating an uncollectible estimate, accounting for the provision of uncollectible loans, writing off an uncollectible balance, recording subsequent collection of loans previously written off, and collection procedures.

Definition of Key Terms:

Student Loans Receivable—any amounts loaned to a student, retained in the University's portfolio, as a result of the educational process. This may include loans for the payment of tuition, various fees, books, supplies, housing and fines. The student has signed a promissory note to pay the loan balance, plus interest, over an extended period of time.

Write-off of Uncollectible Loans—after a thorough collection process is followed by the University and it is determined that an student loan balance will not be paid in a reasonable time, the balance is no longer considered an asset and is not reflected in the financial statements. The process of removing the balance from the loans receivable balance in the financials is called write-off.

Allowance for Doubtful Accounts—a reasonable estimate based on historical collections or other reasonable rationale is used to record an estimate of the amount of accounts receivable that will become uncollectible during the period. This amount is reflected as a contra-asset on the statement of net assets.

Aging report—a list of loans receivable that is grouped or summed by aging category. Those categories are based on date ranges from the time the student fails to make the scheduled installment payment. Typical categories might be: <30, <60, <90, 90-180, > 180 days. For aging purposes, this aging is determined by the date the installment payment was due.

Detail Policy:

Allowance for Uncollectible Loans Methodology

The GAAP method of recording an allowance requires that an expense be recorded with an offset to an allowance account. The University will use a modified approach that will both comply with GAAP while providing enhanced reporting throughout the year. This approach requires that an estimate be calculated based on the aging of each installment payment as they become due and that an evaluation be made to compare the balance in the allowance account with the calculated estimate at the end of every year. A journal entry must be made to bring the Allowance for Doubtful Accounts account balance to the same balance as the estimate for uncollectible loans with an offsetting entry to Bad Debts Expense.

- The section "Calculating the Estimate" describes the first step of estimating the uncollectible balance required.
- The "Substantiation" section describes the method to provide reasonable assurance of the calculated allowance estimate.
- The "Write-Off" section outlines recording the allowance and write-offs.
- The "Subsequent Collection" section describes accounting for the loan when a student begins to pay on the loan receivable after being written off.
- The "Collection Procedures" outline the procedures to be followed to determine when to write off a student balance to provide accounting consistency.

Calculating the Estimate

The process of calculating the estimate for uncollectible loans requires a rational estimate that follows GAAP. The estimate the University will use is based on the aging of delinquent loans. This is different than the aging normally produced for accounts receivable that ages based on the date of an invoice.

The first step is to obtain an aging report based on age of each delinquent loans' installment due date. This aging provides an indication of the probability of collecting a balance. The older a delinquent installment is from the due date generally indicates the entire loan amount due is less collectible. Based on historical collections experience of each aging category, a conservative estimate should be made of the uncollectible amounts.

The estimate of the total amount expected to be uncollectible should be made at the end of each fiscal year. An appropriate percentage is applied to each of the aging categories for the outstanding receivable that is on the University financial books of record. For example, the amounts that are <30 days old would have a relatively high collection rate compared to amounts that are >180 days old. All Business Units will use the same aging categories and percentages applied to each of the aged balances.

Each campus is responsible to print an aged student loan balance report at fiscal yearend. That report should be reconciled to the General Ledger and adjustments entered, as appropriate, in the reconciliation process. This control assures the accuracy of the base for the calculations. Annually, all campuses will agree to a common percentage for each aging category to use in the allowance calculation. The percentages may be adjusted each year as changes in collection procedures and payment performance impact collectibility of loans.

Substantiating the Allowance Calculation

The allowance calculation will be tested and substantiate at least once every three years. A process of substantiation will validate that the percentages are reasonable. The allowance calculation will be substantiated by testing individual student balances and determining the confidence level of collection. Once the individual collection confidence levels are estimated, a composite score is used to combine the estimates to determine reasonableness of the allowance estimate. A random sample of student balances from each aged category will be selected with the sample size based on the size of each aged category (see chart below). For example, a statistical sample is required from the 121-180 day category; there are 623 loans in this aging category; an evaluation must be made from the category for 20 randomly selected students to determine likelihood of collection based on payment history, GPA, degree granted, balance due and other criteria established below to determine the level of confidence for collection.

Population Size of Individual Aging Category	**Sample Size**
1-50	5
51-250	10
251-1,000	20
1,001-5,000	30
5,001-20,000	50
>20,000	60

The chart below provides a rating to apply to each sample student balance with the highest number representing a higher estimated level of confidence that the student will pay their balance. Each student in the sample will be scored from 0-100. The scores will be averaged within each aging category to arrive at a composite category score and compared to the estimated Allowance for Uncollectible Student Loans Receivable. The summary information by category for each Business unit will be provided to the Controller's office to evaluate overall reasonableness. As an example, a composite score for an aging category of about 70 would substantiate that an Allowance for Uncollectible Student Loans Receivable of 30% is reasonable.

Category	**Rating**	**Criteria**
Student Contact, Payment History, Separation Date	0	No contact in the last 12 months, no payments, not attended within 18 months.
	13	Only a couple of contacts, payments and has not attended recently.
	24	Several contacts, payments or recent attendance.
	29	Frequent contacts, payments and recent attendance.
	30	Current/frequent payment attempts, or current student.
Professional Profile, GPA, Degree Received	0	No credit earned, not enrolled, or very low GPA
	13	A few credits earned, no degree granted, below average GPA.
	24	Several credits earned, average GPA.
	29	Certificate earned, average GPA, significant credit

		earned.
	30	Advanced Degree/Diploma earned, high GPA, significant credit earned.
Balance Due	0	Extraordinarily large delinquent balance due
	8	Above average delinquent balance due
	15	Average delinquent balance due
	19	Less than average delinquent balance due
	20	Very small delinquent balance due
Other	20	Discretionary—use maximum unless other circumstances indicate a lower rating.

Write-off of Uncollectible Loans

The GAAP method presumes a consistent collection process is adhered to for each loan. While routinely executing the collection procedures, some of the balances will be considered uncollectible. The procedure to write off a loan, summarized herein, provides an even flow of expenditures and a stable, reasonable balance for the Allowance account. This method is an important element in reporting accurate financials, achieving reporting consistency and usefulness during the year, and reflecting the true net realizable value of the University's loan assets.

The Student Loan Collections Office is responsible for making final efforts at collection. Each campus maintains criteria and guidelines establishing the point where a loan will be charged off. The Student Loan Collections Office prepares an entry to write-off the student balance as it is deemed uncollectible. This entry must be prepared by the Director or their designee other than the person who is responsible for daily collection efforts. As each loan balance is determined to be uncollectible a debit will be made to a Bad Debts Expense account and credit the Loans Receivable account which will constitute a write-off, or removal from the University books. Amounts written off are no longer reflected in the University financials and are no longer used in calculating the Allowance for Doubtful Accounts.

Note: The annual amounts written off as Bad Debt Expense may be less than the allowance calculated in a given year due to restrictions for write-offs imposed on the individual loan funds.

The Student Loan Collections Offices will write off any loans with due dates greater than five years in the past if no payments have been received for three or more years and no direct contact has been made in the previous two years where a borrower indicated a willingness to pay. All loans must have been sent to at least two collection agencies prior to being written off. Reasonable exceptions to this process may occur where write-off restrictions exist on an individual loan fund, for example, but it must have the approval of the Director or their designee.

Subsequent collection of loans previously written off

Often, amounts that have been written off, are actually collected at a later time. To account for these amounts, the entry made will be opposite the write-off entry to get the balance back on the books. Thereafter, the normal process of receiving the cash to clear the receivable is followed. This will effectively reduce the Bad Debt Expense in the period and increase cash.

Collection Procedures

The campus Student Loan Collections Offices are responsible for maintaining written collections procedures that follow Federal guidelines for Federal loans and consistent procedures for University long-term loans which may include escalating letters, phone calls, e-mails, and the use of outside collection agencies. These practices are also affected by the restrictions placed on the individual loan fund by the grantor or donor. All campuses will be accountable to the written procedures that have been established.

Responsibility

Student Loan Collections Offices

- Monitor aging of student installments
- Maintaining written collections procedures and monitoring for compliance
- Applying payments from students
- Write-off balances after exhaustion of University collection efforts
- Assist students in follow-up requests for information
- Reversal of write-offs for amounts subsequently collected.
- Prepare Bad Debts accrual journal as required at year end.

Accounting Offices

- Work with Student Loan Collection Offices in Allowance calculations

Accounting for the Transactions:

Transaction Description	Account	dr	cr
End of FY, record adjustment to expense to bring Allowance in line with calculated estimate. A manual journal entry is required.	Bad Debt Expense (at a high level ChartField string)	X	
	Allowance for Doubtful Accounts		X
Periodically review and write-off uncollectible student balances. This entry is automated by the Student Loan system.	Bad Debt Expense (with a detail ChartField string)	X	
	Student Loans Receivable		X
Subsequent Collection of previously written off student loan balances remitted to the University from a collection agency. This entry is automated by the Student Loan system.	Student Loans Receivable	X	
	Bad Debt Expense (with a detail ChartField string)		X

Effective Date: July 1, 2006
Revised Date: August 8, 2006

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.