The Maryland Higher Education Loan Corporation (Corporation), as endorser of student loans, is contingently liable to lending institutions for purchase of student loans in default. In the event of such default, the Corporation is liable to the lending institution for the unpaid principal amount of the loan plus unpaid interest, including interest accrued from the date of default until the date of purchase by the Corporation. At June 30, 1989, the Corporation has endorsed loans outstanding of approximately $815,000,000. These loans are covered by a federal reinsurance agreement with the U.S. Department of Education. The agreement provides for repurchase by the U.S. Department of Education of 100% of the amount of loans which default; however, if the default rate exceeds 5% of the loans in repayment status as of September 30 of the preceding year, the reinsurance rate is 90%, and for all defaults in excess of 9% the reinsurance rate is 80%.

The Omnibus Budget Reconciliation Act of 1987 required the U. S. Department of Education (Department) to recover $250 million in excess cash reserves from loan guarantee agencies. The Corporation was assessed $10,797,000 as its share of excess reserves. The Department offset reinsurance claims to collect the assessment, and the Corporation filed suit against the Department to collect the offset amount. In the opinion issued by the United States District Court for the District of Maryland, the Department is required to repay the amount offset and interest from the day of offset until the day of payment. At June 30, 1989, the Corporation has recorded $10,797,000 as a receivable from the Department and $446,000 as interest income related to this claim. The Department received a temporary stay of payment from the United States Court of Appeals for the Fourth Circuit. It is anticipated that the Department will file an appeal to overturn the ruling of the District Court.

The State receives significant financial assistance from the U. S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 1989, the State estimates that no material liabilities will result from such audits.