



**The Changing Student Loan
Environment
College Board National Forum
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Setting the Scene:

Two relevant quotes

- Change is inevitable, except from vending machines

Unknown

- When you come to the end of your rope, tie a knot and hang on

Franklin D. Roosevelt

Major Topics

- HR 3221 – The Student Aid and Fiscal Responsibility Act
- Responses to HR 3221
 - Student Loan Community Proposal (July 2009)
 - Reforming Federal Student Aid Programs (July 2009) – The Friday the 13th Group
- Discussion

HR 3221 - Status of the Legislation

- House approved by vote of 253-171 on September 18, 2009
- Closely mirrors President Obama's proposals for student loan reform
- Next steps:
 - The Senate Health, Education, Labor and Pensions (HELP) committee had until 10/15/2009 to approve its version of the legislation. (Note – deadline was missed, but no penalty)

HR 3221- Status (con't)

- Following approval, the Senate as a whole will consider the measure
- If passed in the Senate as part of the budget reconciliation package, the House of Representatives will again vote on their version, initiating a conference committee to work out differences. (Note, if passed as budget reconciliation only 51 Senate votes needed to cut off debate versus 60)
- Conference committee votes on the bill, followed by debate and vote by both houses
- Likely timetable: Vote on the legislative package will occur sometime in November or December, after health care reform has been finalized

Key Education Loan, Servicing, and Default Prevention Provisions

- End Federal Family Education Loan Program (FFELP) on June 30, 2010
- Provide Department of Education with \$50 million in FY 2010 to provide schools with resources and assistance to transition to the Direct Lending (DL) program
- Require the Secretary to conduct outreach activities to educate students and their families about the transition to DL
- Make interest rates on subsidized Stafford loans disbursed after July 1, 2012 equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to June 1, plus 2.5% for the next year, not to exceed 6.8%

Key Education Loan, Servicing and Default Prevention Provisions (con't)

- Require the Secretary – when “practicable” – to award multiple contracts through competitive bidding to entities, including not-for-profit servicers, to service Direct Loans.
 - Not-for-profit servicers are specifically listed as entities, along with guaranty agencies with which the Secretary has agreements, provided such servicers and agencies meet qualifications determined by the Secretary.
 - The legislation directs the Secretary to give special consideration to State agencies and not-for-profit servicers with a history of high quality performance and demonstrated integrity. Guaranty agencies and not-for-profit servicers can enter into consortium agreement for such agreements with the Secretary.
- Allocate additional servicing rights to not-for-profit servicers based on performance including performance in customer service and default aversion.
- Identify guarantors, nonprofit subsidiaries, and other nonprofits as eligible entities for “Innovation in College Access and Completion National Activities” dollars.
- Clarify that borrower services, including delinquency prevention, default aversion, and loan counseling, are allowed uses of College Access and Completion Grant dollars.

Responses to HR 3221

1. Student Loan Community Proposal
2. Reforming Federal Student Aid Programs: The Friday the 13th Group

Both proposals involve variations on making the provisions of ECASLA (Ensuring Continuing Access to Student Loans Act of 2008) permanent

Review of ECASLA

- Loan Participation Program permits lenders to finance loans through the federal government and then to “put” the loans after a year if they cannot refinance in the marketplace
- Conduit financing is available for certain loans made during certain time periods – no consolidation loans – and is available to refinance certain bond indebtedness at a price that is sustainable

Student Loan Community Proposal

- Proposed by: A diverse coalition of lenders, guaranty agencies, secondary markets and servicers representing all sectors of the student loan community
- Goals of the plan:
 - Continue a meaningful role for the private sector in the federal education loan environment
 - Retain “choice and competition”
 - Obtain the high savings estimate (\$87 billion over 10 years) promised under President Obama’s plan/HR 4331
 - Eliminate transition risk (from FFELP to DL)

Student Loan Community Proposal (con't)

- Provisions:
 - Transfer all economic interests to the federal government very quickly after origination by private lenders
 - Allow schools to choose their originator(s) by evaluating them on the basis of excellent customer service and low defaults
 - Assure high quality servicing by requiring servicers to reimburse the government for 3% of default losses during the first four years of repayment

Student Loan Community Proposal (con't)

- Compensate lenders by paying an “origination fee” and “participation spread” fee on disbursements held prior to sale to the Department of Education, i.e. eliminate lender “subsidies” as we know them now
- Allow DL schools to choose their own servicer, from among the four DL servicers and select nonprofit and state agencies to provide a “local option”
- Compensate guarantors to provide default aversion services on new private sector and DL loans through money set aside from the College Access and Completion Fund

Reforming Federal Student Aid Program: The Friday the 13th Group

- Proposed by: A “grass roots” group of financial aid administrators, representing about 50 schools of all types from all regions – large/small, private/public, Direct Lending/FFELP, and propriety
- Goals of the plan:
 - Preserve institutional choice of loan process to leverage competition, maximize service levels, and reduce student loan defaults.
 - Preserve student and parent choice of lender to ensure life-of-loan servicing.
 - Provide customized default prevention and financial literacy programs.
 - Protect uninterrupted loan access for students and parents and avoid significant financial and administrative burdens on thousands of postsecondary institutions at a time of budgetary constraints and pressures.

Reforming Federal Student Aid Programs: The Friday the 13th Group (con't)

- Provisions
 - A “hybrid” approach that takes advantage of the budget scoring benefits of federal funding for all federal student loans, while preserving a competitive, customer-accountable system in the origination and servicing of student loans, i.e. build on the best features of both the FFELP and DL programs
 - Allows lenders to originate loans and immediately transfer ownership to the federal government
 - Retains private sector and non-profit agencies assistance in offering default prevention and financial literacy programs
 - Moves all students and parents to one set of loan terms, adopting the current loan terms available in the Direct Lending program (interest rates, repayment options, loan forgiveness programs)

The Friday the 13th Group's Proposal . . .

- Gives voice in a collective way to arguments that many Financial Aid Administrators have been making, especially about the risks inherent in a quick transitions from FFELP to DL and the potential loss of services that lenders and state not-for-profits/guaranty agencies provide to students and colleges

Recent WASFAA/SASFAA Survey Results (N=940)

- How concerned are you about transitioning to a new loan program by July 1, 2010?
 - 68% of the respondents are either “very concerned or extremely concerned”
- What sort of impact do you anticipate loan program transition costs to have on your budget?
 - 47% of the respondents replied that the impact would be “significant” or “severe”
- Do you estimate that staffing levels will be the same, more or less with direct lending?
 - Only 2% of the respondents indicated that their staff levels would be less (56% = the same and 41% = more)
- If your school is required to transition to direct lending, what effective date would allow you to complete the transition successfully with minimal risk and disruption to your students?

• July 1, 2010	24%
• July 1, 2011	51%
• July 1, 2012	25%

NCHELP Survey of Services Provided to Institutions /Students by its Membership (Sample Statistics)

- Outreach

- How many students and parents did you serve at college access/financial literacy workshops or financial aid nights?

Answer: 1,461,610

- How many financial literacy/college access brochures/publications did you produce?

Answer: 14,113,822

- How many visitors to your website did you have?

Answer: 48,886,776

- How many phone calls and emails from parents, students and lenders did you handle?

Answer: 6,327,873

NCHELP Survey of Services Provided to Institutions /Students by its Membership (Sample Statistics) (Con't)

- Financial Aid Administrator Training

- How many Financial Aid Administrators did you train?

Answer: 61,690

- How many Financial Aid Administrator training sessions did you offer?

Answer: 2,850

- How many on-site technical visits did you make?

Answer: 5,491

Discussion and Prognostication

- What will influence Congress?
 - Job losses and job shifting?
 - Execution risk?
 - Net savings, even with “fuzzy math” calculations?
 - Nothing – it’s a “done deal”
- What will the student loan environment look like a year from now?
- What role will Federal credit products and programs play in college financing in the future?
- What role will private credit play in college financing in the future?