

2007 Update: PERKINS LOAN ISSUES, LEGISLATIVE AND REGULATORY CHANGES

New York State Financial Aid Administrators Association
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Harrison M. Wadsworth
Executive Director, COHEAO
Principal, Washington Partners, LLC
hwadsworth@wpllc.net
1-202-289-3900
www.wpllc.net



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Make Your Voice Matter

COHEAO!



- If you aren't a member of the Coalition of Higher Education Assistance Organizations (COHEAO), I strongly encourage you to join this critical association!
 - Strength in numbers – more schools means a louder voice supporting you in Washington
 - Dues are quite low for schools, based on size
 - Members get: discounts for conferences, bi-weekly newsletter The Torch
 - Legislative updates and alerts, representation
- Annual Conference at D.C. Jan. 26-30, 2008
 - 50th Anniversary of Natl. Defense Education Act, predecessor of Perkins Loans: See You There!
- Go to www.coheao.org for more info

Appropriations FY2007

- Finally passed in late January 2007
 - Federal fiscal year starts October 1.
 - Essentially same as Republican-written bills from 109th Congress Except:
- Included \$260 boost in maximum Pell Grant, to \$4,310, generally level funding otherwise for education;
- In addition, did not adopt Bush proposals to eliminate Perkins Loans, LEAP, GEAR-UP, TRIO programs.

FY 2008 Bush Budget: Robbing Perkins to Pay Pell Part 2

- \$4,600 maximum Pell Grant in 08 -- raised \$200 per year to \$5,400 by 2012-13 – increase is entitlement;
- ACG, SMART Grants up 50%
- Increase of \$2,000 in 3rd and 4th year undergraduate Stafford borrowing limits -- Aggregate limits up

Offset by:

- Perkins Loans eliminated, all collections sent to Washington – “save” \$3.2 billion over 5 years
- Zero for SEOG, LEAP – save \$1.1 billion in FY08
- FFELP lenders, guarantors cut by over \$18.9 billion.
- ALWAYS a zero-sum game for education

But Why Do They Always Pick on PERKINS?

- They Needed the Money
- Based on Flawed “Program Ratings Assessment Tool” Report which in 2002 found that Perkins is “ineffective” program – no further review since.
- 22 of 27 questions not relevant to whether program works
- COHEAO: It’s inappropriate and unfair...

Appropriations and Perkins FY2008

- **Appropriations FY 2008:** Labor-HHS-Education bill
- Passed by House 276-140 July 19
- Senate Vote Week of Oct. 15 – This Week
- Passage expected, Veto possible
 - Override? Doubtful... Govt. shutdown next?
- Perkins Loans: level funded in both bills
 - \$65 million for cancellations
 - \$0 Federal Capital Contribution
 - Still trying on FCC – a little funding freed up by Pell boost in College Cost Reduction and Access act
- House Appropriations Committee approved the LHHS spending bill that level funded Perkins along with most other programs
- The bill includes \$61.7 billion for the Department of Education—a 7.4 percent increase over FY 2007—and all programs targeted for elimination by the Administration were restored, including the Perkins Loan Program
 - Perkins Loans are level funded -- given \$65.4 million to reimbursements of cancelled loans
 - Federal Capital Contribution level funded
 - \$0.00
- Senate Appropriations
- The Senate plans to consider its version of the L-HHS-ED bill this week.
- Showdown with President coming in November 2007 over total spending levels – Veto Threat

Appropriations and Perkins FY2008

- **Appropriations FY 2008:** Labor-HHS-Education bill
- Passed by House 276-140 July 19
- Senate Vote Week of Oct. 15
- Passage expected, then final bill later in October, Veto possible
 - Override? Doubtful... Govt. shutdown next?
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 - \$0.00
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Interest Rates

Pre July 1, 2006 Stafford/PLUS Variable Rates:

Stafford In-School/Grace:	4.7%;	Consolidates to:	4.75%
Stafford Repayment:	5.3%;	Consolidates to:	5.375%
PLUS:	6.1%;	Consolidates to:	6.125%

Stafford/PLUS Variable Rates, as of July 1, 2007:

Stafford In-School/Grace:	6.62%;	Consolidates to:	6.625%
Stafford Repayment:	7.22%;	Consolidates to:	7.25%
PLUS:	8.02%;	Consolidates to:	8.125%

Current Fixed Rates – New FFELP/DLP After July 1, 2006:

Stafford (all times):	6.8%;	Consolidates to:	6.875%
PLUS (all times):	8.5% (FFELP);	Consolidates to:	8.5%
PLUS (all times):	7.9% (DLP);	Consolidates to:	8.0%

- PERKINS LOANS: BEFORE AND AFTER JULY 1, 2006:

5%

Budget “Reconciliation”

- House and Senate Passed College Cost Reduction and Access Act, budget reconciliation (HR 2669) signed by President Sept. 27, 2007
- Perkins Loans
 - Not enough money both to reauthorize the program and put \$100 million a year into the Federal Capital Contribution (FCC) for the next five years.
 - The bill reauthorizes the program, which costs \$453 million to extend its life at least until 2014, but did not include FCC funds.
- The overall compromise did not include a number of provisions that didn’t involve spending, due to Senate rules.
- Reauthorization legislation to address these concerns later this year.

College Cost Reduction and Access Act of 2007, H.R. 2669 (PL 110-84)

- In effect, increases maximum Pell to \$5,400 by 2012, if appropriations fund max of \$4,310, FY2007 level.
 - ONLY students eligible for the maximum get more
- Provides income-contingent loan repayment and forgiveness for “public sector” employees after 120 payments – includes all govt. workers of any type
- Expands deferments
- Reauthorizes Perkins through FY 2012
- Income based repayment is established for both FFELP and Direct student loan borrowers (excluding parent PLUS borrowers). Repayments of Stafford Loans are limited to 15% of discretionary income, debt remaining after 25 years of income based repayment is forgiven.

College Cost Reduction and Access Act of 2007, H.R. 2669 (PL 110-84)

- Subsidized Stafford rates phased down over 4 years to 3.4%. Then back to 6.8% 7/1/12
- Income protection increased, indexed; auto zero expanded
- TEACH Grants are created, a new program to promote teacher quality by providing grants of up to \$4,000 per year for undergraduate and graduate students who plan to be teachers in high-need subjects.
- Student Loan Deferments are expanded for members of the Armed Forces for the period of mobilization plus 180 days
- College Access Challenge Grants are created, where \$66 million per year in 2008 and 2009 is set aside to go to states and philanthropic organizations to pay for providing information on college

College Cost Reduction and Access Act of 2007, H.R. 2669 (PL 110-84)

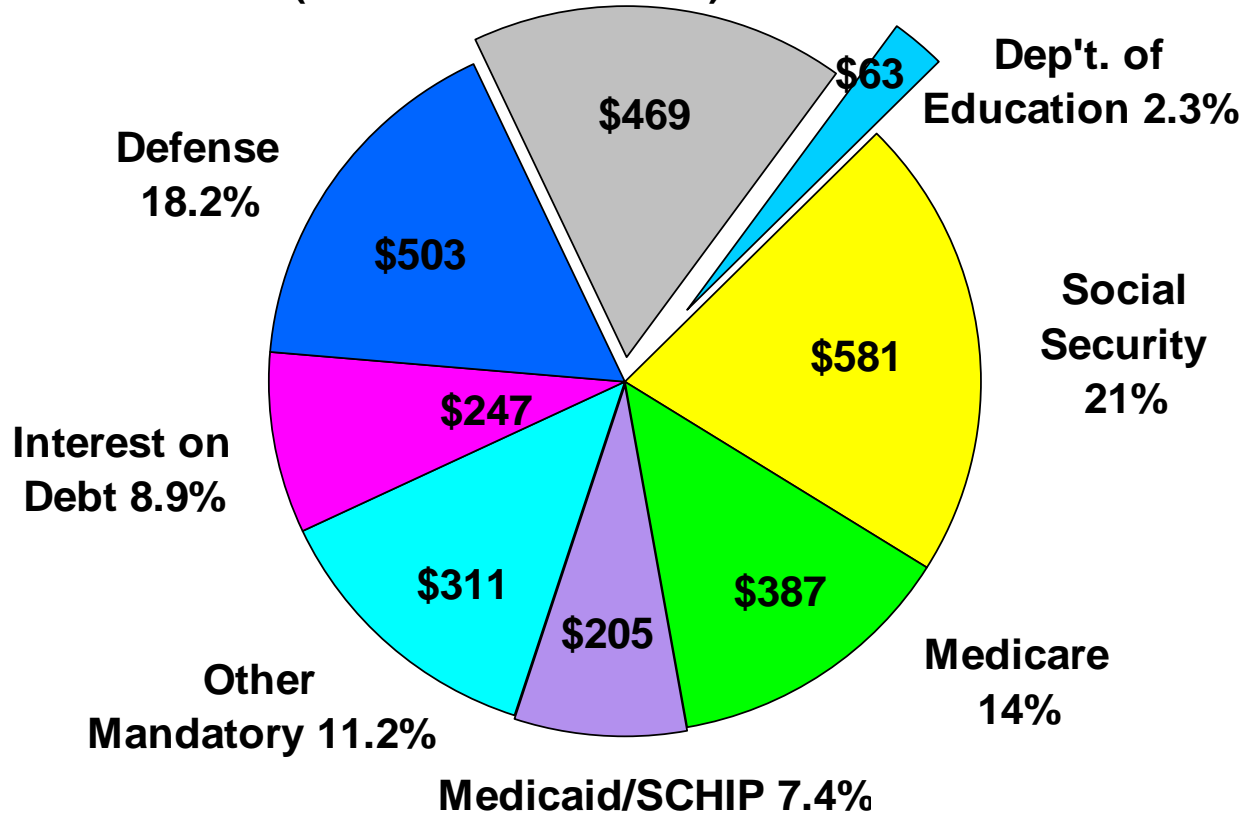
- Guaranty Agency Collection retention reduced from 23% to 16%
- GA Account Maintenance fees cut from 1% to 0.6%
- FFELP Stafford for-profit lender maximum yield reduced by .55 %point, by .40 for non-profits; by .85 and .70 for PLUS (different for parent PLUS after auctions start in 2009); This is dramatic for consolidation loans – 1.05% annual tax remains
- Insurance cut to 95% in 2012; lender origination fees raised to 1%

College Cost Reduction and Access Act of 2007, H.R. 2669 (PL 110-84)

- Auction of right to make FFELP PLUS loans to parents starting in July 2009.
 - 50 auctions run by ED, 2 winners per state. ALL parents have to pick from 2 winners for PLUS loans at ANY school in the state.
 - Concern over lack of choice of lender, competition for borrowers eliminated may reduce service quality.
 - The future: broader auction, including ALL loans – FFELP and DL

FY2007 – The Big Picture

Non-Defense Discretionary
(excludes Education) 17%



Perkins and Reauthorization Status

- Perkins Loan Program was not eliminated or reauthorized in the 109th Congress -- it was extended
- 109th Congress Activity:
- H.R. 609 – comprehensive HEA reauthorization bill
 - Reauthorizes Perkins Loan Program through 2012
 - Passed House of Representatives March 30, 2006
- S. 1614 – comprehensive HEA reauthorization bill
 - Reauthorizes Perkins Loan Program through 2012
 - Incorporated into Deficit Reduction Act and passed by Senate
 - Stripped in conference due to “Byrd Rule”
- Currently, no legislation proposes to eliminate the Perkins Loan Program

HEA Reauthorization

- Expired 2003, Extended 10 times (at least!)
 - Ford Direct Loan Program, Federal Family Education Loan Program reauthorized through 2012 by Higher Education Reconciliation Act of 2005 (HERA)
- Current extension expires October 31, 2007 -- #11?
- House and Senate passed bills in 109th Congress, but not the same one and they died at the end.
 - Both reauthorized the Perkins Loan Program
- So nothing final, But Times are Changing...

110th Congress: Reauthorization Restart

- Senate Passed S. 1642 on July 25, 2007, 95-0
- House Education and Labor Committee staff is writing a bill now, introduction this month, passage by end of year? – that's what they say
- Senate bill addresses rising costs of higher education, reforms the student loan system and promotes teacher preparation programs
- House Republicans introduced H.R. 3467 Oct. 4, includes Perkins reauthorization
- House Democratic bill, by Chairman Miller, being drafted this fall

Focus on Perkins Loans: HEA

- Perkins Loan Program was not eliminated or reauthorized in 2005-2007, despite Administration proposals -- but was extended
- Currently, no legislation proposes to eliminate the Perkins Loan Program

S. 1642, Passed Senate 95-0:

- Authorizes “such sums as necessary” for the Perkins FCC
- Loan cancellation for full-time faculty members at a Tribal College, some Librarians some full-time speech language therapists at low-income schools
- Elimination of the defense of infancy
- Detailed disclosure by Consolidation Loan lenders of possible loss of Perkins benefits

Negotiated Rulemaking/NPRM 2006-2007

- Loans round failed to reach consensus, so ED can do what it wants...
- NPRM published in the Federal Register on June 12, 2007, final due by Nov. 1
- Regs take effect July 1, 2008
- COHEAO submitted a response to the NPRM outlining 5 main concerns: mandatory assignment, collection costs, reporting of enrollment and loan status information, e-sign MPN's, certification of e-sign promissory notes (including authentication and signature process)

NPRM 2006-2007

- ED agreed to raise “reasonable collection costs” cap to 30% for first placements, 40% for second
- ED to require assignment of defaulted loans – but agreed to limit to 7 years instead of 5 on loans in default more than one year.
- Return collections to Perkins program via the FCC process ? - NO
 - Statutory justification for mandatory assignment highly questionable.

Other Major Pending Legislation

- Student Loan Sunshine (H.R. 890/S. 1642 sections).
- Dodd/Shelby private loan bill
 - Draft passed by Senate Banking Committee
- Sen. Brown Supplemental Loan bill (S. 1720) defeated once but not dead.
- Durbin bill (S. 1561) to permit private education loan bankruptcy discharge after 5 years.

Student Loan Sunshine Act (HR 890)

- HR 890 passed House 413-3 in June 2007, added in different form to Senate HEA bill, S. 1642.
- No gifts from lenders to schools worth more than nominal amount – such as \$10.
- No payment of expenses for travel to advisory committees
- Some existing permitted activities, such as lenders offering staffing during peak periods, would be eliminated.
- Secretary to develop format for reporting terms and conditions of student loans.

Student Loan Sunshine Act

- FFELP Preferred lender lists must include at least 3 non-affiliated lenders and must clearly and fully disclose why the college has identified a lender as a preferred lender.
- Schools must advise students of their right to choose any lender.
- “Arrangements” between schools and lenders must be disclosed.
- Arrangements prohibited where loan product branded by college.

Student Loan Sunshine Act

Private Loan Provisions:

- Direct-to-Consumer (DTC) private lenders must prominently state that borrower may qualify for lower cost federal loans.
- DTC private lenders must disclose how interest rate is calculated.
- DTC private lenders must notify the borrower's college of a proposed loan so the school has an opportunity to advise borrower to get a federal loan.

Politics of Sunshine Act

Concern over “abuses” is high in Washington despite the absence of compelling evidence of injured students.

Examples of financial aid administrators seeking and lenders providing favors were used to taint entire profession and industry

Many schools are unhappy at presumption that they are susceptible to bribes.

Lenders are concerned that service to schools could be curtailed.

Sunshine Act is also a response to high interest costs on private loans, big rise in borrowing

Sunshine's Relatives

- New York Attorney General Andrew Cuomo: investigations nationwide, 400 schools, many lenders
- State AG's across the country: Me Too – pamphlet in Minnesota warns students not to trust their school.
 - 32 signed letter urging enactment of Sunshine Act
- Top Banks, Sallie Mae, Nelnet reached voluntary agreements with Cuomo, abide by his Code of Conduct or something similar
- Some pay into Cuomo's education fund – now worth some \$13 million
- New Directions for Cuomo: athletic departments, credit card deals with alumni associations, any other business arrangement between colleges and businesses

Next Development: Private Loans

- Senate Banking Chairman Dodd (D-CT) drafted bill in July 2007, worked with Senior Republican Richard Shelby (AL) on revisions
- Bill approved by Committee unanimously
 - Amends Truth in Lending Act
- Amendment planned, not offered to HEA
- House may include revised version in HEA bill
- Action likely this year

Dodd-Shelby Private Loan Bill

- Definition seems to cover institutional loans, plus traditional private education loans
 - Anything that can be used for postsecondary ed
- Main Feature: Disclosures, Disclosures, Disclosures
- Advice to borrowers to seek fed aid first
- Prohibitions on inducements like in S. 1642 for FFELP – nothing permitted in exchange for preferential treatment, no gifts, expense reimbursement OK to advisory boards
- Civil liability for inadequate disclosures one year after repayment begins – could be years after disbursement

Dodd-Shelby Private Loan Bill

- 30-day rate lock with right to cancel
- 3-day right to cancel after consummation but before disbursement
- Prepayment fees prohibited
- 16 disclosures detailing terms and conditions at application or solicitation, approval and consummation.
- Financial literacy programs encouraged
- Study of underwriting practices by GAO, focus on “non-individual information.”

Finally, What You Can Do for the Perkins Loan Program

- Appropriations are CRITICAL
 - Contact your Representative and Senators ASAP
 - Ask them to support funding for the Federal Capital Contribution and Loan Cancellation Accounts
- Reauthorization: Support reauth of Perkins
- Find out more:
 - www.coheao.org
 - 202-289-3910
 - Harrison Wadsworth: hwadsworth@wpllc.net;
Krista Heckler: kheckler@wpllc.net

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