



WASHINGTON UPDATE

MASFAA Director's Summit

January 20, 2012

Presented by:

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TOPICS OF DISCUSSION

- ◉ Budget Control Act of 2011 (BCA)
- ◉ Consolidation Appropriations Act 2012
- ◉ Special Direct Consolidation Loan
- ◉ Federal Direct Loan Servicers
- ◉ Two-Factor Authentication
- ◉ Negotiated Rulemaking
 - Teacher Preparation - TEACH Grant
 - Loan Issues
- ◉ Cost of Higher Education
- ◉ Consumer Financial Protection Bureau

BUDGET CONTROL ACT 2011

- ◉ Signed into law on August 2, 2011 (P.L. 112-25)
- ◉ Raises the debt ceiling by \$3 trillion over the next 10 years in two steps.
- ◉ Created the Supercommittee that was to make recommendations to reduce the federal deficit by November 23 with Congress to take action by December 23
- ◉ Failure to meet the deadlines will trigger across-the-board cuts in 2013

BUDGET CONTROL ACT OF 2011 HIGHER EDUCATION PROVISIONS

- Provides \$17 billion for Pell Grants
- Eliminates on-time repayment incentives to Direct Loan Borrowers, including any reduction in interest rate or origination fee - effective for loans first disbursed on or after July 1, 2012
- Eliminates Subsidized Stafford Loan program for graduate and professional students
 - Effective for loans made for periods of enrollment (loan periods) beginning on or after July 1, 2012
 - Annual loan limit for graduate and professional students remains at \$20,500 but limited to Direct Unsubsidized Loans
 - Aggregate Loan limits for graduate and professional students remains at \$138,500 but not more than \$65,000 can be in subsidized loans
- DCL: GEN-11-16 (Dated August 31, 2011)

CONSOLIDATION APPROPRIATIONS ACT OF 2012

- ◉ Signed into law December 23, 2011 - P.L. 112-74
- ◉ Effective for award year 2012-2013 (unless otherwise noted)
- ◉ DCL: GEN-12-012 (Dated January 18, 2012)
- ◉ Income threshold for automatic zero EFC is narrowed from AGI of less than \$30,000 to \$23,000 for both dependent and independent students

CONSOLIDATION APPROPRIATIONS ACT OF 2012

- Eliminates Federal student aid eligibility to ATB students (those without a “certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate.”)
 - Exception for “students who have completed a secondary school education in a home school setting that is treated as a home school or private school under State law.”
 - Applies to students who first enroll in a program of study on or after July 1, 2012
 - Students that enrolled prior to July 1, 2012 and who qualified for Title IV under the ATB rules will remain eligible for Title IV

CONSOLIDATION APPROPRIATIONS ACT OF 2012

- Temporarily eliminates the interest subsidy for Direct Subsidized Loans during the six-month grace period. Effective for new Direct Stafford Loans first disbursed on or after July 1, 2012 and before July 1, 2014
- Changes the base on which Special Allowance Payments (SAP) payment to lenders in FFELP is calculation fro Commercial Paper (CP) to the London Inter Bank Offered Rate (LIBOR).
 - For loans first disbursed on or after January 1, 2000
 - Only applies if by April 1, 2012 the loan holder provides the Secretary a signed waiver of all contractual, statutory, and legal rights to a repayment based on the SAP formula in place when the loan was made.

CONSOLIDATION APPROPRIATIONS ACT OF 2012

- 2012-2013 Pell Grant award of \$4,860 but HEA section 401(b)(7) provides for an automatic increase of \$690 resulting in a maximum award of \$5,550
- Minimum Pell Grant award changed beginning 2012-2013 award year
 - Student must be eligible for at least 10% of the maximum award for the academic year to receive a Pell Grant and this is the new minimum
 - Result in 4995 being the maximum EFC to be eligible to receive a Pell Grant in 2012-2013
- Limits the maximum period students may receive Pell Grants from 18 semesters to 12 semesters effective with the 2012-2013 award year

SPECIAL DIRECT CONSOLIDATION LOAN

- Created by executive action under “Help Americans Manage Student Loan Debt”
- Provides Special Direct Consolidation loans to eligible borrowers, beginning January 2012 and ending June 30, 2012
- Eligible borrowers must have
 - At least one student loan held by the Department of Education (Direct Loan or FFEL held by the Department and serviced by one of the Department’s servicers); and
 - At least one commercially-held FFEL loan (a FFEL loan that is owned by a FFEL lender and serviced either by that lender or by a servicer contracted by that lender)

SPECIAL DIRECT CONSOLIDATION LOAN

- Only the commercially-held FFEL loans are eligible for consolidation (FFEL Stafford [sub. and unsub.]; FFEL PLUS [Grad and Parent]; and FFEL Consolidation loans)
- Eligible loans must be in grace, repayment, deferment, or forbearance. FFEL loans in default or bankruptcy proceeding are NOT eligible.
- Perkins, HEAL, HPSL, NSL, LDS and private loans are NOT eligible

SPECIAL DIRECT CONSOLIDATION LOAN

- Provides a 0.25% interest rate reduction from current interest rate on commercially-held FFEL loan
- Repayment term will not change - length of time to repay the loan will not change and will not reset
- If IBR payments were made to the commercially-held FFEL prior to consolidation, those payments will count toward the required repayment time for cancellation if you remain in IBR.
- Commercially-held FFEL will become eligible for Public Service Loan Forgiveness

SPECIAL DIRECT CONSOLIDATION LOAN

- ◉ Online application available as of January 17 through June 30
- ◉ Through its TIVAS, the Department will contact all potentially eligible borrowers
- ◉ FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Nelnet, and Sallie Mae have begun contacting potentially eligible borrowers to direct them to the online application
- ◉ The TIVAS that contacted the borrower will be the borrower's primary point of contact for questions and information related to the Special Direct Consolidation Loan
- ◉ Electronic Announcements January 13 & 18

FEDERAL DIRECT LOAN SERVICERS

- TIVAS - Title IV Additional Servicers
 - FedLoan Servicing (PHEAA)
 - PSL Forgiveness Servicer
 - Great Lakes Educational Loan Services
 - Nelnet
 - TPD Servicer
 - Sallie Mae

FEDERAL DIRECT LOAN SERVICERS

- Not-For-Profit (NFP) Federal Loan Servicers
 - 15 Prime Contractors / 13+ Sub-Contractors
 - Many using same loan servicing platforms
 - Loan allocation from ACS serviced loans that have been in repayment since 2007 - outside of current CDR cohort
 - Go-Live dates staggered
 - Minimal disruption to borrower
 - All borrowers will be kept whole if possible (all loans with one servicer)
 - New contact information and new lock box, new ACH for payments

FEDERAL DIRECT LOAN SERVICERS

- NFP servicers must update NSLDS at least weekly
 - Information on NSLDS will be similar in appearance to TIVAS
 - Each NFP has its own servicer code
- Challenges
 - FSA logo cannot be used on borrower correspondence but NFP will identify itself as a Federal Direct Loan Servicer
 - Department/ACS will not notify borrower that loans are being moved so first contact is NFP
 - Borrowers don't trust the NFP servicer initial contact - schools can help inform borrowers

TWO-FACTOR AUTHENTICATION (TFA)

- New security protocol - all authorized users will enter two forms of authentication to access Federal Student Aid systems via Internet
 - The first factor is something that an individual knows—his or her User ID and Password.
 - The second factor is something that an individual has—a token that generates a One-Time Password (OTP).
- TFA Token is an electronic device (key fob) with a power button and a display screen in front. The user presses the button and a new OTP is generated

TWO-FACTOR AUTHENTICATION (TFA)

- One token per authorized user and it will access all Federal Student Aid systems
- TFA implemented over 2012 calendar year and applies to AIMS, COD, and SAIG
- Starting January 29, all authorized users who has received a token can access COD for information and links about token registration and token maintenance
- Electronic Announcements Jan. 13 & 18 and SFA Conference Session #56

NEGOTIATED RULEMAKING

TEAM I

- ◉ Team 1 - Teacher Preparation & TEACH Grant
- ◉ Session One - January 18 - 20, 2012
- ◉ Tentative Topics
 - Report cards on quality of teacher preparation
 - Requirements for institutional and program report cards
 - Requirements for State report cards
 - Standard to ensure reliability, validity, and accuracy of data submitted in report cards
 - State criteria to assess performance of teacher preparation programs - identifying low performing programs - consequences of State termination of eligibility of a program

NEGOTIATED RULEMAKING TEAM I

○ TEACH GRANT

- Definition of “high quality teacher preparation program”
- Definition of “high quality professional development services”
- Service and repayment obligations for the TEACH Grant

NEGOTIATED RULEMAKING TEAM II

- Team II - Loans
- First session held January 9 - 12
- Department of Education had identified 22 agenda items and the non-federal negotiators requested approximately 22 additional issues
- Most additional issues were decline for being outside the scope of the agenda or statutory limitations
- Final agenda 25 items

NEGOTIATED RULEMAKING TEAM II

- The Department will consider the discussions held this first week when developing draft regulatory text that will be submitted to the negotiators for review at least one week prior to the next meeting which is scheduled for February 13 - 17, 2012.
- <http://www2.ed.gov/policy/highered/reg/hearulemaking/2011/loans.html>.

COST OF HIGHER EDUCATION

- Secretary Duncan to FSA Conference attendees:
 - “I want to ask you, and the entire higher education community, to look ahead and start thinking more creatively - and with much urgency - about how to contain the spiraling costs of college and reduce the burden of student debt on our nation’s students.”
 - “...the higher education system provides few, long-term incentives to control student costs and debt. In tight times, states have little incentive to insist on efficiency because they know public colleges and universities can ultimately charge higher tuition and fees to make up for reduced state funding.”
 - Too many universities today actually have a perverse incentive to invest in expensive non-academic perks to drive rankings and attract students, like building gilded athletic centers and residential dorms.”

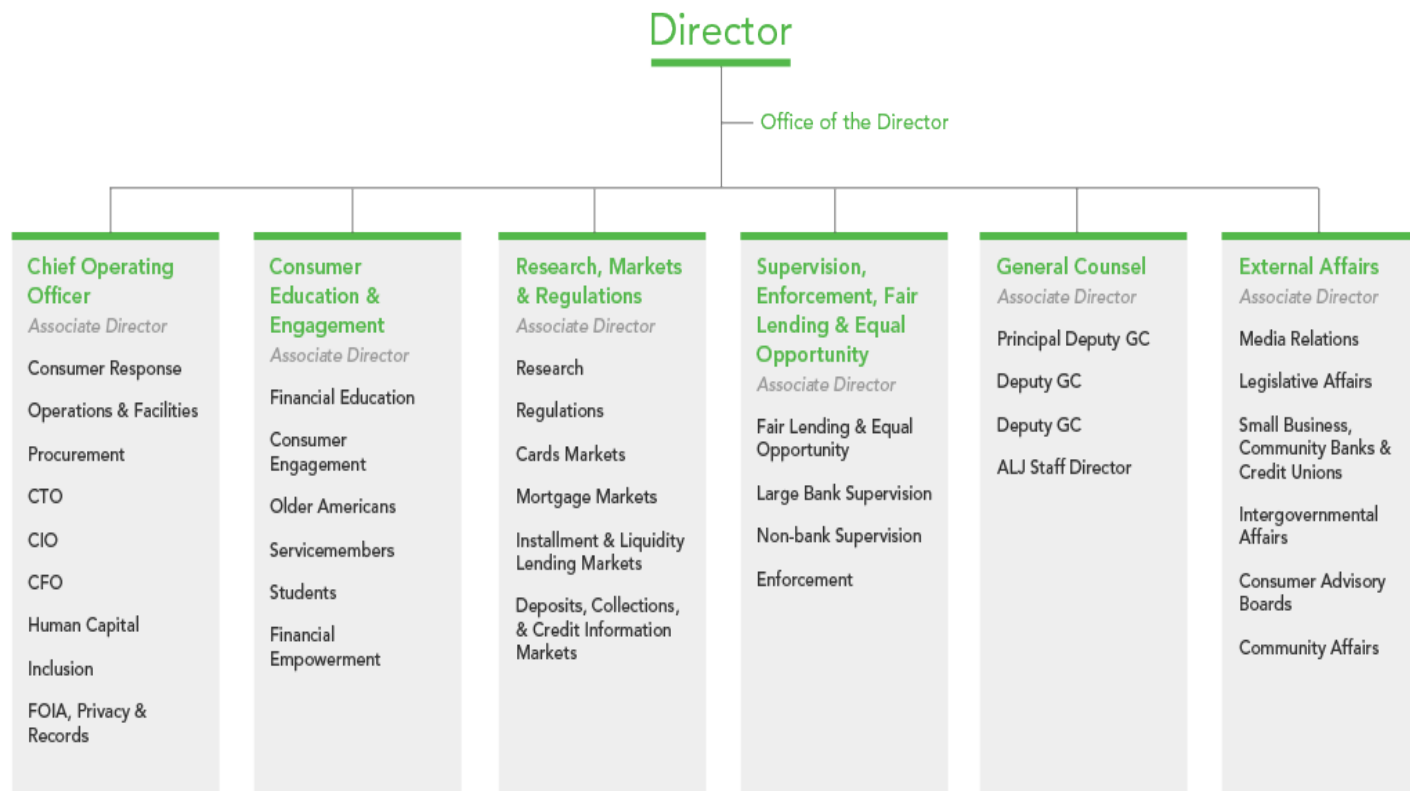
COST OF HIGHER EDUCATION

- White House hosts roundtable discussion on increasing productivity and decreasing college costs.
 - How colleges can become more affordable while producing more graduates;
 - How new efforts in affordability or productivity can be scaled up from one college to large state systems
 - College costs (total cost of education for student) versus college price (what student pays)

CONSUMER FINANCIAL PROTECTION BUREAU (CFPB)

- ◉ President Obama recess appoints Richard Cordray as Director
- ◉ “One of the things we see and have seen is lenders who market loans for borrowers knowing that those borrowers are unlikely to be able to pay those loans. But they may have other incentives that lead them to make those loans nonetheless. We clearly saw that in the mortgage market in the run-up to the financial crisis, when that market got broken.”
- ◉ “We’re seeing some of the schools anticipating as much as 50 percent default rate on their students, yet they’re making those loans anyway. We will be looking closely at those [institutional] loans. We will be looking closely at the tactics by which they are marketed and making sure that the law is being followed.”

CONSUMER FINANCIAL PROTECTION BUREAU (CFPB)



DRAFT
12/6/2011

CONSUMER FINANCIAL PROTECTION BUREAU (CFPB)

- ◉ Know Before You Owe - Student Loans
 - Joint effort with Department of Education
 - Financial Aid Shopping Sheet
 - Aimed at providing information that will assist students in comparing colleges
 - Could be a standardized award letter
 - CFPB seeks comments on draft:
<http://www.consumerfinance.gov/students/knowbeforeyouowe/>
- ◉ Private Education Loan Ombudsman - Rohit Chopra
 - This CFPB position was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act to assist private student loan borrowers

CONSUMER FINANCIAL PROTECTION BUREAU (CFPB)

- CFPB sought comments on private education loans and related consumer financial products and services that are currently being offered to or used by students and their families for the financing of postsecondary education (due date 01/17)
- Preparing a report, as required by the Dodd-Frank Act, on Private Education Loans and Private Education Lenders
- CFPB will be examining consumer protection rules regarding private education loans - maybe opportunity to address preferred lender lists

NEXT UP

- Congress reconvenes next week
- State of the Union Address - January 24
- President's FY 2013 Budget Proposal (Feb.)
 - Federal Budget is a nonbinding resolution
 - Does not carry force of law
 - Contains spending and tax guidelines while setting parameters for legislation to be written by the individual committees of jurisdiction
 - Funding comes through the appropriations process - carries the force of law

NEXT UP

◉ Debt Ceiling

- President requested \$1.2 trillion increase
- The House approved, by a vote of 239-176, a resolution disapproving the request
- The vote fell short of the two-thirds majority necessary to overcome a presidential veto
- House vote is “symbolic” since Senate is expected to block any joint resolution disapproving the debt ceiling increase
- The Treasury Department had begun using measures to stay below the \$15.194 debt limit
- Two other debt ceiling increase have gone into effect since BCA - \$400 billion in Aug. 2011 and \$500 billion in Sept. 2011

◉ 2012 Elections

QUESTIONS

