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THE NATIONAL DIRECT STUDENT LOAN COALITION

THE NATIONAL DIRECT STUDENT LOAN COALITION

"An Alliance of Schools Participating in the Federal Direct Student Loan Program"

COALITION GOAL STATEMENT

- To promote the success of the Federal Direct Loan Program, in serving the interests of students, families, and taxpayers.
- To maintain high standards of quality service and program integrity.
- To foster successful program implementation and communication g participating schools.
- To inform elected officials, the financial aid community, and the public about the progress and success of the Federal Direct Student Loan Program.

Visit our WWW site beginning October 10: www.siue.edu/directloan

e Coalition is the only ganization solely devoted to representing the interests and concerns of direct lending institutions. The following are some of its accomplishments to date:

- Last March, the Coalition sponsored an invitational symposium entitled Direct Loans 2000, which was held in Washington, D.C. The symposium was held in the White House Conference Center and its intent was to review and evaluate the progress of the program to date, to explore the use of new emerging technologies in the future, and to work toward the continued success of the program. The Honorable Richard Riley, Secretary of Education, served as the keynote speaker.
- A World Wide Web home page has been developed and is maintained to effectively represent and convey the concerns of the Coalition to the public at large.
- Maintains an active listserv for participating schools.
- The Coalition sponsors membership meetings at the various national and regional association meetings (e.g. NASFAA Conference).
- Members of the Steering Committee Center visited the Loan Origination Center in Montgomery this summer and reviewed their procedures for loan origination and processing.
- In coordination with the Department of Education, the Coalition has developed a *Mainframe Systems Resource Book*, which is being sent to all mainframe schools and lists all mainframe institutions, system configurations, and contact staff.
- Steering Committee members are actively involved in Task Force focus groups, offering input to the Department in such areas as direct loan technical system design, publications, outreach, and communication.
- The Committee also continues to work with both the Secretary of Education and other key Department staff to develop new and creative program enhancements and initiatives.
- Steering Committee members participate in weekly conference calls to monitor program issues. Key Department and contractor representatives are asked to participate and learn of school needs/concerns

DL group Tom, Ted, etc. 9/23/97

- Joe & Betsy
- David S. - Andrews staff

- Price differentials: — DL shd be more like FFEL (cost effective way)

- $8 million delivered on 13,000...

ED needs to clean up... **

2.6 million borrowers — 25,000 of DL borrowers are consolidation...

99% no prob.

- switchover probs — no effect on students...

* Losing the story of the rest...

- Director & Chair of VA.

VA — plus offering to forgive the first year's interest

Co? - Terry Sullivan for a student over it.

* Tax-exempt bonds — what are returns

Keystone Direct

CitiELA - offering a T-bill + 3 w/no orig. fee

Reach

- Need to have push from Admin...

- D.L. ^ staff needs

Betsy, Joe & Russ[illegible]

- WEB - need to get up to date on use of technology...

=> Need resources

> students/borrowers in FFEL & DL don't have one place they can go for history for loans...

NSLDS - students don't have access.

'expensive' to allow student access to NSLDS data... redesign/

- [illegible] [illegible]

* *

National Direct Student Loan Coalition

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September 22, 1997

Dear Colleague,

On behalf of the National Direct Student Loan Coalition, a coalition of the universities and colleges that participate in the Federal Direct Student Loan Program, I am writing to invite your participation and membership in the Coalition. To accomplish our goals, we need help from our Direct Loan colleagues across the country.

Our efforts are focused on--

- promoting the success of the federal Direct Student Loan Program in serving the interests of students, families, and taxpayers,
- maintaining high standards of quality service and program integrity,
- fostering successful implementation and communication among participating schools, and
- informing elected officials, the financial aid community, and the public about the progress and success of the Federal Direct Student Loan Program.

Join us in accomplishing these goals. By October 15, 1997, please return the enclosed application/volunteer form with your check to Barbara Tornow, Coalition Treasurer, at Boston University.

Thanks for your support.

Sincerely,

Phyllis Hooyman

Phyllis Hooyman
Hope College
Chair, Steering Committee

National Direct Student Loan Coalition

Payment due October 15, 1997.

1997- 98 Charter Membership
October 1, 1997 - September 30, 1998

Name of institution (on line above)

Name of Representative (above)

Title (above) Area code/phone

Address (above) Fax

City/State/Zip (above) Email

Membership fees are based on headcount enrollment:

☐ $300 for enrollment of 7,000 or less.

☐ $500 for enrollment greater than 7,000.

Make your check payable to the National Direct Student Loan Coalition and mail with your completed application to:

Barbara Tornow, Office of Financial Assistance
Boston University, 881 Commonwealth Avenue
Boston, Massachusetts 02215
(BU FEIN# is 4210354704)

■ If you want your institution billed for your membership, check below and return this form:

☐ Bill for membership.

■ Please indicate your area of interest for assisting the Coalition:

☐ Coalition finances ☐ Communication
☐ Web page/internet ☐ Legislative initiatives
☐ Other : ____________________

■ Steering Committee Members:

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Check # ____________________
Date rec'd ____________________

- NAX for BCY...

FEDERAL STUDENT LOAN PRICE DIFFERENTIALS

PROBLEM/BACKGROUND --In the 1993 student loan reform debate, direct loan supporters tried to translate the lower taxpayer cost of the program into lower borrower costs. Backers of government guaranteed loans (FFEL) disagreed, however, arguing that a differential would tilt the playing field, forcing schools to go into direct lending not because they prefer it, but because of the lower cost for students. It was agreed that students in both programs should have equal terms and conditions. At least, everyone assumed they were equal.

Prior to 1993, lenders rarely offered interest rates other than the maximums set by law. Indeed, most observers treated the maximums as if they were the government-set rate, because the market place allowed it. Some lenders are now offering to pay a portion or all of the origination fees. Much of this so-called "price competition" is highly questionable:

> Certain lenders are using their taxpayer-guaranteed returns to offer targeted borrowers a lower interest rate or fee.
>
> Guaranty agencies have lobbied Congress for administrative payments, then used that federal money to offer lower fees on loans.
>
> Some secondary markets use the proceeds from low-cost federal tax exempt student loan bonds to offer preferences to targeted borrowers.

These lender discounts suggest that profit margins remain at acceptable or excessive levels.

This would not be a policy problem if lender and guarantee agency revenues were determined by the marketplace. However, income streams are now provided through taxpayer subsidies mandated by Congress which are in addition to guaranteed default payments. Also, students who are provided these discounts and institutions that return to or remain in FFEL can be subjected to "bait and switch" tactics on subsequent loans.

Furthermore, the FFEL industry is actively advocating a proposal which would eliminate a scheduled reduction in interest rates that will save both FFEL and direct loan students and parents an estimated $3 billion over the five year period starting July 1, 1998. This was one of the student benefits included in the 1993 Student Loan Reform Act. They dislike the new method for calculating interest which has been on the books since 1993, but have yet to suggest another way of providing the $3 billion committed to students that does not come at taxpayer expense. Contrary to claims of FFEL advocates, the CBO, OMB and private "Blue Chip" forecasters all project that the new method of interest calculation to which the industry objects will provide better terms for student and parent borrowers in both programs. The effect of the FFEL loan industry proposal would be to prevent ALL students from receiving a significant interest reduction while maintaining its right to use federal subsidies to offer targeted reductions to **some** students and **only selected** institutions.

The Administration's FY 1998 Budget addresses student cost issues in three ways. First, it reduces lender returns, arguing that selective price discrimination proves that there are excess profits that can be squeezed out of the FFEL system and used to lower costs for all students. Second, it prohibits differential or predatory price-cutting -- essentially any effort to "cream" by offering a benefit only to students from a particular school, for example. Finally, it assumes implementation of the July 1, 1998, interest rate reduction.

CONCLUSION -- Price differentials create an inequitable distribution of federal benefits to students in **both** the FFEL and direct loan programs. Federal subsidies should provide the lowest possible cost to all FFEL and direct loan student borrowers alike.

The HEA reauthorization should assure that FFEL and direct loans compete on the basis of service, not the capacity of the guarantee program to use mandatory federal subsidies obtained though the legislative process to offer **selected** benefits to a **few** students. The July 1, 1998, authorized interest rate reduction should be retained. REV. 8/8/97

News from NASFAA

Department Reauthorization Briefing Document

Following is the briefing document given to participants at meetings August 13 and 14 outlining the Department's Title IV reauthorization proposals. The meetings consisted of a briefing on the Department's reauthorization proposals, during which the Department stresses that this is a draft discussion document, not a final proposal.

Reauthorization of the Higher Education Act--Student Aid Issues

The Department's reauthorization proposals emphasize universal access to postsecondary education and lifelong learning, building upon the Hope Scholarship and lifelong learning tax credits and increases in Pell Grants and Work Study. The proposals are designed, first, to improve benefits to students. In addition, these proposals are designed to improve the management of the student aid programs and simplify program delivery. The Department is strongly committed to reducing burden on students, families, and institutions and to provide program flexibility so that the schools and the Department can manage the programs to best serve the needs of students.

As the Department of Education continues working on its proposals for reauthorization of the Higher Education (HEA), it is interested in hearing comments and suggestions from the community. This attachments includes specific proposals that the Department is considering for the student financial aid programs, and are grouped as follows:

Federal Pell Grant Program

The Administration continues to support a strong Federal Pell Grant Program as the foundation of aid for needy students and proposes the following changes designed to increase benefits to students and improve the management of the program.

Improve benefits to students: To promote access to postsecondary education, the Department is considering proposals to:

- Provide a 'Super Pell' to second-year Pell Grant recipients with zero-EFCs. The purpose is to encourage persistence among the neediest students between the first and second years of postsecondary education when many students drop-out. Students would receive an additional $300 in 1999-2000.
- Encourage and reward institutions for programs and practices aimed at reducing the drop-out rates of Pell Grant recipients. The retention grant, which would be awarded to institutions based on their success in graduating low-income students, would be by institutions to provide services such as counseling and tutoring designed to increase retention and graduation.
- Reintroduce time-limits on student eligibility for Pell Grants to encourage students to complete their education more quickly. Students could receive grants for a time period equal to 150% of the period normally required to complete their course of student, with an overall full time equivalent limit of six years for a student in a four-year program. Part-time students receive proportionately longer, and students with disabilities would be exempted from the time limits.
- Base eligibility of stand-alone English as a Second Language (ESL) only programs on performance of graduates in standardized tests to improve the effectiveness of these programs. At

the completion of the course of student, each individual would take an approved language proficiency exam. The institution's continued eligibility to offer ESL-only programs, and have those students remain eligible for Pell Grants, would be based on the percentage of its graduating students passing the proficiency test. This proposal does not affect ESL courses that are part of a larger academic or vocational program.
- Introduce a true Pell Grant minimum of $400. The current rule allows students who would otherwise be eligible for $200 to receive $400. This proposal would eliminate this provision.
- Modify tuition sensitive rule to clarify that 'fees' are included with tuition in the calculation. No other tuition sensitivity changes will be proposed.

Improve management and operations of the programs: To streamline the programs, simplify administration of the programs for institutions and the Department, and improve accountability, the Department is considering proposals to:

- Improve program management by phasing out the requirement to advance 85% of Pell Grant funds to institutions when the alternative 'just-in-time' procedures become available.
- Remove provision that directs when excess funds may be carried over to the next fiscal year and make program funding available until expended. The current language permits the Department to carry over excess funds only if the funds are less than 15% greater than needed. This is difficult to calculate until well after the end of the year and causes administrative problems.
- Increase institutional flexibility by providing minor changes to provision on crediting of Pell Grants to students' accounts to reflect current cash management regulations. This would simply specify that the rules on distribution of funds and crediting student's accounts would be established via regulation, rather than in the law, and allow the Department greater ability to react to institutions' needs.

Student Loan Programs

The Administration continues to support both the Direct Loan program and the FFEL program and proposes the following changes designed to increase benefits to students, equalize benefits between programs, and improve management and operations of the programs. This proposal builds off of the proposals in the President's FY98 budget.

Improve benefits to students: To provide increased benefits to students, the Department is considering proposals to:

- Reduce borrower origination fees as much as possible.
- Provide new repayment plans to FFEL borrowers. FFEL lenders will be required to offer the extended and graduated repayment plans currently available in the Direct Loan program.
- Require FFEL lenders to capitalize interest under the terms used in the Direct Loan program. In many cases, this will reduce costs to FFEL borrowers.
- Improve the terms of FFEL consolidation loans to match those in Direct Loans. FFEL consolidation loans will have a variable interest rate; FFEL borrowers will be able to consolidate while in school; consolidation of consolidation loans will be permitted; and borrowers will not lose their interest subsidy when they consolidate.
- Allow institutions to provide higher loan limits for graduate and professional programs if they are willing to share in the default risk. To certify loans greater than $18,500, institutions will pay an insurance premium to the Department of ten percent of the amount greater than $18,500. No student could borrow more than the student's estimated cost of attendance minus other financial aid.
- Do not accrue interest on unsubsidized loans that are in deferment for economic hardship if the borrower is performing community service. This proposal will allow young people with college loans to take up to three years to serve their communities without accruing additional interest on their loans.

Improve management and operations of the programs: To streamline the loan programs, simplify administration for institutions and the Department, and improve accountability, the Department is considering proposals to:

- Transform guaranty agencies to clarify that the federal government is the sole guarantor of FFEL loans. Guaranty agencies will act as third-party servicers of federal guarantees under performance-based agreements. The Department will pay 100 percent of lender default claims and will recall federal funds held in reserve by guaranty agencies over five years.
- Adopt other improvements to the FFEL program from the Department's 1998 budget proposal including, raising lender risk sharing from 2 to 5 percent; reducing the percentage of default collections that guaranty agencies may retain from 27 to 18.5 percent; requiring the Sallie Mae fee on securitized loans; replacing supplemental/preclaims assistance payments with performance-based lender payments to guaranty agencies tied to agency success in bring delinquent loans current; setting the in-school interest rate at the ED borrowing rate; and computing special allowance rates at the same time and in the same manner as student interest rates.
- Ensure continued access to FFEL loan funds by applying lender of last resort provisions to unsubsidized as well as subsidized loans; by allowing the Secretary to make advances directly to lenders for lender of last resort loans, rather than having to use guaranty agencies as intermediaries; and by allowing the Secretary to make institutions automatically eligible to participate in the Direct Loan program if they are eligible to participate in the FFEL program but their students do not have access to FFEL loans. These schools could enter the Direct Loan program at any time during the academic year and could participate in both the FFEL and DL programs simultaneously.
- Prohibit schools from acting as lenders unless the Secretary determines that it is necessary to provide access. The authority for schools to act as lenders was created to address access problems which no longer exist. The FFEL and Direct Loan programs should provide sufficient access to all students at eligible schools.
- Prevent insurance companies from acting as lenders, because the regulatory system for insurance companies is not sufficient for a consumer loan business.
- Make the Perkins loan program more similar to the FFEL and Direct Loan programs, by authorizing a Perkins rehabilitation program, defining 'default' as 180 days past due, and providing forbearance provisions that are consistent with the FFEL and Direct Loan Programs.
- Allow institutions to limit borrowing for certain categories of students such as freshmen or students in particular programs as long as they do not reduce or deny loans because of race, gender, color, religion, national origin, age, disability status, or income. Schools would be required to have established policies, but would not be required to document these determinations in individual student files.
- Create flexibility that would allow the Department to use new technologies as they become available. For example, establish authority for the Department to create a multi-year promissory note in the future and provide authority for the Department to use imaged documents as originals.
- Reduce burden on institutions by simplifying proration.
- Eliminate the bankruptcy discharge, because it is unnecessary and is not the most efficient way for the Department to assist borrowers who are facing financial hardships. Elimination of the discharge will save Departmental resources and equalize treatment of borrowers.
- Require database matching of social security numbers, selective service registration, and immigration status for PLUS borrowers.

Campus-Based Programs

The Administration continues to strongly support Federal campus-based student aid programs and is considering the following changes designed to improve the management of the programs.

Improve management and operations of the programs: To streamline the programs, simplify administration of the programs for institutions and the Department, and improve accountability, the Department is considering proposals to:

- Allow for increased flexibility for Perkins Loan funds to be used for Federal Supplemental Educational Opportunity Grants (FSEOG) and Federal Work-Study (FWS).

- Reduce institutional burden and increase flexibility by eliminating the requirement that institutions provide at least 5% of funds for each campus-based program to independent and less-than-half-time students. For most institutions this is an unnecessary administrative burden and could be an impediment to life-long learning.
- Reduce institutional burden by simplifying the requirement that institutions award FSEOGs first to Pell Grant recipients. Instead of the complicated EFC ordering requirement in the law, institutions would generally be required to first make grants to Pell Grant recipients and then to any other students.
- Gradually increase the portion of campus-based funds allocated based on 'fair share' to reflect more accurately the current distribution of needy students.

Need Analysis and Delivery System

The reauthorization proposals for the Federal need analysis formulas and changes in the delivery of student aid further the principle that parents have the primary responsibility for financing their child's college education and the student, who is the primary beneficiary of the education shares that responsibility. The Department's proposals also recognize the objective of targeting Federal student financial aid to the most needy low-income students and improving the management of the programs through a delivery system that is consistent with Project EASI.

Improve benefits to students: To provide increased benefits to students, the Department is considering proposals to:

- Allow schools the professional judgment authority to change a student's dependency status from independent to dependent. Schools currently have the professional authority to change the dependency status of an applicant from dependent to independent. This proposal would allow financial aid administrators the discretion to change the dependency based on their information at hand.
- Provide schools with the professional judgment authority to adjust a student's expected family contribution by altering the EFC methodology and the final amount due to extraordinary circumstances, as defined by the Secretary. Currently, the statute restricts a financial aid administrator's authority to use professional judgement to adjust only data elements used in calculating the EFC due to special circumstances. This proposal would allow schools to make adjustments that more accurately reflect a student's circumstances.
- Modify the income offsets for single independent students and married independent students with no other dependents. Specifically, raise the income offset for a single independent student to $6,000 and to $9,000 for a married couple, if only one is enrolled in postsecondary education, or $6,000, if both are enrolled. The new income offsets provide more reasonable protection against income not available for college.
- Provide an incentive for increased student earnings for postsecondary education by increasing the dependent student income protection allowance from $1,750 to $3,500. This increase would protect $3,500 of student earnings, with the amount earned above that amount assessed at 50 percent.
- Allow the Secretary to impute an asset amount in the need analysis formulas based on the family's income, parents' age, and number of family members, rather than relying on reported assets. The current treatment of savings in the need analysis formulas has been viewed as a disincentive to savings for students and their families. This proposal would create a simpler and fairer way to incorporate savings in the determination of need.
- Adjust need analysis to reflect the recently-enacted HOPE scholarship and lifelong learning tax credits so that student do not receive less aid if they receive the tax credits.
- Eliminate the taxation of forgiveness for income-contingent loans that are forgiven after being in repayment for 25 years.

Improve management and operations of the programs: To streamline the Title IV programs, simplify administration for institutions and the Department, improve accountability, the Department is considering proposals to:

- Move the base year back one year to allow for an earlier and simpler application process. The proposal would give the Secretary the flexibility to implement use of other than the base year income only after consultation with relevant parties. This proposal would relieve burden on students and schools, and, in conjunction with a match with the IRS, would allow for data verification of income information.
- Allow the Secretary to obtain the names, dates of birth, and social security numbers of the student's parents and the student's spouse on the FAFSA. This will enable the Department to match income information with the IRS.
- Allow the Secretary to obtain adjust gross incomes and taxes paid for Title IV aid students, their spouses, and if dependent, their parents from the Internal Revenue Service for the purpose of improved data verification.
- Simplify the application process of need analysis determination through enactment of two proposals. The first would simplify the criteria used for qualifying for the 'automatic zero' expected family contribution. The second proposal would delete the current 'simplified needs test formula' because many applicants find the tax form qualification requirements confusing and a barrier to completing the application filing process.
- Provide an expected family contribution calculation for periods of enrollment other than nine months to the two independent student formulas, as currently exists in the dependent student formula.
- Provide authority and flexibility to the Secretary to use the FAFSA as the loan application for the FFEL program. This change will reduce burden for students and streamline the application process for schools, lenders, and the Department.
- Modify the provision that specifies that no more than eight nonfinancial data elements needed by the States may be included on the FAFSA by eliminating the specification of only eight data elements. This change would assure the continued ability to maintain a single national student aid delivery system by providing the Secretary with the necessary authority to meet the needs of the States.
- Delete the provision that requires any person who assists another person with completing the FAFSA to provide his/her name and identifying information on the FAFSA.
- Provide authority for the Secretary to provide services to entities for a fee for ancillary services related to the delivery of student aid, and to pay entities for providing data essential to Title IV programs. This authority is needed to provide flexibility to pursue reengineering and integrating the student aid delivery system. Under this authority, the Secretary would be able to encourage and provide support for the continued expansion of the use of electronic processes in the delivery of student aid.
- Provide authority for the Secretary, after consultation with affected parties, to modify any requirement concerning applying for aid and delivery of funds to take into account innovations in technology and business processes if those modifications would better meet the needs of delivering aid to students. This authority will facilitate the Secretary's efforts to reengineer the student aid delivery system.

Gatekeeping and Oversight

The Department's reauthorization proposals for gatekeeping and oversight will help to ensure access, promote effective education, and improve the administration and management of programs by easing burdens on students, institutions, and the Department.

Improve benefits to students: To provide increased benefits to students, the Department is considering proposals to:

- Broaden Title IV opportunities for distance learners by expanding eligibility for students in distance learning programs at degree-granting institutions. Eliminate differences in cost of attendance treatments between distance learners and on-campus learners. Ensure accountability of distance programs through accreditation and, to assist the Department in evaluating accrediting agency activities, authorize an independent study to examine the effectiveness with which accrediting agencies are developing and enforcing outcome measures for distance learning programs.

- Extend the current cohort default rate threshold exemption that currently applies to Historically Black Colleges and Universities, Tribally Controlled Community Colleges, and Navajo Community Colleges until the year 2000. Beginning in 2000, continue to exempt those institutions from the default rate penalties as long as they are showing improvement in their default rates.

Ensure effective education: To ensure that students receive a quality education, the Department is considering a proposal to:

- Extend the 70/70 completion and placement requirement to all vocational programs up to one year in length. Modify the existing requirement by allowing institutions to meet the requirement if 70 percent of their students are placed in jobs for which they are trained regardless of whether they complete the program.

Improve management and operations of the programs: To streamline the Title IV programs, simplify administration for institutions and the Department, and improve accountability, the Department is considering proposals to:

- Repeal State Postsecondary Review Entity program.
- Repeal State share of default cost provision.
- Provide the Secretary the authority to develop a performance-based approach to statutory and regulatory requirements whereby the Secretary would exempt institutions from selected administrative requirements provided they meet specific administrative performance criteria.
- Impose the existing 85/15 requirement on institutions that switch from for-profit to non-profit status during a two-year transition period.
- Repeal the refund requirements and substitute a simplified proposal that incorporates a disbursement schedule that determines the amount of Title IV aid a student has earned when the student ceases attendance.
- Limit required unannounced reviews by accrediting agencies at schools offering vocational programs to those agencies at which at least 10 percent of the institutions they accredit have cohort default rates for the most recent year of 20 percent or higher. Allow the option for all accrediting agencies to conduct unannounced site visits when they are deemed necessary by the agency.
- Make the cohort default rate threshold provisions in the Perkins Loan program consistent with FFEL and Direct Lending, including terminating an institution's participation in the Perkins program if its Perkins default rate exceeds 25% for the three most recent years.
- Require institutions that appeal high cohort default rates to post surety. If the appeal is unsuccessful, the institution will be liable for loans and related costs that are incurred during the appeal process.
- Broaden the statutory authority for the Quality Assurance (QA) program to include the processing and disbursement of student financial aid, related student services, and verification of student financial aid application data.
- Repeal the provision in 498(f) that requires the Department to conduct site visits at institutions for each certification or recertification. Repeal the provision in 498(f) that allows the Department to charge institutions for the costs associated with these site visits.
- Revise the master calendar provisions applying to the regulatory process to provide more flexibility for institutions and the Department. Specifically any final regulation affecting the calculation of awards and delivery of aid to students that has not been published in final form by November 1 prior to the start of the award year shall not become effective until the beginning of the second award year after November 1. However, the Secretary may designate specific provisions that an institution can choose to implement prior to the delayed effective date.

Posted August 19, 1997, NASFAA Web Site