The Torch

September 27, 2013

A bi-weekly report from the Coalition of Higher Education Assistance Organizations

Congress

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- **We Are in the Midst of the HEA Reauthorization Process**
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White House & Administration

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  The Department of Education earlier this month announced that it has completed the process of transferring Department-owned loans that had been serviced by the Direct Loan Servicing Center (ACS) to other servicers.

Industry

- **New Data from FICO Labs Shows Growth in Delinquent Student Debt**
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Attachments

- **COHEAO Commercial Members**
- **Board of Directors**

Congress

Shutdown, Debt-Ceiling Negotiations Continue with No Resolution in Sight

Congress enters the weekend unsure of how to fund the government past Monday. To make matters worse, Secretary of the Treasury Jack Lew sent a letter to Congress indicating the US government would default on its debt by about October 17.

Today, the Senate in a bi-partisan vote of 79-19 overcame stalling tactics led by Sen. Ted Cruz (R-TX) then passed a continuing resolution (CR) keeping the government funded through November 15 in a strictly partisan vote by a margin of 54-44. The House had previously passed a CR that also defunded the Affordable Care Act, or "Obamacare."

Now that the spending measure has passed the Senate with the language pertaining to Obamacare removed, it is again up to the House to act. How the House will act, at this point, is not certain. In terms of the CR, timing is a major hurdle. Speaker of the House John Boehner (R-OH) has indicated the Senate approved legislation is not passable in his chamber. If the Senate bill is amended, it will need to be approved again by the Senate. That process could take days. Everyone, including Cruz, Democratic leaders, Boehner and Obama say they don't want the government to close, but with the government set to shut down at midnight Tuesday morning and no sign of a final deal apparent, many believe a shutdown is likely.

Congressional action to raise the debt ceiling is also needed, but Boehner was unable to put together a bill that would pass the House this week despite adding in a number of policy changes that Democrats in the Senate would never have accepted. Warnings are again coming that the credit rating agencies will downgrade the US Government's sovereign debt, which could raise borrowing costs throughout the economy. In terms of the debt-ceiling, Secretary Lew's letter places the date of default at October 17. It also states any sort of prioritizing of payments is "default by another name."

On a White House sponsored call today, an Office of Management and Budget official called for the House to pass the Senate-passed continuing resolution to provide time for the Congressional factions and the White House to work on an appropriations measure for the rest of the fiscal year. The theme was that failure to pass spending bills, along with the spending sequester, will stall the economic recovery, which was described as showing signs of durability.

On the debt limit, OMB remained unbending, saying the President is willing to negotiate over fiscal issues, but holding hostage the full faith and credit of the government is not a legitimate negotiating tactic.

Economists generally agree that, while a US government shutdown may harm the global economy, it would not be nearly as catastrophic as a US default. Unfortunately, with the two deadlines converging, saying which is worse is really just splitting hairs.

We Are in the Midst of the HEA Reauthorization Process

As the House has already requested ideas from stakeholders and is continuing to prepare for HEA reauthorization with its "Keeping College Within Reach" hearings, the Senate began its process earlier this month. Though most observers believe 2014 is very optimistic for passage; the HEA reauthorization process is now fully underway.

The Senate is taking a slightly different tack than the House in its plans for hearings and outreach to the stakeholder community. Before each Health, Education, Labor and Pensions Committee hearing—with only one week's notice—stakeholders will be asked to submit recommendations relating to the subject of that hearing—and only the subject of that hearing. HELP Committee Chairman Tom Harkin (D-IA) and Ranking Member Lamar Alexander (R-TN) jointly released a letter saying:

In preparation for the upcoming reauthorization of the Higher Education Act *(HEA), the Senate Committee on Health, Education, Labor and Pensions (HELP) will embark on a series of hearings over the next several months to examine important policy issues facing postsecondary education in the United States. As part of this process, the Committee will seek recommendations on the issues addressed in our hearings from diverse voices throughout higher education to help inform our views on reauthorization.*

While details may change, we expect the hearings to cover topics such as:

- *The roles of the state, the federal government, and accreditors in higher education;*
- *Keeping college affordable;*
- *Examining ways to increase quality in higher education;*
- *Student access;*
- *Innovative approaches to improving student success;*
- *Student financial aid; and*
- *Teacher preparation programs.*

Each hearing will be announced at least one week in advance by the Senate HELP Committee. Once a hearing has been announced, we ask your organization to submit recommendations related to that announced hearing topic only. Recommendations should be submitted before the hearing occurs. Please make your recommendations as specific as possible and limit each submission to no more than 5 pages. We ask you to provide background on the issue addressed, citing the appropriate statutory reference or regulation, details on each recommendation, including proposed legislative language, if appropriate, and the rationale for the recommendation. In addition, please include the name, title, email address and phone number for the appropriate point of contact. Please submit your recommendations to hea_reauth113@help.senate.gov. Your recommendations will be used to inform the Committee's thoughts regarding the reauthorization but will not be included in the hearing record.

Thank you in advance for your input and support for postsecondary education. Your assistance is critical to the work of our Committee in moving forward with reauthorization of the Higher Education Act.

Nobody expects a bill to be introduced this year. Instead, Committee staff are saying that the House will introduce a bill in mid-2014 with the Senate hoping to introduce its own bill soon afterwards. But introducing bills and passing a final version are far different things. It looks like 2015 is more likely for final legislative action in both chambers – after the next election.

In Advance of CFPB Event, Democrats Write Lawmakers on Student Debit Cards

Democratic lawmakers in the House and Senate today expressed concern over "financial arrangements between colleges and banks that could steer financially-strapped students into fee-laden debit cards that increase the costs of college."

In letters sent to some of the nation's largest banks, the legislators asked bank executives to explain the scope of any such arrangements, how much money the deals pay to colleges, and how much in fees is charged to students. They also ask executives to explain whether the marketing strategy for these arrangements, such as linking checking and debit accounts to college student ID cards, includes monetary or non-monetary gifts to college officials or other employees.

The letter cites an *ABC News* "investigative report" which relies largely on a report from US PIRG questioning these relationships. College and university officials indicate products are fully vetted to ensure they will not harm students, and these relationships provide outside revenues which can lower tuitions. Banking representatives point to the convenience provided by their individual student checking products and all note that students have a choice among multiple banking options.

The letters come in advance of an event from the Consumer Financial Protection Bureau focused on campus debit cards and checking accounts, "Banking on Campus," which is scheduled for Monday, September 30. The letters are signed by Representative George Miller (D–Calif.), the senior Democrat on the House Education and the Workforce Committee, Senator Dick Durbin (D–Ill.), the Assistant Senate Majority Leader, Representative Maxine Waters (D–Calif.), the senior Democrat on the House Financial Services Committee, Senator Sherrod Brown (D–Ohio) Chairman of the Senate Banking Subcommittee on Financial Institutions and Consumer Protection, Representative Louise M. Slaughter (D-N.Y.), the senior Democrat on the House Committee on Rules, Senator Elizabeth Warren (D–Mass.), member of the Senate Banking Committee, and Representative Peter Welch (D–Vt.), House Chief Deputy Whip.

The letters were sent to the chief executives of Wells Fargo Bank, US Bancorp, PNC Financial Services Group, SunTrust Banks, Inc., TCF Bank, Citigroup, Huntington Bancshares Incorporated, Commerce Bancshares, Inc., and Higher One Holdings, Inc.

One of the letters is available at this link:
http://democrats.edworkforce.house.gov/sites/democrats.edworkforce.house.gov/files/documents/9_26_13_LtrstoBanks-DebitCards.pdf

Senate Staff Update: Hallett Named LHHS Clerk, Beaumont Moves to HELP Committee

Adrienne Hallett has been appointed majority clerk for the Senate Appropriations Subcommittee on Labor, Health and Human Services, Education, and Related Agencies. Senate Appropriations Chairwoman Barbara A. Mikulski, a Maryland Democrat, appointed Hallett to replace long-time Sen. Tom Harkin-staffer Erik Fatemi, the last three years as clerk. Fatemi leaves Capitol Hill Oct. 4 for the private sector.

In other Senate staff news, Amanda Beaumont will be leaving the office of Sen. Al Franken (D-MN) to handle K-12 education issues for HELP Committee Democrats. Franken's office is said to be looking for a replacement for Beaumont as an education legislative assistant. In the meantime, Maggie Henderson will be handling education issues for Franken.

Next "Keeping College Within Reach" Hearing to Focus on Simplifying Aid, Features Full Slate of Gates Awardees

On October 1 at 10:00 a.m., the House Subcommittee on Higher Education and Workforce Training,, will hold a hearing entitled, "Keeping College Within Reach: Simplifying Federal Student Aid." The hearing, part of the numerous "Keeping College Within Reach: series of hearings, will take place in room 2175 of the Rayburn House Office Building.

A media advisory for the hearing states, "The *Higher Education Act of 1965* established a number of financial aid programs to help low- and middle-income students access postsecondary opportunities. However, over the last few decades the federal student aid system has grown into a complex patchwork of grants, loans, and institutional support programs. Confusing applications, redundant paperwork, and many different loan programs and repayment initiatives have created overwhelming confusion for students and their families.

As the committee prepares to reauthorize the *Higher Education Act*, Tuesday's hearing will provide members an opportunity to explore proposals to streamline the federal student aid system and make it easier for students and their families to understand the higher education investment."

A witness list is included below. Notably, all witnesses have worked on projects pertaining to student aid funded by the Bill and Melinda Gates Foundation.

Ms. Kristin D. Conklin
Founding Partner
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Washington, D.C.

Dr. Sandy Baum
Research Professor of Education Policy, George Washington University
Senior Fellow, Urban Institute
Washington D.C.

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Young Invincibles
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Mr. Jason Delisle
Director, Federal Education Budget Project
New America Foundation
Washington, D.C

White House and Administration

Duncan Apologizes to HBCUs for ED's Handling of PLUS Loan Changes

Speaking at the Department of Education's annual HBCU conference, Secretary Arne Duncan addressed the PLUS loan situation. Recent changes in eligibility criteria on Parent PLUS loans had a significant impact on the revenues of many HBCUs. In his comments, Duncan apologized for how the changes were communicated and said he was "not satisfied" with the situation.

An excerpt from Duncan's comments is included below:

On top of that grave threat to additional investment in preschool, K-12, and HBCUs, this has been a difficult year for HBCUs with PLUS loans.

I have talked with many of the people here in this room about the PLUS loan challenge. It has been hard, it has been frustrating, and I know some of you are angry.

I am not satisfied with the way we handled the updating and changes to the PLUS loans program. However, some have said we are choosing not to reverse the policy because we don't care, and nothing—nothing—could be further from the truth.

Our department is required to carry out the law as it was designed to protect parents and taxpayers against unaffordable loans. But we could have and should have handled the process better.

Communications internally and externally was poor, and I apologize for that, and for the real impact it has had. That's why we've announced that we will initiate a new rule-making process on this issue early next year.

Jim Shelton, our deputy secretary—and by the way, a proud Morehouse Man—will provide a more detailed update on the PLUS loans situation later this morning. This is personal for him—as it is for so many of our team and for me.

The good news is that we are making progress. But I continue to remain concerned about students and families who were denied loans and may still qualify for reconsideration, but have not yet applied.
We are committed to doing everything we can to make sure students get all of the financial aid they are eligible to receive. And we have communicated directly with applicants that we believe would benefit from having their application reconsidered.

Now, I am hoping that the very serious challenges of the moment will also provide the opportunity to reset the public dialogue on HBCUs.

The Secretary's full remarks are available online: http://www.ed.gov/news/speeches/enduring-and-evolving-role-hbcus

Department Announces Rulemaking on Changes to Violence Against Women Act

The Department of Education on Sept. 19 announced a new round of negotiated rulemaking will start in January to negotiate regulatory changes with regard to campus safety and notification practices as a result of the reauthorization of the Violence Against Women Act. The reauthorization passed Congress and was signed into law by the President earlier this year.

The announcement was published in the *Federal Register* calling for nominations of negotiators. It says in part: “We have decided to establish an additional negotiating committee to prepare proposed regulations to address the changes made by the VAWA to the campus safety and security reporting requirements in the Clery Act. In addition, we may propose additional changes to clarify and update the existing campus safety and security reporting requirements. We intend to select negotiators for the committee who represent the interests significantly affected by the topics proposed for negotiations.”

The deadline for nominating negotiators is October 21, 2013. The negotiations will take place in January, February and March 2014, with final rules published sometime before Nov. 1, 2014, and most likely taking effect July 1, 2015.

The full announcement with information on making nominations can be found here: http://ifap.ed.gov/eannouncements/attachments/FR091913NegotiatedRulemakingViolenceAgainstWomenAct.pdf .

ED Announces Completion of Transition from Direct Loan Servicing Center

The Department of Education earlier this month announced that it has completed the process of transferring Department-owned loans that had been serviced by the Direct Loan Servicing Center (ACS) to other servicers. This includes Perkins Loans that have been assigned to the Department. The new servicer is ECSI Federal Perkins Loan Servicer. This change only applies to Perkins Loans that have been assigned to the Department and does not affect schools’ Perkins Loan servicing.

The full announcement with more details can be found here: http://www.ifap.ed.gov/eannouncements/090613PerkinsServicingTransitionInfo.html

Industry

New Data from FICO Labs Shows Growth in Delinquent Student Debt

The average debt held by consumers who are behind in their debt repayments rose 17 percent between 2007 and 2012, according to data released today by FICO. The mean total debt for consumers who were 60+ days delinquent on at least one account grew from $53,706 (adjusted for inflation) in October 2007 to $62,642 in October 2012, fueled largely by student loan debt and mortgage debt.

The biggest rise occurred in student loan debt, which jumped 89 percent over the five-year period for delinquent consumers. By contrast, the mean student loan debt rose 58 percent for consumers who were not 60+ days delinquent on any accounts. For delinquent consumers, the amount owed on student loans in October 2012 was also 66 percent higher than for non-delinquent consumers.

The mean mortgage loan debt was 14 percent higher in 2012 for delinquent consumers, whereas it fell by 22 percent for non-delinquent consumers. An even greater discrepancy occurs for all other credit (not including student loans, credit cards, mortgages or auto loans): the average debt rose 61 percent among delinquent consumers, whereas it fell by 28 percent among non-delinquent consumers.

"This is a tale of two Americas," said Andrew Jennings, chief analytics officer at FICO and head of FICO Labs. "Most Americans have deleveraged, bringing their total debt down, but debt loads have risen for the one in five Americans who have problems making payments. Ultimately it is up to the lenders and debt collectors to tailor their approaches to different consumers in order to increase their yield, and help customers get back on track."

FICO Labs reviewed 10 million depersonalized U.S. consumer credit bureau records for this analysis. About 19 percent of the population were 60+ days delinquent in each sample.

Additional information on the report is available online: www.fico.com

ABA Task Force on Future of Legal Education Releases Draft Report

Stating that the system of legal education in the United States is widely admired around the world but faces serious challenges, the American Bar Association Task Force on the Future of Legal Education today issued its draft report with recommendations.

Key proposals call for changes in the pricing of legal education, liberalizing or eliminating certain accreditation standards, and speeding the pace of innovation and practical-skills training at law schools. The draft also calls on courts and bar authorities to devise new frameworks for licensing legal service providers.

The report includes a section on financing, including the following highlight:

- Pricing practices are complex and involve extensive discount and reliance on loans. A widespread practice is for a school to raise tuition, then use merit scholarships to discount costs for students with higher grades and test scores who can help boost the school in annual rankings.

“The Task Force believes that if the participants in legal education continue to act in good faith on the recommendations presented here, with an appreciation of the urgency of coordinated change, significant benefits for students, society, and the system of legal education can be brought about quickly, and a foundation can be established for continuous adaptation and improvement,” the draft report states.

The Task Force is soliciting public comment on the draft that will help the panel prepare a final report for consideration by the ABA House of Delegates. Neither the draft report nor the final report represents the policy or positions of the ABA.

The report is available online here, or at the Task Force website.

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