The Torch

March 1, 2013

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

COHEAO News

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  The National Student Clearinghouse released a state supplement to its fourth Signature, Report, "Completing College: A State-Level View of Student Attainment Rates," that takes a state-by-state look at college completion.

Attachments

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

COHEAO News

COHEAO Mid-Year Conference In Chicago July 28-30, 2013

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Most important, however, will be the comprehensive, useful agenda that will offer a tremendous amount of useful information for the delegates. The Agenda will include reports on the latest activities that affect Perkins Loans and other campus-based accounts receivable, with emphasis on financial literacy programs, the Consumer Financial Protection Bureau and many other topics. Please send your ideas for session topics to Harrison Wadsworth at hwadsworth@wpllc.net or to Lori Hartung at lori.hartung@tbandl.com.

Registration and information on how to book a room at the Hotel Monaco will be distributed soon. The hotel has offered a very favorable rate for Chicago of $169 per night to COHEAO Conference delegates, so start planning your trip! The rates are available, subject to room availability, three days before and after the conference.

Congress

"Sequestration Day" Arrives; Country Seems OK So Far

The deadline for the start of the federal budget sequestration arrived quietly today, despite rather hysterical warnings of devastation to the country and its national security. It turns out that it takes at least five weeks before a federal employee can be furloughed, so the lines at airport security won't be due to sequestration this month. Congress went home for the weekend yesterday, except for the top leaders who are meeting today with President Obama for the first time this year to discuss the situation.

Some impact on the economy due to the dampening effects of reduced government spending seems likely over time, and across the board cuts that hit federal funding for research and education seem especially wrong-headed, but many observers, even the *Washington Post*, are questioning if the cuts will actually be "devastating" as claimed by the White House in call with education advocates last week. Most people even in Washington don't really care whose fault it is, they want the powers that be to get their act together and earn their salaries.

More unquestionably impactful deadlines are approaching, starting with a March 27 expiration of funding for most government operations unless Congress passes appropriations legislation for the rest of FY 2013, which began Oct. 1, 2012, and followed May 18 by the need to increase the statutory debt ceiling. Bond rating agency Fitch today predicted a downgrade in the United States' sovereign debt rating from AAA if Congress doesn't pass legislation increasing the limit.

Congress and the White House, in spite of reassuring the public for months that across the board spending cuts to domestic programs and defense were just so awful they would never happen, failed to come up with an alternative. Because of a policy known as forward funding, most education programs will not feel the impact of the sequester until the fall. But Headstart and Impact Aid will feel the cuts in the remaining months of this fiscal year.

Specifically, $3 billion in funding for the Department of Education and Headstart will be eliminated from the baseline upon which the Senate built the FY 2013 budget for education. That will mean, for example, a $735 million cut from Title I and $600 million from IDEA. Higher education programs are not off the hook either in spite of the exemption of the Pell Grant program from this first round of cuts. All campus-based and institutional aid will be cut by the same 7% figure, as will funding for research grants. NIH, for example, is predicting that it will award 1,000 fewer grants this year due to the cuts.

According to the National School Boards Association, 75% of local education agencies will begin layoffs this spring as contracts can't be signed if resources are unavailable. States will be hard pressed to make up for reductions in federal support for K-12 education that local schools must sustain.

One of the real tragedies of the situation is that the cuts will affect the same people over and over again. Individuals dependent on food stamps, child care vouchers, special education services, community health clinics or student aid for example will see all these services either reduced or eliminated or harder to get. In many instances agencies have no choice but to furlough personnel. It is estimated that between today and September 30th many federal employees will lose 22 days of pay, a figure that is higher because the sequestration applies to the entire fiscal year, which will be half over by the time furloughs can start.

Secretary of Education Arne Duncan said recently that these cuts are "stupid". It is hard to argue that point. Unfortunately he also claimed teachers were already being laid off due to the sequester, a claim that so far the Administration has not been able to back up. This damaged the credibility of dire claims of disaster due to the sequester, which is unfortunate not because the sequester's cuts are "devastating" – they aren't. But overheated claims distract from the real issue: mindless across the board cuts are very bad policy that demonstrates an abject failure of leadership in Washington and an inability to set coherent priorities. A Congressional Budget Office report providing facts on the sequestration can be found here:
http://www.cbo.gov/publication/43961?utm_source=feedblitz&utm_medium=FeedBlitzEmail&utm_content=812526&utm_campaign=0

Congressional Committees Working to Avoid Government Shutdown April 1

The approach of the March 27 expiration of the "continuing resolution" funding the federal government, along with the May debt ceiling deadline, will have far more dramatic consequences if Congress and the President fail to act. Most of the federal government will actually close on Monday, April 1 if appropriations legislation isn't passed funding government operations for the rest of FY 2013.

The House and Senate Appropriations Committees have been working on legislation that would keep the government open, but no details have been released and it is not known if the Republican-controlled House and Democratic-controlled Senate are working together at all in order to produce a bill that will pass both houses. They have time to do so, and possibly even correct some of the wrongs in the sequestration law at the same time.

COHEAO is continuing to seek funding for Perkins Loan cancellations during this process, and we urge COHEAO Members to contact their House members and Senators in support of Perkins funding.

Petri Bill On New Student Loan System Getting Attention In Washington

Legislation introduced late in 2012, and expected to be re-introduced soon, by Rep. Tom Petri (R-WI) is being promoted by Petri's staff and is earning some support in Washington, although not so much where it matters, on Capitol Hill. Petri's bill would require income-based repayment for Direct Stafford Loans, would eliminate subsidized Stafford Loans, and make a number of other changes to the way the federal Direct Loan Program works. Most significantly, loan payments would be made via deductions from paychecks by employers like is done with payroll taxes today.

The proposal, according to Petri, is modeled on the student loan systems in Australia and New Zealand. American Council on Education Vice President Terry Hartle endorsed the proposal at a recent event sponsored by NASFAA. Petri's legislative assistant who covers higher education, Kevin James, has been invited to appear on a number of panels of organizations that received grants from the Gates Foundation to produce proposals for revising the federal student aid programs, including NASFAA and National College Access Network.

The Washington publication *National Journal's Congress Daily* this week ran an article on the proposal that noted that House Education and Workforce Committee Chairman John Kline (R-MN), favors a different approach, using market-based interest rates for student loans. Petri's bill would have to go through Kline's committee.

Grassley Questions Lew on Role at NYU, Connections to Citigroup, and Preferred Lender Lists

In questions submitted to Treasury Secretary-nominee Jack Lew from his confirmation hearing, Sen. Charles Grassley (R-IA), the Committee's Ranking Republican, had multiple questions on his previous employment at New York University and Citigroup.

Connecting the two institutions, Grassley's questions, which were not asked in-person at the hearing, begin with NYU's selection of Citigroup as a preferred lender. For those questions, Lew's responses point to the public notice from NYU on the matter and note his work at Citigroup was completely separate from the student loan operations.

Grassley also asked tough questions on Lew's compensation as COO at NYU, which at the time, was one of the highest salaries on campus. Lew's responses often gave a strong defense for higher education and non-profit institutions, but he also pledged a willingness to look at issues such as requiring colleges to spend a certain percentage of endowment funds and non-profit executive compensation.

If you would like a copy of the questions, please email whuffman@wpllc.net. Coverage from the *Chronicle of Higher Education* is available online: http://chronicle.com/blogs/bottomline/senator-grassley-grills-treasury-nominee-about-past-job-at-nyu/

Senator Introducing Bill Requiring Private Loan Forgiveness In Case of Death

Sen. Charles Schumer (D-NY) announced he plans to introduce legislation called "Andrew's Law," in honor of his constituent Andrew Prior, who was killed by a hit-and-run driver shortly after graduating from Northeastern University. The drive was later caught and sentenced to prison.

According to Schumer's office, Andrew Prior had one federal loan and three outstanding private student loans at the time of his death, which were co-signed by his parents. The federal loan and two of the private loans were forgiven shortly after Andrew's passing, yet it took over two years, and Schumer's aggressive intervention, for the third loan servicer to forgive the remaining student loan debt.

Federal student loans made under the Higher Education Act are required to be discharged in the event that the borrower dies. The same requirement does not apply to private student loans, although most lenders have policies where they forgive the loan in case of the death of the borrower, which relieves co-signers of their obligation to repay the loan. An estimated 85 percent of private loans made recently have co-signers.

Currently, all federal student loans are required to be fully discharged if a family member or other representative provides a certified copy of the death certificate to the lender or loan servicer. Schumer's legislation would apply the same treatment for all prospective private student loans.

White House and Administration

Bergeron to Step Down as Top Official at Office of Postsecondary Education

David Bergeron, Acting Assistant Secretary for Postsecondary Education, will be retiring from the federal government in March. Bergeron, who has been with the Department for over 30 years, told colleagues that he expected to continue working in higher education in Washington. Speculation is that he may have landed a job with one of the larger foundations.

He has been serving as Acting Assistant Secretary since Dr. Eduardo Ochoa, a political appointee, left the post to become president of California State University at Monterey Bay. The search for Acting Assistant Secretary is said to be well under way, but there have been no signs of who might be the next appointee. *Inside Higher Ed* reports on the departure:

> *Since last fall, observers have pointed to a lack of a coherent vision to drive policy making at the Education Department, in large part due to departures of key political appointees and policy staffers during the president's first term. Those departures have continued as the second term begins, including Zakiya Smith, formerly of the White House Domestic Policy Council. With the departure of*

Bergeron slightly more than a year after that of Daniel Madzelan, another long-time senior staff member, the department has lost close to 60 years of higher education experience and knowledge.

The full article is available online: http://www.insidehighered.com/quicktakes/2013/02/21/another-senior-official-leave-education-department#ixzz2LZlln9lQ

CFPB Releases RFI on Private Student Loan Refinance Program

The Consumer Financial Protection Bureau released a Request for Information (RFI) on private student loan refinancing. Comments are due by April 8.

In a press release on the effort, the CFPB made comparisons to the mortgage marketplace and said it was looking for the following information:

- How student loan burdens might impact the broader economy and hinder access to mortgage credit and automobile loans;
- How distressed borrowers manage their student loan obligations;
- What options currently exist for borrowers to lower their monthly payments on private student loans;
- Examples of successful alternate payment programs in other markets and which features could apply to this market; and
- The most effective mechanisms for communicating with distressed borrowers.

The CFPB is describing the RFI as a "first step to a student loan affordability plan" and Student Loan Ombudsman Rohit Chopra warned, ""If you think everything in this market is hunky dory, you are completely missing the warning signs." Chopra followed his comments to reporters with a blog post titled, "Help Stop the Student Loan Domino Effect."

However, in subsequent discussions with the *American Banker* for an article which noted the limited impact of a private loan re-financing plan, Chopra suggested the Bureau is not necessarily looking to regulate. The following is from the *Banker*:

The public inquiry, which lasts until April 8, poses a wide range of questions for consumers, lenders and associations. But Chopra cautioned that it does not necessarily signal the creation of a new, uniform modification program for all lenders.

"There may be other impediments to offering repayment flexibility which may include certain accounting guidelines or operational bottlenecks and we want to hear those," he said. "This is literally an information request. We want to hear all options."

The CFPB RFI is available online:
http://files.consumerfinance.gov/f/201302_cfpb_rfi_student_loan_affordability.pdf
A blog post from Chopra, "Help Stop the Student Loan Domino Effect," is available online:
http://www.consumerfinance.gov/blog/help-stop-the-student-debt-domino-effect/

New York Fed Presents Views on Student Debt

Researchers at the Federal Reserve Bank of New York this week released their analysis of the impact of student debt on the economy. Some key findings pulled from a presentation on the report are below. It is not clear if the report is just looking at Stafford and PLUS loans or if it includes Perkins, HHS and private loans as well.

- Student Debt almost tripled between 2004 and 2012 and stands at $966B as of 2012:Q4
- 70% Increase in the number of borrowers
- 70% increase average balance per person
- About 17% of borrowers are past due on their student debt more than 90 days in 2012, a large increase from under 10% in 2004
- 44% of borrowers are not yet in repayment, and excluding those, the effective 90+ delinquency rate rises to more than 30%.
- The transition rate of borrowers in repayment from current to delinquent has been rising since 2008 from around 6% to nearly 9%.

Reasons listed for the growth in borrowers and debt:

- More people attend college and graduate school
- Parents take out student loans for their children
- Students stay longer in college and more often attend graduate school
- Lower repayment rates as borrowers delay payments through deferments and forbearances
- Discharging student debt is very difficult and the balance stays with the borrower

The researchers conclude:

- Higher education is an important investment among young workers for better jobs and higher income, but it is accompanied with a growing student debt burden.
- Total student loan balances almost tripled between 2004 and 2012 due to increasing numbers of borrowers and higher balances per person.
- Nearly one third of the borrowers in repayment are delinquent on student debt.
- The higher burden of student loans and higher delinquencies may affect borrowers' access to other types of credit and the performance of other debt.

A slide presentation on the analysis that includes many colorful charts can be found here:
http://www.newyorkfed.org/newsevents/mediaadvisory/2013/Lee022813.pdf

Director Cordray's Comments On Student Loan Servicing At CFPB Advisory Committee Meeting Last Week

The following is an excerpt from a report on the meeting prepared by the law firm of Ballard Spahr:

> *In the student lending area, Mr. Cordray focused on perceived similarities between servicing problems experienced by mortgage loan borrowers and those experienced by student loan borrowers. Observing that student loan servicing has the "same problematic [financial] incentive structure" as mortgage loan servicing because the creditor and not the borrower hires the servicer, he commented that many consumers are unable "to negotiate for a more affordable payment plan on their loan obligations…even when a modification would make sense for all concerned."*

Last year, Rohit Chopra, the CFPB's Student Loan Ombudsman, drew similar parallels between the mortgage and student loan markets. We commented then that his statements might be a signal that the CFPB is considering rulemaking to establish servicing standards for student loans. Director Cordray's remarks to the Advisory Board that having "seen the impact [servicing problems have] had for so many homeowners…[the CFPB is] looking to take steps that may address the same kinds of problems for student loan borrowers" would seem to reinforce our suspicions that student loan servicing standards might be in the works.

His remarks also reinforce our concerns that servicers of federal and private student loans could find themselves increasingly becoming targets of CFPB civil investigative demands and enforcement activity and that the CFPB may attempt to assert supervisory authority over such servicers (as larger participants in the debt collection market, as service providers to covered persons or, once the CFPB adopts a rule for exercising supervisory authority over entities engaged in conduct that presents risks to consumers, as such an entity).

See: http://www.lexology.com/library/detail.aspx?g=1c9ed4eb-8b30-4135-b02f-00d394d3f39c.

Deadline Dates Announced By ED For Many Reports, Other Documents

ED announced a range of deadline dates for the receipt of documents and other information from institutions and applicants for the Federal student aid programs for the 2012-2013 award year. The Federal student aid programs include the Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), Federal Perkins Loan, Federal Pell Grant, William D. Ford Federal Direct Loan (Direct Loan), Teacher Education Assistance for College and Higher Education (TEACH) Grant, and Iraq and Afghanistan Service Grant Programs.

The full announcement with charts detailing the various deadlines was published in the Feb. 28 *Federal Register*: http://ifap.ed.gov/fregisters/attachments/FR022813.pdf .

FSA Issues Changes To Student Aid Handbook – Application and Verification Guide

The ED Office of Federal Student Aid announced it has made substantive revisions to the Application and Verification Guide of the 2013-2014 Federal Student Aid Handbook. The revisions have been added to the Errata and Updates for 2013-2014 Federal Student Aid Handbook page, and the updated PDF files are now available.

The errata and upgrades pages are available here:
http://ifap.ed.gov/eannouncements/022813ErrataandUpdatesfor20132014FSAHandbook.html

Industry

Resource: All the Gates Student Aid Reports in One Place

Carolyn Henrich at the University of California put together an extremely useful table, putting all of the Bill and Melinda Gates Foundation "Reimagining Aid Delivery and Design" (RADD) Project reports in one place.

The table was then put online by the folks at "The FA Chat," a collection of financial aid professionals with an interest in social media. It is available here:
http://thefachat.blogspot.com/2013/02/reimagining-aid-design-delivery-project.html

In September, the Foundation gave grants to 14 organizations to produce reports and policy recommendations on using student aid programs to encourage student success. Many of them have been made public, including from NASFAA. The National College Access Network has scheduled a meeting next week to announce its proposal, which is expected to be like most of the others: supporting retargeting of higher education tax breaks to grants and forcing more widespread use of income-based repayment of student loans, with a variety of other ideas focused on "simplification" and reducing the student loan debt burden.

New Report "Money Matters on Campus" Provides Results of Survey of Student Financial Knowledge

The Chronicle of Higher Education ran an article, excerpted below, this week on the release of a new report on financial literacy based on a survey of 40,000 students at four-year colleges, more than 90 percent of them freshmen. The research was conducted by EverFi, an educational-technology company, and sponsored by Higher One Holdings Inc., a company that helps colleges process student payments and refunds. The report can be found here: http://moneymattersoncampus.org .

Students are not necessarily financially irresponsible, but they are usually financially inexperienced, said Mary K. Johnson, director of financial literacy and student-aid policy for Higher One. That in itself is a pressing concern as more of them borrow to pay for college.

The report offers insight into students' financial habits and attitudes. Nearly 80 percent of students said that they "frequently" worry about debt. Yet a good share of students also acknowledged risky financial behavior, like carrying a credit-card balance of $1,000 or more. The report's authors analyzed the survey results to see where responses clustered into meaningful groups. They found seven factors, like "cautious financial attitudes" and "debt as a necessity," that explain how students relate to money.

All seven factors play a predictive role in at least some financial outcomes for students, such as being late on credit-card payments, but a few factors were especially strong. "Cautious financial attitudes," for instance, significantly predicted students' increased likelihood of following a budget and having a checking account, and their decreased likelihood of withdrawing from college or participating in high-risk debt behavior.

"Debt as a necessity" was strongly correlated to students' lowered chances of holding a checking account, paying back loans on time, saving money, and budgeting. And "spending compulsion" was related strongly to not being in touch with a bank, not paying loans on time, and making late payments on credit cards.

The report offers recommendations for practice and research based on the findings. It advocates a mandatory financial-literacy curriculum for all college students. It suggests that such training be offered not just once but at various key points over the course of people's lives. During college, for example, training for new students might focus on student loans and budgeting, while graduating seniors might learn about keeping a budget on their salaries and how home mortgages and retirement-savings plans work.

The report also says training should be available to everyone, not just those who display high-risk behaviors. A student who has not yet opened a credit-card account won't have mishandled it, but that does not mean she won't run into problems down the road.

NASFAA Task Force on Student Debt Releases Study That Goes Beyond Anecdotes

A NASFAA Task Force convened in 2012 to study student indebtedness released its report last week, with recommendations approved by the NASFAA Board of Directors. The report can be found here: http://www.nasfaa.org/indebtedness-report.aspx

Here is how NASFAA introduces the report, which has some interesting findings that differ from media perspectives:

> *Anecdotal stories about student loan indebtedness are commonly heard in the halls of Capitol Hill, the mainstream news media, and at kitchen tables across the country. We know that borrowing has increased and that, as a result, students and families are shouldering a greater portion of the cost of college through loans than they have in years past. But we also know that the average loan debt for borrowers who earned a bachelor's degree is, in fact, a manageable amount—coming in at about $26,500 for the class of 2011, according to The Institute for College Access and Success. Over a 10-year standard monthly repayment plan, the monthly payment would be just about the same as a modest car payment.*
>
> *Unfortunately, too often the stories of statistical outliers grab public attention and drive policy discussions. Focusing on outliers inhibits our collective ability to really focus on student and parent borrowers who need help the most. The NASFAA community acknowledges that dramatic student loan borrowing is certainly problematic, but it is even more important to acknowledge that what should be manageable amounts of borrowing can spiral out of control when students are not academically prepared for college, repayment tools are not readily accessible, schools have little to no control over borrowing, or the borrower has had inadequate financial literacy counseling or preparation.*

New America Highlights "Free Money for Grad Students" via Federal Loan Repayment Plans

In its RFI on private student loan refinance programs the CFPB asked, "How might an affordability program sponsored by a public entity mitigate moral hazard and selection bias?"

Although the CFPB's question was in regards to lender participation in such a program for private student loans, the same day as the release of the report, the New America Foundation highlighted how the largest "public entity"—the Federal government—has limited controls for selection bias and moral hazard when it comes to Grad PLUS loans and the "Pay as You Earn" (PAYE) repayment plan.

The blog post, written by Jason Delisle and Alex Holt, pulls from National Student Loan Data System (NSLDS) data to note the over-representation of Grad PLUS borrowers in federal income-based repayment (IBR) plans. It also highlights projected growing balances for Grad PLUS borrowers and overall volume growth in the program, noting the amount to be forgiven.

In its regulations for the new repayment plan, the Department indicates it expects 24% of borrowers who enroll in IBR to qualify for forgiveness at the end of repayment. For those borrowers, the average amount forgiven is expected to be $41,000.

In the initial study, NAF created an IBR calculator and argued that borrowers felt little impact once their balances grew beyond $65,000. The latest blog post concludes with the following:

> *Working together, Grad PLUS and the new IBR are set to provide massive subsidies to graduate students, graduate schools, and employers who no longer need to pay salaries that justify the debt incurred to obtain a graduate or professional education. Should the Grad PLUS windfall under new IBR go unnoticed and unused as some skeptics claim, it will be the first time in history that the federal government offers $41,000 or $100,000 checks to the most educated segment of society and nobody shows up to claim them.*

The full blog post from New America is available online:
http://edmoney.newamerica.net/blogposts/2013/graduate_student_loans_and_income_based_repayment_free_money_wont_go_unnoticed-79694

Clearinghouse Reports on State-by-State Student Attainment In New Report

The National Student Clearinghouse released a state supplement to its fourth Signature, Report, "Completing College: A State-Level View of Student Attainment Rates," that takes a state-by-state look at college completion.

Among the study's findings:

- Nationally, 12 percent of students who started at four-year public institutions completed at an institution other than the starting institution. In 20 states, students who started at four-year public institutions had a higher completion rate at another institution with Minnesota having the highest rate at 27 percent.
- 3.2 percent of all students who started at a four-year public institution received their first degree/certificate at a two-year institution. The rate was over 5 percent in Minnesota, North Dakota, and Wisconsin. Conversely, 9.4 percent of all students who started at a two-year public institution received their first credential at a four-year institution. In seven states, more than 10 percent did so with the highest being 13.8 percent.
- In eight states, more than one in six students who started at a two-year public institution completed at a four-year institution within six years with or without receiving a credential at a two-year institution (compared to 15 percent nationally). Virginia had the highest rate, with one in five students who started at a two-year public graduating from a four-year institution.

- In nine states, more than 10 percent of students who started at a four-year public institution and received a degree ended up graduating in a different state (compared to 6 percent nationally). The rate was much higher in Alaska (28 percent) and North Dakota (20 percent).
- In three states, more than 10 percent of students who started at a two-year public institution and later graduated did so in a different state (compared to 5.6 percent nationally).
- In 14 states and in the District of Columbia, over 10 percent of the students who started at a four-year private nonprofit institution and received a credential did so in a different state (compared to 8.8 percent nationally).
- In nearly every state, traditional-age students starting at four-year public institutions had higher six-year completion rates than adult learners. The smallest gap was in Arizona (1 percentage point) and the highest in Vermont (42 percentage points).
- In 13 states, over 75 percent of the exclusively part-time students at four-year public institutions had not received a credential and were not enrolled at the end of six years (compared to 70 percent nationally).

The **Signature Report State Supplement** includes detailed tables, providing a state-by-state overview of college completion outcomes within the four-year public, two-year public, and four-year private nonprofit sectors. It can be found here: http://www.studentclearinghouse.info/signature/4state/

COHEAO Would Like to Thank Our Commercial Members for Supporting
More Education for More People

We Encourage Those Seeking Services to Give
These Committed Organizations Priority Consideration

Account Control Technology, Inc.

ACSI, Inc.

AMO Recoveries, Inc

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