The Torch

June 6, 2014

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

COHEAO News

- **Sign Up Today for the COHEAO Mid-Year Conference—August 3-5, Denver**
  The COHEAO Mid-Year Conference is a unique event that offers deep insights on the most pressing legislative and regulatory issues facing campus professionals as well as training on the basics of program administration.

Congress

- **Senate to Consider Refinance Legislation Next Week**
  A major focus of next week promises to be the consideration of Senator Warren's "Bank on Students Emergency Refinancing Act," now updated and re-introduced as S. 2432.
- **Special Attachments: Two Senate Hearings on Student Loans**
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- **Hagan and Harkin Introduce Veterans Higher Education Legislation**
  Senators Kay Hagan (D-NC) and Tom Harkin (D-IA) introduced new legislation to protect servicemembers and veterans with respect to higher education.
- **Virginia Congressman Will Try to Block PIRS Funding**
  In a dear colleague letter, Rep. Bob Goodlatte (R-VA) indicated he plans to use the appropriations process to attempt to prohibit the Department of Education from proceeding with its proposed college ratings system.
- **Brown Introduces Student Loan Co-Borrower Bill**
  On Wednesday, Sen. Sherrod Brown (D-OH) held a news conference call to announce a new plan aimed at preventing families of deceased borrowers or loan co-signers from receiving collections calls.

White House & Administration

- **FRBNY Examines "Student Loan Literacy"**
  This week, the FRBNY issued the findings of a recent survey on student loan literacy.
- **Annual Update for Title IV Federal Needs Analysis Published**
  The Department announced the annual updates to the tables used in the statutory Federal Need Analysis Methodology that determines a student's expected family contribution (EFC).

- **ED Announces New GEAR UP Competition**
  The Department of Education announced the availability of $75 million for two new Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) competitions.
- **Easton to Step Down as Director of IES**
  John Q. Easton, Director of the Institute of Education Sciences (IES) announced that he will step down from IES to become a Distinguished Senior Fellow at the Spencer Foundation.

Industry

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  Rachel Fishman, a researcher at the New America Foundation who has been an outspoken critic of Parent PLUS, indicates the agreement reached at the recent negotiated rulemaking is "unsatisfying."
- **Upromise Survey Shows Parents for Children of All Ages Concerned with Kids' Financial Future**
  According to a recent survey conducted by Upromise, a college savings company owned by Sallie Mae, parents of children of all ages plan to contribute to their children's financial future in various ways.

Attachments

- **COHEAO Commercial Members**
- **COHEAO Board of Directors**
- **Summaries of this week's Senate hearings on student debt from Washington Partners, LLC**

Sign Up Today for the COHEAO Mid-Year Conference—August 3-5, Denver

The COHEAO Mid-Year Conference is a unique event that offers deep insights on the most pressing legislative and regulatory issues facing campus professionals as well as training on the basics of program administration. In addition to updates on the Congress, the CFPB, and the Department of Education, sessions at the COHEAO Mid-Year will address financial literacy and higher education, the use of debit cards on campus, UDAAP enforcement, and much more. A speaker from Great Lakes Higher Education has just confirmed to discuss loan consolidation issues, a topic that has changed recently thanks to new Department of Education regulations.

COHEAO is also trying something a little bit different for us at this year's Mid-Year—concurrent sessions. This year's Mid-Year agenda will include both concurrent and general sessions for conference attendees. A preview of the conference program is included with today's edition as a special attachment.

Online registration is now open for the COHEAO Mid-Year Conference. Register today! Set for August 3-5 in Denver, the COHEAO Mid-Year Conference is the premier summertime event for campus loan administrators and student financial services professionals.

The COHEAO Mid-Year will be held at the Grand Hyatt Denver, a modern, comfortable hotel located in the heart of the city. COHEAO has negotiated a fabulous rate of $169 for conference attendees. Whether it is catching a game at nearby Coors Field, a visit to the Rocky Mountains, or any of the other fun activities Denver has to offer, the Grand Hyatt Denver is a perfect location for tacking a summer vacation onto a business trip.

Go ahead and sign up today. This is a conference you won't want to miss.

COHEAO Mid-Year Conference at a Glance

When:	**August 3-5, 2014 (Conference Programming August 4 & 5)**
Where:	**Grand Hyatt Denver**
Registration:	**http://goo.gl/hE1mVy**
Additional Info:	**http://goo.gl/ZjfljU**
Costs:	**$460 for all COHEAO members ($510 after July 11)**
	$560 for institutional & organizational non-members ($610 after July 11)
	$1,610 for commercial non-members ($1,660 after July 11)
Conference Hotel:	**Grand Hyatt Denver**
Hotel Registration:	**Click here for online registration**
	Call (402) 592-6464 and mention COHEAO.
Hotel Rate	**$169 (Market rates after July 11)**

Congress

Senate to Consider Refinance Legislation Next Week

A major focus of next week promises to be the consideration of Senator Warren's "Bank on Students Emergency Refinancing Act," now updated and re-introduced as S. 2432. A highly partisan debate is expected with little or no Republican support.

There are some changes from the original bill in the latest version, but its structure remains the same. First, the administrative and origination fees for these new refinance loans have been eliminated. The interest rate on consolidation loans, originally pegged to the AY 2013-2014 PLUS Loan Rate, is now the lower of PLUS or the weighted average of the underlying loans.

CBO and the Joint Committee on Taxation estimated the original Warren bill to increase deficits over the 2015-2019 period by about $19 billion but reduce deficits over the 2015-2024 period by about $22 billion. Though some projections have as many as 25 million borrowers refinancing through the program, sponsors are confident these relatively small changes will be covered by the claimed savings.

The updated iteration also includes new reporting requirements for private student lenders. Within six months of enactment, the CFPB and Treasury Department would require private lenders to provide them with the following data:

- *Total amount of private education loan debt the lender holds.*
- *Total amount of private education loan borrowers the lender serves.*
- *Average interest rate on the outstanding private education loan debt held by the lender.*
- *Proportion of private education loan borrowers who are in default on a loan held by the lender.*
- *Proportion of outstanding private education loan volume held by the lender that is in default.*
- *Proportions of outstanding private education loan borrowers who are 30, 60, and 90 days delinquent.*
- *Proportions of outstanding private education loan volume that is 30, 60, and 90 days delinquent.*

Though CFPB and ED could conceivably require the reporting of information on institutional loans and HHS loans, this is highly unlikely. As private loans, these loans would still be allowed to be refinanced into new federal loans with the same terms as unsubsidized Stafford loans. CBO estimates, using the misleading scoring required of it, that half of eligible private loans (loans made before July 1, 2013) would be refinanced, generating $5 billion in earnings for the government over 10 years.

Thirty-five Democrats have joined Warren on her bill. Republicans, however, are decrying this as a "political gimmick" in the run up to the Mid-Terms, particularly since it includes the "Buffett Rule," which would raise taxes on those earning more than $1 million per year.

- A fact sheet on the updated Warren legislation is available online: http://www.warren.senate.gov/files/documents/Warren%20Refinancing%20-%20Fact%20Sheet1.pdf
- Additional information on the CBO score of S. 2292 is available online: http://www.cbo.gov/publication/45417.

Special Attachments: Two Senate Hearings on Student Loans

The Senate convened two hearings on student debt on Wednesday—one on its impact on borrowers and the broader economy in the Budget Committee and another on the "borrower experience" in a Senate Banking Subcommittee. The hearings, both of which featured teachers with student debt as witnesses, were part of a campaign by Senate Democrats to garner support for Sen. Elizabeth Warren's student loan refinance legislation. A COHEAO Spark was sent to COHEAO members the day of the hearings. Summaries of both hearings, prepared by Washington Partners, LLC, are included with today's edition as special attachments.

A new version of the bill, S. 2432, was introduced this week and may receive a vote as soon as next Wednesday. Republicans counter these efforts are simple "message bills" heading into the Mid-Terms, and the legislation is not expected to pass the Senate or be brought up in the House.

Hagan and Harkin Introduce Veterans Higher Education Legislation

Senators Kay Hagan (D-NC) and Tom Harkin (D-IA) introduced new legislation to protect servicemembers and veterans with respect to higher education. The press release announcing the legislation indicates the Servicemember Higher Education Protection Act (SHEPA) was developed and introduced "in response to the Justice Department's recent settlement with Sallie Mae, a student lending corporation that violated federal law and charged servicemembers excessive interest rates on their student loans."

SHEPA updates current law, including provisions aimed to ensure lenders are providing military borrowers with the benefits and protections they have earned through their service. It would provide servicemembers access to financial aid information, allow military spouses to defer student loans after a mandatory move while they find a job and get settled, and prevent interest from accruing on servicemembers' student loans while they are deployed in a combat zone.

Among other provisions, the Servicemember Higher Education Protection Act:

- Simplifies the process for a servicemember to lower the interest rate on their student loans to 6% while they are serving on active duty as provided by the ServicememberCivil Relief Act (SCRA) by reducing the amount of paperwork and bureaucratic red tape.
- Extends SCRA interest rate protections for one year after active duty, ensuring that at a time of chronic unemployment and underemployment, a servicemember's student loans do not increase the day he or she takes off the uniform.
- Requires the Department of Education to work with the IRS to ensure that student loan borrowers are receiving 0% interest while deployed in a combat zone.
- Creates a military spouse student loan deferment after a permanent change of station move, which would allow up to 6 months to find a job and get settled.

In addition to SHEPA, Sens. John McCain (R-AZ) and Bernie Sanders (I-VT) introduced legislation to bring reforms to numerous troubled processes at the Department of Veterans Affairs, most notably healthcare. That legislation, which may come up before the full Senate as early as next week, also has some provisions relating to education—providing for in-state tuition for veterans at public colleges and GI Bill benefits for the spouses of soldiers killed on active duty.

The McCain/Sanders bill may provide a legislative vehicle for SHEPA or other legislation relating to the education of veterans. Senator Dick Durbin (D-IL), who serves as Majority Whip, is known for his ability to append favored legislation to bills headed to the Floor and has long been attempting to reform the 90/10 rule.

For additional information on SHEPA, please visit: http://goo.gl/mziZQ5

Virginia Congressman Will Try to Block PIRS Funding

In a dear colleague letter, Rep. Bob Goodlatte (R-VA) indicated he plans to use the appropriations process to attempt to prohibit the Department of Education from proceeding with its proposed college ratings system. In the letter, titled "Colleges Are Talking about the Administration's College Rating System, Are You," Goodlatte specifically highlights concerns from Ken Ruscio, president of Washington and Lee University, an independent college in his district. He later adds:

I am working to prohibit the use of funds to develop, implement, or administer a Postsecondary Institution Ratings System in the appropriations process. Whether the Labor, Health and Human Services, Education, and Related Agencies Act is enacted or an omnibus bill, my hope is that this legislation will include language prohibiting this ratings system from moving forward.

I will continue to look for opportunities in the Congress to highlight the problems with this proposed ratings system and address the concerns of colleges and universities. I hope that you will join me in this effort.

Affordability and accessibility are goals that we all share and while it is our wish that all taxpayer dollars are spent responsibly, even those paid out in the form of federal student aid, it is important that we trust students' free choices and allow the standards by which institutions for higher education are measured to be guided by a free market. There are real, long-term consequences that could occur if this proposal isn't stopped, including the loss of choice, diversity, and innovation. I am more than willing to engage in a conversation with the Administration and others to determine alternatives for dealing with wasteful spending and bad-actors in the higher education community, but I remain convinced that this is not the correct way.

- Goodlatte's full letter is available online: **http://www.insidehighered.com/sites/default/server_files/files/college_ratings_goodlatte.pdf**
- The W&L President's op-ed is available online: **http://www.wlumag-digital.com/wlumag/winter_2014#pg42**

Brown Introduces Student Loan Co-Borrower Bill

On Wednesday, Sen. Sherrod Brown (D-OH) held a news conference call to announce a new plan aimed at preventing families of deceased borrowers or loan co-signers from receiving collections calls. The call followed a hearing of the Senate Banking Subcommittee on Financial Institutions and Consumer Protection chaired by Brown that examined the "often troublesome relationship between student loan servicing companies and borrowers."

"This current system is not designed for people to be successful. Student lenders and servicers must take steps to ensure borrowers are fully informed of their policies – including what happens to a family and co-signer if tragedy occurs. No family should be getting calls from a collection agent following the death of its loved one."

Brown was joined by Olivia Katbi, the sister of Andrew Katbi. Andrew, a 24 year-old Delphos, Ohio, native, was tragically killed weeks before his law school graduation. The family had received "harassing phone calls" related to Andrew's student debt, but thanks in part to the family's social media campaign that drew public attention to the servicer's collection efforts, the company ceased collection on the loan. Brown was also joined by Deanne Loonin of the National Consumer Law Center, who discussed additional issues facing private student loan borrowers and co-signers.

White House & Administration

FRBNY Examines "Student Loan Literacy"

The Federal Reserve Bank of New York (FRBNY) has become a leading authority on student loan data. This week, the FRBNY issued the findings of a recent survey on student loan literacy. In July, FRNYB added a few student loan questions to its "Survey of Consumer Expectations" (SCE), and offered the results this week.

The first question the New York Fed added to the SCE was as follows:

> *If a borrower is unable to repay her federal student loan, what steps can the government take to collect the debt?*
>
> *A. Report that the student debt is past due to the credit bureaus.*
> *B. Garnish wages until the debt, plus any interest and fees, is repaid.*
> *C. Retain tax refunds and Social Security payments until the debt, plus any interest and fees, is repaid.*

According to the findings, only 28 percent of the respondents correctly selected all three answers as possible outcomes for a delinquent federal debt. Thirty-five percent chose no action or weren't sure, while 37 percent thought only one or two of the actions were possible.

The SCE survey also included a question on bankruptcy. It asked respondents to rate, on a scale of 1-5 (with one serving as "extremely unlikely"), the likelihood a student loan could be discharged in bankruptcy proceedings. Only 37 percent rated the likelihood of bankruptcy as "extremely unlikely," and the average rating was between 2.1-2.4. Notably, if the borrower had delinquent student loans, the mean rating dropped to 1.86, which NYFRB cites as evidence that a borrower's individual experience plays a key role in their "student loan literacy."

The authors wrap up their findings with the following conclusion:

> *Overall, our analysis reveals that U.S. households have a poor understanding of the implications of being delinquent on student loans. As expected, the level of student loan literacy is higher for individuals with a college degree and those who themselves have taken out a student loan, but even among these groups less than half of the respondents understand all of the consequences of failing to repay a student loan. Our data indicate that individuals' past experiences affect their level of knowledge. We are, however, unable to provide clean causal evidence of knowledge impacting individuals' outcomes. Doing so would require data on respondents' knowledge stock*

at a given point in time and outcomes for their household at future points in time—data that we don't currently have.

As student loans occupy an ever-greater share of national consumer debt, and students are faced with harder decisions about the value of various post-secondary degrees and certifications, it's imperative that students and their families understand the potential costs (as well as benefits) of holding student debt. Our findings support policy initiatives that provide information to students and parents about student debt when they take out loans, such as the limited provisions of the Higher Education Opportunity Act of 2008. While existing levels of knowledge are low, some efforts are currently under way to augment the public's knowledge.

For the full report, please visit: http://libertystreeteconomics.newyorkfed.org/2014/06/what-americans-dont-know-about-student-loan-collections.html#.U5B_hnJdVGd

Annual Update for Title IV Federal Needs Analysis Published

The Department announced the annual updates to the tables used in the statutory Federal Need Analysis Methodology that determines a student's expected family contribution (EFC) for award year 2015-16 for these student financial aid programs. Under HEA, the Secretary is required to annually update the tables for determining EFC to account for changes in CPI.

The full notice from the *Federal Register* is available online:
https://www.federalregister.gov/articles/2014/05/30/2014-12569/federal-need-analysis-methodology-for-the-2015-16-award-year-federal-pell-grant-federal-perkins-loan?utm_campaign=subscription+mailing+list&utm_medium=email&utm_source=federalregister.gov

ED Announces New GEAR UP Competition

The Department of Education announced the availability of $75 million for two new Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) competitions. Applications are due by July 7, and grants will be awarded by the end of September. GEAR UP grants currently fund 87 programs that serve approximately 420,000 middle and high school students across the country.

In addition to focusing on college fit and readiness, the Department is tailoring this year's GEAR UP grants to focus on projects that are designed to serve and coordinate with a Promise Zone, which are high-poverty communities where the federal government has partnered and invested to create jobs, leverage private investment, increase economic activity, improve educational opportunities, and improve public safety. This year's GEAR UP program also places a priority on helping to improve students' non-cognitive skills and behaviors, including academic mindset, perseverance, motivation, and mastery of social and emotional skills that improve student success. The grants are part of the Department's focus on increasing the equity of opportunity in America's schools.

"College prep programs like GEAR UP can make all the difference in whether many young people from disadvantaged families can pursue a higher education," U.S. Secretary of Education Arne Duncan said. "These grants will help provide the mentoring, resources and financial aid that will offer thousands of students the additional support they need to achieve success in postsecondary education."

For additional information, which will be updated on an ongoing basis by ED, please visit the GEAR UP website: http://www2.ed.gov/programs/gearup/index.html

Easton to Step Down as Director of IES

John Q. Easton, Director of the Institute of Education Sciences (IES) announced that he will step down from IES to become a Distinguished Senior Fellow at the Spencer Foundation.

Easton was confirmed by the Senate as Director of IES in 2009 and oversaw the National Center for Education Statistics, the National Center for Education Evaluation and Regional Assistance, the National Center for Education Research and the National Center for Special Education Research. He will return to Chicago—the city he came from before accepting his position at IES—to assist the Spencer Foundation in developing research-practice partnerships.

Education Week has a recap of Easton's tenure at IES. It is available online: http://blogs.edweek.org/edweek/inside-school-research/2014/05/the_us_department_of_education_1.html

Industry

New America Foundation: PLUS Loan Agreement Leaves ED in Position as "Predatory Lender"

Negotiators at the Department of Education's negotiated rulemaking sessions failed to reach a consensus on the latest set of "program integrity" issues in the Title IV programs. (COHEAO reported on the final round of negotiations, including campus cash management issues, in the May 23 edition of The Torch.)

However, the negotiators did reach consensus on four of the six issue areas, including Parent PLUS loans. Given the lack of consensus, the Department of Education is free to write the regulations as they wish, but given the controversy surrounding Parent PLUS and the agreement from all sides at the table, it is unlikely the PLUS regulatory changes will undergo a major revision from what was accepted by the negotiators.

Rachel Fishman, a researcher at the New America Foundation who has been an outspoken critic of Parent PLUS, says this outcome is "unsatisfying." Fishman writes:

Unfortunately, these small tweaks still put the Department in the difficult position of offering a subprime loan to some parent borrowers in tandem with the power to collect on that loan through wage, tax refund, and/or social security garnishment. This definition, in other words, enables the Department to be a predatory lender.

The full blog post is available online: **http://www.edcentral.org/unsatisfying-consensus-reached-plus-loans/**

Upromise Survey Shows Parents for Children of All Ages Concerned with Kids' Financial Future

According to a recent survey conducted by Upromise, a college savings company owned by Sallie Mae, parents of children of all ages plan to contribute to their children's financial future in various ways.

Half of parents will discuss the importance of saving for college with their children when they are in elementary school, with four in five planning to discuss it by the time the child is a teenager. When considering paying for college, most parents expect their children to contribute: three in five parents expect their teenagers to have afterschool or summer jobs during high school, even parents whose children won't reach working age for some time. There is a clear purpose in mind for the earnings: 83 percent expect their children to allocate some of those funds towards their college education, with 31 percent stating that their children should reserve half or more of their earnings for college costs.

Parents of kids of all ages, even those of preschoolers, expect to take an active role in their children's college application processes. Ninety-two percent are willing to offer assistance completing the application; including recommending which key accomplishments to feature, proofreading and editing. Two percent will even complete the entire process for their children.

Parental support doesn't always end on graduation day. Roughly 85 percent of parents, including those with young children, plan to offer their children monetary aid after college graduation, mostly through providing health insurance, assisting with rent or putting up their post-graduates at home. Almost one in three expect to provide their children with financial assistance for up to six months, and approximately 50 percent plan to help foot bills anywhere from six months to more than five years.

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

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wpllc
WASHINGTON **PARTNERS** LLC
Make Your Voice Matter.

MEMORANDUM

June 4, 2014

TO: COHEAO Board of Directors
FROM: Harrison Wadsworth
RE: Senate Banking Hearing on Student Loan Servicing

The Senate Banking Subcommittee on Financial Institutions and Consumer Protection held a hearing today on the topic: Student Loan Servicing: A Borrower Perspective. Witnesses at the hearing included a financial aid administrator, an association consultant, a veterans representative, and a Washington teacher who accumulated debt getting his masters degree.

The hearing was led by Subcommittee Chairman Sen. Sherrod Brown (D-OH). Sen. Elizabeth Warren (D-MA) attended the entire hearing and Sen. Jack Reed (D-RI) attended part of it. No Republican senator attended, although Republican staffers were there.

The written testimony of the witnesses as well as a link to a recording of the hearing can be found on the Banking Committee's website: **http://www.banking.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=6a95bd5d-fd25-4890-bc83-4cfcbc3b6f2d** .

The hearing jumped around looking at various aspects of student debt from the perspective of the witnesses and the senators, with no major revelations. Warren said she has asked the Department of Education (ED) for a lot of detailed information on federal student loan servicing but hasn't had an answer.

Brown made a strongly worded opening statement that tried to link student loan servicing problems to problems in mortgage servicing that led to the Great Recession.

Sallie Mae drew a number of negative comments from one of the witnesses and Warren with the recent settlement between the company and the government over the provision of Servicemembers Civil Relief Act (SCRA) benefits providing the context for calls for more careful oversight. Warren also included an attack on collection agencies, and she made a statement about the value of her recently introduced student loan refinancing bill.

Senator Brown in his opening statement connected student loan servicing to the housing foreclosure crisis where mortgage servicers could have assisted borrowers facing foreclosure in modifying their loans, but chose not to. He said that 7 million borrowers are in default on their student loans and discussed how excessive student debt is bad for the economy in many ways.

He said that last year he wrote the largest banks and student loan companies asking about modifying loans for borrowers in trouble but found, "The numbers were dismal. No bank enrolled more than five percent of borrowers who were in trouble. I'm concerned that student loan servicers care more about maximizing their profits than giving proper customer service." Brown said the "opaque" set of repayment options, best suited for contract lawyers not recent graduates, seems like it is set up to make borrowers fail.

He said that the Department of Justice and the FDIC took action against the largest servicer for Servicemember Civil Relief Act over violations based on referrals from his office. He added that in February another major player in the private student loan market revealed that it is under investigation by the CFPB for its student loan servicing practices.

He talked about a bill he introduced, the Student Loan Borrower Bill of Rights and another bill he introduced, the Refinancing Education Funding to Invest in the Future Act, which allows the Treasury Department to set up a refinancing program for private student loan borrowers and provide other benefits.

Sen. Warren in her opening statement and in statements made as she questioned witnesses talked about the bill she has introduced, S. 2292, the "Bank on Students Emergency Refinancing Bill," cosponsored by 30 senators, and asked witnesses questions about the value of refinancing their student loans.

She also discussed correspondence she said she has had with Sallie Mae, where the company stated that it has the lowest default rate of the federal student loan servicing contractors. She said she has asked ED to provide default prevention data for Sallie Mae and the other federal loan student servicers, but so far has not had an answer. In a back-and-forth with the witness William Hubbard, she said that about a quarter of Sallie Mae's portfolio is in deferment or forbearance. This leads to more interest. Better data can provide more accountability for student loan providers.

Hubbard said that extended repayment plans are not the best option since they lead to more interest being paid over a longer period of time.

Nancy Hoover, director of financial aid at Dennison University of Granville, Ohio, testified that her private institution with 2,200 students has been in the Direct Loan Program since 1995, the second year of the program. She called for fewer student loan servicers of federal loans, saying the 15 now under contract are too many. She repeatedly said, both in her testimony and in response to questions from senators, having the logos of the servicer on billing materials in addition to the Department of Education's is confusing to borrowers and results in many bills being thrown away or ignored by borrowers who think they are junk mail. This leads to defaults, she said, calling for ED to require all bills to look alike and carry only ED information.

She praised Congress for eliminating the set aside for non-profit student loan servicers and said there needs to be a single web portal for contacts, such as adding that function to ED's "Studentloans.gov" informational site. She also called for Congress to reduce federal loan repayment options to two and to have all collections done via payroll withholding.

In response to a question from Brown, Hoover said she thinks there are servicing problems because the CFPB has reported receiving complaints, although she has not heard of any problems from her university's students.

William Hubbard, vice president of external affairs for Student Veterans of America, testified that despite efforts to protect against abusive practices, getting servicemembers and veterans the right information at the right time is a challenge. In particular, government programs for veterans and service members don't always coordinate. Noting that the GI Bill benefits don't cover all college costs, especially at private institutions and at out of state public schools, he called for a system that allows students to see all of their loans in one place, including private loans. He recommended the Meteor data collection system that is now operated by the Student Clearinghouse and called on ED to agree to a connection with Meteor.

Asked about student loan refinancing legislation, Hubbard noted that service members lose their SCRA benefits when they refinance their loans (since the benefits apply to loans borrowed before going onto active duty in the military).

In response to questions from Brown and in a colloquy with Warren, Hubbard criticized Sallie Mae and indicated that in his view, a recent consent decree between the company and the government over the provision of SCRA benefits illustrate problems in student loan servicing for service members and veterans.

Warren said a CFPB report suggests that federal student loan debt collectors are making misleading statements to service members, including improperly contacting superior officers. Hubbard responded he was deeply concerned that debt collectors for the federal student loan program are breaking the law and this is an issue that deserves serious attention.

Robert Geremia, a Washington, DC, high school teacher, spoke on behalf of the American Federation of Teachers and Washington Teachers' Union. Although he got an undergraduate degree and teaching certificate without incurring student loan debt, he decided to seek a master's degree from Teachers College at Columbia University in New York while still working full time in Washington. That required him to maintain apartments in both cities and to incur travel costs that meant he had to borrow $37,000 in student loans. He calculated he will have to pay $10,000 in interest on the loans, which have an overall rate of over 6 percent.

In response to a question from Warren, he said it would be "wonderful" to refinance his loans to a lower rate. As he has a car loan at 1.9 percent, he said he hopes to refinance his student loan at a lower rate, as legislation Warren is proposing calls for.

Geremia also said several times that he would like better loan counseling, especially direct, live contact with a financial aid professional instead of automated exit counseling. He also called for student loan servicers to reach out more proactively to inform borrowers about repayment options.

Lindsey Burke, Will Skillman Fellow in Education Policy at The Heritage Foundation, provided a detailed critique of some of Warren's previous statements and especially her student loan refinancing bill. Warren did not respond, nor did Brown, however. Burke explained the concept of "fair value accounting" and noted that the Congressional Budget Office has said it is a more accurate way of accounting for the federal cost or profits from its credit programs, including student loans.

Absent fair value accounting, it is impossible to tell the extent to which student loan programs are providing a subsidy to borrowers, she said. She called for an annual report on the cost of federal loan programs using fair value accounting, which differs from the accounting required by the 1990 Credit Reform Act in that it takes market risk into consideration.

She also called for decoupling of accreditation from federal financing, calling the current accreditation system "ossified" and creating barriers to innovation by requiring institutions to be accredited in order for their students to receive federal student aid.

She said it is inequitable to transfer taxpayer subsidies from the three quarters of those who don't hold a bachelor's degree to degree holders.

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HEARING BRIEF

Senate Budget Committee: "The Impact of Student Loan Debt on Borrowers and the Economy"

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June 4, 2014

On Wednesday, June 4, the Senate Budget Committee convened a hearing, "The Impact of Student Loan Debt on Borrowers and the Economy." The hearing room was packed full of observers and overall was well attended by Senators.

However, relatively few Republicans took part in the hearing. Senator Ron Johnson (R-WI) served as Ranking Member and Sen. Kelly Ayotte (R-NH) attended for most of the hearing. Senator Jeff Sessions (R-AL), Ranking Member of the Budget Committee, attended briefly but did not have the opportunity to speak. On the other hand, the Democratic side of the dais was nearly full. Only Sen. Chris Coons (D-DE) and Bernie Sanders (I-VT) did not attend the hearing. The witnesses for the hearing were as follows:

- **Rohit Chopra, Student Loan Ombudsman, Consumer Financial Protection Bureau**
- **Brittany Jones, Recent College Graduate and Former President, Student Virginia Education Association**
- **Richard Vedder, Ph.D., Distinguished Professor Emeritus of Economics and Faculty Associate, Contemporary History Institute, Ohio University**

In her opening statement, Budget Committee Chair Patty Murray (D-WA) mentioned the "Fair Shot" campaign and the efforts to pass S. 2292, Sen. Elizabeth Warren's (D-MA) "Bank on Students Emergency Loan Refinancing Act." She mentioned statements from housing industry trade associations, such as the National Association of Realtors (NAR) and the National Association of Home Builders (NAHB), indicating that student loan repayment was greatly inhibiting down payment accumulation for many prospective homebuyers.

Murray also mentioned concerns with student loan servicing, stating she was concerned servicers were not treating borrowers "fairly and responsibly." Murray also mentioned "alarming reports" on two specific issues—accelerated default in the case of the death or bankruptcy of a co-borrower and the inadequate provision of Servicemember Civil Relief Act (SCRA) benefits. In discussing SCRA, Murray mentioned the recent Sallie Mae lawsuit and her request that Secretary of Education Arne Duncan investigate whether all federal servicers are (and were) adhering to SCRA. In the wake of the settlemtn with Sallie Mae, the Department has said it will be publishing guidance on this issue for all servicers imminently.

Johnson, serving as the Ranking Member for this hearing, said that student debt was an incredibly important issue, but also suggested the current state of affairs in higher education finance was a "tragedy" due to well-intended, but ultimately harmful, student aid policy. Johnson quickly turned to charts in his remarks, noting the increase in tuition over the past 40 years. According to Johnson's data, the average annual cost of attendance at a public college in 1963 was $929; in 1989, it was $4,678; and in 2012, it was $17,479. The Senator also indicated the federal government had provided roughly $2 trillion in funds for higher education during this timeframe.

Johnson next turned his remarks specifically to S. 2292. He noted that many supporters of S. 2292 say it is necessary because of "profits" on federal student loans and pointed to the release of the recent CBO report on fair value accounting for federal credit programs. That report states that, when accounting for risk, the programs are scored to cost the government money.

Wrapping up his remarks, Johnson continued his theme of "unintended consequences" by addressing the way law schools have made use of income-driven repayment and the Public Service Loan Forgiveness (PSLF) Program. Johnson highlighted the Georgetown University Law Center, which until recently had a notice on its website that indicated students could practice public interest law and earn a JD "free of charge" due to federal income-driven repayment plans, PSLF, and the law school's own Loan Repayment Assistance Program (LRAP). Johnson noted that LRAP programs are funded with tuition fees, often paid for by federal student loans, creating a viscous cycle. He added GULC was not alone in this practice and went on to highlight several examples. At the University of California at Berkeley Law School, for instance, a charge for LRAP is specifically mentioned in the student's bill.

Witness Statements

Brittany Jones, a recent graduate of Virginia Commonwealth University (VCU) and current resident in the Denver Teacher Residency Program who had defaulted on $58,000 in federal loans, was the first to offer testimony. In her remarks, Jones detailed her efforts and struggles to become an elementary school teacher. Upon graduation from VCU, she held "well over $70,000 in student loans from various sources—Federal Subsidized, Unsubsidized, Perkins, and personal loans.

Faced with an additional year of schooling to earn her teaching certificate after graduation, Jones decided to immediately look for work. She found employment teaching pre-school and was elated to work in her desired field, even with a $10 hourly wage, "until the loan statements started to come." Jones indicated that because she was working, she was expected to pay $600 per month on her student loans, which she couldn't afford. She ultimately defaulted on $58,000 in federal loans. During the Q&A portion of the hearing, she said she had just recently learned of income-based repayment.

Rohit Chopra's testimony focused on two major themes a "domino effect" of student debt the Bureau feels it has identified and servicing issues. In terms of the "domino effect," Chopra's testimony cites student debt levels as a contributing factor to numerous complex economic issues, including the revival of the housing market, entrepreneurship and small business development, retirement security, and the provision of healthcare and education in rural and underserved areas. When reviewing this "domino effect" across a variety of economic woes, which is covered in the first seven pages of his testimony, Chopra intersperses hard data and academic reports with complaints and anecdotes received from borrowers, trade associations, and others. It is worth the **full read**.

Beyond the "domino effect," Chopra discussed the need to bring "accountability" for student loan servicers. Citing the vague "thousands of complaints," Chopra said that the Bureau was aware of problems with payment processing, servicing transfer, and loan modification. The testimony describes the servicing errors reported to the Bureau as a possible "canary in the coal mine" and draws many parallels to the mortgage market.

Chopra also focused much of his testimony specifically on Sallie Mae. He indicated the Bureau's efforts with complaints led to the recent settlement between Sallie Mae and the US government over SCRA and "violating multiple laws." On SCRA, he said: *"For example, one servicemember who filed a complaint with the Bureau saw his request to his servicer rejected multiple times because his military orders did not include an end date. This is neither a requirement of the SCRA, nor feasible for man military commissioned officers to obtain, as their orders do not delineate an end date."* Previously, Department of Education officials had given guidance to servicers that orders with an end date are required to process SCRA benefits.

In addition to reviewing the SCRA lawsuit, Chopra indicated the privatization of Sallie Mae could serve as "a useful case study about the potential impact of conflicting incentives." In making a point that regulators must be "vigilant" on "misaligned" incentives, Chopra offered the following on Sallie Mae (now Navient): "*During the ten years the successor corporation operated, it generated substantial revenue through government contracts for student loan servicing and debt collection. The company also benefitted from several government-supported emergency programs as problems in the capital markets emerged. Despite these benefits received from the public, the corporation was found to be violating the law on multiple occasions by state authorities, banking regulators, and federal auditors. And just last month, after referrals from the Consumer Financial Protection Bureau, the Department of Justice and the FDIC ordered Sallie Mae and Navient to pay nearly $100 million in restitution for violating multiple laws*."

Chopra's final point was on the need to "demystify" the student loan market with more data. However, this was not a call for more data from the Department of Education on the federal student loan programs. Instead, Chopra suggested student loan asset-backed securities (ABS) should provide more "granular" info, much like the Home Mortgage Disclosure Act, and said that banks holding private loans do not separate them from other consumer assets. He said, "Unsurprisingly, the drivers of prepayment, delinquency, and default in the student loan market are not well understood by investors and financial analysts."

Vedder, the Republican witness, was the last to testify. In his remarks, Vedder reviewed the growth of tuition from 1939 to present time. A table from his written is below:

Table 1: Changes in Real (Inflation Adjusted) Tuition Fees at American Universities, 1939 to 2014

Time Period	Annual Percent Change in Tuition Fees	Federal Student Financial Aid Presence?
1939-1964	1.26%	Zero to Moderate
1964-1978	0.43	Moderate
1978-1990	3.14	Fairly Large
1990-2002	3.71	Large
2002-2014	3.80	Very Large

In reviewing the data, Vedder noted the rate of increase in tuition and fees is much higher as the federal government has become more involved in education finance. He covered a variety of reasons for tuition increases, including labor costs and declining support from state governments, but argued the Bennett Hypothesis, which argues that tuition and fees rise proportionally with the amount of federal financial aid available, was a primary driver. He also argued that the availability of financial aid was increasing the burdens faced by degree recipients as their credentials had become diluted.

Vedder reviewed several of the current initiatives from Congress and the Administration aimed at curbing student debt levels and college costs. Many of the proposals, including PIRS and gainful employment, he praised for trying to bring accountability to institutions of higher education, but also warned they may ultimately "annihilate" the best aspect of the US higher education system—its diversity. He closed his testimony by stating the Warren legislation was "fundamentally flawed" in six ways: 1) It does nothing on college affordability or cost containment; 2) It punishes those who have responsibly repaid their debts; 3) It increases the likelihood of irresponsible lending to students who are likely to drop out; 4) It would penalize students who major in lucrative fields, such as engineering; 5) It encourages higher college enrollment at a time when "market data suggest we are over-invested in education attainment; and 6) It would "materially worsen" the US budget deficit.

Q&A

Murray opened the question and answer portion of the hearing by asking Jones about the specifics of her situation, such as her take home pay, monthly loan payments, etc. Jones currently brings home roughly $1,500 per month and her loan payments are $600. She recently found out IBR will reduce her payment to $150. The Budget Committee Chair then followed up with Chopra, asking if this lack of knowledge on repayment plans was commonplace. He answered "we see in the data" that struggling borrowers are reaching out to their loan servicers, but not receiving adequate information. He suggested that loan servicers call center workers are often trying to put borrowers into forbearance, as opposed to an income-driven repayment plan, to handle a larger volume of calls. Chopra also said that Jones' experience was not unusual and the CFPB's "discussions with the banking industry" indicate there is a concern about full economic participation from young college graduates.

Johnson was the next to ask questions. He opened with Jones and, given her financial situation, started with the obvious—"If you had to do it all over again, would you?" Jones said she loved teaching and nothing would deter her. Johnson indicated he appreciated that response and her obvious commitment to education, but wondered if Jones had been aware of less costly options she would have made the same choices.

Johnson then said the Warren bill was simply shifting the debt burden to future generations via the federal balance sheet and asked Chopra how this would help the overall economy. Chopra responded about issues with homeownership and said that many recent graduates are at a "prime age" for major economic activity. Johnson interrupted, noting the bill was a debt transfer, and turned to IBR and PSLF. He asked Chopra specifically if he supported these programs and the work of certain law schools in advertising them. On the law schools, Chopra said he was unaware of the specifics but the CFPB was always concerned with "misaligned incentives." On PSLF, the Student Loan Ombudsman was non-committal. He said no one had qualified for the program yet (the first should occur in 2017), so he didn't have an opinion.

Senator Sheldon Whitehouse (D-RI) was next and he devoted all of his questions to the issue of bankruptcy. He said no one would take credit for the 2005 inclusion of a provision for special treatment for private student loans in the bankruptcy code, which he claimed was "snuck in at the last minute." He specifically questioned the argument made by industry that a retroactive change would be extremely harmful to the private loan market. He also asked Chopra if there was an "economic justification" for this move. In response, Chopra cited the Dodd-Frank Section 1077 report which states that private loan prices have risen since the 2005 bankruptcy change and you would expect them to go down in a "normal, functioning market,"

Senator Kelly Ayotte (R-NH) was the last Republican to offer questions. She asked the panel about the specific costs of the proposal and wanted to know if there were any administration estimates on take-up rates. Chopra indicated that, as an independent agency, the CFPB was not part of the administration. Ayotte also asked about college costs and how to bring "accountability" to higher education. She specifically asked Chopra for a response on the record.

Senator Tammy Baldwin (D-WI) has played an increasingly prominent role in support of S. 2292, so she spent much of her time on a statement on the need for the legislation. She did, however, note that she is very concerned with the "work penalty" in Title IV eligibility and would be working on legislation on the income-protection allowance. She also asked Chopra about loan servicing issues. He responded the government learned a "valuable lesson" during the financial crisis on the importance of incentive alignment and loan servicing.

Senator Jeff Merkley opened his comments by comparing the US to Germany. According to Merkley, German higher education costs amount to roughly 4.5 percent of household incomes, compared to more than 51 percent in the US. Given the increasing costs, he said he was very concerned with the impact on aspirations. He most likely highlighted this concern because of his support for the Pay It Forward plan, which would bring the government into income-share agreements (ISAs).

The rest of the Q&A session continued, but Senators left for votes. Despite the votes, the hearing continued, showing the importance of this issue to Democrats. Senator Tim Kaine (D-VA) indicated he was supportive of refinancing, but was more focused on the issue behind the student debt problem—escalating college costs. Kaine didn't have too many non-rhetorical questions, but he did mention areas where is interested in addressing this issue, including licensing and professional credentialing, military assistance for professional credential programs, Two+Two programs (articulation agreements), and early enrollment, among others.

Following Kaine, Senator Angus King (I-ME) continued with many similar themes. However, he also asked specific questions on a low take-up of IBR. He also mentioned an interest in better loan counseling for the loan programs. Chopra responded that he had "recently spoken with a former employee of a student loan servicer" who indicated that workers are often evaluated on how quickly they handle calls, which may lead some servicers to push forbearance instead of IBR. Chopra made this evaluation metric sound extremely harmful to borrowers, but it is standard practice for call-center work. Showing is independent streak, King commended Vedder for his work in trying to tackle the "root problem" of high cost tuition. He indicated that was the key to addressing the problem, but also expressed reservations on proposals that may penalize schools that admit high-risk students, such as gainful employment or PIRS. He asked the panel to answer a question on balancing accountability with this concern for the record.

Senator Ron Wyden (D-OR) was the last to offer questions. He opened his statement by indicating "students are just getting smothered" by student debt and expressed concern it left them in "shackles." He spent the rest of his time discussing the Student Right to Know Before You Go Act, which includes Sen. Marco Rubio (R-FL) as a cosponsor.

Wyden asked Vedder about this legislation, inquiring what is needed to make this data available. Vedder commended Wyden on his efforts with Rubio and said that much more improved data is available from the IRS and Social Security Administration. He also added that modern technology would address any privacy concerns and noted that Wyden has been leading the charge on issues relating to personal privacy. Wyden chuckled and acknowledged his vigilance on issues involving the NSA could be helpful as privacy issues are raised about providing more consumer data in higher education. He also added that he intends to work with students to ensure that privacy is protected.

Conclusion and Additional Info

Despite plans to bring S. 2292 to the Floor next week and a relative lack of participation from Republicans, this hearing was much less politicized than one might expect. This is due, in part, to the personalities of many of the Senators in attendance. However, it also illustrates that even the supporters of S. 2292 realize it is one small part of the much larger issue of college affordability.

Additional information on the hearing, including witness statements, and an archived webcast, is available online:
http://www.budget.senate.gov/democratic/public/index.cfm/hearings?ID=0d2f82bd-5286-40ec-91a9-e95ae885c01a