

Washington Legislative Update Or SAFRA and New Perkins: Those Devilish Details

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COHEAO Announcements

- Help Expand COHEAO! Tell your Friends and Colleagues to join. Membership is needed now more than ever.
- Perkins is not dead; lots to do for years.
- COHEAO focuses more and more on other issues: accounts receivable management, financial literacy, institutional loans (private loans.)
- Expanded directions illustrated in conference sessions.

Stimulus Package: Student aid *American Recovery and Reinvestment Act*

- Pell Grant max increased \$500 for 2 yrs
- "Hope" tax credit raised to \$2,500 per year, extended to four years, made 40% refundable
- Work Study funding raised by \$200 million for FY2010
- \$100 million for teacher education
- Huge amounts of funding for K-12 – doubled ED budget.
 - ED still focused on distributing that money
 - Using it to push for change on local level

Appropriations

- Department of Education Appropriations for FY 2009 passed in Feb., over four months late
 - Perkins cancellations increased by \$2.837 million, first increase in years. No FCC
- FY 2010 ED Appropriations bill passed December 2009: No Perkins Funding
 - Perkins was originally included BUT passage of SAFRA and tightened budget situation led to transfer of Perkins funds to other programs
 - Assumption that cancellations would be reimbursed under Direct Perkins Program, FCC not needed

Obama Budget for 2010

Financial Aid Changes:

- Increase Pell Grant max to \$5,550, make an automatic entitlement, increase 1% over CPI every year
- Eliminate FFEL Program – all schools to DLP for AY2010
- Continue expanded tax credits
- Eliminate Perkins Loan Program
- Create New Perkins Loan Program

Congress on Perkins in HEOA of 2008: Keep it

HEAO SEC. 466: "SENSE OF CONGRESS REGARDING FEDERAL PERKINS LOANS.

It is the sense of Congress that the Federal Perkins Loan Program, which provides low-interest loans to help needy students finance the costs of postsecondary education, is an important part of Federal student aid, and should remain a campus-based aid program at colleges and universities."

Direct Perkins Loans

“We had to destroy (the program) in order to save it.” – the new Direct Perkins Loan proposal

- First proposed in Administration’s FY 2010 budget
- Passed by House in HR 3221
- Senate HELP Committee bill may follow suit
 - Although concern growing over it

House Loan Bill, HR 3221

- Education and Labor Committee approved Student Aid and Fiscal Responsibility Act (SAFRA) on July 22, 2009; 30-17 vote
 - Partisan: all Dems, only 2 R’s voted yes.
- House passed Sept. 17, 2009, 253-171 (4 Dems voted no, 6 Reps voted yes)
- Senate HELP Committee staff drafting a bill based on House proposal, President’s budget proposals
 - Much attention on FFELP vs. DLP, but COHEAO also focused it on Perkins
- [From an Oct. 7 COHEAO presentation: Senate Committee Action expected about Oct.14, full Senate to follow later in October]
- Senate Committee action expected? Maybe February 2010???

House Bill, HR 3221

- The SAFRA increasingly controversial
 - Republicans attacking “fiscal responsibility” moniker, talking about “nationalization”
- Creates Federal Direct Perkins Loan Program in Part D of the HEA, the direct loan section.
- Current Perkins Program, Part E, repealed as of July 1, 2010.
 - Existing loans retain same terms
 - Some students would have both types of “Perkins”

Direct Perkins Loans

- “New Perkins” program = new Unsubsidized Direct Stafford Program
- Funding: \$6 billion a year “mandatory” – permanent appropriation
- Schools: expanded from 1,800 to 4,400
- Federal share of current loans sent to ED

Direct Perkins Loans

- Same Terms as Direct Unsubsidized Stafford Loans except interest rate is 5%, allocation is limited.
- Loan limits same as current Perkins, added to Stafford limits.
 - Interest charged during in-school, grace periods;
 - Grace period reduced to 6 months
 - Loan cancellations same as Direct – after 10 years of repayment in public service occupations, various teacher cancellations
- House SAFRA: Institutions required to pay matching funds (5%?) in unspecified amount into escrow account “For the purpose of providing loan benefits to borrowers.”
 - One ED idea: Schools pay in-school interest
 - Schools: Hahahahahaha
- Senate may be backing off, accepting higher ed proposal to credit other institutional aid as equivalent of institutional match

Direct Perkins Loans

- All new loan servicing done by ED’s DL contractors
 - Old loans serviced by schools
 - New loans by FFELP Put/DL Contractors
 - Role of FFEL non-profits in servicing not settled
- ED claims federal budget rules preclude institutional servicing
- COHEAO begs to differ

The 111th Congress Today

House

- 255 Democrats
- 178 Republicans
- One vacancy

Last Congress:
➤ 236 Democrats
➤ 199 Republicans

Senate

- 59 Democrats*
- 41 Republicans**

Last Congress
➤ 51 Democrats
➤ 49 Republicans
*Vice President Biden can break ties but not filibusters
**Republican Scott Brown won special election to complete the late Sen. Kennedy's term

Senator Edward Kennedy

- Passed away August 26, 2009 from brain cancer
- Sen. Tom Harkin (D-Iowa) new Health, Education, Labor and Pensions Committee Chairman
 - Also chairs Appropriations Subcommittee on Labor-HHS-Education
 - Retained Kennedy's Committee staff

Congress's Budget Process

- FY 2010 Budget Resolution set stage for Major Policy changes by starting "reconciliation" process. Reconciliation is supposed to be used to make it easier for Congress, especially the Senate, to make tough decision to reduce the federal budget deficit.
 - Neither party in recent years has followed that guideline
- Reconciliation process tells education committees to write legislation saving \$1 billion from education over next 10 years.
- Senate Finance Committee told to also save \$1 billion – presumably from health care changes
- Fast Track to change: That's where Perkins changes, Pell entitlement, elimination of the FFELP would occur

Budget FY 2010: Direct Perkins

Administration says:

- 2.7 million more students get loans
- Loans targeted to needy students and the schools they attend: Schools with many Pell recipients
- Colleges encouraged to control tuition
 - Current formula sends more funds to schools with higher tuitions. New formula would encourage cost control and targeting of grants to prevent excessive indebtedness
- Budget rules require ED servicing
 - Arcane federal accounting/scoring rules

HR 3221 and Perkins

- Schools can continue servicing existing loans or assign to ED. Administrative fee paid of .50% of outstanding interest and principal
 - Federal share of repayments sent to ED, institutional share can be used for any purpose.
- For existing Perkins, voluntary assignment clearly restored, with institution allowed to keep its share.
- Compromises on defaulted loan repayments are repealed.
- Mandatory assignment OK if institution fails to maintain acceptable collection record – knowingly or not.

Criteria for Servicing Contracts

From The House bill, Who is included:

- "The Secretary shall, if practicable, award multiple contracts, through a competitive bidding process, to entities, including eligible not-for-profit servicers, to service loans originated under this part."
- Criteria for contract award: "...price, servicing capacity, and capability, and may take into account the capacity and capability to provide default aversion activities and outreach services."
- Special considerations: "In awarding contracts to such State agencies, and such eligible not-for-profit servicers, the Secretary shall, to the extent practicable and consistent with the purposes of this part, give special consideration to State agencies and such servicers with a history of high quality performance and demonstrated integrity in conducting operations with institutions of higher education and the Secretary."
- Non-profit servicers appear to get guaranteed allocation: "Notwithstanding any other provision of this section, in each State where one or more eligible not-for-profit servicer has its principal place of business, the Secretary shall contract with each such servicer to service loans originated under this part on behalf of borrowers attending institutions located within such State, provided that the servicer demonstrates that it meets the standards for servicing Federal assets and agrees to service the loans at a competitive market rate, as determined by the Secretary."

Criteria for Servicing Contracts

- Secretary's determination of competitive market rate: "In determining such a competitive market rate, the Secretary may take into account the volume of loans serviced by the servicer. Contracts awarded under this paragraph shall be subject to the same requirements for quality, performance, and accountability as contracts awarded under paragraph (2) for similar activities."
- Allocation of volume to non-profit servicers: "Lesser of loans of 100,000 borrowers (which would include loans of borrowers who had used servicer previously) OR the loans of all borrowers attending institutions within the state."
- Additional allocation at discretion of Secretary: "The Secretary may allocate additional servicing rights to an eligible not-for-profit servicer based on the performance of such servicer, as determined by the Secretary, including performance in the areas of customer service and default aversion."
- Secretary will make all attempts to avoid split servicing of loans.
- Note: THESE CONTRACTS WOULD BE FOR ALL DIRECT LOANS, INCLUDING DIRECT PERKINS LOANS

House Bill: A New Way to "Control Costs"

- Complex new allocation formulas designed to pressure schools to hold down tuition and fees, enroll low-income students
- Half of funds allocated according to self-help need of current Perkins schools (they are held harmless)
- Quarter of funds allocated among schools whose average tuition and fees, minus average institutional aid and discounts, is less than the average for the school's sector. Sectors same as those created by HEAO for cost reporting
- Quarter of funds allocated based on how many students who ever got a Pell Grant are graduated.

HR 3221: Other Issues

- Terminates FFEL Program 7/1/10
- Servicing done by ED contractors, but non-profits get to service 100,000 new loans a year made at schools in their home states.
- College completion and Innovation Fund: \$600 million annually in grants for 5 years, controlled by State's, can go for default prevention
- Grad and prof. students can still get subsidized Staffords (change from 1st version of the bill)
- Sub Stafford rates variable after 2012: T-bill plus 2.5%, capped at 6.8%.

HR 3221: More Issues

- Pell Grants NOT an entitlement: Appropriated amount plus extra increased from \$490 to \$690 a year, then increased at CPI plus 1% after that.
- Community college Initiative: \$2.5 billion for modernization and construction, plus funds for workforce development
- \$5 billion for modernization, repair of public schools
- \$1.2 billion for HBCUs.
- Early Learning Challenge Grant Program – states offer grants for birth to 5 years programs.
- \$10 billion for deficit reduction

Budget Reconciliation

- KEY: Reconciliation in effect passes Senate by simple majority – no filibusters requiring 60 votes to end debate.
- Debate limited to 20 hours BUT
- UNLIMITED amendments after 20 hours is over: 2 minutes of debate followed by 15 minute vote. Anything affecting spending or taxes is germane
- So, 100 amendments takes another 32 hours.
- Republicans plan to make Democrats take lots of tough, political votes.
- Possible need for “sidecar” bills because of the “Byrd Rule”.
 - Byrd Rule applies only to Senate, says any provision in reconciliation bills must affect federal spending or revenues
 - College Access and Completion Fund details: “Byrd Droppings”

Just In Case It All Seems Clear...

- What are the savings and costs generated by SAFRA now, nine months after the bill was first “scored” by the Congressional Budget Office?
- The Answer: It’s Up to Senator Kent Conrad, D of North Dakota, chairman of the Budget Committee
- CBO scores proposed changes to the law against a “baseline” of current services.
- A new baseline is developed by CBO every January, but, for a reconciliation bill, it’s up to the Chairman to decide what baseline to use, old or new.
- If new baseline used, savings from eliminating FFELP drop significantly, so spending also cut
 - \$18 billion Pell Grant shortfall is another problem!

“New Perkins”: COHEAO Views

COHEAO comments submitted as Testimony to House Education and Labor Committee:

- Increased funding welcome
- Expansion to more schools welcome
 - With funding, less controversy over allocation formula
- Keep servicing at schools, if they wish
 - Funding stream necessary to pay servicing costs
- Keep in-school interest benefit for students
- Keep Perkins’ unique cancellation benefits
- Institutions retain their contributions (historic matches plus interest and fees, plus overmatches or loans) if revolving funds sent to Washington

“New Perkins” COHEAO Views Included in House bill:

- Existing borrowers retain cancellation benefits, schools are reimbursed their share
- Institutional match supported, similar to longstanding match requirements (lots of new cash not possible)
- Current institutions “held harmless”: receive new allocations of at least the annual average over past five years.
 - Can compete for additional allocations
- Allocation of new funds based on % of low income students so all institutions receive minimum threshold of funding
- Retain 5% fixed interest rate
- Retain campus-based student allocation process

“Direct Perkins”: Three Major Flaws

- In-School Interest Benefit dropped: 5% interest accrues from time loans made
 - For undergrad: adds \$5,000 to debt after 4 years
 - It’s a numbers game: Money would be taken from student interest payments and spent on other federal “priorities”
 - ED Justification: better than “private” loans
- All new loan servicing transferred to national Direct Loan servicing contractors
 - Possibly also FFELP non-profits in some states
 - Schools completely out of the servicing picture
 - Responsible for possible “match”, default rates
- Perkins’ unique cancellation benefits killed
 - ICBR supposed to substitute, along with DL’s cancellation after 10 years of payments while in public service job.

Another Alternative

- Cost of waiving interest in school, grace is \$9 billion over 10 years
- Reduce that cost by waiving interest for those who graduate in X years
- Cut down on cancellation benefits – forgive half the loan rather than all of it.
 - Cuts another \$6 billion cost in half
- Spend student loan interest payments on students, not buildings and new federal programs, worthy as they may be!

COHEAO Actions

- COHEAO has fought vigorously for our priorities for the past year.
- Sometimes at odds with others in the Higher Ed Community, sometimes working together
- Reserves used to hire C2 Group for short-term contract to help with lobbying – focused on the Senate
 - Dozens of Conference calls arranged with Senate offices and home-state colleges and commercial members
 - Dozens of meetings, many with Board members
- Most important: grassroots support

It's Not Over: Perkins Still Around for Now

- Congress certain to accede to ED's request for one-year delay in Perkins changes
- Still working for COHEAO alternatives in SAFRA legislation
- If SAFRA fails to pass, which is more of a possibility due to health care snafus, COHEAO has another alternative to preserve the current program.

Grassroots Action!

- Every Day is a call-in day!
- Fax or email letters (not snail mail)
- Email Senators' legislative assistants for education: VERY IMPORTANT
 - List available from COHEAO
- Message: keep the benefits of the current Perkins Program if it is expanded. If that's too costly, go with the COHEAO alternatives.

The Future of Perkins

- Information on COHEAO activities, including position papers and sample letters, available at www.coheao.org
- Contact Wes Huffman: whuffman@wpllc.net, Kevin Bruns: kbruns@wpllc.net or Harrison Wadsworth: hwadsworth@wpllc.net for more information.
- Contact COHEAO Board Members

QUESTIONS and COMMENTS?

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