

**Action/Information Item**

***LOAN ADVISORY COUNCIL***

Update on Federal Legislation and Consideration of Guiding Principles

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Staff will present information on the proposed changes to the Federal Family Education Loan (FFEL) Program.

In addition, LAC members may discuss the development of guiding principles for the Commission's FFEL Program. Once approved by the Commission, staff will use the guiding principles to report the impact proposed legislation would have on the Commission's programs, procedures and policies.

Enclosed are the Commission's Guiding Principles for Reauthorization, which were finalized in 2005 and which may be used as an example to facilitate discussion.

***Recommended Action:*** No action is required.

***Responsible Staff:*** Janet McDuffie  
Acting Chief  
Federal Policy & Programs

David Reid, General Counsel  
and Vice President  
EDFUND Government  
Relations

## *Federal Update*

Loan Advisory Council  
Presented by David Reid,  
General Counsel and Vice President,  
Government Relations



## New Leadership

- 110<sup>th</sup> Congress convened on 1/4/2007
- U.S. House of Representatives
  - Nancy Pelosi (D-CA) – Speaker
  - George Miller (D-CA) – Chairman of the Committee on Education & the Workforce
- U.S. Senate
  - Robert Byrd (D-WV) – President Pro Tempore
  - Ted Kennedy (D-MA) – Chairman of the HELP Committee



## House of Representatives

- The Democratic Leadership started the count down in January of its “100 Hours” policy agenda
- It took approximately 84 legislative hours to complete their agenda
- Legislation included passing
  - Pay-go rules
  - Increasing the minimum wage
  - Student loan interest rate reduction (H.R. 5)
    - Passed by a margin of 356-71
    - Will cost \$7 billion over the five years
    - Paid for through reductions to the FFEL program

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## Senate

- Action has started at Committee level
- Student Debt Relief Act (S. 359) would
  - Reduce student loan interest rate
  - Increase maximum Pell Grant
  - Cap student loan payments at 15%
  - Make changes to repayment options for public servants
  - Implement the Student Aid Reward program (STAR Act)

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## Senate (cont.)

- Student Loan Sunshine Act (S. 486)
  - Bill extends regulation of relationships between student loan lenders well beyond existing law
    - Require “full disclosure” of arrangements between lenders & schools
    - Ban lenders from offering gifts worth more than \$10 to college employees
    - Require schools to report to the IG any attempts to give a gift to an employee
    - Require schools to explain the selection process for preferred lender lists
    - Modify the Truth-in-Lending Act to require borrowers be notified before taking out private student loans

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## President's 2007 Budget Proposal

- Introduced to Congress on 2/5/2007
- FY 2008 the Department will administer
  - Over \$90 billion in new grants, loans & work study assistance
  - Helping over 11 million students & their families
- Includes the September 2006 recommendations from the Commission on the Future of Higher Education
  - Emphasized the need for improved
    - Access
    - Affordability
    - Accountability

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## Pell Grants

- Largest funding increase in three decades by providing \$19.8 billion in mandatory funding between 2008-2017
  - Maximum increased by \$550 in 2008
  - Increase maximum by \$200 annually from 2009-2012 to \$5,400
  - Award available year-round at two and four year degree granting institutions
  - Eligibility limited to 16 semesters
  - Eliminate tuition sensitivity rules

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## Academic Competitiveness Grants

- FY 08 budget plan proposes to increase the ACG by
  - Increasing the award amounts to
    - First year of study = \$1,125
    - Second year of study = \$1,950
- The cost will be \$260 million in mandatory funds for 2008 and \$1.0 billion from 2009-2012

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## Program Elimination

- The budget plan proposes to eliminate the following “duplicative and poorly” allocated programs
  - Supplemental Educational Opportunity Grant (SEOG)
  - Phase-out of Perkins Loan Program through recall of the federal portions of revolving funds held by schools
  - No funds provided for the Leveraging Educational Assistance Partnership (LEA) program

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## Federal Student Loans

- Three proposals would improve the student loan programs
  - Increase loan limits for subsidized Stafford loans for third and fourth year student by \$2,000
  - Increase overall aggregate loan limits
  - Standardize the interest rate on PLUS loans at a fixed rate of 8.3%

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## Federal Student Loans (cont.)

- Proposals affecting lenders would reduce federal costs by \$14.9 billion over the 2008-2012 year period
  - Reduce the special allowance payment by 50 basis points (0.50%)
  - Increase origination fee on consolidation loans to 1.0%
  - Reduce lender insurance to 95% and exceptional performers to 97%

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## Federal Student Loans (cont.)

- Proposals affecting guaranty agencies would reduce federal costs by \$3.9 billion over the 2008-2012 year period
  - Revising the account maintenance fee calculation to a cost-per-unit formula
  - Reduce amount retained from collections from 23% to 16%
    - Roughly the average paid by the Department to private collection agencies

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## FY 2007/2008 Appropriations

- The House passed a \$463.5 billion year-long continuing resolution for the remaining months of FY 2007
- The bill provides enough money for the Department to fund all programs at the FY 2006 level with this exception
  - Pell Grant increased by \$260 to \$4,310
  - First increase in four years

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## IRS Extender Deductions

- Before adjourning the 109<sup>th</sup> Congress completed work on a package of expired tax provisions
  - College tuition deduction
  - Research & development credit for businesses
  - State sales tax deduction
  - One-time telephone tax refund
- IRS emphasized that using e-file is the easiest and most accurate way to file a return
- Makers of tax-preparation software have updated their products to incorporate these reinstated tax breaks

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## Negotiated Rulemaking

- First meeting provides the team an opportunity to discuss issues in a conceptual manner and ask questions of the Department
- Second meeting is the first look at draft regulations written by the Department and another opportunity to comment
- Third meeting allows for minor changes to the regulations and a vote for consensus is taken

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## Negotiated Rulemaking (cont.)

- Committee work should end by March or April
- Notice of Proposed Rule Making (NPRM) is published in the Federal Register around May
  - Financial aid community has 60 days to comment
- Final Rule is published in the Federal Register by November 1, 2007
  - For implementation by July 1, 2008
  - May be earlier

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## Negotiated Rulemaking (cont.)

### Loan Issues Committee

- Met for the second time in February
- The Department circulated draft regulations on
  - Loan discharge – crime of identity theft
  - Entrance counseling for Grad PLUS
  - Redefine the maximum length of a loan period
  - Simplification of the deferment granting process

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## Negotiated Rulemaking (cont.)

- Development of institutional preferred lender lists
- Prohibited inducements
- True & exact copies of death certificates
- Retention of records supporting disbursements to students under MPNs
- Require active confirmation of a Stafford loan
- Committee will meet again March 12th

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## Negotiated Rulemaking (cont.)

### General Provisions Committee

- Met for the first time in February
- Team discussed the following issues
  - Consistent enrollment status definitions for all programs
  - Consistent definitions of undergraduate & graduate student for all programs
  - Definition of independent study

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## Negotiated Rulemaking (cont.)

- Nonstandard term & nonterm program use completion of half the weeks of instructional time for timing of second loan disbursements
- Cash management issues
  - Recovery of funds not claimed
  - Electronic disbursements
  - Late, late disbursements
  - Affirmative confirmation of a Stafford loan
  - Simplify excess cash allowances

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## Negotiated Rulemaking (cont.)

- Treatment of loan funds when a student withdraws before beginning classes
- Eliminate the single disbursement requirement for Perkins & FSEOG
- Committee will meet again in March to have a first look at proposed regulations

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## Negotiated Rulemaking (cont.)

### ACG/Smart Grants Committee

- Met for the first time in February
- Team discussed the following issues
  - Rigorous secondary school programs
  - Mandatory institutional participation
  - Eligibility of certificate programs for ACG
  - Require Pell and ACG/SMART be disbursed at the same institution
  - Grade point average calculation
  - Academic year progression
- Committee will meet again in March to have a first look at proposed regulations

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## Negotiated Rulemaking (cont.)

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### Accreditation Committee

- Meeting now for the first time
- Team is discussing
  - Transfer of Credit
  - Definition of terms
  - Other issues

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## Questions?

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## GUIDING PRINCIPLES FOR REAUTHORIZATION OF THE HIGHER EDUCATION ACT 2005

As the principal California agency responsible for administering state financial aid programs for students attending public and private universities, colleges, and vocational schools in California, the Student Aid Commission and its auxiliary EDFUND, which provides guarantee services throughout the country, have developed the following guiding principles for evaluating policies, programs, and proposals for the Reauthorization of the Higher Education Act.

The Commission and EDFUND have never wavered from their central mission – making education beyond high school financially accessible. Toward that end, the Commission and EDFUND believe that:

- *Federal student financial aid programs should expand college opportunity with added focus on promoting access, choice, and program completion.*
- *Federal and state policies and programs should provide early information and services to young people and families as a cornerstone of family college-planning efforts.*
- *Federal financial aid funding should focus on providing greater balance between reliance on different forms of aid such as grants and loans to help meet the increased costs of higher education.*
- *The Pell Grant program should be funded at its authorized level to ensure that financially needy students have the critical grant resources needed to enroll.*
- *Federal grant programs should focus their resources on students with demonstrated financial need.*
- *Federal financial aid policies should support federal-state partnerships for leveraging greater grant funding while continuing to encourage innovation in state-private sector alliances.*
- *Federal policy should encourage improvement of service delivery and quality, providing to eligible students the maximum benefit with the simplest delivery system at the lowest cost to the students and taxpayers.*
- *Federal financial aid programs should rely less on prescriptive regulations and more on incentives to ensure proper behavior by all parties in the financial aid process – students, institutions, state and federal government, and lenders.*
- *Federal policy should encourage continued improvement in the speed, convenience, cost, and quality of the financial aid delivery system through the use of promising new technologies.*
- *Federal financial aid policies should promote choice and competition between the Federal Family Education Loan (FFEL) Program and Direct Lending and among the different providers of FFEL Program student loans in order to ensure that students and schools receive the best possible customer service.*
- *Federal policy should focus on establishing strong program gate keeping and audit functions to screen out high-risk institutions and promote self-regulation by all participants in the financial aid community.*