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## Action/Information Item

### *California Student Aid Commission*

#### Loan Advisory Council (LAC) Chair's Report

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The Loan Advisory Council (LAC) reviews the activities and policies of the Federal Family Education Loan (FFEL) Program and regularly advises the Commission of its findings and recommendations.

Enclosed for your review is a written report from the LAC Chair regarding the committee's activities at its March 13, 2007 teleconference meeting.

***Responsible:***

Carrie Steere-Salazar  
Chair, Loan Advisory Council

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**CALIFORNIA STUDENT AID COMMISSION**

**LOAN ADVISORY COUNCIL  
CHAIR'S REPORT**

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**MARCH 13, 2007  
TELECONFERENCE MEETING**

The Loan Advisory Council (LAC) met on March 13, 2007 in Sacramento.

Members reviewed their term dates, the majority of which will expire by the end of the year. The Chair noted that members may be asked to serve an additional term and hoped that they would be interested. Since traveling to meeting locations may conflict with the Student Representatives' class schedules, the Chair asked that teleconferencing be offered as an alternative to them so that the Committee may be able to reach a quorum without too much difficulty.

The Executive Director provided an update of the Commission's activities, and the EDFUND President reported on EDFUND agency activities, including the placement of a staff member in Washington DC to monitor the activities more closely.

With regard to State representation, the Executive Director assured the members that she and the EDFUND President have been in talks with the Secretary of Education, both former and current, and they are very much aware of the CSAC and EDFUND issues and the importance of the loan program to California.

EDFUND staff provided an update on Federal legislative activities and initiatives, including *The College Student Relief Act of 2007 (HR 5)*, *The Student Debt Relief Act of 2007*, *The Student Aid Reward (STAR) Act* and *The Student Loan Sunshine Act*, among others.

Members moved on to discuss the repeal or amendment of two state regulations of the California Code of Regulations (CCR) affecting the FFEL Program.

Section 30901 of the CCR, Title 5, Division 4, Chapter 1, Article 16 (5 CCR §30901), requires the Loan Study Council or its successor, currently LAC, to annually review the insurance premium rate and make a recommendation to the Commission for consideration in resetting the rate. It also requires LAC to review the revenue and expenditure forecasts of the Commission's FFEL Program and make recommendations to the Commission related to the fiscal soundness of the reserve fund.

Section 30901 was established at a time when there was flexibility in the amount guaranty agencies were allowed to charge for the insurance premium fee. Additionally, lenders were concerned about the reserve fund's fiscal soundness and wanted the LAC to review it periodically.

The *Federal Deficit Reduction Act of 2005* now requires **a mandatory deposit** to the Federal Fund of a 1 percent Federal Default Fee (formerly known as the insurance premium fee). Furthermore, 2004 legislation defined the terms and conditions for conducting closed sessions of the Commission and the EDFUND Board. Discussing financial information and

business decisions in a public forum would put the Commission and EDFUND at a disadvantage, so these issues are discussed in closed sessions.

As a result of all these changes, 5 CCR §30901 is now considered to be obsolete. LAC made the following recommendation:

❖ **LAC recommends that the Commission take action to repeal 5 CCR §30901.**

The second regulation is Section 30904 of the CCR, Title 5, Division 4, Chapter 1, Article 16 (5 CCR §30904), which requires lenders to submit to the Commission a manifest of loan transactions within 45 calendar days of the date a transaction occurs or the lender learns of the transaction. Lenders must submit insurance premium fees, along with the manifest, for all loans recorded as disbursements on the manifest, or submit the fees within 30 calendar days of the date an insurance premium fee billing is sent to the lender. The regulation further requires that a loan, which remains in a guaranteed, but non-disbursed status, on the Commission's database for more than 150 calendar days after the anticipated disbursement date shall have its guarantee canceled by the Commission. The lender is given 60 days to appeal the cancellation; however, after the 60-day period expires, the guarantee cancellation is irrevocable.

For many years, the Commission waived the insurance premium fees so there was not much concern about collecting the insurance premium fees. There is also good synchronization between the databases of lenders, the Commission and EDFUND, and the Department of Education. However, lenders are concerned about the irrevocable cancellation of the guarantee as a loan may occasionally be canceled accidentally.

The California Lenders for Education are in support of repealing 5 CCR §30904 because of the following reasons:

- Improved technology and better reporting and controls have been in operation since this process was first implemented in 1992;
- The current administrative cancellation process is harmful to borrowers i.e.,
  - Loss of federal benefits, such as interest subsidies on Subsidized Stafford loans, the ability to include the loan as part of a Consolidation loan, and any deferment eligibility under any loans within the FFEL Program;
  - Loss of lender sponsored borrower benefits, such as interest rate reductions for on-time payments because that loan is no longer insured.
- The Commission is the only guarantor that permanently cancels guarantees on lender disbursed loans with restrictions on the reinstatement period. Other guarantors will cancel guarantees only for reasons within the confines of the federal FFEL Program rules and regulations and the Common Manual, not for reasons that are codified in state law.

After much discussion, LAC made the following recommendation:

❖ **LAC recommends that the Commission take action to repeal 5 CCR §30904 and for EDFUND to work with the lender community on the existing procedure for the administrative cancellation process.**

LAC reviewed the 2005 Guiding Principles for Reauthorization used by Commission and EDFUND staff in dealing with legislative matters. Members suggested revising the title to

encompass a broader area of federal legislative issues, and revising the text regarding the Pell Grant to indicate that it should be an entitlement program, which is similar to other existing Pell Grant proposals. LAC took the following action:

- ❖ **LAC endorsed the Guiding Principles as a set of good policy directions to be used by the Commission and EDFUND going forward.**

Committee members also discussed potential topics for its next meeting and the following issues were suggested:

- Direct-to-Consumer Marketing of Student Loans
- Negotiated Rulemaking Update
- Advisory Body Attendance Policy
- Cost of Textbooks and Possible Subsidy

Due to changes in members' availability for the June 14, 2007 meeting, the Chair asked to reschedule and will work with staff on further developing the agenda.