Education Finance Council™

Helping Families Plan & Pay for College℠

EFC HIGHER EDUCATION ACT REAUTHORIZATION POLICY RECOMMENDATIONS

Given EFC member organizations' broad and extensive experience and expertise in helping students and families successfully finance their higher education goals, EFC is providing the following list of policy recommendations for policymakers to consider as they work to reauthorize the Higher Education Act:

IMPROVE THE FINANCING PROCESS

- **Strengthen the Pell Grant Program.** EFC recommends that Congress increase grant aid for at-risk, low-income, and first-generation students so as to minimize their need to borrow, especially in the first years of college.

  To that end, EFC urges lawmakers to strengthen the Pell Grant program by increasing access to the program, increasing the value and reach of a Pell Grant — including allowing incarcerated individuals to access Pell Grants — and protecting the Pell Grant program and its funding for current students and future generations.

  In addition, EFC has endorsed the *Early Pell Promise Act*, which would authorize an Early Federal Pell Grant Commitment Program, in which eighth grade students who are eligible for free or reduced price lunch would be eligible to receive a commitment to receive a Federal Pell Grant. EFC believes this legislation would give students, early in their academic career, the motivation and support that stems from knowing that a college education is financially possible for them.

  A number of EFC members provide robust support services to guide vulnerable populations — including foster youth, homeless youth, and students with incarcerated parents — through the higher education process.

  Recommendation: EFC strongly supports Congress' restoration of year-round Pell Grants and urges Congress to further strengthen the Pell Grant program by expanding its value, reach, and funding.

- **Ensure Continued Access to Graduate Programs for Low- and Middle-Income Students.** Many graduate students from low- and middle-income backgrounds rely on federal student loans to finance their educations, because their credit profile and/or income restricts their ability to receive favorable terms in the private market.

  Recommendation: EFC believes that a student's access to graduate programs should not be limited due to their financial circumstances. Therefore, in order to ensure that all students who wish to pursue a graduate degree have continued access to the necessary financing to obtain advanced degrees, EFC recommends that Congress gather and review data to ensure any caps on graduate borrowing will not restrict access for students who would otherwise have limited financing options.

- **Strengthen Credit Requirements in the Parent PLUS Program; Increase Student Borrowing Caps.** Rather than saddle low-income families — and, in particular, parents — with loans they are unlikely to be able to repay, EFC recommends that the federal government increase the credit criteria required for Parent PLUS Loans.

  If a parent does not meet the credit criteria for a Parent PLUS Loan, then the student's borrowing cap should be increased to fill the gap that the Parent PLUS Loan would have filled.

  Under this policy, the debt will be the responsibility of the student — the expected beneficiary of the education and the predicted increased income that accompanies it — and the student will have the flexibility to repay the loan under either standard or income-based repayment. The parent will not bear the burden of the debt and the negative consequences of potential delinquency or default.

  To accompany this increased student borrowing limit, the federal government should also invest in robust outreach and support services programs to support low-income students through college. To provide these services, the federal government should look to leverage — through federal funding — the existing infrastructure provided by schools and nonprofits, including EFC members.

  Recommendation: EFC recommends that the federal government increase the credit criteria requirements Parent PLUS; for a parent who does not qualify for a Parent PLUS Loan, EFC recommends that the student's borrowing cap be increased to fill the gap that the Parent PLUS Loan would have filled. Additionally, EFC recommends that the federal government fund proven outreach programs at the local level that counsel families and students on borrowing.

- **Federal Support of College Access, Student Success, and Financial Literacy Outreach Programs.** Collectively, EFC members offer a variety of robust and successful programs and services to students and families in their states, including scholarship and grant programs, financial aid and default prevention counseling, and extensive college planning and financial literacy programs and affordable education and refinancing loans. In the past year, EFC members provided over 2.5 million individuals the resources needed to successfully plan, save, and pay for college.

  Recommendation: EFC recommends the federal government support these initiatives and explore ways to leverage the existing infrastructure of state-based nonprofit student loan organizations, who have proven records of success in operating as the go-to sources in their communities and states for saving, selecting, and paying for college and managing student loan debt.

  Specifically, EFC recommends that the federal government provide nonprofit and state-based organizations the resources (such as College Access Challenge Grants) to continue to offer and expand their services to an even greater number of students and families — including through the development of tools to help colleges better counsel their students.

- **Require the Disclosure of APR for Federal Student Loans.** EFC is strongly in favor of requiring the disclosure of annual percentage rates (APR) for federal student loans. The federal government is currently not subject to the same disclosure requirements as private lenders, and, as a result, consumers are often unaware of the total expense associated with a federal student loan, including origination fees and the potential effects of deferment, forbearance, and interest capitalization on the total cost of their loan.

  Recommendation: EFC strongly supports efforts to amend the Higher Education Act to require the disclosure of annual percentage rates (APR) applicable to federal student loans. The federal government, as the originator of more than 90 percent of all education loans in the nation, should be required to provide a more complete picture of the costs of these loans so students and families can make fully informed higher education financing decisions. EFC endorses the bipartisan, bicameral *Transparency In Student Lending Act* (S.749 and H.R.1283).

- **Prevent Overborrowing.** In order to limit overborrowing, EFC supports providing higher education institutions with the authority to reduce loan limits for certain borrowers; even if a borrower is eligible to borrow a certain amount from the federal loan program, it does not always make sense for them to do so. Providing institutions with the authority to further limit borrowing will help to minimize overborrowing.

  Additionally, EFC supports requiring all non-federal education loans to be certified by a higher education institution official. Requiring school certification will control overborrowing by ensuring that nobody borrows more than the cost of attendance less other aid from non-federal education loan programs.

  Recommendation: Provide higher education institutions with the authority to reduce loan limits for certain borrowers and require all non-federal education loans to be certified by a higher education institution official.

- **Increase Income Protection and Savings Allowances.** The expected family contribution is the amount of money that a family is expected to contribute toward the price of a student's education from its income and assets. The expected family contribution consists of two parts: the parent contribution and the student contribution. Generally, "family contribution" refers to both of these combined. For independent students, there is no parent contribution.

  To determine the amount of income available for educational purposes, both parents and students are given "offsets" against income. Offsets include taxes, employment expenses, and an income protection allowance. For parents and independent students with dependents, the income protection allowance can range from approximately $17,000 to $53,000, based on family size and number of family members enrolled in college.

  After subtracting the offsets from total income, the remaining income is called available income. For parents and independent students with dependents, the available assets are added to the available income to arrive at the adjusted available income. A portion of this amount is multiplied by 22 to 47 percent (plus a additional pre-determined assessment) to arrive at the total expected family contribution.

Recommendation So as not to negatively impact financial aid awards for those students who work more to minimize and/or avoid borrowing, EFC recommends that the income protection allowance and savings allowance for students be increased.

- **Modify the Treatment of 529 College Savings Assets in Federal Financial Aid Methodology.** 529 college savings plans — tax-advantaged savings plan designed to encourage saving for future college costs — stand out as popular and effective planning and saving tools that both encourage and enable American families across income levels to prepare for the costs of higher education.

  New research released by Strategic Insight, an independent financial research and data analysis organization, shows that a large majority of 529 users – 75 percent — have household incomes of $150,000 or less. Most participants represent solidly middle-income families — and lower-income households also recognize the benefits and need for targeted college saving, with a full 17 percent of 529 families having household income of $50,000 or less.

  The overwhelming consensus among 529 state program managers and financial advisors is that the current treatment of 529 savings in the federal financial aid methodology is the single largest obstacle to American families utilizing 529 plans to save for college expenses.

  There is a widely publicized perception documented in national surveys that saving in 529 plans negatively impacts and jeopardizes a family's eligibility for financial aid. This perception is consistently reinforced by personal finance media and a large number of financial advisors who wish to steer their clients to other investments.

  However, this is a false perception — the reality is that only 5.6 percent of the value of a 529 plan is included in the expected family contribution. Furthermore, because of this widely held this false perception, families have been hesitant to save in 529 plans, resulting in an increase in student loan debt.

  Recommendation: EFC recommends removing 529 accounts completely from federal financial aid methodology to encourage parents, grandparents, and other family members to utilize the tax-free advantages of 529 plans, thereby increasing savings and decreasing borrowing.

IMPROVE THE REPAYMENT PROCESS

- **Simplify Repayment Programs.** Through their work counseling borrowers throughout all stages of the education financing process — from when they first begin researching loan options until they successfully make their last payment — EFC members know first-hand that the current repayment process is far too complex for even the most well-informed borrower.

  Recommendation: To improve outcomes and the borrower experience, Congress should reduce repayment options to two plans (standard and income-based).

- **Improve Income-Driven Repayment (IDR).** In order to safeguard borrowers from negative amortization, EFC recommends that Congress require IDR programs to, at a minimum, cover the monthly accrued interest on a loan balance. EFC also recommends that the Education Department and the Treasury Department allow student loan borrowers to give the Education Department advance permission to automatically access their tax information for the limited purpose of determining eligibility and/or monthly payment amounts for all IDR plans — often referred to as "multi-year consent" — rather than requiring borrowers to proactively submit updated income information every year. EFC urges the Education Department and Treasury to quickly implement multi-year consent per their January 2017 Memorandum of Understanding.

  Recommendation: Require IDR programs to, at a minimum, cover the monthly accrued interest on a loan balance to avoid negative amortization and create a mechanism for borrowers to give the Education Department advance permission to automatically access their tax information for the limited purpose of determining eligibility for all IDR plans.

- **Address High Student Loan Default Rates.** Similar to the National Foreclosure Mitigation Counseling Program (NFMCP) created to help struggling homeowners recover from the financial crisis, EFC recommends the creation of a program to assist financially distressed student loan borrowers. It is our belief that with the plethora of repayment plan options, there is no reason for any borrower to default on their student loan. However, most borrowers are unaware that the programs exist or find navigating the myriad repayment options too difficult.

  In the same way that NFMC leveraged community-based nonprofit organizations, our proposal leverages existing state-based and nonprofit organizations who have experience in counseling families on planning and paying for college. These organizations would provide the proposed counseling services to distressed borrowers in their states; services would include one-on-one counseling by phone or in-person to help borrowers get back on track and into a repayment plan that best meets their specific needs. Like NFMC, this program would be funded through Congressional appropriations, first on a pilot basis. Specific metrics would be set to measure success and to determine if additional funding should be made available to expand services beyond the pilot program.

  State-based and nonprofit organizations are limited by funding; this program would allow them to expand their services to a highly targeted population of at-risk borrowers. While the most effective approach would be to make available individualized counseling for a) borrowers who are enrolling in an income-based repayment plan, b) borrowers who are entering forbearance and/or deferment, and c) borrowers who have not made a loan payment in 120 days, for the purposes of this pilot program, we would suggest starting with the most at risk population, those that have not made a loan payment in 120 days.

  Success will be defined through a set of metrics that account for the program's success in reducing delinquency and default among program participants. Early success will be measured by decreasing the number and percent of borrowers in delinquency among a targeted cohort of borrowers. Longitudinal metrics will be established to measure recidivism rates to ensure the early success is sustained over time.

Recommendation: EFC urges Congress to create a pilot program that would leverage existing state-based and nonprofit organizations to provide free counseling services to distressed student loan borrowers and use the data from this study to support expansion of these services to all states.

PRESERVE & EXPAND ACCESS TO LOW-COST NON-FEDERAL LOANS

- **Modify Preferred Lender List Statute.** The Higher Education Act currently requires postsecondary institutions to follow onerous procedures before they can provide information or guidance to students and parents on non-federal loan options. However, due to competing administrative needs, few postsecondary institutions have allocated the time and resources to complete the process.

  Nonprofit and state-based student loan organizations offer loans utilizing state funding or tax-exempt bond financing, which in many cases enables the organizations to offer loans at lower costs than other programs. If schools do not create a Preferred Lender List (PLL), school personnel are restricted from advising students on non-federal loan options, including nonprofit and state-based student loans that are less costly than other programs.

  Recommendation: Amend the PLL statute to allow schools the ability to recommend to students and families loans offered through nonprofit and state-based organizations, without the onerous procedures.

PROMOTE EXCELLENCE IN SERVICING

- **Leverage Expertise of Nonprofit and State-Based Organizations.** EFC represents all of the not-for-profit (NFP) Federal Direct Loan servicers. As mission-driven, public-purpose entities, these organizations have decades of experience in doing right by student loan borrowers. This is evident in the consistently excellent scores the NFP servicers have received on the Education Department's performance metrics and in their high borrower satisfaction ratings for customer service. EFC strongly urges Congress to ensure that the expertise of these organizations is leveraged in future student loan servicing solicitations or platforms.

  Recommendation: EFC encourages Congress to ensure that the expertise of nonprofit and state-based organizations is leveraged in future student loan servicing solicitations or platforms.

- **Ensure Fair and Equitable Treatment for All Direct Loan (DL) Servicers.** EFC member organizations have invested a great deal of time, money, and resources into providing exemplary service to borrowers and the Education Department. EFC encourages the Department to continue to embrace the new Direct Loan servicing allocation methodology of allocating new student loan accounts using common performance metrics across all DL servicers.

  Recommendation: EFC recommends a continuation of the current servicing allocation methodology and encourages the Education Department to hold an open and fair bid process for future servicing solicitations that recognizes the value and expertise of the not-for-profit DL servicers.

- **Ensure a Competitive Servicing Landscape.** Under current Direct Loan servicing contracts, EFC recommends that Congress direct the Education Department, as it works to improve the Direct Loan servicing system, to ensure the continued inclusion of multiple servicers handling all aspects of servicing loans. Such a marketplace will foster a competitive environment and ensure that borrowers and the Education Department have the leverage necessary to make sure servicers work in the best interest of borrowers while continuously working to improve their service and outcomes.

  Recommendation: EFC strongly recommends that the Education Department create and manage a competitive servicing environment that holds servicers accountable for their ability to best serve the needs of student loan borrowers.

- **Codify Consumer Protections in Federal Statute.** EFC is concerned that a growing number of individual states are seeking to impose state-level laws and regulations on student loan servicers contracted by the federal government to service federal student loans. EFC fears that these state efforts will continue to add an unnecessary web of regulations which are both duplicative of and potentially contradictory to existing federal regulations and policies.

  Rather than having states implement a patchwork and contradictory regulatory scheme that differs across state lines, EFC recommends that important consumer protections for student loan borrowers instead be codified in federal statute through the Higher Education Act, and is available to work with the Committee to ensure these protections are included in federal statute.

  Recommendation: EFC understands the need for consumer protections for student loan borrowers, and therefore supports the implementation of consumer-protection laws for student loan borrowers at the federal level, coupled with a federal preemption for federal contractors from state-level laws and regulations in the event of a conflict between federal and state regulation.

- **Designate Not-For-Profits as Small Businesses for Student Loan Servicing Contracts.** EFC urges Congress to have not-for-profit servicers — who have a proven track record of excellent service — designated as small businesses for the purposes of any prime and subcontracting contracts.

  Recommendation: EFC recommends that existing and future federal student loan servicing contracts receive credit toward the small business requirement if they subcontract state-based and/or nonprofit organizations with expertise in assisting borrowers in the repayment of their student loans.

- **Reinstitute a Common Operations Manual.** To address concerns about consistency of service across multiple servicers, EFC recommends that Congress direct the Education Department to reinstitute a highly prescribed and continuously updated Common Operations Manual. This will ensure consistent performance and accountability across all servicers. A Common Operations Manual was very successful in ensuring consistency under the FFELP program where there were multiple lenders, multiple origination and servicing platforms, and multiple servicers. It should be equally successful with one lender, four servicing platforms, and multiple servicers.

A Common Operations Manual for Direct Loan servicers has been recommended to the Education Department in the past, but has never been implemented. Allowing for multiple servicers, who all adhere to a common set of operational requirements, will maintain a competitive environment while allowing servicers the flexibility to develop best practices and to continuously innovate to better serve borrowers and taxpayers.

Recommendation: EFC strongly endorses Congress' prior recommendation — one that servicers support — that the Education Department create a Common Loan Servicing Operations Manual to drive high-quality servicing for all borrowers and ensure consistency and accountability across all servicers.