

Proposals to Restructure the Federal Student Aid Programs

Proposal Title/Author(s)	Date of Publication	Major Points of Proposal
<p>Guarantor Chief Executive Officer (CEO) proposal</p> <p>Available online at http://www.tgslc.org/pdf/Guarantor_CEO_Proposal.pdf</p>	<p>August 2009</p>	<p>Proposes to provide a continuing role for all FFELP guarantors as “borrower assistance providers” in a post-FFELP environment after July 1, 2010. The proposal, supported by TG, outlines 10 specific borrower and school advocacy and support roles the borrower assistance providers would provide in their respective states through agreements with the Department of Education. These support roles include:</p> <ul style="list-style-type: none"> ○ Providing student loan borrowers with financial literacy education ○ Encouraging students to refrain from incurring unnecessary student loan debt (including private education loan debt); ○ Providing or assisting with entrance and exit student loan counseling to borrowers; ○ Providing resources to assist borrowers in selecting a loan repayment plan and in applying for any loan cancellation, forgiveness, deferment, or forbearance for which they may be eligible;

		<ul style="list-style-type: none">○ Working with borrowers to avoid delinquency and default;○ Providing counseling to defaulted borrowers on appropriate account resolution options, including loan rehabilitation;○ Assisting students and families with student loan issue resolution through ombudsman services or the equivalent;○ Providing training and assistance to institutions of higher education regarding the federal student aid programs;○ Working with the Secretary to assure proper administration of the federal student loan programs, and○ Outreach and support services for college access and success. <p>The proposal provides that borrower assistance providers receive a borrower services fee for federal student loans (including Direct loans but not Perkins loans) originated after July 1, 2010, and continues compensation for all guarantors under the current guarantor fee structure for existing FFELP loans serviced by the provider within each</p>
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		<p>provider's FFELP portfolio. The proposal also includes a provision that requires the Department of Education to establish performance measures.</p>
<p><i>Guarantors as Borrower Advocates and Program Support Agencies: The Role Beyond</i> (National Association of Student Loan Administrators [NASLA]—composed of American Student Assistance®, California Student Aid Commission/EdFund®, Great Lakes Higher Education Guaranty Corporation®, and TG™)</p> <p>Available online at http://www.tgslc.org/pdf/NASLA_Legislative_Proposal.pdf</p> <p>See also a one-page summary outlining NASLA's viewpoint concerning the role of the guarantor entitled <i>A Student's Right. A Guarantor's Mission.</i>, available online at http://www.tgslc.org/pdf/a_guarantors_mission.pdf</p>	<p>Original publication May 26, 2009; updated August 6, 2009</p>	<p>Each non-profit entity or state agency which currently serves as a guaranty agency would serve as a single point of contact for borrowers, prospective borrowers, families, schools, and related third parties to assist in the proper administration and support of the student loan programs, regardless of the source of funds for the loan.</p> <p>Such an agency would provide program support services including, but not limited to:</p> <ul style="list-style-type: none"> • Assisting students and families with information and advice on financial aid and student loans; • Providing in-person training and assistance to schools and financial aid officers; • Offering quality student and family outreach, financial literacy, publications, and internet assistance; • Providing or advising on persistence and completion programs;

	<ul style="list-style-type: none">• Providing or assisting with entrance and exit student loan counseling to borrowers;• Providing phone, internet, and in-person counseling, financial literacy, and assistance to student loan borrowers;• Assisting borrowers in selecting a loan repayment plan and in applying for any loan cancellation, forgiveness, deferment, forbearance, or repayment benefits to which they are entitled.• Averting delinquency and defaults of student loans;• Rehabilitating defaulted student loans; and• Partnering with the United States Department of Education, including program reviews of participating institutions of higher education in accordance with regulatory guidance or directives of the Department. <p>Each school can select the guaranty agency or agencies from which it will receive program support services. Each borrower can select the guaranty agency from which he or she shall receive program support services, irrespective of state designation or selection by a school.</p>
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<p>HR 3221, the Student Aid and Fiscal Responsibility Act of 2009 (SAFRA) (proposed legislation by the U.S. House of Representatives)</p> <p><i>Available online on the Thomas, Congress on the Internet Website, at http://thomas.loc.gov/cgi-bin/query/z?c111:H.R.3221:</i></p>	<p>First introduced in the House Education and Labor Committee on July 15, 2009</p>	<p>Increases the maximum annual Pell Grant to \$5,550 in 2010 and \$6,900 by 2019, and indexes it to the consumer price index (CPI) starting in 2011.</p> <p>Increases funding by \$2.5 billion for the College Access Challenge Grant program and for programs in states and at institutions that focus on increasing financial literacy and helping retain and graduate students.</p> <p>Increases funding (from \$1 to \$6 billion) for and changes distribution of funds within the Federal Perkins Loan Program.</p> <p>Initiates FAFSA simplification measures by cutting questions and allowing for an IRS data match.</p> <p>Increases funding for Historically Black Colleges and Universities (HBCUs) and Minority-Serving Institutions (MSIs) by \$1.2 billion.</p> <p>Creates a new \$10 billion competitive grant program for community colleges to improve instruction and support services, work with local employers, and</p>

		<p>implement other reforms that will lead to higher numbers of degrees and certificates.</p> <p>Establishes a variable interest rate (capped at 6.8%) for subsidized Stafford loans for undergraduates for loans first disbursed on or after July 1, 2012 (the rate is currently slated to be fixed at 6.8%).</p> <p>Mandates that all new Stafford, PLUS, and Consolidation loans be made under the Federal Direct Loan Program effective July 1, 2010. In addition, per the House Education and Labor Committee fact sheet on the bill, it: "Provides all federal student loan borrowers with upgraded, modern, state-of-the-art customer service. Rather than force private industry out of the system, the bill will forge a new public-private partnership that provides all borrowers with the highest-quality customer service when repaying their loans and maintains jobs. It will establish a competitive bidding process that allows the U.S. Department of Education to select lenders based on how well they serve borrowers, educate them financially, and prevent loan defaults. It will provide a role for non-profits to continue servicing student loans."</p>
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<p><i>Reforming Federal Student Aid Programs: With a focus on the students we serve (the Friday the 13th Group, an independent coalition of financial aid administrators)</i></p> <p>Available online at http://www.sasfaa.org/ListLock/kgbUyNRgxCWrmRKR.pdf</p>	<p>July 2009</p>	<p>Capitalize on the historic opportunity to generate funding for need-based financial aid by shifting to a model of 100 percent federal funding for all federal student loans and simplify the financial aid system for students by eliminating ACG, SMART, TEACH and SEOG, and redirect those financial resources toward need-based financial aid by significantly expanding funding for the Pell Grant and Federal Work Study (FWS) programs.</p> <p>Preserve institutional choice of loan programs to leverage competition, maximize service levels and preserve student and parent choice of lender to ensure life-of-the-loan servicing and the continuation of customized default prevention and financial literacy programs.</p> <p>Eliminate the significant financial and administrative burden and likely subsequent confusion and processing risks associated with requiring thousands of postsecondary institutions to switch to an entirely new loan process.</p> <p>Congress should consider a student loan structure that embraces the following ten goals:</p> <ul style="list-style-type: none"> • Produces comparable budget savings for need-based financial aid to the President's proposal by eliminating lender subsidies.
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		<ul style="list-style-type: none"> Avoids the massive transition risk of mandating all students and more than 4,000 institutions transition to a new loan program infrastructure in advance of July 1, 2010.
<p>Student Loan Community Proposal (a group of 32 student loan entities)</p> <p>Available online at www.studentloanfacts.org</p>	July 7, 2009	<p>Eliminates lender subsidies and private ownership of new federal loans.</p> <p>Prescribes that the federal government owns and generates savings from all new federal loans.</p> <p>Establishes a fee-for-service system for loan originations, servicing, and collections to be performed by student loan providers of a student's or school's choice.</p> <p>Retains the competitive environment that drives improvement and innovation in loan delivery, as schools choose service providers for originations and servicing.</p> <p>Incorporates "risk sharing" incentives on loan servicing.</p> <p>Expands assistance and advocacy programs to all borrowers; students benefit from financial literacy and independent support services from guarantors like help with smart borrowing choices and default avoidance.</p>
<p>What the Federal Government Owes Student Borrowers <i>(Chronicle of Higher Education</i> article written by Paul Combe, President and CEO of American Student Assistance)</p>	May 15, 2009	<p>Develop a single, lender-neutral system whereby a student or parent could pick any lender, including the government, on any</p>

<p>Available online at http://chronicle.com/weekly/v55/i36/36a05601.htm (Chronicle membership required)</p> <p>See also https://www.amsa.com/reform/index.cfm</p>		<p>campus and have the loan processed as efficiently as any other. A single-origination system would open up the market to many more lenders and capital sources, increasing competition — which, in turn, would give borrowers more choices and greatly improve the process.</p> <p>Provide borrowers with effective debt-management services over the lives of their loans, with the information they need to make informed choices at their "moments of truth" throughout the repayment process. Refocus and retain nonprofit guarantors as an already-existing network of support for borrowers. Education-debt management must be independent of, and neutral to, the holder of the loan, whether the holder of the loan is a bank or the federal government. Independent, public-purpose guarantors, as impartial third parties, are in an ideal position to play that role. Since loans may be securitized or sold to any party, including ED, the guarantor provides the borrower with a stable and neutral relationship over the life of the loan. Essentially, guarantors would no longer insure the lenders, but instead help guarantee the borrowers' success.</p>
<p>Targeting of Student Aid Programs According to Financial Need (Finaid)</p> <p>Available online at http://www.finaid.org/educators/20090429</p>	<p>April 29, 2009</p>	<p>Eliminate the SEOG program, rolling the funding into the Pell Grant program. To maintain the priority granted to zero EFC students, allow the EFC to go negative and increase the Pell Grant of students with a</p>

<p>TargetingStudentAid.pdf</p>		<p>negative EFC by the absolute value of the EFC.</p> <p>The Perkins loan program is not as well targeted as the subsidized Stafford loan program, despite the Perkins loan program's requirement that the Perkins loans be awarded first to students with exceptional financial need. To fix this problem, a definition of "exceptional financial need" should be added to section 463(a)(8) of the Higher Education Act of 1965 similar to the definition in section 413C(c)(2)(B). This would give the Perkins loan program the same preference for zero EFC students as the SEOG program.</p> <p>The subsidized interest on the Perkins and subsidized Stafford loan programs does not yield a measurable improvement in access to higher education as compared with the unsubsidized Stafford loan program. This is in part due to the widespread practice of deferring repayment on unsubsidized loans while the student is in school. The financial benefit is therefore realized after the student graduates, not at enrollment. The subsidized interest costs the federal government more than \$4.8 billion for each year's worth of new loans. The Perkins and subsidized Stafford loans should be eliminated (while retaining the unsubsidized Stafford loan) and the savings rolling into the Pell Grant program. This would increase the maximum Pell Grant by</p>
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		<p>\$700.</p> <p>Less than 10% of the recipients and 5% of the funding from the education tax benefits is received by students with zero EFCs, and a third of the recipients and less than a quarter of the funding is received by students who qualify for a Pell Grant. The addition of partial refundability to the Hope Scholarship will not change this by much because the expansion of the income phase-outs and the elimination of the AMT will disproportionately benefit middle and upper income families. The Hope Scholarship, Lifetime Learning Tax Credit and the Tuition and Fees Deduction should be eliminated and the funding rolled into the Pell Grant program. This would increase the maximum Pell Grant by \$1,000 (based on tax year 2006 data) or \$2,500 (based on estimated tax year 2009 data).</p> <p>Institutional merit-based grants increased faster than institutional need-based grants, mostly at 4-year colleges (and especially at public 4-year colleges), with total funding for institutional merit-based grants exceeding total funding for institutional need-based grants for the first time. Public 4-year colleges now spend 40% more funding on institutional merit-based grants than on institutional need-based grants.</p>
<p>Preliminary Recommendations from the National Association of Student Financial Aid</p>	<p>April 21, 2009</p>	<p>Expand and simplify grants by setting and indexing the maximum Federal Pell Grant</p>

<p>Administrators (NASFAA)</p> <p>Available online at http://www.nasfaa.org/PDFs/2009/NCIPreliminaryRecs.pdf</p>	<p>award to 70 percent of the average costs of in-state tuition, fees, room, and board at four-year public colleges and universities, and by eliminating less effective programs like the ACG and National SMART Grant programs. Given the costs associated with such an increase, it is further recommended that this level of renewed commitment be phased in over a five-year period.</p> <p>Improve financial aid predictability and portability by allowing students who qualify for the maximum grant to receive the full amount irrespective of cost of attendance and by providing the same loan limits to students for every year of college.</p> <p>Create a grant program for graduate students in high-need job areas as defined by states.</p> <p>Simplify the application process by allowing the neediest students to automatically qualify for maximum aid, allowing families to initiate the financial aid application process through the federal tax system, making aid eligibility determinations almost solely on adjusted gross income and exemptions, and eliminating all unnecessary application questions.</p> <p>Reduce confusion among students, and administrative burdens at institutions, by eliminating "needs analysis" and replacing</p>
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	<p>it with easy to understand eligibility tables.</p> <p>Consolidate campus-based financial aid (FSEOG and FWS), increase funding for the consolidated program, redistribute funds based on the number of needy students an institutions serves, and give financial aid offices discretion to use funds in the manner that best serves their unique student populations.</p> <p>Create a single, new student loan program that combines the best aspects of the Direct Loan, FFEL, and Perkins Loan programs.</p> <p>Subsidize student loan borrowers during repayment instead of while they are in school, and increase student loan repayment assistance by strengthening the Income- Based Repayment program so students never pay more than 10 percent of their discretionary income and loans are forgiven after 20 years of repayment.</p> <p>Eliminate certain tax benefits that have little impact on increasing college access, repeal taxes on all forms of student aid like scholarships and loan forgiveness, and provide a tax credit to companies that help pay off student debt through a Human Capital Tax Credit.</p> <p>Encourage families to plan and save for college by providing every child with \$500</p>
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		<p>to start a college savings account, giving tax breaks to anyone who contributes to a child's college savings account, and provide college aid eligibility estimates for children as young as 10 years old.</p> <p>Engage public and private entities to increase public outreach to raise awareness about the benefits of a college education and available financial aid and use as many technologies and mediums as possible to inform students about their financial aid eligibility.</p>
<p>A Future Federal Student Loan Program Alternative for Discussion (Sallie Mae)</p> <p>Available online at http://www.salliemae.com/NR/rdonlyres/208D127D-AB53-4625-AB84-FOBB79A52359/10764/AlternativeStudentLoanProposal_4909.pdf (Sallie Mae user ID and password required)</p>	<p>April 15, 2009</p>	<p><i>Choice of Loan Origination Approaches</i></p> <p>Give schools the choice to originate loans via ED's DL infrastructure or via private lenders.</p> <p><i>Federal Funding</i></p> <p>Use federal funding for all government loans, modifying the current ECASLA structure for loans originated by private lenders: lenders provide the initial capital, but subsequently sell 100 percent participation interest to the government. Within 120 days of full disbursement (typically, well into the second semester), all loans would be sold permanently to the government.</p> <p>FFEL "special allowance" formulas are eliminated.</p>

	<p>Originating lenders' only compensation is a defined "spread" during the holding period prior to selling the loan to the government and a put fee when the loan is sold.</p> <p>The originating lender compensation is set initially at the fees now set by the Department of Education under ECASLA to assure broad participation and eliminate transition risk; afterwards, the compensation will be determined by the Department via a market mechanism designed to preserve broad-based participation of originating lenders.</p> <p><i>Common Loan Terms</i></p> <p>Convert all loans (FFELP and DL) to one common set of borrower interest rates, terms and conditions, which align with the current DL program.</p> <p><i>Loan Servicing</i></p> <p>Servicing is performed by multiple Department contractors selected via competitive bidding, for all loans, regardless of how they are originated.</p> <p>Opportunity for originating private lenders to retain servicing if they meet Department criteria (e.g., price, quality, compliance, etc.)</p> <p>Schools choosing DL originations process,</p>
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		<p>or choosing private lenders who do not provide servicing, will have the opportunity to choose a loan servicer from among Department contractors.</p> <p><i>Enhanced Default Prevention</i></p> <p>A new risk-sharing program is introduced into loan servicing to give servicers “skin in the game” to minimize defaults and keep the student loan portfolio as healthy as possible.</p> <p>The Department sets expectations for other school-based and borrower-based default prevention initiatives – such as financial literacy programs and borrower counseling – to be performed by guaranty agencies.</p>
<p>NASFAA National Conversation Initiative Concept Paper for New Student Loan Model</p> <p>Available online at http://www.nasfaa.org/PDFs/2009/NASFAALoanModel.pdf</p>	<p>March 17, 2009</p>	<p>NASFAA’s new model integrates the best aspects of each existing loan program into a brand new student loan program. This loan program will not be the Direct Loan Program, the Federal Family Education Loan Program, or the Perkins Loan program, but will retain essential elements of all three:</p> <ul style="list-style-type: none"> • Perkins Loans offer borrowers low, fixed interest rates. In addition, Perkins Loan borrowers often find it easier to work with loans that are disbursed through schools. • The Direct Loan program offers borrowers a single origination and

		<p>collection agent.</p> <ul style="list-style-type: none">• FFELP loans come with default prevention mechanisms and are funded by private sources, meaning capital for these efforts is not dependent on the federal government. <p>NASFAA proposes a new student loan program combining the most positive features of each of these programs while reducing complexity and increasing consistency among borrowers.</p> <p>This new loan program:</p> <ul style="list-style-type: none">• Provides consistent and equal terms, conditions, and benefits to all borrowers• Offers students a low, fixed interest rate• Offers students a seamless loan origination, disbursement and repayment experience• Capitalizes on the unique expertise, best practices, and capacity developed by all entities currently participating in the existing loan programs• Ensures a predictable and
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		<p>continuous source of capital for student loan funding that is not dependent on any single entity</p> <ul style="list-style-type: none"> • Allows individuals, families, companies, financial institutions, and all Americans to express their support for higher education through government - backed special purpose bonds • Reduces federal expenditures by creating a self - sustaining funding source that relies on a new, safe investment vehicle • Leverages technological and business innovations in the private sector by creating a common servicing platform that relies on a centralized database of all borrowers and can be used by multiple servicing agents • Creates new incentives for businesses, individuals, and states to help students repay student loan debt • Shifts the focus of guarantors to facilitating successful student loan repayment and college access
<p>A New Era of Responsibility: Renewing America's Promise/President Barack Obama (Proposed Budget for Fiscal Year 2010,</p>	<p>February 26, 2009</p>	<p>End lender subsidies and originate all new student loans under the Federal Direct Loan Program effective July 1, 2010.</p>

<p>Prepared by the Office of Management and Budget)</p> <p>Available online at http://www.whitehouse.gov/omb/assets/fy2010_new_era/Department_of_Education.pdf</p>		<p>Provide high-quality services for students by using competitive, private providers to service loans.</p> <p>Make campus-based, low-interest loans more widely available through a new modernized Federal Perkins Loan Program, overhauling the inefficient and inequitable current Perkins program.</p>
<p>Higher Education Financing Priorities 2009/The National Consumer Law Center's Student Loan Borrower Assistance Project</p> <p>Available online at http://www.studentloanborrowerassistance.org/uploads/File/policy_briefs/priorities2009.pdf</p>	<p>Late 2008</p>	<p>Target assistance to those who are unlikely to meet their educational goals without financial help.</p> <p>Improve information about student financial options and simplify the application process.</p> <p>Eliminate predatory student lending.</p> <p>Ensure access to flexible, income-based repayment and other debt management tools for federal and private loans.</p> <p>Set a maximum time limit for repayment for all borrowers and eliminate any adverse tax consequences for those who have balances written off.</p> <p>Eliminate perverse collection incentives and limit collection agency involvement.</p> <p>Create counseling assistance services for financially distressed borrowers that are not tied to lenders or guaranty agencies.</p>

		<p>Ensure relief for borrowers when their rights are denied.</p> <p>Restore a viable safety net.</p> <p>Rein in proprietary school abuses.</p>
<p>The Institute for College Access and Success letter to (then) President-Elect Obama</p> <p>Available online at http://projectonstudentdebt.org/files/pub/Nov5obama.pdf</p>	<p>November 2008</p>	<p>Increase the total amount of need-based grant aid to low- and moderate-income students.</p> <p>Address the full range of costs that students face, not just tuition.</p> <p>Ensure that aid is available at the right time: when students and families have to pay the bills, not after.</p> <p>Make it easier to find out about and apply for available aid.</p> <p>Reduce the burden of student debt.</p>
<p>A Rational Approach to Federal Student Aid/Sara Martinez Tucker, Department of Education</p> <p>Available online at http://insidehighered.com/index.php/content/download/269112/3445934/version/1/file/A%20Rational%20Approach%20to%20Federal%20Student%20Aid%20-%20Final.doc</p>	<p>November 2008</p>	<p>Use Internal Revenue Service Adjusted Gross Income and Number of Exemptions Claimed to determine a student's eligibility for Federal aid.</p> <p>Connect AGI/Exemptions to the Department of Health and Human Services Poverty Levels to determine award size.</p> <p>Replace the current FAFSA with a two-page, less than 30 question version that asks only for information that is easily obtainable, verifiable and necessary to</p>

		<p>determine eligibility and award levels.</p> <p>Establish a Federal Student Aid Target (FSAT) that is based on 100% of Tuition and Fees, Books and Supplies, and Room and Board at a public, two-year college.</p> <p>Establish a Federal Student Aid Commitment (FSAC) that is based on 250% of respective poverty levels for grants and 400% of respective poverty levels for work study and subsidized loans.</p> <p>Consolidate Federal aid programs into single grant, work study and loan (FFEL and Direct Loan) programs.</p>
<p>Breaking the Deadlock: Unifying Our Federal Student Loan Programs/Paul Combe, American Student Assistance</p> <p>Available online at http://www.amsa.com/policy/issues/unifyingstudentloanprograms.cfm</p>	<p>Fall 2008</p>	<p>Now is the time to examine a new proposal for a single, robust, neutral student loan program. A program that uses both private lenders and the federal government as sources of capital should be the cornerstone of that reform, harnessing efficient standardization, competitive borrower benefits, taxpayer-cost effectiveness and true consumer choice.</p> <p>FFELP vs. DL is a death match where only one can survive. To return the federal loan program to its primary mission, it is time to move from FFELP vs. DL to FFEL and DL. A much-needed reform program should focus on:</p> <ul style="list-style-type: none"> • The consumer and their rights and needs

- The delivery system
- The pricing for private capital

One of our goals should be to squeeze unnecessary costs, whether public or private sector costs, from the student loan programs, and use some of those savings to better assist borrowers in successfully completing their education financing by assuring that they have the information they need to manage and pay off their loans. Debt management and default prevention is something that should be measured and for which guarantors, as neutral third parties, should be held accountable.

The role and financing of the “guarantor” community should be refocused away from the origination process to early awareness and information, debt management and default prevention, and loan rehabilitation for all borrowers, including those with Direct Loans. Essentially, guarantors would no longer insure the lenders, but instead help guarantee the borrowers’ success. Since loans may be securitized or sold to any party, including ED, the guarantor provides the borrower a stable, neutral third-party relationship over the life of the loan. Guarantor fees and incentives should be focused on the relative success of the borrowers in their portfolio as measured by Loans in Good Standing and these results should be published and available to the

	<p>consumer. The consumer should be allowed to select the guarantor that they believe would best provide those services over the life of the loan.</p> <p>The process of programmatic convergence should first focus on developing a single, robust, lender/capital neutral, origination platform. This system should be developed by ED, lenders, schools (FFELP and DL), guarantors and school financial aid management system (FAMS) providers. The system may be a federal system or a mutual benefit corporation and should accommodate and communicate data and disburse loans for multiple lenders, including ED, and should be the required process for all federal loans. This development eliminates the loan distribution process as a possible point of market control.</p> <p>A single system would lower the cost of entry into the student loan markets, opening the market to more lenders and capital sources. With one delivery system, capital becomes fungible, allowing small lenders to compete, side by side, with large lenders. Also, with a single system in place, Congress should require all schools to place ED, with its Direct Loan brand, and at least two other lenders on their preferred lender list. Effectively, the consumer could pick any lender (including ED) on any campus and be assured that the funds would be</p>
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		<p>delivered efficiently and on time. This is ultimate consumer choice.</p> <p>The last priority is the setting of the interest rate provided to the private lenders/capital in the FFEL program. Congress sets the rate charged to the student, which is the same for both DL and FFEL. Ultimately, capital markets in conjunction with Congress, ED and loan providers should develop a proposal that uses the cost of the DL program as a benchmark; satisfies the needs of the federal government and the consumer; is market based; and provides an appropriate role for private capital and market competition.</p> <p>The time is right to convene "Clean Slate" working groups to tackle reform. Working Group activities should include:</p> <ul style="list-style-type: none"> • Creating a structure and laying the groundwork for regulation or legislation to unify our federal loan programs into one • Integrating an R&D approach to setting student loan policy • Researching and publishing position papers on key issues • Providing a Web-based clearinghouse of information
<p>Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid/College Board's Rethinking Student Aid Project</p>	<p>September 2008</p>	<p>Eliminate the FAFSA and retrieve the financial data required for Pell Grant allocation from the Internal Revenue</p>

Available online at <http://professionals.collegeboard.com/profdownload/rethinking-stu-aid-fulfilling-commitment-recommendations.pdf>

Service (IRS).

Calculate an index of financial capacity for use by states and institutions designated by the student to allow states and institutions to allocate need-based aid as they deem appropriate.

Use an average of the most recent three years of income information, adjusted for inflation, to provide a more reliable picture of the student's or parents' financial circumstances. Tax filers with dependent children between the ages of 5 and 19 should be informed every year of the Pell Grant for which their children would be eligible under the applicable program eligibility rules.

The eligibility criteria for Pell Grants should be dramatically simplified to rely only on Adjusted Gross Income (AGI) and family size. The maximum Pell Grant should be indexed to the Consumer Price Index (CPI).

Eliminate supplementary grant programs with complex eligibility requirements and use the funds to increase the generosity of Pell grants.

Combine the existing tuition tax credits and deductions into one tax credit. Make the tuition tax credit applicable not only to tuition and fees, but to the total cost of attendance for postsecondary students.

	<p>A graduated repayment plan should be the standard loan repayment pattern, unless a borrower chooses another option. The new income-based repayment plan should be clearer and more easily accessible to all borrowers who would benefit from it. The Rethinking Student Aid study group recommends that full-time students be eligible to borrow up to the amount of the federal poverty guideline for a single individual for each year of study. PLUS loans should remain widely available, and the terms should be accommodating enough to prevent parents from relying more heavily on student borrowing. Eliminate the distinction between subsidized and unsubsidized Stafford loans. The interest rate on Stafford loans should be flexible but lower than market rates for all students.</p> <p>Address the limitations in the existing 529 plans by developing a parallel federal college savings program designed to assure the participation of families who don't have the wherewithal to undertake saving on their own. Every year, the federal government should deposit funds equal to a proportion of the Pell grant for which the dependent child would be eligible that year.</p> <p>A reformed Leveraging Educational Assistance Partnership (LEAP) Program should provide matching funds for state</p>
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	<p>grant aid, with the match declining as the recipient's family income increases. States should be rewarded for relying solely on the financial information available through the IRS, rather than requiring students to complete additional forms.</p> <p>Have an incentive-based campus-based program that provides more generous funds, distributes those funds to institutions according to their success in retaining and graduating low- and moderate-income students, and increases the options for how institutions can spend their federal dollars. Implement a pilot program under which the federal government commits additional dollars to a program that will provide funds to institutions in proportion to the number of Pell Grant dollars received by students who progress to second-, third-, or fourth-year undergraduate status and who transfer to four-year institutions or complete bachelor's degrees, associate degrees, or certificates requiring at least one year of full-time study. For the most part, institutions should have wide discretion in their use of these incentive funds so they can be used for academic support, mentoring, or other efforts in addition to need-based aid. Institutions should be required to earmark a portion of the incentive funds they receive to support on-campus work opportunities for low- and moderate-income students.</p>
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<p>Re-Thinking Educational Loans/National Forum on Educational Loans (NFEL)</p> <p>Available online at https://www.finaid.msu.edu/forms/nfel/main.asp</p>	<p>January 2007</p>	<p>Adopt a single loan program that funds the student's entire educational costs; that is, the student's loan eligibility is determined by cost of attendance minus other financial aid the student receives. This concept provides simplicity in application, processing, and repayment and eliminates confusion for students, families, and schools.</p> <p>Introduce income-aware repayment. Repayment terms must be affordable and based on the borrower's income at the time of repayment. Provisions for loan forgiveness that allow credit for community service must be included, and flexible repayment options should permit payments on behalf of the borrower from parents, relatives, and employers.</p> <p>Borrower benefits should be need-based and active during repayment only. Interest discounts and principal reductions associated with a loan program should be active during repayment only and not while a student is in school. Further, these and other similar benefits should be available only to those who demonstrate financial need at the time of repayment. Borrowers who experience no hardship during repayment should not receive benefits based on financial need.</p>
<p>A Test of Leadership: Charting the Future of U.S. Higher Education/Secretary of Education's Commission on the Future of Higher Education</p>	<p>September 2006</p>	<p>The federal government, states, and institutions should significantly increase need-based student aid. To accomplish</p>

Available online at <http://www.ed.gov/about/bdscomm/list/hiedfuture/reports/final-report.pdf>

this, the present student financial aid system should be replaced with a strategically oriented, results-driven system built on the principles of (i) increased access, or enrollment in, college by those students who would not otherwise be likely to attend, including nontraditional students; (ii) increased retention, or graduation by, students who might not have been able to complete college due to the cost, (iii) decreased debt burden, and (iv) eliminating structural incentives for tuition inflation.

Any new federal financial aid system should aim to replace the current federal aid form (the *Free Application for Federal Student Aid*, or *FAFSA*) with a much shorter and simpler application form. The application process should be substantially streamlined by analyzing student need through a simple criterion such as family income. Students should have information about financial aid eligibility (such as need or ability to pay) sooner and with early estimates of likely aid available as soon as the eighth grade.

The financial-aid needs of transfer students, including those who transfer from two-year to four-year institutions, and part-time students should be attended to as part of the restructuring we recommend.

Federal grant programs should be

		<p>consolidated to increase the purchasing power of the Pell Grant. Whatever restructuring of federal financial aid takes place, the Pell Grant will remain the core need-based program. A specific benchmark should be established to increase the purchasing power of the average Pell Grant to a level of 70 percent (from 48 percent in 2004–05) of the average in-state tuition at public, four-year institutions over a period of five years. However, even with significant additional federal investment, there is little chance of restoring the Pell's purchasing power if tuition increases absorb most or all of the new money. This effort requires not only federal investment but also strategies by which colleges and universities contain increases in tuition and fees.</p> <p>Additionally, administrative and regulatory costs of federal aid programs should be streamlined through a comprehensive review of financial aid regulations.</p>
<p>Thoughts on the Industry's Past and Present: An Insider's Perspective/Dick George, Great Lakes Higher Education Corporation</p> <p>Published as part of the American Enterprise Institute's (AEI) book <i>Footing the Tuition Bill: The New Student Loan Sector</i> published May 2007. Book available (for purchase) on AEI's Website at http://www.aei.org/books/bookID.886/book_detail.asp</p>	<p>September 2006</p>	<p>Eliminate all of the subsidies from the federal student loan programs, take those subsidies and apply them to increased Pell Grants that would be front-end loaded. This would theoretically eliminate borrowing for the most vulnerable cohorts, who are traditionally low and moderate income students, who are borrowing and then non-persisting. They represent over 80 percent of the default portfolio.</p>

	<p>Removing those most vulnerable borrowers from borrowing until they have established their ability to persist in postsecondary education would insulate the loan program from one of the more significant administrative costs associated with default aversion and default. Between those cost savings and the cost savings associated with stripping out the subsidies, there would be significant monies available to increase the front-end loaded Pell Grant funding.</p> <p>Simultaneously increase the available loan limits in the guaranteed loan program to cover the full cost of attendance, and eliminate the need for higher cost alternative or private loans. And borrowers then who did need to borrow, would be able to borrow the full cost of attendance in a single guaranteed loan program with a single point of contact for default aversion assistance and servicing. Today, delinquency and default are enhanced by split servicing between Title IV loans and private loans.</p> <p>Allow differential interest rates under a guaranteed cap so that there would be some additional transparency brought to the market in terms of market competition reflected in interest rates for different types of schools, by program, by sector.</p>
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