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NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Statement

Of

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Presented on

May 21, 2009

U.S. House of Representatives

Committee on Education and Labor

Increasing Student Aid Through Loan Reform

"Opening Doors of Educational Opportunity"

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Mr. Chairman and members of the Committee on Education and Labor, I thank you for the opportunity to submit this statement today on increasing student aid through student loan reform. I am Dr. Phil Day, President and CEO of the National Association of Student Financial Aid Administrators (NASFAA). Formed over 40 years ago, NASFAA represents nearly 20,000 student financial aid administrators at 3,000 postsecondary institutions across the nation. Collectively, my members proudly serve more than 16 million students each year.

I am grateful that the Committee has convened a hearing to fully examine proposals to increase college aid while at the same time making the federal student loan programs more reliable, effective, and efficient for students, families, and taxpayers. In March, our association was one of the first that called on the Committee to convene such a hearing so that alternatives to the Federal Family Education Loan Program (FFELP) and the Direct Loan Program could be fully discussed.

In convening this hearing, the Committee has taken an important first step in fulfilling its promise to approach this issue carefully and thoughtfully.

NASFAA supports efforts to increase the Federal Pell Grant and to fund the program through mandatory spending. NASFAA also supports restructuring the federal loan programs to provide reliability, equity, and simplicity for students while creating savings for taxpayers. The outcome of that restructuring will be of the utmost importance to schools and we have proposed a framework that we believe can help guide this restructuring.

Increasing College Graduation Rates with Federal Pell Grants

Regaining our leadership in college graduation rates by 2020 is not an impossible dream. We cannot hope to achieve it, however, under the current student aid system. We must reassess the structure and funding levels of the federal student aid programs, especially the Federal Pell Grant, to provide an adequate and predictable source of assistance for low-income students.

Making the Federal Pell Grant funding mandatory will be one of the greatest victories for low-income students since enactment of the Higher Education Act of 1965. Since its inception, appropriated Pell Grant funding amounts have only equaled the full authorized amounts four times in the program's history. In all other years, it has fallen short. In recent years, the growth in grant aid has diminished in proportion to student loans. Grant aid declined from 63 percent to 45 percent of external funds used by undergraduates from 1991 to 2005, according to the College Board. From 2000 to 2008, total grant aid for undergraduates grew at an average annual rate of 6.4 percent while total loans increased an average of 8.2 percent. In short, more students are relying on loans to meet their educational costs.

Research shows that loans do not have the same positive impact as grants on college access, persistence, and degree attainment, particularly for students from lower income families. Grants, specifically the Federal Pell Grant, have had much more success in increasing the college-going rates of student populations that have been traditionally underserved by higher education. It is critical for the U.S. to close the college-achievement gap between these traditionally underserved student populations (low-income, first-generation, urban, rural, Black, and Hispanic) and other student populations in order to remain competitive in the global economy.

Increasing the Pell Grant so it is relevant to today's college costs and moving it into mandatory spending would improve equality in access to higher education and return us to our place as a world leader in education. NASFAA urges the Committee to take the appropriate steps to make the Pell Grant Program a true entitlement.

Streamlining the Federal Student Loan Programs

We understand the need for fiscal responsibility and accept that Congress is looking for offsets to these increases through changes to the federal loan programs. NASFAA appreciates the Committee's efforts to make the student loan program more efficient and simpler, but our members have some concerns about eliminating FFELP.

The public and private partnership demonstrated through the FFEL program has provided millions of students with the loans they need to attend and complete their educations, and to successfully repay their loans. Unfortunately, the FFEL program has not functioned properly since 2008. Congressional efforts have shored up the FFELP market in the short term, but a longer-term solution is needed.

We believe there is a way to retain many of the benefits to students provided by public/private partnerships while still yielding significant savings for taxpayers.

Long before Congress began deliberating on the future of FFELP, my members initiated an extensive process designed to explore how the federal student loan programs could work better for students. In 2006, more than 80 renowned financial aid administrators from both the FFEL and Direct Loan programs met under a NASFAA-funded symposium to begin rethinking the student loan programs. Two years later, through NASFAA's National Conversation Initiative (NCI), thousands of student aid administrators reinforced those ideas and helped us formulate a new framework for a federal student loan program.

Currently, the Federal Perkins Loan Program, the FFEL program, and the Federal Direct Loan Program have different terms, conditions, benefits, and application procedures. This creates unnecessary confusion and complexity for students at the application stage and during repayment, and makes it difficult for students with multiple loans to know exactly what they owe at any given time. Further, although these programs are subsidized by the federal government, students may receive different benefits based solely on the school they attend or the loan programs in which their school participates.

In March 2009, NASFAA released a new framework for a single federal loan program that would combine the most positive features of each of the three existing federal student loan programs while reducing complexity and increasing consistency among borrowers. NASFAA's framework calls for a low, fixed interest rate with consistent and equal benefits, terms, and conditions for both undergraduate and graduate students. Setting interest rates for all student borrowers at a low fixed rate such as 3.4 percent – the rate currently set by Congress for subsidized Stafford Loans – would have an immediate, positive effect on student loan debt. To further help borrowers, our model also call for predictable funding sources and a single originating, servicing, and collections experience for borrowers.

Raising Capital through Special Purpose Bonds. Recognizing the fiscal need to reduce the costs of the FFEL program, NASFAA's framework would rely on the government to raise capital through a public/private partnership that uses investment from several different private and public sector sources. These funding sources would include individuals, investment and brokerage houses, banks, insurance companies, mutual funds, pension funds, and even international investors.

NASFAA's framework would leverage investors' ability to raise capital by allowing them to invest in a special purpose government bond that would be used by the U.S. Department of Education to make loans directly to borrowers through schools. Individuals could also purchase these "Educate American Bonds," a new series of small denomination bonds similar to U.S. savings bonds specifically designated for student loan debt. The bonds would operate much like war, civilian, or patriot bonds introduced by the government to raise funds for specific causes.

Funding for federal student loans would not be limited to any single source such as banks, schools, or the U.S. government. Various entities could invest in Educate America Bonds and help raise enough capital to make the student loan pool viable and possibly self-sustaining, thereby easing federal outlays.

During WWII the government introduced war bonds as a way to reduce inflation and help the government finance the war effort. At that time an emotional appeal went out to citizens to buy those bonds because they represented a moral and financial stake in the war effort. Bond rallies were held throughout the country and through government advertising and partnerships between the public sector, the private sector, the entertainment industry and several other industries more than half the population—85 million Americans — purchased bonds before the end of the war. That is the kind of public awareness we need for higher education. Not only does this create a sort of revolving pool of money, it raises our societal commitment to providing higher education access.

Federally Contracted Servicers Provide Origination, Student Services, and Repayment Support. Under NASFAA's framework, all student loan origination would be handled by a servicer contracted by the U.S. Department of Education through Common Origination and Disbursement. This servicer would be invisible to borrowers, who would recognize the federal government as the source of their assistance.

Of paramount concern to my members is that certain services currently being offered to students by FFELP participants continue to be made available. These student support services include college access programs, financial literacy initiatives, and student loan delinquency and default prevention programs, none of which is currently offered in the Direct Loan program as currently structured.

We call for the U.S. Department of Education to contract with multiple servicers to process borrower payments and handle deferments, forbearances, and loan forgiveness. Allowing multiple servicing contracts is an important way to leverage competition that will benefit borrowers. Servicers would be selected through a competitive bidding process that focuses not only on price, but also on past performance, stability and longevity in the marketplace, an adequate technological infrastructure, and a set of other predetermined operational standards defined with input from students and schools.

All servicers would rely on a common servicing platform built around a centralized database of all borrowers. In addition, the Department would contract with these servicers or with other default prevention servicers to ensure that borrowers remain in good standing and to help with campus-wide default prevention efforts, including entrance and exit counseling. Compensation to entities that provide these services would be tied to default success rates calculated over multiple years.

States and Private Industry Support Higher Education. While students are certainly the main beneficiaries, communities, states, and businesses also reap the benefits that postsecondary education provides. These entities also have a part to play in reducing student loan indebtedness.

State agencies, which have traditionally offered generous borrower benefits under stated public policy positions (e.g., increasing the number of nurses, teachers, or engineers), could participate in the new student loan model in two ways: They could pay off a portion of a student's loan, or they could purchase a student's loan outright and assume liability for the loan, which would allow the state agency to offer borrowers increased benefits above and beyond the terms and conditions already associated with the federal loan.

In addition, a "Human Capital Tax Credit" would spur private companies to begin offering generous loan repayment benefits to employees. Allowing companies to receive federal tax benefits in return for paying off student loan debt encourages private businesses to help borrowers meet their student debt obligations. Much like other human resources incentive and recruitment programs, the Human Capital Tax Credit could become a standard part of a company's benefits package. Unions and other non-profit organizations should also receive a government credit or incentive to offer repayment benefits to borrowers.

Friends, family, and other relatives who help pay off a borrower's accumulated loan debt should likewise receive tax benefits and under no circumstances should borrowers be penalized by taxes for receiving any loan repayment or forgiveness benefits.

While this framework does not contain all of the answers that need to be addressed, it contains what we feel is a comprehensive outline of what needs to be included in a federal student loan program that works best for students.

Adequate Time for Students and Schools to Transition

Before concluding, I want to share one other area of concern that will be of great interest to my members. Many are deeply concerned about the timetable of eliminating the FFEL program and the administrative burden it might place on them to move to the Direct Loan Program by July 1, 2010.

To its credit, the Department of Education has so far done an outstanding job of helping schools transition into the Direct Loan Program. Several weeks ago, NASFAA surveyed a select number of schools from different sectors of higher education who have moved from the FFEL program into Direct Lending to understand what challenges they faced during the conversion. I am happy to report that despite a few isolated hiccups, the overwhelming number of schools we talked to said they had very few problems with the transition.

However, while most schools experienced very little difficulty, all schools said that the transition took quite a bit of effort and work. Transition times varied based on school size and the amount of internal infrastructure and support at each school.

Given the wide range of institutions, their students, and their internal capacities, we ask that the Committee take into account the administrative burden that will be placed on schools, especially schools that serve overwhelmingly high numbers of low-income students and often have the fewest institutional resources, in transitioning into any new or existing federal loan programs.

Recommendations from the Front Lines

No one is as intimately familiar with the student aid programs as NASFAA members who directly serve thousands of students every day. I hope you will consider their expertise and insights in restructuring the student aid programs by ensuring that the Federal Pell Grant is made an entitlement program, considering NASFAA's recommendations for a new student loan program, and setting reasonable timeframes for students and schools to transition in response to changes in these programs.

Congress, under the direction of this Committee, has made significant strides in recent years to provide more financial support for students pursuing higher education. In this last year alone, the Ensuring Continued Access to Student Loans Act (ECASLA), the Higher Education Opportunity Act (HEOA), and the American Recovery and Reinvestment Act (ARRA) have all had enormously positive impacts for students and families.

President Obama's budget proposal, as well as the recently adopted Congressional budget resolution, has laid the groundwork for even more victories for students. We join the President in calling for Americans to commit to at least one year or more of higher education or career training, with the goal of having the highest proportion of college graduates in the world by the year 2020.

I thank you for convening this hearing today and for your commitment to postsecondary access. In these economically turbulent times, our students are relying on all of us to give them the stability and resources they need to put this country back on firm ground. Together, I'm confident we can achieve both of these critical goals.

I am available to discuss these matters further at your convenience and invite you to continue this important dialogue.