

Reauthorization of 2008

A Summary of Title IV Changes for International Schools

Think About Tomorrow™

*Presented by:
Betsy Mayotte
Director of Regulatory Compliance and Privacy
American Student Assistance
London, May, 2009*

Agenda

- History
- Major student loan provisions
- Disclosures
- Private Loans

History

- Last reauthorization – 1998
- Must be reauthorized every 5 years
- Higher Education Amendments of 2007 (S.1642) passed by the Senate (95-0) on July 24, 2007.
- College Opportunity and Affordability Act of 2007 (H.R.4137) Passed by the House (354-58) on February 7, 2008, and renamed the College Opportunity and Affordability Act of 2008.
- Effective date of Enactment (August 14th, 2008) unless otherwise noted
- Negotiated Rulemaking recently concluded

It's Not Just About Financial Aid...

- Reauthorization of 2008 extends beyond financial aid
- Many consumer protections included as part of agreement to participate in US Federal Aid Programs
- Ensure good communications throughout institution

Tuition Transparency

- ED must publish 6 lists, by school category and state:
 - 5% of schools with highest tuition and fees for the most recent year
 - 5% of schools with highest tuition and fee increase over the most recent 3 years
 - 5% of schools with the highest net price for the most recent year
 - 5% with largest increase over net price over 3 years
 - 10% of schools with lowest tuition and fees
 - 10% of schools with the lowest net

Tuition Transparency

- Schools on the “highest” lists must report to ED annually:
 - Description of areas of budget with biggest cost increase
 - Explanations of increases
 - Description of steps to be taken to reduce those areas
 - If school is on list for two or more years then description of progress made on above
 - If cost out of school control then identify state agency responsible and how cost increase determined

Tuition Transparency

- Lists broken up by school type:
 - four-year public institutions;
 - four-year private, nonprofit institutions;
 - four-year private, for-profit institutions;
 - two-year public institutions;
 - two-year private, nonprofit institutions;
 - two-year private, for-profit institutions;
 - less than two-year public institutions;
 - less than two-year private, nonprofit institutions; and
 - less than two-year private, for-profit institutions.

- Effective July 1, 2011

College Affordability

- ED must publish info about each Title IV school to help families compare price and net values
- Includes:
 - Enrollment statistics
 - Degree completion
 - Student-faculty ratios
 - Cost of attendance
 - Average aid awarded
 - Cohort default rates
 - Campus safety info
- ED must create calculator to assist families in comparing net price of all Title IV schools:
 - Net = COA-(average need and merit based aid)
- Published @ <http://nces.ed.gov/collegenavigator/> by 8/14/2008 and 8/14/2009 respectively

Need Analysis

- Professional judgment:
 - Lack of parental support for FAFSA
 - Student are not considered independent
 - No need based aid allowed – unsub Stafford only
 - Not a dependency override
 - Documentation needed (social worker, etc..)
 - Student still submits FAFSA, school must receive rejected form
 - If school decides no unsub, FAFSA must be resubmitted with parent info

Need Analysis

- Professional judgment:
 - Students in military housing receive allowance in COA for board but not room
 - However value of housing no longer considered as untaxed income
 - VA benefits no longer counted as EFA effective July 1, 2010
 - Students orphans or wards of court anytime since they were 13 considered independent
 - Income earned from higher education cooperative program excluded from EFC calculation

Cohort Default Rate

- Two years rather than one year of borrower repayment used
- 30% threshold for sanctions beginning 2012
 - 1st year school must develop default prevention plan
 - Create default management team, encouraged to include outside experience
 - Identify cause
 - Develop measures and steps to improve
 - Specify actions that will be taken to improve student repayment
 - Submit to ED for review and technical assistance
 - 2nd year must re-evaluate default prevention plan
 - ED will send schools both rates types for 2009-2011

Cohort Default Rate

- Loan does not “count” as default if rehabilitated prior to end of cohort period

- ED must annually report CDR’s by institution type
 - Annual rates
 - Lifetime rates
 - Have indicated those may come out before “official” rates in September
 - Have indicated years 2 and 3 may also be published

Preferred Lender Arrangements

*New requirements for existing and
prospective students*

Definitions

- *Covered institution (CI):*
 - Any higher education institution that receives any type of (US) Federal funding or assistance

- *Institution Affiliated Organization:*
 - Any org directly or indirectly related to a covered institution
 - Includes alumni and social organizations that recommend, promote or endorse education loans for students attending said CI

Definitions

- *Education Loan:*
 - FFEL, Direct or private education loan

- *Private Education Loan:*
 - Non-title IV loan provided by a private educational lender to a borrower expressly for postsecondary educational expenses
 - Includes payment plans and other institutional loans

 - Excludes credit cards and home equity lines of credit

Definitions

- *Preferred Lender Arrangement:*
 - Lender issues loans to CI's students and families AND:
 - CI recommends, promotes or endorses lenders education loan products
 - Does include both federal and private loans
 - If school has PLA – they must also have a PLL
 - Does not include Direct Loan or PLUS Auction Loans
 - Does not include loans a CI makes to it's own students as long as funded by a CI's own funds
 - Cannot be pass through from a lender
- *Lender:*
 - *Any other person in business of securing, making or extending educational loans (under TILA)*
 - *This includes CI's*

Preferred Lender Lists - FFEL

- Minimum of 3 unaffiliated
 - Must disclose affiliated and details of affiliation
 - ED will maintain list
- School must also disclose why they chose each lender including term and condition descriptions
- Ensure lenders chosen are in the borrowers best interest including
 - Origination fee discounts
 - Competitive interest rates
 - High quality servicing
 - Additional benefits beyond the standard terms
- Must clearly state the borrower may choose any lender whether on list or not

Preferred Lender Lists - FFEL

- It's not a preferred lender list IF:
 - School provides comprehensive, neutral list of lenders who have made loans to students within a set period of time
 - School must still provide statement of borrower choice

Preferred Lender Lists – Private Loans

- Minimum of two unaffiliated lenders
- Prominent information about federal aid
- Prominent statement about why each lender was chosen
 - Including method, criteria
- School must report annually to ED:
 - Examples of disclosures to students in above bullet
 - Detailed explanation as to why each PL, including terms etc..
 - Report must be made available to public

Private Loans

- No co-branding allowed
 - Nothing that would lead a consumer to believe loan marketing by school
 - Cannot use logo, mascot or name of school
 - Not listed under federal loans
- Lender must allow 30 days from loan approval for consumer to decide
 - Cannot change rates or terms
- Must allow cancellation within 3 days of consummation

Private Loans

- Lenders may not:
 - Offer incentives to schools in exchange for loan volume consideration
 - Charge borrowers a fee for early repayment
 - Pay school advisory board members other than reasonable travel reimbursement

Private Loans – Self Certification Form

- Lender must collect self-certification form from borrower
- Form supplied by school
- Must be signed and received by lender prior to loan consummation
- Contains info about federal loans, students COA and EFC
- ED developing form – must be complete within 2 years
- Must also do for CI private loans

Private Loans – Self Certification Form

- Current technical corrections bill requests changes to fields:
- Current fields:
 - Cost of attendance (COA)
 - Expected family contribution (EFC)
 - Estimated financial assistance (EFA)
 - Unmet need (COA-EFA)
 - The sum of EFC and unmet need (EFC + (COA-EFA))
 - Double counts EFC
- Proposed Fields:
 - Cost of attendance (COA)
 - Expected family contribution (EFC)
 - Portion of EFC replaced by other aid, as defined by Title IV regulation
 - Estimated financial assistance (EFA), as defined by Title IV regulation
 - Total aid (EFA + portion of EFC replaced by other aid)
 - Maximum private loan amount (COA - Total aid)

Disclosures

Disclosures

- As part of all Preferred Lender Arrangements (school)
 - Max amount of grant and loan aid available
 - A statement showing a school is required to process any FFEL loan from any eligible lender (to be determined by ED)
 - Federal disclosure to be developed by ED

Additional Disclosures

- To all current and prospective students CI's must annually disclose:
 - Any planned improvements to current programs
 - Terms and conditions of FFELP, DL and Perkins loans
 - Information on:
 - Student body
 - Diversity
 - Employment placement
 - Retention rate
 - Fire safety
 - Institution policies on vaccinations

Additional Disclosures

Exit Counseling must now include:

- Detailed information of each payment plan
- Debt management strategies
- Pre-payment options
- Terms and conditions of all forgiveness programs facilitated by ED
- Terms and conditions of forbearances
- Consequences of default
- Effects of consolidation
- Tax benefits available to borrowers
- Notice of the availability of NSLDS

Additional Disclosures

Entrance Counseling must now include:

- what the effect of accepting the loan of the borrower for other forms of student aid;
- An explanation of the use of the master promissory note;
- Information on how interest accrues and is capitalized during periods
- the option of the borrower to pay the interest while in school;
- The definition of half-time enrollment at the institution, during regular terms and summer school, and the consequences of not maintaining half-time enrollment;
- An explanation of the importance of contacting the appropriate offices at the institution if the borrower withdraws
- Examples of monthly repayment amounts based on a range of level of indebtedness of borrowers of loans
- Consequences of default
- Who the borrower can contact with terms and conditions questions
- That the loan must be repaid

Disclosures - Textbooks

- Institutions must, as much as practicable, include on its Internet course schedule for required and recommended textbooks and supplemental material:
 - the International Standard Book Number (ISBN) and retail price;
 - if the ISBN is not available, the author, title, publisher, and copyright date; or TBD
 - If applicable, the institution must include on its written course schedule a reference to internet textbook info listed above
- A postsecondary institution must provide the following information to its college bookstores upon request:
 - the institution's course schedule for the subsequent academic period; and
 - ISBN or alternative as required above
 - the number of students enrolled, and
 - the maximum student enrollment.
- Also encouraged, but not required, to provide info on
 - renting or purchasing used textbooks;
 - textbook buy-back programs; and
 - alternative content delivery programs.

Drug and Alcohol Prevention

- All schools must certify to ED they have a program to prevent abuse of alcohol and drugs by students and employees:
 - Must conduct biennial review of program
 - Must include:
 - Number of drug/alcohol related violations reported to the school that occurred on campus or as part of a school related activity
 - Number and type of resulting sanctions imposed BY institution

Inducements – Guarantors and Lenders

- Similar changes to recent regulatory changes except:
 - May assist with exit counseling but NOT entrance (regs pending)
 - Guarantors and lenders may not send unsolicited loan applications by electronic means
 - May no longer pay for travel to trainings
 - Schools may now serve on lender advisory boards
 - Lenders must report annually to ED any reasonable expenses paid to financial aid employee or other with loan or promotion duties
 - Schools must also report reimbursed expenses including name, date, amount and activity

- Similar provisions put in place for private loans

Consumer Education

Guarantors must work with schools to develop and make available:

- Programs and materials to students and families
- Topics include financial literacy, budgeting, paying for college and Title IV programs
- Guarantors may also work with Direct Loan schools

School Code of Conduct

- Required for all Title IV participating schools
- Must be communicated to (at least) all officers, loan related employees and agents annually
- Must prohibit revenue sharing arrangements on FFELP loans
 - Defined as loan volume in exchange for money or gifts

School Code of Conduct

- No gifts to school employees or officers or their families from guarantors, lenders or servicers
 - Food, training, philanthropic contributions not considered gifts
- May not assign lenders to first time borrowers
- Must report reimbursed expenses by private loan lenders made to advisory board members who have loan duties at school
 - Considered reasonable by either State requirements or Federal Cost Principles.

School Code of Conduct

- Non-financial aid school employees can serve on lender and guarantor boards of director
 - Must recuse themselves from institution-related decisions
 - No other contracting or consulting allowed for lender for any employee of school
- Any employee may serve on a lender or guarantor advisory board
 - Travel expenses may be reimbursed
- Eliminates opportunity pool loans
- Eliminates staffing assistance
 - Includes call centers
 - Exceptions for emergency, non-recurring events

Miscellaneous Changes

- Lenders may use NSLDS to determine enrollment status at school request
- Student loans no longer exempt from SMCRA
 - Interest rate cannot go above 6%
- Student PLUS borrowers don't begin repayment until 6 months after they drop below $\frac{1}{2}$ time enrollment

Miscellaneous Changes

- ED may not enter into settlement worth more than \$1 million without AG opinion
- Ability to benefit achieved when student completes six credit hours or equivalent towards degree or certificate
- Student can regain aid eligibility by passing two unannounced drug tests
- Schools may not use federal funds for lobbying

Rehabilitation

- Borrowers may only rehabilitate once per loan
 - Effective for rehabilitations made on or after August 14th, 2008
 - Both lenders and guarantors must remove default status from credit bureaus when borrower rehabilitates
- ** PS: All loans must be reported to credit agencies as “education loans” at all times

Direct Loans

- Loans disbursed on or after October 1, 2008 will not accrue interest while the borrower is in active military during a war or national emergency
 - 60 month maximum
 - Consolidation loans used to repay DL loans disbursed after 10/1/2008 eligible

Miscellaneous Changes

- School must contact guardian or other as well as authorities if student missing for 24 hours or more
- Fire safety report must be published annually
- Peer to peer file sharing must be prevented

Resources

- Bill text
 - http://help.senate.gov/Hearings/2008_07_29_E/KOS08400_xml.pdf
- DCL -
http://www.fp.ed.gov/fp/attachments/activities_w hatsnew/GEN0812FP0810.pdf
- Negotiated Rulemaking -
<http://www.ed.gov/policy/highered/leg/hea08/index.html>